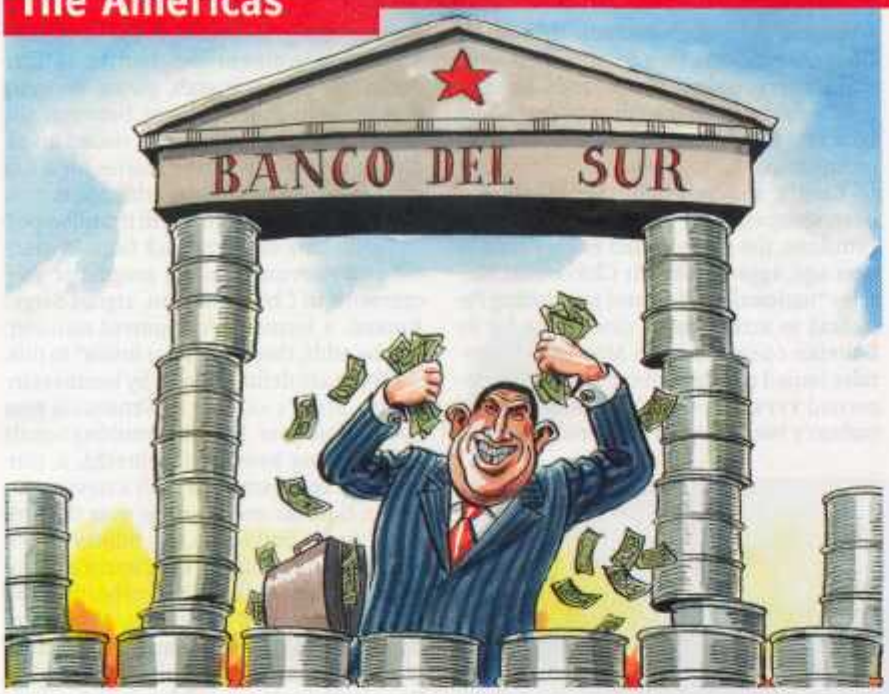

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Venezuela and South America

Hugo Chavez moves into banking

CARACAS AND SÃO PAULO

Venezuela and Brazil battle quietly over the shape of a planned regional development bank

THERE have been few more assiduous customers of the International Monetary Fund and the World Bank than Latin American governments. Even as they privately welcomed the economic rationality that comes with loans from the fund and the bank, the region's leaders often blamed them for unpopular but needed measures. So it is not surprising that many Latin Americans revile the two multilateral institutions. They see them as dominated by the United States, and as having imposed the "Washington consensus" of macroeconomic stability at the expense of other priorities.

It is that sentiment that Hugo Chavez, Venezuela's leftist president, is trying to tap with his plan for a Banco del Sur (Bank of the South), a development bank funded and run by Latin American countries themselves. If all goes to plan, it will be formally launched next month, and could start operating next year. The preparatory talks involve Argentina, Brazil, Bolivia, Ecuador and Paraguay as well as Venezuela.

But there is a big difference between Mr Chavez's vision for the bank and that of others, especially Brazil. This will probably be papered over at a meeting in Rio de Janeiro on May nth-but it just might develop into an open split between South America's two most powerful countries.

Mr Chavez sees his bank as part of a wider anti-American political project and as an alternative to the IMF and the World Bank, from which he says Venezuela will withdraw. He has re-nationalised American-owned telecoms and electricity companies. He also threatens to pull out of the Organisation of American States if its sister body, the Inter-American Human Rights Court, condemns his government in a pending media-freedom case.

It is one thing to badmouth the multilaterals but another to leave them, even for oil-rich Venezuela. Pulling out of the IMF would amount to a technical default on Venezuela's bonds and would raise the cost of future borrowing. Leaving the World Bank would tear up bilateral investment treaties that Venezuela has signed with other countries (and which use the bank's investment-dispute machinery).

