

Bulletin 1 of the Finance and Trade Hemisphere Network

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1. Bank of the South: financial independence for South America

Different from Europe and the United States, the countries of Latin America, do not have sufficient tax earnings available to guarantee the enjoyment of social rights for their populations. Our countries base the sustainability of their budgets on the generation of fiscal surpluses to obtain sufficient recourses to pay in service of debt. Nevertheless, there are always financial requirements which must be covered by means of a) new indebtedness with conditionality over economic, commercial and financial matters; b) privatizations; and, c) issuance of bonds for their internal markets.

Compared 2005 Tax Pressure					
% GDP (0-60)					
Latin America 15.2	United States 29.0	Spain 34.2	England 37.2	France 40.0	Sweden 52.0

Source: Economic Commission for Latin American and the Caribbean (whose Spanish acronym is CEPAL), Ministry of Economy of Peru. Self-elaborated.

This situation makes us realize the necessity of independent and sovereign financing in the region. In this sense, Venezuela, Ecuador, Bolivia, Paraguay, Argentina, Brazil and recently Uruguay, are developing an alternative which will permit them to administer their economies with true sovereignty, without being tied to the conditions imposed by the World Bank (WB), the IDB and the International Monetary Fund (IMF). The proposal contemplates the creation of a group of financial institutions, which are self-managed and generically named the Bank of the South.

According to the Declaration of Asuncion made on May 22nd, 2007 and signed by the Ministers of Economy and Finance of Argentina, Ecuador, Brazil, Paraguay, Venezuela and the Vice Minister of financial services of Bolivia, this group of new institutions must also include a monetary stabilization fund (which could base itself on the Latin American Reserve Fund.)

The best situation would be, according to the economist Oscar Ugarteche, the constitution of a fund for bonds, with the end result of establishing taxes of interest in the region.

According to Ricardo Patiño, Minister of Economy and Finances of Ecuador, in declarations to the Latin American Information Agency, the collection of international reserves, which the six countries who are developing the project (not including Uruguay) have deposited in banks of the United States and Europe, add up to about \$164 billion -- money which should be used for the South American monetary stabilization fund.

The Asuncion Declaration gives priority to the elaboration of statutes and the founding of an investment bank, with a more democratic and just management, which would guaranty that each member country has a vote – independent from the contribution which it makes to the financial entity. This would be different from the current International Financial Institutions, in which the countries which register greater monetary support make the decisions. Instead, it would be one country one vote and no longer, on dollar on vote.

This investment bank would also integrate with the Andean Development Bank (CAF by its Spanish acronym) and The River Plate Basin Financial Fund (FONPLATA by its Spanish acronym), among other financial entities of South America. Although the plan is still not formulated which will determine the identity of the new bank's board of directors, the capital aid of each country or the mechanism of financing, they have the information that the initial operating capital will be \$7 billion provided for by the member countries in different ways. It has also been predicted that the aid per nation will oscillate between \$300 - \$500 million dollars. Nevertheless, some spokesmen have indicated that the contribution will depend on the conditions of each country.

Finally, the Declaration of Asuncion proposes advancing the design of a South American monetary unit which would permit exchange of goods and services between countries of the region without having to appeal to the dollar and protect themselves from the variations of its market price. It is in this area where the connections between finance and commerce make themselves evident.

This new financial entity has planned its birthday for some time in the upcoming weeks. The Southern Cone Common Market (MERCOSUR by its Spanish acronym), which reunited in Paraguay on May 23rd, decided to approve the project of the Bank of the South, as an alternative to the International Monetary Fund (IMF), the Inter-American Development Bank (IDB) and the World Bank (WB).

In addition to these new entities, this new sub-regional financial architecture will require the creation of a universally-accepted International Financial Code. According to international analysts, these transformations of the world economy will be carried out in a planned or abrupt way because the current global economic situation is unsustainable when the largest economy in the world (USA) has a fiscal deficit greater than its gross domestic product (GDP) by 7 points.

