

**OUTCOME  
OF THE TECHNICAL WORKSHOP**

**BANK OF THE  
SOUTH**

Outcome of the non-binding consultation with National Technical Commissions, experts on banking/finance, academics and civil society, to propose options for the Bank of the South in the areas of governance and administration, financial resources, instruments, investment policies, lending framework, procurement, safeguards, transparency, audits and others.

The workshop was held in Quito from 23 to 27 June 2008, with the support of the Government of Ecuador and the Department of Economic and Social Affairs of the United Nations.

## INTRODUCTION

In South America, there is an urgent need to improve growth rates, to strengthen internal markets and to substantially improve the living standards of the population, in order to reverse migration patterns, achieve social justice and reduce income inequality. Since 2006, several countries in Latin America began to consider the creation of a new alternative bank, “The Bank of the South”, that would utilize existing regional reserves to finance the development of its member countries. The *Banco del Sur* should strengthen regional integration; reduce asymmetries, poverty and social exclusion; promote employment and activate a virtuous cycle of sustainable development, fundamental for the economic, social and political transformation of the region.

After a long process of international agreements, the Founding Charter of Bank of the South was signed on 9 December 2007 in Buenos Aires by Presidents Néstor Carlos Kirchner (Argentina), Evo Morales Ayma (Bolivia), Luis Inácio Lula da Silva (Brazil), Rafael Correa Delgado (Ecuador), Nicanor Duarte Frutos (Paraguay), Tabaré Vázquez Rosas (Uruguay) and Hugo Rafael Chávez Frías (Republica Bolivariana de Venezuela). The Founding Charter of the Bank of the South can be found in the Annexes of this document.

While the most difficult part is over, to reach a political consensus to create a *Banco del Sur*, many technical questions remain ahead. How to build an alternative multilateral development bank? How to operationalize the founding principles of the Bank, in the context of a new regional financial architecture? Latin America already has multilateral development banks, such as the Andean Development Corporation (CAF in its Spanish acronym) or the Inter-American Development Bank (IDB), however these international financial institutions (IFIs) have not served to activate a new development pattern in the region. How to build a different Bank?

This was the objective of the workshop in Quito. The Government of Ecuador and the United Nations carried a non-binding consultation with National Technical Commissions, experts on banking/finance, academics and civil society. The list of the participants and their affiliation is in the Annexes. The five-day long debate was intense; precisely, the objective was to present different viewpoints in a concise and transparent manner, trying to generate consensus, and above all, trying to analyze the advantages and disadvantages of the various options for building an alternative multilateral development bank.

This document is not a new proposal, but a summary of the pros and cons of different policy options in the areas of governance and administration, financial resources, instruments, investment policies, lending framework, procurement, safeguards, transparency and audits to ensure the social, economic, and environmental development of the region. The document has been designed to be used as a reference when writing the Articles of Agreement and Operations Manual of a multilateral alternative development bank. This will require choosing between the different options in each area. We hope that this document will be useful in the decision making process.

# **BANK OF THE SOUTH TECHNICAL WORKSHOP RESULTS**

## **Index**

### **I. Governance and Administration**

#### **A. BOARD REPRESENTATION AND VOTING RIGHTS**

- The Assembly of Governors
- The Executive Board of Directors
- The President

#### **B. STRUCTURE OF THE ORGANIZATION**

- Projects and Programs Departments

#### **C. OPERATIONAL RESPONSIBILITIES**

#### **D. HUMAN RESOURCES**

#### **E. PROCUREMENT**

#### **F. EXEMPTIONS AND INMUNITIES**

#### **G. SUSPENSION/EXCLUSION OF BANK MEMBERS**

### **II. FUNDING MECHANISMS OF THE BANK OF THE SOUTH**

#### **A. ORDINARY CAPITAL**

- Shares
- Bonds

#### **B. SPECIAL FUNDS**

#### **C. FIDUCIARY FUNDS**

#### **D. FISCAL FUNDS**

#### **E. CO-FINANCING**

#### **F. RECIRCULATION OF PROCEEDS/EARNINGS**

### **III. POLICIES AND INSTRUMENTS OF INVESTMENT FOR THE REGION'S SOCIAL, ENVIRONMENTAL, AND ECONOMIC DEVELOPMENT**

#### **A. BENEFICIARIES**

- **Regional Integration Projects**
- **National Investments**
- **Sub-national Investments**
  
- **Eligibility according to the type of institution:**
  - a. National and sub-national governments
  - b. Regional organizations
  - c. Intermediary financial institutions, accredited by the Bank of the South and national authorities.
  - d. Cooperatives, social enterprises and civil society with guarantee/governmental support
  - e. Non-financial private sector

#### **B. CRITERIA FOR PRIORITIZING THE BANK'S INVESTMENT PORTFOLIO:**

- Priorities
- Strategic Plan
- Investment Classification System
- Loan Restrictions

#### **C. OPERATIONS**

- Ordinary Loans
- Concessional Loans
- Guarantees
- Capital Participation (equity)
- Subordinated Loans
- Donations
- Funds Administration
- Regional Trust Funds
- Investment Banking/Structured Finance
- Government Support

#### **D. INSTRUMENTS**

- Budget Support
- Sectoral Programs and SWApS
- Investment Projects
- Funds (Technology Funds, Solidarity Funds, etc.)
- Technical Assistance

**E. INVESTMENT DISTRIBUTION AMONG MEMBER STATES AND FINANCING TERMS**

- Ordinary Loans
  - Ceilings
- Loans/concessional operations
  - Criteria for accessing to concessionality/elegibility

**F. OPERATIONAL CYCLE**

- Efficient operational cycle
- Preference in using national development banks
- National /Sub-national Operations
- Regional Operations

**G. INITIATION OF THE BANK OPERATIONS**

- Sequencing

**IV. SOCIO-ENVIRONMENTAL TRANSPARENCY, PARTICIPATION AND SAFEGUARDS**

**A. TRANSPARENCY**

**B. PARTICIPATION**

**Options:**

- Creation of a Civil Society Council
- Representative of the Civil Society in the Board
- Formation of National Councils
- Others

**C. SOCIO-ENVIRONMENTAL POLICY**

**D. SOCIO-ENVIRONMENTAL SECURITY**

**E. EMPLOYMENT AND LABOUR STANDARDS**

**F. DISTRIBUTIONAL IMPACTS**

**G. GENDER, GENERATIONS, ETHNIC GROUPS AND PERSONS WITH DISABILITIES**

**H. FINAL CONSIDERATIONS**

## I. GOVERNANCE AND ADMINISTRATION

### A. BOARD REPRESENTATION AND VOTING RIGHTS:

#### a. The Assembly of Governors

The Assembly of Governors is the organ of highest authority of the Bank. Considering that the Bank of the South has been established with similar objectives of any other international agreement, the ultimate power of the Bank will belong to the Assembly of Governors.

#### **Options to be considered:**

1. The size of the Assembly of Governors: There must be a complete representation of the member states.
2. Authority of the Assembly of Governors: Some of the powers that must be reserved to the Assembly and not be delegated to the Executive Board of Directors are outlined as follows:
  - a. Admission of new members and determination of the admission conditions;
  - b. Increase or decrease of the Bank's authorized capital;
  - c. Suspension of a member state;
  - d. Interpretations of the Founding Charter/Articles of Agreement made by the Executive Board of Directors;
  - e. Authorization and conclusion of the general international agreements,
  - f. Election of the members of the Executive Board of Directors as well as the President of the Bank,
  - g. Determination of the remuneration for Directors and the terms of the contract of service of the President,
  - h. Approval of the auditor's report and the financial statements,
  - i. Determination of the reserves and the distribution of the net profits of the Bank,
  - j. Amendment of the Founding Charter/Articles of Agreement; and
  - k. Termination of the Bank's operations and the distribution of its assets.

