The Reduction of Asymmetries in MERCOSUR as a Way of Development Aid and South-South Cooperation: The Case of FOCEM

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ABSTRACT
Financial transfers from richer members to the poorer ones are a necessary tool for creating commitment to a regional integration project, especially from countries that have less potential to benefit economically from the process, as the case of EU shows. Since 2004, MERCOSUR has a mechanism for reducing asymmetries, the FOCEM, which is also a form of development aid and South-South cooperation. Brazil, the largest economy of MERCOSUR, accounts for 70% of the resources, while Paraguay, the least developed country, is entitled to 48% of annual payments. The aim of the paper is to evaluate how the fund has worked. The data collected show that FOCEM has become representative in relation to the GDP of Paraguay, its main beneficiary, and to the amount of development aid granted by Brazil, its main contributor. At the same time, the fund faces serious institutional challenges, as the MERCOSUR itself.

Key words: FOCEM; regional asymmetries; MERCOSUR; South-South cooperation; financial international transfers.

La reducción de las asimetrías en MERCOSUR como una forma de ayuda al desarrollo y de cooperación Sur-Sur: el caso del FOCEM

RESUMEN
Las transferencias financieras de miembros ricos a pobres son una herramienta necesaria para crear compromiso con un proyecto de integración, especialmente por parte de los países que tienen menos potencial para beneficiarse del proceso, como muestra el caso de UE. Desde 2004, MERCOSUR tiene un mecanismo para la reducción de asimetrías, el FOCEM, que también es una forma de ayuda al desarrollo y de cooperación Sur-Sur. Brasil, la economía más grande del bloque, aporta el 70% de los recursos, mientras que Paraguay, el país menos desarrollado, tiene derecho a 48% de los pagos anuales. El objetivo del artículo es evaluar cómo el fondo ha actuado. Los datos recolectados muestran que FOCEM se ha vuelto significativo en relación al PNB de Paraguay, su principal beneficiario, y al montante de ayuda al desarrollo de Brasil, su principal contribuyente. Al mismo tiempo, el fondo enfrenta serios desafíos institucionales, como el propio MERCOSUR.

Palabras clave: FOCEM; asimetrías regionales; MERCOSUR; cooperación Sur-Sur; transferencias financieras internacionales.

A redução das assimetrias no MERCOSUL como uma forma de ajuda ao desenvolvimento e cooperação Sul-Sul: o caso do FOCEM

RESUMO
As transferências financeiras de membros ricos a pobres são uma ferramenta necessária para criar compromisso com um projeto de integração, especialmente por parte dos países que têm menos potencial para se beneficiar do processo, como mostra o caso da UE. Desde 2004, o MERCOSUL tem um mecanismo para a redução de assimetrias, o FOCEM, que também é uma forma de ajuda ao desenvolvimento e de cooperação Sul-Sul. O Brasil, a maior economia do bloco, contribui com 70% dos recursos, enquanto que o Paraguai, o pais menos desenvolvido, tem direito a 48% dos pagamentos anuais. O objetivo do artigo é avaliar como o fundo tem atuado. Os dados reunidos mostram que o FOCEM se tornou significativo em relação ao PIB do Paraguai, seu principal beneficiário, e ao montante de ajuda ao desenvolvimento do Brasil, seu principal contribuinte. Ao mesmo tempo, o fundo enfrenta sérios desafios institucionais, como o próprio MERCOSUR.

Palavras-chave: FOCEM; assimetrias regionais; MERCOSUL; cooperação Sul-Sul; transferências financeiras internacionais.

REFERENCIA NORMALIZADA
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Introduction

Financial resource transfers from richer to poorer countries are a political tool used to foster the commitment with a regional integration arrangement conformed by voluntary decision, convincing member States of the benefits of the process, especially in the case of countries who initially have little to gain from integration.

The adoption of policies aimed at reducing asymmetries is not justified merely by the existence of inequalities (Giordano, Moreira and Quevedo, 2004). The reason for the transfers is the necessity to counterweight the structural imbalances between countries, so that the benefits of the integration are fairly distributed among the participants, and also to take into account in the decision making process the negative effect that is originated from the asymmetries. By addressing the disparities, an integration process may contribute to the production of enduring benefits throughout the region and the member States, thus reinforcing the governments' commitment to the integration itself.

Solidarity and internal cohesion are not the only motivations. Dealing the asymmetries' problem is also related to the level of integration that can be achieved. The incapacity to reduce inequalities hampers, or even derails a more ambitious integration process (Bouzas, 2005).

The asymmetries may be either structural or between policies. The first originate from factors that condition the State's capacity of reaping benefits from the integration process, such as the economic dimension, the quality of the institutions and the level of socioeconomic development. The second relate to differences in social preferences and in institutional characteristics, and are a result of lack of coordination and convergence in rules and policies.

The structural factors responsible for asymmetries can only change slowly over time, and may become a serious obstacle preventing a member State from profiting from the integration process. To deal with such disparities, there are preferential treatment mechanisms in the trade regime and financial transferences.

