



## Santiago Principles Self-Assessment

### National Development Fund of Iran

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#### Pillar 1

#### Legal framework, objectives, and coordination with macroeconomic policies

##### Principle 1 Description:

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).
  - 1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.
  - 1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

##### Principle 1 Implementation:

-The Article of Association of National Development Fund of Iran (NDFI) has been approved under the 5th development program and its A.O.A. turned to a permanent law at the starting year of the 6th development program and publicly released.

Now the NDFI has an independent and legal identity as nongovernmental public entity.

-The architecture of its governance is based on three main pillars containing Board of Trustees, Board of Executives, & Board of Supervisors, combination of each of them is defined and their responsibilities are clear.

-According to current procedures of Sovereignty, through the Government's introduction of emergency bill and Parliamentary approval, in some important items like "natural disaster" or "water management infrastructure" financing for Public Investment is possible and it might dominant some authorities of Board of Executives.

-At all, any loan to central government and other state owned enterprises has been banned by A.O.A. but currently facing to "serious budget deficit", some portions of NDFI resources has been granted to Government, in absence of a defined fiscal rule on central government budget.

### **Principle 2 Description:**

The policy purpose of the SWF should be clearly defined and publicly disclosed.

### **Principle 2 Implementation:**

The main target of NDFI establishment based on its A.O.A. is to save a portion of oil & gas revenues as an intergenerational saving reserve by enabling feasible investment in all around the country and also through the foreign investment or bilateral co-operations that could help Iranian economic potential to join to the Global Value Chains. In this regard NDFI continuously upgrades its internal procedures in alignment with country's development priorities & also renovate its strategy to reach the best formula for optimal economic and financial allocation.

### **Principle 3 Description:**

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

### **Principle 3 Implementation:**

-Based on the Rules and Regulation, NDFI's cash reserves are saving in special accounts with Central Bank of Iran and this Bank is pseudo asset manager of NDFI's cash, so there is a close coordination between two entities and Organization for Planning & Budget which ensures consistency in monetary and fiscal effects of NDFI.

-A new framework for multilateral relationship between NDFI and CB and OPB is under design for more clear and orchestrated co-operation, which could have more efficient effects on Macroeconomics situation.

### **Principle 4 Description:**

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the

government should be publicly disclosed.

#### **Principle 4 Implementation:**

Considering recent pressure on country's oil export and its conclusion to deepening budget deficit, now NDFI is playing its role as stabilization vehicle, in a De-Facto approach and in compensation of very special capital expenditures mentioned above.

Recently the Government is introducing the new budgetary system in which fiscal rule will be implemented for the first time and so a ceiling for NDFI's contribution will be imposed.

-The source of NDFI funding is publicly disclosed based on the A.O.A. and Article No. (16) of Permanent law of Development Decrees, for the first year of 6th Five Years Development Program, 30% of total oil & gas export revenues will be injected to the NDFI's account and during the Program, and that portion will be increase 2% annually until the ending year of 6th Development Program so the share of NDFI from total amount of oil export revenues will reach to 40%.

-Meanwhile due to the increase in Government budgetary expenditures especially in transfer payments, during the current financial year and according to the Budget Law passed by parliament a table of withdrawal as loan to government is approved, just for using in infrastructure & public investment up to 2.3 Billion Euro. So the withdrawal (as loan) is transparent and legal. Until the finalizing of fiscal rule implementation in budgetary system, still it is expected to get such approval for spending in procyclical manner.

#### **Principle 5 Description:**

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

#### **Principle 5 Implementation:**

-Based on the A.O.A. and Article No (16) of Permanent Law of Development Decrees, the Chairman of Executives must prepare an official report about NDFI's activities for Board of Trustees, Parliament and Supervisory Board, each every six months.

-Also a variety of customized tables containing series of data and statistics about NDFI's operation and financial results are designed and periodically in each quarter would be sending to President of I.R. Iran, and Speaker of Parliament and the Head of Judiciary System, together with economic committee and budget committee in parliament.

-Now a new regular Magazine on total allocation of NDFI's resources in each sector and geography and other related information is publishing and distributes among public organizations and is available online.