Organizations of America which promote debt relief and work with the theme of illegitimate debts point out that it is fundamental that the participation of an active citizenship is considered in the design of these new financial institutions through listening to the advice of social movements which participate in the negotiations.

The winner of the Nobel Peace Prize for Economics, Joseph Stiglitz, has pointed out that the creation of the Bank of the South will be positive because "people of the South will mutually help each other." Without a doubt, starting from this new process the countries of South America will be constructing a new multilateral financing. With this, they will contribute to a new financial architecture which is favorable for the development of our communities through investment without structural conditions, but at the same time contains stability mechanisms and economic, financial and monetary regulations which facilitate fair trade and integration in the region.

These institutions are planned because they integrate from the beginning the countries which make up the Union of South American Nations (UNASUR by its Spanish acronym). Unfortunately, the governments of Peru, Colombia and Chile are not taking part, limiting themselves – in the majority of cases – to be spectators of the process.

More information is available on the Internet on:

http://mef.gov.ec/portal/page?_pageid=37,28784&_dad=portal&_schema=PORTAL&cx=001793050556080997653%3Aqz4olqzr-ns&q=banco+del+sur&cof=FORID%3A11#1109

http://mef.gov.ec/pls/portal/docs/PAGE/MINISTERIO_ECONOMIA_FINANZAS_ECUADOR/INTEGRACION%20_SUDAMERICANA/ARCHIVOS2007/DECLARACIONDEASUNCION.PDF

Attached:

-Declaration of Asuncion

- Work Document "Supervision and Control of another kind: the role of the IMF in question"

2. Summit of Presidents of the ALBA: integration with a different focus.

On April 28th and 29th, representatives of the member countries of ALBA reunited in Tintorero, Venezuela. Representing Venezuela was President Hugo Chávez, for Bolivia, President Evo Morales, for Nicaragua, President Daniel Ortega, and for Cuba, Vice President of the State Council Carlos Lage. The meeting also included social leaders and politicians from around the Continent. The Summit of Presidents also commemorated the 5th annual Summit of the Bolivarian Alternative for the People of our Americas (ALBA by its Spanish acronym) and the first anniversary of the People's Trade Agreement (TCP by its Spanish acronym). Also in attendance were, René Preval, President of Haiti, Maria Fernanda Espinosa, chancellor of Ecuador; among other authorities of Dominica, Saint Vincent, Granada, Uruguay and other countries as observers of the Summit.

At this event, an evaluation was done on the development of the First Strategic Plan of the ALBA and the cooperative activity and integration work done in Bolivia, Nicaragua and sister countries of the Caribbean.

One of the principle agreements was the "construction of industrial and economic spaces of a new variety which produce greater benefits by the rational utilization of the recourses and activities of our countries." The form which these spaces will be are the so-called GRANNACIONALES Businesses of the member countries of the ALBA in the service areas of education, health, energy, communication, transport, housing, nutrition, etc. The aim is to promote the amplification of the People's Trade Agreement.

In addition, they arrived at two important agreements: a) signing of the agreements of the ALBA, not only with national governments, but also with regional and local governments, and b) the establishment of the Social Movements Council of the ALBA, with the same rank as the Council of Ministers of the ALBA and including the participation of organizations and movements from countries which are not currently integrated with the ALBA.

Bolivarian Alternative for the People of our Americas ALBA						
Council of Presidents of ALBA						
Council of Ministers of ALBA				Council of Social Movements of ALBA		
Political Commission	Social Commission	Economic Commission	Investment and Finance Commission	Energetic Commission	Environment Commission	Youth Commission

For more information the website of the ALBA can be visited:

<http://www.alternativabolivariana.org/modules.php?name=News&file=article&sid=1817>

Attached:

- "The Path towards industrial transformation in Latin America"
- Development Projects according to the 5th ALBA Conference, Education, Culture, Fair Trade, Finances, Nutrition, Health, Telecommunications, Transport, Tourism, Mining, Industry and Energy.

