A CRITICAL VIEW OF THE WORLD BANK’S CLIMATE CHANGE AGENDA AND FINANCIAL REFORM IN LATIN AMERICA

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Introduction For decades, several of the most prominent Latin American economists, such as Celso Furtado and Theotonio Dos Santos, have warned about the potentially disastrous consequences of the heightened degradation of the environment and the dilapidation of natural resources. In Latin America, these forward-thinking warnings have proven accurate. During the last three decades, environmental degradation in the region has accelerated and intensified through export-led growth (ELG) strategies. Deforestation, desertification, and the depletion of aquifers (among other phenomena), as well as the displacement of many communities, have all transformed traditional forms of life and production, contributing to high levels of social marginalization, while at the same time creating huge losses in social and cultural wealth for many of the region’s local areas and populations.

In Latin American cities, grave shortcomings in basic public services, such as sewage systems and running water, urban transportation, and housing, among others, have created deplorable environmental and social conditions, leaving populations highly vulnerable to all types of afflictions, physical and otherwise. In large part, the environmental degradation of Latin America can be seen as a symptom of the region’s lack of development during the past few decades. It is likewise a process that accompanies the deterioration of working and social conditions that the neoliberal model has imposed through underpricing work, labour flexibilization, and the continual austerity-based dogma of fiscal balance.
On a global level, the environmental issue that has received the most attention in recent years has been global warming as a result of human industrial activity. The World Bank has fully embraced the fight against climate change as one of the institution’s chief objectives. This paper will analyze several basic principles within the framework for action established by this institution. One of the most fundamental is the need for “innovative finance” that could accompany a technological revolution leading to cleaner energy. Under the assumption that developing countries are incapable of generating their own financing, institutions such as the Inter-American Development Bank, the Cooperación Andina de Fomento, and most prominently the World Bank, have proposed a series of plans revolving around innovative and external finance.

Such proposals raise serious doubts. Based on recent Latin American and world history, we argue that posing the environmental problem, the general framework of the fight against climate change, the specific mechanisms of action, and the suppositions on which these are based, do not correspond to the necessities of socially equitable and environmentally sustainable development in Latin America.

Looking at the problem from a critical angle, we argue that if the economies of the region wish to finance projects that can improve environmental conditions in a financially sound fashion, they will have to depend on state planning and internal credit denominated in national currencies. While this idea does not represent any financial innovation, it does imply a restructuring of financial systems. The Banco del Sur will have to be the cornerstone of this restructuring and the institution that will maintain the coherence and cohesion of a new financial architecture for South America. In order to connect the multiple criticisms of World Bank proposals with our proposals for the Banco del Sur, the article is divided in the following way. First, we offer a synthetic vision of the World Bank’s position on climate change and the developing world, where we highlight the relation between the ELG model and the rapacious use of natural resources. Second, we review the main criticisms of the World Bank-promoted Equator Principles (EP), as well as the underlying elements of the World Bank’s framework. Finally, we present several proposals for the Banco del Sur and its role in...
financing a socially equitable and environmentally sustainable economic model for South America.

The World Bank’s Vision: Explicit and Underlying Goals  As mentioned, environmental degradation and its most visible consequences in Latin American economies and societies have been accelerating during the last decades and, in large part, have resulted from the lack of economic development and unsound industrialization in the few areas where industry has grown. At the same time, these phenomena are closely linked to the region’s trade and financial liberalization, accompanied by external financing and the adoption of ELG strategies. The growing extractive nature of the region’s economies, in terms of both raw materials and financial outflows,2 has exacted high costs in generalized social and ecological degradation.

At the same time, growing carbon emissions from developed countries have underpinned the economic development and industrialization in Latin American territories, simultaneously buoyed by inflows of profits, workers, and raw materials from developing countries. These are essentially two types of ecological degradation, but that which results from industrialization has potentially much more severe impacts on a global level. Perhaps logically, the environmental focus of developed countries has fallen almost exclusively on carbon dioxide emissions and climate change, despite the fact that the United States has not signed the Kyoto Protocol, considered by many to be a very modest instrument for slowing global warming.

