A critical view of the World Bank's climate change agenda
and financial reform in Latin America *

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Abstract

In recent years, climate change has received great attention across the planet, and no large global institution has embraced the notion of combating climate change with the fervor of the World Bank. One of the guiding principles behind the World Bank's campaign to combat climate change is the need for "innovative finance" to promote a transition towards greener energy sources. Operating under the assumption that developing countries are incapable of generating their own financing, several international financial institutions have created proposals for innovative external financing. Yet in light of recent history, particularly in Latin America, such proposals raise serious doubts. In this paper, we argue that the form in which the environmental problem is presented and the assumptions on which proposed mechanisms of action are based, have little to do with the needs of socially and environmentally responsible economic development in the region. We argue that if the region's economies are to finance projects that can improve environmental conditions in a sustainable fashion, they must rely on state planning and internal credit denominated in national currencies. While this idea does not imply any financial innovation, it does entail a restructuring of the financial systems of South 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 (Furtado, 1971; Dos Santos, 1978). In Latin America (LA), 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 (amongst 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, amongst 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 LA 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 the underpricing of work, labor flexibilization and the continual austerity-based dogma of fiscal balance.

In more recent years, environmental issues have received great attention on a global level, particularly with respect to global warming as a result of human industrial activity. On the international scale, no institution of global reach has embraced the fight against climate change with more eagerness than the World Bank (WB). Within the framework for action that this institution has established, and which will be analyzed throughout this paper, there are several basic principles. On 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 WB, have proposed a series of plans revolving around innovative and external finance.

As we examine in the paper, such proposals raise serious doubts. Based on recent Latin American and world history, we argue that the posing of 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 LA.

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 is the cornerstone of this restructuring and the institution that will have to maintain the coherence and cohesion of a new financial
architecture for South America. In order to connect the multiple criticisms of WB 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 WB’s position on climate change and the developing world, where we highlight the relation between the ELG model and the rapacious use of the natural resources. Second, we review the main criticisms of the WB promoted Equator Principles (EP), as well as the underlying elements of the WB’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, both in terms of raw materials and financial outflows¹, has exacted high costs in terms of generalized social and ecological degradation.

At the same time, growing carbon emissions from developed countries have underpinned the economic development and industrialization in their territories, simultaneously buoyed by inflows of financial 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 to slow global warming. In the LA context, the WB’s stated positions have transitioned from the promotion of 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 WB to deviate from its previous explicit objectives in order to focus on climate change. However, 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 actors remain unchanged. At the same

¹ Financial outflows in this chapter refer both to relatively cyclical capital flight and the more steady structurally determined outward transfers, 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.
time, the size of the challenge of climate change and its global reach also allow for the WB 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 WB calculates that 80% of the costs of climate change will fall on the developing world. Therefore, even though developing countries have contributed historically very little to 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 WB highlights, countries with more precarious conditions of living and economic structures 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 illogical is the WB’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 WB 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, precisely for its explicit division of the world’s countries between industrialized and non-industrialized countries and the proposal that instead of industrialized countries reducing their carbon dioxide emissions, non-industrialized countries should be paid to reduce theirs. The WB’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)” (WB, 2010: 276).

Under the second line of action of adaptation, defined by the WB as the adjustments undertaken to minimize the effects of climate change, the WB makes the connection between the economic policies of the fight against climate change, 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.” (WB, 2010: 258) To give greater strength to adaptation measures, the WB suggests undertaking projects under the public-private modality. (WB, 2010: 24, 102, 245, 258, 262, 266, 269. 293), innovative finance (WB, 2010: xxi, 103, 161, 169, 258, 275), external financing (WB, 2010: xx, xxi, 2, 6, 12, 20, 22, 24, 26, 38, 55, 60, 239, 278), and conditionality (WB, 2010: 239,240). These specific mechanisms will be further examined in the following sections.