In the case of policy asymmetries, there can be macroeconomic regional consequences in resource allocation that, in turn, may generate loss of efficiency and interfere with integration. Coordination and rule and policy conversion are strategies aimed at reducing these disparities, but they can be just as deal with than structural asymmetries, because they require inherently unstable compromises and the abdication of autonomy over national policy, which may be in conflict with the member States' goals (Bouzas, 2005).

This paper will concentrate on the financial transference mechanisms that deal with structural asymmetries problems in the MERCOSUR (*Mercado Común del Sur* - South Common Market) and, more precisely, will analyze the FOCEM (*Fondo para la Convergencia Estructural del MERCOSUR* - Fund for Structural Convergence of MERCOSUR), which was created in 2004 but started functioning only in 2006, after the conclusion of its incorporation process to the national legislations. As Venezuela became a full member of the MERCOSUR in 2012, it was decided to promote until the end of 2013 a reformulation of the proportions of contributions to FOCEM and benefits received that correspond annually to each member State, to reflect the new situation. This article evaluates the fund taking into account its original rules and the data relating to the four founding members of MERCOSUR.

Brazil, in 2010, had 79.45% of MERCOSUR's population, 83.33% of its GDP and 71.68% of its territory, proportional to the totals of the four countries that composed the MERCOSUR in the occasion (see table 1). Together, Paraguay and Uruguay account for 3.99%, 2.27% and 4.90%. On the other hand, per capita income in Brazil was inferior to Uruguay's in almost US$ 1,000 in that year. Comparing the countries with biggest and lowest per capita income, Uruguay has 4.21 times the value of Paraguay's.

Table 1. Population, income and territorial disparities (in proportion of the total)

	Population in 2010	*GDP in 2010*	*GDP per capita in 2010*[1]	*Territory*
Argentina	16.56%	14.40%	9,088.90	23.41%
Brazil	79.45%	83.33%	10,961.90	71.68%
Paraguay	2.62%	0.71%	2,832.60	3.42%
Uruguay	1.37%	1.56%	11,940.90	1.48%

SOURCES: CEPAL and CIA World Factbook

This paper aims to show that the resource allocation made through FOCEM has become significant to MERCOSUR's smallest economies, especially Paraguay. Besides the impact on internal cohesion and the evolution of MERCOSUR, resource transference through a mutual fund may be seen as a way to foster development in a South-South perspective. FOCEM becomes more relevant to the analysis because it is an initiative aimed at reducing asymmetries in an intergovernmental process, unlike the case of the EU (European Union), which uses its structural and social cohesion funds for a longer time and has more supranational components.

This paper will do a thorough evaluation of the FOCEM, starting by its structures and rules. Afterwards, we will present a data series on annual fund budgets, comprised by the distribution of its resources by programs and countries and a funded project analysis. Based on these elements, conclusions will be formulated and presented at the end.

1. Structure and rules

FOCEM was created by Decision nº 45/04[2] of the CMC (*Consejo Mercado Común* - Common Market Council), and was structured by CMC's Decision nº 18/05. Its first statute was put forward in CMC's Decision nº 24/05, which was substituted by CMC's Decision nº 01/10, establishing a new statute.

The fund's structure is composed by: (1) The CA-FOCEM (*Consejo de Administración del FOCEM* - Administrative Council of FOCEM), which coincides to the GMC (*Grupo Mercado Común* - Common Market Group), formulates the fund's directives and evaluates its performance. (2) The UTF (*Unidad Técnica FOCEM* - FOCEM's Technical Unit), connected to the SM (*Secretaría del MERCOSUR* - Secretary of MERCOSUR), and in charge of evaluating and directly supervising the

[1] Absolute values in current US dollars.
[2] The final part of the number refers to the year of the Decision.

projects. It is headed by an executive coordinator and has its own permanent staff, whose nationalities is, whenever possible, distributed through the member countries, hired through a competitive selection process, with the exception of the coordinator, who is nominated by the CMC and has a two year mandate, with one possible re-election. (3) A UTNF (*Unidad Técnica Nacional FOCEM* - FOCEM's National Technical Unit) in each member State. These units coordinate the internal tasks for selecting, presenting and supervising the projects, and also serve as a connection between the UTF and the countries (see table 2).

