



FINANCIAL GOVERNANCE BEYOND THE CRISIS CREATING AN INNOVATIVE FINANCIAL ARCHITECTURE IN LATIN AMERICA

An interview with Pedro Paez, Plenipotentiary Ambassador for the Ecuadorian Government on the New International Financial Architecture and Chair of the Ecuadorian Presidential Technical Commission for the design of a New Regional Financial Architecture – Banco del Sur.

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WHAT IS THE NEW FINANCIAL ARCHITECTURE?

The New International Financial Architecture demonstrates a series of transformations aimed at changing the relationship between the economy of the State, the private capitalist economy and the grassroots economy. The goal is to recover the coherence between production and consumption at a global level. This new horizon of relationships is based on the interaction of three vectors that first of all involve the creation of new conditions so the State once again represents the strategic interests of the nation as a whole and from there can redefine its participation in the economy. It aims to overcome the corporate hijacking of the State, which leads it to invalidate itself in order to create better, more profitable conditions for a monopolist capitalist business.

The second vector is related to the transformation of the relationship between the financial and the productive spheres in order to recover the coherence between production and consumption, which has currently broken down due to the exacerbated fragmentation caused by the evolutionary process of globalization and the parasitic hypertrophy of financial capital. The development of the capitalist system in recent decades has demonstrated that the financial sector has hijacked the process of accumulation, separating it from the productive process through financial instruments and innovation, which rather than facilitating and empowering the development of productive forces, create mechanisms to undermine the value generated in the real economy under the umbrella of profit and the exploitation of society as a whole.

Under this horizon, a fundamental aspect is to open space in an economy based on a rationale that is different from the capitalist one and which is currently being assimilated into this logic by the forces and conditions of the market. The structural crisis of capitalism as a way of production and life, can only be overcome from a logic that puts the life of the people first, which is to say human labour, and which recognizes another type of productive logic, another type of distribution mechanisms and a structure of incentives that give rise to processes which, while they are not dominant under the current logic of the market and capitalist profitability, can gradually stabilize and moreover can be replicated and are sustainable in time.

Finally, the third fundamental vector of the New International Financial Architecture, which is based on the previous two, is related to the renegotiation of the role of emerging economies as a periphery in the international division of labour. This is built on a foundation of a new articulation between the private capitalist economy, the role of the State and the grassroots economy in all of its diversity. On the other hand, a new relationship between production and finances could redefine the role of emerging economies as a periphery in the international division of labour that is now outdated. In fact, one of the clearest expressions of the structural crisis we are currently facing is related to global macroeconomic imbalances. The logic of growth based on the growing debt of central countries, accompanied by the creation of a semi-periphery that produces manufactured goods and a periphery that is increasingly relegated to providing raw materials. This is absolutely unsustainable, not only in environmental and social terms but also from the local of capital itself.

WHAT ARE THE PROBLEMS WITH THE OLD FINANCIAL ARCHITECTURE?

The Old Financial Architecture refers to a series of institutions that emerged from the Bretton Woods pact, forged in the aftermath of the Second World War, when a call was made to configure the pillars of what would be the New Economic Order. However, they eventually betrayed the purpose they were originally created for, in particular as of 1971 when the United States unilaterally broke the planetary commitment of Bretton Woods.

The breakdown of the Bretton Woods system gave rise to an aggressive process on the part of the United States and Britain to obligate the remaining countries to float their currencies and undertake processes for the deregulation and the institutional dismantling of their economies. Specifically, the expansion of neoliberal policies was permanently promoted, based on the conditions imposed by the institutions of the old international financial architecture.

From the initial purpose of Bretton Woods, aimed at strengthening internal monetary institutionalism and sovereign regulatory institutions, pressure was exerted for the opening of capital accounts, foreign trade accounts and the de-regulation of financial markets. This was done in such a way that it weakened the role of the currency and created a specific space for the trans nationalization and commercialization of the economy and for the introduction of the dollar, above all in the case of Latin America, as a fundamental currency, stripping national currency of operating space and therefore of local control.

In this context, the World Bank (WB) and the International Monetary Fund (IMF) of the 1980s radically changed the purpose for which they were created in the 1940s. Despite there being certain elements of continuity, the blackmailing role they have exercised over our countries became increasingly clear, something that is once again made evident with the adjustment and austerity policies currently being applied in Europe, which are the same as those applied in Latin America in the 1980s and 1990s. Originally, the first loans granted by the IMF, for example, including to developed nations in Europe itself, were not aimed at budgetary cuts and adjustments but were aimed at creating the conditions for expansionary policies linked to the development of a Welfare state, and material reconstruction processes in post war Europe.

For example, the capacity for the IMF to monitor the macroeconomic policy of member states established in its Charter - linked in the Bretton Woods period to a policy to preserve the stability of a system of fixed but adjustable exchange rates - became a fundamental mechanism to disqualify the States in the international market place and to annul the sovereign capacity of the States to issue regulations in this area.

Against this backdrop the foreign debt became, together with the complicity of internal forces and the entire political military weight of the United States, one of the fundamental mechanisms to de-regulate the economy of the periphery and in particular of Latin America. Specifically, the neoconservative-type policies impelled by the United States, forced our countries to pay much more for public debt in totally unjustified conditions. This, coupled with a policy to increase the U.S. interest rates and consequently increase the relevant rate for the majority of loans the continent had acquired in the framework of the aggressive swelling debt in the second half of the 1970s, managed to multiply the foreign debt service of our countries by three and even four times. This gave rise, in the correlation of forces of the time, to a process involving the nationalization of private debt in which the risk that the companies assumed was eventually assumed by the State in a typical situation to socialize the losses and privatize the earnings.

