



In the Name of God

Privatization in Islamic Republic of Iran

Iranian Privatization Organization (IPO)

www.ipo.ir



Objectives of Privatization in Iran

Privatization of SOEs as a part of the structural adjustment program, started in the 1990s. It was related to the changing role of government in the economic development process and its main objectives were:

- The long-term development of the private sector, strengthen market forces and competitive conditions.
- Enhancement the dynamic as well as static efficiency in the national economy.
- Improvement fiscal balances, lead to a smaller and more effective public sector.



The performed efforts to set the proper grounds for Privatization & Private Sector Development (1)

1. Enactment of New Regulation; such as:
 - ✓ The unification of the exchange rates
 - ✓ Granting the licenses to establishment of private banks and insurance companies

2. Amendment of Current Rules; such as:
 - ✓ Taxation rules
 - ✓ Foreign investment promotion rules
 - ✓ Regulation of stock market



The performed efforts to set the proper grounds for Privatization & Private Sector Development (2)

3. Propose New Rules for approving; Such as:
 - ✓ Revision of commercial law
 - ✓ Antitrust laws
 - ✓ Outsourcing and divesting SOEs to non-governmental sectors
4. Deregulation and gradual commercial liberalisation



Last & most important effort to set the proper grounds for Privatization & Private Sector Development

- **Decree** of General Policies of article 44 of the constitution Law, by the ‘supreme leader’ of the Islamic Republic of Iran, regarding below points:
 - *Economic Liberalization*
 - *Development of Cooperative Sector in Economy*
 - *privatizing big governmental entities, which had banned private ownership of some state institutions.*

*These policies offer the shares of governmental companies by Privatization Organization through **exchange market** and **tender bid sales**.*



Article 44 of the Iranian constitution(1)

Based on this Article;

- All large-scale and major industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like; all these will be publicly owned and administered by the State.

But the share of **State** and other **economic sectors**, in the economy; will be specified by law.



Future Plan of the Privatization (1)

Based on the mentioned Decree, 4th Five Years Development Plan Act & Annual Budget Rules;

- The state should separate the business activities from sovereignty ones; during current year.
 - New investments by government are prohibited in those areas which private sector is active or can and want to be active.
 - The privatization trend of the key industries would be accelerated: *The state is obligated to reduce 20 percent per year of its control over State Companies and offer its share to public.*
- The minimum price of companies subject to privatization is amounted to approximate **130 Billion US Dollars.***



Future Plan of the Privatization (2)

- **The government could sell off about 80 percent of below SOEs (subject of mentioned Decree), and 100 percent of all other SOEs (out of This Decree):**
 - 4 big governmental banks
 - All commercial insurance companies except Iran Insurance Company (i.e. 3 companies)
 - All post and telecommunication companies except of mother telecommunication networks, transfer of frequencies (i.e. about 40 companies)
 - Power provision companies and some other companies in energy industry
 - All government aviation and shipping organizations except for Civil Aviation Organization and Port and Shipping Organization
 - More than 100 companies in oil, gas and petrochemical industry
 - Some other companies in manufacturing and service sectors



Future Plan of the Privatization

A List of Large-Scale State Owned Enterprises, on Privatization Plan in next two years

<i>Row</i>	<i>Name of the SOE</i>	<i>Row</i>	<i>Name of the SOE</i>
1	Mellat Bank	8	Iran Telecommunication National Co. plus 33 Provincial Telecommunication Co.
2	Tejarat Bank		
3	Saderat Bank	9	Mobarakeh Steel Co.
4	Refah Bank	10	National Industries of Iran Copper Co.
5	Asia Insurance Co.	11	Khouzestan Steel Co.
6	Alborz Insurance Co.	12	Mapna Co.
7	Dana Insurance Co.	13	8 State Electricity Power Stations (Plants)



Some Main Obligations of I.P.O

- Evaluating of the State Owned Enterprises (SOEs), their shares and setting basis price for the selling
- Publishing the notice for sales of shares in press
- Offering the shares block in tender or stock market
- Relinquishing the company to purchaser and setting a contact with him/her.
- Supervising the commitment of purchaser to contact, evaluating his/her performance and giving a discount in the case of good outcomes (increased investment, promoted employment and so on)
- Executing of the approved rules, regulations and polices related to privatization

