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Latinoamericano y del Caribe
Latin American and Caribbean
Economic System
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Latino-Americano e do Caribe
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Latinoaméricain et Caribéen

Latin American and Caribbean experiences with monetary and financial cooperation. Critical balance and proposals for actions with a regional scope

Regional Meeting: Reform of the International Financial Architecture
and Monetary and Financial Cooperation in Latin America and the Caribbean
Caracas, Venezuela
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FOREWORD

The study "Latin American and Caribbean experiences with monetary and financial cooperation. Critical balance and proposals for actions with a regional scope" is in line with the Project II.1.2 of the Work Programme of the Permanent Secretariat of SELA for the year 2009. It is aimed at analyzing the Latin American and Caribbean experiences with financial cooperation and identifying the international and regional conditions that could allow for the progress of such cooperation with a view to considering the proposal to create a regional financial architecture for Latin America and the Caribbean.

To that end, three essential components of this architecture are identified, namely a Regional Development Bank, a Regional Contingency Fund and a Regional Monetary Space, formulating for each of them a set of proposals related to operating objectives and criteria and identifying them as spaces for strengthening the current financial cooperation and, above all, spreading such cooperation at new levels and towards new areas.

This final version includes information about the recent proposals to create a regional financial architecture and analyzes the increasing convergence of the various initiatives currently underway, made up of the largest possible number of Latin American and Caribbean countries and dealing with not only the access to appropriate financing conditions and amounts but also the establishment of other instruments which as a whole may reduce the vulnerability of the region to the problems and swings of the current international monetary-financial order. This would help the region to achieve the autonomy level it requires to appropriately face the immediate and mediate obstacles the global environment poses to the development of the countries of the region.

The Permanent Secretariat of SELA expresses its gratitude to Jaime Estay for his consultancy work in the preparation of this document.

EXECUTIVE SUMMARY

This study offers a revision of the experiences with monetary and financial cooperation in Latin America and the Caribbean. It is divided into four chapters.

The first chapter identifies some of the main problems of the current international monetary and financial order, within the context of the ongoing global economic crisis and particularly the weight that the issues related to the possible redefinition of that order has in the debates and actions undertaken to face the crisis. For this purpose, this paper reviews the proposals made at the two multilateral forums where, thus far, efforts have concentrated with the purpose of finding coordinated responses to the crisis: the Group of Twenty (G-20), in its meetings in November 2008 and April 2009, and the United Nations Summit held from 24 to 30 June 2009 to discuss the subject. The document compares developments at those two forums, in terms of the countries represented in them, the power they have to turn their agreements into concrete actions and the contents and scope of their main proposals.

After a brief introduction, the second chapter also makes a brief mention of two strategies for monetary and financial cooperation emerging in other regions (ASEAN+3 and the Gulf Cooperation Council), where participating countries are seeking a greater degree of autonomy to handle the problems that have affected the international scene for some time now through initiatives that are quite similar to those being proposed in Latin America.

The third chapter reviews the experiences of the financial and monetary cooperation institutions which have been operating in Latin America, in some cases for decades, with special emphasis on the subregional integration processes. It describes their main characteristics and evaluates the achievements made by these financial and monetary institutions in pursuing their goals, as well as their overall performance in the process to consolidate and deepen regional integration.

Thus, the analysis focuses on the cooperation institutions corresponding to the Andean Community (CAN), the Central American Integration System (SICA), the Caribbean Community (CARICOM), the Common Market of the South (MERCOSUR), and the Latin American Integration Association (ALADI), with a critical assessment of developments at the Andean Development Corporation (CAF), the Latin American Reserve Fund (FLAR), the Central American Bank for Economic Integration (CABEI), the Caribbean Development Bank (CDB), the Currency Union of the Organization of Eastern Caribbean States, the Plata Basin Financial Development Fund (FONPLATA), and the Agreement on Reciprocal Payments and Credits of ALADI. In addition, an analysis is made of the performance of the Inter-American Development Bank (IDB) as a multilateral financial institution with a regional scope.

An analysis is made of the legal frameworks of these institutions, their constitutive agreements, their basic principles and purposes, their operating structures, the volumes, composition and origin of their resources, and the destination of their loans and the conditions for granting them. This review provides an overview that allows for making a comprehensive comparative assessment of the degree of compliance of the various financial institutions with their objectives and the restrictions and limitations faced by these institutions in their operations, some of which are of a structural nature.

The fourth chapter analyses recent monetary and financial cooperation initiatives proposed in Latin America and the Caribbean over the last few years or months, which

are already underway or nearly so, identifying the main contents of such initiatives and the actions that they have undertaken, in the case of the ongoing initiatives.

The review of these initiatives starts with the Local Currency Payment System which began to operate between Argentina and Brazil in October 2008 and already has some initial results. It goes on by analyzing the achievements made by the Bolivarian Alliance for the Peoples of the Americas- People's Trade Agreement (ALBA-TCP) in the area of monetary and financial cooperation, identifying the main features of the three instruments for such cooperation. Two of them are instruments to be applied within the Alliance itself, even though they can be extended to other countries in the region, namely: the ALBA Bank, whose Foundational Act was signed in January 2008, and the Regional Clearance Unitary System (SUCRE), made up by a Regional Monetary Council, a Common Account Unit (Sucre), a Central Clearance Chamber and a Reserve and Trade Convergence Fund. The third instrument, established by Venezuela as part of its energy cooperation with the Caribbean and created simultaneously with Petrocaribe, is the ALBA-Caribe Fund.

The fourth chapter also offers a review of the Bank of the South, which is about to start operations and represents the most relevant initiative recently undertaken as regards regional financial institutions in Latin America, in view of its objectives and operation modalities as defined with its creation, its membership and the amount of resources allocated for it.

The fifth chapter concludes with a balance of the global situation from the perspective of traditional and new monetary and financial cooperation initiatives in Latin America and the Caribbean, identifying their common elements and main differences as regards their orientations. Based on this, the study identifies the international and regional conditions that could allow for making progress with monetary and financial cooperation in the region, and analyzes the proposal to move ahead with the creation of a regional financial architecture for Latin America and the Caribbean.

For this purpose, the study identifies the three basic components of this architecture, namely: a Regional Development Bank, a Regional Contingency Fund and a Regional Monetary Space, outlining for each one of them a series of proposals as regards their objectives and operation criteria, and defining them as spaces to consolidate already existing financial cooperation mechanisms and, particularly, to expand such cooperation to new levels and new scopes.

These proposals, that form part of the prospects to creation the new regional financial architecture, envisage the gradual convergence of the various existing initiatives by incorporating the largest possible number of Latin American and Caribbean countries, and covering not only those aspects related to access to loans and appropriate financing conditions, but also the creation of other instruments that allow for reducing the region's vulnerability vis-à-vis the problems and ups and downs of the current international monetary and financial order, so as to generate the degrees of autonomy required by the region in order to face, in an appropriate way, the direct and indirect obstacles posed by the global scenario and hindering development in the countries of region.

I. INTRODUCTION

This document deals with monetary and financial cooperation in Latin America and the Caribbean, underscoring the need to strengthen and extend this cooperation so that the region achieves higher levels of autonomy compared to the current operation of the international monetary and financial system. To this end, the study identifies some elements, as well as the global and some regional proposals on this matter in the context of the current world crisis, and reviews the main characteristics of the monetary and financial cooperation institutions and mechanisms in our region. Emphasis is made on those elements established a long time ago, as well as those that have been recently created – or are in process to be created – to conclude with a set of considerations and proposals for actions aimed at strengthening regional cooperation in this area.

An immediate precedent of this study is a document prepared by the Permanent Secretariat of SELA titled "Regional Clearance Unitary System (SUCRE): Purpose, background and necessary conditions for its implementation" (SP/Di No 1-09), which reviewed the SUCRE proposal and identified some conditions so that this proposal can meet the goals established for its creation.

II. CURRENT MONETARY AND FINANCIAL SITUATION AND RESPONSES UNDERWAY AT THE MULTILATERAL AND REGIONAL LEVELS

1. The G-20 and the UN General Assembly

In the context of the world economic crisis that broke out in 2007 in the U.S. real estate sector, the operation of the international financial system has become a top priority in both the debates on the causes and contents of the crisis and the actions being discussed and adopted in different areas. In view of the multiple evidences of trends and hurdles in this operation that are behind the outbreak of the crisis, the reform of the international financial architecture gains particular relevance today, although with significant differences in the way the subject is dealt with and in the proposals arising from it.

At the multilateral level, this subject has played a central role in the two recent Summits of the Group of the Twenty (G-20)[1], which so far has become the main space for the definition of intergovernmental responses to the crisis.

In the first of those summits, held on 15 November 2008 in Washington, the "the financial market reform" was the main issue of the Final Report on the meeting and, as regards this reform, five principles and a plan of action were defined in the Report, with each principle being associated to a set of measures.[2] In a document dated April 2009 and

[1] The G-20 is made up of the European Union, as a group, and nineteen countries: Germany, Saudi Arabia, Argentina, Australia, Brazil, Canada, China, South Korea, United States, France, India, Indonesia, Italy, Japan, Mexico, United Kingdom, Russia, South Africa and Turkey. Both meetings were also attended by Netherlands and Spain.

[2] To deal with the five principles, participants in the Washington Summit gathered in four working groups (1-Enhancing sound regulation and strengthening transparency; 2- Reinforcing international cooperation and promoting integrity in financial markets; 3- Reforming the IMF; and, 4- The World Bank and other multilateral development banks), which submitted their reports just before the following Summit.

prepared by the Permanent Secretariat of SELA (2009a), a summary of those principles and measures were submitted as follows:

"**Principle 1**: 'Strengthening Transparency and Accountability' through the definition of five 'immediate actions by 31 March 2009' and three 'mid-term actions'. Among the first ones are the identification of weaknesses in accounting and enhancement in guidance for valuation of securities and international accounting standards; among the second ones are the creation of a single high-quality global standard and its consistent implementation, as well as the availability of complete information on the financial institutions' financial statements.

"**Principle 2**: 'Enhancing Sound Regulation', divided into 'regulatory regimes', 'prudential oversight' and 'risk management', through the definition of 12 immediate actions and eight mid-term actions. Among the first ones are: The IMF and the Financial Stability Forum (FSF) 'should develop recommendations to mitigate pro-cyclicality'; regulators should take steps to ensure 'that credit rating agencies meet the highest standards' and 'the financial firms implement policies to better manage liquidity risk'; 'authorities should ensure that financial institutions maintain adequate capital in amounts necessary to sustain confidence'; and 'banks should exercise effective risk management and due diligence over structured products and securitization.'

"The mid-term actions include: 'To the extent countries or regions have not already done so, each country or region pledges to review and report on the structure and principles of its regulatory system'; 'a review of the scope of financial regulation, with a special emphasis on institutions, instruments, and markets that are currently unregulated, along with ensuring that all systemically-important institutions are appropriately regulated'; 'Credit Ratings Agencies that provide public ratings should be registered'; 'liquidity supervision of cross-border banks' should be developed; and 'authorities should monitor substantial changes in asset prices and their implications for the macroeconomy and the financial system.'

"**Principle 3**: 'Promoting Integrity in Financial Markets' through the definition of three immediate actions and three mid-term actions. Among the first ones are the following: 'National and regional authorities should work together to enhance cooperation'; they should also review business conduct rules should promote the exchange of information among them; these authorities should also review business conduct rules; and, 'in case of misconduct, there should be an appropriate sanctions regime'. The second actions include: National and international measures should be implemented to protect the global financial system from uncooperative and non-transparent jurisdictions and 'a failure to exchange tax information should be vigorously addressed'.

"**Principle 4**: 'Reinforcing International Cooperation' through the definition of two immediate actions and two mid-term actions. Among the first ones, major global banks should meet regularly with their supervisory college, and crisis management arrangements should be strengthened and simulation exercises should be conducted. Among the second ones, the authorities should collect information on areas where regulatory practices in need of accelerated progress converge.

"**Principle 5**: 'Reforming International Financial Institutions' through the definition of six immediate actions and three mid-term actions. Among the first ones are the following: The FSF should expand; the IMF should strengthen their collaboration; the adequacy of

> the resources of the IMF, the World Bank Group and other multilateral development banks should be reviewed; 'ways to restore emerging and developing countries' access to credit' should be explored and 'private capital flows which are critical for sustainable growth and development should be resumed'; and multilateral development banks should support 'those countries with a good track record and sound policies.'
>
> "The mid-term actions include: the Bretton Woods Institutions must be comprehensively reformed so that they 'can more adequately reflect changing economic weights in the world economy'; and 'advanced economies, the IMF, and other international organizations should provide capacity-building programs for emerging market economies and developing countries on the formulation and the implementation of new major regulations, consistent with international standards.' "

In the G-20 meeting, held on 2 April 2009 in London, the reform of the financial markets was also a largely debated issue, which was evidenced in the Final Communiqué of the meeting and in two Declarations attached to this report and titled "Declaration on strengthening the financial system" and "Declaration on delivering resources through the international financial institutions."[3]

The most relevant commitments adopted in the April meeting, which refer to an increase in resources available to international financial organizations – particularly the IMF –, are set forth in the Leaders Statement as follows (G-20, 2009):

> "The agreements we have reached today, to treble resources available to the IMF to US$ 750 billion, to support a new special drawing rights (SDR) allocation of US$ 250 billion, to support at least US$ 100 billion of additional lending by the multilateral development banks (MDBs), to ensure US$ 250 billion of support for trade finance, and to use the additional resources from agreed IMF gold sales for concessional finance for the poorest countries, constitute an additional US$ 1.1 trillion programme of support to restore credit, growth and jobs in the world economy. Together with the measures we have each taken nationally, this constitutes a global plan for recovery on an unprecedented scale."

This Communiqué also includes two sections (from a total of six) on financial markets:

- In the first section, titled "Strengthening financial supervision and regulation", participants recognized that "major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis" and announced that "we each agree to ensure our domestic regulatory systems are strong. But we also agree to establish the much greater consistency and systematic cooperation between countries, and the framework of internationally agreed high standards that a global financial system requires." After expressing that the Action Plan agreed in November 2008 is implemented, the following measures are announced: to establish a new Financial Stability Board with a strengthened mandate, as a successor to the Financial Stability Forum; to reshape our regulatory systems; to extend regulation and

[3] Due to space constraints, details of the contents of both Declarations will not be fully shown here. The first one ("Strengthening the financial systems") takes stock of the compliance with the Action Plan agreed upon in the Summit held in November 2008, and the second one ("Delivering resources through international financial institutions") refers to some agreements set forth in the Communiqué of the London Summit, to be discussed below.

oversight to all systemically important financial institutions, instruments and markets; to implement tough new principles on pay and compensation; to improve the quality, quantity, and international consistency of capital in the banking system; to take action against non-cooperative jurisdictions, including tax havens; and, to extend regulatory oversight and registration to Credit Rating Agencies.

- In the following section, titled “Strengthening our global financial institutions”, participants agreed to make available additional resources through “the global financial institutions to support growth in emerging market and developing countries” and express that “In order for our financial institutions to help manage the crisis and prevent future crises we must strengthen their longer term relevance, effectiveness and legitimacy”. To that end, they announce that they “will reform their mandates, scope and governance.” In this connection, they list some actions “to increase the credibility and accountability of the institutions through better strategic oversight and decision making”: to implement the agreed upon reforms and include new reforms in the package of IMF quota; to give greater involvement of the Fund’s Governors and increasing the accountability of the body; to implement the agreed upon reforms and to look forward to further recommendations on representation in the World Bank; to appoint heads and senior leadership of the international financial institutions “through an open, transparent, and merit-based selection process”; and to agree on “the desirability of a new global consensus on the key values and principles that will promote sustainable economic activity.”

After the London Summit, some commitments have been undertaken to make additional resources available to multilateral financial organizations, particularly to the IMF for a total of US$ 500 billion, which the organization has almost totally committed and will be obtained through bilateral loans and promissory notes.

Furthermore, in the G-20 meeting of ministers of Finances held on 5 September 2009 – in preparation for the following Summit to take place on 24 and 25 the same month in Pittsburgh, United States – it was decided to maintain the package of measures to face the crisis defined in the two previous Summits, although this agreement was accompanied by opinions on a near solution to the crisis.

As regards the main agreements reached in the G-20 Summits held in November 2008 and April 2009, there have been opposite stances among participants, for example, about the relative weight attached in the package of measures to the increase in regulations vis-à-vis the efforts to dynamize the economy; to the increase in resources for international financial institutions; to the treatment of non-cooperative jurisdictions. However, beyond those differences that did not prevent participants from reaching the agreements, there are two elements related to the international monetary and financial order that are important to emphasize as regards these meetings:

- On the one hand, the fact that the decisions made particularly in the April meeting represent a “re-launch” of the IMF, not only due to the commitments to multiply its resources, but also to the promises to change some of its operating characteristics which have been widely rejected for a long time, particularly by the developing countries and multiple social movements and organizations. The potential changes in the quota system, the accountability practices and the relative weight and election methods of its directing bodies, as well as a reform in the credit and conditionality mechanisms that were announced by the Fund on 24 March 2009[4] – i.e. the week before the G-20 Summit in April – clearly aim at recovering the credibility of the organization.

- The second element refers to the lack of measures on – and references to – the monetary base for the operation of the international economy in the agreements of both summits. In spite of the many reasons that, according to several experts and institutions, make it necessary to conduct an in-depth analysis on the role of the dollar as an international currency, this subject is not expected to be included in the G-20 agenda in the near future. Therefore, according to several relevant opinions, it is important to question if this group is willing to undertake these changes, as well as to anticipate the permanence of structural problems of the present international order that originated the current world crisis.

  In this connection, it should be underscored that the members of the BRIC group (Brazil, Russia, India and China, all of them members of the G-20) have made statements on the need to discuss the subject, but there is no mention about it in the final communiqués of the summits. During the period immediately before the summit held in March 2009, Russia and China issued declarations in this regard:[5]

  - On the one hand, on 16 March, the president of Russia, Dmitry Medvedev [2009: 3], expressed in a document of proposals to the London Summit as follows: "We call for a reform of the international monetary and financial system to enhance its stability and eliminate global economic disproportions (or to reduce the risk of their emergence)". He suggested the "diversification of the list of currencies used as reserve, based on agreed measures to promote the development of major regional financial centres" and the "introduction of a supra-national reserve currency to be issued by international financial institutions".

  - On the other hand, on 23 March 2009, the governor of the People's Bank of China, Zhou Xiaochuan [2009], issued a communiqué to express that "the outbreak of the crisis and its spillover to the entire world reflect the inherent vulnerabilities and systemic risks in the existing international monetary system", and that "the desirable goal of reforming the international monetary system [...] is to create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies". Afterwards, he suggested gradually replacing the dollar with the SDRs.

Moreover, the Final Communiqué of the Summit of the BRIC Group, held on 16 June 2009 in Yekaterinburg, Russia, besides calling for fulfilling the commitments adopted by the G-20 in March, insisting on complying with specific contents of such agreements and recalling the old commitment of the developed countries to allocate 0.7 percent of their Gross Domestic Product to Official Development Assistance (ODA), among other aspects,

[4] According to information from the IMF (2009), the main elements of the reform are: modernize conditionalities; flexibilize credit lines; strengthen stand-by agreements; double limits for access to financing; simplify cost and expiry structures; simplify the range of financial services; and reform services for low-income countries.

[5] At that time, the BRIC Group also commented about the issue in the Communiqué issued at the end of the meeting held among the Ministers of Finance of the Member States on 14 March, although this comment only expresses that: "We call for the study of developments in the international monetary system, including the role of reserve currencies" (BRIC 2009).

stated that "we also believe there is a strong need for a stable, predictable and more diversified international monetary system", which was widely spread by the press and considered an open criticism of the dollar.

A second international space of the utmost significance – and with a larger representation than the G-20 – is the United Nations General Assembly, which undertook the task to evaluate and formulate proposals about the crisis. Considering the agreement set forth in the final declaration of the Doha Summit on Financing for Development, held in Doha from 29 November to 2 December 2008, the President of the UN General Assembly, Miguel D' Escoto, convened a high-level conference to analyze the crisis and established a working group of experts to review the operation of the world financial system, including bodies such as the World Bank and the IMF, and to suggest measures that could be adopted by the Member States of the Organization to achieve a more sustainable and fair world economic order.

This commission of experts, chaired by Joseph Stiglitz and comprised also of representatives from Japan, Western Europe, Africa, Latin America, South and East Asia, submitted in April 2009 a document with a series of recommendations[6] about the change in the global economic structure to overcome the world economic crisis and avoid its repetition.