The debt crisis impacted the entire development horizon in Latin America and above all generated favourable conditions for a much stronger and much more intrusive presence of the IMF and the WB, which took advantage of these new conditions to swiftly change the standards for the application of their principles.

In Latin America, for example, there are more than 100 development institutions and banks operating at multilateral, regional, sub-regional, national and even sub-national levels. A significant number of these development banks were linked to the industrialization through import substitution project that had been in place in the region since the 1970s and involved both the World Bank and the InterAmerican Development Bank. Paradoxically these institutions have gradually moved away from their original purpose. For example, only two years ago the InterAmerican Development Bank was forced to recognize it had lost more than 20 percent of its social capital due to investment in toxic assets.

Here the natural question arises as to why a development bank for Latin America is making speculative investments in the United States? Without a doubt, there will be justifications related to treasury management and other questions, but this only demonstrates the de-naturalization of these types of banks. The same could be said about the Latin American Development Bank or CAF and the IDB itself in creating loans that have names like "Combat Poverty" but in reality are in fact loans to finance consultations on poverty which tend to be linked to a short list of consultants who basically reproduce the vision and the concepts of the Washington consensus regarding these problems.

In this way, the perspective of the development banks as investment banks on priority issues for regional development such as the construction of infrastructure for example, have been abandoned and in their place these development institutions are converted into regional instruments that also represent the old international financial architecture.

WHAT ARE THE LESSONS OF THE ECONOMIC CRISIS WE ARE CURRENTLY LIVING THROUGH?

In the first place, the nature of the current world economic crisis must be specified. It is a structural crisis in the system that does not exclusively involve the capitalist production model but also a way of life, because the crisis we are living through is threatening the conditions that ensure the survival of the species itself. The current crisis is evidence of a situation that humanity faces a historic crossroads. On the one hand, we have a very threatening horizon of a worsening of social conflict and a degradation in civilization in which the same conquests reached in the modern capitalist society become dysfunctional in the face of the power of capital. On the other hand, this incapacity of the system to respond to the demands of society, not just on the objective, material plane but also on the subjective level, the generation of meaning, creates an enormous opportunity and responsibility to define the possibility of a new alternative for historic development, where the challenge of redefining a new way of life lies in at its center.

The economy that exists today is born from a permanent process of exclusion and dispossession. This system does not operate as it is presented in

the official discourse as a system of private initiative. On the contrary this is a system that deprives us of initiative: millions of dreams, millions of projects, are being blocked by this system that establishes limits which exclude a vast number of possibilities that emerge from our own initiative.

Historically the capitalist society is born from a simultaneous process involving the concentration of the means of production, political power, the means to exercise violence, knowledge and the means to disseminate and reproduce its version of reality in an increasingly narrow minority and, on the other hand, the concentration of conditions of dispossession, misery and precariousness in the vast majorities of humanity. The international crisis demonstrates the dead end that this type of practice has generated. We believe it is possible to have a win-win alternative for all sectors precisely because we are opening the doors to a number of opportunities for enormous investment, which could generate lower income but which are more sustainable over the long term.

One of the key elements of the crisis is the over-accumulation of capital. Which is to say, the accumulation of capital is so great it cannot find anywhere to be reinvested and attempts to forge, from financial innovations, derivatives and fictitious capital, short term opportunities that are quickly converted into Ponzi schemes, speculative bubbles that end up bursting just around the corner.

The alternative that we are proposing is precisely a sustainable model on an environmental, social and economic front, that will generate income that is much more modest than what the vast sectors of multinational monopolistic capital are accustomed to, but which will become sustainable elements for the re-launch of the economy over the long term. The old scheme of speculation that was enthroned by neoliberalism can without a doubt be perpetuated but in conditions where social polarization will grow, together with conditions of recession and the degradation of civilization. The options that are proposed from the new International Financial Architecture will generate the conditions to give rise to new social coalitions that could focus on a different future.

The New International Financial Architecture is called to provide the resources that would allow the States to carry out activities, alone or with the participation of the private or grassroots economy, that go far beyond what the old financial architecture permitted. Rather than working with resources that come from international foreign exchange or rather from our insertion in the international division of labour linked

to the primary extractive model which embezzles the labour force and nature, what we are doing is generating the possibility for additional resources that come from Banco del Sur for example. For this reason, the participation of citizens and social organizations is so important in order to ensure the necessary conditions for governments to advance toward more profound transformations.

The current situation of brutal distortion in the framework of a structural breakdown of the productive process, means that the provision of food in a determined community for example, no longer depends on a region but rather on a tremendously complicated planetary logic that involves trade via long distance and a series of transactions in which the financial system is present at every corner. For example, if a loan agreement in the shipment of goods is suspended due to a lack of confidence in the bank that emitted it, these perishable products will simply not reach their final destination, putting at risk the consumption possibilities for an entire population. This already delicate situation is becoming increasingly fragile due to the supposed solutions offered for the international crisis, which are decided in a completely unilateral manner by a small group of countries, without taking into account the destiny of all of humanity which suffers the consequences.

