McNamara Papers

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Nov

BRIEF FOR MR. MCNAMARA'S VISIT TO IRAN (NOV. 6 - 11, 1969)

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Attachments: Economic Report (Baneth, Singh, Lav, Please, Schebeck)
Industrialization of Iran: The Record, The Problems and the Prospects (Avramovic)

IRAN

IRAN

11/11/69 (Tehran)	Sir Denis Wright, British Ambassador to Iran
11/7/69 (Tehran)	General Mohammad Khatami, Air Force Commander-in-Chief
11/7/69 (Isfahan)	Dr. Motamedi, Chancellor of Isfahan University
"	H.E. Mohammad Sam, Governor General of Isfahan
"	Jahangir Kia, Mayor of Isfahan
11/8-9/69 (Tehran)	Their Imperial Majesties the Shah and Empress Farah
11/8/69 (Shiraz)	Dr. Houshang Nahavandi, Chancellor of Pahlavi University
11/9/69 (Tehran)	Prime Minister Amir Abbas Hoveyda Dr. Jamshid Amouzegar, Minister of Finance Husang Ansary, Minister of Economy Hasan Shalchian, Minister of Roads Mansur Rouhani, Minister of Water and Power Dr. Majid Rahnema, Minister of Scientific Research and Higher Education Dr. Iraj Vahidi, Minister of Agriculture Mehdi Samii, Managing Director, Plan Organization Khodad Farman-Farmaian, Governor, Bank Markezi Reza Moghadam, Deputy Managing Director, Plan Organization A. Gasem Kheradjou, Managing Director, Industrial and Mining Development Bank of Iran Dr. Ali Khani, Chancellor, University of Tehran Prof. Ponian, Chancellor, Melli University Reza Amin, Chancellor, Arya Mehr University
11/6-10/69 (Tehran)	Others possibly met: Farroukh Najamabadi, Deputy Minister of Economy Aboul-Hassan Ebtehaj, Chairman and President, Iranian Bank Daryoush Homayoun, Managing Director of Ayandegan Newspaper Dr. Fereydoun Mahdavi, Deputy Managing Director, Industrial and Mining Development Bank of Iran Saeed Hedayat, Managing Director, Ahwaz Pipe Mill Company Iraj Hedayat, Assistant Managing Director, Industrial and Mining Development Bank of Iran Abdol-Ali Farman-Farmaian, Chairman of the Board of Directors and Managing Director, Pars Oil Company Rahim Mottaghi Irvani, Chairman, Melli Shoe Company Mr. Malm, Managing Director, Sherkat Sahami Aliaf (nylon plant with Allied Chemical as partner)

Ali Rezaii, Managing Director, Iran Rolling Mill Company
Ebrahim Golestan, writer and film producer

Safi Asfia, Deputy Prime Minister, Development and Economic Affairs
Dr. (Mrs.) Farokhru Parsa, Minister of Education
Dr. Manuchehr Shahqoli, Minister of Health
Dr. Fathollah Sotudeh, Minister of Posts, Telephones and Telegraph
Dr. Abdol Asim Valian, Minister of Land Reform and Rural Cooperatives
Naser Golesorkhi, Minister of Natural Resources
Cyrus Samii, Deputy Governor, Bank Markezi
Ardeshir Zahedi, Minister of Foreign Affairs
Dr. Hassan Zahedi, Minister of Interior
Dr. Abdol Majid Majidi, Minsiter of Labor and Social Services
Assadollah Sanii, Minister of War
Manuchehr Parto, Minister of Justice
Hosein Kazemzadeh, Minister of State and Secretary General
of the Civil Service Commission
Dr. Masr Yegaheh, Minister of Development and Housing
Dr. Mahmud Kashfian, Minister of State
Mehrdad Pahlbod, Minister of Culture and Art
Javad Mansur, Minister of Information
Dr. Manuchehr Gudarzi, Minister of Agriculture Products and Consumer Goods

Dr. Manuchehr Eqbal, Chairman of the Board, National Iranian Oil Co.
Dr. Fallal, Deputy Chairman, National Iranian Oil Co.
Mr. Taleghani, Chairman, Goodyear Tire Co. (Iran)
Mr. Mostofi, Petrochemical Co. of Iran
Haslan Naraghi, Agribusiness
F. R. Felfels, Sepanta Industries (rolling mills)

ITINERARY FOR MR. McNAMARA'S VISIT TO IRAN

DATE	APPROXIMATE TIMING	ACTIVITY	REMARKS
Thursday November 6		Arrival Tehran	Will stay at Royal Tehran Hilton Hotel--briefing by Mr. Cargill on program issues
Friday November 7 (Iranian Sabath)	8:00--10:00 a.m.	Travel, Tehran Airport to Andemeshk Air Force Base	Travel in two Government planes. Several Govt. officials will be along to sit next to Mr. McNamara--names and biographical data to be filled in when known.
	10:00--12:30	Visit Dez Project	
	12:30--1:30	Lunch (Dez Officials)	
	2:00--3:00	Flight to Isfahan, overfly oilfields, petrochemical industry, steel mill	
	3:00--	Sightseeing in Isfahan, visits to project site of IMDBI borrowers (shoe factory, accompanied by Mr. Irvani)	
		Evening free	
		Stay overnight at Shah Abbas Hotel at Isfahan	
Saturday November 8	8:00-9:00	Fly from Isfahan to Shiraz	
	9:00	Drive 40 km. by car to visit Persepolis	Accompanied by educational leaders
		Lunch at Pahlavi University	Discussion of agricultural research and development in Iran
	2:30--4:30	Fly from Shiraz to Tehran	
	Evening	Banquet, black tie, given by Minister of Finance	

Sunday, Nov. 9

8:00 - 8:30	Drive to Ministry of Finance
8:30 - 9:00	Call on Minister of Finance
9:00 - 9:15	Go to Prime Minister's office
9:15 - 11:00	Meeting with Prime Minister and Ministers of Finance Economy Roads Water and Power Science and Higher Education Agriculture Managing Director, Plan Organization Governor Bank Markezi (Central Bank)
11:15 - 12:00	Meeting with Minister of Science and Higher Education and Chancellors of 3 Universities: Dr. Ali Khani - Chancellor of University of Tehran Professor Ponian " of Melli University Mr. Reza Amin " of Arya Mehr University
12:00 - 3:00	Lunch with Prime Minister — Prime Minister's Residence
3:15 - 4:15	Minister of Water and Power
4:15 - 4:30	Drive to Ministry of Economy
4:30 - 5:00	Meeting with Minister of Economy and Dr. Najn Ababi others
5:00 - 5:15	Drive to Ministry of Roads
5:15 - 5:45	Meeting with Minister of Roads
5:45 - 6:15	Drive to Hilton
8:00	Dinner given by Mr. Kheradjou (few private sector people - see attached list)

DATE	APPROXIMATE TIMING	ACTIVITY	REMARKS
Monday, November 10	Morning	Conferences:	Details to be filled in when known. (at PM. office)
	Lunch	Small luncheon with the Prime Minister	
	Afternoon	Conferences:	
	Evening	Small informal dinner given by Mr. Mehdi Samii. In attendance will be four or five important Government Officials; Mr. Farmanfarmaian, Governor of Central Bank; Mr. G. Reza Moghadam, Deputy Managing Director of Plan Organization; Eng. Mansur Rouhani, Minister of Water and Power (and others).	
Tuesday, November 11	Early morning	Departure for Europe	

FORM NO. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Alexander Stevenson **DATE:** November 4, 1969

FROM: A. J. Macone

SUBJECT: Briefing for Mr. McNamara on petroleum

1. I think this memorandum will make better sense than otherwise if I begin by stating what I understand to be the specific points on which briefing is desired regarding the world and Iranian petroleum situation. The points are as follows:

(a) Basic facts about the world petroleum industry (it is understood that "world" in this memorandum excludes the centrally planned countries except when otherwise indicated).

(b) Comments on a number of specific questions on the world petroleum market, which I understand to be:

(i) To what extent is the flow of trade affected by the technical qualities of various crudes?

(ii) What are the constraints set on world trade flows by government policies?

(iii) What shifts have taken place in the direction of trade by major countries and companies?

(iv) What do we know about joint ownerships and what is their significance?

(v) What do we know about the contractual terms under which companies produce oil in foreign countries?

(c) In addition, we have been asked to prepare two tables. One is to show the following: major company production in each of a selected list of countries; the product marketings of each major company by major consuming area; current oil reserves by country and expected production by country in the mid-1970's or the 1980's. The other table is to show Iran's crude oil production in barrels and its value in dollars, year by year, 1959-1969.

(d) We have also been asked to comment on the oil export projections of the Iranian Government and the Bank Mission, and on any negotiations between the Iranian Government and the companies operating in Iran.

2. The first table mentioned in 1 (c) above is attached as Table 1. However, one piece of information is missing from it, namely, projected future oil production by country. Most governments or companies have not published such estimates in recent years. We ourselves have made an estimate of aggregate LDC production in 1975 in our paper "Recent and Prospective Trends in the World Petroleum Industry", prepared by Andrew Huang in February 1968 (attached as Annex I). That estimate, however, was arrived at by projecting OECD demand and then projecting OECD production (i.e., in the U.S. and Western Europe) on the basis of an OECD study. We then allocated the resulting 1975 projected OECD import deficit between the LDC's and the USSR. The aggregate production projection appears in Table 14 of Annex I, but we have thus far hesitated to break it down by country since this would involve more guessing than has been required for operational purposes. We have, therefore, shown in Table 1 growth rates in production by country for two different postwar periods, 1955-1968 and 1960-1968, to suggest how the competition for increased shares is progressing. Excluding the African newcomers, whose growth rates are still too much influenced by their status as new entrants and the brevity of the period since some of them have become substantial exporters, it will be noted that Iran leads the field. This reflects in part Iran's position as a probable low cost producer and a profitable area of operations for the companies,1/ and in part a good bargaining position in dealing with the major oil companies. The country's political stability and basic alignment with the West undoubtedly are important factors in its oil negotiations.

3. It is worth noting, however, that Saudi Arabian production also has been growing faster than average, even though profitability there may be considerably lower than in Iran (Table 11, Annex I). This suggests that political stability and basic company-government rapport, despite surface controversy, probably carries as much weight in the bargaining as profitability.

4. Table 2 shows Iranian production (in barrels and tons). We have included a line showing f.o.b. export values of Iranian petroleum for 1962-1967 (culled from the Bank's Economic Mission Report) but these may be meaningless for most purposes since, as footnoted, they are purely accounting values based on posted prices. The more meaningful figures are those on oil revenues, which are taken from Petroleum Press Service, August 1968.

5. The problem in tackling question 1 (a) and those under 1 (b) is that we are not certain what their precise intent is. I think that Annex I is substantially responsive to question 1 (a) and gives sufficient

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1/ We infer this in two ways - both imperfect: (a) Iranian wells are still the most productive in the world, on the average (see Table 11, Annex I); (b) Iran's reported average revenue per barrel (estimated at 83.5 cents in 1967) is near the average for the Middle East, and much lower than in Venezuela or Libya (where it is close to a dollar).

background to permit us to be very brief in our answers to the questions under 1 (b). However, if Mr. McNamara has already read Annex I there may be further points to his questions which we are missing. In the absence of any reference to Annex I in the questions, I am assuming that it has not already been read.

6. While the historical data and discussion in Annex I only carry through 1965, the basic historical situation presented there will only change marginally if updated (a project, incidentally, that is in progress). In the following paragraphs, we shall do some of this updating, while at the same time pointing up some of the more salient features of the world petroleum industry. We may return to some of these points in answering 1 (b) later on.

Demand Growth

7. For the postwar period as a whole, taken as 1955-1968 in order to omit the reconstruction period, world demand growth for petroleum averaged a phenomenal 6.9 percent per annum. The pace increased in the 1960's to 7.3 percent per annum (1960-1968). However, the rates of growth by major economic region varied widely from 3.5-4 percent per annum in North America to over 20 percent per annum in Japan, and almost 12 percent per annum in Western Europe. The growth rates by major regions are shown in Table 3.

Trade Growth

8. World imports of petroleum and petroleum products have been growing much faster than world demand, largely because demand growth has been fastest in areas that are both large consumers and heavily dependent on imports, i.e., Western Europe and Japan. Even in the U.S., with its large oil-producing industry, imports have been allowed to rise faster than production by permitting overland shipments from Mexico and Canada to enter ex quota. World import demand grew at 9.7 percent per annum in 1955-1968 and 10.8 percent per annum in 1960-1968.

9. Beginning in the late 1950's, the USSR has striven to regain its prewar position as an important supplier to Western Europe, and Canadian exports began to appear in the early 1960's and have continued to grow. Export volume growth for the LDC's has therefore been somewhat slower than world import growth but, as far as we can determine from rather imperfect data, not yet materially so, since Canada and the USSR combined still only account for roughly 8 percent of world exports. The effect of their growing exports had a displacement effect regionally, however; in the U.S. in the case of Canada and in Europe in the case of the USSR.

10. Within the global trade volume there was a significant shift in product composition. As stated in Annex I, in 1937 about one-third of total world imports were refined products (gasoline, etc.). By 1965 the

latter's share was only 25 percent and this trend has probably continued in view of the continued preference of importing countries to do their own processing.

11. World petroleum import growth has been distributed very unevenly among the major developing exporting countries, as illustrated by Table 4, which shows estimated relative shares of these countries in total world export trade. As already suggested in paragraphs 2 and 3 above, much of this variation is attributable to: (a) the appearance of new entrants in petroleum production, (b) the relative profitability of companies in various host countries, and (c) the political bargaining power of the host governments. The first factor, of course, tends to reduce the strength of the third, since it permits companies and importing governments to spread the security risks affecting their sources of supply.

12. We have noted that some new entrants (e.g., Abu Dhabi), secured reportedly better terms on profit sharing from sponsoring companies (the Japanese) but in the long run, their very existence will furnish a basis for the international companies to improve their end of the bargain, or at least avoid further concessions. The Japanese have already single-handedly played this game in the iron ore field with breathtaking success. The producing countries no doubt realize it and are trying to concert their positions via the Organization of Petroleum Exporting Countries (OPEC), of which Iran is an active member. But while all the OPEC countries are ostensibly and vocally in favor of "leveling up" the profit-splitting arrangements, we see no evidence that they are about to agree on fixed market shares for the future.

Industry Structure

13. In the opening paragraphs of Annex I we note that the dominance of the major companies has been declining since the 1950's in the international oil economy outside the U.S. and the USSR. In terms of crude production, the share controlled by these companies outside the U.S. declined from almost 90 percent in the late 1940's to around 75 percent in the mid-1960's. This trend has continued, the share of the eight major companies amounting to about 65 percent in 1968.

14. It is already evident that the geographical distribution of oil production has also been greatly diversified during the postwar period (see Table 4, for example). It seems clear that the international petroleum economy is dynamic in more respects than the aggregate growth rate and is not easy to characterize as a simple oligopoly.

15. I believe some of the foregoing remarks anticipate what we have to say in response to the questions under 1 (b) above. Following are additional comments.

Effect of Technical Qualities on Trade Flows

16. The technical qualities of various crudes have an influence on trade flows, but not a dominant or a precisely quantifiable one. To illustrate this, one may compare Tables 5, 6 and 7. Fuel oil has been experiencing the highest consumption growth rate globally and in Europe and Japan (Table 5). In spite of this Middle East crude, which in the aggregate is rich in the heavy fractions, lost ground in Europe but gained in Japan. This indicates that location (including, of course, the closing of the Suez Canal) and the fact that Japanese companies have become heavily involved in oil production in the Middle East are also important factors. Company nationality also helps explain the increasing share of African crudes in Europe. Canadian competition under the quota system and probably less than friendly company-government relations, probably explains the shift in Venezuela's marketing toward Europe as much as the technical quality of its crudes (which, however, are said to lend themselves well to blending with Middle East crudes for European refineries).

17. Sulfur content is another characteristic of crudes that is often mentioned as influencing demand, low sulfur content being desirable. Roughly speaking, African oils enjoy the lowest sulfur content and Iran is somewhat better off than other Middle East countries in this respect. On the other hand, African oils are afflicted by heavier wax content, which increases handling costs. However, in the end these characteristics are reflected in product costs - and their impediment to the marketability of any crude can be overcome if the refinery can get the crude cheaply enough in the first place and is confident enough of the supply to make the plant adjustments necessary.

Constraints of Government Policies on Trade Flows

18. We generally proceed on the assumption that in any consuming country there will be a tendency for oil produced abroad by companies that are nationals of that country to receive whatever favored treatment is possible. However, no one importing country provides a market for any exporting country's entire output and no major company markets its entire foreign output in the mother country. Hence company nationality is not sufficient by itself to account for trade patterns and flows in petroleum.

