

Natural Resource Funds



Islamic Republic of Iran

Oil Stabilization Fund and
the National Development
Fund of Iran



Market Value

**National Development
Fund of Iran**
\$54.5 billion

Santiago
Compliance
Index

Not Rated

Resource
Governance Index
Natural Resource
Fund Score

28 / 100

Truman Sovereign
Wealth Fund
Scoreboard

41 / 100

Good Governance Fundamentals

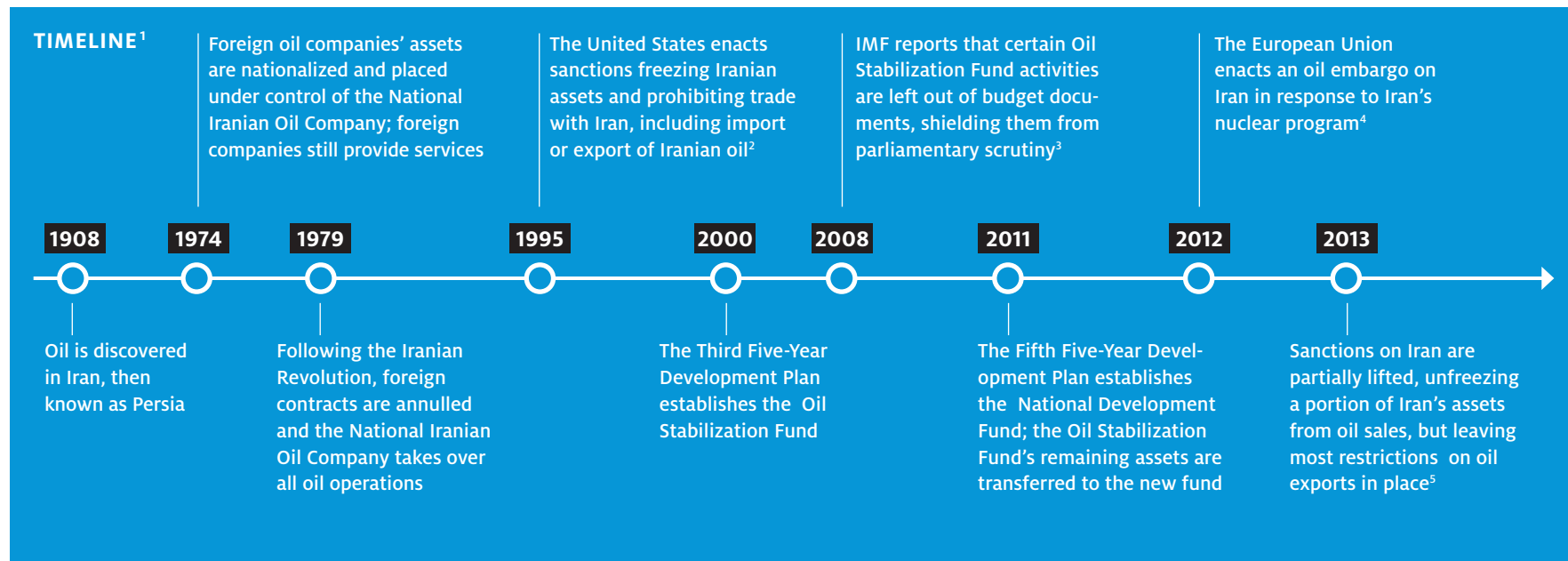
Clear Deposit Rules	yes
Clear Withdrawal Rules	no
Clear Investment Rules	no
Transparent	no
Publicly Available Audits	no
Effective Oversight	no

Fund Highlights

- The National Development Fund of Iran, established in 2011, has a dual mandate to serve as a quasi-development bank and save oil revenues for future generations.
- Since 2011, the Oil Stabilization Fund's mandate has been to stabilize the budget. However it is reported to be empty.
- Rules dictating how much oil revenue should be deposited into the two funds are relatively clear. However detailed withdrawal and investment rules, if they exist, have not been made public.

- The Managing Board, selected by a Board of Trustees that includes the President and Minister of Finance and Economic Affairs, has full discretion to determine how National Development Fund assets are allocated.
- While there is significant internal oversight by the Iranian Parliament and Board of Supervisors (consisting of government financial oversight bodies), the lack of transparency or external audit does not allow for independent evaluation of fund activities.

