Governance of the International Financial System: Looking for Feasible Paths Towards Greater Developing Country Participation[1]

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Laying out the working hypothesis

The official (G7) initiatives on financial standards and codes were born from an analysis that implicitly assumes developing countries have to adapt their systems for freer capital mobility.[2] So there are two lines of problems with the content of the official standards and codes agenda. First, the assumption that the standards that are applicable in developed country economies should also work and be useful and beneficial for developing country economies. In this first respect, the reform effort authors at this workshop are being required to brainstorm about is geared to ensure developing countries retain maximum policy flexibility to pursue locally-owned, home-grown standards and regulatory efforts that respond to their own development needs.

The second line of problems in the standards and codes agenda is the omission to consider regulatory efforts that may more fairly allocate the burden of reforms between developed and developing countries, by placing some of the effort on evenhanded global regulation and/ or regulation in source countries. In this second respect, the reform effort would be geared to achieve an international, and source-country, regulation of financial capital flows that can avoid (or, if inevitable, mitigate) the damage in the developing world.

A working hypothesis of this paper is that greater representation by developing countries will address those two lines of problems and lead to different outcomes.

This is not to deny that the evidence that governance of rule-making bodies will significantly change the outcomes is subject to great debate. The fact that there are more developing countries in a body has not necessarily changed the

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[2] By the official initiative it is here characterized the G7 effort to promote adoption of 12 standards considered essential for financial stability and crisis prevention, and efforts to implement them worldwide. This is different from the standards themselves, which were all born and evolved with different goals, at different times and in different processes (Cornford 2007).

dynamics in past experiences. Several reasons may account for this and are important and deserving of complementary efforts. Obviously, for instance, the presence of more developing countries in a body may not mean much if they do not prevail in the weighted voting, as the experience in the Bank and IMF attests. But less obvious factors may be at stake and make participation on apparently an "equal footing" not very meaningful. First, aid dependence. For a developing country, sharing a decision-making table with donor countries that can, without further explanation, withdraw aid on which their public budgets are highly dependent, may lead to a high level of self-censorship. Second, the desire to appear "mainstream", or willingness to avoid confrontation. Third, the lack of technical expertise to make differentiated proposals or adequately evaluate the proposals that are put forward by other participants. Fourth, the choice by some developing countries to operate on a bilateral basis, without really fostering consultation processes that allow for developing countries to coordinate and "band together." Finally, the type of participant from the government that participates in a specific international entity. It may make a big difference whether the participant is coming from a Central Bank or from a Ministry of Labor, or whether both of them have a seat at the table.

Against this backdrop, and having acknowledged these qualifications, the question this paper tries to address is "What changes in governance could reasonably be expected to be implemented, given existing political and economic conditions, and what impact would they have on the performance of the system."

Attempts to change the governance of the financial standard-setting bodies, based on the pure ethical principles of democratic representation, have typically run into great resistance. At the rhetorical level, indeed, it seems the Monterrey Consensus has won that battle by calling for standard-setting bodies to revise their memberships. It has done so in unequivocal terms. (Monterrey Consensus paras. 62 and 63). Yet, the absolute lack of implementation of this mandate is very telling. Moreover, there are no guarantees that, should any movement take place, it will be sufficient. Efforts at the reform of the governance of the Bretton Woods Institutions have shown how minimal changes in governance can be used to justify the continuation of statu-quo unacceptable situations. (Caliari 2007; 2008)

An additional reflection is that it will likely be difficult to achieve an across-the-board reform of all standard-setting bodies based on a pure application of a principle (such as democratic representation). The different standard-setting bodies have different structures, memberships, goals, and foundations. Some of them are closer to a democratic representation than others.

Against this backdrop, one can imagine an incremental strategy that separates, for reform purposes, the two reform goals identified at the beginning of this paper. The first goal is that of loosening the constraints imposed by specific standards and codes. The second goal, that of increasing the regulation of capital at the global and source country level. Then, for each of these two endeavors, one could envision a strategy that tackles not financial standards and codes as a unified construct, but one by one, or in groups.

It is important to note that this process will not necessarily increase the representation of developing countries in the existing standard-setting bodies—though it is expected that by showing the potential impact of developing country concerns it will help build eventually a stronger case to do so. It is meant, however, to increase qualitatively and quantitatively the influence of developing countries and inclusion of their concerns in decision-making and governance of the financial flows.

