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THE EFFECT OF GOOD GOVERNANCE ON THE REFORMATION OF
IRAN'S BANKING SYSTEM

Masoud Naderianari¹, Abolfazl Jafar Gholikhani^{2}, Tayebe Bolverdi³*

¹Ph.D Student of Public Law, Sirjan Branch, Islamic Azad University, Sirjan, Iran.

²Faculty Member of Baft Branch, Islamic Azad University, Baft, Iran.

³Faculty Member of Sirjan Branch, Islamic Azad University, Sirjan, Iran.

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ABSTRACT

The extent to which a country stays bound to the principles of good governance can be evaluated and identified through the use of various scales and indices. Setting the ground for the people's active participation in the determination of their own destiny, the existence of the conditions that corroborate the parity and freedom in (win-win) selection right, the existence of the grounds that increase the active participation in the achievement of the real common national panorama and create and develop the belief in and adherence to the common national values and strengthening and encouraging the space enhancing the active participation in the decision-making processes are amongst the properties and indices of governance; in this line, the creation of information transparency and production, analysis and offering of correct, precise and up-to-date information and free access to the information, as well, seem to be amongst the necessary cases. Parallel to the adherence to and enforcement of these principles by the government of each country, it is necessary for the formations in the economy domain to make efforts in line with supporting the private sector and its development in the country and take the required measures for the promotion and institutionalization of the competitiveness in the country's economy as one pillar of good governance; in this regard, cases like the enhancement of the private sector's competencies in the country, promotion and institutionalization of efficiency and effectiveness in all the economic and industrial programs, contribution to the enhancement of empowerment, professional knowledge and skill of the private sector, assisting the increase in the managerial capabilities, support of the high-quality goods and services' offering, planning and taking measures for advancing technology and technical abilities of the private sector and increasing the optimality of the private sector in the society can be pointed out. The present study has been conducted with the objective of being practical in a descriptive manner. It is descriptive in that it deals with the status quo of the banking system based on the indicators of good governance.

INTRODUCTION

Considering the essential role of the banks in the country's economy, the increase in the number of private banks and also privatization of some of the state banks in line with the enforcement of act 44 of the constitution and the recent banks' scandals, paying of attention to the transparency of the banks' financial reports has become important more than ever before. The transparent performance of the banks is important because any disorder in the banking system can rapidly disperse in the economy and this causes the people's distrust. Thus, banks should have enough transparency in their offering of their financial statements and information so that the amount of their activities' risks and the contingent dangers they may face could be sufficiently transparent for the policy-makers. Moreover, absence of transparency in the banking system may cause the non-optimal allocation of the resources (Tehranchian, 2015, p.45). Based on the country's 20-year vision plan, Islamic Republic of Iran should enjoy hasty and constant economic growth, relative enhancement of per capita income and inclination towards perfect employment rate so as to achieve the first economic, scientific and technological rank in the regional level. Undoubtedly, the actualization of the aforesaid goals is dependent on the enjoyment of an effective, stable, disciplined and dynamic banking system because the country's economic system is bank-oriented and a large quotient of the financial supplies to the economy sector of the country is to be provided by the country's banking industry (IRI's central bank, 2014). Subjects like supervision, transparency, quality of the rule-setting, fight with corruption and so forth in the banking and governance systems have presently become some of the key indices drawing a lot of attentions in the international level. This issue has also been constantly amongst the people's major concerns in both the micro and macro levels. In its organizational level, the goal is perceiving the real performance of the organizations' managers and the amount of companies' success. However, in macro level, the perception of the extent to which accountability to the people is important and movement towards development within the framework of governance has been intended. A new wave has come about in the social sciences and people's beliefs about the perception of the world with it being the novel paradigm of governance and playing a key role in the development. In the meanwhile, accountability in all the country's levels and sectors, identicalness of everyone before the law, the accountability of all of the people, particularly the officials, regarding the decisions, commitments and regulations, promotion and enhancement of the efficiency and effectiveness in all of the country's operational activities and plans, optimal and effective allocation of the resources, the evaluation and measurement of the activities and performances, interventions and authorities, governance in the country with the objective of increasing the positive effects on the people's quality of life, making comparisons with the superior performances of the developed countries in various grounds and so forth are amongst the cases that should be also taken into account (Sameti et al, 2011, p.166). The present study tries presenting some effects of the good governance's indices on the institutional structures and corruption control in the banking system. Besides investigating the current status of the banking system, the study also pays a particular attention to the quality with which the codification and

operationalization of the good governance's indices can influence the economic mechanism of the banking system under competitive conditions. That is because it was made clear in the investigations that no research has been so far done about the positions of the banking supervision, economic transparency, governance of law and central bank as the sole institute overseeing the country's banking network and also about the central bank's role and position in respect to the good governance.

STATEMENT OF PROBLEM

Good governance is one of the concepts first posited by the world bank during the late 1980s and it swiftly drew the attentions of the international organizations, development agencies and academic circles and, though it is now more than three decades old, it is keeping on gaining importance day in day out considering the obtained results. The UN's economic-social commission defines governance as a decision-making process or a process wherein decisions are either enforced or not. The multidimensionality of governance is one of its most important attributes. In this paradigm, weak countries have found such a fate due to their bad governance and the developed countries have ended like this because of good governance. However, it is not easy to enjoy a banking system with the aforementioned characteristics unless by first having an appropriate and effective system supervising it. Without an exact and authoritative banking system, it is absurd to expect to have sound and stable banks at the service of the macro-level and excellent economic goals and missions because, as the only deposit-accepting financial intermediates which distinguishes them from the other financial intermediates, the banks provide the possibilities of transferring money sums between the economy activists and acquiring resources from the depositors and the subsequent allocation of them to the credible activists in need of these sums thereby to cause fluid business circulation and economic reinforcement. However, to the same extent that the banks and the credit institutes play an effective role in the economic development, they also are capable of creating financial instability, as well, in the economic system in case of not enjoying proper efficiency. Banking is a dynamic and constantly evolving activity and it possesses special properties and the emergence of a problem or disorder in a bank can rapidly expand to the other banks and financial intermediates and finally influence the whole financial and economic system of a country. Thus, in order to preserve the stability and soundness of the country's banking system as the first and most important goal and existential philosophy of the supervision on the banks, the normative and institutional requirements should be taken into consideration for the effective and efficient supervision. With this description, considering the importance of the issue and according to articles 5 and 9 on the requirements of the actualization of the 20-year vision plan and based on the articles 9 and 19 of the general policies of the resistive economy and in line with taking effective steps for the actualization of the high-level economic goals as stated in the 20-year vision plan of Islamic Republic of Iran and the general policies of the resistive economy, the enforcement of the good governance's indicators matters in proportion to the banking system as a necessity to IRI's central bank. The primary indices of good governance in the developmentalist governments should be taken into

