

## **General Policies of Principle (44)**

The economic system of the Islamic Republic of Iran shall be based on public, cooperative and private sectors, with proper and sound planning.

The public sector includes all large-scale industries, mother industries, foreign trade, large mines, banking, insurance, power supply, dams and large irrigation channels, radio and television, post, telegraph and telephone, aviation, shipping, roads, rails and the like, which are public property and at the disposal of the Government.

The cooperative sector includes cooperative production and distribution companies and institutions established in cities and villages on the basis of Islamic principles.

The private sector includes such activities related to agriculture, cattle-raising, industry, trade and services that supplement the economic activities of public and cooperative sectors.

Ownership in the aforesaid three sectors, insofar as it conforms to other articles of this chapter, does not surpass the limits of Islamic laws, contributes to economic growth and development of the country, and does not harm the society, shall enjoy protection of law in the Islamic Republic.

Details of regulations, scope and conditions of the three sectors shall be determined by law.

hereby announce the general policies of the Article 44 of the Constitution of the Islamic Republic of Iran. There are a number of observations and remarks in this regard that I should underline.

1. The implementation of these policies requires new legislations or possibly changes in the existing laws, and the government and Majlis need to cooperate with each other for this purpose.
2. The supervision of the State Expediency Council over the good performance of these policies is essential. This can be achieved by putting in place the required procedures, collaboration of the relevant responsible agencies and presentation of regular annual supervisory reports on a specific date.
3. The decision regarding " general policies on development of non-state sector through entrusting activities and ownership of state-owned enterprises" will be made upon receiving reports, documentary evidence, and comprehensive consultative opinions of the State Expediency Council on the relationships between privatization and each of the elements under Article 44, on how different factors can have adverse impact on the efficiency of some state-owned enterprises, the implications of the transfer and ceding activity of the relevant enterprises to the non-state sector under Article 44, on the level of preparedness of the non-state sector and on sanctions and the ways available to the government to exercise its authority.

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In view of the provisions enshrined under article 44 and in Article 43, general policies of Article 44 of the Constitution of the Islamic Republic of Iran are intended to achieve the following objectives:

- Accelerated growth of national economy.
- Promotion of broad-based public ownership to achieve greater social justice.
- Enhancing the efficiency of economic enterprises and productivity of human and material resources and technology.
- Enhancing the competitive capability of the national economy.

- Reducing financial and administrative burden on the government encumbered as a result of its controlling role in economic activities.
- Increasing the general level of employment.

To achieve the aforesaid objectives, the following guiding principles were agreed upon:

#### **A. General policies concerning development of non-state sector and preventing the unnecessary growth of the government.**

1. The government shall not be allowed to engage in economic activities that fall outside those envisioned in Article 44. Moreover, it is obliged to relinquish any activity, including continuation and operation of previous activities that are covered under Article 44, and cede them (at least 20 percent annually) to the private and cooperative sectors by the end of the Fourth Five-Year Development Plan. Considering that the government has the overall responsibility to ensure good governance, the continuation and initiation of essential activities by the government that fall outside of the main titles of Article 44 are permitted for a definite period of time, upon the proposal of the Council of Ministers and approval of the Islamic Consultative Assembly. Industries that are affiliated to the military, police, intelligence and security services that have confidential character do not fall under this decree.

2. Investment in and management and ownership of those sectors that fall under Article 44 by the non-state enterprises and public institutions, and the cooperative and private sectors are permissible as described below:

2-1 Large-scale industries, mother industries (including large downstream oil and gas industries) and large mines (except oil and gas).

2-2 Foreign trade activities in the framework of trade and foreign currency policies of the country.

2-3 Banking operations by non-state public enterprises and institutions, publicly-held cooperatives and joint stock companies, provided maximum shareholding of each shareholder is determined by law.

2-4 Insurance

2-5 Power supply, generation and importation of electricity for domestic consumption and export.

2-6 All postal and telecommunication activities, except the main telecommunication grid, assigning of frequencies and main networks of postal exchanges, routing and management of distribution of mails and basic postal services.

2-7 Roads and railways

2- 8 Aviation (air transport) and shipping (marine transport).

Optimal share of the State and non-State sectors in the economic activities covered under the preamble of Article 44 will be determined by law by taking into view the sovereignty and independence of the country, social justice and economic development and growth.

#### **B. General policies of the cooperative sector**

1. Increasing the share of the cooperative sector in the national economy to 25 percent by the end of the Fifth Five-Year Development Plan.