In the preamble of the document of recommendations, the commission expresses that the current crisis (Stiglitz and others, 2009) "provides tangible evidence that the international trade and financial system needs to be profoundly reformed to meet the needs and changed conditions of the 21st century", and later in the document it adds:

> "Without a truly inclusive response, recognizing the importance of all countries in the reform process, global economic stability cannot be restored, and economic growth, as well as poverty reduction worldwide will be threatened. [...] This inclusive global response will require the participation of the entire international community; it must encompass more than the G-7 or G-8 or G-20, but the representatives of the entire planet, the G-192."

After underscoring the need to expand the space for discussion and definition of strategies to face the crisis, allowing the participation of more than 170 countries that in the G-20 do not enjoy it, the Commission offers a series of considerations about the nature of the crisis, its causes, the type of responses required to overcome it and the principles that should govern those responses and, afterwards, it presents a set of 10 immediate actions to face the crisis. For the purposes of this work, some of those measures worth mentioning are:

- All developed countries should take strong, coordinated, and effective actions to stimulate their economies, which should "include spending measures to be undertaken in developing countries", with 1 percent of the funding being implemented through grants and loans.

- Sources of funding for developing countries that could be activated quickly and "are not subject to inappropriate conditionality" are necessary. To that end, besides

[6] After submitting the document of recommendations, to be reviewed in this study, the Commission of Experts presented a larger document (Stiglitz and others, 2009a), which was also used as a reference in the high-level conference and where the Commission explains the reasons of their recommendations.

proposing the issuance of SDR, the same levels of ODA and the compliance with the commitments made in the Millennium Declaration, the Monterrey Consensus, the 2005 Global Summit, and the Doha Declaration, the Commission considers that:

> "...regional efforts to augment liquidity should be supported [...] Regional cooperation arrangements can be particularly effective because of a greater recognition of cross-border externalities and greater sensitivities to the distinctive conditions in neighbouring countries;"

- Developing countries require additional funding by the creation of a new credit facility and new methods for disbursement, providing "an efficient mechanism for mobilizing the funds available in countries that have accumulated large reserves."

- Developing countries need more policy space, since "Conditionality continues to be attached to official lending and support provided by international financial institutions." This larger space includes "policy frameworks that can help protect them from regulatory and macro-economic failures in systemically significant countries", as well as a recovery of their ability "to manage their capital account and financial systems."

- The lack of coherence between policies governing trade and finance must be rectified, since "policy space is circumscribed by a lack of resources and the imposition of conditionalities, as well as by international agreements that often accompany assistance. Many bilateral and multilateral trade agreements contain commitments that limit the ability of countries to respond to the current crisis with appropriate regulatory, structural and macro-economic reforms and rescue packages".

From the rest of the sections developed by the commission, the following recommendations are of the utmost significance:

- The creation of a new global reserve system: "The difficulties associated with the dominant use of a single national currency as the international reserve currency are well known, and solutions have been proposed in the form of a global reserve system. Such a system could be based on an expanded role for the special drawing rights, with regular or cyclically adjusted emissions calibrated to the size of reserve accumulations."

  In this connection, the document adds: "The risks of instability, deflationary bias and the potential accumulation of debt in a single-country reserve system have long been recognized. However, the crisis, and the problems that have emerged as a result in the current reserve system, has made reform a matter of urgency."

- Reforms "of the governance, accountability and transparency of the Bretton Woods institutions and other non-representative institutions that have come to play a role in the global financial system", and the creation of a global economic coordination council, which should be a level equivalent with the General Assembly and the UN Security Council, could thus provide "a democratically representative alternative to the Group of 20" and "would promote development, secure consistency and coherence in the policy goals of the major international organizations and support consensus-building among Governments on efficient and effective solutions for issues of global economic governance."

- An active management of foreign capital inflows will be required to ensure that they are supportive of the counter-cyclical policies of governments. “Developing countries should use all the tools at their disposal, including price interventions, quantitative restrictions and prudential regulations, in order to help manage international capital flows.”

- To lay the groundwork for a global financial regulatory authority and a global competition authority, as well as to create mechanisms for handling sovereign debt restructuring and cross-border investment disputes.

Two months after submitting the document with the recommendations of the Commission of Experts, from 24 to 26 June 2009, the “Conference on the World Financial and Economic Crisis and Its Impact on Development” adopted a resolution, from which some sections stand out as follows:

- “Major underlying factors in the current situation included inconsistent and insufficiently coordinated macroeconomic policies and inadequate structural reforms, which led to unsustainable global macroeconomic outcomes. These factors were made acute by major failures in financial regulation, supervision and monitoring of the financial sector, and inadequate surveillance and early warning”, which were compounded “by over-reliance on market self-regulation, overall lack of transparency, financial integrity and irresponsible behaviour.”

- “While recognizing the decisions taken by the G-20, we are resolved to strengthen the role of the United Nations and its Member States in economic and financial affairs, including its coordinating role.”

- “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.”

- “We also encourage developing countries in a position to do so to continue to make concrete efforts to increase and make more effective their South-South cooperation initiatives, in accordance with the principles of aid effectiveness. We reiterate our support for South-South cooperation, as well as triangular cooperation, which provide much-needed additional resources for the implementation of development programmes.”

- “The crisis has intensified calls by some States for reform of the current global reserve system to overcome its insufficiencies. We acknowledge the calls by many States for further study of the feasibility and advisability of a more efficient reserve system, including the possible function of SDRs in any such system and the complementary roles that could be played by various regional arrangements. We also acknowledge the importance of seeking consensus on the parameters of such a study and its implementation. We recognize the existence of new and existing regional and subregional economic and financial cooperation initiatives to address, inter alia, the liquidity shortfalls and the short-term balance-of-payment difficulties among its members.”

- “We support measures to enhance the financial and lending capacity of regional development banks. Furthermore, we recognize the importance of other regional, inter-regional and subregional initiatives and arrangements aimed at promoting development, cooperation and solidarity among their members.”

- “We recognize that it is imperative to undertake, as a matter of priority, a comprehensive and fast-tracked reform of IMF. We look forward to this accelerated progress in order to increase its credibility and accountability.”

As can be seen, the Outcome Document of the UN Conference does not include some of the recommendations of the Commission of Experts – particularly the one referred to the world economic council – but takes into account others, such as the support to regional cooperation efforts and a detailed analysis on the global reserve system.[7]

These two recommendations taken from the Final Report – which, according to what will be explained in the following section, square with the contents of the new initiatives underway in Latin America and the Caribbean – are evidence of the serious problems and the uncertainty affecting for a long time now the international monetary and financial area, as well as the need to create regional initiatives to overcome them.

2. Some regional initiatives on monetary and financial cooperation

For the definition and implementation of the initiatives being discussed in Latin America and the Caribbean, it is advisable to remember similar efforts of monetary and financial cooperation that, as a response to the world situation, are taking shape in other regions of the world. From those efforts, some processes stand out, such as those established within the framework of the Association of Southeast Asian Nations plus China, Japan and Korea (ASEAN+3) [8] and the Gulf Cooperation Council.[9]

As regards ASEAN+3, the immediate precedents of the initiatives on regional financial cooperation set up by the group are: on the one hand, the Asian financial crisis that broke out in 1997 and to which the ASEAN had no responses, remaining – except Malaysia – subject to implementation of the IMF-supported adjustment programmes; and on the other hand, the attempt led by Japan to create an Asian Monetary Fund to

[7] As regards this point, in an article released after the Conference, J. Stiglitz (2009) expresses his opinions as follows:
“The most sensitive issue touched upon by the UN conference – too sensitive to be discussed at the G-20 – was the reform of the global reserve system. The build-up of reserves contributes to global imbalances and insufficient global aggregate demand, as countries put aside hundreds of billions of dollars as a precaution against global volatility”.
“Not surprisingly, America, which benefits by getting trillions of dollars of loans from developing countries – now at almost no interest – was not enthusiastic about the discussion.”
“But, whether the U.S. likes it or not, the dollar reserve system is fraying; the question is only whether we move from the current system to an alternative in a haphazard way, or in a more careful and structured way. Those with large amounts of reserves know that holding dollars is a bad deal: no or low return and a high risk of inflation or currency depreciation, either of which would diminish their holdings’ real value.”

[8] ASEAN, where 10 countries are participating, was established on 8 August 1967, in Bangkok, with the signing of the Bangkok Declaration by the five original members: Indonesia, Malaysia, Philippines, Singapore and Thailand. Later on, the other members joined the Association: Brunei (1984), Vietnam (1995), Laos (1997), Myanmar (1999) and Cambodia (1999).

[9] The Document of the Permanent Secretariat of SELA (2009b), mentioned at the beginning of this study, analyzes the European experiences in clearing mechanisms and monetary coordination and integration.

respond to this crisis, which failed due to the strong resistance posed by the United States, the European Union and the Fund itself.

Based on these experiences, the governments of the ASEAN+3 met in November 1999 in Manila, Philippines, and decided "to strengthen cooperation with a view to advancing East Asian collaboration in priority areas of shared interest", for which, in the context of economic and social fields, they identified the objectives related to "monetary and financial cooperation", agreeing (ASEAN+3, 1999):

> "...to strengthen policy dialogue, coordination and collaboration on the financial, monetary and fiscal issues of common interest, focusing initially on issues related to macroeconomic risk management, enhancing corporate governance, monitoring regional capital flows, strengthening banking and financial systems, reforming the international financial architecture, and enhancing self-help and support mechanisms in East Asia through the ASEAN+3 Framework, including the ongoing dialogue and cooperation mechanism of the ASEAN+3 finance and central bank leaders and officials".

In May of the following year, the Ministers of Finance of ASEAN+3 met in Chiang Mai, Thailand, and agreed, among others, the following points (Ministers of Finance of ASEAN+3, 2000):

> "In order to strengthen our self-help and support mechanisms in East Asia through the ASEAN+3 framework, we recognized a need to establish a regional financing arrangement to supplement the existing international facilities. As a start, we agreed to strengthen the existing cooperative frameworks among our monetary authorities through the "Chiang Mai Initiative". The Initiative involves an expanded ASEAN Swap Arrangement that would include ASEAN countries, and a network of bilateral swap and repurchase agreement facilities among ASEAN countries, China, Japan and the Republic of Korea.
>
> "We requested the ASEAN Secretariat to lead and coordinate a study on other appropriate mechanisms that could enhance our ability to provide sufficient and timely financial support to ensure financial stability in the East Asian region."

Based on these agreements, the Chiang Mai Initiative was launched through the signature of a series of bilateral swap arrangements,[10] reiterating in those official documents that the Initiative was aimed at addressing short-term liquidity difficulties and supplementing the current international financial mechanisms. However, there have been many obstacles in its operation, since, within the framework of this agreement, a country requesting funding had to consult each of the countries with which it signed a bilateral agreement about this request.

As a result, in May 2005 it was decided "to enhance the effectiveness" of the Initiative, announcing, among other measures (Ministers of Finance ASEAN+3), "clear-defining of the swap activation process and the adoption of a collective decision-making mechanism of the current network of bilateral swap arrangements (BSA) as a first step of multilateralization so that the relevant BSAs would be activated collectively and promptly in case of emergency."

[10] In 2007, 16 bilateral swap arrangements were reported among eight countries in the context of the Initiative.

From that time on, advances have been gradually made towards the creation of a regional liquidity support network, resulting in the establishment of the so-called "Chiang Mai Initiative Multilateralization" (CMIM), which is expected to collect reserves from the member countries in a common pool, so that any of them could quickly resort to this pool and increase its international reserves in case of outbreak of a financial crisis. Under this modality, when a nation in emergency requests aid, all the countries convene an emergency meeting within two days of request and agree to give this country access to the fund within a maximum term of two weeks.

In this connection, in the Final Communiqué of the meeting of Ministers of Finance of ASEAN+3 held in May 2009, participants announced that "we have reached agreement on all the main components of the CMIM, including the individual country's contribution, borrowing accessibility, and the surveillance mechanism", adding that "we agreed to implement the CMIM before the end of this year." (Ministers of Finance ASEAN+3, 2009)

The total amount of the fund available for the CMIM was initially established in US$ 39.5 billion, but in late 2008 it was expanded to US$ 80 billion, and in February 2009 it reached the amount of US$ 120 billion.

Being closely related to the development of the Chiang Mai Initiative, efforts have been made for a long time now to create an Asian Monetary Unit (ACU), which would be a basket of currencies with characteristics yet to be defined: the nature of the basket, the currencies to be included and the criteria for review, among others.

Besides the Chiang Mai Initiative, a second component of the regional financial cooperation of the ASEAN+3 is the Asian Bond Markets Initiative (ABMI), which was approved in August 2003 by the Ministers of Finance of the Member States, as follows:

> "We agreed to intensify our efforts to develop regional bond markets. This will further strengthen our financial systems by better utilizing the aggregate savings in the region and minimizing the risk of maturity and currency mismatches. Voluntary working groups have been established to further discuss a range of key issues crucial to further development of the domestic and regional bond markets, such as, securitization, credit guarantee, promotion of local currency denominated bonds, credit rating, and foreign exchange transactions and settlement issues."

Once the initiative was established, a diversification of issuers and types of local currency-denominated bonds has been achieved, making it necessary for the member countries of the ASEAN+3 to update their regulatory systems. Thus, the ABMI has grown stronger as a component of the regional financial structure. Added to this is the decision taken by the Ministers of Finance in May 2009 to create a mechanism to support the issuance of bonds (Ministers of Finance ASEAN+3, 2009):

> "We endorsed the establishment of the Credit Guarantee and Investment Mechanism (CGIM) as a trust fund of the ADB with an initial capital of US$ 500 million which could be increased once the demand is fully met. The objective of CGIM is to support the issuance of local currency-denominated corporate bonds in our region."

The following paragraph, included in a "roadmap" defined by the Ministers of Finance for the ABMI in 2008, could serve as a report of the results obtained in the five years since the Initiative was created (Ministers of Finance ASEAN+3, 2008):

> "Since the endorsement of the Asian Bond Markets Initiative (ABMI) by the ASEAN+3 Finance Ministers in 2003, local currency-denominated bond markets in the region have achieved remarkable growth in terms of size and diversity of issuers. Significant issuances of local currency-denominated bonds have been made by various parties including international financial institutions and multinational corporations. In addition, ASEAN+3 countries have made progress on their own reform efforts, ranging from unifying issuing authorities for government bonds and simplifying corporate bond issuance procedures for securitization, to removing barriers for bond issuance by domestic and foreign entities. Reflecting these efforts and progress made, the size of the bond markets in the ASEAN+3 region has reached 2.8 times the size as at the end of 2002."

As regards the Gulf Cooperation Council (GCC) – which is made up of Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Qatar and Oman – since it was established in 1981 through the signature in May of the Statute and in November of the Unified Economic Agreement, the monetary and financial cooperation among the member countries was dealt with in Chapter six, Article 22, of the Agreement as follows (CCG, 1981):

> "Member States shall seek to coordinate their financial, monetary and banking policies and enhance cooperation between monetary agencies and central banks, including the endeavour to establish a joint currency in order to further their desired economic integration."[11]

In compliance with its contents, in 1983 the Supreme Council – which is the highest authority of the GCC – created a committee made up of authorities of the monetary agencies and central banks of the Member States with a view to establishing a joint currency. However, in the following years, these authorities reached no consensus as to the establishment of a common exchange rate for all States and considered that there were no conditions to define the characteristics of monetary integration. In 2000, the Heads of State of the GCC decided to adopt the dollar as common peg for the currencies and instructed the Ministers of Finance to prepare a time schedule for establishing the Monetary Union and introducing the GCC Single Currency.

This schedule was approved in the Summit of Muscat, Oman, held in December 2001, where the 1981 *Unified Economic Agreement* was replaced by the *Economic Agreement Between the Gulf Cooperation Council States*, which, according to a time schedule set forth in Chapter III on the Economic and Monetary Union,[12] provided for adopting the dollar as a common peg for the currencies of the GCC States until the end of 2002, agreeing on the performance standards and criteria for monetary stability and economic and financial convergence of the Monetary Union before the end of 2005 and preparing for introducing the single currency on January 1st 2010.

The criteria for achieving stability and convergence were approved in December 2005 and refer to: 1) Monetary convergence criteria, which constitute the inflation rates, interest rates and sufficiency of foreign cash reserves, and 2) Financial convergence criteria, which constitute the annual deficit ratio of the government finance to GDP and the ratio of the public debt to GDP. In May 2007 a method for calculation of the financial

[11] Article 23 of the Agreement reads as follows: "Member States shall seek to coordinate their external policies in the sphere of international and regional development aid".

[12] In other areas, the timetable included the creation of a customs union to enter into force in 2003 – which has not been completely established – and the objective to create a common market by 2008.

and monetary standards of convergence criteria and rates thereof was approved, and in December 2007 a decision was taken as to the achievement of such standards by the Member States and mechanisms to follow up this issue. That year, Oman withdrew from the Monetary Union saying it was not ready to meet the inflation goals and Kuwait decided to drop the dollar peg and linked its currency – dinar – to a basket of currencies.

Based on all this background and in the context of the world financial crisis, in December 2008 the XXIX Meeting of the Supreme Council of the GCC reiterated the decision to establish a Monetary Union and a single currency, thus approving both the Monetary Union Agreement and a Statute to govern the operation of the Monetary Council, an institution that in the future would become a central bank, similar to the European Monetary Institution that preceded the European Central Bank.

In this connection, the Final Communiqué of this Meeting establishes (CCG, 2008):

> "In order to strengthen economic integration among the GCC member states and complete its various stages, implement the time frames for the establishment of the Monetary Union, launch the single currency as approved by the Council during Muscat Summit in 2001, the Supreme Council approved the Monetary Union Agreement which covers the legislative and institutional framework. It also approved the Basic Statute of the Monetary Council and stressed the need to ratify the agreement as soon as possible in order to establish the Monetary Council which would implement the technical requirements of the Monetary Union and make the necessary preparations for the establishment the Central Bank and launch of the single currency."

After this meeting, as the year 2009 comes to an end, the countries have not ratified yet the Monetary Union Agreement and the Statute of the Monetary Council, and it is evident that the 1 January 2010 deadline for the launch of the single currency should be delayed, not only because it seems impossible that all ratifications are submitted, the Monetary Council is established and this body is prepared for its launch by that date, but also because last May the government of the United Arab Emirates announced its decision to withdraw from the Monetary Union.

In short, after considering the experiences of monetary and financial cooperation of the ASEAN+3 and the GCC, it is of the utmost significance to emphasize the efforts – beyond those made by Europe – to advance in the creation of regional spaces that in the monetary area, the financial area or both allow the involved countries to gain autonomy vis-à-vis an international monetary and financial order which has proven to be capable of causing imbalances and serious problems. This is not limited to the major developed countries, being evidenced also in different countries developing, particularly those of Latin America and the Caribbean. Added to this are the evidences that the solution to the economic crisis, when it happens, will hardly imply deep and broad redefinitions required in this situation for the international economic order.

In this connection, and as a global balance of the situation prevailing today, it is worth mentioning that, according to a recent study (Laeven and Valencia, 2008), from 1970 to 2007, 124 systemic banking crises have been reported in the world, 208 monetary crises and 63 debt crises. The following table shows that one fourth or one third of those crises have occurred in Latin American and Caribbean countries. Those previous crises, to which the current one is added, need responses through monetary and financial cooperation initiatives in the region.

TABLE 1. Financial crises in Latin America, 1970-2007

Country	Systemic banking Crises	Monetary crises	Debt crises
Argentina	1980, 1989, 1995, 2001	1975, 1981, 1987, 2002	1982, 2001
Bolivia	1986, 1994	1973, 1981	1980
Brazil	1990, 1994	1976, 1982, 1987, 1992, 1999	1983
Chile	1976, 1981	1972, 1982	1983
Colombia	1982, 1998	1985	
Costa Rica	1987, 1994	1981, 1991	1981
Dominica			2002
Dominican R.	2003	1985, 1990, 2003	1982, 2003
Ecuador	1982, 1998	1982, 1999	1982, 1999
El Salvador	1989	1986	
Grenada			2004
Guatemala		1986	
Guyana	1993	1987	1982
Haiti	1994	1992, 2003	
Honduras		1990	1981
Jamaica	1996	1978, 1983, 1991	1978
Mexico	1981, 1994	1977, 1982, 1995	1982
Nicaragua	1990, 2000	1979, 1985, 1990	1980
Panama	1988		1983
Paraguay	1995	1984, 1989, 2002	1982
Peru	1983	1976, 1981, 1988	1978
Suriname		1990, 1995, 2001	
Trinidad and Tobago		1986	1989
Uruguay	1981, 2002	1972, 1983, 1990, 2002	1983, 2002
24 Latin American and Caribbean countries	**30**	**50**	**23**
World total	124	208	63
LAC/world	**24%**	**24%**	**37%**

Source: Based on Laeven and Valencia (2008: 50-55).

