

South Bank: 90 days of Silence

Gabriel Strautman*

At the launching event for the Southern Bank, held in Buenos Aires on December 9, 2007, the presidents of Bank member countries set a 60-day deadline to define the structure and guidelines of the new South American multilateral financial institution. In practice, the idea was to set a deadline in order to eliminate the existing divergences among members on the role of the Bank. However, the deadline expired on February 9 without having made any progress. It has been more than 90 days since the foundation of the Bank. No government has made comments in this respect and the conservative media which have always addressed this issue in a prejudiced way, intending to directly link it to an expansion of the Bolivarian project throughout South America, have neither taken it into consideration, nor even questioned it. It is precisely within this context that we need to pay attention to all the information implied by silence, since the debate boycott actually consolidates some positions in this conflict.

From the beginning, the initiative aimed at the creation of a South American multilateral financial institution was associated with the idea of building a new regional financial architecture and searching alternatives to multilateral financial institutions (MFI) controlled by Northern countries, such as the International Monetary Fund and the Inter-American Development Bank. This debate has only been possible thanks to the large hoarding of international reserves by economies in the region, which has motivated the discussion on how to prevent the outflow of resources, thus injecting them into the productive sphere of regional economies. The idea was the creation of a South American development bank, capable of centralizing the savings of these countries, thus turning them into productive investments and reducing the vulnerability of the region to international economic cycles. This would be then laying the foundations for a truly autonomous financial system, which would contribute to the reduction of power asymmetries between countries in the region, and would cut their dependence on international flows of capital.

However, consensus on the role of the new institution was never reached among South Bank member countries. Debate has been marked by disputes between those who aim at the idea of breaking up with the international financial system and those who believe in respecting the rules imposed by the dictatorship of globalized finance and who, therefore, just consider the regional multilateral institution as a new source of finance for old projects. Following months of negotiation, the presidents of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela signed the founding chart of the South Bank, in what consisted the last official act of Argentine Néstor Kirchner as president of his country. In the document, besides the 60-day deadline to draw up the Bank's Articles of Agreement, the presidents agreed on the fact that the new bank shall be

a development bank, aimed at financing strategic sectors for the economy of the region, scientific and technological development, and poverty reduction projects. The document also provides for the creation of a disaster relief fund.

Meanwhile, this apparent convergence fades away with the silence that has characterized the 90 days that have passed since the signing of the chart. The same silence that has hung a cloud of uncertainty over the future of the South Bank. The focal points of conflict are related to the composition of capital and the decision-making system of the new institution, which at the same time will be crucial to decide on the Bank's finance goals – maybe the main reason for disagreement among partners.

With regards to the composition of capital, the main points of conflict are related to the origin of funds and the contribution to be made by each country – if this is going to be the same or proportional to the size of each economy. With respect to the first discussion, there is a dispute among partners on whether to restrict or not the Bank's composition of funds, that is, whether funds will only comprise public resources from each member country or if it will also be possible to raise funds from the capital market. In the first hypothesis, the composition of funds by means of public resources – for example, by transferring part of international reserves or through the taxation of capital flows – would imply a greater autonomy for the South Bank vis-à-vis the impositions of the financial market. On the other hand, raising funds from the market would force the institution to follow the strictly economic efficiency criteria and conditionalities imposed by MFIs. It is worth highlighting that the Bank's founding chart already contemplates the possibility of raising funds from the market by stating that the institution shall comply with its functions "making use of intra- and extra-regional savings". Among the advocates for these supposedly technical and non- policy guidelines, are Brazil and Argentina, which upon taking such position give evidence as to their disdain over the notion that the technicality of economic liberalism is imbued with ideology and that the MFIs have historically defended the political and economic interest of Northern countries.

For its part, the issue of the volume of contributions to be made by each country to the South Bank is related to one of the main reasons for the creation of the institution: financing the integration of countries in the region and reducing the asymmetries among them. From this perspective, the main economies could be expected to make larger capital contributions to the bank, without claiming thereby to have greater power in the decision-making system. In order to encourage a process aimed at reducing power asymmetries, and therefore economic asymmetries, the decision-making system at the South Bank should be based on the "one country, one vote" and never on the "one dollar, one vote" criterion. This distinction separates between countries with larger economies on the one hand and countries with smaller economies on the other, which represents the second focal point of dispute. In this context, proposals have been made for all countries to make equal contributions, which obviously fails to represent an effort equivalent to the situation of each country and does nothing to reduce asymmetries.

Both the discussion on the South Bank's composition of capital – either with public funds from each country or the capital market – and the discussion on its decision-making system – either the "one country, one vote" or the "one dollar, one vote" criterion – are decisive to determine the bank's finance goal. The founding chart provides for the "financing of strategic sectors", so the correlation of forces within the new institution will be fundamental to answer the following question: strategic for whom?

Are we going to have a South Bank solely guided by economic efficiency criteria, having a decision-making system that reproduces currently existing power relations? In this case, will the new bank finance large infrastructure projects which have huge socio-environmental impacts and meet the expansion needs of the main economic groups in dispute in the region, or will it favour the funding of solidary projects aimed at the reduction of asymmetries in the living conditions of and among the different South American countries, based on the construction of an equal and transparent decision-making body, that would contemplate the existence of participation mechanisms within social movements?

The debate boycott on the creation of the South Bank benefits the position of those who have "more to lose" with the launching of the new institution. In this sense, Brazil would be among the most interested in the failure of the initiative and the one to be more benefitted by the silence of negotiations. Initially, the Brazilian government stated that it would not form part of the South Bank, with the excuse that the idea had not been sufficiently debated and that, on the other hand, it would increase its participation in the Andean Development Corporation (CAF, in Spanish). In fact, at that time Brazilian authorities did not believe that the idea originally promoted by Argentina and Venezuela would move forward. Besides, the country already has the resources of the National Bank for Economic and Social Development (BNDES), which only in 2005 disbursed some 30 billion dollars, even to Brazilian companies operating overseas. Nevertheless, given the progress of negotiations, the Brazilian government was forced to participate in the project, on condition that the Bank followed technical non-policy guidelines.

From an international perspective, the silence and stagnation of the process favour those who maintain that the project is just an idea of Venezuelan President Hugo Chávez, without much consensus or feasibility. In this framework, we can include the positions of Chile, Peru and even Colombia, although at some point it also expressed the intention to join the initiative. As extra-regional actors, the delay in the implementation of the bank finally favours the position of traditional financial institutions.

It is necessary to resist the initiatives that intend to frame the South Bank within the paradigm of a traditional bank such as the MFIs, since that which maybe exceeds control from a technical-scientific point of view, responds to the logic of resistance processes currently underway in the region. In this sense, and taking into account the important role to be played by the Bank in the promotion of a solidary integration among South American countries, and in the reduction of asymmetries in the living conditions of and among countries, citizens should put pressure on the governments of the region to

make them adopt transparent positions that may contribute to the social monitoring of negotiations.

* Economist at PACS Institute and member of Rede Brazil on Multilateral Financial Institutions and Rede Jubileu Sul. The author thanks María José Romero – of the Third World Institute in Uruguay – for her comments.