Sistema Económico
Latinoamericano y del Caribe

Latin American and Caribbean
Economic System

Sistema Econômico
Latino-Americano e do Caribe

Système Economique
Latinoaméricain et Caribéen

Status of the reform of the international monetary and financial architecture and the progresses towards a regional monetary and financial architecture for Latin America and the Caribbean

Intra-Regional Relations

Regional Meeting: Analyses and Proposals for Strengthening the Regional Financial Architecture and Monetary and Financial Cooperation in Latin America and the Caribbean
Caracas, Venezuela
27 and 28 February 2012
SP/RRAPCAFRCMFALC/DT N° 2-12/Rev. 1

Printed in the Permanent Secretariat of SELA, Caracas, Venezuela.

C O N T E N T S

F O R E W O R D

This study has been prepared in compliance with Activity I.1.3., "Analysis and preparation of policy proposals for the consolidation of a regional financial architecture" of the Work Programme of the Permanent Secretariat of SELA for 2012, and will serve as the basis for the Regional Meeting on this subject scheduled to be held at the headquarters of SELA on 27 and 28 February 2012.

The first chapter reviews the current situation of the global economy and the main elements of the reforms that have been applied on the international monetary and financial architecture thus far.

The second section addresses the problems of the current international monetary and financial architecture, with special emphasis on the various indicators to measure the impact of the global downturn on the production performance, the stock exchanges and the foreign exchange rates in the major economies in the region.

The third chapter follows up the recent performance of the monetary and financial cooperation mechanisms that have been created in the region over the last few years: the Local Currencies Payments System in MERCOSUR, the Bank of the South, the Regional Clearance Unitary System and the Bank of ALBA.

Finally, the document presents a series of conclusions and recommendations, through a series of elements that point to the progress towards a regional financial and monetary architecture for Latin America and the Caribbean.

The Permanent Secretary wishes to express its gratitude and recognition to the consultants: Dr. Jaime Estay and Mr. Otto Carlos Vazquez, for their dedication in preparing this study.

EXECUTIVE SUMMARY

This study focuses on the status of the reform of the international monetary and financial architecture and the progress made toward a regional monetary and financial architecture for Latin America and the Caribbean (LAC).

After the introduction, Chapter II reviews the current situation of the global economy and the main elements of the reforms that have been applied on the international monetary and financial architecture thus far. Regarding the global economic scenario, this section highlights the series of downward revisions for 2012 that have occurred recently, and the deterioration evidenced during 2011 in the levels of economic activity, particularly in developed countries and in their stock markets, as well as the high levels of public and private debt and public account imbalances in the Euro zone, compounded by the high unemployment rates in that region. With respect to the reforms of the international monetary and financial architecture, an initial review is made of what happened in the U.S. and Europe, and then the study focuses on the agreements and concrete actions as regards this reform in the Group of 20, comparing them with the proposals raised in the context of the United Nations General Assembly, and identifying relevant problems on which there are major disagreements in terms of the inclusion and treatment.

Chapter III deals with how Latin America and the Caribbean have confronted the problems of the international financial and monetary architecture. The first part of this chapter presents various indicators of the impact that the global deterioration is having on production, the performance of stock markets and exchange rates of major economies in the region. The second part reviews the positions of the governments of Latin America and the Caribbean about the international monetary and financial order in various fora, such as the Latin American and Caribbean Economic System (SELA), the Community of Latin American and Caribbean States (CELAC), the United Nations General Assembly, various monetary and financial institutions, as well as integration and cooperation mechanisms in the region. The third part of this chapter follows up the recent performance of monetary and financial cooperation mechanisms. On the one hand, it reviews developments in already existing mechanisms such as the Inter-American Development Bank (IDB), the CAF-Development Bank of Latin America, the Latin American Reserve Fund (FLAR) and the Agreement on Reciprocal Payments and Credits of ALADI. On the other hand, it analyzes the performance of those that have been created in the region over the last few years: the Local Currency Payment System (SML), the Bank of the South, the Regional Unitary Clearance System (SUCRE) and the Bank of ALBA.

In Chapter IV, the study concludes by providing a series of elements to make progress towards a regional financial and monetary architecture for Latin America and the Caribbean. Both the current global scenario and the present outlook for the region point to the need to pursue, as soon as possible, the agreements and actions that allow for the construction of said architecture. This section identifies the main contents that should be incorporated into three pillars: a Regional Contingency Fund, a Regional Monetary Area and a Regional Development Bank. Finally, the study raises the possibility of constructing those three pillars by taking advantage of the experience gained and the mechanisms applied by the monetary and financial institutions existing in the region.

I. INTRODUCTION

During 2011, and until the date when this document was completed, in January 2011, the international economic and financial outlook has deteriorated quickly, following a partial rebound in 2010 from the slowdown recorded in 2008-2009. Such deterioration, as well as the preceding slowdown, has been largely influenced by a number of financial issues, particularly some serious imbalances in public finance, both in the United States and especially in some Euro Zone countries. In this scenario, prospects are increasingly pessimistic regarding the future economic performance in such countries, and there is the possibility that their performance may lead to a new global economic slowdown.

In this context, some progress has been made regarding a number of actions agreed to by the G20 as part of the guidelines to redefine the international monetary and financial architecture. However, such guidelines were apparently inadequate and the economic and financial situation has further deteriorated recently, leading to a scenario where the multilateral strategies have failed to solve the problems and the international monetary and financial chaos continues to prevail.

This situation obviously affects Latin America and the Caribbean. Therefore, the region has strongly called for a significantly different international monetary and financial order, and intensified efforts to prevent serious problems and imbalances similar to those having an impact on the world. Latin America and the Caribbean have focused on definitions and actions to pave the way to adequate monetary and financial conditions that may lead to development.

Clearly, achieving such adequate monetary and financial conditions should be a top priority on the agenda of the Latin American and Caribbean countries. Despite difficulties, there are clear signals that such a goal has become top priority on the regional agenda. The various clearinghouse mechanisms, the creation or strengthening of financial institutions of different types and with different scopes to underpin development, the progress towards subregional or regional monetary schemes, among other initiatives, are clearly pointing in the right direction. While they have been emerging or consolidating in the countries of the region, it is an inescapable priority to deepen them and make them advance at a faster pace.

II. CURRENT STATUS OF THE GLOBAL CRISIS AND REFORM OF THE INTERNATIONAL FINANCIAL AND MONETARY ARCHITECTURE

1.- Continuing global crisis

The current situation of the global economy and international financial markets was assessed at the annual joint meeting of the World Bank and the International Monetary Fund, held from 23 to 25 September 2011. The assessment found that serious economic problems are lingering and that serious uncertainties prevail concerning the immediate future. The meeting did not rule out the possibility of a serious economic slowdown and the re-emergence of a global economic deterioration similar to that hitting the world in 2009.

Thus, the two main documents published by the IMF during the annual joint meeting focused on uncertainties as follows[1]:

- On the one hand, in its Executive Summary, the *Global Financial Stability Report* opens with the following statement: "Financial stability risks have increased substantially over the past few months. Weaker growth prospects adversely affect both public and private balance sheets and heighten the challenge of coping with heavy debt burdens. Public balance sheets in many advanced economies are highly vulnerable to rising financing costs, in part owing to the transfer of private risk to the public sector." [FMI, 2011a: 1]

- On the other hand, the Foreword of the *World Economic Outlook* highlights: "Relative to our previous World Economic Outlook last April, the economic recovery has become much more uncertain. The world economy suffers from the confluence of two adverse developments. The first is a much slower recovery in advanced economies since the beginning of the year, a development we largely failed to perceive as it was happening. The second is a large increase in fiscal and financial uncertainty, which has been particularly pronounced since August. Each of these developments is worrisome—their combination and their interactions more so." [FMI, 2011: XIII]

In its *World Economic Outlook Update*, published in January 2012, under the title "*Global Recovery Stalls, Downside Risks Intensify*" the IMF states that "The global recovery is threatened by intensifying strains in the euro area and fragilities elsewhere. Financial conditions have deteriorated, growth prospects have dimmed, and downside risks have escalated." Furthermore, it adds: "Global growth prospects dimmed and risks sharply escalated during the fourth quarter of 2011, as the euro area crisis entered a perilous new phase" [FMI, 2012: 1]

In line with the foregoing, and as shown in the charts below, in said document the IMF revised down its production growth forecast for 2011 and 2012, for the world, and for developed and developing countries, including Latin America and the Caribbean.

[1] The World Bank-IMF Development Committee, in the final communiqué issued following the 24 September 2011 meeting, highlighted: "We note with concern the turbulence in global financial markets and widespread fiscal strains, which put at risk the robustness and sustainability of global economic recovery. [...] While developing countries have been the main contributors to recent global economic growth, the economic crisis has reduced their capacity to withstand further shocks." [Development Committee, 2011: 1].

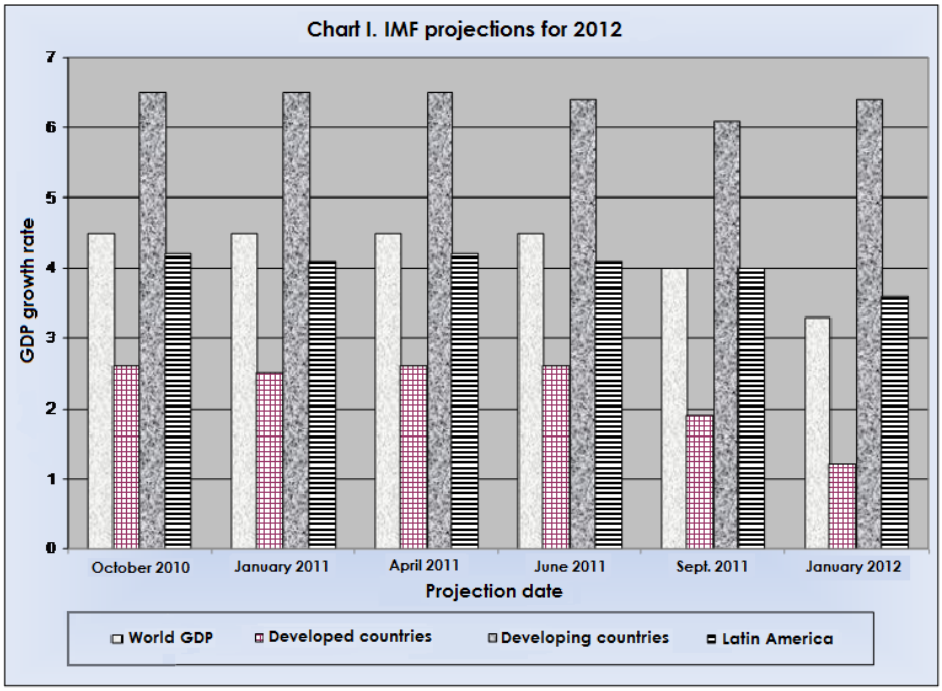


Chart 1 shows that after several prior projections for 2012 that pointed to stability and even a slight growth, in September 2011 and January 1012, those forecasts were revised substantially down, particularly for developed countries. For this latter group of countries, the prior growth forecast for 2011, made in June 2011, was 2.6%. But three months later it was cut down to 1.9%, and in January 2012 it was 1.2%. This is less than half the growth rate that was projected seven month earlier.

In this connection, in the report *World Economic Situation and Prospects*, published in January 2012 by the United Nations Department of Economic and Social Affairs (UN/DESA, 2012), forecasts of Gross Domestic Product (GDP) growth for 2012 are considerably lower than those issued by the IMF that same month. According to UN/DESA report, by 2012, the world economy will grow barely 2.6%, whereas the IMF forecast is 3.3%. For the Euro Area, UN/DESA's growth forecast for 2012 is 0.4% and the IMF's is -0.5%.

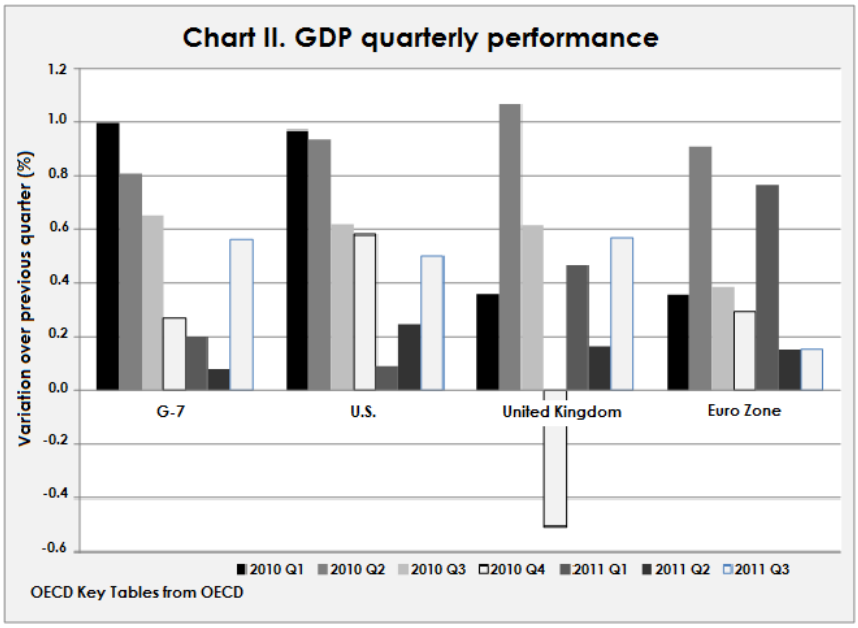
In the UN/DESA report, the opening section of the Executive Summary, entitled "The world economy is teetering on the brink of another major downturn" and its first paragraph reads as follows:

> "Following two years of anaemic and uneven recovery from the global financial crisis, the world economy is teetering on the brink of another major downturn. Output growth has already slowed considerably during 2011, especially in the developed countries. The baseline forecast foresees continued anaemic growth during 2012 and 2013. Such growth is far from sufficient to deal with the continued jobs crises in most developed economies and will drag down income growth in developing countries. Even this sombre outlook may be too optimistic. A serious, renewed global downturn is looming because of persistent weaknesses in the major developed economies related to problems left unresolved in the aftermath of the Great Recession of 2008-2009." [UN/DESA: 2012: 1]

As a matter of fact, in recent times there is growing evidence of serious problems, especially in some developed countries, where economic activity has rebounded very

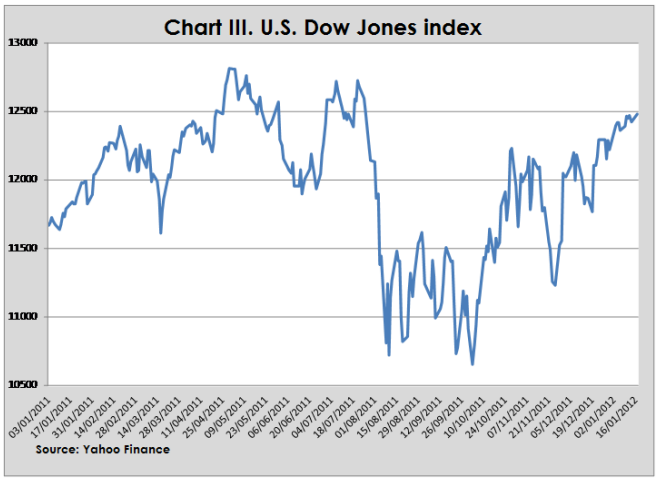
slowly after the 2008-2009 collapse. This has given way to a growing economic slowdown, which has been accompanied by sharp falls in stock markets, with high levels of public and private debt, public account imbalances and high unemployment rates.

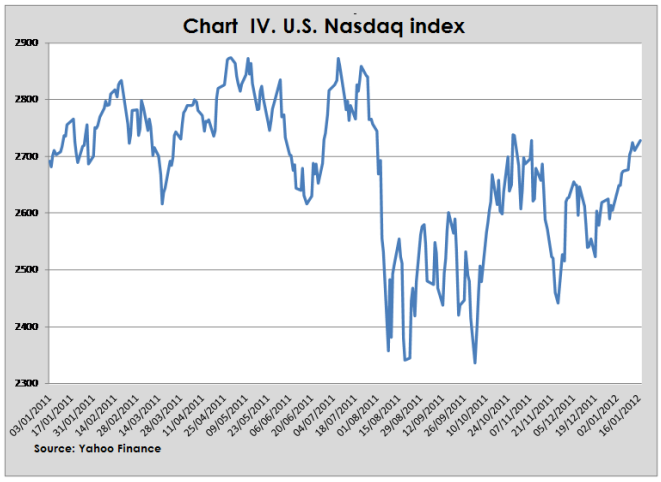
Chart II shows the economic slowdown, with quarterly figures taken from the Organization for Economic Cooperation and Development (OECD) for 2010 and the first three quarters of 2011. The chart clearly mirrors the slowdown in the Group of Seven, the United States, the United Kingdom and the Euro Zone, where growth has decreased dramatically over 2010 and hit the lowest level mainly in the Euro Zone.

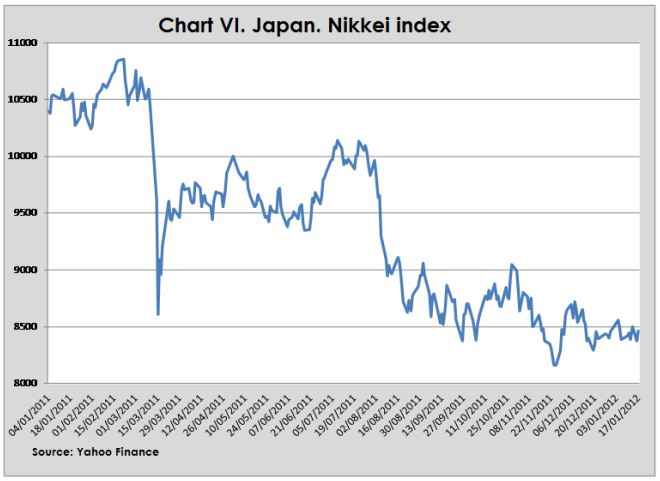


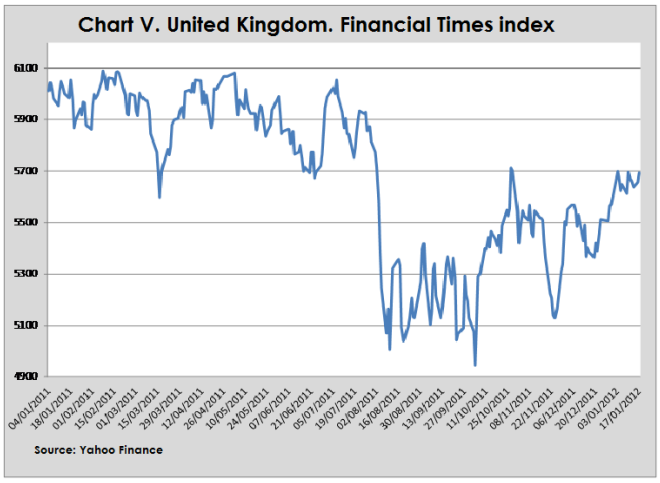
Regarding stock markets, the performance of the Dow Jones, Nasdaq, Financial Times and Nikkei indices between January and January 2012 is shown in the four charts below.

All of those indices – including Latin American benchmark indices, which will be presented below – recorded substantial yet short-lived falls in mid March 2011. Such decline was particularly serious for the Nikkei index. Subsequently, there was a period of significant fluctuations and declines between May and June. A substantial plunge was recorded from the end of July to the first half of August – which was also recorded in Latin American stock exchanges, as will be discussed later on – to the extent that in such period the Dow Jones index tumbled from 12724 to 10720 (21 July and 10 August, respectively); the Nasdaq index fell from 2859 to 2358 (22 July and 8 August, respectively), the Financial Times Index fell from 5935-5007 (22 July and 10 August, respectively) and the Nikkei Index plunged from 10132 to 8944 (22 July and 9 August, respectively). All of these indices remained low and with substantial fluctuations in the following weeks, and started to partially recover in October – except for the Nikkei Index, which continued to show a downward trend.









Regarding the levels of private and public debt and public finance imbalance, Table 1 shows those variables, as well as bank leverage levels for the United States, Japan, the Euro Zone and several European countries.

As shown, for almost all countries included in the table, and for the whole Euro Zone, there are notoriously high indices in one or more of the variables considered. However, there are significant differences. For instance, Germany recorded a high index in bank leverage only, while Greece, Ireland, Italy, Portugal and Spain recorded very high indices in a larger number of variables. Overall, this mirrors not only large imbalances and high debt levels in public finances, but also high debts in households, companies and financial institutions.

Therefore, the so-called "sovereign debt crisis" hitting the Euro Zone – and particularly the countries mentioned above – become the main source of concern in 2011. However, such crisis has come hand in hand with high levels of borrowing by the remaining economic actors, as well as low economic growth rates, as mentioned above. It is well known that in several of these Euro Zone countries the strategies in place have focused on financial aids that have been conditional on the correction of the fiscal deficit. This has led to severe tightening programmes whose implementation is having a very high cost in terms of affected people and rising levels of discomfort and rejection.

Table 1
Debt and banking leverage in selected advanced economies
(in terms of percentage of GDP in 2011, unless otherwise stated)

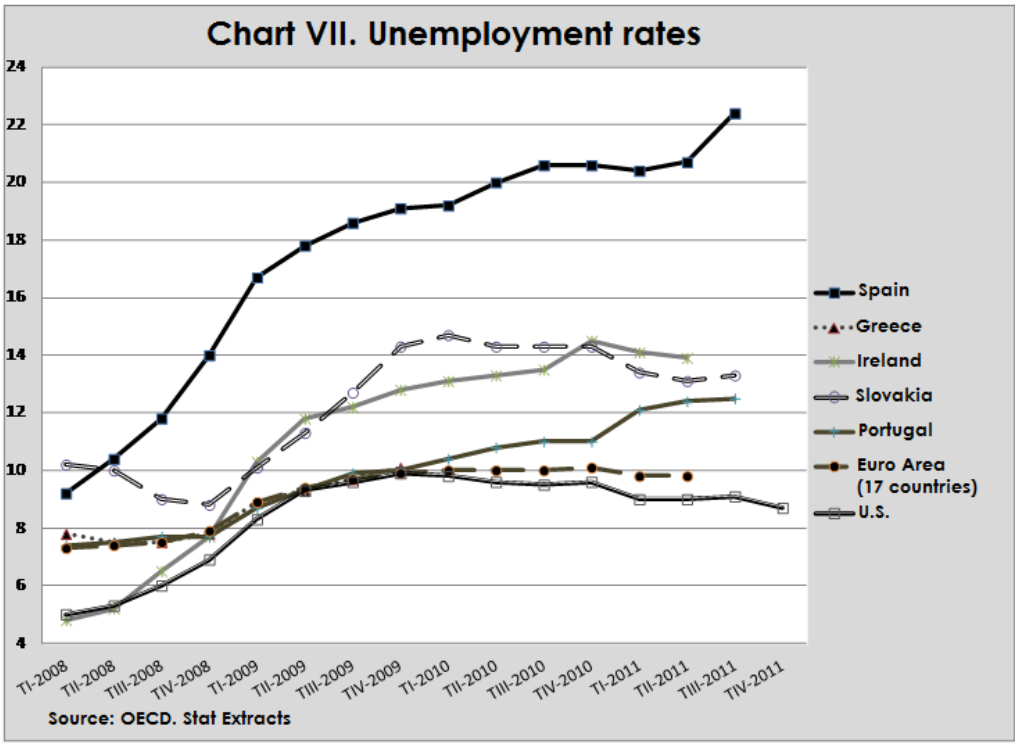
	U.S.	Japan	United Kingdom	Canada	Euro Zone	Belgium	France	Germany	Greece	Ireland	Italy	Portugal	Spain
Government gross debt	100	233	81	84	89	95	87	83	166	109	121	106	67
Government net debt	73	131	73	35	69	80	81	57	n.a.	99	100	102	56
Primary balance	-8	-8.9	-5.6	-3.7	-1.5	-0.3	-3.4	0.4	-1.3	-6.8	0.5	-1.9	-4.4
Government general balance sheet	-10.1	-8.9	-8.7	-4.9	-4.2	-3.6	-5.6	-2.1	-7.5	-10.1	-3.9	-5.9	-6.3
Households' gross debt	92	77	101	n.a.	70	53	61	60	71	123	50	106	87
Households' net debt	-232	-236	-184	n.a.	-126	-195	-137	-132	-57	-67	-178	-123	-78
Non-financial corporations' gross debt	90	143	118	n.a.	138	175	150	80	74	245	110	149	192
Non-financial corporations' debt-equity ratio (%)	92	181	83	70	106	48	69	92	182	90	125	136	134
Financial institutions' gross debt	94	188	547	n.a.	143	112	151	98	22	689	96	61	111
Banking leverage	12	24	24	18	26	30	26	32	17	18	20	17	19
Bank loans to the public sector	8	80	9	19	n.a.	23	17	23	28	25	32	24	24
Economy's gross foreign liabilities	151	67	607	98	169	390	264	200	202	1,680	140	284	212
Economy's net foreign liabilities	16	-54	11	12	13	-40	10	-41	104	98	26	106	88
Government foreign debt	30	15	19	16	25	58	50	41	91	61	51	53	28
Banking leverage (Tier 1)*	9	21	20	18	n.a.	21	23	22	17	20	11	16	16

* Banking leverage based on basic capital (Tier 1 or level 1) of banks.
Source: IMF [2011a: 5], except for the Government general balance sheet, whose source is the OECD, http://www.oecd.org/document/0,3746,en_2649_201185_46462759_1_1_1_1,00.html

Regarding the priority given to fiscal tightening, particularly in the European countries that have been most affected by the sovereign debt crisis, note that the latest *Trade and Development Report* published by the UNCTAD concludes the following:

> "The current obsession with fiscal tightening in many countries is misguided, as it risks tackling the symptoms of the problem while leaving the basic causes unchanged. In virtually all countries, the fiscal deficit has been a consequence of the global financial crisis, and not a cause. Few countries ran large fiscal deficits before the crisis; indeed, some were even in surplus. Today's fiscal deficits are an inevitable outcome of automatic stabilizers and measures aimed at countering the effects of the crisis, including policy driven stimulus packages that involved increased government spending, lower tax rates and public funded bailouts of financial institutions. Empirical evidence from different countries and regions shows that the crisis was caused by underlying changes in national competitiveness and private sector imbalances, which were closely related to a malfunctioning financial sector in developed countries. These fundamental causes are not being addressed in the current focus on fiscal tightening in some countries." UNCTAD [2011: 52][2]

Chart VII provides information regarding unemployment rates in the G-7, the United States, the Euro Zone and some countries in that area.