Table 2. The institutional structure of FOCEM

CMC (Consejo Mercado Común)		
CA-FOCEM (Consejo de Administración del FOCEM), which actually is the GMC (Grupo Mercado Común)		
UTF (Unidad Técnica FOCEM)	SM (Secretaría del MERCOSUR)	CRPM (Comisión de Representantes Permanentes del MERCOSUR)
UTNF (Unidad Técnica Nacional FOCEM) of each member State		
Executive organism of the projects		

SOURCE: Author's elaboration

The executive organism, the member States' bureaucracy, the director of the SM, the CRPM (*Comisión de Representantes Permanentes del MERCOSUR* - Permanent Representative Commission of MERCOSUR) and the CMC also perform tasks related to the FOCEM. The executive organism, which needs to be part of the public sector, is the agency designated by the awarded State to be responsible for executing the project; members of the State's bureaucracy is made available to the UTF to help it supervise the execution of a project; the SM's director hires external auditing, contributing with a report on the UTF's annual budget, and presents the CMC with a summary of the member States' quota payments to the MERCOSUR and to FOCEM, when new projects are being evaluated; CRPM is the agency responsible for receiving the projects from each UTNF and decides which ones are eligible to be considered by the UTF for funding, prepares reports to the GMC on the projects approved by the UTF and its general budget proposal, elaborates instructions and proposals for change in rules and regulations regarding the fund's structure, and serves as an judicatory body to solve questions arising from the fund's statutes; the CMC is responsible for final decisions on projects and the funds' budget.

As in the case of MERCOSUR itself, the institutional structure of FOCEM combines officials of exclusive dedication, who are concentrated in UTF, and representatives of national governments. While the presence of officials of exclusive dedication in UTF, which is the organ responsible for the fund executive tasks, can enable greater agility, the representatives of national governments in GMC and CMC are who takes the final decisions, which can create difficulties for the administration and operation of FOCEM.

Project evaluation and final approval follows a complex process. It starts at the UTNF of the country who proposed the project. The UTNF, than, makes the first selection and presents the project to the CRPM, which attests to its eligibility and advances it to the UTF. It is in this moment that the most rigorous evaluation takes place. The projects that advance this phase return to the CRPM, that forwards its evaluation and also the UTF's to the GMC. Finally, the GMC submits all the documents to the CMC, which has the final decision. Proponents and the agencies responsible for the management of the project must be from the public sector, but it is not required that they are drawn only from the federal entities. States, provinces or municipalities may also ask for funds from the FOCEM, without the need of mediation from federal authorities.

Priority definition on the destination of resources is based in two criteria: the size of the economy and the level of development. This is necessary because at the same time that the levels of the economies are hugely different, the country with the biggest economy, Brazil, has internal sub-regions that fare the worst among the MERCOSUR's.

Therefore, article 1 of the CMC's Decision nº 18/05 establishes that FOCEM "is destined to finance programs to promote structural convergence; develop competitive edges; promote social cohesion, particularly in the small economies and less developed regions; and support the institutional structure's functioning to strengthen the integration process as a whole"[3] [*own translation*].

The amount yearly designated to FOCEM is US$ 100 millions, with 70% coming from Brazil, 27% coming from Argentina, 2% coming from Uruguay and 1% coming from Paraguay. In the yearly distribution of resources for three of the four existing programs, to which one adds the non-allocated resources in previous years, Paraguay has the right to 48%, Uruguay to 32% and Argentina and Brazil to 10% each. The fund may also receive spontaneous contributions from member States, non-member States and international organizations.

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[3] CMC's Decision nº 18/05, available in URL <http://www.mercosur.int/focem/archivo.php?a=717e7f827d7184798671307d71828a7f30424041413f424040453f7475736f4041483d424040456f75836f76756f797e848976857e73767f73757d89767f8284717c758384827384797e838479843e80747671010&x=k1k109f&y=6767006>, accessed on April 30, 2012.

Since we are not talking about loans to the beneficiaries, the resources are non-refundable. The counterpart of the State that benefits from the fund transfer is to shoulder at least 15% of the project's eligible expenditure, which may not be substituted by other expenses on ongoing projects or even infrastructure related moneys in the benefited territorial unity. A company may provide goods or services if its headquarters are in one of the member States.

The FOCEM programs are: (1) Structural Convergence, designed to promote development, structural adjustment and interconnect systems of smaller economies and less developed regions. This program was given top priority in the first four years, in order to enhance infrastructure and foster integration. (2) Competitiveness Development, aimed at promoting more competitiveness of the internal production, through projects that enhance regional commerce, integrate the production chain, strengthen quality control and develop new products and processes. (3) Social Cohesion, with the goal of social development, especially in border areas, and may include common interest projects in the areas of health, poverty alleviation and employment policies. (4) Strengthening Institutional Structure and Integration Process, designed to better the functioning of MERCOSUR's institutional framework, under the responsibility of the SM.

In some of the cases covered in the Competitiveness Development Program, FOCEM's statute states that "the structuring, operation and/or management of projects [...] may be delegated to either public or public-private, or private institutions that are part of the public direct or indirect administration, or the operating system of the member State, preserving the State's responsibility for the management of the project as a whole"[4] [*own translation*]. These institutions may also shoulder total or partial execution of the project, earning the resources directed to the member State. The cases where this private participation is authorized are "R&D directed at dynamic productive sectors"; "development of production chains in dynamic and differentiated economy sectors"; and "conversion, increase and structuring of small and micro companies, their attachment to regional markets and the promotion and development of new ventures" [*own translation*].