#### **Comments:**

- Powers assigned to the Assembly of Governors, enumerated above, are derived from the Articles of Agreement of the European Bank for Reconstruction and Development (EBRD), which was modeled after the Agreement Establishing the Asian Development Bank (these norms are considered as Common Law of International Financial Institutions).
- We have to consider the type of issues that should require the vote of the two thirds of the total number of Governors.

## **b. Executive Board of Directors**

There is always tension between the Executive Board and the President of any institution in connection with the exercise of their respective powers. Depending on where the line is drawn between the Executive Board and the President, the pendulum of power will shift; therefore, there is the need to outline their responsibilities.

### **Options to be considered:**

1. Executive Board residing in Caracas (Bank's Headquarters) or non-resident Executive Board:

**1.1** Given that the Bank of the South has seven member states up to now, we could consider having a resident Executive Board. Said Executive Board of Directors will be elected by the members of the Assembly of Governors.

**1.2** Another option is having a non-resident Executive Board. **Advantage:** General and administrative costs would be lower, increasing the freedom of the President in the decision making forum, which, at the same time, would speed up operations. **Disadvantage:** Stakeholders may not be satisfied with a Executive Board that is not working on a full time basis; it could risk the closer cooperation between the President and the Executive Board damaging the effective decision making process which is supposed to safeguard the Bank's interests.

2. The size of the Executive Board of Directors:

**2.1** A first option is an Executive Board with an inclusive representation (7 or eventually 12 member countries of UNASUR).

**2.2** The Executive Board could also have from 8 to 10 members instead of a complete representation of the member states. **Advantage:** The general and administrative costs would be lower and the relation between the administration and the Executive Board would be more manageable. At the same time, this aspect would provide more prestige to the elected members of the Executive Board. **Disadvantage:** Member countries whose candidates have not been elected could lose their representation or be unattended.

3. In case the Executive Board Commission is formed by an even number, the President of the Executive Board would have a casting vote.

4. Recruitment of Directors:

**4.1** The common practice consists of candidates being nominated by the Ministry of Finance, Economy, Treasury Department, or Central Bank, among other national institutions.

**4.2** Another option is an open competitive recruitment process that could be advertised through various means of communication. **Advantage:** This is a new approach, meritocratic, not influenced by conventional perspectives of the IFIs. **Disadvantage:** People not familiarized with the practice and procedures of the ministry in charge, could delay the effective work of the Director.

5. Inclusion of a civil society representative: Social Organizations that attended the workshop, without prejudice to the acceptance of other requests and mechanisms of participation in the functioning of the Bank, considered that a place in the Executive Board could be reserved for a Director to be elected by civil society organizations.

**Advantage:** an active participation of civil society in the functioning of the Bank would be encouraged by establishing clear channels and mechanisms for said participation, additionally to existing mechanisms established in member countries. The debate and contribution of civil society to the decision making process would increase the Bank's legitimacy. It was pointed the existence of precedents in the Bank of ALBA Bank as well as other experiences in Europe.

**Disadvantage:** Various participants of the workshop disapproved this option, arguing that the incorporation of civil society organizations to the decision making process of the Bank would not contribute to the efficiency of Bank's operations. On the other hand, difficulties may arise when reconciling this direct civil society inclusion with the decision already made by the main leaders of "one country, one vote". Moreover, all Directors representing any country should be responsible of establishing channels for consultation and communication as well as negotiating with the civil society of their countries.

6. Powers of the Executive Board of Directors: The Executive Board, as an entity of decisions, will be responsible for the management of general operations of the Bank and will exercise the powers delegated to it by the Assembly of Governors. The Executive Board functions are outlined as follows:

- a. Preparation of the work of Assembly of Governors,
- b. Make decisions relating to all the operational matters i.e. loans, guarantees, capital investment, borrowing, technical assistance, among other operations of the Bank,
- c. Submission of reports of each economic exercise to be approved by the Assembly of Governors during each annual meeting,
- d. Accountability in the submission of the accounts for each fiscal year for approval of the Assembly of Governors during each annual meeting,
- e. Approval of the Bank's budget.

7. **Voting System:** The formula "one country one vote" has been already established at the Founding Charter of the Bank of the South.

**7.1** Considering that each member has only one vote, independent of the subscribed capital amount and the contributions made to the Special Fund, the application of clear criteria in accordance with democratic and egalitarian principles is required. These criteria would be established through the principle of burden sharing commensurate with members' capability, which could support the basic theory of vote power equality among all members. The burden sharing principle according to members' capability is considered in order to promote solidarity and responsibility among all the members of the region. The accountability of a member state for the subscription of the capital and the contributions made to the Special Fund may be provided by the number of personnel recruited from nationals of the member country and the responsible positions they occupy in the Bank.



7.2 Each member of the Executive Board has a vote; nevertheless, if the option limiting the number of members of the Executive Board is selected (the number of Directors is smaller than the number of countries), Directors will be able to vote representing their countries in spite of the votes differing from the opinion of their governments. **Advantage:** By allowing the provision of votes without considering them as a unit, member countries that have not been elected for the Executive Board will be able to express their own point of view.

8. Issues requiring a simple majority or a two-thirds majority of the total number of possible votes should be identified.

**Comment:** The assignment of powers of the Executive Board and the President should be clearly identified. For example, the Executive Board will be responsible of the general direction of the Bank operations. The President should conduct, under the direction of the Executive Board, the current business of the institution. Usually, the Executive Board is in charge of adopting the Bank's policies as well as carrying out the oversight function of the President. Additionally, the Bank will execute the powers delegated by the Assembly of Governors and the specific faculties presented in the Founding Charter.

### **c. The President:**

The President is the Chairman of the Executive Board and the legal representative of the Bank. She/he will conduct –under the direction of the Executive Board –the management of the Bank and will be responsible for its organization, appointment and dismissal of officers/personnel according to the regulations adopted by the Executive Board.

The President will submit all the proposals of the Bank to the Executive Board, that is, policies drafts, budget appropriations, operational issues and any other subjects related to the Executive Board.

### **B. STRUCTURE OF THE ORGANIZATION:**

The project departments might be organized by sectors, which will be supported by the program departments (usually professionals identified with the investment portfolio). The discussion is described as follows:

- a. Classic Departments (per sectors: transport, health, etc.) or somewhat more alternative/non-sectorial? One must be aware that investment is predetermined by the structure (for example: the transportation sectors only finance projects related to said sector, a food sovereignty department would identify projects related to its field).
- b. Which is the size of the project and program departments? (Project specialists could be sub-hired according to needs, avoiding sectorial specialists of the Bank to predetermine the agenda).

**Comment:** The institution should accomplish its purpose as well as its strategic objectives. In order to fulfill this purpose, 3 minimum areas are proposed: attraction of funds, placement, and services.

### **C. OPERATIONAL RESPONSIBILITIES:**

One of the responsibilities of the President is to decide on operational matters until they have been approved by the Executive Board. Regarding their functions, all the members of the team are subject to the President's authority. Members should provide assistance in their assigned activities and comply with their responsibilities as members of the team.

### **D. HUMAN RESOURCES:**

On a personal basis, we aim an agile, efficient, non bureaucratic bank, which has a structure equally representing all the nationalities of the member states.

#### **Options to be considered:**

##### 1. Nationality.

**1.1.** If a member state provides a large financial contribution, it may have more personnel in the Bank.

**1.2** Appointment of nationality will be given according to the proportion of the share-holding of member countries of the Bank.