account in all the institutions and organizations. The followings are the most important of these indices:

- Transparency and accountability
- Supervision
- Government's effectiveness: government's efficiency in performing the assigned tasks
- Quality of the rule-setting
- Governance of law
- Fight with corruption

Overview

In 1989 and in a report, the world bank has dealt with the effects of the unfavorable governance on the underdevelopment in the countries as well as with the delay in economic growth in the developing countries. In this report that stems from the worries about the relationships between development, democracy and the diverse social subjects, the concept "good governance" has been put forth. The results of the report are laid on this subject that the weakness in the application and operationalization of the principles of good governance is amongst the most important barriers of growth and development in the countries. Based on this approach, the most important duties of the government before the society can be divided into three general groups: "developmental relations meaning that the governments can create fundamental changes in various grounds through managing the economy for achieving maximum economic growth. Corresponding to the latest definition by the world bank, good governance includes adoption of predicted policies within the format of planning process, clearness and explicitness of the governmental interventions that indicate the transparency of the government's activities; transparent bureaucracy; accountability of the executive organs about their own activities; people's active participation in social and political affairs and also the equality of all the individuals before the law (Ara'ei, 2017, p.76).

Good governance is exercising political, economic, executive, social and legal management of a country's resources for achieving the set goals. This exercise includes solutions and institutions by which the social groups and individuals would become able to follow their own legal rights and interests considering the limitations. Although good governance has been defined in some of the texts as the good government, they cannot be viewed as synonymous because all of the society's institutes are not summarized in the executive organ and the other institutes share the process of a country's administration to the extent of their own parts. However, there is this agreement amongst many of the thinkers that the existence of the good governance is not the necessary condition for the good governance (Weiss, 2000, p.796). Economic-social commission of Asia and Pacific Ocean has elaborated the important principles of the good governance and the factors influencing the corroboration of them; government should respect these principles and enforce them to be able to take effective steps in line with sustainable development. These principles have been explicated briefly below:

1. Participation: the amount of the people's participation in the society's affairs is amongst the key pillars of good governance. Participation can be direct or indirect (via the legal institutes). Of course, it cannot be expected that all of the extant notions be taken into consideration in a country's decision-making process. So, participation here points to the freedom of expression and diversity of the perspectives and organizing style of a civil society.
2. Rule of law: good governance needs a fair framework of regulations that includes perfect support of the rights of the individuals (especially the minorities) in the society and the appropriate fulfillment of these rights. It is worth mentioning that the fair enforcement of the regulations entails the existence of an independent judicial system and an uncorruptible executive arm (the police) for this system.
3. Transparency: it means free flowing of information and everyone's easy access thereto. Transparency can be also realized as the society members' awareness of the quality of adopting and enforcing decisions. Under such circumstances, group media would be readily capable of analyzing and criticizing the policies adopted in the country's decision-making and executing system.
4. Formation of an overall unity: as it was expressed, the setting of the ground for the emergence of different ideas in the various political, social and economic arenas is amongst the principles of good governance. Good governor should guide the various notions within the format of an overall national agreement and unity towards a direction in which the highest convergence with the whole society's goals can be brought about. Playing such a vital role necessitates the exact recognition of the society's long-term needs on the path of the move towards sustainable development.
5. Equal rights and adherence to the justice: stable welfare and comfort in the society can be rendered feasible by authentication of equal rights for all the individuals. There should be this confidence in the society that the individuals would share the society's interests in proportion to their activities. Put differently, all of the individuals should enjoy equal opportunities in the good governance.
6. Effectiveness and efficiency: good governance is recounted as a tool for regulating the activities of the institutions in line with the efficient use of the natural resources and conservation of the environment, as well. Effectiveness and efficiency in respect to governance are amongst the topics that gain more significance with the elapse of more time (Helliwell et al, 2018, p.1334).

Analyzing the Indices of Good Governance

The government's overlooking of the economic flows not only causes the increase in the government's income but also sets the ground for the

government's fight with various kinds of corruptions and rents, as well, due to the government's need for the continuation of such revenues. That is because it is through elevating the business's security and encouraging the people towards production that the government can guarantee itself a stable income flow (originating from the taxes on the private sector). It means that there is no stable income for the proper management of the public sector due to the government's lack of full knowledge about the society's economic activities; the business environment is inauspicious due to the ineffectiveness of the public sector's management and the non-generative and non-transparent sectors become more booming and a vicious and imperfect circle is formed and, in this vicious circle, the production area becomes weaker and weaker day after day due to the negligence and inability of the government in the fight with corruption and renting of the non-generative sector and, at the same time, the government's tax revenues become lesser and lesser day after day due to the inability in the identification and tracking of the dealership activities as well as due to the lowering of the number and volume of the generative activities (Fallah, 2017, p.180).