19. As far as government import policies are concerned, only one country has a fairly definite and publicly stated policy, i.e., the U.S., which has import quotas. These are described briefly in paragraph 5 of Annex I. Other major importing countries and areas either have no specific government policy on petroleum imports, or one that is pragmatic and unpublicized.

Shifts in Direction of Trade

20. Unfortunately, we do not have sufficient data readily at hand to show changes in the geographic marketing patterns of the major companies. Table 6 shows shifts in the geographic distribution of producing areas' exports between 1960 and 1968. Table 7 shows the changes that occurred in the shares of the various exporting areas in the imports of the major producing areas. It is possible to rationalize these changes in a general way in terms of oil qualities, the closing of the Suez Canal, the development of larger tankers, company nationality, the U.S. quota system, costs of production and importing countries' security desires. However, in the end there is no objective set of values or weights that can be applied to the array of reasons so as to yield a unique objective trade matrix corresponding to what has actually taken place historically. In forecasting exports from individual countries for medium term periods, we rely heavily on trend analysis and subjective judgments based on as much information as we can accumulate.

Joint Ownerships

21. It is our understanding that the relatively new joint-ownership concept is a device to permit governments of producing countries to exploit, independently of the companies, potential new or expanded markets in developing countries and Eastern Europe - the latter on the assumption that the USSR may not be able to cover fully the future growth in the import demand of its Warsaw Pact partners. Much, if not all, of this trade is expected to be on a government-to-government basis.

22. Table 8 shows the existing agreements of which we are aware and some of the principal terms.

Contractual Arrangements

23. The principal features of the contractual arrangements between companies and host countries are summarized in Table 4 of Annex I and discussed in paragraphs 9-11 of that paper.

Government and Bank Mission Oil Export Projections for Iran

24. According to EMA-3a, February 25, 1969, the Iranian Government projected oil export volume to grow at 16.4 percent per year between 1968 and 1972 while the Bank Mission assumed 8.6 percent per year.

25. Our own present projections of future growth in aggregate OECD net imports, in practice equivalent to global net trade growth (Annex I, page 11) is 7.5-9.0 percent per year. Annex I is now in the process of being updated and its projections reviewed but the review may not necessarily result in a substantial change in that estimate - much depends on what we conclude about the future of Alaskan oil. This trade volume

projection being a global one, however, it cannot be applied automatically to individual countries (certainly not, for example, to Venezuela - see paragraph 38, Annex I). However, we do not in fact know on what basis the Mission arrived at its projected growth rate for Iranian exports.

Negotiations between Iran and Companies

26. We do not have firsthand information on this subject. We understand that Iran is pressing the Consortium to agree to increase its offtake of Iranian oil by 17 percent in 1970 over 1969. In 1965, Iran asked for a 17.5 percent increase during 1966 but the increase did not materialize. It is possible that Iran will settle for a continuation of its average growth rate in the 1960's (around 13 percent per year) or possibly less.

AJMacone/ACHuang/hl

PRELIMINARY

Table I: PETROLEUM: DISTRIBUTION OF WORLD PRODUCTION, MARKETINGS AND RESERVES, AND PRODUCTION GROWTH RATES BY COUNTRIES IN SELECTED YEARS

1969

I: Distribution of Production and Reserves by Selected Countries or Companies, and Production Growth Rates, Selected Periods

Area/Country	BP	CFP	Esso	Gulf	Mobil	Shell	Stancal	Texaco	Total 8 Companies	Other	Proved Reserves end-1967	Production Growth Rate 1955-68	1960-68
	Million Metric Tons 1/											% per year	
North America													
United States	0.6	-	46.6	29.5	17.6	29.3	27.9	41.7	193.2	259.7	6,644.5	2.5	3.3
Canada	0.8	0.2	8.5	3.9	3.6	3.3	2.7	6.5	29.6	27.4	1,204.5	9.7	10.1
Total	1.3	0.2	55.1	33.4	21.2	32.7	30.6	48.3	222.8	287.1	7,849.0	3.0	3.9
Middle East													
Saudi Arabia	-	-	42.3	-	14.1	-	42.3	42.3	141.0	0.1	11,645.0	8.9	10.8
Kuwait	51.5	-	-	70.6	-	-	-	-	122.1	-	9,590.0	6.5	5.2
Iran	50.8	7.7	9.3	8.8	9.5	17.8	8.3	9.3	121.3	20.2	6,850.0	18.2	13.2
Iraq	17.5	17.5	8.8	-	8.8	17.5	-	-	70.1	3.9	4,795.0	6.5	5.7
Abu Dhabi	9.5	6.6	1.8	-	1.8	3.6	-	-	23.3	.7	2,055.0	2/	2/
Qatar	2.2	2.2	1.1	-	1.1	9.3	-	-	15.8	.4	548.0	8.8	8.9
Bahrain	-	-	-	-	-	-	1.8	1.8	3.5	-	34.3	6.7	6.0
Other	10.3	1.2	-	7.0	-	-	-	-	18.5	16.8	3,182.5	22.0	19.2
Total	141.8	35.2	63.2	86.3	35.2	48.2	52.3	53.3	515.5	42.2	38,699.8	10.2	9.9
Latin America													
Venezuela	-	-	88.3	10.6	6.0	54.3	3.2	10.4	172.8	16.7	3,425.0	4.1	3.0
Colombia	0.3	-	1.2	-	0.5	1.3	1.7	2.2	7.1	1.8	274.0	3.8	1.5
Other	2.4	-	1.5	1.5	-	2.8	-	6.4	14.6	50.5	1,078.9	8.0	6.8
Total	2.7	-	90.9	12.1	6.7	58.3	4.9	19.0	194.4	69.1	4,777.9	4.9	3.8
Africa													
Libya	7.4	-	3.0	-	7.5	-	5.9	5.9	29.7	96.3	2,740.0	2/	2/
Algeria	-	10.3	-	-	0.3	3.0	-	-	13.5	29.5	1,370.0	3/	22.0
Nigeria	1.1	-	-	4.9	-	1.1	-	-	7.0	-	1,644.0	3/	29.0
Other	-	-	-	-	0.05	2.8	-	-	2.8	17.2	167.4	3/	21.0
Total	8.5	10.3	3.0	4.9	7.8	6.8	5.9	5.9	53.0	143.0	5,921.4	-	39.0
South and South-East Asia													
Indonesia	-	-	0.9	-	0.9	-	11.1	11.1	24.1	3.2	1,370.0	6.5	3.6
Other	-	-	-	-	-	6.2	-	-	6.2	8.9	304.8	6.8	9.3
Total	-	-	0.9	-	0.9	6.2	11.1	11.1	30.3	12.1	1,674.8	6.6	5.8
Western Europe 4/	0.8	-	3.4	0.4	1.9	3.8	.03	.03	9.6	13.3	450.2	7.0	5.1
Total	0.8	-	3.4	0.4	1.9	3.8	.03	.03	9.6	13.3	450.2	7.0	5.1
World Total 5/	154.4	45.6	216.7	137.0	73.6	156.0	104.7	137.6	1,025.6	566.8	59,373.1	6.8	7.5

II: Marketings of Crude Oil and Refined Products of Major Companies by Countries and Areas, 1968

(Percentage of Total Company Sales)

TOTAL

Area/Country	BP	CFP	Esso	Gulf	Mobil	Shell	Stancal 6/	Texaco
United States	9.7	42.6	20.4	56.3	47.1	33.3	51.2	58.8
Canada			7.7	13.2				
Latin America		7.6	24.1			9.2		
Other Western Hemisphere				5.8				
Total Western Hemisphere	9.7	50.2	52.2	75.3	-	42.5	51.2	58.8
United Kingdom	15.6	30.5	47.9	24.7	52.9	39.1	48.8	41.2
EEC	36.9							
Rest of Europe	16.2							
Asia	12.1	12.2				18.4		
Australia and New Zealand	3.8	1.6						
Africa and Middle East	5.7	5.5						
Total Eastern Hemisphere	90.3	49.8	47.9	24.7	-	57.5	48.8	41.2
World Total	100	100	100	100	100	100	100	100

8 comp. other TOTAL

1/ Totals may not agree due to rounding.

2/ Began production after 1960.

3/ Began production after 1955.

4/ Includes Turkey.

5/ Excluding centrally planned countries.

6/ For year 1967.

Sources: Petroleum Press Service; Company Annual Reports; World Petroleum Report, V.14, 1968; 20th Century Petroleum Statistics, 1968.

Table 2: IRANIAN CRUDE OIL PRODUCTION - 1959-1969

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Production (Millions of Barrels)	338.8	390.8	430.9	482.6	538.6	618.6	688.2	771.3	947.8	1,034.8 1/	1,173.0 2/
Production (Million Metric Tons)	46.4	52.6	59.4	66.0	73.1	84.8	94.8	105.1	129.3	141.5	160.0 2/
Nominal f.o.b. Value of Oil Exports 3/ (Million Dollars)	n.a.	n.a.	n.a.	902.1	942.5	999.6	1,138.6	1,298.6	1,547.0	n.a.	n.a.
Government Revenues (Million Dollars)	263	285	301	334	398	475	534	607	746	902 4/	n.a.

1/ Estimated.

2/ Annual rate based on first seven months.

3/ Accounting value based on posted prices as recorded in the balance of payments.

4/ Bank Mission estimate.

Sources: 20th Century Petroleum Statistics, 1968; Petroleum Press Service, August 1968, September 1969; IBRD Report EMA-3a, Table 7; British Petroleum Statistical Review of the World Oil Industry, 1968.

Table 3: POSTWAR GROWTH TRENDS IN PETROLEUM CONSUMPTION BY MAJOR CONSUMING AREAS

(Percent per annum)

	1955-1968	1960-1968
North America	3.6	3.9
Western Europe	11.9	11.8
Japan	22.4	21.1
Other	7.1	6.5
Total World (excluding Bloc)	6.9	7.3

Source: British Petroleum Company Ltd.

Table 4: ESTIMATED SHARES OF SELECTED DEVELOPING AREAS AND COUNTRIES IN WORLD (EX BLOC) OIL EXPORTS

(Percent)

	1950	1960	1968
Middle East	42.9	55.3	54.0
Iran	16.7	11.9	14.7
Iraq	3.1	10.8	7.7
Kuwait	8.9	18.6	12.7
Saudi Arabia	14.1	14.0	14.7
Others	0.1		
Africa	1.6	2.1	18.1
Algeria		1.3	4.0
Libya			11.6
Nigeria		0.1	0.6
Others		0.7	1.9
Western Hemisphere	42.9	34.0	21.1
Venezuela	33.5	28.1	16.5
Others	9.4	5.9	4.6

Source: Regional and World Total Exports: British Petroleum Company Ltd.
Country exports: estimated by adjusting British Petroleum Production figures for the respective countries.

Table 5: GROWTH RATES OF DEMAND FOR SELECTED PETROLEUM PRODUCTS IN SELECTED REGIONS 1960-1967

(Percent per annum)

	Gasoline including Jet Fuel	Diesel Oil including Kerosene	Fuel Oil
United States	3.8	3.7	2.4
Canada	5.6	3.2	7.2
Europe	9.9	9.0	14.2
Japan	17.0	21.9	20.9
Total of above	5.2	6.9	9.4

Source: OECD, Basic Statistics of Energy, 1951-1965 and 1953-1967.

Table 6: SHARES OF MAJOR CONSUMING REGIONS IN EXPORTS OF PETROLEUM EXPORTING AREAS

(Percent)

Exporters \ Importers	United States		Western Europe		Japan		Other Importers		World	
	1960	1968	1960	1968	1960	1968	1960	1968	1960	1968
United States	-	-	21.1	22.2	4.2	19.5	74.7	58.3	100.0	100.0
Canada	100.0	100.0	-	-	-	-	-	-	100.0	100.0
Latin America	46.6	52.2	21.1	22.2	-	2.2	32.3	23.4	100.0	100.0
Middle East	7.4	2.5	58.1	48.7	9.3	25.5	25.2	23.3	100.0	100.0
Africa	-	4.2	100.0	91.6	-	0.1	-	4.1	100.0	100.0
South-East Asia	19.0	16.3	9.5	3.5	20.5	55.8	51.0	24.4	100.0	100.0
Soviet Bloc	-	-	73.9	81.3	4.4	4.0	21.7	14.7	100.0	100.0
Others	-	25.3	-	1.1	-	1.1	100.0	72.5	100.0	100.0

- means nil or negligible.

Source: British Petroleum Company Ltd.

Table 7: SHARES OF PETROLEUM EXPORTING AREAS IN THE IMPORTS OF MAJOR CONSUMING MARKETS, 1960 AND 1968

Exporters \ Importers	United States		W. Europe		Japan	
	1960	1968	1960	1968	1960	1968
	------- (Percentage of total imports) ---------					
United States	-	-	1.0	0.4	1.5	1.1
Canada	6.1	16.0	-	-	-	-
Latin America	71.3	63.6	15.4	7.8	-	2.6
Middle East	18.3	8.8	68.2	49.4	78.9	86.6
Africa	-	5.3	5.7	33.4	-	0.2
Southeast Asia	4.3	2.4	1.0	0.1	15.9	7.8
Soviet Bloc	-	-	8.7	8.9	3.7	1.5
Others	-	3.9	-	-	-	0.2
World	100.0	100.0	100.0	100.0	100.0	100.0

- means nil or negligible.

Source: British Petroleum Company Ltd.

Table 8: JOINT VENTURE AGREEMENTS IN MIDDLE EAST

TAX	PETROLEUM PRICING	CRUDE OFFTAKE	SPECIAL PROVISIONS
Most favoured company rate. (Effectively 50%) Minimum payment 12½% posted price	Posted price. Discounts permitted if approved by NIOC	Each party lifts 50% of production. Each may purchase other's unlifted share at a price halfway between posted price and unit production cost	
Income tax 40% (or according to future legislation) on profit related to posted price. ½ c/b marketing allowance	Board determines posted and offtake prices. Petromin has right of approval on ERAP's sales price for Petromin crude	Govt. may take 40% production or have ERAP market for export at specified commission schedule related to sales price. Govt. may buy 10% of production at special price	Saudi tanker preference
50% (or according to future legislation) on profit related to posted price. ½ c/b marketing allowance	ENI must sell 10% of production or minimum 20 000 b/d to 3rd parties at agreed price. If price too low, Petromin may reduce production	Partners lift in participation proportion. If offered, ENI must market Petromin share. Basis weighted average price 3rd party sales. Govt. may buy 10% of production at special price	30% cumulative net income invested in integrated operations. $40 million joint ownership petro-chemical plant, or forfeiture payment
50%, based on posted price	Posted price comparable to other Arabian Gulf crudes, Kuwait Govt. approval		Spanish Govt. reserves up to 25% of Spanish crude and products imports for Hispanoil share of crude produced plus 20 000 b/d maximum of KNPC share
50% income tax based on posted price. OPEC formula	Posted price comparable to other Arabian Gulf crudes	Foreign partners must market Ruler's share on request, at agreed realized prices	
50% income tax based on posted price, OPEC formula	Posted price		
See under Royalty	Realized price determined by committee appointed equally by NIOC and ERAP. Provision for arbitration	NIOC sells to ERAP from 35% to 45% of production capacity of each field for 25 years at halfway price based on realization (see under Royalty). On request, ERAP sells 35 million tons of NIOC crude taking 2% commission	ERAP trading of NIOC crude linked with purchase of French goods by Iran
ERAP pays no tax. 50% of realization, less cost and royalty, included in purchase price	Realized price determined by committee appointed equally by INOC and ERAP. Provision for arbitration	ERAP buys from INOC 12% of production at cost plus royalty and 18% at tax paid cost. At request INOC must market 100 000 b/d of INOC 70% crude production share at ½ c/b commission and next 100 000 b/d at 1½ c/b	

Table 8 (Continued)