**Comment:** At managerial level, it is recommended that the appointment, apart from the nationality, goes through an additional commendable contest. For the remaining professionals, the criteria of suitability, experience, and training should be primarily considered. The Bank should be based on specialists or regional consultants aiming to support the main aspects of the projects. In all instances, equity, race and minority principles should be respected.

### **E. PROCUREMENT:**

The Founding Charter of the Bank of the South expresses a preference for goods and services of the region. Given that there are only 12 countries in the region, this preference may not be feasible all the time; therefore, the following options could be considered:

- a. Enable the purchasing of goods and services of non-member countries of the Bank; however, these acquisitions could be provided by contractors from the member states.
- b. Give a preferential treatment to purchases and acquisitions of goods and services from the region and other countries of the South, up to some threshold of prices.
- c. The last option is completely untied procurement, open to any country of the world offering more competitive prices.

**Comment:** Conventionally, policies of all the regional development banks regarding procurement are linked to their membership. Procurement is to be considered as an incentive to their participation in the Bank. Purchases and acquisitions are regulated under economical and efficiency principles<sup>1</sup>, respecting the regional preference established in the

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<sup>1</sup> The term efficiency should be understood as inclusion of social and environmental efficiency.

Founding Charter. This method is considered to provide the most economic and efficient management.

#### **F. EXEMPTIONS AND INMUNITIES:**

The Bank of the South is established as an international public rights entity, as such, the Bank functions under the rules of the international law, especially in regard to human rights and environmental obligations.

##### **Options to be considered:**

1. Maintain the conventional practice adopted by all International Financing Institutions; that is to maintain immunity, privileges, and exemptions as other international organizations and to its personnel as international officers.

**Advantage:** This is an accepted practice, which allows the fulfillment of its purpose. This is a functional immunity. Even under the conventional immunity regime, the internal personnel of the Bank can be subject to the jurisdiction of an international administrative tribunal, for which arrangements can be made, and which is independent from the institution. The decision of the tribunal is mandatory for the Bank.

**Disadvantage:** Impossibility of third parties to make a claim before the local jurisdiction.

For internal purposes of the Bank, a court of institutional arbitration could be introduced in the institution, which would have a similar structure to that of an administrative court.

**Advantage:** Unnecessary riddance of litigation in many different jurisdictions of the region. A similar treatment should be taken, and the reviewing of cases should be managed by an arbitrage court, which would contribute with a procedural economy.

2. Instead of keeping the conventional practice of immunity as part of officers' legal protection, they should have an insurance of civilian responsibility with recurrence rights. This insurance would include legal defense services.

#### **G. SUSPENSION/EXCLUSION OF BANK MEMBERS:**

The suspension of a member not complying with his/her obligations in relation to the Bank is considered as common practice among international financing institutions or any other international organizations. Suspension requires as minimum two thirds of the total number of governors votes.

## II. FINANCIAL RESOURCES

First, we will present the main funding sources of the Bank of the South. Subsequently, their advantages and disadvantages will be discussed. The Bank of the South, as any other development multilateral bank, counts with the following funding sources:

### A. ORDINARY CAPITAL

#### ▪ Shares

- a. Type A Preference Shares, with voice and voting rights. These shares correspond to the ex officio members, in this case, the seven founding countries.
- b. Type B Preference Shares, with voice only, belong to extra-regional governments such as the UNASUR countries desiring to contribute with the bank. The positive aspect of these shares is that all governments may contribute with the bank funding. The negative feature of this option is that a government, without voting rights, may use its voice producing uneasiness within the institution.
- c. Type C Common Shares, to be sold to governmental institutions of the region. They do not have voting rights or preference in the distribution of profits.
- d. Type D Common Shares, to be sold to the private sector with a minimum guarantee of profits.

#### ▪ Bonds

- a. For Project Financing;
- b. Attraction of funds in national and international capital markets;
- c. Stimulate the attraction of funds in local currencies and longer periods of time;
- d. Bonds can be indexed to the GDP of the countries of the region;
- e. Requirement that international reserves, beyond a certain percentage of balance of payments needs, are kept in bonds of the Bank of the South,
- f. Requirement that profit (“seniorage”) revenue of central banks are kept in bonds of the Bank of the South.

### B. SPECIAL FUNDS

Special Funds should be renegotiated every five years, which will finance concessional loans (i.e. IDA of the World Bank or ADF of the Asian Development Bank).

### C. FIDUCIARY FUNDS

Donors will provide these funds for specific purposes (e.g. social and environmental issues). Nonetheless, they will not be distributed in a pre-determined manner in any of the member countries; at the same time, said countries should prove that they deserve those funds.

### D. FISCALS FUNDS

Fiscal funds are obtained as fixed percentages of special taxes on financial transactions (e.g. Tobin Tax), the exploitation of natural resources, and the repatriation of the profit of transnational enterprises.

**E. CO-FINANCING:** resources accruing from international cooperation, for projects requiring specific investment.

**F. RECIRCULATION OF PROCEEDS/EARNINGS:** assigned for financing of social projects in sectors of greatest necessity.

Banks are institutions financed, mainly, by liabilities represented by deposits of various terms. Development Banks, usually, do not have access to deposits and are financed by issuing bonds and certificates of varying maturities. In both cases, those deposits, bonds and certificates represent money of third parties that have to be guaranteed and made profitable. The raising of funds by the Bank of the South may be a way of reestablishing the pro-cyclicality of credit in Latin American. The Bank of the South may act as a driving force of credit operations (funding profitable projects in the region and issuing bonds in the international capital market).

Different objectives (e.g. development of key sectors, social projects for reducing poverty, etc.) require alternative types of funds. Social projects, not having immediate monetary returns, should be financed with special, fiduciary, or fiscal funds. Projects financed with capital raised in the financial markets (bonds) should generate monetary returns. A brief description of advantages and disadvantages of the main instruments of funding follows:

**SHARES:** The main aspect of this section discusses if shares of type B or C are or not needed. In the case of type B shares, extra-regional governments might try to, with little money, influence on the functioning of the bank. Evidently, without a voting right is difficult to do so, nevertheless, this is an aspect that should be discussed. The positive aspect of these shares indicates that extra-regional donors may be part of the bank allowing its improvement. The negative side shows that an unfriendly government might be part of the bank in order to affect its normal functioning. In regard to possibilities of resources attraction and cooperation, the positive side is more likely than the negative one.

Regarding C type shares, on one hand, they will allow that governments having type A shares, which are limited in their capacities, to contribute through governmental or semi-governmental organisms. On the other hand, these C type shares provide ownership without a say or voting rights.

Finally, the D type shares have the advantage of allowing the participation of the private sector, without any right for a say or voting. Nevertheless, it might not be possible to obtain funds in large quantities.

**BONDS:** The aim of using bonds with a diversity of maturities is the recirculation of the regional savings within the region. Bonds may include: certificates of deposit with a wide range of terms, from 30 to 360 days, as well as the emission of long-term bonds with 10 to 30 years of maturity, according to the amount of risk that international financial markets are willing to accept. Bonds could be very attractive for investors with social responsibility, i.e. pension funds of governmental institutions in the region, and provide cheaper credit with a longer profile to promote social and economic development. On the other hand, the growth of the public debt in relation to the emission of bonds may have negative effects if used in projects not related to the social, environmental, and economic objectives

of the Bank of the South, and they may be turned into mechanisms of exploitation of the countries in region.