The preclusion from private companies being completely in charge of projects contradicts the current objective of promoting competitive edges in the internal production capabilities of MERCOSUR's countries (Souza, Oliveira and Gonçalves, 2011). If the private sector could directly submit their projects and be responsible for the application of the resources, the chances of success in promoting regional competitive edges would be increased.

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[4] CMC's Decision nº 1/10, available in URL: <http://www.mercosur.int/focem/archivo.php?a=222f30332e22352a3722e02e22333b30e0f2f0f1f1eff2f0f1f0ef25262420f0f0f1edf2f0f1f02026342027263333f1203326282d222e262f3530e0273024262eee312527220c0&x=cfcf06e&y=ffff09e>, accessed on April 30, 2012.

The percentage of annual resource distribution refers to the three main programs, whose projects are executed by a single country, since there is also the possibility of joint-country projects. The fourth is the SM's responsibility and may not receive more than 0.5% of the annual FOCEM's budget. Furthermore, there are no differentiated distribution percentages to member States, according to the program.

Fixating annual FOCEM resource percentages was a political decision pushed forward by Brazil (Souza, Oliveira and Gonçalves, 2011). Instead of opting for criteria to measure the asymmetry between MERCOSUR's member States in different areas, Brazil preferred to establish fixed percentages, as a way to display political will and enhance equilibrium in the distribution of benefits from the integration process.

2. Operating FOCEM

Since its debut in 2006, FOCEM produced a collection of 39 projects, either approved, in execution or concluded, with a total contribution of US$ 835,713,555 (see table 3). If we include the counterpart made to the projects directly by the States, the value sums up to US$ 1,134,102,407. The amount for each full year since 2006 was US$ 167,142,711. The Structural Convergence Program is responsible for most of these resources, as well as the number of projects approved.

Table 3. Project distribution (by program numbers and by resources in US$)

	Projects	*Contribution from FOCEM*	*Local contribution*	*Total*
Structural Convergence	17	742,416,156	268,432,789	1,010,848,945
Competitiveness Development	11	45,878,794	12,118,874	57,997,668
Social Cohesion	8	47,247,705	17,837,189	65,084,894
Strengthening Institutional Structure	3	170,900	0	170,900
Total	39	835,713,555	298,388,852	1,134,102,407

SOURCE: FOCEM <http://www.mercosur.int/focem/>

Even if FOCEM's minimal annual budget is fixed, its values have been increasing since 2009 (see table 4). That comes both from leftover resources from previous years, as well as voluntary contributions made by Brazil in 2011 and 2012, which amounted to US$ 505,600,000. These extra contributions are due to negotiations between Brazil and Paraguay over the Itaipu power-plant, and are directed at the

construction of a 500 kV power line between Itaipu and Villa Hayes, an energy substation in the Paraguayan town and the extension of the substation at the right side of Itaipu, to take more electricity to Paraguay's capital, Asunción. For these reasons, the fund's budget has increased 41.14% from 2010 to 2011. Without the impact of voluntary transfers from Brazil, the increase has also been substantial (32.63%) between 2009 and 2010.

Table 4. Budget (in thousand US$)

2009						
Contribution	*Unallocated resources*	*Non-utilized resources*	*Interests*	*Non-utilized defrayal*	*Reserves*	*Total*
100,000	116,979	85,240	143	326	0	302,688
2010						
Contribution	*Unallocated resources*	*Non-utilized resources*	*Interests*	*Non-utilized defrayal*	*Reserves*	*Total*
100,000	189,247	101,402	473	345	10,000	401,467
2011						
Contribution	*Unallocated resources*	*Non-utilized resources*	*Interests*	*Non-utilized defrayal*	*Reserves*	*Total*
305,600	251,016	114,362	804	349	10,000	682,131
2012						
Contribution	*Unallocated resources*	*Non-utilized resources*	*Interests*	*Non-utilized defrayal*	*Reserves*	*Total*
400,000	200,530	176,588	521	637	10,000	788,276

SOURCE: FOCEM <http://www.mercosur.int/focem/>

If the budget has increased each year, so has the leftover resources from previous years. If we add non-allocated and non-utilized resources from previous years, the values increase for all four countries in almost every year since 2009 (see table 5).

The only exception is Paraguay, which managed to retain less non-allocated and non-utilized resources in the 2012 budget, compared to 2011. The reason is a significant reduction of its non-allocated resources, which fell from US$ 92,642,996 in 2011 to US$ 39,365,728 in 2012.