Transparency in Iran's Banking System

Although transparency is inherently and directly not effective in the successful and unsuccessful performance of a bank, the country's experts in banking and economy area emphasize on the key role of transparency in the financial discipline as well as in the supervision's becoming of more effective in the banks' performance; the banks' transparency can play an effective role in the enhancement of soundness and prevention of the banking crises because the information about the banks' financial performance and risk navigates them towards more conservative behaviors. Moreover, the possibility of central bank's effective and efficient supervision on and management of the monetary market is increased with the increase in the amount of the transparency index in the banks and the depositors can more easily trust this market; in the meanwhile, the consideration of this index in the country's monetary network can get the banks closer to the international standards as constitutors of one of the indices indicating the improvement of the ranks of the country's banks amongst the world's banks (Nazarpour et al, 2018, p.83).

Any general damage to a bank can quickly spread to the whole banking system and even the country's economic system. Due to the same reason, preserving the general public's trust in the banking system and preventing any shortfall and crisis in this system and inhibiting the spreading of the problems in economy's monetary sector to the real sector are amongst the primary objectives of the supervision on the banks; the existence of transparent and comparable financial information is one of the main pillars of the executive managers' accountability and amongst the essential needs of the economic decision-makers and unexampled requirements of the economic development and growth in the state and private sectors. Transparency is one of the primary requirements of the risk-based supervision style and one of the factors of effective supervision for preserving the banking system's soundness and stability. The declaration of the criteria related to the minimum transparency standards and the publicizing of the information by the credit institutes, the announcement of

the regulations pertinent to the banks' rial guarantees, revision of the regulations connected with the method of calculating and apportioning the shared interests and launching of the various information systems and taking measures for reducing corruptions are tasks undertaken in line with transparency. However, due to the fact that this issue has been neglected by the officials during the long years of embargoes and it has been felt unnecessary, there are many problems with which the banks are currently faced for preparing the transparency documents of the banks (Hariri and Kia'ei, 2018, p.32).

One of the functions of transparency is the fight with corruption. Transparency in the government's annual budgeting is the most important bottleneck of the fight with a vast part of economic corruption and renting in the governmental sector. Due to the same reason, transparency and supervision on the structure and trend of budgeting as well as method of spending the petroleum revenues are amongst the vital points. One of the goals of the supervision on the banks is the accountability and one of the essential and limiting factors of the banks' accountability is transparency. Without transparency and with the existence of other factors, accountability would become intensively ambiguous; legal requirement of the banks to the disclosing of correct information, codification of exact and transparent accounting standards in match with the latest knowledge and the enforcement of the accounting process and codification and enforcement of the supervisory guidelines and circulars in various financial grounds can be considered as prerequisites of the banks and financial institutes' ranking. Supervision on the transparency leads to the stabilization and expansion of the national banking system and decreases the engagement between the bankers and depositors (Yavari et al, 2017, p.102).

At present, most of the economic activists avoid transparency and take measures in line with manipulation of the accounts due to their distrust in their interactions with the governmental organs and agents; such secrecy is the essential root of the inauspicious business conditions in Iran and a reflection of the cumbersome, unjust and ineffective regulations as well as sick and corruption-prone bureaucracy. On the other hand, the auditing system in Iran features a governmental rather than a private and professional nature and the legal ledgers of numerous companies are rejected due to their being flawed and their taxes are more estimated than determined. The economic activists also work in various areas in an informal manner and perform their activities without tableau and establishment of company so as not to face the governmental organs and agents. All of these specifications recount a space of distrust and non-transparency for the businesses. Banking systems are one of the ways of creating financial transparency in the society's economic space. The research center of the Islamic Consultative Assembly announced that there should be four properties existent in the transparency process, including the process of business and information verification in three grounds of documents, goods and services, money and financial assets and, finally, comprehensive information census. Banking systems should have these four properties otherwise they cannot be recognized as system (Laylabi et al, 2018, p.166). Considering the key importance of the indicators influencing the balance sheet and financial statements of the banks, the significance of the ranking is also a key feature for both the banking system

and their customers' assessment because the acceptance of the principle of ranking means difference in performance, goals and functions of the banking system. Now, the process of ranking the real and legal persons and investigation of the relevant risks are not carried out and this can reduce the transparency of the financial system in practice. The codification of some of the international standards in the banking system is mostly a result of the experiences acquired following the global crises in the banking system; the observance of the standards related to the capital adequacy, credit risk and so forth not only leads to the increase in the transparency but it can also be a proper index of the performance and functioning of these organizations' managers. The amount of transparency in the performance of the financial and social institutes and systems in a country is the result of the full-scale performance of the governors and the captains of development in a country. The thing that has to be taken more seriously into account in this regard is the adherence to the long-term development's goals and perception of all the elements influencing this process (Shirani et al, 2019, p.102).

Considering the essential role of the banks in the country's economy, the increase in the number of the private banks as well as privatization of some of the state banks in line with the enforcement of the act 44 of the constitution and also the recent banks' scandals, the paying of attention to the transparency of the bank' financial reports have become more increasingly important. The transparent performance of the banks is important because any disorder in the baking system would rapidly spread to the economy and cause the people's distrust. Thus, banks should have enough transparency in offering their information and their financial accounts' statuses so that the amount of risk in their activities and the contingent dangers before them can become clear to the policy-makers (Tehranchian, 2015, p.45). Based on the information obtained from monitoring the various banks' sites, it has been made clear that many of the banks do not have a report under such a title as the transparency report in their site. Based on an enactment that has been announced to the banks, the banks should publish their financial information in four parts and make it available to the general public. These four parts are: information related to the financial statements, information related to the risk management, information related to the corporate governance and internal control and, eventually, the publishing of the information related to the important events. Some of the banks like Mellat, Tejarat and Saderat had published all these four parts in details in their sites but other banks like Pasargard had only published part of the information related to transparency in their sites. In the website of Pasargad and Post Banks, the information related to the important events was not observable. Some other banks like Parsian and Melli, as well, had different structures and they had just published a report on their financial statements (Sadeghi, 2018, p.21). This is while BCBS Committee has considered six indices for the publication of the information by the banks but the group of the Iranian banks that have published their information have only disclosed four indices in their websites. Besides the aforementioned four indices, BCBS Committee has realized two indices of the accounting policies and main business and being exposed to risk amongst the transparency indices. However, the central bank has always been sensitive to the financial transparency of the banks and it has repeatedly emphasized on the necessity of paying attention to this issue. According to

the claims by Iran's senior banking authorities, the disconnection of the Iranian banks from the foreign banks has been effective in the creation of a gap between the level of Iranian banks' offering of services and the international levels of doing so and, considering the lifting of the embargoes and setting of the ground for the non-intermediated relationship with the foreign banks, we should be able to powerfully return to the arena of the international banking through the enhancement of the standards (Ibid).

