

CHAPTER TWELVE

RELATIONS WITH INTERNATIONAL MONETARY & FINANCIAL ORGANIZATIONS

The increasing integration of world economy and the respective international requirements have paved the way for further interaction of our economy with external world in the form of cooperation with international institutions and organizations. Hence, studying economic and financial relations of the country with major international monetary and financial organizations bears great importance. With respect to Iran's membership in three major monetary and financial organizations including International Monetary Fund (IMF), World Bank and Islamic Development Bank (IDB), first we review the level and extent of relations with the three mentioned organizations in 1382, and then deal with the activities of the newly established Board of Islamic Financial Services.

International Monetary Fund (IMF)

In 1945, Iran became a member of the IMF with a quota of \$ 25 million, based on the "Law on Iran's Participation in Regulations of Bretton Woods Conference". Since 1972, Iran as the head of a group of countries including Algeria, Afghanistan, Pakistan, Morocco, Tunisia and Ghana has had a member in the board of directors of the IMF. According to the aforesaid Law, the Governor of Central Bank represents the government of Iran to the Fund. In 2003, having a quota of 1,497.2 million SDR and 15,222 votes of the total 53,662 votes of the mentioned group, Iran had a share of 28.4 percent in the total votes of the group of seven countries having membership in the board of directors and 0.702 percent in the total votes of the IMF.

On the basis of Article IV, IMF Articles of Agreement, one of the duties of the Fund is to review and supervise international monetary system and foreign exchange policies of member countries on a regular, special and complementary basis. For this purpose, IMF Article IV Mission consults with respective economic authorities on an annual basis about economic conditions of different countries including Iran and provides a report on the countries' economic policies.

On the basis of Article VIII, IMF Articles of Agreement, one of the obligations of member countries in arranging foreign exchange policies is elimination of foreign exchange restrictions. However, Article XIV has projected certain temporary arrangements for members to set some foreign exchange limitations. IMF issues an annual report about these limitations entitled Exchange Arrangements and Exchange Restrictions. During the recent years, IMF mission has provided technical and advisory assistance for improving CBI supervision, anti-money laundering and combating the financing of terrorism, and Special Data Dissemination Standard (SDDS). Moreover, every year, monetary and economic mission of Iran participates in spring and autumn meetings of the Fund and some economic experts participate in conferences, seminars and training courses conducted by the IMF in different monetary and financial fields.

World Bank

Iran was one of the 44 countries participating in Bretton Woods Conference and founders of International Bank for Reconstruction and Development (IBRD). Iran, based upon the law approved in 1945, became a member of the World Bank with a capital of \$ 24 million. The Minister of Economic Affairs and Finance represents Iran to the Bank. The World Bank consists of International Bank for Reconstruction and Development and International Development Association (IDA). World Bank group consists of Multilateral Investment Guarantee Agency (MIGA), International Finance Corporation (IFC) and International Center for Settlement of Investment Disputes (ICSID) in addition to the two mentioned institutions. Except for the latter, Iran is the member of all the other institutions of World Bank group. In 2004, \$ 175.8 million of the total \$ 2,857.4 million quota of Iran in IBRD, is considered as effective capital, constituting 1.51 percent of the total subscription to this Bank, and creating 23,686 votes (1.48 percent of total votes of member countries) for Iran.

The amount of loans extended by IBRD to Iran increased from \$ 775 million in 2003 to \$ 1,069 million in 2004 as shown in the respective table:

In 2004, Iran's quota in IDA was \$ 5.7 million equal to 15,455 votes, which constituted 0.11 percent of the total votes. Moreover, Iran's quota in MIGA was 1,659 shares valuing at \$ 17.95 million, \$ 3.59 million of which is already paid and the remaining is payable on demand. Iran's votes in the mentioned Agency are 1,836 votes constituting 0.93 percent of the total votes.

LOANS EXTENDED BY IBRD TO IRAN		
(million dollars)		
	June 30, 2003	June 30, 2004
Loans extended to Iran	775	1,069
Approved loans but not yet effective	200	359
Undisbursed balance of effective loans	197	373
Outstanding of effective loans		
Outstanding loans	378	337
Share of Iran out of total outstanding loans (percent)	0.32	0.31

In 2004, Iran's total undertaking capital in IFC was \$ 1,444 million comprising 0.06 percent of total paid capital, bringing 1,694 votes equal to 0.07 percent of the total votes of the said institution to Iran.

