

# Bank of the South: Progress and Challenges

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*This article presents progress and challenges on the Bank of the South, in the areas of governance and administration, financial resources, investment portfolio, eligibility by type of institution, distribution of investments among member countries and concessionality, procurement, participation, transparency, audits, and environmental and social safeguards.*

In South America there is an urgent need to improve growth rates, to strengthen internal markets and to substantially improve the living standards of the population, in order to reverse migration patterns, achieve social justice and reduce income inequality. Since 2006, several countries in Latin America began to consider the creation of a new alternative bank, “The Bank of the South”, that would utilize existing regional reserves to finance the development of its member countries. The *Banco del Sur* should strengthen regional integration; reduce asymmetries, poverty and social exclusion; promote employment and activate a virtuous cycle of sustainable development, fundamental for the economic, social and political transformation of the region.

## FOUNDING CHARTER BANK OF THE SOUTH (December 2007).

The following is agreed:

- To create the Bank of the South with the objective to finance the social and economic development of the region; making use of regional savings, to strengthen regional integration, to reduce asymmetries and to promote an equitable distribution of investments within Bank member countries.
- Headquarters: Caracas. Delegations in Buenos Aires and La Paz.
- A self-sustainable bank.
- Equal representation of member countries; a democratic system of operations.
- Bank’s Articles of Agreement to be completed in 60 days.
- To invite all countries of the Union of South American Nations (UNASUR) to participate in the South Bank’s creation process.

After a long process of international agreements, the Founding Charter of Bank of the South was signed on 9 December 2007 in Buenos Aires by Presidents Néstor Carlos Kirchner (Argentina), Evo Morales Ayma (Bolivia), Luis Inácio Lula da Silva (Brazil), Rafael Correa Delgado (Ecuador), Nicanor Duarte Frutos (Paraguay), Tabaré Vázquez Rosas (Uruguay) and Hugo Rafael Chávez Frías (Republica Bolivariana de Venezuela). The Founding Charter can be found in the Annex of this document.

In the Founding Charter of the Bank of the South, the presidents of the Bank’s member countries agreed to define the Bank’s Articles of Agreement, structure and operational guidelines in 60 days. However, in November 2008, more

than 300 days have passed, and the Bank’s Articles of Agreement remain unsigned.

## What happened?

The delay has been caused by (1) an inadequate working method and (2) differences in opinion among member countries.

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There are several versions of possible Articles of Agreement proposed for the Bank of the South. What is needed is a new consensus. One should keep in mind that finalizing the Articles of Agreement is only a first step to create a Bank. What is really important is not the Articles of Agreement, but actually putting the Bank's principles into action —hiring personnel, setting up the organization and starting operations.

At UNASUR meetings, the *Banco del Sur* is always mentioned, and is even colloquially referred to as BANSUR. Despite 300 plus days have gone by, countries in the region are interested in the Bank. The big question is if member countries are going to agree on fundamental issues, or if there are seemingly insurmountable differences.

## The Importance of the Bank of the South

It is fundamental to overcome differences among member countries and expedite the working method to create the Bank of the South. What is at stake is not only the creation of a development bank, but also a new regional architecture that entails three interrelated elements:

1. A Monetary Union of the South
2. A monetary stabilization fund, the Fund of the South
3. A Bank of the South that utilizes existing reserves for regional development

South America is not alone in this attempt to change the international financial architecture from a regional perspective. The tough reality that all developing countries face is the current transfer of resources from the South to the North. As shown in the graph below, since 2000, instead of wealthy countries in the North transferring capital and development aid to the countries in the South, it is the reverse: unbelievably, poor countries finance rich countries, resulting in a negative flow of capital from South to North<sup>2</sup>. It is necessary to stop to this flow. It is essential that the savings generated in developing countries are not used to

finance consumption in the North, but invested in the development of Southern countries.

