

Oil Stabilization Fund

Iran's Oil Stabilization Fund (OSF) which was formed in 2000 is based on the necessity of eliminating or reducing costs of public expenditure associated with fluctuating crude oil price in world markets.

Oil price volatility has been a major economic and political concern for many OPEC members.

Repeated cycles of oil boom and bust have played havoc with these countries' fiscal budget, domestic development efforts and external payment obligations.

Exploring a stabilization machinery has been one of their prime endeavors ever since, reported the Persian daily Donyaye Eqtasad.

Moreover, it is intended to maintain fiscal discipline by uncoupling public spending from oil price volatility to such planned levels of annual government expenditure that would be maintained regardless trend of world oil prices or the size of export revenues.

Lastly, there is the goal of avoiding excessive real appreciation or depreciation of national currency resulting from instability in annual oil exports receipts.

Despite a consensus among development economists regarding benefits

interfere with sound fiscal management.

Secondly, the fund entails risks of fragmenting asset management and reducing accountability and transparency.

And lastly, they involve the thorny inter-generational issue of transferring funds from a possibly prudent government that currently accumulates wealth to a probable unwisely future government that could subsequently misuse the assets.

Iranian economic experts argue that the OSF can succeed when it begins to use the finance as an important axis to realize the objectives of the five-year development plans.

Financial experts also say that the Majlis should devise efficient and comprehensive rules for it, ensuring that they are pursued accordingly by the government and the authority in charge of overseeing the whole process.

It is necessary to specify what the OSF can and cannot do.

Oil Stabilization Fund
This means yielding the

Oil price volatility is a major economic and political concern for many OPEC members

of achieving the objectives, no agreement has been reached whether oil fund is the proper instrument to accomplish the task.

Uncertainty revolves around three cogent arguments. Firstly, if the fund is not integrated with the national budget, it might create dual machinery and

pleasure of spending for the welfare of the present and future generations.

Such funds make important decision for the people ever more transparent and justifiable.

An OSF with a transparent function can reduce public rumors and speculations and win public trust with regard to nation-



al wealth. It can boost the credibility of government. It also allows lawmakers to devise its rules and regulations, while boosting the power of supervision.

Through reports, lawmakers can also oversee the funds' deposits and withdrawals much more efficiently.

These funds through investment and risk management can create revenues for future generations and boost public welfare.

They can boost the competitive edge of private businesses in international trade. By means of implementing efficient monetary and financial policies they can empower private, industrial, and agricultural and exports sectors.

They can also protect the governments from oil price volatility in the international markets, stabilizing the national economy. The OSF can be a perfect

OSF will work best as a stabilizing and balancing force in a country which is relatively rich, politically and economically stable, and has low inflation

replacement for monetary policy. Given the governments "seek income" from sources other than the fund, state debts to the fund will be greatly reduced, thus protecting the nature of the fund which is pure saving for the governments.

This is because administrations borrow from the fund to pay off their debts. An oil government that fails to control its budget

expenditures or devise efficient policies to avoid adverse impacts of oil price volatility, will be unable to establish an efficient OSF.

Successful Examples
In establishing an oil reserve fund, the goal is to smoothen the pattern of oil-dependent government expenditures, and to escape the so-called "resource curse."

fund reserves should be set aside for lending to domestic private entrepreneurs—in foreign exchange, and at low interest rates for productive investments in the third plan's priority sectors. The rial proceeds of OSF operations were to be placed in a Rial Reserve Fund for eventual budget deficit financing.

Some main characteris-

tics) on liquidity and assets be calculated and booked meticulously and transparently.

* Supervision of the Majlis and the people over efficient implementation of the investment rules of the OSF in terms of lending and borrowing.

C-Transparency and Accountability

* Continuous and periodical reports on the OSF operations, assets, allocations and returns to the Majlis and lawmakers, before being approved and

In establishing an oil reserve fund, the goal is to check the pattern of oil-dependent state expenditures, and escape the so-called "resource curse"

of a successful OSF in countries which have established it efficiently are as follows:

A-Operational Aspects

Transparent relations and integrating the fund with government budget, inflexible rules and regulations with an eye on securing the budget, viewing the fund as a pure saving for the government, expenditures that will have to be approved by the parliament, solid and productive monetary policy that can facilitate and help the government in a sudden oil income crunch.

B-Assets Management

* The CBI or a group of committed and competent managers from the private sector must be in charge of investing the fund's assets.
* OSF assets must be invested in foreign companies.

* Risk management (including listening to crit-

icisms) announced to the general public.

* Efficient performance of duties and accountability to the general public, as people (the true owners) have a right to know what happens to the OSF and its assets.

* Accurate accounting by independent accountants over the investment assets of the fund.