In the Latin American context, the World Bank’s stated positions have transitioned from promoting development and poverty reduction to confronting a problem still largely unknown in all of its dimensions. Changing the debate from real and tangible problems in the present to potentially much greater problems in the future allows the World Bank to deviate from its previous explicit objectives in order to focus on climate change. While this does constitute an important shift in the institution’s explicit objectives, the underlying objectives of pursuing and protecting the financial interests of the most powerful European and American economic actors remain unchanged. At the same time, the size of the challenge of climate change and its global reach also allow the World Bank to highlight
the urgency of actions among all countries and to advance its interests at a global level.

To emphasize the size and global distribution of the problem, the World Bank calculates that 80 percent of the costs of climate change will fall on the developing world. Therefore, even though developing countries have historically contributed very little to the problem of global carbon dioxide emissions, they will have to shoulder a disproportionate amount of its solution. It is logical for the effects of climate change to fall particularly hard on poor countries. As the World Bank highlights, countries with precarious economic structures and living conditions will suffer much more than countries with more robust economies. Yet these are human, not economic costs. The effects of climate change will generate greater costs where wealth has accumulated, not from where it has been extracted. Similarly disingenuous is the World Bank’s proposition that the same countries that are least able to cope with the effects of climate change can possibly develop mechanisms to confront the global problem of climate change. This point will be examined throughout the remainder of the paper.

The World Bank offers three lines of action to confront climate change: mitigation, adaptation, and technological development. The design of mitigation, originally presented under the Clean Development Mechanisms (CDMs) of the Kyoto Protocol, has created the greatest controversy: for its explicit division of the world’s countries into industrialized and nonindustrialized countries and for the proposal that instead of industrialized countries reducing their carbon dioxide emissions, nonindustrialized countries should be paid to reduce theirs. The World Bank’s argument is that “On the mitigation side, fund allocation will be dominated by efficiency considerations. Mitigation is a global public good, and its benefits are the same wherever abatement takes place (although the allocation of mitigation costs raises equity issues).”

Under the second line of action of adaptation, defined by the World Bank as the adjustments undertaken to minimize the effects of climate change, the World Bank makes the connection between the economic policies of the fight against climate change and the policies of economic development, stating that “good adaptation is very closely linked to good
development, and those most in need of adaptation assistance are the poor and disadvantaged in the developing world.” To give greater strength to adaptation measures, the World Bank suggests undertaking projects under the public-private modality, employing innovative finance, external financing, and conditionality. These specific elements will be examined further in the following sections.

The third broad line of action for the World Bank in the fight against climate change is support for technological development. In recent years, technological advances, particularly in terms of “clean energy,” have raised the possibility of a potential energy revolution. However, the proposition that Latin America could lead this process, or even make significant contributions to its development, is unrealistic. While certain related technological advances have recently occurred in Latin America (particularly in Brazil), the simple historical fact is that Latin America as a region has been a receiver and not a creator of new technologies. Moreover, limited access to technologies from developed countries has been one of the greatest obstacles to the region’s development. Even in moments in which the region in general has shown its greatest economic advances, the technology gap with developed countries still produced important disequilibria. In more recent years, the experience of the Mexican maquila sector has been the clearest example of the reticence of developed countries’ industries to allow technological transfers to Latin American countries, even in the context of absolute trade liberalization and transnational corporation dominance.

Just as the mitigation line of action proposes that nonindustrialized countries must pay the costs of the industrialization that was made possible only by their social and ecological sacrifices, the focus of technological advance as a response to climate change also involves a meaningful participation from nonindustrialized countries that have been systematically excluded from these very processes of technological development. The dismantling of the region’s previously existing industrial base and the introduction of industries relocated from developed countries to Latin America has been achieved through the World Bank-inspired Washington Consensus policies of public austerity, privatizations, and financial and trade liberalization. The region’s technical capacities and knowledge acquired in its period of endoge-
nous industrialization have been greatly reduced through constant cutbacks in public expenditure in education and research of all types, leaving the region technologically more dependent than ever.