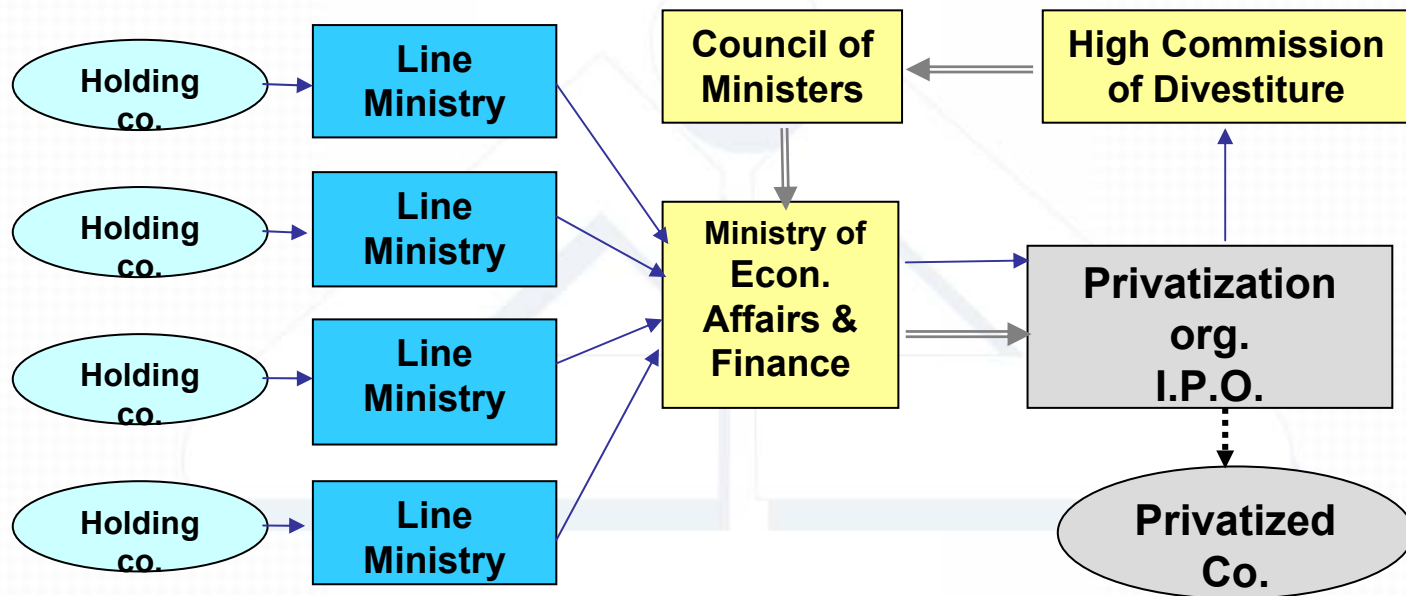


Parties Involved in the Privatization

- Cabinet, Policy making and approval of the regulations
- Divesting High Commission, Planning-coordinating and controlling the privatization practices
- Specialized Holding Companies, Restructuring of the SOEs to be privatized
- Privatization Organization, The authority for doing approved privatization practices and procedures
- The State Owned Enterprises (SOEs)
- Purchasers and buyers
- In some cases, the stock market authorities



Decision Making & Implementation Process of Privatization



- 1 - Proposal for the privatization
- ⇒ 2 - Decision of the privatization
- ⋯→ 3 - Implementation of the privatization



Detailed Privatization Process (1)

Stage 1: prior to divestiture

- The public entities are organized in context of specialized holding companies. The specialized holding companies, if requires, restructure the public entities and render the proposal to the secretariat of High Commission of Divestiture for determining the status.
- The High Commission of Divestiture shall consider, confirm and recommend the list of companies which could be sold, dissolution, integration and their time scheduled plan and sales method and shall offer the same to the Council of Ministers of Ministers.
- The Council of Ministers shall study and approve the said list including amount of divestiture, sales method and time scheduled plan.
- The Specialized Holding Company shall submit the power of attorney to Privatization Organization for meeting the divestiture stages and shall hand over the financial papers and documentation accompanying the required information, accordingly.