3. The Andean Development Bank (CAF by its Spanish acronym) publishes: "The Path towards industrial transformation in Latin America"

The CAF published the report "The Path towards industrial transformation in Latin America" on its website. It was prepared by the Office of Public Policy and Competitiveness of the CAF, under the responsibility and direction of Luis Miguel Castilla. This document proposes alternatives for the generation of diversified products with the goal of expanding production and exportation. The focus is on the promotion of production lines for which it is necessary to maintain or to obtain favorable surroundings for investment. The document has 8 chapters.

1. Challenges for industrial development in Latin America
2. Route for transformation: diversification with productivity
3. Cooperation and coordination: key factors for the development of clusters
4. The discovery of new activities in Latin America
5. Foreign investment aim for quality: challenge for Latin America
6. Institutions and regulations in Latin America: challenges and priorities
7. Innovation and industrial transformation
8. Education: forming the human capital of the industrial sector

The introduction to the report states, “It is fundamental that an environment is created in the region which is decidedly favorable to the discovery of new activities and the stimulation of innovation. Some of the actions which could generate a greater industrial diversification are the promotion of systems of innovation and of mechanisms which facilitate the association and cooperation between businesses, and among businesses and universities, centers of education and public entities. It would also be favorable if connections are made with the international industrial sector and to the absorption of its knowledge and technology which frequently result in direct foreign investment. In this way productivity will be strengthened as well as the possibilities of expanded production and exportation.”

Chapter six, related to institutions and regulation, points out among other aspects that the shortage of financial resources is an institutional deficiency (failure of government) in placing barriers (excess of regulation) which do not permit the maintenance of a favorable situation for the development of industrial activity. We must consider that the CAF is a multilateral financial institution made up by 17 countries of Latin America, the Caribbean and Europe. Their stockholders are Argentina, Bolivia, Brazil, Costa Rica, Colombia, Chile, Ecuador, Spain, Jamaica, Mexico, Panama, Paraguay, Peru, The Dominican Republic, Trinidad & Tobago, Uruguay and Venezuela, and 15 private banks of the Andean region.

For more information, the document can be downloaded at the site:
<http://www.caf.com/view/index.asp?ms=11&pageMS=35433>

Attached:

- Chapter 6 of the report “Path towards industrial transformation in Latin America”

4. The Inter-American Development Bank (IDB) and its Trade Finance Facilitation Program.

The Trade Finance Facilitation Program (TFFP), created in 2005, is the program of the IDB which facilitates financial resources for the promotion of exportation. It is institutionally defined as “an efficient tool to support economic growth” of Latin America and the Caribbean through the amplification of available financing for activities of foreign trade in the region. This strategy responds to the focus of the policies which motivate the IDB in that the general assumption is that there is a correlation between economic growth and human development. From its creation in 2005, the TFFP relies on a network of:

- 83 confirming banks linked to 43 different international banking groups in more than 28 countries, and
- 24 note issuing bank in 13 countries of the region with lines of credit approved for more than \$460 million.

Until March 2007, the IDB had issued guarantees for almost \$100 million in order to support 126 individual transactions of international trade at a value of 137 million dollars.

Agreement between the IDB and the State Bank of Chile in the framework of the TFFP

The State Bank of Chile, which has as a mission the promotion of universal bank access to all Chileans, has signed an agreement with the Inter-American Development Bank (IDB), aimed at strengthening foreign trade with countries of Latin America and the Caribbean. Through this agreement, the State Bank obtains the quality of a confirming bank within the Trade Finance Facilitation Program (TFFP).

By virtue of this agreement, the IDB will write guarantees to cover credit cards, promissory notes, tender guarantees and fulfillment, among other instruments used in international trade. In this way, the State Bank will receive aid to perform transactions with banks of other countries of Latin American and the Caribbean, with the aim of facilitating intraregional commercial flow.

