

**Ministry of Economic Affairs & Finance  
Organization for Investment,  
Economic & Technical Assistance of Iran**

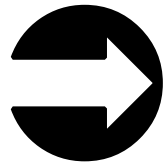
---

# Guide to Invest in Iran



# Table of Contents

<b>Introduction</b>	<b>1</b>	<b>Chapter 3: Investment Licensing</b>	<b>14</b>
<b>Chapter 1: Why Iran</b>	<b>2</b>	• <b>Stage 1: Submission of Application to OIETAI</b>	<b>16</b>
1. <b>Strategic Location</b>	<b>3</b>	• <b>Stage 2: Review of the Application by FIB</b>	<b>16</b>
2. <b>Market Potentials &amp; Proximity</b>	<b>4</b>	• <b>Stage 3: Communicating Draft License</b>	<b>16</b>
3. <b>Labor Privileges</b>	<b>4</b>	• <b>Stage 4: Issuance of Investment License</b>	<b>16</b>
4. <b>Developed Infrastructure</b>	<b>4</b>		
5. <b>Low Utility &amp; Production Cost</b>	<b>4</b>	<b>Chapter 4: Introduction to OIETAI</b>	<b>19</b>
6. <b>Abundant Natural Resources</b>	<b>5</b>	1. <b>Foreign Investment in Iran</b>	<b>21</b>
7. <b>Climatic Characteristics</b>	<b>5</b>	2. <b>External Financing</b>	<b>22</b>
8. <b>Fiscal Incentives</b>	<b>5</b>	3. <b>Investment Abroad</b>	<b>22</b>
9. <b>Political Stability</b>	<b>5</b>	4. <b>Foreign Economic Relations</b>	<b>23</b>
10. <b>New Investment Legislation</b>	<b>6</b>		
<b>Chapter 2: Legal Corpus</b>	<b>7</b>		
• <b>Standing of FIPPA</b>	<b>8</b>		
• <b>Highlights of FIPPA</b>	<b>9</b>		
1. <b>General Features</b>	<b>9</b>		
2. <b>Risks Covered</b>	<b>10</b>		
3. <b>Facilities Provided</b>	<b>11</b>		
4. <b>Broad Outlook</b>	<b>12</b>		



# A Word with the Reader

**I**ntegration with the world economy has now become a well-established policy of the Iranian government. In this respect the new Foreign Investment Promotion & Protection Act (FIPPA) in 2002, among other things, has opened new avenues toward closer and enhanced cooperation with other countries.

The information presented in this guide is designed to serve the needs of prospective investors who are willing to participate in long term beneficiary investment projects in Iran. We hope this would meet their expectations.

Foreign Investment Directorate  
Organization for Investment,  
Economic and Technical Assistance  
of Iran