Bonds might be indexed to a basket of regional Gross Domestic Product indexes or to the inflationary indexes of the region. The advantage of the GDP indexing is that would allow a relatively stable debt to output ratio; therefore, in case of a recession or a balance of payments crisis, the debt and the possibility of default would be lower. Nevertheless, indexing could make bonds less attractive for certain economic agents. Indexing to inflation would make bonds more attractive for agents with little faith in monetary stability. At the same time; it could generate an increase in the debt service in times of inflationary acceleration.

The unit of account of the bonds issued by the Bank of the South could be a South American Unit of Account (SAUA), which would allow the bank to operate with regional currencies, or with a basket of regional currencies. The countries in the region are debating this unit, and it will be discussed in meeting in August 2008. On the other hand, the implementation of the SAUA could take a relatively long time; meanwhile, only local or hard currencies could be used.

**SPECIAL FUNDS:** These funds are constituted by donations for financing the main projects of the bank. Member governments as well as other governments and private entities could be donors. The use of Special Funds will be subject to the criteria established by the bank aiming to reduce the costs of operation of the institution. Profits of the bank, generated from non-concessional loans, are an element of financing. Contrary to the Inter-American Development Bank or the World Bank practices, which have mainly accumulated reserves, the Bank of the South should allocate into the Special Funds the majority of non-distributed profits. Special Funds, when constituted of shares and bonds, will depend on the determination of the regional governments for donating additional funds.

**FIDUCIARY FUNDS:** These are donated funds to be managed by the bank for the purposes determined by donors. An instrument increasingly used by donors for financing specific sectors (e.g. Canadian funds directed to the environment, Norwegian funds used for fishing and marine resources, etc.). Generally, fiduciary funds are well targeted and have high transaction costs. It would be optimal to have Special Funds for receiving donors' contributions that will function in predetermined sectors (alternative energy, environmental sustainability, social development, etc.). As much as special funds, fiduciary funds depend on the good faith of donors.

**FISCAL FUNDS** are obtained through the collection of special taxes (e.g. on financial transactions) on various activities. As member countries dedicate a fixed percentage of taxes for funding the Bank of the South, these funds will allow obtaining a foreseeable flow of resources. On the other hand, some of these taxes (e.g. on natural resources exports) are difficult to collect, which would limit their availability. Moreover, taxes depend on the decision of the founding countries governments to implement them.

## **SECONDARY FINANCING RESOURCES**

- Co-financing
- Earnings/Profits

### III. POLICIES AND INSTRUMENTS OF INVESTMENT FOR THE SOCIAL, ENVIRONMENTAL, AND ECONOMIC DEVELOPMENT OF THE REGION

#### A. BENEFICIARIES

The bank would finance member states with:

- **Regional Integration Projects**
- **National Investments**
- **Sub-national Investments**

COMMENT:

**Advantages:** If asymmetries need to be corrected, part of the investment should be directed to the poorest regions of each country.

**Disadvantages:** Bad experiences with sub-national debts, debts should be under the supervision of the central government.

#### **Eligibility according to the type of institution:**

- a. National and sub-national governments
- b. Regional organizations
- c. Intermediary financier institutions, accredited by the Bank of the South and national authorities.
- d. Cooperatives, social enterprises and civil society with guarantee/governmental support (1)
- e. Non-financial private sector (2)

COMMENT:

(1) Other development banks provide loans to organizations of the civil society with guarantee/governmental support.

(2) The bank can finance public or private enterprises. While there is a common agreement that investing in PYMES/financing intermediation, civil society objects to finance large private enterprises. However, others recommend to make a distinction between the various types of big enterprises (some are important enterprises contributing with society, such as food industry, generic pharmaceuticals, producers of fertilizers, animal feeds, etc.), additionally they argue the importance of promoting regional enterprises for the economic reactivation of the region.

The profile of beneficiaries should begin from productive groups excluded from being considered for a loan.

#### B. CRITERIA FOR PRIORITIZING THE BANK'S INVESTMENT PORTFOLIO

- The Bank of the South is a regional institution, which ideally should have strategic outlines contributing to the regional integration of its member countries.

- **Priorities:** The Bank of the South is one of the three main pillars of a new regional financing architecture (with the Fund of the South and a regional Monetary Union); therefore, defends the regional sovereignty of its member countries:
  - Food sovereignty with inclusion to multi-active family production.
  - Health sovereignty
  - Energy sovereignty
  - Natural resources sovereignty, etc.

COMMENT: Health sovereignty with an emphasis on public health, research, development, generic medicines provision, traditional medicine, among others. Energy sovereignty stresses a social environmental benefit. Natural resources sovereignty underlines the protection of biodiversity at risk of extinction;

**According to Article 3 draft Articles of Agreement, the Bank will finance the following projects:**

- Development projects in key sectors of the economy, oriented to improve competitiveness, scientific and technological development; as well as infrastructure and intra-regional productive complementarity, additionally to the aggregation of value and maximization of raw materials used by the member countries of UNASUR;
- Development projects in social sectors such as: health, education, social security, services, communitarian development, social economy, promotion of participative and protagonist democracy, and all those projects fighting against poverty and social exclusion, aiming to improve life quality (prioritizing production in order to satisfy basic needs) of the people of the countries of UNASUR,
- Expansion of projects related to regional infrastructure as well as the creation and expansion of the regional productive lines.
- Projects oriented to the reduction of asymmetries, taking into account the needs of countries with lower relative economic development with/without maritime coastline.
- Provide technical assistance to the countries of UNASUR,
- Provide finance, support and guarantees to support the productive, economic, financial, and social development of member countries of UNASUR.
- Provide portfolio administration services; organize, constitute and administrate trust funds; execute mandates, act as agent and custodian of negotiable instruments; provide auditing of governmental, inter-governmental, and international organisms, public and private enterprises, as well as executing other trust functions.
- Create and administrate a special fund of social solidarity aiming reimbursable and non-reimbursable financing for social projects.
- Create and administrate an emergency special fund that will provide assistance when occurring natural disasters through reimbursable financing in order to mitigate the effects of said disasters.
- Contribute with the development of a regional monetary system, the system of South American integration through an increase in the extra and intra-regional trade, the internal saving of the region, and the creation of financing funds for the regional development.
- Promote and broadcast research through a new type of development for the member countries, define the key sectors for strategic integration activities, manage supra-national public goods as well as design intra-regional productive complementarities.

Source: Draft of the Foundation Statute of the Bank of the South, June 2008



providing a controlled exploitation of pharmaceuticals (with registered copyrights), preserving water, among others.

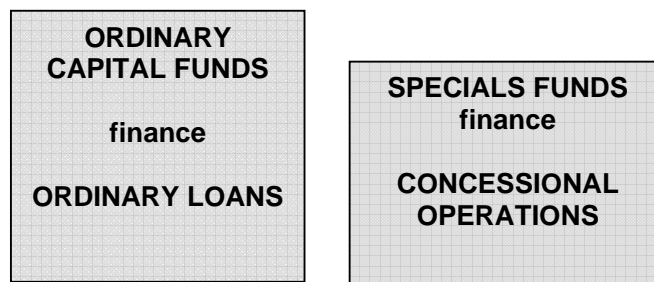
- Periodically, every X years, the Bank will design a **Strategic Plan** ensuring that the mission of the Bank is been executed.
- **Investment Classification System:** According to the main objectives selected by the Bank of the South, an Investment Classification System for monitoring the progress of investments and the response towards investment objectives and goals of the Bank of the South will be required.
- **Loans Restrictions:** For example, investments in casinos, military expenditure, drogues, and harmful chemical agents for society, etc.