HOW DID THE INITIATIVE TO LAUNCH A NEW FINANCIAL ARCHITECTURE BEGIN IN LATIN AMERICA?

The New International Financial Architecture in principle was born in the mid-1990s as a concept impelled by the most orthodox sectors of northern countries whose aim pushed the International Monetary Fund and the remainder of conventional multilateral organizations to become even more ruthless in their policies toward the people. Subsequently, however, its policies were challenged in intense debate, in particular in Latin America where more progressive perspectives developed. When we now talk about the New International Financial Architecture we are thinking, at the very least, in the recovery of the spirit of the New Deal, which is to say the policies of state regulation that gave rise to the social democratic pact in Europe, the Welfare State in the United States, and the process of decolonization and industrialization through import substitution in the peripheries.

In the case of Latin America, it is important to emphasize the role of the initiative launched by President Hugo Chavez regarding the Banco del Sur in 2006, which made it possible to concentrate many efforts that were emerging in different sectors of the academic world and civil society regarding a need to transform the international financial architecture. These initiatives took on shape at a meeting May 3, 2007 in Quito, in which the ministers of finance from six South American nations (Venezuela, Argentina, Ecuador, Bolivia, Brazil and Paraguay) agreed, together with Ecuadorian president Rafael Correa, on the three basic pillars that would form the foundation for the South American proposal for the New International Financial Architecture: the creation of a new type of development bank, a Southern Reserves Fund, as an alternative to the International Monetary Fund and the construction of a common Latin American currency space.

A new set of priorities was represented in each of the components of the New International Financial Architecture, which included the construction of the Banco del Sur and they were all closely linked to the new horizon of Latin American integration which we are experiencing in the present period and which is reflected in structures such as UNASUR and the Council of Latin American and Caribbean States.

In this same sense, initiatives such as the G-192, underscored the need for global responses in the present global crises to be democratically agreed upon by the General Assembly of the United Nations and not by the G7, G8 or G20. This made it possible to demonstrate the need for a critical evaluation of the institutions that form part of the old international financial architecture which, as we have said, have not fulfilled the spirit for which they were created in Bretton Woods.

WHAT DO THE THREE PILLARS OF THE NEW FINANCIAL ARCHITECTURE CONSIST OF?

The New Regional Financial Architecture, as set out in the 2007 Quito Declaration mentioned above, contemplates three basic, non exclusive pillars: the creation of a development bank of a new type, a Southern Reserves Fund, as an alternative to the International Monetary Fund and the construction of a common Latin American currency system.

The first pillar, the creation of Banco del Sur, seeks to create a new type of development bank, new priorities for regional development that are focused on strengthening food and energy sovereignty, as well health care, knowledge and natural resources in the region. This pillar also incorporates a very important monetary component, in order to empower the use of national currencies and the construction of a regional monetary system.

The second pillar, the creation of a Southern Fund, not only seeks to construct a Common Reserves Fund, but also includes a series of mechanisms to manage and defend regional reserves that seek to configure a true network of continental financial security in the face of international turbulence.

The third pillar, the creation of a regional monetary system which seeks to strengthen national currencies is based on a payment compensation system, in a scheme that is completely different from the neoliberal design of the Euro, which is precisely what has given rise to the crisis that is currently taking place in Europe. On this front, a great deal of progress has been made with the proposal for the Unitary Compensation System of Regional Payments – SUCRE – developed by the countries of the Bolivarian Alternative for the Americas or ALBA.

The implementation of these pillars has, however, a modular character. Each of them can operate independently, which has the additional advantage of making it possible to progress in the negotiations among UNASUR countries with a great deal of flexibility, as the implementation of each of these pillars can be adjusted to the internal rhythms and domestic needs of each country.

AND WHAT PROGRESS HAS BEEN MADE TO DATE?

Regarding Banco del Sur, currently the negotiations are being carried out with the participation of Venezuela, Argentina, Bolivia, Ecuador, Brazil, Paraguay and the Republic of Uruguay as founding countries of which four have ratified the agreement (Venezuela, Ecuador, Bolivia and Argentina) and the initiation of its operations is expected quite soon. The Banco del Sur Agreement allows this to take place under two conditions. First of all it must be ratified by a simple majority of the founding countries that additionally represent two-thirds of the capital of the

Bank. As a result, all it needs now is one additional country to ratify in order to begin to operate. Besides, the negotiations also include the participation of Chile, Surinam, Guyana and Columbia as observer countries although these countries as not fully integrated in the process.

Regarding the establishment of the second pillar, the Southern Fund, significant expectations have been generated at a regional level. The first declaration of the South American Council of Economics and Finances recently approved in the city of Buenos Aires includes, a proposal for an urgent measure to confront the current global economic crisis. This includes the design of new technical cooperation mechanisms that involve the management and mobilization of international reserves, constituting a starting point for a Southern Monetary Fund proposal. The Ecuadorian delegation has presented UNASUR with an integral proposal to design a continental financial security network that articulates multiple mechanisms for the management and strategic defense of regional reserves, linked to the design or re-proposal of a fund for South American reserves. Among other mechanisms, it contemplates the connection of the electronic payments system of central banks on the continent, the creation of a matrix for reciprocal credit and the establishment of a virtual stock market on a continental scale where it would be possible to trade diverse instruments that are developed in the framework of the remaining pillars of the New International Financial Architecture, such as Banco del Sur.