Detailed Privatization Process (2)

Stage 1: prior to divestiture (cont.)

- The Privatization Organization upon obtaining the required documentation, shall study and consider the ways and means for shares classification, shares basic price, the ways and means for obtaining the transaction price and also the amount of preferred shares which could be divested to the employees of that company, in accordance with the governing rules and regulations and shall take action for obtaining the required permission including the shares base price from High Commission of Divestiture



Detailed Privatization Process (3)

Stage 2: Within divestiture

- The approved companies for divestiture are divided into two types in view point of admission or non admission to Exchange Market, may concern. Divestiture of the companies admitted in Exchange Market is fulfilled necessarily by exchange method and divestiture of the other companies is performed through tender bid. Therefore selection of exchange method or tender bid is subject to proportionate of company status in view point of its admission or non-admission in exchange. The Privatization Organization does not absolutely use the negotiation in divestiture.
- Gradual sales of shares to the public in exchange method are performed at the same price as stipulated on the board. In other word Privatization Organization observes the rules and regulations of Exchange Market and the said shares do not need the separate pricing. Sales of classified (block) shares of the Exchange Companies are performed in accordance with the By-Law approved by the Council of Ministers by taking advantage of the company shares transaction average price at proposal of Privatization Organization and approval by High Commission of Divestiture.



Detailed Privatization Process (4)

Stage 2: Within divestiture (cont.)

- Sales of the non-exchange companies shares are done by publishing the notice in widely circulated dailies and through tender bid and by fixing the base price, in accordance with the by-law approved by the Council of Ministers. The official experts to Justice Administration assess the base price of the shares by taking advantage of the standard and professional method mentioned in the by-law approved by the Council of Ministers and based on the same the base price is offered and approved by the High Commission of Divestiture.
- The Privatization Organization, in any methods of exchange or tender bid, fulfills shares offering through publishing the shares sales notice in widely circulated dailies for public notice and in two instances. In the said sales notice, the followings are stipulated: The base price of the shares, amount of preferred shares, terms and conditions for payment of transaction price and other cases stipulated in the Act. Therefore offering the shares is done in a fully compatible atmosphere.

Detailed Privatization Process (5)

Stage 3: After divestiture

- The Privatization Organization in major divesting, including tender bid and/or exchange, divests the shares in cash and on installments basis based on the published notice and pursuant to the application of the purchaser. In this condition while taking the required bonds, shall hand over the envisaged shares at bond of the Organization, so there is possibility for supervision on purchasers after divesting.
- The Privatization Organization while concluding the divesting contract , shall supervise on provisions and conditions stipulated in the contract and shall take action for obtaining the installments of the purchaser on due time and in case on non payment on time , shall make the required legal actions and measures.
- The Privatization Organization supervises on the ways and means for convention of the company general assembly during re-payment of the installments by the purchaser according to the concluded contract and any sales of company assets and properties shall be possible exclusively by written permission of the Organization.



Detailed Privatization Process (6)

Stage 3: After divestiture (cont.)

- The Privatization Organization, shall take action for rendering the facilities including discount in profit of the sales on installments basis and prolongation of the installments re-payment period for maximum two another years, in case of effective and suitable measures by the purchasers including employment increment, production increase , sales and profitability and the new investments as well .
- The Privatization Organization shall render the required supervision reports to the authorities dealing with and policy makers like High Commission of Divestiture, Council of Ministers, the esteemed president and the esteemed Islamic Consultative Assembly, within the duration for transfer and assignment of shares.

Privatization Performance

- Privatization in Iran has been tried in five legislative frameworks.