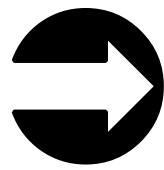
Chapter

1



# WHY IRAN

# Chapter 1: Why Iran

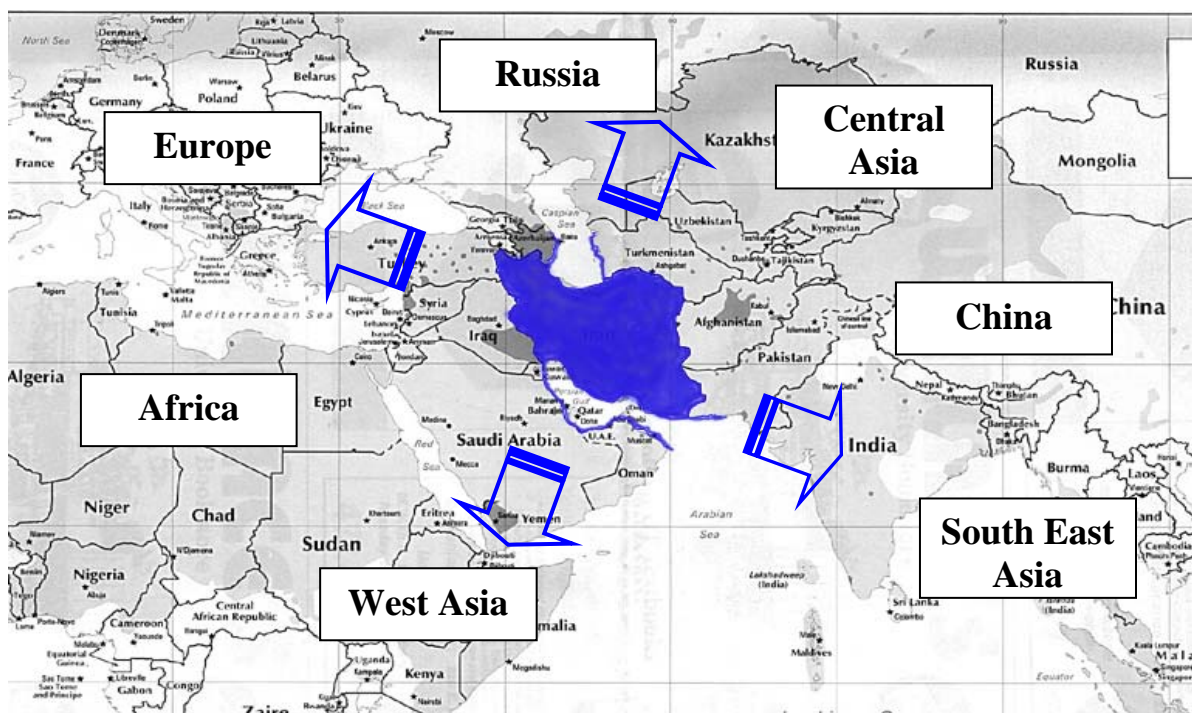


## 10 Reasons to Invest in Iran

**I**ran qualifies from many respects to be a good location for investment and doing business. Some of the features are highlighted below:

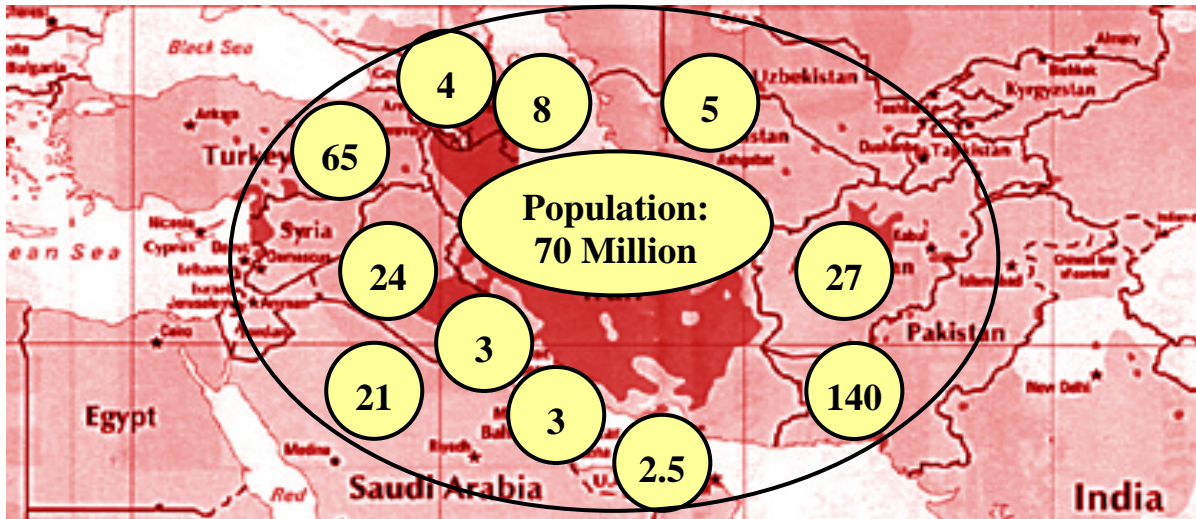
### 1. Strategic Location:

A unique geographical location at the heart of a cross-road connecting the Middle East, Asia and Europe, coupled with many inter- and trans-regional trade, customs, tax and investment arrangements;



## 2. Market Potentials and Proximity:

Vast domestic market with a population of 70 million growing steadily as well as quick access to neighboring markets with approximately 300 million inhabitants;



## 3. Labor Privileges:

Large pool of trained and efficient manpower at very competitive cost in a diversified economy with an extensive industrial base and service sector;

## 4. Developed Infrastructure:

Territory developed networking in the area of telecommunication, power, water, roads and railways across the country;

## 5. Low Utility and Production Cost:

Diversified range of energy, telecommunication, transportation, as well as public utilities;

## 6. Abundant Natural Resources:

Varied and plentiful reserves of natural resources ranging from oil and gas to metallic and non-metallic species reflecting the country's accessibility to readily available raw materials;

## 7. Climatic Characteristics:

A four-season climatic endowment as a privilege to agricultural activities throughout the country and throughout all seasons;

