



**Office of Evaluation and Oversight, OVE
Inter-American Development Bank**

1300 New York Ave. N.W., Washington, D.C. 20577

RE-265

*Implicit IDB Strategy for
Regional Integration:
Its Evaluation*



Office of Evaluation and Oversight

Officially distributed to the Board of Executive Directors on May 30, 2002.

CONTENTS

EXECUTIVE SUMMARY

I.	INTRODUCTION.....	1
II.	CONCEPTUAL FRAMEWORK.....	4
	A. Recent history of integration in Latin America and the Caribbean.....	4
	B. Debates on integration.....	6
	C. The objectives of integration.....	9
	D. Means to achieve the objectives: scope, modality and instruments of integration	10
III.	THE DIRECTION OF THE BANK'S INTEGRATION STRATEGY: AN INTERPRETATION	12
	A. The early decades	12
	B. The 1990s.....	13
	C. The Eighth General Increase in Resources: the mid-1990s.....	14
	D. The Institutional Strategy: the late 1990s	15
	E. On the threshold of the twenty-first century.....	16
	F. Nonfinancial instruments	18
	G. Strategic direction on integration	20
IV.	PROGRAMMING: CONTINUITIES AND DISCONTINUITIES	22
	A. Caribbean Community programming.....	23
	B. Central American Common Market programming.....	25
	C. Andean Community programming.....	28
	D. MERCOSUR programming.....	30
	E. Continuities and discontinuities in the programming process.....	33
V.	MANAGEMENT: ITS COORDINATION WITH STRATEGIC DIRECTION AND PROGRAMMING	37
	A. Sample selection and method of analysis.....	37
	B. Projects and their temporal relation with the strategic direction	41
	C. Caribbean Community projects	43
	D. Central American Common market projects.....	44
	E. Andean Community Projects	45
	F. MERCOSUR projects	47
	G. FTAA projects	48
	H. Other projects.....	48
	I. Project topics.....	49
	J. Projects, PCR's and PPMR's.....	51

K.	Continuities and discontinuities in the relation between resource management, strategic direction and programming.....	52
VI.	CONCLUSIONS AND RECOMMENDATIONS	56
A.	Conclusions.....	56
B.	Recommendations	58

ANNEXES

Annex I: Summaries of projects in the sample

ABBREVIATIONS

ADC	Andean Development Corporation
CACM	Central American Common Market
CARICOM	Caribbean Community
CET	Common external tariff
CP	Country paper
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
EU	European Union
FTAA	Free Trade Area of the Americas
FTZ	Free trade zone
G3	Group of Three
GATT	General Agreement on Tariffs and Trade
GRAN	Andean Group
IDB	Inter-American Development Bank
IDB-8	The Eighth General Increase in Resources (Eighth Replenishment)
IIRSA	Initiative for the integration of South American regional infrastructure
IMF	International Monetary Fund
INT	Integration and Regional Programs Department
INTAL	Institute for the Integration of Latin America and the Caribbean
IS-1999	Institutional Strategy
LAC	The Latin American and Caribbean region
LAFTA	Latin American Free Trade Association
LAIA	Latin American Integration Association
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic Cooperation and Development
OVE	Office of Evaluation and Oversight
PCR	Project completion report
Plan 2000	Enhanced Action Plan for Implementation of the Institutional Strategy 2000
PPMR	Project performance monitoring report
PPP	Puebla-Panama Plan
RNM	Regional negotiating machinery
RPE	Regional program evaluation paper
RPP	Regional programming paper
RTC	Regional technical cooperation
SDS	Sustainable Development Department
SIEPAC	Electrical Interconnection System for Central America
SME	Small and medium-sized enterprise
WTO/OMC	World Trade Organization

EXECUTIVE SUMMARY

This report is the first stage of an evaluation of the Bank's strategy for regional integration, being conducted by the Office of Evaluation and Oversight. It attempts to identify the Bank's implicit strategy and the way this is incorporated into programming and project management. The evaluation of regional programs and project impact is left for subsequent reports.

Before presenting the results of this study, it should be made clear that the Bank does not yet have a formerly articulated strategy on integration,¹ so this report analyses the Bank's observed practice in supporting the sector, including programming and financial and nonfinancial activities. In this stage, work was carried out on the three components of the strategy, namely "direction", "programming" and "management". The procedure was firstly to identify the Bank's strategic direction on integration; then to examine how integration is incorporated in the Bank's programming, and lastly to analyze the contribution made by Bank products to fulfilling regional integration goals.

Milestones on the road to integration

To identify the Bank's strategic "direction" on regional integration, the following policy documents were analyzed: the Agreement Establishing the Inter-American Development Bank (the Charter), reports on the Seventh and Eighth General Replenishments (IDB-7 and IDB-8), and the Institutional Strategy (IS-1999). Other documents that contribute to the regional integration agenda were also analyzed, such as the communiqués issued by the Meeting of the Presidents of South America, and of the Summit of the Americas, held in Quebec, and the speech by IDB president Enrique Iglesias, on the occasion of the Bank's fortieth anniversary. Additional documents were examined dealing with the creation and restructuring of the Institute for the Integration of Latin America and the Caribbean (INTAL), reorganization of the Integration and Regional Programs Department (INT), and guidelines on the Bank's interaction with subregional funding institutions (GP-22-1), and on integration projects (GP-4-1).

The documents analyzed show that a Bank strategic direction towards integration can be identified. Integration has been a dimension in the Bank's activities ever since its creation, but has evolved over time to the point where the 1999 Institutional Strategy gave it a priority role in achieving the institution's development goals. Nonetheless, the guidelines provided in all documents were very general. The objectives, scope, modalities and instruments of integration were not presented explicitly, and some were delegated to the programming process.

This strategic direction has had differing emphases through time, and it is possible to identify the following milestones along the way:

- **The Eighth General Increase in Resources** (1994) stressed the need to eliminate barriers to trade and reduce the role played by the State in regulating it. In this

¹ An inter-departmental team coordinated by INT and SDS is preparing the "Regional Integration Strategy", which is due in November 2002.

context, the Bank saw integration in terms of multilateral openness, market access, export diversification, improvement of competitiveness and anchoring of structural reforms.

- **The Institutional Strategy (1999)** highlighted the need to update the orientation of the Eighth Replenishment, setting limits on market freedom and introducing regulations to address commercial and financial aspects simultaneously. It includes north-south integration (FTAA), and argues for the strategic direction to be incorporated to the Bank's programming.
- **The Enhanced Action Plan for the Implementation of the Institutional Strategy (2000)** proposes guidelines and concrete actions in keeping with the direction established in the Institutional Strategy. It makes a commitment to identify and evaluate the integration component in all loans, thereby incorporating the direction into project management activities.
- **The speech made by IDB president Enrique Iglesias** at the Bank's fortieth anniversary, and the **Communiqué of the Meeting of the Presidents of South America (2000)**, both contain policy elements relating to the sustainability of the integration process, which they see as depending on fully established democratic institutions. In addition, they identify macroeconomic coordination and physical infrastructure as key elements for ensuring progress in the integration process.
- **The Communiqué of the Summit of the Americas in Quebec (2001)** reaffirms the importance of macroeconomic coordination, physical infrastructure with a regional focus, and catering to the needs of vulnerable groups in the integration process.

These milestones mark out three periods in the Bank's implicit strategy on regional integration in the 1990s: a first phase in which it is seen as a natural outcome of the goals of liberalization (1994); a second phase, characterized by the adoption of the Institutional Strategy (1999), in which integration explicitly becomes an objective to be pursued actively; and a third stage, marked by the Presidential Summits (2000-2001), which makes progress on two fronts: firstly by being proactive on infrastructure, the environment and the development of the knowledge economy; and secondly, by recognizing the need for defensive measures to counteract the spillover effects of integration in the social, political and macroeconomic domains.

Continuities and discontinuities in programming

To examine how the guidelines contained in documents identifying the strategic direction are incorporated into the Bank's programming, we studied regional programming papers (RPPs) pertaining to the Caribbean Community (CARICOM), the Central American Common Market (CACM), the Andean Community, and MERCOSUR, supported by 34 country papers (CPs) corresponding to the various members of those blocs. This analysis revealed the following continuities and discontinuities in the programming process.

- **The Bank's programming accompanied member countries.** Initially, priority was given to trade expansion, but by the end of the decade programming had adapted to

reflect the financial crises and was aimed at reducing national vulnerability. Increasingly, the focus of Bank's regional programming has been moving away from trade expansion towards the conditions in which commercial exchange takes place, in recognition of the effects of increasing interdependence in the region. In that context, by explicitly including the private sector as a major integration stakeholder, the Bank is promoting the establishment of regulatory frameworks on competition policy, unfair competition, technical standards, etc. Efforts have been made to achieve a balanced formulation between the need to prevent integration remaining in the hands of institutional actors (as in the 1960s), and the free-market philosophy that has thrived on the basis of the "Washington Consensus". More recently, the Summits of the Americas since 2000 have generated greater awareness of the social weaknesses of the process; and infrastructure is emerging more strongly as a focus to promote regional integration.

- **The dialogue between CPs and RPPs displays significant discontinuity.** When the topic of integration appears in a country paper (CP), it is because that country has problems arising from integration, not because there is a strategy aimed at it. On the other hand, the lessons learned from regional programming papers (RPPs) seem to have been transferred to IS-1999 and its Enhanced Implementation Plan (Plan 2000). More specifically, the RPPs prepared between 1995 and 1997, correspond to the broad direction set out by the Eighth Replenishment; but the CARICOM RPP of 1998 also foreshadows elements that would later be adopted in IS-1999 (environment, labor standards, social, financial and monetary issues, and regulatory frameworks).
- **The diagnostic studies contained in the RPPs and CPs point in different directions,** with very few exceptions (CACM, 2000). Generally speaking, when CPs consider integration they do so defensively—because integration poses a challenge for the country concerned.

Resource management: consistency between projects, direction and programming

A total of 58 projects were chosen to analyze the way in which integration has been articulated in the Bank's activities. In addition to regional technical corporations (RTCs), the study also included national loan projects motivated by openness, economic modernization, institutional reforms, and the modernization of infrastructure with potential implications for integration.

The main continuities and discontinuities between management and strategic direction are as follows:

- **The Bank's strategic direction is not made explicit in most projects.** The mandate of the Institutional Strategy and its Enhanced Action Plan, to introduce the regional perspective in the project programming process and identify the integration component in all projects, has not been complied with

- **Mismatch between project management and time frames.** There is no direct correspondence between projects and the three periods identified for the Bank's direction towards integration in the 1990s.

The main continuities and discontinuities between management and programming are as follows:

- **Most projects—lending and technical cooperation alike—are poorly coordinated with regional programming.** RPPs are not considered when defining a project. This reveals the scant coordination that exists between projects and regional programming, or the negligible impact of RPPs in directing Bank operations.
- **The Bank's resources are more involved with countries on an individual basis than with regions.** In some loan projects, the diagnostic study or reference framework displays a regional approach, while the components and activities target national issues. This can be seen in institutional strengthening projects in bodies with jurisdiction on foreign trade and negotiations, in which the diagnostic study gives pride of place to regional integration, but components and activities are then limited to developing human resources and investments in civic infrastructure and informatics equipment in the various bodies.
- **There is little synergy between projects.** Loan projects are dispersed between sectors and issues and seem to generate little mutual synergy. The sectors involved also do not correspond to those identified as priorities in the RPPs.
- **Projects lack indicators and fail to consider risks associated with integration.** Few projects include indicators on integration and few identify the associated risks. These aspects generally relate more to national problems than regional ones. Even in regional projects, risks stem from problems that can arise in the integration process as a result of macroeconomic instability among individual countries, but there are no support actions dealing with this issue.

Recommendations

The path traveled in this evaluation suggests the following key recommendations:

1. ***Prioritize and organize the Bank's strategic direction towards integration.*** Several integration concepts co-exist in the Bank. The Regional Integration Sectoral Strategy, when concluded in late 2002, should provide a common framework for RPPs and CPs. But, it is also essential for regional programming papers to correctly fulfill the function of organizing and coordinating all integration approaches existing in the Bank. In other words, RPPs should identify all Bank activities, both national and regional, in support of the integration process. Regional programming should cease to be receptive and give leadership for countries to agree to take the steps, and even the leaps, required to actively promote regional integration. Accordingly, the regional programming exercise should go beyond identifying technical cooperations and find other actions in which the Bank can provide additional incentives to integration. This means incorporating regional programming into technical cooperation operations,

loan projects and nonfinancial products, giving each of them regional vision and coherence.

2. ***Improve coordination between regional and country programming.*** As suggested in the Enhanced Action Plan (2000) for implementation of IS-1999, the Bank should take the necessary steps to coordinate preparation of regional programming papers with the corresponding country papers. Preparation of the two types of paper should be mutually sustaining.
3. ***Intensify coordination between Regional Departments and the Integration and Regional Programs Department.*** Most of the projects analyzed do not appear programmed in the respective RPPs; this is specially true of loan operations. Furthermore, project objectives do not tend to solve the problems or challenges raised in the RPPs. The review made by project teams reveals the absence of a systematic coordination effort. Accordingly, this would seem a good moment for INT to formally coordinate its participation in the preparation of country papers and loan projects with potential impacts for integration. In addition, the Regional Departments could be more closely involved in RPP preparation. The appropriate mechanisms for them to participate should be developed by SDS and INT in the Integration Strategy and by the Regional Departments.
4. ***Prepare regional programming papers on a timely basis.*** There is a major time lag between RPP and CP preparation which makes it difficult to coordinate the two documents. Except for the CACM, the other blocs have just one RPP in the 1990s. As far as possible, it is not desirable for a very long period of time to elapse without an RPP indicating the Bank's strategic direction in each of the regional blocs. When circumstances do not warrant preparation of a new RPP, the current one could be updated. This would make it possible for a larger number of operations to be consistent with regional programming.
5. ***Define criteria for evaluating regional integration.*** As can be gleaned from the analysis of this report, the Bank has not fully complied with the mandate set out in the Institutional Strategy and Plan 2000, to articulate the integration dimension in country programming and loan operations, and to include evaluation criteria in the regional components of projects. The Regional Integration Sectoral Strategy will contain a chapter on monitoring and evaluation indicators, which should enhance the evaluability of regional strategies. It is recommended that the Bank use that chapter and the findings of this report as the basis to develop consistent, uniform evaluability criteria for future evaluations related both to regional programming and project evaluability. Such indicators would be useful for INT, the Regional Departments, other Bank units, countries and subregional blocs involved in program programming and design, and OVE for its evaluation work.

I. INTRODUCTION

- 1.1 Integration has been present in the Bank's activities ever since its creation by charter (the Agreement Establishing the Bank); but during the course of time it has evolved, such that by 1999 it had attained priority status for achieving the institution's development goals. The document "Renewing the Commitment to Development: Report of the Working Group on the Institutional Strategy" also known as the Institutional Strategy (IS-1999), identifies two major development objectives: reducing poverty and inequality, and sustainable development. Fulfillment of these objectives depends on targeted actions in four priority areas: (i) social development; (ii) State modernization; (iii) competitiveness; and (iv) integration.
- 1.2 The Enhanced Action Plan for the Implementation of the Institutional Strategy (Plan 2000) strengthens this mandate and advances the cause of integration. The document proposes actions to consolidate openness and structural reform, generate regional infrastructure systems, promote more open markets, modernize dispute settlement regimes and create regional institutions to support open regionalism. This report also proposes that integration be incorporated into the Bank's programming process, and a methodology developed for calculating "the regional component of all loans in order to evaluate the institutional strategy" (Plan 2000: 13; Annex 2).
- 1.3 In its 2001 work program (RE-245-1) the Office of Evaluation and Oversight (OVE) began to evaluate the Bank's strategies in four key sectors: health, education, potable water and sanitation, and regional integration. Unlike the first three of the sectors, which already have policies and strategies in place, the strategy for regional integration is still being prepared.
- 1.4 The Sustainable Development Department (SDS), which is responsible for preparing the Bank's sector strategies, in coordination with INT is preparing the regional integration strategy, which will identify conceptual inter-relationships between integration and sustainable development and poverty reduction, together with the most appropriate Bank instruments, actions and structure to promote integration as a means to achieve those objectives (GN-2195, chapter VI). This report contributes to the emerging strategy in its theoretical and operational context.
- 1.5 The aim of this report is firstly to identify the Bank's implicit strategy for regional integration; and then evaluate the actions implemented by the Bank in the 1990s to promote it. As part of the OVE work program, in later stages the impact of a set of technical cooperation projects and loans will be evaluated, and regional program evaluations (RPEs) will be prepared.

- 1.6 The absence of an explicit strategy for regional integration meant examining three strategy elements: priority setting, or **direction; programming; and resource management**.² This entailed the following process: first, analyzing and articulating the elements sustaining the regional integration concept and underlying economic philosophy; second, examining how to include regional integration in programming; and finally, analyzing the contribution of Bank products, both financial and nonfinancial, to the fulfillment of regional integration goals.
- 1.7 In order to identify the strategic **direction**, Bank policy documents were examined, including the Charter and documents setting out priorities in the 1990s, specifically the Seventh General Increase in Resources (IDB-7), the Eighth General Replenishment (IDB-8) and the Institutional Strategy (IS-1999). Other documents contributing to the regional integration agenda were also analyzed, such as the Communiqué of the Meeting of the Presidents of South America, along with the ensuing Bank proposal for a program of actions aimed at infrastructure integration; the report of the Summit of the Americas held in Quebec; and the speech made by the president of the Bank on the occasion of its fortieth anniversary. Additional documents were also analyzed in relation to the creation (1965) and subsequent restructuring (1996) of INTAL; reorganization of the Economic and Social Development Department (DES), which in 1994 became the Integration and Regional Programs Department (INT); and operational documents GP-4-1 and GP-22-1, concerning the definition of integration projects and the Bank's relations with subregional financial institutions, respectively.
- 1.8 For the analysis of the Bank's **programming** with respect to integration in the 1990s, we investigated how the guidelines contained in policy documents are incorporated in the programming process. This entailed consideration of regional programming papers (RPPs) for the Caribbean Community (CARICOM), the Central American Common Market (CACM), the Andean Community, and the Southern Common market (MERCOSUR), together with 34 country papers (CPs), corresponding to the various members of those blocs. Country papers produced during the lifetime of the corresponding RPPs were selected, together with those produced in 2000 and 2001, following approval of IS-1999 and Plan 2000.
- 1.9 For the resource **management** component in the 1990s, an analysis was made of projects' relevance to strategic direction and programming; in other words, the correspondence between projects and strategic direction and whether they were carried out on their own or based on regional programming. A total of 58 projects were selected, using the database compiled by INT, together with reform and

² The Bank defines "strategy" as a "process in which it develops short and long-term objectives to guide lending, financial, operational, budgetary and human resource programs" (GN-1910-2, Annex 1). To facilitate exposition, we have translated this definition into three parts: the process in which the Bank develops its objectives (direction), the orientation of operating programs (programming), and the implementation of projects included in specific programs (management).

structural adjustment loans that preceded the Eighth Replenishment, and infrastructure projects. The 58 project reports were analyzed, and, as far as possible, this was complemented with project completion reports (PCRs) and project performance monitoring reports (PPMRs)

- 1.10 This document contains five chapters apart from this introduction. The next chapter develops the conceptual framework used to detect and articulate the components of the implicit strategy. The third chapter attempts to explain the different documents that have established integration as a Bank priority. The fourth analyses the continuities and discontinuities of the programming process by country and by region. The fifth chapter analyses 58 projects to discover how they are executed in the absence of an implicit strategy for regional integration. The sixth and last chapter summarizes the study's conclusions and sets forth recommendations.

II. CONCEPTUAL FRAMEWORK

- 2.1 The difficulty in identifying the Bank's strategy for regional integration stems firstly from the non-existence of a formal strategy. Secondly, the integration concept itself has evolved in many directions over the last decade, resulting in the coexistence of various meanings and, hence, different ways of relating it to development goals. To identify the Bank's integration strategy, it is helpful to consider how integration has been practiced over the last decade, what aims it pursues and what methods it uses to achieve them.
- 2.2 This chapter presents the conceptual framework used in this document to identify the Bank's regional integration strategy. The purpose of this framework is to introduce the terms used in the explanation of Bank documents and projects. The chapter has four parts. Firstly it presents a summary of the recent evolution of integration in Latin America and the Caribbean (LAC). It then briefly reviews and structures the debates on integration. Thirdly it discusses the range of objectives pursued, since integration is not an end in itself, but a tool of development. The fact that development strategies vary in response to intellectual climate and economic policy orientation, is reflected in the objectives assigned to regional integration processes. The final section of the conceptual framework gives details of the means available to achieve the proposed objectives.
 - A. **Recent history of integration in Latin America and the Caribbean**
- 2.3 The 1990s have witnessed three generations of integration agreements. The first focuses essentially on merchandise trade and has a predominantly market conception. Such agreements are notable for their simplicity, transparency and moderate selectivity in the liberalization of intraregional merchandise trade. This model includes the bilateral free trade agreements signed by Chile with Mexico and other countries of the region.
- 2.4 Second-generation agreements cover a broader spectrum of institutional reforms and disciplines, including, among other topics, services, investment, government procurement and intellectual property rights. The paradigm for this type is the North American Free Trade Agreement (NAFTA), which has served as a benchmark for other agreements, such as those signed by Mexico with Costa Rica, Bolivia, and Colombia and Venezuela (G3), and also for the constitution of the FTAA .
- 2.5 Third-generation agreements relate to customs unions and common markets, which have not been completed (for which reason they are referred to as imperfect) because of exceptions to the common external tariff (CET) and freedom of movement for goods and factors of production. Such is the case of MERCOSUR, the Andean Community, and the Central American Common Market (CACM).