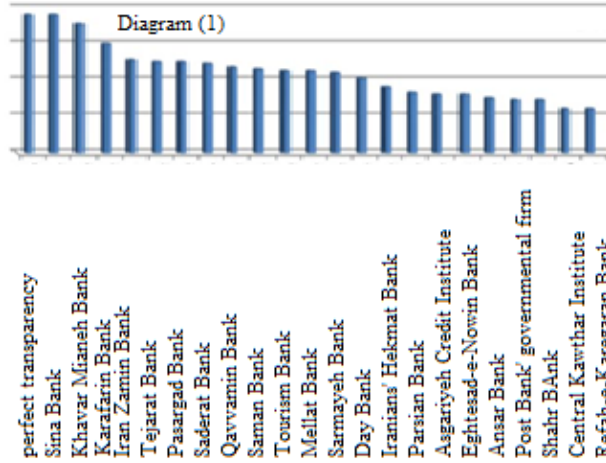


Figure (1): rating the banks and the finance and credit institutes in terms of the transparency indices (source: research center of the Islamic Consultative Assembly)

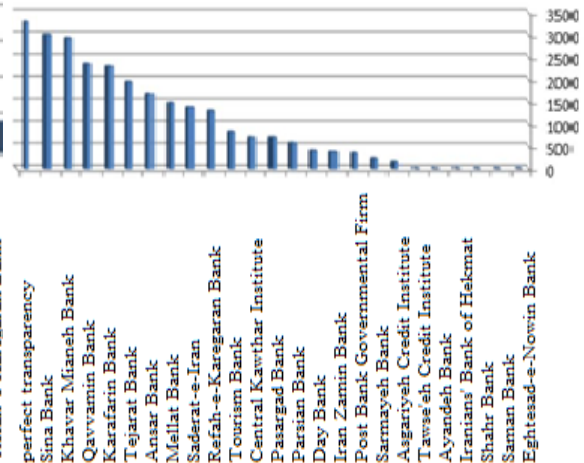


Figure (2): rating the banks and the finance and credit institutes in terms of the risk management indices (source: research center of the Islamic Consultative Assembly)

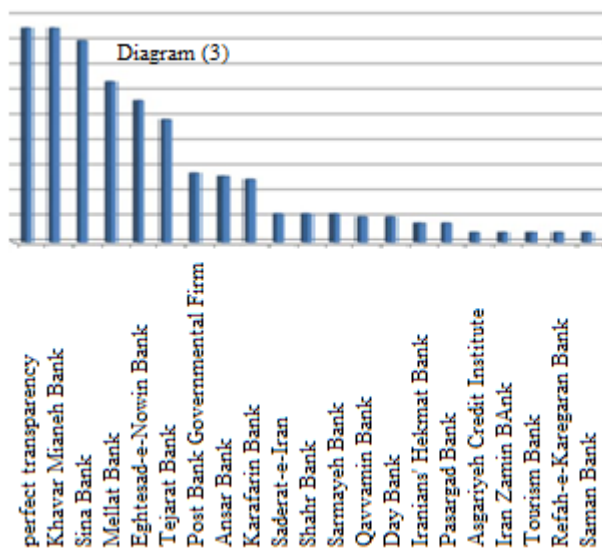


Figure (3): rating the banks and the finance and credit institutes in terms of the risk indices (source: research center of the Islamic Consultative Assembly)

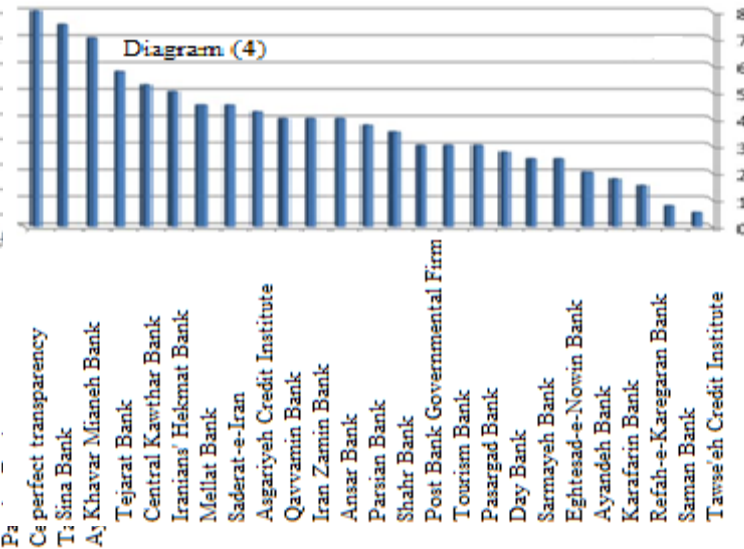


Figure (3): rating the banks and the finance and credit institutes in terms of the corporate governance's indices (source: research center of the Islamic Consultative Assembly)