[2] The same document further adds: "With regard to today's fiscal deficits and public debt, empirical evidence shows that, even though these constitute a relatively high proportion of GDP in some parts of the world – especially in some developed countries – in many countries they are not large by historical standards. Even more significantly, the data show that in all regions of the world, interest payments on the public debt as a percentage of GDP were lower in 2010 than they have been at any time in the past 13 years. With a few extreme exceptions, interest rates have mostly remained low, even though the size of the public debt has increased." UNCTAD [2011: 52]

Chart VII shows that, after climbing quickly in 2008-2010, unemployment rates have remained high in 2011. In some cases, they have even soared slightly over 2010. In Table I, the countries with the highest unemployment rates are Spain, where the jobless rate in the third quarter of 2011 exceeded 20%. In the Euro Zone, overall unemployment in 2011 has been around 10%.

In this regard, in its report on *Global Employment Trends 2012,* prepared by the International Labour Organization (ILO) in January 2012, it states: "The world enters the year 2012 facing a serious jobs challenge and widespread decent work deficits. After three years of continuous crisis conditions in global labour markets and against the prospect of a further deterioration of economic activity, there is a backlog of global unemployment of 200 million – an increase of 27 million since the start of the crisis." In the next paragraph, referring to youth unemployment, the report indicates that "in 2011, 74.8 million youth aged 15–24 were unemployed, an increase of more than 4 million since 2007. The global youth unemployment rate, at 12.7 per cent, remains a full percentage point higher than the pre-crisis level. Globally, young people are nearly three times as likely as adults to be unemployed." [ILO, 2012: 9][3]

In short, the summary above shows significant deterioration of the current global economic situation, which, although so far is particularly hitting Europe, also affects the United States, where minimum economic growth despite minimum interest rates comes hand in hand with serious long-standing yet rapidly growing structural imbalances in the public and external accounts of the economy. This situation, besides generating serious uncertainties about what will happen on a systemic level in the immediate future, makes it necessary to address current problems as a continuation of the 2008-2009 crisis. From that viewpoint, it is therefore necessary to ascertain the effectiveness of the domestic and international measures that have been taken to address economic deterioration and its causes.

2.- Responses to the crisis and current status of the reforms to the international monetary and financial order

Before focusing on the implementation of reforms to the international monetary and financial order, it is interesting to note that in all major countries, particularly in the United States and the European Union, which until now have been the starting points and yet the hardest hit by the global economic downturn, the above mentioned initiatives to change the regulations of financial markets have been implemented. However, such initiatives have not proved to be successful yet.

With respect to the United States, the most significant development was the approval and enactment in July 2010 of the *Financial Reform Act* (officially called "Restoring American Financial Stability Act of 2010"), and the drafting of more than 500 regulations for definition and enforcement thereof. The five objectives of the Financial Reform listed in the Act,[4] according to the Department of the Treasury of the United States [2010], are: 1)

[3] A previous report, prepared by the ILO and the OECD for the Meeting of Labour Ministers of the G-20 held on 26 and 27 September 2011, highlights the high incidence of long-term unemployment in the following terms: "In the first quarter of 2011, one third or more of the jobless people had been unemployed for over a year in France (40.5%), Germany (47.3%), Italy (50%), Japan (40.2%), South Africa (68.3%) and Spain (40.5%). Among the G-20 countries for which data are available, the incidence of long-term unemployment increased more rapidly in Canada, Spain, the UK and particularly in the United States, where the share of long-term unemployment tripled to reach a record high in early 2011." [ILO / OECD, 2011: 4]

[4] The text of the law, which spans over 1,500 pages, consists of a total of 12 titles as follows: I) Financial Stability; II) Orderly Liquidation Authority, III) Transfer of Powers to the Comptroller of the Currency, the Corporation, and the

To promote strong monitoring and regulation of financial firms; 2) To establish comprehensive regulations on financial markets; 3) To protect consumers and investors from financial abuse; 4) To provide the government with the necessary tools to manage financial crises; and 5) To enhance international regulatory standards and improve international cooperation.

The main contents of the Financial Reform Act, according to the summary prepared by the Senate Committee on Banking, Housing and Urban Affairs [2010], are as follows:

- "Consumer Protections with Authority and Independence: Creates a new independent watchdog, housed at the Federal Reserve, with the authority to ensure American consumers get the clear, accurate information they need to shop for mortgages, credit cards, and other financial products, and protect them from hidden fees, abusive terms, and deceptive practices.
- "Ends Too Big to Fail: Ends the possibility that taxpayers will be asked to write a check to bail out financial firms that threaten the economy by: creating a safe way to liquidate failed financial firms; imposing tough new capital and leverage requirements that make it undesirable to get too big; updating the Fed's authority to allow system-wide support but no longer prop up individual firms; and establishing rigorous standards and supervision to protect the economy and American consumers, investors and businesses.
- "Early Warning System: Creates a council to identify and address systemic risks posed by large, complex companies, products, and activities before they threaten the stability of the economy.
- "Transparency & Accountability for Exotic Instruments: Eliminates loopholes that allow risky and abusive practices to go on unnoticed and unregulated -including loopholes for over-the-counter derivatives, asset-backed securities, hedge funds, mortgage brokers and payday lenders.
- "Federal Bank Supervision: Streamlines bank supervision to create clarity and accountability. Protects the dual banking system that supports community banks.
- "Executive Compensation and Corporate Governance: Provides shareholders with a say on pay and corporate affairs with a non-binding vote on executive compensation.
- "Protects Investors: Provides tough new rules for transparency and accountability for credit rating agencies to protect investors and businesses.
- "Enforces Regulations on the Books: Strengthens oversight and empowers regulators to aggressively pursue financial fraud, conflicts of interest and manipulation of the system that benefit special interests at the expense of American families and businesses."

Board of Governors; IV) Regulation of Advisers to Hedge Funds and others; V) Insurance; VI) Improvements to Regulation of Bank and Savings Association Holding Companies and Depository Institutions; VII) Improvements to Regulation of over-the-counter Derivatives Markets; VIII) Payment, Clearing and Settlement Supervision; IX) Investor Protections and Improvements to the Regulation of Securities; X) Bureau of Consumer Financial Protection; XI) Federal Reserve System Provisions; XII) Improving Access to Financial Institutions.

Further, the Act includes the so-called “Volcker Rule” which prohibits banks to invest proprietary resources in speculative operations through hedge funds and private equity funds. Such operations were restricted to 3 percent of proprietary trading. Further, banks are not allowed to engage in proprietary trading that is not at the behest of their clients.

Regarding the mechanisms of both financial regulation and supervision in Europe, based on the recommendations delivered in February 2009 by the High-Level Group chaired by Jacques de Larosière [Larosiere et al, 2009], the European Commission defined an action plan [European Commission, 2009], based on which it has been moving forward in both directions:

- Regarding regulations, according to the related "road map" defined by the European Commission [2010], there is a wide range of initiatives to increase and enhance regulations, which are at various stages of approval and implementation and focus on the following general topics:
    - Transparency, with directives related to funds for collective investment in transferable securities and alternative investment money managers, as well as proposals for action on short selling, naked sales, derivatives, access to minimum banking and financial collateral agreements, among others.
    - Responsibility, including the revision of the directive on capital requirements and the modification of the rules relating to securitization, top limits on large exposures, supervisory colleges, liquidity risk management and capital quality, as well as a review of the directives on deposit guarantee schemes and on the investors’ compensation scheme, and proposed changes to the directive on market abuse, among others.
    - Supervision, which includes a package of financial supervision measures, a regulation on the supervision of credit rating agencies and a legislative proposal on packaged retail investment products, among others.
    - Crisis prevention and management, which includes the Green Paper on corporate governance of financial institutions and proposals concerning the legislation on the reform of the corporate governance and crisis management, as well as a proposed revision of the guideline on financial conglomerates, among others.
- With regard to the supervision, in January 2011, a new European Framework for Financial Supervision was set in motion, upon its approval in September 2010. It is a European Systemic Risk Board, chaired by the President of the European Central Bank, the function of which is to ensure that macroeconomic risks are detected at a sufficiently early stage, and warnings and recommendations are issued about them, and an European System of Financial Supervisors (ESFS), which includes three sectoral supervisory authorities: the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority.

  On the May 2009 memorandum from the European Commission [2009a], which defines the characteristics of European financial supervision, the following functions are assigned to the ESFS: to establish a single set of harmonized standards, to ensure consistent application of the EU standards, to establish a common supervisory culture and consistent practices in this regard; full supervisory powers with regard to specific entities, to guarantee a coordinated response to crisis situations; to gather micro prudential information, and to assume an international role.

Also with respect to Europe, we should add to the institutions aforementioned, the creation, between May and June of 2010, of the "European Financial Stability Facility" (EFSF) and the "European Financial Stabilization Mechanism" (EFSM) to support the Euro Zone countries struggling to pay the debt. Based on these countries and in light of the aforementioned purpose, a mobilization was established for the amount of 750 billion Euros, of which the IMF would provide 250 billion, the EFSM 60 billion and the EFSF 440 billion.

Both mechanisms were defined as transient and should last until 2013, and based on them, the following, were approved, also with the contribution from the IMF: the Rescue Plan for Ireland (November 28, 2010, for 85 billion Euros) and the Rescue Plan for Portugal (May 16, 2011, for 78 billion Euros). To these plans, we must add the first rescue for Greece (EUR 110 billion, May 2, 2010), which although agreed upon a few days before the creation of the mechanisms, was precisely the one who pushed forward their creation.

The implementation of both mechanisms clearly responded to the deterioration in the ability to pay government debts in the Euro Zone countries and to the goal of avoiding the threat that this posed to the whole Zone. By the same token, ever since the first Greece Rescue Plan, access to the resources of both mechanisms, and, of course, the contributions from the IMF, are also subject to the fact that the State applying for assistance presents a program of economic and financial adjustment, which must be approved by the European Council and will be recorded in a memorandum. The compliance with the program will thereafter be verified as a requirement to access the different sections of the aid granted.[5]

In all cases, the adjustment programs have included measures such as tax increases, freezing the salaries of civil servants, reduction of unemployment benefits and of the highest pensions, privatization of enterprises, cuts in health and education, and suspension of large public works. All of the above has given rise to both questions about the contractive nature of the measures implemented and about important manifestations of rejection to the social impact said measures are having.

In response to the continuation and worsening of the sovereign debt problems, in 2011 the European Council made two agreements regarding the EFSF and EFSM:

- On the one hand, in March 2011, the EC agreed to establish a *European Stabilization Mechanism* (ESM), which will assume the figure of an intergovernmental body, will have a permanent character – for which the Lisbon Treaty will be reformed – and will become operational upon completion of the validity of the two mechanisms, on 01

[5] In this regard, the section of the "Procedure of the Regulations which registered the creation of EFSM by the Council of the European Union [2010], establishes that "The Member State requesting financial assistance from the Union shall assess its financial needs with the Commission, in relation to the European Central Bank (ECB), and submit a draft program of economic and financial adjustment to the Commission and the Economic and Financial Committee". It further defines that the granting of the aid shall be subject to the approval of said program and to the definition of a memorandum of agreement "detailing the economic policy conditions set by the Council". Furthermore, "the Commission shall verify at regular intervals whether the economic policy of the recipient Member State is consistent with its adjustment program and the conditions established by the Council".

C[6] In this regard, a recent paper by the European Commission [2011th: 6] states: "Once the treaty is ratified by all participating Member States, the ESM will be able to provide financial assistance to countries facing difficulties to finance their debt in the financial markets, subject to strict compliance requirements." And further on it states [2011: 22]: "All access to financial assistance from the ESM will be provided on the basis of strict policy conditionality under a macroeconomic adjustment program and a rigorous analysis of public debt sustainability, which will be conducted by the Commission together with the IMF and in coordination with the ECB.

July 2013, with an evaluation of its operation and results in 2016. The ESM will be provided with a fund with resources from the European Central Bank and the governments of 700,000 million Euros, with effective loan capacity amounting to 500,000 million, and the participation in it of the IMF and the private sector is envisaged, maintaining for its operation the application of strict criteria that must be met by the beneficiary countries.[6]

- On the other hand, on 21 July 2011, the Heads of State and Government of the Euro Zone and the EU institutions agreed to modify the operation of both mechanisms as follows: "In order to improve the effectiveness of the EFSF and the EFSM and tackling the spread, we agreed to increase their flexibility, with the appropriate conditions, enabling them to: act on the basis of a precautionary program; finance the recapitalization of financial institutions through loans to governments, even in countries not subject to the program; intervene in secondary markets on the basis of an ECB analysis that recognizes the existence of exceptional circumstances in the financial markets and financial stability risks, as well as on the basis of a decision by mutual agreement of the Member States of the EFSF / EFSM to prevent the spread." [European Council, 2011: 3]

  On that occasion, an agreement was reached on a second rescue program for Greece, for a total of US$ 158.6 billion, of which US$ 109 billion will come from European and International Monetary Fund (IMF) loans and US$ 49.6 billion from Greece's private creditors. Its goal is to "decisively improve the sustainability of debt and the refinancing profile of Greece"; and for that purpose, low interest rates and broad time expiration shall be applied. In addition, the European Council stated: "We shall monitor very closely the rigorous implementation of the program, based on the periodic assessment of the Commission in conjunction with the ECB and the IMF." [European Council, 2011]

- Furthermore, in December 2011, the European Council agreed to increase financial resources to address the problems of a growing number of member countries, allocating US$ 200 billion for the IMF to aid those countries. The Council also agreed to speed up the entry into force of the rescue fund of the European Stabilization Mechanism and bring it forward to 1 July 2012 instead of July 2013.[7]

Along with these decisions as regards the mechanisms to support debt-ridden countries, the European Council adopted the *Euro Plus Pact* at a meeting held on 24 and 25 March 2011. Since then, the pact has been the subject of strong criticism by various sectors in Europe, because it not only formalizes and replicates the contents of the rescue plans that were already underway, but also implies long-term constraints – even at the constitutional level – to the exercise of national economic policies, particularly public spending as a means of recovery.

According to the conclusions of the meeting held by the European Council in March 2011, with the *Euro Plus Pact* – which was approved by the Euro Zone countries and endorsed by Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania – "will further strengthen the economic pillar of the EU and achieve a new quality of economic policy

[7] However, this was followed by Standard & Poor's decision, on Friday 13 January 2012, to lower the credit rating of nine countries in the Euro Zone, decreasing by one notch the ratings of France, Austria, Malta, Slovakia and Slovenia, and by two notches those of Italy, Spain, Portugal and Cyprus. Of course, the immediate precedent of these cuts was the reduction that the credit rating agency had applied to the U.S. five months earlier, on 5 August 2011.

coordination, with the objective of improving competitiveness and thereby leading to a higher degree of convergence reinforcing our social market economy." Moreover, "the Member States that have signed up to the Pact are committed, on the basis of the indicators and principles it contains, to announce a set of concrete actions to be achieved within the next twelve months." [European Council, 2011: 5]

As part of the agreement on the *Euro Plus Pact*, Annex 1 of the aforementioned document identifies four guiding rules for the pact and a set of "Concrete policy commitments and monitoring", related to the four goals of the pact, which read as follows: [European Council, 2011: 13-20]

- *Foster competitiveness*. Progress will be assessed on the basis of wage and productivity developments and competitiveness adjustment needs, and particular attention will be paid to two areas of reform. On the one hand, "measures to ensure costs developments in line with productivity", which include: "a review of the wage setting arrangements, and, where necessary, the degree of centralization in the bargaining process, and the indexation mechanisms", while ensuring that "wages settlements in the public sector support the competitiveness efforts in the private sector". On the other hand, "measures to increase productivity", which include: "further opening of sheltered sectors," "specific efforts to improve education systems and promote R&D, innovation and infrastructure", and "measures to improve the business environment."

- *Foster employment*. Progress will be assessed on the basis of the following indicators: long term and youth unemployment rates, and labour participation rates. Attention will be paid to "labour market reforms to promote 'flexicurity', reduce undeclared work and increase labour participation"; to "life long learning"; "tax reforms" and measures to "facilitate the participation of second earners in the work force."

- *Enhance the sustainability of public finances.* This includes measures in two areas. On the one hand, "sustainability of pensions, health care and social benefits", by "aligning the pension system to the national demographic situation;" "limiting early retirement schemes and using targeted incentives to employ older workers." On the other hand, the incorporation of EU fiscal rules into national legislation through legal instruments with "a sufficiently strong binding and durable nature."

- *Reinforce financial stability*. Member States commit to putting in place national legislation for "banking resolution". "Strict bank stress tests, coordinated at EU level, will be undertaken on a regular basis." "For each Member State, the level of private debt for banks, households and non-financial firms will be closely monitored."

The Annex also establishes "concrete yearly commitments", according to which "each year participating Member States will agree at the highest level on a set of concrete actions to be achieved within 12 months". It further states that "these commitments will also be reflected in the National Reform Programmes and Stability Programmes submitted each year."

In a meeting held on 23 and 24 June 2011 – i.e. three months after the adoption of the *Euro Plus Pact* – the European Council [2011a] declared that the "Member States participating in the Euro Plus Pact have presented commitments representing over 100 separate measures in total. These commitments constitute a good first step towards achieving the objectives of the Pact and must now be implemented at the national level." Furthermore, it added that participating Member States should ensure "a broader

scope", "a more concrete approach", "a higher degree of ambition" and "a pragmatic coordination of tax policies."

And six months later, at a meeting on 9 December 2011, the European Council agreed "to take more specific and measurable commitments in each of the areas covered by the Pact" [European Council 2011b: 2]. This was accompanied by an agreement – not endorsed by the United Kingdom – as regards a "fiscal rule" according to which the countries' annual structural deficit should not exceed 0.5% of their nominal GDP. Such a rule will also be introduced in Member States' national legal systems at constitutional or equivalent level.

Within the context of the discussions and multilateral agreements on the international monetary and financial architecture, the main body of the field, the G-20, after the two Summits held in 2010, has scheduled the next one for 3 and 4 November in Cannes, France.

In earlier papers of the Permanent Secretariat of SELA ([2010], [2009] and [2009a] the agreements reached by the G-20 in its Summits of 2008, and 2009) have been reviewed in detail, highlighting both those issues related to the international monetary and financial architecture that had already been attached priority and other issues that had not been extensively discussed or had not been addressed at all.

In this regard, it is worth recalling that in those G-20 summits, the financial market reform was the main subject of attention, defining, with respect to it, at the Summit held in Washington on 15 November 2008, a set of five principles and an Action Plan, and a series of measures was associated to each one of these principles [G-20, 2008]:

- Principle 1: "to strengthen transparency and accountability", for which 5 immediate actions and 3 medium-term actions were defined.
- Principle 2: "to improve the regulation", subdivided into "regulatory regimes", "prudential supervision" and "risk management", for which 12 immediate actions were identified and 8 medium-term actions.
- Principle 3: "to promote the integrity of the financial markets", for which 3 immediate actions and 3 medium-term actions were identified.
- Principle 4: "to strengthen international cooperation", for which 2 immediate actions were defined and 2 medium-term actions.
- Principle 5: "to reform the international financial institutions", for which 6 immediate actions and 3 medium-term actions were agreed upon.

By the same token, at the next Summit, held in London on 2 April 2009, to the financial reform principles defined in the previous Summit, agreements were added to increase the resources of the International Financial Institutions (IFIs), and particularly of the IMF, the resources of which increased by a factor of more than four, going from 250,000 million to 1.1 trillion. The announcement of other measures followed suit: the establishment of a Financial Stability Board, as successor to the Financial Stability Forum, but with more members and greater powers; the remodelling of the regulatory systems; the expansion of the regulation and surveillance of all financial institutions, instruments and markets of systemic importance; the strict application of principles on payment and compensation; the improvement of quality, quantity and international consistency of capital in the banking system; measures against non-cooperative jurisdictions, including tax havens;

and expanding the supervision and regulatory registration of Credit Rating Agencies. [G-20, 2009]

In the same way, at the Summit held on 24 and 25 September 2009 in Pittsburgh, U.S., a Progress Report [G-20, 2009b] on the compliance with the agreements reached in the two previous Summits was presented as base document. This Report included 92 points, out of which a significant portion was dedicated to the issues concerning the "Reform of the International Financial Institutions" (24 points) and the "financial Regulation" (56 points).

Furthermore, in the final declaration of that Summit the appointment of the G-20 "as the main forum for our international economic cooperation" was announced; a transfer was established of at least 5% of the voting power of the IMF (and 3% from the voting power of the World Bank) from the "over represented" countries to the emerging and developing economies; and in the Declaration, sections were included referring to "The strengthening of the international financial regulatory system," "The modernization of our global institutions to reflect the current global economy," "The reform of the mandate, mission and governance of the IMF" and "The reform of the mission, mandate and governance of our development banks". [G-20, 2009c]

Compared to the definitions raised and the actions agreed upon on the issue of the reform of financial markets in those three G-20 Summits, in the following two Summits, held in 2010, that topic lost some strength, while still being present. Thus, in the Toronto Summit, the main reference to this reform in the Final Declaration was to identify four pillars for it: "a strong regulatory framework," "an effective supervision," "the resolution of systemic institutions" and "performing international transparency exercises and peer assessments." In addition to this identification, in the Declaration a document entitled "Financial Sector Reform" was included as Annex II. Forty considerations are presented there, grouped into the themes of "capital and liquidity," "more intensive supervision", "resolution of financial institutions," "facing the systemically important financial institutions," "responsibility of the financial sector," "financial market infrastructure and scope of the regulation," "accounting rules," "peer assessment and review" and "other international standards and non-cooperative jurisdictions". [G-20, 2010]

With respect to the Seoul Summit, although in it the subject of the financial markets reform remained present, the main agreements referred to the "Seoul Development Consensus for shared growth" – accompanied by a "multi-annual action Plan for development" – which, according to the Final Declaration of the Summit, "states our commitment to working in partnership with other developing countries and low income countries in particular, by helping them build the capacity to achieve and maximize their growth potential, thus contributing to global rebalancing" [G-20, 2010a]. Regarding the reform of financial markets, this Final Declaration states:

""Today, the Seoul Summit delivers:

- "A modernized IMF that better reflects the changes in the world economy through greater representation of dynamic emerging markets and developing countries. These comprehensive quota and governance reforms, as outlined in the Seoul Summit Document, will enhance the IMF's legitimacy, credibility and effectiveness, making it an even stronger institution for promoting global financial stability and growth

- "Instruments to strengthen the global financial safety nets, which allow countries to cope with financial volatility by providing them with practical tools to overcome sudden reversals of international capital flows.

- "Core elements of a new financial regulatory framework, including bank capital and liquidity standards, as well as measures to better regulate and effectively resolve systemically important financial institutions, complemented by more effective oversight and supervision. This new framework, complemented by other achievements [...], will ensure a more resilient financial system by reining in the past excesses of the financial sector and better serving the needs of our economies.

After the Seoul Summit, the G-20 has met at ministerial level so far in 2011, under the French presidency of the Group: the Ministers of Agriculture in June, the Ministers of Labour and Employment in September and the Ministers of Finance and the central bank governors in February, April and September. In the statements resulting from the three meetings of finance ministers and central bankers, there have been references to the commitments already made on the reform of financial markets, reiterating the commitment to implement such commitments and moving them forward in some respects, as was, for example, the agreement of the February meeting held in Paris relative to the indicators to measure the imbalances present in the countries (balances of the current account balance trade balance, real exchange rates and monetary and fiscal policies)

However, the most relevant aspect throughout these meetings has been the change of tone regarding the global economic scenario, going from a balance in April that said "The global recovery is expanding and is becoming increasingly self-sustaining, with a private demand growth increasingly robust" [Ministers of Finance..., 2011], to a commitment in September of generating responses "to address the new challenges faced by the global economy, especially high because of the tensions of the sovereign debt the fragility of the financial system, the market turmoil, the weakness of the economic growth and the unacceptably high unemployment." [Ministers of Finance..., 2011th].