- 2.6 In recent years, several second- and third- generation agreements have downscaled their ambitious objectives on the CET or institutional issues, in order to focus on improving intra-regional market access. This reflects not only the need for realism, but also the dynamics of negotiations with third countries, at either the bilateral or hemispheric level. On the CET and regulatory disciplines, clear differences arise between political intention and the concrete progress made by the negotiations. This generational classification of agreements does not exhaust the possible typologies or integration models that have emerged in the region. The Bank's strategy coexists with all of them.
- 2.7 The Bank also coexists with changes in the intellectual climate. In the early 1990s, the governments of Latin American countries inherited the burden of the lost decade and the failure of heterodox adjustment policies. Out of this, the "Washington Consensus" emerged with a clear pro-market orientation featuring privatization and deregulation domestically, combined with trade and financial liberalization in economic relations with the rest of the world.
- 2.8 In the middle of the decade another important milestone was reached as regards the design of international linkage strategies for the region's countries. This involved the creation of NAFTA, which initiated an integration process for the first time between a developed country and a developing one—with implications for intra-Latin American integration. Secondly, the GATT Uruguay Round was completed, giving birth to the World Trade Organization (WTO/OMC), along with a strengthening of multilateral disciplines, the signing of new commitments and a major increase in the number of countries subscribing to the multilateral trading system. The confluence of these processes fostered an optimistic intellectual climate with regard to the returns to openness itself, and to the opening of international markets theoretically achieved through the Uruguay Round negotiations. The momentum of foreign direct investment (FDI) in those years, encouraged this optimism and enabled some countries to resume growth.
- 2.9 Now the decade has come to an end, the panorama is radically different, with a scenario characterized by vocal and organized resistance to trade liberalization. Resistance is based on the perception, correct or otherwise, that openness in LAC is responsible for the region's meager growth rates in the 1990s (3% per year, only one point above the so-called lost decade), and especially the increasingly regressive distribution of income (one-third of the population is still living below the poverty line). As a result, there is political pressure for the process to be explicitly accompanied by a social agenda, with participation from non-governmental organizations (NGOs).

B. Debates on integration

- 2.10 In the conceptualization of integration, many often contradictory ideas co-exist. In the debates outlined below, we attempt to give structure to discussion on this subject.
- 2.11 The first debate concerns *trade creation or diversion*. The traditional approach basically considers the static effects and concludes that non-discriminatory opening would achieve more efficient outcomes. Discriminatory liberalization, on the other hand, could produce a diversion of trade with virtually no change in domestic prices, but with the aggravating factor of a loss of income from customs duties and consequent reduction in general welfare (Bhagwati and Panagariya, 1996). Other authors believe this outcome is very unlikely to occur, when there are low transport costs between trading partners leading them to form a “natural trade bloc”. Moreover, natural blocs may promote non-discriminatory trade as part of a gradual process (Lawrence, 1991). The concept of “natural blocs” paves the way for the “geography and trade” approach (Krugman, 1992), in which the role of infrastructure and communications in general becomes increasingly important.
- 2.12 A second debate concerns *economies of scale and the domestic market*. If goods production depends on major scale economies and moderate transport costs, firms will locate in the country with large “domestic markets” and export their products to other regions from there. But if the domestic market consists of demand from other firms, then the firm will produce in already existing industrial establishments.
- 2.13 A new theoretical approach to this traditional way of thinking was developed in the 1990s (Fujita, Krugman, and Venables, 1999). This argues that governments interested in developing “strategic industries” will prevent tariff liberalization in order to develop a domestic market in the hope of attracting an increasing number of firms to raise income. But if the country in question is too small to develop a sustainable domestic market, then it could join a regional grouping. Such a grouping would agree to maintain high external tariffs, at least until a regional market can be developed for those industries. The debate centers on the empirical likelihood of protectionist interests emerging, or of expected benefits failing to materialize because of countervailing measures taken by other countries or regions.
- 2.14 A third debate concerns *static versus dynamic effects, and State intervention*. A large part of the literature argues that the static effects, leading to a once-only welfare improvement via a reallocation of resources, are not that significant. More important are the dynamic effects that allow higher growth rates in the long run. This line of thinking is associated with authors who stress that dynamic economies of scale (“learning by doing”) in certain lines of production, involve incorporating new technologies and enhancing human capital. In the presence of market failure, State intervention would be needed to maximize the dynamic effects.

- 2.15 A fourth set of debates concerns the frontiers of the integration agenda, encapsulated in the *deep vs. shallow integration dichotomy* popularized by Robert Lawrence (1991). In general terms, shallow integration is limited to the removal of trade barriers—whether tariff or non-tariff—and an undertaking not to renege on commitments. Deep integration, on the other hand, would include addressing a group of regulations (sanitary, phytosanitary, technical standards, certification, etc.) that affect trade between partners. There is no precise dividing line between the two concepts, but when agreements go beyond or behind border issues (essentially relating to tariffs) they are classified as leading towards deep integration.
- 2.16 It is also unclear in this debate whether deep integration relates to the topics addressed or the tools used to deal with them. Some authors clearly identify the deep integration process with a tendency towards harmonization and standardization between domestic regulations in each country (Krueger, 1995). Others see it as relating only to the scope of the agenda, in which mutual recognition and institutional jurisdiction are alternatives to obstructing the free movement of goods through harmonization. It should also be kept in mind that, prior to NAFTA, the deepening of integration was seen as part of a sequence; but NAFTA introduced an integration scheme that could be considered shallow since it is essentially a free trade area, yet also has elements reflecting the deep integration concept. Apart from liberalization of merchandise trade, the agreement covers services and disciplines on government procurement, and environmental and labor standards, etc.
- 2.17 Accordingly, the classification used in the literature and in the projects selected for this study should be seen as relative. In fact, some agreements see the removal of customs barriers as a necessary step on the road to deeper integration, such as a common market; for which reason they cannot be included in the trade integration concept. Similarly, when the analysis identifies Bank projects aimed at consolidating regional free trade or a common external tariff, as belonging to the trade integration category, this does not mean that the Bank holds that concept of integration for the bloc concerned.
- 2.18 A fifth set of debates concerns the *value of macroeconomic coordination*. There is consensus that beyond a certain threshold of interdependence, maintaining some degree of macroeconomic coordination is useful. Accordingly, unlike the dilemmas discussed above, the actual need for macroeconomic coordination as integration processes move forward would not an issue, and debate would be limited to its depth, prior conditions, implementation periods, etc. The depth of the objectives may either be modest, (limiting the degree of variability of certain key parameters, for example), or more ambitious, such as achieving monetary union. An example of the first type includes coordinated convergence, consisting of choosing a series of key parameters for the performance of the economies concerned, and establishing deadlines and targets to be met. At the other extreme, the formation of a monetary union is only justified beyond a significant level of interdependence (free

circulation of goods and services, factor movements). Various authors claim that this goal does not yet have a theoretical justification or political foundations in Latin America (Zahler, 2001).

- 2.19 As an offshoot of macroeconomic coordination, there is another series of debates that began with the liberalization policies of the 1970s and has been revived in the new phase of integration. This relates to the appropriate sequence between trade and financial liberalization. When opening up trade, exchange-rate variations or out-of-step growth rates, will have a major impact both on competitiveness and on the location of investment and direction of trade flows. Although various econometric studies have produced ambiguous results for the trade-flow impact of exchange-rate volatility, a recent study using the international trade gravity model suggests that there is an adverse effect (Devlin et al., 2001), whereby greater instability may result in smaller trade flows.
- 2.20 In addition, there is feedback between macroeconomic coordination and financial integration (through the banking system, stock market, pension funds, etc.), which, apart from regulatory frameworks, also requires macroeconomic sustainability and exchange-rate stabilization (Zahler, 2000). In the opposite direction, achieving a more integrated financial system and a broader, regionally consolidated capital market may help to achieve greater macroeconomic stability, which can be complemented with financial cooperation instruments (Agosin, 2001).
- 2.21 The sixth and last debate we shall refer to relates to the *direction of causality between trade and growth*. This debate has emerged recently in a World Bank study (Dollar and Kraay, 2001) and the reply by Rodrik (2001). The World Bank's position is that international trade liberalization promotes growth. It reaches this conclusion having evaluated data series from "globalizing and nonglobalizing" countries for the 1970s and 1990s. "Globalizing" countries have increased their imports and exports in relation to gross domestic product (GDP) and have substantially reduced their trade barriers; "nonglobalizing" countries have not done so. The analysis shows that globalizing countries have posted substantially higher growth rates without an increase in domestic inequalities.
- 2.22 The reply by Rodrik argues that the causal relation between liberalization and growth is not unambiguous. He claims that trade is not an independent variable controlled by decision-makers: it is influenced by growth factors, such as the country's geography, and is affected by national institutions such as the judicial and education systems. As countries develop, their capacity to export and import increases. The implication of this is that trade policy should not have the high priority that the World Bank study accords it. Public policies should give priority to improving primary education, the provision of social services and control of corruption. This line of thought has affinities with arguments that stress globalization's "social deficit", and claims that development priorities should focus

on improving life for those who lose out from the globalization process (Grandi, 1998).

C. The objectives of integration

2.23 The validity of “open regionalism” in LAC presupposes a significant degree of participation in international markets and a dynamic role for exports in economic growth. Subregional liberalization agreements combine with unilateral opening to generate interdependence between preferential trade agreements and *de facto* integration, determined by market signals, as a result of non-discriminatory opening (ECLAC 2001, page 201). Without denying the importance of political motivations with respect to open regionalism, in all agreements there was one or more partner that to a greater or lesser extent, brought to integration processes some of the economic objectives listed below. Many of these objectives do not relate exclusively to integration processes and are even complemented with other initiatives, such as signing up to the multilateral trading system and its disciplines, or domestic institutional changes (central bank autonomy, deregulation and privatization laws, etc.).

1. *Anchoring of structural reforms*: for example, to enhance the credibility of macroeconomic policies and trade reforms.
2. *A way to achieve multilateral opening*: essentially to expose domestic firms to competition and prepare them to compete in the global market.
3. *Means to facilitate access to regional markets and avoid uncertainty*: apart from tariff bindings at low levels, there are other border obstacles, such as contingent protection (anti-dumping duties, countervailing measures and safeguards), where it is possible to obtain more favorable treatment in the framework of integration.
4. *A means to strengthen negotiating capacity in other forums*: in the regional domain with greater interdependence, the chances of coordinating interests and priorities are likely to be greater.
5. *A way of attracting investments*: expansion of the market may encourage transnational firms to supply from the same region products that used to come from other countries.
6. *Defensive instrument*: to reduce the risk of exclusion, given the proliferation of other agreements.
7. A mechanism to “import” disciplines or administrative structures.

8. *A means to increase welfare and improve competitiveness* through static gains, through resource reallocation and economies of scale, and dynamic gains from specialization and learning.
9. *A way of obtaining “positive contagion”* from the public policies and institutions of more developed trading partners.

D. Means to achieve the objectives: scope, modality and instruments of integration

- 2.24 There is a close relation between the objectives of integration and the means used to achieve them, i.e. the choice of coverage, modalities and instruments of integration. But this relation is not linear, because the same objectives can be achieved with different combinations of means, depending on economic-policy preferences, the intellectual climate, and the structural and circumstantial conditions impinging on the process.
- 2.25 The degree of *thematic coverage* is relevant to the debate over trade or deeper integration, since generally speaking the latter comes into play when integration involves issues going beyond border restrictions. Coverage, therefore, refers to an agenda that may include external trade policy, industrial policy, investment regime, environmental regulations, labor standards, services, competition policies, trade defense, macroeconomic policy, improvement of infrastructure, alleviation of social impact, financial and monetary aspects, capital market, intellectual property and consumer protection.
- 2.26 The integration *modality* refers to choosing from a set of available alternatives in various fields:
- Timeframes (gradual or rapid)
 - Sector coverage
 - Methodology (automatic-monitored by objectives)
 - Sequence (between the monetary and real sector)
 - Degree of institutionality (intergovernmental-supranational)
 - Geographic coordination (neighboring or distant partners)
 - Symmetry of relations (collective or bilateral multiple reciprocity in a hub-and-spoke pattern)
 - Negotiations with other blocs or broader integration schemes (simultaneous or sequential).

- 2.27 The *instruments of trade policy* include positive or negative lists, rules of origin, special sectorregimes, customs regulations and distribution of customs revenue, harmonization, coordination, mutual recognition and institutional jurisdiction, establishment of a CET.
- 2.28 The combinations possible of coverage, modality and instruments are limited, since each level of integration (e.g. free-trade zone, customs union or common market) has its own minimum requirements in terms of these three variables. Thus, whereas an FTZ requires rules of origin between its members, a customs union requires a CET and a system for distributing customs revenue. A common market includes factor-market issues on its agenda, and an economic and monetary union involves harmonization of macroeconomic policies and supranational bodies for monetary issues.
- 2.29 The presentation of the conceptual framework made in this chapter had an instrumental goal, namely to identify and reconstruct the elements that have implicitly formed part of the Bank's strategy on integration. The following chapters will use this conceptual framework to delve deeper into strategic direction, programming and management respectively.

III. THE DIRECTION OF THE BANK'S INTEGRATION STRATEGY: AN INTERPRETATION

3.1 The idea of “regional integration” has been enshrined in the Bank’s activity since its creation, in one or more of the forms reviewed in chapter II. The way the concept has been incorporated in the institution’s global strategy and translated into concrete actions has varied through time. This chapter analyses documents that contain political mandates, namely the Charter (1959), the Seventh Replenishment (1989) and the Eighth Replenishment (1994). Other documents that have provided a reference framework for the Bank’s actions are also analyzed, including the Institutional Strategy (1999) and the Enhanced Action Plan for the Implementation of the Institutional Strategy (2000). The recent agenda has also been influenced by presidential statements, and particularly the communiqués issued by the Meeting of the Presidents of South America (2000), and the Summit of the Americas in Quebec (2001). The aim is to identify the direction given to the Bank’s strategy on integration.

A. The early decades

3.2 The Bank was born out of the integrationist movement of Latin America. In the 1950s ECLAC began to carry out studies on regionalism, and these were incorporated into concrete actions in the 1960s, such as creation of the Latin American Free Trade Association (LAFTA), CACM, the Andean Pact and the Caribbean Free Trade Association. Unlike the constitutional charters of other development banks, the IDB Charter (1959) states, as its main objective, the “individual and collective” development” of member countries and complementation of their economies. The Bank’s commitment to integration was eloquently expressed by its first chairman, Felipe Herrera, when in Punta del Este in 1961 he predicted: “*we shall be the integration bank*”.

3.3 Regional integration formed the backdrop to the Bank’s philosophy. In the spirit of the Alliance for Progress, it financed national highway infrastructure projects connecting the region’s countries, promoted data collection and dissemination on regional issues, and supported regional integration institutions through technical cooperation funds. In the LAFTA meeting held in Mexico in 1963, IDB president Herrera proposed a mechanism for coordinating the various integration institutions then in existence. The following year, at the Annual Meeting of the Board of Governors in Panama, he argued that before formulating the definitive project for such an institution, it would be useful to make a study of institutions engaged in research and teaching on the problems of European integration.

3.4 As a result, in 1965, the Institute for Latin American Integration (INTAL) began activities in Buenos Aires. INTAL is a unique institution in the history of the Bank in the region, and has carried out activities in support of regional integration and

cooperation processes for over 35 years. It has accompanied the vagaries of integration, firstly involving import substitution on a regional scale, then the paralysis of regional integration in the 1980s, and finally the current revival in support of support “open regionalism”.

- 3.5 In 1973 the Bank drew up guidelines to identify integration projects in various activities (GP-4-1). The basic operating criterion was an appreciation that significant linkage effects would be generated between the economies of two or more Latin American countries; it further clarified that this criterion should not be restricted to “each of the integration schemes in particular, because the ultimate aim is the integration of the entire region” (GP-4-1:2). The document also made an effort to quantify the integration effects of projects, while making clear that preparing projects does not require such quantification. Subsequently, in 1974, guidelines for operations with subregional financial institutions were drawn up (GP-22-1).
- 3.6 The report on the Seventh Replenishment (IDB-7), approved in April 1989, introduces regional programming into the dialogue process and identification of Bank operations. To give continuity to the importance assigned by the Bank to regional integration, the Seventh Replenishment instructs the management *to prepare strategy papers periodically to identify the regional and subregional areas of Bank activity, in the same way as in country programming*. Such areas might include global credits to regional development banks, export financing and promotion of trade development, and regional institutional strengthening aimed at providing a coherent framework for regional operations, studies and investigations. The Seventh Replenishment explicitly states that regional strategies should be based on the strategies of the countries concerned, and on dialogue with the relevant regional and national authorities; but it does not specify the mechanisms to be used or the structure of regional strategy papers.

B. The 1990s

- 3.7 The early years of the 1990s unfolded along the guidelines of the Seventh Replenishment, inspired by the “Washington Consensus” and structural reforms. Trade liberalization proceeded without a regional focus. Regionalism was not an motivation for the Bank or for its member countries. Nonetheless, by lifting trade barriers, the region’s countries discovered fertile ground for expanding mutual exchange (IS-1999, 2.17).
- 3.8 The proliferation of agreements during the 1990s was a worldwide phenomenon with forceful presence in the region, occurring alongside the globalization process. In this context “integration” not only became more important within the Bank’s strategy, it also changed its intellectual framework. The establishment of NAFTA and start of the process to construct the FTAA represented a landmark in this

regard, as integration was no longer viewed exclusively as an intra-Latin American process, but from then on as a pan-American movement.

C. The Eighth General Increase in Resources: the mid-1990s

3.9 The report on the Eighth General Replenishment (IDB-8), approved in 1994, was the written expression of the change in the Bank's priorities, crystallized in the following global targets: poverty reduction and social equity, environmental protection, and economic modernization and integration. Of the objectives listed in chapter II, the report on the Eighth Replenishment (op. cit. 2.31) declares the need for regional integration in order to:

- Achieve multilateral opening
- Facilitate market access and diversify exports
- Improve competitiveness
- Provide an anchor for structural reforms

3.10 The Bank concurs with most of the objectives discussed in the literature of that time, which viewed regional integration as part of a general opening strategy.

3.11 The Eighth Replenishment also argues that the Bank should continue to finance infrastructure projects (1.35c) and those aimed at the productive sector, but it does not specify a relation between these fields and regional integration. The Eighth Replenishment mentions that the Bank should support national and regional efforts targeting various areas (investment, labor training, technological development, SMEs, modernization of the financial, agricultural and public sectors), but these efforts are also not coordinated with regional integration.

3.12 The Bank's action in the social field is considered equally important. It states that countries should make a decisive effort to incorporate marginalized groups into modern society (1.41). The social pressures that democratic governments have to face in the wake of economic liberalization should be resolved through increases in productivity (1.29); it does not contemplate the need for an explicit social agenda or mechanisms to compensate losers.

3.13 In short, with regard to the debates set out in the second chapter of this report, the strategy direction influenced by the Eighth Replenishment is seen as limited more to the *trade integration* concept. Enhancing competitiveness is seen as essential to sustainability in the liberalization process. For this purpose, the Bank proposes the need to modernize productive structures and the public sector, establish appropriate financial and legal institutions and incorporate domestic economies into regional markets (2.34). The Report on the Eighth Replenishment also refers to the large

increase in capital flows into the region, but it does not articulate the implications of this phenomenon for integration.

- 3.14 In fact, by setting out only very general guidelines on integration, the Eighth Replenishment provides little additional guidance to relate the Bank's strategy direction to the elements comprising degree of coverage, modalities and integration instruments as discussed above in the conceptual framework of chapter II of this report.
- 3.15 Nonetheless, it cannot be said that regional integration is ignored. In keeping with the mandates of the Eighth Replenishment, in 1994 the Bank was reorganized into three regional operating departments. In addition the Integration and Regional Programs Department (INT) was created to replace the Economic and Social Development Department (DES), with a mission to develop regional technical cooperation, regional programming and the study of integration processes (CC-5294-1, 1995). In 1996, the Bank's Board of Executive Directors approved new objectives for INTAL, based on a new operational strategy to respond to the changes that had occurred in the regional integration scenario in LAC. In this context, INTAL was given four types of task: identify technical assistance for subregional integration processes; carry out baseline studies; hold political forums with private-sector participation; and disseminate ideas and information on integration. INTAL works in close collaboration with INT, whose Integration, Trade and Hemispheric Affairs Division provides technical support.

D. The Institutional Strategy: the late 1990s

- 3.16 In IS-1999 the Bank reflects on the profound changes that were taking place in the region, particularly globalization and the consequent changes in the region's countries. The Bank put special emphasis on trans-boundary capital flows, stating, in keeping with the Eighth Replenishment, that these create opportunities for investment financing, but also increase financial instability, thereby differing from the optimism expressed in this regard by the Eighth Replenishment. In IS-1999, the Bank distinguishes between portfolio flows, which it considers unstable, and FDI, which it classifies as more stable, concentrated until then on operations relating to privatization and exploitation of natural resources. Accordingly, at the end of the 1990s, in the face of economic crises, the Bank reflects this problem in its institutional strategy and argues that emergency situations need to be addressed (3.5 to 3.11).
- 3.17 Although the commercial and financial tracks do not seem to be coordinated, in this phase the Bank's conception is halfway between a pure trade vision, and one that incorporates financial integration. In IS-1999, the Bank begins to be more specific on aspects of integration, foreshadowing its collaboration in the FTAA process, in subregional treaties, and in problems arising from compliance with Uruguay Round commitments.

- 3.18 IS-1999 also identifies aspects specific to integration processes that had not previously been identified and classified with the level of importance they were now given. For example, the issue of policy coordination, was absent from the main integration processes in the region, because it was seen as problematic. In this regard, countries

Will be faced with the need for policy coordination not restricted to problems of a strictly economic and foreign or domestic trade nature, but which also encompass many social issues, such as migration, labor standards and social security, health, education and professional certification (op. cit 3.17).

