
Regulations on Foreign Exchange Facilities

(Approved by the Board of Trustees of the National Development Fund of Iran on July 8, 2014, including amendments based on recent resolutions)

Based on Article 16 of the Law on Permanent Provisions of Iran's Development Plans, the Regulations on Foreign

Exchange Facilities consist of 12 sections, 63 paragraphs, and 25 notes as follows:

1- Definitions:

- A) Law: the Law on Permanent Provisions of Iran's Development Plans
- B) Fund: the National Development Fund of Iran
- C) Board of Trustees: the Fund's Board of Trustees (contained in Paragraph B of Article 16)
- D) Board of Directors: the Fund's Board of Directors (contained in Paragraph D of Article 16)
- E) CBI: Central Bank of the Islamic Republic of Iran
- F) Agent bank: Each of the public or private banks that provide services on behalf of the Fund
- G) Regulations: Regulations on Foreign Exchange Facilities
- H) Agency contract: A contract concluded between the Fund and an agent bank based on provisions of Article 16 of the law and the Regulations, according to which the Fund's financial resources will be made to the agent bank for granting facilities to authorized legal or natural persons.
- I) Justification: Technical, financial, and economic justification of plans
- J) Areas subject to a preferential rate: These areas include those contained in Resolution No. 48874T/262650 of Iran's cabinet, on March 18, 2013, and its subsequent amendments and riders as well as all areas in North Khorasan, Kermanshah, Kohgiluyeh and Boyer-Ahmad, West Azerbaijan, Ilam, Sistan and Baluchistan, Kurdistan, North Khorasan, Chaharmahal and Bakhtiari, and Lorestan provinces of Iran.

2- General rules:

- A) CBI shall deposit the financial resources referred to in Paragraph H of Article 16 of the law to the Fund's account in this bank, as directed in Article 16 of the law. The CBI is not allowed to withdraw from the Fund's account(s) without getting the Fund's permission in writing.

Note 1: The principal and the interest of facilities shall be paid to the Fund's account(s) in CBI to be added to the Fund's resources for granting more facilities.

Note 2: The CBI shall calculate the daily accrual of the total balance of the Fund's account and deposit it to the Fund's account in the relevant foreign currency. The daily accrual shall be calculated based on the mean interest rates of CBI's deposits in foreign markets.

B) Under an agency contract in compliance with Article 16 of the law, the Regulations, and annual budget rules, the Fund's financial resources shall be allocated to applicants for investment in private sectors, cooperatives, and enterprises owned by public non-governmental organizations (NGOs).

C) Following the Fund's announcement and permission, the CBI shall issue a certificate of frozen currency deposit for the projects approved in the credit departments of agent banks.

~~D) Applicants shall submit their plans to agent banks, and agent banks shall accept the plans and projects that cannot be categorized within the framework of priorities announced by the Fund.~~

3- Type of currency for calculations:

A) All calculations related to the foreign exchange facilities shall be based on the US dollar.

B) The agent bank shall receive a declaration of understanding and acceptance of possible risks caused by exchange rate fluctuations from the applicant to be included in its credit file.

4- Acceptable activities:

According to the Board of Trustee's resolution, the Fund's top priorities for granting foreign exchange facilities are as follows:

A) Oil, gas, petrochemical, and refinery projects and activities.

B) The projects and plans that repay the principal and the interest of the facilities in the US dollar from the export of their products and services.

C) Manufacture of all kinds of vehicles for modernizing the worn-out fleet of intracity and intercity commercial transportation, provided that the Iranian government (Iran's Ministry of Petroleum) guarantees the repayment of the principal and the interest of facilities in foreign currency.

➤ Iran's Planning and Budget Organization, on behalf of the Iranian government, shall set the total revenue from the export of all petroleum products and reduction in the import of petroleum products to guarantee the installment payment (principal and interest).

➤ The plans and projects, which are referred to in the proceedings (contained in Paragraph C), approved by the Economic Council shall be regarded as the technical, financial, and economic justification of the plans and projects applying for foreign exchange facilities.