An OSF will work best as a stabilizing and balancing force in a country which is fairly rich, politically and economically stable, and enjoys low inflation.

The national budget may alternate between deficit and surplus each year, but it is in balance over time.

The treasury's credit for borrowing in the world capital markets is fairly high; and foreign exchange surpluses earned during oil booms could be effectively sterilized by the CBI to contain domestic excess liquidity.

Electronic Commerce

Electronic trading (E-trade) or Electronic commerce (E-Commerce) is a mode of business that uses Information Technology (IT) to connect a buyer and seller via electronically to create a virtual market place.

Current stock exchanges are prime examples of such market places, reported Moj News Agency.

Conventionally, stock markets were physical locations where buyers and sellers met and negotiated.

Progress in communication technology has made it possible for buyers, sellers to electronically exchange trade interests as well as negotiate from distant

selling are spending increasingly on technology for E-trading.

Simultaneously, many floor traders and brokers are disintermediated from the trading process.

Traders rely on algorithms to analyze market conditions and then execute their orders.

The fact is that these days companies face no limitations when it comes to communicating or competing with each other in e-trading.

Communication is fast, safe and reliable and companies and stores spend less to have personal communication with customers via e-trading in the actual marketplace.

industry has changed in ways that were inconceivable a few years ago.

Driven by the power of Internet, intelligent hardware and software and increased processing power, financial markets are heading towards the eventual establishment of a single, global, electronic marketplace.

From investment banking to grocery shopping, e-commerce is changing established procedures and forming a new framework for business swiftly.

While banks are launching new Internet services almost by the day, new electronic trading platforms are speeding up equally.

The directory of e-trading policy gives an insight into the range of companies and products that now trade electronically or are due to begin shortly.

The trading technology harnessed by these companies has already helped create global 24-hour markets, for example in foreign exchange. It has almost also destroyed open-outcry trading on future exchanges.

Advantages

The advantages of e-trading are many. It enables traders to execute orders promptly, giving them greater price control.

Screen-based deals reduce

delays between a pit trader receiving an order to buy or sell and executing the trade.

The globalization allowed by e-trading gives traders access to markets that might have been unavailable before.

Trading networks are

expanding, linking markets and increasing access.

Anonymity can help a trader who wants to move the market, without competitors being aware of its market presence. It also gives small, independent traders the same power as

larger brokerages.

Lower transaction costs by e-trading policies also encourage individuals and small companies to trade.

Indeed the huge growth in electronic brokerages for retail customers has unlocked markets to small investors bringing in the trend of day trading phenomenon.

Even big world companies can directly connect with their consumers via the Internet to sell products or services. For instance, Sony which is a giant electronic company directly sells its products via the Web.

Another advantage is that customers spend nothing to discover the latest products of any company, something impossible in traditional shopping.

Competition is tough since many companies sell their products at knock-down prices to remain in business. They can afford this since they save on extra costs such as tax, staff and utility bills.

But despite enormous growth over the past few years, launching a new e-trading platform may not prove beneficial for a company financially.

These platforms have mushroomed so rapidly that consolidation will be inevitable. Only the fittest will survive. For instance, there are companies that

have been in the business for 50 years and have busted within a week after a similar company began trading in the virtual market.

E-Trading in Iran

One of the main challenges in Iran is that its banking system is yet to commit itself to e-trading.

The rapid pace of globalization allowed by e-trading gives businesses access to markets that might have been unavailable before

Indeed, a key requirement for such trade is to develop the banking system to enable them to launch electronic trading.

Undefined state and trading rules need to be devised in addition to relevant policies to facilitate e-trading.

Time is crucial in electronic trading. Customers want to promptly seize what they purchase via the net. However,

two problems surface in this respect. Inefficient transportation system that delays delivery process; and the problem of stashing commodities at the cus-

Conclusion
In this information era, IT speaks first serving as a base for new innovation and discovery.

New technology is changing the earth's appearance beyond recognition. One such change is the every-growing global trend of e-commerce.

Very soon Internet usage will become as widespread and easy as calling from a public phone. Only competitive individuals, companies and organizations which adapt to the new market places and consumer tastes will endure.



Very soon Internet usage will become as widespread and easy as calling from a public phone.

Progress in communication technology has made it possible for both buyers and sellers to electronically share vital news and information as well as negotiate from distant lands

The only way to initiate and facilitate e-trade is through easy access to the Internet

places. These markets are not only in tune with current developments in IT but are also easily monitored. They are major drivers for most market regulators in Iran who insist that all markets must eventually be developed electronically.

Today, many investment firms dealing in buying and

Governments are also provided the opportunity to place their bid for purchasing company shares anywhere in the world, with better and economical options.

Companies advertise and market their products over the Internet with little or no expense.

The financial services