## **Pillar 2 Institutional Framework and Governance Structure**

#### **Principle 6 Description:**

6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

**Principle 6 Implementation:**

- NDFI reviewing its previous results and taking feedback from the past, has improved its organizational chart and also moved deep inside the Fund's functional definition and trying to prepare prerequisites and responsibilities for each job.

-So the new arrangement has taken feedback from new economic situation of country and new NDFI's priorities. New chart is available online on our website.

**Principle 7 Description:**

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

**Principle 7 Implementation:**

Based on the A.O.A. and Article No (16) of Permanent Law of Development Decrees, the Board of Executives included five well reputed and trustworthy experts, with at least (10) years experiences in economics, finance, planning, law and banking sectors, with minimum a B.S. degree, whom will be elected by majority of Board of Trustees and appointed directly by President of Iran.

**Principle 8 Description:**

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

**Principle 8 Implementation:**

Based on the A.O.A. and Article No (16) of Permanent Law of Development Decrees, the Board of Executives has enough authorities to carry out its functions, they are mandated to propose economic priorities, foreign investment cases, designing the contract framework with agent banks and other third parties, establishing internal control system and any other issues related to NDFI's day by day activities Their line of report is directed to the Board of Trustees.

**Principle 9 Description:**

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

**Principle 9 Implementation:**

-Strategies and Priorities of NDFI based on Executives' proposals is under guidance of Board of Trustees, who included of:

- 1-President of I.R.Iran
- 2- Ministry of Petroleum
- 3- Ministry of Economic affairs
- 4- Ministry of Labor
- 5- Governor of Central Bank
- 6- Deputy of President and head of Organization for Budget and planning
- 7- Attorney General
- 8- Parliament member and representative of Economic Committee
- 9- Parliament member and representative of Budget.

Up to now a manual has passed by Trustees explaining prerequisite economic and financial conditions in granting loan in foreign currency to local developers for importation of machineries and equipment. At the same time overall condition for foreign investment by NDFI in overseas Capital Markets also is approved.

It must be indicated that currently Board of Executives are working on defining a global development strategy for NDFI by gathering all related documents provided by other organizations to overlap & consolidate them in order to prioritize financing of country's development projects.

**Principle 10 Description:**

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

**Principle 10 Implementation:**

Based on the A.O.A. and Article No (16) of Permanent Law of Development Decrees, policy making and designing guideline are on behalf of the Board of Trustees. -And also any Bylaw, Manual, Strategic Plan, Annual Budget, and Financial Statement must be approved by the mentioned Board. At the same time determination of minimum rate of return on asset under management of NDFI will be set by the aforementioned Board.

**Principle 11 Description:**

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

**Principle 11 Implementation:**

Based on the A.O.A. and Article No (16) of Permanent Law of Development Decrees, Supervisory Board is responsible for auditing financial reports of NDFI and monitoring its operation in compliance with A.O.A. & related rules and regulations like A.M.L., Their access to NDFI's document has no limit.

**Principle 12 Description:**

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

**Principle 12 Implementation:**

-Based on the A.O.A. and Article No (16) of Permanent Law of Development Decrees, at the end of each financial year, Balance Sheet together with Profit Account reports must be submitted to the secretary of the Board of Trustees at least (15) days before the general assembly, enclosed with Supervisory Comments on the reports.

-Chairman of Executive Board every six months must prepare an official report about activities of NDFI for Board of Trustees, Parliament and Supervisory Board. All financial reports of the NDFI are being prepared based on the GFS standards and gradually toward the Accrual Basis.

-Board of Supervisors is responsible for auditing financial statements of NDFI, Audit Organization which is one the official members of the aforementioned Board is responsible for defining and implementing the newest accounting and auditing standards for the County.

**Principle 13 Description:**

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

**Principle 13 Implementation:**

-A new code of ethics recently is written and announced officially to all staff of the NDFI to obey such ethics in their day by day operations, this code is available online.

**Principle 14 Description:**

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

**Principle 14 Implementation:**

-Based on the A.O.A. and Article No (16) of Permanent Law of Development Decrees, one of the main responsibilities of the Board of Executives is defining the framework of agency contract with banks in order to clearly explain their functions and limitations in using NDFI's resources for granting development loans

-Also Based on the A.O.A. the Board of Executives could enter into the asset management contract with third parties and any financial advisory services for foreign investment.