Timeline and Fund Objectives



Fund Inception

- An Oil Revenues Foreign Currency Reserves Account, otherwise known as the Oil Stabilization Fund, was established in 2000 under Article 60 of Iran's Third Five-Year National Development Plan.⁶
- The National Development Fund of Iran was established in 2011 under Article 84 of Iran's Fifth National Development Plan to eventually replace the Oil Stabilization Fund.⁷

Fund Objectives⁸

- The Oil Stabilization Fund was established as a budget stabilization

fund and as a domestic development fund, financing domestic private-sector projects to support economic development and reduce dependence on oil.

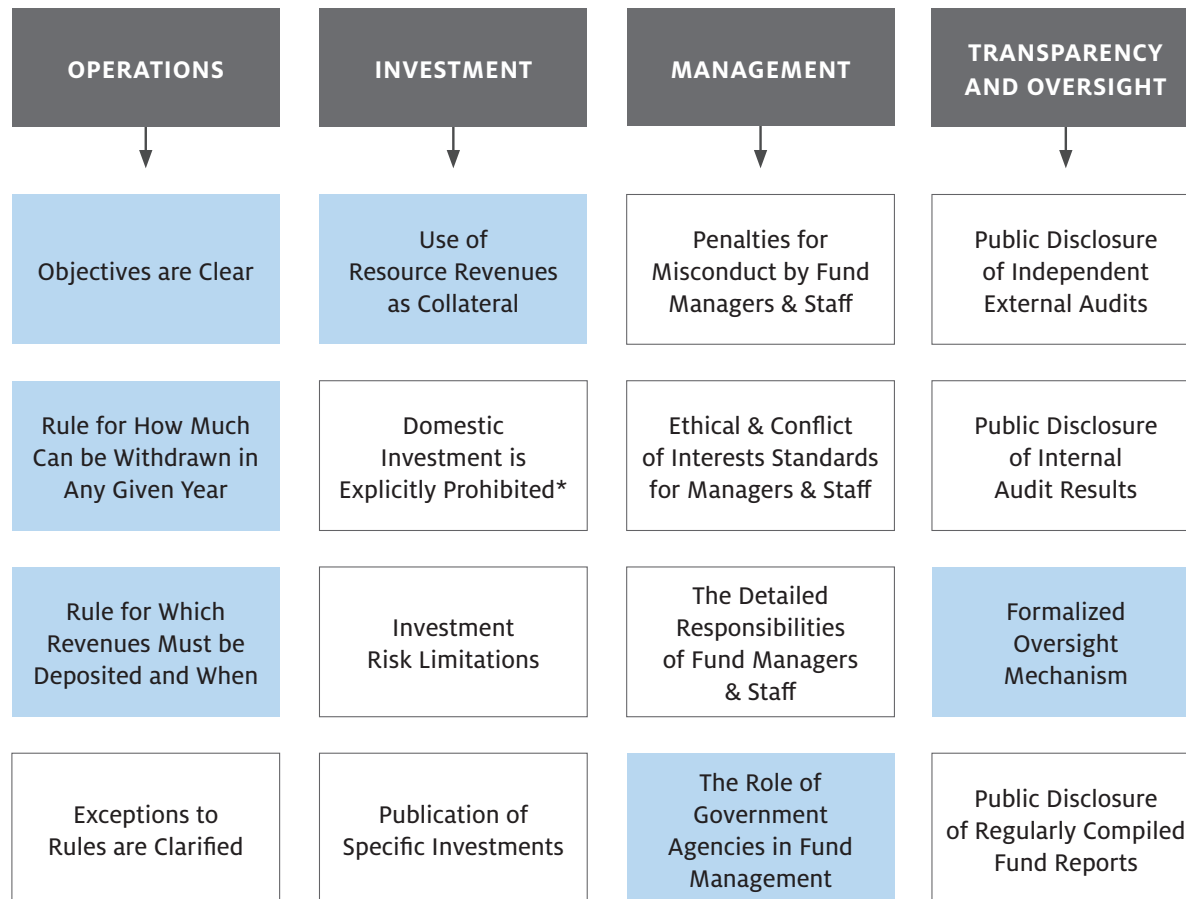
- The National Development Fund of Iran was established to supplant the Oil Stabilization Fund's role as a domestic development fund. The National Development Fund is also meant to save some of Iran's resource revenue for future generations.
- Following the establishment of the National Development Fund, the Oil Stabilization Fund's only remaining role is to stabilize the annual budget; however, the Oil Stabilization Fund's balance is reported to be zero.⁹

Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.