The third broad line of action for the WB in the fight against climate change for is the support of 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 LA could lead this process, or even make significant contributions to its development, are unrealistic. While certain technological advances have recently occurred in this area in LA (particularly in Brazil), the simple historical fact is that LA as a region has been a receptor 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 (Dos Santos, 1978). 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 (Fanjunyber, 1983). 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 LA countries, even in the context of absolute trade liberalization and transnational corporation dominance.

Just as the mitigation line of action proposes that non-industrialized countries must pay the costs of the industrialization that was only made possible by their social and ecological sacrifices, the focus of technological advance as a response to climate change also involves a meaningful participation from non-industrialized countries that have been systemically 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 the LA has been achieved through the WB inspired Washington Consensus policies of public austerity, privatizations, financial and trade liberalization. The region’s technical capacities and knowledge acquired in its period of endogenous industrialization have been greatly reduced through constant public expenditure cutbacks in education and research of all types, all of which has left the region technologically more dependent than ever.

As the WB underlines, the simple replacement of the automobile fleet in the US 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 (WB, 2010: 323). 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 WB in suggesting that LA should contribute technical assistance to the world after the actions of the WB 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 LA within the WB’s framework. According the WB’s own statistics, there has been only a marginal contribution towards new technical innovations to fight climate change from developed countries:

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 (WB, 2010: 302).

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 the creation or modification of
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 developed and developing 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 WB 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 LA countries can industrialize their economies in a sustainable fashion and achieve relevant technological advances. The three lines of attack proposed by the WB to combat climate change are designed in a clearly incoherent fashion if the real objective is to improve environmental conditions in the region. Rather, its design points towards a continuity in the strategy that the WB has maintained for decades in LA, and which 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 WB seeks to enact strategies of mitigation, adaptation and technological advance in order to combat climate change. These have much in common with other WB 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 (Boltvinik, 1998)

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 (Celso Furtado 1971, Fernando Fanzylber 1983, José Luis Sampedro and Carlos Berzosa 1996). Notwithstanding 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 LA economies, not only encompasses the more classical development issues relating to raw materials, migration and technology, but also the dynamic of financial flows. Therefore, while the mentioned 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 (Correa, Rodriguez, Vidal, 2011).

In the sections that follow, we examine in greater detail the “deeper” elements of several WB proposals and favorite causes: public private partnerships (PPPs), forms of innovative financing and the need for external financing. As we will show, both because of the open contradictions in the arguments of the WB and the economic interests that enter into the proposed objectives and the proposed actions, it seems clear that the WB is once again covering its true intentions under a different argument – this time the fight against climate change.
A critical approach to the key concepts of WB framework: profitable financial business for climate change or “Equator Principles”

Public private partnerships- basic considerations

For years, the WB along with other international financial institutions has been promoting public-private partnerships (PPPs) under 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 even 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 of possible losses being absorbed by the private sector. 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 is exchanged for the criteria of short-term profitability. In the current age of financialization in LA (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. The concerns for living standards are replaced with those of short-term financial profit, by removing the operational arm of the government in terms of public investment and assigning it to the private sector, (Correa, 2009, Vicher 2011). In addition, PPP dynamics increase the costs of projects and augment the region’s chronic financial outflows. The lack of planning has led to strategies that contribute to ecological and social degradation through many investment projects.

A particularly eloquent example of this phenomenon took place in the south of Mexico in 2007. Due to the opening to private investment in the generation of electricity, and the explicit guarantee given to private companies that the state-controlled Comisión Federal de Electricidad (CFE) would buy 100% of all energy generated (Vidal, 2007), excess energy was produced and the CFE therefore reduced its hydroelectric production. Upon shutting down turbines in various dams, water levels rose, and when strong rains arrived, levels of water exceeded the dams’ storage capabilities and the states of Tabasco y Chiapas suffered some of the worst flooding in their modern history. (Correa, 2008) 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 LA can only occur with the construction of a model of development, which corresponds to a strong democratic state and not to private markets, particularly in the current environment of elevated financial fragility and uncertainty that financialization has begot.
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 main objectives of the WB for decades. In countries where this objective has advanced the furthest, accompanied by military and paramilitary violence, as has happened in Colombia, several Central American Countries, and in more recent years, Mexico. As such, plans to further reduce the role of the state in economic planning, in the context of the environmental campaign, are particularly worrying. Yet no less worrying are the nature and the objectives of the private actors that assume decisive roles in guiding Latin American economies through PPPs.