Such recognition as regards the global economic downturn was evidenced in the G-20 Summit held in Cannes on 3 and 4 November 2011, in which much of the discussions focused on the situation in Greece, as can be seen in the opening paragraph of the Final Declaration of the Summit [G-20, 2011]:

> "Since our last meeting, global recovery has weakened, particularly in advanced countries, leaving unemployment at unacceptable levels. Tensions in the financial markets have increased due mostly to sovereign risks in Europe. Signs of vulnerabilities are appearing in emerging markets. Increased commodity prices have harmed growth and hit the most vulnerable. Exchange rate volatility creates a risk to growth and financial stability. Global imbalances persist. Today, we reaffirm our commitment to work together and we have taken decisions to reinvigorate economic growth, create jobs, ensure financial stability, promote social inclusion and make globalization serve the needs of our people."

The 95-paragraph Final Declaration deals with a variety of issues, including: "fostering employment and social protection"; "building a more stable and resilient international monetary system"; "implementing and deepening financial sector reforms"; "addressing food price volatility and increasing agriculture production and productivity"; "improving

the functioning of energy markets"; "protecting marine environment"; "fostering clean energy, green growth and sustainable development"; "pursuing the fight against climate change"; "avoiding protectionism and reinforcing the multilateral trading system"; "development: investing for global growth"; "intensifying our fight against corruption" and "governance".

The section entitled "implementing and deepening financial sector reforms" states: "We are determined to fulfil the commitment we made in Washington in November 2008 to ensure that all financial markets, products and participants are regulated or subject to oversight as appropriate to their circumstances in an internationally consistent and non-discriminatory way." Furthermore, it reiterates already existing commitments to improve banks' resilience to financial and economic shocks, reform the derivatives markets, discourage compensation practices that lead to excessive risk taking, reduce authorities' and financial institutions' reliance on external credit ratings, and intensify monitoring of financial regulatory reforms.

This section also reiterates the need to make sure that no financial firm is "too big to fail" and that taxpayers should not bear the costs of resolution. It points to the need to ensure enhanced market transparency, both on cash and financial commodity markets, reiterates the fight against tax havens and non cooperative jurisdictions, and reviews the progress made in the fiscal and prudential areas with regard to money laundering and terrorist financing. In addition, it announces the decision to strengthen the Financial Stability Board by giving it a new institutional standing, with legal personality and greater financial autonomy.

In turn, the section entitled "building a more stable and resilient international monetary system" starts by recognizing the need to make adjustments that reflect "the changing economic equilibrium and the emergence of new international currencies", and "to address the challenges created by developments in global liquidity and capital flows volatility" It further adds that "a broader SDR basket will be an important determinant of its attractiveness, and in turn influence its role as a global reserve asset. This will serve as a reference for appropriate reforms." Later on, it states the commitment to "continue working to ensure an appropriate transition towards an IMS which better reflects the increased weight of emerging market economies." It also highlights the agreement "to further strengthen global financial safety nets in which national governments, central banks, regional financial arrangements and international financial institutions will each play a role according to and within their respective mandate." Finally, it underscores the need to strengthen IMF surveillance, making "a call on the IMF to make further progress towards a more integrated, even-handed and effective IMF surveillance", and "to regularly monitor cross-border capital flows and their transmission channels and update capital flow management measures applied by countries."

In addition to the Final Declaration resulting from this recent summit, the G-20 also presented the *Cannes Action Plan for Growth and Jobs*, which is actually made up by two plans that contain the various commitments taken on by the G-20 members. The first one, called "Addressing Short-term Vulnerabilities and Restoring Financial Stability", is a plan "to sustain the near-term recovery, promote growth and restore financial stability in a manner that complements our medium-term reforms." The second one is "a six-point plan to strengthen the medium-term foundations for growth," and envisages the following actions: "(1) commitments to fiscal consolidation; (2) commitments to boost private demand in countries with current account surpluses, and, where appropriate, to rotate demand from the public to the private sector in countries with current account deficits; (3) structural reforms to raise growth and enhance job creation across G-20 members; (4)

reforms to strengthen national/global financial systems; (5) measures to promote open trade and investment, rejecting protectionism in all its forms; and (6) actions to promote development."

Additionally, it is noteworthy that both the *Final Declaration* and the *Communiqué* of the G-20 referred to the possible application of the "Tobin Tax", not exactly assuming such application as a commitment of the Summit,[8] but only "recognizing" the interest of some countries in applying it. Thus, paragraph 83 of the Final Declaration [G-20, 2011] and paragraph 28 of the Communiqué [G-20, 2011b] read as follows: "We acknowledge the initiatives in some of our countries to tax the financial sector for various purposes, including a financial transaction tax, inter alia to support development."

One issue that has been recurrent in both the G-20 meetings as in other areas of debate on the reform of the financial markets is the question of the standards that banking entities should meet with respect to the quality and the minimum requirements of liquidity and capital, and in this respect it is worth mentioning the upcoming implementation of Basel III.

As is well known, Basel III is a set of standards defined by Basel's Committee on Banking Supervision,[9] which acts as a forum for cooperation on banking supervision and attempts to promote and strengthen supervisory and risk management practices by the banking systems.

In the report delivered to the G-20 in October 2010 by the Committee, the main contents of Basel III are presented as follows:

> "Basel III's framework is summarized in the following measures, which have been agreed upon and announced by the Basel Committee and the Governors and Heads of Supervision between July 2009 and September 2010:
>
> - Improving the quality of capital so that banks can better absorb losses while active (going concern) and also when they go into liquidation (gone concern);
> - Increasing the coverage of the capital framework risk, in particular for trading activities, securitizations, exposures to unbalanced funding vehicles and exposures to the risk of counterparty credit through derivatives;
> - Raising the minimum capital requirements, with a minimal ordinary capital increase of 2 to 4.5% and the introduction of a preservation "cushion" of 2.5%, bringing the total common equity required at 7%.
> - Introducing an internationally harmonized leverage ratio to brace the risk-based capital measure and to contain the excessive accumulation of leverage in the system;

[8] After the Cannes Summit, the possible application of this tax within the European Union was strongly rejected by the United Kingdom.

[9] The Committee was established in 1975 and is currently comprised by representatives of central banks and supervisory bodies of the following 27 countries: Germany, Saudi Arabia, Argentina, Australia, Belgium, Brazil, Canada, China, Korea, Spain, the United States, France, Hong Kong SAR, India, Indonesia, Italy, Japan, Luxembourg, Mexico, the Netherlands, the United Kingdom, Russia, Singapore, South Africa, Sweden, Switzerland and Turkey. Its 12-member Permanent Secretariat is located in the Bank for International Settlements (BIS).

- Toughening the rules for the supervisory review process (Second Pillar) and public disclosure (Third Pillar), along with additional guidance in the areas of Good Practices on assessment, stress testing, liquidity risk management, corporate governance and compensation policies;

- Introducing minimum liquidity standards as a liquidity coverage ratio (short term) and a net stable funding ratio (long term); and

- Promoting the accumulation of capital during good times to make use of it in periods of stress, through a capital preservation cushion and an anticyclical cushion to protect the banking sector against periods of excessive credit growth." [Basel Committee, 2010: 1 and 2].

For the full implementation of each one of these measures, transition periods have been defined. The completion of such periods go from 2013 to achieve the minimum total capital ratio, up to 2019 to complete the "preservation cushion", or 2023 to eliminate the instruments that will no longer be accepted as capital.

In addition to these measures, the report to the G-20 mentioned above states that "the Committee is also working with the Financial Stability Board (FSB) to address the risks posed by systemic banks. On 12 September 2010, Governors and Heads of Supervision agreed that systemically important banks should be able to absorb losses above the minimum required the framework of Basel III."

These Banks – called "Global Systemically Important Banks" (G-SIBs) – due to their business practices, their large size and geographic diversification of their activities generate significant negative externalities across borders, and thus have been subjected to special attention in discussions on financial regulation. In a subsequent paper of the same Committee on Banking Supervision [2011: 2], the following is discussed in relation to them:

> "There is no single solution to the externalities presented by G-SIBs. Therefore, the regulatory community is addressing the problems through a menu of approaches. The overall objective of the policies is: to reduce the probability of failure of the G-SIBs, increasing their capacity to absorb losses, and reduce the scope or impact of failure of the G-SIBs, by improving the global recovery and the operational frameworks."

In this connection, it should be noted that at the Cannes Summit the G-20 adopted a list drawn up by the Financial Stability Board of the banks that should be considered Global Systemically Important, which, consequently, should be subject to special requirements since they are "too big to fail". The list includes of 29 banks: 8 in the United States, 4 in the UK, 4 in France, 3 in Japan, 2 in Germany, 2 in Switzerland, 1 in China, 1 in Italy, 1 in Spain, 1 in Belgium, 1 in Sweden and 1 in Holland.[10]

Although the review performed so far about what has been happening with the reform of the financial markets shows some progress at specific points, in our opinion, it yields a negative balance, especially in light of the current uncertainties and problems, which

[10] The list will be reviewed annually and will be accompanied by other lists that would include insurance companies and non-banking financial institutions. The list of 29 banks submitted to the G-20 is as follows: Bank of America, Bank of China, Bank of New York Mellon, Banque Populaire CdE, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Deutsche Bank, Dexia, Goldman Sachs, Credit Agricole Group, HSBC, ING Bank, JP Morgan Chase, Lloyds Banking Group, Mitsubishi UFJ FG, Mizuho FG, Morgan Stanley, Nordea, Royal Bank of Scotland, Santander, Société Générale, State Street, Sumitomo Mitsui FG, UBS, Unicredit Group and Wells Fargo.

have gone far beyond the measures that are being defined and, very slowly, are being applied.

In this regard, it is pertinent to confront what has been decided and implemented by the G-20, with the proposals that have emerged in another forum for discussion of strategies and actions against the global crisis, that is, the General Assembly of the United Nations, whose presidency launched in 2008 and 2009 a process of evaluation and formulation of proposals regarding the crisis.

Pursuant to the agreement captured in the Final Declaration of the Doha Summit on Financing for Development, held in Doha from 29 November to 2 December 2008, the President of the UN General Assembly at the time, Miguel D'Escoto, convened a High Level Conference to address the subject of the crisis, and established a working group of experts to examine the functioning of the global financial system, including bodies such as the World Bank and IMF, and to suggest measures that could be adopted by Member States of the Organization to achieve a more sustainable and fair world economic order.

The Commission, chaired by Joseph Stiglitz and whose other members were from Japan, Western Europe, Africa, Latin America and South and East Asia, presented a report on 19 March 2009, which provided a set of recommendations referring to the transformation of the global economic structure to overcome the global economic crisis and prevent its recurrence.

Using that report as one of its inputs, the "Conference on World Financial and Economic Crisis and its Impact on Development" was held from 24 to 26 June 2009. The agreements reached were expressed in the final document of the Conference.

The following table presents a comparison between the G-20 agreements captured in the final declarations of its Summits, the text of the Commission of Experts and the Final Declaration of the UN Conference, with respect to the international monetary and financial order, standing out of these different documents, the approaches on the subject that are of particular interest for developing countries.

Table 2
G-20 vs. United Nations: Presence of relevant issues for backward countries, concerning the international monetary and financial architecture

	G-20	UN General Assembly	UN Experts Document
SPECIFIC			
Review of the conditionality of the IFIs	Low	Strong	Strong
More policy space for developing countries	NO	Strong	Strong
Regulation of foreign subsidiaries	NO	NO	YES
Sovereign debt restructuring mechanism	NO	Intermediate*	YES
Mechanisms for cross-border investment disputes	NO	NO	YES
Regional and subregional cooperation	NO	YES	YES
South-South Cooperation	NO	YES	YES
GENERAL			
More and better financial regulation	YES	YES	YES
Regulation of risk rating agencies	YES	YES	YES
Actions on "non-cooperative jurisdictions" and Tax Havens	Intermediate	Intermediate	Strong
Reform of Central Bank policies	NO	NO	YES
Thorough reform of the IFIs	Scarce	Intermediate	Strong
Global economic policy coordination	NO	NO	YES
Global Economic Coordination Council	NO	NO	YES
Authority of Global Competence	NO	NO	YES
Global Authority of Financial Regulation	NO ***	NO	YES
Reform of the Global Reserve System	NO	Weak**	YES

* The "long-term sustainability of the debt of developing countries" is mentioned.
** All that is proposed is to expand the Financial Stability Forum, refer to it as Council, and assign it some additional functions of coordination, plus the agreement to launch "Basel III".
*** The concern of some countries regarding the topic is recognized.

Source: Based on G-20 [2008], [2009], [2009b], [2010] and [2010th]; UN General Assembly [2009]; and Stiglitz and others [2009].

The table above shows that among these documents, and hence among these areas of multilateral assessment of the global crisis and the necessary changes in the international monetary and financial order, there are important differences, not only of emphasis regarding the actions to be taken against different problems, but also in relation to the presence or absence of relevant topics.

Besides the obvious contrast between an area covering 19 countries – plus the European Union representative – and the other one covering 192 members of the UN by June 2009, the main differences, which are shown in Table 2, refer to the following matters:

- *The creation or recovery of spaces for countries – particularly backward countries – to develop their own internal policies vis-à-vis global monetary and financial problems and to reverse the current absence of limits to the action of major international capital*. In this connection, the document of the Commission of Experts, and to a lesser extent, the final text of the UN Conference, state the need for more spaces for these policies, through measures such as emphasizing the regulation foreign companies' subsidiaries, reforming Central Bank policies, new mechanisms for an effective restructuring of the foreign debt, processing cross-border investment

disputes, and prioritizing both regional and subregional cooperation and South-South cooperation.[11] All of these topics have long dominated various areas in developing countries as well as the requirements made by various governments of these nations in international fora. Nonetheless, the actions defined by the G-20 throughout its six summits have overlooked the generation of greater opportunities for exercising economic policies, and the subsequent implementation of measures such as those mentioned above.

- *The reform of the current institutional architecture in the international economic and financial space.* Within the context of the United Nations, and particularly in the document of the Commission of Experts, this reform has a prominent place in the proposals for action to face of crisis, and includes two types of measures. On the one hand, the creation of new bodies, which would consist of a Global Economic Coordination Council, which according to this proposal would be "a representative global forum to address comprehensively areas of concern in the global economic system operation", would have "a level equivalent to that of the General Assembly and Security Council of the UN and could constitute a democratically representative alternative to the Group of the Twenty" [Stiglitz and others, 2009]; a Global Financial Regulatory Authority and an Authority of Global Competence. On the other hand, a thorough reform "of the management, accountability and transparency of the Bretton Woods institutions and other non-representative institutions that have come to play a role in the global financial system" and, of course, a thorough review of the conditionality attached to these institutions' lending.

  In the context of the G-20, approaches and agreements on the reform of the current international economic and financial architecture have been much more limited, both in relation to the creation of new institutions and to the operation of existing ones. With respect to new institutions, the only thing the G-20 has agreed upon is to expand the number of countries participating in the Financial Stability Forum, refer to it as a Council, and assign it some additional coordination functions.

  With respect to the current IFIs, despite the widespread recognition there is as to the serious problems of relevance, credibility and effectiveness especially of the IMF, which are based – among other elements – on the principles and interests that guide it, its forms of organization and operation, the actions it has exercised over the countries under its tutelage, and the mistakes made by this institution in the face of the crisis, as mentioned before, the decisions of the G-20 have clearly located the Fund as a direct beneficiary from many of the agreements reached, especially in the London Summit in April 2009. Decisions that have fuelled the revival of this institution by multiplying by several times its resources, by giving it a major role in the development of proposals and realization of actions to correct the serious problems of an international financial architecture that the Fund itself helped generate, and by assigning it a central role in the management of the crisis, including, incidentally, the "rescue packages" that are being implemented in the Euro Zone.

  In the Final Document of the G-20 Summit in London, this strengthening of the IMF was accompanied with the enumeration of some generic considerations and a few

[11] According to the document of the Commission of Experts, the largest economic policy spaces should be aimed at creating "regulatory frameworks to help protect (developing countries) from regulatory and macro-economic failures in systemically significant countries", and at recovery of their ability "to manage their capital accounts and financial systems." [Stiglitz and others, 2009]

specific measures, clearly insufficient regarding the profound restructuring to which the IFIs should be subject to, the idea behind which was to "increase the credibility and accountability of the institutions through better strategic supervision and decision making"; introduce further reforms in the IMF's quota system; give greater participation to the Governors of the Fund and increase the accountability of the agency; implement the reforms already agreed upon and receive new proposals regarding the representation in the World Bank; elect the directors and top management of these organizations "through an open, transparent and merit-based selection process"; and "move towards a new global consensus on core values and principles that will foster a sustainable economic activity." [G-20, 2010]

Out of these measures, all that has materialized is the transfer of little over 5% of the votes in the IMF from the "over represented" countries to other countries, especially the BRICs (Brazil, Russia, India and China) , to which is added that the conditionality of the IMF in lending remains in full force, as it has been proven in several European countries being subject to the adjustment programs, known too well in Latin America, although already from the final document of the 2008 Summit, the countries in the G-20 stated that "we encourage the ongoing review [by the IMF] of its instruments and facilities to ensure flexibility" [G-20, 2008] , and despite the alleged reform of its credit mechanisms and conditionality that was announced by the Fund since March 2009[12]

- *The monetary base of operation of the international economy and the role the dollar plays in it.* In this connection, both the document of the High Level Conference and especially that of the Committee of Experts addressed the issue with considerable emphasis:

  - The Final Document of the Conference [UN General Assembly, 2009] states that "the crisis has led some states to intensify their calls for reform of the global reserve system and correction of its shortcomings. We acknowledge the calls by many States to further examine whether it would be feasible or advisable to introduce a more efficient reserve system and also examine the possible role of Special Drawing Rights (SDRs) in any system of this type and the complementary roles that various regional mechanisms could have. We also recognize the importance of achieving a consensus regarding the parameters of this type of study and its application. We recognize that there are new and old, regional and subregional cooperation initiatives in the economic and financial field to address, inter alia, the problems of its members related to the lack of liquidity and with the imbalances in the balance of payments in the short term."

  - In turn, the Document of the Committee of Experts states that "the difficulties of the dominant use of a single national currency as international reserve currency are well known, and hence the creation of a global reserve system was proposed as a solution. This system could be based on expanding the role of the SDRs, with regular or cyclically adjusted emissions depending on the size of reserve accumulations." And then it adds: "The risks of instability, the deflationary trend and the potential debt accumulation in a reserve system based in a single country have been recognized for quite a while now. At any rate, the crisis of

[12] Said reform was announced by the IMF on 24 March 2009, and according to information of the organization itself [IMF 2009a], the main elements of the reform were: to modernize conditionality; flexible credit line, to strengthen the stand-by arrangements; duplication of the access limits to financing; to simplify the cost and maturity structures; to simplify the range of financial services; and reform of the services for low-income countries.

the current reserve system, and the problems that have arisen in the current reserve system as a result of it, have turned the reform into a pressing need." [Stiglitz and others, 2009]

On the contrary, in the statements and actions of the G-20 there is a noticeable absence of any mention of the role of the dollar, and even the few references that have only been made in the Summit of 2010 on the need to strengthen the International Monetary System (IMS) are ambiguous and hardly point to a major revision of the problems that exist in the IMS:

- In the Declaration of the Summit of Toronto, the most direct mention to the IMS pertains to item 31, and it reads as follows: "We agreed to instruct our Finance Ministers and Central Bank Governors to prepare policy options to strengthen the global financial safety nets, so that we can consider the various options at the Summit in Seoul. Our goal is to build a more stable and resilient international monetary system." [G-20, 2010]

- In item 11 of the Declaration of the Seoul Summit, the strengthening of the IMS is mentioned in the following terms: "Building on our achievements so far, we have agreed [...] build a more stable and less vulnerable international monetary system, included through the strengthening of the global networks of financial security." [G-20, 2010a].

- As reviewed previously, further progress was made at the Cannes Summit, but it was limited to recognizing the need to diversify the basket of currencies in the SDRs, so as to account for the larger global presence gained by some economies, but with no intention of moving towards replacing the dollar as international currency.

Despite this lack of reference to possible changes to the role of the dollar as international currency in the Final Declarations of the Summits of the G-20, this subject is an important area of disagreement within the group. Among the countries in the G-20 the most explicit statements on the subject have been those from Russia and China as well as from the BRIC group, all members of the G-20, which both countries belong to, and there have also been statements in this regard by France, which have gained strength recently.

With respect to Russia, on 16 March 2009 the President of that country, Dmitry Medvedev,[13] issued a statement in which he submitted proposals to the London Summit of the G-20 and, in the section called "Reforming the international monetary and financial system", he said the following [Medvedev, 2009: 3]: "We call for a reform of international monetary and financial system that improves its stability and eliminates the global economic imbalances (or reduces the risk of their occurrence). In view of this, we suggest that the IMF (or an Ad Hoc Working Group of the G-20) should be instructed to carry out specific studies to examine the following options:

- Expansion (diversification) of the list of currencies used as reserve, on the basis of measures agreed to encourage the development of major regional financial centres. In this context, we should consider the possibility of establishing regional

[13] Following the quoted statement of Dmitry Medvedev, he also made a similar statement in the G-8 meeting held in Canada on 25 and 26 June 2010, when he stressed the need to use "other national currencies, including the ruble, as reserve currency, as well as supranational currencies."

mechanisms that contribute to reduce the volatility of the exchange rates of such reserve currencies.

- Introduction of a supra-national reserve currency to be issued by the international financial institutions. It seems appropriate to consider the IMF's role in this process and examine the feasibility and the need of adopting measures to ensure the recognition of the SDR as a 'supra-reserve' currency of the entire global community."[14]

As regards China, the Governor of its Central Bank, Zhou Xiaochuan, issued on March 23, 2009 a statement which states that [Xiaochuan 2009] "The outbreak of the crisis and its extension to the whole world reflect the inherent vulnerabilities and systemic risks in the current international monetary system", and that "The desirable goal of reforming the international monetary system [...] is to create an international reserve currency that is disconnected from the nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using national currencies-based credit."

After these paragraphs, he declares himself in favour of a gradual replacement of the dollar by the SDR, arguing such replacement in the following terms: "The centralized management of member countries reserves by the Fund would be an effective measure to promote a greater role of the SDR as reserve currency. To achieve this, the IMF can set up an open-ended fund denominated in SDR based on market practices, allowing the subscription and redemption in the existing reserve currencies from various investors as desired. This arrangement will not only promote the development of SDR-denominated assets, but will also partially allow for the management of liquidity in the form of the existing reserve currencies. It may even lay the foundation for increasing SDR allocation to gradually replace existing reserve currencies by the SDR."[15]

In addition to this, we have the statements that the BRICs as such has made in the framework of joint positions that its members have been presenting on various issues and global problems such as compliance with the mandate so that the WTO Round of negotiations effectively be "on development", the structure of the Security Council of the UN, the lack of legitimacy of the IFIs, and "the need for a multipolar, fair and democratic world order." [BRIC, 2010]

In relation to the international monetary order and the role of the dollar, the BRICs have taken positions close to the ones that have been raised on this issue in the framework of the UN. Thus, the group in March 2009 issued a statement at the ministerial level which made [BRIC 2009] "a call to study the evolution of the international monetary system, including the role of reserve currencies" and in another statement, resulting from the first Summit of the Group in June of that same year, stating: "We believe that there is a

---

[14] In the same statement, Medvedev proposed taking away some of the IMF functions, in the following terms: "We believe [it] should consider whether it would be practical to transfer some of the following functions to other supra-national structures not associated with the IMF:

- The monitoring and establishment of a crisis early warning system on the basis of a constant update of the assessment of systemic risks;
- Acting as a last resort lender;
- Monitoring the implementation of the Regulatory Framework for Universal Standards;
- Acting as an issuer of a global reserve currency."

[15] By the same token, the Editorial of the China news agency Xinhua on Saturday 6 August 2011 was profusely commented on, a day after Standard & Poor downgraded the U.S. debt, in which it is stated that this country is "addicted" to debt and that the world needs a new stable global reserve currency.

strong need for a stable, predictable and more diversified international monetary system." [BRIC 2009a].

By the same token, in the Final Declaration of the Second Summit of the Group, held in Brazil in April 2010, they stressed "the importance of maintaining a relative stability of the major reserve currencies," and the "greater need for a stable, predictable and diversified international monetary system," although in this declaration their clearest positions on the international monetary problems focused in other directions, which incidentally coincide with initiatives already present in the Latin American context: "In the interest of promoting the international economic stability, we have asked our Finance Ministers and Central Bank governors to seek regional monetary arrangements and discuss modalities of cooperation among our countries in this area. To facilitate trade and investment, we will study the feasibility of monetary cooperation, including payment arrangements in local currency in the trade between our countries." [BRIC, 2010].

