In the Name of God

Introduction

The National Development Fund of Iran was created (after the failure of the Currency Savings Account) in Paragraph (22) of General Policies on I.R. Iran's Fifth Development Plan announced by the Supreme Leader of Iran in 2008. The NDFI was established to change the strategic views of revenues from petroleum and gas and convert these revenues from the sources of the state's general budget into "generative economic sources and capital".

According to Act 84 of Iran's Fifth Development Plan, the National Development Fund (NDFI) was created in 2010. It officially started operating between December 2011 and January 2012 to convert a part of revenues from selling petroleum, gas, gas condensates, and petroleum products into durable wealth and generative economic capital in a bid to preserve the shares of future generations from petroleum resources, gas resources, and petroleum products.

The NDFI has been honored to actively participate in some large-scale national projects and many medium-sized and small-scale public projects. The NDFI resources are often granted as long-term loans to states, NGOs, the private sector, or the public sector. By March 20, 2022, the state borrowed more than 100 billion USD from the NDFI, whereas other sectors borrowed nearly 40 billion USD. Unfortunately, none of the overdue claims was collected in the public sector, and the share of these claims was below 40% in other sectors.

In Act 52 of Amendment 2, the Islamic Consultative Assembly ordered the NDFI to invest 20% of its inbound resources in IRR accounts at the operating banks every year; however, the NDFI sustained loss in this process.

Due to the foregoing reasons, the profitability index of the NDFI was nearly 0% by

2022 even if all granted loans were to be paid off. However, the average currency profitability rate of international funds like the NDFI was reported at least 6% annually. Considering how resources are allocated in wealth funds worldwide, we can see that less than 5.4% of their total portfolio value was granted as loans, and the rest of their portfolios were allocated to a wide range of investments and the use of diverse financial tools. In national and foreign markets, these funds made investments in projects characterized by minimum risk and maximum profitability. Therefore, the assets of these funds have been growing every year, and the largest fund has set a record of 1.5 trillion USD.

By 2022, the NDFI of Iran achieved only one of its missions, i.e., granting loans, and failed to accomplish its other missions, e.g., making national investments (as mentioned in Paragraph 2 of responsibilities for the operating council). This might have been due to the abundance of foreign currency resources in Iran over the years toward 2002 and concerns about the emergence of the Dutch disease. However, Iran started to experience a different economic situation and currency status, inasmuch as the analysis of national investment is now a must. Between 2011 and 2021, there was a downward trend in fixed capital, whereas there was an upward trend in capital depreciation. In other words, the net investment growth was consecutively negative in Iran's economy during 2018, 2019, 2020, and 2021. Hence, the NDFI is now seeking a way of compensating for this loss.

In line with modern governance, the NDFI of Iran started designing and using various models of non-meddle investment called I-HOPE (investment, handling, operation, pay-off, exit) by analyzing the methods of national and international investments and evaluating the business failures of banks and pension funds in Iran. The I-HOPE model is compatible with the requirements of projects, regulations, and opportunities in Iran. The new financial model of the NDFI aims to avoid running sustainable businesses, participate in national investments, and avoid granting irreversible or doubtful loans (as before).

Different Methods of Establishing Businesses

The goal of national investment is to achieve development in all aspects. For this purpose, different businesses can be established. Nevertheless, a major challenge arises when public institutions are stuck in business operations, especially public business operations. The NDFI of Iran does not intend to establish and run businesses due to the outcomes of businesses established by investment holdings and pension funds. Therefore, it started to design diverse non-meddle investment models to create businesses (by separating ownership from management) by minimizing the effects of previous methods or without taking them into account. In other words, it aims to use the private sector and cooperatives more effectively. Unlike the common belief, Figure 1 indicates that granting loans is not the only way of establishing businesses; however, there are various methods for achieving this valuable goal. These methods often entail lower risk and yield higher profitability. In addition, the NDFI leaves behind its passive role and assumes a more active one.

