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S. America set to launch 'Banco del Sur'



South America is going to launch its own development bank this weekend. The hope for Banco del Sur -- the Bank of the South -- is that it will spur economic growth in poorer countries like Bolivia and Ecuador. Dan Grech reports.

TEXT OF STORY

KAI RYSSDAL:

South America's going to launch its own development bank this weekend. The hope for Banco del Sur, or the Bank of the South, is to boost economic growth in some poorer countries. But it's going to do it with a very different approach from those used by U.S.-backed institutions. Groups like the International Monetary Fund. From the Americas Desk at WLRN, Marketplace's Dan Grech has more.

Economy ministers of South American countries pose at an October meeting in Rio de Janeiro, Brazil, where they discussed creation of Banco del Sur. (Vanderlai Almeida/AFP/Getty Images)

DAN GRECH:

The Bank of the South pools \$7 billion from seven nations. That's not much compared to the tens of billions commanded by the IMF or World Bank. But it's still one of the most ambitious regional initiatives in years. Mark Weisbrot is with the Center for Economic and Policy Research.

MARK WEISBROT:

It's very significant that these countries have decided to form an institution on a one-country, one-vote basis. And it will focus on development lending, regional economic integration. And it won't be attaching policy conditions to its lending.

The bank will be inaugurated on Sunday in Argentina, one day before that country's new president, Cristina Kirchner, is sworn in. Argentines welcome having a new bank in town. Many of them blame the IMF for the economic policies that led to Argentina's 2001 collapse.

Cristina Kirchner capitalized on this sentiment in a campaign spot. School children are asked, "What's the IMF?" One guesses it's a satellite, another a country where everything's upside down. A third calls it a duck. The voiceover says: "We're making sure that your children, and your children's children, have no idea what the IMF is."

Cristina Kirchner campaign video (Cristina Kirchner campaign)

The IMF once micromanaged the economies of much of Latin America. The Fund demanded privatization and open markets as a condition to loans totaling \$50 billion. Nowadays those loans are down to \$3 billion and Latin American nations can do as they wish.

PAUL BLUSTEIN:

To be able to say we don't want to ever have to listen to your recipes again is incredibly sweet.

Paul Blustein is a scholar on the global economy at the Brookings Institution. He says the Bank of the South is a seductive idea, but also problematic.

BLUESTEIN:

When you have several sovereign countries saying, "Well, let's pool our money and let's lend money to ourselves." That's a recipe for trouble. The interests of borrowers and lenders are divergent.

Banks have to be hard on borrowers to get their money back. Claudio Loser was formerly Latin America's top official at the IMF. He says without discipline, the Banco del Sur could become...

CLAUDIO LOSER:

... a one-shot operation. You have an initial contribution, no significant money being paid back at the right time. And therefore you have a short shelf life for the Banco del Sur.

Economists say it will also be hard for the Bank of the South to offer competitive interest rates, because loans won't be backed by the U.S. or Europe. That means the IMF may still be the cheaper lender. And then there's the elephant in the room: Venezuelan President Hugo Chavez, inventor of Banco del Sur.

Ed Glab is a business professor at Florida International University:

ED GLAB:

This new Bank of the South, it's not going to be a problem-solving bank like the World Bank. It's not

going to be a bank like the IMF that deals with trade imbalances and sovereign debt and rescheduling debt. It's going to be a political bank, to build political support for Chavez around the region.

Not if Brazil has anything to say about it. Brazil is South America's largest economy. It's a political rival to Venezuela, and it's an equal partner in the Bank of the South. Lending begins next year.

I'm Dan Grech for Marketplace.