

The Bank of the South Initiative

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Some initial stumbling to get on the right path

After several postponements over the year 2007, the Bank of the South was formally created in Buenos Aires on December 9, 2007, when Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela signed its founding charter.

At that time, a 60-day deadline was established for the member countries of the new Latin American financial institution to define the Bank's Articles of Incorporation (including objectives, structure and guidelines, among other issues). However, it was only recently, on April 25, 2008, in a meeting of finance ministers held in Montevideo that the matter was taken up again by the members.ⁱ

These suspensions and delays may be justified by some important differences that exist among the countries involved in the bank's founding process and which constitute key factors in this sense.

One of the reasons for the initial setbacks may be found at the starting point of the debates towards the new regional financial structure. This is because the idea originated at the bilateral level, in a series of meetings held in 2006 between the President of Venezuela, Hugo Chavez, and the President of Argentina, Néstor Kirchner.

The fact that Brazil was not "invited" to these meetings caused some concern among certain sectors of this country's authorities. Thus, the door was open for opponents of what was then called the "Bolivarian Project," who criticized the political intention behind this initiative.

The exclusion of Brazil as one of the leading players in the preliminary discussions of the multilateral financial body's inception, despite the country's political and economic importance in the region, was later added to others reasons that were used to justify disregarding the proposal. Brazil's importance is illustrated by the fact that its National Bank for Economic and Social Development (BNDES) is currently, and has been for some time, the strongest financial entity in Latin America in terms of financial resources -around US\$ 25 billion a year,ⁱⁱ higher even than the funds managed by Multilateral Financial Institutions-, resources which are also invested abroad in spite of Brazil's legal restrictions on financial investments overseas.ⁱⁱⁱ

Despite its initial exclusion, Brazil later agreed to be part of the project for the establishment of the new financial institution, on the condition that it be based solely on technical guidelines.

However, the difficulties encountered in the Bank of the South's process of inception cannot be explained merely by the deficiencies pointed out above. In fact, the key areas of potential conflict have to do without a doubt with the Bank's role, the composition of the capital stock, and the decision-making system.

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It should be noted that in this scenario, Ecuador has emerged as a more progressive proponent, in contrast to the positions revealed by the other member countries. According to this country, the entity should act as a regional central bank “articulating new priorities focused primarily on fulfilling basic needs and pursuing a sovereign development strategy, aimed at attaining food and energy sovereignty, furthering industrial planning for the production of generic drugs, promoting micro-credits or other forms of popular economy schemes, conducting research and development for local productivity, expanding the domestic markets, etc.” (PAEZ, 2007); moreover, it should go beyond promoting development, and lay down the foundations for a regional currency-based trade system; thus becoming, together with the Fund of the South, the “financial and monetary instruments of a Union of South American Nations – UNASUL,” (idem).

However, Brazil’s representative in the technical committee of the Bank of the South stated that the role of the new entity should be that of a “traditional development bank, giving priority to the financing of infrastructure projects in the region, preferably those that facilitate physical and economic integration among member countries; providing support to member countries so that they can export to other markets (extra-regional exports that require financial aid to be carried out); and backing production integration projects, that is, joint ventures conducted among the countries, sharing investment, technologies, and work force.” (MELIN DE CARVALHO, 2007)

As it stands now, pursuant to the terms mutually agreed on by the parties under the Bank’s founding charter, the structure of the new institution will be that of a development bank, designed both to finance strategic sectors of the region’s economy and its scientific and technological development, as well as to fund poverty reduction projects.” The bank will be headquartered in Caracas, Venezuela, and will have offices in Buenos Aires, Argentina, and La Paz, Bolivia.

There has been some controversy over the amount that each member country is to contribute. Some maintain that Brazil, Argentina and Venezuela should invest more than the less developed countries. Others argue that all the members should contribute the same amount of resources.

At the recent meeting held in Montevideo, it was determined that the three largest countries would allocate US\$ 2 billion each, Uruguay and Ecuador would contribute US\$ 400 million each, and Paraguay and Bolivia, US\$ 100 Million each. Thus, the Bank of the South could begin its activities with a paid-in capital of US\$ 7 billion and an authorized capital of US\$ 20 billion, which would be obtained through successive capital subscriptions by the Bank’s members over a period of 5 years, in the case of Brazil, Argentina and Venezuela, and of 10 years in the case of the other countries. Ten percent of the capital of the new institution would be in local currency and the remaining 90% would be in foreign currency. It must be pointed out, however, that these proposals must still be considered by the Argentinean authorities, who were not present at this meeting.