AGREEMENT	PERIOD AND EXTENSIONS	AREA (square miles) AND RELINQUISHMENTS	EXPLORATION OBLIGATIONS	NATURAL GAS
Iran 1965 six offshore agreements NIOC/foreign group	25 years from commercial production —3 of 5 years each	Various, total of the six 13 600—25% in 5 years, 50% in 10 years; to producing areas only in 12 years	Total cumulative obligations of foreign partners (including explor.) 12 years $129 million	To govt. at cost
Saudi Arabia Petromin/ERAP/ Tenneco	2 year exploration licence renewable 3 years. 30 year exploitation lease	10 300—20% of unexploited area after 3 years and every 5 years thereafter	$5 million in 2 years. In 3 year extension minimum drilling	Subject to negotiation. 12½% royalty
Saudi Arabia Petromin/ENI-Phillips. (Phillips came in later than ENI and may not be on exactly the same basis.)	6 year exploration. 30 year exploitation —10 years additional	36 900—20% of unexploited area end 3 years and every 5 years thereafter	$5 million plus minimum drilling	Govt. owned. Restricted flaring, maximum utilization
Kuwait KNPC/Hispanoil	35 years —5 years	4 100—20% of unexploited area in 3 years after discovery, 20% every 5 years thereafter	Min. $2 120 000 expenditure per year and minimum drilling 8 years	Co. use subject to Govt. approval, surplus to Govt. free
Abu Dhabi Ruler/Maruzen-Daikyo-Nippon Mining	45 years	1 705—25% in 5 years, 50% in 8 years, 75% in 10 years (of original size)	(Explor. and/or development) total of $13 million in first 8 years	Surplus free to Ruler
Sharjah Ruler/Shell	40 years	845—to 637 in 5 years, 425 in 8, 212 in 10	$11 375 000 in 8 years	Surplus to Ruler against additional costs incurred
Iran NIOC/ERAP	25 years from commercial production of each commercial field	77 200 onshore, 7 720 offshore, to be reduced after 1st year to 7 700 and 3 860 —periodic reductions, end 6 years 25% remaining onshore and 22% offshore	Minimum yearly expenditure and drilling obligations	After NIOC's requirements, ERAP may take 35% to 45% for 25 years. Price to be agreed
Iraq INOC/ERAP	20 years from start of exports	4 170—50% 3rd year, 75% 5th year. After 6 years to producing areas only	Min. explor. expenditures defined for each period	50% National Reserve

Table 9: WORLD PETROLEUM PRODUCTION 1955-68

(million tons)

Country/Area	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
North America														
United States														
Crude Oil	329.5	347.1	347.1	333.2	350.3	350.3	356.7	364.1	374.5	379.2	387.6	412.0	437.5	452.9
Natural Gas Liquids	32.7	34.0	34.3	29.2	31.8	33.8	35.8	36.9	39.5	41.7	43.6	46.1	50.5	54.3
Canada	17.1	22.7	24.4	22.9	25.4	26.4	31.3	35.7	38.2	41.4	45.0	49.4	54.1	57.0
Mexico	12.5	12.6	12.2	13.2	13.7	14.9	16.4	17.1	18.3	18.6	18.8	19.1	20.2	21.2
Total North America	391.8	416.4	418.0	398.5	412.2	425.4	440.2	453.8	470.5	480.9	495.0	526.6	562.3	585.4
Caribbean														
Colombia	5.5	6.3	6.4	6.6	7.6	7.9	7.7	7.3	8.2	8.8	10.4	10.2	9.4	8.9
Trinidad	3.5	4.1	4.8	5.3	5.7	6.1	6.6	7.0	6.9	7.1	7.0	7.9	9.3	9.6
Venezuela	112.6	128.0	144.6	134.9	143.5	150.1	151.1	166.1	170.4	177.4	182.1	176.8	184.9	189.5
Total Caribbean Area	121.6	138.4	155.8	146.8	156.8	164.1	165.8	180.4	185.5	193.3	199.5	194.9	203.6	208.0
South America														
Argentina	4.3	4.9	4.8	5.1	6.4	9.1	12.0	14.0	13.9	14.7	14.1	15.0	15.6	17.1
Brazil	0.3	0.5	1.3	2.6	3.3	4.1	4.8	4.6	5.1	4.6	4.7	5.8	7.1	8.9
Others	3.4	3.8	4.0	4.1	4.0	4.3	4.5	5.0	5.3	5.6	5.6	5.8	6.6	8.3
Total South America	8.0	9.2	10.1	11.8	13.7	17.5	21.3	23.6	24.3	24.9	24.4	26.6	29.3	34.3
Total Western Hemisphere	521.4	564.0	583.9	557.1	591.7	607.0	627.3	657.8	680.3	699.1	718.9	748.1	795.2	827.7
Western Europe														
Austria	3.6	3.4	3.1	2.8	2.4	2.4	2.4	2.3	2.6	2.6	2.8	2.7	2.7	2.7
France	0.9	1.2	1.4	1.4	1.6	2.0	2.2	2.4	2.5	2.8	3.0	2.9	2.8	2.7
Germany	3.1	3.5	3.9	4.5	5.1	5.5	6.2	6.8	7.4	7.7	7.9	7.9	7.9	8.0
Others	1.9	2.5	3.8	4.3	4.8	5.4	6.0	6.2	6.6	7.8	8.4	8.6	9.4	9.5
Total Western Europe	9.5	10.6	12.2	13.0	13.9	15.3	16.8	17.7	19.1	20.9	22.1	22.1	22.8	22.9
Middle East														
Iran	16.1	26.4	35.6	41.0	46.4	52.6	59.4	66.0	73.1	84.8	94.8	105.1	129.3	141.5
Iraq	32.8	30.7	21.7	35.8	41.8	47.5	49.0	49.2	56.7	61.6	64.4	68.0	60.1	74.0
Kuwait	53.9	54.1	56.4	70.2	69.5	81.9	82.7	92.2	97.2	106.7	109.0	114.4	115.2	122.1
Neutral Zone	1.3	1.7	3.4	4.3	6.1	7.3	9.5	13.0	16.7	19.4	19.1	22.3	21.7	22.1
Qatar	5.4	5.8	6.5	8.2	7.9	8.2	8.3	8.8	9.0	10.2	11.0	13.8	15.4	16.2
Saudi Arabia	46.8	47.9	48.2	50.1	54.2	62.1	69.2	75.8	80.5	86.4	100.8	119.4	129.2	141.1
Others	1.5	1.5	1.6	2.2	2.1	2.2	2.2	2.2	2.4	2.4	2.8	3.3	6.5	16.7
Abu Dhabi	-	-	-	-	-	-	-	0.8	2.6	9.0	13.6	17.3	18.3	24.0
Total Middle East	157.8	168.1	173.4	211.6	228.0	261.8	280.3	308.0	338.3	380.5	415.5	463.6	495.7	557.7
Africa														
Algeria (including Sahara)	0.1	-	-	0.4	1.2	8.6	15.8	20.7	23.9	26.5	26.5	33.8	39.1	43.0
Libya	-	-	-	-	-	-	0.9	8.7	22.4	41.4	58.7	72.3	84.3	126.0
Other North Africa	1.9	1.8	2.4	3.3	3.3	3.4	3.9	4.8	5.8	6.6	6.6	7.0	8.6	11.8
Nigeria	-	-	-	0.3	0.5	0.9	2.8	3.5	3.8	6.0	13.7	20.7	16.2	6.9
Other West Africa	-	-	0.2	0.5	0.8	0.9	1.0	1.5	1.8	2.4	1.8	2.3	4.1	5.2
Total Africa	2.0	1.8	2.6	4.5	5.8	13.8	24.4	39.2	57.7	82.9	107.3	136.1	152.3	195.9
South-East Asia														
Indonesia	12.1	13.1	15.8	16.7	19.1	20.6	21.4	23.1	22.5	22.3	23.8	23.5	25.5	27.3
Other South-East Asia	5.2	5.6	5.5	5.2	5.4	5.6	4.2	4.0	4.0	3.7	3.9	4.7	5.6	6.2
Total South-East Asia	17.3	18.7	21.3	21.9	24.5	25.2	25.6	27.1	26.5	27.0	27.7	28.2	31.1	33.5
U.S.S.R.	69.6	82.5	96.8	113.2	129.5	147.9	166.0	186.0	206.1	223.6	243.0	265.1	288.0	309.0
Eastern Europe & Mainland China	13.6	13.9	14.2	15.3	17.2	19.3	20.0	21.8	22.4	24.2	25.2	26.7	27.0	29.7
Other Eastern Hemisphere	1.2	1.2	1.4	1.6	1.7	1.8	2.0	3.1	3.5	4.2	5.1	7.0	8.2	8.9
Total Eastern Hemisphere	271.0	296.8	321.9	381.1	420.6	485.1	535.1	602.9	673.6	763.3	845.9	948.8	1,025.1	1,157.6
WORLD (excluding USSR, E.Europe and Mainland China)	709.2	764.4	794.8	809.7	865.6	924.9	976.4	1,052.9	1,125.4	1,214.6	1,296.6	1,405.1	1,505.3	1,646.6
WORLD	792.4	860.8	905.8	938.2	1,012.3	1,092.1	1,162.4	1,260.7	1,353.9	1,462.4	1,564.8	1,696.9	1,820.3	1,985.3

Source: Statistical Review of the World Oil Industry, 1965 and 1968, op. cit.

Table 8: JOINT VENTURE AGREEMENTS IN MIDDLE EAST

	Iran	Saudi Arabia	Kuwait
Agreement	1965 six offshore agreements NIOC/ foreign group	Petromin/ERAP/Tenneco	KNPC/Hispanoil
Type of Agreement	Joint structure agreement	Exploration concession agreement and joint venture development contract	Concession agreement for joint venture
Government participation	50% except exploration	40% after grant exploitation concession, with 50% voting rights	KNPC (60% owned by Kuwait Govt.) 51% after commercial discovery
Payments ($ Million)	Ranging 25-59 initial, total six groups 190	0.5 initial. 1 on grant of exploitation concession. 4 when production 70 000 b/d	2.8 when output reaches 100 000, 200 000, 300 000, 400 000 and 500 000 b/d. Hispanoil finances exploration prior to discovery, KNPC then reimburses its share
Royalty	None	15% if annual average below 60 000 b/d. 17% if 60-80 000 b/d. 20% above. Posted price, expensed. $1.5 million minimum after 2 years	12½% posted price, expensed
Tax	Most favored company rate. (Effectively 50%) Minimum payment 12½% posted price	Income tax 40% (or according to future legislation) on profit related to posted price. ½ c/b marketing allowance	50% based on posted price
Petroleum pricing	Posted price. Discounts permitted if approved by NIOC	Board determines posted and offtake prices. Petromin has right of approval on ERAP's sales price for Petromin crude	Posted price comparable to other Arabian Gulf crudes, Kuwait Government approval

Table 8 (Continued)

	Iran	Saudi Arabia	Kuwait
Crude offtake	Each party lifts 50% of production. Each may purchase other's unlifted share at a price halfway between posted price and unit production cost	Government may take 40% production or have ERAP market for export at specified commission schedule related to sales price. Government may buy 10% of production at special price	-
Special provisions	-	Saudi tanker preference	Spanish Government reserves up to 25% of Spanish crude and products imports for Hispanoil share of crude produced plus 20 000 b/d maximum of KNPC share
Period and extensions	25 years from commercial production - 3 of 5 years each	2 year exploration licence renewable 3 years. 30 year exploitation lease	35 years - 5 years
Area (square miles) and relinquishments	Various, total of the six 13 600 - 25% in 5 years, 50% in 10 years; to producing areas only in 12 years	10 300 - 20% of unexploited area after 3 years and every 5 years thereafter	4 100 - 20% of unexploited area in 3 years after discovery, 20% every 5 years thereafter
Exploration obligations	Total cumulative obligation of foreign partners (including exploration) 12 years $129 million	$5 million in 2 years. In 3 year extension minimum drilling	Minimum $2 120 000 expenditure per year and minimum drilling 8 years
Natural Gas	To Government at cost	Subject to negotiation. 12½% royalty	Company use subject to Government approval, surplus to Government free

Source: Petroleum Press Service, March 1969.

IRAN
GENERAL MAP

Bank Projects:

Roads (Feeder Roads not shown)

Ghazvin Irrigation Project (1)

Dez Multi-Purpose and Irrigation Projects (2)

[IMDBI (Tehran) not shown]

Mr.McNamara's Itinerary

U.S.S.R

TURKEY

IRAQ

KUWAIT

U. S. S. R.

AFGHANISTAN

PAKISTAN

Caspian Sea

Persian Gulf

Gulf of Oman

BAZARGAN, FARSABAD, JULFA, GHOTOUR, KHOY, ABHAR, TABRIZ, ARDABIL, ASTARA, REZAYEH, MIANEH, HERO, PAHLVI, RASHT, MANDOAB, MAHABAD, ZENJAN, RAMSAR, CHALUS, MAHMOODABAD, BANDAR SHAHGORGAN, SHAHPASAND, BUJNURD, GHUCHAN, SERAKHS, SOLTANBAD, MESHED, SABZEVAR, NEISHABUR, SHAHRUD, TORBAT, KASHMAR, KHAT, BIRJAND, DIVANDARREH, BIJAH, GHAZVIN (1), AMOL, BABOL, SARI, MT. DAMAVAND, KARAJ, BOIN, TEHRAN, SEMNAN, NOSUD, ZENANDAJ, ROVAN, SAVEH, QUM, KHOSROVI, CHAHABAD, KERMANSHAH, HAMADAN, MALAYER, SALAFCHEGAN, ARAK, KASHAN, BURUJIRD, CHALANCHULAN, KHORRAMABAD, DORUD, MALAVI, DEZ (2), ANDIMESHK, ISFAHAN, NAIN, RIZ, BAD, YEZD, BAFQ, YZAD KHAST, BOSTAN, MASJID-I-SOLAIMAN, AHWAZ, KHALAFABAD, AGHAJARI, SISAKHT, ZARAND, KERMAN, KHORRAMSHAHR, ABADAN, BANDAR MAHSHAR, ARDAKAN, FAHLIHAN, KAZERUN, PERSEPOLIS, SHIRAZ, SIRJAN, BAFT, DARZIN, ZAHEDAN, MIRAJAVEH, BUSHEHR, AHRAM, FIROOZABAD, SARVESTAN, KHAX, FASSA, JIROFT, KHASH, ASALU, BANDAR ABBAS, MINAB, IRANSHAHR, SARBAZ, CHAHBAHAR

KHUZESTAN, BAKHTIARI, REGION, FARS, KERMAN, SISTAN-BALUCHESTAN, KHORASAN, ISFAHAN, SEMNAN, CENTRAL OSTAN, MAZANDARAN, GILAN, KORDESTAN, HAMADAN, KERMANSHAHAN, LORESTAN, AZARBAIJAN WEST, AZARBAIJAN EAST, PERSIAN GULF REGION, OMAN SEA REGION

PAVED ROADS
ROADS TO BE PAVED
OTHER MAIN ROADS
EXISTING RAILWAYS
PROPOSED RAILWAYS
PROVINCIAL BOUNDARIES

20 0 20 40 60 80 100 120 MILES

JANUARY 1967

IBRD - 1942

Background Notes

IRAN

Population: 23.6 million
Capital: Tehran

Iran is bounded by the U.S.S.R. and the Caspian Sea on the north, Iraq and Turkey on the west, Afghanistan and Pakistan on the east, and the Persian Gulf on the south. It is largely a semiarid plateau, with high mountain ranges and a considerable amount of barren desert. The Caspian coastal region is semitropical and fertile. The Persian Gulf area is characterized by extreme heat and general aridity.

THE PEOPLE

Iran has a population of about 23.6 million and, with an area of 630,000 square miles, is a little larger than Alaska. Persian, the principal language of Iran, is Indo-European (i.e., related to most languages of Europe and South Asia) as opposed to Arabic, which is a Semitic language. Kurdish, various forms of Turkic, and Arabic are among the other Middle Eastern languages spoken. In addition, English and French are widely spoken in the cities. There are some 3 million tribesmen throughout the country, of whom the Kurds in the northwest and the Qashqais and Bakhtiaris in the southwest are the most important. Over 90 percent of the people belong to the Shi'a sect of Islam, in contrast to the Sunni sect to which most Arabs, Turks, Afghans, and Pakistanis belong. There are small minority religious groups in Iran, including Armenians, Jews, Baha'is, Assyrians, and Zoroastrians.

HISTORY

In Iran the development of constitutional government, which had its beginnings in 1906, was disrupted during World War I when the country was a battlefield for British, Russian, and Turkish troops. In 1921 the father of the present Shah seized the reins of government and in 1925 founded the Pahlavi dynasty. Reza Shah ruled for almost 20 years and made a start toward modernizing his country. After the outbreak of World War II he was forced to abdicate in favor of his son. During the war Iran was a vital link in the Allied supply line for lend-lease to the U.S.S.R. Following the end of the war, Soviet troops stationed in the northern province of Azerbaijan not only refused to withdraw but backed Communist revolts which set up pro-Soviet regimes in Azerbaijan and Kurdistan. Iranian Government action, backed by the United Nations and strongly supported by the United States, finally forced the Soviets out. The puppet Azerbaijani and Kurdish regimes collapsed upon the entry of Iranian forces into the area.