Finally, regarding the third pillar, a great deal of progress has been made with the construction of the Unitary Compensation System of Regional Payments or SUCRE, as a common unit among ALBA countries. The president of Ecuador, while not yet a member of ALBA, made a proposal to the Heads of State at the end of November 2008 and in a little more than a year SUCRE began to function and today includes Venezuela, Cuba, Ecuador and Bolivia and will soon include Nicaragua, whose parliament should still ratify the Treaty establishing SUCRE. Moreover, the Ecuadorian delegation is impelling an initiative that will permit the participation of new States. It is important to underscore that there is significant interest from civil society, through grassroots organizations such as the micro and small businesses, cooperatives and other grassroots structures on the continent, in particular in the southern cone, Central America and the Caribbean to join this proposal.

WHAT CAPACITY WILL BANCO DEL SUR HAVE TO INVEST AND TRANSFORM THE ECONOMIES AND SOCIETIES OF THE MEMBER COUNTRIES?

The Banco del Sur will support a solution for the historical paradox of the social and economic development of the region: the dynamic of the old financial architecture has led developing nations such as our own to permanently commit huge private and public resources toward financial entities and instruments of countries in the First World. At the same time, their own funding needs have been insufficiently satisfied through a continuous increasing debt with traditional multilateral organizations and frequently conditioned to interests that are foreign to national and regional interests.

This objective is a fundamental part of the new regional financial architecture that we are working on, that is aimed at guaranteeing the conditions of continental coherence in the construction of the great *patria*, in the construction of regional markets that strengthen food solidarity and sovereignty, in healthcare, energy sovereignty, sovereignty in the production of knowledge and in the deployment of an infrastructure that physically connects regions. Such an infrastructure will make it possible to establish a regional market dynamic that breaks with the logic of an unequal exchange and development, with the neocolonial exploitation and conditions that are both external and internal in our countries. Here I refer to the unequal relations that arise between the city and the countryside, between the capital and the province. All of these elements become central themes in a new type of banking development that at the same time will be a development bank of a new type.

WHAT ARE THE CHARACTERISTICS OF THE BANCO DEL SUR THAT DISTINGUISH IT FROM INSTITUTIONS OF THE OLD INTERNATIONAL FINANCIAL ARCHITECTURE SUCH AS THE WORLD BANK AND THE IMF?

The Banco del Sur incorporates a new series of operational modalities that clearly distinguish it from traditional multilateral financial institutions. The first is a type of prioritized investment, which is linked to the definition of new funding priorities for regional development in order to strengthen sovereignty over food, energy, natural resources, knowledge, regional healthcare, and grassroots economy.

The second axis of radical changes proposed by the Banco del Sur refers to banking operation modalities, which include the principal parameters for the formulation, evaluation and prioritization of projects to be funded and which seek, for example, new mechanisms to internalize environment and social externalities. In this sense, one of the proposals that the Ecuadorian delegation is working on is a credit manual that will become the reference parameter in the daily management of the Bank.

There is a huge subsidy that the community and family is giving to the world market and to major transnationals, precisely from the invisible work of women, children, or the work of the elderly as part of the community economy; which in the case of those regions where there is a strong indigenous presence that forms part of a series of ancestral mechanisms linked to religiosity, spirituality, culture, but which ultimately has been re-shaped by the market to “auto-exploit” the family and the community. Rather than becoming an element that improves living conditions it has become an element used by capitalism to cheapen the work force and nature.

The idea, therefore, is to build concrete tools for the banking operation of a development institution that, without failing to be sustainable in the current conditions of public finances in Latin America, can redefine the parameters of evaluation, not only of social and environmental profitability but economic profitability. That is to say, not just a bank, but a new type of bank. Not only a new type of development bank but rather a new type of bank for development.

Therefore it is necessary to think of a bank that can survive the tough times that can come at any time on the continent and as a result there is a need to

establish the most adequate criteria of technical banking management. This is not an easy theme because in addition it faces irreconcilable positions on the part of epistemic communities and civil society that tend to assume a very Manichean position, which does not contribute solutions to the dilemma of how to concretely carry out the project of a new type of development bank in a sustainable manner.

The third axis refers to the issue of new banking practices, that include the important aspect of citizen monitoring. For this purpose, there is a need for a code of ethics so that companies that participate in funding Banco del Sur are obligated to sign a code of conduct that involves meeting minimum standards of social, environmental, tax, labor, community responsibilities as well as transparency and ethics.

In second place, on this foundation the role of citizen monitoring changes radically both in terms of its nature and its efficacy because it is possible to include in Banco del Sur mechanisms such as systematic publication, open to the entire public, of the unit costs of each of the works that are being funded, set out by degrees of difficulty, type of works, etc. This is a central element for the exercise of the social control of the banking operations, as if the unit costs of each project are made transparent, it will be possible to identify the distortions in the contracting process in a more expedient fashion.

Moreover, it is also possible to re-use experiences that are already in practice, such as the use of credit letters that defend the consumer. If someone, for example, purchases a television and are charged beyond the threshold of the distribution base for the market price, the credit card won't recognize the amount beyond that threshold, and there is no risk for the customer. The same model can be replicated in contracting public works. For example, if an ethics code is signed by the businesses, the bank will not recognize the cost of the constructors behind certain unit costs established in the bidding contract, without the government having to be involved in the dispute.