Mid Summer			Mid Winter		
Climate Factor	North of Iran	South of Iran	Climate Factor	North of Iran	South of Iran
Temperature (c)	Min: 5	Max: 50	Temperature (c)	Min: -28	Max: 31
Humidity (%)	70	10	Humidity (%)	90	20
Rainfall (mm)	165	0	Rainfall (mm)	1200	125

## 8. Fiscal Incentives:

Reduced tax rates from 65% to a flat fixed 25% rate of tax on income despite various tax holidays highlighted as follows:

Highlights of Tax Holidays		
Activity	Level of Exemption	Duration of Exemption
Agriculture	100%	No Time Limit
Industry and Mining	80%	4 Years
Industry and Mining in Less-Developed Areas	100%	10 Years
Tourism	50%	No Time Limit
Exports	100%	No Time Limit

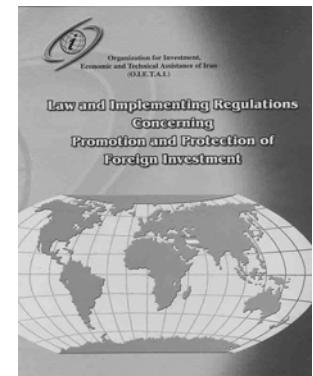
Source: State Tax Organization, Direct Taxation Act

## 9. Political Stability:

Representative system of government based on friendly relationship with other nations;

## 10. New Investment Legislation:

Enactment of the new Foreign Investment Promotion and Protection Act (FIPPA) to substitute the former Law Concerning Attraction and Protection of Foreign Investments in Iran (LAPFI) by providing full security and legal protection to foreign investments based on transparency and international standards.





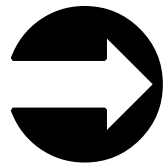
Chapter

2



# Legal Corpus

## Chapter 2: Legal Corpus



### Rules & Regulations

## Governing Foreign Investment in Iran

**T**he legal corpus governing foreign investment in the Islamic Republic of Iran constitutes the Foreign Investment Promotion and Protection Act (FIPPA) and the FIPPA's Implementing Regulations, as well as legislation applicable for the establishment and conduct of economic activities in the country. While the prospective investors are recommended to get full knowledge about the legislation directly related to their interest, they are also advised to get familiar with certain legislation which is fundamental in their daily affairs, such as laws pertaining to companies formation and administration (Commercial Code- Company Law); registration of companies, branches and representative offices; import/export regulations; taxation; industrial and intellectual property protection; status of foreign nationals (entry, resident and work permits); banking and insurance; free and special economic zones regulations, etc.

### → Standing of FIPPA:

Since 1955, the legal framework of Iran's foreign investment regime was defined under the Law for the Attraction and Protection of Foreign Investments (LAPFI). Moreover, in line with reforms in the overall economic framework, Iran's parliament undertook to propose and approve a plan concerning a new foreign investment law entitled: The Foreign Investment Promotion and Protection Act (FIPPA) which was ratified in May 2002. FIPPA replaced the LAPFI which was in effect since 1955. FIPPA's replacement of LAPFI has further enhanced the legal framework

and operational environment for foreign investors in Iran.

Some specific enhancements introduced by FIPPA for foreign investments in Iran can be outlined as follows:

- ➔ Broader fields for involvement by foreign investors including in major infrastructure;
- ➔ Recognition of new models of foreign capital exposure in addition to Foreign Direct Investment, e.g. project financing, Buy-Back arrangements and BOT schemes;
- ➔ Streamlined and fast-track investment licensing and approval process;
- ➔ Creation of a one-stop institution called the “Center for Foreign Investment Services” at the Organization for Investment, Economic and Technical Assistance of Iran (OIETAI), for focused and efficient support of foreign investment undertakings in Iran;
- ➔ Further liberalization of foreign exchange mechanisms as enjoyed by foreign investors;
- ➔ Introduction of new legal options governing the Government-Investor(s) relations.

Clearly, the ratification of the FIPPA and the approval of its implementing regulations by the Council of Ministers represented a significant complement to a whole host of reforms taking place in Iran’s general macroeconomic framework and structural mechanisms. The trend in foreign investment applications in Iran since the ratification of the FIPPA demonstrates that the new economic environment and the enhanced foreign investment legal and regulatory regime have tapped a great foreign investment potential for Iran that can be realized at a more accelerated pace through a concerted effort aimed at transparent communication of the latest status of Iran’s dynamic economic and foreign investment framework.