### C. OPERATIONS

- Multilateral development banks offer new types of financing products, such as:
  - **Ordinary Loans**
  - **Concessional Loans**
  - **Guarantees**
  - **Equity**
  - **Subordinated Loans**
  - **Grants**
  - **Funds Administration**
  - **Regional Trust Funds**
  - **Investment Banking**
- **Ordinary Loans**, with interest rates close to commercial rates, financed through Ordinary Capital Funds. Ordinary loans are the main operations of the Bank.
- **Concessional Loans:** financed through Special Funds generated from donations (Cohesion Funds) and a percentage of profits produced by the Bank. Loans with zero interest rate are considered in this section for projects of social interest, emergency situations, or catastrophes. Resources for this type of financing would have to be produced from special funds or through the establishment of subsidies crossed with other products aiming to maintain the sustainability of the Bank.

#### COMMENT:

All multilateral banks offer concessional loans and donations. As a reference, in the World Bank, these loans and donations represent 45% of the operations (proportion IDA/IBRD) and in the Asian Bank of Development represent 25% of its operations. The proportion between ordinary and concessional investments is determined by the funding. If there is a great number of special funds, then more concessional loans can be made; if there are fewer special funds, then concessional loans will be fewer. It is important to emphasize that they can not be mixed.



**Advantages:** allows financing projects with low economic returns but high social returns that would not receive financing otherwise.

**Disadvantages:** if not well directed, they could benefit sectors not requiring this type of help. (Therefore, it is important the existence of a bank qualified for national development in order to avoid this type of risk).

- **Guarantees:** The Bank of the South should finance projects authorized by the Bank through the emission of financing instruments, which are the responsibility of the local public banking of each country and other ethical entities. The Bank of the South will not only accept guarantees in cash but also in equipment, work, and technical assistance of good quality.

**Advantages:** Reduces the costs of projects financing when turning to other financing sources providing loans or emitting negotiable instruments.

**Disadvantages:** These guarantees go from the traditional funding to a risk absorption system, especially if not adequately evaluated.

- **Equity** in Private sector investments

**Advantages:** Greater financing returns may be produced when taking on greater risk.

**Disadvantages:** Riskier than ordinary loans, by not “guaranteeing” a return of the invested resources, which now depend on the results generated from the project. On the other hand, it would require additional personnel representing the Bank for the management of the project executing organization. Meaning more costs for its functioning.

- **Subordinated Loans:** The debtor does not have a payment preference.

**Advantages:** By presenting some kind of similarities with the capital participation (equity) those loans wealthily strengthen the intermediary allowing a greater leverage of these resources.

**Disadvantages:** Represent greater risk when the intermediary has some insolvency problems since the lender has more difficulties in controlling the loans;

- **Grants:** Donations provided by the Bank to sectors/regions/ervices/beneficiaries. Free technical assistance for determined projects of high social profitability would also be considered as grants.

- **Fund Administration**

**Advantages:** does not involve the bank's own resources; and increases the financing coverage; rapidly generates incomes and do not imply high administration costs.

**Disadvantages:** These are specific funds and the Bank does not have discretion when deciding on the direction of funds.

- **Regional Trust Funds**

**Advantages:** Nowadays, according to the practices codified by the IMF, indebtedness of a country immediately exceeds the budgetary limits; however as the Bank is a supra-national entity, its interaction with budgetary limits of the member countries would be restricted to annual payments made for these countries to the trust fund. In this way, expenditure of investment made by the Authorities will not be totally affected by the limits imposed by the deficit national objectives. Complementarily, the allocation of debt instruments with lower risk in capital markets is proposed, aiming to reduce the required interest rates, and expanding the financing volume that could be carefully attracted. In this case, the decrease of risk would be reached through the design of an instrument that will reduce the risk of default. For a quicker introduction, an external guarantee could be added to the new instrument. On the other hand, this instrument will have an effect of automatic stabilizer, which will have the same characteristics presented in pro-cyclical accelerations and slowdowns of payments.

**Disadvantages:** The Bank will not have a regular repayment flow of the financed resources.

- **Investment Banking/Structured Finance**

**Advantages:** Expands its range beyond pure finance. It also allows transferring resources from various financing sources for specific projects, share risks, generate incomes, and enables from the commencement of its operations the profitability of its physical assets and qualified human resources.

**Disadvantages:** If percentages of resources directed to Investment Banking are not previously assigned, there will be more risks that will affect the resources for other type of loans.

- These products have various terms and conditions of financing, interests, payment periods, as well as administrative rates and expenditures.
- Current multilateral institutions offer expensive financing. The financing process takes more time due to the series of missions made by representatives from these institutions, which increases the transaction costs and makes difficult the agreement among commissions. The Bank of the South will have to be more expeditious in the provision of financing by shorting the time periods and charging cheaper commissions.
- The Operations of the Bank should be guided under professional financing efficiency criteria in order to ensure the long term sustainability of the Bank.

- Loans payments should be linked to an economic cycle of the member countries in order to reduce the risk of non-fulfillment, delays, and avoiding a high charge rate of foreign debt service of the countries when their economies are going through a depressive cycle period. That is to say, countries should pay more when experiencing more growth; at the same time, the payment will be lower when experiencing lesser economic growth.
- Importance of information technologies for the payment circuit: information technologies, especially those of cell nets allowing great opportunities for achieving payment systems based on transparency avoiding corruption.
- **Governments' Guarantee:**
  - a. Loans for public sectors do not essentially need the Government guarantee; however, the country's assets become its guarantees. Only in special cases, due to the characteristics of the projects, development banks could be requested to present the government's guarantee on their loans. This feasibility would greatly impact on the investments development of the majority of the regions' countries, since many loans are postponed due to the internal restrictions of each country on external indebtedness basis.
  - b. The second option, usually used by the multilateral banking, requires guarantee/government guarantee, this categorize them as AAA. This option provides more benefits to the Bank of the South.

#### D. INSTRUMENTS

Generally, multilateral development banks offer the following instruments:

- **Budget Support**
- **Sectoral Programs and SWAps**
- **Investment Projects**
- **Funds**
- **Technical Assistance (TA)**

1. **Budgetary Support vs. Investment Projects.** Budgetary support includes funds provided by banks to the general budget of the State, so that the government has absolute discretion on its management. On the contrary, investment projects are perfectly defined (e. g. a road, hospital) with pre-assigning expenditure of each component.

**Advantages:** Budgetary Support provides larger autonomy to governments and strengthens their capacity. Projects have more political visibility.

**Disadvantages:** Finance of current expenditure through debt generates risks given that it does not have counterpart of future profits, it should be financed along with fiscal income.

## 2. Sectoral Programs and SWaps

Hybrids, an intermediate optimal solution combining budgetary support and investment projects in any social and economic sectors.

## 3. Funds (Technology Development Funds, Solidarity Funds, etc)

**Advantages:** Predetermine/ensure expenditures per sector.

**Disadvantages:** They have no flexibility on its use. These funds lose structural development vision.

## 4. Technical Assistance

There are three types of technical assistance: Consultancy, Project Preparatory (feasibility studies), and identification of investment projects.

Technical Assistance could be non-refundable (free), refunded (non-concessional loans), or with contingent recovery (if additional financing is obtained).

When a project receives free technical assistance and the investments deliver economic profitability, a fraction or all the technical assistance provided should be paid. Therefore, the gratuity of the technical assistance is conditioned to the project results.

**Advantages:** Reduces the risk of projects failure; it may allow the structuring of projects with high social profitability (Attention to emergency projects).

**Disadvantages:** Funds could be directed to projects not requiring them. Consequently, TA funds should be directed only for projects with a lower economic profitability and high social profitability.

## E. INVESTMENT DISTRIBUTION AMONG MEMBER COUNTRIES AND FINANCING TERMS

- Article I of the Founding Charter points a balanced investment among member countries of the Bank. This eliminates the imposed appraisals by multilateral banks (CPIAs, IRAI, PBAs) for assigning resources among various countries. On the other hand, not all the member countries have the same absorption capacity.