The ensuing period witnessed the growth of Iranian "nationalism" and culminated in the nationalization of oil in March 1951. After 2 years the government of Mohammad Mosaddeq was overthrown and Gen. Fazlollah Zahedi was appointed by the Shah to take over the reins of government.

Hosein Ala was appointed Prime Minister in 1955 and served until 1957. His successors have been Manuchehr Eghbal (1957-60), Jafar Sharif-Emami (1960-61), Ali Amini (1961-62), Asadollah Alam (1962-64), Hassan Ali Mansur (1964-65), and Amir Abbas Hoveyda (1965-present)

GOVERNMENT

Iran is a constitutional monarchy headed by the Shah, with an elected Majlis (Lower House) and a Senate, which is one-half elected and one-half appointed directly by the Shah.

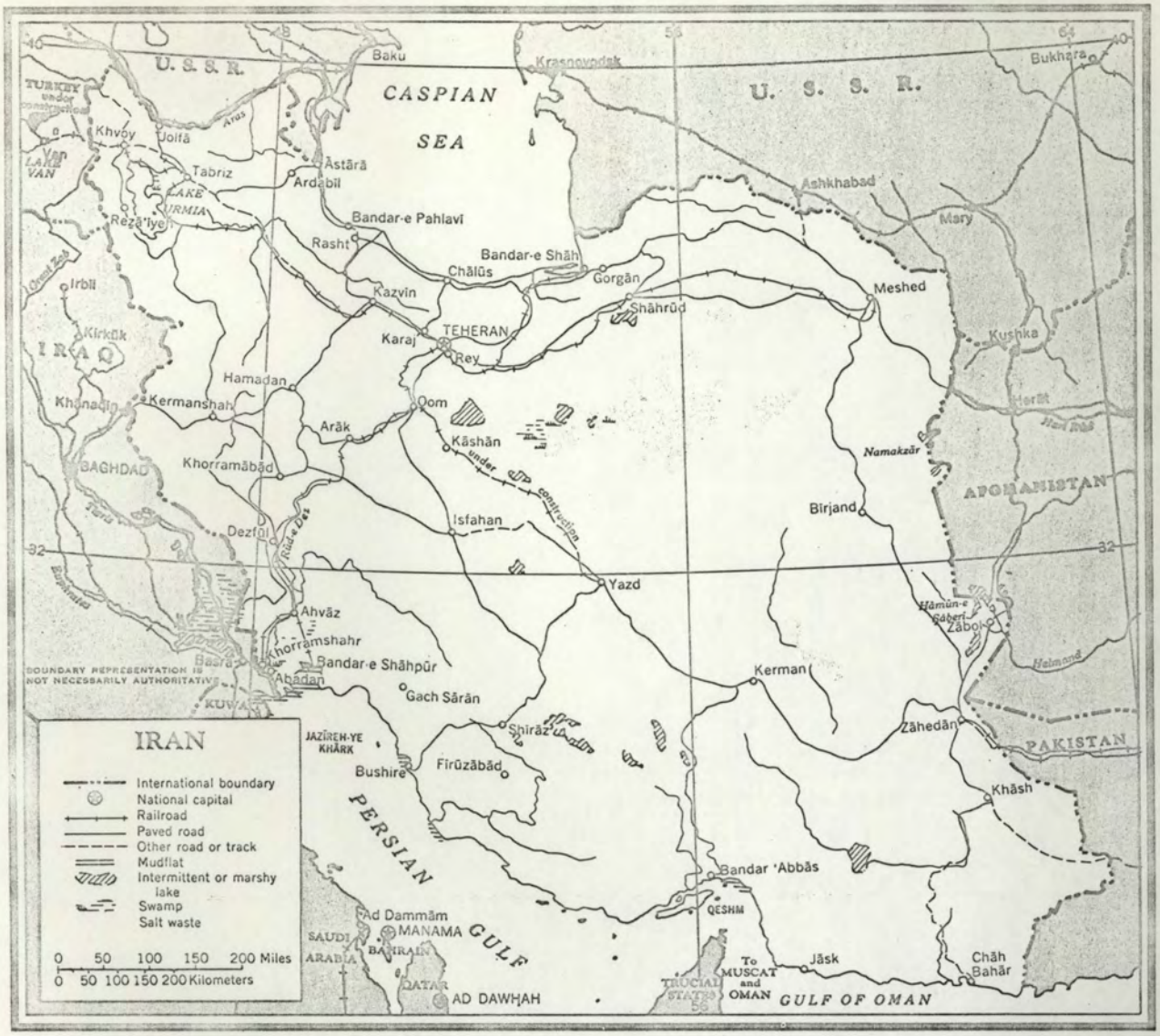
The full complement of the Majlis is 200; of the Senate, 60. According to the constitution the Prime Minister is chosen by the Shah with the approval of both houses. The present Prime Minister, Amir Abbas Hoveyda, was appointed in January 1965 upon the assassination of the former Prime Minister, Hassan Ali Mansur.

Political Conditions

The key internal problem facing the Government is economic development and modernization. An important aspect of this problem is the alinement of diverse political elements in support of the regime. The Iran Novin (New Iran) Party, founded by Prime Minister Mansur after the elections in 1963, is the majority party in Parliament, with 140 seats. Under the leadership of the Shah, the Government headed by Prime Minister Hoveyda is deeply committed to an ambitious program of economic, social, and political development, and extensive modernization of the Armed Forces for national defense.

Reform Program

The Shah has sponsored a many-faceted reform program. The part of this program which affects most people and has attracted the most publicity is land reform. The land distribution phase, which was carried out in two stages, is nearly complete. On the fourth anniversary of the Land Reform Law,


U. S. S. R.
CASPIAN SEA
U. S. S. R.
Baku
Krasnovodsk
Bukhara
TURKEY
Khvoy
Joltā
Aras
LAKE VAN
Tabriz
Astārā
Ardabil
LAKE URMIA
Rezā'iyeh
Bandar-e Pahlavī
Rasht
Bandar-e Shāh
Chālūs
Gorgān
Ashkhabad
Mary
Meshed
Kazvin
Shāhrūd
Irbil
Kirkūk
IRAQ
TEHERAN
Karaj
Rey
Kushka
Hamadan
Khānaqīn
Kermanshah
Qom
Arāk
Herāt
Kāshān
Namakzār
BAGHDAD
Khorramābād
Birjand
AFGHANISTAN
Isfahan
Dezfūl
Yazd
Ahvāz
Khorramshahr
Bandar-e Shāhpūr
Abadan
Basra
KUWAIT
Gach Sārān
Kerman
Shirāz
Zāhedān
PAKISTAN
JAZĪREH-YE KHĀRK
Bushire
Firūzābād
Khāsh
PERSIAN GULF
Bandar 'Abbās
QESHM
Ad Dammām
MANAMA
SAUDI ARABIA
BAHRAIN
QATAR
AD DAWḤAH
TRUCIAL STATES
To MUSCAT and OMAN
Jāsk
Chāh Bahār
GULF OF OMAN
BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE
IRAN
International boundary
National capital
Railroad
Paved road
Other road or track
Mudflat
Intermittent or marshy lake
Swamp
Salt waste
0 50 100 150 200 Miles
0 50 100 150 200 Kilometers

in January 1966, the Government announced a third stage of land reform concerned with comprehensive agricultural development including technical assistance for farmers, increased agricultural credit and support for rural cooperatives, marketing improvements, and expanded rural development programs involving education and health.

Emancipation of women has made remarkable progress, with women voting in the last parliamentary elections and a few even being elected, while others have been appointed to high government posts. Other successful or promising programs are the Education or Literacy Corps, the Health Corps, and the Development Corps, formed in 1962, 1964, and 1965, respectively.

Significant efforts have been made to maintain the impetus behind the reform program and, at the same time, in connection with land reform, efforts have been made to develop new institutions to replace those which were weakened or destroyed by land redistribution.

ECONOMY

Iran is predominantly an agricultural country. Oil revenues, which formerly provided from one-half to two-thirds of Iran's foreign exchange requirements and about a third of its budgetary expenditures, were almost entirely cut off by nationalization of the industry in 1951. During the first 2 years following nationalization the Government was able to meet its financial needs largely by borrowing and living off its reserves on a month-to-month basis. At the fall of the Mosaddeq government in August 1953, its financial distress had become acute. The United States provided emergency economic aid to assist Iran in meeting its most pressing budgetary requirements in anticipation of the early reactivation of the oil industry. An oil settlement was concluded in October 1954 with a consortium of international companies. The consortium consists of the British Petroleum Company, formerly the Anglo-Iranian Oil Company (40 percent), 5 American oil companies (an aggregate of 35 percent), the Iricon group of 8 American oil companies (an aggregate of 5 percent), Royal Dutch Shell (14 percent), and the Compagnie Francaise des Petroles (6 percent). With the settlement of the oil problem, Iran began to make use of her oil revenues for social and economic development.

With the reactivation of the oil industry in the autumn of 1954, revenues began to flow to Iran and have continued to rise since then. In 1958 Iran signed oil concession agreements with the Standard Oil Company of Indiana and with the Italian National Oil Company. These gave Iran more favorable terms than any contract then in effect between a foreign country and a major oil company. Both companies have found oil in commercial quantities, and it is expected that exploitation will lead to significantly increased revenue to the Iranian Government in the near future. Additional concessions were granted in offshore areas in 1965, under six joint venture agreements with various international oil companies. A new profit-sharing contract agreement for exploration and production in both offshore and inland concession areas with a French Government company was announced in August 1966.

An ambitious development program was launched in 1955, using a large percentage of the oil revenues each year. However, the pace of expenditures soon outstripped all sources of revenue, including foreign loans and supplier credits, and by 1960, after a rapid expansion of domestic credit, Iran was faced with a serious balance-of-payments problem and inflation.

With the help of the International Monetary Fund (IMF), Iran launched a stabilization program in late 1960. By mid-1962 inflation had been brought to a stop and Iran's foreign exchange position was greatly improved. However, the stabilization program also brought on a business recession which lasted until 1964 when the current business upswing began.

A third development plan was implemented in September 1962 covering all major investment activities in both the public and the private sectors for the period up to March 1968. Notable progress is being made in the establishment of new industries and the modernization of agriculture.

FOREIGN RELATIONS

In October 1955 Iran alined itself with the West by joining the Baghdad Pact (now CENTO), and it has maintained this stand despite considerable Soviet pressure. U.S.-Iranian relations are very close. Its political and economic relations with Western Europe have become closer since 1962, and a number of important trade and aid agreements have been signed.

After several years of strained relations marked by a vicious Soviet propaganda campaign against the Shah and the Iranian Government, Soviet-Iranian relations took a more cordial turn in September 1962 when Iran declared that it would not permit foreign missiles to be based on its soil. Relations with the Soviet Union and Eastern European countries are now normal and involve some economic assistance to Iran, and an increasing amount of barter trade.

In the field of foreign affairs Iran's most active current problems are with certain Arab states. Relations with the United Arab Republic were cut off several years ago, and there are presently a number of border irritants with Iraq.

U.S. POLICY

The United States seeks to help Iran maintain its independence and to make social and economic progress. It encourages Iran, as a member of the Central Treaty Organization, to develop collective defense security arrangements and to strengthen its economic and cultural ties with its regional CENTO partners. The United States extends to Iran the following types of assistance: sales of surplus agricultural commodities as required by the Iranian supply situation, technical assistance for economic development, and military assistance.

PRINCIPAL GOVERNMENT OFFICIALS

Monarch—The Shahanshah, His Imperial Majesty Mohammad Reza Shah Pahlavi
Prime Minister—Amir Abbas Hoveyda
Chief of the Supreme Commander's Staff—General Bahram Ariana
Foreign Minister—Abbas Aram
Finance Minister—Jamshid Amuzegar
Assistant to the Prime Minister and Head of the Plan Organization—Engineer Safi Asfia

PRINCIPAL U.S. OFFICIALS

Ambassador—Armin H. Meyer
Minister-Counselor of Embassy—Nicholas G. Thacher
Director of AID Mission—Edward F. Tennant
Chief of U.S. Mission to Iranian Army and Military Assistance Advisory Group—Maj. Gen. Harvey J. Jablonsky
Counselor of Embassy for Political Affairs—Martin F. Herz
Counselor of Embassy for Economic Affairs—Robert H. Harlan
Counselor of Embassy for Public Affairs—Lawrence J. Hall
Counselor of Embassy for Administrative Affairs—Ernest J. Colantonio
Army Attaché—Col. Robert S. Dickson
Air Attaché—Lt. Col. Banta M. York
Naval Attaché and Naval Air Attaché—Commander Martin Joseph Travers
Chief of U.S. Mission to Iranian Gendarmerie—Col. Preston B. Cannady

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Office of Media Services
Bureau of Public Affairs

NAMES OF INDIVIDUALS WHO SHOULD MEET WITH MR. MCNAMARA

The Shah

The Queen

Government Officials:

Prime Minister, Amir Abbas Hoveyda

Deputy Prime Minister, Safi Asfia

Managing Director, Plan Organization, Mehdi Samii

Deputy Managing Director, Plan Organization, G. Reza Moghadam

Minister of Finance, Dr. Jamshid Amuzegar (IBRD Governor)

Minister of Economy, Hushang Ansary

Minister of Education, Dr. (Mrs.) Farokhru Parsa

Minister of Scientific Research and High Education, Dr. Majid Rahnema

Minister of Health, Dr. Manuchehr Shahqoli

Minister of Posts, Telephones and Telegraph, Dr. Fathollah Sotudeh

Minister of Agriculture Products and Consumer Goods, Dr. Manuchehr Gudarzi

Minister of Land Reform and Rural Cooperatives, Dr. Abdol Asim Valian

Minister of Agriculture, Dr. Iraj Vahidi

Minister of Roads, Hasan Shalchian

Minister of Water and Power, Eng. Mansur Rouhani

Minister of Natural Resources, Naser Golesorkhi

Bank Markazi (Central Bank):

Khodad Farmanfarmaian, Governor

Cyrus Samii, Deputy Governor

Note: Each of the above persons contribute to decision taking in the area of economic development, and have a relevance for Bank operations.

Industrial Mining and Development Bank of Iran (IMDBI) (major Bank borrower)	Mr. A. Gasem Kheradjou, Managing Director
	Mr. Sherif Ememi, Chairman (poor English, good German) (very important; head of Pahlavi Foundation; President of the Senate)
National Iranian Oil Company (NIOC)	Dr. Manuchehr Eqbal, Chairman of Board of Directors (pompous; former Prime Minister; prominent family; poor English)
	Dr. Fallal, Deputy Chairman (good English)
Goodyear Tire Co. (Iran)	Mr. Taleghani, Chairman (Ex-Chairman; IMDBI; reported to be a very influential businessman)
Petrochemical Company of Iran	Mr. Mostofi (The Bank has been asked informally by the Plan Organization to consider financing of petrochemical ventures)
Kafsh Melli (Shoes)	Mr. Rahim M. Irvani, Managing Director (very successful, self-made businessman; customer of IMDBI)
Copper Chrome	Mr. Rezai (Influential family; owns chrome mines and is involved in an effort to exploit copper deposits for which Bank support was sought)
Agribusiness	Mr. Haslan Naraghi (Iranian born, U.S. citizen; made a fortune growing almonds in California. One of the agribusiness firms that is interested in developing land in the Dez project. Colorful, outspoken, successful businessman)
Sepanta Industries (rolling mills)	Mr. F.R. Felfels (successful, self-made businessman)
Aryamehr University	Mr. Reza Amin, Head (Former Deputy Managing Director, IMDBI; former head of Isfahan Cement; has resisted appeals to become Cabinet Minister, prominent Isfahan family, US wife)
Tehran University	Mr. Alikhani, Chancellor (former Minister of Economy)

Agricultural Development Fund of Iran (ADFI)	Dr. Nasser Ameri, President (former Vice Governor of the Central Bank, EDI fellow; ADFI is prospective borrower of IBRD, first loan to be made before end 1969)
Agricultural Bank of Iran	Mr. Reza Sadaghian, President (EDI fellow)
Ghazvin Development Authority	Mr. Merteza Vakilzadeh; Managing Director (Ministry of Agriculture; EDI fellow)

The Shah

His Imperial Majesty Mohammed Reza Pahlavi, King of Kings, the Light of the Aryans.

Born: Tehran, 1919

Education: Le Rosey, Switzerland; Military Academy of Iran.