- 3.19 IS-1999 also made a fundamental innovation with regard to programming, by establishing that regional integration should be included in the country programming process, and the regional perspective articulated in project programming. In this way, by including regional issues in specific national investment projects, more solid foundations would be laid to achieve both country and regional objectives.

- 3.20 From the above, it can be inferred that in 1999 the strategy direction was increasingly aimed at more comprehensive integration, with simultaneous consideration of trade and financial aspects. Increasingly it includes elements of policy coordination, without yet proposing the need for macroeconomic coordination, a problem that the region was already facing. Unlike the spirit of the Eighth Replenishment, where integration was seen almost as a natural outcome of opening up, the strategy now acquired an increasingly pro-active look.

- 3.21 The Enhanced Action Plan for the Implementation of the Institutional Strategy of 2000 (Plan 2000) moves forward in the same direction. It proposes actions to support mechanisms to strengthen liberalization and structural reform commitments, generate regional infrastructure systems, increase trade through more open markets, create regional institutions to support open regionalism and inter-regional agreements with more developed markets, and the modernization of dispute settlement systems. Integration is a dimension of in this report, which proposes that the corresponding component be identified in loans and a calculation method devised as an input for evaluating the institutional strategy. Plan 2000 thus introduces the concept of strategy “evaluability”.

E. On the threshold of the twenty-first century

- 3.22 This period of time is characterized by international financial crises and stabilization policies in the various countries. The situation prevented significant progress from being made in negotiations aimed at “deep integration”, in other words on issues such as services, government procurement and competition for investment, the latter being particularly sensitive to competitive devaluation. Nonetheless, the outstanding aspect at the start of the new millennium is

- hemispheric integration, in which the Bank is playing a very important catalyzing and coordinating role.
- 3.23 In late 1999, the IDB celebrated its fortieth anniversary in Petrópolis, Brazil. On that occasion Bank's president, Mr. Enrique Iglesias, laid out the characteristics and challenges facing the institution on the threshold of the new century. He referred to the Bank's large capital—US\$101 billion—and to various elements of its institutional capital. He also set forth the major priority areas that ought to concentrate the Bank's attention in improving ongoing reforms, the new social pact, governance, globalization and the regional cooperation strategy. On this latter point, the President considered it important to intensify Bank support for integration, emphasizing financial cooperation and macroeconomic coordination. Regional cooperation takes on a broader meaning, beginning with education and health, together with best practices and governance.
- 3.24 In keeping with the above, the Presidential Summits have become leading players in integration. The repercussions of the international financial crises had already set off a debate on the importance of coordinating macroeconomic policies with regard to the exchange rate, fiscal policy and, particularly, those aimed at attracting investments. With regard to the fifth set of debates mentioned in chapter II of this report, the presidents are currently considering whether macroeconomic coordination is recommended to tackle financial instability jointly.
- 3.25 At the meeting of the Presidents of South America, held in Brasilia in 2000, the region's Heads of State also declared that "peace, democracy, and integration are essential for guaranteeing the region's development and security" (point 5). The Presidents saw fully established democratic institutions as an essential condition for the strengthening of regional integration processes (point 20), along with private-sector participation (point 30). In addition, they stated that FTAA negotiations should take into consideration the varying stages of economic development and the economic size of the actors involved (point 35).
- 3.26 The Summit makes a number of comments on the modality proposed for integration (in accordance with the guidelines established in chapter II). For example, with respect to geographic coordination, the document stresses LAC strengthening through processes of a subregional nature, and their association processes (point 9). The document also refers to the need to achieve greater balance and symmetry between the rights and commitments of developed and developing countries (point 15). Once again, the coordination of macroeconomic policies emerges as an essential task to guarantee future advances in integration processes.
- 3.27 Another important aspect that spearheaded the integration process is infrastructure development. For the Bank, infrastructure is the clearest component of its objectives and actions undertaken to promote regional integration and economic development. Apart from being one of the most characteristic and most easily

- recognized activities, it has also been the most durable through time. In the 1980s it had lost momentum, but now in the early 2000s it has made an emphatic reappearance in the Bank's documents and action programs. The Brasilia communiqué states that "integration and the development of physical infrastructure are two complementary approaches" (point 37). As a result, the Bank prepared the action plan for the Initiative for the Integration of South American Regional Infrastructure (IIRSA), and subsequently the Puebla-Panama Plan (PPP) to establish pillars of integration and economic and social development in the region.
- 3.28 Lastly, in the communiqué issued by the Summit of the Americas held in Quebec in April 2001, the Heads of State of the countries of America gave the Bank the key mandate to promote hemispheric integration, and identify areas of financial and technical support for this process; in particular, negotiations aimed at establishing the FTAA, development of the knowledge economy, environmental protection, consolidation of the financial system in the region, and promotion of transportation, energy and telecommunications infrastructure.
- 3.29 With this mandate, the Bank, as part of the Tripartite Committee with the Organization of American States (OAS) and the Economic Commission for Latin America and the Caribbean (ECLAC), provides technical support to four FTAA negotiating groups (market access, agriculture, government procurement and investment), and to the treaty's bodies such as the Trade Negotiations Committee, the Consultative Group on Smaller Economies and the Committee of Government Representatives on the Participation of Civil Society. In addition it is providing technical and financial support to the FTAA Administrative Secretariat until 2003.
- 3.30 To summaries, these documents reflect a qualitative leap in the conceptualization of integration. There is a three-pronged advance on issues not previously fully incorporated in the integration strategy: macroeconomic coordination, support for infrastructure with a regional focus, and incorporation of the "losers" in the integration process. The integration agenda explicitly includes these three new elements.

F. Nonfinancial instruments

- 3.31 In another area, the Bank is also providing significant support for the integration agenda and is building consensus through its nonfinancial products. These include: databases; compendiums of laws and regulations; studies on specific integration issues; technical meetings; and specialized seminars and forums. Those considered most important in the Bank's integration strategy have been chosen for analysis.
- 3.32 Firstly, with regard to type of product, there is consensus on a starting point: current integration processes constitute "open regionalism" where subregional processes coexist with the FTAA (Devlin and French-Davis, 1998). The agenda is centered on tariff reduction mechanisms (levels, exceptions, speed and established deadlines)

- and also on a selective approach to rules of origin and other disciplines that constitute border restrictions (Garay, 1996). Increasingly, other issues are being incorporated that include the sector perspective, infrastructure problems, relation to economic development, institutional consolidation, construction of negotiating agendas and alternatives for medium-term external relations and their interactions.
- 3.33 As regards the Bank's positioning in the debate on the costs and benefits of these processes, quantitative and qualitative analyses of intra- and extraregional trade flows, and for each subregional agreement, are starting to proliferate. There have been discussions on the traditional arguments, and new ones have been incorporated; nonetheless, there is insufficient information to make an empirical assessment of these impacts. As regards discussion of the impacts of integration, however, a clear stance was adopted in the debate on trade creation and diversion in MERCOSUR, both to demonstrate the open-regionalism nature of this process, and to develop methodologies reaching clearly different conclusions than those that classify MERCOSUR as an inefficiency-generating "fortress" (Devlin, 1997; Nagarajan, 1998).
- 3.34 In its research agenda, the Bank also has given special attention to the "losers" from integration, especially when these are sensitive sectors such as garment-making in the Caribbean Basin and the impact of NAFTA (Chacón, 2000; Gereffi, 2000; Gitli and Arce, 2000; Buitelaar, 2000). The sector perspective was explored in depth in several studies for MERCOSUR, the Andean Community and NAFTA, to evaluate the concrete effects of productive restructuring, business performance and the degree to which market signals induced efficient specialization and the expected patterns of trade.³ Related to this microeconomic perspective, which more clearly expresses the interaction between established rules and disciplines and economic agents, various studies have called for greater attention to be given, at the institutional level, particularly to issues related to dispute settlement and commitments on macroeconomic coordination mechanisms.⁴
- 3.35 To summaries, these documents firstly maintain interest in the traditional pillars of integration analysis (market access and traditional costs and benefits), but secondly, based on the experiences of integration subgroupings, they make more concrete diagnostic studies and raise issues that are enriching the content of the new negotiating agendas (Iglesias, 2000).

³ INTAL (MERCOSUR sectoral), July 1999; RedINT series, 2000 (dairy products, Mexico); RedINT series, 2000 (dairy products and textiles, Andean Community); RedINT series, 2000 (pharmaceuticals and footwear, MERCOSUR).

⁴ Bouzas, 1996; Iglesias, 2000; Zahler, 2001; Devlin and Estevadeordal, 2001.

G. Strategic direction on integration

3.36 To conclude this chapter, it is appropriate to pose the following question: to what extent can an implicit Bank strategy on integration be identified from the documents analyzed? Remember that a strategy has three basic components: direction, programming and management. The documents analyzed show that there definitely is a strategic direction towards integration, in other words the Bank has set a course aimed at promoting integration. But the guidelines given were very general; and the objectives, coverage, modalities and instruments analyzed in chapter II, were not presented explicitly. Some of these elements were delegated to the programming process, as will be discussed in chapter IV.

3.37 This strategic direction has been present with differing elements and emphases at different points in time, and it displays well-defined time markers. What remains constant is the commitment towards integration, in keeping with the movement that gave birth to the Bank in the first place. The milestones along the way have been as follows:

- **The Eighth Replenishment (1994)**, which was imbued with the Washington Consensus philosophy of eliminating the trade barriers characteristic of import substitution, and of reducing the role of the State in regulating trade. Within this framework, the Bank gave direction to integration aiming it at multilateral opening, market access, export diversification, improvement of competitiveness, and anchoring of structural reforms.
- **The Institutional Strategy (1999)** reinforced this direction, but proposed updating it, putting limits on market freedom, and introducing elements of regulation that simultaneously addressed commercial and financial aspects. It included north-south integration (FTAA) and contained increasing elements of deep integration, but did not include macroeconomic coordination, a problem the region was already facing. In addition, it raised the need for this strategic direction to be transferred into the Bank's programming and planning. This aspect will be analyzed in chapter IV.
- **The Enhanced Action Plan (2000)** proposes guidelines and concrete actions in keeping with direction established by the Institutional Strategy. It undertakes to identify integration elements in loans, thereby incorporating the strategic direction in project management, as will be analyzed in chapter V.
- **The speech by IDB president Enrique Iglesias** at the Bank's fortieth anniversary, and the **Communiqué of the Meeting of the Presidents of South America (2000)** contain policy elements relating to the sustainability of the integration process, which they see as depending on fully established democratic institutions. In addition, macroeconomic coordination and physical infrastructure are recognized as key elements for progress in the

integration process. The Bank's commitment towards the FTAA is also made explicit; and the South American Presidents call for the corresponding process to ensure greater symmetry between the rights and commitments of the countries involved.

- **The Communiqué of the Summit of Americas of Quebec (2001)** reiterates the importance of macroeconomic coordination, physical infrastructure with a regional focus, and consideration for vulnerable groups in the integration process.

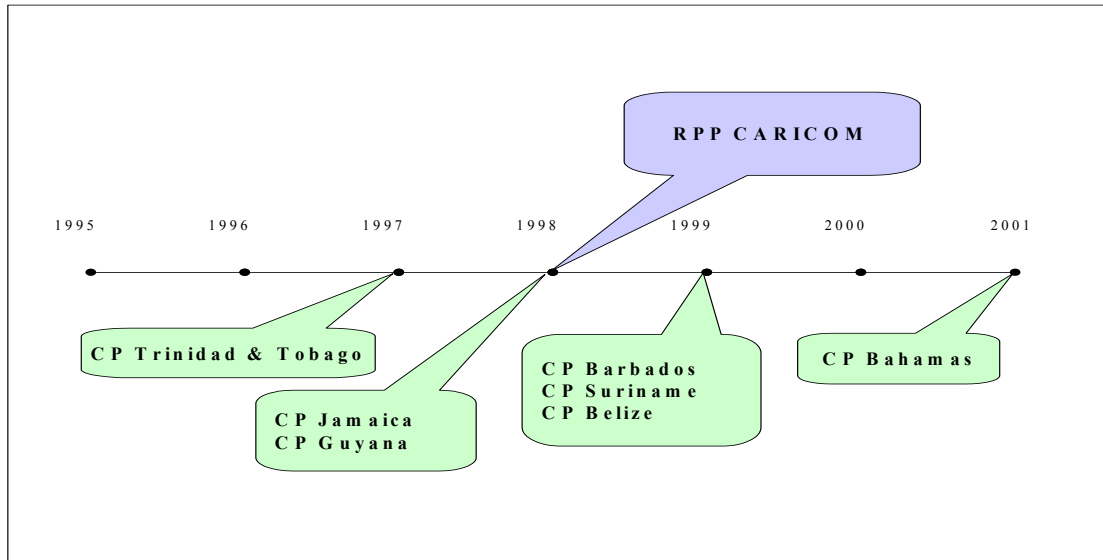
3.38 In short, broadly speaking, three phases can be identified in the Bank's implicit strategy for regional integration in the 1990s: an initial phase in which integration features as a natural outcome of the goals of liberalization (1994); a second stage, marked by the adoption of the Institutional Strategy (1999), in which integration is explicitly identified as a goal to be pursued actively; and a third phase marked by the Presidential Summits (2000-2001). The latter make progress in two directions: firstly they are proactive on infrastructure, the environment, and development of the knowledge economy; and secondly there is recognition of the need for defensive measures to counteract the spillover effects of integration in the social, political, and macroeconomic domains.

IV. PROGRAMMING: CONTINUITIES AND DISCONTINUITIES

- 4.1 As mentioned above, IS-1999 established that the regional strategy should be incorporated in country programming processes, and that the regional perspective should be included in project programming as far as possible. This chapter examines the way in which this took place in the 1990s, by comparing the regional programming papers (RPPs) for CARICOM, CACM, the Andean Community and MERCOSUR, and the 34 country papers (CPs) for the members of those blocs, to see how the mandates emanating from policy documents are being incorporated in programming.
- 4.2 Before embarking upon this, however, it will be useful to briefly describe the evolution of the Bank's regional programming. The Seventh General Increase in Resources provided the initial impetus for the first RPPs in the early 1990s. The following subregional strategies were prepared: River Plate Basin (1990), Central American Common Market (CACM, 1991), Amazonia (1993) and Subregion South (1993). As the titles of these documents suggest, except for CACM, countries were assigned to subregional groups more on the basis of economic criteria and environmental protection. This is because environmental management and the conservation of natural resources was one of the priorities of the Seventh Replenishment; other priorities include estimation of the distributive impact on low-income beneficiaries, the advancement of women, and support for micro-entrepreneurs. Accordingly, optimizing comparative advantages inherent in natural resource endowments and environmental protection form the reference framework for these first regional strategies. This is reflected in subregional country groupings that generally differ from the four geopolitical subgroups that the Bank has used to prepare RPPs since 1995.
- 4.3 The reorganization of the Bank in the mid-1990s also led to regional programming being restructured. Unlike the early regional strategies, RPPs prepared since 1995 relate to four subregional groups: CARICOM, the Andean Community, CACM, and MERCOSUR. There are no RPPs covering other countries not associated with those blocs. Accordingly, it could be inferred that the Bank's new focus uses geopolitical criteria in order to better consolidate trade liberalization—one of the aspects of the revival of regionalism in the 1990s. The emphasis is on strengthening and developing trade blocs in a context of open regionalism. Responsibility for preparing RPPs was given to the INT, which altered the structure of the documents, giving priority to trade liberalization. Procedures for preparing the RPPs were also changed to make them consistent with those for CPs. It is worth mentioning that from the start of RPP preparation until they are finalized, INT maintains permanent dialogue at both subregional and national level in each member country of the bloc concerned. Consequently, the regional strategy, together with its conclusions and

recommendations, should reflect national viewpoints on regional integration. Below we examine how integration is incorporated in programming.

A. Caribbean Community programming



4.4 The RPP for CARICOM (1998) aims to reposition this trade bloc in the world, and promote growth and social improvement. It highlights the need for a harmonized liberalization process, converging towards the OECD regulatory framework, with a rationalization and strengthening of subregional institutions. It promotes integration with the following aims:

- Integration as a means to facilitate access to regional markets
- Integration as a means to increase competitiveness
- Integration as a means to attract investments
- Integration to strengthen bargaining capacity in other forums

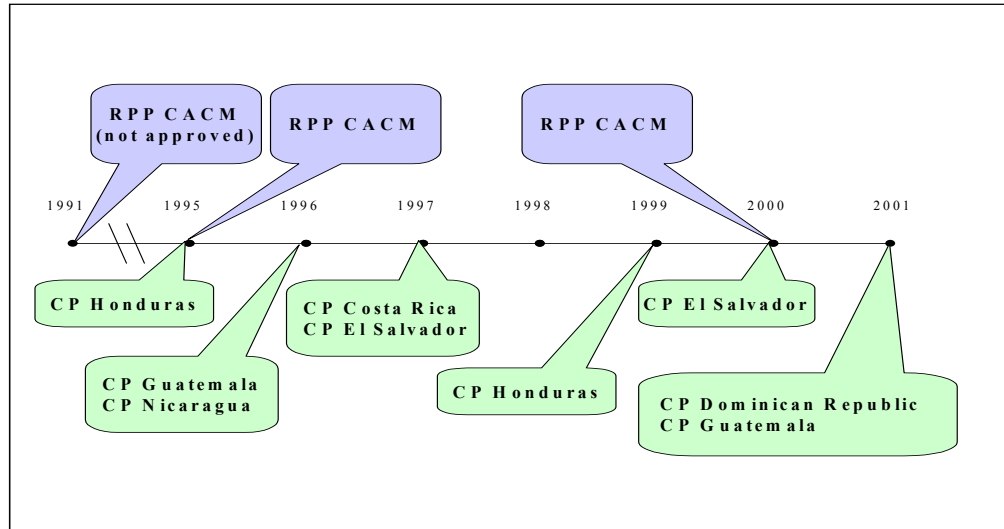
4.5 As regards the modality of integration, the CARICOM RPP refers to geographic coordination, timeframes, institutionality and negotiation with other blocs. Aware of the small size of the CARICOM bloc, it proposes expansion, stressing links with the Dominican Republic and Haiti. It focuses its action on the liberalization of intraregional trade in goods and services, and proposes to rationalize and strengthen subregional institutions. On negotiation with other blocs, it states that regional cooperation is the only effective mechanism for dealing with outstanding trade negotiations, highlighting the creation of the regional negotiating machinery

(RNM). The RPP draws attention to the dilemmas of closer macroeconomic coordination. On this point, it is worth mentioning the study commissioned by Heads of Government with a view to establishing a monetary union, for which central banks oversaw compliance with a number of convergence criteria (foreign-exchange cover, exchange-rate stability, and debt-service ratios, among other things). This RPP has elements compatible with the Eighth Replenishment, but its objectives, coverage, modalities and instruments proposed for the future, reflect a strategy direction aimed at a deeper integration concept.

- 4.6 The 1997 Trinidad and Tobago CP sees trade liberalization as a means to attract foreign investment into the country; but it does not consider intra-CARICOM regional integration. Moreover, the deeper integration concept of the RPP does not extend to the subsequent CPs of Jamaica (1998) Guyana (1998) and Barbados (1999), which are contemporary with the PR: none of them addresses the regional dimension. The strategy also has a national focus in these country papers. On the other hand, the 1999 CP for Belize does consider regional integration of trade as a priority; and the Suriname CP (1999) mentions integration as a component of trade policy reform. This feature is also broadly present in the most recent Bahamas country paper (2001)⁵, although it refers to the loss of fiscal income resulting from hemispheric integration. On the whole, these CPs, despite their individual features, all aim at economic and social development, with special attention to the private sector and the environment.
- 4.7 In its diagnostic study, the CARICOM RPP specifies the achievement of sustainable growth and alleviation of social problems as the main challenges. Given their breadth, these challenges are consistent in general with those identified in the corresponding CPs. The Jamaica CP, for example, also includes the fiscal situation, the financial crisis, and the current-account deficit. The Guyana country paper adds problems stemming from external debt, reform of the public sector, infrastructure and the environment.

⁵ This CP was included here because Bahamas is a member of CARICOM although it does not form part of the common market.

B. Central American Common Market programming



4.8 The CACM had more programming exercises than the other blocs; we have analyzed those corresponding to 1991, 1995 and 2000. The first of these, in compliance with provisions of the Seventh Replenishment, identifies strategic actions on a subregional scale, as an initial vehicle to support the Central American dialogue. Its guidelines add to and complement those established in the corresponding CPs. It proposes liberalizing intraregional trade and coordinating policies towards external markets. The 1995 RPP includes integration activities along with broader subregional cooperation. In terms of integration, it focuses on trade, CACM institutional modernization and external linkages. It gives importance to infrastructure and the need to create a harmonized economic area in terms of economic legislation and regulatory frameworks to increase investment. Lastly, the 2000 RPP stresses the challenge of competitiveness, basing this not only on productive investment, but also on human development and environmental sustainability. This RPP includes the following economic objectives for regional integration:

- Integration as a means to facilitate access to regional markets
- Integration as a means to increase competitiveness
- Integration to strengthen negotiating capacity
- Integration as a means to attract investments

4.9 The 2000 RPP includes other directions that go beyond economic issues, such as social development, environmental sustainability and regional infrastructure. On the

latter it carries on from the previous RPP which supported the refurbishment of deteriorated infrastructure, improvements to interconnections between countries, and the implementation of institutional reforms leading to privatization and the outsourcing of services. In the human development domain, the exercise considers it necessary to formulate and adopt a regional strategy coordinated with national programs, particularly in the areas of health and education; labor, entrepreneurial and social management training; and nutrition. As regards the distribution of the benefits of integration, the RPP argues for the need for a deeper awareness of the asymmetries existing in the region. Accordingly, in terms of coverage, and considering aspects that go beyond the economic domain, this RPP aims at a deep form of integration. The instruments contemplated include harmonization of regulatory frameworks in banking and capital and insurance markets, as well as in metrology, accreditation and standardization. The 2000 RPP also stresses private-sector participation.