With the oil price high, Mr Chavez seems happy to alienate foreign investors. Others are not. Both Argentina and Brazil have taken advantage of economic growth and high commodity prices to pay off their debts to the IMF. Neither talks of leaving the fund. Bolivia's Evo Morales is one of Mr Chavez's closest disciples, but his finance minister says that joining the Bank of the South would not mean pulling out of the IMF.

Ecuador's Rafael Correa shares Mr Chavez's ideas for the new bank. At a meeting of finance ministers in Quito earlier this month, he said it should combine the emergency-aid functions of the IMF with the project lending of the World Bank and the Inter-American Development Bank.

But the ministers did not approve that proposal. They decided that the Bank of the South would be just a "development bank", adding that a stronger regional reserve fund (a small one already exists) might be created at a later stage. Brazil's finance minister, Guido Mantega, had already rejected the idea that the new bank might provide financial first-aid without the tough conditions the IMF imposes. He called for "modesty and parsimony" in any new body.

After the meeting, Mr Mantega said that each country should contribute between $3Oom and $5Oom to the bank's capital. If so, no single country would dominate it, though a coalition of Mr Chavez's closest allies might. Brazil's contribution, Mr Mantega suggested, would come from the national development bank, the BNDES. The development minister, who controls the BNDES, promptly rejected the idea. Though Mr Mantega committed Brazil to the bank, the foreign ministry says the government is still "analysing" the idea.

There are existing South American bodies that could serve as the nucleus for the new bank, including the Andean Development Corporation (CAF) and the Fund for the River Plate Basin (Fonplata). They are not political vehicles. Last year CAF lent over $5 billion. Its Bolivian chairman, Enrique Garcia, has said he welcomes any fresh initiatives along the same lines. But many within CAF doubt that the Bank of the South is viable.

The debate over the bank reflects a broader struggle for influence in South

America between Brazil and Venezuela. Brazil's president, Luiz Inacio Lula da Silva, has a good relationship with George Bush, whom he has met twice in recent weeks. But he has always got along with Mr Chavez too, doing little to challenge the Venezuelan's pretensions to regional leadership. This friendship goes down well with many in Lula's Workers' Party, but it has made Brazil look indifferent to Mr Chavez's assaults on Venezuelan democracy.

Recently, Brazil has distanced itself from Venezuela on some issues. In March its communications minister compared Venezuela's state television to Cuba's—the closest any Brazilian official has come to criticising the anti-democratic drift of Mr Chavez's rule. The two countries disagree about energy policy. Mr Chavez echoed Fidel Castro in attacking ethanol, just when Lula and Mr Bush agreed to encourage its production.

Brazil's testiness with Venezuela has been sharpened by Bolivia's treatment of Petrobras, the state-owned energy firm. A year ago, egged on by Mr Chavez, Mr Morales "nationalised" oil and gas, forcing Petrobras to accept harsh new terms for its Bolivian operations. On May 6th Mr Morales issued a decree giving Bolivia's state-owned YPFB a monopoly of sales from Petrobras's two Bolivian refineries, in effect expropriating their cash flow. This time Brazil's government weighed in to condemn the property grab, giving warning that it could hurt relations between the two countries. Petrobras has issued an ultimatum: buy the two refineries for a fair price or face international arbitration.

There is an "inflection" in Brazilian policy, with Lula drawing back from Venezuela and moving towards pragmatic governments in Chile and Peru, argues Sergio Amaral, a former development minister. But, he adds, there are "clear limits" to this.

These are defined partly by business interests. Brazil's exports to Venezuela rose by 60% last year. Brazilian multinationals are investing heavily. Odebrecht, a construction company, has built a new metro line in Caracas and a bridge over the Orinoco, and is building a $2.5 billion hydroelectric dam. Braskem, Odebrecht's petrochemicals arm, has a $3 billion partnership with state-owned Pequiven, which includes building two plants to produce plastic resins. Companhia Vale do Rio Doce is eyeing Venezuela's mineral riches.