Options:

- **Ordinary Loans**
  - For Public and Private sectors
  - All the countries will start with an equal percentage of assigned resources (article 1 of the Founding Chart).
  - In principle, no restrictions, an open credit line with a ceiling (CAF mechanism)
    - **Ceilings**
      - There will be a distribution formula linked to the Bank's funding.

- The formula for determining the ceilings will include a basket of indicators (human development index, population density, etc.) to be weighted.
- Ceilings should not be linked to the contribution of the country's capital; however, incentives for funding management could be created.
- Regional projects should not be included in a country's ceiling.
- **Concessional Loans/Operations**– with differential interest rates, included rate 0 and grants
  - All multilateral banks offer concessional loans and grants.
  - Concessional financing terms depend on the capacity of the Bank of the South for obtaining special funds.
- **Criteria for accessing to concessional/eligibility:** Options:

- a. **Macroeconomic Criteria:** (e.g. GDP per capita, as in the case of the World Bank or regional banks, this is a standard model, through which Latin American richer countries could provide subsidies to countries with lower income in the region)

**Advantages:** These criteria have been used by other multilateral banks.

**Disadvantages:** GDP per capita is a bad indicator in countries where the income inequality is too wide (the UN Human Development Index will be a better indicators to be used); in addition, this criteria is politically complex to implement (richer countries would have to subsidy poorer countries in the region).

- b. **Sub-national Regional Criteria.** The model of the European Union, which subsidies regions with lower income aiming to reduce social asymmetries, independently of the country where these sub-national regions are located.

**Advantages:** This option has political advantages with no disadvantages at all (if the adequate criteria are selected). This is not about richer countries subsidizing poorer countries, but about regions with greater income supporting those with lower income regardless the countries – i.e. it would not be Brazil subsidizing Bolivia, but the poorest regions of Brazil would also be benefit. In the case of investments in poor regions in countries with higher income, a counterpart from the central government could be requested.

- c. **Per sector** (e.g. Investments in social and environmental sectors) examples:
  - BANDES, Venezuela, provides subsidies to socio-productive projects (organizations of indigenous people,s cooperatives, etc). Additionally, the social impact of the introduced financing proposalis analyzed – direct and indirect beneficiaries.
  - BANMUJER is an institution of public micro financing, which provides financial and non-financial services TO poor women. These

services have been organized in their communities and include socio-productive projects.

**Advantages:** Sectorial criteria may be useful in emergency cases. In the case of microfinance, these criteria are useful since they are well targeted.

**Disadvantages:** Sectorial criteria may not have a structural vision or reduce social asymmetries.

## F. OPERATIONAL CYCLE

- **Need of an efficient operational cycle:** (internal and external), not multiple missions like in the IFIs, stopping governments' work, but aligning with the idea of a Bank of the South, which will have a small administrative structure and little bureaucracy based on information technology within the framework of an information system.
- **Preference in using national development banks:** Financial products and services could be channeled through national development banks of their own stakeholders. An important saving of transaction costs will be produced avoiding that representation Mission are established in each country. Moreover, development banks would stop depending on multilateral entities.
- To the portfolio of products and services previously mentioned, the best products of each national development bank could be added, aiming to generate synergies and technological transferences, which would help us to speed the growth of national development banks.

For Example:

- CORFO (Chile) have subsidies programs and technological financing
  - The Development Financial Corporation (COFIDE by its Spanish acronyms, Peru, which has Standardized Financial Products.
  - Brazil's National Bank of Social and Economic Development (BNDES) with its financing programs of infrastructure investment.
  - Nacional Financiera (NAFIN), from Mexico with its production lines programs.
  - Finally, at regional level, Cuerpo de Gestores Voluntarios.
- The operational cycle could differ according to the type of operation:

- **NATIONAL/SUBNATIONAL OPERATIONS**

### Options:

- a. Traditional Operational Cycle: The Bank of the South executes feasibility studies and organizes the legal document of the project loan by project.

**Advantages:** The Bank has more control on the design of projects and risk management.

**Disadvantages:** This model requires large personnel structure of the Bank and limits the political space and the decision making process of member countries.

- c. Decentralization provides more responsibility to the national government. As an alternative of project focused, country X presents an investment strategy that the Bank of the South will approve. At the same time, the government appoints a “national agency” (e.g. Ministry), which will design and execute the investments.

**Advantages:** This model allows the use of the country systems, reduces significantly the costs of transaction, and provides a greater ownership and control to the government.

- d. Intermediate Option, by which the Bank of the South could subcontract a national consultant agency (outsourcing) for carrying out feasibility studies.

▪ **REGIONAL OPERATIONS**

- A more traditional cycle (more time consuming) given that it requires multi-country feasibility studies and a negotiation with several countries (X loans altogether).
- Shared costs in the case of regional projects: Regional projects do not benefit equally all the countries (e.g. oil pipeline or road, some countries may have big roads or oil pipelines crossing them but if they are only transit countries, should they pay proportional prices?). If regional investments are a priority of the Bank, these types of national disincentives need to be addressed.

## **G. INITIATION OF BANK OPERATIONS**

The Bank should define at a proper timeline for the following issues: credit policy, administration systems; management of assets and liabilities, banking regulation; supervision; lending framework, human resources, etc.

**Sequencing:** At the beginning, not all the products and services may be able to be offered by the Bank. Therefore, the following sequence is proposed:

- Begin with ordinary loans, fund administration, project financing.
- Special funds of the Bank should be supplied during the first years of its creation. The Bank and the member states will have to make a special effort in donating said special funds to support concessional operations. If the bank will not have the necessary donations and returns during the first years, a possibility is to use a fixed quantity (1% and 2%) of the subscribed capital. An example of this procedure is found in the Asian Development Bank.
- Subsequently, guarantees for loans could be added.



## IV. SOCIO-ENVIRONMENTAL TRANSPARENCY, PARTICIPATION AND SAFEGUARDS

### A. TRANSPARENCY

Access to information is a requirement for the practice of good citizenship practice; hence, a policy of information and communication will be created by the Bank of the South along with academicians, organizations, and civil society. All the assets of the Bank of the South should be publicly available. Banking secrecy should not be an instrument used for concealing information that should be public. Effective access to information should promote an integral vision of the Bank, enabling an effective and qualified control as well as social participation. As with other multilateral development banks, the policy of information disclosure should include the following:

- Annual and multi-annual goals in order to satisfy the historic demands of the region;
- Criteria, parameters, and priorities used for decision making in relation to management need to be explained and consolidated in an operational policy,
- Reports used in orienting the institutional decisions;
- All the project files and portfolios;
- Basic information about the approved projects, such as: objectives, execution, scope, area, financing value, counterparts, interests (rates or concerns?), period of time, report of economic and socio-environmental impact, (including dimensions of ethnic and gender, employment created or lost and data about carbon emissions), distributives (unclear), internal responsibilities of the Bank regarding each project, criteria for accessing and emitting a financing as well as providing penalties in case that the criteria are not met, or greater impacts resulting than what was foreseen.
- Reports on monitoring and evaluation of the projects;
- Agenda and guidelines of the Board with advance and sufficient extent in order to guarantee the execution of public control;
- Indicators and other instruments of impact evaluation of approved projects;
- Report about the socio-environmental policies of the Bank;
- Financial reports of the Bank;
- Internal procedures and responsibilities of officials;
- Selection procedures and profiles of directors;
- Monitoring and auditing reports of the projects.