- 4.10 The 1995 Honduras CP, which is contemporary with the second PR, does not consider regional integration although it does mention tariff reform and export promotion among the country's priorities. Between 1996 and 1997, four CPs were produced for Guatemala and Nicaragua (1996), Costa Rica and El Salvador (1997), but these bear no relation to the corresponding RPP. The focus of these country papers is essentially national, referring to problems of economic recovery and stabilization, poverty alleviation and improvements to social sectors. It is understandable that priorities at this time in Guatemala, Nicaragua and El Salvador should emphasize national reconstruction, following the devastation caused by their civil wars, but this does not fully justify the omission of trade or regional integration. Both Guatemala and El Salvador introduced structural reforms and trade liberalization early in the decade, but the respective CPs in 1996 and 1997 contain no activities relating either to trade or to integration. In contrast, Nicaragua, which was also affected by the same political events, puts greater emphasis on trade integration and on investments in its 1997 CP. Costa Rica recognizes integration to some degree, but gives greater importance to its global linkages, following its experience with INTEL. Another Honduras CP, four years after the 1995 exercise, identifies trade opening as one of the main development challenges, but apparently in a unilateral and non-preferential sense; it makes no mention of CACM.
- 4.11 In contrast, the CPs of El Salvador (2000) and Guatemala (2001) make efforts to explicitly coordinate with the 2000 RPP framework. The Guatemala CP supports a review of regimes for attracting investment and encouraging exports, strengthening negotiations and implementation and management of trade agreements. Also in line with the PR, the Guatemala CP displays a flexible and pragmatic concept of integration. It includes support for a regional tourism program and government action to strengthen the highway network with a Central American perspective. The El Salvador CP encourages projects and initiatives identified during regional dialogues (2.27). The key projects involve: interconnection of the Central American electric power system; strengthening of historical, environmental and cultural

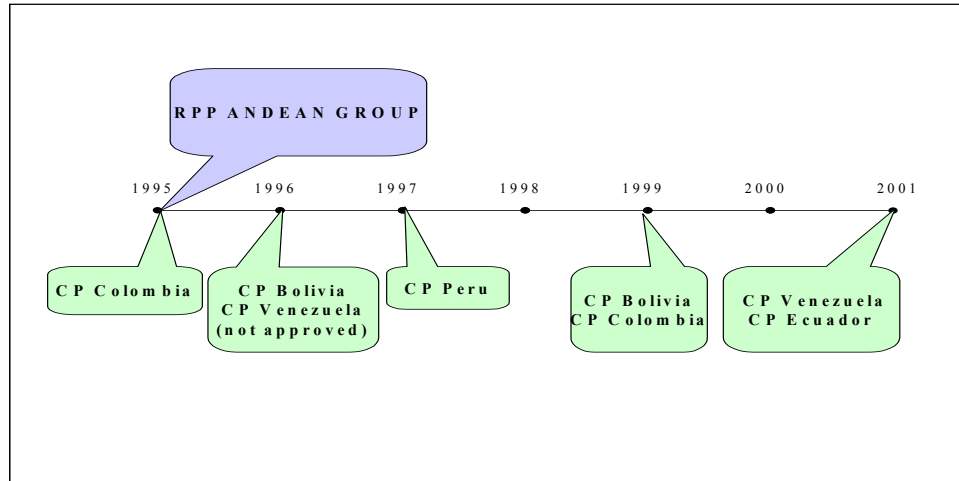
heritage; tourism promotion through the Mayan World Sustainable Development Project; mitigation of the effects of natural disasters in Central America; and the Lempa river basin project with Honduras and Guatemala. We also reviewed the CP for the Dominican Republic (2001),⁶ since the RPP stated its intention of including this country wherever possible. This CP aims to support and complement economic, social and institutional efforts to preserve growth and stability, but does not mention integration, either explicitly or implicitly.

- 4.12 The diagnostic studies of the 2000 RPP and CPs are shared in this bloc to a greater extent than in the others, reflecting close collaboration between INT and RE2 in preparing the 2000 RPP.⁷ This document sets out the challenges facing the region in achieving sustained growth, in the economic, human, environmental and institutional domains. The CPs of Guatemala and El Salvador point in the same direction.
- 4.13 To conclude the review of this bloc, it can be said, on the one hand, that RPPs have evolved from a concept centered on market access to one involving greater international linkage, and also encompassing social and environmental issues. In this bloc there are fewer discontinuities in the regional programming process than elsewhere.

⁶ The CACM regional programming document states that the proposed strategy includes not only the five countries of the bloc but also Belize, Panama and the Dominican Republic, as far as possible. The latter signed a free trade agreement with CACM in 1998. The CARICOM RPP states that Dominican Republic is included only in certain aspects of the exercise (page 1).

⁷ From the outset, a working group was established that included a coordinator from INT and a coordinator from RE2 on a full-time basis. The latter department also appointed sector specialists from each of the functional areas, providing them with time and budget for travel and consultancy work to participate in preparing the RPP. The result was a document enriched by the specialized knowledge of INT and RE2 staff in thematic areas. The interdepartmental working relation has also facilitated dialog and participation by INT in country programming exercises and in the preparation of national projects. This approach is an example that could be replicated in the future.

C. Andean Community programming



4.14 The regional programming paper for the Andean Group (GRAN, 1995)—later to be known as the Andean Community of Nations, stresses the following integration objectives in keeping with the approach of the Eighth Replenishment:

- Integration as a means to achieve multilateral openness
- Integration as a means to increase competitiveness
- Integration to facilitate access to regional markets.

4.15 The RPP displays a trade conception of integration, in its coverage, modalities and instruments. As regards integration modalities, this RPP only refers to institutionality, proposing to support its modernization through regional technical cooperation. The RPP does not explicitly mention the scope of the integration agenda, except to indicate the need for studies on services. It is more decisive on infrastructure development (of major importance since 70% of intraregional transport takes place by road), including support for the Andean Transport System to refurbish national highways and interconnection between members. The RPP contains an annex on the macroeconomic situation, which identifies problems of convergence, specifically relating to variations in the exchange rate. It points out that GRAN, like other subregional agreements, experienced strong growth in intraregional exports between 1990 and 1994, but this was subsequently eroded by exchange-rate volatility. It argues that “policy harmonization may be desirable, but it is very difficult to achieve in countries which are already experiencing problems in individually stabilizing their economies ... and which engage more in extraregional than intraregional trade; ... it is more realistic to support economic

stabilization processes in each of the countries, which, if successful, will enable the region to converge towards regional macroeconomic stability” (18. Annex IV).

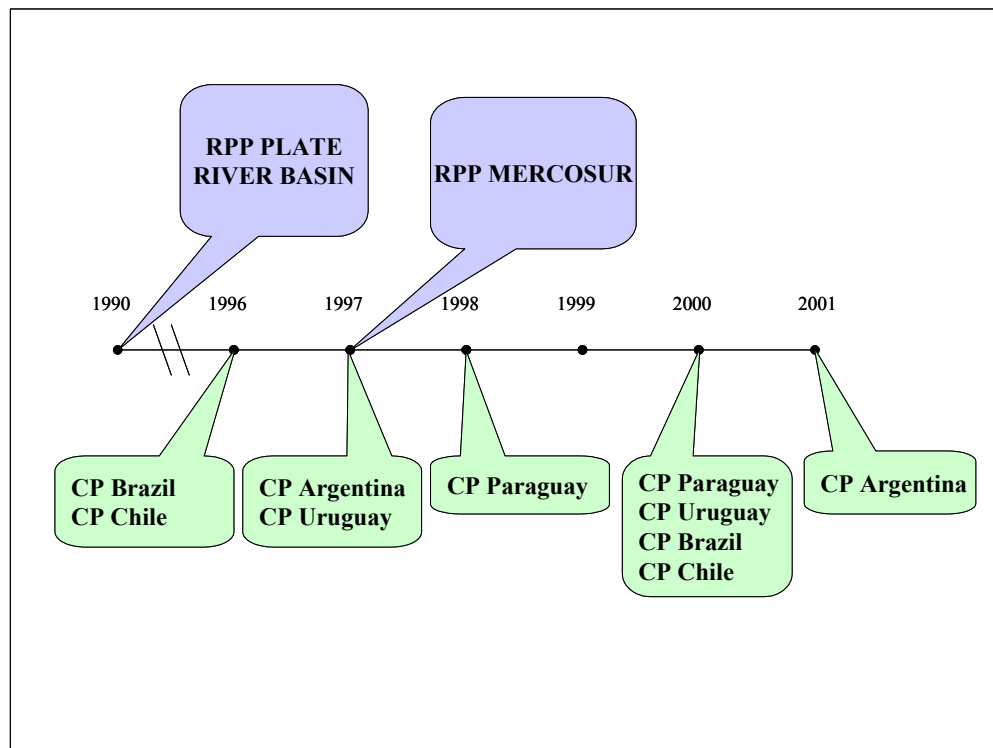
- 4.16 The country papers (CPs) analyzed correspond to two periods. The first are contemporary with the RPP. The CPs of Colombia (1995), Bolivia (1996),⁸ Venezuela (1996, not approved) and Peru (1997) reflect Eighth Replenishment priorities without having integration in their sights. Nonetheless, there are some references in the Colombia and Bolivia CPs. The Colombia CP mentions the importance of bilateral trade with Venezuela in its external-sector diagnosis, without referring to other Andean Community members. The CP for Bolivia recognizes the importance of transport infrastructure and problems inherent to its landlocked situation. It reiterates the country strategy—pursued since the beginning of the decade—to improve its physical integration with neighboring countries and gain access to the sea. Nonetheless, the projects contained in the 1995-1997 operating program do not include major projects to encourage the integration of Bolivia with its Andean Community or MERCOSUR partners, except for a proposal to carry out a study of the impact of MERCOSUR.
- 4.17 Apart from the 1999 Bolivia CP, the most recent country papers for Colombia (1999), Ecuador (2001) and Venezuela (2001) also do not see integration as a key element of the Bank’s action in the respective country. These CPs focus on national objectives not untrammelled by integration, except in the Bolivian CP which recognizes the importance of subregional markets to promote trade and investment, and where Bank support contributes to physical integration (export corridors). The Ecuador CP focuses on stabilization, poverty alleviation and restoring confidence for private-sector investment. In this context, there is reference to sustainable development in border zones, in the framework of the peace and mutual cooperation agreements between Peru and Ecuador, under the binational development plan.
- 4.18 The diagnostic studies made by the RPP are not shared by the corresponding CPs. In addition to highlighting institutional structure, the GRAN RPP draws attention to obstacles to market access (border services, technical and quality standards), infrastructure shortcomings and the need to involve the private sector. The CPs, on the other hand, both those contemporary with the RPP and more recent ones, address other types of challenges. In Ecuador these include governance, stabilization, public-sector modernization, ethnic and social inclusion; in Colombia, achieving peace, poverty, decentralization, modernization of the State apparatus

⁸ Bolivia is a founding member of the Andean Community, and has also been associate member of MERCOSUR since 1995. In this report, the CPs for Bolivia are discussed in the Andean Community section, given that country’s greater participation in this bloc, and because it does not appear as a beneficiary country in the majority of MERCOSUR regional technical-cooperation projects. However, it is important to stress that MERCOSUR has become increasingly important in the formulation of Bolivia’s development strategy.

and sustainable growth. In Bolivia, poverty reduction and macroeconomic stabilization are given pride of place.

- 4.19 To conclude, the Andean Community RPP prepared shortly after the Eighth Replenishment mirrors the philosophy of that document. It displays a trade conception of integration, which is seen as a means to facilitate market access, diversify exports and enhance competitiveness. The CPs, meanwhile, give preference to national issues and do not consider regional integration. The RPP and the CPs in this case are moving along different tracks.

D. MERCOSUR programming



- 4.20 As several the projects to be analyzed in chapter V below were approved before the 1997 RPP was prepared by INT, we also reviewed the one prepared in 1990 for the River Plate Basin, covering Argentina, Bolivia, Brazil, Paraguay and Uruguay. This exercise includes support for liberalization, exports and investment, as well as coordination of macroeconomic policies and regulatory procedures. It also takes into account natural resources, transport and the environment as key aspects of regional development. It registers sectoragreements prior to MERCOSUR.

- 4.21 The guiding principle in the MERCOSUR regional programming paper (1997), is “to support the consolidation and deepening of free trade ... in a context compatible

with ongoing reform processes and external opening” (page 33). It promotes the bloc’s integration with neighboring countries (Bolivia and Chile), and linkages between all of them and the Andean Community, the European Union, NAFTA and FTAA. It highlights the following objectives for the 1997-1999 programming period:

- Integration as an anchor for structural reforms
- Integration as a means to achieve multilateral opening
- Integration to strengthen bargaining capacity in other forums
- Integration to facilitate market access

- 4.22 Like the GRAN, the MERCOSUR RPP is very much in keeping with the Eighth Replenishment strategy direction. It has a trade conception of integration, in terms of coverage and the instruments considered (page 34, II.a.2.). It marginally includes policy coordination through intergovernmental information exchange. Nonetheless, this RPP also foreshadows elements of IS-1999 by projecting actions aimed at deeper integration, such as the environment, labor standards, social aspects, financial and monetary issues and regulatory frameworks. The RPP also takes a stance in the trade-creation vs. trade-diversion debate: “MERCOSUR has been a major vehicle for trade creation, and the few possible cases of trade diversion are concentrated among products subject to temporary exceptions to customs-union rules” (paragraph 2.18).
- 4.23 This RPP anticipated some of the problems that would later arise in the bloc, and precisely reflects them by making the risks of the strategy explicit. These arise from the lack of consensus among member countries, macroeconomic instability and concentration of the benefits of integration among relatively larger countries. It therefore recommends designing a strategy self-evaluation mechanism with a view to taking corrective measures.
- 4.24 On integration modalities, the RPP proposes making rapid progress on issues related to improving the customs union (page 35), without putting forward a concrete time horizon for non-tariff issues or for institutional strengthening. It stresses private-sector participation (page i), through agreements on investment, association, co-participation and intra-regional procurement.
- 4.25 Two sets of CPs can be distinguished for this bloc. The first group, excluding Paraguay, was carried out prior to the 1997 PR, with subsequent updates in Argentina and Uruguay (1997). The integration concept corresponds to that of the Eighth Replenishment. All the country papers refer, with differing emphases, to three priority areas: State modernization, economic opening and competitiveness. The CP for Argentina (updated in April 1997) focuses on reforms at the federal,

- provincial and municipal levels. Integration is mainly seen as a means to improve competitiveness and productivity by refurbishing transport infrastructure. The Brazil CP (February 1996) also closely mirrors the Eighth Replenishment in its emphasis on State modernization and liberalization. It proposes infrastructure improvements to help reduce the so-called “Brazil cost”. Similarly, the Uruguay CP (February 1997) emphasizes the “Uruguay cost”, for which it proposes deepening structural reforms and developing private-sector investment. The regional dimension arises in the context of market expansion and physical integration. Specifically, it recommends the *Integration corridors and national primary network program* (UR-0113), electric power integration with Argentina, and the Buenos Aires-Montevideo gas pipeline. The Paraguay CP (1997, updated in April 1998) recognizes MERCOSUR as a means to increase investment, achieve economies of scale and facilitate access for Paraguayan products. It relates explicitly to the Eighth Replenishment, but except for potential infrastructure projects (in connection with Yaciretá), it is difficult to identify specific Bank support for regional integration. We also reviewed the CP for Chile (April 1996), which is not a full member of MERCOSUR. This country paper is clearly aimed at multilateral opening. Bank support for integration occurs through two institutional strengthening operations: an MIF loan to support external negotiations, and another on bioceanic corridors and infrastructure integration.
- 4.26 The CPs for Chile (April 1996) and Bolivia (May 1999), associate members of MERCOSUR, were also reviewed. The CP for Chile clearly addresses the issue of the country opening up to multilateral trade. Bank support for integration translated into two operations for institutional strengthening: a MIF project for external negotiating and the other project for bicoastal corridors and integration infrastructure. The CP for Bolivia, a country mainly discussed under the Andean Community, emphasizes its integration with MERCOSUR and the Andean Community through projects for physical integration that will help Bolivia act as a link between the two subregions.
- 4.27 The second set of CPs are subsequent to the 1997 PR, and integration emerges more strongly. In the country papers of this period, integration takes more of the central role, although with different emphasis and characteristics in each country. The Brazil CP (July 2000), recognizes the revival of MERCOSUR as a challenge, and proposes physical infrastructure projects and regulatory reforms to facilitate intraregional trade. The Uruguay country paper (October 2000) is one of those giving greatest importance to integration. Its content is more inspired by IS-1999, except on infrastructure where it tends to reflect the 1997 RPP. It discusses greater macroeconomic convergence in MERCOSUR and the development of regional institutions, both of which are absent from the RPP. Financial aspects are considered from a national point of view, with allusions to regulatory harmonization in exchange-rate systems and both fiscal and monetary policies—all issues absent from the PR, but present in IS-1999 (p. 11). The Paraguay country paper (October 2000) is also consistent with IS-1999 objectives (export

diversification, attraction of investments, improvements to competitiveness). This CP proposes integration as a means to attract investment and to increase competitiveness. Unlike the Uruguay country paper, the Paraguay CP does not propose issues such as macroeconomic coordination and services in the regional domain as areas for attention. Both country papers have an eminently national focus, and although integration does emerge in them, it does not display continuity either with the RPP or with each other.

4.28 In clear contrast, consolidation of the trade bloc appears as a pillar of growth in the contemporary January 2001 CP for Argentina. This paper precisely focuses the integration goals and sees MERCOSUR as a means for the following: multilateral opening; competitiveness and export diversification; access to regional markets; and strengthening of bargaining capacity. Three of these objectives coincide with those identified in the 1997 RPP. A fourth objective, namely the anchoring of structural reforms, is replaced in this CP by the need to improve competitiveness, reflecting an accurate diagnosis of the Argentine problem in 2001. The thematic coverage of this CP includes macroeconomic coordination, infrastructure and sector programs. On the other hand, services do not appear, nor do standards on the environment, labor market and financial institutions – aspects which the 1997 RPP projected for the future. As regards the integration modality, this country paper refers to institutional strengthening, but does not propose concrete schemes. Lastly, in relation to the instruments of integration, it raises the need to harmonize domestic legislation and regulatory frameworks. In all these aspects, this country paper advances further than those of its partners, and even further than the RPP. To complete the analysis of MERCOSUR, we examined the November 2000 CP for Chile. This country paper, basically concerned with domestic problems, makes few references to regional integration, except for two specific topics on the country's agenda with MERCOSUR: macroeconomic convergence and the harmonization of technical standards, for which it calls for technical assistance.

4.29 The diagnostic studies of the RPP and the CPs start out from different visions of integration. The CPs have a more defensive emphasis than the PR—even those of Argentina and Uruguay which include topics foreseen as risks in the RPP. In both cases the issues on the new agenda appear among the challenges the countries will have to face as a result of membership of the bloc. The Chilean CP does not display this defensive attitude.

E. Continuities and discontinuities in the programming process

4.30 A review of the 1990s shows that the Bank supported the integration aspirations of member countries, initially with the objective of expanding trade. Then, later in the decade, programming was adapted to the financial crises and aimed at reducing national vulnerability. In this situation, the Bank started to promote new policies addressing four areas, namely competitiveness, macroeconomic fundamentals, regulatory frameworks, and, in many cases, social vulnerability. Increasingly, the

- Bank's regional program is moving from the goal of accompanying trade expansion to focusing on the conditions under which commercial exchange takes place. Programming in this stage is aimed at dealing with the effects of growing interdependence in the region. It is also then that the Bank, by explicitly including the private sector as an important integration stakeholder, encourages the establishment of appropriate regulatory frameworks on competition policy, unfair competition, technical standards, etc. There are efforts to achieve a balance between the need to prevent integration falling into the hands of institutional actors (such as in the 1960s) and the free-market philosophy that had grown out of the "Washington Consensus". More recently in 2000, the Summits of the Americas have acknowledged the social weaknesses of the process, and infrastructure is making a forceful reappearance in promotion of regional integration.
- 4.31 IS-1999 and its Plan 2000 took the first steps to initiate a change in programming, in order to commit the Bank to incorporate its integrationist aspirations into programming (both RPPs and CPs), and make explicit that the integration perspective should be incorporated in projects. Prior to this commitment, however, four programming exercises had been carried out, one in each of the blocs analyzed. These exercises, and their guidelines, correspond firstly to the opening-up philosophy of the Eighth Replenishment (i.e. progressive removal of trade barriers), and secondly to the economic-institutional needs of each bloc.
- 4.32 The CPs corresponding to GRAN have an eminently national focus, with very little orientation towards integration. The same is true of the country programming for CARICOM and CACM members in the middle of the decade. This reveals a lack of synchronization between the national programming process and regional programming. Clearly these peculiarities relate to the conditions prevailing in the individual countries; but at the same time, attention is drawn to the failure to consider national policies on integration in the CPs prepared in 2000 and 2001 (Bahamas, Dominican Republic and Guatemala). By that time, both IS-1999 and its Plan 2000 had already highlighted the need to incorporate integration in country programming. The CPs analyzed give few signs of fulfilling this mandate, and taken as a whole, it is hard to view them as belonging to a single integration scheme.
- 4.33 In contrast, this characteristic does not appear in MERCOSUR. The 2000 and 2001 country papers (Argentina, Brazil, Paraguay and Uruguay) address the reality of interdependence in the region, and are also inspired in the guidelines of IS-1999 and its Plan 2000. Integration appears more clearly in most of the member-country CPs, but there are many shades and variations of emphasis, and the lines of continuity from one CP to another are tenuous. For example, the CP for Uruguay proposes regional institutional development and greater macroeconomic convergence, whereas the Paraguay country paper, which is contemporary, fails to mention those issues. The Argentina CP, prepared six months later, makes a qualitative leap compared to previous ones by proposing deepening including

macroeconomic coordination, harmonization of legislation, creation of institutional structures, regulatory frameworks and physical integration.