6/16

Good Governance
Standards Met

Good Governance Standards and Gaps in Regulation



 Presence of Regulation

 Absence of Regulation

* The National Development Fund makes extensive investments within Iran due to its role as a domestic development fund.

Funds from the National Development Fund mostly finance loans for projects that promote domestic development.

Operational Laws, Rules and Policies

Fund Deposit Rules¹⁰

- 14.5 percent of oil and gas revenues are retained by the National Iranian Oil Company.

Oil Stabilization Fund

- The Oil Stabilization Fund is meant to receive all remaining oil and gas export revenues in excess of revenues projected in the annual budget law.*

National Development Fund

- The National Development Fund receives a minimum of 20 percent of projected oil and gas export revenues based on an assumed oil price set by the budget law each year.
- Under the Fifth National Development Plan (2011 to 2015), the amount deposited into the National Development Fund increases from the original 20 percent by three percent per year, reaching 32 percent when the Fifth National Development Plan ends in 2015.¹¹
- 50 percent of the remaining balance of the Oil Stabilization Fund is transferred to the National Development Fund at the end of each fiscal year.
- Revenue from Fund investments as well as interest payments on loans made from Fund assets are re-deposited into the Fund.¹²

* The 2013 budget used an oil price assumption of \$95 a barrel in its revenue projections.

Fund Withdrawal Rules

Oil Stabilization Fund¹³

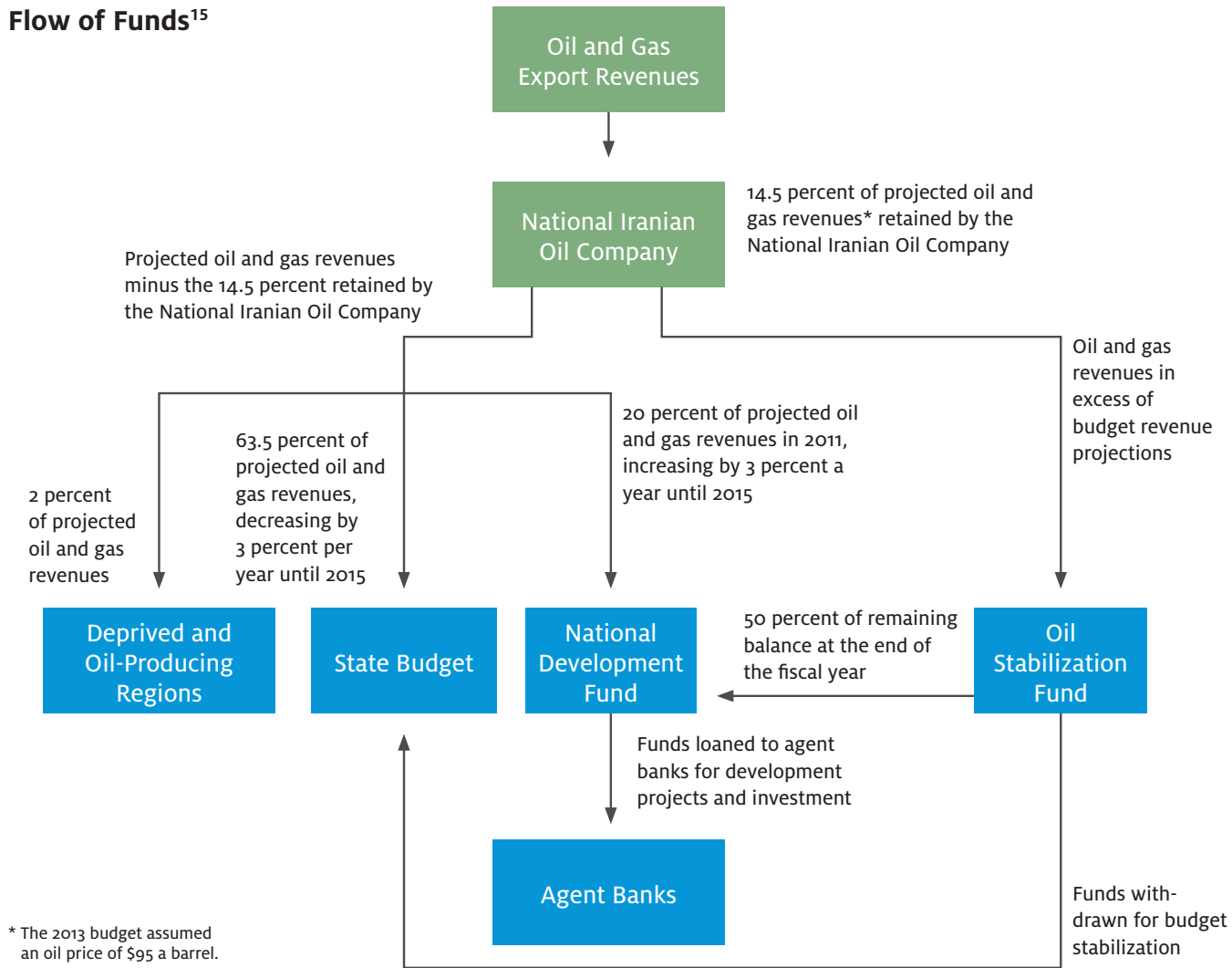
- Funds are withdrawn for the purpose of stabilizing the budget during periods of volatile oil prices.
- At the end of each fiscal year, 50 percent of the balance of the Oil Stabilization Fund is transferred to the National Development Fund.