| <b>The South Finances the North:<br/>Net Financial Transfers to Developing Countries</b><br>1995-2007 (select years, in billion dollars) |             |               |               |               |               |
|--|-------------|---------------|---------------|---------------|---------------|
|  | 1995        | 2000          | 2003          | 2006          | 2007*         |
| <b>Africa</b>  | 5.7         | -31.6         | -22.6         | -86.2         | -59.2         |
| <b>Latin America</b>   | -0.6        | -2.9          | -61.6         | -127.2        | -99.8         |
| <b>Asia</b>  | 21.3        | -119.7        | -169.9        | -369.9        | -468.1        |
| <b>Transitional Economies</b>  | -2.7        | -58.0         | -50.5         | -135.6        | -109.2        |
| <b>Middle East</b>   | 23.0        | -31.4         | -43.8         | -144.7        | -132.7        |
| <b>TOTAL</b>   | <b>41.9</b> | <b>-243.7</b> | <b>-330.4</b> | <b>-863.7</b> | <b>-869.0</b> |

\* Estimation  
Source: United Nations, 2008: *World Economic Situation and Prospects 2008*. UN Department of Economic and Social Affairs, New York.

Asia with its Chiang Mai Initiative, the Middle East with its Bahrein Initiative and most recently Africa, are all embarking on processes similar to Latin America's. It goes without saying that each region has its own limitations. In fact, an Asian currency is still not being used despite it was designed and ready to be operational back in 2002.

Until now, the Asian bond market has only served for public bonds and has not yet started to issue private bonds. The process of designing a basket of currencies in the Middle East is in an intermediate phase, no hints as to when it may be put into practice.

<sup>2</sup> Ortiz, I. 2007: *Putting Financing for Development in Perspective: The South Finances the North*, in International Development Economic Associates. IDEAs, New Delhi  
[http://www.ideaswebsite.org/news/nov2007/Putting\\_Financing.pdf](http://www.ideaswebsite.org/news/nov2007/Putting_Financing.pdf)

The Bank of the South will have a fund of collateralized guarantees for issuing bonds so that it can keep South American savings and international reserves circulating within the region. Thus, it is necessary for Latin America's development that the Bank of the South moves forward, both in terms of policy space as well as for the additional funds it will provide to invest in the region. The time for this is now, when the financial crisis in the United States is turning into an international crisis.

## **Problems with the Working Method to Create the Bank of the South**

To date, the Bank of the South's decision-making system consists of (1) setting up Ministerial Summits, which are followed by (2) meetings of experts from the National Technical Commissions who implement the decisions taken by the Ministers of the member countries.

Given the Ministers' tight agendas, particularly the agendas of Ministers from big countries, the first Ministerial Meeting after signing the Founding Charter on Dec. 9, 2007, did not happen until 120 days later, on April 15, 2008, in Montevideo. Worse, only another Ministerial Summit has followed since, on June 27 in Buenos Aires, and it was called with such little notice that only four ministers could attend. As a result, the minutes from Montevideo have not been ratified by all countries.

The system of first having a Ministerial Meeting and later a meeting for the National Technical Commissions has proved to be slow and ineffective. It would be much more efficient and adequate to agree on some terms of reference, and to commission a technical team that would carry out the work without interruptions, to be later approved and/or modified by the member countries. This is a normal working method used by multilateral development banks and regional organizations, it would speed up the process enormously.

## **Agreements on the Bank of the South**

While the most difficult part — reaching a political consensus to create a Bank of the South — has been achieved, the technical aspects still have to be defined: How to build an alternative multilateral development bank? How to operationalize the principles of its Founding Charter, in the context of a new regional financial structure? Latin America already has several multilateral development banks, including the Andean Development Corporation (CAF in its Spanish acronym) and the Inter-American Development Bank (IDB), but these have not served to activate a new development pattern in the region. How to build a different bank?

Some consider that there should not be a difference between the Bank of the South and the rest of International Financial Institutions (IFIs), not understanding that what has impeded regional development is not only lack of financing, but also the orthodox neoliberal policies imposed by Washington-based institutions. This is the reason why Latin American presidents have opted to create a different bank, to win autonomy and 'policy space' to implement different development policies, new policies supportive of the region's sovereignty and responsive to their citizens. The need for new policies is especially critical in light of the food crisis and imminent worldwide recession as a result of the North's economic policies.