## ➔ Highlights of FIPPA:

**1. General Features:** The Government of the Islamic Republic of Iran welcomes foreign investment in all areas of economic activity by foreign persons including real persons as well as juridical entities. In accordance with Article (1) of the FIPPA, the term Foreign Investor is defined to be natural persons and legal entities as well

as Iranian nationals and companies either residing in Iran or abroad. The foreign investors by importing capital as defined in a very broad and diversified form, being in cash or in kind, or being machinery and equipment, raw materials, parts, specialized services as well as intellectual property for the purpose of investment in industry, mining, agriculture and services shall be eligible to enjoy the privileges and facilities provided under the FIPPA. The advantages and facilities shall be granted to foreign investors who obtain the Investment License. In general, foreign investment in Iran is free for all investors but such facilities and privileges are only granted to those investors who seek the FIPPA's coverage by way of submission of an application to the OIETAI, which is the central government agency to receive, license and protect the interests of foreign investors throughout the lifetime of their operation in Iran, notwithstanding the type and the manner of investment.

In fact, the interests and rights of foreign investors under the FIPPA are fully recognized and secured against non-commercial risks which would simply commit the Iranian Government not only to facilitate the free flow of capital repatriation but also the full and fair compensation against acts of Government towards expropriation as well as interruption of activities of the foreign investors.

✓ Under FIPPA, foreign capital is defined in a very broad and diversified manner and can be in cash or in kind, being machinery and equipment, raw materials, parts, specialized services as well as intellectual property.

It should be noted that under the FIPPA, no restriction of whatever nature is legally permissible to be imposed on the manner of investment, type of investment, volume of investment, percentage of shareholding, profit and capital repatriation as well as internal relations between the parties to an investment project.

**2. Risks Covered:** Generally speaking, the FIPPA provides full security against the risks which are generally referred to as "non-commercial risks". These risks are usually insured by the export credit and investment insurance agencies. The risks related to transfer issues and expropriation remains as the core stone of the risks attributed to an investment in a recipient country. FIPPA honors all the rights and entitlements of investors by way of facilitating and making available the necessary foreign exchange for transfer purposes, being issues related to transfer of profit as well as issues related to capital repatriation. In fact, the FIPPA recognizes the transfer right as the most fundamental right of foreign investors. There is no limitation to the amount of the profit to be transferred as well as to capital and gains on capital to be repatriated. In the area of expropriation

and nationalization of foreign assets, the FIPPA recognizes the rights of the investors to receive compensation based on the fair market value of the expropriated assets immediately on the day before expropriation takes place. In addition to the foregoing, the FIPPA also recognizes the rights of foreign investors in cases whereby as a result of enactment of a law and/or a decision by the government, the implementation of a project is seized or interrupted. In such cases the Government is under obligation to guarantee all the payments which should have been paid on maturity.

✓ Repatriation of principal capital, dividend and capital gain, compensation in case of expropriation or nationalization and compensation in case of business disruption by government are fully guaranteed under FIPPA.

**3. Facilities Provided:** FIPPA produces and provides a bulk of new facilities all in line with and aimed at meeting the interests of foreign investors. Of importance is the establishment of the Center for Foreign Investment Services (CFIS) at the premises of the OIETAI which makes it possible for the new-comers, whether Iranian or foreign, to have a direct access to the relevant organizations and government agencies through the resident representatives of those organizations and at the same time to collect first-hand and updated information from the most relevant agencies without any need to resort to those agencies. In fact CFIS is designed as a one-stop-shop to serve the investors' needs and save their time and energy throughout the investment decision-making and implementation stage starting from preliminary studies on project feasibility, collection of information on regulatory framework and preparatory work for the investment licensing, right to the operational stage which may require certain co-ordination and follow-up activities toward proper materialization of the investment project.

From the standpoint of the FIPPA, foreign investors will enjoy the same and equal treatment as accorded to local investors. There should be no discrimination vis-à-vis foreign investors and all facilities, privileges, exemptions will be equally extended to foreign investors. Anyhow, a most favored nations treatment may also be applicable to the investors of countries with which the Iranian government has entered into a Bilateral Investment Treaty (BIT) which provides for more favorable treatment over national treatment.

✓ Under FIPPA, no restriction is imposed on the manner, type and volume of investment, percentage of shareholding or profit and capital repatriation as well as internal relations between the parties to the investment project.

