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Statement by the Hon. **SEYED SHAMSEDDIN HOSSEINI**,
Governor of the Bank for the **ISLAMIC REPUBLIC OF IRAN**,
at the Joint Annual Discussion

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Mr. Chairman

Distinguished Delegates

I am very pleased to have this opportunity in the beautiful city of Istanbul to address this august gathering. I wish also to express my sincere gratitude to the Government of Turkey for its hospitality and convening these meetings.

Dear Colleagues

As you are well aware, the deepening of financial crisis placed the Global economy in a difficult situation. Notwithstanding its dire consequences on the world economy, this crisis resulted in some worthy lessons on the management of the global economy as well as lessons for international institutions.

For years, IMF has underscored the importance of "proportionality of liquidity growth to the growth of the real output". However the "proportionality of the paper assets and derivatives to the real assets has not been given due consideration. While developing economies, were constantly monitored and directed, under inappropriate theoretical framework, there was no such treatment in place for the advanced economies in the world. As a result the Bank and the IMF proved incapable of predicting this crisis. Therefore, we are at a crossroad where the fundamental roles and operational profiles of these institutions need to be reviewed and revamped.

While the crisis began in the financial sector, it quickly spread to an economic crisis through the insolvency of economic enterprises and the growth in unemployment and poverty which eventually led to social tensions and humanitarian problems.

In this context, the dimensions and impacts of the crisis deserve further scrutiny. The concentration of the main economic activities and benefits in a few economies in the world and the systemic integration of these economies increased the risk potentials and vulnerability to global economy. Therefore, besides developing balanced programs to confront the crisis, long term solutions require that the global financial architecture be redesigned to ensure an equitable distribution of economic transactions and activities. Therefore the fundamental question before us is whether the plans and programs prescribed can address the impacts of the crisis in an equitable manner.

The short term response to the crisis was indeed, as I believe, through putting in place stabilization policies and stimulating demand. However it should be emphasized that theoretical framework has to be redressed to tackle this problem. The criticism of excessive deregulation has been truly welcomed by scientific circles and policy makers. But the question is: what is the blueprint according to which the regulations should be redesigned?

Our explicit proposal is to pay greater attention to Islamic banking and finance models, which has successfully practiced in this crisis, where emphasis is put on the balance between financial versus the real sector of the economy, illusory earnings such as usury transactions are forbidden and the imbalance expansion of paper assets is discouraged. In this context the Islamic Development Bank has been demonstrated to be a resilient model.

Ladies and Gentlemen

On the issue of reform for Enhancing the Voice of Developing and Transition Countries in the IMF and the World Bank, we welcome the emerging consensus that the Developing and Transition Countries should have significant growth in their voting powers. We believe that this can only be done equitably when the developed countries would accept to transfer close to 6 percent of their collective voting powers to Developing and Transition Countries. Otherwise, we do not think it is fair or sensible to reshuffle the voting powers of DTCs among themselves since the purpose of this whole revision from its outset of proposal in the Monterrey consensus has been to enhance the voice and participation of DTCs.

We strongly believe that the second phase of voice reform should logically complement the first phase and it should not nullify what is already accomplished and gained for the developing countries in the first phase. Therefore, the gains made in the first phase have to be preserved, and the voting powers of no single DTCs should be involuntarily diluted.

We also believe that selected capital increase will be the simplest and most appropriate way to achieve realignment of the voting powers of DTCs in the second phase.

Mr. Chairman,

Last but not least I would like to draw your kind attention to a very important issue. Section 10 of article 4 of the Articles of Agreements of the World Bank clearly stipulates that the Bank should base its decisions on a member country programs and projects only on its economic merits.

In spite of this unequivocal legally binding agreement, we observe the World Bank's discriminatory and double standard by withholding the approval of the Country Assistance Strategy of the Islamic Republic of Iran. This is the 4th year that the management of the Bank, relying on political excuses, and contrary to the opinion of the legal advisor to the Bank and United Nations, has refrained from the presentation of Iran CAS. It should be noted that I. R. Iran is one of the founding members and shareholders of the Bank Group. This is absolutely unacceptable and legally unfounded practice, which must be corrected.

For years, the Bank has been proposing and promoting "Good Governance" approach for the management of the countries and "Corporate Governance" strategy for the operations of the firms, but at the same time its own operations are severely undermined by Political Governance, and this global institution has ignored the rights of Islamic Republic of Iran as a member country.

Thank you very much.