Furthermore, in the third Summit of the Group held in Sanya, China, on 14 April 2011, and in which South Africa joined the group, two major themes were the reform of the IFIs and the reform and improvement of the international monetary system. Regarding the latter, the final declaration of the meeting states: "Acknowledging that the international financial crisis has demonstrated the inadequacies and shortcomings of the current international monetary and financial system, we support reform and improvement of the international monetary system, with an international reserve system with broad basis that provides stability and security. We welcome the current debate over the role of the SDR in the international monetary system existing between the composition of the SDR basket of currencies." [BRICS, 2011]

With respect to France, although since the beginning of the crisis the government of that country began issuing statements about the need to "refund capitalism" and about a "new Bretton Woods," in the most recent period it has been emphasizing issue of the International Monetary System, in the context of the presidency that France has been called upon to assume in 2011 in the G-8 and G-20.

In the dossier presented by the French government of the press conference of 24 January 2011, in which Nicolas Sarkozy defined the objectives of the French presidency of the G20 and G8, three priorities are identified, one of which is "to reform the international monetary system" (the other two are "the reform of global governance" and "the fight against the volatility of prices of raw materials"), stating in this regard: "Recent times have been marked by a strong currency volatility, rising imbalances and the search for ever increasing exchange reserves by emerging countries, which face sudden and massive withdrawals of international capital. The French Presidency wishes to reform the international monetary system to respond collectively to dysfunctions and support the profound transformations experienced by the world economy, with the growing weight of emerging countries. Building a more stable and solid IMS depends on the reduction of imbalances and the close coordination of economic policies within the framework for a strong, sustainable and balanced growth of the G-20." [Presidency of France, 2011]

This dossier identifies four IMS dysfunctions (increased volatility of exchange rates, acceleration of capital inflows and outflows, risk of "currency war" and growing macroeconomic imbalances) and four "courses of action" to reform the system: strengthening macroeconomic policy cooperation, reducing the need for accumulation of reserves to withstand the crisis; promoting stable capital flows to

finance the growth and development, and "accompanying the internationalization of emerging currencies." [Presidency of France, 2011]

Along the same lines, in the statement made by Nicolas Sarkozy at the start of the press conference, he said that "The French Presidency wishes to reform the international monetary system to respond collectively to dysfunctions and support the profound transformations experienced by the world economy with the growing weight of emerging countries," adding later that "the whole 2010 was marked by the debate on the currencies. Some even spoke of the war of the currencies. The truth is that we have lived the instability of the non-international monetary system since 1971. To say there is monetary system is a serious mistake, there is none since 1971," after which he summed up the French position in the following terms: "Our position is simple and is summarized in one sentence: the emergence of new economic powers will lead ineluctably to the emergence of new international currencies. This is inevitable. The ongoing transition may be a factor of instability." [Sarkozy, 2011]

Likewise, in the inaugural speech of Nicolas Sarkozy at the Meeting of Finance Ministers and Central Bank Governors of the G-20, which was held on 18 and 19 February 2011 in Paris, he reiterated that "the emergence of new economic powers will lead ineluctably to the emergence of new international currencies," mentioning before that "the international monetary order reform can wait no longer," adding the following considerations:

"We have set an ambitious timetable for the French presidency. I know it well, one year is too short. We will certainly not be able to do it all successfully. But nothing would be worse than refusing to address the real issues we face. It is not about defining a new international monetary order in a year, but who can argue that the issue of the international monetary order is not a key issue."

"In the monetary field, what is essential in the eyes of the French Presidency is that, in 2011, we agree on a work program and the first concrete reforms." [Sarkozy, 2011a][16]

And one month later, when addressing a seminar in China of the G-20 on the International Monetary System Reform, he said: "The 2008 crisis showed us how the liquidity is essential to ensure the satisfactory operation of the global economy. If it disappears, the whole of our financial and economic situation is jeopardized. I am convinced that reforming the international monetary system is the natural extension of the international financial system reform that we started with the new Basel III's prudential framework. What good is Basel III, if we ignore the monetary system? And who could think that the financial system regulation is sufficient without addressing the monetary system? That would not make any sense." [Sarkozy, 2011B]

These positions of the BRIC Group and France, while they have not been reflected thus far in the final declarations of the Summits of the G-20, or in the Action Plans that have been agreed in them, they express significant differences present in the group concerning the international monetary order and the role of the dollar and, more than that, they have pointed to the inability to act on the root causes of global economic

[16] The initial agreement reached at that meeting on 18 and 19 February, already referred to, about a list of indicators to measure global economic imbalances, has been placed by the French government as a step in the direction of the IMS reform.

problems if the issues related to said order and the role that the U.S. currency has played as a source of serious problems and imbalances are not addressed.

The absence of this approach by the G-20, the lack of profound changes in the current IFIs and in the institutional structure that they lead, the failure to set more spaces for the exercise of national economic policies and the fact that it is the G-20 itself the one who assumes the definition and conduction of the international strategies and actions, leaving aside the remaining countries and broader areas of participation, evidences the serious gaps that, particularly from the perspective of the developing countries, are present in the strategies that have been applied with respect to the international monetary and financial order.

In these strategies, issues of the utmost importance are not being addressed or are only being addressed through notoriously partial measures , which by no means match the magnitude and strength of these problems, especially if we consider that the deterioration that is currently affecting the world economy is the best evidence of how little has been done to address the root causes of the global crisis, including in them – and very importantly – those related to the international monetary and financial order despite the fact that more than three years have elapsed now since the first G-20 Summit was held in November 2008.

All of this poses very profound challenges to Latin America and the Caribbean, which include both demanding in all areas, and – if possible, with a single voice – that the international monetary and financial order is truly redefined, generating for it a new architecture that addresses the needs relegated nowadays; as well as to continue advancing towards building a regional financial and monetary architecture, whose relevance is confirmed in the light of the global issues that remain unresolved today.

III. LATIN AMERICA AND THE CARIBBEAN VIS-À-VIS THE PROBLEMS AFFECTING THE INTERNATIONAL FINANCIAL AND MONETARY ARCHITECTURE

1.- Latin America and the Caribbean within the context of the global crisis

In the global scenario described in the previous chapter, characterized by a renewed deterioration in the economic and financial outlook, persisting financial problems, and serious imbalances in public finances both in the U.S. and in various Euro Area countries, the economies of Latin America and the Caribbean have suffered the negative effects arising from such scenario and have intensified their demands as well as their concrete actions in various fora in order to address the problems characterizing the current economic order, with the purpose of creating the conditions in the regional financial and monetary field to enable them to coordinate a space to channel their development strategies.

Even though the region's countries have managed to cope to a large extent with the negative effects arising from their specific insertion in the complex and troubled international arena of the last few years, counting among its strengths with a substantial increase in export prices, balanced public finances and a good performance of the main macroeconomic variables, this has not prevented the current global financial and economic problems from starting to impact different areas and different indicators in the countries of the region.

The serious economic problems prevailing in the performance of the global economy and the high degree of uncertainty regarding the immediate future – as described in the first

section of this document – have led various organizations responsible for giving out forecasts on the future behaviour of the economies of the region to downgrade their estimates. Table 3 shows that the World Bank, ECLAC, the International Monetary Fund and the UN Department of Economic and Social Affairs all predict a decline in regional GDP growth between half a percentage point and one percentage point for the year 2012 compared to 2011, and that forecasts for 2012 became gloomier as the second half of 2011 elapsed. The foregoing compounds the downward trend of approximately one and a half percentage points in the performance of the region's GDP between 2010 and 2011, which fell from a rate between 5.9% and 6.1% in 2010 to a rate between 4.3% and 4.5% in 2011,according to the aforementioned agencies.

Table 3
LAC: GDP figures and forecasts for growth

	Date of publication	2010	2011	2012
World Bank [2011]	June 2011	6.0	4.5	4.1
IMF [2011b]	October 2011	6.1	4.5	4.0
ECLAC [2011]	December 2011	5.9	4.3	-
IMF [2012]	January 2012	6.1	4.6	3.6
UN/DESA [2012]	January 2012	6.0	4.3	3.3

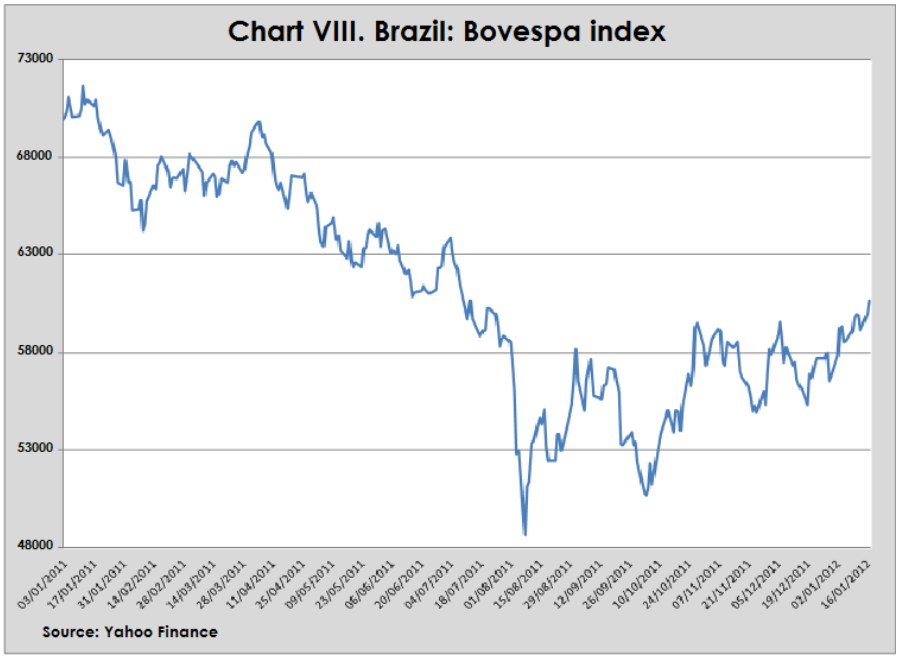
The most recent publication cited in Table 3 is the *World Economic Situation and Prospects 2012*, by the United Nations Department of Economic and Social Affairs (UN/DESA). In the press release issued by UN/DESA concerning the section on the region, which is entitled "*Latin America and the Caribbean: Gloomy economic outlook*," there is an account of the impact that a relapse into recession in the U.S. and Europe will have in 2012 and 2013, noting that "darkening clouds gather over the region." "Slowdowns in the United States and in Europe are likely to hold back exports, remittances and tourism-related revenues," it adds. The growing levels of uncertainty prevailing over the performance of the global economy have led the agency to raise the possibility of an even more complicated scenario. "The risks of further worsening of the situation in Europe and the United States have increased (...) Latin American and Caribbean economies would be hard hit and growth could drop below 1 percent in the region, with Brazil stagnating and Mexico falling into recession." (UN/DESA, 2012a: 1)

In turn, in its *Regional Economic Outlook: Western Hemisphere*, issued in October 2011, the IMF states that Latin America, on average, is as dependent on commodities today as it was forty years ago and commodity prices are quite sensitive to global output. Accordingly, faltering global demand could deliver a blow to the region's terms of trade." Anticipating a decline of half a percentage point in the regional GDP growth for 2012, the IMF warns, however, that "Given the complexity and uncertainties surrounding the global economy, policymakers must stand ready to adjust policies should downside risks materialize."

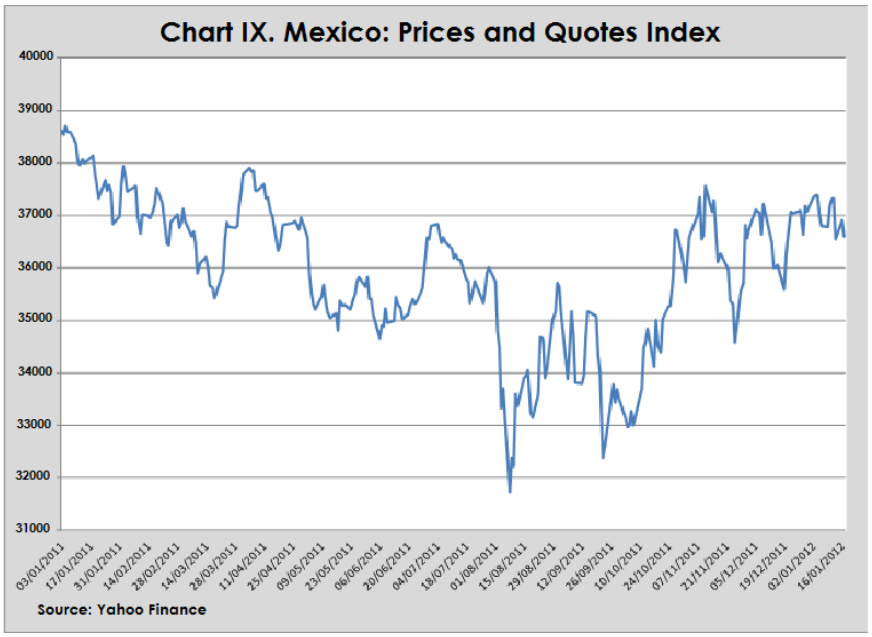
The volatility and disorder in financial markets, as well as the problems in the performance of the global economy, not only forces downward revisions in the forecasts on the future behaviour of the GDP in Latin American and Caribbean economies, but are also affecting the monetary and financial fields in the economies of the region, which have faced recurrent declines in their respective stock markets and have had to deal with devaluations of their currencies against the dollar.

A review of the evolution of the major stock exchanges in the region shows that the Bovespa Index of the Sao Paulo Stock Exchange, the Prices and Quotes Index of the Mexican Stock Exchange and the Merval Index of the Buenos Aires Stock Market have all been experiencing a clear downward behaviour in synchrony with the downward trend seen in the major stock exchanges around the world.

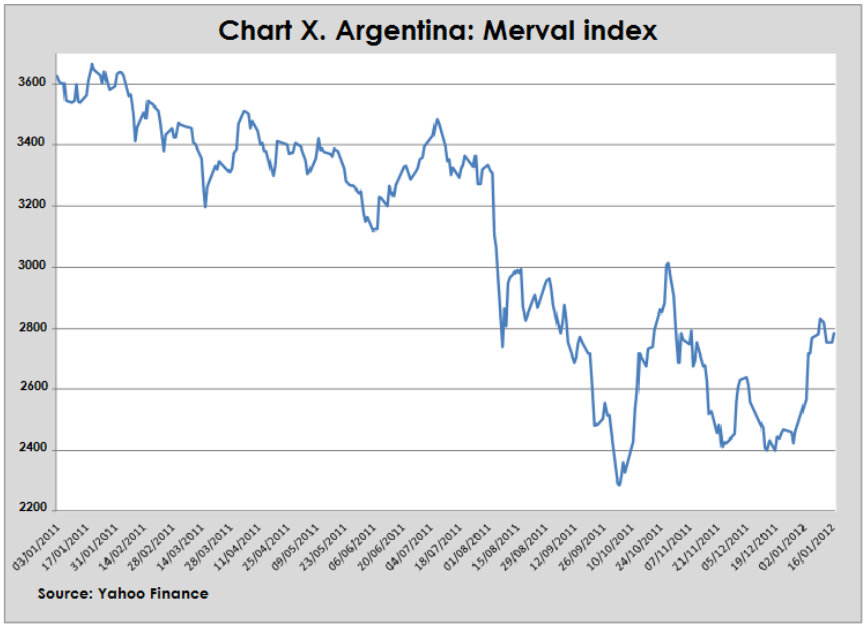
As for the Bovespa Index, Chart VIII clearly shows the declining performance of the largest stock exchange in the region throughout 2011. From a level of 69,962 units reached on the first working day of January that year, it showed a persistent decline in the following months to reach 48,668 units in early August, which means a cumulative drop of over 30% for the first seven months of the year. And it has shown a behaviour characterized by a series of ups and downs ever since. On the last working day of 2011, the Bovespa index ended at 56,754 units, i.e. 18.8% below the level it had at the beginning of the year.



The Mexican Stock Exchange has followed a similar trend, although less pronounced than that of its Brazilian counterpart, with the Prices and Quotes Index ending its first day of 2011 at 38,605.08 points just to fall to a low of 31,740.13 units on 8 August, or a cumulative 17.7% decline to that date. Since then, it has showed an erratic behaviour with recurring ups and downs. On the last working day of December 2011 it ended at 36,644.86 units, closing 2011 with a cumulative negative result of 5.0%, as shown in Chart IX.

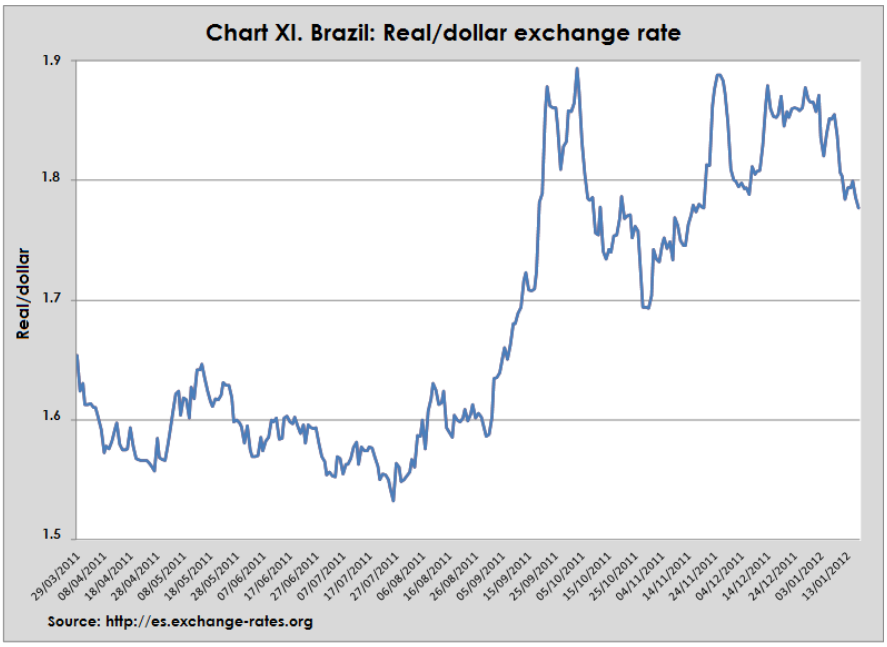


As regards Argentina, the Merval Index of the Buenos Aires Stock Market also illustrates the effects that the international situation and particularly the behaviour of the world's major stock exchanges can have on the stock markets of the countries in the region. After closing the first day of 2011 at 3,628.48 units, it has shown a continuing downward trend, as seen in Chart X, to fall to 2,286.73 units on 4 October 2011, resulting in a cumulative decline of nearly 37% over the first nine months of the year. It continued with an erratic performance in the following months to close on the last day of the year at 2,462.63 units, very near the record low it experienced in October, which accounted for a 32% loss compared to the level it had at the beginning of 2011. Such a decline was even more dramatic than the fall of Mexico's IPC and Brazil's Bovespa Index for the same period.

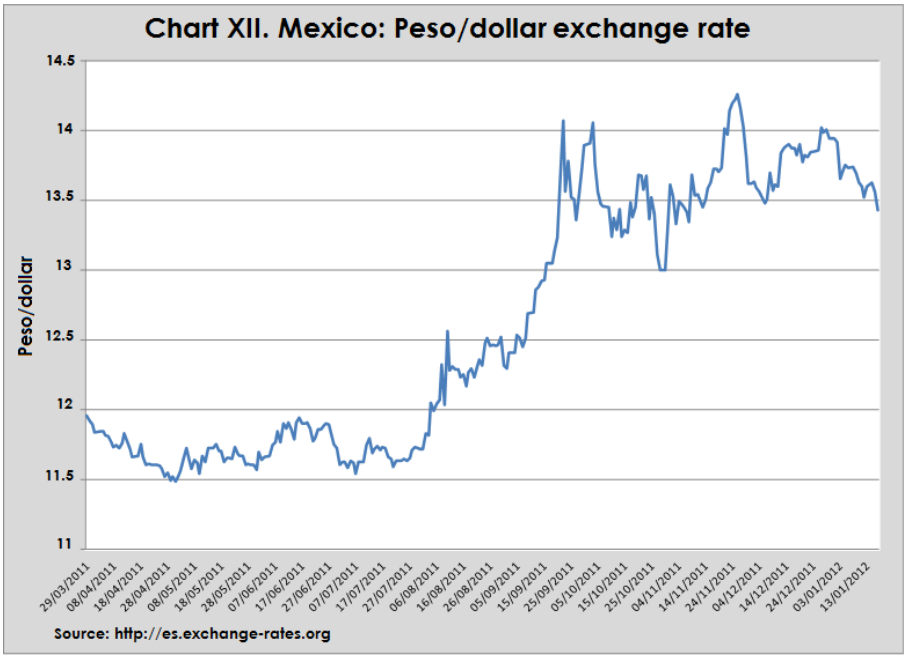


Additionally, as part of the impacts of the global crisis on the financial monetary systems of the countries in the region, the leading foreign exchange markets have been experiencing a gradual process of devaluation of local currencies against the U.S. dollar.

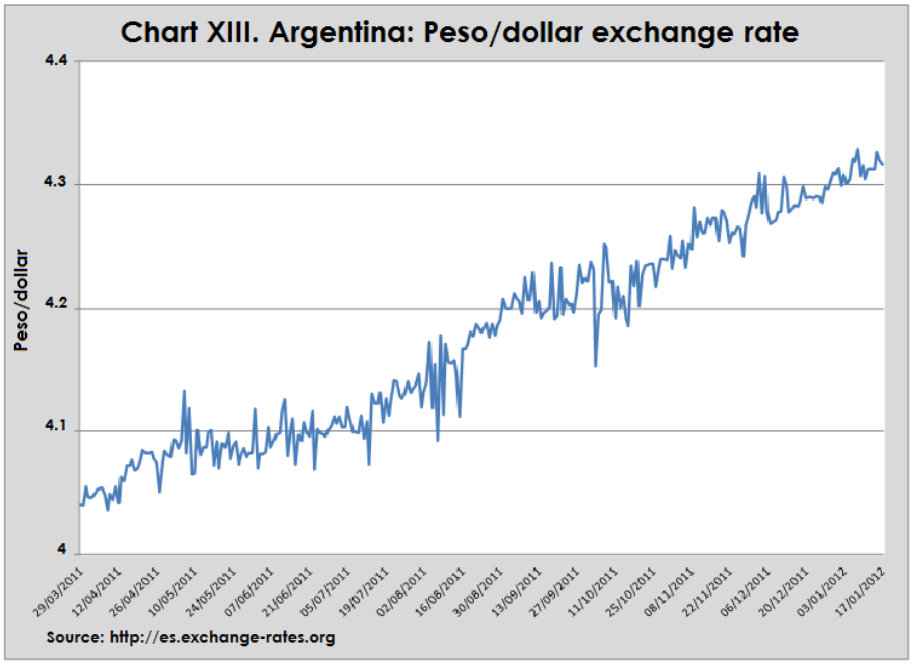
As for the Brazilian currency, Chart XI shows that after swinging around 1.5 and 1.6 reals to the dollar from March to August 2011, in September the real experienced an accelerated loss of value against the U.S. dollar. Thus, in just one month – from 5 September to 4 October – the exchange rate increased from 1.65 to 1.8 reals per U.S. dollar, which represented a devaluation of the Brazilian currency of over 13%. In the last three months, the exchange rate experienced fluctuations and by the last day of 2011 it stood at 1.86 reals per dollar, a similar level to that of October, but up more than 21.7% over late July, when it was 1.53 reals per dollar.



Regarding the Mexican peso, Chart XII shows that, after experiencing ups and downs during the first half of 2011 that oscillated between 11.50 and 12.00 pesos per U.S. dollar on average, there was an accentuation of the loss in value for the Mexican currency in August and September, going from 11.72 pesos per U.S. dollar on 1 August 2011 to 14.06 pesos per U.S. dollar on 6 October, i.e. a devaluation of 20% in a two-month period. In the following months, the Mexican currency continued to lose value, standing at 14.26 pesos per dollar on 26 November; since then, it has slightly recovered.



Argentina's currency has followed a trend similar to that of the Brazilian real and the Mexican peso, as shown in Chart XIII. However, the loss in value of the Argentine peso against the U.S. dollar has been much more moderate, considering that the exchange rate has moved from 4.04 to 4.32 pesos per U.S. dollar from March 2011 to January 2012, which represents a loss in value of about 7% against the U.S. currency, as a result of the greater strength that Argentina's currency has exhibited thus far to cope with the fluctuations and turbulence in the international environment.



2.- Positions held by Latin America and the Caribbean vis-à-vis the international monetary and financial problems and the need to face them through regional initiatives

In view of the prevailing global scenario, characterized by the deterioration of the international economic and financial outlook, with the monetary and financial problems in the United States and the Euro-zone standing out – as well as the insufficient measures to deal with such scenario in a multilateral manner, Latin American and Caribbean countries have made some headway in the formulation of common strategies to include both the demand for building an international financial order that is different from today's crisis-ridden system, and specific actions to construct a new international monetary and financial architecture in the region.

This common position taken by the governments of the region has been expressed in different fora –and in a variety of tones– by the Heads of State and Government as part of a shared assessment which stresses criticism of a financial system that tends to reproduce and spread elements of global instability on a permanent and expanded basis and that, far from being fixed in its substance by the developed economies as part of a restructuring that includes a thorough reform of international financial organizations, has provided greater capabilities and resources to those who have been slow and inefficient to address in a timely manner the signs and notices that have long been present in the functioning of the international financial system.