- 4.34 In the case of MERCOSUR, generally it cannot be said that there are incompatibilities between the contemporary CPs and the PR; but nor can one detect a deliberate effort to achieve a significant degree of compatibility. The CPs in this bloc do not assume the challenges raised by the 1997 RPP in equal measure. In general, one can conclude that the CPs merely feed off the RPP. In the light of the difficulties countries went through following the PR, the 2000 CPs are aimed at containing the spillover effects of integration, in other words vulnerability stemming from interdependence between the countries. Although it is naturally necessary and a priority, this adaptive characteristic means forgoing the chance to reconcile objectives between partners by incorporating strategic targets, i.e. targets that give momentum to the process and thereby improve coordination with active national policies.
- 4.35 The lack of synchronization that arises in MERCOSUR between the RPP and the corresponding CPs does not feature so clearly in CACM, which had three programming exercises during the period. The most recent was in 2000, and the CPs produced immediately afterwards reflect this, unlike what happened in the 1995 exercise. Thus, there is greater coordination between the 2000 RPP and the corresponding CPs, which respect its guidelines and orientation. The overall programming for 2000, in this bloc more than any other, highlights social development and environmental sustainability, along with the asymmetries suffered by less developed countries.
- 4.36 In some cases, regional programming includes countries with special forms of association. Examples include Chile with MERCOSUR, the Dominican Republic in CACM and Bahamas with respect to CARICOM (despite being a member, it not form part of the common market). In the case of Chile, although integration does not appear as a central issue, actions relevant to fuller integration are proposed, including aspects of macroeconomic convergence and harmonization of technical standards. In marked contrast, the country papers of Bahamas and the Dominican Republic contain no elements related to integration.
- 4.37 Lastly, with very few exceptions (mostly in the 2000 CACM PR) the diagnostic studies presented in the RPPs and CPs point in completely different directions. One of the reasons for this is the scant participation of INT in the preparation of country papers: INT staff participated in just six of the 32 country paper teams where the departmental affiliations of the authors are known. Generally speaking, when CPs consider integration they do so defensively: from the authors' point of view, integration poses a challenge for the country concerned.
- 4.38 To summaries, the dialogue between CPs and RPPs shows major degrees of discontinuity. When integration appears in CPs it is because the countries

concerned have problems stemming from integration, not because of a pro-integration strategy. On the contrary, there seems to be a transfer of lessons learned from the RPPs to IS-1999 and its Plan 2000. More precisely, the RPPs prepared during 1995-97, correspond to the broad directions laid down by the Eighth Replenishment, but in 1998 the CARICOM RPP was already foreshadowing elements that would later be taken up by IS-1999 (environment, labor standards, social, financial, and monetary aspects and regulatory frameworks). The next chapter will analyze the relation between programming and project management.

V. MANAGEMENT: ITS COORDINATION WITH STRATEGIC DIRECTION AND PROGRAMMING

- 5.1 In earlier chapters we concluded that the Bank's strategic direction on integration displays broad orientations in the three periods identified in the 1990s. This chapter analyses how the integration dimension has been incorporated in a selected group of projects. The aim is not to make a full evaluation of each project, but merely to analyze its relevance in terms of integration; the aim is to identify its consistency or otherwise and, ultimately, make recommendations for incorporating integration more fully in programming and projects.
- 5.2 Organizing the projects by blocs as in chapter IV—CARICOM, CACM, the Andean Community, and MERCOSUR, together with FTAA and "Others", the following issues in particular are analyzed:
- a. Consistency between projects and the Bank's strategic direction as described in chapter III.
 - b. The relation between programming and projects, i.e. whether projects correspond to, or are carried out with regard to, or on the basis of regional programming. Also, as far as possible, we analyze their consistency with the CPs.

A. Sample selection and method of analysis

- 5.3 To analyze the relevance of the projects with respect to integration, we started from the database of the Integration and Regional Programs Department (INT), which contains technical cooperation and loan projects, grouped according to their contribution to trade, financial liberalization and physical integration. Following an initial review, and in consultation with INT and staff from the Regional Departments and SDS, a sample of 58 projects was chosen, which not only is representative of the Bank's support for hemispheric and subregional integration, but also reflects its strategy towards integration in the 1990s.
- 5.4 The sample was selected on eminently qualitative criteria, namely, the probable relation and relevance of the projects to regional integration. In addition to traditional regional technical cooperations (RTCs), the sample also included national loan projects aimed at liberalization, economic modernization, institutional reforms and modernization of infrastructure with possible implications for integration. This resulted in a set of projects of different sizes and topics, which did not cover all member countries of the Bank, but in some cases involved more than one project per country. Using this selection methodology, it seems inappropriate to make quantitative comparisons showing the importance of these projects in the Bank's loan portfolio. The projects are shown in tables 5.1a and 5.1b below.

Table 5.1a
Selected projects: CARICOM, CACM and Andean Community

Loan/TC	Description	Amount (US\$ million)	Country	Year	Type	Bloc
JA-0019	<i>Trade, finance and investment sectors</i>	75.00	JA	1991	PSCT	CARICOM
TC-9404302	<i>Deepening of Caribbean integration</i>	0.90	GY	1994	REG	CARICOM
TC-9505499	<i>Trade promotion and development of firms in Belize</i>	1.14	BL	1996	MIF	CARICOM
TC-9711202	<i>Support for regional negotiation mechanism</i>	0.20	RG	1998	REG	CARICOM
TC-9802085	<i>Foreign trade modernization II</i>	0.14	DR	1998	REG	CARICOM
TC-9904035	<i>Portfolio investments of Caribbean Investment Fund</i>	10.00	HQ	1999	MIF	CARICOM
TC-9912037	<i>Review of CARICOM common external tariff</i>	0.09	GY	1999	REG	CARICOM
TC-9812040	<i>Investment frameworks: towards regional harmonisation</i>	0.41	RG	2000	REG	CARICOM
TC-0002056	<i>Implementation of WTO agreements</i>	0.55	RG	2000	REG	CARICOM
TC-0002049	<i>Establishment of the Caribbean Court of Justice</i>	0.23	RG	2001	REG	CARICOM
TC-0002050	<i>Government procurement in CARICOM</i>	0.26	RG	2001	REG	CARICOM
TC-9201104	<i>Support for the development of Central American integration</i>	1.03	CR	1992	REG	MCCA
HO-0099	<i>Strengthening of customs system</i>	1.34	HO	1993	PCTR	MCCA
TC-9409089	<i>Support for the Central American Regional Consultative Group</i>	1.12	HQ	1995	REG	MCCA
TC-9507023	<i>Rationalisation of the institutionality of integration</i>	0.20	HQ	1996	REG	MCCA
TC-9603451	<i>Human resource training for integration</i>	0.37	RG	1996	REG	MCCA
TC-9606479	<i>Information network on trade in services</i>	0.75	RG	1996	REG	MCCA
CA-0007	<i>Electric power interconnection system for Central America</i>	221.00	RG	1997	REG	MCCA
NI-0105	<i>Strengthening of tax and customs administration</i>	10.00	NI	1999	PESP	MCCA
TC-0012006	<i>Support for financial integration</i>	0.15	ES	2000	REG	MCCA
CA-0034	<i>Development in Upper Lempa River Basin</i>	21.80	ES/GU/	2001	REG	MCCA
BO-0106	<i>Patacamaya-Tambo Quemado highway</i>	50.90	BO	1990	PESP	CAN
BO-0110	<i>Reform of financial sector and private investment</i>	60.00	BO	1991	PSCT	CAN
TC-9105083	<i>Strengthening of customs system of Ecuador</i>	1.87	EC	1991	REG	CAN
BO-0090	<i>Beni-La Paz-Peruvian border highway</i>	95.00	BO	1992	PESP	CAN
TC-9804312	<i>Support for the activities of the Andean Consultative Group</i>	0.70	RG	1998	REG	CAN
TC-0002041	<i>Tax harmonisation in the Andean community</i>	0.07	PE	2000	REG	CAN
TC-0002046	<i>Harmonisation of macroeconomic policies in the Andean Community</i>	0.08	HQ	2000	REG	CAN
TC-0002047	<i>Re-insurance of financial deposits in the Andean Community</i>	0.08	HQ	2000	REG	CAN
BO-0159	<i>Customs reform and modernization program</i>	5.00	BO	2000	PESP	CAN
TC-0012057	<i>Tax regimes for reimbursement in the Andean Community</i>	0.09	HQ	2001	REG	CAN
TC-0012058	<i>Integration and border development project bank</i>	0.15	HQ	2001	REG	CAN

5.5 The analysis is based mainly on the project report, complemented, where possible, by an examination of the project completion report (PCR) and the project

performance monitoring report (PPMR).⁹ The latter is an on-line monitoring instrument that aims to give stakeholders an instantaneous snapshot, at least once every six months, of the project situation, expected compliance with development objectives and progress in execution.¹⁰ The PCR, as its name suggests, is produced only at the end of the project in order to draw conclusions on execution and development impact, and especially to identify lessons learned that could be useful in the design of future operations.

⁹ This section follows the Oversight Review of the IDB's Project Performance Monitoring Review, the Mid-Term Evaluation, and the Project Completion Report. RE-247, OVE, March 2001.

¹⁰ The format of the PPMR requires specialists to evaluate and classify the chances of a project's achieving its development objectives, by assigning one of the following categories: highly probable (HP), probable (P), low probability (LP), improbable (I). Specialists are also required to rate progress in project execution as highly satisfactory, satisfactory, unsatisfactory or very unsatisfactory, on the basis of a comparison between actual and expected execution of the various project components. It also classifies as high or low the likelihood of the initial assumptions for project success, as stipulated in its design, being maintained throughout the execution phase.

Table 5.1b
Selected projects: MERCOSUR, NAFTA, and others

Loan/TC	Description	Amount (US\$ million)	Country	Year	Type	Bloc
UR-0057	<i>Investment sector reform program</i>	3.72	UR	1992	PCTR	MERCOSUR
AR-0128	<i>National highway corridor program</i>	340.00	AR	1993	PESP	MERCOSUR
TC-9201310	<i>Technical support for implementation of MERCOSUR</i>	4.05	AR	1993	REG	MERCOSUR
BR-0166	<i>Strengthening of Ministry of Foreign Relations</i>	10.00	BR	1994	PCTR	MERCOSUR
UR-0104	<i>Modernization of national Customs Bureau</i>	1.04	UR	1994	PCTR	MERCOSUR
RG-0028	<i>Bolivia-Brazil integration gas pipeline</i>	240.00	BR	1997	PESP	MERCOSUR
UR-0113	<i>Improvement of integration corridors and primary network</i>	123.00	UR	1997	PESP	MERCOSUR
TC-9610503	<i>Support in international trade negotiations</i>	2.02	PR	1998	REG	MERCOSUR
TC-9804453	<i>Agrifood strategy for MERCOSUR</i>	0.15	BR	1998	REG	MERCOSUR
AR-0256	<i>Strengthening of foreign trade policy</i>	5.00	AR	1999	PCTR	MERCOSUR
TC-0002042	<i>Support in combating unfair trade practices</i>	0.13	HQ	2000	REG	MERCOSUR
TC-0002044	<i>Integration of MERCOSUR financial system</i>	0.15	HQ	2000	REG	MERCOSUR
AR-0202	<i>Border crossings and integration corridors</i>	200.00	AR	2000	PESP	MERCOSUR
TC-9811804	<i>Support for FTAA negotiation process</i>	0.65	HQ	2000	REG	ALCA
TC-9508097	<i>Financial reforms and regional cooperation</i>	0.10	PE	1996	REG	Others
TC-9508253	<i>Multilateral trade negotiations</i>	0.43	VE	1996	REG	Others
TC-9602138	<i>Support for global integration of Chile</i>	0.60	CH	1996	MIF	Others
TC-9601403	<i>Financing, regulation and management of infrastructure</i>	0.60	HQ	1996	REG	Others
TC-9705453	<i>Supervision of banking and stock market</i>	1.30	HQ	1998	MIF	Others
TC-9805261	<i>Implementation of Basel Committee principles</i>	0.10	HQ	1998	REG	Others
TC-9811812	<i>Support for trade negotiations for LAC</i>	0.30	RG	1999	REG	Others
TC-0002063	<i>Analysis of labor standards and international trade</i>	0.15	HQ	2001	REG	Others
TC-0012048	<i>Support for Puebla-Panama Plan</i>	0.30	HQ	2001	REG	Others
TC-0012047	<i>Integration of regional infrastructure in South America</i>	0.75	RG	2002	REG	Others
TC-0101000	<i>Regional policies of financial sector</i>	0.15	HQ	2001	REG	Others
TC-0109018	<i>Application of financial instruments for natural disasters</i>	0.15	HQ	2001	REG	Others

- 5.6 The analysis has generated a project analysis profile (the “profile”) for each of the projects of the sample. This is available in the report’s electronic files. The profile contains two sections followed by brief conclusions. The first section includes a summary of the content of each project and comments which, we understand, can be made on its relation to regional integration.
- 5.7 The projects include interdependent aspects that interact mutually. For the purposes of this report, it seems appropriate to consider the following: diagnosis, objectives, components and activities, execution, indicators and assumptions, and risks, which are some of the aspects covered in the logical framework. An attempt was made to analyze each project based on the logical framework, but in general this was impossible and a complete reading of the project document proved necessary. Regional technical cooperation projects generally do not have a logical framework.

Nor do some loan projects; or if they do, they do not clearly reveal the relation between the project and the integration dimension.¹¹

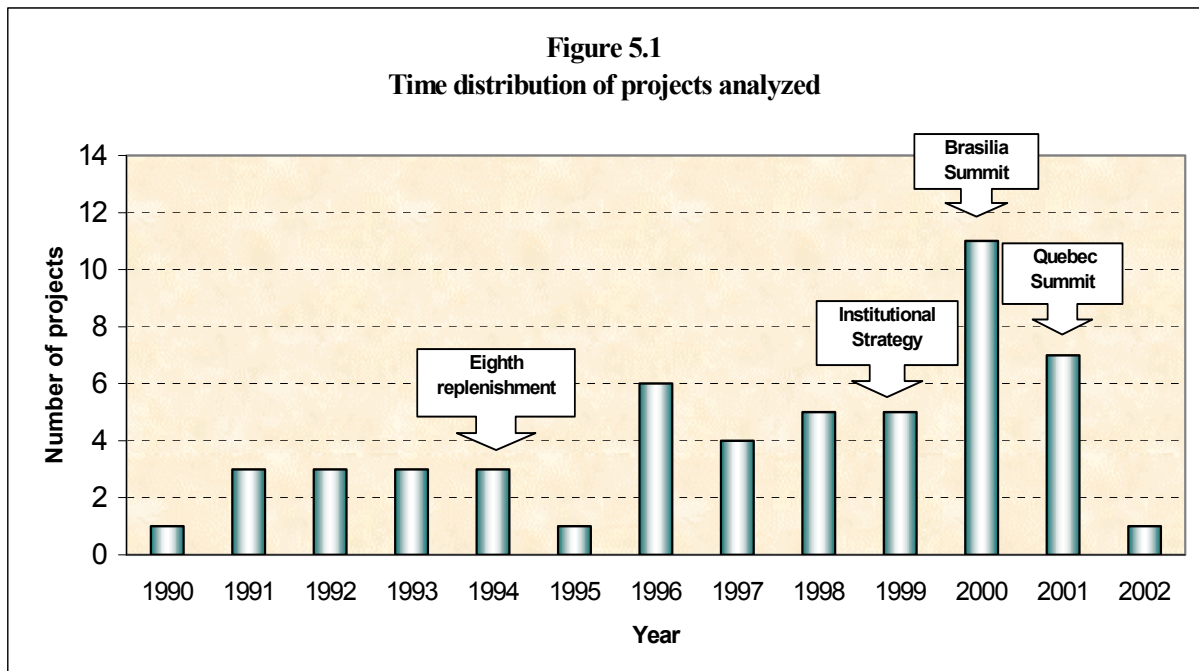
- 5.8 Throughout the analysis, comments are made on whether or not a project, or one of its components, is directly related to integration. Projects directly related to integration are defined as those which are intended to prepare common standards or instruments, for example, or those that support trade negotiations. Projects considered to be indirectly related to integration are those motivated by general reforms, by potential national impact stemming from the country's membership of a trade bloc, or by installation of infrastructure for use *mainly* at the national level.
- 5.9 This chapter summarizes the results of the analysis, in order to identify the continuities and discontinuities of resource "management" in relation to strategic "direction" and "programming".

B. Projects and their temporal relation with the strategic direction

- 5.10 Chapter III identified three distinct periods for the Bank's implicit strategy in the 1990s: a first phase in which integration is seen as a natural outcome of liberalization goals; a second stage, characterized by adoption of IS-1999, in which integration is made an explicit development priority; and a third phase marked by the Presidential Summits which are proactive on infrastructure and raise the need for defensive measures to counteract the spillover effects of integration. Figure 5.1 shows the location in time of the projects analyzed, and the main policy documents that set out the Bank's strategic direction on integration.
- 5.11 Generally speaking, most of the projects coincide with the direction established by the policy documents, which is consistent with the fact that these lay down broad objectives. Although this type of explanation may seem irrelevant, most projects either make no reference to policy documents,¹² or else there is a very brief reference, and the connection between policy documents and the loan is very vague and imprecise.

¹¹ See AR-0256, *Institutional strengthening for foreign trade policy*, for example; or TC-9711202, *Support for the regional negotiation mechanism (CARICOM)*.

¹² Twelve out of the 53 projects in the sample make reference to policy documents.



- 5.12 Some projects have objectives that go beyond the Bank's strategic direction at the time of their design, anticipating later policy documents. Of the projects in the first half of the 1990s, most are consistent with the direction contained in the Eighth Replenishment. Some contain elements of a strategic direction established later (after the projects) by IS-1999. Others, approved between 1990 and 1997, foreshadow Plan 2000. This shows that the strategic direction that emerges from policy documents turns out to be the written expression of Bank priorities clearly revealed in operations approved beforehand. The strategic direction is anticipated in some projects, and then is materialized in policy documents. But there are exceptions, because some projects correspond more closely to policy documents issued well before their design, than to contemporary ones. This is true of the *Customs modernization and reform program* (Bolivia, 2000), for example, which links with elements of trade integration (belonging to the strategic direction of the early 1990s), rather than that established by the Institutional Strategy or other more recent policy documents.
- 5.13 In any event, it cannot be argued that there is inconsistency between projects and strategic direction. It is true there are timelags, but this seems to be explained, at least partly, by the time taken for a project to mature, from the moment the idea is identified until the project document is prepared.
- 5.14 It is worth remembering here that the IS-1999 report established that the regional perspective should be introduced in the country programming process. Plan 2000 ratifies that mandate, but also calls for the integration dimension to be identified in

loans and a calculation method prepared to evaluate the regional component. The analysis of projects during 1999-2002 shows that whereas the issues involved are generally consistent with regional programming, very few of them make reference to the PR, and none contain methods to evaluate the regional strategy.

- 5.15 Below we summarize the integration ideas contained in the 58 projects of the sample, and how they co-exist in each bloc. The aim is to identify the central idea in each project, summarizing and relating it to the conceptual framework of chapter II. The general synthesis by bloc, presented here, is based on the project summaries included in the electronic files of this report.

C. Caribbean Community projects

- 5.16 Of the 11 CARICOM projects analyzed, seven have regional connotations and explicitly strive to support and promote the Caribbean integration process. The issues involved relate to the needs of the bloc at that time in the integration process. The first, *Support for the deepening of Caribbean integration* (1994) aims to strengthen CARICOM in its objective of setting up a single market. Later, *Support for the regional negotiation mechanism* (1998), *Review of the CARICOM common external tariff* (1999), and *Support for implementation of WTO agreements* (2000), deal with internal relations and negotiations in the subregional grouping and with outside trading partners; these projects represent open regionalism. Another three, *Investment framework: towards regional harmonization* (2000), *Support for the establishment of a Caribbean Court of Justice* (2001), and *Government procurement regimes in CARICOM* (2001) are aimed at deepening integration, in the general sense of addressing non-trade issues. The project *Proposal for portfolio investments through the Caribbean Investments Fund L.P.* (1999) is “regional” only in a formal sense: the fund portfolio contains shares from several Caribbean countries. It is worth noting that projects motivated by integration are technical cooperation operations, which generally do not exceed US\$1 million. Most refer explicitly to their consistency with the Bank’s programming for the region, and they can be said to consist of programmed operations.
- 5.17 Consistent with the implicit strategy in the early 1990s, there are two national loan operations indirectly related to regional integration: *Trade, finance and investment sector loan* (Jamaica, 1991), and *Foreign trade modernization II* (Dominican Republic, 1998). These are related to integration because they are parallel to (and sustained by) national processes of structural reform, openness, liberalization and deregulation. These national operations are not coordinated with regional programming, but they do have links with it, despite certain time lags, as shown in the project profile.
- 5.18 The final project analyzed for CARICOM does not promote regional economic integration. *Trade promotion and development of firms in Belize* (1996) was designed and implemented simply to have effects at the national level. The project

does not mention the possibility of Belize joining efforts being made by other countries in the subregion, or of its taking advantage of the broad CARICOM market.