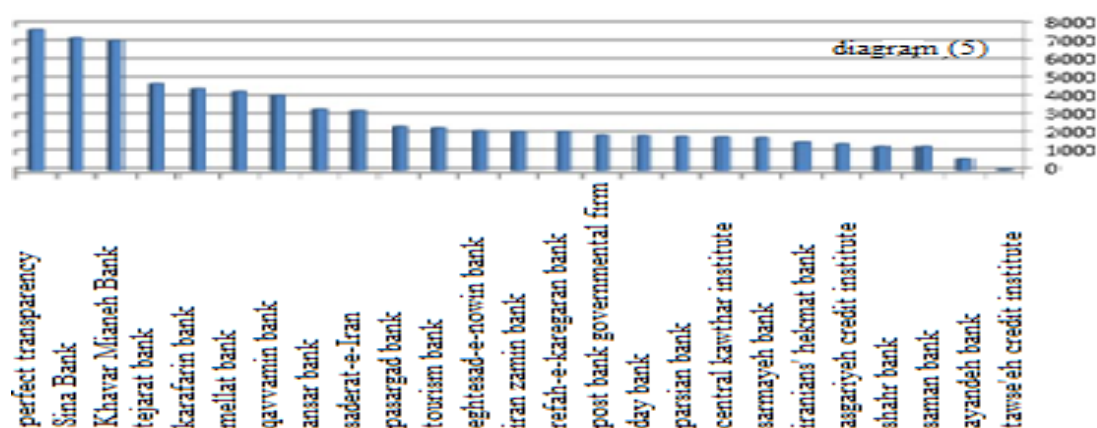


Figure (5): rating the banks and the finance and credit institutes in terms of the transparency indices (source: research center of the Islamic Consultative Assembly)

The study and investigation of the above-presented diagrams and BCBS committee's reports makes it clear that Iran's banking system is not in a good situation in terms of transparency. It has always been emphasized in the monetary and banking system of the country that we are looking for the transparency of the relations between all the activists and parties having interests in the banking system. The contents of the law on the non-usurious banking operation, the approach of the law on the regulation of a well-formed money market and the thing that is presently being investigated in the Islamic Consultative Assembly under the title of the "twofold bill" all have been codified, announced and enforced with this same attitude. In fact, we have been and are looking for rendering transparent the relations between the activists and the parties with interests in the banking services. However, the thing that has so far occurred has not been able unfortunately to actualize this fundamental principle; one distinct example of the absence of transparency is the uncertainty of the vivid costs of the electronic banking services. Extravagant sums of money are spent annually within the format of the banking services' costs and electronic payment in the banking network and there is no reliable transparency about them for the interested parties. These costs have not been received so far from the users of these services and this has had an incorrectly negative effect on the interests of the individuals having rights and interests in the banks. In fact, the costs of the electronic services are recorded in the row of the costs; in other words, only a part of the costs that have been entered in the balance sheets of the banks' financial statements for the banking services and electronic payment should be compensated with higher interest rates on the loans and its main part should be shouldered by the shareholders. In the state banks, as well, the costs are to be inserted in the national costs' section (Muhammadreza Khani and Rostampanah, 2018, p.63).

Supervision in Iran's Banking System

Effective supervision on banks is amongst the essential preconditions for assuring the accuracy of the performance by the country's economic system. The primary goal of the banks' supervision is the preservation of the

financial system's stability and increasing of the trust therein via reducing the risk for the depositors and the other creditors. Therefore, supervision seeks ensuring that the banks and the credit institutes act in a safe and correct manner and they enjoy sufficient capitals and reserves in the face of the risks. IRI's central bank that is responsible for the supervision on the banks and the credit institutes based on the paragraph B of the article 11 of the law on Iran's money and banks has adopted such an approach as "the risk-based supervision" as its primary approach for supervising the country's banks and credit institutes since the late 1990s through taking advantage of the latest accomplishments by the professional and specialized centers and communities and, in line with this and meanwhile renovating the organizational structure in the area of the supervision on banks, it has placed the codification of cautionary regulations and deepening and expansion of the novel banking literature in the country atop of the agenda of its activities. The subject of the quality of controlling and supervising the financial markets as well as the activity and functioning method of the credit institutes and banks as parts of the active financial intermediaries in these markets has always been one of the major concerns of the various economic authorities in domestic and/or international levels. In Iran, the subject of the central bank's supervision on the activities and performances of the banks and credit institutes is amongst the most important duties that have been specifically stipulated in paragraph B of the article 1 of the law on Iran's money and banks for this bank. In line with this, the daily increasing qualitative and quantitative evolutions in the country's banking network and the necessity of keeping pace with the development in the international banking systems have led to the proposition of serious discussions, including the renovation of the organizational structure of the supervision on banks in the country (Ferdowsi, 2014, p.44). There are various reasons and factors giving rise to the significance and sensitivity of the supervision on the banking system, especially in respect to the other supervision subjects. Due to their different structure in their assets and debts (for example, possessing long-lived assets and instantaneous debts) or, in other words, lack of coordination between the debts and assets in terms of the due date and being differently influenced by the fluctuations of the interest rate, foreign currency exchange rate, price of the physical assets and so forth, the banks potentially fall in a state of instability and shakiness and this issue exposes the banks' activities to special risks. On the other hand, the share of the financial debts in the banks' balance sheet is a lot larger than that in the other industries'; in other words, the banks enjoy a very high leverage ratio in contrast to the other industries. Simultaneous paying of attention to these two points (special risks of the banks' activities and the high leverage ratio of the banks) reveals the necessity of strong supervision on the banking network. The third point that doubles the necessity of the central bank's supervision on the banking network is the effective role of the banks on the supply of money and creation of credit which is considered as the means of exchange in the modern monetary systems. Due to this role of the banks, the bankruptcy of a bank can jeopardize the monetary system and disrupt the exchanges in the whole economy; additionally, this issue is well-observable in the financial crises (Shafi'ei et al, 2018, p.67). Due to the fact that the credits are created by the banks and the money is supplied by them, as well, the navigation of these