As the World Bank underlines, the simple replacement of the automobile fleet in the United States to one that conforms to European emission standards would allow for the electrification of the entire developing world with no net increase in global carbon dioxide emissions.\textsuperscript{11} Technological advances of this scope can indeed have large impacts in the fight against climate change, but which Latin American car manufacturer can shoulder this task? While it is important to point out the incongruence of the World Bank’s suggestion that Latin America should contribute technical assistance to the world (after the actions of the World Bank contributed to the withering of the region’s technical capabilities and the bases of future advances), this debate is purely academic. A far more important contradiction is the fact that developing countries have not undertaken the same commitment that they ask of Latin America within the World Bank’s framework. According to the World Bank’s own statistics, there has been only a marginal contribution from developed countries towards new technical innovations to fight climate change:

The Global Environment Facility (GEF) is today the largest funder of projects that promote environmental protection while supporting national sustainable development goals. The GEF functions as the financial arm of the UNFCCC and provides support for technology needs assessments for more than 130 countries. Most GEF mitigation funding between 1998 to 2006—about $250 million a year—was directed at removing barriers to the diffusion of energy-efficient technologies.\textsuperscript{12}

Developing countries, including Latin American ones, have an important role to play in the creation and maintenance of environmentally sustainable economic activity. Any real effort to combat climate change through technological advances will have to open spaces in which developing countries can make their own contributions in terms of creating or modifying technologies that can reduce the dependency on hydrocarbons and other practices that degrade nature and society. As has been seen in recent years,
greater trade liberalization—in this case under the guise of the fight against climate change—will only sharpen the technological gap between industrialized and nonindustrialized economies and will do little to achieve declared objectives, particularly when corporations from developed countries are not making the necessary investments to confront climate change.

In summary, the World Bank states that successful policies in the fight against climate change are also good policies for economic development, but the very framework of mitigation, adaptation, and technical innovation systemically eliminates any possibility that Latin American countries can industrialize their economies in a sustainable fashion and achieve relevant technological advances. The three lines of attack proposed by the World Bank to combat climate change are designed in an incoherent fashion if the real objective is to improve environmental conditions in the region. Rather, the design points towards continuity in the strategy that the World Bank has maintained for decades in Latin America and that has resulted in a sharpening of the technological dependency of the region: chronic financial outflows and the ongoing export of natural resources and workers, all of which reproduce processes of economic deterioration and ecological and social degradation. This affirmation is strongly backed by the forms in which the World Bank seeks to enact strategies of mitigation, adaptation, and technological advance in order to combat climate change. These have much in common with other World Bank projects, such as the fight against poverty or the promotion of economic development, which in past years and decades have been employed more to advance the interests of the largest US and European corporations than to attend to explicit objectives.13

When considering issues related to development, economic literature has firmly established the creation and the form of diffusion of modern technology as one of the main factors that differentiates the processes of development between developing and developed countries.14 Yet in more recent years, another element that separates developing and developed countries has gained greater importance: financial flows. As such, the existing gap between these two types of economies, and the extractive nature of Latin American economies, encompass not only the more classical development issues relating to raw materials, migration, and technology, but also
the dynamic of financial flows. Therefore, while the aforementioned technological advances in Brazil (as well as other factors) would suggest a possible ascent into the ranks of developed countries, the country’s financial situation leaves this issue open to debate.\textsuperscript{15}

In the sections that follow, we examine in greater detail the deeper elements of several World Bank proposals and favourite causes: public-private partnerships (PPPs), forms of innovative financing, and the need for external financing. As we show, because of both the open contradictions in the arguments of the World Bank and the economic interests that enter into the proposed objectives and the proposed actions, it seems clear that the World Bank is once again concealing its true intentions under a different argument—this time the fight against climate change.

\textbf{A Critical Approach to the Key Concepts of World Bank Framework: Profitable Financial Business for Climate Change, or Equator Principles}

\textit{Public-Private Partnerships—Basic Considerations} For years, the World Bank and other international financial institutions have been promoting Public-Private Partnerships (PPPs) with the argument that the union of public and private spending can generate greater and more efficient financing than public or private financing alone. However, this argument is limited and disingenuous. PPPs represent a form of surreptitious privatization under which areas of the economy traditionally controlled by the State, such as infrastructure and the provision of basic public services, are opened to private investment.

Like privatizations, PPPs open economic spaces, previously exclusive to the State, to private-sector rent-seeking. Also like privatizations, PPP schemes allow for relatively secure short-term earnings for private investment with almost no risk that the private sector will absorb possible losses. PPPs simply represent a relatively novel modality of the dynamic of privatization of profits and socialization of losses.