Though there have been important agreements on the Bank of the South, differences prevail.

In terms of the agreements, the capital contributions to the Bank of the South were approved at the Ministerial Summit in Montevideo on April 15, 2008. Authorized capital was set at US\$20 billion and subscribed capital at \$7 billion. The contributions, conditions of initial contribution and letters of credit vary according to which group a country belongs to. In general, there are two groups: the first includes the wealthier countries (Argentina, Brazil and Venezuela) and the second the smaller countries (Bolivia, Ecuador, Paraguay and Uruguay).

Overall, this allows total loans up to \$60 billion, theoretically giving the Bank of the South the same importance as Brazil's National Development Bank (BNDES in its Portuguese acronym), which is the largest bank in Latin America despite being a national bank and not a multilateral bank, with loans equivalent to \$55 billion — greater than the World Bank in South America (\$36 billion), the Inter-American Development Bank (\$46 billion) and seven times more than CAF (\$8.1 billion)

The second and last Ministerial Summit in Buenos Aires focused on the areas of governance and administration. It was proposed that the Bank of the South be formed by a Council of Ministers (the Board of Governors in any other development bank), a Management Council (the Executive Board in the IFIs), the Council of Directors (which would carry out the day-to-day operations) and an Audit Council. Article V of the Founding Charter was ratified, accepting that the mechanism for decision-making in all bodies would be “one-country, one-vote”, *in general*.

**GOVERNANCE AND ADMINISTRATION:  
Proposal from Ministerial Meeting in Buenos Aires (June 2008)**

The Bank of the South management bodies:

1. Council of Ministers
2. Management Council
3. Council of Directors and Executive Committee
4. Audit Council

**BANK OF THE SOUTH – CAPITAL:  
Agreements from the Ministerial Meetings in Montevideo (April 2008) and Buenos Aires (June 2008)**

- **Authorized Capital:** US\$20 billion
- **Subscribed Capital:** US\$7 billion
- **Contributions:**
  - Argentina, Brazil and Venezuela: US\$2 billion
  - Ecuador and Uruguay: US\$400 million
  - Bolivia and Paraguay: US\$100 million
- **Initial contributions:**
  - Argentina, Brazil and Venezuela: 20%, the rest in four annual quotas
  - Bolivia, Ecuador, Paraguay and Uruguay: 10%, the rest in nine quotas
- **Letters of Credit:**
  - Argentina, Brazil and Venezuela: four times the capital
  - Bolivia, Ecuador, Paraguay and Uruguay: eight times the capital
- **Lending Headroom:** Three times the Bank's net assets (up to a maximum of four and a half times)
- **Borrowing Headroom:** Two and a half times the Bank's net assets

The proposed exception regarding “one-country, one-vote” is in the day-to-day operations. Member countries strongly disagree about this. Some of the bigger countries believe that the Bank's greatest contributors should have more vote in the Council of Directors. Specifically, they have proposed having more voice in operations greater than \$5 million, meaning practically all operations given that \$5 million is a small amount for

the Bank. This discussion greatly complicates things, since a new bank should have a simple institutional structure and swift procedures. The idea was always to keep administration to a

minimum, instead having complicated different procedures at different levels, which would only generate a convoluted bureaucratic system for the bank.

## Disagreements on Bank of the South

There are various disagreements, some already pointed. Clearly, the *realpolitik* is different for a country like Brazil, who already has a powerful development bank —the BNDES— with a much larger investment portfolio than the World Bank. A very different situation to that of the smaller countries, desperately needed of funds for development. In a nutshell, it is about the big countries vs. the small countries.