Table 5. Leftovers from previous years (in US$)

	2009		
	Non-allocated	*Non-utilized*	*Total*
Argentina	17,690,564	1,393,874	19,084,438
Brazil	16,940,264	1,938,807	18,879,071
Paraguay	27,865,716	70,081,629	97,947,345
Uruguay	54,053,565	11,826,129	65,879,694
	2010		
	Non-allocated	*Non-utilized*	*Total*
Argentina,	26,949.589	1,726,349	28,675,938
Brazil	17,044,989	11,584,082	28,629,071
Paraguay	58,880,963	80,223,792	139,104,755
Uruguay	85,441,890	7,867,953	93,309,843
	2011		
	Non-allocated	*Non-utilized*	*Total*
Argentina	33,425,843	4,317,628	37,743,471
Brazil	18,596,597	19,192,874	37,789,471
Paraguay	92,642,996	74,752,677	167,395,673
Uruguay	105,850,365	16,098,515	121,948,880
	2012		
	Non-allocated	*Non-utilized*	*Total*
Argentina	32,636,245	11,861,553	44,497,798
Brazil	15,536,730	29,187,256	44,723,986
Paraguay	39,365,728	108,389,427	147,755,155
Uruguay	112,491,259	27,149,828	139,641,087

SOURCE: FOCEM <http://www.mercosur.int/focem/>

In relation to the variation, Paraguay, who had a 29.59% increase in its leftover resources between 2009 and 2010, got to 2012 with a 13.29% leftover decrease when compared to 2011 (see table 6). In the case of the other three countries, there was an increase in every year. The most expressive ones were in 2010, with a 34.06% for Brazil. Since then, the augments have been less and less, which, associated with Paraguay's reduction in 2012, may indicate two things: that a project elaboration learning process has occurred; and that there has been an increasing interest from the sub-national political entities of the member States for FOCEM's resources.

Table 6. Leftovers from previous years (variation in %)

	2010	*2011*	*2012*
Argentina	33.45%	24.02%	15.18%
Brazil	34.06%	24.24%	15.50%
Paraguay	29.59%	16.90%	-13.29%
Uruguay	29.40%	23.48%	12.67%

SOURCE: FOCEM <http://www.mercosur.int/focem/>

Since Paraguay has the right to the biggest share of FOCEM's resources each year, it is also responsible for the biggest leftovers (see table 7). The only year where another country came close to Paraguay was 2012, when Uruguay was responsible for 37.03% of the leftovers, against 39.18% from Paraguay.

Table 7. Leftovers from previous years (in proportion of the total)

	2009[5]	*2010*[5]	*2011*[5]	*2012*[5]
Argentina	9.44%	9.87%	10.33%	11.80%
Brazil	9.34%	9.85%	10.34%	11.86%
Paraguay	48.44%	47.86%	45.81%	39.18%
Uruguay	32.58%	32.10%	33.38%	37.03%

SOURCE: FOCEM <http://www.mercosur.int/focem/>

The amount of resources for projects followed the trend of increase seen in budget and leftover resources. Adding available and applied resources, the values increased for the four countries in all the years (see table 8). If we separate, in the analysis, the evolution of resources available from the evolution of resources used in projects, we can see an improvement in the countries' efficiency of exploring FOCEM. Up until 2010, member States usually had more resources available than applied. From 2011 forward, the situation changes, and the resources applied start to overcome the sum available in the yearly budget. Paraguay is the most extreme case. From the amount of resources reserved for the country in 2012, 99.57% were directed to projects in execution. The exception is Argentina, who had more resources available than executed in the whole period.

[5] There are also leftovers from the Strengthening Institutional Structure Program, under the responsibility of the SM.

Table 8. Project resources (in US$)

	2009		
	In Execution	*Available*	*Total*
Argentina	1,884,849	26,949,589	28,834,438
Brazil	2,584,082	26,044,989	28,629,071
Paraguay	86,845,382	58,851,963	145,697,345
Uruguay	12,187,804	85,441,890	97,629,694
	2010		
	In Execution	*Available*	*Total*
Argentina	2,278,374	36,240,587	38,518,961
Brazil	17,178,707	21,293,387	38,472,094
Paraguay	86,889,177	100,542,811	187,431,988
Uruguay	8,335,478	117,097,720	125,433,198
	2011		
	In Execution	*Available*	*Total*
Argentina	12,941,915	34,736,507	47,678,422
Brazil	30,407,812	17,316,610	47,724,422
Paraguay	377,753,317	43,177,307	420,930,624
Uruguay	80,279,040	73,604,791	153,883,831
	2012		
	In Execution	*Available*	*Total*
Argentina	19,260,593	32,506,228	51,766,821
Brazil	33,052,851	18,940,157	51,993,008
Paraguay	482,401,854	2,069,307	484,471,161
Uruguay	106,948,318	57,010,045	163,958,363

SOURCE: FOCEM <http://www.mercosur.int/focem/>

In the variation between the years, Paraguay accounts for the most notable increase in resources available, in 2011, comparing with 2010, reaching up to 55.47%, which is due to Brazil's increase in voluntary transferences (see table 9). In general, with the exception of the Paraguay case in 2011, growth has been slowing.