In addition to the foregoing, the FIPPA introduces new legal options in respect of government-investors relations which symbolizes the receptive and constructive approach of the Iranian government toward safeguarding the interests of foreign investors. There are various instances in the FIPPA as well as in the Implementing Regulations which focuses at the liberty of the foreign investor to choose from among a variety of alternatives, the best choice compatible to his expectations, which interalia, may extend from a choice on the percentage of shareholding, the management, claims for compensation resulting from expropriation, complementary security umbrella for receiving compensation resulting from government intervention to a wide spectrum of transfer options ranging from access to the banking system as well as free access to export and other foreign currency revenues and the like.

✓ Recognition of fundamental rights of foreign investors coupled with equal treatment as accorded to local investors, introduction of new legal options in respect of government-investors relations, easy provision of entry and exit visas, residence and work permits, etc., streamlined and fast-track investment licensing and approval process are just some of the new facilities provided for foreign investors under FIPPA.

Last but not least, are a series of facilities in the areas of entry and exit visas, residence and work permits for the investors, managers, directors and experts as well as their immediate relatives. These facilities are provided on a long term basis which creates comfort and confidence to those related with investment projects for constant presence over the asset in which they have invested.

**4. Broad Outlook:** FIPPA provides for investment in all areas of economic activity in Iran. In fact, there is no area other than areas related to arms, ammunition and security which are closed to foreign investment. According to Article (3) of the FIPPA, foreign investment is divided into two broad categories:

- (a) Foreign Direct Investment (Equity Investment), in all areas open to Iranian private sector by way of direct equity participation in the share capital of Iranian companies whether in greenfield projects or in existing firms or companies. As was explained elsewhere, foreign shareholding in Iranian entities is not limited in terms of percentage as opposed to what was formerly publicized that a foreign investor can not hold more than 49% shares in Iran. Such restriction is totally irrelevant and even contradicts the current general policy and legislation.

(b) Foreign “Indirect” Investment (Non-equity Forms) under contractual arrangements which provides for any type of investment defined under the FIPPA other than direct investments. Although the arrangements recognized under the FIPPA are limited to: Civil Participation\* , Buy- Back and BOT arrangements, but each of the a.m. forms may be subdivided by different types under the same title. Of importance, we may mention different types of BOOT, BOO, BLT, ROT, etc schemes as well as Project Financing and Profit Sharing arrangements. In other words, any type of investment in which the investor does not have an equity stake and/or is not qualified from ownership standpoint will fall under this broad category to be known as “Indirect” investment. This category provides for foreign investors to enter into areas which are even closed to the private sector or areas in the upstream fields or national projects in which a direct participation is not, by law, permissible.

Irrespective of the type of the investment, the Foreign Capital, as defined under the FIPPA, is not only defined to be the funds disbursed to cover the investors’ share in the equity capital but also, it refers to the funds which may be provided to an Iranian recipient entity in the form of credits and financial facilities (shareholders’ loans and third party financing ).

The term Foreign Capital under the FIPPA may cover both. It depends on the investor’s wish and consent on how the loan to be treated in the context of the FIPPA. Such investors/financiers may be given two options. One option is to treat the loan as part of the investment of the foreign investor in the project. In this case, the repayment of the loan is dependent upon the economic performance of the project without being supported by way of a repayment guarantee by the government, or banking system and/or state-owned companies. The other option is to treat the loan as separate financing alternative outside the FIPPA coverage. In this case the repayment may be supported by a guarantee obtained from any of the a.m. authorities. In short, the FIPPA’s coverage is only available for the funds brought into the country in the form of investment rather than the funds, the repayment of which is secured under banking instruments.

✓ In addition to direct investments (FDI), other investments within various forms of foreign financial facilities such as buyback arrangements, various BOT schemes, project financing and civil partnership modalities can also enjoy the coverage of the FIPPA.