Further, it is important to contextualize these elements by referring to the juncture in which those efforts are going to take place. In this regard, it is important to highlight the favorable factors that are affecting the negotiating environment. The first one, the ongoing global credit turmoil, which offers strong basis to hold that systemic crisis are not something of the past, nor something whose remedy lies in developing countries introducing domestic financial sector reforms. The second one, the fundamental crisis in which two institutions of the financial system –the World Bank and the IMF--that, as we will see, play both a crucial role in design and in implementation of the financial standards and codes, are currently facing. We will come back to both of these factors.

<u>Looking at the implementation</u>

One entry point in order to start loosening the constraints financial standards and codes place on developing country attempts to implement their own financial sector regulations, is to remove standards from the implementation that is exercised by the Bretton Woods Institutions ("BWIs"). The issue of flexibility in implementation can be tackled at this level because, to such extent, standards and codes can be ignored if they are not part of conditions and surveillance by these institutions.

It is important to bear in mind that there is no clear basis for the choice of the G7-endorsed standards and codes as the essential 12 standards to achieve financial stability and prevent crisis, except the political power behind this G7 decision. These were chosen rather arbitrarily from among over 64 standards and codes identified by the Financial Stability Forum.

This also means that some of the standards may be more open to challenge than others in terms of soundness or relevance. So, varying degrees of priority could be attached to the work on them. Out of the 12 G7-endorsed standards, the following prioritization is suggested, based on a general assessment under three criteria: size of the body of knowledge on their methodological flaws, level of intrusiveness in domestic policy choices and lack of representation by developing countries in the bodies that make them. Using this criteria, the list below goes from least to most vulnerable.

1) Monetary Policy and financial policy Transparency, as well as Data Dissemination, are the least susceptible to challenge. Making a convincing case for the need to drop requirements towards transparency, no matter how objectionable the mechanism—IMF imposition—might be, is bound to be difficult, to say the least. There is no much evidence that having to implement transparency requirements is hurting developing countries. However, as argued by Cornford (2003), some of these standards are evolving into more intrusive ones, smuggling "macropolicy" standards that could actually constraint policy space. If that's the case the chances to challenge them may increase.
2) Fiscal policy transparency and Money Laundering are a bit less innocuous, but it is still difficult to argue against them. At worst, they will be seen as "the right standard for the wrong reasons."
3) Securities regulation and Insurance supervision. These are heavier on content, so their chances to become intrusive are greater, but coming from IAIS and IOSCO, bodies where developing countries are represented at length, the case to challenge them may not be as strong.
4) Auditing standards are developed by the International Federation of Accountants (IFAC). Because this is a private body, even if with wide representation, we put the questionability at a higher level.
5) Insolvency, corporate governance, developed by the World Bank and the OECD, respectively. The case against them is stronger in both counts, representation and intrusiveness. In the case of corporate governance, while the standards themselves are rather broad, when complemented with implementation by the IFIs that tends to reduce them to a narrow anglosaxon model of corporate governance, then the case becomes stronger.
6) Payments and settlements, accounting, banking supervision. These are the most vulnerable standards, in our view, when putting together their methodological flaws, their level of intrusiveness and the lack of representation by developing countries in the bodies that make them (including that accounting standards are developed by the IASB, another private body).

The IMF and the World Bank are living through a profound crisis right now, the deepest since their foundation. Questions of identity and role in a changing world economy are central to this crisis. This should favor attempts to have at least the most questionable standards and codes dropped off the agenda and mandate of the institutions, or their most influential activities, such as surveillance and conditionality. Of course, at the same time, it means the resistance from them, especially the Fund, may be tough since the IMF will hold dearly to one of the few functions that justify its existence.

A large number of formerly borrowing countries can already afford shunning the conditions imposed by the IMF, for example, because they have prepaid their programs with the institutions. Still, they are subject to surveillance. The mere fact that the BWIs have a mandate to review the standards gives the standards and codes more weight in the minds of the Fund and Bank interlocutors in developing country governments. So stripping the institutions of their role in monitoring a certain standard will play certain symbolic function by buttressing a perception that such standard is dispensable.

Severing the link with the standards at the implementation level, even if successful, will not, however, cover the full extent of the problem. In fact, in many cases standards are implemented not because of the pressure by the BWIs, but voluntarily. Some authors report the pressure in those cases comes from the fear that access to capital in international financial markets will be compromised.

This aspect is certain to require a response at the local level. But there are some promising developments to build upon. First, there is less and less evidence that developing countries; capacity to attract capital is linked to the implementation of any specific set of standards. And the assertion that they are critical to crisis prevention is now hard to sustain with the last crisis originated in a developed country. The belief in the "capital gap model" –that developing countries are chronically short of capital and need to attract it in order to develop – is less widespread than it once was.