Table 9. Project resources (variation in %)

	2010	*2011*	*2012*
Argentina	25.14%	19.21%	7.90%
Brazil	25.58%	19.39%	8.21%
Paraguay	22.27%	55.47%	13.11%
Uruguay	22.17%	18.49%	6.14%

SOURCE: FOCEM <http://www.mercosur.int/focem/>

The proportion of resources reserved to member States for projects in 2009 and 2010 adjust themselves to what is prescribed in the FOCEM's statute, with small variations in relation to the percentages established, since resources destined to Strengthening Institutional Structure Program were taken into account, as well as the resources used in projects that had the participation of two or more countries (see table 10). In 2011 and 2012, percentages are different than those established by the statute, because of Brazil's voluntary transfers. With these contributions included, Paraguay increased his participation to 64.36% of total resources for projects in 2012's budget.

Table 10. Project resources (in proportion of the total)

	2009[6]	*2010*[6]	*2011*[6]	*2012*[6]
Argentina	9.55%	9.86%	7.11%	6.88%
Brazil	9.48%	9.84%	7.11%	6.91%
Paraguay	48.27%	47.96%	62.76%	64.36%
Uruguay	32.34%	32.09%	22.94%	21.78%

SOURCE: FOCEM <http://www.mercosur.int/focem/>

The growth in the volume of resources for projects is also reflected in the GDP of the member States, especially in the case of Paraguay, the smallest MERCOSUR's economy. FOCEM's resources accounted for 1.0192% of Paraguay's GDP in 2009, and 1.7514% in 2011 (see table 11). In the case of Uruguay - the other small economy of MERCOSUR - FOCEM still accounts for only 0.5% of the country's GDP.

[6] There are also available resources for the Strengthening Institutional Structure Program, under the responsibility of the SM, and for joint-projects.

Table 11. Project resources (in proportion of GDP)

	2009	*2010*	*2011*
Argentina	0.0093%	0.0104%	0.0114%
Brazil	0.0018%	0.0018%	0.0020%
Paraguay	1.0192%	1.0243%	1.7514%
Uruguay	0.3117%	0.3115%	0.3334%

SOURCE: Paraguay and Uruguay's central banks, CEPAL and FOCEM

Overall, Paraguay has the most number of projects (approved, in execution and concluded) since the beginning of FOCEM. It has 17, against Uruguay's 9, Brazil's 5 and Argentina's 3 (see table 12).

Table 12. Project distribution (by country, program and resources in US$)

ARGENTINA	*Number of projects*	*FOCEM transfers*	*Local transfers*	*Total*
Structural Convergence	1	13,116,511	5,941,008	19,057,519
Competitiveness Development	1	552,500	119,500	672,000
Social Cohesion	1	5,212,585	2,721,314	7,933,899
Total	3	18,881,596	8,781,822	27,663,418
BRAZIL	*Number of projects*	*FOCEM transfers*	*Local transfers*	*Total*
Structural Convergence	2	11,021,139	5,102,244	16,123,383
Competitiveness Development	2	5,809,944	1,791,536	7,601,480
Social Cohesion	1	17,000,000	5,000,000	22,000,000
Total	5	33,831,083	11,893,780	45,724,863
PARAGUAY	*Number of projects*	*FOCEM transfers*	*Local transfers*	*Total*
Structural Convergence	10	576,827,099	205,049,705	781,876,804
Competitiveness Development	4	14,322,300	3,751,018	18,073,318
Social Cohesion	3	20,835,321	9,375,089	30,210,410
Total	17	611,984,720	218,175,812	830,160,532
URUGUAY	*Number of projects*	*FOCEM transfers*	*Local transfers*	*Total*
Structural Convergence	4	141,451,407	52,339,832	193,791,239
Competitiveness Development	2	4,242,500	1,007,500	5,250,000
Social Cohesion	3	4,199,799	740,786	4,940,585
Total	9	149,893,706	54,088,118	203,981.824

SOURCE: FOCEM <http://www.mercosur.int/focem/>

The amount of resources transferred to Paraguay reach US$ 611,984,720. In the extreme opposite side, Argentina received US$ 18,881,596. In the cases of Brazil, Paraguay and Uruguay, the Program of Structural Convergence is responsible for most projects. Argentina has one project in each program, but the Structural Convergence one has received the most resources.

Table 13. Project distribution (in proportion of the total)