These new horizons demand the generation of new financial products and non financial products that address the needs of regional development and offer responses to tasks that have not been resolved by the old financial architecture.

WHAT ARE THE POSSIBLE PROJECTS THAT THE BANK WILL INVEST IN?

As we have said, the Treaty establishing the Banco del Sur sets out a new series of investment priorities regarding sovereignty over food, healthcare, energy, natural resources and knowledge.

Regarding food sovereignty, the Ecuadorian government has proposed the prioritization of the establishment of a system of silos. These will be locally administered with the cooperation of sector governments and local farmers, under a scheme of continental articulation with a digital, electronic inventory system, aimed at guaranteeing a strategic reserve of basic food for the region. This will make it possible to ensure a nutritionally adequate food basket for the needs of the region and to control potential scenarios of food crises.

This will make it possible to mobilize the production of small, medium and large scale producers, as well as farming cooperatives, communities and other type of grassroots campesino economics for the creation of a sure market that will permit the inclusion of actors that up until now have been subject to the uncertainty of the market and the predatory activities of usurers and intermediaries.

Regarding healthcare, Banco del Sur can be oriented toward guaranteeing the population of countries in the region access to labeled and generic medicine at an accessible cost and that is locally produced, which will combat endemic diseases in the region that are not attended by the conventional supply of the major pharmaceutical houses in the developed world as they are not considered highly profitable markets. In this same space, work will also be done to support research into ancestral medical practices, including the agricultural and ecological knowledge of native peoples.

Regarding energy sovereignty, the aim will be to consolidate the capacity of the countries to take advantage of their own renewable and non renewable energy resources on the basis of their needs and independently of external forces, respecting the environment and minimizing the ecological impact result from the supply and use. In particular, Latin America is a continent that has an enormous renewable and non renewable energy resources. We are net exporters of energy and yet we have a deficient energy supply that does not cover the needs of the entire population. This is not the case in Ecuador where we have more than 95 percent coverage in the

energy grid, however, we have problems with black outs and the high cost of energy.

There is an urgent need to generate investment in research and development in this area in order to establish a platform to provide cheap and efficient energy, thinking of a strategic perspective that changes the local of our international insertion: In the current world scenario, it will be the efficiency and the low cost of the energy supply and not the low cost of nature or human talent that will determine the position and characteristics of our international insertion.

In this framework of new priorities, Banco del Sur will also promote the development of instruments and markets aimed at protecting the environment in a pre-emptive fashion and the protecting the ecological knowledge of the region and which above all form part of the strategy that makes the Latin American development model sustainable as a whole. Ecuador, for example, has proposed to the international community of States, that crude oil should be kept in the ground in the Sarayacu project at the beginning of the century as well as in the Yasuni project. Banco del Sur could impel financial instruments of a new type that not only make these projects viable but replicable and that they not only be government initiatives but that they could be initiatives from sector governments or from communities or even cross-border. There are areas of enormous ecological value on border zones that could prosper with projects of this nature in a perspective that is totally different from the theme of capitalist exploitation, which is very unfriendly toward the environment.

Finally, a crucial task will be to open a space in the economy that is based on a rationale that is different from capitalism and which today is being assimilated to this logic by the strength and conditions of the market. There is a need to fund a grassroots economy in all of its heterogeneity, the micro, small and middle sized company, the cooperatives and the community groups and a vast number of productive forms that do not even have a name but which are based on a different productive logic, another type of mechanism for distribution and a different structure of incentives that can give way to processes that, while they are not dominant under the logic of the market and capitalist profit, can be gradually stabilized and moreover can be replicated and are sustainable in time.

These urgent tasks for regional development could even be impelled before the Banco del Sur begins its operations, through expedited funding mechanisms, with a trust system that incorporates a provision that stipulates that all the projects will then integrally pass to Banco del Sur once it begins operating. This gives

us a great deal of flexibility as it would open the doors for the participation of actors that are not currently in Banco del Sur, or that are not even in UNASUR, including NGOs that are interested in the new priorities of regional development. This trust system will constitute an alternative funding mechanisms that does not constitute foreign debt or budgetary resources, but rather could be based on contributions in local currencies, which would open the way for a series of financial innovations, that are positive to the interests of our nations.

WHAT ROLE HAS BRAZIL PLAYED IN THE BANCO DEL SUR PROCESS? WHAT ARE THE MAIN OBSTACLES FOR THE CONSOLIDATION OF THE BANK?

During the negotiation process, there was a significant effort on the part of the Brazilian government to construct the Latin American process in an environment of respect for diversity and for the smallest countries. It is evident that the relative weight of Brazil is very superior in terms of the dimensions of its territory, the size of its population or the size of its GDP. However, in terms of its representation, the Brazilian government has taken a very considerate attitude throughout the process, which is evident in the expression of one country, one vote, outlined in the Treaty establishing Banco del Sur. Clearly, there is also a qualification beyond certain loan thresholds that correspond to how much of the bank's social capital that can be put at risk, but it does not detract from the democratic orientation that has been present in Banco del Sur and throughout the construction of UNASUR.