At 50 the Shah is a confident and successful monarch but his personality today cannot be understood without reference to the circumstances in which he came to power and his earlier career. Mohammed Reza Pahlavi came to the throne in 1941 when his father, Reza Shah, was forced to abdicate by Britain and Russia. Thus during the early years of his reign he was little more than a figurehead in an occupied country. At the conclusion of the war he was faced with the problem of puppet regimes established by Russia in Azerbayjan and Kurdestan. He was able to overthrow these only with the assistance of a strong Prime Minister Qavam and the United States. In the early fifties his power was threatened by the late Mohammad Mossadeq, an emotional, nationalist leader, who even today is greatly admired by many younger Iranians for his integrity and perhaps old fashioned, liberal ideas. This threat not only to his power and prerogatives, but also to his throne itself was overcome in 1953 by an American sponsored military coup d'etat.

Since that time the Shah's power and prestige, inside Iran and outside, have continued to grow. He has survived various assassination attempts, and has disarmed and scattered the remaining nationalist followers of Mossadeq, in many cases by absorbing them into the establishment. His land-reform program may well have increased his popular support; in any case it weakened the hands of any opposition from the old landed aristocracy. The Shah's successes have not been limited to the political field. He has presided over, if not directed, a period of sustained economic growth made

possible in large part by his successfully squeezing increased revenues from the international oil companies.

The Shah is reported to be a religious man and has publicly stated that he has been moved by visions of Ali, the son-in-law of the prophet who in Shiah Islam occupies a position analogous to Christ. His public image, assiduously cultivated in recent years, is one of lofty austerity. Reportedly he abstains completely from the use of alcohol.

Thus, the confident monarch who need fear no serious opposition at home and who covets the role of statesman and spokesman for the emerging nations, is the product of years of insecurity and threats both to his regime and life. Just as Iran's prosperity and stability upon second glance appear fragile and chimerical, so under the Shah's present manner, deeper proding reveals insecurity. Nevertheless, like Iran's economy and political system, his success has continued to confound his critics.

The Queen

Her Imperial Majesty, Farah Pahlavi.

Born: 1938, Tehran.

Educated: In Tehran and at art school in France.

The Queen was introduced to the Shah by his daughter Princess Shahnaz. She is his third wife. His previous marriages ended in divorce. Her father, an officer in the Iranian Army, died when she was a young girl. She was brought up in a middle class atmosphere by her mother. Since her marriage to the Shah, she has borne a son and heir, as well as two other children. The public reason for her not having accompanied HIM on his recent visit to the United States was that she was pregnant. As Queen she has cultivated a public image of concerned philanthropist and dutiful wife to her Imperial husband. To the public she has appeared dignified, modest and interested.

Prime Minister - Amir Abbas Hoveyda

Born: Tehran, 1919.

Education: M.A., Political Science, Brussels; Ph.D., Paris University.

Career: Diplomatic service 1942-1956; Member, Board NIOC, 1958; Founding Member Iran Novin Party; Minister of Finance, 1964; Prime Minister 1965.

English fluent.

Hoveyda became Prime Minister on the assassination of Hassan Ali Mansur. His image, that of a pipe-smoking, low-key, friend of the people compliments the austere majesty which the Shah effects and is, therefore, useful to His Imperial Majesty. Hoveyda during his years in the diplomatic service became a friend of the late Hassan Ali Mansur and with him in the early sixties formed a group of intellectuals who supported the regime and well known as the Progressive Center. This group, though not particularly representative of intellectuals during that period, nor very gifted or colorful, was useful to the Shah when he embarked his reform program in 1962 and 1963. The Progressive Center became the kernel of the Iran Novin Party which has continued to control a majority in the Iranian Lower House.

Hoveyda is not without ability, but he was stayed in power largely because he shows no signs of independence and in no way threatens the power and authority of the Shah.

Deputy Prime Minister for Development and Economic Affairs - Safi Asfia

Born: 1912

Education: Engineering College, Tehran University; graduate mining engineering; graduate Polytechnic College, Paris; holds Chair in Mining Engineering Faculty at Tehran University.

Career: Was Managing Director of Plan Organization until early 1969.

Mehdi Samii - Managing Director - Plan Organization

Born: 1918

Education: Studied accounting and economics in England.

In 1952 he went to work for Bank Melli. Between 1957-58 he was employed by the NIOC. He was Deputy Managing Director of IMDBI from its founding until 1963, when he became Governor of the Central Bank. He held this position until this year when he was appointed to head the Plan Organization. (Very able, intelligent, enjoys confidence of the Shah, fluent English). Appointed early 1969. (Holds Cabinet rank, but not member of Cabinet.)

G. Reza Moghadam - Deputy Managing Director - Plan Organization

Born: 1925

Education: BA Economics, Upsala College, N.J, 1949;
PhD, Stanford University, California, 1953.

In 1953 Mr. Moghdam joined the staff of the IMF, and he is currently on a leave of absence from the IMF.

Minister of Finance - Jamshid Amuzegar (IBRD Governor)

Born: 1923

Education: Graduate of Law and Engineering from Tehran University; studied at Washington and Cornell Universities for seven years from 1947, graduated in Civil Engineering; M.A. in Sanitary Engineering and Ph.D. in Hydraulics.

Career: Lecturer on Hydraulics and Civil Engineering at Cornell University; United Nations expert in Underground Water Resources:

Head of Point Four Engineering Department in Iran; Deputy Chairman of Health; Minister of Labor; Minister of Agriculture. Has been Minister of Finance since March 1965 and Governor of the Bank since May 1965. Political

Activities: Founder member of the Melliyun Party, led by Manuchehr Eqbal during the 1950's when the Shah experimented with a two-party system. Fluent English.

Minister of Economy - Hushang Ansari

Born: 1928

Education: England, U.S.A. and Japan.

Career: Diplomatic Service: Ambassador to Pakistan; Minister of Information; Ambassador to U.S.A. 1968-1969.

Fluent English.

Minister of Education - (Mrs.) Farokhru Parsa

Born: 1918

Education: Ph.D. Tehran University

Career: Former Teacher and Member of Majilis. One of the women brought into Majlis in about 1963 as a result of the Shah's reforms and emphasis on women's rights. Very clever, gracious personality, easy to chat with - speaks English.

Minister of Scientific Research and High Education - Dr. Majid Rahnema

Heads a ministry formed in 1968 to be responsible for direct supervision of higher education and recently also for policy development for all education (understand the later function has not yet been adopted). The Minister is described as smooth personality, idealistic; his English is poor.

Minister of Health - Dr. Manuchehr Shahqoli

Minister of Posts, Telephones and Telegraph - Dr. Fathollah Sotudeh

Minister of Agriculture Products and Consumer Goods - Dr. Manuchehr Gudarzi

Born: 1925

Education: American University, Beirut; spent 10 years in UN; Economics, Political Science, PhD. Princeton.

Fluent English.

Minister since 1969.

Minister of Land Reform and Rural Cooperatives - Dr. Abdol Azim Valian

Born: 1923

Education: Graduate of Officers' College, Tehran, Political Science; also studied at Punjab University, Lahore; Doctorate from Tehran University; holds position of Colonel in the Army.

Fair English.

Minister since 1965.

Minister of Agriculture - Iraj Vahidi

Born: 1924

Education: Graduate in Civil Engineering, University of Tehran;
PhD. in Hydraulic Technology, Kings College, Cambridge;

Career: Was Managing Director of Khuzestan Water and Power Authority.

Fluent English.

Minister since August 1969.

Minister of Roads - Hasan Shalchian

Born: 1913

Education: Graduate in Civil Engineering, State University of Belgium.

Career: Since 1939 in Ministry of Roads; Minister 1964 - present.
Speaks English.

Minister of Water and Power - Mansur Rouhani

Born: 1921

Education: Engineering London.

Career: He comes from a religious background. Former employee Anglo-Iranian Oil Company. Served on Tehran Water Board, Member Executive Committee Iran Novin Party. Dynamic, influential, "able," outspoken critic of IBRD - considers it slow, inclined to impose unreasonable conditions. He manages water and power program of the Government in an emphatic and free-wheeling manner. Fluent English.

Minister of Natural Resources - Naser Golesorkhi

Born: 1920

Education: Graduate of Agricultural College, University of Tehran;

PhD. from American University in Agricultural Economics.

Good English.

Minister since 1966.

Governor of Bank Markazi - Khodad Farmanfarmaian

Born: Approx. 1923

Education: PhD. Economics from one of the Californian Universities. On the Faculty of Princeton before returning to Iran about 1957.

Career: Ranking Economist in the Plan Organization for a number of years. During part of the early 1960's he was out of governmental life. He joined the Central Bank about 5 years ago as Deputy Governor and became Governor when Mehdi Samii left the Bank to become Managing Director of the Plan Organization (early 1969).

Governor Farmanfarmaian comes from a very prominent family which had considerable power in Iran before the present Royal family came to power. For some time during the 1930's-1940's his family was not in the grace of the reigning Royal family. He has strong political ambitions, but because of his background it is doubtful that he will be given high political office.

He is likeable, quite bright and very much of an extrovert. He is well acquainted with American institutions and has many friends in the U.S. His wife is American.

Deputy Governor of Bank Markazi - Cyrus Samii

Born: 1926

Education: BA in Literature, Tehran University; MA English Literature and Languages, Michigan University; MA Political Science, Oklahoma A & M; PhD. Political Science, Kansas University.

Mr. Samii has been employed by IBRD since December 1962, but since February 1969 has been on a leave of absence.

POLITICS

Politics

Iran is a Constitutional Monarchy, but it was a monarchy for 2500 years before the Constitution was introduced in 1909. The accent today remains on monarchy. Real power in Iran is concentrated in the hands of the Shah. The press is controlled. There is no effective opposition. After the fall of Mossadeq, opposition groups in the late 1950s came together in what was called the National Front. This group has been largely destroyed both by effective police surveillance and suppression and by absorbing many of its members into lucrative positions within the establishment. In the Western sense political parties do not exist. They are either personal cliques or aritifical, official instruments. The current (since 1963) majority party in Parliament is the Iran Novin Party, formed about 1963 from a group of intellectuals led by Hassan Ali Mansur, who became Prime Minister in 1963 only to be assassinated two years later. In the early 1960s the Shah experimented with a two-party system. One of the parties founded at this time, the Mardom or People's party, is still active. The Shah's power is limited to some extent by the need to preserve the form of constitutional government and by his growing dependence upon technocrats and the exigencies of a complex economy as Iranian society moves into the twentieth century.

The basis of the Shah's present power and the current political stability of Iran rests on three factors.

(1) Perhaps the most important of these is the Shah's political skill and acumen. His methods combine the new and the old, the Occidental and Oriental, an efficient security police and the traditional method of eastern despots continually shifting favorites, rewarding supporters and isolating enemies, real or potential.

(2) The military has been successfully kept out of politics since the fall of Mossadeq. Iran's staggering military budget may be the social price, calculated in the currency of sophisticated weapons, paid to the generals and colonels for political restraint.

(3) The Shah has some real popular support. The peasantry who make up 65 - 75% of the population of Iran is generally loyal to the institution of the monarchy and to the present king. The land reform program, which began seriously in 1962 and officially was concluded this year, may have re-enforced this loyalty to the crown. More important, the Shah has bought the grudging cooperation of his potential opposition, the educated middle class. This cooperation is likely to continue as long as Iran's economy continues to expand at its present rate.

Internationally, the Shah has strengthened his position by reducing dependence upon the U.S. and improving relations with the USSR. Iran has political and military ambitions in the Persian Gulf which in the long run could exacerbate relations with neighboring Arab states, particularly those which regard themselves as socialist or revolutionary and follow the lead of Nasser.

The present pattern of internal stability, based upon the concentration of power in the hands of the Shah is likely to continue, barring an accident to HIM, unless Iran runs into serious economic difficulties and attendant social unrest of a more intense nature than the recession of 1960-62, or unless Iran becomes involved in a costly international adventure.

ECONOMIC DECISION STRUCTURES

1. The system for reaching economic decisions in Iran must be seen in three complementary contexts. First, historically, a rivalry has existed between the Plan Organization, responsible for planning and budgeting, and the operating ministries. In times of difficulty and belt-tightening the Shah has tended to attach greater importance to the Plan Organization and its emphasis on discipline and quality projects. In boom times energetic ministers with showy, and often costly projects, have had the Shah's ears. At the moment the pendulum seems to be swinging back in the direction of the Plan Organization. Second, decision making at the top is concentrated in the hands of the Shah, but below this level it is extremely diffuse. The Plan Organization is intended to coordinate economic policy, and perhaps, under the capable leadership recently installed, will do so in the future. Third, personality is more important than institutions, and no diagram of theoretical lines of responsibility or authority can possibly hint at the complex web of person relationships that, in fact determines who gets what done.

2. Formally, the chief decision-taking body is the High Economic Council which is presided over by HIM. Next is the High Plan Council, which is presided over by the Prime Minister.

The Plan Organization (the staff of the High Plan Council) is in principle the co-ordinator and advisor to the Government for all economic matters. The Plan Organization makes recommendations to the High Plan Council on all aspects of economic policy, prepares the annual operating and investment budgets, the five-year development program and is responsible for the disbursement of funds. It has some responsibility for appraisal and

supervision of all public-sector projects, but has not yet established effective authority on these matters.

3. Development Plan. The plan documents are prepared by the Plan Organization, and both the third and fourth plans were extremely good in terms of macro-economic planning. The plan is more a statement of intention than a blue-print for action. In particular, the project basis of the plan is not at all clear, and no attempt is made to dove-tail the various projects submitted to the Plan Organization by the Ministries into the overall objectives of the Plan.

4. Preparation of the Budget. This is one of the weakest areas in the decision-making process. The Bureau of the Budget tends to play a passive role in making forecasts of revenue and recording the requests for expenditure from the various Ministries. The Budget staff for example has no information on the expenditure plans of the Ministry of Defence (which accounts for almost half of Government current expenditure) and is therefore extremely limited in its capacity to influence policy.

5. Project Evaluation. The Technical Bureau of the Plan Organization has the responsibility for appraising and supervising projects for the Plan Organization. In fact, the technical and economic staff (currently about 30) is totally inadequate for tasks of evaluating and supervising an investment program which totalled almost more than $1 billion last year. Consequently, evaluation was left to the Ministries, where political considerations, not economic viability, tend to determine the acceptance of projects. In addition, the Plan Organization had to accept three major projects: the gas pipleline to Russia, the Petro-Chemical Complex and the Steel Mill, which they neither

prepared, nor evaluated. The decision to go ahead with these projects was taken by HIM. All three will cost roughly 100 percent more than originally budgeted.

The Plan Organization has the responsibility of disbursing funds to public sector projects, but has little or no supervisory personnel to follow up on performance. Execution is left to the Ministries who generally have no effective incentive to report fully or accurately to the Plan Organization.

6. Other Economic Agencies

Ministry of Finance: The Ministry of Finance is primarily concerned with the collection of revenue. It also disburses funds for the ordinary (current expenditure) budget, which are, however, budgeted by the Plan Organization. The present Minister is ambitious and energetic. He is considering several improvements in the structure and collection of taxes.

Ministry of Economy: The major responsibility for development policy especially in relation to the private sector lies with the Ministry of Economy, which was created for this purpose in 1963. Studies and recommendations on industrial policy, tariff structure and foreign trade are handled by this Ministry.

Bank Markazi: The Central Bank probably has more autonomy than the other agencies. Traditionally, the Governor of the Central Bank works closely with the Plan Organization and other economic agencies in determining monetary policy. Although only about ten years old the Central Bank is also the best source of economic information in Iran.

Because of the inadequacy of the lines of communication between these agencies, there is a great deal of duplication of work. Coordination

is attempted through High Economic and High Plan Councils. The Ministers of Economy and Finance, the Governor of the Central Bank and the head of the Plan Organization as well as other officials are members of both.