- 5.19 In terms of what we have referred to as the strategic direction of integration, the projects clearly represent the Bank's increasing emphasis on more comprehensive or "deeper" integration. The projects of the 1990s mainly relate to strengthening foreign trade in CARICOM countries, together with intra-bloc trade; these issues are consistent with the Eighth Replenishment. Of the four projects in 2000 and 2001, three relate to issues going beyond merchandise trade: in particular, projects to harmonize investment frameworks and justice systems are consistent with the move towards deeper integration captured in IS-1999.
- 5.20 In relation to programming, two of the five projects that are previous to or contemporary with the 1998 RPP mention regional programming: *Support for the deepening of Caribbean integration* (1994), and *Support for the regional negotiation mechanism* (1998). The latter refers to the 1998 RPP and was explicitly programmed. Of the seven projects after 1998, three mention the RPP and are consistent with its contents: those relating to the external tariff, implementation of WTO commitments, and the subregional government procurement regime.

D. Central American Common market projects

- 5.21 Ten projects were selected from the CACM bloc, of which eight are directly related to Central American integration. Three from the beginning and middle of the decade, *Support for Central American integration* (1992), *Support for the consultative group on Central American regional technical cooperation* (1995), and *Rationalization of the institutionality of Central American integration* (1996), are technical cooperations aimed at strengthening the subregional process, not only on trade, but also in areas such as institutionality, macroeconomic policy and the execution of intraregional infrastructure projects. Prior to IS-1999, an integration concept extending beyond trade was already gaining ground. Two projects, *Human resource training for Central American integration* (1996), and *Formation of a Central American network of information and support for liberalization of trade in services* (1996), are aimed at training human resources and creating informatics systems to promote subregional integration going beyond merchandise trade. On the other hand, a loan to Nicaragua, *Strengthening of tax and customs administration* (1999), attempts to improve administration of the CACM common external tariff in that country—an issue relating purely to trade integration. Two projects, *Electrical interconnection system for Central America* (1997), and *Upper Lempa River Basin sustainable development program* (2001), are regional loans; the first aimed at constructing transnational electric power infrastructure, and the second dealing with transboundary environmental problems, an area in which the Bank has broad potential for action, given its access to the Global Environmental Facility (GEF)

- 5.22 The two remaining projects are national operations with indirect links to integration. The first is a loan to Honduras, *Customs system strengthening* (1993), the title of which is similar to the project mentioned above for Nicaragua, but which is intended to prepare the country's customs system for non-preferential opening. The second, *Support for financial integration* (2000), mentions CACM, but its real purpose has little specifically to do with the subregion. It involves the dollarization of the economy of El Salvador, its macroeconomic stability and its participation in international financial markets.
- 5.23 It is worth highlighting the diversity of issues covered in these projects, which leads to the conclusion that no guideline on integration arises from them for the bloc. Ideas relating to trade, deep, preferential and non-preferential integration co-exist throughout the decade. The only recurrent element in projects is the need for institutional support for the bloc.
- 5.24 To measure the consistency of projects with the strategic direction, it is worth noting that projects from 1992 and 1993, one of them without mentioning the Eighth Replenishment, seem to be aimed at a deeper integration scheme than the direction prevailing at that time; the other is consistent with the latter. Of projects belonging to the middle of the decade, four refer explicitly to the Eighth Replenishment, in terms of making integration a priority area for the Bank's action. The Nicaraguan project *Strengthening of tax and customs administration* (1999) does not include elements from the contemporary IS, and does not refer to any of the Bank's policy documents. Nonetheless, it clearly relates to the Eighth Replenishment in terms of public-sector reforms and State management of foreign trade. Projects belonging to 2000 and 2001, meanwhile, also do not refer to documents presented by the Bank's management, but are consistent with their content. Specifically, the 2000 project *Support for financial integration*, while not directly related to regional integration, is consistent with those aspects of the 1999 Institutional Strategy aimed at strengthening the financial system.
- 5.25 As regards programming, the 2000 RPP of the Central American Common Market, analyzed in this report, does not feature much in the projects studied. The Lempa River project of 2001, is highly consistent with the RPP but only makes a brief reference to it. Five of the projects prior to this RPP have elements that link with the previous RPP of 1995;¹³ the other three have virtually no connection.¹⁴

E. Andean Community Projects

- 5.26 Eleven projects were analyzed for the Andean Community, of which six relate directly to integration. The technical cooperation *Support for the activities of the*

¹³ TC-9507023, TC-9409089, TC-9603451, TC-9606479 and CA-007.

¹⁴ NI-0105, HO-0099 and TC-9201104.

Andean Consultative Group (1998) establishes a discussion forum for integration within the subregion and outside, mainly on trade issues. Two years later, *Tax harmonization in the Andean Group* (2000), *Reinsurance of financial deposits in the Andean Community* (2000), and *Harmonization of macroeconomic policies in the Andean Community* (2000) promote integration reaching beyond trade issues and propose the start of fiscal and monetary policy coordination. In 2001, *Customs regimes for the reimbursement and suspension of duties in the Andean Community* promotes intraregional trade and facilitation of hemispheric negotiations; *Creation of a project bank for border integration and development in the Andean Community*, deals with the systemization of subregional infrastructure projects

- 5.27 The five remaining operations predate those mentioned above, and have indirect links to regional integration. The *Patacamaya-Tambo Quemado highway* (1990) and the *Beni-La Paz-Peruvian border corridor* (1992) are loans providing for highway connections between Bolivia and Chile (in the first case), and between Bolivia and Peru (in the second). But their most important aim is to provide Bolivia with access to the Pacific Ocean, to facilitate its foreign trade activities. The loan for *Reform of the financial sector and promotion of private investments* (Bolivia 1991) contributes to the country's macroeconomic stability, but also indirectly to regional economic stability. The TC *Strengthening of the customs system in Ecuador* (1991), promotes a general liberalization of the country's trade without a regional focus, as does the Bolivian loan *Customs reform and modernization program* (2000).
- 5.28 The consistency of projects with the Bank's strategic direction should be analyzed in the timeframe of each project. The two 1991 projects are consistent with the orientation of principles in the 1990s, established by the guidelines of the Washington Consensus. The Bank supported national operations to sustain macroeconomic and structural reforms, including programs involving customs modernization, reform of investment policies, and institutional strengthening in various public bodies. The 1998 project, given its subject (coordination of technical assistance) is compatible with any document that sets out the Bank's strategic direction. Of the four projects in 2000, two, relating to tax harmonization and macroeconomic policies in the bloc, seem to be consistent with the strategy direction arising from the South American Presidential Summit the held that year in Brasilia, in which macroeconomic policy coordination appears as a key issue for guaranteeing progress in the integration process. The other two address harmonization of financial aspects, and seem, unintentionally, to be consistent with the Institutional Strategy, which incorporates financial aspects into the integration agenda. The 2001 project *Creation of a project bank for border integration and development in the Andean Community*, has a trade focus consistent with the integration agenda of earlier years, but is not for that reason incompatible with the Bank's direction on integration.

5.29 Analysis of the way projects are coordinated with regional programming is difficult in this bloc, because the 1995 RPP was not updated, and four of the projects analyzed were designed well before, and the other seven much later than the RPP. In any event, without explicitly intending to, all of them seem to have elements of consistency with the RPP. Subsequent projects do not explicitly mention the latter, which is understandable given that it was not updated.

F. MERCOSUR projects

5.30 Of the 13 projects analyzed for this bloc, five are directly related to regional integration. The TCs *Technical support for implementation of MERCOSUR* (1993), *Agrifood strategy for MERCOSUR* (1998), *Support for the fight against unfair trade practices of MERCOSUR* (2000), and *Integration of the MERCOSUR financial system* (2000) are intended to support the establishment of the bloc, its expansion, and subsequent consolidation of the customs union with a comprehensive thematic coverage. Issues include harmonization of rules on particular productive sectors, in capital markets, and (with limits) in monetary policy, together with common regulations on foreign-trade policy. One loan, *Bolivia-Brazil integration gas pipeline* (1997), promotes infrastructure to partially meet the energy demand of Brazilian cities with natural gas supplied from Bolivia, and it contributes to the development of the southern cone regional energy network.

5.31 The MERCOSUR project sample includes eight operations that are indirectly related to regional integration. One TC, *Support in conducting international trade negotiations* (Paraguay, 1998) strengthens Paraguay's bargaining capacity in different forums. Issues include government procurement, defense of competition, intellectual property and trade in services, but not in the specific context of regional integration. The seven remaining projects are national loans. Four of them are aimed at the management of foreign trade institutions in general, or compliance with and implementation of trade agreements: *Investment sector reform program* (Uruguay, 1992), *Capacity strengthening for the Ministry of Foreign Relations in the international economic area* (Brazil, 1994), *Modernization of the National Customs Bureau* (Uruguay, 1994), and *Foreign trade policy institutional strengthening program* (Argentina, 1999). The other three, *National highway corridor program* (Argentina, 1993), *Improvement of integration corridors and the primary network* (Uruguay, 1997), and *Border crossings and integration corridors* (Argentina, 2000), have the aim of improving national transportation networks on highway corridors that connect with neighboring countries.

5.32 Most of the projects selected for MERCOSUR that are motivated by integration are technical cooperation operations. Although this is consistent with what happens in other regional blocs, in the case of MERCOSUR there are technical cooperations for large amounts—such as *Technical support for implementation of MERCOSUR*, worth over US\$4 million.

- 5.33 In relation to strategic direction, projects in 1994 and earlier are generally consistent with the Eighth Replenishment although they do not mention it explicitly. The 1993 project *Technical support for implementation of MERCOSUR* responds to a deeper concept of integration than that contained in the Eighth Replenishment, consistently with the Treaty of Asunción signed in 1991. Projects in 1998 refer to the Eighth Replenishment and comply with its strategic direction. Those in 1999 and 2000 are consistent with the direction set in IS-1999, but do not refer to it.
- 5.34 Although regional programming does not seem to be incorporated in the projects, it not display inconsistencies with them. This is true of projects both before and after the 1997 RPP. Projects immediately following this do not echo its deep integration orientation, but generally focus on market-access issues. Only in 2000 do projects begin to deal more with non-trade topics. Excluding the infrastructure project, topics subsequent to the RPP in chronological order involve: support in trade negotiations (1998), agrifood strategy (1998), institutional strengthening of foreign trade policy (1999), common instruments to combat unfair trade practices (2000), and consolidated banking supervision schemes (2000). The latter two projects represent more comprehensive integration. Nonetheless the group displays an absence of issues relating to macroeconomic policy coordination, an aspect to which the RPP gives special emphasis (see 4.23 of this report).

G. FTAA projects

- 5.35 One of the main Bank actions on integration relates to constructing the Free Trade Area of the Americas. The Bank is specifically supporting four groups in the framework of the Tripartite Committee (together with OAS and ECLAC); and it indirectly also provides technical assistance and finance to other bodies involved in the process, including the FTAA Administrative Secretariat. The Bank supports FTAA negotiations pursuant to agreements reached by Trade Ministers in San José and subsequently ratified. This report analyses one of the various technical cooperations—*Support for the FTAA negotiating process* (2000), which aims at maintaining technical assistance for the hemispheric negotiating process. This project is consistent with the Bank's strategy direction of supporting integration and State reform and modernization processes, by promoting trade liberalization and structural adjustment. This technical cooperation is one of several initiated since 1995, and is instrumental to the conduct and sustainability of the negotiations (op. cit, point 1.25).

H. Other projects

- 5.36 Apart from the FTAA project, there are 12 operations in the sample that relate neither to a single country nor to any bloc in particular. All of these are TCs. The program for *Financing, regulation and management of infrastructure* (1996) promotes reforms, modernization and private-sector participation in infrastructure throughout the region; while the *Program in support of the Puebla-Panama Plan*

- (2001) and the *Initiative for the Integration of South American Regional Infrastructure* (2002), promote the coordination of physical infrastructure in Mexico, Central America and South America, respectively (see pages 46-47).
- 5.37 Of the remaining nine operations, two projects: *Multilateral trade negotiations* (1996) and *Improvement of countries' negotiating capacity in WTO/OMC* (1999) support non-preferential opening and are not confined to any particular region. *Financial reforms and regional cooperation* (1996) belongs to another definition of region promoted by the Arequipa meeting. This supports national structural reforms that are generally unrelated to integration in any way. Support for the global integration of Chile (1996) promotes the policy of open regionalism in that country, specifically with respect to its actions with APEC, the European Union, MERCOSUR, NAFTA and WTO/OMC. Three projects: *Banking and stock market supervision* (1996), *Implementation of the Basel Committee principles* (1998), and *Regional policies of the financial sector* (2001), relate to financial integration (see page 46). Lastly, *Analysis of the links between labor standards and international trade* (2001), explores the need for deeper integration and is applicable throughout the hemisphere; whereas *Application of financial instruments for natural disasters* relates to the efficient management of contingent funds for natural disasters throughout the LAC region.
- 5.38 The various issues covered by these operations are generally consistent with the Bank's strategic direction as it has evolved through time: mainly trade integration in the 1990s, but moving towards more comprehensive integration in 2000 and 2001. We do not analyze their consistency with regional programming because the projects do not correspond to any subregional blocs. Precisely for this reason, the 12 operations collectively serve as a reminder that the "regional blocs" on which the structure of this report is based are not fixed. They were created through political acts, and through such acts it is possible to change them or create others. Another three examples are the Bank's subregional programmings for Amazonia and the River Plate Basin, as well as for Subregion South (see page 21).

I. Project topics

- 5.39 On a different plane, we analyzed projects according to the topics addressed (considering their main objectives, components and activities), but always bearing in mind the inter-relationships between the different issues, and the fact that many projects engage various aspects simultaneously. The diversity of the issues involved, the lack of relation between them, and the impossibility of systemizing them by period or bloc, leads to the conclusion that no single integration guideline arises from them.
- 5.40 Most of the **trade** projects are motivated by regional integration and are related fairly closely to that dimension. Nonetheless, only a few projects refer to the RPPs. Other projects are not linked with regional programming because of their time

- difference vis-à-vis the respective RPP. In general, these projects are consistent with the Bank's current strategic direction when they were prepared, even though practically none makes any reference to Bank policy documents. Some projects include the treatment of aspects relating to deeper integration and policy harmonization, while others are confined to trade aspects. Some aim to establish mechanisms to coordinate the technical assistance received by the bloc (CARICOM and CACM).
- 5.41 In this group, five projects support customs services strengthening and modernization in the countries of the region. None of them explicitly states a relation with RPP programming, nor do they refer to policy documents. As the customs service is a key organization in foreign trade operations, in our analysis we consider them indirectly linked to regional integration. A project linked to institutional strengthening of public bodies, *Support for international trade negotiations* (MERCOSUR, 1998) explicitly proclaims its compatibility with the RPP of one year earlier. Other national projects on the same topic make no reference to the PR; nor do they promote regional integration, since there is no coordination between them. On the other hand, regional technical cooperations in support of trade negotiations clearly relate to integration. *Support for the regional negotiation mechanism* (CARICOM, 1998) and *FTAA negotiation* (2000) are coordinated with regional programming, as well as with the strategy direction of the Eighth Replenishment in the first case, and the Bank's Year-2000 strategy direction in the second. A third project, *Multilateral trade negotiations* (2000) is aimed at C and D countries but makes no mention of any regional programming or policy document setting out the Bank's direction. The project *Support for implementation of WTO agreements* (CARICOM, 2000) takes advantage of the opportunity to incorporate Uruguay Round agreements in coordinated fashion, in the various CARICOM countries.
- 5.42 The projects relating to **financial integration** that were analyzed mostly have a national focus, or else regional in a very broad sense, since they are expected to act as catalysts to promote regional cooperation and the eventual convergence of international financial practices. It should be noted, however, that the success of such efforts is closely associated with the activities the Bank carries out at the national level, since an operation that minimizes the use of international best practices, for instance in the banking sector of a large country in the region, may disrupt implementation of a regional or subregional strategy. The following projects support regional cooperation in the financial sector: *Training program for banking and stock market supervision* (1998), whose objective is to provide training that is replicable and sustainable in the long-term, for technical staff belonging to regulatory bodies in FTAA countries; *Implementation of basic Basel principles in FTAA* (1998), the intention of which, as its name suggests, is to help implement modern and prudential regulatory standards, as established by the Basel Committee, in FTAA; and *Regional policies for the financial sector* (2001), whose aim is to promote the adoption of best financial practices in FTAA countries, including those

relating to banking, stock market and insurance supervision, and international accountancy and auditing standards. Given their nature, these operations make no reference to any RPP in particular, but, as can be seen in the brief description of objectives, these and other similar operations are complementary. On the other hand, there are RTCs with close links to subregional integration in a specific bloc that are also well coordinated with the regional programming. Examples include *Integration of the MERCOSUR financial system* (2000) and *Reinsurance of financial deposits in the Andean Community* (2000). These projects are consistent with the Bank's direction on integration, but make scant reference to policy documents.

- 5.43 The **physical integration** projects analyzed mostly consist of national loans that contribute indirectly to integration in a subregional or inter-regional scheme. In general they predate the Bank's strategic direction expressed in Plan 2000. This is true specifically of projects in Bolivia, *Patacamaya-Tambo Quemado Highway* (1990) and the *Beni-La Paz-Peruvian border corridor* (1992), which are aimed at integration with Chile and Peru, respectively, in order to give Bolivia access to the sea. A project in Argentina, *National highway corridors* (1993), and another in Uruguay, *Integration corridors and the primary network* (1997), also predate Plan 2000. Although the main purpose of each is the refurbishment and modernization of national transportation networks, the highways selected are those of greatest passenger and cargo traffic towards the borders with neighboring countries. Operations in 2000 and afterwards mirror the Bank's proactive promotion of infrastructure integration. These include the *Bolivia-Brazil integration gas pipeline* (1997), *Border crossings and integration corridors* (2000), *Support for the Puebla-Panama Plan* (2001) and *Infrastructure integration in South America* (2002). The exception to the trend is the *Electric power inter-connection project for Central America* (1997), which predates Plan 2000, together with a number of RTCs. These include the *Infrastructure financing and regulation program* (1996), which aims to promote private-sector participation in infrastructure. Most projects do not explicitly refer either to the RPPs or to policy documents.
- 5.44 Another group of projects that address issues relating to *promotion of investments and sustainable development*, do not refer to regional programming except in one case, dealing with sustainable management of the upper Lempa River Basin.

J. Projects, PCRs and PPMRs

- 5.45 Operation types are also distinguished by the way they approach PCRs and PPMRs. It was difficult to find PPMRs and PCRs for technical cooperation operations, but the opposite was true for loans. Furthermore, the PPMRs that were available for technical cooperations are too synthetic to permit in-depth study. PPMRs and PCRs for loan operations, on the other hand, provide more analytical elements. Of the

17 loans selected, we analyzed 11 PPMRs and four PCRs. Of the 36 technical cooperations, only six PPMRs were obtained,¹⁵ which showed signs of progress, albeit with some difficulties (different in each case). Meanwhile, the 11 loans for which PPMRs are available,¹⁶ show a satisfactory level of progress (S) and the chance of fulfilling their objectives is rated as probable (P). The four completed loans which have PCRs¹⁷ display satisfactory compliance (S) in most of their objectives.

- 5.46 In terms of links with integration, the PCRs and PPMRs follow the pattern previously detected for projects. If the project is closely linked with integration, then the monitoring report or final report also highlights linkages with integration. For example, the PPMR for *Support for the development and integration of Central America* (1992) stresses that the regional institutional structure does not respond to the needs and challenges of regional integration.
- 5.47 Nonetheless, other PPMRs, such as the *Customs service reform and modernization program* (Bolivia, 2000), refer to national problems—in this case involving lack of support from the judicial system and police for reform of the customs system. In the case of sectorloans, such as the *Patacamaya-Tambo Quemado Highway* (Bolivia, 1990), *Trade, financial and investment sectors* (Jamaica, 1991), *Financial sector reform and promotion of private investments* (Bolivia, 1991), or the *Investment sector reform program* (Uruguay, 1992), their PCRs explain the success achieved in the reforms in each of the sectors affected. Obstacles in implementing the loans concern inherently national issues.

K. Continuities and discontinuities in the relation between resource management, strategic direction and programming

- 5.48 We now move on to the first objective of this chapter, which relates to the relation between projects and the Bank's strategy direction as set out in the policy documents analyzed in chapter III of this report.
- 5.49 *The Bank's direction is not explicit in most of the projects.* The strategy direction has not had a high profile in projects, with the result that few of them explicitly mentioning policy documents. This means that many loans contain few or no integration instruments whatsoever, and are seldom aimed at giving sustainability to that dimension, beyond what is achieved with structural reforms. The latter is a necessary but insufficient condition to drive integration forward, which requires its own instruments. In other words, the Bank promotes from above and sets out its

¹⁵ TC-9105083, TC-9505499, TC-9802085, TC-9201104, TC-9201310 and TC-9610503.

¹⁶ AR-0256, BR-0166, BO-0159 and NI-0105, BO-0106, BO-0090, CA-0007, AR-0128, AR-0202, UR-0140 and RG-0028

¹⁷ BO-0110, UR-0057, JA-0019 and BO-0106.

strategic direction on integration, but does not always pursue its integration goals in the field. This can lead to contradictions, but the greatest problems detected are missed opportunities to sustain integration and to channel resources effectively in that direction.