III. CURRENT MONETARY AND FINANCIAL COOPERATION MECHANISMS IN LATIN AMERICAN AND CARIBBEAN INTEGRATION

1. Inter-American Development Bank (IDB)

The Inter-American Development Bank is a multilateral financial institution with a regional scope aimed at supporting the process of economic and social development in Latin America and the Caribbean. Established in 1959, after ratification of the Agreement Establishing the Inter-American Development Bank by a total of eighteen countries of the region, this institution is currently made up of forty-eight shareholders, comprised of twenty-six countries of the region considered borrowing members,[13] and twenty-two extra-regional countries considered non-borrowing members.[14]

According to the agreement establishing the institution, the IDB (1959) has the following functions: i) To promote investment of public and private capital for development purposes; ii) to utilize its own capital, funds raised by it in financial markets, and other available resources, for financing the development of the member countries, while giving priority to those loans and guarantees that will contribute most effectively to their economic growth; iii) to encourage private investment in projects, enterprises, and activities contributing to economic development and to supplement private investment when private capital is not available on reasonable terms and conditions; iv) to cooperate with the member countries to orient their development policies toward better utilization of their resources, in a manner consistent with the objectives of making their economies more complementary, while fostering the orderly growth of their foreign trade; and v) to provide technical assistance for the preparation, financing, and implementation of development plans and projects, including the study of priorities and the formulation of specific project proposals. The Agreement also establishes that, in carrying out its functions, the Bank shall cooperate, to the greatest possible extent, with national and international institutions and with private sources supplying investment capital.

The IDB Group is comprised by the Inter-American Development Bank, the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF). The IIC focuses on support for small and medium-sized businesses, while the MIF promotes private sector growth through grants and investments. The IIC has granted loans and guarantees for US$ 400 million per year to small and medium-sized enterprises, while MIF has granted an average of US$ 100 million per year in grants. The IDB is located in Washington, but it has offices in Paris and Tokyo, in addition to representatives in the twenty-six countries that are borrowing members of Latin America and the Caribbean.

The IDB obtains its financial resources from its members, bond issuances in financial markets, trust funds that it administers, and through co-financing ventures. The Bank's financial resources comprise the Ordinary Capital, the Fund for Special Operations, the Intermediary Financing Facility and around 40 trust funds established by individual

[13] Those countries are Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

[14] Extra-regional members include Germany, Austria, Belgium, Canada, China, Korea, Croatia, Denmark, Slovenia, Spain, United States, Finland, Greece, Israel, Italy, Japan, Norway, the Netherlands, Portugal, United Kingdom, Sweden and Switzerland.

countries or groups of countries. From the Ordinary Capital, only 4.3 percent of the US$ 101 billion Ordinary Capital is paid-in. The remaining 95.7 percent is callable capital, that is to say, resources that have been subscribed by the countries, but not paid in. The IDB operations are divided into ordinary capital, financed with the bank's ordinary resources, and special operations, financed with resources of the Fund for Special Operations.

The organization and management of the IDB is vested in the Board of Governors, the Board of Executive Directors and the President of the Bank. The Board of Governors is the highest authority and is made up of a governor and an alternate appointed by each Member Country for a five-year term. The Board of Governors has the power to admit new members and determine the conditions of their admission; elect the President of the Bank; authorize the conclusion of general agreements for cooperation with other international organizations; increase or decrease the authorized ordinary capital stock of the Bank and the contributions to the Fund for Special Operations; determine the reserves and the distribution of the net profits of the ordinary capital resources and of the Fund; and amend the Constitutive Agreement.

The Board of Executive Directors is made up by fourteen members and is responsible for conducting the operations of the Bank. One executive director shall be appointed by the United States, the member country having the largest number of shares in the Bank. Three executive directors shall be elected by the governors of the non-regional member countries, and other ten shall be elected by the governors of the regional member countries. Executive directors shall be appointed or elected for terms of three years and may be re-elected for successive terms. The voting power shall be determined by the share of ordinary capital stock of the Bank held by each country, and therefore the U.S. holds more than thirty percent of the voting power. As showed in the following table, this percentage is even higher than the voting power resulting from the total share of ordinary capital stock of the Bank held by twenty-two Latin American and Caribbean countries. This confers the United States the power to have a significant influence on the direction and contents of the initiatives and proposals submitted by the institution.

TABLE 2. IDB: Voting power in the Board of Executive Directors (Share of ordinary capital stock held by each country)

Regional shareholders	Percentage (%)	Non-regional shareholders	Percentage (%)
Argentina	10.751	Germany	1.896
Bahamas	0.209	Austria	0.161
Barbados	0.130	Belgium	0.329
Belize	0.111	Canada	4.001
Bolivia	0.865	China	0.004
Chile	2.953	Korea	0.004
Brazil	10.751	Croatia	0.050
Colombia	2.953	Denmark	0.171
Costa Rica	0.433	Slovenia	0.031
Ecuador	0.577	Spain	1.896
El Salvador	0.433	United States	30.006
Guatemala	0.577	Finland	0.161
Guyana	0.162	France	1.896
Haiti	0.433	Israel	0.158
Honduras	0.433	Italy	1.896
Jamaica	0.577	Japan	5.001
Mexico	6.912	Norway	0.171
Nicaragua	0.433	Netherlands	0.338
Panama	0.433	Portugal	0.055
Paraguay	0.433	United Kingdom	0.964
Peru	1.440	Sweden	0.327
Dominican Rep.	0.577	Switzerland	0.471
Suriname	0.089		
Trinidad and Tobago	0.433		
Uruguay	1.154		
Bol. Rep. of Venezuela	5.761		
Latin American and Caribbean countries	50.013	Extra-regional members	49.987

Source: IDB

During 2008, the IDB approved loans and guarantees for around US$ 11.2 billion, which were aimed at any of the five high-priority areas of the Bank, namely: poverty reduction; sustainable energy and climate change; water and other infrastructure; education and innovation; and opportunities for the majority.

According to its most recent annual report (IDB, 2009), the loans and guarantees approved by the Bank in 2008 came from the following sources: 131 loans of Ordinary Capital for US$ 11.1 billion and one guarantee for US$ 10 million. As regards the Fund for Special Operations (FSO), there were 19 loans totalling US$ 138 million and disbursements amounting to US$ 7.6 billion in the same year. As far as the total cost of projects is concerned, the US$ 11.2 billion in bank loans and guarantees approved in 2008 will help to finance projects involving a total investment of more than US$ 24.9 billion. The Bank's loans cover less than fifty percent of the total cost of the projects being carried out by the borrowing countries, which supply the majority of the balance.

Of the US$ 11.2 billion approved in 2008, US$ 3.9 billion (34.8 percent) was for projects that included components to reduce poverty and/or enhance social equity, being of the utmost significance the so-called "conditional cash transfer programmes" promoted in Colombia, Guatemala, Honduras, as well as the Mexican programme known as *Oportunidades*. In the area of sustainable energy and climate change, more than US$ 1.2 billion were approved for programmes that promote actions to face the climate change and promote renewable energy, energy efficiency, and biofuel projects. In the area of water and other infrastructure, the IDB approved more than US$ 1.1 billion for water and sanitation projects and US$ 3.9 billion for other infrastructure for tourism, agriculture, energy and transportation projects. In the area of education and innovation, the Bank approved more than US$ 890 million for overall sector policy reforms, preschool through secondary education, and support to mobile telephony for better access to information on health and government services. Finally, in the area known as "Opportunities for the Majority", the IDB has a US$ 250 million programme to finance projects targeted to low-income communities in Latin America and the Caribbean.

As regards the distribution of loans and guarantees by sector of activity, the IDB targeted almost 65 percent – slightly over US$ 7.2 million of the total US$ 11.2 million – at the competitiveness sector, which includes transportation and communications, capital markets and productive infrastructure. The social development sector received little more than US$ 3.3 million, 29.4 percent of the total, for education, water and sanitation, urban development and environment projects. Finally, the Bank invested more than US$ 700 million, 6.3 percent of the total, in the reform and modernization of the State sector, which includes fiscal reform, financial sector reform, support to trade policy and reform, and public sector support.

In October 2008, in view of the magnitude of the crisis and in the context of the international financial instability, the IDB approved a US$ 6 billion "Liquidity Facility for Growth Sustainability", and created a US$ 500 million Food-Price Subsidy Fund to face an increase in food and raw material prices reported in the first half of the year, which severely affected the external accounts of economies that are net importers of raw materials and food in the region.

The most significant criticism that has been made to both the operation of the IDB and the role it has played in the region is related, on the one hand, to the high degree of interference of this institution in the economic policy of the countries at which it targets its loans and in the results of those policies, and on the other hand, to the policy applied to the handling of its investment portfolio and to the management of its reserves, which included important purchases of "structured products" in the international market, with the consequent losses for the institution.

As regards the first issue, political and social organizations in Latin American and Caribbean countries have repeatedly complained about the economic and social policies promoted through IDB loans, arguing that they have tended to strengthen an economic model that aggravates the poverty situation of millions of people in Latin America and the Caribbean, and increases polarization and social exclusion. All this casts doubt on the effectiveness of the measures promoted by the Bank and other organizations, such as the IMF and the World Bank, to overcome the poverty situation in the region. (Several authors, 2009)

In addition to the above-mentioned problems, part of the criticism against the Bank refers to – as it happens with institutions such as the IMF and the World Bank – the high level of conditionalities of the loans granted by the IDB, as well as the interference by the financial institution in the economic policy of the countries of the region. In this connection, doubts are cast on what is considered an excessive weight of the United States in the decision-making process of the Bank and criticism is made on the capacity of this country to influence so much the direction of the loans and the conditions in which they are granted.

As regards the second issue, related to the internal operation of the institution, some of the most serious recent complaints come from the Office of Evaluation and Oversight (OVE) of the IDB, which provides evidence of a series of problems with the investment management policy of the Bank. In fact, the document titled "Review of the Bank's Investment Policy. Expert Panel Report", released in December 2008, makes the following statements (OVE-IDB, 2009):

> "Starting in 2007, however, the Bank began to experience performance problems in the liquidity portfolio. Nominal returns, which had been roughly comparable to those of other multilateral banks, showed considerable deterioration relative to those of its peers. In 2008 the Bank recorded significant market-to-market losses which were eight times larger as a share of portfolio than similar losses at the World Bank".
>
> "The review of the Bank's portfolio carried out by Oliver Wyman has established that these significant losses were concentrated in U.S. structured products bought in 2006 and 2007. These include: Mortgage Backed Securities (MBS), Collateralized Debt Obligations (CDOs) and Collateralized Loan Obligations (CLOs), as well as AAA-rated tranches backed by lower quality collateral, such as Home Equity Lines of Credit (HELOCs) and second lien mortgages."
>
> "The main source of the portfolio's losses (90%) correspond to these structured products. An individual transactions review indicates that now compromised securities were sold by a variety of dealers, with the worst losses generally found on purchases from early 2007."

As part of the analysis on the operation of the IDB's investment portfolio, the expert panel hired by the OVE underscored the failures of the institution to develop a comprehensive approach on the investment policy-related risks, since a balanced risk culture would have made it possible to detect in time potential problems in markets, avoid the spread of bad quality investments and take measures and effective solutions to significantly change the size and contents of such investment portfolio:

> "Not only has growth of the Asset-Backed Securities/Mortgage-Backed Securities (ABS/MBS) category been strong relative to other investments, the IDB's portfolio also exhibited the highest level of accumulation of structured products among the multilateral banks. Over time, since the implementation of the new ALM framework in 1998, the Bank has been investing in ABS/MBS more aggressively than other development banks. The 2007 trading portfolio concentrations in ABS/MBS reveals that the Bank has the largest share in structured products, twice that of the World Bank's and almost ten times that of the Asian Development Bank."
>
> "The liquid investment portfolio of the IDB has experienced over US$ 1 billion in market-to-market losses as of the end of September 2008. The main source of these losses is its exposure to structured securities (asset-backed and mortgage-backed securities) that grew to roughly 60% of the portfolio during the last decade. Other Multilaterals purchased similar securities; however, their portfolios had significantly less concentration in these instruments, and thus have performed better than the IDB since the beginning of the crisis."

From what has been mentioned about the criticisms against the IDB due to its interference in the economic policy of the countries of the region, and to the evaluation of the problems in the risk management and investment policy that the institution has implemented in the recent years, it is important for Latin American and Caribbean countries to make sure that they have independent and well-managed financial institutions, which would make it possible to face the increasing needs for an equitable development, even more so within the context of the current global economic crisis and the lack of financial resources in international markets.

2. Financial cooperation in the Andean Community

At present, the Andean Development Corporation and the Latin American Reserve Fund are part of the Andean Integration System (SAI), which is made up of the following bodies and institutions: the Andean Presidential Council, the Andean Council of Foreign Affairs Ministers, the Andean Community Commission, the Andean Community General Secretariat, the Andean Community Court of Justice, the Andean Parliament, the Business Consultative Council, the Labour Consultative Council, the Andean Development Corporation, the Latin American Reserve Fund, the Simón Rodríguez Agreement, the Hipólito Unanue Agreement and the Simón Bolívar Andean University.

a) Andean Development Corporation (CAF)

The Andean Development Corporation is a multilateral financial institution that supports development at the subregional level. It was created on 7 February 1968 by Bolivia, Colombia, Chile, Ecuador, Peru and Venezuela and started operations in June 1970. According to its Establishing Agreement, its purpose is to promote sustainable development and regional integration, by providing multiple financial services to clients in the public and private sectors of its shareholder countries. The Andean Development Corporation – as well as the Latin American Reserve Fund – is part of the Andean Integration System (SAI), and has become the main source of financing for the Andean Community countries.

The major functions of CAF include: to grant short, medium and long-term loans; to obtain internal or external credits, acting as financial mediator to mobilize resources from the international markets to Latin America and the Caribbean; to issue bonds, the placement of which may be made inside or outside of the region; to carry out studies aimed at identifying investment opportunities; to offer financial consultancy services to its clients, including consultancy on risk rating; to divulge the results of its research and studies in the countries of the area, so as to adequately direct the investment of the available resources; to directly or indirectly furnish the technical and financial assistance needed to prepare and carry out multinational or complementary projects; to foster the creation, expansion, modernization or conversion companies, and to such effect being able to subscribe shares or participations; to recommend the coordination mechanisms needed by the entities or bodies of the area which furnish investment resources; and to carry out legal and administrative operations for the compliance of its goals.

Loans represent the principal activity of the Andean Development Corporation and are of three types: short-term (until one year), medium-term (from one to five years) and long-term (more than five years) loans. The short-term loans may be granted for the hundred percent of the total of the operation, while the medium-term loans may be granted for up to 40 percent of the total cost of the operation. In loans granted by CAF, priority has been given to those aimed at financing public or private infrastructure projects, such as transportation, telecommunications, roads, energy generation and transmission, and others promoting border development and physical integration of shareholder countries.

In its management policies, the Andean Development Corporation must integrate the social and environmental variables, as well as operate under eco-efficiency and sustainability criteria. The headquarters of CAF are located in Caracas and it has representation offices in Buenos Aires, La Paz, Brasilia, Bogotá, Quito, Lima and Madrid. The variety of operations of the Andean Development Corporation and its broad field of action – as opposed to the Latin American Reserve Fund, which is mainly aimed at supporting the payment balance of the member countries – have led the organization to assign resources to different activities, such as physical and economic integration of the Andean area, knowledge transfer, technology dissemination, increase in competitiveness, strengthening of governance, decentralization, local modernization and support to financial systems.

At present, the Andean Development Corporation has a total of seventeen countries and fifteen banks, distributed as follows: full members are Bolivia, Colombia, Ecuador, Peru and Venezuela, to which Argentina, Brazil, Paraguay, Uruguay and Panama joined recently as such. Associate members are Chile (shareholder since 1992), Costa Rica (shareholder since 2002), Spain (shareholder since 2002), Jamaica (shareholder since 1999), Mexico (shareholder since 1990), Dominican Republic (shareholder since 2004) and Trinidad and Tobago (shareholder since 1994), as well as commercial banks which are Series “B” shareholders.[15]

In early 1990s, the Andean Development Corporation decided to open its stock capital to other Latin American and Caribbean partners, and afterwards, through the Amending Protocol of the Establishing Agreement, signed on 24 October 2005, new Latin American and Caribbean countries which did not belong to the Andean Community were allowed to join as full members. Based on that, in August 2007 Argentina became the first country of the region in joining as full member of CAF without being part of the Andean Community, and between 2007 and 2008 other countries of the Common Market of the South (MERCOSUR) – Brazil, Paraguay and Uruguay – as well as Panama became full members of CAF, strengthening the Corporation’s financial capacity with an additional ordinary capital of around US$ 1.5 million and improving its ranking in capital markets.

As regards its resources, the Corporation has an authorized capital of US$ 10 billion divided into ordinary capital shares and subscribed callable capital. The ordinary capital shares totals US$ 6.5 billion and is distributed in three series: "A," "B" and "C". The subscribed callable capital totals US$ 3.5 billion and is distributed in two series: "B" and "C". In both cases, Series “B” shares can be subscribed by private entities from member countries, provided the percentage of their equity interest does not exceed 49% of the total equity in that series, by shareholder country. Series "C" shares are subscribed by legal entities or individuals outside the Andean subregion. Based on that, Series “A” shareholders include Bolivia, Colombia, Ecuador, Peru and Venezuela; Series “B” shareholders are also Bolivia, Colombia, Ecuador, Peru, Venezuela, as well as commercial banks; Series “C” shareholders include Argentina, Brazil, Chile, Costa Rica, Dominican Republic, Jamaica, Mexico, Panama, Paraguay, Spain, Trinidad and Tobago, and Uruguay.

[15] The Italian parliament recently approved the inclusion of Italy as a CAF shareholder. In addition, both Guatemala and Portugal have signed letters of intention for their future inclusion as CAF shareholders.

As far as operating indicators are concerned – approvals, portfolio and disbursements – during 2008 CAF approved operations for US$ 7.946 million, 99 percent of operations in the ten full members. As regards disbursements made in 2008, CAF totalled US$ 5,292 million, from which 95 percent was targeted at the Corporation's full members to finance particularly medium and long-term projects. The portfolio amounted to US$ 10,259 million in 2008, being of the utmost significance the loans granted to transportation, warehousing and communications; electricity, gas and water; and education, social and health services. Loans granted to those sectors represented 68 percent of the annual loan portfolio. In contrast, loans aimed at commercial banking and development institutions represented 16 percent of the total. More than 75 percent of the loan portfolio was scheduled to finance public sector projects.

As it may be seen, loans granted by CAF cover a wide range of activities, which are grouped in an Infrastructure Agenda, a Social Development Agenda, an Environmental Agenda and an Agenda for Competitiveness, International Insertion and Public Policies. The Infrastructure Agenda covers actions within the framework of the South American Regional Infrastructure Integration Initiative (IIRSA) and the Mesoamerican Integration and Development Project (previously referred to as the Puebla-Panama Plan), as well as the First-Class Ports Programme, the *GeoSur* Programme and the Cross-border Integration and Development Support Programme (PADIF).

The Social Development Agenda includes actions to follow in the Integrated Water Programme, the Social Investment Programme and the Programme for the Modernization of Technical and Technological Education, as well as the Rural Development Programme, the Social Responsibility Programme and the Governance Programme. The Environmental Agenda includes the Biodiversity Programme (BioCAF), the Latin American Carbon and Clean Energies Programme (PLAC+e), the Natural Disaster Risk Management and Prevention Programme, the Cleaner Cities and Industries Programme and the Programme for Sustainable Development in Financial Institutions.

Finally, the Agenda for Competitiveness, International Insertion and Public Policies grants resources within the framework of the Competitiveness Programme (PAC); access to financing for micro, small, and medium-sized enterprises; the Corporate Governance Programme; the International Insertion Programme; and the Research Programme.

Loan and financing operations of CAF are made in dollars with floating rates to reduce exchange and interest rate risks. Of the total loan portfolio, and complying with the institutional policy that establishes a maximum exposure of 30 percent of this portfolio in a single country, Ecuador concentrates 19.7 percent, followed by Peru with 17.3 percent, Colombia with 16.6 percent, Venezuela with 15.0 percent and Bolivia with 10.8 percent. As it may be seen, almost 80 percent of the total loan portfolio of CAF covers the five Andean countries that are full members and founders of the institution.

As mentioned above, the Andean Development Corporation has supported particularly the infrastructure projects that promote physical integration of its shareholder countries and, in this connection, the most important activities of CAF include its participation as member of the Technical Coordination Committee (CCT) of the South American Regional Infrastructure Integration Initiative (IIRSA), where it participates along with the Inter American Development Bank (IDB) and the Plata Basin Financial Development Fund (FONPLATA). This Technical Coordination Committee is in charge of offering technical and financial support to the countries that participate in the Initiative, and coordinating the joint activities. In this connection, CAF has channelled huge and increasing amounts of loans to support the creation of a totally integrated South American space.