The presidents of both institutions, José Luis Mardones of the State financial entity and Luis Alberto Moreno of the IDB, attended the signing of the instrument of cooperation. On this opportunity, Mardones declared, "We are a universal bank, which over time has extended over the borders of the country. We are proud to sign this agreement and to be the second national entity to join with this program which permits us a better way to help the development of Chile in the area of foreign trade."

The Press Bulletin of the IDB from April 27, 2007 gave information about this agreement. Also, a press release can be found on the web page of the State Bank of Chile:

<http://www.bancoestado.cl/0C86BFFAF1A04F6383AEB91B656CC294/A786A6B3D997467399848914631300F5/articulo/11596.asp>

This type of agreement is being signed by various banking entities of the region, for example, last March an agreement between the IDB and the Bank of Pichincha of Ecuador was signed under the framework of the TFFP

To see this:

<http://www.iadb.org/news/articledetail.cfm?artid=3708&language=sp>

5. The BID finances projects in Mexico and Ecuador

Guarantee of partial credit for toll roads in Mexico

On April 18th, 2007, the IDB announced the approval of a partial credit guarantee up to 400 million US dollars for the first project under the new concession plan for toll roads in Mexico. As part of the agreement, the government of Mexico will give in concession four highways which cover 558 kilometers in the States of Guanajuato, Jalisco, Michoacán y Aguascalientes which currently are administered by a State bank trust. The website of the IDB which publishes information about this operation indicates that:

“The Secretary of Communications and Transport plans to cede the operation of separate toll roads to private administrators to collect the recourses which will serve to pay off debts related to the bank trust and to finance basic infrastructure for zones in need.”

“The IDB hopes the eventual assignee of the concession can use the partial credit guarantee to improve the credit rating conditions to issue bonds and to take bank loans in Mexican pesos with expiration terms of more than 25 years.”

“We hope that this product will permit the winning consortium to gain access to more attractive financing alternatives,” commented Hans Schulz, who leads the Financial Market Group of the Private Sector Department of the IDB.

“With this guarantee the bonds would obtain the maximum credit rating qualification in the market of Mexican capital, facilitating in this way the access to financing of institutional investors, pension funds, insurance companies and commercial banks. With the guarantee, the administrator would be able to issue debts for larger amounts and with better qualification than which the project would obtain without the credit improvement”

More information can be seen at:

<http://www.iadb.org/news/articledetail.cfm?artid=3804&language=spanish>

Financing a hydroelectric project in Ecuador

On May 2, 2007, the IDB agreed to provide, in alliance with the private sector, 87.8 million dollars in loans to finance the "Baba Project" with the aim of constructing a dam at the confluence of the Baba and Toachi rivers between the cities of Quito and Guayaquil.

The May 2nd Press Bulletin of the IDB indicates:

“The project consists in the construction, operation and maintenance of the Baba dam and a deviation canal of 8 kilometers from the reservoir formed by this dam leading to the Daule-Peripa reservoir and the Marcel Laniado Wind Generating Plant (MLW by its Spanish acronym). Currently MLW plant only uses 80 MW of its total installed capacity of 213 MW. The objective of this project is to make it possible to use the additional capacity of the MLW plant in order to generate an average of an additional 3886 GW of energy per year.”

“Ecuador suffers from a deficit of investments in the generation of hydroelectric energy and its capacity to cover the actual demand is also decreasing,” said the Crew Chief of the IDB Jean-Marc Aboussouan. “This deficit, combined with a demand for energy that is increasing at an accelerated rate due to growth in the economy, electrification and urbanization, obliges Ecuador to import a greater amount of energy each year.”

According to Aboussouan, “The additional energy that MLW plant could generate after the construction of the Baba dam is equivalent to 22% of the amount of electric energy which Ecuador currently imports.”

“The total cost of this project of public and private association is approximately 195.2 million dollars. The private sector will proportion the capital and financing through creating a debt. Their key participant is the Brazilian company Odebrecht Investimentos em Infra-Estrutura Ltda. (OII). The public sector will contribute through the earnings generated by the energy that the MLW plant actually produces.