\* Unincorporated Partnership

Chapter

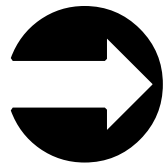
3



# Investment Licensing

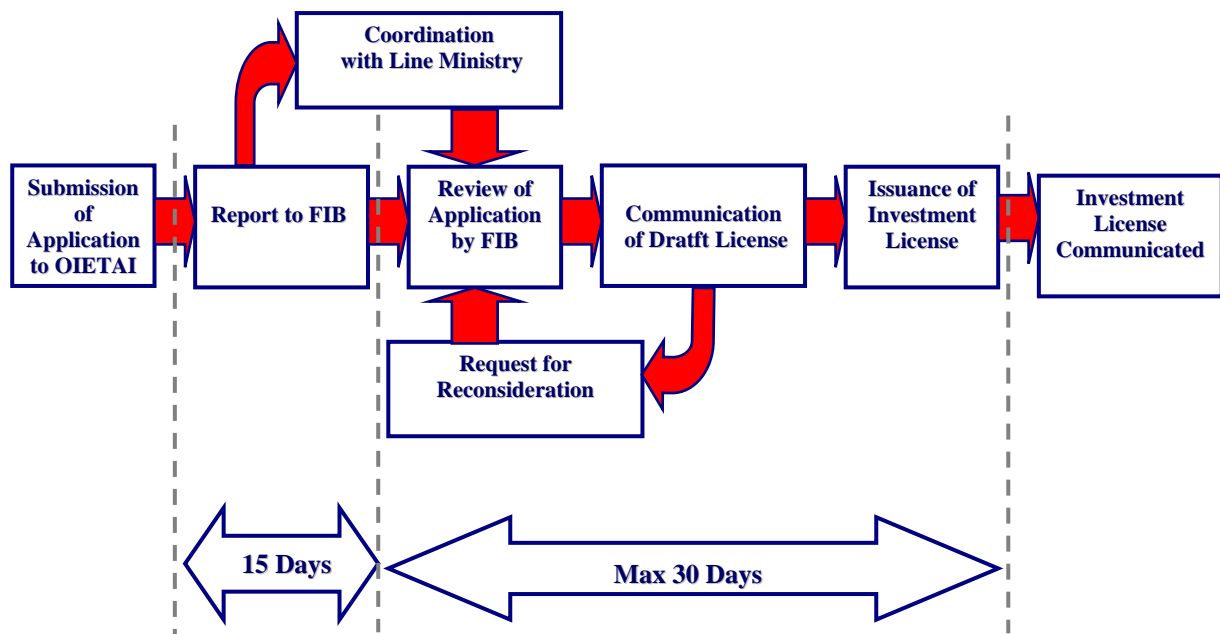


## Chapter 3: Investment Licensing



# Application & Investment Licensing Procedure

**U**nder the FIPPA, application procedure for investment licensing is designed in a very short and simplified manner. As illustrated bellow, the whole licensing procedure is designed in four stages, as follows.



**OIETAI: Organization for Investment, Economic and Technical Assistance of Iran**  
**FIB : Foreign Investment Board**

## Stage 1: Submission of Application to the OIETAI:

Applicants are advised to ensure that the information contained in the application form is diligently sorted out, preferably from the feasibility studies and in case of the unavailability of a feasibility study, by way of latest information and data on the project in which they are intending to invest. The OIETAI staff may be consulted during the preparatory work for application submission.

## Stage 2: Review of the Application by FIB:

The OIETAI will prepare a report on the application to be reviewed for a decision by the FIB. This process usually will not take more than 15 working days from the time of the receipt of the application.

Representatives of the foreign investors are usually invited to take part in the FIB meeting. However, the Board has to make its decision not later than one month.

## Stage 3: Communicating Draft License:

In order to ensure that the investor is satisfied with the decision of the Board, a draft license will be communicated to the investor before issuance of the final investment license.

This gives the opportunity to the investor to review the details of the content of the license as a sign of his no objection before final delivery. The OIETAI welcomes any contrary commentary to the decisions made and would be ready to take the matter to the Board once again for reconsideration.

## Stage 4: Issuance of Investment License:

The final license shall not be issued at any circumstances unless the OIETAI is officially informed by the investor of his confirmation to the content of the draft license. Having received the investor's confirmation on the draft, the final investment license will be issued

earmarked by the signature of the Minister of Economic Affairs and Finance. In order to facilitate the preparation of documentation for submission to the OIETAI, one application form has been designed.

Prospective investors are kindly requested to consult the OIETAI staff when filling out the form. It may be required that, apart from the specific form to be submitted for investment licensing, certain other documents may be found appropriate and/or required to be submitted as well. Investors are addressed to the last page of the designated application form, and by ticking the relevant check box(es), ensure that the required documentation is attached to the application form accordingly.

As was explained in stage 2 of the Investment Licensing Procedure, a report based on the information submitted will be prepared by the OIETAI staff which will be reviewed by the Foreign Investment Board (FIB) for a favorable decision. The FIB is privileged by law to act as the highest authority in the investment licensing process. Members of the FIB are deputies of the most relevant policy-making and executive bodies of the Government.

They are:

- ▶ Deputy Minister of Economic Affairs and Finance and President of the OIETAI, as the chairman of the FIB;
- ▶ Deputy Minister of Foreign Affairs;
- ▶ Deputy Head of State Management and Planning Organization;
- ▶ Deputy Governor of the Central Bank of the Islamic Republic of Iran.

