

# **SOUTH BANK: A PEOPLES' PERSPECTIVE OF INTEGRATION**

## **1. What is the South Bank?**

In February of 2007, Argentina and Venezuela, and soon afterwards Bolivia, Ecuador, and Paraguay, concluded an agreement to create a bank to finance development in and for the countries of the South: the South Bank. On May 3<sup>rd</sup> in a meeting between the President of Ecuador and the Ministers of Economy and Public Finances of Argentina, Bolivia, Brazil, Paraguay, Venezuela, and Ecuador, Brazil officially confirmed its incorporation into the process. On June 25<sup>th</sup>, Uruguay, until then the only country of the Southern Cone Common Market (MERCOSUR) that was not part of the initiative, decided to actively participate in the creation of the South Bank. Chile and Colombia also showed interest, participating in some meetings as observers.

During the meeting on May 3<sup>rd</sup> in the city of Quito, Ecuador, the "Declaration of Quito" was approved; it expressed the agreement of the Ministers to design a new financial architecture for South America, aiming at the strengthening of the continent in the context of financial and commercial globalization, and prioritizing the basic necessities of the peoples of South America. Besides giving priority to the creation of the South Bank as a development bank, thus defining its objectives, functions, management, capitalization regime (origin and value of the resources), and chronogram, the Ministers decided:

- 1) To analyze the possibility of the creation of a Stabilization Fund to help the countries at moments of crisis;
- 2) To advance in the development of a regional monetary system, that could begin through bilateral trade in domestic currencies, for example between Argentina and Brazil, and later on to create a common currency of the region;
- 3) To invite all the countries of the Union of South American Nations (UNASUR) to join in the initiative.

Nevertheless, up to now the negotiations in relation to the development bank have hardly advanced. Its launching was delayed twice by lack of consensus on some key questions, including the decision on what kind of projects this development bank is going to finance, and finally took place on December 9<sup>th</sup>, 2007, in Buenos Aires, Argentina. As of that date, the member countries of the Bank gave themselves 60 days to draft its statutes and define the objectives, operations, and structure of the Bank.

## **2. The importance of another type of development bank**

The current model of financing for development, implemented via indebtedness and the International Financial Institutions (IFIs), such as the World Bank and the Inter-American Development Bank (I.A.D.B.), has led the countries of Latin America and the Caribbean, and of the South in general, into a vicious circle of financial and political

dependency, generating more impoverishment, inequality and destruction of social, environmental and cultural patrimony.

The base of this predatory model has been the use of conditionalities on loans in order to guarantee the implementation of neoliberal policies that promote commercial and financial liberalization, total deregulation of the economies, privatization of public services, and the reduction of the role of the State as provider of social welfare, subordinating it to the interests of the private sector. These policies use public indebtedness to guarantee the transfer of capital, from the "borrower" countries towards the so called "creditors", and the strengthening of the transnational companies as "owners" and managers of all the essential services for the development of any nation, such as education, health care, and the care of the environment and natural resources.

In addition to not having generated the much promised economic growth, not having developed anything or having integrated nothing at all, that illegitimate model has created a permanent drain of capitals and resources by way of interest payments and profit remittances, and the accumulation of an ecological, historical, social, and cultural debt whose restitution and reparation is the duty of all states.

In contrast to this experience still going on in the region, the South Bank could offer a different perspective. It could be a public mechanism to finance an integrated development in a sovereign, independent, and socially and environmentally fair manner, controlled by the countries of the South, able to stimulate solidarity and complementarity among its members, transcending the asymmetries, inequalities, and the dependency of the region to the traditional International Financial Institutions, like the World Bank and the I.A.D.B.

It is thus an important opportunity to recover our sovereignty and to strengthen a process of regional integration in keeping with peoples' rights. So this is an occasion for social movements and organizations to seek to influence the creation of this institution, not only with respect to the type of development the Bank can promote through its financing, but also in relation to its structure and mode of operations.

That is why it is necessary to guarantee that the South Bank is in fact democratic, participatory, and economically, socially, and environmentally just. Above all, the South Bank must not reproduce the current model of the IFIs, which serve as an instrument for the implementation of the colonizing interests of the United States and Europe, and of big national and international capital. Otherwise it will be only a bank like any other bank. The South Bank should become an instrument of development for our countries and peoples, orienting its financing to national and regional needs.

### **3. What is at stake in the negotiations?**

One of the immediate problems in relation to the creation of the South Bank has been the lack of transparency and participation of society in the process of negotiations on what the Bank will be. This is a serious problem, because a proposal for an independent financing for the development of Latin America and the Caribbean can only be successful if it is done collectively, with the contribution of social organizations and movements. The limited information disclosed in relation to the negotiations among the

governments increases the need for social movements and organizations to be included in this debate to influence in the process.