However, without a doubt there is opposition on the part of the major transnationals and the old oligarchies regarding everything this change implies. I believe a significant part of this opposition corresponds to a series of ideological atavisms. Because, if one critically reviews the process of European construction, you realize the large capital commitment made by the French and Germans who after centuries of waging war among each other because of rivalries among elite groups, to wager on the development of the European periphery.

I think this same issue should be present in the visions of the major capitals of Latin American and their elite. They should leave this excluding oligarchy, based on social polarization, based on regression, in the past and they should think of a construction process in which they have a great deal to gain. Without a doubt there is a delay in the approval of Banco del Sur and no one is

more anxious than I am for it to go ahead. However, if one looks at international negotiations and the creation of institutions such as multilateral financial institutions, there is a great deal to be learned. The IDB was talked about in 1939 and began to grant loans at the beginning of the 1960s. And here we are talking about a situation in which the project was essentially presented by the United States and all the other countries had to do was join in.

We are talking about true multilateral negotiations, and in a situation marked by an ideological, technical and doctrinal impasse, in which no one has the perfect recipe. This is an area that must be explored and we must move with a great deal of responsibility, and technical rigor and we must recognize that no one has a monopoly on the truth or the technical aspects and therefore there is a need for collective creativity.

And for this reason, the participation of citizens and social organizations is so important as it makes it possible to generate, from the initiatives, from the proposals, from the pressure, the conditions for the transforming path of the new institutions that will allow the governments to advance toward more profound transformations

WILL THE NEW FINANCIAL ARCHITECTURE RECOVER THE ROLE OF THE NATIONAL CURRENCIES. HOW?

In the design of the New Regional Financial Architecture one crucial aspect is to recover the role of the national currencies. Neoliberalism, through a series of legal reforms, impelled by agents generally linked to the banking sector, sponsored the imposition of the use of the U.S. dollar in our economies, in a situation where some of the role of the national currencies was filled by the dollar, starting with the most common notation for the prices of some goods, in particular high-value real estate.

In the framework of the logic of funding and the globalization of our economies, this situation is gradually beginning to permeate other sectors of society and not only middle class sectors but also grassroots sectors regarding the consumption of durable goods like cars, fridges, vacuum cleaners etc. This also impacts other areas, such as mechanisms directly linked to the devaluation logic, for example opening accounts in dollars and obtaining loans in dollars, interest rates in dollars, and the indexing mechanisms that are increasingly less linked to inflation and more linked to the dollar and the use

of certain financial mechanisms such as coverage mechanisms for businesses and homes, vulnerable to the capacity of our national currencies to be able to act as a means of payment with unique redeeming power, regardless of internal debts.

The erosion of these skills implied that the monetary mass, or the mass of means for payment available in the economy, increasingly responds less to the possibility of expanding the productive apparatus and is increasingly more at the mercy of the speculative expectations of foreign exchange markets. Rather than devaluation leading to inflation, it is the dominant position of the major oligarchies in foreign exchange markets that make the exchange rate rise, and then feed back into the inflationary process.

This inflationary-devaluation spiral that significantly undermines the fiscal capacity of our countries, breaks the logic of sustainable budgetary management. This dynamic will be further aggravated by the debt crisis given the rising cost of the foreign debt of our countries paid in dollars that are gaining in value and the rising interest rates, accompanied by the generation of local income in an increasingly weaker national currency that is increasingly subject to inflationary pressures.

Here there is a paradox, for the panegyrics of Neoliberalism all of the money that is given to the banks or the private sector through financial rescue packages for example, is not inflationary, but the money that is lent to governments for the construction of schools, colleges, hospitals, infrastructure work for production is inflationary. Moreover, in an even more absurd paradox the money that comes from foreign loans – if invested in the same schools, colleges, hospitals, infrastructure work, is not inflationary, but if we do it with sovereign credit through the Central Bank, this does constitute an inflationary process. This faith dogma has oriented the economic policy of the past decades in a transversal manner, leading to a deterioration both in terms of monetary, financial and fiscal policy and regarding the foreign sector, which feed each other in an increasingly unstable manner.

For this reason, when we discuss the Banco del Sur project we leave the door open to empower the national currencies or even for the eventual use of a regional currency. The need to create a supra-national space for monetary sovereignty that constitutes the third pillar of the South American proposal for the New International Financial Architecture, is a gradual process. It cannot take place overnight but should be oriented toward the basic objective of linking the currency – this type of alternative currency – which is not necessarily a physical currency and does not

necessarily have to replace national currencies – to real transactions, which is to say that the currency stops being a vehicle for speculation, for exploitation, for capital flight, for asymmetries, for exclusion, but becomes a mechanism to validate the wealth generated by people's work, possibilities for exchange, an expression of people's complementary nature, their creativity and to realize potential with communities, territories, which are currently completely blocked by this excluding, short-term logic, that demands a high rate of return.

In this sense, we have recovered the historical experiences of the payment compensation system used by central banks at an international level, through the design of a payment compensation that does not require the direct use of funds – based on the weakness of our macroeconomic packages and which is also in the heart of the financial trans-nationalization that we have experienced in recent decades. This makes it possible to save a significant amount of resources that alleviate much of the anguish to obtain dollars given our position in the international division of labour, which is only resolved by net, positive exports, whose competitiveness is based on cheapening the labour force and nature as we have mentioned.

HOW DOES SUCRE WORK? HOW WILL IT HELP TO REDUCE THE USE OF THE DOLLAR IN THE REGION?