1. **Governability: “One country, one vote” or “one dollar, one vote”?** Currently, the lack of agreement is based on the interpretation of the Fifth article of the Founding Charter, in which a democratic working system of one country one vote was established. This system would be similar to the United Nations, where each country has voice and vote regardless of how small it may be, and fundamentally different from the multilateral development banks (i.e. the World Bank), where wealthier countries have the right to more votes given they contribute more resources. Of the countries that contribute most to the Bank of the South (Argentina, Brazil and Venezuela), only Venezuela backs democratic decision-making at all levels. Brazil and Argentina opt for a traditional multilateral bank model. Though they have agreed that the Bank of the South’s Councils should work under the one country one vote principle, they consider that in the day-to-day administration the countries that contribute more funds should have more right to vote.
2. **Privileges and exemptions:** Some suggest that all bank operations, from procurement to investments and staff salaries, should be exempt of all kinds of taxes and custom duties. Others believe that this measure — copied from the IFIs — is inappropriate and at conflict with important efforts to fight tax evasion in the region.

But this is only the beginning. To create an alternative development bank opens doors to many possibilities. The most controversial issue —spending— has not even been discussed yet. What investment policies will the Bank of the South give priority to? Will there be concessional loans, like in other development banks, and, if so, what will be the criteria for eligibility, who will benefit? Other disagreements, already evident in areas that have not yet been formally discussed in Ministerial Summits, are:

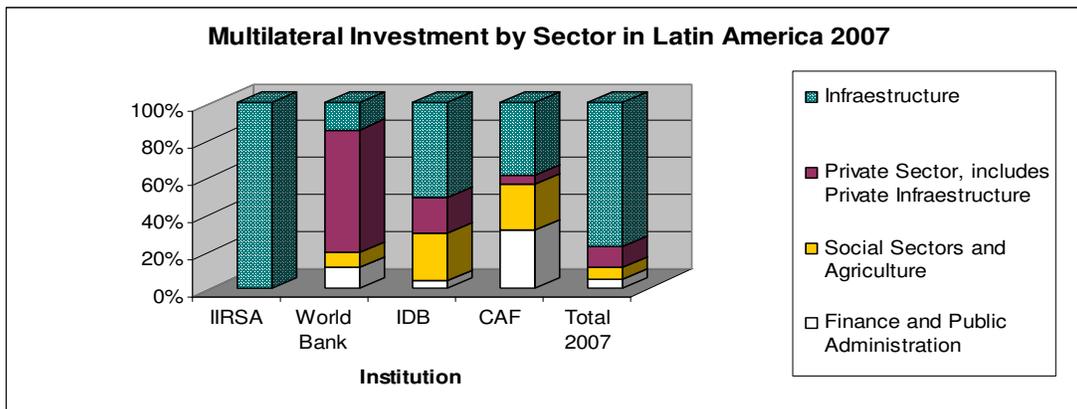
3. **Funding:** Though the capital contributions of each member country have been agreed on, there is still no decision on the use of reserves, the origin of special concessional funds, co-financing and other funding details for the Bank.
4. **Investment Portfolio: Should infrastructure be a priority?** Some countries insist on associating the Bank of the South with investment in infrastructure. However, the graph below<sup>3</sup> shows how infrastructure is already the area with the most multilateral investment in the region, while areas in need of investment are social and agricultural sectors.

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<sup>3</sup> Source: Annual Reports from the Inter-American Development Bank (IDB), World Bank, Andean Development Corporation (CAF) and webpage of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

The countries of the Bank of the South must address the food crisis immediately. According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the recent 15% increase in food prices has led to a rise from 35% to 38% in the number of people living below the poverty line. In just a few months, all the efforts to reduce poverty from 2002 to 2007 were obliterated.<sup>4</sup> And poverty is not reduced with infrastructure. The Bank of the South's loan portfolio should not be centered on big infrastructure projects alone, but rather on poverty and regional projects that reduce asymmetries, with a focus on social development and environment. This certainly does not eliminate the possibility of investing in oil refineries, but environmental issues should be carefully addressed. Going a step further, the idea of sovereignty in different areas generates a completely different investment portfolio from the World Bank's, the IDB's and CAF's. For example:

- ✓ *Food sovereignty*: greater investment within the region, including agricultural reforms and increased income for farmers;
- ✓ *Economic sovereignty*: activities that promote Latin America's productive capacity, generate decent work for all and a tax base that could be used for community development;
- ✓ *Health sovereignty*: investment in cheap generic pharmaceuticals and universal access to medical services;
- ✓ *Sovereignty of natural resources*, in a way that profits/royalties can be used for public investment instead of as private earnings for big corporations.