Islamic Development Bank (IDB)

The Islamic Development Bank is one of the specialized financial institutions of the Organization of Islamic Conference which was established in 1975 by 22 Islamic countries, with an initial capital of 2 billion Islamic dinars to render help for economic and social development of Islamic countries and Moslem communities in non-Islamic countries. Iran which became a member of IDB in 1988 with a capital of 2.5 million Islamic dinars, increased its capital to 175 million dinars in order to play more effective role in planning and policy makings.

In increasing its general capital, the IDB devoted 17,247 shares valuing at 172.4 million Islamic dinars to Iran. In her third phase of capital increase, Iran increased her capital by 344.54 million dinars to 694.4 million dinars and stood third after Saudi Arabia and Libya. It is worth mentioning that, since the beginning of the establishment of IDB till the end of 1382 (2003/2004), a total of 141 projects valuing at 1,380.2 million dinars (\$ 1,865.3 million) were approved and implemented in Iran with the help of this Bank, which consists of 36 long-term projects valuing at 540.8 million Islamic dinars (\$ 731.2 million), 3 technical assistance projects valuing at 1.6 million Islamic dinars (\$ 2.1 million), 96 short-term commercial projects valuing at 827.8 million Islamic dinars (\$ 1,118.7 million) and 6 cases of special aid valuing at 9.9 million Islamic dinars (\$ 13.2 million). The major projects part of whose required expenses are financed by the IDB are as follows:

PROJECTS APPROVED BY IDB

Project or goods and commercial raw materials	Respective organization	Approved amount (million dollars)
Shahid Madani Dam and Watering Network (1 st phase)	Ministry of Energy	2.2
Post-flood aid for Golestan water resources	Ministry of Energy	14.5
Engineering design of Tabriz Underground	Ministry of Energy	1.3

Islamic Financial Services Board (IFSB)

The Islamic Financial Services Board is an international institution responsible for providing standards for supervisory and legislative institutions, which enacts the respective rules to assure the stability and strengthening of banks and Islamic financial institutions. This institution is established thanks to the attempts of central banks, banks, financial institutions of different countries, IDB, IMF and Accounting and Auditing Organization for financial institutions. The IFSB was established on November 3, 2002, however, it started its activity since March 2003. The secretariat of the Board is in Malaysia, and in formulating standards, it is in close touch with international organizations such as International Settlement Bank, International Organization of Securities Commissions (IOSCO) and International Association of Insurance Supervisors (IAIS).

The IFSB consists of 52 members divided into three groups: main members (with votes), subsidiary members (without votes) and observers (without votes). The central banks of 12 countries⁽¹⁾ including Iran, and IDB are the main members, and IMF, World Bank, International Settlement Bank and Philippine's Central Bank are subsidiary members. Observers include 35 banks and financial and specialized organizations.

The IFSB comprises: the General Assembly, high council of policy making, technical committee, working groups and secretariat. The high council of policy making is considered as the senior executive and policy making body, and all strategic decision makings and macro level policies will be carried out by this council. Members of the council are representatives of member countries (main members) who hold the highest position in the central bank of their countries.

The main objectives of IFSB are as follows:

- Development of transparency criteria and precautionary regulations in rendering Islamic financial services through introduction of international standards according to principles of Islamic Sharia

- Provision of guidelines for supervision and formulation of rules for Islamic financial institutions in line with providing measures for recognition, measurement, management and transparency of various banking risks

- Cooperation with international organizations for formulation of standards related to stability and strengthening of international monetary and financial system and financial institutions of member countries

- Promotion of cooperation among member countries for the development of Islamic financial services.

The financial operation of IFSB during November 3, 2002 till March 31, 2003 shows that its total revenue reached \$ 825.9 thousand, out of which revenue related to receipts of membership fee amounting to \$ 800 thousand had the highest share. Revenues derived from conducting seminars and transaction on securities are considered as other revenues. On the contrary, total expenditures including technical and executive expenses in the period ending March 31, 2003 reached \$ 599.4 thousand. Thus, the financial operation of the Board enjoyed \$ 226.5 thousand surplus in this period.

(1) Other main members of the Board include: central banks of Bahrain, Brunei, Egypt, Indonesia, Jordan, Kuwait, Malaysia, Pakistan, Qatar, Saudi Arabia and Sudan.