Figure 1. Non-meddle investment for establishing businesses between only loans and only investments

The fund must be able to benefit properly from the incomes of projects by making minimum interventions in the management of projects. For this purpose, a wide variety of participation models (including merely granting loans to merely making investments) were evaluated completely by analyzing international investment experiences and national investment experiences in recent years to accelerate the process of establishing businesses leading to national development.

This participatory model looks very much like participation in loss and profit in Islamic economics. It never leads to competition with the private sector. According to Figure 2, the options of this fund for participation in establishing businesses do not only include merely loans or merely investment. There are many participation models between these two options.

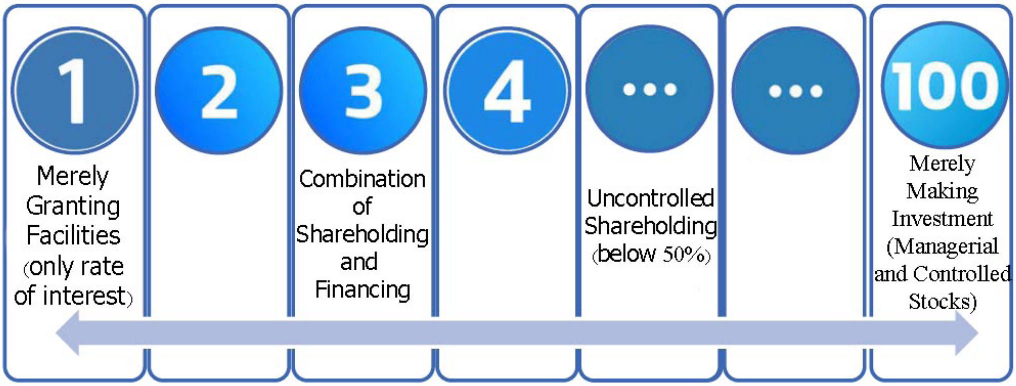

Figure 2. The wide range of options in the National Development Investment for participation in establishing businesses

Effective Factors in Designing the NDFI Participation Model

As discussed earlier, the NDFI can have two ultimate options (i.e., loans and investments) and a wide range of options in between. There are a few items that lead to the selection of one option from tens of participation options. These factors are as follows: business models, an executive/operational history of a model in the country, technology readiness levels in that model, management audit of that model, market status of products and raw materials, access to raw materials and distribution/sales networks, sustainable supply of energy and water, environmental impact assessment, financing structure, industrial risks, and other relevant factors.

The NDFI will then design and propose an appropriate participation model for a project based on its detailed evaluation results. Naturally, such a model should consider establishing businesses with minimum risks in addition to reducing the investment risk to help the NDFI resources grow and lead to national development. In recent years, the NDFI has been acting as a single tool to participate in different projects by granting loans through banks. In other words, it was acting as a slotted flat-blade screwdriver of a specific size (Figure 3 – on the left). Naturally, using only this single tool cannot properly meet the requirements of all participation types. The specific requirements of projects necessitate designing appropriate tools (Figure 3 – on the right) to properly participate in establishing businesses. For this purpose, different non-meddle investment methods (I-HOPE) give appropriate responses to various participation models by avoiding high risks at the NDFI. Fortunately, there are satisfactory cases of these models used for international investment.

In other words, non-meddle investment models result from a combination of various loan tools, uncontrolled shareholding, different investment funds (e.g., project-based, private, etc.), various types of securities (e.g., foreign currency, IRR, stocks, debts, assets, and derivative), and trade-based tools.

Figure 3. From the single-component model (on the left) to the multi-component model (on the right)

Steps or Blocks of the Non-Meddle Investment Model (I-HOPE)

According to Figure 4, the NDFI investment model consists of five specific but continuous steps or blocks, which start on the left.