Looking at the Design

No matter how much the role of the international financial institutions in the implementation agenda is downgraded, standards and codes may still carry a lot of sway with developing country governments. In a way, the phenomenon can be compared to structural adjustment programs. They were widespread in the developing world and their adoption came to be the preferred path even in those cases where the countries arguably enjoyed the policy space to depart from them.

There are several reasons for this. One of them has to do with the inertial power of standards. It is always easier and less susceptible of criticism to take standards that are out there than having to think critically about the types of standards or policies that may be more appropriate to the context. There is also, sometimes, a bit of a risk in taking standards that depart from those endorsed by a well-known expert body. The fact that the body is comprised of developed countries may be, in the mindsets of some ruling elites, just one more argument in favor of them, as they may simplistically be associated to the success of the developed countries.

In any event, what is clear is that given the sway carried by standards and codes in developing countries, a strategy focused only on stopping their forceful implementation at the level of the BWIs has, surely, limitations. A complete strategy cannot, therefore, avoid facing the question of design and how to ensure developing country concerns are taken into account at the level of the design.

Like in the implementation aspect, on this aspect of the design, it is also likely that an approach that seeks to increase participation by developing countries in all financial standard-setting bodies is going to be less successful than one that approaches the discussion standard-by-standard. We remit the reader to the prioritization that was made in the previous section, which is also relevant to discern the standards whose design may be more open to challenge.

In terms of assessing strategies for influencing the generation of standards and codes and of the overall agenda on international financial regulation, it may be useful to think in terms of complementary "pull" and "push" factors towards the inclusion of developing country concerns. In this systematization, the "pull" factors would be those that can lead to industrial countries ceding power, bringing those concerns into the agenda. The "push" factors would be those that can come from the efforts of developing countries to open more space for their concerns. Of course, as we explain later in the paper, whether it is helping the "pull" or the "push" factors, none of those changes can arguably be achieved without civil society organizations playing an important role.

1. The "pull" factor

The ongoing financial turmoil has exposed weaknesses of the financial system in developed countries and is eliciting pressure for a strong regulatory response, with several analysts pointing out to a noticeable swing of the pendulum back to regulation. To find the precedents to some of the measures that have been taken by the financial regulatory bodies in order to avert deeper turmoil one has to go back several decades, which gives a measure of the magnitude of the current moment. In turn, this magnitude is also the size of the opportunity that is opened for steering profound reforms of the financial system.

Having said this, there are reasons to be less than euphoric about the extent to which the issues of importance to developing countries are expected to be part of this agenda for regulation (or re-regulation). In a globalized financial system the soundness of the global financial system should not be a matter beyond the self-interest of industrial countries. But in this paper it is assumed that, as historically before, the self-interest driving the reforms will not be of the enlightened type. It is more likely that the reforms, while profound, will largely be driven by domestic problems and constituencies in developed countries. To the extent that some of the reforms may be in the common interest of both developed and developing countries, this will be an opportunity to make progress in advancing the interests of the periphery. In addition, the crisis moment will offer an opportunity to reframe the debate on some of the issues, paving the way for some progress in the longer term.

In terms of the general debate on international financial regulation, there are two notions that have entered in crisis with the current global crisis and it is important to rescue. First, that financial crises are rather typical of the underdeveloped financial systems of developing countries, which, unable to withstand liberalization of capital flows, tend to fail. This notion is called into question by the fact that the current crisis has started in a developed country with a very sophisticated financial system. Second, the notion that the answer to the vulnerable financial sectors of developing countries is to implement financial standards of most developed countries, is also called into question. The validity of the standards is, across the board, suspect now.

In a more specific fashion, one could expect some momentum towards reform in:

- Regulation of banks

The financial turmoil has exposed weaknesses in the "originate and distribute" model of risk that was encouraged by the Basel Agreement. However, it has hardly brought into crisis the whole notion of capital adequacy guidelines and Basel itself. While some argue the crisis exposes a failure of Basel II, others argue that it is worse not to implement it at all. But it has opened some space to criticize the insufficiencies of the approach and, with that, state whether the costs are not too large in the light of the now less clear benefits of having it implemented.

There is also momentum around closer cooperation across borders in supervision and regulation of banks, as well as the closer cooperation or plain merger of regulatory agencies following the UK model. This would obey to the argument that it has become much harder to keep track of the financial health of financial institutions without having access to the full picture of assets and liabilities across jurisdictions and across counterparties.