Among the many fora in which this common position has been clearly expressed, both to warn about the looming harmful effects of the global economic downturn and to demand a redefinition of the functioning of the international financial system, it is worth mentioning the historic Summit to create CELAC, which took place in Caracas on 2 and 3 December and was attended by the 33 Heads of State and Government of all the countries of the region. [17]

As part of the documents stemming from the summit, in the *Caracas Declaration* the Heads of State affirm that they were "aware of the challenges that the current international economic and financial crisis poses for the future of our region and for our legitimate aspirations for social inclusion, equitable growth, and sustainable development and integration"[Heads of State and Government of Latin America and the Caribbean, 2011]. And in the *Caracas Action Plan 2012*, adopted at the summit, on the basis of the principles of flexibility and voluntary participation in initiatives, they defined a series of decisions concerning different thematic areas. On of them is entitled "International Financial Crisis and the New Financial Architecture". In this area the Heads of States decided:

- To create the tools to improve financing capabilities of the intraregional trade.

[17] In addition to being dealt with at the CELAC Summit – to which we will refer later on – the issue of the international financial crisis was also addressed in the preparations activities for that Summit. Thus, in compliance with the mandate issued by the Summit of Latin America and the Caribbean in Cancun in February 2010, the Meeting of Ministers of Foreign Affairs of CALC and the Rio Group was held on 3 July 2010. On that occasion, they adopted the *Ministerial Declaration of Caracas* and the *Caracas Work Programme for implementation of the Montego Bay Action Plan 2010-2011*. As part of this work program, they identified nine themes, one of which was the "International Financial crisis", agreeing to hold a "CALC Meeting on the International Financial crisis and Foreign Trade". It was held on 18 and 19 May 2011 in Caracas, with which representatives of the 33 countries of the region discussing the central aspects of the international financial crisis, including subjects such as the reform of the international financial institutions and the effects of the crisis, as well as the promotion of joint actions to mitigate the most severe impacts of the crisis.

- To implement and strengthen internal and regional capacities to prevent systemic risk crisis within the region, as well as the impact of extra-regional imbalances and the alleviation of its adverse effects and the prevention of its spreading, through solid monetary and fiscal policies.
- To design and implement prevention, mitigation and control measures of the crises from the best use of the exchange of information and experiences in the region.
- To strengthen and deepen integration processes of our economies in the regional, sub-regional and bilateral areas, with the aim of guaranteeing the creation of a Latin American and Caribbean space.
- To make progress in the strategy of designing a new regional financial architecture in accordance with paragraph 12 of the Declaration of Cancun[18] and based, *inter alia*, on the principles of justice, solidarity and transparency. To strengthen regional and sub-regional financial mechanisms and to acknowledge progresses of compensation systems for regional and binational payments, credit and bridge financing.
- To encourage the redesigning of International financial institutions, on the basis of the increase in voice and voting power of developing countries under the postulates of the equity and solidarity principles, with a view to democratizing the decision-making process in these institutions, in line with their current influence in the global economy, as well as eliminating and/or making the conditions more flexible in the granting of loans, in a sustainable way, based on the respect for the unique features, sustainability, sovereignty, independence and self-determination of each country.
- To promote reflection fora with a view to strengthening regional financial institutions and to make progresses in the construction of new instruments, financial mechanisms and schemes that reduce the levels of external vulnerability of the regional economy and guarantee the right to vote of our countries in institutional decisions in a fair manner.
- To create and implement measures for prevention, mitigation and control of the financial crisis on the basis of information and experience exchange in the region.
- To request ECLAC's cooperation on these areas. "[Heads of State and Government of Latin America and the Caribbean, 2011]

Based on the decisions taken, it is possible to strike a positive balance, if take into consideration that this highest level integration and cooperation instance in the region identified substantial aspects of the global crisis, particularly the international financial crisis, as part of the fundamental consensuses regarding the assessment of the deteriorating global outlook. Additionally, it defined and undertook a series of actions that form part of the collective strategy to make strides towards integration, in particular, to build a new regional financial architecture, including those institutions and mechanisms in charge of the implementation of such architecture.

In addition to the CELAC Summit, whose transcendence is undeniable, another occasion prior to the summit in which the Heads of State and Government of the countries of the region expressed their position was the UN General Assembly, which held its 66th Session from 21 to 23 and from 26 to 30 September 2011.

[18] That paragraph of the Declaration of Cancun reads as follows: "Request that the Ministers of Finance or their equivalent design a strategy for the progressive development of a regional and sub-regional financial architecture" [Heads of State and Government of Latin America and the Caribbean, 2010].

Speaking at the top UN forum and faced with the prospects of a growing uncertainty that emerges from the impending recessionary scenario the world economy is entering, the leaders of Latin America and the Caribbean took the floor to emphasize both the serious global financial and economic crisis and the shortcomings of the agreements made thus far as part of the efforts to deal with and overcome the crisis. They also stressed the need for a consensual response including not only the developed economies – responsible themselves to a large extent for this scenario of recession – but also all the countries that are feeling the negative effects of the crisis.

As part of the speeches delivered at the General Assembly, the President of Argentina, Ms. Cristina Fernandez de Kirchner, whose country is also part of G-20, recalled that eight years ago in this forum then President Nestor Carlos Kirchner raised the need to reform multilateral lending agencies, especially the International Monetary Fund. She said:

> "The situation in the world today is substantially different. We have many regions and countries in severe trouble. Argentina is not intending to become a role model or an example for anyone, but we do want to reiterate the need to develop clear rules for transfer of capitals, in the field of financial speculation."
>
> "In light of our own experience – which I repeat is not intended to become a role model – we want to further reiterate the need for multilateral credit agencies to work very hard on regulation in the field of capital movements at the global level, and in the field of financial speculation. Without this, the much-touted stability of the markets is going to be impossible to achieve [...] both in our emerging economies, which have been supporting the growth in global economic activity, and in developed countries."
>
> "In this regard I have to say that when the London meeting decided to inject a formidable amount of financial resources into the struggling financial sector, we, as a member of the G-20, then argued that it was necessary to ensure that those resources injected into the financial world could subsequently be flushed into the real economy, the concrete economy, in order to boost employment and the creation of products and services. Unfortunately we are still in the same situation because, except for some changes I would describe as being merely 'cosmetic', work on the needed regulation has remained largely superficial."
>
> "That we were right in having long called for a modification or reformulation of multilateral lending agencies is no reason for us to be happy. On the contrary, we sincerely wish such an effort had already been started or defined to help prevent all these difficulties we are now going through, which for some may mean negative numbers in stock markets, but for a lot more people they mean shattered hopes for a better life." [Fernández de Kirchner, 2011]

The Bolivian President Evo Morales, as part of his appearance at the main deliberative body of the international organization, made reference to the "international financial entities" and particularly the role that the International Monetary Fund has played through the conditioning of the loans granted. In questioning the current situation he said that "we must begin to create other financial bodies. Fortunately, we in South America are progressing very well, the Bank of the South is a totally different bank from those profit-minded, speculation-based usurious banks. That has to come to an end." [Morales, 2011]

As regards Brazil – another member of the G-20 – its President Dilma Roussef, in opening the general debate at the annual Assembly, began by pointing out that "the world is going through an extremely delicate moment, which is also a great historic opportunity,"

while also noting that "this crisis is too serious to be managed by a small group of countries."

As part of her speech, the Brazilian President also claimed that "like other emerging countries, Brazil has thus far been less affected by the global crisis. But we know that our capacity to resist it is not unlimited. We are willing and able to help, while there is still time, those countries where the crisis is already acute. A new kind of cooperation, between emerging and developed countries, is a historical opportunity to redefine, with solidarity and responsibility, the commitments that govern international relations."

In speaking of the actions that should be taken, the President of Brazil stated that "for example, fiscal and monetary policies should be submitted to mutual scrutiny, in order to avoid undesirable effects on other countries, avoiding defensive reactions that, in their turn, lead to a vicious circle. The solution of the debt crisis must be combined with economic growth. There are glaring signs that many advanced economies are on the threshold of recession, which will significantly hinder the solving of their fiscal problems."

As regards the international financial system, which she described as an "inexhaustible source of instability", President Roussef urged to tighten its regulation and noted that "Controls must be imposed on the currency war through the adoption of floating exchange rate regimes. This means putting an end to exchange rate manipulation both by excessively expansionary monetary policies and by the stratagem of fixed exchange rates."

In the opinion of the Brazilian leader, "the reform of multilateral financial institutions must proceed, with an increase in the participation of the emerging countries, who are chiefly responsible for growth in the global economy." [Roussef, 2011]

Paraguay, through its President Fernando Lugo, stated that "it is necessary to design and build a new international financial architecture that is in keeping with the present times and that includes measures to prevent cyclical systemic crises, such as developing regional mechanisms for economic and financial coordination. Mechanisms with common backgrounds and interests should provide adequate spaces for economic cooperation and coordination."

In this regard and as part of the efforts to deploy a new regional financial architecture, the Paraguayan President stressed that "the South American countries are directing the efforts of UNASUR towards this end, being certain that coordinating and complementing our actions in the economic sphere is a key requirement for an integration that enables us to not only defend our countries against crises we do not produce, but also to ensure the holistic development of our peoples." [Lugo, 2011]

Among the Caribbean countries, the President of the Dominican Republic Leonel Fernandez emphasized the global financial crisis as "produced by a lack of clear rules in the international financial system, by arrogance, by greed, and by an uncontrolled eagerness for amassing wealth," and stressed that "this crisis has gone through several stages but at this moment, what is most worrisome is that it has caused a division among the most influential and powerful political and economic sectors in the world, regarding the ways in which we can implement a strategy to overcome it."

Suggesting possible solutions to the crisis, the Dominican President said that "if what we need is resources to save the international financial system, stabilize the world economy, and go back to levels of economic growth and prosperity, we know where those

resources are. For example, it is known that even though four trillion dollars circulate every day around the world in the form of financial transactions in capital markets, no tax has been established that would allow increasing fiscal resources."

He also added that "in the meantime, due to not taking measures of this nature, that is, due to not taxing international financial transactions nor the deposits in tax havens, the global financial and economic crisis continues, citizens become indignant seeing their life conditions worsen, social demonstrations multiply, governments are threatened by the lack of governance, chaos takes over societies, and uncertainty expands everywhere." [Fernández, 2011]

The President of Peru Ollanta Humala, during his speech, recalled the meeting held by the Heads of State of UNASUR on 28 July 2011 and highlighted the fact that the countries of South America "have decided to act together, coordinating policies for the strengthening of the economic fundamentals and monitoring capacities of our financial systems." In this regard, as part of the efforts aimed at the construction of a new regional financial architecture, he stressed that "we have established a South American Economy and Finance Council, which reflects our ability to promote dialogue and reach consensus for the benefit of all. Latin America will not weather this storm coming from the North unscathed. So we are preparing accordingly." [Humala, 2011]

The position of Nicaragua in the Plenary of the General Assembly of the United Nations was expressed by its Minister for Foreign Affairs, who referred to the crisis by saying that since the previous year, at the same forum, his country had shared concerns over "the serious and multi-faceted international crisis bearing down on humanity," adding that now "expectations that the international economic and financial situation would improve dissipated in the face of the relentless reality of a profound crisis."

The representative of the Central American nation noted that "developed societies are sinking into desperation provoked by unemployment, the lack of social security, financial insolvency, the implosion of conquered labour rights, and an uncertain future (...) Economic and financial recovery are nowhere in sight; on the contrary specialists foresee a recession that is even more grave than the one we have undergone."

The Nicaraguan Minister explained that "it is not simple for developing countries such as ours to deal with the scope and depth of the global economic and financial crisis. We have not recovered from the harsh effects of the last wave and the new threats of another and greater crisis now bear down on us." Regarding the financial situation, he claimed that "the international financial system, which is controlled by speculators, is once again in a spin, The measures taken had a temporary effect no longer present because of increased greed by bankers. We are now witnessing how the United States internal debt problem is causing great losses to most exchange markets."

Bearing in mind the above scenario, the Nicaraguan official mentioned the relevance of the participation of his country in the ALBA-TCP alliance by declaring that "we fervently support the cause of Central American, Latin American and Caribbean integration and unity. Within the framework of the Bolivarian Alliance for the Peoples of Our America, complementary efforts, investments, fair trade, and solidarity are helping us to anchor our model." [Santos, 2011]

Also released during the session of 27 September was a message from the President of Venezuela Hugo Chávez Frías, which was conveyed by the People's Minister for Foreign Affairs of that nation. As part of the release and after making reference to the structural

crisis of the world system and to the worsening energy and food crisis, it is recognized that, in the context of regional integration, "from Latin America and the Caribbean powerful and dynamic regional alliances have emerged, seeking to shape a regional democratic space, respectful of the particularities, and eager to put an emphasis on solidarity and complementarity, in order to foster what ties us and settle, politically, what keep us apart." In this regard, the Venezuelan President spoke of convergence efforts such as ALBA-TCP and UNASUR, and then he reminded those present of the upcoming Summit of Heads of State and Government of the 33 countries of Latin America and the Caribbean which will give rise to the creation of the Community of Latin American and Caribbean States (CELAC).

The views of Ecuador were conveyed by its Permanent Ambassador to the United Nations who recalled that the President of that nation, Rafael Correa, attended the June 2009 United Nations Conference on the World Financial and Economic Crisis and its Impact on Development, convened by then President of the General Assembly Miguel D'Escoto. On that occasion, President Correa stressed that The financial debacle is just a symptom of the crisis of a system that privileged the speculative-financial economy over the real economy."

More than two years after the conclusion of that Conference, the Ecuadorian representative highlighted that "unfortunately, except for a few cosmetic solutions regarding the governance of the Bretton-Woods institutions, the multi-million and paradoxical refinancing of some sectors that caused the crisis and a weak follow-up mechanism to evaluate the commitments made in the Final Document of the 2009 Conference, nothing has changed, the world continues to wait for financial and monetary regulation and coordination to ensure economic stability, access to credit, full and productive employment, trade financing, debt sustainability, social security and ultimately a true global partnership to protect and promote development."

Given this scenario, the official said that "Ecuador makes an urgent call for a comprehensive reform of the global financial and economic system, including measures such as the creation of a Council of Economic Coordination and the establishment of an independent Sovereign Debt restructuring and resolution mechanism, among other proposals that can and should be discussed at a follow-up conference to the one originally held in 2009."

During his speech in the Plenary of the General Assembly, the Ecuadorian Ambassador made reference to the challenges of the global economic instability "deepened by this new phase of the 2009 financial crisis," and emphasized the fact that Ecuador promotes the creation of a new regional financial architecture to mitigate the negative effects faced by the economies of the area because of its links with the international financial system. In this regard, the Ecuadorian representative noted the efforts that his country has been making, on the one hand, promoting a comprehensive reform of the global financial and economic system, and on the other hand, advocating for the achievement of regional monetary arrangements "that involve a semi-flexible exchange rate regime and a common reserve fund, with a view to a true regional exchange-rate regime and a regional currency."

Regarding such new regional financial architecture, the Ecuadorian Ambassador pointed to the creation of the Bank of the South, the main objective of which is "to finance development projects of a multinational nature, with a strengthening of local and regional currencies, and linked to a common reserve fund for Latin America, which will

allow us to deal with the crisis and to prevent billions of dollars of our region from continuing to be deposited in banks that are based in developed countries."

Referring to the reserve fund, the Ecuadorian official explained that "it is complemented with a regional payment system which has begun to operate through the Regional Clearance Unitary System (SUCRE), a mechanism that has started to pave the way towards a common physical currency in our region – with excellent results to date." Additionally, he said, "these regional initiatives can and should be integrated into an institutional framework that goes beyond economic and financial dimensions such as the Union of South American Nations (UNASUR), whose Permanent Secretariat is located in Quito, Ecuador; the Community of Latin American and Caribbean Countries (CELAC); and the Bolivarian Alliance for the Peoples of the Americas (ALBA)." [Carrión, 2011]

A fundamental space to promote the position of the Latin American and Caribbean countries is the framework of activities arising from the mandates originated at the Summit of Latin America and the Caribbean on Integration and Development (CALC) held in February 2010 in Cancun, Mexico. As part of the fulfilment of those mandates, the meeting of Ministers of Foreign Affairs of the CALC and the Rio Group took place on 3 July 2010, resulting in the adoption of the Ministerial Declaration of Caracas, as well as the Caracas Work Programme for the Implementation of the Action Plan of Montego Bay (2010-2011).

Regional integration mechanisms have also served as suitable spaces for both addressing the financial and economic crisis and stressing the need to promote actions against it. In this connection, the Ministers of Economy and the Presidents of the Central Banks of UNASUR met on 12 August 2011 in Buenos Aires, Argentina, to discuss the complex international economic context, resulting in the establishment of the Working Group on Financial Integration (GTIF, Spanish acronym), chaired by Argentina. This Working Group is in charge of coordinating three sub-groups. Made up by Colombia and Ecuador, the first sub-group will focus on the analysis of the Latin American Reserve Fund (FLAR); the second sub-group, formed by Venezuela and Uruguay, will be working on Means of Payment and International Compensation for Trade; and the third one, consisting of Brazil and Chile, will explore Intra-regional Trade and the possibility of integrating production lines.

Three months later, on 25 November 2011, the Finance Ministers and the Central Bank Presidents met again in Buenos Aires, already in their capacity as Council of Economy and Finance of UNASUR. The Final Declaration of the meeting reiterated that within the context of a strong economic and financial crisis "UNASUR requires one or more efficient payment and compensation systems, which reduce time and cost of transactions handled through them, compared with traditional systems" [South American Council of Economy and Finance, 2011]. The meeting reviewed the progress made by different countries as regards the Bank of the South and invited non-signatory countries to join the bank. In addition, the GTIF submitted to the meeting a report on the sub-working created in the previous meeting.

Among the documents and proposals submitted to the GTIF, a working document was submitted by Colombia and written proposals were presented by Ecuador and Venezuela. The document submitted by Colombia recognizes the importance of regional reserve funds as financial protection mechanisms and argues that strengthening the Latin American Reserve Fund (FLAR) and expanding its membership would benefit the entire region.

Ecuador's proposal focuses on the creation of a new reserve management fund that would be called UNASUR Reserve Fund, whose primary mission would be to redefine the use of resources in the region to finance development. Even though this proposal could be carried out by taking advantage of the infrastructure and technological capabilities already existing at FLAR, the fund would have to undergo a thorough reform of its functions.

In turn, Venezuela proposes to create a Fund of the South, which would have a broader scope than central banks and would operate in coordination with the new regional multilateral banks and development funds. As part of its functions, such fund would grant financial facilities to both central banks and governments to face balance of payments imbalances, debt restructuring processes, natural disasters, and temporary or emerging liquidity problems. Venezuela's proposal also underscores that the South American Council of Economy and Finance should prepare a Draft Constitutive Agreement for the Fund of the South, as well as the draft agreements to establish anti-crisis mechanisms in the short term, suggesting a six-month period for submitting such documents.

Also as part of the initiatives promoted at UNASUR to discuss views on the crisis of the international financial system, the I Meeting of Central Banks took place in Quito on 11 February 2010. Recommendations made included the need to redefine the role of the regional multilateral agencies, going beyond diagnostics and looking for a way to revive those mechanisms that have become obsolete or insufficient.

After that meeting, the second conference of Central Banks, called the II Meeting of Authorities and Technical Delegates of Central Banks of South America and Other Regional Agencies, was held on 16 and 17 August with the participation of delegates from national and international institutions. This meeting provided a space for reflection on issues such as the current situation in the region, integration mechanisms, regional monetary and financial cooperation, and the role of development banks and multilateral financial organizations.

Among the conclusions of the event, it was considered important to make some headway in areas such as streamlining the processes that would lead to the commencement of operations of the Bank of the South; supporting the work of central banks and regional organizations to promote the integration process and regional financial cooperation; strengthening the debate on the proposals for a New Regional Financial Architecture in regional, subregional, national and multilateral spaces; and promoting channels of communication among the various agencies that make up the new regional financial architecture in order to avoid duplicating efforts and expenditures for a common purpose.

Another forum promoting the analysis of the global and regional financial scenarios was the Regional Meeting of the Latin American and Caribbean Economic System (SELA) on Reform of the International Financial Architecture and Monetary and Financial Cooperation in Latin America and the Caribbean, which was held on 8 and 9 April 2010 at the headquarters of the SELA Permanent Secretariat in Caracas with the participation of delegates from 17 Member States and representatives of regional organizations such as the Latin American Association of Development Financing Institutions (ALIDE), the Caribbean Development Bank (CDB), the Bank of ALBA, the Inter-American Development Bank (IDB), the Andean Community (CAN), the Development Bank of Latin America (CAF), the Economic Commission for Latin America and the Caribbean (ECLAC), the Latin American Reserve Fund (FLAR) and the United Nations Conference on Trade and Development (UNCTAD), as well as several other international agencies.

Highlighted among the recommendations that emerged from that meeting is the need to further analyze the reform of the international financial architecture and the monetary and financial cooperation among the countries of the region; to continue with the debate on the proposal for a future regional financial architecture that includes the creation of a Regional Development Bank, a Regional Contingency Fund, and a regional monetary area; to contribute to the fulfilment of the decisions made at the two previous CALC meetings (Salvador de Bahia 2008 and Cancun 2010) regarding the promotion of regional monetary and financial cooperation; and to maintain a permanent and dynamic exchange of experiences among the countries of the region concerning the subject matter of the meeting.

3.- Recent performance of mechanisms for monetary and financial cooperation in the region

This section reviews the performance of existing monetary and financial cooperation mechanisms in Latin America and the Caribbean in the recent period, and therefore in the context of the global crisis, focusing first on the developments in those mechanisms that have been operating for a longer time, and then on recently created mechanisms.

a.- Performance of longstanding mechanisms

Inter-American Development Bank (IDB)

On 31 January 2012, the process to approve the expansion of IDB resources was completed. On that day, the Board of 48 Governors of the Bank concluded the vote on the resolution authorizing such extension with the support of the respective legislatures of their countries.

The assessment to increase the Bank's ordinary capital resources and to replenish the Fund for Special Operations (FSO, which finances operations in the poorest countries of the region), including a public consultation on the subject, [19] began in March 2009, when the Assembly of Governors agreed to start such work during the IDB Annual Meeting, held in Medellin, Colombia. For this purpose, three months later the bank issued a document entitled "*Review of the need for a General Capital Increase of the Ordinary Capital and Replenishment of the Fund for Special Operations: Progress and next steps*."[20]

As indicated in its introduction, the Review addresses the following issues:

> (i) the requirement for a new institutional strategy, discussed in Sections III and IV, which will include a focus on the region's continued development challenges, the gaps in achieving the Millennium Development Goals (MDGs), and the Bank's strategic priorities and comparative advantages; (ii) the need for a rigorous

[19] The public consultation was conducted from 8 September 2009 to 9 January 2010. At the end, a report on the subject was prepared and submitted by the Consensus Building Institute [2010], which "reflects the major issues and views received during the consultation," summarizing the "workshop comments" made directly by participants or through video conferencing in nine cities, as well as those received in the Bank's Web site.

[20] In addition to this document, a report with recommendations prepared by a six-expert Commission, headed by Pedro Pablo Kuczynski, was also issued as part of the review of capital increase as an input for the public consultation. This report stated that "the Commission has no doubt that there are powerful reasons for a significant increase in the Bank's loans for coming years, both from ordinary capital and from resources of the Fund for Special Operations for the smaller and poorer countries". [Kuczynski, *et al.*, 2009: 5].

> analysis of the demand for IDB resources, dealt with in Section V, which shows aggregate estimated borrowing needs; (iii) an assessment of the needs of the poorest countries in the region and demand for FSO resources, as well as expected demand for private sector activities, which is presented within the demand analysis; and (iv) the implementation of initiatives aimed at improving the Bank's efficiency and development effectiveness, discussed in Section VI. Additionally, Section II reviews the contribution of the Bank to the region's economic and social progress under the Eighth General Capital Increase of Resources of the Bank." [IDB, 2009a]

A second milestone was the Annual Meeting of the Board of Governors, held in Cancun from 20 to 22 March 2010, to discuss the increase in the Bank's resources. The resulting Cancún Declaration reads: "To ensure that the Bank has adequate capital [...], we agree, subject to the completion of all requirements under our respective domestic laws and as further specified in this declaration, to pursue a capital increase for the Bank". The Declaration concludes: "the Board of Executive Directors and Senior Management will have a 60-day period to prepare the final general capital increase technical document." [IDB, 2010a]

As a result, in May 2010, the IDB published its *Report on the ninth general increase in the resources of the Inter-American Development Bank*, which is divided into six sections that cover:

> (i) the situation of the LAC region at the time of IDB-9 discussions and the Bank's capacity to address development needs; (ii) the Bank's Institutional Strategy for IDB-9, including instruments for measuring results and ensuring accountability in the use of the new resources available due to the increased capital base; (iii) the Agenda for a Better Bank; (iv) the financial parameters for the increase of both the OC and the FSO; (v) the regulations for IDB-9; and (vi) recommended actions for the implementation of IDB-9. [IDB, 2010b]

The report was approved by the Board of Governors on 21 July 2010, thus defining the terms for the increase in the Bank's ordinary capital. The replenishment of US$ 479 million for the Fund for Special Operations (FSO) was also agreed to at that meeting, thereby starting the process for ratification of these agreements by the legislative bodies of the countries, which concluded on 31 January 2012.