Figure 4. The five steps of blocks of the non-meddle investment model (I-HOPE)

The five steps of the non-meddle investment model for the participation of the NDFI in establishing businesses are explained below:

Step 1 – Determining the Participation or Financing Structure for Investment: In this step, the proper financing model for non-meddle investment is determined concerning the consecutive risks to the selection and structure of the NDFI participation. The financial model is then made operational by using contractual tools and acquiring necessary guarantees. All financing options such as granting loans, paying in cash, and providing securities are decided upon in this step. Some of the direct or banking-operated financing methods are as follows:

I1: Foreign currency financing

I2: IRR financing

I3: Distributing foreign currency securities

I4: Distributing IRR securities

I5: Netting petroleum remittance

I6: Providing permits

I7: Set-off with debt

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I11: Using an agent bank

I12: Using a broker bank

I13: Involving asset management

I14: Creating a project fund

I15: Using a private investment fund

I16: Using meta-investment funds

I17: Using leasing companies

Step 2 – Implementing a Project by Acquiring Permits and Doing Construction (Handling): In this step, the NDFI usually has the least interventional role in managing the project implementation process and often uses various monitoring tools to intelligently and effectively supervise the process of spending resources correctly on project goals and performance improvement. The NDFI can participate in and supervise the project implementation steps through one of the following ways:

H1: Minimum supervision

H2: Supervision through a legal inspector (independent auditing)

H3: High supervision of project management and control

H4: Supervision through internal auditing

H5: Comprehensive supervision of the construction period

H6: Membership in legal (technical) committees

Step 3 – Project Production and Exploitation (Operation): In this step, the NDFI usually has the least interventional role in business management and uses various monitoring tools to intelligently and effectively supervise the process of spending resources correctly on project goals and performance improvement. Different methods of its participation and supervision in production are as follows:

O1: Minimum supervision

O2: Supervision through a legal inspector (independent auditing)

O3: Supervision through internal auditing

O4: Supervision of financial performance

O5: Intelligent and effective supervision

O6: Supervision through inspection companies

O7: Supervision through physical asset companies

O8: Exploitation by operation and management (O&M) company.

Step 4 – Dividing Outcomes or Models of NDFI Benefit from the Project (Pay-off): In this step, the non-meddle investment model is employed to determine how each party of the investment project benefits from the project interests. Naturally, the NDFI benefit in this step does not only include the interests on probable loans and may include some benefits from construction and exploitation. In other words, it may include a percentage of benefits from selling products or some shares of the constructed company. Here are different methods of sharing benefits:

P1: Casual shareholding

P2: Supreme shareholding (by removing and appointing professional management)

P3: Convertible note in foreign currency

P4: Convertible note in IRR

P5: Resources obtained from the put option

P6: Incomes obtained from the right to use a permit

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P11: Foreign currency interest on civil participation (loans)

P12: IRR interest on civil participation (loans)

P13: Foreign currency leasing interest

P14: IRR leasing interest

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P20: Share the percentage of reward (Fee/Barrel $)

P21: Share percentage of income

P22: Specific amount of income

P23: Share percentage of all products

P24: Share percentage of specific products

P25: Share percentage of net profit

P26: Property ownership

P27: Netting products of participation in favor of the NDFI partners until settlement

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P31: Foreign currency securities (securities interest + guarantor's interest)

P32: Profit or increase in the units of the NDFI

Step 5 – Exit Scenario or Exit Model (Exit): The final step indicates how the NDFI exits a project. The exit scenario is based on the non-meddle investment model. This scenario is usually finalized before participation in the project, and the NDFI leaves the project after a specific period. This step has special importance because it prevents the new business establishment model of the NDFI from being stuck in the long-term process of establishing businesses. Different possible exit scenarios for the NDFI are as follows:

E1: Absence from the beginning and non-participation during the project

E2: Short-term participation in the project

E3: Listing and distributing shares of a company in the stock exchange and delegating shares to the capital market (IPO)

E4: Expiry participation contract

E5: Selling the contract to an applicant

E6: Selling the contract to the third party

E7: Expiry of securities

E8: Expiry of the private investment fund

E9: Expiry of the leasing contract

Instances of Non-Meddle Investment Models (I-HOPE)

Here are some I-HOPE models that have been signed by the applicants for participation in the National Development Fund.