There have been also prominent calls for public intervention in the remuneration of bank managers. As a way to alter the incentives to take excessive risks betting on high risk-low probability events that may not play until well into the future, the proposed reforms would ensure bankers horizon of rewards and incentives is aligned with the long term fate of their bets.

The socialization of losses (such as that present in the case of the nationalization of Northern Rock) have also brought back to the forefront the "too big to fail" problem and highlight what might be an unavoidable flaw of the laissez faire approach in the case of banking. Market fundamentalists are being forced to consider that this may well be the clearest case of market failure that can only be addressed through the "second best" option of regulation.

- Regulation of financial actors other than banks, and their justification

The rationale for continuing to exercise only light regulation on other financial actors that have become very significant in the last decade or so, are also under challenge.

a. Investment banks
In March of this year the Fed has extended direct lines of credit to investment banks. There is a growing sense, coming even from high level US officials, that should a policy of access to Fed bailouts be maintained –and it may be impossible to maintain such a policy does not exist, as many will take the bailout of Bear Stearns as an implicit guarantee that some investment banks are "too big to fail", too, these actors will have to also face heavier regulation.

b. Hedge funds

In the 1990s, the Asian crisis and then the Long Term Capital Management were important events that generated pressure to regulate hedge funds. Last year, the interest of the government of Germany, then chair of the G7, in strengthening regulation of hedge funds generated some new momentum. However, not much was achieved than a report by the FSF and some self-regulation efforts by the industry as a response. Interestingly, in spite of the fears and predictions, and in spite of isolated hedge fund crises, hedge funds were not responsible for the initiation of the credit turmoil. Instead, banks, far more regulated entities, were. This has meant that, if anything, the crisis has not necessarily brought further momentum to arguments for the regulation of hedge funds. Some even argue, to the contrary, the crisis is the so-much awaited test and proves that hedge funds are more resilient than other market actors.

Of course, the risks of hedge funds and rationale to regulate, especially from the perspective of developing countries, remain. Some of the effects of the market slowdown will be magnified by the strategies pursued by hedge funds (Griffith-Jones 2008). But the focus is on other financial institutions.

However, to the extent that there are trends to regulate, in a more general way, financial market actors, the approach towards hedge funds might be affected. For example, some of the calls for public intervention in managers' pay are being made indistinctly for all highly leveraged institutions. Likewise, to the extent that counterparty risk management is tightened, there will be ripple effects for hedge funds. Statements on the value of increased transparency in financial markets also hardly circumvent hedge funds.

c. Credit rating agencies

The role of credit rating agencies in the crisis is still debated, and so are the arguments for tighter regulation. Critics claim that Basel has played an important role by skewing incentives to a forced reliance on credit ratings that led to unduly lax risk weights in banks balance sheets. According to this story, credit rating agencies, unaccountable private sector actors, would have played a role in triggering the crises. Moreover, they point to the conflict of interest that many agencies have as they maybe simultaneously getting fees for the structuring of a product on which they are providing advice. The opposite side claims that, in fact, credit rating agencies are only relevant to banks opting for Basel's "standardized" approach, and not to banks using the IRB ("Internal Ratings Based") approach. Since the crisis started in US banks that were implementing the IRB approach, then it is wrong to blame the credit rating agencies. In fact, they say, it is exactly thanks to having followed Basle II that other banks were adequately capitalized to withstand and have averted further turmoil. The Bank of England, however, contends that even banks using the IRB need to use external ratings for structured products and that some banks may have come to rely only on such ratings in assessing structured products. (2007)

So the efforts to regulate credit rating agencies may also not receive a big boost from the current juncture. Some agencies have quickly moved to enact their own self-regulation measures to further stop the regulatory consequences of the backlash against them.

There are some other possible sources of pressure to revise positions on financial regulation that could be foreseen in the developed world:

- Backlash against financial capital not paying its fair share of taxes

An important boost to regulatory efforts may come from the increased realization of the way in which financial capital mobility is allowing tax avoidance and evasion, a shift that public sectors are having to make up by resorting to regressive taxation measures on labor, consumption and non-mobile capital. The paradigmatic example that has been in the newspapers is the London housekeeper that pays more taxes than the private equity owner. Efforts at greater taxation of capital, on hedge funds and private equity, can only be implemented through a crackdown on offshore financial centers and other measures to keep track of capital flows that can only go in the direction of increased control on capital movements.