The SUCRE constitutes a currency that is not based on the neoliberal restriction of the Euro and unlike the erosion of national sovereignty that the European construction has implied in the recent period, it is a premise to recover the role of national currencies. Because in reducing the vulnerability and uncertainty of the external, financial and fiscal sector and by increasing the space of domestic policy in these spheres, we are creating the conditions to recover the internal capacity of each country and also to open major possibilities to generate sovereign capacity at a local level, from the grassroots.

The Unitary Compensation System of Regional Payments or SUCRE, of the ALBA, specifically consists in opening a type of reciprocal credit line between central banks that will make it possible to reduce the need for dollars in transactions between our countries. For example, in a hypothetical case of imports that Peru does of Colombian products, the

Peruvian importer, after agreeing to the transaction with the Colombian exporter, must contract a private bank in the country to make the payment and this private bank in Peru must have a private branch in the United States, which then must go through the U.S. Federal Reserve through a Swift mechanism. In order to communicate with the private corresponding bank in the United States of the bank from the Colombian exporter, payment must be made to the private bank in Colombian and only then can it liquidate the operation and pay the export. All of this takes place without taking into consideration the relationship between the exporter and the final producer.

This current scheme generates totally artificial additional demand on the regional foreign exchange market. For example, in a hypothetical case of bilateral trade between Peru and Colombia, in which total Peruvian exports reach \$500 million and Colombian exports reach \$750 million, there is total artificial demand for \$1.25 billion between the two countries. This pressure on the exchange market generates volatility that leads to significant imbalances that have an impact on trade policies, exchange rate policies and the foreign sector in general in each country. However, it is not only the internal pressures of the internal exchange rate markets that are generating these destabilizing mechanism but in many cases the pressure in the exchange rate market in Brazil is generating a series of problems in the macroeconomic management and the financial stability of Argentina, Uruguay, Paraguay.

All of these steps involve first of all, time, second cost for commissions in each of the steps, third risk, because each of these steps involve a problem of confidence. If once the payment is made, in any of the steps, if the involved bank goes bankrupt or suspends its payments or does not trust the other bank, it simply suspends the payment. In the financial crisis in Latin American we know cases in which the payment was made through the bank and the payment never reached the final beneficiary. All of these elements involve entry barriers for a significant number of actors, which reinforces the fact that the export trade, even at a regional level, has been managed by big companies and specialists linked to the banks. If for big companies, the current international trade scheme that we have described, leads to significant costs and elements of uncertainty about whether or not to participate in the markets, for the bulk of economic actors, including middle, small and micro companies, cooperatives, community groups and another number of social actors, this logic simply leaves them out.

This trade scheme is imposed not only in the trade relations between our countries and the United States, but also with the other regional blocks in an absolutely artificial situation based on strength and blackmail. The bulk of oil transactions, a high proportion of transactions involving commodities, including food and almost all financial transactions are done in dollars, even though they do not involve the United States, and they must also pass through the Swift system, which is a private system, and the U.S. Federal Reserve.

If we had these significant savings, not only would it liberate resources and tension in the foreign sector in our countries, but would also broaden the monetary and financial policy space, as it would no longer be necessary to raise interest rates to maintain the exchange rate, as has been taking place. In this way, the debt services of homes, businesses and the government itself would be reduced, liberating resources for productive investment or the welfare of the people. It would not only broaden the action of the state but also that of other actors, which could lead to less instability given that both the interest rates and the exchange rate would be more stability. Herein lies the fundamental difference with the Euro.

The SUCRE completely reduces these steps. In a direct manner the financial agent of the exporter or the director producer, which in Ecuador could be a private bank or a cooperative, electronically connect to the payment system through their Central Bank, with the Central Bank of the importing nation, which according to the internal sovereignty of each country and domestic arrangements, then connects with the private bank or the financial agent of the importer to carry out the transaction. This scheme would reduce time, cost and drastically reduce the uncertainty associated with these processes. Moreover, when the transaction is perfected with the delivery, the Central Bank of the importing nation would credit payment in national currency to the financial agent of the exporting nation according to domestic law.

Central banks reciprocally open credit for an amount defined by the maximum administration and monitoring of SUCRE, the Regional Monetary Council, and when this quota is filled, they have facilities to broaden the quota. As it is directly backed by real transaction there is no possibility that it can become a speculative bubble, because it is directly linked to the real export of goods.

The responsibility of each bank is exclusively limited to the contribution in the respective national currency for the purchase of their quota of sucres, without any financial or fiscal cost because it is a sovereign issuance. In the system's assets the contribution of

each of the countries is registered in national currency while in the liabilities the emission is in sucres. In terms of the budgetary cost, with the exception of Ecuador, which has the case of the dollar and which requires a special bonus in national currency, all the contributions in sucres have no cost, are sovereign emissions, that cannot go beyond the quota assigned to each country. In the case of a central bank which is facing tension due to a systemic internal financial crisis, the sucres continue to operate against the account of the Regional Monetary Council in each of the participating countries. There is always accounting discipline in each country.