National Development Fund¹⁴

- Funds are withdrawn to provide loans to private-sector companies, cooperatives and economic enterprises owned by public non-governmental institutions through agent banks to make investments to promote economic growth and reduce poverty.
- Funds may not be used for repaying government debts of any type.

Operational Laws, Rules and Policies

Flow of Funds¹⁵



Investment Laws, Rules and Policies

Investment Authority

- The Board of Trustees has ultimate authority over the National Development Fund investments. The Fund itself is held at the Central Bank of Iran.^{16,17}

Investment Strategy

- Details on the current formal rules governing the National Development Fund's investment strategies are not publicly available. The Fund's reports are also not publicly available. Therefore, detailed asset allocation, risk management, investment objectives and portfolio performance are unavailable.
- According to the National Development Fund's Managing Board, the Fund's goal is to eventually have 10 percent of the Fund's assets invested overseas in low-risk fixed-income securities that have a rating of AAA from Standard & Poor's and/or Fitch.¹⁸ Economic sanctions by the United States and European Union on Iran have hindered the Fund's ability to invest overseas as trade in goods and services with Iran has been prohibited.^{19,20,21}

Investment Allocation

- The National Development Fund does not provide information on the current investment allocation of its portfolio.

Policy on In-State Investments

- Assets of the National Development Fund may be invested in Iran.