- Pension funds and workers' rights

Another impulse to the debate comes from the social security and labor regulations that are placed at risk by unregulated financial actors. As a growing number of institutional investors and public entities have to turn to high-performing actors such as hedge funds, to keep up with the returns needed to fulfill their projected obligations, the rationale for keeping light regulation of hedge funds are also under challenge. (Caliari 2007a)

The excesses in hedge funds and private equity strategies in boosting short term profit at the expense of putting at risk long term viability of companies,with resulting losses in jobs and quality of work regulation, are also generating pressure to restrict the activities of financial actors. (Ib.)

- Transparency

It may be possible to ride the momentum around greater transparency in financial markets to demand transparency in the work of bodies that set standards and codes. This is especially so given the high level of cooperation of these bodies with large banks and the financial private sector.

- Work with Parliaments

Though almost obvious, it bears mention that strategies to shape all these debates have to have a strong component of work with Parliaments. The strongest initiatives to regulate have so far come from Parliamentarians, and it is likely that this will continue to be the case. In the case of the US, this means the House and the Senate, especially through the Committees on Financial Services of the House, and Foreign Affairs in the Senate. In Europe, this refers to national Parliaments, as well as the European Parliament. In this latter, it would be important to tap into a heightened level of interest and activity on this issue on the part of the Socialist block.

- High personalities

A "pull" strategy has to include work with former high personalities whose opinion may command respect among constituencies that may, otherwise, just dismiss the message. Usually, former officials can be lobbied and maybe more inclined to express criticism of the way that standard-setting bodies work.

2. The "push" factor

There are at least two important arguments utilized by those who defend the statu quo –and, to some extent, have become common perceptions -- that need to be dismantled so efforts to promote greater participation by developing countries in the design of standards and codes can succeed.

1) "Participation would not make any difference, because standards are technical, anyway."

A number of analyses shed light on the fallacy behind this argument.[3] In fact, to a small number of experts this is very evident. But to most in the public it is not. There is a need to popularize the impacts that different choices for standards and codes may have, hence demystifying the idea that it makes no difference. This work can be compared to what was done by debt campaigners in the framework of the critique of the HIPC initiative. The Bank and IMF (and donors) would insist in the technical nature of the concept of "debt sustainability", which determined access by a country to debt relief. Civil society, however, kept challenging the concept as one that needed to incorporate moral values, such as whether servicing the "sustainable" debt would allow the country to keep fiscal resources for fulfilling urgent social needs. In fact, far from a technical concept, the notion of debt sustainability as evaluated from the perspective of the donors can be quite different as when evaluated from the perspective of the debtor and its people, but this could easily escape but a few experts, until the civil society efforts to popularize and demystify these notions were carried out.

2) "We invite developing countries when they have something to say."

[3] A number of papers prepared for the workshop that preceded the one that motivated the writing of this paper Jetin 2007, Griffith-Jones 2007, Cornford 2007, are worth a mention.

In spite of the very noticeable paternalistic, "we know better" tone of this approach, this author has been surprised by the extent to which this argument emerges in informal conversations with officials from standard-setting bodies as a justification for the lack of developing country participation in such bodies. It is true that short-staffed developing country governments may feel overwhelmed to have to respond to yet another meeting. Their capacity to formulate positions may be fledgling. But without the opportunity and responsibility to participate in the decision-making processes, it is very unlikely the capacity will be ever developed.

Below we propose some strategies that could strengthen and provide a "push" factor to the influence of developing countries.

1. Developing countries' own bodies

One usual problem with the standard-setting bodies is that they are the product of voluntary "get-togethers" of a few countries. Ask any of the G7 members about the undemocratic nature of their gathering and they passionately deny that there is any formal meeting taking place. They usually characterize their gatherings as "informal" and based on the fact that any group of countries can voluntarily get together with any number of countries of their like to coordinate their positions. There is no lack of democracy to such a process. A few years ago they even stopped issuing a "communique" and started having a chairman's summary, as a way to further defuse the perception of an institutionalization to their deliberations. To some extent this is also true of the Financial Stability Forum, or the Basel Committees. They claim to be the expression of a desire by a number of players to cooperate on financial stability matters. This reasoning neglects the reality that the products of such deliberation tend to become blueprints for the promotion of financial reforms way beyond the countries that take part in them, and, as explained above, marshalling the coercive power of the Fund and Bank. In fact, the coming together of a number of countries to elaborate standards gives them (and their financial sectors) a "first-mover" advantage that is very difficult to overcome by those outside the initial effort. In turn, a self-reinforcing trend is created whereby as more countries join in a standard-setting effort, less of those outside such effort feel as having an actual alternative in terms of adhering to such effort.