Cabinet List (October 1969)

		Date Appointed
H.E. Amir Abbas HOVEYDA	Prime Minister	1965
H.E. Safi ASFIA	Deputy Prime Minister for Development and Economic Affairs	early 1969
H.E. Ardeshir ZAHEDI	Minister of Foreign Affairs	1967
H.E. Dr. Jamshid AMUZEGAR	Minister of Finance	1965
H.E. Dr. Hassan ZAHEDI	Minister of Interior	1969
H.E. Dr. Abdol Majid MAJIDI	Minister of Labor and Social Services	late 1967
H.E. Hushang ANSARY	Minister of Economy	August 1969
H.E. Hasan SHALCHIAN	Minister of Roads	1962
H.E. Assadollah SANII	Minister of War	1964
H.E. Manuchehr PARTO	Minister of Justice	1968
H.E. Hosein KAZEMZADEH	Minister of State and Secretary General of the Civil Service Commission	early 1969
H.E. Dr. Masr YEGAHEH	Minister of Development and Housing	August 1969
H.E. Dr. (Mrs.) Farokhru PARSA	Minister of Education	1968
H.E. Eng. Mansur ROWHANI	Minister of Water and Power	1965
H.E. Dr. Mahmud KASHFIAN	Minister of State	1968
H.E. Dr. Fathollah SOTUDEH	Minister of P.T.T.	
H.E. Mehrdad PAHLBOD	Minister of Culture and Art	1964
H.E. Javad MANSUR	Minister of Information	1967
H.E. Dr. Manuchehr SHAHQOLI	Minister of Health	
H.E. Dr. Majid RAHNEMA	Minister of Scientific Research and Higher Education	1968
H.E. Dr. Manuchehr GUDARZI	Minister of Agriculture Products and Consumer Goods	early 1969
H.E. Naser GOLESORKHI	Minister of Natural Resources	1966
H.E. Dr. Abdol Azim VALIAN	Minister of Land Reform and Rural Cooperatives	1965
H.E. Iraj VAHIDI	Minister of Agriculture	August 1969

1. Mr. Mehdi Samii
   Managing Director
   Plan Organization

2. Mr. Farroukh Najmabadi
   Deputy Minister of Economy (in charge of industry)

3. Mr. Aboul-Hassan Ebtehaj
   Chairman & President Iranian Bank

4. Mr. Daryoush Homayoun
   Managing Director of Ayandegan Newspaper

5. Mrs. Sattareh Farman-Farmaian
   Director
   Tehran School of Social Work

6. Dr. Fereydoun Mahdavi
   Deputy Managing Director
   Industrial & Mining Development Bank of Iran

7. Eng. Saeed Hedayat
   Managing Director
   Ahwaz Pipe Mill Company

8. Eng. Iraj Hedayat
   Assistant Managing Director
   Industrial & Mining Development Bank of Iran

9. Mr. Abdol-Ali Farman-Farmaian
   Chairman of the Board of Directors &
   Managing Director
   Pars Oil Company (lubricating oil)

10. Mr. Rahim Mottaghi Iravani
    Chairman
    Melli Shoe Company

11. Mr. Malm
    Managing Director
    Sherkat Sahami Aliaf (nylon six plant with Allied Chemical as partner)

12. Mr. Ali Rezaii
    Managing Director
    Iran Rolling Mill Company

13. Mr. Ebrahim Golestan
    Writer and film producer

ECONOMIC CONDITIONS
AND OUTLOOK

NOTE ON IRAN

During the 1960's the Iranian economy has been experiencing a major business upswing as well as a structural economic and social transformation. The business upswing has been reflected in a GNP growth rate of 8% per annum, spearheaded by industrial expansion of 12% yearly and by growth of investment expenditure of 19% per year. The social transformation has been reflected in the agrarian reform which, when supplemented by large agricultural investments and other measures to increase rural income, may hold the promise of breaking the centuries-old stranglehold over the vast majority of the population. The economic transformation has been reflected in rapid modernization of the economic structure and of the society, with industrial and urban employment gaining over the rest and with modern organization of production and distribution overtaking the traditional forms.

Iran has substantial possibilities to sustain in the 1970's and the 1980's the rate of advance and of modernization initiated during the 1960's. It has an extraordinary range of natural resources, an excellent geographical location and an outstanding tradition of skills in production and marketing. The main handicap is vast distances that separate the major centers of economic activity across its large territory, but this handicap can today be overcome more easily than in the past.

(a) Iran is one of the dozen fortunate developing countries which are winners in foreign exchange lottery: it has petroleum. The availability of petroleum means large government revenue, absence of a severe foreign exchange constraint and availability of the basic material for modern chemical industry. Iran also has metals: if they can be exploited adequately, they could serve not only as additional exports but also as a basis of domestic processing industry producing both for the domestic and foreign markets. Next, the variety of climate and of soils make Iran potentially self-sufficient in foodstuffs and agricultural raw materials; furthermore, it can also serve as a basis for development of large export trade in agricultural products and in agro-based manufactures. Finally, the numerous monuments of its dramatic history and the outstanding beauty of its countryside, from the Caspian littoral to Shiraz and Meshed, make Iran one of the most attractive points of future tourist traffic to Central and South Asia.

(b) In periods of peace, Iran has traditionally been a major trading center: its geographical location at the crossroad between the West and the East has always been an important asset. To this traditional function, modern Iran can add two dimensions. First, it has a natural comparative advantage

to become a major supplier of both agricultural and manufactured goods to the countries on the other side of the Persian Gulf. This is a region with large and rapidly growing purchasing power, greatly dependent on imports; and Iran together with Pakistan and West India, is in the best position to satisfy a large part of this import demand. Second, Iran is equally close to the U.S.S.R. The Iranian tropical and subtropical products originating south of the Caspian Sea could become a major export flow to the heartland of Central and Northern Russia, provided there is peace and economic cooperation.

(c) To the traditional skills of the Persian craftsmen and traders, which have been responsible for Iran's past periods of prosperity in peace-time, modern Iran has also added another dimension: large numbers of young Iranians have acquired high-level technical education and an equally large number are acquiring it now. This fundamental advance has now to be accompanied by acquisition of modern technical skills at the medium level. Once a significant step forward is made in this direction as well, skills should not be a constraint to Iranian growth.

Whether Iran will be able to make full use of these assets and thus sustain rapid and uninterrupted growth while spreading its benefits to the population at large, depends essentially on two factors.

First, there should be peace, on its borders and generally.

Secondly, it will be crucial what the pattern of allocations of its resources will be, between economic and non-economic uses, and, within the economic sector, between resource-based and other activities.

If Iran succeeds in holding down non-productive government expenditures, including non-civilian expenditures, the resources available for financing growth will be very large. If such large resources are deployed in developing the type of industries for which there are domestic resources, in the mineral sector and particularly in agriculture, the effects of its industrial growth will penetrate the rural hinterland where most of the population is concentrated and incomes are lowest. Furthermore, resource-based industrialization will tend to be export-oriented, which would maximize the comparative trade advantages of Iran; it would stimulate economic cooperation with the neighboring countries in which Iran is already engaged; and it will also tend to be dispersed geographically within Iran, which would reduce the gravity of the urban problem of Tehran and promote growth in the outlying depressed areas.

Oct 30, 69

D Avramovic

ECONOMIC POSITION AND OUTLOOK

A report on the Economic Situation and Prospects of Iran has just been completed and is attached along with Mr. Avramovic's recent paper on industrialization. Both conclude that Iran has been successful in maintaining a remarkable rate of economic growth. Basic development strategy has been to create a modern industrial sector in which new production methods are introduced and more recently to extend these techniques to some areas of agriculture. While this in the first instance produces a very imbalanced growth pattern and appears to accentuate the unequal distribution of income, it is expected that the momentum with which the modern sector is moving ahead will eventually carry with it the traditional sector. Furthermore, direct efforts to reduce poverty levels in rural areas have been undertaken and appear to have been moderately successful in improving health and educational standards, and also in abolishing in large part the old quasi-feudal, land-tenure system.

Over the past six years GNP at constant prices has grown by 8 percent per annum; agricultural production by almost 5 percent; savings and investment respectively by 12 percent and 19 percent; oil revenues by 16 percent and non-oil exports by 11 percent. Industrialization was spurred by a policy of encouraging import substitution at the final product level, but cost and efficiency considerations were neglected. The Government realizes that the industrialization process must be deepened so that the share of domestic value added in industry can be raised. It intends that new activities be more in line with comparative advantages. Detailed programs designed to reach these objectives however have not yet been developed.

The Government has developed and is enforcing a new industrial location policy in order to cause new industries to be located in provincial centers and thus spread the impact of growth to regions other than Tehran. This policy will require a review of transportation, telecommunications, power, education and other urban problems.

In agriculture a new institutional system must be built up to replace that which was abolished by land reform. Agri-business may increase agricultural production; it shows little tendency to solve the social problems facing the mass of Iranian peasantry.

The large and growing oil sector has stimulated overall development and financed a large part of it. It now contributes nearly half of Government revenues and more than three-fourths of foreign exchange receipts. Despite its fast growth, however, Government expenditures have outrun revenues, imports have outrun earnings, and private investment has exceeded savings. Rapid acceleration of imports is, to some extent, inherent in the industrialization process. In Iran's case, this effect is heightened by her overall strategy and import substitution tactics.

Overall, current Government expenditures grew at an annual rate of 15 percent over the past six years, and at 20 percent over the past two years. Defense expenditures have made up a large part of this growth and at Rls 44 billion in 1968/69 they make up about half of current expenditures and 7 percent of GNP. The Shah seems determined to continue high military expenditures, even though they compete with necessary development measures. The expansion of non-defense expenditures has been not much higher than the growth of GNP. Services, however, were expanded more rapidly than expenditures,

thanks to Iran's experience in using "Revolutionary Corps," i.e. educated conscripts during their military service to provide services, such as education, health, etc., to rural areas. Despite this imaginative program, the level of services provided is still rudimentary in many fields; for instance, only about half of primary school-age children get any schooling at all. Yet if the recent momentum is to be maintained, budgets for these services must rise very rapidly, since contribution of additional personnel by the Revolutionary Corps is now limited.

investigate this program

In the private sector, the main problem seems to be the lack of adequate channels to enable would-be savers to invest remuneratively. An exception is the banking sector, which has grown very fast and attracted increasing savings and time deposits. This growth has not been sufficient, however, to allow private savings to remain quite in step with private investment, so that in recent years the private sector added its own savings gap to that of the Government.

As a result of the recession years of the early 1960s there were excess savings which could be invested in industry, but this excess disappeared and turned negative after 1964/65. The phenomenon itself is, of course, highly desirable: Iran needs capital, makes reasonably good use of it, and should import it. But the speed with which the gap between savings and investment has grown may well be excessive. From about Rls. 7 billion in 1964/65, the gap grew to RLs. 17 billion in 1967/68 and 36 billion in 1968/69. In that year, it represented more than one-fourth of fixed investment; the corresponding net official monetary capital inflow, of about $460 million, financed almost

one-third of imports. These figures probably understate the capital inflow, because they exclude net private use of suppliers credits. In the current year - despite strong monetary measures and some fiscal efforts to lower the gap - the overall deficit is likely to be even higher.

The Government has succeeded in obtaining substantial foreign borrowings but last year also witnessed an outflow of monetary reserves. A high proportion of recent borrowings was tied to the purchase of equipment of military hardware and on relatively short term. Consequently debt service has risen rapidly, to reach about $340 million in the current year, comprising $280 million on Government debt and $60 million service on private obligations. This sum amounts to about 25 percent of expected current earnings from the oil sector and other merchandise exports.

If these trends continue, harsh stabilization will become necessary, interrupting at least temporarily and for the first time since 1963, the rapid pace of growth. If these measures are to be avoided, it is urgent that the average maturity of new debt should be considerably lengthened. Greater access to institutional investors, such as IBRD, would impose stricter standards of project preparation - useful in itself, but not necessarily welcome to HIM or to his ministers. In any case, the need for external capital on appropriate terms must be transmitted throughout the Iranian economic community, particularly at the level of the project executing agencies. These do not themselves carry the burden of financing, resent rather than appreciate outside interference. They have generally arranged foreign financing easily through suppliers (though the Plan Organization

remains formally responsible for signing these loans). Questions of project quality, of the terms of financing and of organizational arrangements are thus closely interrelated, and can be satisfactorily resolved only if tackled together. The question of military credits - obviously a substantial part of recent borrowing - is also part of this problem. Under present circumstances only HIM can begin to offer answers, and near term prospects depend on the extent to which he is willing to support Mehdi Samii in his efforts to improve forward discipline throughout the Government by revitalizing the Plan Organization.

In the longer run - but not too long - the growth of savings, both public and private, must be stepped up so as to at least keep pace with the desired growth in investment. On the Government side, this will involve a greater tax effort; but one which must be carefully examined if the costs of additional taxation are not to outweigh the benefits expected from investments and additional current expenditures. In the private sector, remunerative outlets for private savings must be found, perhaps by allowing them to be channelled towards investments in the modern sector, either directly through an invigorated share market and long-term fixed-interest securities, or indirectly through financial institutions such as IMDBI, insurance companies and other schemes still to be developed.

outlets or stimulants for?

For several years to come Iran will clearly continue to need, and will be able to use productively, large net capital inflows. The prudently acceptable amount, would probably be as much as 20 percent, but not more than 30 percent of fixed investment: say a new inflow of $300 million to $500 million, corresponding very roughly to $500 million to $700 million gross

fixed investment for yr *1.5 billion
net capital inflow " 300-500 million
gross " " 500-700 "
IBRD *80 should not this be higher

borrowing. Of course, the amount Iran can prudently borrow is a direct function of the country's success in carrying out the policies just outlined. It also depends upon continued foreign exchange earnings, which must come at least in short-term primarily from oil. Oil revenues are determined in part through a bargaining process, the outcome of which one cannot forecast. In this connection the Iranian Government tends to consider that forecasts lower than its own, especially those appearing in the official reports of prestigious institutions such as IBRD, harm its bargaining position. However, substantial slackening of the growth rate of oil revenues is a distinct possibility.

Iran is probably correct in its bargaining

Records August 14, 1969

I. P. M. Cargill

IRAN: Mr. McNamara's Meeting with H.M. the Shah of Iran

Mr. McNamara met with H.M. the Shah of Iran on April 2 at the Iranian Ambassador's residence. Present from the Bank were Mr. Jahanshahi, the Alternate Executive Director, Mr. Knapp and Mr. Cargill and from the Embassy Ambassador Amuzegar. The discussion opened with the question of what role the Bank could play in the development of Iran's economy. Mr. McNamara expressed disappointment at the low level of Bank lending in the past and expressed the hope that it would be possible to reach agreement with the Government on an expansion of Iran's development program with considerable support from the Bank. The Shah welcomed this statement, saying that the next few years were likely to be especially important for Iran's economic development and that help from the World Bank would be most desirable. He had taken steps recently to strengthen the agencies, in particular the Plan Organization, which were responsible for carrying out a development program. He mentioned in particular the appointment of Mr. Mehdi Samii to be the head of the Plan Organization.

Mr. McNamara mentioned that he hoped to pay a visit to Iran to familiarize himself with Iran's economic problems. The Shah replied that he would welcome this and would arrange for an invitation to be issued. In the rather discursive discussion which followed, the Shah made the following points.

a. The special importance of providing aid to Iran now and in the next few years, was not fully enough appreciated abroad. In particular, reference had to be made to the attitude of the oil companies which should be changed in everybody's interest. Unless marked economic progress could be made over the next few years, difficulties might well arise which would be detrimental to the world at large.

b. Iran was the only stable country in the area. This was largely due to the political and social policies of his Government which were designed to insure economic progress and insure that all classes of the population shared in this progress.

c. With the withdrawal of the British from the Persian Gulf area, fresh responsibilities would fall on Iran. The British could not be replaced by another foreign power and certainly not by the United States or Russia. Iran's defense forces were well equipped and well trained and were needed to insure continued peace.

d. The Arab world was highly unstable and it was difficult to see how or when a settlement could be reached, especially on the question of Israel. Meanwhile, those countries which were rich from oil revenues were not putting their large resources to good use as Iran was and this failure was likely to feed the discontent of their poorer neighbors.

e. With regard to Asia, leadership would have to come from Japan at one end and Iran at the other. Most Asian countries were small and effective leadership was unlikely to come from India or Pakistan. India was too poor and suffering from too many social and political problems. In Pakistan the future was obscure; recent troubles had been due to widespread public conviction that corruption and nepotism existed in high quarters and that wealth was concentrated in the hands of a few people.

f. He felt hopeful about Indonesia and considered that the events of the last two years had considerably reduced the threat of communism in Southeast Asia which up to that time the U.S. had been trying to handle by their support of the South Vietnamese people.

f. With regard to Bahrain, Iran's position was clear. Iran would not attempt to take Bahrain by force. However, it felt that the proper course was for a plebiscite to be held to allow the people of Bahrain to decide whether or not they wished to be part of Iran.

IPMCargill:jgt

Bank Program

Background Information for Discussions with HIM The Shah, The Prime Minister, The Managing Director of the Plan Organization, The Minister of Finance

The Government of Iran requires Bank Group assistance in two respects:

(a) Long-term financing: The ambitious and sucessful investment program has been financed from rising oil revenues plus external borrowing, which in recent years included substantial supplier credit financing. The resulting debt service burden has risen from about 12% in 1963 to roughly 25% at present, reducing foreign exchange for investment purposes and accentuating a domestic cash shortage. Even if earnings from petroleum continues to increase, which is not assured, although the Government feels strongly that they will, it is vitally important that external borrowings be obtained at substantially longer terms, say 20 years average and 15 years minimum. On the assumption that Iran's oil revenues will continue to rise, we estimate that gross borrowing could be about $500 - 700 million per year. The Government hopes that the Bank will provide as much of this as possible. Our plans are to provide about 20% of this need or $125 million per year for the period 1970 - 74.