Participation in Petroleum and Gas Fields Development Projects

The non-meddle investment model for the NDFI in developing petroleum and gas fields can be implemented in different ways such as Iran Petroleum Contracts signed by the Ministry of Petroleum. In this case, the NDFI participation model is to finance a considerable share of capital for exposure in non-meddle participation with E&P (exploration and production) companies. The NDFI has the least interventional role in management, preparation, and operation but often uses intelligent and effective monitoring tools to supervise the costs of project goals and protect the fund interests.

The NDFI earns incomes from the first targeted production (FTP) in two categories, i.e., benefiting from the financing scheme (rate of interest) and gaining a share of fee/barrel$. Additionally, the shares earned by the NDFI can be sold to partners. Figure 5 displays the I-HOPE model coding in this type of participation.

Investment	Handling	Operation	Pay off	Exit
I1: Foreign currency financing I11: Through an operating bank	H5: Comprehensive supervision during construction H6: Membership in legal committee (appointing a representative in JMC)	O5: Intelligent and effective supervision	P11: Foreign currency interest on civil participation (loan) P20: Share percentage of reward (Fee/Barrel$)	E3: Expiry of participation contract

Figure 5. The I-HOPE model coding for developing petroleum and gas fields (IPC)

Participation in Self-Sufficient Power Plant Projects

In the non-meddle investment model designed for participation in self-sufficient power plants with the ECA-BOT (energy conversion agreement & build-operate-transfer) model, i.e., the NDFI participation model through financing, a considerable part of the necessary capital is proportionate to the essential cash flows. The NDFI enters a contract with the foreign currency BOT contractor and the guaranteed foreign currency buyer of power. The NDFI has the least interventional role in management, preparation, and operation but often uses intelligent and effective monitoring tools to supervise the total project costs.

The NDFI revenues come from operation in two categories, i.e., financing profit and the revenue share of power sales in a foreign currency. The NDFI exit model ends when the participation is over, and partners will then be allowed to sell the revenue shares earlier if the NDFI agrees. In this model, the project implementer is motivated enough to improve operation performance (because most of the project revenues are directed to them), and the NDFI will be properly sure about the foreign currency returns on its foreign currency investment resources. Moreover, the guaranteed buyer of power (considered the customer or the third party) will earn a substantial income due to having a sustainable source of power. Figure 6 depicts the coding of this model.

Investment	Handling	Operation	Pay off	Exit
I1: Foreign currency financing I11: Through an operating bank	H5: Comprehensive supervision of construction period	O5: Intelligent and effective supervision	P11: Foreign currency interest on civil participation (loan) P21: Share percentage of revenues	E3: Expiry of participation contract

Figure 6. The I-HOPE model coding for self-sufficient power plants

Other Non-Meddle Investment Models (I-HOPE)

Figure 7 lists different types of I-HOPE models in other businesses. These models were being analyzed at the National Development Fund Departments (when this explanatory pamphlet was published).

Investment	Handling	Operation	Pay Off	Exit	→	Business
I1: Foreign currency financing I11: Through an operating bank	H5: Comprehensive supervision of construction period	O5: Intelligent and effective supervision	P11: Foreign currency interest on civil participation (loan) P23: Share percentage of products	E4: Expiry of participation contract	→	PDH – Petrochemical Projects (PP)
I3: Distributing foreign currency securities	H3: Supreme supervision of project management and control	O1: Minimum supervision	P31: Foreign currency securities (securities profit + guarantor’s profit)	E5: Expiry of securities	→	Desalination and transfer of water (Type 1)
I1: Foreign currency financing I15: Through private investment fund	H6: Membership in legal (technical) committees	O4: Periodical financial performance evaluation	P32: Profit or increase in the fund units	E8: Expiry of the private investment fund	→	High-priority downstream chemical projects
I1: Foreign currency financing I11: Through an operating bank	H5: Comprehensive supervision of construction period	O5: Intelligent and effective supervision	P11: Foreign currency interest on civil participation (loan) P21: Share percentage of revenues	E4: Expiry of participation contract	→	Desalination and transfer of water (Type 2)
I1: Foreign currency financing I17: Through a leasing company	H5: Comprehensive supervision of construction period	O5: Intelligent and effective supervision	P14: Foreign currency leasing profit	E9: Expiry of leasing contract	→	Projects with more than 95% physical progress
I1: Foreign currency financing I13: Through an asset management company	H5: Comprehensive supervision of construction period	O5: Intelligent and effective supervision	P3: Convertible note in foreign currency	E4: Expiry of participation contract	→	Information technology projects
I1: Foreign currency financing I13: Through an asset management company	H5: Comprehensive supervision of construction period	O5: Intelligent and effective supervision	P3: Convertible note in foreign currency P11: Interest on foreign currency loan	E1: Listing and distributing in the stock exchange	→	High-tech projects