Yet more relevant to the issues touched upon in this paper, PPPs change the logic of investment in strategic sectors of the economy. State planning and concerns for standards of living are exchanged for the criterion of short-term profitability. In the current age of financialization in Latin America (and in large parts of the world), investment in infrastructure corresponds to the
financial necessities of the moment among private actors, and not to the long-term needs of an economy. As with privatizations, PPPs corrode the capacities of public planning and leave strategic areas of economies and societies to the whims of financial markets. In terms of public investment, the operational arm of government is in large part transferred to the private sector.\textsuperscript{16} The resulting dynamics have led to numerous investment projects that contribute to ecological and social degradation.

A particularly eloquent example of this phenomenon took place in the south of Mexico in 2007. Due to the opening to private investment of electricity generation, and the explicit guarantee given to private companies that the state-controlled Comisión Federal de Electricidad (CFE) would buy 100 percent of all energy generated,\textsuperscript{17} excess energy was produced and the CFE therefore reduced its hydroelectric power generation. When turbines in various dams were shut down, water levels rose, and when strong rains arrived, levels of water exceeded the dams’ storage capabilities and the states of Tabasco and Chiapas suffered some of the worst flooding in their modern history.\textsuperscript{18} While it is possible that the strong rains were part of climate change attributable to global warming, it is impossible to deny that the flooding was directly provoked by human misjudgment—and in this case, the PPP dynamic. The reversal of environmental degradation in Latin America can occur only with the construction of a development model that corresponds to a strong democratic state and not to private markets, particularly in the current environment of elevated financial fragility and uncertainty created by financialization.

\textit{Social Investment as a Model of Good Business} The weakening of the State and its many functions in the economy has been one of the World Bank’s main objectives for decades. In countries where this objective has advanced the furthest, so have processes of underdevelopment, accompanied by military and paramilitary violence; this has happened in Colombia, several Central American countries, and in more recent years, Mexico. Consequently plans to further reduce the State’s role in economic planning, in the context of the environmental campaign, are particularly worrying. No less worrying are the nature and objectives of the private actors that assume decisive roles in
guiding Latin American economies through PPPs.

One of the central arguments in favour of PPPs is the notion that social and ecological responsibility can coexist with financial gains, and even that financial profit can guarantee such responsibility. This argument is extremely difficult to sustain because financial earnings benefit financial rentiers and make projects more expensive. Without the participation of financial investors, the capital diverted to financial rents could be incorporated into new or existing projects. If the World Bank wanted to fight climate change in the most effective way possible, there would be no private intermediation. Even the International Monetary Fund (IMF) has recognized that PPPs are not the most efficient way to employ resources.19 Authors such as Shaoul,20 Loxley,21 and Cingolani22 offer much deeper and insightful critiques of the PPP modality.

While PPPs weaken the State’s planning capacities and do not represent an efficient use of public funds, another argument frequently posed by the World Bank is that private actors are inherently more efficient than public actors. Under this logic, the ineptitude of the State could be compensated for by efficiency gains tied to the participation of private actors. But as we analyze here, the notion that private actors have the interest and wherewithal to confront the multiple environmental challenges facing the region is open to substantial doubts.

The first doubt revolves around the idea that ecological and social responsibilities form an integral part of profitable business. Such a proposition finds its most precise formulation in the Equator Principles (EP), which are a catalogue of principles applicable to bank loans and which are designed to minimize negative social and/or ecological impacts, and, when this is impossible, to compensate for damages. The EP were born in 2002 in a meeting in London between nine banks and the International Finance Corporation (IFC, part of the World Bank). Citigroup, Barclays, ABN-Amro and WestLB23 developed the institutional framework for the EP, which are based on the IFC’s standards of social and environmental sustainability.24 Sixty-eight banks, among them many of the world’s largest, have formally signed on to the EP.25
The IFC claims that “social and environmental opportunities are an integral part of good business. Socially and environmentally responsible businesses can enhance clients’ competitive advantage and create value for all parties involved.” For modern capitalism to fully attend to the diverse and wide-ranging social and ecological challenges, many of which it has itself created, would require a radical change in the way modern capitalism operates, a point equally recognized by the World Bank. As we argue, there are several reasons to doubt that the EP represent a basis for such a fundamental transformation of modern capitalism.