ARGENTINA	*Number of projects*	*FOCEM transfers*	*Local transfers*	*Total*
Structural Convergence	5.88%	1.77%	2.21%	1.88%
Competitiveness Development	9.09%	1.20%	0.99%	1.16%
Social Cohesion	12.50%	11.03%	15.26%	12.19%
Total	7.69%	2.26%	2.94%	2.44%
BRAZIL	*Number of projects*	*FOCEM transfers*	*Local transfers*	*Total*
Structural Convergence	11.76%	2.57%	1.90%	1.59%
Competitiveness Development	18.18%	12.66%	14.78%	13.11%
Social Cohesion	12.50%	35.98%	28.03%	33.80%
Total	12.82%	4.05%	3.99%	4.03%
PARAGUAY	*Number of projects*	*FOCEM transfers*	*Local transfers*	*Total*
Structural Convergence	58.82%	77.70%	76.39%	77.35%
Competitiveness Development	36.36%	31.22%	30.95%	31.16%
Social Cohesion	37.50%	44.10%	52.56%	46.42%
Total	43.59%	73.23%	73.12%	73.20%
URUGUAY	*Number of projects*	*FOCEM transfers*	*Local transfers*	*Total*
Structural Convergence	23.53%	19.05%	19.50%	19.17%
Competitiveness Development	18.18%	9.25%	8.31%	9.05%
Social Cohesion	37.50%	8.89%	4.15%	7.59%
Total	23.08%	17.94%	18.13%	17.99%

SOURCE: FOCEM <http://www.mercosur.int/focem/>

Proportionally, Paraguay concentrates 43.59% of the number of projects, while Argentina has 7.69% (see table 13). If we divide the number of projects by program, Paraguay, again, has the biggest proportions in all of the programs, and is accompanied by Uruguay in the Social Cohesion Program. In the Structural Convergence

Program, Paraguay's percentage reaches 58.82%. Uruguay has the second biggest proportion in two of the three programs, accompanied by Brazil in the Competitiveness Development Program. The Argentinean situation grabs our attention, because its fixed percentage of the annual resources is the same as Brazil. Even so, Argentina has the lowest proportion of projects in all the programs, and is only equal to Brazil in the Social Cohesion Program, both with 12.5%. In the contributions made by FOCEM, the situation changes a bit, with Paraguay still in the lead, pulling the biggest share of resources in all programs, but Brazil overtakes Uruguay in two of the three (Competitiveness Development and Social Cohesion). On the other hand, since these two programs receive less resources than Structural Convergence, Uruguay still comes ahead of Brazil, having the second largest share of the total contributions from the fund.

Table 14. Project distribution (in proportion of GDP)

	Relation between total contribution of FOCEM and GDP of 2011
Argentina	0.0045%
Brazil	0.0014%
Paraguay	2.5463%
Uruguay	0.3247%

SOURCE: Paraguay and Uruguay's central banks, CEPAL and FOCEM

In the case of Paraguay, the total amount of contributions from FOCEM represents 2.5463% of the country's GDP in 2011 (see table 14). This is a significant percentage, regardless of comparisons with other asymmetry reduction or development aid mechanisms. Even if one compares it to the EU, the share of FOCEM's transferences in Paraguay's GDP do not lag too much behind. In 1999, European contributions to its smallest economies ―Greece and Portugal― through structural and social cohesion funds amounted to 4% of those two countries GDPs (Griffith-Jones *et al*., 2003).

Conclusions

After five years of functioning, FOCEM has become representative in relation to the GDP of its main beneficiary, Paraguay, and to the amount of development aid granted by its main contributor, Brazil. Between 2005 and 2009, Brazilian resources for this goal amounted to US$ 1,426,250,442.73 (Instituto de Pesquisa Econômica Aplicada / Agência Brasileira de Cooperação, 2010). In a smaller timeframe, be-

tween 2009 and 2012, Brazilian contributions to FOCEM, under the heading of resources to international organizations in its budget of development aid, were more than half that of the value previous cited, reaching US$ 785,600,000.

The data presented also show the importance of the resources of FOCEM to Paraguay and its efforts to take advantage of them, in times of Paraguayan suspension from MERCOSUR, and contradict initial negative evaluations of the fund, which emphasized the US$ 100 million mandatory contributions. This paper showed that the FOCEM's resources for projects have been growing every year. The leftovers from previous years have also increased, partially explaining the general increase in budget, but the main beneficiary of the resources, Paraguay, has also increased its efficiency in taping into the funds. The country managed to greatly reduce its leftovers in the 2012 budget, when compared to 2011. The other explanation for the increased budget is Brazil's voluntary contributions. Even if we consider the extraordinary nature of this situation, we are now two years in a row when Brazil has transferred additional resources to FOCEM, which may trigger additional voluntary transfers, or even an increase in mandatory contributions.

A decision of CMC from December 2012 even established that the capitalization of FOCEM will be considered until the end of 2013. This norm advanced the work of evaluating the effectiveness of the fund and the relevance of its continuity, which is defined by Decision CMC nº 18/05 for the period of ten years from the first contribution. It was still determined the need of a reformulation of the proportions of the contributions to FOCEM and benefits received that correspond annually to each member state, to account for the new composition of MERCOSUR, with the presence of Venezuela, and the possibility of further accessions.

For the period until the new distribution of contributions and benefits is drafted and approved, it was defined a provisional regime for Venezuela. Its annual contribution will be US$ 15.5 million for individual and common projects of other member States in the framework of the programs of structural convergence, competitiveness development and social cohesion. There will also be an annual contribution of US$ 11.5 million for projects presented by Venezuela itself and the common ones with its participation in the framework of the same three programs. Venezuelans have then the contribution amount equal to Argentina's US$ 27 million. The difference is that there is a portion allocated exclusively to projects that benefit Venezuela, as a way to compensate for the fact that until the adoption of the new rules, Venezuelans hardly will benefit from the contributions of other members.