(b) Assistance to improve the quality of the investment program and to introduce greater cost consciouness in its execution. The Government is aware of the need for efforts to switch emphasis from investments in infrastructure, industry and agriculture to measures which will increase the efficiency of investments already made and reduce the cost of operations. Certain groups within Government, particularly the leadership of the Plan Organization seek Bank group financing in order to obtain assistance in investment planning and project evaluation. Although substantial bilateral financing has been available to Iran usually after obtaining offers from several different countries, IBRD financing nevertheless would re-

enforce international competitive bidding practice and help reduce the cost of investments.

The Bank is responding positively to Iran's request for greater assistance. We are developing a program which envisages a more than three-fold increase in average annual amount of lending, which includes a great deal more technical assistance activities as well as expanding the Bank's program into new sectors.

A prerequisite for a substantially increased Bank program in Iran is improved relations. Much has been accomplished since early this year but there remain actions which should be taken by the Government, and some by the Bank, to facilitate the program.

In view of the fact that HIM is personally interested in problems of economic development and is making final decisions in this area, it would be most helpful if he communicated to the rest of the Government that he is interested in obtaining greater Bank assistance, capital as well as know-how. We believe that the Shah recognizes the importance of obtaining foreign financing on longer term than hitherto, and is also aware of the growing need for improving the efficiency of the investment program. To accomplish this, he revitalized the Plan Organization in early 1969 by appointing a new management from which he expects improved procedures for the selection and execution of projects in addition to obtaining financing on longer term.

It should be noted that there is widespread belief in the Government that bilateral financing terms usually obtained after negotiations with several potential sources are better than IBRD terms, i.e. less than 7% interest and greater participation in financing the project beyond the strict foreign exchange costs. Also, fewer conditions interfering with other lenders attach sovereignty and graft.

There also remains much concern in the Government about the Bank's procedures which are thought to be slow, cumbersome and often confused (this view has sometimes also been attributed to HIM). Recent emphasis on speed at the possible expense of efficiency and the overall success of the investment program persuaded many in the Government that the way the Bank does its business is unimaginative and unduly restrictive. This has exacerbated the slow use of the proceeds of some Bank loans for roads and the two irrigation projects. While this was in part a result of shortage of local currency funds, it is also a consequence of the executing agency not being prepared to accept in all cases the employment of international competitive bidding as prescribed under the loan agreement. Paradoxically, in order to increase the Bank's participation in the projects, additional items were included for financing but as it turned out it was impractical to use Bank rules in contracting for them.

It would be unreasonable to expect the Plan Organization to introduce greater cost conscientiousness in the public sector through direct control of the ministries and executing agencies involved, particularly in view of its own staff weaknesses which are likely to remain in spite of the very able, dynamic new management.

In addition to maintaining good relations with the Plan Organization, the Bank must work directly with the ministries and other executing agencies and attempt to reach a better understanding directly.

One of the basic problems making good relations with Iran difficult is the propensity for change within the Government and the divisions of responsibility between the Plan Organization and executing agencies. An increased Bank program in Iran will require that there be staff continuity, particularly in the Area Department, makint possible intimate knowledge of the decision-making apparatus in the Iranian Government at all times. We

believe that some of the difficulties we are experiencing with projects under way have not been resolved because the Bank did not persevere or follow-up sufficiently. Responsibility for Iran in the Bank has been switched too often between staff of departments and also between area departments.

The Bank's plans for lending to Iran over the next four years include:

(a) Industry

Continued substantial assistance to IMDBI. At the request of the Government, the Bank undertook a study of the industrialization process in Iran which has resulted in a general policy recommendations. We understand that the Government is in general agreement with them. Informally, the Government has inquired if the Bank would be prepared to follow up by making available industrial expertise to study problems of individual industries, such as cement and the automotive group. We consider this follow up very important, and in cooperation with IFC are exploring the possibilities with the Minister of Economy. Discussions are under way on the feasibility of Bank involvement in the development of the petrochemical industry.

(b) Continued assistance to Agriculture

At the request of the Government, and in order to provide a better basis for the lending program, we have scheduled an agricultural sector review for early 1970. Meanwhile, it is hoped that better cooperation can be achieved on existing irrigation projects, leading to a faster utilization of the proceeds of the Bank loans. A loan to a new agricultural credit institution, the Agricultural Development Fund of Iran, has been negotiated. It is expected on both sides that this will be the first of a series. We are also considering whether or not the Bank could provide assistance for a fisheries project in the Persian Gulf; because of jurisdictional problems involving the Armed Forces and members of the royal family, this may be a difficult project, however, a very general proposal has been presented to us by the Plan Organization. We understand that HIM has been approached on this and that he sees no objections to Bank involvement.

(c) Electric Power

The Bank has not been involved in this sector since the early 1960s. The power sector has grown rapidly in recent years, considerable improvement has been made in the organization. Financing needs are great, particularly for transmission and distribution facilities. The Bank is considering lending in these areas. A Bank identification mission has been in the field to explore various possibilities and we are now awaiting information from Iran which was requested by this mission.

(d) Education

A new area for the Bank. Several promising projects have been identified by a joint Unesco/Bank mission. These are currently being appraised.

(e) Telecommunications

A sector badly in need of long-term financing and technical assistance. Organization, administration and management are primitive. According to a recent identification mission, the expansion program appears to be very costly. Telephone services are deplorably poor resulting very high social cost. Bank assistance has been requested and a project has been identified, however, the financial prospects of the Telephone Company of Iran, which handles local telephone traffic, and the Ministry of Posts, Telephones and Telegraph, handling long distance traffic, are very poor because of expensive contracts already entered into for equipment required to proceed with the proposed expansion. There is a very heavy repayment burden on the organization. We propose to consider lending only if agreement can be reached with the Government on measures which would ultimately create an efficient administration in telecommunications. If the Bank could be instrumental in providing better management as well as financing in this sector, it would certainly be an important contribution to the modernization of Iran.

(f) Transport

A large road project is under appraisal and if approved would be the fifth. A transport survey is under way. This survey mission includes more than 12 experts in various modes of transport (e.g. road, rail, port, air, pipeline and urban transport).

(g) Others

The Bank has also agreed to cooperate with the appropriate officials in the Government in areas of family planning, tourism and urban planning. Missions in all three areas are planned.

Agriculture

Background Information for Discussions of Bank Operations in Agriculture

Responsible Ministries are:

(a)	Plan Organization:	Mehdi Samii, Managing Director
(b)	Ministry of Agriculture:	Iraj Vahidi, Minister (until August 1969 Head of Khuzestan Water and Power Authority)
(c)	Ministry of Water & Power:	Mansur Rouhani, Minister
(d)	Ministry of Agricultural Products and Consumer Goods:	Manuchehr Gudarzi, Minister
(e)	Ministry of Natural Resources:	Naser Golesorkhi, Minister
(f)	Ministry of Land Reform and Rural Cooperatives:	Abdol Asim Valian, Minister

Agricultural Sector

The pattern of Government policy toward agriculture following the implementation of land reform during the years 1962 - 1966 is just now beginning to emerge. To some extent, the pattern of Bank lending reflects past confusion and changing priorities in Iran.

The present pattern must be understood in the context of land reform. This program was undertaken for social and political reasons. In these terms it was a real, if limited, success. It did not revolutionize Persian agriculture, but it did improve materially the lot of the peasants. In spite of dislocations and uncertainty agricultural production in recent years made modest, but important gains. The basic thrust of land reform has been to swing Iranian agriculture away from share-cropping to a system based on ownership or lease-hold land on a fixed rental. Under agricultural reform some peasants, probably less than half, received some form of title to the lands which they were to farm. Others received land on a long-term lease from their former landlord with fixed rentals. From the peasants' point of view both forms of tenure had advantages. The new system provided incentives to peasants to increase production because they received substantially all the benefits from any increase and if a trend of moderate inflation continues, rent determined on the basis of 1962-68 values over the years will tend to decline in real terms.

One important, but often unnoticed, result of land reform was the emergence of two parallel agricultural systems in Iran. The first of these was an ameliorated version of the old, peasant system. It remained a labor intensive system and was geared to traditional methods and techniques. At

the same time there emerged an embryonic, enterprenneurial, agricultural class and system. This parallel system resulted from the fact that in Iran there is a shortage of water, not land and that landlords often lost possession of land under cultivation through the village system, but retained other lands which they were able to bring into use. In many cases such a landlord welcomed the opportunity to be rid of the cost and responsibility of labor-intensive agriculture, inherent in traditional Iranian village farming. Left with previously uncultivated land, such a landlord was free to develop this land on a commercial basis often by developing deep-wells or using pumps and to farm this area using a limited amount of hired machinery and labor from neighboring villages. Government policy now appears to regard agricultural reform as an accomplished fact and to concentrate on increasing agricultural production. This change in policy has two implications for the Bank. First, and most welcome, it substitutes economic for social and political criteria in the formation of Government policy, and second, it leads the Government of Iran to concentrate on larger units of production, easy for us to finance but leaving open to what extent they may contribute to the improvement of the economic life for the mass of rural people.

Individual Projects

Individual Bank projects and difficulties which have attended them must be seen in the light of the changing priorities of the Iranian Government with regard to agriculture. Those which were based on the old priorities now face increasing difficulties.

Ghazvin

517-IRN - 1967 - $22 million - $19 million undisbursed as of 9/30/69

Closing date envisaged in appraisal report - Dec. 31, 1972.

The Iranian Government became interested in the development of the

Ghazvin plain following the disastrous earthquakes of 1962 which aroused the attention and compassion of the world. Though, as presented to the Bank, this project was clothed in the usual language of economic justification, the basic motivation for its inception was social and political. It was designed to better the lot of poor, small-scale farmers who had suffered the additional misfortune of disastrous earthquakes. From the Bank's point of view the project was probably ill-conceived from the start. In practice the amount of water that could safely be taken from deep wells in this area turned out to be less than was anticipated. Furthermore, although the loan agreement foresaw that the general manager would have full authority to coordinate the actions of the two responsible ministries, the Ministry of Agriculture and the Ministry of Water and Power, in fact, there was a serious division of responsibility. Furthermore, the project was delayed by the reluctance of the responsible authorities to let bids in accordance with Bank procedure. The changes of priorities within the Iranian Government are also reflected in the fact that the Shan announced earlier this year that only the most fertile portion of the land originally included in this project would be developed. This decision is apparently an economically sound one, and although it is harsh on the poorer peasants who cultivate less fertile areas, it reflects the current downgrading of social or political criteria upon which this project was conceived. These changes and resultant difficulties are clearly reflected in the large portion of this loan ($19 million) still undisbursed.

The second supervision mission this year will visit the Ghazvin area in November. The Iranian Government has already decided to divert water from the Taleghan River to provide additional water and thus permit further development of the area. This water will, in some part, make up for the shortfall in anticipated groundwater. The water will, in some part, make up for the shortfall in anticipated groundwater. The Bank is not being asked to assist in financing the diversion because we are not prepared to recommend the investment until further feasibility studies are completed; in any case the Minister believes he is receiving more attractive financing terms from the contractor than IBRD can offer. However, we are planning to finance some of the canals which would distribute Taleghan water in the project area. In the event that the Bank agrees to this, approximately $10 million of the undisbursed portion of this loan will probably be available for this purpose. In any event, we anticipate the cancellation of a substantial portion of loan 517-IRN.

Dez Irrigation Project

594-IRN - 1969 - $30 million - $30 million undisbursed as of 9/30/69

The Dez Irrigation Project is a part of continuing efforts by both the Government of Iran acting under plans conceived by David Lilienthal's Development and Resources Coporation to develop the resources of the Province of Khuzestan. An earlier Bank loan (247-IRN for $42 million) financed, in part, the construction of the Mohammad Reza Pahlavi Dam and a 20,000 ha pilot irrigation project. The Government of Iran hopes that eventually an area of more than 100,000 ha. of land will be developed for agriculture in this area. The Dez Irrigation Project, Stage I, was designed to construct irrigation and drainage facilities on about 37,000 ha, to promote on-farm development of about 50,000 ha including 20,000 ha already irrigated in the pilot project referred to above, and to assist in the development of improved traditional agriculture. In its initial consideration of this loan the Bank assumed that

peasants with small holdings would be the primary beneficiaries of projects financed with the proceeds. During the negotiations the Iranian Government informed the Bank that it intended to devote at least 20,000 ha of land under this project to agri-business, that is large-scale, commercial, agricultural, projects involving several thousands of hectares of land and including integrated, agriculture-related industry. The Bank accepted this proposal. Recent Bank missions which have visited Iran have learned that the Government has interested agri-business to such an extent that approximately 40,000 ha of the 53,000 ha will be devoted to commercial farming. Thus, the thrust of this entire project during its first year of operation has been turned away from the concept of promoting improved, traditional agriculture by peasants to that of promoting very large-scale agriculture by corporations some of which are foreign-based. The Bank has tended to underestimate the ability of the Iranian Government to find clients willing and able to contract to carry out agri-business ventures and, therefore, seriously underestimated the amount of land which would be diverted to projects of this nature. These changes have not made the project necessarily less attractive to the Bank. It may well be economically more viable. Nevertheless, the character of the project has been fundamentally altered. The Bank has now agreed in principle that the area to be set aside for agri-business be increased and we are exploring the possibility of expanding the project to Stage II. Sooner than forecast originally, a mission will visit Iran in November at which time we will have to decide what part of the loan should be cancelled and what part can be used for the development of Stage II.

Agricultural Development Fund of Iran (ADFI)

Negotiations for a loan of $6.5 million to the Agricultural Development Fund of Iran (ADFI) were completed on October 10th. ADFI has been established specifically for the purpose of making loans to large scale, commercial farmers. It appears to be in tune with current Iranian priorities and policies. Nevertheless, changes have occurred in the shape of this project. Bank's negotiators were told that ADFI intended to make large loans to agri-business, but the loans were not envisioned in the appraisal report.

The conclusion that can be reached from the examination of all three Bank projects in the field of agriculture is that we have been caught up in a major shift in policy in Iran without fully realizing at the time that this shift was occurring.

Future Bank Lending for Agriculture

A sector mission will visit Iran early in the coming year. We intend that this mission examine the future direction and prospects of agriculture and identify additional projects for possible Bank financing. In particular we hope that this mission will be able to define a major project to assist the development of livestock. Although Iranian agriculture has in recent years been remarkably successful and is coming close to fulfilling Iran domestic needs (e.g. cereals, sugar beets and cotton), production of meat has constantly lagged behind current needs and is still carried out, in large part, by migratory tribes under primitive, traditional conditions. The mission will also study a preliminary request to the Government for assistance for a fisheries project in the Persian Gulf.

Mr. McNamara

LAND REFORM IN IRAN

BASIC DATA

1. Area

	Square Kilometers	Million Hectares
Total	1,648,000	165
of which: mountains and deserts	850,000	85
suitable for agriculture	400,000	40
under cultivation	71,000	7.1
temporarily fallow	120,000	12.0
Balance ("underdeveloped")	209,000	20.9

2. Distribution of average annual rainfall

	Million Hectares	Percent Distribution
Total	165	100
Less than 100 mm 4"	22	13
100-250 mm 4-10"	101	61
250-500 mm 10-20"	28	17
500-1,000 mm 20-40"	13	8
over 1,000 mm over 40"	2	1

(Ground water resources: 60 million cubic meters)

3. Villages distributed under 1962-69 Land Reform

Approximate total number of villages in Iran	53,000
of which: distributed under Stage I	15,000
distributed under Stage II	17,700
undistributed (small owners, etc.)	20,300

4. Very rough estimate of percentage breakdown of forms of land tenure prior to first reforms in 1951

All land	100
Private	60
Crown	10
State	20
Religious trusts (probably half in Khorasan)	10

Sources: Fourth National Development Plan (Iran), paras. 1 and 2; IBRD Report EMA-3a "The Fourth Development Plan and the Economic Prospects of Iran, Vol.II, Agriculgure, paras. 1 and 2; writings of A.K.S. Lambton. paras. 3 and 4.

LAND REFORM IN IRAN

SUMMARY

In general terms, Iran has chosen to develop by creating a modern sector primarily in industry. This sector is intended to exist in the short term along side the more traditional aspects of life in Iran and eventually to lead the traditional sector into the twentieth century. Land reform is the major exception to this policy. It is an attempt to modify the most conservative and backward segment of life in Iran, that of its 53,000 villages. This attempt has been in many ways a major success. Paradoxically, however, it has also assisted in the creation to two parallel systems of agriculture, one modern semi-mechanized, the other a socially ameliorated, peasant system.