created money and credits is of a great importance. If the banks guide these credits towards the manufacturing and generative activities, many positive effects can be brought about on the country's economy. However, in case of the absence of a strong supervision on the banks and the financial institutes, these credits would be applied in nongenerative sectors or they may be allocated to the companies owned by the bank itself and this would leave harmful effects on the country's economy. The other factor that makes advanced and up-to-date supervision on the banking system necessary is that the banks exert a direct effect on the volume of the monetary base due to their access to the central bank's resources and the possibility of withdrawing excessive money and this can make the central bank's monetary policies encounter problems. All of these cases indicate that the banking activity possesses special properties and the problems or disorders emerged in a bank can rapidly spread to the other banks and finally adversely influence the corresponding country's financial and economic system. Such an incident is called systemic risk. The occurrence of bankruptcy has a continuous effect on the economic processes and it influences the other economic sectors, as well. The adverse effects created from the bankruptcy of a bank are a lot vaster than the ones created by the bankruptcy of a nonfinancial institute. A bank's inability in enforcing the payment orders can damage the public trust as well as the payment and liquidation systems (Alavi Aal, 2017, p.38). Specifically, central bank (as the institute supervising the performances of the banks) needs to constantly rate the banks in line with the exercising of well-calculated and fast supervision. In this regard, the supervision office of the central bank placed the rating of the banks atop of its agenda during this year and it designed various layers of supervisory patterns for various sound and unsound bank groups and this process should be continued in the next year with utmost seriousness. It is worth mentioning that it seems that the effectiveness of the rating process and the amount of its influence can be increased if the duty of banks' rating can be assigned to a separate institute independent from the banking system. In more precise terms, the existence of this institute would augment the pace of enhancing the banks' soundness in future (Tehranchian et al, 2015, p.38).

Financial Corruption in the Banking System

Economic corruptions are amongst the state and private corruptions like bribery, misuse of the occupational position, embezzlement and so forth and these are dangerous diseases that can be found in all the communities, including the developed or the developing ones, but the negative effects of them are increasingly higher in the developing countries than the developed ones; in many of these communities, corruption is followed by hefty economic costs and disrupts the performance of the free markets and causes the slackening of the economic development and reduces the ability of the institutes and bureaucracy for the offering of the citizens' wanted services. Furthermore, corruption negatively influences the efforts made for the fight with poverty. In the whole world, a special supervision is exerted on the banks' performances; in all of the countries worldwide, banks' managers are carefully and sensitively appointed and verified by the supervising authority. This affirmation is expressed from two perspectives: confirmation of the scientific qualifications and confirmation of the moral qualifications so that

the supervising authority can ensure that the banks are administrated by experts and committed persons and they do not become the maneuvering zone of the economic corrupts because banks influence the whole economy of a country and any negligence in the supervision on the banks would be accompanied by irreparable results (Honarmand and Graylou, 2018, p.119). Nowadays, the financial corruption of the owners of power and high position in the domestic level of the countries as well as in the universal domain has become an essential challenge in the human communities; the variegated nature of the corruption examples, on the one hand, and their devastative outcomes in the countries' economic systems, on the other hand, add to the importance of paying attention to this crime and solutions of preventing and fighting with it and, currently and in the banking literature, titles like social bank, ethical banking, micro financial supply, fair and accountable banking and others of the like have been posited with each expressing and being a sum of trans-economic functions of the banks as the auxiliary force for issues like human development and increase of the deprived groups' access to the bioenvironmental facilities and so on (Khalil Arjmandi, 1928, p.26). Despite the numerous studies and recommendations in the world regarding the management of the banks' risks and the necessity of giving a high value to them, the risk and its management has been focused in Iran's banking system unfortunately to the extent of a name and a department. The risk management department in the banks has been created as recommended by the international institutes like BSBC Committee and as required by the central bank in the form of a contentless organ which only carries a theoretical prestige for risk management but lacking any fame in practice for doing so. The more important point is that the banks traditionally (and not within the format of the advanced risk management models) deal with credit and liquidity risk management inter alia all the banking risks whereas the most important banking risk, i.e. operational risk, is left unnoticed. Operational risk is amongst the most complicated of all the risks in every industry and its management entails effective processes and advanced computer systems but the banking system has unfortunately ignored it. Amongst the important risks in the collection of the operational risks is the money-laundering risk in the grounds of which the supervisors as well as the banks have not made serious efforts. The interventions in this regard have been so far solely within the limits of the law, guidelines and instructions but without paying serious attention to the enforcement of them. The existence of an effective system for fighting with money laundering can prevent many of the embezzlements and crimes existent in the banking system. Considering the fact that a notable volume of the money circulating in the world's trade network is dirty money (according to the universal estimations in 2001, the amount of the laundered money has been about 1.8 thousand billion dollars and the globally laundered money reached a volume between about 1.2 and 3 thousand billion dollars in 2010), it can be found out that there is a direct relationship between the volume of the dirty money and the demand for the circulating money (Yavari et al, 2017, p.100).

Iran's banking system is entangled with renting and corruption and it is not possible to get rid of this descending trend as far as there is not enough political determination for the fight with these disordering factors. The costs of the continuation of the current status would be very enormous for the