D) Plans and projects related to rail transport, provided that they can guarantee the installment payment in foreign currency.

E) Plans and projects related to power plants and desalination plants, provided that they can guarantee the installment payment in foreign currency.

Note 1: The fund's top priority is to grant facilities that are intended to be employed as working capital.

Note 2: There is no restriction on granting foreign exchange facilities to investment plans and activities investment plans and activities in free trade-industrial zones or special economic zones, provided that it does not violate the Fund's statute and the Regulations.

5- Authorized persons:

The authorized persons who can apply for the Fund's foreign exchange facilities are as follows:

- A) All qualified Iranian natural persons who have obtained the necessary permits from the relevant authorities and are not prohibited from getting bank facilities according to CBI's regulations.
- B) All qualified private legal persons and cooperatives registered in Iran as well as qualified enterprises owned by public NGOs that operate in accordance with their statute and are not prohibited from getting bank facilities according to CBI's regulations.

Note 1: Only the institutions and companies that at least 80% of their stock or shares are owned by natural persons, either directly or indirectly through legal persons, can apply for the Fund's foreign exchange facilities.

Note 2: It is not allowed to grant the Fund's foreign exchange facilities to legal persons and enterprises (regardless of their ownership) that more than 20% of the members of their boards of directors are appointed by government officials.

Note 3: Institutions and companies whose absolute majority of shares belong to public and non-profit organizations, such as endowment organizations, insurance and pension funds, and public charities, are considered to be owned by public NGOs.

- C) Iranian institutions and companies that jointly work with foreign investors.
- D) Foreign buyers of Iranian goods and services in target markets.

Note: Foreign exchange facilities, in this case, shall be granted as credit for the purchase of Iranian goods and services.

- E) Exporters of technical and engineering services, provided that they submit the written approval of the Committee on Article 19 of Executive Regulations on Government Support to Exporters of Technical and Engineering Services.
- F) Natural and legal persons are allowed to take advantage of the Fund's foreign exchange facilities for the second time under the following conditions:
 - They have no deferred installment
 - They prove that their previous investment projects have physically progressed as expected in their plans
 - They propose a new development or investment plan
 - Companies that seek to export their goods or services and create more job opportunities shall take precedence over other ones to receive the Fund's foreign exchange facilities for the second time.

Note 1: Because of the huge investment required, the upstream oil and gas projects and plans are not subject to restrictions contained in Paragraph F of Section 5 of the Regulations.

Note 2: The plans and projects that fail to meet their initial schedule due to the conditions resulting from the oppressive sanctions imposed against Iran by arrogant powers, failure of the relevant organizations to provide the necessary infrastructure such as water, electricity, and gas at the predetermined time, and unexpected events such as floods and earthquakes, based on the documents and evidence provided by the agent bank and approved by the relevant specialized executive body and CBI, shall be exempted from the second condition of this paragraph at the discretion of the Fund's Board of Directors.

6- Expected internal rate of return (IRR):

The IRR of manufacturing and investment plans is expected to be at least 10% in the water and agriculture sector and at least 15% in sectors and subsectors.

7- Interest rate and collateral

A) The Fund's fixed annual share of the interest rate of foreign exchange facilities is 3.5% for oil, gas, and petrochemical sectors and 1% for other sectors. In both cases, the agent bank's share is equal to 2.5%.

B) The collateral shall be determined based on the latest rules and regulations of CBI.

Note: The interest of foreign exchange facilities shall be calculated from the date of withdrawing the financial resources from the Fund's account in CBI and then it shall be paid by the agent bank.

C) The fixed annual interest rate of the Fund's foreign currency deposits is 6% for oil, gas, and petrochemical sectors and 3.5% for other sectors.

Note 1: The interest rate of the Fund's foreign currency deposits in the agent bank, merely to grant facilities to foreign buyers of Iranian goods and services (as the buyer credit), is equal to 2% in the case of opening a letter of credit (LC) and, otherwise, 2.5%. The interest rate of deposits for the buyer credit foreign exchange facilities is also applied to the issuance of advance payment guarantee for the export of technical and engineering services referred to Article 8 of the riders to the Law on Parts of Financial Regulations of the Iranian Government.