More information can be seen at:

<http://www.iadb.org/news/articledetail.cfm?Language=SP&artid=3825>

6. The Multilateral Investment Fund (MIF) will invest in micro lending in Colombia, Mexico, Honduras and the Dominican Republic.

On July 2nd, a press release of the IDB announced this operations in which the Multilateral Investment Fund (MIF) of the BID, will invest up to \$10 million dollars in new micro lending institutions in Columbia, Mexico, Honduras and the Dominican Republic.

The official information of this news, affirms that:

“The MIF is an autonomous fund administered by the IDB which promotes the development of the private sector in Latin America and the Caribbean, with emphasis on the micro businesses. From its creation in 1992, it has helped the growth of the principle micro finance networks in the region.”

“In this operation the MIF was associated with the ProCredit Group which controls a network of 19 micro financing institutions in Africa, Latin America and Eastern Europe. Among the stockholders of ProCredit figure the German Company IPC, as a strategic member, in addition to multilateral institutions, pension funds and private organizations which promote cooperative social responsibility.”

“The investment of MIF will aid the plans of ProCredit to open banks specialized in the micro and small businesses of Columbia, Mexico, Honduras and the Dominican Republic, where in addition to focusing in these industrial sectors, they will also participate in the distribution of remittances.

“The MIF will also provide some 7,2 million dollars in technical cooperation to new micro financing institutions, principally in order to aid in institutional development and personnel training in order to permit their operations to succeed at the greatest possible scale in as little time as possible.”

“We hope that in less than four years the new ProCredit banks will be attending to more that 380,000 micro and small businesses in the four countries. Following the traditional strategy of the MIF, which propitiates the participation of private capital in the micro finances, these investments will have an exit mechanism which will permit investors to sell their holdings in the new micro financing institutions after a period of at least five years.”

“The total cost of the project will reach to some 91million dollars, between capital investments and aid in the form of technical cooperation from the ProCredit Group, the MIF and other participating institutions.”

Source: <http://www.iadb.org/NEWS/articledetail.cfm?artid=3910&language=Sp>

7. The IDB promotes agrofuel.

The IDB will aid private agrofuel projects, setting aside \$ 3 billion in credit. On April 7th, 2007, IDB President, Alberto Moreno, announced this initiative. The term used by the IDB is that of biofuel. Nevertheless, many social organizations and movements of the region use the term agrofuel to visualize the danger that has been created for nutritional security in the region.

The press bulletin of the IDB indicates:

“The IDB President, Luís Alberto Moreno, qualifies biofuel as a “transformative opportunity” for Latin America and the Caribbean, to detail a wide plan of investment projects and technical assistance programs created to help the

countries of the region achieve their goals of renewable energy in a sustainable manner.”

“Biofuels could bring investment, development and work to rural areas with high levels of poverty, reducing at the same time the dependence on imported fossil fuels in various member countries of the IDB”, affirmed Moreno in a reunion organized by the Inter-American Ethanol Commission at the headquarters of the IDB. ‘In this aspect, we believe that biofuels could help the advance of our principle mission which is to generate economic opportunities and a higher quality of life for the majority who have little income in the region.’”

“Moreno warned about unrealistic expectations with respect to biofuels. He explained the IDB is carefully analyzing the aspects related to cost, subsidies, labor conditions and on the impact that using biofuels will have over the use of land and the production of food.”

“Due to the varying level of needs and the potential which exists between the countries of the region, Moreno pointed out that the IDB is applying a “deliberately flexible” focus in its program of work over biofuels. In Brazil, the leading country in the production of biofuels, the Bank has centered itself on opening up investments from the private sector to expand the capacity of production.”

“Moreno added that the Private Sector Department of the IDB is structuring financing of priority loans for three ethanol production projects in Brazil that will have a total cost of \$570 million. The department is also preparing 5 biofuel transactions or projects with components of biofuels for Brazil which will exceed a total sum of almost \$2 billion. These investments will contribute to Brazil's objective to triple its annual production of ethanol by the year 2020. Moreno indicated that, “The IDB would also like to aid the objective of the Brazilian government to convert the country into a first-rate global center for the investigation and development of biofuels,” added Moreno. The Bank is having sustained conversations with the principle authorities in Brazil to facilitate the transference of technology and technical assistance and to make it possible that other countries of the region benefit from the experience and wisdom that Brazil has in this field.”