Figure 7. The coding of different I-HOPE models for water, energy, and technology projects

According to Table 7, the National Development Fund has a satisfactory controlled intervention in project implementation management and monitors investment flows intelligently and effectively through various supervision tools. The NDFI and its partners will earn substantial revenues from participation through this model. The project partners will be motivated enough to improve efficiency and performance indices. This model prevents the NDFI from competing with partners in the private sector and cooperatives.

Executed Investment Models

Table 1 reports some cases of investments made with the I-HOPE model by October–November 2023. According to the numerical codes of the I-HOPE model on respective columns, every model was selected to meet the requirements of specific projects. However, all these projects were aimed at ignoring or minimizing the process of establishing businesses, reducing participation risk, and increasing the NDFI revenues.

Table 1. The seven investment projects by October 13، 2023، based on the I-HOPE model

No.	Project	I	H	O	P	E
1	Developing Azadegan Oil Field	1, 2, 11, 13	5	5	1, 11	2, 3
2	Purchasing 33% of Sina Bank	7	1	1	1	2
3	Developing Homa Gas Field, Varavi Gas Field, and Tabnak Separation Center	1, 13	3	1	11	4
4	Establishing and Renovating the Ammonia Department in Venezuela	1, 13	3	4	3, 11	4
5	Tadbir PDH – PP	1, 2, 11, 13	5	5	1, 11	3
6	Producing biotechnological medication, biosimilar medication, and vaccines	2, 13	5	5	1	3
7	Taryana 514-MW (Nominal) Power Plant – Power Supply of Khuzestan Steel Mill	1, 13	5	5	11, 21	4

Conclusion

The National Development Fund of Iran has recently published its new governance principles.1 The new governance principles of the NDFI distinguish between different concepts such as capital and wealth, establishing businesses and keeping businesses, the role of the NDF in national financing and its role as the budget, and insurance and banking. Many proponents and critics have sought a practical model proposed by the NDFI to implement new governance. Hence, the I-HOPE participation model was explained and published. Not only is this model considered a new important tool in Iran's capital market, but it also pays special attention to the needs of partners in the private sector and cooperatives. In other words, it proposes a specific strategy for every applicant.

Through participation projects, the earnings of the NDFI can exceed 50% and sometimes reach 75%. However, it does not usually demand ownership or control of stocks. Nevertheless, the NDFI preserves the right to appoint managers in specific circumstances, which are very exceptional and scarce. Moreover, the use of the I-HOPE model can separate ownership from professional management and will lay the foundation for specialized decisions.

In a country where developments in all sectors require new investments, the necessary capital must be collected, aggregated, and circulated as fast as possible. According to the Investment Policy Statement (IPS) of the National Development Fund of Iran, nearly 70%, 20%, and 10% of the NDFI resources must be invested in petroleum and energy, mines and industries, and other areas such as knowledge-based purposes, respectively. After sufficient earnings

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1. *New Governance Principles in National Development Fund of Iran – Challenges of a Fund*, *Donya-e-Eqtesad*; November 7, 2023

are received from investments in petroleum and energy, a new IPS should be designed to move toward new economic development areas such as foreign joint investment and artificial intelligence.

Inshallah