**5. Eligibility by type of institution – Should the Bank of the South finance large private companies?** Though there is a collective agreement that the Bank of the South will invest in financial intermediation for public national companies, small and medium-sized companies, cooperatives and social enterprises, some member countries object to finance large private companies. Others point that it is necessary to distinguish between different types of large private business (some of which are important for Latin American society, such as companies that produce food, generic pharmaceuticals, fertilizers, etc.) and additionally point out the importance of promoting regional companies in order to reactivate Latin America's economy. The minutes from the Buenos Aires Ministerial Meeting hint at what is to come: "It was considered adequate that the Bank could provide loans to—in addition to the public, semi-public and mixed economy sectors—to cooperatives and the private sector, provided public sector's approval. Venezuela believed the Bank should not finance the

<sup>4</sup> ECLAC. August 2008: *Economic Survey of Latin America and the Caribbean*. Santiago, Chile: United Nations Economic Commission for Latin America and the Caribbean.

private sector, with the exception of cooperatives, social enterprises and communities” (paragraph 8).

- 6. Distribution of investments among member countries and different terms of financing (concessionality):** Article I of the Founding Charter calls for a balanced investment among the Bank’s member countries. However, not all countries have the same absorption capacity. Furthermore, will all investments be made under the same conditions? Multilateral development banks offer concessional loans (at lower interest rates) and grants (free of charge) to countries with lower GDP. This again generates a division between the larger and smaller countries; in principle, smaller countries deserve concessional terms given they are less wealthy.

There are two options to avoid this division between countries. One is to keep different financing terms according to sectors (i.e. investments in the social sector could be concessional regardless of country/region, like the Venezuelan National Development Bank BANDES does). Another option is the European Union model. Europe faced the same problem as Latin America of “the big countries vs. the small” and resolved it by abandoning the idea of country, targeting concessionality to the poorest areas, regardless of what country they were in. In this way, it is not wealthier countries subsidizing the poorer countries (i.e. Brazil wouldn’t be subsidizing Bolivia), but rather the wealthier regions subsidizing the poorer ones (i.e. the poorer regions in Brazil would also benefit from concessional financing terms).
- 7. Procurement:** The Bank of the South’s Founding Charter indicates a preference for goods and services from the region. However, since there are only 12 countries in the region, the reality is that in some cases purchasing goods or services locally may not be feasible, in which case the following possibilities could be considered: (a) One option is to allow purchasing goods and services from non-Bank member countries, as long as they are provided by contractors from member countries; (b) Another option is preferential treatment from other Southern countries, at certain price thresholds; (c) A different option would be untied procurement, open to any country in the world that offers the most competitive price. Clearly, there are trade-offs between supporting the South and allowing untied procurement.
- 8. Participation and transparency:** Until now, civil society has defended tooth and nail the creation of an alternative Bank of the South, it has been a positive force. However, there is no agreement on its possible inclusion in the Bank of the South. The level of civil society’s participation is one of the disagreements among various member countries. There are several institutional models, analyzed in other documents, which should be contemplated before taking a final decision.
- 9. Social and environmental safeguards:** How can it be assured that the principles in the Bank of the South’s Founding Charter, with the objective to promote socio-environmental justice, are maintained? Multilateral development banks have developed a series of social and environmental safeguards, created to maximize positive impacts in employment, distributional impacts in gender, generations (youth, older persons...), ethnic groups and persons with special needs, as well as in environment. However, many of these safeguard policies are currently being watered down, given the IFIs move towards more conservative policies. For the Bank of the South, the challenge is how to incorporate these safeguards in a simple manner, without creating excess paperwork, delays and bureaucracy, but ensuring the abandonment of the orthodox development model that brings about greater social exclusion and destruction of the environment.