The second source of doubts revolves around the fact that the EP are essentially a form of bank self-regulation. There are no external control mechanisms over bank activities that could assure their adherence to the EP, nor penalize banks when they do not fulfill their commitments. One of the most important results of the 2007 financial crisis in the United States was the acceptance by one of the most ardent defenders of bank self-regulation that banks did not regulate themselves satisfactorily. In October 2008, Alan Greenspan stated that “I made a mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders.” Greenspan continued, stating “this modern risk-management paradigm held sway for decades…The whole intellectual edifice, however, collapsed in the summer of last year.”

But even if a relatively robust social and environmental regulation did in fact exist, centuries of history also teach that banks have consistently evaded regulations and supervision and rarely successfully regulate themselves. If the explicit objectives of the EP are to be met, this will happen only through a wholesale change of financial structures, not through symbolic modifications of existing ones.

However, questions regarding the possibility of effectively applying a series of environmental and social criteria to bank credit once again are of only academic interest. A closer examination of the EP reveals the absolute lack of deep changes in the operation of banks and their principal business partners. The IFC’s sustainability report (on which the EP are based) states:
When IFC invests in extractive industry projects (oil, gas and mining projects), IFC assesses the governance risks to expected benefits from these projects. In the case of significant projects (those expected to account for ten percent or more of government revenues), risks are appropriately mitigated, and for smaller projects, the expected net benefits of projects and the risks to these from weak governance are reviewed. When IFC invests in projects involving the final delivery of essential services, such as the retail distribution of water, electricity, piped gas, and telecommunications, to the general public under monopoly conditions IFC encourages the public disclosure of information relating to household tariffs and tariff adjustment mechanisms, service standards, investment obligations, and the form and extent of any ongoing government support. If IFC is financing the privatization of such distribution services, IFC also encourages the public disclosure of concession fees or privatization proceeds.\textsuperscript{30}

The explicit permission to undertake extractive projects, privatizations, and projects that entail monopolistic control over public services, together with the lack of substantive regulation and supervision, is in itself resounding proof of the lack of will on the part of the World Bank and the banks tied to the EP to pursue a substantial change in current capitalism. But just as notable in this sense is the list of projects that cannot be financed under the EP, which is limited to undertakings that are illegal, that involve child labour, that violate indigenous land rights, and those linked to gambling. Also excluded from financing are the production of arms, hard liquor, tobacco, radioactive material, asbestos, dangerous chemicals, and wood from certain areas.\textsuperscript{31}

The World Bank states that the world cannot continue with business as usual, and that if the most prominent actors do not change their practices in a significant fashion, the planet could suffer irreversible damage.\textsuperscript{32} Yet for the stated reasons, the EP are far from an adequate mechanism to bring about such change, or even marginally modify the practices that have led entire regions of the planet to this situation. While the World Bank’s proposed mechanisms to combat climate change do not have the capacity to advance towards more sustainable economic, social, and ecological structures, clear signals have emerged that the explicit objective of fighting climate change is being employed in order to expand and deepen the profit spaces...
of several of the world’s largest transnational banks and corporations. This consideration finds strong evidence in the arguments offered by the World Bank in regards to the need for innovative finance and external finance, examined below.

**Innovative and External Financing**  In various instances, the World Bank makes the case for the need for innovative finance, but there are only so many ways to skin a cat. After centuries of financial innovation, we can say that assets can be monetized, banks and states can create money, and fictitious capital can be produced, although its channelling into the productive sphere is highly problematic. The World Bank has tacitly recognized this, due to the fact that its “innovative” financing is in no way innovative. For example, the “featured sustainable investment products” that appear on its web page include only a run-of-the-mill “green” equity fund, and several bonds issued to finance the normal activities of the World Bank.