The US$ 70 billion increase in the Bank's ordinary capital is the highest of the nine capital increases agreed to since its creation. With this boost, the IDB's ordinary capital will total nearly US$ 171 billion.

Out of the US$ 70 billion increase in the Bank's ordinary capital, US$ 1.7 billion will be contributed as paid-in capital by the shareholders and the remaining US$ 68.3 billion will be in the form of callable capital. Thus, the capital increase should be achieved by 2015, to the extent that the legislative bodies of the member countries grant necessary funding. Table 4 shows the amount of the ninth capital increase by member countries, and the amounts before and after such increase.

Table 4 IDB Ordinary Capital (US$ million)			
	Before the 9th increase	**9th increase**	**After the 9th increase**
Regional members	84831	58815	143646
• Developing countries	50482	35010	85492
• Canada	4039	2801	6840
• United States	30310	21004	51314
Extra-regional members	16109	11185	27294
TOTAL	100940	70000	170940
Source: Based on IDB data [2010: 39-40]			

During the process of discussion and approval of the increase in resources over the last two years, the IDB continued to provide financing to the countries in the region, channelling resources from its 48 member countries, loans obtained from financial markets, the trust funds under its administration, and co-financing operations. As a reaction to the global crisis and the subsequent restrictions to the countries' access to financial markets, as of 2008, the IDB substantially increased its approved loans by creating a new emergency financing mechanism: the "Liquidity Program for Growth Sustainability."

In this context, during 2010, the IDB approved loans and guarantees for US$ 12.464 billion and its loan disbursements amounted to US$ 10.773 billion. In 2009, its loans and guarantees reached US$ 15.507 billion and disbursements amounted to US$ 11.851 billion.

Also in 2010, the non-reimbursable funding approved – including non-reimbursable investment funding – amounted to US$ 570.8 million, while in 2009 such approvals amounted to US$ 480 million, i.e., a 19% increase. Including the funding for the Social Entrepreneurship Program (SEP) and the non-reimbursable IDB Grant Facility for Haiti, the total amount of approvals for the year 2010 reaches US$ 830.1 million.

Table 5 provides data on the target sectors of IDB operations in 2010, which focused on the area of Infrastructure and Environment, followed by Institutional Capacity and Finances, which captured over 75% of IDB operations.

Table 5 Distribution of IDB operations in 2010, by sectors* (US$ millions and percentages)		
	Amount	**%**
Infrastructure and Environment	5,360.1	42.2
Institutional Capacity and Finances	4,494.9	35.4
Integration and Trade	45.0	0.4
Social Sector	2,805.2	22.1
Total	12,705.1	100.0
* Includes loans, guarantees and operations funded by the IDB Non-Reimbursable Facility.		
Source: IDB [2011: 26]		

Table 6 provides a breakdown by country of IDB financing with aggregated figures for the period 1961-2008 and disaggregated figures for 2009 and 2010, identifying those countries

that received loans and guarantees exceeding US$ 100 million in any of those two years. Significant changes can be seen in the countries' share in IDB financing both between 2009 and 2010, and in that two-year period as compared to the 48 previous years, as evidenced by the downward trend in the cases of Argentina, Peru and Uruguay, and the upward trend for Mexico and Venezuela.

TABLE 6
IDB Annual loans and Guarantees, by country (percentages of total)

	1961-2008	2009	2010
Argentina	16.0	10.3	9.3
Bolivia	2.3	1.2	1.6
Brazil	20.4	19.1	18.1
Colombia	8.9	8.7	5.5
Ecuador	3.0	3.3	4.1
El Salvador	2.2	2.1	3.5
Guatemala	2.1	4.3	2.4
Jamaica	1.2	2.6	2.4
Mexico	13.1	20.2	24.4
Nicaragua	1.6	1.1	1.7
Panama	1.9	4.5	2.7
Paraguay	1.4	1.5	1.4
Peru	5.4	2.9	2.7
Dominican Republic	1.9	6.4	2.7
Trinidad and Tobago	0.7	0.3	1.1
Uruguay	2.8	2.1	0.7
Venezuela	3.0	6.4	7.1
Regional	2.0	0.6	0.5
Other 9 countries	10.1	2.2	7.9
TOTAL	**100.0**	**100.0**	**100.0**

Source: Based on IDB data [2009: 45], [2010: 38] and [2011: 27]

CAF-Development Bank of Latin America (CAF)

In the context of continued deterioration of the global economic and financial scenario since the second half of 2011, and against the backdrop of the crisis in the period 2008-2009 and the partial recovery registered in 2010, the CAF-Development Bank of Latin America has carried out a series of initiatives to further its fundamental purpose of "promoting sustainable development and regional integration, by providing multiple financial services to clients in the public and private sectors of its shareholder countries." [Andean Development Corporation, 2009]

Against such backdrop of vulnerability to external shocks, shortages and rising prices of resources in major financial markets, a series of efforts and initiatives in this area have been undertaken in Latin America in order to face the complex conditions prevailing in the global economy. An example thereof is CAF-Development Bank of Latin America, an institution that consolidated its position as a regional development bank during 2009, 2010 and 2011, by increasing its membership, receiving new capital contributions from its shareholders, expanding its loan portfolio and improving its credit rating. This has enabled it to remain the main source of multilateral financing for its founding countries (Bolivia,

Colombia, Ecuador, Peru and Venezuela), while becoming an increasingly important source of financing for the rest of its shareholder countries in Latin America and the Caribbean.

In terms of its membership, a major breakthrough was the incorporation of Portugal as a shareholder on 30 November 2009 within the framework of the Ibero-American Summit of Heads of State and Government held in Estoril, Portugal, as well as the fact that Brazil, Panama and Uruguay became full members during 2010, providing new capital contributions to the institution. At present, CAF's shareholders include: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Spain, Jamaica, Mexico, Panama, Paraguay, Peru, Portugal, Dominican Republic, Trinidad and Tobago, Uruguay and Venezuela, as well as fourteen private banks in the region.

Proof of the growing importance of CAF as a provider of financial resources is the fact that its loan portfolio reached a record high of US$ 13,783 million by the end of 2010, as shown in Table 7, increasing by 18% over the previous year, when it stood at US$ 11,686 million. By the end of the third quarter of 2011 its loan portfolio exceeded US$ 15,004 million. With respect to the distribution of its loan portfolio by country in 2010, Ecuador accounted for 17.7% of the total loan portfolio, followed by Venezuela with 16.2%, Peru with 15.8%, Colombia with 14.3%, Argentina with 10.1%, Bolivia with 9.4%, and Brazil with 8.1%, among the main recipients of resources.

Table 7
CAF: Loan portfolio by country
(thousands of dollars)

	By 30 September		By 30 September		
	2011	**2010**	**2010**	**2009**	**2008**
Argentina	1,696,764	1,238,464	1,395,137	1,156,848	-
Bolivia	1,365,097	1,234,450	1,301,123	1,157,668	1,102,062
Brazil	1,125,351	1,067,094	1,115,992	1,033,705	825,400
Colombia	2,025,017	1,660,132	1,965,880	1,688,710	1,705,284
Costa Rica	138,263	140,388	152,388	151,513	109,625
Ecuador	2,565,615	2,342,043	2,436,631	2,051,732	2,017,638
Jamaica	4,945	-	-	-	-
Mexico	19,121	20,000	19,466	-	-
Panama	269,157	141,659	139,604	126,121	100,060
Paraguay	90,749	24,515	66,049	27,687	37,165
Peru	2,624,050	2,329,517	2,181,681	1,864,529	1,769,725
Dominican Rep.	156,211	101,387	119,722	75,000	55,428
Uruguay	469,004	632,144	656,678	581,510	231,613
Venezuela	2,449,313	2,181,051	2,227,613	1,765,088	1,535,146
Total	**14,998,657**	**13,112,844**	**13,777,964**	**11,680,111**	**10,182,107**
Adjustment	5,589	8,274	5,079	6,578	1,961
Total	**15,004,246**	**13,121,118**	**13,783,043**	**11,686,689**	**10,184,068**

Source: CAF [2011a].

The loans granted by CAF form part of its *Agenda for Integral Development*, which is aimed at achieving strong, high-quality, sustainable growth. This agenda, in turn, includes an Agenda for Infrastructure, an Agenda for Social Development, an Agenda for Social Sustainability, an Agenda for Environment, and an Agenda for Competitiveness, International Insertion and Public Policy. In terms of distribution by sector, in 2010, CAF allocated 45.5% of its resources to the area of infrastructure, 16.7% to social and environmental development operations, 36% to the productive sector, through short and

medium-term credit lines, and 1.5% to structural reforms. Out of CAF's approved resources, funding for public sector projects accounted for 80% of its total portfolio, whereas the remaining 20% was destined to the private sector.

The increasing importance of CAF is also evidenced by the fact that total approvals during the five-year period from 2006 to 2010 amounted to US$ 39,778 million [CAF, 2011], whereas during its more than forty years of existence it has approved over US$ 72,000 million.

More recently, in anticipation of the possible negative impacts of the international economic and financial crisis on the region, the Board of Directors of CAF decided to approve an additional increase of US$ 2,000 billion in the paid-in capital of the institution. This second capital increase, in addition to the US$ 4000 million approved in 2009, would double the bank's assets over the next five years, thereby consolidating the projects and services it offers.

The new capital increase, to be paid between 2013 and 2016, will not only provide greater financial strength and shield the institution, but will also allow it to increase approvals, disbursements and its loan portfolio. Moreover, with this new injection of resources, the bank is expected to approve projects for an amount estimated between US$ 75,000 and US$ 80,000 million for the period 2012-2017, thus strengthening the role of this Development Bank as a countercyclical mechanism during periods of uncertainty in financial markets and as the main source of multilateral financing for its shareholder countries.

Latin American Reserve Fund (FLAR)

The Latin American Reserve Fund is a unique pool of reserves in the region, made up of contributions from Bolivia, Colombia, Costa Rica, Ecuador, Peru, Uruguay and Venezuela, which seeks to support economic stability of its member countries by improving their external position, enabling them to financial resources in order to address problems arising from external imbalances, and serving as a financial shield against liquidity or balance of payments problems.

According to Article 3 of its Constitutive Agreement, the objectives of the Fund are:

- To provide support for member countries balance of payments by granting credits or guaranteeing third-party loans.
- To contribute to the harmonization of member countries exchange, monetary and financial policies, thus facilitating fulfilment of commitments acquired within the framework of the Cartagena Agreement and the Montevideo Treaty of 1980.
- To improve the conditions of international reserve investments made by member countries

FLAR grants loans to the central banks of its member countries. To this end, it has a subscribed capital US$ 2,343,750,000, broken down as follows: those countries considered to have a "large economic dimension" – Colombia, Peru and Venezuela – contribute the amount of US$ 468,750,000 each, whereas those countries considered to have a "small economic dimension" – Bolivia, Costa Rica, Ecuador and Uruguay – contribute half the aforementioned amount, i.e., US$ 234,375,000 each.

The types of credits granted by the Latin American Reserve Fund are subject to the availability of existing cash resources. They are allocated in proportion to the contribution of member countries to FLAR's capital through various credit services as follows:

- Credits to support balance of payments. They are awarded for a three-year term with a one year grace period for capital amortization. Their amount is equivalent to 2.5 times the paid-in capital, except for the central banks of Bolivia and Ecuador, which have access to an additional 0.1% with respect to other member countries.
- Credits for central bank foreign external debt restructuring. They are awarded for a three-year term with a one year grace period for capital amortization. Their amount is equivalent to 1.5 times the paid-in capital, except for the central banks of Bolivia and Ecuador, which have access to an additional 0.1% with respect to other member countries.
- Loans for liquidity. They are granted for a term of up to one year, with limited access depending on paid-in capital, except for Bolivia and Ecuador, which have access to an additional 0.1% with respect to other member countries.
- Contingency credits. They are granted for a renewable period of up to 6 months. Their amount is equivalent to 2 times the paid-in capital, except for Bolivia and Ecuador, which count on an additional 2.1 times the paid-in capital.
- Treasury credits. They are granted for a period of one to 30 days and their amount is equivalent to 2 times the capital paid by the member country. No exceptions for Bolivia and Ecuador in this case.

In addition to the aforementioned credits marked, FLAR offers the following services to central banks and official institutions of member countries: a) Term deposits, b) Sight deposits, c) Issuance of FLAR FIX zero-coupon notes, d) Trust and asset management, and e) Advisory services. [Latin American Reserve Fund, 2011b]

More than three decades have elapsed since FLAR's foundation, when it was originally established as the Andean Reserve Fund. Ever since, FLAR has approved credits to its member countries for about US$ 10 ten billion, as shown in Table 8. Recent disbursements include the balance of payments credit granted on 13 July 2009 to the Republic of Ecuador for US$ 489 million, which stood at US$ 420 million by 31 December 2010, when the country made its first amortization during the second half of 2010.

Table 8
Latin American Reserve Fund:
Amount of credits approved by member country
1978-2011 (US$ millions)

Country	Amount	% of total
Bolivia	1,583	16.2
Colombia	1,958	20.0
Costa Rica	178	1.8
Ecuador	3,506	35.9
Peru	2,011	20.6
Uruguay	---	
Venezuela	532	5.5
Total	**9,768**	**100.0**

Source: Latin American Reserve Fund [2011b]

As can be concluded from this review, while in Latin America and the Caribbean reserve funds are still in an earlier stage of evolution in comparison with development financing, FLAR has shown its potential to serve as a liquidity insurance in times of external

imbalances for countries with balance of payments problems, as it constitutes a kind of insurance shared by shareholder countries to tackle crisis in their current accounts and capital accounts. Nevertheless, it should be noted that this fund manages a limited amount of resources and has granted a small number of loans. Therefore, it is urgent to strengthen and expand this mechanism so that it can better respond to the needs of its member countries, amid a particularly complex and uncertain scenario.

The Fund could be strengthened and expanded in different ways: Either by increasing its membership, by increasing the quota contributions from its member countries, or by increasing the resources obtained by this mechanism in international capital markets. Nonetheless, by simply expanding FLAR alone it will not be possible to solve many of the problems faced by the countries of Latin America and the Caribbean with their balances of payments due to external imbalances, in view of the unpredictable impacts from a troubled global context and an international financial system that is undergoing a deep and prolonged crisis. Therefore, it is crucial to create a Latin American and Caribbean Regional Contingency Fund, based on the experience gained by FLAR for over more than three decades, so that it can become one of the pillars of the New Regional Financial Architecture that the region urgently needs.

Agreement on Reciprocal Payments and Credits of ALADI

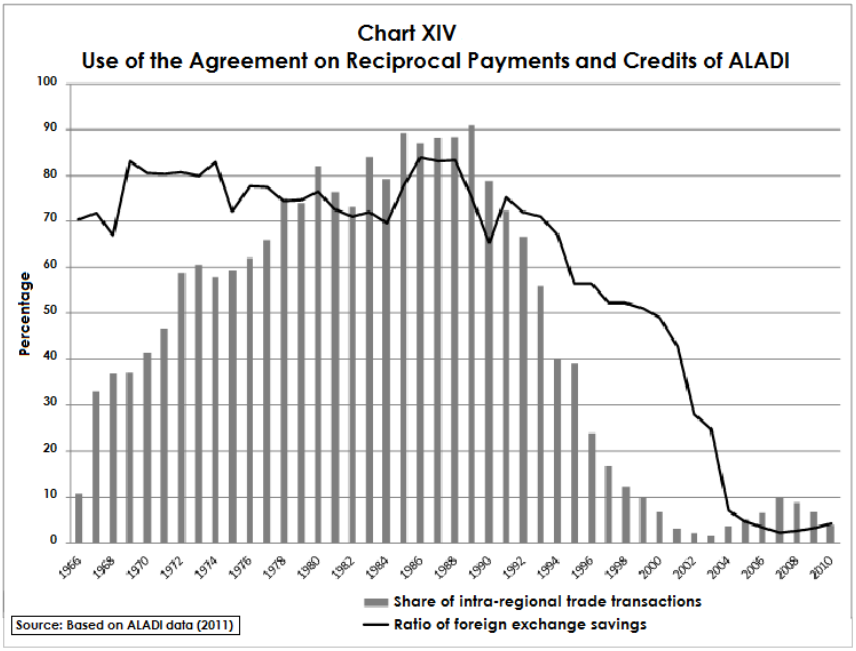
By 2012, the Agreement on Reciprocal Payments and Credits of the Latin American Integration Association (ALADI) has been operating for almost 30 years, since it was established in Montego Bay, Jamaica, on 25 August 1982 by the central banks of most countries of ALADI plus the Dominican Republic. At that time, it replaced the "Mexico Agreement" of 1965, which kickstarted trading operations through a multilateral clearance mechanism for payments in freely convertible and transferable currencies among the central banks of the member countries of the then-called Latin American Free Trade Association.

During the last 30 years, the Agreement (CCR, Spanish acronym) has complied with its basic objectives: encourage financial relations among the countries of the region; facilitate the expansion of reciprocal trade; reduce foreign currency flows among participants; and systematize mutual consultations as regards monetary issues, foreign exchange and payments. The main elements of the CCR are, on the one hand, a payment clearance mechanism which settles debit balances every four months on a multilateral basis plus the interests generated by such debits during the period; and on the other hand, a guarantee system that provides for convertibility of national currencies into dollars, transferability of dollars through the mechanism, and reimbursements among the central banks for the operations conducted in accordance with agreement.

Some of the major achievements of the CCR over its three decades of operation are shown in Chart XIV, which makes a clear distinction between two phases.

During the first phase – from 1966 until the late 1980s – the use of this mechanism for intra-regional imports went steadily on the rise, reaching its highest levels during the crisis of the 1980s, within a context of declining intra-regional trade and the subsequent serious shortage of foreign currency. In 1989, this mechanism posted a record high, with 91% of intra-regional imports being channelled through it. Also, until the late 1980s, high levels of foreign currency savings were recorded as a result of the transactions made through the CCR, ranging from 67% to 84%.

During the second phase – since the early 1990s, when intra-regional trade started to recover and countries began to gain greater access to foreign currency – the CCR experienced a rapid decline in its share of intra-regional trade transactions channelled through it, in its ratio of foreign exchange savings, and its volume of operations. The share of intra-regional trade transactions channelled through the CCR plummeted to a record low of 1.5% in 2003, whereas its ratio of foreign exchange savings fell to its lowest level in 2007, with both posting a slight recovery in subsequent years. In addition, the relative importance of the transactions made through the CCR has fluctuated drastically. By 2010, both Car's share of intra-regional trade transactions and its ratio of foreign exchange savings stood at 4% – a very small fraction compared to the levels they had reached twenty years ago.[21]



For several years now, ALADI has followed up such deterioration in the performance of the CCR and has analyzed its causes and possible solutions. Accordingly, in April 2009, in the midst of the global financial crisis, ALADI held at its headquarters the "Seminar on the Revitalization of the Agreement on Reciprocal Payments and Credits and the Use of in Local Currency Payment Systems". At the Seminar, the General Secretariat of ALADI submitted a document[22] on the subject, which contained the following assessment:

> "In 1990, the Agreement began to lose weight as an instrument to facilitate intra-regional trade, among other reasons, because of an increase in net capital inflows to the region, greater trade and financial openness, and the restrictions on the use of the

[21] According to ALADI data ([2009] and [2010]), both poor recovery and fluctuations in the ratio *channelled operations/intra-regional trade* were mainly due to the use by Venezuela of such operations to finance its imports. The ratio *operations/intra-regional trade* was 65.6%, 47.5% and 41.4% for 2008, 2009 and 2010, respectively. Such figures were very much higher than those of any other country participating in the CCR, to the extent that, according to an assessment made by ALADI [2009], in relation to ALADI's total, "Venezuela concentrated, on average, 85.4% of total debits during the period 2004-2008".

[22] A background document on the subject, prepared by the organization in the late 1990s, was the one entitled "Analysis and Recommendations on the Agreement on Reciprocal Payments and Credits of ALADI." [ALADI, 2000]

> CCR imposed by internal regulations of central banks of some member countries. In this connection, emphasis should be made on the elimination of mandatory crossing of intra-regional trade operations and other limitations in the agreement, including top amounts for credit lines for institutions, maximum operation amounts, requirement of guarantees, and collection of fees imposed by central banks in order to minimize credit risks assumed as a result of guarantee grants." [ALADI, 2009: 7]

The document stated: "in order to encourage the analysis of possible changes in regulations or operations leading to strengthening the Agreement", a series of issues to be analyzed were grouped into four categories: "mandatory operations; reimbursement guarantees; limits for credits, amortization periods and interest rates applied; and other issues associated with the operation." [ALADI, 2009: 10]

Nevertheless, there is a growing need to review the operation of the CCR not only because of the persistence of the global crisis, but also in view of the ongoing debates and actions regarding the construction of a new regional financial architecture, which have been gaining strength in recent years. In this context, ALADI's CCR has become a reference and a subject of discussion in some of the agreements and mandates issued at the meetings of Latin American and Caribbean Presidents.

In this regard, paragraph 13 of the Declaration of Cancun, dated February 2010, underscores the following agreement:

> "To hold a meeting on the Agreement on Reciprocal Payments and Credits (CCR) to be convened by ALADI, inviting representatives of other payment and reciprocal credit systems existing in the region, as well as Latin American and Caribbean countries that are not members of the CCR, in order to exchange information on such system." [Heads of State and Government of Latin America and the Caribbean, 2010]

Pursuant to this mandate, on 22 and 23 July 2010, the "Meeting on the Agreement on Reciprocal Payments and Credits of ALADI" was held in Santo Domingo, Dominican Republic. It was convened by the General Secretariat of the Association in order to "exchange and disseminate information on the operation of the Agreement on Reciprocal Payments and Credits of ALADI among the countries of Latin America and the Caribbean that are not members thereof, including representatives of other payment and credit systems in the region." [ALADI, 2010a]

The Final Report on that meeting stated: "in reference to the consultations made to the General Secretariat as regards the Agreement on Payments, the responses allowed for delving deeper into all aspects related to the system; i.e., its operation, evaluation, the actions undertaken to make it more dynamic, and requirements for membership, among other aspects, as well as the consultations on the technical work that the General Secretariat and the central banks of its member countries are conducting, on the basis of the recommendations and mandates issued by the relevant bodies." [ALADI, 2010b]

In addition, in the section on "complementarity and cooperation among regional and subregional integration mechanisms" of the Caracas Action Plan – agreed to in December 2011 – a paragraph referred to economic aspects of trade defines tasks such as: "e. Deepen the discussion and exchange of ideas concerning the ALADI Agreement on Reciprocal Credits with a view to deepening, modernizing and expanding it. f. Request

ALADI to cooperate as regards these matters." [Heads of State and Government of Latin America and the Caribbean, 2011a: 5-6]

Although such tasks in the Caracas Action Plan were defined just a few months ago, complying with them will surely become a priority in the future activities of ALADI.

b.- Performance of recently-created mechanisms

While the crisis in the international financial system has become increasingly acute, rendering specific strategies and measures – among which the substantial increase in the volume of resources managed by agencies like the IMF appeared to be central – insufficient and in some cases even obsolete despite just recently being touted as effective and necessary steps to initiate a long term structural correction of the international financial system, there is clear evidence that several years before the outbreak of the great global crisis of 2008, Latin America and the Caribbean had already begun to create a series of new monetary and financial mechanisms and instruments with the aim of strengthening the position of the region before the constant ups and downs and shocks in the international financial system and the effects that such instability usually had on the economies of the countries in the region.

Despite problems, such initiatives have been gradually undertaken, increasingly proving themselves appropriate in a setting characterized by speculative shocks and the related fragility and vulnerability of most economies of the region vis-à-vis the extent and scale of external shocks.

The above context – dominated by the implementation of specific actions aimed at mitigating some of the most damaging effects of a faltering international financial and monetary system) – led to coordinated efforts to deepen, modernize and expand the Reciprocal Payment and Credit Agreement of the Latin American integration Association (ALADI) – as an objective set forth in the Caracas Action Plan 2012 –, the Local Currency Payment System between Argentina and Brazil, the Bank of the South, the Regional Clearance Unitary System (SUCRE), and the Bank of ALBA. All of these efforts are intended to strengthen the autonomous capacity of the countries in the region and to promote a reduction of the risks directly associated with an outright insertion in the set of institutions comprising the international financial system.