As a result of the international financial crisis, which has led to more difficulties in accessing financial resources for the public and private sectors and in an increase in loan costs, in October 2008 the Andean Development Corporation announced the establishment of a liquidity contingency credit line for US$ 1.5 billion to help several of its partners to face some of their most urgent needs. Furthermore, CAF also announced an increase in credit lines from US$ 1.5 billion to US$ 2 billion that the Corporation offers to the financial system of the region, and indicated that total approvals of the Corporation will amount to US$ 16 billion in the 2008-2009 period. Afterwards, in April 2009, the executive president of CAF announced that the Corporation would be able to provide US$ 20 billion between 2009 and 2010, as part of a joint effort by the multilateral development banking to support the Latin American and Caribbean countries with up to US$ 90 billion in the following two years. Participants of this effort include the IDB and the Inter-American Investment Corporation, the World Bank Group, the Caribbean Development Bank, the Central American Bank for Economic Integration and CAF. Recently, the flow of resources of the Andean financial body to look for a solution to the crisis resulted in the signing, in late July 2009, of a loan contract between CAF and the Ministry of the Treasury of Paraguay for US$ 85 million. These funds are aimed at promoting the Programme for Social Investment and Infrastructure (PAISI), which envisages a series of actions in the area of rural development, housing, education and social protection, among others, to contribute to the national Plan for Economic Revival and a decrease in some of the most negative impacts of the crisis.

b) Latin American Reserve Fund (FLAR)

The Latin American Reserve Fund (FLAR) is a financial institution established as the extension of the Andean Reserve Fund (FAR), founded in 1978 to support the Andean countries, under the Cartagena Agreement. The FLAR is made up of Bolivia, Colombia, Ecuador, Peru, Venezuela, Costa Rica and Uruguay.[16] The FLAR is a legal entity of public international law headquartered in Bogotá, Colombia. The Agreement for the Establishment of the Fund was signed in June 1988 and allows for the accession of new countries of the region to expand the financial assistance and support the integration and cooperation not only in the Andean area but also in Latin America and the Caribbean. Unlike the Andean Development Corporation, the Fund is aimed at providing support for member countries' balance of payments, improving the conditions of international reserve investments made by member countries, and contributing to the harmonization of member countries foreign exchange, monetary and financial policies.

As its name implies, FLAR is a common reserve fund that grants loans to the central banks of the member states, according to the contribution of each country to FLAR's capital through different loan services, with a view to achieving stability and strengthening of the foreign and local ranking of these nations. According to Article 5 of the Agreement for the Establishment of FLAR, the subscribed capital of the Fund is US$ 2.343.750.000,00 (two thousand three hundred forty-three million seven hundred fifty thousand dollars), distributed as follows: Colombia, Peru and Venezuela, four hundred sixty eight million seven hundred fifty thousand dollars each, while Bolivia, Costa Rica, Ecuador and Uruguay contribute half of that amount each, that is to say, two hundred thirty-four million three hundred seventy-five thousand dollars.

[16] Bolivia, Colombia, Ecuador, Peru and Venezuela joined the FLAR on 10 June 1988; eleven years later, on 30 March 1999, Costa Rica joined the institution, and twenty years after its creation, in 2008, Uruguay became a member of this institution.

Credits of the Latin American Reserve Fund are subject to the availability of liquid resources. Following are the modalities by which such credits are granted:

1. Support for member countries' balance of payments through credits, granted up to a maximum period of three (3) years, including one year grace period for capital amortization for up to 2.5 times the paid-in capital, except Bolivia and Ecuador, which will have an access to 2.6 times the paid-in capital, with an interest rate periodically determined by FLAR's Assets and Liabilities Committee and approved by agreement of directors. At the beginning of August 2009, this rate was equivalent to the three-month LIBOR plus 400 basic points.

   When requesting this type of credit to the FLAR, the Central Bank of a member country will have to make a previous consultation to the executive presidency, which will review, jointly with the Central Bank, the economic-financial policies that the country has followed and those that it will undertake to face the imbalance in its balance of payments, and to assure the FLAR that the credit will be paid within the agreed period. Afterwards, in a formal credit request, the Central Bank should submit a written report that contains, among other aspects, the projections for the following three years of economic variables such as the Gross Domestic Product, inflation, central government balance, public sector balance, reserves, as well as the estimated amounts of exports, imports and foreign direct investment flows.

2. Credits for debt restructuring, granted up to a maximum period of three (3) years, including one year grace period for capital amortization for up to 1.5 times the paid-in capital, except Bolivia and Ecuador, which will have an access to 1.6 times the paid-in capital, with an interest rate periodically determined by the FLAR's Assets and Liabilities Committee and approved by agreement of directors.

   For a country to be able to apply for this type of credits, and once made the previous consultation to the executive presidency, the Central Bank shall present a document that includes the main elements on which the external debt restructuring process will be based. Based on that document, the executive presidency shall submit a report to the directors, with its evaluation and opinion about such application, and the directors shall study both the report and the debt restructuring proposal presented by the Central Bank of the country member in order to make its decision.

3. Liquidity credits, granted up to a maximum period of one year until the capital is paid in, except Bolivia and Ecuador, which will have an access to 1.1 times the paid-in capital, with an interest rate periodically determined by the FLAR's Assets and Liabilities Committee and approved by the executive president.

   For a country to apply for this type of credits, the Central Bank shall submit a formal application to the executive presidency with the reasons why it applies for such credit. Once the credit is approved, payments will be automatically made after all conditions by which the credit was granted are cleared up.

4. Contingency credits, granted up to a maximum period of 6 months, may be renewed at request of the debtor for the same period and for up to 2 times the paid-in capital, except for Bolivia and Ecuador, which will have an access to 2.1 times the paid-in capital, with an interest rate periodically determined by the FLAR's Assets and Liabilities Committee and approved by the executive president.

For a country to apply for this type of credits, the Central Bank shall submit a formal application to the executive presidency with the reasons why it applies for such credit. The presidency shall decide on the credit approval and prepare the documents establishing the credit conditions and guarantees to start disbursement.

5. There are also "treasury credits", granted for a period of 1 to 30 days for up to 2 times the capital paid in by the member country. They shall be approved by the executive president. However, to date, this mechanism is not operating.

Among the most recent operations conducted by the Latin American Reserve Fund, mention must be made of the credit granted in July 2009 to the Republic of Ecuador for an amount of four hundred eighty million pesos to support its balance of payments, which was approved for a period of three (3) years, including a one-year grace period for capital amortization, and represents an important contribution to that Andean country in a period of increasing difficulties as a result of the international financial and economic crisis and in a scene characterized by credit constraints and an increase in money value.

In the 1973-2003 period, the FLAR's member countries have received resources for more than US$ 8.5 billion, which were mostly loans to support their balance of payments and liquidity credits. Of this amount, US$ 2.95 billion were aimed at Ecuador; US$ 1.94 billion at Peru; US$ 1.54 billion at Bolivia; US$ 1.45 billion at Colombia; US$ 517.4 million at Venezuela and US$ 173.4 million at Costa Rica. This shows that this institution has fulfilled its function to grant fast and flexible short-term loans, unlike other institutions such as the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB), which in spite of being aimed at granting resources to support the balance of payments, still impose greater degrees of conditionalities and more complex and slow procedures to manage and grant credits.

This aspect, referred to the speed to mobilize resources in a timely way, is one of the main advantages that FLAR has compared to other global and regional financial institutions, such as the International Monetary Fund, the World Bank and Andean Development Corporation. However, among its limitations is the relatively low amount of resources compared to other financial mechanisms, because FLAR is made up of small and medium-sized economies whose contributions are insufficient in case of a global financial crisis forces the member countries to make simultaneous requests for support. In this situation, the activities of the Latin American Reserve Fund shall be considered complementary rather than substitute of the financial mechanisms with a regional scope.

Nevertheless, in the case of temporary local economic crises, or of a temporary crisis in the international financial market, FLAR's loans are an effective short-term countercyclical mechanism that allows the affected economy to continue working. In this connection, both liquidity and contingency credits would help the economy of a country member to overcome the temporary problems it may be going through. As regards credits to support the balance of payments granted by FLAR, they may also serve as temporary support instruments once the country has used part of its international reserves, and while it has access to a long-term loan – and for a much higher amount – from the IMF.

In view of the limitations to handle funds, an option is to increase the capital so as to expand financial assistance through an increase in membership of the Latin American Reserve Fund (which would be perhaps the best option) or an increase in quotas of the countries that are already members of the Fund. As far as an increase in membership is concerned, this measure would make it possible not only to expand the financial support capacity of this organization, but also to advance with the necessary geographic diversification of the risks. This would also help the economies of scale to better handle the member countries' reserves while reducing the relative management cost, once the Fund's resources have substantially increased.

Membership may also be increased through the accession of non-regional countries (for which the Constitutive Agreement should be modified), such as Spain, which is a shareholder member of the Andean Development Corporation and other regional and subregional organizations, such as the Centre for Latin American Monetary Studies (CEMLA) and the Central American Bank for Economic Integration (CABEI). In this case, Spain may participate as a contributing member without access to credit, with a portion of the European nation's cooperation and help for development of the region being mobilized through the FLAR, where it would have the same rights as the other member countries as regards the voting and decision-making power. An increase in membership however, should not be considered a means to bureaucratize the directing authorities, since this action has proven to have a fast response capacity to mobilize resources in case of liquidity and balance of payment problems – which is one of the main advantages of the Fund.

As regards a potential increase in quotas, evidence shows that several of FLAR's member countries hold enough international reserves to face the decrease in foreign capital flows to which the region is subject in a period of crisis, and to comply with their debt service payments on a timely basis. In this connection, another action worth considering refers to the possibility that those countries not being part of the FLAR, but with large amounts of currencies, deposit part of them in the Fund so that it has more resources and help other countries of the region in emergency, thus strengthening FLAR's role as a regional institution aimed at financing in emergency situations.

The increase in resources of the Fund should also occur through an increase in resources collected by FLAR from international capital markets, according to Chapter III, Article 9, Section (d) of its Constitutive Agreement, which authorizes it to invest its own resources (or those received in deposit or trust) in deposits in prime banks or in securities with adequate liquidity, rate of return and security, circulating in international money markets. The investment of resources in international markets must be made without affecting the resources that could be mobilized in case of emergency to the central banks of the member countries, in order to support its balance of payments or grant liquidity during a contingency. In this situation, it is important to undertake a permanent and simultaneous surveillance of both markets and the economic and financial evolution of the member countries.

Among the actions arising from a general strategy for strengthening the Latin American Reserve Fund, it will be necessary to consider the possibility that the Board of Directors and the Assembly modify the Constitutive Agreement of the institution in those points that are significant to adapt the institution to the complex times that Latin American and Caribbean integration is going through, in order to strengthen the role of this financial institution in the region and to expand its scope towards the fulfilment of new and more important goals.

3. Central American Bank for Economic Integration (CABEI)

According to its Constitutive Agreement, the Central American Bank for Economic Integration (CABEI) is an international juridical person founded in Managua on 13 December 1960 by the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. Its objective shall be to promote the economic integration and the balanced economic and social development of the founding countries (CABEI, 1960). The Bank is part of the Central American Integration System (SICA), which is considered the institutional framework to expand and strengthen integration in the region through actions aimed at consolidating the legal system, materializing the economic union and promoting the Central American financial system, among others.[17]

Pursuant to the Protocol of Reforms to the Constitutive Agreement of CABEI subscribed on 2 September 1989, the participation of non-regional members was allowed. At present, the Bank is made up of the following thirteen nations: Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica as founding members; Mexico, Taiwan, Argentina, Colombia and Spain as non-regional partners; Panama and Dominican Republic as non-founding regional partners; and Belize as beneficiary country. CABEI has its headquarters in Tegucigalpa, Honduras, and representative offices in Costa Rica, El Salvador, Guatemala and Nicaragua.

Topics that CABEI define as strategic ones include: 1) fighting poverty, 2) globalization and 3) integration. For each of these topics, the Bank has established the following long-term objectives:

- As regards fighting poverty, the Bank’s goals include: To generate opportunities and wealth through the creation of quality employment; to promote the development of micro and small-sized enterprises; to support countries in adopting sustainable solutions to meet the basic needs in the areas of health, education and housing; to strengthen local governments; to facilitate access to microcredits; and to foster knowledge transfer among the member countries of the Bank and the world.

- In the area of integration, the objectives are as follows: To strengthen CABEI’s role as engine of physical, economic, commercial and knowledge processes in the region; to promote and strengthen the financial market with a regional approach; to promote public savings through issues; to harmonize regulations and adopt best practices in strategic sectors; to promote the legal security of integration; and to foster optimization in handling, protecting and using natural resources.

- As far as globalization is concerned, the objectives are: to contribute to the improvement of the business climate for the promotion of direct and local foreign investment; to promote regional competitiveness to access international markets; to play a leading role in negotiation, ratification, implementation and sustainability of agreements for economic opening-up to foreign markets; and to reduce potential negative impacts of globalization.

The Bank's authorized capital shall be US$ 2 billion, out of which US$ 1.02 billion (51% of the total capital) shall be subscribed by the five founding countries in equal portions, and the remaining US$ 980 million (49% of the total capital) shall be contributed by non-regional countries. This authorized capital shall be divided into paid-in shares and callable shares. Of the US$ 2 billion, the equivalent of US$ 500 million shall be paid-in capital and the equivalent of US$ 1.5 billion shall be callable capital. The paid-in portion shall be made in

[17] The headquarters of the General Secretariat of SICA are in the Republic of El Salvador. The System is comprised of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, as well as the Dominican Republic as Associate State; Mexico, Chile and Brazil as regional Observers; and Taiwan, Spain and Germany as non-regional Observers.

up to four annual, equal and consecutive instalments, with the founding countries paying in their corresponding local currencies and non-regional countries in U.S. dollars.

According to Article 8 of the Protocol on Reforms to the Constitutive Agreement of CABEI, the Bank shall finance exclusively those programmes or projects, which are economically sound and technically feasible, and shall refrain from making loans or assuming any responsibility for the payment or refinancing of previous obligations, and criteria of a political character related to any member state should not have influence on its operations. For the compliance with programmes and projects to be financed by the Bank, the institution shall grant short, medium and long-term loans; study and promote investment opportunities in the Central American countries; act as financing agent or as an intermediary in arranging loans and credits to governments, public institutions and enterprises established in the Central American countries; participate in the issuance and placement of all types of credit instruments; and obtain guarantees of the member states for contracting loans and credits from other financial institutions.

As regards its organization, the Bank's highest authority is the Board of Governors, made up of a Governor and an alternate of each founding country. This Board shall elect a President, who will remain in that position until the following regular meeting of the Assembly, which is held on an annual basis. The General Secretariat of the Central American Integration System (SG-SICA) shall be the depository of the Constitutive Agreement of CABEI. According to the Protocol, the Bank may offer its facilities for the organization and operation of a Clearing House on behalf of the Central Banks of the Central American countries, provided that they so request it.

As regards its recent operations, particularly disbursements and approvals, in 2008 the Central American Bank for Economic Integration granted loans for US$ 1.67 billion to the countries of the region. Of this amount, US$ 548.4 million (32.9% of the total) were targeted at Costa Rica; US$ 464.9 million (27.8%) were aimed at El Salvador; US$ 294.1 million (17.6%) at Guatemala; US$ 201.8 million (12.1%) at Honduras; and US$ 152 million (9.1%) at Nicaragua. As for distribution by sector, of the US$ 1.67 billion granted, the Bank allocated US$ 912.5 million (54.7% of the total) to support the economic insertion of the region in the international market; US$ 521.1 million (31.2%) to finance local programmes for poverty reduction, and US$ 232.9 million (13.9%) to strengthen the Central American integration.

As far as approval of new credits is concerned, in 2008 CABEI approved US$ 1.42 billion, of which around 78% was allocated to the public sector and 22% to the private sector. To diversify its source of financial resources, and as part of its general financing strategy, in 2008 CABEI issued bonds in international and regional financial markets for US$ 185.2 million, with issues in Mexico, Honduras, Europe and Taiwan.

In order to fight the regional food crisis, CABEI established the "Programme for Food Security in Central America" with US$ 300 million and facilitated access to financing for more than US$ 113 million for micro, small and medium-sized enterprises through its more than 150 intermediary financial institutions in the region.

In short, it may be stated that CABEI is the main multilateral financial institution in Central America and the institution that more resources assigns to the region. Only in 2008, more than US$ 1.6 billion granted to the five Central American countries represented 58 percent of the total resources provided by the multilateral banking in the region. Among its advantages are the deep knowledge of the Central American region and the experience gained during almost five decades as development bank, targeting resources at the public and private sectors. Moreover, it covers a wide network to carry out financial intermediation; it has a well-known capacity to summon up regional support; it has demonstrated its experience in formulating regional projects; it actively participates in the Mesoamerica Integration and Development Project (previously referred to as the Puebla Panama Plan); and is part of the strong institutionality established in the region known as SICA, which allows the Bank to have close institutional relations with organizations such as the World Bank, IDB, OAS, FLAR, and ECLAC, among others.

Although one of its main limitations is the amount of its funds to face the increasing financing needs of the Central American countries, in the 49th Regular Meeting of the Board of Governors of CABEI, held on 30 April 2009 in Tegucigalpa, the Bank's highest authority decided to increase the authorized capital from US$ 2 billion to US$ 5 billion. With this approval, CABEI became the first multilateral bank of Latin America and the Caribbean to make significant progress in its capitalization process amid the serious international financial crisis. In view of this significant increase in the Bank's capitalization, its executive president said that "the decisions made by the Board of Governors of CABEI will take an important space in the annals of Central American and Mesoamerican integration" (BCIE, 2009).

Finally, a conflicting element about CABEI has been the decision taken in a Summit, held in Managua on 29 June 2009, by the presidents of the Central American Integration System (SICA) to suspend the granting of CABEI's loans and payments to Honduras until the constitutional president, Manuel Zelaya, returns to power.

In this connection, CABEI said at the end of August 2009 that it is not violating Article 8 of the Protocol, since it has not suspended disbursements to Honduras and only makes "a pause" in its operations with this nation – where the headquarters of CABEI are located – until holding the next meeting of the Board of Governors, expected to make a decision on the disbursements. Until this situation is solved, private banks and contingency funds of Honduras have begun to withdraw their deposits in CABEI – an estimated amount of US$ 120 million – after the Central Bank of Honduras excluded CABEI from the supranational organizations where the Honduran financial institutions may invest their resources.

4. Plata Basin Financial Development Fund (FONPLATA)

The Plata Basin Financial Development Fund (FONPLATA) is made up by Argentina, Bolivia, Brazil, Paraguay and Uruguay, and forms part of the system of the La Plata Basin Treaty – signed on 23 April 1969 and in effect since 14 August 1970 – which also includes the Inter-governmental Coordinating Committee for La Plata Basin Countries (CIC), the Treaty Commission, and the Meeting of Foreign Ministers of the La Plata Basin.

The Constitutive Agreement of FONPLATA was signed on 12 June 1974 during the VI Regular Meeting of Foreign Ministers of La Plata Basin Countries, and entered into force on 14 October 1976. The Agreement establishes that "the purpose of the Fund will be to finance, in accordance with Article I of the La Plata Basin Treaty, the conduction of studies, projects, programmes and works aimed at promoting the harmonic development and physical integration of the La Plata Basin, allocating to that end its own resources and those obtained from other financial sources" (Governments of the La Plata Basin Treaty, 1976). The Agreement foresees the following functions for the Fund:

"a) To grant loans, bonds and guarantees;

"b) To make arrangements to get internal and external loans based on the shared responsibility of member countries;

"c) To obtain and manage resources at the request of one or more member countries;

"d) To provide financial support for the conduction of pre-investment studies in order to identify investment opportunities or projects of interest for La Plata basin countries;

"e) To provide financial support for technical assistance and advisory contracts;

"f) To serve as agent and advisory organ of the Inter-governmental Coordinating Committee for La Plata Basin countries, upon request; and

"g) To perform all the necessary functions in order to fully comply with its objectives".

According to the Constitutive Agreement, the Fund is administered by a Board of Governors and an Executive Board, and each country has the right to one vote (through a permanent member and an alternate) in those organs.

The Board of Governors governs the Fund but it can delegate its functions to the Executive Board except for the following groups of issues which are within the exclusive competition of the Board. On the one hand, the Regulations of the Fund and its amendments; the decisions on the interpretation of the Constitutive Agreement and the Regulations of FONPLATA, and the modifications in the amounts of resources and the way they are integrated; any proposals that might be made to the governments in order to amend the Constitutive Agreement; the decisions on the participation of other countries or organizations to increase the resources of the Fund; the allocation policy of the funds; and the liquidation of the Fund in case of dissolution. All of these issues require a unanimous approval. On the other hand, the approval of the annual budgets of the Fund; contracting of external auditors, who should be nationals of the member countries; and the consideration of audit reports, annual reports, financial statements and balances of earnings and losses of FONPLATA. All of these issues can be handled by the Board of Governors by using a different voting system.