soundness of the economy and society; when the money and credit council sets the banks' interest rate below the required level against what has been explicitly stipulated in the law, greed for the banks' resources is created. It is natural that the optimum allocation of the banks' resources cannot take place under such conditions and these resources are nothing except the people's assets and they be transformed into meat of a sacrificed sheep and everyone would want to have a share thereof. It is clear that the entrepreneurs who want to start a business under such conditions from a scratch and we expect them to increase the country's economy volume by more than twice as much would not be permitted to enter the scene and these are all due to the reason that we want to support several percentages of the existing factories and manufacturers with cheap and discriminatory facilities. Although the existence of cheap facilities is vital for growth, the way of achieving them only passes through the central bank's reduction of the money supply. Therefore, a factory's use of the discriminatory facilities that is not corruption-like in appearance can be realized as a sort of the misuse of the banking resources because, under the conditions that the central bank has declared the inflation rate to be 17.3%, the annual interest rate (considering its fees) should not be lower than between 19% and 20%. The illogical reduction of the interest rate is exactly as if the government decides to buy a rare commodity for a high price and supplies it to the market with a lower price so as to be able to fight with the expensiveness thereof (research center of the Islamic Consultative Assembly). The central bank is miles away from the issues of the day and some of its experts and supervisors are not up-to-date and they occasionally exercise too much fuss over very fine matters and sometimes easily disregard very big issues that source many of the later happenings and problems of the banks or financial institutes. In addition, two of the issues influencing the emergence of the economic corruptions are taking delayed actions and the non-up-to-dated nature of the judicial system in this regard in such a way that we are faced in such issues with a lot of idling and loss of a lot of time. When the time is lost, the people cannot mostly acquire their money while, if the judicial system takes measures in regard of the confronted cases from the very beginning and makes fast and correct decisions especially by the attorney generals, these problems can be prevented to a large extent (Baseri et al, 2013, p.87). The factors influencing the emergence of corruption in the banks can be divided into the extra-organizational and intraorganizational problems. The former can be due to the scarcity of the resources in the face of the large volume of the demands for the loans and credits, different and, occasionally, contradicting interferences by some governmental organs in granting loans in the banks, exertion of parallel and repeated supervisions, embargoes and creation of limitations for the banks, the government's income and its effect on the economy, international sanctions and other numerous factors like inability of the executive managers in the on-time implementation of the plans as well as the problems of non-return of the payments. However, the ascending trend in the volumes of the postponed debts, structural shortcomings, the low motivation of the staff and the lack of sufficient sophistication in some of the employees, absence of an information bank for the clients and nonexistence of a credibility assessment system, failure in the classification of the debts and problems in implementing the banking regulations are but some of the

intraorganizational problems contributing to the emergence of corruption in these financial institutes. The common methods of banking corruptions are embezzlement, documents' manipulation, partnership in the transactions, suggesting bribe, bids, withdrawing money from special governmental accounts to the name of the people and transferring of it into the accounts of the legal persons and allocation of special governmental facilities to the family and relatives; it is expected that the identification of the examples of financial corruption in the banking system, scientific recognition of the effective factors and grounds of corruption creation in the banking system and, eventually, offering the solutions and tools for use in the prevention of the banking corruptions can enable taking positive steps towards the evaluation of corruption and identification of the ways of counteracting it. Of course, it has to be pointed out that the amount of corruption and the corruption-prone areas should be seminally determined in every bank. Based thereon, banks can be rated according to corruption and better managerial decisions can be made in line with supports received from the central bank (Agha'ei, 2017, p.54). In Iran, one of the distinct examples indicating the possibility of setting corruption grounds in the banking system is the negligence of the country's banking system about the existence of a large volume of cash within the format of banks' receivables in the hands of the real or legal persons which per se reflective of the existence of serious flaws in the country's banking system. One of the functions of transparency is the fight with corruption. Transparency in the annual budgeting of the government is the most important forefront of the fight with a vast part of corruption and economic renting in the governmental sector; therefore, transparency and supervision on the structure and trend of budgeting as well as the method of spending the petroleum revenues are vital points. One of the goals of the supervision on the banks is accountability and one of the essential and restricting factors of banks' accountability is transparency because without transparency and with the existence of the other factors, as well, the accountability would be extremely limited. There is a large deal of evidence indicating that the weak transparency renders vague and intensifies the banks' asset risks; thus, many of the researchers support a transparent banking system because transparency and information disclosure are amongst the important requirements related to the political goals hence the transparency and disclosing of information are usually at odds with the interests of the financial institutes and, in this regard, these institutes rise up to disagree with the other political goals of supervision; some believe that the corruption existent in Iran's banking system is one of the main ways of the Iranian capital-holders' transformation into economic corrupts and this corruption originates from an overall deviation extant in Iran's banking system with the corresponding organs' lack of supervision on the good enforcement of the regulations, as well, being one reason for the emergence of corruption in this system; the non-reformation of the monetary and banking regulations and, especially, non-coordination between the law on the non-usurious banking and the money and banking regulations, as well, can be amongst the primary factors of corruption in Iran's banking system. According to the abovementioned materials, it becomes clear that the shortage of transparency causes the emergence of vast financial corruptions in the country's banking system (Sa'adatmehr et al, 2018, p.29). Considering

the fact that the banking system plays an accentuated role in the supply of finance to the various economic sectors and it has always reserved itself a large quotient of the countries' financial system, any disorder or shortfall in the management of these financial institutes, besides being a violation of the rules of justice and rights of citizens, can pave the way for the improper functioning of the financial system and other economic sectors and exert unfavorable effects on the economic growth in such a way that the banking corruption can result in reduction in the governmental expenditures in macro-level and investment in the nongenerative sectors and risky activities which would be followed by reduction in the economic growth. Additionally, by influencing the banks' balance sheets, corruption can become an important factor giving rise to the emergence of global financial crises. The non-favorable results stemming from the existence of corruption in the banking sector can lead to the expansion of black market. Moreover, managers' receiving of bribes from the real and legal persons can set the ground for the reduction in productivity followed by decrease in the economic growth (Khalil Arjmandi, 2018, p.26).