- 5.50 *Projects do not include the regional perspective.* It can also be seen that in project formulation, the Bank has not fulfilled the mandate of the Institutional Strategy and its Enhanced Action Plan to incorporate the regional perspective in the project programming process and identify the integration component in projects. Nonetheless, during the next few years the integration dimension could well be more effectively incorporated in programming, given that the Institutional Strategy (1999) and the Enhanced Action Plan (2000) are relatively recent, and it will take some time to put them into practice.
- 5.51 *Lack of synchronization between resource “management” and time markers.* Projects are not perfectly grouped together in terms of the three strategy periods of the 1990s that were identified in chapter II (paragraphs 2.7-2.9). On analyzing these time periods, we see that policy documents—the Eighth Replenishment, the Institutional Strategy, etc.—seem to be the written expression of Bank priorities that had been previously reflected in projects. But there are also exceptions to this rule, together with time lags, motivated sometimes by the fact that projects take many years in their design and maturation phases.
- 5.52 *The Bank accompanies integration processes.* In reality, leaving aside time lags between projects, programming and policy documents, the Bank has followed a very coherent implicit strategy direction throughout the 1990s, and even in the initial years of the twenty-first century. It has accompanied the structural reform and opening processes that Latin American countries have implemented in recent years, thereby also accompanying rather than promoting the emergence and re-launch of integration processes in the region.
- 5.53 We conclude this chapter by considering the relation between management and programming as analyzed in chapter IV of this report.
- 5.54 *The integration strategy is reactive.* Unlike regional technical cooperation projects, it can be said that, although the vast majority of the loan projects analyzed were not designed to promote regional integration, this does not result in inconsistencies with regional programming. This is explained because the RPPs reflect the reality of the regions and do not commit themselves to programming that reaches beyond the wishes of the countries making up the various blocs. The result is that broad unplanned coincidences occur. Although projects are not designed as integration instruments incorporated in regional programming exercises, the national authorities in countries involved in intensive integration programs tend to demand projects that meet their needs.

- 5.55 *The Bank's resources are more involved with countries individually than with regions.* In some loan projects, the diagnostic study or reference framework displays a regional approach, but the components and activities focus on national issues. This is reflected in institutional strengthening projects in foreign trade bodies and negotiations. The diagnostic study places regional integration at the forefront, but components and activities are limited to human resource development and investments in infrastructure and informatics equipment in the corresponding agencies, without any relation to the integration dimension and with no mutual links. In addition, projects are generally consistent with the CPs because the problems they aim to resolve are recurrent in the country. It should be borne in mind that the CPs setting out the Bank's work in the respective country are always made in close collaboration with the borrowing country itself.
- 5.56 *There is very little synergy between projects.* Loan projects display dispersion between sectors and issues and seem to generate little mutual synergy. In addition, sectors tend not to correspond with those identified as priorities in the RPPs. Returning to institutional strengthening projects, neither these nor custom services projects are inconsistent with the RPPs, and they have an indirect relation with integration because they involve organizations with jurisdiction on trade negotiations, administration of regional agreements or foreign trade operations. Nonetheless, the activities of projects of this type have a strong domestic bias.
- 5.57 *Most projects do not articulate their relation to regional programming.* The RPPs are not taken into account in defining the loan projects. Although technical cooperation projects are based on the Bank's guidelines for the region, they often make no explicit reference to the RPP. This relates partly to a lack of systematic cooperation between the Regional Departments and the Integration Department in project preparation. At the design stage, projects do not seem to consider the regional problem, and their links with programming are not explicitly established. This reveals a lack of coordination between projects and regional programming, or the scant impact of the RPP in guiding Bank operations. There are projects relating to the agriculture and livestock sector rather than manufacturing industry, not because the RPPs have given more or less priority to one sector than another. There are projects aimed at aspects of the financial and banking sector that also do not arise from clear programming priorities, but that does not make them inconsistent with it.
- 5.58 *Projects were not programmed for regional integration.* Generally very few loan and technical cooperation projects are explicitly programmed in RPPs. For example, the MERCOSUR RPP has a section with an action plan identifying a set of activities for each specific objective put forward. But it is difficult to relate programmed projects with those approved, as their title, objectives and content may change and they may emerge as a concrete project much later. Similarly, most projects have not been programmed in advance.

- 5.59 *Projects lack indicators and risks associated with integration.* Projects do not incorporate indicators related to integration and few of them identify the risks involved with that dimension. These aspects generally relate more to national than regional problems. Even in a regional project, risks relate to problems that may arise in the integration process as a result of macroeconomic instability in individual countries, but there are no support actions linked to this problem.
- 5.60 *The Bank assigns few resources specifically to integration.* On the one hand, the CPs program Bank resources without considering integration. On the other, the RPPs have little effective influence on Bank resources. The RPPs seem to be exercises that reflect the integration status of the bloc concerned, and in some cases, such as the MERCOSUR PR, they lay down guidelines for periods outside the programming period, but without establishing concrete commitments.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

- 6.1 This report was intended to identify the Bank's strategy on regional integration, and its correspondence with programming and a representative set of technical cooperation and loan projects. This responds to the OVE 2001 work plan and to the proposal by the Bank to develop the Regional Integration Strategy in 2002, the purpose of which is to target resources and implement the Institutional Strategy adopted in 1999.
- 6.2 In relation to the latter proposal, in February 2002 the Sustainable Development Department, which is responsible for preparing the Bank's sector strategies, in coordination with INT, prepared a preliminary profile for the Bank's operating strategy on integration (GN-2195, chapter VI). This includes development of the conceptual mechanism through which integration will contribute to sustainable growth and poverty reduction, and it will propose priority Bank actions. Priorities relate to "deep" integration, which apart from eliminating tariff barriers, stresses the coordination of macroeconomic policies, efficient support for social adjustment and cooperation in labor and environmental regulatory frameworks. This report is consistent and complementary with the profile, as it shows which of the Bank's mandates in the 1990s have inspired the emerging regional integration strategy, along with interactions between regional and country programming.
- 6.3 "Regional integration", which has been present as an issue ever since the Bank's inception, has changed its mode of engagement in the institution's global objectives. In short, three broad periods can be identified for the Bank's "strategic direction" during the 1990s: a first phase in which integration appears as a natural outcome of liberalization goals, as expressed in the report on the Eighth Replenishment; a second stage, marked by the adoption of the Institutional Strategy in 1999, where integration explicitly becomes a priority for achieving the institution's development objectives; and a third phase (characterized by the Presidential Summits of 2000 and 2001) where a dual direction can be perceived. The strategy is proactive on infrastructure, environment and development of the knowledge-based society; but also responds to countries' demands.
- 6.4 The Bank's regional programming has accompanied the integration aspirations of member countries, initially with a view to expanding trade. Increasingly this programming has been shifting its attention towards the conditions under which commercial exchange takes place, promoting new policies in areas such as competitiveness, regulatory frameworks, macroeconomic fundamentals and social vulnerability. There has been an effort to achieve a balance between the free market philosophy that had gained strength based on the "Washington Consensus", and the merely bureaucratic design of integration processes in the hands of institutional

- actors. More recently, an awareness has been emerging of the social weaknesses of the process. There is a need for defensive measures to counteract the spillover effects of integration, in both the social and macroeconomic policy domains; and infrastructure development to promote physical integration is re-emerging with renewed force.
- 6.5 The Institutional Strategy and its Enhanced Action Plan committed the Bank to incorporate the integration dimension in specific programming processes (both RPPs and CPs), and in project design. Our analysis shows that the Bank has not yet fulfilled this mandate. In general, CPs are not driven by the RPPs, instead they have an eminently national focus, with little or no integration dimension; and taken as a whole it is difficult to see them as belonging to a single integration scheme. In some blocs, while it cannot be said that there are incompatibilities between the various CPs, or between those and the respective PR, nor can one discern a deliberate effort to ensure substantial compatibility with the RPP. Opportunities to reconcile objectives between partners, by incorporating regional targets at the national level to promote this process, are ignored.
- 6.6 In their diagnostic studies, the RPPs and CPs have different objectives. When CPs include the integration dimension they do so in a defensive way; because integration raises challenges for the countries concerned, rather than because there is an explicit strategy. For example, national strategies promote competitiveness for entering and competing in expanded markets, but not with the aim of harmonizing national policies with those of other member countries in the same regional bloc. The dialogue between the CPs and the RPPs displays significant discontinuity.
- 6.7 As regards the Bank's resource "management", our study shows that the projects analyzed are not necessarily inconsistent with the direction set out in policy documents, basically because the latter merely indicate broad directions. Nor are there major inconsistencies with regional programming. Although projects are silent on the challenges raised in the RPPs, there tend to be broad unplanned coincidences. Projects reflect dispersion among sectors and issues and seem to generate little mutual synergy. Moreover, projects, especially loans, tend not to correspond to RPP priorities. As a result, the projects give rise to a variety of integration concepts. It would also seem that projects are more sensitive to the type of instrument used (loan or TC) than to the integration concept involved.
- 6.8 Returning to the components of the strategy—direction, programming and management—the conclusion is that there is no single Bank integration vision. Policy documents show us broad directions, and the general idea that countries would be better off with integration than without it. Another vision emerges from regional programming documents, which mostly reflect the 1990s conception, focusing firstly on reducing trade barriers and then on the conditions under which commercial exchange takes place. Meanwhile, most country papers ignore the integration dimension, but when they do not, it is because integration poses a

challenge for the country itself. Consequently, it appears that the bloc views integration differently than the way it is considered by individual countries. It is not clear whether both types of document have the same growth model. Lastly, projects display mutually differing visions on regional programming. In short, integration is not efficiently reflected in Bank operations.

B. Recommendations

6.9 In view of the objectives proposed by OVE for this evaluation exercise, namely to identify the implicit strategy and its correspondence with programming and projects, the following recommendations are made in order to give integration greater importance in the Bank's activities.

1. ***Prioritize and organize the Bank's strategic direction on integration.*** Several different integration concepts coexist in the Bank. When concluded in late 2002, the Regional Integration Strategy should provide a common framework for RPPs and CPs. In addition to this, it is essential for regional programming papers (RPPs) to precisely fulfill the function of organizing and articulating all integration approaches present in the Bank's work. In other words, RPPs should identify all the Bank's activities, both national and regional, in support of the integration process. Regional programming should cease to be merely receptive but give leadership for countries to take the steps, and even the leaps, required to promote regional integration. For this purpose, the regional programming exercise should go beyond technical cooperations to identify other actions where the Bank can add incentives to integration. This means incorporating regional programming operationally into technical cooperation operations, loan projects and nonfinancial products—all of them with regional vision and coherence.
2. ***Improve coordination between regional and country programming.*** As suggested in the Enhanced Action Plan (2000) for implementation of IS-1999, the Bank should take the necessary steps to coordinate the preparation of regional programming papers with the corresponding country papers. Furthermore, IS-1999 called for the regional dimension to be included in the country programming process, and for the project programming process to include the regional perspective as far as possible. Chapter IV of this report gave details of the discontinuities that exist between CPs and RPPs, which were further confirmed on analyzing the projects. This can be explained in part by the very nature of CPs, which focus on activities at the national level and often have priorities that differ from those set out in the RPPs. However, the Bank should recognize these discontinuities, discuss them during the programming process, and recognize those cases in which regional concerns cannot be articulated in the CPs. Accordingly, we reiterate the recommendation to systematically coordinate regional programming with national programming. The fact that regional programming is qualitatively

different to the sum of country programming exercises does not mean there should be major divergences between them. The preparation of the two types of documents should be mutually sustaining, and their coordination should be clear to see.

3. ***Deepen coordination between Regional Departments and the Integration Department.*** Among measures to improve such coordination, the Bank could make the mandate to coordinate the work of the Regional and Integration Departments more explicit. Most of the projects analyzed do not seem to be programmed in the respective RPPs, particularly in the case of loan operations. Furthermore, their objectives do not tend to resolve the problems or challenges raised in the RPPs. The review made by project teams shows that cooperation between documents is irregular and there does not appear to be any systematic effort to coordinate. Exceptionally, loans led by a Regional Department staff member may include staff from the Integration Department in their project team; in such cases there is greater coordination with regional programming. Accordingly, this seems a good moment for the Integration Department to formalize its participation in the preparation of country papers and in loan projects with potential impacts for integration. The Regional Departments could also be more closely involved in RPP preparation. The appropriate mechanisms for such participation should be developed by SDS and INT in the Integration Strategy and by the Regional Departments.
4. ***Prepare regional programming papers on a timely basis.*** There is a significant time lapse between the preparation of RPPs and CPs, which makes their coordination difficult. Apart from the CACM, the other blocs only have one RPP in the 1990s, whereas the CPs of the various members of each bloc are distributed throughout the decade. As far as possible, it is preferable not to allow a very long period to elapse without an RPP setting out the Bank's direction in each regional bloc. When circumstances do not warrant the preparation of a new RPP, the current one could be updated. This would make it possible for a larger number of operations to be consistent with regional programming.
5. ***Define evaluability criteria for regional integration.*** As can be inferred from the analysis contained in this report, the Bank has not fully complied with the mandate set out in the Institutional Strategy and in Plan 2000, to incorporate the integration dimension in country programming and loan operations, and include evaluability criteria in regional integration strategies. The Regional Integration Strategy will contain a chapter on monitoring and evaluation indicators to facilitate the evaluability of regional strategies. It is recommended that the Bank take that chapter and the findings of this report as the basis to develop consistent, uniform evaluability criteria for future evaluations relating both to regional programming and to project evaluability. Such indicators would be useful for INT, the Regional Departments, other

Bank units, countries and subregional blocs involved in programming and project design, and OVE for its evaluation activities. As integration has been one of the Bank's strategic priorities since the Institutional Strategy of 1999, evaluation of this dimension should also be a strategic tool for evaluating the Bank's activities on economic integration in the region.

BIBLIOGRAPHY

AGOSIN Manuel, "Strengthening Regional Financial Cooperation", *CEPAL Review N° 73*, ECLAC, April 2001.

BHAGWATI Jagdish and PANAGARIYA Arvind, *The Economics of Preferential Trade Agreements*, American Enterprise Institute Press, Washington DC., 1996.

BOUZAS Roberto, "Mercosur's Economic Agenda: Short- and Medium-term Policy Challenges", *Integration and Trade N° 0*, INTAL-IDB, January-April 1996.

BUITELAAR Rudolf, "Central America and the Dominican Republic: Modernization and Adjustment in the Maquila Garment Sector" *Integration and Trade N° 11*, INTAL-IDB, May-August 2000.

CHACÓN Francisco, "International Trade in Textiles and Garments: Global Restructuring of the Sources of Supply in the United States in the 1990s", *Integration and Trade N° 11*, INTAL-IDB, May-August 2000.

DEVLIN Robert, "En defensa del Mercosur", *Archivos del Presente, Vol. 2 N° 7*, January-March 1997.

DEVLIN Robert and FRENCH-DAVIS Ricardo, "Towards an Evaluation of Regional Integration in Latin America in the 1990s", Working paper N° 2 INTAL (ITD)-IDB, December 1998.

DEVLIN Robert, ESTEVADEORDAL Antoni, GIORDANO Paolo, MONTEAGUDO Josefina and SAEZ Raúl, "Macroeconomic Stability, Trade and Integration", *Integration and Trade N° 13*, INTAL-IDB, January-April 2001.

DEVLIN Robert and ESTEVADEORDAL Antoni, "What's New in the New Regionalism in the Americas?", Working paper N° 6 INTAL (ITD-STA)-IDB, May 2001.

DOLLAR David and KRAAY Aart, "Trade, Growth, and Poverty", Working paper No. 2615, World Bank Development Research Group, 2001.

FUJITA Masahisa, KRUGMAN Paul and VENABLES Anthony, *The Spatial Economy: Cities, Regions and International Trade*, Cambridge MA: The MIT Press, 1999.

GARAY Luis Jorge and ESTEVADEORDAL Antoni, "Protection, Preferential Tariff Elimination and Rules of Origin in the Americas", *Integration and Trade N° 0*, INTAL-IDB, January-April 1996.

GEREFFI Gary, "The Transformation of the North American Apparel Industry: Is NAFTA a Curse or a Blessing?" *Integration and Trade N° 11*, INTAL-IDB, May-August 2000.

GITLI Eduardo and ARCE Randall, “The Imbalances of the Caribbean Basin Countries With Respect to in NAFTA: The Garment Industry”, *Integration and Trade N° 11*, INTAL-IDB, May-August 2000.

GRANDI Jorge, “Social and Democratic Deficit in the Integration Processes”, *Integration and Trade N° 6*, INTAL-IDB, September-December 1998.

IGLESIAS Enrique, “Twelve Lessons from Five Decades of Regional Integration in Latin America and the Caribbean” *Integration and Trade N° 13*, INTAL-IDB, January-April 2001.

KRUEGER Anne, *Trade Policies and Developing Nations*, The Brookings Institution, Washington D.C., 1995.

KRUGMAN Paul, *Geography and Trade*, MIT Press, Cambridge, Massachusetts, 1992.

LAWRENCE Robert, “Perspectivas del Sistema de Comercio Mundial e Implicaciones para los Países en Desarrollo” *Pensamiento Iberoamericano N° 20*, 1991.

NARAJAN Nigel, “On the Evidence for Trade Diversion in Mercosur”, *Integration and Trade N° 6*, INTAL-IDB, September-December 1998.

RODRIK Dani, “Institutions, Integration, and Geography: In Search of the Deep Determinants of Economic Growth.” Introduction to an unpublished book, <http://ksghome.harvard.edu/~drodrik.academic.ksg/papers.html>, last consulted November 2001.

ZAHLER Roberto, “Integración financiera y coordinación macroeconómica en el Mercosur” in *Temas del Mercosur N° 5 – Fortalecimiento y consolidación macroeconómica del Mercosur*, Fundación Andina – INSTECO, 2000.

ZAHLER Roberto, “Strategies for Monetary Cooperation/Union”, *Integration and Trade N° 13*, INTAL-IDB, January-April 2001.

ECLAC, *Latin America and the Caribbean in the World Economy, 2000-2001*, Santiago, Chile, 2001.

----- CENES (Centro de Estudios de la Estructura Económica-Argentina), FUNCEX (Fundación Centro de Estudios de Comercio Exterior-Brasil) y CINVE (Centro de Investigaciones Económicas-Uruguay), “El Impacto Sectorial del Proceso de Integración Subregional en el MERCOSUR: Sector Calzado”, INTAL-IDB, RedINT series, 2000.

----- CENES, FUNCEX and CINVE, “El Impacto Sectorial del Proceso de Integración Subregional en el MERCOSUR: Sector Farmacéutico”, INTAL-IDB, RedINT series, 2000.

SUMMARIES OF PROJECTS IN THE SAMPLE

CARICOM PROJECTS

JA-0019 “Trade, finance and investment sector loan”. This is a 1991 loan consistent with the Bank’s early 1990s strategy of supporting structural reforms in Latin America, relating to trade liberalization as well as capital market liberalization, privatization and deregulation, but without an integrationist focus. *Integration is a residual outcome of productive structure modernization processes and public-sector reforms.* The project seeks to improve the Jamaican capital market and create a suitable climate for investment.

TC-9404302 “Support for the deepening of Caribbean integration”. This is a technical cooperation approved in 1994, consistent with the strategic direction of the Eighth Replenishment, *where integration is seen as part of the general opening strategy among Latin American economies.* It is aimed at strengthening the single market and promoting stronger links with other Caribbean Basin countries. The project mentions open regionalism, together with the need to improve the free circulation of goods and move towards a common market.

TC-9505499 “Trade promotion and development of firms in Belize”. This 1999 project was designed and implemented to have effects only at the national level, although an integration component could have been included. It represents a missed opportunity. The project does not mention the possibility of Belize joining forces with other countries from the subregion or taking advantage of the expanded CARICOM market.

TC-9711202 “Support for the regional negotiation mechanism”. A 1998 technical cooperation, fully consistent with the strategic direction of the Eighth Replenishment and regional programming (PR). This is a programmed operation. It relates to the open regionalism concept and the need to train human resources in Caribbean countries *to approach international negotiations in a variety of fields,* coordinating positions and pooling efforts in international negotiations with third-party interlocutors.

TC-9802085 “Foreign trade modernization II”. This is a 1998 TC relating to trade liberalization in the Dominican Republic. But the unilateral trade liberalization process does not take into consideration convergence with CARICOM’s common trade policies. There is no explicit intention to harmonize national policies with the bloc’s common trade policy. Although the project has an eminently national focus, it indirectly contributes to Caribbean integration by laying the foundations for unilateral trade opening, which promotes integration in merchandise trade at the regional level.

TC-9904035 “Proposal for portfolio investments through the Caribbean Investment Fund, L.P.” This project is an investment in MIF shares approved in 1999. The project creates a fund, within the Caribbean Investment Fund, aimed at small companies; investments generally between US\$250,000 and US\$2 million are made in export industries

such as agriculture, livestock and tourism. The project document does not explicitly mention the CARICOM PR or any policy document, but it involves a form of integration related to open regionalism: attracting investments to CARICOM and promoting exports from CARICOM members to other countries.

TC-9912037 “Review of the CARICOM common external tariff”. This is a 1999 TC aimed at enhancing the customs union in terms of its common external tariff, rules of origin, non-tariff barriers and other trade restrictions. It can be considered as a project resulting from regional programming (PR).

TC-9812040 “Investment framework: towards regional harmonization”. This is an integration-motivated TC approved in 2000, which aims to harmonize investment regulations throughout the bloc. It attempts to ensure national investment regimes are consistent with best international practices, and takes advantage of the opportunity to propose a harmonized institutional and organizational framework for investments in the community.

TC-0002056 “Support for implementation of WTO agreements”. This is a technical cooperation approved in 2000 which takes good advantage of the opportunity *to implement WTO/OMC agreements with a regional criterion*, which every country of the bloc is obliged to do. Implementation of these agreements in coordinated fashion promotes harmonization among trade policies in the bloc. Although the project is not motivated by integration but by the need to put agreements into effect, the possibility of doing so with a regional criterion has a direct effect on integration.

TC-0002049 “Support for the establishment of a Caribbean Court of Justice”. This is a technical cooperation approved in 2001 aimed at establishing a Caribbean Court of Justice. The court is expected to mediate disputes within CARICOM, related to the single market and economy, and will also replace the UK Privy Council as the final Court of Appeal. References in the project to the CARICOM PR are general and brief. The court itself is clearly an institution that supports subregional integration. *As its function is to mediate disputes relating to the single market and economy, it represents a form of trade integration; but considering its function as a general Court of Final Appeal, it also represents the integration of juridical institutions and for that reason represents “deeper” integration.*

TC-0002050 “Government procurement regimes in CARICOM”. This technical cooperation was approved in 2001 with the aim of establishing an intra-CARICOM supply regime for government procurement contracts. It is consistent with, and explicitly mentions the CARICOM PR, which underlines the importance of convergence towards a common regulatory framework. It is a project that specially encourages subregional integration, going slightly beyond trade integration by including an integrated market for government procurement. It is compatible with the integration concept contained in the Eighth Replenishment and EI-1999.