In turn, the functions of the Executive Board are: to comply with and enforce the decisions made by the Board of Governors; to analyze and approve granting of loans, bonds and guarantees in accordance with the allocation policy guidelines established by the Board of Governors; the submittal of the annual budgets of the Fund for consideration of the Board of Governors; the submittal of the annual reports, the financial statements and balances of earnings and losses for consideration of the Board of Governors; convening of special meetings of the Board of Governors at the request of at least three of its members; the proposals to the Board of Governors to reform the Regulations of the Fund; and the contracting of technical and administrative staff. As part of this latter function, the Executive Board is the organ that contracts the Executive Secretary of FONPLATA, who is in charge of the operational body of the Fund, i.e. the Executive Secretariat.

The Fund entered into force in October 1976 – one month after all the ratification instruments were deposited by the member countries – and started operations in 1977, when the Headquarters Agreement between the Government of Bolivia and FONPLATA came into effect establishing its headquarters in Sucre, Bolivia, which was ratified in 2002 as Permanent Headquarters.

The Constitutive Agreement provides that the Fund would operate with a total amount of own resources of US$ 100 million, with an initial contribution of US$ 20 million, of which one-third would be contributed by Brazil, one-third by Argentina, and the remaining third by the other three member countries in equal amounts. Fifty percent of the contributions were to be made in U.S. dollars and the remaining fifty percent in the corresponding national currencies, in proportional annual quotas for a period of three years in the case of Brazil and Argentina and ten years in the case of Bolivia, Paraguay and Uruguay.

After the Agreement was signed, in 1979 the Board of Governors agreed on the mechanisms for the contribution of the remaining US$ 80 million of the Fund's resources, dividing this amount into callable capital and capital payable in cash. On various occasions capital increases have been agreed upon, supported mainly by capitalizations of earnings. Table 3 shows the present amounts of FONPLATA's authorized capital.

TABLE 3. FONPLATA: Authorized capital

Member countries	INTEGRATED CAPITAL			Callable Capital	TOTAL CAPITAL	%
	Dollars	National Currencies	Total			
Argentina	25,655,784	111,208,181	136,873,965	13,334.00	150,207,965	33.33
Bolivia	8,551,978	37,065,379	45,617,357	4,444,00	50,061,357	11.11
Brazil	25,655,784	111,208,181	136,873,965	13,334.00	150,207,965	33.33
Paraguay	8,551,978	37,065,379	45,617,357	4,444.00	50,061,357	11.11
Uruguay	8,551,978	37,065,379	45,617,357	4,444.00	50,061,357	11.11
Total	**76,987,502**	**333,612,499**	**410,600,000**	**40,000.00**	**450,600,000**	**100.0**

Source: FONPLATA, Web site: http://www.fonplata.org/.

According to Table 3, to date, the Fund's authorized capital reaches US$ 450.6 million (including the amounts contributed in the five national currencies), out of which 91% corresponds to integrated capital and 9% to callable capital. In turn, 81% of the integrated capital was paid in national currencies and the remaining 19% in dollars.

Since 1977, FONPLATA has committed US$ 746 million to financing operations and has granted US$ 4.7 million for technical cooperation operations. These amounts, in addition to the contributions made by borrowers and income from other financial sources, have allowed for a regional investment of approximately US$ 3,100 million. Table 4 shows the operational and financial indicators of the Fund for the period 2004-2008. As can be seen there, during that period US$ 286 million were approved in loans and disbursements reached US$ 193 million. By the end of 2008 the Fund's loan portfolio amounted to US$ 346 million.

TABLE 4. FONPLATA: Operative and financial indicators
(US$ millions)

ITEMS	2004	2005	2006	2007	2008
Approved loans	122.5	28.00	74.00	31.90	29.36
Loan portfolio	404.40	376.20	382.00	382.10	346.96
Total cost of financed projects (*)	2,649.00	2,684.00	2,777.00	2,840.00	3,095.00
Disbursements for the year	46.00	25.00	37.10	49.50	35.20
(*) Includes financing from other sources					
Source: FONPLATA, (2008) Web site: http://www.fonplata.org/.					

On 30 June 2009, FONPLATA loan portfolio reached US$ 431.5 million, corresponding to 18 projects, according to the distribution by member countries shown in Table 5. By that date, Brazil and Argentina concentrated 83% of the projects and 84% of the total amount of the active loan portfolio. In addition to this amount, there are five current technical cooperation operations for an amount of US$ 2.2 million, thereby increasing the total financial resources of FONPLATA to US$ 433.7 million.

TABLE 5. Active loan portfolio, by 30 June 2009
(US$ millions)

Countries	Number of Projects	Amount
Argentina	6	164.7
Bolivia	1	40
Brazil	9	197.6
Paraguay	2	29.2
Uruguay	0	0
Total	**18**	**431.5**
Source: FONPLATA, (2008) Web site: http://www.fonplata.org/.		

If the capital and operative amounts mentioned above are compared with the objectives of FONPLATA, the volumes managed by other similar institutions in the region, the needs covered by the Fund and the economic size of its member countries, it becomes evident that FONPLATA has a small amount of resources, which has undoubtedly limited its performance and compliance with the functions that were assigned to it since its creation.

Through the financing of pre-investment studies, the financing of investment projects and reimbursable technical cooperation projects, while FONPLATA's operations are aimed at a broad variety of activities and sectors (its active portfolio, for example, includes a programme to prevent floodings, the construction of a port facility, support to SMEs international trade operations, the recovery of impoverished soils and road infrastructure improvements, among others), the Fund has defined its priorities as follows: physical infrastructure projects to complement existing regional systems; social investment in education, health, basic infrastructure, potable water supply; agricultural, livestock and industrial production and consequently, promotion of exports; and environmental projects, conservation of nature, treatment of contaminated waters and recycling, promotion of hydrographic basins conservation and management, and control of soil erosion (FONPLATA Executive Board, 2008).

In addition, FONPLATA has increasingly focused its actions within the framework of the *South American Regional Infrastructure Integration Initiative* (IIRSA), through its participation in IIRSA's Technical Coordination Committee.[18] The directive organ of the Fund – which is currently associated to IIRSA's 2006-2010 Strategic Plan – refers to this approach as follows (FONPLATA Executive Board, 2008):

> "The participation of FONPLATA within the framework of the IIRSA Initiative has been strategic in order to re-dimension the institutional role of the organization in terms of the promotion of development and integration of the countries of the La Plata basin in the South American context. In this connection, emphasis must be made on the progress towards the identification and design of binational projects with a strong impact on physical, economic, social and environmental integration of the signatory countries."

5. Monetary and financial cooperation in the Caribbean

a) Caribbean Development Bank

The Caribbean Development Bank is a multilateral institution aimed at financing subregional development. It was founded on 18 October 1969 by virtue of an agreement signed in Kingston, Jamaica, and formally started operations on 26 January 1970. Article 1 of the "Agreement establishing the Caribbean Development Bank" provides that "the purpose of the Bank shall be to contribute to the harmonious economic growth and development of the member countries in the Caribbean and to promote economic cooperation and integration among them, having special and urgent regard to the needs of the less developed members of the region". (CDB, 1970)

The Caribbean Development Bank has a total of 26 member countries, classified as follows: eighteen borrowing regional members, namely Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Cayman Islands, Turks and Caicos Islands, British Virgin Islands, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago; three non-borrowing regional members, Colombia, Mexico and the Bolivarian Republic of Venezuela; five non-regional members, Germany, Canada, Italy, People's Republic of China and the United Kingdom. The headquarters of the Bank are in Wildey, St. Michael, Barbados and it does not have any branches or offices abroad.

The main functions of the CDB are as follows:

- To assist regional members in the coordination of their development programmes with a view to achieving better utilization of their resources, making their economies more complementary, and promoting the orderly expansion of their international trade, in particular intra-regional trade.

[18] The Fund has also actively participated in the waterway project *Hidrovía Paraguay-Paraná*, institutionalized since 1989 and incorporated into the system of the La Plata Basin Treaty in 1991. This waterway currently forms part of the IIRSA Initiative, as one of its ten key projects. It comprises 88 sub-projects with an estimated investment of US$ 3,974 million. Such investment is equivalent to slightly over nine times the total active loan portfolio of FONPLATA at present.

- To mobilize within and outside the region additional financial resources for the development of the region.

- To finance projects and programmes contributing to the development of the region or any of the regional members.

- To provide appropriate technical assistance to its regional members by assisting in the identification and preparation of project proposals and feasibility studies.

- To promote public and private investment in development projects by, among other means, aiding financial institutions in the region.

- To cooperate and assist in other regional efforts designed to promote regional and locally controlled financial institutions and a regional market for credit and savings.

- To stimulate and encourage the development of capital markets within the region.

The financial resources of CDB are classified into two types: Ordinary Capital Resources (OCR) and Special Funds Resources (SFR). Regional members must hold not less than 60% of the total capital and non-regional members may hold not more than 40%. According to Article 11 of the establishing Agreement, the Bank can provide financing for two types of operations: ordinary operations, which are those financed from the ordinary capital resources of the Bank, resources obtained from capital markets and international financial institutions, as well as the ordinary and special reserves; and special operations, which are mainly financed with special resources from the so-called Special Development Fund and other special funds (CDB, 1970).

As far as the loans by the Bank are concerned, they are granted in differentiated conditions as regards the terms and rates for re-payment, depending on which group each country belongs to. For this purpose, the CDB has classified its eighteen regional shareholders in groups whose composition varies depending on the type of financing being granted.

When financing comes from the Ordinary Capital Resources:

- Group 1: Bahamas, Barbados, Caiman Islands, Trinidad and Tobago.

- Group 2: Anguilla, Antigua and Barbuda, British Virgin Islands.

- Group 3: Belize, Dominica, Grenada, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turks and Caicos Islands.

- Group 4: Guyana, Haiti.

Loans from the OCR are repayable over varying periods, depending on the grouping of the CDB, and the maximum periods (inclusive of a five-year grace period) will not exceed 17 years for groups 1 and 2 countries, and 22 years for groups 3 and 4 countries. The limits for these loans are up to 80% of the total cost of the project for the governments of groups 1 and 2 countries and up to 70% for the governments of groups 3 and 4. In the case of loans to the private sector, the limit is up to 40% of the total cost of the Project.

When financing comes from resources of Special Funds:

- Group 1: Bahamas, British Virgin Islands, Caiman Islands.

- Group 2: Anguilla, Antigua and Barbuda, Barbados, Turks and Caicos Islands, Trinidad and Tobago.

- Group 3: Belize, Dominica, Grenada, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines.

- Group 4: Guyana, Haiti.

For these loans, the maximum maturity date of credits, including the grace period, is ten years for group 1 countries, twenty-five years for group 2 countries, and thirty years for groups 3 and 4 countries, which are the relatively less developed countries in the Caribbean, bearing in mind that these operations are high-priority loans for development and have longer amortization periods. Annual interest rates are as follows: five percent for the group 1 countries, four percent for group 2 countries, two and a half percent for the group 3 countries, and two percent for group 4 countries. The limits of these loans are: up to 90% of the total cost of the project for the governments of groups 3 and 4 countries, and up to 80% of the total cost of the project for the governments of groups 1 and 2 countries.

For organizational and administrative purposes, the CDB has a Board of Governors, which is the highest policy-making body of the bank. The Board meets once a year, but may also be summoned as required. All the member countries are represented at the Board by one Governor and one Alternate Governor, who are usually the Finance Ministers of each country. According to Article 27 of the establishing Agreement the powers vested in the Board of Governors are as follows: to admit new members and determine the conditions of their admission; to increase or decrease the authorized capital stock of the Bank; to determine the reserves and the distribution of the net profits of the Bank; to amend the Agreement and the Regulations of the Bank; to distribute shares and income application; and to elect the President of the Bank.

At the second level, the Board of Directors is composed of twenty members who are elected to hold office for a term of two years. Fourteen of those Directors represent regional members, and the other six represent non-regional members. The Board of Directors is the responsible for the general policy and the direction of the operations of the Bank, as it is the organ in charge of making decisions concerning loans, guarantees and investments. At the third level is the President of the Bank, who is appointed by the Board of Governors and is responsible for the organization, appointment and dismissal of the officials and staff.

In 2008, CDB loans amounted to US$ 88.8 million for a total of 18 projects, and approved guarantees were US$ 54.2 million. Based on this, the net accumulated loans approved by the CDB reached US$ 760 million and the net accumulated guarantees approved increased to US$ 200 million. Of the total of loans approved by country during the period 2005-2008, US$ 53.3 million corresponded to Jamaica, followed by Guyana with US$ 17.5 million, Grenada with US$ 15.4 million, St. Lucia with US$ 12 million, Dominica with US$ 11.2 million, and Belize with US$ 7,1 million, among the main recipients. (CDB, 2009)

In 2008, the Caribbean Development Bank continued with its efforts to expand its membership to include other countries. In this connection, the Board of Governors approved the inclusion of Brazil in the institution, starting the formal procedure that it should follow within the legal framework of that South American nation, which should conclude with Brazil's inclusion in the Bank. In addition, as part of the dynamics of the operation of the CDB, a series of projects for 2009 were approved, including: a project to improve education in Dominica, a project to build a highway in Basseterre, St. Kitts and Nevis, a project to improve government and administration practices in St. Vincent and the Grenadines, and a consolidated credit line for Belize.

In an assessment of the CDB, it should be noted that in its almost four decades of operation in the Caribbean, the Bank has granted loans to a broad variety of sectors and areas of economic activity such as the tourism sector, rural agriculture and, the fishing and the industrial sectors, construction and expansion of ports, airports and highways, and prevention and relief in cases of natural disasters, which regularly affect the region. In addition, one of the priorities of the Bank's Strategic Plan for 2005-2009 is to continue helping to reduce poverty. To this end, it has allocated resources to social sectors in the Caribbean countries so as to support and improve provision of health services, drainage and potable water systems, as well as education and housing.

In terms of its capital and assets, the Caribbean Development Bank is the smallest multilateral institution providing financing for development, if compared to other regional and subregional financial institutions. This is in line with the relatively smaller size of the economies in the Caribbean region. Nevertheless, it must be noted that the CDB has very high capitalization levels, which reveals the high degree of support of its shareholders as compared to other multilateral institutions providing financing for development.[19]

b) Currency Union of the Organization of Eastern Caribbean States (OECS)

Being members of the Caribbean Community (CARICOM) – the main integration grouping in the Caribbean, which was created in 1973 by the Treaty of Chaguaramas – a number of Eastern Caribbean small countries and island territories agreed in 1981 to establish the Organization of Eastern Caribbean States (OECS), in response to the fact that a large portion of the benefits obtained as a result of integration in the Caribbean was concentrated in those countries with greater territorial and demographic size, particularly Jamaica and Trinidad and Tobago.

The OECS is a regional organization aimed at coordinating development strategies among its member States, by promoting economic cooperation, sustainable development and integration of Caribbean countries. The Constitutive Agreement of OECS is known as the Treaty of Basseterre, since it was signed in the capital of St. Kitts and Nevis on 18 June 1981. At present, the organization is made up by a total of seven full members: Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines, and two associate members that are UK territories: Anguilla and British Virgin Islands.

The joint actions undertaken by the OECS countries to promote their development process include a series of organizations and institutions. The most outstanding one is the Eastern Caribbean Central Bank (ECCB), whose Constitutive Agreement was signed in 1983. The ECCB, which marked twenty-five years of existence in October 2008, is the

[19] It must be noted that in the Caribbean Development Bank, Jamaica and Trinidad Tobago concentrate a majority of the bank's share capital, as the two nations together hold almost two-thirds of the shares corresponding to regional members in the Caribbean and more than 35 percent of the total shares of the Bank.

issuing bank of the common currency for the OACS countries which make up the Currency Union.

The Eastern Caribbean Currency Union (ECCU) is presently made up of eight countries and territories: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. These countries form part of the Caribbean Community (CARICOM) and the Caribbean Development Bank; however, they independently created the Eastern Caribbean Central Bank as an autonomous entity and promoted the Currency Union in their subregion as an integration effort to face difficulties on the international scene, by ensuring their currency stability and the harmonization of macroeconomic policies. As a result of their Currency Union, these countries have a common currency, the “Eastern Caribbean Dollar”, with an exchange rate of 2.70 against the U.S. dollar which has not experienced significant fluctuations in the last few years.

According to its Agreement Act, the functions of the Eastern Caribbean Central Bank are as follows: (Eastern Caribbean Central Bank, 1983):

- To regulate the availability of money and credit.
- To promote and maintain monetary stability.
- To promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the participating governments;
- To actively promote, through means consistent with its other objectives, the economic development of the territories of the Participating Governments.

The headquarters of the Bank are in Basseterre, St. Kitts and Nevis. It has branch offices in Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Lucia, and St. Vincent and the Grenadines.

Bearing in mind that the members of the Eastern Caribbean Currency Union have a little diversified economic structure – which is mainly based on banana production and exports, and tourism as the most important activity for obtaining foreign currencies – and in view of their complex territorial structure as island nations, it is a fundamental advantage for OECS countries to count on a Central Bank that safeguards the international value of its own currency, grants loans to the commercial banks and the governments of participating countries, provides clearance and liquidation mechanisms that support the consolidation of a single monetary and financial space, while promoting intra-Community trade. In addition, it must be noted that the relatively small size of the markets of the members of this Currency Union does not allow them to have scale economies. Moreover, their lack of sufficiently large and diversified communications and inter-island transport infrastructure and their extreme vulnerability to natural phenomena and disasters – such as hurricanes and tropical storms – are other factors working against them.

In accordance with its function concerning regulation of banking activities in member countries, and in order to protect depositors of financial institutions, in 2009, the Eastern Caribbean Central Bank resorted to its Special Emergency Powers – as provided for in Part IIA of its Agreement Act – to intervene and assume control of the Bank of Antigua, according to the ECCB annual report (Eastern Caribbean Central Bank, 2009). This intervention was aimed at safeguarding clients' deposits in view of the massive withdrawals by account holders. Panic spread when the U.S. Securities and Exchange Commission (SEC) filed charges against financier Robert Standford and three of his firms for a financial fraud involving millions of dollars.

Antigua-based Stanford International Bank (SIB), as well as brokerage firm Stanford Group Company (SGC) and investment firm Stanford Capital Management, allegedly participated in a financial fraud that involved the sale of US$ 8,000 million in "deposit certificates" promising high yields but little or no chance to actually collect payments. In view of this, the Eastern Caribbean Central Bank, in compliance with its regulatory functions, took control of the Bank of Antigua and created the Eastern Caribbean Amalgamated Financial Co. Ltd. (ECAFC) to allow the Bank of Antigua to continue normal operations without putting clients' deposits at stake or affecting the operation of the complex financial and monetary structure that has been developed in the Eastern Caribbean over the last 25 years.

A clear expression of profound policy harmonization, the Eastern Caribbean Currency Union is one of the best examples of the deep levels of coordination and convergence that can be reached in the area of regional financial and monetary integration.

6. Agreement on Reciprocal Payments and Credits of ALADI

The predecessor of this mechanism was the 1965 "Agreement of Mexico", which started operating the multilateral mechanism for payments clearance in convertible and freely transferable currencies among the central banks of the member countries of the Association. Said agreement was replaced in 1982 by the Agreement on Reciprocal Payments and Credits (CPCR, Spanish acronym), which was signed on 25 August 1982 by the Council for Financial and Monetary Affairs (an organ made up by the authorities of the central banks which was created a year earlier).

The operation of the CPCR is governed by the resolutions of this Council and the rules and regulations of the Agreement. At present, this mechanism is made up by the central banks of the twelve member countries of ALADI, which establish among them credit lines in dollars and apply a system to clear the balances in their accounts. The banks can restrict both viable operations and the instruments to be used, in accordance with their internal needs. Among its purposes, the Agreement is aimed at speeding up payments, strengthening economic relations among the member countries of ALADI, reducing the use of foreign currencies by participating countries, encouraging financial relations among the members of the Association, and promoting regional integration.

The CPCR has two major components: a multilateral payments clearance mechanism and a guarantee system. Clearance is a procedure by which the debit balances and the interests generated by those debtor balances during the corresponding period are cancelled out on a regular and multilateral basis. Clearance is conducted every four months, on the last working day of the months of April, August and December every year. Clearance is the result of the payments derived from trade operations among the member countries and the transactions of goods and services made by residents; for this reason at the close of the four-month period the central bank of each country transfers funds to, or receives them from, the other central banks, depending on whether the balance shows a surplus or a deficit.

In turn, the guarantee system ensures the convertibility of national currencies into dollars, the capacity to transfer the dollars through the mechanism, and the reimbursements among the central banks for the operations conducted under the Agreement. The use of this mechanism to channel payments is voluntary and economic operators must request an authorized commercial bank to conduct their operations through it, thereby benefitting from the advantages and guarantees offered by the Agreement.