CONCLUSION

Specifically, the results of this study signify that the country's banking system is in an unfavorable situation in terms of transparency and corruption. Since the early 1970s, embezzlement and bribery have taken a firm grip of the country's collar in both the private and state sector. This corruption has not been due to the shortage of the anti-corruption laws because all the embezzlements have been crimes according to the legal texts. The prevalence of corruption has not stemmed from the underworking by the supervisory institutes. The thing that the country's banking industry does not know is how to build processes. Globally, the financial institutes, banks and organizations other than the banks have a unit called the compatibility or correspondence. Such units are obliged to establish "processes" granting executive warrants to the law. Although the supervisory institution investigates the ledgers of these institutes, it pays a special attention to the effectiveness and the good performance of these processes. Criminalization of bribery is an example of the regulations with the correspondence unit being responsible for the making of processes for it. The correspondence unit investigates the process of loan-granting from the preliminary demand and evaluation of the documents to the approval and granting and it subsequently designs a process in a bank in such a way that asking for bribe or granting bribe for receiving loan would become nearly impossible; moreover, there are also problems in the country in terms of law and rule of law. Considering the fact that the law of Islamic banking has been enacted in 1960s and its executive procedures have been written about one or two years later and, on the other hand, the electronic banking has been just recently expanded, it seems that the amendment of this law is necessary. During the past years, most of the experts supporting the change of these regulations and rendering them more proportionate with the novel evolutions in the banking have declared its necessity but the states and the central bank are rejecting it and that for the reason that the procedures sent to the Islamic Consultative Assembly may undergo changes; effective banking supervision is amongst the essential preconditions for ensuring the accuracy of the performance of

the country's economic system. The primary goal of the supervision on banks is the preservation of the financial system's stability and increasing of the trust therein through reducing risk for the depositors and the other creditors. Therefore, the supervision seeks ensuring that the banks and the credit institutes act in a safe and sound manner and have enough capital and reserves for fighting with the encountered risks. However, numerous evidence, including the emergence and expansion of the unauthorized financial institutes, indicate that the country's banking activities are not correctly supervised; in spite of the numerous researches and recommendations worldwide about the management of the banking risks and necessity of giving importance to them, the risk and its management are just focused in Iran's banking system only to the limit of a title and a department. The risk management department in the banks has been created as recommended by the international institutes like BSBC Committee and as required by the central bank in the form of a contentless organ which only carries a theoretical prestige for risk management but lacking any fame in practice for doing so. The more important point is that the banks traditionally deal with credit and liquidity risk management inter alia all the banking risks whereas the most important banking risk, i.e. operational risk, is left unnoticed. These factors per se cause the emergence of problems for the country's banking system.

Suggestions:

According to the results obtained in this study, suggestions have been offered below for improving the country's banking system within the framework of good governance:

1. Banks have important substantive differences from the other economic entities. Therefore, the effects of the banks' economic, social and political crises cannot be compared with those of the other entities and this difference should be taken into consideration in all of the policy-makings, managements and analyses.
2. Before possessing any other important property in financial reporting, the banks' financial statements should be rendered completely transparent.
3. It is necessary for the international standards governing the banking system as well as the BSBC Committee's requirements to be rapidly, carefully and, in the meanwhile, cleverly established in Iran's banking system.
4. The identification of the notional gains in the banks is a detrimental method. At first, the sources of such interests and profits should be blocked and, in the next step, the delusive assets created in conjunction with these gains should be excluded from the banks' balance sheets.
5. The government, the Islamic Consultative Assembly and the other governmental institutes should pay a particular attention to the banking system and this can be actualized when no extra load is firstly placed on the shoulder of the banks and,

- secondly, pay their debts to the banks and, thirdly, the unauthorized monetary institutes are identified and dissolved.
6. The major shareholders of the banks (the policy-makers and controllers behind the curtain) should not endanger the bank's life for their own short-term interests.
 7. The banks' managements should exercise mercifulness towards their own selves and the other interested parties. This can be actualized by professional management, long-term approach towards the effects of their managerial behaviors and decision-makings, serious avoidance of the identification of the notional gains and obliging themselves in practice to render their financial reporting transparent.
 8. The newly established deposit guarantee fund should be strengthened by the full-scale supports and a special membership right reception system should be launched therein as soon as possible so that the good banks be saved from paying the costs for the bad banks.
 9. The banks' auditors should act with fussiness and double professional care in line with the enhancement of the quality of auditing processes in the banks.
 10. The stock and securities exchange organization should act more professionally to render transparent the banks' financial reporting and precise and on-time information-providing in line with its inherent duty of supporting the interests of the small shareholders.
 11. The authority supervising the banks should deepen and render more professional his realm of supervision with independence and decisiveness in action and supervise all the cases.
 12. It is necessary to change the law of the banking system and the suggester of the change in the banking system should be definitely the banking network and the central bank. On the other hand, the Islamic Consultative Assembly should approve the changes it thinks can contribute to the bettering of the performance of that plan and there would remain substantially not much of a change in this regard.

Amongst the other solutions for improving the indices of good governance in the banking system of the country, the followings can be pointed out:

- Diversification of the instruments for exerting the central bank's monetary policy through creating the required mechanisms for the use of the open market operations
- Separation of the banks having proper balance sheet ratios from the ones having improper balance sheet ratios and treating the violating banks proportionately
- Launching dispute-resolving systems and providing the possibilities of dissolution, cessation, bankruptcy and merging of the banks having improper balance sheet ratios

- Requiring the banks to transfer their surplus properties and assets and shares in the companies that perform non-banking activities according to the increase of the price in the market of assets
- Acquiring taxes from the gains of the surplus properties in the banking network
- Establishment of a strong validation system that saves the banks from mistakenly selecting customers and clients
- Continuation of the enforcement of the program for organizing the non-regulated monetary market and unauthorized credit institutes
- Prohibition of the granting loans to the projects lacking technical, economic and financial justification
- Diversity of the financial tools for covering the clients' needs
- Dispersing Islamic financial papers by the banks based on the held assets (transformation of assets to securities) and increase in the capital
- Operationalization of the open market operation by the central bank
- Safe loaning by the central bank in exchange for proper mortgages
- Categorization of the banks and determination of the behaviors proportionate to each set according to the indices of soundness and following the lead of the central bank

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