In light of all these small disagreements, the Ecuadorian government asked the United Nations for assistance at the beginning of 2008. A non-binding Technical Workshop was held in Quito, June 23 to 27, 2008. More than 60 persons from different affiliations participated in this meeting: international experts in banking and finance, academics, members of Bank of the South National Technical Commissions and civil society. The debate was intense; precisely, the intention was to analyze options, their advantages and disadvantages, and reach a consensus on building an alternative multilateral bank. The resulting document is not a new proposal, but rather a presentation of the pros and cons of different options in the areas of: (i) Governance and Administration, (ii) Funding Resources, (iii) Investment Policies and Lending Framework, (iv) Procurement, (v) Audits, (vi) Operational Cycle, (vii) Participation, and (viii) Social and Environmental Safeguards.

The document can be consulted in the attached link,<sup>5</sup> it is designed to assist in the drafting the Articles of Agreement as well as the Bank's Operational Guidelines: this will require deciding among the different options in each area, which are presented in a neutral form to help generate consensus.

## The Bank of the South Must Move Forward

The Bank of the South advances so slowly that the delay is generating impatience. Another regional alternative development bank is forming: the Bank of the Bolivarian



Alternative for the Americas, or ALBA Bank, to support regional integration between Bolivia, Cuba, Honduras, Nicaragua and Venezuela. The ALBA Bank has \$2 billion in subscribed capital and already has offices in Caracas. This is another path and does not involve UNASUR members, except Bolivia.

Given delays, last August 29, 2008, the presidents of Venezuela and Ecuador agreed the creation of a development bank for Bolivia, Ecuador and Venezuela<sup>6</sup>, notwithstanding their support to promote the Bank of the South. This is undoubtedly a way to create pressure on the bigger countries. In Buenos Aires, they assure that the Bank of the South will be operative before the end of 2008. In Brasilia, this is less clear given BNDES exists.

It is essential for the Bank of the South to begin operations even if in its smallest expression, and thus be able to start issuing bonds in the South American monetary currency unit. Payments in national currency for intraregional trade have already been agreed upon and in the next UNASUR Ministerial Meeting, they will finish widening the use of national currencies. The next logical step is to start using the South American basket currency as a reference unit. The South American monetary unit was presented in a conference of central banks in Buenos Aires in August 2008, and later in Mexico in October 2008.<sup>7</sup>

<sup>5</sup> Outcome from the Technical Workshop Bank of the South, Government of Ecuador and United Nations. See: [http://mef.gov.ec/portal/page?\\_pageid=37.34898&\\_dad=portal&\\_schema=PORTAL](http://mef.gov.ec/portal/page?_pageid=37.34898&_dad=portal&_schema=PORTAL)

<sup>6</sup> See: [http://www.elcomercio.com/noticiaEC.asp?id\\_noticia=218399&id\\_seccion=6](http://www.elcomercio.com/noticiaEC.asp?id_noticia=218399&id_seccion=6)

<sup>7</sup> Ugarteche, O; Y. Kitazawa and P. Dembinski. *Beyond Bretton Woods Conference*. UNAM Mexico DF, 15-17 October 2008. See: <http://www.obela.org/conferencia>

The construction of the European monetary system took six years in its first efforts, however, reasons to speed up in Latin America are evident, in light of the South to North transfers and the global financial crisis. For this reason, the Bank of the South should be born as soon as possible, together with its sister institution, the South Stabilization Fund that seems to be taking form with the recent agreement in Basle of Mexican, Brazilian, Argentine and Chilean central banks to jointly manage the international reserves.

Let's look at the counter-argument: What would happen if the Bank of the South was not consolidated due to petty differences between member countries and an inadequate working method? This would enormously benefit Northern countries, which would keep receiving Latin American savings. This would also greatly jeopardize Latin American people, who would continue to live in economic instability, precarious employment, food insecurity and limited social progress.

For these reasons, Latin American countries must urgently try to reach a consensus: it is better to have an imperfect bank than no bank at all. However, if it is a mere replica of the IFIs —of the current multilateral development bank model— Latin America would lose a historic opportunity, important not only for the region but for many other Southern countries that are watching this experience with hope. The Bank of the South must go ahead.