<i>Year</i>	<i>Legislation</i>	<i>Proceeds Million US\$</i>	<i>Percentage</i>
1991/92- 1994/94	1 st Development Plan	676	11%
1994/955-1996/97	Law of divesting shares to the War-Veterans & workers	826	13.4%
1997/98-1999/2000	Note 35 of the law of the government budget	512	8.3%
2000/01-2004/05	3 rd Development Plan	2037	33%
2005/06-2006/07	4 rd Development Plan	2119.05	34.3%
Total	--	6170.05	100%



Privatization Performance

A List of Large-Scale Divested State Owned Enterprises, during the Last few Years

Row	Name of the SOE	Name of the Specialized Holding Company	Percentage of Supply	Proceeds of Divestiture ^[1] (million Us \$)
1	Hegmatan Cement Co.	Iran Mines & Mineral Industries Development & Renovation Organization (IMIDRO)	63.1%	81.81
2	Kordestan Cement Co.	Iran Mines & Mineral Industries Development & Renovation Organization (IMIDRO)	45.6%	38.00
3	Azar-aab Industries Co.	Iran Industries Development & Renovation Organization (IDRO)	35.0%	34.16
4	Khash Cement Co.	Iran Mines & Mineral Industries Development & Renovation Organization (IMIDRO)	51.0%	68.82
5	Khouzestan Cement Co.	Iran Mines & Mineral Industries Development & Renovation Organization (IMIDRO)	95.0%	204.85
6	Iran Sanati Daryaie Co.	Iran Industries Development & Renovation Organization (IDRO)	35.0%	406.02
7	Arak Petrochemical Co.	National Petrochemical Industries Co.	29.1%	60.56
8	Shahid-Ghandi Telecommunication Cables Co.	Iran Telecommunication Co.	51.0%	48.24

[1] In this Table: -All the values have been adjusted based on the Fix values in years 1997-98
- \$1 = RL 4781.5, which is the average of currency rate in open market in 1997-98, based on-published statistics of Central Bank of I.R. Iran



Privatization Performance

A List of Large-scale Divested State Owned Enterprises, during the Last few Years

Row	Name of the SOE	Name of the Specialized Holding Company	Percentage of Supply	Proceeds of Divestiture ¹ (million Us \$)
9	Karoon Cement Co.	Water & Power Equipment Production Management & Supplier (Satkab)	20.0%	29.41
10	Ardebil Cement & Azar-Shahr Lime Co.	(IMIDRO)	51.0%	85.49
11	Hormozgan Cement Co.	(IMIDRO)	51.0%	182.04
12	Ghods-Niroo Consultancies Co.	(Satkab)	45.4%	4.81
13	Development of Cultivation Machineries Co.	(IDRO)	66.0%	6.02
14	Hepco Co.	(IDRO)	60.7%	49.45
15	Mobarakeh Steel Co.	(IMIDRO)	5.0%	87.90
16	National Industries of Iran Copper Co.	(IMIDRO)	5.0%	77.20
	<i>Sum</i>	-----	-----	1464.7790



Privatization Challenges (1)

- Some resistance inside the government and other powers against downsizing the government because of the historical domination of government on the economic structure of the country.
- New Investments by the government in commercial sectors of the economy through high revenues of oil exports
- A significant percentage of public-sector economic activities controlled by semi-public organizations



Privatization Challenges (2)

- Before decreeing general policies of Article 44 by Supreme Leader, mainly few and small companies were subject of privatization.
- Lack of strong and structured social security system as instrument for decreasing improper effects of the privatization.
- Weak financial support system for the buyers
- Weak structure (technologically, managerially and so on) of the most SOEs



Privatization Challenges (3)

- Lack of some important support players of the privatization in the country (like investment banks)
- Challenges in proper pricing of the SOEs.
- Young and not strong stock market
- Interest of the Iranian's to invest in traditional assets like real state, gold and so on.
- Not positive viewpoint of the people and the public about the privatization



Plans to Face the Challenges (1)

- The new investments of the government in the commercial sectors of the economy is forbad by the new Iran's 'Privatization Bill' (The bill also addresses other key issues such as overseeing procedures and economic rules that have to follow privatization)
- New legislative framework to facilitate private sector and foreign investor's activities in the economy
- Inviting the eligible foreign investors and other new investors to participate in the privatization activities



Plans to Face the Challenges (2)

- Improving public's viewpoint about the privatization through massive cultural schemes (TV, newspapers, course works, universities and so on)
- Expansion and development of the stock market
- Facilitating the establishment of the useful institutions (like investment banks)
- Designing and enriching social security system
- Designing financial system to support strategic buyers
- Special concern to cooperative sector of the economy through issue of the “justice share”.