2. Effective measures by the government to establish cooperatives for the unemployed with a view to generating productive employment.

3. Support by the government to set up and promote cooperatives by offering incentives such as tax concessions, providing concessional credit facilities by all financial institutions, abstaining from receiving any additional levies or other charges in excess of those paid by the private sector.
4. Removal of all barriers and constraints that obstruct the presence of the cooperative sector in all economic arenas, including banking and insurance.
5. Establishment of the Cooperative Development Bank funded by the government for the purpose of enhancing the share of the cooperative sector in the national economy.
6. Support by the government to enable cooperatives to gain market access and providing this sector full information on non-discriminatory basis.
7. Exercise of the right of sovereignty of the government in the framework of policy-making and overseeing the enforcement of the applicable laws and avoiding interference in the administrative and management affairs of the cooperatives.
8. Development of technical and vocational training and other supportive programmes with a view to enhancing efficiency and empowerment of the cooperatives.
9. Flexibility and diversity in methods of raising capital, distribution of shareholding in the cooperative sector and taking necessary measures that set in motion establishment of new cooperatives in addition to the conventional ones in the form of public joint stock companies with fixed limits of shareholding, the ceiling for which will be determined by law.
10. Support by the government of the cooperatives, proportionate to the number of members.
11. Establishment of nationwide cooperatives to cover the three lowest deciles of the population with a view to poverty alleviation.

### **C. General policies on development of the non-state sector and ceding of State-owned enterprises.**

In view of the imperative of achieving accelerated economic growth and development on the basis of justice and with a view to poverty alleviation in the context of the Twenty-Year Vision of the country, the following general policies shall be adopted:

- Change in the role of government from direct ownership and management of enterprises to policy-making, guidance and overseeing.
- Economic empowerment of the private and cooperative sectors, and enabling them to enhance competitiveness of their products in international markets.
- Preparing Iranian enterprises to apply global trading rules intelligently and in a gradual and target-oriented manner.
- Development of knowledge-based human capital.
- Development and enhancement of national standards and endeavouring to conform our quality assurance systems to the international standards.
- Since the overall orientation of the privatization shall be toward improving efficiency, competitiveness and greater public ownership, upon the proposal of the Expediency Council, Note C of the general policies of Article 44 of the Constitution of the Islamic Republic of Iran are promulgated as follows in accordance with paragraph 1 of Article 110:

Eighty percent of the shares of State-owned enterprises, covered under Article 44, shall be ceded to the private sector, joint stock cooperative companies and non-state publicly-held companies as follows:

1. State-owned enterprises engaged in large mining activity, large-scale and mother industries (including large downstream oil and gas industries), except the National Iranian Oil Company and companies involved in extraction and production of oil and gas.
2. State-owned banks, except the Central Bank of Iran, Bank Melli of Iran, Bank Sepah, Bank of Industry and Mines, Bank of Agriculture, Housing Bank (Bank Maskan), and Export Development Bank.
3. State-owned insurance companies, except Bimeh Marakazi and Iran Insurance.
4. Airline and shipping companies, except the Civil Aviation Organization and Ports and Shipping Organization.
5. Power supply companies, except the main electricity transmission grid.
6. Postal and telecommunication companies, except the main telecommunication networks, frequency assignment services and the main and basic postal services.
7. Industries affiliated to the armed forces, except defense and security products and services that are deemed essential by the Commander-in-Chief.

#### **Requirements of ceding the shares:**

1. Pricing of shares will be done through the mechanism of the stock exchange.
2. Public offering of shares by good promotional campaign and encouraging people to participate, and at the same time preventing formation of monopolies and misuse of privileged information.
3. To ensure proper rate of return on the shares of the companies to be ceded, all necessary reforms with respect to marketability and pricing of products and the management should be carried out on the basis of the Commercial Code of Iran.
4. The ceding of the shares under this plan shall be done through specialized holding companies and subsidiaries, by detailed and professional analyses.
5. For the purpose of reforming the management and enhancing the productivity of the enterprises to be ceded under this plan with a view to making better use of the management capacity of the country, necessary measures need to be taken to recruit experienced, competent and efficient managers. The sale of up to 5% of the shares of the companies, covered under Note C of Article 44, to the managers and employees is permissible.
6. Considering that Note C of the general policies of Article 44 has been promulgated, and in light of the change in the sovereign duties and functions, the government is required to articulate and put into action its new role in policy-making, guidance and overseeing of the national economy.
7. Allocation of a percentage of the resources to be handed over on new fields that apply advanced technologies is allowed in line and in keeping with sovereign duties.

