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INTERNATIONAL DEVELOPMENT ASSOCIATION

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Statement by the Hon. **HOSSEIN NAMAZI**,
Governor of the Bank for the **ISLAMIC REPUBLIC OF IRAN**,
at the Joint Annual Discussion

IN THE NAME OF ALLAH

Statement by H.E. Dr. Hossein Namazi
Minister of Economic Affairs & Finance
Islamic Republic of Iran

Mr. Chairman, Mr. Wolfensohn, Mr. Camdessus,
Distinguished Governors, Ladies and Gentlemen

I would like to start by expressing my appreciation for the opportunity to discuss topics that have made their way on to the agenda of the Bretton Woods twin institutions. I would like to touch upon some of them as follows:

Before proceeding, I wish to congratulate the government and people of the Republic of China for the rejoining of Hong Kong to the mainland and to thank them for hosting this meeting.

Strengthening Support for Development

The divergence between the growth in private capital flows and the stagnation in official flows to developing countries that has characterized the early 1990s continued in 1996. Between 1990 and 1996, when private net capital flows to developing countries grew fivefold, official development assistance has either leveled off or slightly decreased.

The Bank and the IMF's call to strengthen support for development cooperation sends a clear and timely message regarding the decline in ODA flows and very limited access of poor countries to private flows. I therefore urge donor countries to redouble their efforts to provide adequate concessional resources to the low-income countries with either limited or no access to private capital markets. Meanwhile I also urge the developing countries to increase efforts aimed at containing budget deficits and encouraging private savings to reduce dependence on external financing.

Furthermore, the task of the World Bank, as well as of other multilateral development banks and bilateral agencies, is to provide countries with the kind of assistance they really need. Middle-income countries that have easier access to private financing need a different type of assistance than do low-income countries with fragile state institutions and less open economies. This means that the Bank should provide middle-income countries with more sustained support through IBRD loans as well as IFC and MIGA instruments. Thus, more concessional resources could be used to increase the attractiveness of poor countries for the private sector and for reducing poverty. In this respect, I support the general approach of the Bank's Strategic Compact to make the Bank's products and services more client-tailored.

Implementing the HIPC Initiative

The decline of ODA flows emphasizes the need for developing countries to become progressively less dependent on ODA. In this context, a sustainable debt policy is crucial. We therefore welcome the progress that has been made with regard to implementation of the HIPC debt initiative since the last meeting, and would like to commend the Bank and the Fund for their leadership in this endeavor.

Nevertheless, the experience gained thus far from four HIPC cases has revealed some practical difficulties. This reflects the complexity of the issues, and calls for exercising flexibility in the application of the provisions and for a strong commitment to cover the costs on an equitable basis.

The Strategic Compact

In recognition of the rapidly changing global environment, the World Bank Group has adopted a program of renewal that will enable it to position itself well for the 21st century. The Bank's traditional ways of doing business are being changed to reflect the new political and economic environment influenced by increased globalization, client diversity, and the technological revolution.

We welcome this shift to a broader development agenda, especially in terms of more socially relevant CAS's and better targeted projects based on a more comprehensive understanding of local social situations and better assessment of the social and political risks. We believe it is a sound approach. Nevertheless, it is essential for the Bank and the IMF to stay within their respective mandate.

However, within the topics covered by the Strategic Compact, I would like here to touch upon the issues of governance and corruption combat.

Before turning to these issues, I would like to draw your attention to the importance of careful consideration of the cost effectiveness of implementing the Strategic Compact.

Governance and Corruption Combat

Worldwide attention to issues of governance has intensified in recent years so that it has become a central item on the agenda of the international financial organizations in their dealings with member states. Promoting good governance in all its aspects, including ensuring the rule of law, improving efficiency and accountability of the public sector, and tackling corruption is identified as an essential element of a framework within which economies can prosper. Corruption in economic activity and, more specifically, bribery, is one manifestation of weak governance and is a major concern of governments, citizens, and NGO's in developing and industrial countries alike. The heightened focus of the World Bank and the IMF on these topics is particularly welcome. We find this initiative positive and believe that good governance and the move to combat corruption contribute strongly to sustainable growth, social development, and the creation of a stable regulatory environment at national and international levels.

