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THE GENERAL POLICIES PERTAINING TO ARTICLE 44 OF THE CONSTITUTION OF THE ISLAMIC REPUBLIC OF IRAN

In the Name of God:

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The general policies pertaining to Article 44 of the Constitution of the Islamic Republic of Iran are hereby stated according to article one of Principle 110[§].

It is necessary to state a few reminders:

1. Implementation of these policies requires the legislation of new laws and in some cases, changes in the current laws. [Therefore] it is necessary that the government and the honorable Parliament cooperate with each other on this matter.

2. Supervision by the Expediency Council [*Majma' Tashkhis*-e *Maslehat*-e *Nezam*] over the proper implementation of these policies is hereby emphasized. [The Council is to] create the proper scheme for the cooperation of the responsible organs and present annual supervisory reports at a specified time.

3. Regarding Article C ("general policies pertaining to the expansion of non-governmental sectors through the process of transferring government activities and businesses"), a decision will be made, God willing, after receiving the reports, documents, and detailed recommendations and opinions of the Expediency Council regarding:

- The relationship between privatization and each one of the factors mentioned in Article 44;
- Reasons for inefficiency of certain government businesses;
- The [expected] result of the transfer of each of the [economic] activities listed in the beginning of Article 44 and [their] related businesses to non-governmental sectors;
- The level of readiness of non-governmental sectors [to absorb government run economic enterprises] and guarantees and means whereby the government can enforce laws [regarding the privatization process and prevention of monopolies].

Seyyed Ali Khamenei

Khordad 1384 [June 2005]

General policies pertaining to Article 44 of the Constitution of the Islamic Republic of Iran. In considering the Article 44 of the Constitution and the content of Article 43 and in order to

- Increase the pace of national economic growth.
- Expand ownership to the general public in order to provide for social justice.
- Enhance efficiency of economic entities and utilize monetary, human, and technological resources.
- Increase the share of the private and cooperative sectors in the national economy.
- Decrease the financial and managerial responsibilities of the government in managing economic activity.
- Increase the public employment rate.
- Encourage savings and investment by the public and enhance family income.

The following [addendum] is stipulated:

Article A. The general policies for expansion of non-governmental sectors and preventing the expansion of the governmental sector:

1. The government does not have the right to new economic activity outside [those activities] listed in the beginning of Article 44. It is required to transfer any kind of activity (including the continuation and profiting from pre-existing [business] activities) that is not covered by Article 44 to the cooperative, private, or public non-governmental sectors, at the latest by the end of the fourth 5-year development plan[§§] (an annual decrease of 20% of activity).

Considering the responsibility of the regime [*nezam*] in the proper management of the country, initiation and continuation of necessary [business] activities by the government, outside of the restrictions stipulated in the beginning of Article 44, is allowed for a defined period based on recommendations by cabinet ministers and approval of the Parliament.

This law does not cover sensitive and confidential management and manufacture of products for the military, security, and armed forces, and their intelligence units.

2. Investment, ownership, and management in the areas mentioned in the beginning of Article 44 of the Constitution by public, non-governmental entities and organs, and the cooperative and private sectors is permissible in the following [industries]:

> **2.1** Large industries, “mother industries” (including large industries derivative of oil and gas), and large mines (excluding oil and gas).
>
> **2.2** Foreign commercial activities within the framework of national currency and trade policies.

2.3 Banking by public, non-governmental entities and cooperative, publically-traded companies under limited share ownership (Limited Liability Partnership) of each shareholder as determined by the law.

2.4 Insurance.

2.5 Energy supply including production and import of electricity for internal consumption as well as export.

2.6 All businesses of post and communications excluding the mother communication networks; telecommunications frequency allocation management; the main [postal] networks for exchange, network analysis, and distribution management of basic postal services.

2.7 Roads and railroads.

2.8 Airlines (air transportation) and ship lines (sea transportation).

2.9 Creation and use of large dams and the large water distribution networks while maintaining all the privileges for the those who have the right to water*.

The optimum balance of shares between government and non-governmental sectors in the activities listed in the beginning of Article 44 will be determined in accordance with the law and in consideration of maintaining the authority of the government [in enforcing the rules related to the privatization process], the independence of the country, social justice, and economic growth and expansion.

Article B. General Policies for the Cooperative Sector:

1. Increasing the share of the cooperative sector in the country's economy to 25% by the end of the fifth 5-year program[§§§].

2. Determined effort by the government in creating cooperatives for the unemployed for the purpose of job creation.

3. Government support for the creation and growth of cooperatives by policies such as tax exemptions, providing supportive credit facilities via all financial institutions in the country, and not collecting any extra fees from the cooperatives relative to the private sector.

4. Removing any limitations on active cooperatives in all economic sectors including banking and insurance.

5. Establishing the "Cooperative Development Bank" with investment from the government aimed at enhancing the share of the cooperative sector in the national economy.

6. Government support for the cooperatives' ability to have access to markets and providing fair and comprehensive information to this sector.

7. Enacting the legal enforcement role of the government in implementing the ratified laws within the framework of providing policy and supervision. Avoiding interference in executive and management affairs of the cooperatives.

8. Expansion of technical and professional training and other necessary support to increase efficiency and strength of the cooperatives.

9. Flexibility and diversity in methods of increasing investment and distributing shares in the cooperative sector. Establishing proper measures so that new cooperatives (in addition to the already existing ones) may be established in the framework of a Limited Liability Partnership (LLP) with a limitation set on the number of shares of each owner as determined by the law.

10. Government support of each cooperative in proportion to the number of members.

11. Establishing cooperatives across the nation to provide security for the bottom 30% of society in order to eliminate poverty.