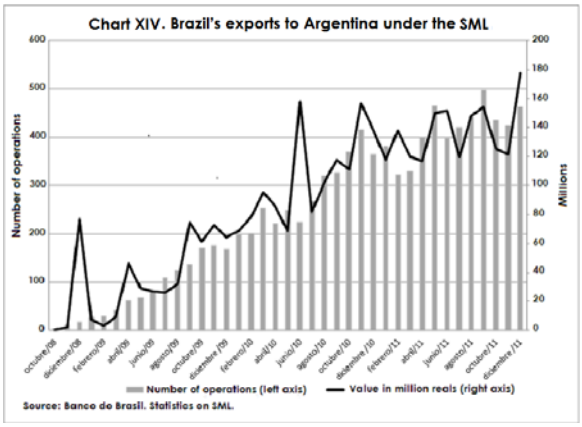
Local Currency Payment System (SML)

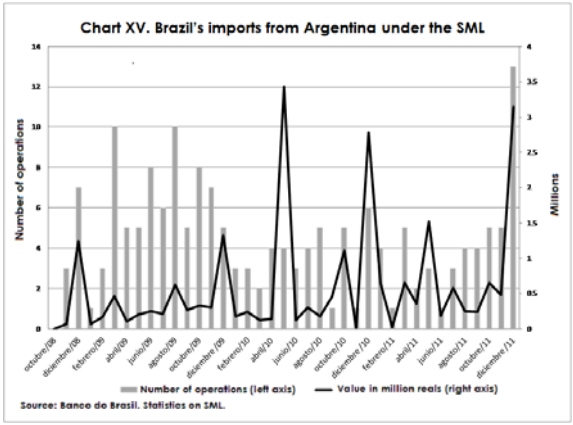
Conceived as a low-cost financial instrument to facilitate transactions involving the Argentine peso and the Brazilian real (Central Banks of Argentina and Brazil, 2008), the Local Currency Payment System (SML) is a computer-based bilateral payment mechanism that enables small- and medium-sized operators to become acquainted with the local currency of another country, thus creating instruments to strengthen the integration process and increasing the liquidity of the commercial exchange market between the two countries.

Created by the Central Bank of the Republic of Argentina and the Central Bank of Brazil, one of the main virtues of the SML is that it reduces foreign currency transfers between both countries, compensating account balances for each Central Bank on a daily basis as originated from the payment operations between natural or legal persons that are domiciled, based or headquartered in the two countries. [Central Banks of Argentina and Brazil, 2008]

Supported by a broad and growing banking system which has been authorized by each country to operate the SML, this mechanism is a supplementary option in addition to the payment systems traditionally existing between Argentina and Brazil, speeding up compensation and the transfer of assets between the two countries with the administrative formalities and procedures performed generating no additional fees or costs for the users.

Just over three years from its inception, the results of the Local Currency Payment System between Argentina and Brazil are favourable considering some indicators of its evolution, such as growth in the number of operations conducted on a monthly basis through this mechanism, the value of operations in millions of pesos/reals, the gradually increasing share of SML amounts within total financial flows between both countries, the number of users per month, and the increase in the participation of new users, among others. Charts XIV and XV show the evolution of the first two indicators.





Despite its merits – such as enabling the reduction of timeframes for the completion of transactions and payments, providing the general public with prompt access to new financial services and, most importantly, being a viable and secure instrument to facilitate and strengthen regional financial integration – some shortcomings are still present in the functioning of the system that should not be overlooked, including the fact that even though the number of operators using the system and the amounts exchanged through it have been on the increase, the flows channelled through the SML still remain relatively low (less than ten percent) compared to the total value of trade exchange between the two countries. Incidentally, most trade flows continue to use foreign currencies – particularly U.S. dollars – to pay for transactions and exchanges.

Similarly, the SML also reflects a dimension of the asymmetries in the exchanges between the two economies, because the system is mostly used – in percentages ranging from eighty to ninety percent – for the payment of operations from Argentina to Brazil, while a much smaller use of this mechanism has been recorded for the completion of payments and operations from Brazil to Argentina, as can be seen in Chart XVI.

In concluding this brief review of the Local Currency Payment System, it would be worthwhile noting the differences between this instrument and ALADI's CCR, revised above. In this regard, Table 9 shows such differences, which cover various aspects, underscoring, in the case of the SML, the different paces for clearance, the use of local currencies, and the absence of guarantees from central banks, and in the case of the CCR, the fact that the central banks of participating countries provide reimbursement, convertibility and transferability guarantees.

Table 9 Differences between the Agreement on Reciprocal Payments and Credits and the SML		
Differences	**Agreement on Payments**	**SML**
Member countries	12 countries	Argentina and Brazil
Type of operations	* Trade in goods, including services and related expenses. * Does not set a fixed term, each central bank establishes it.	* Initially, it was conceived for trade in goods for up to 360 days, including services and related expenses. * It is expected to be expanded to cover all types of payments among countries.
Instruments	As determined in the Agreement.	There are no restrictions.
Currencies	* The trading operation is agreed to in dollars. * Importer and exporter use the currency determined by the internal regulations of each central bank.	* The trading operation is agreed to in the currency of the exporting country. * Both importer and exporter pay and collect payment in local currency
Guarantees granted by central banks	Reimbursement, convertibility and transferability	No guarantees are granted; only effectively paid operations are carried out.
Clearance among central banks	Clearance is conducted on a multilateral basis every four months, in dollars.	Clearance is conducted on a bilateral basis, every day or week, in dollars.
Credits among central banks	* There is a multilateral mechanism for credit lines. * Automatic Payment Program; multilateral payment plan in case of liquidity problems. *The eventual depletion of a credit line does not imply the suspension of already channelled operations.	* There is an Eventual Margin provided for in case the balance does not justify the transfer. * Balance must be paid on Fridays or whenever it exceeds 80% of the established value. * The lack of margin recomposition entails suspending the registration of new operations.
Source: ALADI Web site: http://www.aladi.org/nsfaladi/arquitec.nsf/VSITIOWEB/CPYCRVSsml.		

In short, even if the CCR can be redefined and strengthened, achievements under the SML between Argentina and Brazil, as mentioned above, show the vast opportunities opening up for the ordinary citizen with the use of this new, economic and flexible financial instrument which facilitates payments and transactions between the two countries and which, based on its operability and accessibility, has an important role to play among the range of mechanisms that are part of the new and increasingly necessary regional financial architecture. All this occurs in a period characterized by increasing foreign currency prices resulting from the uncertainty and volatility associated with a foundering international financial system threatening to further spread its negative effects with greater force to the rest of the financial and non-financial components of international economic relations.

Bank of the South

In the context of an emerging, broadly conceived regional financial architecture that protects and promotes the sovereignty of the countries in the region against the

conditionalities imposed by international financial institutions, the Bank of the South is to become a powerful tool for reducing vulnerability to external factors, providing resources to support production processes that should lead to less asymmetries, and capturing the savings of South American countries usually deposited in financial institutions of developed nations in the form of international reserves or private deposits.

Since its conception, the Bank of the South has been considered a "primary and essential institution of the new regional financial architecture". As defined in its Founding Document, the Bank is mainly intended to: 1) finance development in key sectors of the economy in order to improve competitiveness; 2) support development projects in social sectors to fight poverty and social exclusion; and 3) contribute to projects that foster the process of South American integration. [Presidents of seven countries, 2007]

Accordingly, the Bank of the South aims to finance economic and social development of the UNASUR countries which are members of the Bank with a heavy reliance on intra-regional savings, bearing in mind that "the economic and financial structures of South America have shown limitations in the development of financial markets, which causes domestic savings to flow out to more developed economies rather than being invested in projects of a regional nature. Such resources could be channelled internally to raise liquidity, revive investments, correct asymmetries, develop integrating infrastructure, promote employment and activate a virtuous circle which is essential for the economic, social and political transformation of the region." [Presidents of seven countries, 2007]

Following the signing of the Founding Document on 9 December 2007, the Presidents of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela signed the Constitutive Agreement for the Bank of the South in September 2009 on Margarita Island, Venezuela, which provides that "this Agreement is intended to establish a public international law-based financial entity with its own legal personality called 'Banco del Sur' (Bank of the South), which shall serve to finance economic, social and environmental development of its member countries in a balanced and stable manner by making use of intra- and extra-regional savings, as well as to strengthen integration, reduce asymmetries and promote the equitable distribution of investments among its member countries." [Presidents of seven countries, 2009]

Projected as a South American alternative to bodies such as the IDB, the World Bank and the IMF, the Bank of the South is to play the role of a regional development bank, thereby supporting South American regional integration. The Bank will be headquartered in Caracas, with two additional offices located in Buenos Aires and La Paz. With an initial subscribed capital of US$ 7 billion to be contributed by the Member States based on the relative size of their economies, the Bank will be capable of supporting a variety of entities, including government agencies, autonomous bodies, joint ventures, privately owned companies, cooperatives, as well as community and associative businesses. Priority shall be given to projects that enable and strengthen sovereignty in the fields of food, energy, health, natural resources and knowledge.

Obviously, there have been delays in the operational launching of the Bank of the South. Paragraph six of the Foundational Act of the Bank of the South states that the necessary steps would be taken "to complete, within 60 calendar days as of the signing of this Foundational Act, the process of preparing the Constitutive Agreement of the South Bank for the purpose of signing it". However, more than 21 months elapsed between the signings of the Act and the Agreement.

Such delays were due to a series of differences among participating governments regarding various topics that emerged throughout the process to establish the Bank. The most obvious differences are:

- Differences as regards the role that the bank should play in the region. While some countries want the Bank of the South to operate as a multilateral development bank, as an alternative to influential financial institutions such as the IMF, the IDB and the World Bank, others have stated that the Bank of the South should complement already existing institutions, rather than competing with them or aiming at replacing them.

- Conflicting viewpoints on the amount of initial capital contributions to the bank and their origin. Some governments expressed their view that contributions should be equal for all countries, but others said that they should be proportional to the size of each economy. As regards the origin of funds, there was no agreement as to whether they should come exclusively from public resources of each member country or could also be obtained from capital markets.

- Opposing views as regards the decision-making system, particularly voting mechanisms. Some countries argued that making greater contributions implies assuming greater risks, and therefore such situation should also imply having greater power in decision-making and management of the bank. Other countries claimed that the principle of "one country, one vote" should prevail in the various decision-making organs of the bank, in line with the need to democratize such system.

It should also be noted that some participating countries already count on relatively large development banks that conduct operations even at the regional level. Consequently, for those countries, establishing another development bank does not means as much as for other countries that do not have any similar national institution.

The aforementioned differences could also be seen from the perspective of the different economic and political interests between larger countries and smaller, relatively less developed ones. Clearly, this issue should be resolved, if the Bank of the South is to become a key element of both the New Regional Financial Architecture and the broader Institutional Architecture for Integration.

At any rate, governments seem to be overcoming such differences, and in the last quarter of 2011, two important steps were taken for the Bank of the South to start operations:

- On 7 September 2011, the Chamber of Deputies of Argentina ratified the agreement establishing the bank, which had been previously endorsed by the Senate of that country in June 2011. Thus the first condition for the bank to start operations was fulfilled: i.e., the ratification of its constitutive agreement by a simple majority of founding members, four out of seven, since Venezuela, Ecuador and Bolivia had already ratified the agreement.

- On 15 December 2011, the Congress of Uruguay also approved the subscription and establishment of the Bank of the South, becoming the fifth country to ratify the Convention. The importance of such ratification is that it will fulfil the second condition for the formal creation and start of operations of the bank: i.e., the ratification of the equivalent of two thirds of the subscribed capital. It is worth recalling that the seven countries of the Bank will provide a subscribed capital

totalling US$ 7 billion, in equal and consecutive instalments over a maximum period of 10 years, with Argentina, Brazil and Venezuela contributing US$ 2 billion each, Uruguay and Ecuador US$ 400 million each, and Paraguay and Bolivia US$ 100 million each.

With the ratification of the agreement by the Uruguayan Congress, the countries that have already ratified it account for 70% of the total subscribed capital, and it is only pending approval by the Congresses of Brazil and Paraguay. Thus, the formal requirements for the Bank of the South to start operating have already been fulfilled after a long and complex process that lasted more than three years, which coincided with the most critical moments of the international financial crisis in 2008 and 2009, during which it would have been very useful to have this facility fully operational and able to provide financial support to its member countries.

Regional Clearance Unitary System (SUCRE)

Less than two years after the signing of its Constitutive Treaty on 16 October 2009 in Cochabamba, Bolivia, the SUCRE is a clear example of how the determination to carry out joint actions in the fields of cooperation and integration can become a reality in a prompt and effective manner despite the doubts associated with the implementation of a Regional Account Unit by a just recently established integration mechanism such as the Bolivarian Alliance for the Peoples of the Americas – Peoples' Trade Agreement (ALBA-TCP).

The Treaty establishing SUCRE was signed by the representatives of Bolivia, Cuba, Ecuador, Honduras, Nicaragua and Venezuela within the framework of the VII Summit of ALBA-TCP held on 17 October 2009, an event marking the celebration of the 5th anniversary of this integration mechanism. As the first item in the Final Declaration of the Summit, it was agreed to approve "the change of the name from Single System of Regional Payment Clearing (SUCRE) to Regional Clearance Unitary System (SUCRE), considering that the latter best conveys the sense of unity and the purpose of the SUCRE system. Thus, the Constitutive Treaty of the Regional Clearance Unitary System (SUCRE) is signed as an instrument to achieve monetary sovereignty, the elimination of dependence on the U.S. dollar in regional trade, the reduction of asymmetries and the ongoing consolidation of an economic zone for shared development."

The Preamble to the Treaty confirmed the intention of the Member States to "strengthen their monetary and financial independence and sovereignty, with a view to achieving the gradual decoupling from the U.S. dollar through the creation of a unit of account called the 'sucre' as an expression of the strengthening of economic and social cohesion and the establishment of a process of integration to consolidate a regional area of economic complementarity." In the sense mentioned above, the signatories to the Treaty declared themselves to be "convinced of the need to establish, as part of the new regional financial architecture, mechanisms aimed at reducing the external vulnerability of our economies by being capable of fostering and boosting the production capacity of the region, transforming the productive apparatus, promoting and facilitating commercial exchange and contributing to the reduction of asymmetries between countries." [Heads of State and Government of ALBA-TCP, 2009]

The SUCRE system is composed of a common account unit under the denomination of *sucre*, a Centralized Payment Clearance House, and a Reserve and Trade Convergence Fund, with SUCRE's Regional Monetary Council as the highest decision-making body.

As regards the sucre, this is a common account unit used for the purpose of registering, pricing, clearing and settling all transactions channelled through the Centralized Payment Clearing House of the System, with the Regional Monetary Council being responsible for determining the convertibility of the sucre against foreign currencies and/or other currencies. The Centralized Clearing House, in turn, is responsible for the clearing and settlement of operations as authorized by the Regional Monetary Council, bearing in mind that any accounts, transactions and operations passing through the Clearing House must be expressed or denominated in sucres.

Meanwhile, the Reserve and Trade Convergence Fund is intended to contribute to the functioning of the Centralized Payment Clearing House through the financing of temporary deficits, and derives from contributions in foreign and/or local currencies made by the States Parties, which are managed in the form of a trust. Finally, SUCRE's Regional Monetary Council is comprised of a Board of Directors and an Executive Secretariat and is responsible for governing the functioning of the Unit of Account, the Centralized Payment Clearing House and the Reserve and Trade Convergence Fund, dictating policies and rules for the functioning of the System and monitoring its operation.

SUCRE entered into force on 27 January 2010, after having been ratified by Cuba and Venezuela. The first business transaction under this System occurred on 3 February between the two countries.

On 24 May 2010, the president of Bolivia passed Law 016 approving the Treaty Establishing the Regional Clearance Unitary System; on 1 June 2010 legislators in Ecuador approved the Treaty Establishing the SUCRE; and shortly afterwards, on 5 July 2010, the first business transaction between Ecuador and Venezuela was carried out, On 8 October 2010 the governments of Bolivia and Venezuela made their first operation through SUCRE with the purchase of five thousand tons of soybean oil.

While it is an original signatory of the Treaty Establishing the SUCRE in October 2009, Nicaragua still awaits ratification by its Parliament, and on 13 January 2010 the National Congress of another founding country, Honduras, decided to denounce the treaty by which it had joined ALBA, withdrawing from this subregional integration mechanism and consequently from SUCRE whose Constitutive Agreement was never approved by that Congress.

With respect to its evolution, SUCRE has gradually gained acceptance in participating countries. While its early operations were only between governments, two years after its implementation enterprises in the private sector have increasingly used this financial mechanism. In September 2011, the Executive Secretary of ALBA pointed out that "out of the US$ 110 million traded through Sucre among ALBA countries, 84% of those transactions have been conducted by private economic actors". [Zambrano, 2011]. In addition, during the IX Presidential Meeting between Ecuador and Venezuela, on 8 June 2011, the government of Ecuador announced that all the transactions made by public entities of that country with Venezuela will be carried through the SUCRE system, which will help to reduce the predominance of the dollar as the currency for trade between both countries and will strengthen the regional space.

Referring to the total volume of transactions with sucres, during the XI Summit of ALBA, held in Caracas on 4 February 2012, the Venezuelan Vice-President for the economic and production areas informed that 6 transactions worth approximately 10 million sucres were conducted in 2010, a figure which grew to 431 transactions for the amount of 216 million sucres in 2011. He added that it is necessary to address some issues, such as regulating

sales by State enterprises, easing procedures for transactions, increasing credit line amounts, and promoting credit facilities in sucres for small and medium-sized enterprises.

During that Summit, an agreement was reached to create an economic zone for ALBA, to be called ECOALBA, which will take effect in two years. To this end, an economic "roadmap" of the ALBA space will be prepared in order to make progress with production chains and rationalize economic activities based on complementarity, thereby attaching important roles to both the sucre and the Bank of ALBA and expanding their scope.

Bank of ALBA

Another institution that forms part of the New Regional Financial Architecture is the Bank of ALBA, which was co-founded by Bolivia, Cuba, Nicaragua and Venezuela. The Bank of ALBA has its origin in the VI Summit of ALBA-TCP, held in Caracas from 24 to 26 January 2008, an event that served to announce the Founding Document of the Bank. The Final Declaration of the Summit stated that the Bank of ALBA "represents a critical step in the configuration of the new financial architecture needed to provide a solid ground for productive projects, assuring their viability and sustainability over time." [Heads of State and Government of ALBA-TCP, 2008].

According to its Founding Document, agreed to in November 2008, The Bank is defined as an international law-based financial body with legal personality operating under the name of "BANCO DEL ALBA", or simply the acronym BALBA. The Bank aims to "contribute to sustainable economic and social development, reduce poverty and asymmetries, strengthen integration, and promote fair, dynamic, harmonious and equitable economic exchange between the Member Countries of the Bolivarian Alternative for the Peoples of the Americas (ALBA), inspired by the principles of solidarity, complementarity, cooperation and respect for the sovereignty of peoples". (Heads of State and Government of ALBA-TCP, 2008a)

The Constitutive Agreement of the Bank specifies its functions and operations as follows:

- The functions of the Bank include: to finance programmes and projects; to promote, create and manage financing funds designed to foster economic, social and environmental development; to provide resources for technical assistance, pre-investment studies, research and development, technology transfer and absorption; to develop and promote the practice of fair trade in goods and services.

- Concerning its operations, the Bank may perform, among others, the following: providing loans, lines of credit, bonds, sureties and other guarantees; issuing, placing, structuring and managing all kinds of securities; providing services for the clearing and settlement of economic, financial and business transactions; providing portfolio management services; organizing, establishing and managing trusts, mandates and other trust-based operations; acting as a broker/dealer and custodian of securities; providing treasury services to governmental, intergovernmental and international bodies and to state-owned, semi-public and associative companies promoted by the BALBA countries; and performing any other type of operations or financial services that contribute to the purpose of the BALBA. [Heads of State and Governments of ALBA-TCP 2008a]

Upon having a subscribed capital of eight hundred and fifty million pesos, Article 34.1 of the Agreement establishing the Bank of ALBA sets forth that the BALBA would enter into force 30 calendar days following the deposit of the second instrument of ratification in the

headquarters of the Ministry of Foreign Affairs of the Republic of Venezuela. Thus, the Bank of ALBA commenced operations on 1 September 2009.

As regards its functioning, the Bank of ALBA has been playing an important role within the SUCRE system in three different ways: firstly, by developing the S.I.S. Computer System through which transactions between the Central Banks participating in SUCRE are processed and registered; secondly, by participating in the management and administration of the System's Centralized Payment Clearing House serving as an agent bank; and thirdly, by managing the System's Reserve and Trade Convergence Fund acting as a Trust Agency.

The Bank of ALBA has been supporting key projects for social development in the Member Countries such as those included as part of ALBA Culture, ALBA Education, ALBA Health, and ALBA Food. The Bank has developed a portfolio of projects in the fields of energy, environment and telecommunications, and has collaborated in the managing of the ALBA-Petrocaribe Fund. BALBA has also served to strengthen trade relations between Venezuela and Bolivia as it promoted the development of the Pilot Programme for Intra-ALBA Financing (Venezuela-Bolivia), whereby financing has been granted to companies in both countries for the purpose of enhancing bi-national trade. After promoting the economic and financial integration of the ALBA countries participating in the Bank for two years, the BALBA has begun to play its role as an instrument for the sustainable economic and social development of the economies of the region, which should result in the improvement of the material conditions of life of the population and the strengthening of the integration process.

Within the framework of the aforementioned XI Summit of ALBA and the agreement to create ECOALBA, emphasis was made on the need to strengthen the Bank of ALBA, by defining an adequate institutional structure for it, ensuring full capitalization, building up reserves, complying with financial integration and promoting strategic investment. In addition, during the Summit, the President of Venezuela made a proposal for each member State of ALBA to deposit 1% of their international reserves in the Bank of ALBA, announcing that Venezuela would proceed to do so, thereby increasing the Bank's reserves by nearly US$ 300 million.

IV. TOP-PRIORITY ELEMENTS TO ADVANCE TOWARDS A REGIONAL MONETARY AND FINANCIAL ARCHITECTURE

In April 2010, the Permanent Secretariat of SELA [2010] prepared a document entitled *The reform of the international financial architecture: a Latin American and Caribbean vision*, and then another document on the subject that was published in October 2011, which is being updated in this study. These documents outline the Latin America and Caribbean position regarding the international financial architecture, especially in relation to the need for progress in building a regional financial and monetary architecture, by identifying its major contents.

In this final section, we will address again the basic elements outlined in the document mentioned above, as adapted to the present situation facing the world and the region, with the understanding that even though more than a year and barely three months have elapsed since the first and the second documents were issued, respectively, their contents remain valid, particularly in the light of what has been described above in this document as regards the global and regional scenarios.

Generally speaking, the above is valid for the suggestion made in the document of 2010, two years ago, in the sense that "all the possible efforts must be made in order to build a regional financial architecture in Latin America and the Caribbean, and despite its complexity and the difficulties that should be overcome to materialize it, [...] such new architecture is a not only feasible, but also necessary, medium-term objective if the region is to generate the conditions that its economic and social development require in view of the current and foreseeable world scenario." [SELA, 2010: 40]

As a matter of fact, the elements that make the construction of a regional monetary and financial architecture necessary and urgent in the international and regional scenarios remain in full force, and have even become more pressing.

On the international scene, the elements that justify the statement above refer to both the behaviour of economic activity in general and the current situation in the monetary and financial order, as well as the contents of present agreements and actions that have been taken to correct this order:

- In regard to the performance of the economic activity in general, the review carried out in the first section part of this document clearly shows not only the current deterioration in production growth, in stock markets, in the levels of private and public debt, as well as public accounts imbalance and unemployment rates, particularly for the countries of the Euro Zone, but also globally widespread, but also the consensus on the grim prospects looming for the world economy at least in 2012.

  Unlike what happened in 2008-2009, in the current situation there is less margin to pursue expansionary policies, particularly in developed countries, where in many cases the ongoing strategies are clearly prioritizing the correction of imbalances in public finances, with the subsequent application of policies that, in practice, have contractionary effects on the economic activity both in terms of the volume and the quality of employment as well as the possibilities for a swift and sustained recovery.

  Another difference from the situation in 2008-2009, the present scenario is also characterized by high levels of dissent at least in two senses. On the one hand, there are disagreements among governments, particularly in Europe, not only about the immediate steps to be taken and the distribution of the costs resulting from them, but also as regards the longer-term strategies to be introduced in the functioning of the various economies. On the other hand, there is dissent, and even outright increasingly active rejection, in broad sectors of the population whose material living conditions and access to rights already acquired are being affected as a result of the crisis and the policies in place.

- In the present situation of the international monetary and financial order, there is plenty of evidence of the effects of said situation, characterized by the absence of order, by persistent and growing fluctuations and imbalances. The monetary and financial order has repeatedly proved that it can create serious problems for the entire world economy, and this is compounded by the clear persistence of already structural deficiencies in the pattern of finances and the characteristics of the international monetary system.

  As regards finances, the fundamentals of the global pattern of credit that has prevailed for several decades now, and the financialization process that has been imposed on the whole economic operations within countries and internationally through that pattern, continue in full force. This maintains the serious problems caused

by the deregulation of finance, as well as the proliferation of all types of "exotic" and structured financial products. Also, the institutional architecture led by the IFIs, and particularly by the IMF, is also intact, and more than that, it has been reinforced, not only by the more numerous resources it has, but by the fact that the IMF, together with the European Council, has been imposing conditionality criteria in recent years with great force and serious consequences for the crisis-ridden Euro Zone countries. Within this context the IMF will have more resources than those it had been assigned in 2009.