By virtue of this ALADI Agreement, payments for commercial operations to trade goods and services, as well as the expenses related to them can be made as long as the traded goods are originated in one of the member countries. Similarly, this mechanism allows for making payments for various types of direct operations not associated with trade in goods, made by residents in member countries, such as payment orders, nominal drafts, letters of credit, documentary credits, and bank-guaranteed bills, among others, provided that they are not "pure" financial operations, i.e. that they imply a transfer of funds which is not related to a commercial operation.

The broad variety of operations that can be conducted through this Agreement provides it great flexibility and the ability to choose from among this range of operations in accordance with the type of transaction to be made, the amounts and importance of the exchanges, the time frames agreed upon, and the type of relation established between the importer and the exporter, to mention just a few elements for definition.

Under the Agreement, the payments are made through the central banks of the corresponding countries, or through some of the institutions authorized by them. Within the framework of operation of the Agreement, the negative balances of any central bank with another one will earn interests based on the LIBOR rate to four months, calculated by the simple arithmetic average of the registry for the first three and a half months of every period, plus one percentage point. The central banks must guarantee the immediate convertibility to dollars of the national currencies that are provided to the institutions authorized to make payments under the Agreement, as well as the transferability of the dollars resulting from the conversion, whenever such payments are required.

For this purpose, each central bank establishes a reciprocal credit line with each one of the remaining banks in the system, whose amount varies depending on the volume of trade. In case the operations exceed the limit of the credit line before the closing of the four-month period, the exceeding amount is cancelled out in foreign currency. An additional instrument is the "Mechanism for Multilateral Use of Credit Lines Margins". Its use requires an agreement between the intervening parties in order to allow for substituting debts between central banks; that is to say, any bank that exceeded its credit line with respect to a second bank can cover that balance by resorting to the credit margins that it may still have with a third Bank.

In order to underpin the operation of the Agreement, three information mechanisms have been implemented: 1) SICAP (Computerized System to Support the Agreement on Reciprocal Payments and Credits of ALADI, created in 1989), which provides daily information about the payments made among the central banks; 2) SICOM (Information system on future commitments, operating since 2004), by which the institutions authorized by the importer register issued instruments, and the central banks exchange automated information about such instruments prior to the cancellation of the reimbursement; and 3) SICOF (System of Future Commitments Assumed by Authorized Institutions, operating since 1997), which allows for exchanging automated information among central banks about received instruments.

In general, the CPCR has proved to be useful for the member countries as it allows them to make savings in terms of their use of foreign currency for intra-regional payments, and to reduce the administrative costs of financial transactions. According to data from ALADI (2008a), since it started operations in 1966 until the first four-month period of 2008, intra-regional imports of the member countries of the Association have reached US$ 978,234 million and out of this total amount, the operations conducted under the CPCR accounted for US$ 242,040 million (i.e., 25% of the intra-regional imports), with US$ 92,354.8 million corresponding to transfers in foreign currency. This means that the cancellation of balances required less than 39% of the total amount of the operations under the CPCR; in other words, during that period the members of the Association saved nearly US$ 150,000 million in their intra-regional trade.

Nevertheless, a revision of the annual performance of both intra-regional trade exchanges and the volumes of those exchanges conducted under the Agreement reveals two problems:

1. The performance of the CPCR has been strongly influenced by the deterioration of the regional macroeconomic context, which has seriously affected the effectiveness of the Agreement. In this connection, the most relevant example was the severe crisis faced by Latin America and the Caribbean in the 1980s, when some of the countries temporarily withdrew from the clearance mechanism of ALADI due to difficulties to pay the deficit balances in foreign currency. This evidenced the limited capacity for action not only of the CPCR but also of the series of integration schemes, instruments and agreements to prevent the drastic reduction in the levels of reciprocal exchanges that characterized that decade.

2. While the use of the Agreement for trade operations leads to substantial savings in the use of foreign currency, the weight of these operations in the total intra-regional trade has experienced drastic fluctuations and shows a remarkable tendency to decrease in the long term. In this regard, the aforementioned figure of 25% of the total intra-regional trade conducted through the CPCR for the period from 1966 to the first fourth-month period of 2008 forms part of an extremely heterogeneous range of annual averages, which vary from 90.9% in 1989 to 1.6% in 2003. In terms of establishing a trend, it should be noted that, from 1970 to 1994, the annual proportion of the transactions conducted through the Agreement in the total intra-regional trade was never below 40%, whereas from 2000 to 2007 this proportion did not surpass 10%.

In an assessment of the performance of the CPCR, the Report of the General Secretariat of ALADI for the year 2007 pointed out (ALADI, 2008: 51):

> "With respect to its use, the Agreement continued to show an ascending cycle in conducted operations, posting a 82.9% increase in the overall amount of operations compared with 2006. This is the result, mainly, of the channelling of operations by Venezuela. However, while the aforementioned increase was higher than that of intra-regional trade, the proportion of transactions conducted through the Agreement in the total intra-regional trade was among its historical lows."

IV. NEW MONETARY AND FINANCIAL COOPERATION MECHANISMS IN REGIONAL INTEGRATION

1. Brazil-Argentina Local Currency Payment System (SML)

The Local Currency Payment System (SML, Spanish acronym) is a computerized mechanism of payments that allows Argentine and Brazilian importers and exporters to make and collect payments for trade operations in their corresponding local currencies.

The SML was set forth in Decision 38/06 of the Common Market of the South (MERCOSUR), by which the Council of the Common Market (CMC) in its XXXI Regular Meeting, held in Brasilia on 15 December 2006, decided "to support the work conducted by the central banks of Argentina and Brazil for the creation of a system of payments for trade transactions in local currencies" (CMC, 2006). Based on this, on 28 June 2007, the XXXIII Regular Meeting of the Council of the Common Market, held in Asunción, by means of Decision 25/07 agreed "to create the system of payments in local currency for trade transactions between the party States of MERCOSUR" (CMC, 2007), establishing that the conditions for the operation of this system would be defined through bilateral agreements signed between the central banks of the respective countries.

In December 2007, Decision 25/07 of the CMC was incorporated into the Complementation Economic Agreement No. 18 by means of the 59th Additional Protocol, thus making the General Secretariat of ALADI the depositary of this Protocol. Some months later, on 8 September 2008, in Brasilia, the "Agreement on the Local Currency Payment System between the Argentine Republic and the Federative Republic of Brazil" was signed by the presidents of the central banks of both nations, and on 6 October 2008 the system began to operate.

The second clause of the SML Agreement establishes that the objective of the system is "to facilitate transactions in local currencies between both countries and to reduce the transfers of foreign currency (U.S. dollars) to each other" (Central Banks of Argentina and Brazil, 2008). The SML is an optional, complementary mechanism of the systems of payments in effect in Argentina and Brazil, which serves as a system for clearance and transfer of values, in which both importers and exporters have the facility to pay and collect payments in their corresponding local currencies (Argentine pesos / Brazilian reals) for trade in goods and services as well as trade-related expenses, such as freight charges and insurances. The SML is not a mechanism for protection against foreign exchange risks, and according to its regulations, the central banks of both countries do not charge each other any fees or commissions for expenses related to their trade transactions.

The SML Agreement points out that this mechanism responds to the need to develop low-cost financial instruments for transactions made in Argentine pesos and Brazilian reals. The agreement also indicates that transaction costs of the operations made in U.S. dollars and the difficulties to trade goods or services in the local currencies of these two countries can discourage small and medium-sized enterprises from conducting international trade operations. In addition, it underscores the relevance of trade flows between Argentina and Brazil and of these two countries with MERCOSUR and the possibility for the creation of the SML to set a precedent for the subsequent implementation of a similar mechanism with the other countries of the group. This mechanism, the agreement says, will allow for increasing liquidity and efficiency of foreign exchange markets, while strengthening financial integration between Brazil and Argentina, which is one of the purposes of regional integration as provided for in the Treaty of Asunción, which gave rise to MERCOSUR.

Operationally, the participants in the SML are the importers and exporters of both nations, the banks authorized by each country to join this scheme (at present, a total of 21 banks in Argentina and 18 banks in Brazil have been authorized to operate with the SML) and the central banks of both countries. The procedure is as follows: An importer registers his operation and makes the payment in his own currency to any of the banks authorized to operate with the SML. Afterwards, the clearance operation is conducted between the central banks for the values in local currency and, later on, the central banks transfer the credit to the exporter through the banking system. Thus, both the importer and the exporter pay and collect in their corresponding currencies, without the need to make modifications of documents or foreign trade procedures in any of the countries.

Decision 09/09, adopted by the Council of the Common Market of MERCOSUR during its XXXVII Regular Meeting held in Asunción on 24 July 2009, considered that the use of local currencies has served as an instrument to deepen regional integration and has reduced financial costs of commercial transactions between the countries, and provided for an extension of the scope of the SML to cover the set of “transactions of any nature” conducted between the party States of MERCOSUR. The new Decision adds that “the new concepts of payment that are incorporated into the mechanism and the operation conditions will have to be agreed upon bilaterally by the central banks of each party State”.

Data from the Central Bank of the Argentine Republic (2009) indicate that in its first seven months of operation, from October 2008 to April 2009, the Local Currency Payment System was used by 160 companies, reaching a total amount of US$ 122.8 million distributed in 214 operations. With respect to the values of the conducted operations, nearly 90% of all the operations involved amounts below US$ 500,000, and the majority of them, 57% of the operations, were for amounts below US$ 100,000.

In view of the need to have a more up-to-date balance, in the XXXVII Regular Meeting of the Council of the Common Market, held on 23 July 2009 in Asunción, the CMC “ratified the interest showed by the Ministers of Economy and the Presidents of Central Banks to conduct an evaluation of the experience of bilateral trade in local currencies between Argentina and Brazil” (CMC, 2009).

The Argentinean central bank also indicated that 86% of the total operations were exports from Brazil to Argentina, pointing out that, thanks to this mechanism, savings in financial and administrative costs reached 3% of the total amount of the operation. By sectors and economic activity branches, the SML has been used by the textile sector, the automobile parts industry, furniture, machinery and tools sectors, in addition to metallurgical, plastic, and food processing industries, among others. This mechanism has served to simplify administrative procedures and reduce financial costs as compared with the use of the U.S. currency in trade between the two countries.

A comparative analysis between the Agreement on Reciprocal Credits and Payments of ALADI (CPCR) and the SML between Argentina and Brazil reveals some of the main differences between the two mechanisms. While the CPCR includes a total of twelve countries, the SML operates only between Argentina and Brazil for the time being. In the CPCR, trade operations are conducted in dollars, whereas in the SML the operation is agreed upon in the currency of the exporting country. The CPCR consists of a mechanism of multilateral clearance of payments and a guarantee system, whereas the SML does not grant guarantees and carries out only effectively paid operations. In the CPCR clearance among Central banks is multilateral and is performed every three months in dollars, while in the SML clearance between Central banks is bilateral, performed on a daily or weekly basis, in local currency. The CPCR admits various types of operations, including those not directly associated to trade in goods that are conducted among residents, such as nominal drafts or documentary credits, among others, and it does not have a maximum period to conduct the operations, whereas the SML is a specific mechanism for trade in goods, services and trade-related expenses, with a maximum period of 360 days.

Although the impact that the SML has had on trade between Argentina and Brazil is still marginal, due to the very large volume of trade between these countries, this mechanism remains a very important option for small and medium-sized companies. Even though the SML is not part of the institutional structure of MERCOSUR formally, it is possible for the other countries of this subregional integration group to join the SML, in view of the need to replace the U.S. currency in trade exchanges in order to move towards the consolidation of a stronger region in terms of the use of its own mechanisms and financial instruments. In this regard, outside the scope of MERCOSUR, the Government of Colombia has pointed out that bilateral trade relations between Colombia and Brazil should be conducted on the basis of their corresponding national currencies, without resorting to other currencies. In any case, the SML, just like the SUCRE, is one of the most recent initiatives in the area of financial cooperation, within a global context characterized by a widespread interest in reducing the weight of the U.S. dollar as reference currency. Latin American and Caribbean countries, particularly South American countries, seem to share this concern.

2. Monetary and financial cooperation in ALBA-TCP

Since the Bolivarian Alternative for the Peoples of the Americas was created by Cuba and Venezuela in December 2004, this group has made significant progress[20] in terms of the number of participating countries, development of its institutional infrastructure and the implementation of various cooperation and integration initiatives among its member countries. Two modifications have been added to the initial denomination of this scheme, which partly reflect the changes it has undergone: in 2006, when Bolivia joined the group, the phrase "People's Trade Agreement" (TCP) was added to the original name, and in June 2009, within the framework of the VI Summit of ALBA-TCP, the word "Alternative" was changed to "Alliance".[21]

With respect to its membership, Cuba and Venezuela have been joined by Bolivia (April 2006), Nicaragua (November 2007), Dominica (January 2008), Honduras (August 2008), and Ecuador, St. Vincent and the Grenadines and Antigua and Barbuda (June 2009). Thus, at present, ALBA-TCP has nine member countries: four Caribbean, two Central American and three South American nations.

As far as the institutional structure of ALBA-TCP is concerned, based on the organizational chart defined in the V Summit in May 2007 and on the decisions taken in other summits,

[20] A description of the creation of ALBA and its first 30 months of operation can be found in SELA (2007).

[21] In this connection, the Declaration of that Summit established that the Heads of State and Government "decided that, as of this VI Summit, ALBA-TCP will be called 'Bolivarian Alliance for the Peoples of the Americas-People's Trade Agreement' (ALBA-TCP), with the understanding that the growth and political strengthening of ALBA-TCP turn it into a real and effective force" (Heads of State and Government of ALBA-TCP, 2009b).

the alliance has created Councils of Ministers to deal with different subjects,[22] the Council of Social Movements, as well as various Commissions, Committees and Working Groups. Additionally, mention must be made of the creation of the Political Council of ALBA-TCP, made up by the Ministers of Foreign Affairs of the Member States, which held its first session in Quito, Ecuador, on 9 August 2009, as well as the establishment of the Permanent Coordination of ALBA-TCP, whose chair will be rotated among the member countries and will be supported by an Executive Secretariat made up by an Executive Secretary, a Deputy Secretary, Directors for each working team, a representative of the ALBA Bank and a representative of PETROCARIBE. However, in view of the consolidation and enhancement of ALBA-TCP, in its first meeting, the Political Council held a discussion about the need to move ahead towards a greater institutionalization of the Alliance and to regulate its operation, and agreed to request the Permanent Coordination to prepare a proposal concerning the structuring and functioning of ALBA-TCP.

The cooperation and integration initiatives that have already been defined and undertaken as part of the internal functioning of ALBA-TCP include various strategic sectors. In addition to the actions in the financial and monetary area that will be analyzed below, the most substantial elements of such initiatives have been concentrated on the *Grand National Projects*, as agreed upon in the V Summit of ALBA-TCP in April 2007.

Grand National Projects cover the areas of education, culture, fair trade, finances, nutrition, health, telecommunications, transport, tourism, mining, industry and energy. One or more Grand National Projects have been outlined for each area, and several of them foresee the establishment of “Grand National Companies” with capital contributed by the member countries of ALBA-TCP, particularly in the following sectors: energy, industrial inputs, imports and exports, agro-alimentary production, telecommunications, state-run airlines, aircraft maintenance and construction, a new shipping company for cargo and passenger transportation, development of infrastructure in the region, cooperation, research and development in the area of mining and geology, development of the aluminium industry, development of cement industries, forest management, production and marketing of wood industry products and stainless steel products.

Concerning the progress of these initiatives, the Declaration of the IV Summit of ALBA-TCP – held in February 2009 (Heads of State and Government of ALBA-TCP, 2009c) with the purpose of evaluating the four years of existence of the alliance – referred to the results of the projects in the areas of “health, education, food security, infrastructure creation, energy security and power supply, development of local industries, and promotion of culture”. For the near future, other areas will be attached top priority, namely: “literacy and literacy follow-up, health, foodstuff, energy, environment, telecommunications and culture.”[23]

Concomitantly with the aforementioned achievements, ALBA-TCP has outlined various initiatives in the area of financial cooperation which will be reviewed below. While some

[22] In the VI Summit of ALBA-TCP, in addition to the Ministerial Councils, an agreement was signed to create the Ministerial Council for Social Programmes, the Ministerial Council for Economic Complementation, and the Ministerial Council for Women.

[23] In other areas, mention should also be made, on the one hand, of the Agreements and Treaties that have provided a framework for different actions as regards energy security and food sovereignty, as well as the creation of the “ALBA Food Security Fund” with an initial capital of US$ 100 million; and on the other hand, the progress made by the Political Council of ALBA in its first meeting as regards the “Agreement on common positions on the main issues of the international agenda and international organizations”.

of these initiatives are directly related to the projects above, since they are instruments for financing such projects, they are clearly aimed at generating a monetary and financial architecture that allows for a substantial enhancement of autonomy margins, vis-à-vis the problems posed by the functioning of the dollar-based international monetary system, as well as the multilateral sources of financing and the conditionalities imposed by them. Higher priority has been attached to these latter issues in the current context of global crisis. In this regard, several ALBA-TCP countries have promoted proposals – such as the Bank of the South – to reach out to the whole of Latin America in an effort to build a new monetary and financial architecture with a regional scope.

Among the initiatives for monetary and financial cooperation of ALBA-TCP, this study will start by reviewing the Regional Clearance Unitary System (SUCRE), in order to facilitate its comparison with the Agreement on Reciprocal Credits and Payments of ALADI and the Local Currency Payment System, as discussed above. Afterwards, analyses will be made of both the ALBA-TCP Bank and the ALBA-Caribe Fund.

a) The Regional Clearance Unitary System (SUCRE) [24]

The III Summit of ALBA-TCP, held on 26 November 2008 with the participation of Ecuador although it had not yet joined the Alliance, agreed to move ahead with the creation of the SUCRE.[25] In this Summit, the discussions were largely focused on the current world crisis and its impact on the region, and on the revision and criticism of the prevailing economic model and the operation of the international financial system, underscoring the need to generate responses to the crisis and the conviction that such responses must attach priority to the regional space.[26] Within this context, the Final Declaration of the Summit included the decision to create the SUCRE in the following terms (Heads of State and Government of ALBA-TCP, 2008a):

> “Build a Monetary Zone that will initially include ALBA member countries (the Commonwealth of Dominica would participate as Observer) and the Republic of Ecuador, by establishing a common account unit, the SUCRE (Regional Clearance Unitary System) and a payment clearance chamber. The creation of this monetary zone will have attached the establishment of a stabilization and reserve fund with

[24] An analysis of the initial proposal for SUCRE, compared with previous experiences in Latin America and Europe, and the necessary conditions for its successful implementation can be found in SELA (2009b).

[25] While the formal agreement to create the SUCRE was reached at that Summit, the various components of this proposal had been under discussion for several years at governmental and non-governmental levels in the region. It must be recalled that the possible creation of both a Latin American currency (and even its denomination as SUCRE) as well as a regional payment clearance system was mentioned during the inauguration of Rafael Correa as President of Ecuador on 17 January 2007, and during the XXXI Summit of MERCOSUR, held on 18 and 19 January. The same goes for the creation of a stabilization and reserve fund, which is one of the components of the SUCRE and has been the subject of several previous discussions and declarations.

[26] In this connection, mention must also be made of the Declaration “The International economic crisis and Latin America and the Caribbean”, adopted by consensus by the 27 Member States of SELA at the XXXIV Regular Meeting of the Latin American Council, held in Caracas from 25 to 28 November 2008 (SELA, 2008). In this Declaration, the Member States of SELA stated that “The critical situation of the global economy forces Latin America and the Caribbean to firmly promote the regional integration process. In this regard, it is urgent to make efforts in order to further promote economic relations among the countries of Latin America and the Caribbean. Moreover, it is necessary to re-launch proposals for establishing regional financial arrangements among Latin American and Caribbean countries that contribute to protect the countries of the region as well as the integration process itself from global financial shocks, to the greatest possible extent”.

> contributions from member countries, whose purpose is to finance demand expansion policies to face the crisis and maintain an investment policy for the development of supplementary economic activities."
>
> "Integrate a regional answer driven by ALBA-TCP that will search for independence from world financial markets, question the role of the dollar in the region, move towards a common currency, and contribute to the creation of a pluri-polar world".

After that III Summit of ALBA, on 10 December 2008, six Technical Committees were created, whose mandate reflected the various components and objectives stemming from the decision to move ahead towards the creation of the SUCRE. Thus, the first Committee is in charge of analyzing the Common Account Unit; the second one will deal with the Central Payment Clearance Chamber; the third one will take care of the Joint Stabilization and Development Fund; the fourth Committee will be responsible for the creation of the Regional Monetary Council; the fifth one is in charge of the issue of intra-regional trade; and the sixth Committee will deal with the legal aspects related to the implementation of the SUCRE.