As we have argued, there is no need for innovative forms of financing; in the words of the World Bank, there is a need only for predictable financial flows at reasonable rates. Yet Latin America has a long history of costly and difficult relationships with external bank lending. The successive moratoria and renegotiations of the region’s external debt offer clear evidence of the fact. Yet it would appear that this is once again the proposal. A quick glance at the banks that have underwritten the World Bank’s bonds reveal the same institutions that have been the principal guilty parties in the speculative mania and fraud that caused the financial and economic crisis that began in 2007. This list includes UBS, Citigroup, Goldman Sachs, Deutsche Bank, RBS, BBVA, HSBC, Barclays, ABN-Amro, Bank of America, Morgan Stanley, Lehman Brothers, and Wachovia.

Due to the history of these institutions and the form in which US financial authorities have blown financial bubble after bubble, the real worry is that these same people are once again trying to blow another financial bubble, both in Latin America and throughout the globe. The Social Investment Forum also expresses these worries.

Sometimes forgotten in the economic catastrophe that continues to unfold is the fact that for decades these banks have argued that their size,
diversity, and capacity for innovation would convert them into strong motors of financial stability and economic development for any economy that would open its doors to them. In more recent years, almost identical arguments have been employed in the context of the fight against climate change. One of the most provocative of these arguments comes from The Climate Group, whose second principle in its document “UK-India Collaboration for a Prosperous Low Carbon Economy” is that instruments of financial innovation and eliminating barriers to the flows of capital are necessary to stimulate investment in a low-carbon economy.\textsuperscript{38}

The World Bank has been the principal champion of financial liberalization and external financing in Latin America, as it continues to be within the context of ecological sustainability. In its document “Financing Energy Efficiency: Lessons from Brazil, China, India, and Beyond,” however, the World Bank recognized that “lack of domestic sources of capital is rarely the true barrier; inadequate organizational and institutional systems for developing projects and accessing funds are actually the main problem.”\textsuperscript{39} Financial innovation and external financing are fundamental elements in any argument in favour of the entrance of foreign banks. For example, under the Convertibility regime in Argentina, foreign banks entered the country promising financial stability, but wound up being among the principal protagonists in the country’s banking crisis of 2001–2002.\textsuperscript{40} In Mexico, these same banks came to dominate the banking system under the pretext of expanding credit, but have constantly restricted credit to the entire economy for more than a decade.\textsuperscript{41}

The argument that developing countries require the financial innovation of European and American banks is even less credible in an environmental context, due not only to these institutions’ recent history, but also to a fundamental incoherence in the World Bank’s argument, which states that in order to slow climate change there must be a union between financial innovation and technological innovation. The World Bank adds that not enough is being presently done. But due to the fact that industrialized countries possess technological strengths that nonindustrialized countries lack, the missing factor in the equation is that there is not enough financial innovation in industrialized countries. If the most important banks
of these countries cannot adequately contribute to the ecological sustainability of their home markets, why would this be different in regions that are technologically backward?

The World Bank states that developed countries’ investment in Research and Development is woefully insufficient to confront the planet’s ecological problems. If technological advance is the most promising route to greener economies, we must advance this technology where it exists. The fact that the world’s largest banks aren’t financing this type of activity is highly worrisome and indicative of their true interests.

While the World Bank predicted a wholesale change towards a green economy as a result of the current crisis, the world has since spent more than four years attempting to return to “business as usual,” with the same banks (minus those that have not survived the crisis) once again engaging in fraudulent and speculative activities to obtain short-term gains while continuing to restrict productive credit lines. If there is to be a significant effort to reach environmental and social sustainability, the largest European and American banks would not appear to be adequate partners in the project, nor would institutions that represent their interests, such as the World Bank.

Towards a Socially and Environmentally Responsible Banco del Sur

While it may not be Latin America’s responsibility to lead the global struggle against various global environmental and social problems, the more relevant consideration is that the region’s chronic development gap leaves it without the capacities to be a global protagonist. But this does not mean that Latin American countries cannot play an important role in the transformation of their economies under the guiding principles of social and ecological sustainability. If the region’s countries can make strong advances in these aspects, it will represent a great contribution to the rest of the world in many ways. The Banco del Sur could be a key institution in these efforts.

The Banco del Sur arose from the idea of creating a single regional institution to fund investment projects that include elements of social justice and, in the context of the region’s financial crises at the turn of the century, as a way for countries to construct alternatives to the stabilization strategies of the World Bank and the IMF. However, the political process has
been tortuous and the institution was officially founded only years later in 2007. As an institution born out of a political project of the emerging non-neoliberal South American governments, the Banco del Sur can be a leading institution in this transformation away from the vision and the practices promoted by the World Bank.