Note 2: The commission rate of agent banks is equal to 2.5%.¹

8- Other requirements:

A) Foreign exchange facilities granted to each plan or project shall be at most equal to the foreign exchange capital needed for that plan or project.

¹ According to Paragraph 8 of the proceedings of the Fund's Board of Trustees, March 14, 2015, the commission rate of agent banks shall be determined by a committee consisting of the representatives of the Fund, CBI, and the Secretariat of the Board of Trustees. Based on the proceedings of this committee on March 19, 2015, the commission rate of agent banks was determined to be 2.5% (No. 174234, March 18, 2015).

-
- B) According to Note 2 of Paragraph of Article 16 of the Law, the facilities referred to in the Regulations shall be granted only in a foreign currency, and recipients of these facilities are not allowed to change the foreign currency into Rial in domestic markets. This shall be contained and emphasized in the contract between the agent bank and the applicant and also it shall be properly guaranteed.

Note: The opening of any LC shall be based on CBI's rules and regulations. Moreover, to support domestic manufacturers, in line with the Law on Maximum Utilization of National Production and Service Capacity and Protection of Iranian Goods, adopted on May 5, 2019, there is no prohibition on the opening of a domestic foreign exchange LC from the Fund's resources, provided that the recipients of facilities do not change the foreign currency into Rial inside Iran.

- C) The authorized ceiling of the Fund's foreign exchange facilities shall be specified by the provisions of the agency contract. Otherwise, it shall be based on CBI's regulations.
- D) All recipients of the foreign exchange facilities contained in the Regulations shall comply with the provisions of the Law on Maximum Utilization of National Production and Service Capacity and Protection of Iranian Goods, adopted by the Islamic Consultative Assembly on May 5, 2019.
- E) Authorized legal persons can receive the Fund's foreign exchange facilities if the equity-to-asset ratio of their institutions or enterprises is not less than 20% at the admission of their application to the agent bank and from then on.

Note 1: The upstream oil and gas projects and plans guaranteed by the National Iranian Oil Company and the National Iranian Gas Company shall be exempted from the provisions of this Paragraph.

Note 2: The projects and plans for the manufacture of all kinds of vehicles for modernizing the worn-out fleet of intracity and intercity commercial transpiration shall be exempted from the provisions of this Paragraph.

Note 3: Persian Gulf Star Oil Project shall be exempted from the provisions of this Paragraph.

- F) Based on the Fund's priorities, financial resources shall be merely allocated to technically, financially, and economically justified plans and projects.
- G) The agent bank shall accurately estimate the total cost of a plan or project in all stages of design, construction, and operation in a way to ensure that the allocated funds are sufficient for the completion of that plan or project at the time stipulated in the contract between the applicant and the agent bank. If the plan or project is not completed as scheduled, the Fund shall disclaim any responsibility for providing the additional funds needed by such a plan or project.
- H) There is no restriction on granting foreign exchange facilities up to 20% of the Fund's resources to enterprises owned by NGOs and their subsidiaries and affiliates.

-
- I) In the case of delayed repayment of installments by the agent bank, CBI shall withdraw the principal, interest, and collateral of the facilities from the agent bank's account(s) in favor of the Fund, according to the provisions of the agency contract between the Fund and the agent bank.

9- Applicants' contribution:

- A) The contribution of applicants, either a natural or legal person, to each plan or project shall be equal to at least 25% of the total cost of that plan or project in Rial and the foreign exchange based on the agent bank's technical, financial, and economic evaluation.

Note 1: The applicant's cash distribution shall not be provided from borrowed financial resources affiliated with the plan or project.

Note 2: The projects and plans for the manufacture of all kinds of vehicles for modernizing the worn-out fleet of intracity and intercity commercial transportation shall be exempted from the provisions of this Paragraph.