Based on the work carried out by those Committees, the *Framework Agreement on the Regional Clearance Unitary System (SUCRE)* was signed during the V Special Summit of ALBA-TCP on 16 and 17 April 2009, in order to "orient the establishment of the Regional Clearance Unitary System (SUCRE) and setting the main guidelines for its operation and the interaction among the various bodies and mechanism that form part of it. Its central purpose is to promote integral development in the Latin American and Caribbean region by stimulating production and increasing trade exchanges among peoples at the intra-regional levels".[27]

The main contents of said framework agreement are as follows (Heads of State and Government of ALBA-TCP, 2009b):

- The integration of the SUCRE through 1) The Regional Monetary Council, 2) the Common Account Unit, Sucre; 3) the Central Payment Clearance Chamber, and 4) the Reserve and Trade Convergence Fund.

- The Regional Monetary Council (CMR) will be the highest decision-making organ of the SUCRE, will be in charge of supervising the operation of the system and will have, among others, the following objectives:

  - "To promote and contribute to promote a transparent and stable regional monetary system, which generates wealth and fosters sustainable economic development.

  - To follow up on the monetary policies and instruments of the member countries, and suggest actions.

  - To conduct studies in order to provide guidance for the regulation of capital movements.

[27] In a simultaneous broadcast on radio and television during the V Special Summit, the President of Venezuela referred to the creation of the SUCRE within the context of the world crisis in the following terms: "I sincerely believe that this initiative opens up a new chapter in history. In ALBA we gathered to make decisions to face the economic crisis (...) At present, I do not have any news about the existence of any other similar initiative anywhere in the world. At this moment, this is a swift response to the profound crisis threatening us all".

- o To recommend strategies, policies, measures and mechanisms aimed at preventing or alleviating monetary, financial and banking crises, and at expanding intra-regional trade, as well as trade with third countries that grant fair treatment."

- The Common Account Unit, Sucre, will be a fiduciary currency to be used as account unit of the SUCRE, for the purposes of registry, valuation and clearance of operations, with a view to creating a regional monetary zone. The CMR will establish the criteria for composition, weighting variables, exchange rates with respect to national currencies, and adjustment mechanisms for the Sucre, while seeking to maintain exchange rate stability through time. Based on the agreements among the member countries, the CMR will also be in charge of allocating Sucres to the countries, so that they can operate in the Central Payment Clearance Chamber.

- The SUCRE will count on a Central Payment Clearance Chamber (CCC) in charge of clearing and cancelling out the operations conducted through the system. Operations in this Chamber will be conducted with the Sucres that the CMR allocates to the countries based on the agreements reached among them for that purpose.

- The SUCRE will be supported by a Reserve and Trade Convergence Fund (FRCC), whose objective is "to help with the operation of the CCC, by providing financing to offset its trade deficits and to reduce trade asymmetries among the parties". The FRCC, whose resources will be administered under the modality of a trust fund, "will be established with contributions made by the parties in foreign or local currency, in accordance with the proportions, instruments and terms agreed upon by the member countries".

In its final paragraphs, the Framework Agreement calls upon other Latin American and Caribbean States to join SUCRE and establishes that, once the six Technical Committees created in December 2008 conclude their work within the time frames agreed to, during the fourth quarter of 2009, the system will enter "its experimental phase of implementation, and will start to operate as of January of 2010".

Referring to those deadlines, in the aforementioned Declaration of the VI Special Summit of ALBA, dated 24 June 2009, the signatories "urged the Committees of the Regional Clearance Unitary System (SUCRE) to continue making progress with their work", and instructed the Committees "to submit to the Permanent Coordination regular reports on the progress of their work". The signatories also "urged the Committee on Trade of the Regional Clearance Unitary System (SUCRE) to deepen the strategies and actions aimed at dynamizing trade among our countries" and "gave a clear instruction to the SUCRE working groups in order to sign at the next Summit of ALBA-TCP the Constitutive Agreement of the Regional Clearance Unitary System (SUCRE)" (Heads of State and Government of ALBA-TCP, 2009a).

b) The ALBA-TCP Bank

The proposal to create a Bank within the framework of ALBA-TCP was initially made in June 2007, at the first meeting of the Council of Ministers of the current Alliance. Afterwards, six technical meetings were held and in the last one, on 24 January 2008, the technical aspects concerning the Foundational Act, the Constitutive Agreement and the capital of the Bank of ALBA-TCP were defined.

On that basis, the governments of Venezuela, Nicaragua, Bolivia and Cuba approved the Foundational Act and the initial capital for the Bank on 26 January 2008 at the sixth Summit of ALBA-TCP,[28] and two months later they agreed on the contents of the Constitutive Agreement.

The Foundational Act establishes that the objective of the Bank is "to contribute to sustainable economic and social development, reduce poverty, strengthen integration, reduce asymmetries, promote a fair, dynamic, harmonic and equitable economic exchange among the members of the ALBA agreement", and it will have, among others, the following functions (Heads of State and Government of ALBA-TCP, 2008b):

> "... to finance development programmes and projects in key sectors of the economy, aimed at improving productivity and efficiency, generating dignified jobs, fostering scientific and technological development, innovation, invention, complementarity and development of productive chains, aggregating value and maximizing the use of raw materials in the region, ensuring protection of natural resources and conservation of the environment;
>
> "to finance development programmes and projects in social sectors in order to reduce poverty and eradicate extreme poverty, while fighting ethnic, gender and social exclusion, and improving living standards;
>
> "to finance programmes and projects that favour fair trade and the Latin American and Caribbean integration process;
>
> "to create and administer special funds for social solidarity and emergencies caused by natural disasters, among others, by conducting active, passive and services financial operations".

The Act also points out that the Bank will be self-sustainable and "will be governed in accordance with the international best practices of financial efficiency", stressing that the governing bodies of the Bank "will have an egalitarian representation of each one of the countries that comprise it, under a system of democratic operation".

The subscribed initial capital of the Bank is US$ 1 billion and the authorized capital is US$ 2,000 billion.

Among other relevant elements related to the bank's operation, its headquarters are located in Venezuela, but it can establish representation offices in other member countries. The Bank will have two governing levels, the Ministerial Council and the Executive Board; and the presidency of the institution will be held by an executive director elected by the Executive Board according to a rotation system.

The bank will conduct the following types of operations (Hernandez, 2008):

- Grant credits, credit lines, fiduciary bonds, bank guarantees and other types of guarantees.

[28] During the opening ceremony of this summit, the President of Venezuela (Chávez, 2008: 9) said: "With the ALBA Bank, we are breaking a mechanism of capitalism. This bank is a political instrument for social and economic development".

- Issue, place and administer all types of credit securities.

- Provide services, mechanisms and instruments for clearance and settlement of payments for economic, commercial and financial transactions.

- Provide portfolio management services, organize, set up and administer trust funds and exert mandates.

- Act as an agent and custodian of securities and valuables.

- Provide treasurer services to governmental, inter-governmental and international organizations, public and private enterprises, and in general, conduct other confidential operations.

c) The ALBA-Caribe Fund

In parallel with the process to establish and consolidate ALBA, the Alliance itself has proposed initiatives and agreements which also involve countries that are not members of this group, such as TELESUR, the Bank of the South and Petroamerica. The latter initiative is outlined as "a proposal for energy integration of the peoples of the continent", with three key components: Petroandina, Petrosur and Petrocaribe.

Of these three components, the energy proposal aimed at the Caribbean has been the first one to make significant strides, which started with the *Petrocaribe Energy Cooperation Agreement* signed on 29 June 2005 by Venezuela and 13 Caribbean countries as founding members. This agreement created Petrocaribe "as an organization capable of ensuring the coordination and articulation of the energy policies, including oil and its by-products, gas, electricity, its efficient use, technological cooperation, training, development of energy infrastructure, as well as the use of alternate energy sources, such as wind power, solar power, and others", whose main goal is "is to contribute to the energy security, social and economical development, and to the integration of the Caribbean countries" (Heads of State and Government of the Caribbean, 2005).[29]

This Agreement and the specific agreements that Venezuela has signed with the thirteen founding countries and with other four nations that joined later on,[30] in addition to establishing the Petrocaribe's structure – including the creation of a PDVSA branch called PDV Caribe, in charge of the operations of Petrocaribe – defined the amounts of fuel supplies for each case, as well as the criteria for the countries to buy Venezuelan crude oil amid advantageous conditions, which include a facility mechanism to finance 40% of payments when oil prices surpass 50 dollars, 50% if they exceed 80 dollars, and 60% if they reach 100 dollars or higher. This financial mechanism foresees a payment term of 25 years with an interest rate of 1%, and allows for payments in kind for a fraction of the deferred payments.[31]

[29] The By-Laws of Petrocaribe – which define, among other aspects, its membership, bodies, and the procedures to reform the organization – were agreed upon on 5 September 2005.

[30] At present, Petrocaribe has 18 members: Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Dominican Republic, St. Kitts and Nevis, St. Vincent and the Grenadines, St. Lucia, Suriname and Venezuela.

[31] The Executive Secretariat of Petrocaribe informed that a review is being made of the criteria to define payments in cash in accordance with the level of oil prices. According to the Secretariat (2009): "Options under study aim to separate the obligations of payment in cash from the price of oil through the establishment of a

According to the information provided within the framework of the VI Summit of PETROCARIBE, held in St. Kitts and Nevis on 12 June 2009, since that date to present, Venezuelan crude oil supplies to the other 17 countries have increased from 56,000 to 121,000 barrels per day. Thus, during the period 2005-2008, this has involved a long-term financing of more than US$ 3,000 million, which has allowed for saving more than US$ 1,400 million.

The Petrocaribe Energy Cooperation Agreement established the ALBA-Caribe Fund, with a rotatory chair, in the following terms: "In order to contribute to the social and economical development of the Caribbean countries, PETROCARIBE will have a Fund for financing social and economical programmes, with contributions from financial and non-financial instruments; contributions that could be agreed from the financed part of the oil bill and from savings generated by direct trade". The agreement also states that "in order to activate the ALBA-Caribe Fund, the Bolivarian Republic of Venezuela will contribute an initial capital of fifty million dollars (US$ 50,000,000.00)".[32]

According to the Management Report of PDV-Caribe for the first semester of 2008, in its first three years of operation the ALBA-Caribe Fund covered "the financing of social projects in ten countries for an amount exceeding US$ 106 million" (PDV-Caribe, 2008: 4). Such projects have been executed to different degrees, and the report points out that the initial amount of US$ 50 million "has been increased to US$ 112 million". The countries and the number of projects mentioned in the report are as follows:

TABLE 6. Social Projects of the ALBA-Caribe Fund

Country	Number of projects
Antigua	1
Belize	5
Cuba	1
Dominica	18
Grenada	1
Guyana	1
Haiti	3
Nicaragua	16
St Vincent and the Grenadines	19
St. Kitts and Nevis	3
Lesser Antilles	1
Total: 10 countries plus Lesser Antilles	**69**
Source: Based on data from PDV Caribe (2008: 32-34).	

single rate in a manner that would protect countries from volatile price swings and reduce the percentage of the amount to pay in cash below what the current accord contemplates at current prices".

[32] It must be noted that at the V Summit of Petrocaribe, held in Maracaibo, Venezuela, on 13 July 2008, an agreement was reached to create a US$ 50 million Fund aimed at "financing agro-alimentary initiatives in the member countries, so as to accomplish food security" (Heads of State and Government of the Caribbean, 2008). With respect to the use of such fund, the Ministers of Agriculture and Food, during a meeting held in Honduras in July 2008, established 13 top-priority projects.

According to the report, the resources of the ALBA-Caribe Fund are distributed by area of impact as follows:

TABLE 7. Resource distribution in the ALBA-Caribe Fund

Area of impact	Percentage
Sanitation	17
Housing and habitat	15
Roads	12
Tourism	9
Health	9
Social economy	9
Education	9
Sports	7
Humanitarian aid	5
Culture	2
Citizen security	2
Agriculture	2
Land tenure	2
Total: 13 areas	**100**

Source: Based on data from PDV Caribe (2008: 32-34).

Also during the VI Summit of PETROCARIBE, it was informed that up to June 2009 the ALBA-Caribe Fund has allocated US$ 222 million for 184 projects being implemented in 11 member countries.

In this Summit, the President of Venezuela proposed two initiatives that are now under study: a merge of the ALBA Bank and the Petrocaribe Fund, and the adoption of a common currency (which would be called *Petro*) for trade transactions within the context of Petrocaribe.

3. Bank of the South

In view of its objectives and operation modalities as defined with its creation, its membership and the amount of resources allocated for it, the Bank of the South is the most relevant initiative recently undertaken as regards regional financial institutions in Latin America. As mentioned above, in addition to this bank, there are other projects with various degrees of implementation which are also aimed at promoting a profound reformulation of the levels and modalities of financial and monetary coordination among the countries of the region.

Even though some governments had already made public proposals on the possible creation of the Bank for some time – particularly the President of Venezuela; for instance during the "Seminar on Financial Integration", organized in March 2006 by the Presidents of the Central Banks of Argentina, Brazil and Venezuela, and six months later at the XIV Summit of the Movement of Non-Aligned Countries – the process to establish the Bank officially began in February 2007, when the presidents of Argentina and Venezuela signed a *Memorandum of Understanding* to start the corresponding negotiations.

These negotiations – whose most relevant meetings and documents are listed in Table 8 – gained momentum between May and December 2007, a period characterized by significant achievements which were reflected in the *Quito Declaration*, in May 2007, and in the *Foundational Act of the Bank*, in December of that year.

TABLE 8. Meetings and relevant documents in establishing the Bank of the South

DATE	Participants	Agreement
21 Feb. 2007	Presidents of Argentina and Venezuela	*Memorandum of Understanding*, on the creation of the bank.
3 May 2007	President of Ecuador and Ministers of Economy or Finance of Argentina, Bolivia, Brazil, Paraguay, Venezuela and Ecuador	*Quito Declaration*, with progress as regards the general guidelines for a new regional financial architecture.
22 May 2007	President of Paraguay and Ministers of Economy or Finance of Argentina, Bolivia, Brazil, Ecuador, Venezuela and Paraguay.	*Asuncion Declaration*, with progress as regards the central guidelines for the creation of the bank.
8 Oct. 2007	Ministers of Economy or Finance of Brazil, Argentina, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela	*Río de Janeiro Declaration*, with a consensus-based proposal for the Constitutive Act of the bank.
9 Dec. 2007	Presidents of Brazil, Argentina, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela	Signing of the Constitutive Act of the bank.
25 Apr. 2008	Ministers of Economy or Finance of Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela	Agreements on capital, contribution ranges and other subjects related to the bank.
27 Jun. 2008	Ministers of Economy of Argentina, Brazil, Ecuador and Paraguay, and representatives of Uruguay, Bolivia and Venezuela	Ratification of the agreements reached in April; agreement on the possible expansion of subscribed capital in case of entry of new members; proposal on the bank's government and administration scheme.
8 May 2009	Ministers of Economy or Finance of Brazil, Bolivia, Ecuador, Paraguay, Uruguay and Venezuela	Agreement at the ministerial level on the Constitutive Agreement of the bank, to be ratified at the Presidential level so as to start procedures for approval by the national parliaments.

The Quito Declaration clearly defined the Bank of the South as part of an effort with a broader scope that consists of creating a new regional financial architecture "aimed at strengthening the role of the continent in the globalized financial and commercial system, and to foster a productive sector that attaches priority to the basic needs of our peoples". According to this Declaration, such new architecture would have three main components, which have been gaining weight in inter-governmental debates and meetings, and in other forums in the region:

1. " ...the creation of the Bank of the South as a Development Bank".

2. A "Stabilization Fund, based on the strengthening of the Latin American Reserve Fund (FLAR) through the inclusion of new partners and/or the creation of new instruments".

3. "A regional monetary system which could be started by conducting bilateral trade transactions in local currencies, following the example of Brazil and Argentina".

The Foundational Act of the Bank of the South reiterated the classification of this Bank "as a primary and essential institution of the new regional financial architecture", agreed on its creation, and assigned it the following objectives: "to finance the economic and social development of the countries of the Union of South American Nations (UNASUR) that are members of the Bank, in a balanced way and by making use of intra- and extra-regional; savings; to strengthen integration; to reduce asymmetries; and to promote an equitable distribution of investments among the member countries of the Bank". The Act assigned it the following functions: to finance development projects in key economic sectors and social sectors; to finance projects that favour South American integration; and "to create and administer special funds for social solidarity and response to emergencies caused by natural disasters".

The Act also indicated that the headquarters of the Bank will be located in Caracas, with offices in Buenos Aires and La Paz. It further established that the Bank "shall be self-sustainable and be governed in accordance with professional criteria of financial efficiency", agreeing that "the governing bodies of the Bank of the South will have an egalitarian representation of each one of the South American countries that comprise it, under a system of democratic operation".

Although the Foundational Act establishes that the Ministers of Economy and/or Finance of the signatory countries would conclude the preparation of the Constitutive Agreement of the Bank within a period of 60 days, for its subsequent signing, such period is long overdue, due to delays in reaching agreements on some central subjects of the agreement, particularly as regards the decision-making mechanisms, capital contributions and the relation between those two issues.

After various meetings at the technical and ministerial levels, held after the signing of the Foundational Act of the Bank, where progress was made at different paces, as a result of the ministerial meeting held on 8 May 2009 an announcement was made that an agreement had been reached as regards the contents of the Constitutive Agreement, specifically on the following two points:

- The Bank will operate with an authorized capital of US$ 20 billion which will be entirely contributed by the nations that comprise it. The seven founding countries of the Bank will contribute a subscribed capital of US$ 7 billion, in equal and consecutive quotas for a period of a maximum of 10 years. Out of that total, Argentina, Brazil and Venezuela will contribute US$ 2 billion each, Uruguay and Ecuador will provide US$ 400 million each, whereas Paraguay and Bolivia will put in US$ 100 million each.

- While the basic voting scheme in the Board of Directors of the Bank will be one vote per country, the approval of projects amounting to over US$ 70 million will require the support of two-thirds of the subscribed capital.

The Constitutive Agreement of the Bank of the South must be ratified by the presidents of the seven participating countries, and subsequently be submitted for approval by the corresponding parliaments. It is expected to start operations by 2010.[33]

[33] According to a statement made in late June 2009 by the Minister of Coordination of Economic Policy of Ecuador, Diego Borja: "We have overcome hurdles, we have already defined a voting scheme; thus the Bank of the South has defeated the stagnation in which it certainly was, and now it will enter a process to become operative".

If the Bank of the South actually starts its activities in 2010, by then, three years will have elapsed since the signing of the first memorandum of understanding on its creation and more than two years since the signing of the Foundational Act, after a series of delays during those years as regards the deadlines. This evidences the difficulties still persisting to materialize the implementation of the Bank, mainly due to the coexistence of different visions as regards its role and modalities of operation. The inclusion or exclusion of the function as stabilization fund in the objectives of the Bank and the relation between the contributions and the decision-making capacity seem to be two conflicting issues that have already been settled with the new agreements, but without a doubt there are still other pending issues which should be solved as rapidly as possible so that the Bank can actually start its operations soon. To this end, it will surely be necessary to speed up ongoing government negotiations.

These government negotiations, which thus far have resulted in the signing of the Foundational Act and in the agreements on the contents of the Constitutive Agreement of the Bank, since their very beginning have been accompanied by debates and proposals submitted by other sectors, based on which different considerations have been made about the constitution and operation modalities of the Bank. In this connection, attention must be paid to the following three initiatives:

- The two "open letters" that a substantial number of organizations, social networks and movements addressed in June and December 2007 to the presidents of the seven participating countries, which in addition to expressing support to the initiative to create the Bank of the South as well as concerns about the slow pace for the materialization of the Bank, requested to "immediately open up national and regional mechanisms to spread information, encourage participation and consultations before the Bank is set into operation". The letters also proposed criteria on the association of the bank with a new matrix of development, to the goals that it should pursue, its relation with a new financial architecture in Latin America and the Caribbean and its resources, its regulatory organization, its decision-making system, and the management of the institution.

- The Workshop "New Regional Financial Architecture: Bank of the South", convened from 23 to 27 June 2008 by the Government of Ecuador with the support of the Department of Economic and Social Affairs of the United Nations. The workshop consisted of non-binding technical consultations with National Technical Commissions of the Bank of the South, experts in banking and finances, academicians and representatives of civil society. Its objectives were: to propose options for the Bank in the areas of governance and management; savings investment mechanisms; investment policies and instruments for the social, environmental and economic development of the region; as well as transparency, participation and socials and environmental safeguards.