Communication and information policy should guarantee the translation of all the documents in official languages of the member countries; in as much as possible it should also be translated to native languages, maintaining the style, format, and accessible means.

Additionally, the Bank could:

- Carry out, at least, an annual event for broadcasting the presented information;
- Carry out internal auditing to be publicly disseminated;
- Allow external public auditing of its policies, loans, operations, and internal functioning;
- Require the implementation of periodical instruments of the accounts made by the directors of the Bank for the national parliaments, and society.

## B. PARTICIPATION

The participation of the interested organizations of the civil society could be an important aspect for the operation of the Bank of the South.

Up to now, the process of negotiation for the creation of the Bank of the South had limited social participation: a development Bank will be different only if it is built and administrated in a participatory way. A participation policy should be created in order to regulate the needed dialogue between civil society and the Bank of the South. This participation can happen in different moments of the operational cycle and have different functions.

This participation should also include the creation of the Bank, formulation of programs and policies, as well as the implementation, monitoring, and evaluation of all projects, taking into account the local stakeholders that will be directly and indirectly affected.

There are two models of the civil society participation in international organizations and multilateral development banks:

1. The World Bank model, where the participation of society is ad hoc and selected by the managerial personnel of the Bank.
2. United Nations model, where civil society participates through formal structures.

**Comment:** The second option could be the more appropriate. In that sense, the following aspects may be considered:

- a. Creation of a Civil Society Council
- b. Representative of the Civil Society in the Board
- c. Conformation of National Councils
- d. Others

These practices have been generalized, for example:

- Tripartite conformation (employers, unions and State) at the International Labour Organization.
- Civil Society Council at BNDES

- Council of Social Movements of ALBA
- Economic and Social Councils existing in many countries of the world.
- Civil society monitoring of structural funds at the European Union.

Therefore, the following may be considered:

**a. Creation of a Civil Society Council**

- Creation of a Civil Society Council (reflecting the social and political diversity existing in South America) formed by a representative of each country, elected by the social movements, and a representative of civil society of each country elected by each member government (some participants considered that instead of a participant being elected by the government better/preferable would be the presence of regional networks as an alternative for the formation of the Council). Their functions could be the following: debate the strategic plans of the Bank and its budget as well as participate in the monitoring and evaluation of the projects executed by the bank.

**b. Representative of the Civil Society in the Board**

Elected by the Council of Civil Society, two options were discussed in the workshop for the participation of the representative in the Directory:

- Having full participation with say and voting rights.

**Advantage:** Reciprocal commitment between civil society and the Bank of the South.

**Disadvantage:** The majority of participants of the workshop pointed out that the Founding Charter of the Bank of the South proposes the democratic participation of the countries “one country, one vote”, which is incompatible with this option.

- Having voice, but not voting rights.

**c. Formation of National Councils**

Freedom for the constitution of national councils as an initiative of civil society and the communities related to the execution of the projects. These councils are centered in the implementation, monitoring, and evaluation processes.

The Bank of the South would present annual accounts in relation to the performance of the institution.

For the efficiency of their functions, these Councils could request financial and socio-environmental audits in reference to specific projects, call public audiences, and if necessary in case of irregularities, request independent inspection panels.

**d. Others**

Representatives of civil society organizations, who attended the workshop, proposed the following options:

- Public extraordinary audiences, requested by social organizations and the population affected by the projects financed by the Bank. Public audiences should be carried out before the approval of the projects aiming to obtain a well informed consensus free of the consent of the population;
- Ordinary Annual Public Audiences should take place in each country for consultation regarding the formulation of policies, programs, and sectorial budgets, and for the rendering of accounts in relation to the performance of the Bank, including the annual report and the election of the President.

- Contrary to previous experiences with multilateral banks with Inspection Panels, Independent External Commissions for Investigation were proposed, which could be formulated in case that irregularities and/or detour in the objectives and procedures of the project occur. In this case, the project could be suspended, until the completion of the investigation by suggestion of the commission.
- Properly supported claims can be sent to the Bank and will be recorded on a special registry and the annual report of the institution.

### **C. SOCIO-ENVIRONMENTAL POLICY**

According to the principles contained in the Founding Charter of the Bank of the South, linked to the objectives of promotion of socio-environmental justice and human rights, the institution should, from the outset, add to international regulations in force, as a minimum and basic level from which its operations should be oriented. We would like to emphasize, among these regulations, the conventions and agreements of the United Nations system and that of the Inter-American system.

In this way, for the Bank of the South, the socio-environmental dimension should not be restricted to specialized units, specific procedures or products; but should fully integrate the fundamental orientation of the institution, as well as to mainstream this to all operations. Inside the bank, apart from creating one or various specialized units with adequately trained personnel, the Bank of the South has to carry out a profound process of information and sensitization of all its officials in relation to the socio-environmental goals and policies designed to create a truly alternative institutional culture.

In each country, the Bank would have to match its performance in accordance with the normative regime and international socio-environmental standards. In a pro-active perspective, environmental education (as it is developed, for example in the Banco Noreste of Brazil) should contribute to emphasize the validity of a new socio-environmental culture.

It is recommended that the Bank of the South develops an active policy for the incorporation of socio-environmental justice criteria to be adopted by the various regional financial development institutions, as part of the Latin-American Association of Financial Institutions for Development (ALIDE in its Spanish acronym),

### **D. SOCIO-ENVIRONMENTAL SAFEGUARDS**

These clauses are to be applied to the Bank and all its contractors and sub-contractors. In such cases, the Bank of the South will supervise compliance of those clauses in any executing institution or entity.

#### **Socio-Environmental Safeguards**

- 1) Assure that the financed projects respect the territorial right of the indigenous communities, as stipulated in the Declaration on the Rights of Indigenous Peoples, approved by the General Assembly of the United Nations on September 2007, as well as Afro-Descendent communities, and other vulnerable groups.

- 2) Ensure that projects favor the free movement of people within the affected territories, with special attention to displaced populations and refugees as consequence of socio-environmental and political conflicts and emergencies caused by climate change, natural catastrophes, or environmental degradation processes.
- 3) Adopt the recommendations of the World Commission on Dams in financing the construction of hydroelectric plants of any size.

### **Criteria and mechanisms of socio-environmental benefits**

- 1) Introduce criteria of socio-environmental costs and benefits in economic-financial viability, with the participation and supervision of the affected populations;
- 2) Create a mechanism of socio-environmental auditing aligned to the design of financed projects;
- 3) Establish special regimes of evaluation and control of sectoral projects of high socio-environmental impact such as; infrastructure, mining, forest and timber industries, industrial fishing, industrial agriculture, shrimp farming, energy generation, electrical-intensive industries, and agricultural fuels.
- 4) Take into account the indicator of carbon emissions and carbon sequestration, and other greenhouse gases during the request of financing projects;
- 5) Favor the preservation of public control in energy (conventional and renewable) and transport sectors.

#### **Recommended for environmental and social improvement of the region : financing the following activities**

- Projects of renewable energy and energy efficiency, and alternative transportation;
- Rehabilitation of degraded areas (recovery of the accumulated environmental debt);
- Environmental technological re-conversion with industrial facilities, transport systems, civil construction, etc.;
- Support research about low-impact environmental restoration and technologies in association with universities and research centers, and create a database in order to share and apply the results.
- To promote the strengthening of family agriculture and that of food and energy sovereignty;
- Stimulate the recovery and preservation of ancestral knowledge when dealing with the use and management of natural resources, its improvement and application as an alternative in agro-forestry practices.