#### 4. Conflicting perspectives among the different governments of the South Bank

The main points of dispute among the countries involved in the creation of the South Bank are indicated in the following table:

<u>Intentions : A South Bank: what for and for whom?</u>	
To finance mega projects of infrastructure, mainly by means of IIRSA and monocultures such as agrofuels. (Brazil, Argentina and Venezuela)	To finance food and energy sovereignty, generic medicines, research and development, local infrastructure, and microfinance (Ecuador)
<u>Volume of Resources</u>	
The same volume of resources from all the members, or the more resources the more power (Brazil, Argentina and Venezuela)	A volume of resources proportional to the economies of the member countries without affecting the power of decision (Ecuador, Bolivia, Paraguay and Uruguay)
<u>Structure of Power</u>	
One dollar - one vote: proportional power of decision to the resources invested in the Bank, according to the model of the IFIs (Brazil, Argentina and Venezuela). In the meeting of Rio de Janeiro, (October 2007), Brazil and Argentina raised the possibility of installing a double power system. The governors of the Bank (one for each country) would have the same power of "political" vote, independently of the invested resources, but the power of the executive directors (responsible for the daily decisions) would be proportional to the invested capital. This would give more power to countries like Brazil, Argentina and Venezuela, reproducing the inequality logic of the IFIs. The countries can also decide on a system based on "One country-one vote" but demanding, unfairly, the same contribution of capital from all the countries.	One country-one vote: an egalitarian power system, independently of the invested capital, which considers the economic situation of each country. (Ecuador, Bolivia, Paraguay and Uruguay)
<u>Management</u>	
Immunity for bank officials and private documents (Argentina and Venezuela)	No immunity for officials; public documents, participation of civil society and external audits. (Ecuador)
<u>Sources of capital</u>	
Obtain resources through the market of capitals, and resources of the IFIs. The government of Brazil "seems" to defend market resources that have the "necessary	International reserves, global rates and donations. (Ecuador) This proposal surpasses the dependency in relation to the markets that in the case of the IFIs, for

guarantees". All the governments propose that the IFIs can invest in the Bank, although without vote.	example, allows justifying the profitability at any cost.
<b>Member Countries</b>	
Only South America (Brazil)	Latin America and the Caribbean, and other countries of the South

In addition to these points of conflict, there are questions in relation to other proposals that should be discussed with society, for example:

- \* What is intended in relation to the stabilization fund and to the regional monetary system? What does this mean for the people of the region and what are their possible impacts?
- \* Will there be a single institution that is at the same time a development bank and a stabilization fund? Are they not different functions?
- \* What type of governing structures will be implemented to guarantee the egalitarian participation of the countries, and an effective participation and control by social movements and organizations?
- \* What will the relation of the South Bank be with already existing international financial agreements?
- \* What will the relation of the South Bank be with the IFIs? Will it be of dependency, subordination or association, or is the Bank going to build a transforming financial system striving for the exit of these institutions and their policies from the countries of the South?

**5. What do we want?**

A Bank that promotes social-environmental justice, as well as economic, social, cultural and environmental rights in all instances - in the projects it finances, as well as in the Bank's operations; a Bank that also impels recognition of and reparations for ecological, social, cultural, and historical debts. A South Solidarity Bank must contribute to overcoming what the years of colonialism, imperialism, and capitalism have caused and continue to cause to the peoples of the South and the environment; it must not only avoid but also to mitigate such impacts.

A Bank that promotes regional equality of gender, race, ethnic groups, and generations, internally and externally; so the Bank must have an inclusive clause for every financial transaction, in order that the projects presented consider these dimensions and adopt affirmative measures of action internally.

The financing policies must consider the internal questions of each country. The Bank will have to prioritize support to countries in a situation of greater vulnerability who take into consideration internal inequalities, avoiding the control of those resources by the large local companies and/or elites.

The Bank must prohibit the imposition of conditionalities - implicit or explicit - that have served as instruments of control and the violation of sovereignty.

The accumulation of new debts should be avoided when it leads to a negative transfer of capital among the countries.

The Bank must have a code of socio-environmental conduct that guarantees the financial justice of the countries that access the Bank's credits, and of the Bank itself.

A Bank that ties its credits to the respect and promotion of human rights.

A Bank that promotes the social and cultural integration of the region's peoples, protecting the autonomy of each one to decide on its relations with the Bank.

The Bank should define annual and long term goals to respond to the historical demands of our region, as for example: - fulfil the right to dignified housing for 100 % of the urban and rural populations of South America; - guarantee public, free, and good quality schooling for all the children of the region; - financing of public policies for food sovereignty and nutritional security so that no person of the region suffers hunger; - financing for the reconstruction of the productive capacity of our countries, to enable us to take care of all these demands.

The information policy must be transparent and accessible, allowing for society to monitor the Bank's operations.