One of the central arguments in favor 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, as 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 WB wanted to fight climate change in the most effective way possible, there would be no private intermediation. Even the IMF has recognized that PPPs are not the most efficient way of employing resources (IMF, 2004). Authors such as Loxley (2010) and Shaoul (2007) offer much deeper and insightful critiques of the PPP modality.

Yet while PPPs weaken the planning capacities of the State and do not represent an efficient use of public funds, another argument frequently posed by the WB 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. However, as we will analyze, the notion that private actors have the interest and the 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 responsibility form an integral part of profitable business. Such a proposition finds its most precise formulation in the 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 WB). Citigroup, Barclays, ABN-Amro and WestLB (The EP, 2010: 4) developed the institutional framework for the EP, which are based on the IFC’s standards of social and environmental sustainability (IFC, 2006). Sixty-eight banks, including several of the worlds largest, have formally signed on to the EP (The EP, 2010: 4).

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” (IFC, 2009). For modern capitalism to fully attend to the diverse and wide-ranging social and ecological challenges, many of which it has itself created, it would imply a radical change in the way modern capitalism operates, a point equally recognized by the WB (2010). As we will argue, there are several reasons to doubt the EP represent a basis for this fundamental transformation of modern capitalism.
The second source of doubts revolves around the fact that the EP is essentially a form of bank self-regulation. There are no external mechanisms of control over bank activities that could assure their adherence to the EP or penalize banks when they do not fulfill their commitments. One of the most important results of the financial crisis that broke out in the US in the summer of 2007 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, “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” (Financial Times, 2008b). Greenspan continued, stating “this modern risk-management paradigm held sway for decades…The whole intellectual edifice, however, collapsed in the summer of last year.” (New York Times, 2008a).

But even if a relatively robust social and environmental regulation, did exist centuries of history also teach that banks have constantly evaded regulations and supervision (Kindleberger, 1989) and rarely successfully regulate themselves. As we will show, if the explicit objectives of the EP are to be met, this will only happen 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 only of academic interest. A closer examination of the EP reveals the absolute lack of deep changes in the operation of banks and their principle 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 (IFC 2009).

The explicit permission to undertake extractive projects, privatizations and projects that entail the monopoly control over public services, together with the lack of a substantive regulation and supervision, is in itself resounding proof of the lack of will on behalf of the WB 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 labor, that violate indigenous land rights, and those which are 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. (IFC 2009).

The WB states that the world cannot continue along with business as usual even if it does not believe it. If the most prominent actors do not change their practices in a significant fashion, the planet could suffer irreversible damage. 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. Even while the proposed mechanisms of the WB to combat climate change do not have the capacity to advance towards more sustainable economic, social and ecological structures, there are also clear signals that the explicit objective of fighting climate change is being employed only in order to expand and deepen the profit spaces of the largest transnational banks and corporations. This consideration finds strong evidence in the arguments offered by the WB in regards to the need for innovative finance and external finance, examined below.

Innovative and external financing

In various moments, the WB (2010) makes the case for the need for innovative finance. However, there are only so many ways to skin a cat. After centuries of financial innovation, we can say that assets can be monetized, new markets can be opened, banks and states can create money, and fictitious capital can be produced, although its channeling into the productive sphere is highly problematic. This has been tacitly recognized by the WB, due to the fact that its “innovative” financing is in no way innovative. For example, its “featured sustainable investment products” that appear on its web page (WB, 2011), only include a run of the mill “green” equity fund, and several bonds issued to finance the normal activities of the WB.