But the other side of this is that nobody prevents developing countries from launching their own developing country-only fora or groupings in charge of discussing financial standards and codes. While a large gathering of developing countries requires a lot of work and capacity, it could start with a few countries. It would be good that such initial group comprises some key emerging markets, so as to raise the stakes and ensure the outputs of the group are taken more seriously by industrial country players. But it should also have some small countries, or LDCs, to ensure more advanced developing countries do not make themselves target of the same criticism they are pointing towards industrial countries.

If this gathering were to happen regularly, it could start issuing a periodic statement. Or it could have outputs directly oriented to offer an alternative view to that of the FSF, or its working groups, whenever these bodies choose to issue a pronouncement. To further increase the visibility of the products of these bodies, for instance, officials of developing country constituencies in institutions of joint membership such as the IMF, World Bank, etc., could refer to such statements. They could also be used in responding to consultation exercises by the FSF, the BIS or its committees. The more developing countries can show their alliance around concrete departures of what industrial country-controlled bodies say, the more that such arrangements will gain in profile.

In terms of the usual objections pointed out at the beginning of this sub-section, this strategy would help overcome both of them. It would show that there are, indeed, different ways to look at the financial sector reform issues, that there is an alternative, depending on the interests represented at the table. It would also make it clear developing country governments do have something to say on the matter.

In addition, the formation of some formal grouping like this could become an event watched by the press. Judging by the coverage that statements by, for instance, the G11 in the IMF gets, it is not far-fetched to think the outputs of such a grouping could capture the attention of the press and, thereby, become a contributing factor, too, to the change in the public's view in industrial countries.

2. Specialized agencies

The voice and resources of specialized agencies could also be leveraged. Let us not forget one of the earliest and most powerful critiques of structural adjustment came from UNICEF. Drawing the connections between the deficits in the standards and codes agenda and issues of interest to agencies such as UNDP, or ILO, certainly needs more work. But on those basis they could be asked to strengthen their programs in this field.

There are agencies that represent a natural ally and whose work on standards and codes should be increased, such as UNCTAD.

Then there are, of course, the regional economic commissions. They could offer –and it is not far from their mandate, actually—a regional view on some of the problems not taken into account by the agenda of financial standard-setting bodies. They could also provide support to the formulation of developing country positions.

3. Regional institutions

It is worth considering the role that emerging regional institutions may play in developing this counterbalancing voice. As expressed by Jetin, regional integration "gives developing countries the opportunity to build their own governance according to their needs and stage of development." (2007)

4. Standard-setting bodies where there is more representation

Developing countries might want to explore, as another possible avenue, leveraging their voice in the bodies where they are more represented. The mandates of the institutions tend to move in accordance with the will of the members. So if in institutions such as IOSCO or IAIS, where developing countries are better represented, they are able to operate in a more coordinated basis, they may be able to promote the institutions taking positions more in line with developing countries concerns in areas of financial regulation.

Developing countries may also be able to leverage their presence in bodies where they are a minority. For instance, at the BIS, 12 out of the 55 directors are from developing countries. There is –worrisomely – little evidence that they coordinate or work together in any way. In fact, they could form their own body to have a common voice and have, like the G24 at the Bank and the Fund, public statements that precede the General Meetings. This is not to deny that no role is given to General Meetings in strategic decisions, which are made through the G-10 controlled Board of Directors and Basel Committees. But such statements would serve to generate visibility for the unfairness of the situation, especially if they were to provide a countervoice to the outputs of the Board of Directors or the Basel Committees.

5. Financing for Development, United Nations potential

The Monterrey Consensus contains language that clearly called into question the lack of participation of developing countries in financial standard-setting bodies. Yet no action has been taken so far, beyond improved and more better "consultation" and "dialogue" with developing country authorities. However, the power of a political commitment made at the highest level is still an important tool developing countries should try to use. The Financing for Development Review Conference, scheduled to be held in Doha at the end of this year, has as terms of reference the examination of implementation of the Monterrey Consensus. So it is an opportunity to examine the commitments to improve participation of developing countries in standard-setting bodies and come up with more concrete recommendations for their composition.

The Monterrey Consensus also stated that "One major objective of the reform is to enhance financing for development and poverty eradication." In reviewing and making precisions on the implementation of this commitment, and consistent with the conference's goal to ensure "coherence," governments could commit to diversify the expertise and capacities of the government representatives seating in financial standard-setting bodies. In fact, it is unclear how the promotion of development and poverty reduction would be inserted in financial standards and codes without dramatic enhancements to the skill-sets of these bodies. This should also carry consequences for revising which are the actual departments from national governments that should be represented —or what type of consultations should take place domestically beforehand.