That the Bank guarantees institutional (and non-institutional) spaces of effective, broad and diversified participation of the social movements and popular organizations in the definition of its strategies and policies, in the elaboration of financing criteria of the Bank, and in the decision on the credits.

It should allow the realization of external audits of its policies, loans and internal operations.

The directors of all the countries in the Bank should present a periodic accounting of their actions to society and its respective parliaments, guaranteeing the right of parliamentarians to question the directors.

That it does not allow immunity of its officials. It is important that the employees be responsible for problems related to certain projects.

That it has an egalitarian decision-making process so that the wealthiest countries of the region do not dominate the Bank. Therefore the vote must be by country and not by value of the quota. The financial contributions must consider the specific conditions of each country, but this must not affect the voting power.

That it prohibit the possibility of having the International Financial Institutions as shareholders, even without vote, since the resources granted normally allows for political influence. This must also be so for countries of the North who have acted

historically in a perverse way in our countries, and are debtors of enormous historical, ecological and social debts to the countries of the South.

That the process of election of candidates to the presidency and other key positions of the Bank be democratic – carried out through an ample process of consultation in the legislatures and among civil society organizations of each country.

In conclusion, the South Bank must be based on a logic that is not dominated by financial criteria, but by the complementariness, reciprocity and solidarity based on development strategies different from the neoliberal development policies. The Bank cannot condition the access to credit only to essentially profitable projects, macroeconomic indicators, or the contracting of certain companies as executors of the projects. Therefore, the Bank must not support commercial and financial liberalization, or privatization projects (or Public - private Associations) proposed and supported by the IFIs, as for example, the South American Regional Infrastructure Integration Scheme (IIRSA).

On the contrary, the Bank must serve as an instrument able to resist and to overcome the negative impacts of economic and political globalization, supporting an independent internal and regional development, recovering the role of the State as guarantor of social and environmental well-being as a way to transform the region.

## **6. IIRSA: the kind of integration we do not want the South Bank to finance**

The South American Regional Infrastructure Integration Scheme (IIRSA) is a plan signed by twelve governments of South America to integrate transportation, energy and telecommunications infrastructure. In addition to the integration of the regional infrastructure, IIRSA also seeks the "coherence" of the institutional and regulatory policies, plans and systems among the participating States.

The twelve countries and three International Financial Institutions (the Inter-American Development Bank (I.A.D.B.), the Andean Development Corporation (CAF) and the Financial Fund for the Development of the Rio de la Plata (FONPLATA)) coordinate the implementation of IIRSA. The National Bank of Economic and Social Development (BNDES) of Brazil also finances some projects. IIRSA's project portfolio contains 335 projects (289 of transportation, 40 of energy, and 6 of telecommunications).

IIRSA is a policy of structural reform based on the supposed need for resource extraction and the creation of a physical base so that the transnational corporations can expand their activities and control strategic territories and resources, such as water, power plants, and biodiversity, completing in this way the vicious circle of financial, social and ecological indebtedness.

## **7. What has the South Bank to do with the BNDES?**

The National Bank of Economic and Social Development (BNDES) is a state bank created in 1952 with the objective of promoting the economic and social development of Brazil. The Bank not only invests in public and private companies, and finances

investment projects, but also actively participates in the formulation of national public policies and in the structuring of diverse aspects of the external economic relations of the country, investing increasing volumes in neighbouring countries. Currently the BNDES incorporates in its mission, the strategic target to act as a financial institution of South American integration through the financing of the export of Brazilian goods and services, and direct investment in Brazilian companies based abroad.

Since 1997, the BNDES disbursed in the region U\$S 2.588.749.000 in projects, the majority were mega projects of infrastructure that caused very negative social-environmental impacts and promoted the export of Brazilian Capitalism, becoming thus another mechanism of illegitimate indebtedness. The BNDES also participates in the negotiations around the South Bank. This leads us to ask if the BNDES will serve as model for the South Bank and if the Brazilian government will stop investing financially and politically in the South Bank, since it has its own financing instrument that fulfils its interests in the region.

## **8. What do we want to do?**

We must guarantee that the governments involved in the creation of the South Bank respect and promote the basic rights of society to information and participation. This participation must be qualified; this is the reason why the first step is to take this debate to the interior of each organization and movement. The following are some initial proposals for activities in each country and network:

- Organize debates and workshops in each organization and social movement on the importance of this Bank and for society to make the Bank its own creation;
- Organize public hearings asking governments for transparency and participation.
- Set-up meetings with the Ministries of Economy and Finances, and Foreign Relations;
- Distribute information on the Bank, and the demands of the social movements and organizations among society in general, and to mass media;
- Sign and disseminate the *Open Letters to the Presidents on the South Bank*, and to promote other initiatives of collective statements.

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