CACM PROJECTS

TC-9201104 *“Support for the development of Central American integration”*. This is a technical cooperation approved in 1992 with clear integration components in its design and implementation. It reflects the Bank’s support for Central American integration and is aimed *not only at the trade components of integration but also at macroeconomic coordination and institutional strengthening*. The PPMR carried out in 1998 reflects the weaknesses and shortcomings of regional institutions for overcoming the challenges facing the bloc.

HO-0099 *“Customs system strengthening”*. This 1993 loan to strengthen customs administration in Honduras has a clear national focus, but it also attempts to harmonize a number of national regulations with regional rules. The project is consistent with the Bank’s early 1990s strategic direction in which integration appears as a natural outcome of the objectives of openness; it indirectly relates to integration by aiming to improve the free circulation of goods.

TC-9409089 *“Support for the Central American Consultative Group on Regional Technical Cooperation”*. This project, which takes into account an earlier TC with the same objective, is aimed at strengthening external cooperation programming and management capacity. It is motivated by integration and has direct effects on it in terms of technical cooperation.

TC-9507023 *“Rationalization of the institutional framework of Central American integration”*. This 1996 technical cooperation aims to adapt regional institutions to the concrete objectives of subregional integration, and the need to face new hemispheric integration challenges. The lack of a clear vision among member countries, the diversity of regional bodies and the need to reorganize them, give rise to this technical cooperation which is motivated by integration and directly affects it.

TC-9603451 *“Human resource training for Central American integration”*. This is a 1996 technical cooperation to support the training of human resources needed to meet the challenges faced by CACM in consolidating its integration, fulfilling Uruguay Round commitments and strengthening its real participation in the FTAA negotiations. The project arises from the 1996 regional programming document and responds to the mandates of the Eighth Replenishment. The openness nature of the project can be clearly seen in the concentration of training activities on liberalizing trade in goods and services, implementation of trade disciplines in the WTO/OMC framework, and hemispheric negotiations.

TC-9606479 *“Formation of a Central American network of information and support for liberalization of trade in services”*. This technical cooperation approved in 1996 has the main aim of supporting a deepening of free trade in Central America, through the design and implementation of a trade information system. The project report explicitly mentions its relation to the PR and the Eighth Replenishment. The project responds to the Central American initiative to deepen the liberalization of merchandise trade and to make a start on liberalizing trade in services.

CA-0007 “Electric power interconnection system for Central American countries”. This project was approved in 1997 with the aim of helping to develop an integrated energy market with private-sector participation in six Central American countries (CACM members and Panama). The project contains two components: a TC for the creation and establishment of legal and institutional mechanisms to support the development of a regional market; and an infrastructure loan (transmission line from Panama to Guatemala, substations and a regional coordination and transactions center). The project is consistent with the Eighth Replenishment and the PR in two areas: promotion of private-sector investment and support for regional integration. The most recent PPMR dated 30 June 2001, rated progress in project execution as unsatisfactory. The Bank restructured the project in 2001.

NI-0105 “Strengthening of tax and customs administration”. This 1999 loan has a clear national focus, especially as regards human resources and automation of the customs system; but it also contributes indirectly to subregional integration. The Bank is focusing its action on enhancing the free trade zone for goods and services in the region, slowing down the momentum to advance to deeper stages of integration.

TC-0012006 “Support for financial integration”. This operation, approved in 2000, complements the dollarization policy in El Salvador, with an eminently national focus. Nonetheless, it may relate to regional integration if one assumes that macroeconomic stability among countries is an essential pre-requisite for an economic integration process. It shows the advisability of modernizing regulatory frameworks in preparation for increasing integration in financial service markets.

CA-0034 “Sustainable development of the upper Lempa river basin”. This is a trinational loan project to promote sustainable development in a border region involving three member countries (El Salvador, Guatemala and Honduras). The project has integration elements, but confined to the corresponding geographical area; it is designed to identify beneficiaries and investments in each of the three countries. This loan is closely related to regional programming, which sees human development and environmental sustainability as essential elements for increasing competitiveness.

ANDEAN COMMUNITY PROJECTS

BO-0106 “Patacamaya-Tambo Quemado highway”. Approved in 1990, this project was completed 11 years later in 2001. It was the first project with physical integration as an explicit objective. In 1990, Bolivia had no paved highway connections with its five neighboring countries: Argentina, Brazil, Paraguay, Chile and Peru. By the end of the project, the country had its first paved highway, usable throughout the year and in all weathers, crossing the Andes and connecting the country to Arica. Although, logically, the project is associated with the Seventh Replenishment, it is certainly a forerunner of the Bank’s strategic direction in 2000, which adopts a proactive role in terms of integration infrastructure. The project directly promotes integration between Bolivia and Chile, and indirectly contributes to the development of a multimodal transportation network linking Bolivia with four other countries, namely Brazil, Argentina, Uruguay and Peru.

BO-0110 “Financial-sector reform and promotion of private-sector investment”. This is a 1991 loan with eminently national effects, consistent with the Bank’s early 1990s strategy of assisting Latin American countries embarked upon structural reforms and macroeconomic adjustments, which established a suitable framework for economic integration. The reforms supported by the Bank in this loan, support regional integration in the sense that each country’s macroeconomic stability contributes to economic stability regionwide.

TC-9105083 “Strengthening of the customs system in Ecuador”. This project, aimed at improving the country’s customs system, facilitates trade between Andean countries and therefore indirectly enhances the integration process. Its activities and components are not linked to integration. Despite the time mismatch, the project is consistent with regional programming. The PR refers to Ecuador’s complex customs procedures.

BO-0090 “Beni-La Paz-Peruvian border corridor”. This 1992 loan aims to “facilitate land transportation of cargo and passengers, promote economic efficiency in the region and increase the competitiveness of productive sectors by reducing transport costs between centers of production, consumption centers and border crossings to the Pacific Ocean.” It complements the Patacamaya-Tambo Quemado highway by providing Bolivian exports with alternative routes to the Pacific, this time through Peru. It is consistent with the government’s strategy of promoting non-traditional exports and improving access to the sea; it predates the Bank’s strategic direction set out in the 2000 Action Plan.

TC-9804312 “Support for the activities of the Andean Consultative Group”. This is a 1998 technical cooperation to overcome the multiple obstacles to growth in intra- and extraregional trade. It proposes creation of the Regional Consultative Group for the Economic Integration of the Andean Community, as a discussion forum for coordinating technical assistance actions (following the Central American example).

TC-0002041 “Tax harmonization among the Andean Group”. This technical cooperation, approved in 2000, seeks to advance the harmonization of fiscal policies (indirect taxes) among Andean Community countries, to perfect the existing customs union and proceed towards a more advanced stage, i.e. common market. This is a project with close links to regional integration. It is consistent with the Bank’s strategic direction of 2000, but goes beyond the regional programming of earlier years which did not include this topic.

TC-0002046 “Harmonization of macroeconomic policies in the Andean Community”. Approved in 2000, this technical cooperation aims to support the Andean Community in efforts to deepen its integration process, through research to provide tools to evaluate the costs and benefits of macroeconomic policy harmonization. The project does not refer to the 1995 PR because its focus was different, and the Andean Community integration process evolved through time towards deepening and eventual development of a common market. This project corresponds to the Bank’s 1999 strategic direction. There are no progress reports.

TC-0002047 “Reinsurance of financial deposits in the Andean Community”. This technical cooperation, approved in 2000, aims to implement deposit insurance schemes in

all member countries, harmonies them and propose the simultaneous existence of a basic community system. The project is consistent with the Institutional Strategy and with the idea of *including financial aspects in the integration agenda*.

BO-0159 “Customs reform and modernization program”. This loan to Bolivia, approved in 2000, has clear goals in the national domain and, like the previous project, has indirect relations with Andean integration by helping to enhance the free circulation of merchandise.

TC-0012057 “Customs regimes for reimbursement and suspension of duties in the Andean Community”. This is a technical cooperation approved in 2001 to encourage intraregional free trade and facilitate hemispheric negotiations, by harmonizing customs rules and procedures for export promotion mechanisms that are applied in different ways in the various member countries. It has a trade focus consistent with the Eighth Replenishment of several years earlier.

TC-0012058 “Creation of a project bank on border integration and development in the Andean Community”. This technical cooperation, approved in 2001, has the aim of creating a project bank for border integration and development (BPIF). The BPIF will have the capacity to identify, implement and evaluate physical infrastructure projects to connect border regions in Andean countries. The integration concept contained in the project is subregional, and it promotes integration between countries in terms of physical capital, rather than by eliminating political barriers. In this respect it is consistent with EI-1999, which emphasizes regional infrastructure.

MERCOSUR PROJECTS

UR-0057 “Investment sector reform program”. This 1992 loan is aimed at increasing investment and modernizing the Uruguayan productive sector to enable it to compete in the expanded market. Three of its four components have a national focus (attraction of investments), but the fourth has some relation to integration in that it seeks to improve the competitiveness of domestic firms through a strategy of economic opening and regional integration. This component of the project is motivated to some extent by integration, as the country adopted commitments in the regional bloc. *No integration concept arises from this project, but it is integration that makes it necessary for the country to implement it.*

AR-0128 “National highway corridors program”. The Bank approved a loan in 1993 to partially finance a multi-year program of improvement, paving and refurbishment of seven highway corridors used for land transportation of passengers and cargo. Apart from the traditional objectives of transport projects—reducing costs, improving safety conditions and increasing competitiveness—this one also aims to facilitate regional integration”. This objective also appears as a strategy. For the first time in an infrastructure project in Argentina, the project report explicitly mentions that the Bank’s strategy in the transport sector is to support actions to contribute, among other things, to “facilitating Argentina’s economic integration with its Mercosur neighbors and partners”. In relation to the Bank’s direction on integration, it is a forerunner of Action Plan 2000.

TC-9201310 “Technical support for implementation of Mercosur”. This is a 1993 technical cooperation to undertake the technical studies needed to move forward in negotiations within Mercosur. It aims to make it possible to implement the customs union, taking into account the specific needs raised by technical experts from the bloc. The project includes an administrative support module and others with very broad thematic coverage, focused on harmonizing rules and policies on issues that go beyond merchandise trade. *It shows a deep integration vision, which goes beyond that reflected in the PR years later.* Nonetheless it also seems consistent with the 1991 Treaty of Asunción, which proposes the formation of a common market.

BR-0166 “Strengthening of the capacity of the Ministry of Foreign Relations in the international economic area”. This 1994 project aims to alleviate the excessive burden on the Ministry arising from the various economic integration schemes in which the country is participating. It targets modernization of public-sector bodies and their coordination with the private sector. *The project aims to fulfill multilateral obligations and implement trade agreements.*

UR-0104 “Modernization of the National Customs Bureau”. This 1994 loan is part of Uruguay’s public-sector reform policies which are a Bank priority. Although the project has a national focus, its activities include support for preparation of the Mercosur customs code and adaptation of certain national regulations to those agreed in the bloc. In other words, the project takes advantage of the opportunity to include regional integration issues. *It is a project related to the administration of integration.*

RG-0028 “Bolivia-Brazil integration gas pipeline”. The Bank approved a loan to Brazil in 1997 to partly finance a 3,100 km gas pipeline. The objective is *to satisfy part of the energy demand in a number of cities in Brazil’s most important economic area with natural gas supplied from Bolivia.* The project contributes to the development of a regional energy network in the southern cone promotes private-sector participation in the energy sector; it is consistent with the 1997 PR, although this is not explicitly stated in the project report.

UR-0113 “Improvement of integration corridors and primary network”. This 1997 project corresponds to the philosophy that emerged in the mid-1990s in favor of rehabilitating and modernizing national highway systems in order to facilitate physical integration. The objective of the program, therefore, is *to reduce transport costs and eliminate restrictions on international freight traffic on the main integration corridors and other sectors of the national highway network* in Uruguay. Although it does not explicitly mention the 1997 PR, the project is consistent with its philosophy of promoting integration infrastructure in Mercosur.

TC-9610503 “Support in conducting international trade negotiations”. This 1998 technical cooperation is motivated by the negotiations in which Paraguay is involved, and in this sense it aims to strengthen the national bodies responsible for these negotiations. *The issues involved, which include topics such as government procurement, defense of competition, intellectual property and trade in services, do not necessarily reflect the Bank’s concept of integration, but are issues in which the country needs training to tackle*

negotiations in a variety of forums. Like the previous project, it includes a few integration elements.

TC-9804453 “Agrifood strategy for Mercosur”. This 1998 technical cooperation appears to be the first attempt by the bloc to analyze and agree strategies and policies for the agricultural and agribusiness products sector. It is motivated by integration, and *aims to foster debate on the role of the sector within the bloc. The integration concept in this case seems to be targeted on the agrifood sector.*

AR-0256 “Foreign trade policy institutional strengthening program”. This is a 1999 Trade Sector Facility loan to support the main body responsible for Argentina’s foreign trade policy. It aims to facilitate the fulfillment of multilateral and regional commitments, and provide training in issues on which the country has to negotiate in various forums. The project also includes private-sector participation. *It does not reflect a clear integration concept, but responds to the country’s needs arising from ongoing negotiations.* Although aimed at institutional strengthening, this project takes advantage of the opportunity to include a number of integration elements.

TC-0002042 “Support for combating unfair trade practices in Mercosur”. This technical cooperation, approved in 2000, addresses problems arising from the unilateral adoption of restrictive trade measures by member countries, in the wake of the Asian and Russian crises, the Argentine recession and the Brazilian devaluation. It recommends improving trade defense instruments, and aims to prepare common standards. The risks of the project relate to the political decision by countries to apply the common standards. *The project’s integration concept relates to perfecting the trade regulation aspects of the customs union, and in that sense it is compatible with the PR of several years earlier.*

TC-0002044 “Mercosur financial system integration”. This technical cooperation approved in 2000 was designed to comply with the bloc’s decision to harmonize consolidated global banking supervision, and, in that framework, adapt countries’ standards and methodologies to the principles of the Basel Committee. The project makes it possible to gain an objective view of the need to proceed in deepening integration between financial systems in Mercosur member countries. *This project displays a deep concept of integration with harmonization of financial aspects, and it is in line with the regional programming of four years earlier.*

AR-0106 “Border crossings and integration corridors”. A project approved in 2000 as a continuation of the *National corridors program*. The aim is to facilitate passenger and cargo transportation on the main arteries of the national highway system that connect Argentina with the countries of extended Mercosur, mainly Chile. It explicitly promotes physical integration with neighboring countries’ networks—in Brazil, Bolivia, and particularly Chile. When this operation was approved, a parallel TC was being prepared to support Argentina and Chile in planning investments and coordinating operations at border crossings between the two countries, and in the coordination and efficiency of trans-border control of freight and passenger traffic. The project reaffirms the Bank’s recent trend to promote physical integration.

FTAA PROJECTS

TC-9811804 “Support for the FTAA negotiation process”. This project is intended to maintain technical support for the hemispheric negotiation process. It is highly consistent with the Bank’s strategic direction of supporting hemispheric integration, together with State reform and modernization processes, by promoting trade opening and structural adjustment in the various economies. This technical cooperation is one of several projects initiated since 1995 to provide assistance in implementing the mandates of Ministers and Vice-Ministers in the region. It is wholly motivated by integration and complements the massive resources that the countries themselves have invested; it is also instrumental for the conduct and sustainability of the negotiations (point 1.25).

OTHER PROJECTS

TC-9508097 “Financial reforms and regional cooperation”. This 1996 project relates to the Arequipa meeting on the treatment of financial reform in the region. The project is not aimed at regional integration, although it refers to *structural reforms undertaken by countries in the region since the early 1990s*. It represents a missed opportunity.

TC-9508253 “Multilateral trade negotiation”. This project is indirectly linked to integration, despite targeting multilateral trade liberalization. Although countries may bind themselves individually to the agreements of the World Trade Organization (WTO/OMC), joint training for negotiation and implementation of the agreements facilitates the regional integration process. There are multiple synergies between WTO/OMC and regional integration. Firstly, the multilateral system serves as a reference point for many regional disciplines, and progress made in multilateral negotiations may condition regional agreements. Secondly, regional integration may go beyond WTO obligations and thus serve as a laboratory for new multilateral disciplines. In the mid-1990s, *unilateral and multilateral opening were seen by the Bank as complementary processes within integration schemes in the region*.

TC-9602138 “Support for the global integration of Chile”. This project is a technical cooperation approved in 1996, which aims to support Chile in drafting new customs procedures, tariff and non-tariff reforms, standards on government procurement, and other policies to enable Chile to fulfill its agreements with APEC, the European Union, Mercosur, NAFTA and WTO/OMC. The document is consistent with the Eighth Replenishment strategy of promoting the integration of markets for goods and services in multiple regional or subregional groupings. Such integration is seen as a means to generate growth, complementing and reinforcing other national policy reforms that underpin macroeconomic stability.

TC-9601403 “Infrastructure financing, regulation and management program”. This is a technical cooperation approved in 1996 to promote private-sector participation in infrastructure, and support reform and modernization processes. It specifically mentions the Eighth Replenishment document as the program’s policy context. Essentially the program

involves research and dissemination of reforms and innovative techniques for private financing of infrastructure in the LAC region. The project has indirect links to physical integration, since it provides a forum for discussion and dissemination on infrastructure that could contribute to the convergence of policies in the region. Given the regional nature of the project, it does not refer to any PR in particular; there are no progress reports or project completion report.

TC-9707285 “Banking and stock market supervision training program”. This is a technical cooperation approved in 1988 to train staff in LAC regulatory bodies on this subject, promote dialogue aimed at harmonization of market-based international financial rules, and thereby contribute to financial integration in the region. The document explicitly mentions the Eighth Replenishment as the policy context that prioritizes integration. Appropriately, it does not mention any PR because the project’s field of action is the entire region. There are no PPMRs and no PCR.

TC-9805261 “Implementation of the basic principles of the Basel Committee in Latin America and Caribbean”. As its name suggests, this technical cooperation, approved in 1998, aims at the implementing international and modern prudential standards of banking regulation and supervision adopted in Basel, in order to create sound and solvent financial systems. The document does not mention any PR in particular because the scope of the project is regional, or the Bank policy document that serves as a context for the project. There are no PPMRs and no PCR. The project promotes financial integration indirectly by applying Basel principles in the region.

TC-9811812 “Support for trade negotiations for LAC”. This 1999 technical cooperation aims to improve the capacity of the hemisphere’s poor countries to negotiate integration agreements. It provides instruction seminars on several topics pertaining to FTAA negotiations and the WTO/OMC Millennium Round, including agricultural trade, trade in services, anti-dumping, intellectual property, etc. The project’s integration concept is the same as that contained in FTAA and WTO/OMC, as well as in the Eighth Replenishment: trade integration in a broad sense, operating at the global, regional and subregional levels simultaneously.

TC-0002063 “Analysis of linkage between labor standards and international trade”. This is a technical cooperation approved in 2001, in order to gain a better understanding of how the harmonization of labor standards would enhance or impede integration. Its components consist of studies carried out by experts in this field and their diffusion through seminars. The project is consistent with the “deep” integration vision developed in EI-1999, which argues that non-trade considerations (specifically including labor standards) should form part of integration agreements.

TC-001204 “Puebla-Panama Plan support program”. A technical cooperation approved in late 2001 to help Central American countries and Mexico identify projects, and develop meso-American initiatives in the framework of the Puebla-Panama Plan. The latter emerged out of the Summit of Heads of State held in June 2001. It seeks to give momentum to the agenda of integration between Central American countries and the south of Mexico. The

agenda basically relates to physical infrastructure but also includes productive and social projects. Apart from financing for project identification and preparation, dissemination activities are included to obtain private-sector participation to finance projects arising from this TC in the future. The project profile explicitly states that this TC is set in the context of PR 2001 and the Bank's strategy for strengthening the public sector in the development of infrastructure and human capital.

TC-0012047 “Initiative for the Integration of South American Regional Infrastructure”.

A project approved in 2002 in response to the mandate issued by the Brasilia summit of 2000. The aim of the project is *to support establishment of a process to enable the governments of the 12 South American countries to coordinate their decisions on physical infrastructure development (transport, communications and energy), and on improvement and harmonization of regulatory frameworks*. Among other things, the Bank, together with ADC and FOOTPLATE, will fund the work of executive technical groups in carrying out technical studies on previously identified integration corridors and sectoral processes. Earlier Bank studies have identified 12 integration corridors. The scope of the project is very wide and involves a multidisciplinary approach. It is clearly a project that responds to the Institutional Strategy of 1999 (regional integration) and Action Plan 2000 (promotion of physical infrastructure).

TC-0101000 “Financial sector regional policies”. A technical cooperation approved in 2001 that complements Bank efforts in previous operations to introduce best practices and international standards in the financial sector in LAC. These include banking, stock market and insurance supervision, and international standards of accountancy, audit and corporate governance. It mentions EI-1999 as the link between the project and integration, one of the four pillars for achieving economic development in the region. It is notable that this project makes no significant analysis of the value it adds to previous Bank efforts on the same subject. There is no PPMR.

TC-0109018 “Practical applications of financial instruments for natural disasters in Latin America”. This technical cooperation was approved in 2001. Although it addresses topics that potentially affect all LAC countries, with a regional approach, it does not contribute to regional integration. The project's specific aim is to analyze the feasibility and applicability of new financial instruments in managing the risks associated with the natural disasters that affect the region.