#### **D. General policies concerning ceding of shares of state-owned enterprises**

##### **1. Requirements of ceding**

1-1 Empowerment of the private and cooperative sectors to engage in extended and diverse activities and to manage large businesses.

1-2 After the completion of the ceding of shares, the overseeing and support by the relevant authorities will continue with a view to achieving the intended objectives.

1-3 Applying generally accepted and sound methods for the ceding of shares with special emphasis on the stock exchange, strengthening the relevant organization set up for this purpose, instituting transparent flow of information, creating equal opportunities for all to benefit from gradual offering of the shares of large enterprises in the stock market for the purpose of obtaining benchmark price of the shares.

1-4 Those involved in ceding of shares and those in the position of decision-making in the government with respect to the ceding operation must not be able to profit from this activity.

1-5 Observance of the general policies of cooperatives in the ceding operation.

2. Applications of the proceeds from ceding operation:

The proceeds from the ceding of shares of state-owned enterprises shall be deposited in the special Treasury Account and disbursed in the framework of approved plans and budgets in the order explained below:

2-1 Making deprived disadvantaged families self-reliant and strengthening the social security system.

2-2 Allocation of 30% of the proceeds from the ceding operation to nationwide cooperatives with a view to achieving poverty alleviation.

2-3 Creating economic infrastructures by according priority to less developed regions.

2-4 Granting financial facilities (administered funds) to strengthen cooperatives, to modernize and renovate non-state enterprises by giving priority to ceded companies and for the purpose of investments by the non-state sector for the less developed regions.

2-5 Partnership of state-owned enterprises with non-state sectors up to 49% for the economic development of the less developed regions.

2-6 Completion of partially-completed projects of the state-owned enterprises by taking into view Note "a" of the general policies.

#### **D. General policies on application of the right of sovereignty by the government and avoiding creation of monopolies.**

1. Continuity in the application of the general right of sovereignty of the government after the commencement of the activities of the non-state sectors as a result of ceding operation through policy-making, enforcement of laws and regulations and overseeing, especially in respect of application of norms of Sharia and the law at non-state banks.

2. Preventing influence and control of aliens over national economy.

3. Preventing creation of monopolies, by the non-state enterprises by putting in place laws and regulations.

**The response of the Leader of the Islamic Republic of Iran to the proposal of the President to allocate a part of the shares of state-owned companies.**

**In the Name of Allah, the Merciful, the Compassionate**

**To: Dr Ahmadinejad, Honourable President of the Islamic Republic of Iran**

I endorse your proposal for the allocation of a part of the shares envisaged under Article 44 of the Constitution as follows:

1. I approve the installment sale of 50% of the shares that can be ceded under Note C of the general policies of Article 44 to provincial investment companies consisting of the District Cooperatives.
2. The prices of shares shall be set by the stock market.
3. In respect of the two lowest income deciles of the population, granting 50% percent discount on the prices of ceded shares and allowing installment period of 10 years are permissible.
4. The provincial investment companies shall be admitted to the stock exchange with the help of the government, and shall endeavour to improve their rate of return on investments within the rules of the Commercial Code.
5. The shares covered under the ceding operation shall be ceded to the provincial investment companies in proportion to the number of their employees.
6. Purchase and sale of the shares of the provincial investment companies at the stock exchange are permissible to the extent that of their paid-up installments or the discount allowed to them.
7. Identification of the lowest two deciles of the society by scientific and precise methods and paying special attention to the rural population.
8. The implementation of this plan should not increase or perpetuate government controls over the enterprises covered under the ceding plan.

It is noteworthy to mention that although considerable time has passed since the promulgation of the general policies of Article 44, no practical action has been taken and no national campaign has been launched to promote investments and entrepreneurship. Therefore, you are to issue instructions on establishment of a powerful committee to assume the full responsibility for Article 44 and without delay to begin creating favourable conditions to impart impetus and momentum to the economy by embracing and using all national assets and human resources. Broad and widespread public awareness campaign with a view to preventing profiteering by special interest groups, to encourage investments by the public and to improve the business and entrepreneurial climate are highly emphasized.

I pray to the Almighty for your success in serving the great people of Iran and promoting justice.