So although Brazil may either stall or moderate the plan for a Bank of the South, it is unlikely to reject it outright. But next time a financial crisis shakes Latin America, expect governments to turn again to the IMF rather than to Caracas. •

Development banks in Latin America

Fading brands

Development bankers face growing competition

IT IS the strange fate of the World Bank to unite enemies on the left and right. While Hugo Chávez, Venezuela's leftist president, wants the bank out of his backyard, its conservative critics think it should let go of most of its Latin American clients, who they say are now much better served by private capital.

Only a handful of countries in the region are poor enough to qualify for the bank's soft loans and handouts. The rest borrow from its money-making arm, the International Bank for Reconstruction and Development (IBRD). This had $36.3 billion of loans to the region on its books at the end of the last fiscal year.

Latin America is where the bank makes much of its money. It earned $1.7 billion in interest and fees last year, 36% of the total. But demand for its loans is wavering (see chart). As the cost of borrowing in the capital markets has fallen, both the World Bank and its regional equivalent, the Inter-American Development Bank (IDB), find it harder to compete on price.

Moreover, private creditors do not care how their money is used, as long as it is repaid. The World Bank is more particular. For example, the projects it backs must take pains not to despoil the environment unduly or uproot indigenous peoples unfairly.

Rather than surrendering its best customers to private creditors, the bank wants to price its loans more keenly and make borrowing less cumbersome, using a country's own auditing and procurement methods wherever they are up to scratch.

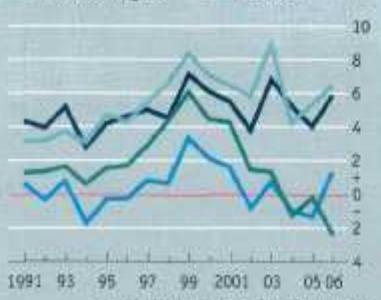
The IDB, which has escaped Mr Chávez's ire, faces a similar challenge. "We have to reinvent ourselves," says its president, Luis Alberto Moreno. He says that one way the bank is doing so is by lending to state and local governments who lack the sovereign guarantee needed to borrow cheaply in markets. It is also focusing on infrastructure projects such as water, sewerage and rural electricity, as well as microfinance schemes.

Both banks are also looking at region-wide projects, which are more complicated to finance commercially. The World Bank has a tele-medicine network, which conveys medical findings in the United States to hospitals in the farther reaches of Latin America. Both also stress that their loans come with valuable technical advice. Critics say they should do more to separate the two.

Mr Chávez portrays the World Bank as a domineering patron, imposing its beliefs on any nation that takes its coin. It would be more accurate to describe it as a fading brand, anxious to serve its customers better in a newly crowded marketplace.

Fickle customers

Disbursements to Latin America & the Caribbean
$bn



*Fiscal years ending June †Net of repayments
Sources: World Bank; Inter-American Development Bank

Argentina

Gas and graft

BUENOS AIRES

A corruption scandal laps around the government

CAMPAIGNING for Argentina's presidency in 2003, Nestor Kirchner promised voters that he would "renew the political culture", cleansing it of corruption. The first three years of his term were free of big scandals. But just six months before a presidential election in which he may seek a second term, his government's reputation for honest dealing is facing its first serious test, as details trickle out about a state-administered pipeline project sullied by front companies, fake billing and suspicions of bribes. Investigations have not unearthed any evidence of wrongdoing by government officials, and the sums involved are fairly small. But opponents claim that the rot goes deeper.

The roots of the scandal lie in Mr Kirchner's energy policy, which relies heavily on price controls. Under Argentina's successful privatisation of its natural-gas industry in 1992, private companies decided where and how much to invest in pipelines. A government regulator authorised tariff increases to pay for the projects. ▸▸

Fonte: The Economist, v. 383, n. 8528, p. 39-40, 12 May. 2007.