-In the content of Trustees' approved Manual for granting loan, all criteria and prerequisite conditions are published. For contracts with foreign agents and asset managers the Executives will arrange conditions based on each case of investment for the third party.

**Principle 15 Description:**

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

**Principle 15 Implementation:**

- Regarding the Compliance with all applicable regulatory and disclosure requirement in host country, it is evident that NDFI will double check all matters with local and international law firm to comply with host jurisdiction regulations, up to now because of some frictions in front of NDFI entrance to foreign capital markets, there is not any foreign asset in our portfolio.

-A special compliance office in the organizational chart is being considered.

**Principle 16 Description:**

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

**Principle 16 Implementation:**

-All Codes, Bylaws, any new approvals by trustees and all other important documents and procedures are being disclosed and now all NDFI's private and public clients using these documents online can complete their forms of applications.

**Principle 17 Description:**

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

**Principle 17 Implementation:**

-Based on the A.O.A. and Article No (16) of Permanent Law of Development Decrees, at the end of each financial year, Balance sheet together with profit account report must be submitted to the secretary of the Board of Trustees at least (15) days before the general assembly enclosed with Supervisory Comments on the reports. And after approval must publish in official Gazette.

-Now all of them publicly disclosed for the representatives of people in the parliament in details, and summary reports are available for all (without complimentary notes).

-NDFI is in process of negotiation with Board of Supervisors to convince them to issue permission for publication all notes of the annual reports.

## **Pillar 3**

### **Investment and Risk Management Framework**

#### **Principle 18 Description:**

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

#### **Principle 18 Implementation:**

-NDFI's investment bylaw is prepared based on the principles of the A.O.A. and currently all loans from the resources of NDFI that allocates through the agent banks are under guarantees of banks for repayment of principle and interest. So the systematic risk for NDFI might arise from banking system default risk.

-Since the major activities of NDFI are concentrated on local economic sectors, then the risk of NDFI can be equivalent to the macroeconomic risk of the Country. -In this regard one of the significant risks for NDFI is related to foreign exchange rate fluctuations.

-NDFI's Investment policy is publicized & online available.

#### **Principle 19 Description:**

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

**Principle 19 Implementation:**

There is no such a case that investment decisions to be subjected to other parameters than economic and financial considerations. But there are special cases that based on discretion of central government; some portion of resources is used for development megaprojects without emphasizing on the minimum financial rate of return because in such cases the social benefit is the main aim of allocations.

**Principle 20 Description:**

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

**Principle 20 Implementation:**

-NDFI is not the competitor with private sector but also its main mission is to promote private sector contribution alongside the internal economy.

-Based on the A.O.A. resources of NDFI must allocate to private sector in three ways:

1- granting loan with competitive interest rate,

2- granting buyers' credit to Iranian private sector exporters

3-granting loan as EPCF method to Iranian private general contractor who win international tenders.

-The NDFI is prohibited to give any facilities to entities that central government has more than 20 percent share or influence in them.

-NDFI could not allocate its resources in local capital market through the direct or portfolio investment, so there is no conflict of interest between NDFI and other potential shareholders in any local Joint company.

**Principle 21 Description:**

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

**Principle 21 Implementation:**

NDFI could not allocate its resources in local market through the direct or portfolio investment, or through direct ownership, shareholding or controlling the companies inside the Iran.

**Principle 22 Description:**

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

**Principle 22 Implementation:**

-One of the most important risks of NDFI is the agent banking default risk.

-In this regard NDFI has prepared a credit rating table in which all indicators and ratios of local banks are under permanent analysis and each year based on the credit scoring the ceiling of agency contract will be determined.

-At the same time in the Micro level, all details of each project which like to enjoy from loans of NDFI, will be discussed in our Credit Committee based on the documents prepared by agent banks and also all other related economics and financial and legal indicator of project to find out the feasibility of the proposed project by the bank to NDFI.

-In this process the risks would be decreased.

**Principle 23 Description:**

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

**Principle 23 Implementation:**

-About activities of NDFI in local economy all explanation has been down in above mentioned assessment.

-About the foreign investment activities now the NDFI tries to define a guideline in which the selecting suitable benchmark for tracking performance of future foreign portfolio is being targeted.

**Principle 24 Description:**

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

**Principle 24 Implementation:**

This matter is under study in our Audit advisory committee to the Board.

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