*New York and Mexico City, November 2008*

## **BANK OF THE SOUTH FOUNDING CHARTER**

[UNOFFICIAL TRANSLATION]

Presidents Nestor Carlos Kirchner, Evo Morales Ayma, Luis Inácio Lula da Silva, Rafael Correa Delgado, Nicanor Duarte Frutos, Tabaré Vázquez Rosas and Hugo Rafael Chávez Frías, in representation of the peoples of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela, met for the purpose of promoting the social and economic integration of the nations of UNASUR, and guided by the interest to promote the principles of complementary, solidarity, cooperation and respect to sovereignty.

Considering:

That the process of creation of the Bank of the South, as essential and primary institution of the new regional financial architecture, has advanced by virtue of a common commitment, that finds among its antecedents: the meetings of MERCOSUR and the technical working group of UNASUR during 2006; the Memorandums of Understanding for the constitution of the Bank of the South of February and March 2007; the Quito Declaration (3 May 2007); the Asuncion Declaration (22 May 2007); and the Rio de Janeiro Declaration (8 October 2007).

Considering:

That South American integration should be focused on the promotion of the social and economic development of the peoples in the region, redressing asymmetries, reducing poverty and social exclusion, and promoting the convergence and complementary of economic integration processes.

Considering:

That the financial and economic structures of South America show limitations in their financial markets, causing domestic savings to flow toward more developed economies instead of being invested in regional projects, when such resources could be used to increase liquidity in the region, to revitalize investments, to redress asymmetries,

to develop infrastructure, to promote employment and to activate a virtuous development cycle, essential for the social, economic and political transformation of the region.

Considering:

That in South America there is a need to improve growth rates, to strengthen its internal markets, and to improve substantially the standards of living of its population, in order to change migratory flows, to find social justice and to reduce income inequality, in the context of a virtuous cycle of sustainable development.

Considering:

That it is essential to design a new regional financial architecture to strengthen the role of the South American continent in a world characterized by commercial and financial globalization, to consolidate the autonomy of regional economies, to continue mitigating external vulnerability, to promote greater stability and productive systems that prioritize the basic needs of our people.

Considering:

That the revitalizing drive of productive capacities that our nations need will require a new regional financial architecture that has in its center an institution dedicated exclusively to the promotion of regional development, to be constituted under the sovereign control of South American countries.

**AGREE THAT:**

**FIRST:** To create a development bank as a legal entity under international public law called "BANK OF THE SOUTH". Its objectives will be to finance the social and economic development of the countries of the Union of South American Nations (UNASUR) making use of regional savings of members of the Bank, to strengthen regional integration, to reduce asymmetries and to promote an equitable distribution of investments within Bank member countries.

**SECOND:** The Bank of the South will have its main headquarters in the city of Caracas, Bolivarian Republic of Venezuela, with delegations in the city of Buenos Aires, Republic of Argentina, and in La Paz, Republic of Bolivia.

THIRD: For the benefit of its South American member countries, the Bank will, among others: finance development projects in key sectors of the economy, with a focus to improve competitiveness and technological and scientific development, adding value and prioritizing the use of commodities of its member countries; finance social sector projects to reduce poverty and social exclusion; finance projects to strengthen South American integration; as well as to create and to administer special funds for social solidarity and disaster relief, by providing passive and active financial operations and services.

FOURTH: The Bank of the South should be self-sustaining and be governed according to professional criteria of financial efficiency to guarantee that its interventions will not result in additional expenditures but in generating new resources to be reinvested in its member countries.

FIFTH: The management of the Bank of the South will have an egalitarian representation for each one of the South American countries that constitute it, under a democratic system of operations.

SIXTH: The Ministers of Economy and/or Finance of the States signatories will adopt the necessary measures to conclude, within 60 days from the firm of this Founding Charter, the elaboration of the Constituent Agreement of the Bank of the South.

SEVENTH: All UNASUR nations are invited to participate in the process of constitution of the Bank of the South and to subscribe its Constituent Agreement.

This Founding Charter is presented in eight copies, seven in Spanish language and one in Portuguese language, in the city of Buenos Aires, Republic Argentina, on 9 December 2007.

*[Signed by the Presidents of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela]*