- B) The applicants' contribution to cooperative plans and projects shall be equal to at least 20% of the total cost of that plan or project in Rial and the foreign exchange.
- C) The contribution of applicants to the water and agriculture plans and projects shall be equal to at least 20% of the total cost of that plan or project in Rial and the foreign exchange.
- D) The applicants' contribution to export plans and projects, including the export of goods and services, shall be equal to at least 20% of the total cost of that plan or project in Rial and the foreign exchange.
- E) The applicants' contribution to plans and projects implemented in areas subject to a preferential rate and private plans and projects of investment in the construction and operation of intracity and intercity rail transport² shall be equal to at least 10% of the total cost of that plan or project in Rial and the foreign exchange.
- F) The contribution of enterprises affiliated with public NGOs to plans and projects implemented in more developed areas shall be equal to at least 30% of the total cost of that plan or project in Rial and the foreign exchange. This figure for plans and projects implemented in areas subject to a preferential rate and private plans and projects of investment in the construction and operation of intracity and intercity rail transport shall be at least 15%.
- G) The contribution of applicants for working capital facilities shall be determined by the Board of Directors and contained in agency contracts.

² Paragraph 5 of resolutions of the Board of Trustees on September 23, 2020: According to Paragraph A of Article 52 of the Act for Iran's Sixth Five-year Development Plan, private plans and projects of investment in the construction and operation of intracity and intercity rail transport implemented during the period of this act are regarded as investment in areas subject to a preferential rate (less developed areas) and, as a result, such plans and projects shall be subject to all terms and conditions related to projects and plans implemented in these areas as contained in the Regulations on Foreign Exchange Facilities and other resolutions of the Fund's Board of Trustees.

Note: The plans and projects whose contribution is greater and aim to create more job opportunities (except for plans and projects implemented in areas subject to a preferential rate and private plans and projects of investment in the construction and operation of intracity and intercity rail transport) shall take precedence over other ones to receive the Fund's foreign exchange facilities.

10- Duration of facilities:

A) The implementation and pilot operation period of plans and projects, the grace period of facilities, and the repayment period of facilities shall be at most three years, six months, and five years, respectively. Considering all implementation/operation, grace, and repayment periods, the total duration of facilities shall not exceed 8 years.

Note 1: The Board of Directors is allowed to extend the implementation and repayment periods of plans and projects implemented in areas subject to a prudential rate (and private plans or projects of investment in the construction and operation of intracity and intercity rail transport) for a maximum of two years.

Note 2: The total financing period for granting buyer credit shall be at most 2 years for foreign buyers of Iranian goods and services (as contained in Paragraph of Section 3 of Article 16 of the law), 8 years for buyers of Iranian capital goods and machinery and equipment of infrastructure, industrial, mining, and agricultural projects implemented by Iranian contractors, and 8 years for exporters of technical and engineering services (depending on their type and nature) (as contained in Paragraph of Section 2 of Article 16 of the Law), at the discretion of the agent bank.

Note 3: Depending on the type and nature of plans and projects, the agent bank shall allocate the Fund's foreign exchange facilities to approved plans and projects either in a single stage (altogether) or in several stages with the physical progress of plans and projects.

- B) In cases where foreign exchange facilities are granted from a combination of both the agent bank's internal resources and the Fund's resources, the terms and conditions of the Regulations (including interest rate, contribution, repayment period, etc.) are merely applied to the Fund's resources, and the agent bank is allowed to manage its own share of the facilities under its internal rules and regulations.
- C) In line with Paragraph of Section 3 of Article 16 of the Law, the Board of Directors, at the request of agent banks, is allowed to extend the total duration of facilities (including the implementation, grace, and operation periods) for at most 4 years in order to solve the scheduling problems of plans and projects financed by the Fund's resources.
- D) The Fund's Board of Directors, at the applicant's request and the agent bank's approval, is allowed to give a respite of at most one year to the overdue installments unpaid until May 2021. This shall be financed

from the facilities granted based on foreign exchange agency contracts, and this period shall be added to the maximum duration of facilities³.

11- Responsibilities and obligations of agent banks:

A) Based on agency contracts, the Fund is allowed to require agent banks to observe the following items:

A-1- Establishment of a reception unit for assessing and monitoring the plans or projects applying for the Fund's foreign exchange facilities.