However, certain points are noteworthy in this context:

First, the principles of accountability, participation, and transparency that the international financial institutions are applying to borrowing governments have not as yet been rigorously applied to the institutions' own governance. While pressure for good governance has been magnified by the policymaking role of the Bretton Woods twins, neither institution has adequately reformed core aspects of their own accountability and participation.

The world Bank and the IMF fall short of these requirements of good governance in a number of ways, despite their efforts to respond to calls for more transparent, accountable, and participatory governance. In both institutions there are certain rules which work against the standards of governance that they are requiring from member governments.

Second, as we stated at the last Annual Meeting, despite all the constructive intentions that might have been behind the idea of requiring good governance, there is a major concern regarding its abuse -- that it may serve as a tool to impinge on national sovereignty. This should be carefully dealt with by both institutions.

Third, corruption is a global phenomenon that affects all countries in varying degrees. Therefore, international cooperation among all countries should be strengthened to reduce corrupt practices. In this context the Bank's strategy for helping countries combat corruption is particularly welcome. A recent communiqué of the Development Committee was indicative that the Committee had encouraged governments to criminalize international bribery. With respect to this subject, it is noteworthy that what may in one case be counted as bribery, in another case is treated as the legal payment of commissions to intermediaries. Thus, in the case of international transactions, equal attention should be paid to both sides. For example, the tax deductibility of bribes in many major exporter countries not only does not challenge corruption, but is even conducive to such practices. Therefore, a general agreement on bribery is required at the international level to ensure that the legal and constitutional definitions of corruption adopted by different governments are compatible, such that a crime committed in one jurisdiction will be recognized as such by others.

It is noteworthy that the Islamic Law, which is based on the instructions of the Holy Quran as well as the rules enacted by the Prophet Mohammed (Peace Be Upon Him), has precisely touched the bribery issues, such that a Prophetic Narration establishes that "the briber and the bribee deserve hell".

Capital Account Liberalization and SDR Allocation

We support the position taken by the Ministers of the G-24 regarding capital account liberalization. We expect the IMF to complete its work on the orderly liberalization of capital movement as a prelude to any amendment of the Fund's Articles.

We also welcome the agreement reached on the special one-time Allocation of SDRs and the quota increase. We believe that, in order to increase the role of developing countries in the decision-making process of the Bretton Woods institutions there is a need to modify the formula for determining quotas, and we are pleased with the assurances given in this respect.

Mr. Chairman,

Now I would like to present an overview of economic conditions in my country.

The overall economic outlook is favorable. The government, while fulfilling its undertakings and improving the external balance of payments, has succeeded in containing inflation, and has decreased its rate by over 50% compared to the preceding year. Nevertheless, the GDP growth rate increased by 5.2% in real terms during the last year.

As you may know , the new administration in the Islamic Republic of Iran has recently commenced its work. This administration, while remaining committed to the earlier economic and policy reforms pursued under the country's Second Five Year Development Plan, will mainly embark on the following fundamental tasks aimed at attaining further economic growth, greater social justice, and sustainable development:

1. Applying a tighter discipline into the financial system of the public sector.
2. Reducing government expenditures through further privatization.
3. Increasing tax revenues by improving the taxation system, reforming tax laws, and introducing value added tax.
4. Reducing inflation through tighter monetary policy.
5. Promoting private savings and preventing private sector crowding out by the government.
6. Establishing an exchange rate system compatible with the economic growth rate.
7. Promoting price stability.
8. Making a stronger commitment to the social sectors and human resource development.
9. Introducing a more efficient economic policy coordination and implementation.

In conclusion, I would like to thank you for your attention. Thank you.

Monday, September 22, 1997