

Basic Information regarding Foreign Investment in the Iran Privatization Process

Promotion of foreign investment and the presence of foreign investors in the privatization process, aimed at meeting the objectives of this process, is an attempt whose necessity is proven by the experiences of other countries. Moreover, the study of the existing capacities and potentials of domestic Iranian market to provide the necessary capital for the attraction of the state shares to be supplied in the market, has underscored its necessity. Therefore, parallel to the ongoing attempts to provide for the appropriate context to realize it, particularly, the promotion of foreign investors' confidence through the creation of a secure market for investment, the examination of possibilities of the presence of foreign investors in the privatization process according to the existing laws is necessary. Consequently, the features, facilities, and profits for the foreign investors to take part in the Iranian Privatization Process, which is derived from "the Foreign Investment Promotion and Protections Act and its Executive Bylaw" and the "Law of Divesting the SOEs shares and its related Bylaws", are hereunder introduced:

- 1- Any of real or legal persons including the Iranians resident abroad and foreigners may participate as foreign investors and purchasers of divestible shares of the Iranian SOEs in the divesting bid of the governmental share of the Islamic Republic of Iran (IRI). Upon reception of the permit for foreign investment issued by the Organization of the Economic and Technical Assistance of Iran, affiliated to the Ministry of Economic Affairs and Finance (MEAF),¹ may accordingly, enjoy facilities provisioned in the Foreign Investment Promotion and Protections Act and the executive regulations of the Iranian Privatization Organization (IPO).
- 2- Foreign investors are permitted to take part in the process, invest, purchase shares, and produce commodities and services in all the economic fields authorized for the domestic private sector. There is actually no discrimination in this regard between foreigners and the domestic private sector.
- 3- The foreign investor equally enjoys all the rights, protections, and facilities, which are provided for the domestic investor.
- 4- The level of presence of the foreign investors in the markets of each economic sector (e.g. agricultural) and economic field (e.g. farming and gardening) of the country are maximum 25 and 35 percents respectively. Therefore, the potential to purchase 100 percents of the shares of an SOE in Iran is provided for the foreign investors.
- 5- Foreign states are deemed as private foreign investors and may participate in the Iranian privatization plan.
- 6- Divesting of ownership and nationalization of the foreign investment shall follow only the payment of compensation by the government.

¹ On the strength of the Foreign Investment Promotion and Protections Act, examination of the foreign investors' applications for presence and investment in Iran had a 1.5-month time framework, which used to bring about inconveniences for the participation of foreign investors in the privatization process. However, with the provisions made, which is reflected in item 12, this problem was largely removed.

- 7- Profits and the principal of the foreign investments, after the deduction of taxes and duties, are considered as legal reserves transferable to foreign countries.²
- 8- On the strength of the Foreign Investment Promotion and Protections Act, foreign investors, managers, and experts enjoy the facilities of issuance of multi entry visas, residence permits, work and employment permits and many other similar facilities.
- 9- Regarding SOEs set aside for divesting by the IPO (through Stock Exchange Market or otherwise), with due regard being had to provisions of item 4 above, the foreign investor may purchase 100 percents of the governmental shares of a company and there shall be no impediments in the scope of purchasable shares.
- 10- Where the foreign investor does not intend to buy and sell shares (bullish trading) in the Stock Market, the potentials to purchase up to 100 percents of shares of a listed company according to the administrative regulations of the Stock Exchange Market are provided. There shall be no impediment regarding the volume of such shares of each company by the investors.
- 11- Listed companies enjoy advantages also including some tax exemptions (10 percent tax exemptions for the Taxes on Corporations Profits.) These advantages are also provided for foreign investors and owners.
- 12- In the divests by the IPO, when the presence of foreign investors in the selling bids (including Stock Exchange and otherwise) is predictable, the deadline for the settlement of the cash part of the price shall be fixed within 30 working days following the determination of the winner of the bid. This period, however is extendable to 90 working days. During this period, the foreign investor may obtain the necessary permit from the competent authorities and settle the transaction price according to the applicable laws and regulations. When the presence of foreign investors have not been predicted, however, the extension of time limit for the cash part of the transaction is possible through the measures to be taken by the IPO.
- 13- When the foreign investor purchases the governmental shares, the installment method for the payment of the transaction price based on the value of the divestible company (20-40 percents for cash payment and 60-80 percent of the outstanding amount to be paid through installments, within max five years) is applied. The interest rate for installment payment shall be the current rate of the Iranian banking system (around 12 percents annually). In fact, the actual transaction price may be paid out of the annual dividends of the purchased company.
- 14- If the foreign purchaser takes effective measures such as preservation or promotion of the employment rate, promotion of productivity or further investment in the purchased company, the interest on the installment paid selling, may be decreased to zero.
- 15- The foreign purchaser is authorized to redeem the security with the IPO, that part of the shares, which they had completely paid for and make take hold of

² Central Bank of Iran (CBI) is obliged to provide foreign investors with the transferable hard currency exchanges.

it. Even, they may alienate those shares to others in the framework of the law.

In addition to the points raised above, it is mentionable that currently the development of the Iranian capital market at the international level in order to provide the necessary potentials and desirable grounds for supply and demands of SOEs shares in a competitive environment is among the main goals of all the economic decision makers of the country. In this direction, necessary situations for the supply of shares of the Iranian existing companies in some foreign stock exchange markets have been provided and the required measures to facilitate the relationship between the Iranian and international stock exchange markets have been taken.

Moreover, in the way of extension of the international stock exchange, measures such as the reforming of foreign investment in the Stock Market, providing tax exemption for the alienation of companies' shares in the stock exchanges out of Iran, and making closer the listed companies' accounting standards to the international standards, are being undertaken. These attempts are hoped to pave the path for the further presence of the foreign investors in the process of purchasing SOEs through the Stock Market.

Moreover, using the investment banks experiences in the optimization of the privatization is a serious effort, which starts with the establishment of three domestic investment banks and inviting foreign investment banks. Taking of these steps brings the Iranian privatization process standards closer to the international standards and provides the grounds for the presence of foreign investors.