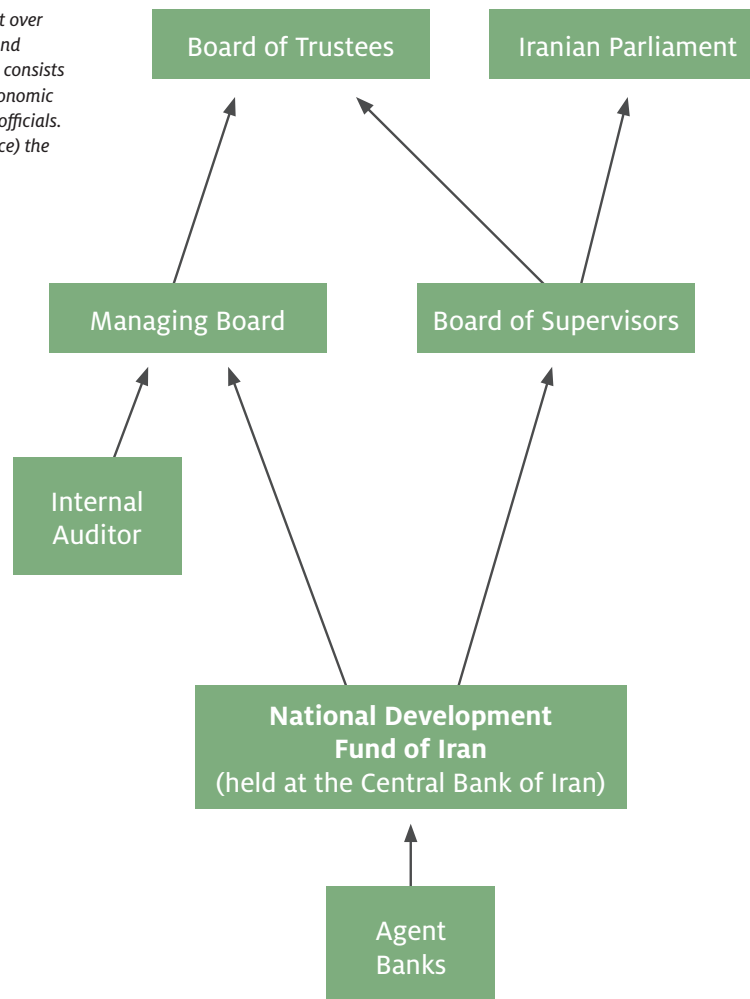
Management and Accountability

Management and internal accountability

The Board of Trustees has ultimate oversight over the National Development Fund, directing and determining Fund policies and guidelines. It consists of the President, Minister of Finance and Economic Affairs and other high-ranking government officials. The Board of Trustees selects (and can replace) the members of the Managing Board.

The Managing Board administers the Fund and implements the decisions and approvals of the Board of Trustees. It consists of five members chosen by the Board of Trustees and are prohibited from holding any other positions. It also oversees the audit by the Internal Auditor.

The National Development Fund provides loans to agent banks for the purposes of investment in economic development projects.



External accountability

The Iranian Parliament receives reports from the Board of Supervisors every six months and must ratify any changes to the Articles of Association that establish the Fund.

The Board of Supervisors monitors the Fund to ensure compliance with the law. It is comprised of the heads of the State Audit Organization, the State Financial Tribunal Organization and the State Inspectorate Organization. It reports to the Board of Trustees and the Iranian Parliament.

The Board of Trustees' ability to select and replace members of the Managing Board limits its independence.

Oversight and Safeguards

Oversight Mechanisms

- The **Board of Supervisors** is empowered by law to monitor and “police” activity of the National Development Fund, ensuring compliance with the regulations that govern the Fund.
- The **Iranian Parliament** must ratify any changes made to the Fund’s Articles of Association, the Fund’s establishing document.
- Arbitrary withdrawals from the Fund are not allowed; the Fund, through its agent banks, must examine and approve all projects before they are financed with loans from the Fund.
- Finances are subject to **regular and comprehensive internal audits**.
- Funds are managed separately from the country’s **international reserves**.
- The Fund is included in Iran’s **IMF Article IV consultations**, which are annual reports that evaluate macroeconomic policy.

Common Oversight Mechanisms or Safeguards Not Present in Iran

- A **domestic periodic review process of investment methodology** does not exist to improve management of investments.
- Fund finances are not subject to a **regular and independent external audit** that meets international standards.

Transparency Laws, Rules and Policies

There is public disclosure of the following:

When or how often Fund reports are published and made publicly available		no
Which individuals or organizations are responsible for publishing Fund reports		no
Size of the Fund(s)		no
Deposit and withdrawal amounts		no
Returns on investments		no
Detailed asset allocation – geographic location		no
Detailed asset allocation – asset class		no
Detailed asset allocation – specific assets		
Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules	yes	

Annex: List of Applicable Laws

Iranian Constitution

<http://www.iranonline.com/iran/iran-info/government/constitution.html>

Third National Development Plan

<http://irtr.gov.ir/LinkClick.aspx?fileticket=KZ0p%2FvSK-5NI%3D&tabid=6704&mid=11604&language=en-US>