6. A UN Committee of Experts on Financial Standards and Codes

The conference could also set a standing committee of experts on financial standards and codes. Its mandate could be to examine the developmental impact of standards and codes. In this regard, the experience of the UN Committee of Experts on Tax Cooperation is a useful one to build upon. Based on the call to enhance tax cooperation (Monterrey Consensus para. 64), a resolution of ECOSOC established the UN Committee of Experts on Tax Cooperation. In 2004, building on this mandate, a resolution of ECOSOC established the Committee of Experts on International Cooperation in Tax Matters. This Committee has been meeting on a yearly basis since 2005.

The establishment of the committee had been opposed by OECD countries on the basis that it would duplicate work being done on the same topic by the OECD. The argument in response to this was that the OECD was meant to look at the question from the perspective and with the biases of industrial countries. With very limited resources, the Committee has demonstrated it can make a valuable contribution by bringing a different perspective to tax matters. One concrete example is the UN Model Double Taxation Convention it has developed for use by developing countries in concluding bilateral tax treaties with developed countries. There was OECD Model Tax Convention and the UN committee has shown that there are conceptual and practical differences between the way OECD and developing countries look at the same issue. For instance, the UN Convention tends to allocate more taxation rights to the host country (where the economic activity takes place) as opposed to the country of residence of the investor, principle adopted by the OECD convention and that tends to favor developed countries. (UNSG 2007:25)

There are two aspects to highlight from this story. One, that seemingly technical issues may receive different responses depending on the composition of the governance of the body. Second, and more importantly, that there are potential strategic payoffs. A committee housed at the UN will not, admittedly, be substantially powerful on its own to influence standards and codes. In fact, the issue of tax cooperation had more in its favor because the institutional gap to cover was wider than with standards and codes where there is a plethora of bodies dealing with them. However, constituting such a body could provide the space to start building, at an official level, a series of examples and precedents to challenge the oftentimes argued "apolitical" nature of the work of standard-setting bodies. It would also help shed light and publicity on the undemocratic nature of the bodies designing standards and codes and the biased results for non-participating countries.

7. Create own platforms for assessing regulatory efforts. Countervoice to FSF.

In tandem with the last point, developing countries could also have their own forums to assess financial regulatory matters. The FSF's role is essentially that of shaping the debate. More than issuing standards –which in itself it does not—the FSF sets the terms of the debate through its reports and statements, or through those of the working groups it sets up on different issues, sometimes at the request of the G7. So developing countries could have their own "Shadow FSF", which could provide response to the reports issued by the FSF (or simply adopt its own agenda and form its own working groups on matters of relevance to developing countries).

CSO capacity-building and support

No matter which of these approaches are chosen, both in industrialized and developing countries, their implementation will require a strong role by civil society. A few remarks in this regard. If there is one powerful obstacle to challenging the statu quo in the operation of standard-setting bodies, it is the difficulty to generate any public and civil society pressure on their functioning. This has to do with the complexity of the bodies and of the financial regulatory matters in general.

The unfairness of developing countries' lack of participation in standards they are then asked to accept and implement, has a solid moral dimension. From a merely process point of view, there are very compelling arguments to increase participation of those countries that are affected. However, it is hard to mobilize civil society organizations on the pure basis of a purely procedural unfairness without having some damaging impacts to show as a result of such process. And here is where the agenda on governance of the financial system runs into trouble.

Firstly, the suggestion that the right standards will come as a result of developing countries joining the bodies that develop them tends to be met with skepticism. But, additionally, there is generally little evidence on how much different or "right" standards will make a difference on actual issues that civil society organizations care about. Thus, a prerequisite for building any successful campaign is to get the background research that can help make the case about the impacts that different regulations may have. There may be little doubt that the standards where most progress has been made up to date are those on banking supervision.[4] They offer, therefore, an obvious starting point. In terms of where to continue, we suggest the next standards where some research of this kind exists are those on corporate governance. Accounting standards may offer fertile ground for analysis, too.