These four high-ranking officials are positioned to act as permanent members of the Board. The FIB may have other members at the same ranking level from line ministries depending on the merits of the project under investigation which call for relevant ministries' affirmative role in the decision making process. The Board's resolution on each single investment application will have to be communicated to the applicant as explained in stage 4 above.



As was explained before, the final investment license after the receipt of a written confirmation by the foreign investor, stipulating that the

content is acceptable, will be signed by the Minister of Economic Affairs and Finance and finally issued. The investment license usually contains key and fundamental features of the investment particulars as well as the rights and commitments of the investor in respect of the sanctioned investment project (if any). The content, inter alia, includes the name of the investor; the project or the company in which the investment will be made; the shareholding percentage as required for direct investments; the name of the Iranian local investor(s); and extends to the volume of the total capital investment to be imported by the foreign investor(s) and his (their) contribution to the equity capital as well as additional financial facilities provided by the investor(s), as the case may be.



The license will usually continue with the recognition of the rights of the foreign investors for the transfer of profits, repayment of the financial facilities, payment of fees and remunerations in respects of transfer of technology agreements (royalties) and finally, the right to repatriate capital which may result

from the sale of shares or the proceeds from liquidation, the principal and the profit ( interest) of the financial facilities and any other foreign currency transfer within the context of the investment project. It usually goes further by indicating the source(s) out of which such transfers may be made by way of direct withdrawal from the export proceeds and/or the alterative option given to the investor to have access to the banking system for transfer purposes.



The license may as well include certain other issues that in the opinion of the Board and/or at the request of the investor, may be found and deemed to be necessary to be addressed to accordingly. The license will usually ends with a deadline for the import of at least the first tranche of the capital to be imported to the country for the purpose of initial operation and materialization of the project concerned.