Article C. General Policies for Expansion of Non-Government Sectors by Transferring Government Activities and Businesses:

Considering the necessity of increasing the speed of the nation's economic growth and expansion; while implementing the fundamentals of social justice and poverty reduction within the framework of the national 20-year perspective; Article C is decreed in order to:

- Change the role of the government from direct ownership and management of businesses to a policy-making, supervisory, and advisory role.
- Strengthen the private and cooperative sectors and support them to be competitive in international markets.
- Prepare domestic businesses for a rational interaction with the rules of international commerce in a gradual and targeted process.
- Increase human capital in basic and expert knowledge.
- Expand and upgrade national standards and conform quality control systems with international standards.
- Direct privatization in the framework of increasing productivity and competition and expansion of public ownership in accordance with the recommendation of the Expediency Council.

Article C of the general policies of Article 44 of the Constitution of the I.R.I. is decreed** in accordance with article 1 of Principle 110:

Transfer of 80% of shares of government businesses listed in the beginning of Article 44 to the private sector, cooperative LLP's, and public, non-governmental businesses is permissible in the following [industries]:

1. Government businesses that are active in the areas of large mines, large industries, and mother industries (including large industries downstream of oil and gas), excluding the National Iranian Oil Company and companies involved in the extraction and production of petroleum and gas.

2. Government banks excluding the Central Bank of the I.R.I., the National Bank of Iran, *Sepah* Bank, *San'at va Ma'dan* Bank, *Keshavarzi* Bank, *Maskan* Bank, and *Tose'eh Saderat* Bank.

3. Government Insurance Companies excluding the Central Insurance Company and Iran Insurance Company.

4. Airlines and ship lines excluding the National Airlines and the Organization of Shipping and Ports.

5. Businesses that provide energy excluding the primary electricity networks.

6. Post and communications excluding mother communications networks; frequency allocation management; main [postal] networks for exchange, network analysis, and distribution management of basic postal services.

7. Industries related to the armed forces excluding defense and security productions as determined by the chief commander of the armed forces.

Requirements for Privatization:

A. Valuation of shares must be determined by the stock exchange.

B. A public notice that includes appropriate information to encourage and persuade the public to participate [in the public stock offering] must be released. Monopolization of information and favoritism must be prevented.

C. Necessary market, product pricing, and management reforms based on the law of commerce must be implemented in order to ensure sufficient financial returns from shares of companies eligible for privatization.

D. When shares of eligible companies are transferred to the private sector, expert opinion should be solicited [to devise a] comprehensive framework for both the technical mother companies and their downstream companies [in the privatization process].

E. In order to reform management and increase productivity of eligible businesses, the full management capacity of the country must be utilized. The necessary steps must be taken to recruit experienced, expert, and productive managers.

The sale in installments of a maximum of 5% of shares to the managers and workers in companies eligible [for privatization] is allowed according to article C.

F. Considering article C of the policy outlines of Article 44 and the change in the regime's responsibilities, the government is required to draft and implement its new role in policy-making, directing, and supervision over the national economy.

G. In line with the regime's responsibilities, directing a percentage of the transferred entities to new areas of advanced technology is permissible.

Article D. General Policies for Privatization:

1. Requirements for the Privatization Process

1.1 Strengthening the private and cooperative sectors to prepare them for widespread economic activities and management of large economic entities.

1.2 Supervision and support of the relevant authorities after the transfer in order to realize the goals of the transfer.

1.3 Utilizing legitimate and lawful methods for privatization with an emphasis on the stock exchange; strengthening the infrastructure for privatization; establishing a transparent process for releasing information; creating equal opportunities for all; and taking advantage of incremental release of shares of large companies in the stock exchange in order to achieve the baseline price for the share.

1.4 Preventing conflict of interest of the officials and governmental decision makers in charge of the transfer process.

1.5 Observing the general policies pertaining to the cooperative sector in the transfers.

2. Utilization of the Earnings from Privatization Transfers

Income from transfer of shares from government businesses [to the private sector] will be deposited in a specific bank account of the national treasury and, in the framework of approved programs and budgets, will be utilized according to the following:

2.1 Creating self-reliance for poor and destitute families and enhancing social welfare.

2.2 Allocating 30% of the income from privatization [of government businesses] to country-wide cooperatives for poverty reduction.

2.3 Creation of economic infrastructures with priority given to less developed regions.

2.4 Granting resources (managed funds) for support of cooperatives; renewal and improvement of non-governmental economic entities with priority given to privatized businesses; and also for investment in the private sector for development of impoverished regions.

2.5 Cooperation of government companies with the non-governmental sector up to a 49% ceiling for development of impoverished regions.

2.6 Completion of projects unfinished by government companies while abiding by article A of this law.

Article E. General Policies for Enforcing the Law and Preventing Monopolies:

1. The government shall continue to enforce the laws [of the country] after entry of non-governmental sectors [into the national economy] by establishing new policies; implementing [existing] laws and regulations; and supervision, specially with respect to religious and legal edicts regarding non-governmental banks.

2. Preventing influence and domination of foreigners over the national economy.

3. Preventing the creation of monopolies by non-governmental economic institutions by drafting regulatory legislations.

§ Translator’s note: Article 110 of the Constitution of the I.R.I outlines the powers and responsibilities of the Supreme Leader.

§§ Translator’s note: The fourth 5-year development plan was between the years 2005-2010.

§§§ Translator’s note: The fifth 5-year development plan is between the years 2010-2015.

* Section 2.9 of article A was decreed in 1387 [2008].

** Article C of the general policies pertaining to Article 44 of the Constitution was decreed by the Supreme Leader on 10/4/1385 [7/1/2006].