As we have argued, there is no need for innovative forms of financing; in the words of the WB, there is only a need for predictable financing flows at reasonable rates (WB, 2010). Yet LA 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 WBs 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 (FMI, 2007; Johnson and Kwak, 2010). This list includes UBS, Citigroup, Goldman Sachs, Deutsche Bank, RBS, BBVA, HSBC, Barclays, ABN-Amro, Bank of America, Morgan Stanley, Lehman Brothers and Wachovia (WB, 2011).

Due to the history of these institutions and the form in which US financial authorities have blown bubble after bubble (Galbraith, 2008), the real worry is that these same people are once again trying to blow another financial bubble, both in LA and throughout the globe. The Social Investment Forum (2010) 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 the elimination of barriers to the flows of capital are necessary to stimulate investment in a low carbon economy (Climate Group, 2008).

The WB has been the principle champion of financial liberalization and external financing in LA, as it continues to be within the context of ecological sustainability. However, in its document *Financing energy efficiency: lessons from Brazil, China, India, and beyond*, the WB 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.” (WB, 2008: 7). Financial innovation and external financing are fundamental elements in any argument in favor 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 principle protagonists in the country’s banking crisis of 2001-2002 (Marshall, 2008). In Mexico, these same banks came to dominate the banking system under the pretext of expanding credit, but for over a decade have constantly restricted credit to the entire economy (Correa, 2010).

However, the argument that developing countries require the financial innovation of European and American banks is even less credible in an environmental context, not only due to the recent history of these institutions, but also to a fundamental incoherence in the WB’s argument, which states that in order to slow climate change there must be a union between financial innovation and technological innovation. The WB adds that not enough is being presently done (2010). But due to the fact that industrialized countries possess technological strengths that non-industrialized countries lack, the missing factor in the equation is therefore that there is not enough financial innovation in industrialized countries. So if the most important banks of these countries cannot adequately contribute to the ecological sustainability in their home markets, why would this be different in regions that are technologically backwards?

The WB states that developed countries’ investment in Research and Development is woefully insufficient to confront the planet’s ecological problems (WB, 2010). 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 WB (2010) predicted a wholesale change towards a green economy as a result of the current crisis, the world has since spent over four years attempting to return to “business as usual”, with the same banks (less those that have not survived the crisis) once again engaging in fraudulent and speculation actions in order 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 WB.

**Towards a socially and environmentally responsible Banco del Sur**
While it may not be the responsibility of LA 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 LA 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 will 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 IMF and WB stabilization strategies. However, the political process has been tortuous and the institution was only officially founded 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 WB.

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 WB’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. (Furtado. 2008, Convenio Constitutivo del Banco del Sur, 2009)

However, 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 reach a new limitation to economic activity and life in general – an inhospitable land 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 LA have occurred under state planning, with national public banks acting as the principle 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 possibility of an international political agreement on a new global financial architecture (Lichtensztejn, 2010).
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 revert – the massive and constant financial outflows that the region suffers from, even in moments of relative financial stability.

The Ecuatorian 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 only foster development through internal credit denominated in national currencies and channeled towards productive endeavors (*Correa, 2012; Parguez, 2010*). 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 behavior directed toward the promotion of pre-determined economic sectors and activities, the Banco del Sur could become an integral part of a fundamental shift toward a socially and ecologically sustainable economic model. (*Furtado, 2008*)

**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 WB 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 like they did with the reforms of the Washington Consensus decades ago. **In both moments the WB and largest international banks formulated these proposals among other actors** (*Williamson, 1990; The EP, 2000*). In both cases, underlying agendas have been justified by the need to attend to clear and present problems, be it the need to recover economic growth in the eighties or the need to fight climate change in the present decade.
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