Articles of Association of The National Development Fund of Iran (Article 84 of the Fifth National Development Plan)

http://en.ndf.ir/Portals/1/Articles_of_Association.pdf

Manual of Terms and Conditions of the National Development Fund's Board of Directors

<http://en.ndf.ir/Portals/1/Manual%20of%20Terms----revised%206%204%201391.pdf>

Endnotes

1. <http://en.ndf.ir/about-us/history.aspx>
2. An overview of O.F.A.C. Regulations involving Sanctions against Iran. Available at: <http://www.treasury.gov/resource-center/sanctions/programs/documents/iran.pdf>
3. International Monetary Fund. "Islamic Republic of Iran: Selected Issues." IMF Country Report No. 08/285. Washington DC: IMF. 2008. Available at: <http://www.imf.org/external/pubs/ft/scr/2008/cr08285.pdf>
4. Council conclusions on Iran. 23 January 2012. Available at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/127446.pdf
5. P5+1 and Iran Joint Plan of Action. 24 November 2013. Available at: http://online.wsj.com/public/resources/documents/iranpact_11242013.pdf
6. Third Economic, Social and Cultural Development Plan Act of the Iranian year 1379, Article 60. Available at: <http://irtr.gov.ir/LinkClick.aspx?fileticket=KZ0p%2FvSK-5NI%3D&tabid=6704&mid=11604&language=en-US>
7. Declaration of the General Policies of the Fifth Development Plan, Article 22. Available at: <https://www.princeton.edu/irandatportal/laws/supreme-leader/khamenei/declaration-fifth-dev-pla/>
8. <http://en.ndf.ir/about-us/history.aspx>
9. <http://www.al-monitor.com/pulse/originals/2013/10/hope-for-iran-private-sector-national-development-fund.html#>
10. International Monetary Fund, Islamic Republic of Iran: 2011 Article IV Consultation, p. 8. Available at: <http://www.imf.org/external/pubs/ft/scr/2011/cr11241.pdf>
11. Articles of Association of The National Development Fund of Iran, Article 84 of the Fifth Development Plan (H). Available at: http://en.ndf.ir/Portals/1/Articles_of_Association.pdf
12. Articles of Association of The National Development Fund of Iran, Article 84 of the Fifth Development Plan (H). Available at: http://en.ndf.ir/Portals/1/Articles_of_Association.pdf
13. International Monetary Fund, Islamic Republic of Iran: 2011 Article IV Consultation, p. 8. Available at: <http://www.imf.org/external/pubs/ft/scr/2011/cr11241.pdf>
14. Articles of Association of The National Development Fund of Iran, Article 84 of the Fifth Development Plan (I). Available at: http://en.ndf.ir/Portals/1/Articles_of_Association.pdf
15. International Monetary Fund, Islamic Republic of Iran: 2011 Article IV Consultation, p. 8. Available at: <http://www.imf.org/external/pubs/ft/scr/2011/cr11241.pdf>
16. Articles of Association of The National Development Fund of Iran, Article 84 of the Fifth Development Plan (B). Available at: http://en.ndf.ir/Portals/1/Articles_of_Association.pdf
17. Articles of Association of The National Development Fund of Iran, Article 84 of the Fifth Development Plan (H). Available at: http://en.ndf.ir/Portals/1/Articles_of_Association.pdf
18. Road Map of National Development Fund of Iran (NDFI) for the New Year (2013-2014). 20 April 2013. Available at: <http://en.ndf.ir/news/news/tabid/243/articleType/ArticleView/articleId/341/Road-Map-of-National-Development-Fund-of-Iran-NDFI-for-the-New-Year-2013-2014.aspx>
19. An overview of O.F.A.C. Regulations involving Sanctions against Iran. Available at: <http://www.treasury.gov/resource-center/sanctions/programs/documents/iran.pdf>
20. Council conclusions on Iran. 23 January 2012. Available at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/127446.pdf
21. Bazoobandi, Sara and Sven Behrendt. "Sovereign Wealth Management in the Islamic Republic of Iran: Prospects Beyond Sanctions." *Geoeconomica Sovereign Wealth Funds Updates Series*. December 2013. Available at: http://geoeconomica.com/index.php/newsreader-9/items/54.html?file=tl_files/geoeconomica/reports/December%20Update%20NDFI.pdf