

UNCTAD
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Southern Development Banks

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Southern Development Banks

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(Center of Concern)

Monterrey Consensus (2002)

- Development banks, commercial and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance, including equity financing, for such enterprises, as well as an adequate supply of medium- and long term credit. (para. 18)
- We urge international financial institutions, including the regional development banks, to continue to support projects that promote subregional and regional integration among developing countries and countries with economies in transition. (para 32)
- Strengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, enhancing ownership and overall efficiency. They also serve as a vital source of knowledge and expertise on economic growth and development for their developing member countries. (para. 45)

World Conference on Financial Crisis and Its Impacts on Development (2009)

- “Given the sensitivity of regional and subregional institutions to the specific needs of their constituencies, we note the value of regional and subregional cooperation efforts in meeting the challenges of the global economic crisis and we encourage enhanced regional and subregional cooperation, for example, through regional and subregional development banks, commercial and reserve currency arrangements, and other regional initiatives, **as contributions to the multilateral response to the current crisis and to improved resilience to potential future crises.**” (para. 20)

Backdrop: the global economy

- Slowdown in world demand (and trade)
- Uncertainty (Europe, United States)

Changing paradigms

- Southern countries in a situation of surplus (question of where to get the funding no longer imperative)
- Reserves being invested at suboptimal rates
- Recovery role of the State, strategic actor in economy
- Private sector, market-based approaches, discredited as guarantees of solvency or anti-corruption

Response to the global financial crisis

(I)

- Importance of a diversified economy as guarantee of macroeconomic stability

Crisis exposure and structure of the economy

Development banks as a tool to enhance diversification / export-investment nexus

- Intra-regional and South-South trade

Development banks as a tool to incentivize intra-regional and S-S trade

Response to the global financial crisis

(II)

- Need to identify sources of long term, stable development finance, countercyclical

Development Banks offer a South-South mutualized support in case other things fail

(countercyclical role)

- Diversity of economic approaches

Avoids “one-size-fits-all”

... and consequently a safeguard against risks to systemic stability

(but “G20 Principles for cooperation” : “Consistency of lending conditions should be sought to the extent possible”
“)

Bank of the South

- **Foundational documents (2007):**
 - > To finance economic, social and environmental development of members In a balanced and stable way making use of intra- and extra-regional savings
 - > Reduce asymmetries
 - > Promote equitable distribution of investment among member countries
- **Status:** Ratifications of majority of members representing 70 % of capital (Venezuela, Bolivia, Ecuador, Argentina, Uruguay)

Bank of the South (II)

- **Capital contributions:** (paid-in and callable capital)
- **Governance innovations:**
Voice of DCs: small countries, proportionally greater
Voting system: Majority of members (with exceptions)
- **Financing of regional projects:** overcomes difficulties of global lenders

Bank of the South (III)

- **Potential to innovate on monetary policies (reduce dependence on hard currencies):**

Financing in local currencies

- – as borrower : create markets for local currency-denominated bonds of LA countries. Other more favorable modalities?
- – and as lender: free forex reserves of borrowing countries, no longer needed as a provision against such loans

Bank of the South (IV)

--Where to get funding?

Autonomy

FTTs, SDRs, other resources

--How to lend? “Second floor banking”

--Safeguards: social, environmental, human rights, transparency, responsible lending

END OF PRESENTATION