“Moreno commented, “The Bank is offering a series of services to countries like Columbia, Costa Rica and El Salvador which also produce and export biofuels. In Columbia, the Inter-American Investment Corporation of the Bank is considering a \$20 million loan to finance a business to produce biofuels from Palm oil, which will eventually produce up to 100,000 tons of fuel per year.”

“In Costa Rica and El Salvador, the IDB is financing studies of feasibility and technical assistance in areas such as regulation, market development and public

education to aid the governments of both countries to achieve their goals of replacing 10% of their current consumption of gasoline with ethanol.”

“Recognizing that the soil and climate conditions in many rural areas are not ideal for production on a large scale, Moreno said that the IDB is also helping small projects, such as those that produce biofuels from oilseeds which require little input and are already widely cultivated in the region. “These projects can provide an economic source of combustibles in isolated rural communities, at the same time creating a new source of income for the subsistence of the farmers,” added Moreno.”

“Moreno added that in order to reflect this diverse reality, the Private Sector Department is preparing a program of clean energy which will award no less than \$300 million in financing and technical assistance for renewable energy and energetic efficiency projects all over the region, with emphasis of investments on the small scale.”

“Moreno commented that the IDB has been financing technical reunions with the Biofuel Mesoamerican Group, composed of members of Central American and the Caribbean countries whose governments hope to announce a regional biofuel initiative in the coming weeks.”

“The Inter-American Ethanol Commission is a group from the private sector co-directed by Moreno, Jeb Bush, ex-Governor of the State of Florida (USA) and by Roberto Rodrigues, President of the Superior Council of Agro-Business of the Federation of Industries of the State of Sao Paulo (Brazil). The Commission was launched in 2006 as a forum to publicize information over ethanol, facilitate private investments in biofuels and to promote the creation of a hemispheric biofuel market. During the conference, Moreno described the private sector as a “key member” for the strategy of biofuels designed by the Bank and solicited questions from the audience, which included 250 business and government representatives, as well as investigators and members of the press.

In addition to speeches by Moreno, Bush and Rodrigues, the conference included a presentation titled “*A Blueprint for Green Energy in the Americas*”, an integrated report over the biofuel markets until 2020 commissioned by the IDB from Garten Rothkopf, an independent business consultant. The study evaluated the development of biofuels in 50 countries around the world and the tendencies which describe these markets, policies, regulations, investment and growth, and offered strategic recommendations to create and maintain competitive biofuel industries of the region.”

Source:

<http://www.iadb.org/NEWS/articledetail.cfm?language=Spanish&ARTID=3779>

9. Civil Society Organizations make statements over free trade with Europe.

Civil society organizations of the countries of the European Free Trade Association (EFTA), India, Columbia, Indonesia and Peru allied themselves with a pronouncement about the Free Trade Treaty of the EFTA directed at the Ministries of Commerce and Foreign Relations of this institution, which has met in Switzerland, Norway, Liechtenstein and Iceland. This initiative arises because the next round of negotiations will begin between the member countries of the EFTA with Columbia, Peru and India, where civil society organizations have noted, among others, the following concerns:

- The complete opening of services to the market, which goes farther than established by the WTO in which only the specific mention of sectors in the agreement permits their liberalization. It is a negative list approach and not a positive list approach.
- The liberalization of financial markets and the elimination of financial sector regulation.
- The clauses which extend investor rights over compensations and exoneration from international trials.
- The clauses which permit that the Nation States can not impose obligations of technology transference.

These concerns, together with others, have been supported by other organizations throughout the world.

Attached:

- Declaration in Spanish, the same which can be found at:
<http://www.gresp.org.pe/carte%20abierta%20aele.pdf>