The series of decisions taken in late 2012 shows the willingness of member States of MERCOSUR in valuing FOCEM. Not only the evaluation of the effectiveness and relevance of the fund was anticipated as the consideration of its capitalization and the reformulation of the rules of distribution of annual contributions and benefits have already been determined, anticipating that the conclusion of the evaluation will be the maintenance of the mechanism.

Moreover, the justification for the need to reform the rules relies both on the incorporation of Venezuela to MERCOSUR, which occurred in 2012, as the possibility of further accessions. The next is already underway, as Bolivia in 2012 formalized its application for incorporation as a full member, which will now need to be ratified by the Parliament of each member State.

The valuing and reformulation of FOCEM are in line with the strategy of Argentina and Brazil to expand the number of members of MERCOSUR as a way to counterbalance the difficulties of deepen integration in terms of rules and policies and the increasing trend of trade protectionism among the two powers of the bloc since the international economic crisis of 2008.

However, the expansion of the number of members on the one hand, and the difficulties in institutional deepening and the protectionist tendency, on the other hand, are contradictory movements. If only the first movement persists, it could generate a situation in which MERCOSUR customs union reach almost entire South America and at the same time, stagnate in this stage of integration, which is already imperfect, because of exceptions to the Common External Tariff and barriers to products of member countries, or even return to the condition of a free trade zone.

Beyond these trade issues, the movement to expand the number of members of MERCOSUR is not able by itself to lead the integration to other policy areas and promote its advancement. In the neofunctionalist terms of Haas (1958; 1964), there would be less chance of integration expands from one sector to another, the functional spill-over, starting with issues related to trade liberalization to reach other areas.

There are more questions to be raised. The fund's impact on the second smallest economy of MERCOSUR, Uruguay, amounts to less than 0.5% of the country's GDP in 2011. The persistence of leftovers from previous years is also a problem. In the 2012 budget, the leftovers, taking into account non-allocated and non-utilized resources, were US$ 376,618,026, which corresponds to almost four times the annual mandatory contributions.

In the Competitiveness Development Program, the preclusion from private companies being completely in charge of projects contradicts the current objective of promoting competitive edges in the internal production capabilities of MERCOSUR's countries (Souza, Oliveira and Gonçalves, 2011). If the private sector could directly submit their projects and be responsible for the application of the resources, the chances of success in promoting regional competitive edges would be increased.

As highlighted, FOCEM is a mechanism aimed at the reduction of structural asymmetries. To further deepen the integration process, MERCOSUR still needs to address policy asymmetries, which originate themselves from lack of coordination and convergence of policies and rules. This kind of asymmetry may also generate loss of efficiency, thus hampering the integration process. One alternative is to give FOCEM the ability to deal with policy asymmetries such as suggested by Souza,

Oliveira and Gonçalves (2011). A way to do so is bind resource transfers to macroeconomic policy goals. In order to work, though, such a mechanism would require finessing, both in the definition of requirements and in the construction of a positive perception of such measures, under the risk of fuelling nationalistic passions over accusations of imperialism against Brazil, such as the ones being directed at Germany in the case of EU.

A third point is about the possibility of politicization of the project selection process, in detriment of technical aspects, since the final decision on approving projects is made by the CMC, which is composed by the ministers of Economy and the chancellors of MERCOSUR's member States. In 2009, because of a dispute between Argentina and Uruguay over the installation of papers factories on Uruguayan side of the frontier between the two countries, a project that would benefit Uruguay, with the construction of power lines between the cities of Candiota, in Brazil, and San Carlos, in Uruguay, got vetoed by Argentina on the CMC (Souza, Oliveira and Gonçalves, 2011). Having the CMC as an agency responsible for final approval gives margin for political rather than technical criteria prevail in the selection process. It is important that the main institution of MERCOSUR participate in the administration of the fund, so that it can perform accountability over the resources, the results achieved and the general compliance of FOCEM with its political objective of reducing asymmetries and enhancing compromise with the integration process. But this is not mean leave to CMC the final word on the approval of projects.

The balance of the analysis of FOCEM, then, has two opposite sides. For one, the results so far show that the initial negative evaluations were precipitated, because the fund has become representative in relation to the GDP of its main beneficiary, Paraguay, and to the amount of development aid granted by its main contributor, Brazil. Moreover, the member states of MERCOSUR have the willingness, as suggested by the decisions of the end of 2012, in valuing the role of FOCEM, including an increased in the contributions. For the other hand, the fund is still little representative for Uruguay, the second smallest economy of MERCOSUR, and faces serious institutional challenges, such as the lack of treatment of policy asymmetries and the possibility of politicization of the decisions.

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