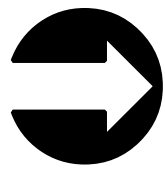
Chapter

4



# Introduction to OIETAI

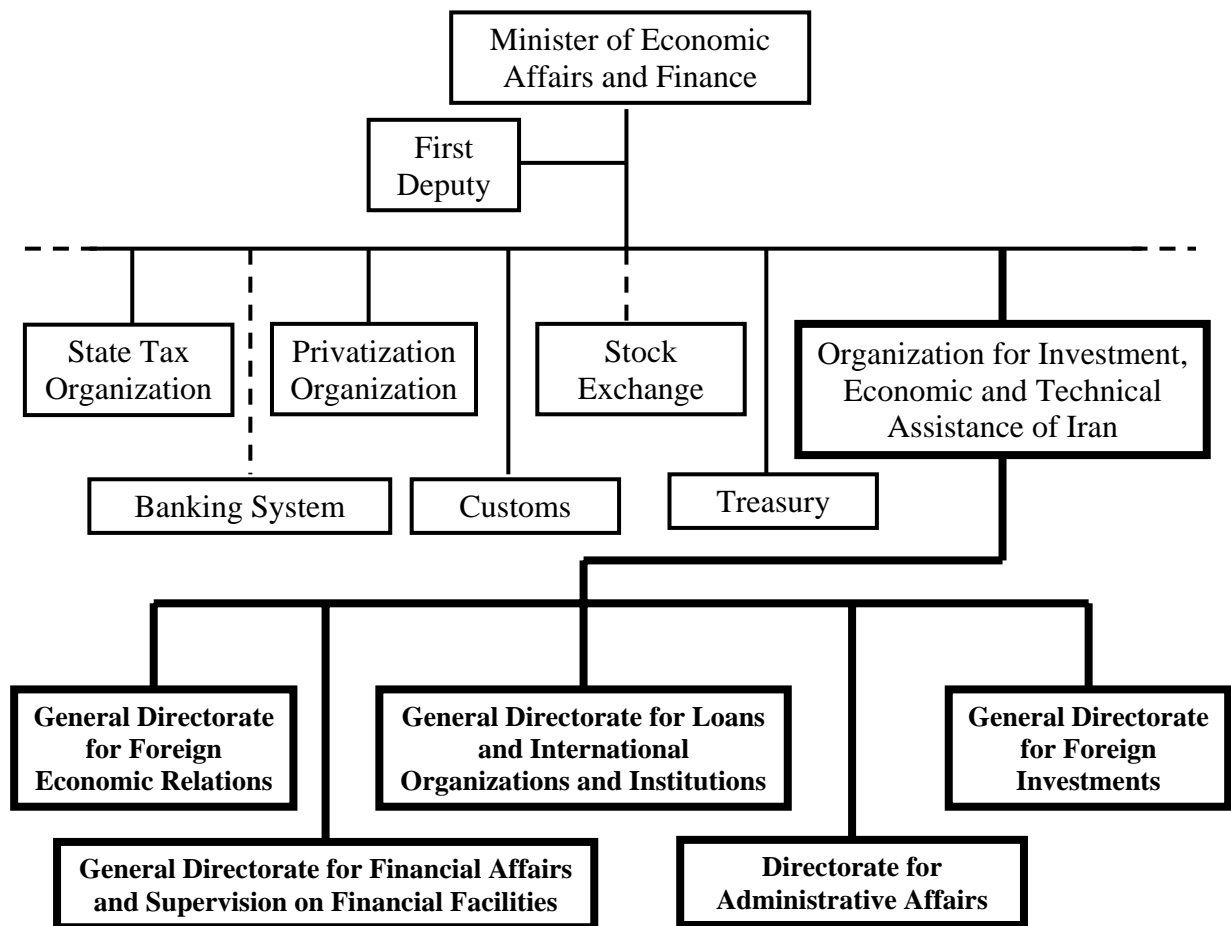
## Chapter 4: Introduction to OIETAI



# Competent Authorities

**T**he Organization for Investment, Economic and Technical Assistance of Iran (OIETAI) was founded in June 1975 to conduct and perform a host of activities which, before its establishment, were delegated to different government agencies. The activities mandated to the OIETAI have all an external nature with global international firms. It ranges from investment to financing as well as from bilateral to regional and international relations.

The president of the Organization is ex-officio the Deputy Minister for Investments and International Affairs of the Ministry of Economic Affairs and Finance. The Organization performs its duties in accordance with its statutes and such other legislation governing foreign investment in Iran, Iranian investments abroad, external financing whether extending loans and credits to other countries as well as borrowings from international sources, coordinating and expanding relations with other countries and regional, as well as international economic and financial institutions and agencies.



The functions of the Organization may be categorized in four main areas:

## 1. Foreign Investment in Iran:

The Organization is legally empowered to represent the central investment promotion authority of the Government of the Islamic Republic of Iran by providing legal protection and full security to foreign investments by way of facilitating the flow of capital into the country under the new Foreign Investment Promotion and Protection Act (FIPPA) ratified in May 2002.

The General Directorate for Foreign Investments within the Organization is responsible to receive all investment applications as well as issuance of license, conduct of affairs and safeguard all rights and entitlements of foreign investors in approved investment projects, and also to serve the investors by way of assisting, coordinating and facilitating all issues pertaining to their investments throughout the licensing process and ever after.

Being the investment authority, the Organization is also responsible for all transfers and repatriation affairs of the foreign investments as well as all arrangements and conduct of negotiations related to the bilateral and multilateral agreements for the promotion and reciprocal protection of investments ( BITs ) with other governments and international organizations. At present 47 BIT agreements have been signed with most of the European, South-East Asian, and neighboring countries as well as countries of the Middle East, and North and South Africa, notwithstanding the current negotiations underway with the same number of countries in the globe.

## 2. External Financing:

One important area in the Organization's overall activities is concentrated on the role in the conduct of all matters related to the relations with international finance and credit institutions as well as Export Credit Agencies (ECAs), World Bank group, Islamic Development Bank (IDB), OPEC Fund for Development, and various other international organizations. These activities are administered in the General Directorate for Loans and International Institutions and Organizations. It is also responsible for the conduct of negotiations in respect of the government and state-owned companies for the conclusion of loan and credit agreements and, above all, to manage for securing the payment guarantees on behalf of the Ministry of Economic Affairs and Finance.

## 3. Investment Abroad:

The investments of government entities as well as private companies abroad are regulated and conducted by the Organization under the general policy of the government for the export of capital and technical and engineering services of Iranian companies worldwide. A large number of the government investments abroad have been materialized by Iran Foreign Investment Company (IFIC) as the major Iranian capital exporting company. Yet, the potentials available would call for further investments with the objective to enhance and further promote bilateral and multilateral economic relations.



## 4. Foreign Economic Relations:

This duty is performed by the General Directorate for Foreign Economic Relations of the Ministry of Economic Affairs and Finance, within the Organization. It is responsible for all matters pertaining to economic relations including the Joint Economic Commissions with several countries as well as organizing and coordinating a series of tasks in the area of economic relations with countries worldwide.