The second step, once the research has been lined up, is to actually strengthen the capacity of civil society to understand the research. On a matter as complex as financial standards and codes, this represents a big hurdle. But the hurdle should not be overestimated. It is oftentimes argued that debt campaigners were successful because they were able to reduce their demands to the "Cancel the debt" slogan, and the debt issue is simple to communicate. Granted, the slogan is simple to communicate but anybody who has had to study debt relief criteria, costs, etc. knows that there is no scarcity of thorny technical issues arising once one gets beyond the slogans. And, in fact, these have been the matter of endless argumentations among debt campaigners, because there are different visions about the approach to many of these issues. So while the slogan is simple, the issue is not, making the differences with standards and codes not as abysmal as it may seem at first sight.

The third step is to engage civil society organizations. Again, the impacts are critical to highlight in a popularly-oriented manner. But in order to make civil society organizations make an issue part of their agenda, they have to be convinced and own it. This will only happen if they are allowed to become part of the agenda-setting process.

In this regard, a by-product of the UN-based strategy developed above, could be these engagement by civil society. It may seem ironic that a strategy to engage civil society goes through the UN first, but looking at the experience with the MDGs, it is unavoidable to think that way. The MDGs claim to be a distillation of the goals of the conferences of the 1990s and were adopted in 2000, in the Millennium Declaration. This Declaration was mostly a intergovernmental product. While civil society had been very vocal and engaged in the

[4] A good number of concrete impacts have been pinpointed in research by Griffith-Jones (2007) and Cornford (2003, 2004).

conferences of the 1990s, it had little say on the actual "distillation" that happened, and common criticisms to the MDGs that are made to this date reflect those dynamics. Yet, it is undeniable that the MDGs focused and served as the organizing framework for the work of a large chunk of civil society organizations. It became a commonplace to hear: "Well, it 's not what we want—they 're not as ambitious as our demands—but it's what governments agreed to and therefore, we should demand their fulfillment." In other words, the "realistic" imprimatur given to the goals by the fact they were agreed in an intergovernmental setting became a critical factor influencing the likelihood of civil society actually adopting them as a framework for its activities. This was the case even as MDGs did not really grow from civil society's own agenda.

This paper will not develop the long reflection that this trend deserves, except for making the remark that the MDGs could be–and some would argue, have been – twisted by governments to promote wrong policies. Even when this is the case, the fact that the MDGs are the commitment made by governments seems to trump considerations of desirability when it comes to civil society strategizing. But for the practical purposes pursued in this paper, it is important to note the possibilities for building upon this dynamic in order to promote civil society campaigning on the issue.

Two constituencies that would offer potential in the expansion of advocacy are the Church and the small private sector. Just like on the issues of poverty reduction and debt relief, the Church can be a force lending moral legitimacy to calls for democratization of financial standard setting bodies.

Because they will be likely to suffer the impacts of insensitive standards, and because they are private sector, though usually an unheard part of it, the small and medium companies are an important constituency to try to get organized in an effort like this. They are often not targeted in campaigns and this is not a coincidence: it is difficult and time-consuming to pursue the many and decentralized players in this segment. However, the rewards to getting these voices on the table may justify the effort.

Conclusion

This paper set out to explore some feasible paths for increasing the participation of developing countries in the decision-making and governance of financial flows. It departed from the assumption that the main bodies in charge of these issues suffer of insufficient or missing representation from developing countries. There are two main benchmarks of the problem that this creates. Firstly, the assumption that the standards that are applicable in developed country economies should also work and be useful and beneficial for developing country economies. In this regard, the increase in participation seeks to ensure developing countries retain maximum policy flexibility to pursue locally-owned, home-grown standards, departing from standards originated by developed country groupings and reflecting their experience. Second, the omission to consider regulatory efforts that may more fairly allocate the burden of reforms for global public goods such as global development or financial stability between developed and developing countries. In this regard, the increase in participation seeks to achieve an international, and source-country, regulation of financial capital flows that can avoid (or, if inevitable, mitigate) the damage in the developing world.

The paper proposed several possible strategies towards developing country participation. They are meant to increase qualitatively and quantitatively the influence of developing countries and inclusion of their concerns in decision-making and governance of the financial flows. Importantly, though, they do not necessarily go through increases in the representation of developing countries in the existing standard-setting bodies. They may, by showing the potential impact of developing country concerns, eventually build a stronger case to do so.

It is likely that the reforms, if they are to happen, will not take place in a linear way, and based on the soundness and moral value of their underlying principles, but as a result of the challenges to specific results of the system, system that may then struggle to adapt in different ways while preserving the statu quo. The iterative intervention of organized civil society efforts to capitalize on those changes as they occur and turn them from isolated incremental steps into coordinated stepping-stones towards systemic reform will be critical to the success of such reform efforts.

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