We are talking about transactions that are done in real time, that make it possible to lower the threshold that has impeded new actors with another economic logic, that is not necessarily capitalist, from creating new markets and here is the key for everything that we are proposing. In reality we are not talking about a traditional Statist proposal. We are talking about a more decisive participation of the State through the central banks but above all we are talking about the need to create more markets, but not markets typically controlled by political oligarchies and by transnationals, governed by a short-term logic with high interest rates, which have obviously left out an immense number of social actors, but rather inclusive markets, that make it possible to make viable the production that people have generated from territories and communities. This opens an enormous spectrum of interests that to date do not have anywhere to go, precisely because of these ideological issues we have mentioned, and which have the support of those who have benefited up until now from the status quo, in particular the financial system in our countries and the commercial houses that traditionally benefit from the traditional circuit of foreign trade.

However, even these actors have a great deal to gain with the new SUCRE scheme through, for example, the significant savings for the commercial houses themselves. In a recent transaction between Ecuador and Bolivia, one of the major exporting firms publicly intervened in a recent conference and said "Look, in reality, with this mechanism things have been very easy, without any type of bureaucratic management, in 48 hours we have been able to carry out a complete transaction..." and immediately the importer Ecuador saved 5 percent in the transaction and Venezuela 15 percent, which is to say there is a significant competitive advantage. Currently there are very few transactions going through the system but it is evident that there will be a qualitative leap when the false fears that have been stirred up are put to rest and people realize this a very pragmatic question.

WHAT ARE THE MAIN RISKS OR CHALLENGES THAT THE NEW ARCHITECTURE CONFRONTS?

I believe that in general, the process of Latin American integration is marked by a contradiction between the call of the people for integration and the obstacles that are still represented by the inertia of all the neoliberal thought regarding criteria of rationality and reason, of what is possible to do and what is technically necessary. Moreover, all of this is more complex as this type of “common sense” represents a determined correlation of strengths in the ideological arena, which serves the interests of the sectors and classes historically linked to the neoliberal project and the maintenance of a situation of dependency, exploitation and permanent delay in our countries.

This circumstance has created a vital urgency and therefore there is the need to close the gap between this historical and ethical will of our peoples and the lack of alternative, technical, rigorous and creative alternative proposals. We must swiftly advance in the debate and the mobilization of professionals, universities, intellectuals and technicians to explore new and better alternatives.

Unlike what happened in Latin American some 40 or 50 years ago, in which the academic world accompanied the processes of social transformation through a broad spectrum of currents of thought such as those proposals born in CEPAL, the theories of dependency, or debate that emerged in the heart of different factions of the left, which permeated not only academic, professional and technical circles but also cultural and political. Unfortunately this process has not taken place now, despite the fact that, at least the Ecuadorian delegation, has made every effort to convene intellectuals, academics and social movements of grassroots organizations to actively participate – in providing critical, constructive so as to enhance the debates and negotiations around Banco del Sur with content.

This situation represents a basic warning. If the process of designing and constructing the Bank turns into something decided by a group of technocrats holding discussions behind closed doors, there is an enormous risk that the initial transforming spirit that was present in the launch of the Banco del Sur and the New regional Financial Architecture will be lost.

However, changing this situation implies a series of challenges, not only on the technical front or regarding diplomatic negotiations, but also political challenges. For this, the Ecuadorian delegation, overcoming all types of technocratic ingenuity, has focused its effort in promoting designs that permit the viability of a new type of social coalitions that are much broader. From the strategic interest of the nations and grassroots sectors, this makes it possible to generate a new spectrum of actors with a significant stake in providing the necessary impulse for the new financial architecture.

Founded in 1974, TNI is an international network of activist scholars committed to critical analyses of the global problems of today and tomorrow. It aims to provide intellectual support to grassroots movements concerned to steer the world in a democratic, equitable and environmentally sustainable direction. In the spirit of public scholarship, and aligned to no political party, TNI seeks to create and promote international co-operation in analysing and finding possible solutions to such global problems as militarism and conflict, poverty and marginalisation, social injustice and environmental degradation.

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Together with the Hemispheric Social Alliance (Latin America), Southern African People's Solidarity Network-SAPSN (Southern Africa), Solidarity for Asian People's Advocacy – SAPA (South East Asia), People's SAARC (South Asia) as well as organisations and networks in Europe, TNI established the initiative People's Agenda for Alternative Regionalisms (PAAR).

*The networks and the organisations in PAAR share a strong commitment on the need to **RECLAIM** the regions, **RECREATE** the processes of regional integration and **ADVANCE** people-centered regional alternatives.*

The People's Agenda for Alternative Regionalisms is an effort to promote cross-fertilisation of experiences on regional alternatives among social movements and civil society organisations from Asia, Africa, Latin America and Europe and contribute to the understanding of alternative regional integration as a key strategy to struggle against neoliberal globalisation to broaden the base among key social actors for political debate and action around regional integration.

Specifically, it aims to build trans-regional processes to develop the concept of "people's integration", articulate the development of new analyses and insights on key regional issues, expose the problems of neoliberal regional integration and the limits of the export-led integration model, share and develop joint tactics and strategies for critical engagement with regional integration processes as well as the development of people's alternatives.

For further reading see also the PAAR website: www.alternative-regionalisms.org and the TNI website: www.tni.org

For more on the new regional financial architecture in Latin America watch Oscar Ugarteche's speech at the PAAR organised seminar on Alternative Regionalisms at the ASEAN People's Forum in Jakarta in May 2011. <http://blip.tv/transnational-institute/seminar-on-alternative-regionalisms-in-jakarta-5487672>

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