## **E. EMPLOYMENT AND LABOR STANDARDS**

1. All the interventions of the Bank should try to maximize employment generation, which is fundamental for a decent living of the Latin-American people. In the same way, the basic principles of labor legislation of the country where an investment is made should be respected, as well as ILO conventions signed by member countries.
2. The Bank will ensure through its contracts that adequate clauses are incorporated and that labor rights are complied with and respected by all subcontracted companies.
3. The Bank of the South should take into consideration occupational health and safety as criteria for the approval of new projects.

## **F. DISTRIBUTIONAL IMPACTS**

All the interventions of the Bank, including strategic plans, will present brief analyses of direct and indirect distributive impacts in both the short and long term, in order to help designing strategies and projects that will benefit poor and excluded populations, as well as contributing effectively to reduce regional asymmetries.

## **G. GENDER, GENERATIONS, ETHNIC GROUPS AND PERSONS WITH DISABILITIES**

- Apply properly monitored mechanisms for reducing inequalities, according to the Convention on the Rights of the Child, Latin-American Convention on the Rights of the Youth, International Plan of Action on Ageing, Convention on the Elimination of Discrimination against Women, and other pertinent international agreements;
- Establish criteria of gender, generational, ethnic groups, and persons with disabilities in the hiring, promotion and wage policies of Bank officials, including affirmative action;
- All urban infrastructure and the buildings of the Bank should use a universal design. Generally, all the interventions of the Bank should respect the agreement of the Convention on the Rights of Persons with Disabilities, approved by the UN in 2007.

## **H. FINAL CONSIDERATION**

From our perspective, the Bank of the South should promote, through its operations, a new development paradigm or model, abandoning a model that causes social exclusion and environmental destruction. The Bank of the South structure, funding and governance should be oriented to guarantee the social and environmental sustainability of an alternative development model.

**ANNEX: LIST OF PARTICIPANTS - TECHNICAL WORKSHOP ON BANK OF THE SOUTH, QUITO 23-27 JUNE 2008**

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Mauricio CABRERA	National Fiscal Agency	
	Presidente de C&B Banco de Inversiones; ex CEO Banco de Occidente y Fundación FES; consultor del Banco Inter Americano de Desarrollo - Inter American Dev Bank (IDB) (Virtual)	Colombia
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Daniel TITELMAN	CEPAL Comision Economica para America Latina (Virtual)	Santiago Chile
Eric TOUSSAINT	Presidente CADTM Bélgica	Bruselas
Oscar UGARTECHE	Coordinador Latin American Network on Debt and Development; professor UNAM (Virtual)	Mexico
René Mauricio VALDES	PNUD Coordinador Residente de la ONU, UNDP, Resident Representative	Ecuador
Hugo VALINOTTI	Comisión Nacional Banco del Sur, Técnico Ministerio de Hacienda	Paraguay
Ricardo VALDES	Ex Director Corporacion Andina de Fomento (CAF)	Perú
Hugo VALINOTTI	Técnico del Departamento de Entidades Financieras, Ministerio de Hacienda	Paraguay
Silvia VELASCO	Centro de Derechos Económicos y Sociales	Ecuador
Matías VERNENGO	Profesor Economia Universidad de Utah; consultor desarrollo	USA
Yaneth VICUÑA	Gerente General Banco de Desarrollo de la Mujer Director General Women Development Bank	Venezuela
María Elsa VITERI	Ministra de Finanzas encargada, Minister of Finance	Ecuador

Mark WEISBROT	Co-director Center for Economic and Policy Research (Virtual)	Washington DC, USA
Alex WILKS	Eurodad (Virtual)	Bruselas
Carola YANEZ	Equipo Técnico Comisión Presidencial, Banco del Sur	Ecuador





## **BANK OF THE SOUTH FOUNDING CHARTER** [UNOFFICIAL TRANSLATION]

Presidents Nestor Carlos Kirchner, Evo Morales Ayma, Luis Inácio Lula da Silva, Rafael Correa Delgado, Nicanor Duarte Frutos, Tabaré Vázquez Rosas and Hugo Rafael Chávez Frías, in representation of the peoples of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela, met for the purpose of promoting the social and economic integration of the nations of UNASUR, and guided by the interest to promote the principles of complementary, solidarity, cooperation and respect to sovereignty.

Considering:

That the process of creation of the Bank of the South, as essential and primary institution of the new regional financial architecture, has advanced by virtue of a common commitment, that finds among its antecedents: the meetings of MERCOSUR and the technical working group of UNASUR during 2006; the Memorandums of Understanding for the constitution of the Bank of the South of February and March 2007; the Quito Declaration (3 May 2007); the Asuncion Declaration (22 May 2007); and the Rio de Janeiro Declaration (8 October 2007).

Considering:

That South American integration should be focused on the promotion of the social and economic development of the peoples in the region, redressing asymmetries, reducing poverty and social exclusion, and promoting the convergence and complementary of economic integration processes.

Considering:

That the financial and economic structures of South America show limitations in their financial markets, causing domestic savings to flow toward more developed economies instead of being invested in regional projects, when such resources could be used to increase liquidity in the region, to revitalize investments, to redress asymmetries,

to develop infrastructure, to promote employment and to activate a virtuous development cycle, essential for the social, economic and political transformation of the region.

Considering:

That in South America there is a need to improve growth rates, to strengthen its internal markets, and to improve substantially the standards of living of its population, in order to change migratory flows, to find social justice and to reduce income inequality, in the context of a virtuous cycle of sustainable development.

Considering:

That it is essential to design a new regional financial architecture to strengthen the role of the South American continent in a world characterized by commercial and financial globalization, to consolidate the autonomy of regional economies, to continue mitigating external vulnerability, to promote greater stability and productive systems that prioritize the basic needs of our people.

Considering:

That the revitalizing drive of productive capacities that our nations need will require a new regional financial architecture that has in its center an institution dedicated exclusively to the promotion of regional development, to be constituted under the sovereign control of South American countries.

**AGREE THAT:**

**FIRST:** To create a development bank as a legal entity under international public law called "BANK OF THE SOUTH". Its objectives will be to finance the social and economic development of the countries of the Union of South American Nations (UNASUR) making use of regional savings of members of the Bank, to strengthen regional integration, to reduce asymmetries and to promote an equitable distribution of investments within Bank member countries.

**SECOND:** The Bank of the South will have its main headquarters in the city of Caracas, Bolivarian Republic of Venezuela, with delegations in the city of Buenos Aires, Republic of Argentina, and in La Paz, Republic of Bolivia.

**THIRD:** For the benefit of its South American member countries, the Bank will, among others: finance development projects in key sectors of the economy, with a focus to improve competitiveness and technological and scientific development, adding value and prioritizing the use of commodities of its member countries; finance social sector projects to reduce poverty and social exclusion; finance projects to strengthen South American integration; as well as to create and to administer special funds for social solidarity and disaster relief, by providing passive and active financial operations and services.

FOURTH: The Bank of the South should be self-sustaining and be governed according to professional criteria of financial efficiency to guarantee that its interventions will not result in additional expenditures but in generating new resources to be reinvested in its member countries.

FIFTH: The management of the Bank of the South will have an egalitarian representation for each one of the South American countries that constitute it, under a democratic system of operations.

SIXTH: The Ministers of Economy and/or Finance of the States signatories will adopt the necessary measures to conclude, within 60 days from the firm of this Founding Charter, the elaboration of the Constituent Agreement of the Bank of the South.

SEVENTH: All UNASUR nations are invited to participate in the process of constitution of the Bank of the South and to subscribe its Constituent Agreement.

This Founding Charter is presented in eight copies, seven in Spanish language and one in Portuguese language, in the city of Buenos Aires, Republic Argentina, on 9 December 2007.

*[Signed by the Presidents of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela]*