A similar situation can be seen as regards the monetary aspects of the international order. In recent years, the dollar and the U.S. economy have continued to show structural weaknesses, and this continues to reproduce the same problems in an international economic order based on that currency. This scenario – characterized by a serious deterioration of the monetary base sustaining the operation of the international economic system, and the reproduction of that base as a source of serious systemic imbalances – has various components: In the U.S. economy, the substantial debt levels, the internal deficit and the balance of payments problems, compounded by the disagreements between the executive and the legislative branches as regards the budget; at the international level, the strong fluctuations in foreign exchange rates; and in several countries, the need to divert resources in order to accumulate large reserves that just end up supporting the dollar and its uncertain fate.

- With respect to the agreements and actions to address the deterioration of the international monetary and financial order, or to overcome the non-order that has prevailed for decades in the international economy, the previous sections of this document show that very little progress has been made, and that even such little progress is debatable. As seen in these previous sections, such agreements and actions lack the necessary strength and speed and are far from reversing the processes and problems that have become structural in the international monetary and financial order.

  No progress is being made towards true financial regulation. Further, international speculation is not being changed from its roots, namely the institutional structure based on the current IFIs. Additionally, the aforementioned global reserve system and the role that the dollar plays in it are not properly dealt with, because recent debates have been limited to the expansion of the currency basket of SDRs, even though the need to redefine such role has been increasingly recognized.

  The situation described above is very serious, even more so for the less-developed countries, including Latin America and Caribbean nations, as the current agenda of the so-called "New International Financial Architecture" – which is defined mainly by the G-20 – does not include solutions for top-priority issues in the region. Furthermore, nothing suggests future changes, especially if we consider that the vast majority of developing countries do not play a role in defining such agenda or the resolutions and actions resulting from it.

These problems in the international scene, and the evidence that the decisions of the G-20 are not solving their substantial aspects – and in some cases they not even being addressed – have become important issues raised by Latin American and Caribbean governments in various fora, as mentioned in previous sections dealing with the agreements in the Caracas Action Plan 2012, the presentations made during the 66th Session of the UN General Assembly and the debates conducted in various regional cooperation and integration mechanisms. In this connection, however, the seriousness of

current problems makes it necessary both to make a ranking of them and to unify the approaches of the region as regards the international monetary and financial architecture in various multilateral forums.

Refining the region's approaches requires identification of the most serious problems hitting the international monetary and financial performance. Then, such problems should be addressed as top priority, and the relevant proposals for global action should be outlined. Subsequently, efforts should be made to take such proposals to the relevant multilateral discussion and decision-making bodies. Some of those proposals should be the redefinition of these issues so that they are truly representative of the community of nations; the global and international redistribution of credit based on the relevant productive activities and speculation, by bringing credit closer to the former and driving it away from the latter; permanent and effective regulation and control of international financial markets and agents; in-depth redefinition of the institutions upon which the international and financial monetary system is based, including much more than cosmetic changes in the existing IFIs, as well as the possible creation of new institutions; to regain spaces for outlining domestic policies governing transnational capitals, and to reconstruct the international monetary system on foundations that are entirely different from those that are the current permanent sources of imbalances.

If the forecasts about a new global economic downturn in 2012 prove to be right, other requirements arising directly from such a situation should be taken into account so as to avoid the application of policies that could transfer the costs of the crisis to the region. The withdrawal of capital towards countries of origin, the further tightening of immigration policies, the implementation of protectionist policies, the reduction of development assistance flows, and the competitive devaluations are some of the many ways in which such transfer of costs could occur. Preventing them should be a top priority for the governments of the region.

Defining an agenda on the reform of the international monetary and financial order, with immediate requirements within the context of the foreseeable global economic deterioration in the short term, should come hand in hand with significant progress towards the unification of the region's position in the various multilateral fora. This is a prerequisite for improving the impact of these fora if the region is to speak with a single voice. Considering both the serious problems facing the international monetary and financial order and the comprehensive strategies required to solve them, it is clear that only a unique regional stance, including the 33 countries that are now comprised in the CELAC, will allow the region to have a strong voice and to play an effective role in defining the directions and global strategies to address these problems.

Certainly, the construction of this single voice should be accompanied by a major effort to build common positions with other countries and regions, particularly the so-called backward world, including the so-called emerging countries. This would also help change the relative weights of world economies, and show that all the backward countries are hit by the effects of a crisis, a breakdown of the international financial and monetary system to which they contributed little or nothing.

Also, the successful construction of common positions in the region for countering the non-order prevailing in the international economy would be an important input – and it is actually – for the complex process of building consensus on the objectives, contents, tools and means to make progress toward a regional monetary and financial architecture.

The regional monetary and financial architecture has to be constructed in order to set the basic conditions to support economic and social development in the region. Such conditions neither exist nor are being created globally. Such architecture has three main pillars: a Regional Contingency Fund, a Regional Monetary Area and a Regional Development Bank.

The Regional Contingency Fund is a mainstay in the design and construction of a new regional financial architecture. Bearing in mind that the countries of the region concentrate much of its reserves and assets – estimated at more than US$ 760 billion by December 2011, according to ECLAC [2011] – in institutions in developed economies, the Regional Contingency Fund should serve as an internal tool to settle international payments, thus protecting the economies of the region from the risks of monetary and financial crises.

The fund would not be intended to abruptly severe the links with the institutions currently concentrating the region's funds and financial assets. However, experience shows the need to estimate an optimal reserve that should be channelled to the Regional Contingency Fund. The remaining amounts would continue to flow to the international markets. This would be a wise move for diversifying the risk of deposits in different geographical areas and different types of assets – gold, silver, euros, and dollars. In the past, in times of crisis some Latin American and Caribbean countries have faced difficulties in accessing financial resources, because these are limited, expensive and conditioned in international markets and IFIs.

As discussed, the establishment of a Regional Contingency Fund would be a step forward toward securing reserves, or a regional financial safety net. This Fund would provide liquidity to Latin American and Caribbean countries, thus eliminating the chronic dependence on external funding, mitigating the impact of fluctuating interest rates and accumulating international financial funds in the form of reserves hedging against turbulences and unpredictable scenarios in the short-term, and against any similar situation in the longer term.

Therefore, it is worth mentioning what the experience has shown many a time: resources from institutions such as the IMF are both insufficient and highly conditional. In general, they are not disbursed in a timely manner due to long waiting times for approval and subsequent delivery. Funds are delivered when destabilization and crisis have hit the countries applying for financial resources, as these are not usually granted for purposes of prevention, but once the most acute effects of the crisis begin to emerge and wreak havoc.

The Regional Contingency Fund should be used also in close coordination with the respective central banks of the participating members. This would pave the way for multilateral lending facilities, increasing the financial options of the countries in the region. Further, the Fund would deliver resources for productive investment within an indispensable framework of transparency, efficiency and safety.

The second pillar, the Regional Monetary Area, is the key to cope with the long-standing deterioration of the international monetary system and the lack of multilateral responses thereto. The experiences the region has gained in different areas and fora during time, as well as similar efforts in other regions around the world, could be useful in building this Regional Monetary Area.

The construction of the different elements comprising the second pillar of the regional monetary and financial architecture, more than the others, needs to be completed at different paces, while cashing in on the experience accumulated by the existing mechanisms in the region.

Thus, in a first phase, implementation of a Regional Clearing House should draw on the various payment clearing mechanisms existing today, particularly the Convention on Reciprocal Payments and Credits of ALADI – after analyzing, for this purpose, the causes of its relative stagnation in recent years – and the System of Payments in Local Currencies between Argentina and Brazil. The goal of the Regional Clearing House is to settle payments in the currencies of the countries. Also, progress towards the ultimate objective of a Common Accounting Unit should cash in on the experience being gathered with the use of the Sucre in the Regional Clearance Unitary System, whose background may provide valuable lessons for future discussions on a possible common currency and a possible Regional Monetary Council. Further, it would be important to draw on the experience gained in Europe with the creation of the Euro, particularly the problems currently facing Europe and the negative lessons learnt from the criteria used for adopting a European common currency, as well as its various costs through time.

The third pillar, which would be completed in the shortest time and should face less resistance, is the creation of a Regional Development Bank that is independent, sovereign, and genuinely Latin American and Caribbean. This system should be a top-priority issue if the region wants to gradually change the relations of dependence, subordination and vulnerability it has frequently had with the international financial and monetary organizations. The region has often resorted to such bodies to address both problems of balance of payments and, in some countries, the devastating effects of financial turmoil that at times threatened to jeopardize their political and social stability.

This Regional Development Bank is becoming increasingly urgent as the countries in the region certainly need to attract and appropriately channel domestic savings into productive programs and social development strategies. Such programs and strategies should bolster the potentials of a dynamic economy, by prioritizing national, binational and regional funding projects, rather than endlessly accumulating savings in the form of regional international reserves in institutions that have embraced questionable and irresponsible practices for managing resources. Such practices are at the centre of the problems hitting the functioning of the international financial and monetary system.

The Latin American and Caribbean countries need a regional development bank that is highly independent in terms of its capital stock, functions and objectives. In this way, the region will put an end to the recurrent conditionality practices that the major international financial institutions have applied to the economies of the region. Some consequences of such practices are currently hitting some European countries as they are facing a severe decline in living standards. In fact, the economic policies, shock programs and structural adjustments currently being implemented in Europe – within the context of the *Euro Plus Pact* and the upcoming *Fiscal Pact* – are determined and monitored by external institutions. Such decisions are not always based on technical or economic criteria, but they are rather adopted hastily and based on other criteria, amidst the crisis shaking up the international financial system and its major institutions.

The Regional Development Bank must therefore be an expression of the sovereign attitude of the participating countries. In this way, it will perform in a manner substantially different from those banks operating pursuant to the guidelines of international financial institutions. Consequently, this bank will become an effective tool for mitigating regional

and sectoral disparities and for reducing asymmetries of different order and nature among and within countries in the region. By recovering our decision-making capacity we will be able to play a role in the process of prioritizing goals and projects based on the specificities and needs of each country. Issues such as the relative size of economies and the particular conditions thereof should be taken into account, and projects should be selected on the basis of criteria of environmental and ecological sustainability, care and protection of biodiversity, energy and food sovereignty, and respect for the diverse cultural and community expressions coexisting throughout the region.

With this in mind, and considering the dynamics of the South American integration efforts and the steps made over the last four years towards the creation of a regional financial architecture, this is the opportunity for the Bank of the South to enlarge its membership and become the Regional Development Bank that the Community of Latin American and Caribbean States (CELAC) needs. Such goal, however, should be materialized at a faster pace than that which has characterized the Bank of the South thus far.

Given the objectives set forth in its Constitutive Agreement, its territorial scope, capital stock and the composition and representativeness of its Member States, the Bank of the South is likely to become the Regional Development Bank that funds and boosts development in the countries in the region. The fact that all the countries of the region have taken steps as important as the establishment of CELAC in December 2011 breaks ground for creating new institutions that will match the challenges and the growing needs of the region, where an enlarged Bank of the South would play an important role.

Thus, the construction of the Regional Development Bank should start by taking advantage of what has already been built up over recent years in terms of institutions and instruments for a new regional financial architecture. Of course, the various experiences as regards the operation of other credit institutions related to various integration mechanisms and the assets that are part of the Latin America and Caribbean collective heritage should not be neglected.

Full development of the aforementioned three pillars of the New Regional Monetary and Financial Architecture is desirable in the shortest time possible. However, this will be a necessarily complex process. Each pillar –and even some of its components, such as those in the Regional Monetary Area- is likely to develop at a different pace. Such pace will depend on the progress made and the different characteristics of the relevant requirements, obstacles, goals, resources and stakeholders. In addition, the different countries will surely adopt these pillars of the New Architecture at different paces, which will probably involve a high level of complexity in the construction of the architecture. And this should not be overlooked.

In this uneven progress, some existing mechanisms and institutions such as ALADI's Reciprocal Payments and Credits Agreement, the System of Payments in Local Currencies between Argentina and Brazil, the Bank of the South, the Sucre and the Bank of ALBA could make different contributions. Moreover, all of them should become important inputs in the new regional financial architecture. From that perspective, such mechanisms and institutions can be seen as concurrent initiatives that help lay the foundations for a future Regional Monetary and Financial Architecture, thus contributing to the different pillars of the architecture.

Beyond the diverse paths leading to each of the three pillars mentioned above, and the different paces in which the countries will become involved, both their completion and the ultimate fate of the Regional Financial and Monetary Architecture rely on political will.

Regardless of the many reasons that drive the creation of this architecture and of the corresponding technical and economic considerations during its formulation and implementation, if the stakeholders – and the societies of the region – lack a strong will, the Regional Financial and Monetary Architecture will not come to fruition.

In this connection, the present signals are positive in general. Deterioration of the international economic situation prevails, and little is being done to change it. Long-standing monetary and financial problems have prevented countries in the region from successfully joining the international scene. Many signals suggest that the neoliberal recipes applied in previous decades have become exhausted. Widespread political and strategic changes are taking place in a number of countries in the region. In view of the progress made towards regional unity as evidenced by the creation of CELAC – which has the explicit objective of outlining the new Regional Monetary and Financial Architecture – the fact of the matter is that there seems to be a strong political will to redefine the path of regional integration and, concomitantly, to advance efforts to cement the urgently required Monetary and Financial Architecture for the benefit of all the participating countries and peoples.

BIBLIOGRAPHY

ALADI

___ (2000) *Análisis y Recomendaciones sobre el Convenio de Pagos y Créditos Recíprocos de la ALADI*, ALADI/SEC/di 1412

___ (2009) *Convenio de Pagos y Créditos Recíprocos: Reflexiones sobre su funcionamiento y algunos temas que podrían ser objeto de discusión para su dinamización*, ALADI/SEC/di 2233, 24 April.

___ (2010) *Convenio de pagos y créditos recíprocos. Evaluación del funcionamiento del sistema de pagos de la ALADI en el año 2009*, ALADI/SEC/di 2325, 23 March.

___ (2010a) *Términos de referencia. Reunión para el intercambio de información sobre el Convenio de Pagos y Créditos Recíprocos de la ALADI*, ALADI/SEC/di 2334/Rev.1, 26 May

___ (2010b) *Relatoría. Reunión sobre el Convenio de Pagos y Créditos Recíprocos de la ALADI*. ALADI/SEC/di 2355, 6 August.

___ (2011) Convenio de pagos y créditos recíprocos. Evaluación del funcionamiento del sistema de pagos de la ALADI en el año 2010, ALADI/SEC/di 2403, 28 March.

UN General Assembly (2009) *Documento final de la Conferencia sobre la crisis financiera y económica mundial y sus efectos en el desarrollo*, [A/RES/63/303], New York, July.

Central Banks of Argentina and Brazil (2008); *Convenio del Sistema de Pagos en Moneda Local entre la República Argentina y la República Federativa del Brasil*, 8 September.

World Bank (2011) *Global Economic Prospects, June.*

BRIC (Brazil, Russia, India and China)
___ (2009) *Statement of the Finance Ministers of Brazil, China, Russia and India*, England, 14 March.

___ (2009a) *Joint Statement of the BRIC Countries' Leaders*, Yekaterinburg, Russia, 16 June.

___ (2010) Joint Statement *of the BRIC Countries' Leaders*, Brasilia, Brazil, 15 April.

IDB

___ (2009) Annual Report 2008, March.

___ (2009a) First working document. Review of the need for a General Capital Increase of the Ordinary Capital and Replenishment of the Fund for Special Operations: Progress and next steps, CA-501, 18 June.

___ (2010) Annual Report 2009, March.

___ (2010a) Cancún Declaration, AB-2728, 21 March.

___ (2010b) Report on the Ninth General Increase in the resources of the Inter-American Development Bank, AB-2764, 21 May.

___ (2011) Annual Report 2010, March.

BRICS (Brazil, Russia, India, China and South Africa)
____ (2011) *Sanya Declaration of BRICS Summit*. 14 April.

Carrión Mena, Francisco, Ecuador (2011) *Speech by Ambassador Francisco Carrión Mena, Permanent Representative of Ecuador to the United Nations*. General Debate of the 66th Session of the United Nations General Assembly. New York, 27 September.

ECLAC (2011) *Balance preliminar de las Economías de América Latina y El Caribe*, December.

Basel's Committee on Banking Supervision
___ (2010) *Basel Committee's response to the financial crisis: Report to the G-20*, October.

___ (2011) *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement*, July.

Senate Committee on Banking, Housing and Urban Affairs (2010) *Summary: Restoring American Financial Stability*, Washington.

Committee for Development (2011) *Communiqué*. Washington, 24 September.

European Commission
___ (2009) *Comunicación para el Consejo Europeo de primavera. Gestionar la recuperación europea*. March.

___ (2009a) *Communication of the Commission. European financial supervision*, 27 May.

___ (2010) *Roadmap of the European Union towards financial reform*, General Direction of Domestic Markets and Services.

___ (2011) *Public finances in EMU – 2011*, 12 September.

European Union Council (2011) *Declaración de los Jefes de Estado o de Gobierno de la Zona del Euro y las Instituciones de la UE*, 21 July.

European Council
___ (2011) *Conclusiones del Consejo Europeo (24 and 25 March 2011)*.

___ (2011a) *Versión revisada de las conclusiones del Consejo Europeo (23 and 24 June 2011)*, 29 September.

___ (2011b) *Conclusiones del Consejo Europeo de 9 de diciembre de 2011*.

European Union Council (2010) *Reglamento (UE) No 407/2010 del Consejo, de 11 de mayo de 2010, por el que se establece un mecanismo europeo de estabilización financiera*, 11 May.

South American Council of Economy and Finance (2011) *Declaration. II Meeting of the South American Council of Economy and Finance of UNASUR*, 25 November.

Consensus Building Institute (2010) Report on the Public Consultation on the IDB. Ninth General Increase, January.

CAF- Development Bank of Latin America (CAF)

___ (2009) Constitutive Agreement, 8 December.

___ (2011) Annual Report 2010, May.

___ (2011a) Quarterly Financial Report, 30 September.

United Nations Department of Economic and Social Affairs (UN/DESA)
___ (2012) *World Economic Situation and Prospects 2012*, January.

___ (2012a) *Situación y Perspectivas de la Economía Mundial. América Latina y el Caribe: sombrío panorama económico*, 18 January.

Department of the Treasury of the United States (2010) *Financial Regulatory Reform: A New Foundation*.

Fernández de Kirchner, Cristina (2011) *Speech by Argentine President Cristina Fernández de Kirchner at the 66th Session of the United Nations General Assembly*, New York, 21 September.

Fernández, Leonel (2011) *Speech by the President of the Dominican Republic, Leonel Fernández, at the 66th Session of the United Nations General Assembly*, New York, 22 September.

Latin American Reserve Fund

___ (2011a); *Memoria Anual* 2010, April.

___ (2011b); *Historia y desempeño en perspectiva*, September.

___ (2011c); Constitutive Agreement, October.

International Monetary Fund (IMF)
___ (2009) IMF Digital Bulletin, 24 March.

___ (2011) *Perspectivas de la Economía Mundial*, September.

___ (2011a) *Global Financial Stability Report. Grappling with Crisis Legacies*, September.

___ (2011b) *Perspectivas Económicas. Las Américas. Vientos cambiantes, nuevos desafíos de política*, October.

___ (2012) *Perspectivas de la Economía Mundial. Actualización de las proyecciones centrales*, January.

Group of Twenty (G-20)
___ (2008) *Declaration. Summit On Financial Markets And The World Economy, 15 November 2008*, Washington, *November.*

___ (2009) London Summit. *Leaders' Statement*. 2 April.

___ (2009a) *Progress report on the actions of the London and Washington G20 Summits*, 5 September.

___ (2009b) *Leaders' Statement the Pittsburgh Summit September 24-25 2009*, Pittsburgh 26 September.

___ (2010) *The G-20 Toronto Summit Declaration*, 26 and 27 June.

___ (2010a) *The G20 Seoul Summit Leaders' declaration*, 11 and 12 November 2010.

___ (2011) *Cannes Summit Final Declaration. "Building our Common Future: Renewed Collective Action for the Benefit of all"*, 3 and 4 November.

___ (2011a) *The Cannes Action Plan for Growth and Jobs*, 3 and 4 November.

___ (2011b) *Communiqué G20 Leaders Summit, Cannes*, 3 and 4 November 2011.

Humala Tasso, Ollanta (2011) *Speech by the President of Peru, Ollanta Humala Tasso, during the General Debate at the 66th Session of the United Nations General Assembly*, New York, 22 September.

Heads of State and Government of Latin America and the Caribbean
___ (2010) *Cancun Declaration*, 23 February.

___ (2011) *Caracas Declaration "En el Bicentenario de la Lucha por la Independencia. Hacia el Camino de Nuestros Libertadores"*, Venezuela, 2 and 3 December.

___ (2011a) *Caracas Action Plan 2012*, Venezuela, 2 and 3 December.

Heads of State and Government of ALBA-TCP
___ (2008) *Political Declaration*, VI Cumbre, 26 January.

___ (2008a) *Constitutive Agreement of the Bank of ALBA*, 5 November.

___ (2009) *Constitutive Agreement of the Regional Unitary Clearance System (SUCRE)*, VII ALBA-TCP Summit, 16 October.

___ (2009a) *Declaration of the VII ALBA-TCP Summit*, Cochabamba, Bolivia, 17 October.

Kuczynski, Pedro-Pablo, Michel Camdessus, Roger Ferguson, Francisco Gil Díaz, Jorge Londoño and Antonio Palocci (2009) *El futuro del Banco Interamericano de Desarrollo y su suficiencia de capital en el contexto de la crisis económica mundial y su impacto en América Latina y el Caribe, March.*

Larosiere *at al.* (2009) *The high-level Group on financial supervision in the EU. Report*, February.

Lugo Méndez, Fernando (2011) *Speech by the President of Paraguay, Fernando Lugo Méndez, during the General Debate at the 66th Session of the United Nations General Assembly*, New York, 21 September.

Maduro Moros, Nicolás (2011) *Message from the President of the Bolivarian Republic of Venezuela, Hugo Chávez Frías, conveyed by the People's Minister for Foreign Affairs, Nicolás Maduro Moros*. New York, 27 September.

Medvedev, Dimitry (2009) *Russian Proposals to the London Summit (April 2009)*, 16 March.

Ministers of Finance and Central Banks Governors
___ (2011a) *Final Communiqué. Meeting of G-20 Finance Ministers and Central Bank Governors*, 12 April.

___ (2011b) *Communiqué of the G-20 Finance Ministers and Central Bank Governors*, 23 September.

Morales, Evo (2011) *Speech by the President of the Plurinational State of Bolivia, Evo Morales Ayma, during the opening of the 66th Session of the United Nations General Assembly*, New York, 21 September.

Economic and Commercial Office of Spain in Caracas (2011); *Informe sobre la Corporación Andina de Fomento (CAF)*, Caracas, September.

International Labour Oranization (ILO) (2012) *Global Employment Trends 2012*, January.

International Labour Oranization / Organization for Economic Cooperation and Development (ILO/OECD) (2011) *Short-term employment and labour market outlook and key challenges in G20 countries A statistical update for the G-20 Meeting of Labour and Employment Ministers*, Paris, 26 and 27 September.

Presidents of seven countries (2007*) Foundational Act of the Bank of the South*, Buenos Aires, 9 December.

Presidents of seven countries (2009) *Constitutive Agreement of the Bank of the South*, 28 September.

Roussef, Dilma (2011) *Speech by the President of the Federative Republic of Brazil, Dilma Roussef, during the General Debate at the 66th Session of the United Nations General Assembly*, New York, 21 September.

Sarkozy, Nicolas (2011) *Speech by the President of France, Nicolas Sarkozy. Press Conference to present the French Presidency of the G-20 and the G-8*, Paris, France, 24 January.

___ (2011a) *Speech by the President to the Ministers of Finance of the G-20*, Paris, France, 18 February. (http://www.elysee.fr/president)

___ (2011b) *Address by Nicolas Sarkozy, President of the French Republic: Opening of the G-20 Seminar on Reform of the International Monetary System*, Nanking, China, 31 March.

Santos López, Samuel (2011) *Speech by Samuel Santos López, Minister of Foreign Affairs of Nicaragua*, *during the General Debate at the 66th Session of the United Nations General Assembly*, New York, 26 September.

SELA (2009) *Aggravation of the global economic crisis: Situation and impact on Latin America and the Caribbean*, SP/Di No. 02 – 09, April.

___ (2009a) *The World Economic Crisis and Latin America and the Caribbean: Impacts, Responses and Proposals for the Region*, SP/Di No. 9 – 09, October.

___ (2010) *The reform of the international financial architecture: A Latin American and Caribbean vision*, SP/RR:RAFICMFALC/DT N° 3-10, April.

___ (2011) *The reform of the international monetary and financial architecture and the progresses towards a regional monetary and financial architecture for Latin America and the Caribbean*, SP/CL/XXXVII.O/Di No. 31-11.

Stiglitz, Joseph *et al.* (2009) *Recommendations by the Commission of Experts of the President of the General Assembly on reforms of the international monetary and financial system*, 19 March.

UNCTAD (2011) *Trade and Development Report, 2011*, September.

Xiaochuan, Zhou *(2009) Reform the International Monetary System,* 23 March, BIS Review 41/2009.

Zambrano, Amenothep (2011) "*Un 84% de las transacciones que ejecuta el ALBA proviene del sector privado*" in Notas ALBA-TCP, Web site: http://www.alba-tcp.org/ 25 September.