- The *Quito Declaration on finance for living well and the enforcement of nature's rights*, signed on 6 August 2009 by a large number of organizations and networks, underscores the need to incorporate the social dimension into the operation of the Bank of the South as follows (several authors, 2009a):

> The construction of a new regional financial architecture calls for a resolute and strong inclusion of an environmental outlook. If the latter is absent or relegated to a merely testimonial and technical role, the procedures and problems of classical financial institutions – whose environmental and socio-environmental

> negative effects have been widely documented – shall be certainly reproduced."
>
> The inclusion of an environmental dimension requires several components, both at the level of the new regional economic institutionality and specifically at the heart of the Bank of the South. This bank, owing to its commitments to economic and social development as well as to regional integration, certainly calls for that new outlook".

V. STRENGTHENING MONETARY AND FINANCIAL COOPERATION IN REGIONAL INTEGRATION: PROPOSALS FOR ACTION

The main suggestion discussed in this chapter is that all possible efforts should be made in order to create a regional financial architecture in Latin America and the Caribbean. Such creation process – albeit complex and full of difficulties to be overcome which will be identified later on – is a medium-term objective which is not only feasible but also necessary in order to create in the region the conditions required for economic and social development.

The two previous chapters made a detailed review of some of the main characteristics of the multilateral institutions in charge of monetary and financial cooperation in Latin America and the Caribbean. Therefore, our main interest here is to present a brief assessment of the situation faced by those institutions.

1. Regional monetary and financial cooperation institutions

As part of this assessment, a noteworthy initial element is the large number and the heterogeneity of the monetary and financial cooperation institutions existing across Latin America and the Caribbean. As a matter of fact, these institutions serve a variety of purposes. They include: those that fundamentally play a role as development banks (such as IDB, CAF, CABEI, FONPLATA, the Caribbean Development Bank, the Caribbean Fund and the Bank of the South); those that function as emergency funds to address liquidity and balance of payments problems (such as FLAR and the projected Regional Clearance Unitary System, in one of its two main goals); and those that provide clearance mechanisms for payments in local currency, which envisage instruments for balance financing and/or a common account unit and, in one case, a single currency; they include: the Agreement on Reciprocal Credits and Payments of ALADI, the Local Currency Payment System between Argentina and Brazil, the Regional Clearance Unitary System, in its second major goal, and the Eastern Caribbean Monetary Unit, which has circulated together with the Eastern Caribbean dollar for some decades now.

The heterogeneity of the various financial institutions and monetary cooperation mechanisms in the region can also be seen in other aspects such as the magnitude of resources being managed and the composition of the membership of partners or shareholder countries. In this connection, by way of comparison, whereas the authorized capital of the IDB surpasses US$ 100 billion, the authorized capital of CAF amounts to US$ 10 billion, and that of FONPLATA is barely US$ 450 million. In terms of their membership, the IDB groups together a total of 48 countries, 22 of which are extra-regional partners; CAF partners include 16 countries and 15 commercial banks; FLAR groups together seven countries, all of them within the region; and CABEI has a total of 13 nations, including founding members, extra-regional partners, non-founding regional partners and beneficiary countries. In turn, FONPLATA includes the four Member States of MERCOSUR plus Bolivia; in the Caribbean Development Bank there are in total 26 partners; and the

Eastern Caribbean Currency Union has eight members – all of which participate in the Caribbean Development Bank.

Some of the aforementioned financial and monetary institutions have a strong presence of extra-regional members, such as the IDB, where European and Asian partners participate; whereas other mechanisms, such as FONPLATA, include partners that are not members of their corresponding regional integration scheme but are Latin American or Caribbean countries. In turn, the Eastern Caribbean Central Bank only has regional partners. In addition to the great variety of criteria concerning the participation – or absence – of extra-regional partners and the conditions for that purpose within each institution, heterogeneity is also evidenced in the treatment of the loans granted by each one of them. There are schemes that include a differential treatment in their conditions for granting credits which include longer amortization periods and preferential low-interest rates for relatively less developed countries, such as the Caribbean Development Bank, but there are other institutions that do not grant the same facilities or treatment to countries with small-size economies.

Heterogeneity among the various financial institutions can also be seen in the share of each country in the total capital of said institutions, in their voting power within their directing bodies, and in the proportional amount they can have access to in accordance with their capital share.

Another important area where heterogeneity can be seen – which is quite different from the ones described above, but should be taken into account when it comes down to making strides towards a regional financial architecture – is the diversity of concepts as regards the role that such institutions should play and the functions they should have. Be it to support growth, promote development or foster integration, in the conceptions underpinning the way in which these institutions are functioning there are substantial differences as regards the meaning of notions such as “growth”, “development” and “integration” – which results in different strategies, programmes and plans to materialize and make feasible the application of those conceptions.

A trait resulting directly from the huge variety of institutions – as referred above – is the overlapping that results from the fact that many countries simultaneously belong to several banks, which far from simplifying technical and administrative procedures, leads to increasing financial costs involved in contracting credits and getting loans. On the side of the institutions, this encourages fragmentation of their financial capabilities, as they have to compete amid unfavourable conditions to obtain resources in international capital markets in their search for the best possible conditions for the amounts of resources they administer. Compounding this situation is the implicit competition among the financial institutions to obtain resources from those member countries that simultaneously belong to several institutions.

2. International and regional scenes

The proposal to make headway towards a regional financial architecture in Latin America and the Caribbean is based on evidences and processes seen in both the international and regional scenarios:

- On the international scene, first of all, mention must be made of a profound deterioration in the global financial architecture. While such deterioration can be directly and immediately related to the current world crisis and the factors that provoked its outbreak, from a broader perspective, it can also be associated with the fundamentals on which such structure has been based, and with the functioning mechanisms that have characterized financial markets and the systemic monetary base itself for some time now.

Current monetary and financial problems are an inevitable – and probably repeatable – consequence of the modalities of the systemic performance of credit granting in recent decades, as well as the serious weaknesses and inconsistencies characterizing the dollar monetary base at least since the collapse of the Bretton Woods system. As far as credits are concerned, the profound deregulation of finances at both the national and international levels; the unbridled conduction of all types of operations that have rather favoured the lack of transparency, concealment of information, tax evasion, Ponzi schemes and “structured products”, among other things; the imposition of all types of conditionalities on less developed countries by international financial organizations; and the huge profits made with financial intermediation and speculation even amid the crisis, are only a few of the manifestations of the functioning of international credit markets, which is not in accordance with the role that markets should play in the global economy and do not respond at all to the needs of Latin American and Caribbean countries in this regard.

On the international monetary scene, the situation is far from being better. For some time now, the prevalence of the U.S. dollar as the main international currency – along with the huge foreign trade deficits in the U.S. economy – has caused serious imbalances in the international economy, recurring fluctuations in foreign exchange rates that distort economic projections, and sudden speculative moves that force countries to maintain huge reserves. Such large reserve amounts – far from being used as a means to promote development processes – are largely channelled into the U.S. financial system, thus contributing to alleviate the decline of the U.S. dollar and the subsequent recurrence of a vicious circle whose failure is just a matter of time. In view of this, it is necessary to take all possible pre-emptive measures.

Also on the international scene, compounding the profound deterioration of the global financial architecture, there is further evidence pointing to the very likely persistence of the central factors for such deterioration. While huge amounts of resources for economic reactivation are being allocated both by the governments in their corresponding economies and by international institutions through the G-20 agreements – in addition to the measures agreed upon in principle to alleviate some of the most harmful effects from the lack of regulations or the extremely loose application of the few existing regulations on markets and financial intermediaries – such measures are not likely to be sufficient, or at least they will not be sufficient for the type of markets and intermediaries that require them, from the standpoint of Latin American and Caribbean countries, the great majority of which does not even have a voice within the G-20.

From this perspective, by no means will it be enough to merely overcome the current crisis or prevent – in the best of cases – the reproduction of problems such as the real estate bubble seen from 2001-2007 or the notorious excesses of financial deregulation. Neither will it be enough to inject resources into the IMF, which would only allow it to continue with softer versions of the same practices that have characterized it for a long time. In all of these areas, the measures taken are intended to re-establish conditions of operation which should rather be overcome. Compounding the situation is the absence of measures in the G-20 agenda aimed at the necessary redefinition of the monetary base and the current global reserve system.

In short, international monetary and financial problems are much greater than the solutions that have been defined and applied thus far at the global level, and at least in the near future there is no indication that it will be possible to pave the way for in-depth solutions. Therefore, the conditions that Latin America and the Caribbean requires to put the financial sphere at the service of its development needs cannot be generated at the international level. This forces us to focus our greatest efforts on the regional space – without neglecting the need for global changes – thereby creating a financial architecture that protects the region, at least partially, from a systemic economic order whose redefinition will take a longer time.

3. Creation of a regional monetary and financial architecture

On the regional scene, while the creation of a Latin American and Caribbean financial architecture faces a series of limitations and questions which will be dealt with later on, it also counts on favourable factors which we will briefly analyze here.

The first favourable factor for such an endeavour is the existence of institutions and already accumulated practices in the area of monetary and financial cooperation. To the extent that the different already existing cooperation mechanisms can be re-adapted – if necessary – in accordance with the goals, instruments and modalities of operation of the regional financial architecture being created, they can be turned into valuable assets for said process, which would help to take full advantage of the experiences and results accumulated in this area for several decades now, in some cases.

Nevertheless, for this purpose, it would be necessary to substantially reduce the diversity of structures and the heterogeneity in terms of their characteristics, while keeping in mind that such diversity is largely due to the great number of integration schemes and mechanisms operating in the region. In this connection, the emergence and development of new integration efforts with a broader scope in the region – in terms of their membership, and also in their depth and variety of objectives and spheres of action – such as UNASUR, can probably favour the reduction and grouping together of the current monetary and financial cooperation structures.

Thus, the idea is that the gradual process for coordination and convergence of subregional integration schemes – which is a priority *per se* – must be accompanied by a similar process in the financial institutions of those schemes in order to shape up and consolidate a large-scale regional financial institution to achieve a more efficient overall management of resources in the countries of the region, allow for scale economies based on the volumes of mobilized resources, and turn it into a fundamental pillar for the new regional financial architecture. If this can be accomplished, the experiences already gained by existing institutions in the area of financial cooperation would become a highly valuable asset for that new architecture.

A second element at the regional level that should facilitate the construction of a new financial architecture is related to the current economic and political scenarios in Latin America and the Caribbean. In this connection, the lessons learned from the crisis underpin the general recognition of the need to look for new ways to achieve economic and social development. Even before the crisis, it was evident for the region that the policy prescriptions of the Washington Consensus were already obsolete, including the radical opening-up strategies and the nearly total liberalization of capital accounts, all of which was clearly manifested in the national political scenarios. Compounding the situation was the crisis itself, as an irrefutable evidence of the need to search for alternatives to neoliberalism.

Amid such conditions, the revision and re-launching of regional integration were largely underway, and the need for such moves is more evident today in view of a global scenario that compels us to pay more attention to the region and redouble our efforts to eliminate the "commercialist" bias that has characterized the integration process, and give it a truly regional character, so that it can achieve better and faster results and advance towards new scopes and instruments, including those related to monetary and financial cooperation. In this regard, while the creation of a regional financial architecture is a highly relevant goal *per se*, a virtuous circle could be generated between that goal and the deepening of regional integration that allows for mutual and complementary progress.

a) Regional Development Bank

Sure enough, the creation of a new regional financial architecture, as proposed in this paper, is a complex process that requires simultaneous and successive advancements through actions aimed at a variety of areas, whose detailed description is beyond the scope of this study. Therefore, we will include here only a summary of some of the main actions that should be undertaken and a brief description of the three pillars for this new architecture: a Regional Development Bank, a Regional Contingency Fund and a Regional Monetary Space.

The operation of a Regional Development Bank should be based on the following principles:

- Regional Autonomy: This implies for the Development Bank the broadest possible capacity to make sovereign decisions about the functions and purposes of the institution, as well as subjects such as the conformation of a Board of Governors, the composition of equity capital, the accounting period, and particularly, the amounts, allocation and composition of the loans, without being subject to guidelines of its members, extra-regional partners, or commercial banks, and without having to abide by the "recommendations" made by such partners or banks as regards the aforementioned issues.

- Sustainability: This implies that the projects for which loans are granted should comply with the condition of taking due account of environmental, ecological and energy saving variables, in addition to the indispensable social variables that are usually severely affected when loans are granted by taking into consideration only the technical aspects and the economic and financial variables of projects, overlooking their negative impacts on the environment and the biodiversity of the region or their effects on society.

- Mechanisms for reduction of disparities: This is another basic principle of a Development Bank which is truly committed to the Regional Financial Architecture. In this connection, the loan policies of a bank with these characteristics must take due account of the different conditions as regards the territorial and demographic dimension and the relative size of the economies, the export volumes, and the composition and destination of the exports of its member countries, among other aspects that should form part of a policy that recognizes the existence of profound asymmetries among the various countries of the region in order to undertake actions to reduce such disparities or, as far as possible, to overcome them.

- Non-conditionality: This implies that loan granting by the Development Bank should be based on financial criteria not on political criteria, thereby eliminating the conditionalities that on many occasions have been imposed by various multilateral institutions to grant credits to Latin American and Caribbean countries, particularly in times of crisis. In any case, the only possible conditionalities should be those stemming from the technical and economic requirements directly associated with each operation, with which the recipient of resources should be forced to comply as part of the regular commitments derived from the reception of those resources.

b) Regional Contingency Fund (RCF)

The need to create a Regional Contingency Fund (RCF) is the direct result of the serious insufficiencies of the current international financial order and their impacts on the economies of the region. For this reason, such a fund would be basically aimed at supporting the countries in the face of international financial crises and speculative attacks against national currencies. However, its field of action could be enhanced so as to cover other transitory liquidity problems resulting, for instance, from severe drops in income from exports or sudden increases in foreign debt interests.

Such a function would allow for greater foreign exchange stability, including exchange rates among the countries of the region, which would surely increase intra-regional trade and capital flows, facilitating coordination and convergence of macroeconomic policies and substantially improving the conditions required to make headway with the regional integration processes.

Another important objective of the Regional Contingency Fund would be to sharply reduce the need for Latin American and Caribbean countries to resort to financing from the IMF. This would lead to significant savings as the nations would avoid the conditions that are usually imposed to grant such financing. It would also lead to a reduction of wasted time due to the lengthy process it takes to actually receive financing, and – most importantly – to a higher degree of autonomy vis-à-vis the conditionalities imposed by the Fund, thereby increasing the margins for the application of economic policies specifically designed for the national or regional scopes.

Sure enough, the idea would not only be moving from one source of conditionalities to another, but to change the basic criteria on which the countries are granted access to the resources they require, starting with the fact that in order to grant financing the IMF imposes its criteria without consulting with the recipients of the funds. In contrast, in a Regional Contingency Fund, such criteria would be agreed upon by participating countries and would surely depend, in a direct way, on their strategies and priorities, including those stemming from the progress of regional integration.

In principle, this fund could be created with contributions to be made by member countries, which would come from a fraction of their international reserves that would be determined by each country. This would ensure a much more appropriate use of foreign reserves than at present. To that initial amount from the reserves other resources could be added, for instance, from credit lines made available to the Fund by the central banks of member countries, or even funds from private banks, which would be used in case of necessity.

c) Regional Monetary Space

The third component of the regional financial architecture is the progressive creation of a common monetary space, in view of the structural faults that characterize the operation of the current international monetary system – dealt with in this chapter – and in light of the evidence signalling that the measures supposedly intended to redefine major international institutions that have been announced in the last few months might not lead to any substantial changes in the damaged foundations of said monetary system.

This regional monetary space – which had already been proposed as a need in various political and governmental spheres in Latin American and Caribbean countries, and also in other regions, under different modalities of operation – gains special relevance in the wake of the financial earthquake that has badly hit the structures of the international monetary system, revealing the unsuitability of continuing with the U.S. currency as the axis of this monetary system.

In creating this regional monetary space, it is crucially important to take advantage of previous experiences in this area in Europe and other regions. Similarly, the various monetary cooperation mechanisms that have been promoted at different levels in the region are an indispensable reference in outlining and formulating the essential components that must be included in the creation of this space.

Among these mechanisms, the Agreement on Reciprocal Credits and Payments of ALADI, the Eastern Caribbean Monetary Unit, the Local Currency Payment System between Argentina and Brazil, and the Regional Clearance Unitary System (once it is formally made operational) show a broad panorama of the contributions that can be made from different perspectives and different levels of complexity.

Sure enough, the proposal to create a monetary space must be tackled from different fronts – and at different speeds – in accordance with the large number of components that should form part of it and with the degrees of complexity involved in its implementation, and also because of the resistance that could possibly emerge within and outside the region in view of the different and often opposed interests at stake, and the way in which they could be affected by the implementation of this proposal.

Among the components that would allow for advancing towards the gradual materialization of the common monetary space is the creation, in an initial stage, of a Regional Clearance House for local currencies and a Common Account Unit (a virtual currency that would be used for booking and registry of trade exchanges), which should include a mechanism to help cancel out debtor balances registered in the accounts of the central banks of member countries. Afterwards, in a second stage, it would be necessary to establish a Regional Monetary Council and to eventually circulate a Common Currency, so as to complete the set of elements that could contribute to materialize the regional monetary space at different paces. This would allow Latin American and Caribbean countries to count on important degrees of monetary and financial autonomy to substantially alleviate the impacts from the current performance of the international monetary system.

The creation and setting into operation of a Regional Clearance House for local currencies could be based, in operational terms, on the institutional structure of ALADI. However, it should be borne in mind that while in the Agreement on Reciprocal Credits and Payments of ALADI balance clearing operations are conducted in dollars, in the Regional Clearance House – since it is a component of the new financial architecture – the balances would be cancelled out by the central banks in the corresponding local currencies of each one of the members of this regional monetary space.

By the same token, the evolution of the Local Currency Payment System between Argentina and Brazil, as well as the future changes and corrections as regards its composition, structure and operation to improve its results and significantly reduce dollar-based exchanges, are of great interest if we consider the strategic role of those two nations in South America and the possibility for them to serve as platform for the regional monetary space, which would be simultaneously promoted from various fronts; namely, from the expansion of the Local Currency Payment System to the rest of the members of MERCOSUR, and from the eventual implementation of the SUCRE by the countries of ALBA-TCP.

The establishment of the Regional Monetary Council and the eventual circulation of a Common Currency should form part of a final phase or stage of development and consolidation of the regional monetary space. As a matter of fact, together with the Regional Clearance Chamber and the Common Account Unit, the establishment of the Council and the Common Currency must proceed after the countries comply with the fundamental requirement of making clear and firm progress to achieve a “critical mass” in their intra-regional trade levels, which should substantially increase by seeking to re-direct such trade flows and outlining multilaterally defined strategies among the member countries with specific policies to promote and encourage trade among them.

4. Monetary and financial convergence

In addition, it would be necessary to make progress with the establishment, compliance, and subsequent follow-up of minimum criteria for convergence of the countries in the regional monetary space as regards key variables such as exchange rates, interest rates, proportion of public deficit as percentage of GDP and levels of public debt as percentage of GDP. There is no doubt that the aforementioned elements – including a substantial increase in trade levels and compliance with minimum criteria for convergence among the countries participating in this ambitious regional project – are of crucial importance in the medium term, if this badly needed regional monetary space is to be materialized.

Finally, it must be underscored that, in addition to the conditions that must be met in order to build a regional financial architecture in Latin America and the Caribbean, there are other conditioning elements that are not related to the creation process itself but to the context in which this process should be unfolded. Although the economic and political scenarios in the region generally favour the progress towards this new architecture, as previously argued, such scenarios continue to be remarkably different and, probably, not in all cases the creation of that architecture will swiftly lead to the necessary increase in the levels of agreement and political will to make headway in that direction. At present, there are many different visions in Latin America and the Caribbean about the paths that should be followed to achieve economic and social development, the strategies for insertion into the international economy that countries should embrace, and the role that the regional integration process and the creation of the financial architecture proposed here should play.

In this connection, even though the need to create such architecture is fully justified in view of the past, present and future conditions of operation of the international economy – regardless of the economic and political projects underway in each country – assuming such necessity implies recognizing the region as a top-priority space for multi-state relations and design of financial and monetary policies. If there is no conviction as regards these facts, or if we lack the necessary force, we can hardly move ahead towards the construction of the regional financial architecture, considering that such progress requires compliance with a series of actions described in previous sections, which can only be carried out within the framework of a clear political will of participating governments.

A second conditioning element is also the result from the series of actions involved in the creation of the regional financial architecture: the levels of knowledge and public consensus that such creation efforts entail. The definition and application of common policies, the compliance with convergence criteria, the use of resources for objectives defined within the regional sphere, among others, are decisions that will affect the countries involved and that can hardly be made if there isn't a broad social consensus in favour of that new architecture. Beyond the discussions and agreements among governments and the analyses conducted by specialists, this implies that progress towards the regional architecture financial is a shared social objective, which will only be possible if since its early stages, and throughout all the process, channels are created to spread information about what is being discussed, as well as mechanisms that allow a variety of sectors and social actors to open up discussions and exert an influence on decision making, based on that information.

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