A-2- recruitment of technical, financial, and economic specialists for the reception, assessment, and monitoring unit.

A-3- Provision of the applicants with timely, adequate, and general information on instructions and regulations related to the Fund's facilities and installment repayment as well as approved plans and projects via their official website.

A-4- Accreditation and qualification of applicants for receiving the Fund's foreign exchange facilities.

A-5- Preparation and submission of a summary of justified and approved plans and projects.

B) Evaluation of the justification report of plans and projects and then confirmation or rejection of them in the credit departments.

C) Assessment of the rerun adequacy of plans and projects to ensure that it is not less than the minimum expected IRR contained in the Regulations.

D) Conclusion of a financing contract with applicants of approved plans or projects, after the Fund's confirmation.

E) Ensuring the provision of the Rial resources of approved plans or projects by the applicant, the agent bank's internal resources, or through any other mechanism.

F) Monitoring the way the granted facilities are spent, ensuring that they are utilized as expected, monitoring the physical and financial progress of plans and projects, and submitting periodic reports (quarterly, six-month, and annual reports or in other intervals as needed) to the Fund.

G) The agent bank shall undertake to receive the due installments of each month (including the principal and the Fund's share of the interest) and deposit them to the Fund's bank account until the fifth day of the next month and send the bill to the Fund. In the case of overdue installments, the agent bank shall undertake to pay not only the principal and the interest of facilities but also the collateral, as directed by CBI's regulations and bylaws, to the Fund.

³ A resolution of the Board of Trustees on May 18, 2021 regarding Paragraph 2 of the proceedings of the 210th session of the Iranian Government's Economic Coordination Headquarters (No. 155543, March 16, 2021)m Vice President for Economic Affairs.

Note: By concluding the agency contract, the agent bank empowers the Fund to withdraw an amount equivalent to the principal, the interest, and the collateral of facilities from the agent bank's account(s) in CBI if the agent bank delays repaying the installments. CBI shall take priority over the Fund's receivables in the withdrawal from the agent bank.

H) In order to avoid wasting the fund's financial resources and to ensure their optimal utilization in accordance with the requirements, the agent bank shall take the necessary measures in cooperation with competent experts or consultants to ensure the appropriateness of the price contained in the proforma invoice and come up with and mention the necessary executive guarantee, including receiving the interest and compensation, in the contract with applicants.

- I) The agent bank shall inform the clients and applicants of possible risks, including the risks caused by exchange rate fluctuations, and risk management practices during the financing period and other relevant issues before concluding a contract.
- J) The managing director and members of the board of directors of the agent bank shall take the responsibility for all obligations contained in the agency contract, which is set up based on the Regulations, as well as the decisions made regarding the Fund's financial resources during the contract period.

12- Other issues:

- A) After the approval of the relevant executive body and the agent bank, there shall be no restriction on granting the Fund's foreign exchange facilities for the purchase and import of technical knowledge and new stock machinery and equipment if their specifications meet the purpose of plans or projects and technical standards and also their manufacturers provide a valid warranty.

Note: After the qualitative and technical approval of the Civil Aviation Organization of Iran and the agent bank and under other rules and regulations of the Fund, there shall be no restriction on granting the Fund's foreign exchange facilities for the purchase of second-hand aircraft and the aviation fleet equipment of good quality with a maximum operation of 7 years.

- B) The exporters that conclude a contract on the export of goods and services with their own branches or representatives or buyers who are affiliated or subordinated to them cannot apply for the Fund's foreign exchange facilities.
- C) Applicants for the Fund's foreign exchange facilities can compensate for the possible risks caused by exchange rate fluctuations through the mechanism provided in Article 72 of Iran's Fifth Five-year

Development Plan. Otherwise, the recipient of the Fund's foreign exchange facilities shall take the risk of exchange rate fluctuations.

- D) In cases not specified by the Regulations, any decision or action shall be based on the Fund's statute, Article 16 of the Law, and CBI's monetary and foreign exchange policies.