The Banco del Sur offers a very different vision regarding monetary and financial cooperation in which credit expansion could take place with sovereign currencies. While the World Bank’s external finance model is based on the underlying myth of the region’s capital and saving shortages, a fully operational Banco del Sur could channel the region’s ample capital into sustainable regional investment, a strategic step towards a strong credit expansion in local currencies outside of the dollar credit expansion area.43

But the region’s current (and quite varied) economic model needs wholesale changes if societies are to combat social and environmental degradation. If the world continues to operate under a “business as usual” approach, global capitalism will soon face new forms of two of its traditional limiting forces: inhospitable lands and pauperized societies. It is true that confronting ecological problems requires stable and accessible financing, but such financial conditions do not require innovative forms of finance, much less external financing.

In the context of global financial instability, the only possibilities of maintaining stable capital flows rest upon the capacities of national governments to create and adequately channel the credit necessary for any type of economic expansion. While it is true that the only moments of sustained economic development in Latin America have occurred under State planning, with national public banks acting as the principal financial motors, this period was also strongly marked by the global financial stability that was offered by the Bretton Woods monetary system.

In spite of its shortcomings, this system guaranteed the stability of the most important prices for decades. In the current context of growing chaos in the global financial system, it is increasingly difficult for a single country (as big as it may be) to successfully navigate such turbulent waters. In the present context, any medium-term financial stability will depend on regional agreements, particularly when taking into account the very remote possi-
bility of an international political agreement on a new global financial architecture. 44

In the face of accelerated global financial decomposition, even the most active and audacious plans for new structures (not forms) of finance run the risk of being overtaken by the chaos of global finance. If national economies are to avoid the worst effects of the current global crisis, it will be necessary to establish mechanisms capable of confronting moments of abrupt fluctuations in international capital flows. If national economies are to create sustainable employment and production, it will also be necessary to construct institutions and financial structures able to slow—or even reverse—the massive and constant financial outflows from which the region suffers, even in moments of relative financial stability.

The Ecuadorian proposal to establish a regional monetary fund together with a regional development bank represents a necessary condition for any economic development, given the fact that countries of the region can foster development only through internal credit denominated in national currencies and channelled towards productive endeavours. 45 The Banco del Sur can play a determining role in the direction of a renewed economic development in the region, and should coordinate its efforts with national, state, provincial, and city public banks, as well as cooperative and other types of banks. By also contributing to the establishment of certain lines of institutional behaviour directed towards the promotion of predetermined economic sectors and activities, the Banco del Sur could become an integral part of a fundamental shift towards a socially and ecologically sustainable economic model. 46

Conclusions In much of the world, the operational axes of socially and environmentally sound practices are currently torn between state planning at the various levels of government and the speculative decisions of financialized actors and markets. Our analysis points to the conclusion that the Equator Principles and other proposals designed by the World Bank will only deepen the social and ecological degradation that has been created under the current economic model. While the Banco del Sur and a new regional financial architecture can evolve into institutions that contribute to the slowing of financial outflows and the looting of the region's natural
resources, they can also contribute to ensure savings and employment in the region.

This paper has analyzed the EP in their historical context, tying them to the now infamous Washington Consensus. It is indeed worrying that many social and political projects in South America have gravitated towards the EP, much as they did with the reforms of the Washington Consensus decades ago. In both moments, the World Bank and largest international banks formulated these proposals among other actors. In both cases, underlying agendas have been justified by the need to attend to clear and present problems, be they the need to recover economic growth in the 1980s or the need to fight climate change in the present decade.

Notes
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2. Financial outflows in this chapter refer to both relatively cyclical capital flight and the more steady, structurally determined outward transfers that are mainly manifested in the following forms: the servicing and payment of externally sourced public and private debts; the repatriation of returns on foreign-sourced financial investment; and the repatriation of earnings and royalties from transnational corporations.


25. The Equator Principles, “About the EP.”


31. Ibid.


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44. S. Lichtensztejn, *Fondo Monetario Internacional y Banco Mundial. Instrumentos del Poder Financiero* (Mexico: Universidad Veracruzana, 2010).