Another controversial issue has to do with the decision-making process for the selection of appropriate projects, an issue that was not discussed in the Montevideo meeting. One proposal is the “one country, one vote” system,

which is recommended to achieve a regional institution aimed at reducing economic asymmetries. Another proposal on the table is the “one dollar, one vote” system, which would mean that the weight of a country’s vote in the institution’s decisions would be determined by the funds contributed by that country.

Context in which the Bank was created

It should be highlighted that it is not by chance that the proposal to establish a Bank of the South comes right at the same time that various sectors are calling for a reform of the global financial architecture.

Over the last quarter of the 20th century, Latin America underwent a long period of compromised economic growth, having implemented at the same time a number of economic policies “prescribed” by the International Monetary Fund (IMF) and the World Bank (WB), who required their implementation as a condition for granting loans. More recently, in significant election processes in the region, several countries opted for governments that represent a rejection to these policies.

In this context, the relationship between the countries of Latin America and the International Financial Institutions -WB, IMF, the Latin American Reserve Fund (FLAR), the Andean Development Corporation (CAF), and the Financial Fund for the Rio de la Plata Basin (FONPLATA)- has changed. Some countries have paid their debts with these institutions ahead of schedule. First Argentina and Brazil, followed later by Uruguay and Ecuador. This situation was only made possible through the economic growth achieved in the region, which was spurred by the rising prices of its export commodities and by a greater purchasing power of its population brought about by the increase in credit availability. Additionally, we must also recall that in 2007, Bolivia decided to officially withdraw from the International Center for Settlement of Investment Disputes (CSID), a WB agency.

Challenges to be faced

Nobody questions the importance of this initiative that seeks to boost Latin America's development, as its scope transcends that of a simple regional development promotion bank. It will be able to play a strategic role by defending the economies of the region from international speculative attacks or financial crises; acting as a clearing-house to facilitate commerce between member countries;^{iv} increasing competition in the development lending market; and counterweighing US influence in the continent. Most importantly, the bank could become a means for the countries of the region to plan their own economic growth.

Whatever may happen, it seems clear that the establishment and consolidation of this new regional financial entity depends on the negotiations currently underway, which, unfortunately, have so far lacked transparency as they have been limited to the sphere of the national executive branches, far removed from Legislative bodies, civil society, and social movements. These should also

be included in official spaces to enable social participation in and control of such an undertaking.

It depends primarily on what the member countries consider as strategic projects for the region, a term that seems somewhat vague in the face of the diversity of the potential opportunities.

Still, it is expected that in 2008 –year in which the Bank is supposed to begin operating- the Parliaments of the region will finally play a relevant role, in the sense of approving the establishment of the Bank of the South.^v This will give civil society a great opportunity to pressure their governments into strengthening democracy, approving projects aimed at achieving equality, decreasing the regional asymmetries connected with regional integration processes, and seeking to support a new and truly autonomous development, both at the regional and national levels.

MELIN DE CARVALHO, Luiz Eduardo. Transcription of public hearing at the Finance and Taxing Commission of the National Congress, on 12/06/2007. Melin de Carvalho occupied the position of Secretary of International Affairs of the Ministry of Finance, and represented Brazil in the technical meetings of the Bank of the South.

PAEZ, Pedro. "Por um banco de um novo tipo". Interview published in *Jornal dos Economistas do Estado do Rio de Janeiro*, November 2007, pp. 11-13. *Pedro Paez é presidente da comissão técnica presidencial do Equador para a Nova Arquitortura Financeira Regional*.

ⁱ Argentina was not represented at this meeting, as its Finance Minister had resigned the day before the meeting was held.

ⁱⁱ 2005 figures, when the exchange rate was R\$ 2.42 to US\$ 1.

ⁱⁱⁱ Pursuant to Brazil's legislation, the BNDES cannot finance foreign company operations that do not involve the purchase of domestic products.

^{iv} Something similar to the mechanism established in 2007 between Argentina and Brazil that sought to use their national currencies for trade transactions among themselves.

^v In Brazil, it will the Federal Senate.