This paper discusses certain aspects of traditional agriculture and previous attempts at land reform in the twentieth century. It highlights the land reform program of 1962-69 and the attendent system of rural cooperatives. In indicating the apparent affects of this system on Iranian agriculture, both the traditional peasant system and emerging modern farming, this paper concludes that land reform has made the old way palatable, but more surprisingly has encouraged the separate development of modern farming.

I. Traditional Agriculture in Iran

The village rather than the farm, or even the acre or hectar, is the basic agricultural unit in Iran. Typically, one of Iran's approximately 53,000 villages will consist of about 50 families, their dwellings and livestock and may comprise somewhat more than 100 hectars of cultivated and fallow land. The traditional village has always been organized in an hierachial manner. The landlord stood at the top of the pyramid. In many cases, however, he was an absentee, but was often represented by a bailiff. In fact, a village is run by its head man who is himself a member of the village. The village lands are sub-divided into a number of small plots, the size of which is governed by the amount of land by a team of 5 or 6 men under a team leader could cultivate. Traditionally the heads of the leading families in the village are these team leaders. The lowest echelon are described by the Persian euphemism, Khoshneshin (literally "those who sit well", that is, in the sun). These men are occasional laborers.

Water and its availability are more important than land. The lack of water limits the cultivation of larger portions of the Iranian plateau. In the face of the arid climate of the region, at least since Achaemenid times (ca. 600 B.C.) Persians have employed the engenious device of a form of underground water course, called a qanat. In a traditional village, the water from such a qanat or other source was divided among the plots described above. An important result of the

lack of water as the limiting factor in agriculture in Iran is that there are, or were, large areas of Iran that could be brought under cultivation if the government or an individual were prepared to devote the necessary resources to providing water, either through digging a Qanat, drilling a well or constructing a dam.

There were four principal forms of land tenure in Iran. (1) Private ownership, (2) Crown lands, (3) State lands (these include in theory all unoccupied lands. In practice many state lands upon being cultivated nominally under some form of rental had come under de facto private ownership), (4) Lands held by religious trusts or foundations. All of these classes of land in one way or another were affected by the land reform. Tenure under the first three categories had traditionally been subject to political pressure, and insecurity retarded investment in agriculture.

When it came to sharing the harvest, this division, too, was determined by tradition on the basis of five inputs, land, water, seeds, labor, and draft animals (in the past oxen or donkeys, now often a tractor). Except for minor local variations, the person who provided these was entitled to one fifth of the crop for each input. Because the landlord always provided the land and in most cases the water, his share was a minimum of 40 percent. In many cases, since he also provided at least in part the equipment or farm animals for ploughing, his share rarely fell below 50 percent. 20 percent of the crop under the primitive methods formerly widespread in Iran, was necessarily withheld either in the landlord's name or by the peasants themselves for seeds. Thus, the peasants, if they provided only their own labor, were left with as little as 20 percent of the crops they produced.

Agriculture in Iran was rarely if ever subsistence farming in the sense that villagers produced only enough for their own consumption. They consumed, however, barely enough for their own subsistence. A large portion of the crop ususally entered commercial markets. This situation meant that a change in the peasant's share of the crop could substantially improve his lot.

II. Other Attempts at Land Reform in the Twentieth Century

Reza Shah in the 1930s initiated a limited program of land reform. His efforts, however, were aimed primarily at destroying the power of the great tribal Khans. For example, the lands of the Bakhtiari chieftans in the Dez region were confiscated, as were certain other lands notably Khorasan and Sistan. In these two latter cases at least, lands were nominally given to peasants but quickly fell into the hands of local merchants and money lenders, who evolved into a new class of land owners. Among the positive achievements of this period, however, was the establishment of the Agricultural Bank and the formation of agricultural cooperatives of limited importance at the time but which set a precedent for later more successful organizations.

During the years 1945 and 1946 the Russian sponsored separatist movement Azarbayjan, under Pishavari, expropriated landlords in certain parts of northwestern Iran. When this separatist movement was overthrown in 1947, the central government restored the titles of the previous landlords in these regions, but in the following years many landowners experienced difficulty in collecting rents. The expectations aroused by this movement among peasants may have been one of the reasons why in 1962

land reform was first implemented in Azarbayjan.

In 1951 the present Shah, as his first step in the direction of land reform, distributed the crown lands to peasants. Subsequently, he established the Bank-e-Omran (Development Bank) to provide credits for farmers on these lands. This bank, now controlled by the Pahlavi Foundation, also engages in commercial banking. The economics of the operation of the Pahlavi Foundation and the finances of the royal family are obscure to say the least. Though distribution of crown lands was a progressive social step, it is doubtful that the Shah substantially reduced his income by this move.

III. The Land Reform Program 1962 - 1969 (The kernel of the "White Revolution")

Land reform was undertaken for political and social reasons. It was designed to weaken the power of the conservative landlord class and to improve the lot of the peasant. It was undertaken in an essentially pragmatic manner, with the result that its effects varied from region to region and time to time. Furthermore it was not revolutionary; it never aimed at anything such as a collective farm (stage three, the results of which are unclear, may aim at collective capitalism); rather its goal was a fundamental modification of the existing village system.

A. Stage I (1962)

Stage I of land reform was aimed at large landowners who owned more than one village. These owners were, at this time, allowed to retain one village, but 15,000 villages were affected. The mechanics of the law were such that the land reform organization bought confiscated land for a price based upon the taxes the landlord had paid for the preceding 10 years. There was a certain rough justice in this approach. Those landlords who had minimized their taxes received least for their villages. These lands were then redistributed to peasants who were then expected to repay the land reform organization for the land they received in 15 annual instalments with the proceeds of which the landlords would be paid for their expropriated land. At this stage and throughout land reform that land was given to those peasants who were actually tilling land. Thus it did not directly benefit the poorest agricultural class, the Khoshneshin, or day laborers.

At the time of the implementation of Stage I certain lands were exempted. These included lands belonging to religious foundations, lands farmed in a mechanized or semi-mechanized manner and certain gardens or orchards. The lands belonging to religious foundations were later included under Stage II. Many of the lands farmed on a mechanized basis were located in Gorgon. This region had been largely uncultivated because of endemic malaria until the 1950s. It had been state land, and tracts of it were presented by the Shah to military officers, officers of the security police and other favorites as rewards for services. These new farmers frequently introduced modern methods, and Gorgon today is the principal cotton growing region of Iran. The exemption of orchards had the effect of retaining the physical presence and influence of landlords in many villages, particularly in eastern Iran. Frequently these villages consisted of little more than an orchard in which the landlords summer residence was sometimes located, huts for peasants and the fields around the village in which some grain was cultivated usually with a minimum

of irrigation from surplus waters from the garden. The product of the garden or orchard, often pistachios, represented the only valuable, cash crop, and this asset was not affected by land reform. The peasants received some form of title to the wheat bearing lands around the village, but in any case, these produced little more than their own subsistence. One of the intangible benefits of land reform, however, was to improve the peasant's bargaining position vis à vis the landlord with regard to reward for labor in the garden or orchard.

Land reform in all its stages has been characterized by innumerable pictures of His Imperial Majesty or a member of the royal household distributing deeds to grateful peasants. These deeds, however, were not titles to specific plots of ground (this would have been administratively impossible) but represented the right to a portion of the village. They were not negotiable instruments. Land reform, also, applied only to cultivated lands, including areas temporarily fallow. Many private individuals retained their rights to large tracts of uncultivated land.

B. Stage II (1963)

Stage II of land reform affected owners of one village, including those who had retained one village under Stage I, and to regligious trusts. It applied to about 17,700 villages. In the case of charitable trusts, these lands were leased to peasants for periods of 99 years at rents generally favorable to the peasants but reviewable every 5 years. In the case of individual owners, landlords were allowed to retain a certain number of hectars in the village (approx. 100 - 150 in most of the country depending upon the quality of land and availability of water, but as little as 20 hectars in rice growing areas). Former landowners under Stage II, were given three choices: (1) to rent the land to the occupying peasants for a cash rate based on annual income of the preceding three years, (2) to sell land to their former tenants, or (3) to divide the land between themselves and the peasants in the same proportion as the crop was divided under the crop sharing agreement.

C. Stage III (1969)

The third phase of land reform was approved by Parliament in January 1969. The Shah has personally announced that this is to be the final phase and that there will be no further redistribution of land. The principal features of this stage call for the abolition of tenancies for land leased from landowners under the second phase and the sale or division of these lands among the peasants. The second major provision calls for the formation of joint stock agricultural companies in the communities affected by land reform. The latest available information (November 1968) indicates that 17 of these companies have been formed. They represent within the land reform program the counterpart of agri-business. It is too early to judge the results of this development. It is apparent, however, that the Government intends to devote a substantial portion of available credit to them, perhaps at the expense of other rural credit facilities. Joint stock agricultural companies are to be run in the first instance under Government control and direction. To some extent this program appears to be a reversal of the land reform program; land which was transferred to the peasants and responsibility for its cultivation now are to be taken substantially from their hands. In return peasants are to be given a share in a joint stock company and to be employed as agricultural laborers. It is true that it is the declared ultimate aim of this program to hand these companies over to their members but it seems doubtful that as generally conceived this system will maintain the interest and enthusiasm of the peasants.

IV. The Cooperative Movement

Land reform achieved the success it did, in large part, because effective cooperative organizations at the village level were formed at the same time. One of the principal purposes of land reform was to limit, if not destroy, the influence and role of the landlord in rural Iran. To replace him both in terms of leadership and to provide credit for peasants, village cooperatives were established. Although in practice the establishment of these cooperatives lagged behind the distribution of villages, by the spring of 1968, 8,652 societies had been established with a membership of 1,105,402 persons serving 20,803 villages. Their capital and reserves were over 1,453,453,433 rials. A small minority of these cooperatives were pre-land reform societies, some dating from Reza Shah's efforts in 1939.

In 1963 a Central Organization for Rural Cooperation was formed to take over the supervision of village cooperatives from the land reform organization and the Agricultural Bank. It was an independent corporation set up by charter and governed by the commercial code. Only the Agricultural Bank and Rural Cooperative Federations could buy shares. It was run by a general assembly composed of stockholders, the Minister of Agriculture and the Manager of the Agricultural Bank, and by a Board of Directors whose chairman acted as General Manager. It won the trust and confidence of the peasants because they regard themselves and their local cooperatives as active members and because the officers and staff of the cooperatives organization were not regarded in the ordinary sense as government officials. In 1967 this organization was incorporated into the newly-formed Ministry of Land Reform and Rural Cooperation; by a ministerial decree the General Assembly was declared to consist of the Minister for Land Reform and Rural Cooperation. Inspite of this set-back, the results of the cooperative movement have generally been favorable. With support from the Agricultural Bank many cooperatives have provided much of the necessary capital for their members (peasants are still free to seek capital of course at higher rates from traditional lenders).

V. Results of Land Reform

Modern agriculture had already been introduced in Iran before the inception of the 1962-69 land reform program, but only in limited and isolated areas, most notably in Gorgon. The difference between the two systems was not only one of technique, but one of scale, since village agriculture involved fragmented holdings. One of the principal effects of land reform was to accentuate this division, by taking from the wealthy classes lands devoted to traditional agriculture. The results of land reform, an evaluation of which must still be tentative, can best be discussed in terms of villages affected by the program and other areas outside it.

A. Inland-Reform Villages

Most peasants in Iran are materially better off than they were before 1962. Particularly in the early stages, land reform aroused genuine elan and enthusiasm. Whether through nominal ownership or fixed rents, peasants have a greater incentive to increase production. Statistics are not available which separate production in land-reform villages from total agricultural production in Iran. Nevertheless, since land reform affected such a substantial portion of the agricultural sector and since in recent years agricultural production as a whole has increased at about 5 percent

per year, clearly production in land reform areas has been increasing. Agricultural extension services are not up to western standards in Iran, but they do exist and are being improved. The Ministry of Agriculture in the early years of land reform was forced to devote almost all of its available resources and personnel to the task of distribution. Now there are indications that increased attention is being given once more to extension services.

Land reform has had an uneven impact on reformed villages. Land was distributed to certain peasants and not to others, usually those already relatively better off who were cultivating the land, and not to day laborers. In addition, the terms under which the villagers obtained their lands or rates varied from village to village and region to region and from time to time depending upon whether it was distributed under Stage I or Stage II.

Perhaps the most important result of land reform within the Iranian village has been the blow which the cooperative system has struck at traditional hierarchial organization. A new initiative and attitude towards authority has developed. Apparently village cooperatives have been successful in causing at least some of the residents of a village to sit down as equals to work together to solve their problems.

Stage III may be an attempt to make reformed traditional agriculture conform to the conditions, practices and scale of modern farming.

B. Outside Land Reform

While land reform has been a real success in certain terms, it has clearly not abolished the landlord class in Iran though it may have changed the attitude of many of its members. In fact, the wealthy landowner is in many ways the most dynamic element on the rural Iranian scene today. Amir Assodollah Alam, Minister of Court, former Prime Minister, close friend of the Shah, and hereditary Khan of a large portion of eastern Iran, told the American Ambassador in 1966 that he and his family had lost 266 villages in the land reform, but that he had then under cultivation more acreage than ever before and that he expected a greater income from farming than before. The explanation for this phenomenon lies in the fact that there is an abundance of good, arable land in Iran; the problem is to provide water. Thus, since land reform affected only lands then under cultivation and specifically exempted mechanized lands, it has provided an incentive to former landlords and other potential investors in rural development to bring new areas under cultivation through modern means. It also freed them from the burden of inefficient, traditional agriculture. In addition to the growing use of deepwells and pumps, an indication of the modernization of agriculture in Iran is increased use of chemical fertilizers. Consumption of these has grown from 47,000 in 1962/63 to 130,000 in 1967/68, and is scheduled to rise to 350,000 tons by 1972/73. Up to the present the spread of modern agricultural methods has occurred primarily in agriculture dominated by former landlords and entrepreneurs rather than in the traditional sector.

WMCLEVENGER:ad
November 3, 1969

Transport.

Background Information for Discussions of Bank Operations in Transportation

Responsible Ministries are:

(a) Plan Organization: Mehdi Samii, Managing Director

(b) Ministry of Roads:
(also responsible for railroads) Hasan Shalchian, Minister

Highway Projects

With four loans totalling $131 million dating from 1959, the Bank has made a major contribution to highway development in Iran. The basic thrust of this program in the past has been to assist the Government of Iran to complete its network of major trunk roads. One loan (411-IRN), however, assisted the construction of feeder roads in areas in which the Government was making special efforts to increase agricultural production.

Past and Current Projects:

227-IRN - 1959 - $72 million - fully disbursed

This Bank loan supported the first attempt to build roads in Iran to modern standards and by mechanical operations. The delays in final construction and the increased cost over initial estimates were attributed primarily to contractor inexperience. The Development of local expertise in modern road construction, however, was cited as a major side benefit.

381-IRN - 1964 - 18.5 million -$16.7 disbursed - 1.8 million cancelled

The closing date of this loan was twice postponed to September 30, 1969. The cancellation of $1.8 million was the result of a decision by the Government of Iran to increase the width of the bridge at Ahwaz from two to four lanes. The Bank could not agree that local traffic justified the expansion and the consequent increase in cost. This bridge, therefore, was deleted from the project. Slow progress on this project was caused by initial difficulties on the part of a local contractor. The contractors' problems, in turn, sprang in part from the fact that for a time payments from the Ministry of Roads were 3-4 months behind schedule.

410-IRN-1965 - $32 million - $4 million cancelled - $22.8 undisbursed

The closing date has been postponed to September 1, 1971. Delays and consequent slow disbursements on this loan have been the result primarily of the slow and inexpert handling by the Ministry of Roads of bids and tenders.

411-IRN - 1967 - $8.5 million - $3.8 undisbursed

After initial delays which resulted from causes similar to those which held up progress on previous loans, work now seems to be proceeding at a satisfactory pace. Bank participation has been reduced from 27% to 18% of the costs of construction because total costs which are now expected exceed our estimate by a very substantial amount.

Experience with the loans listed above, some of which have been plagued with cancellations and delays, points to certain recurrent problems. Fundamentally, delays have been the result of the Ministry of Roads' lack of familiarity with modern management techniques and its inability expeditiously to seek, evaluate and let bids as required by the Bank for construction on the scale required and adequately to supervise the work. The Ministry of Roads is an old-line organization, is staffed with bureaucrats whose horizons are limited to local and personal considerations. It has not been exposed to modern management techniques. While its practices have caused delays and difficulties in the past, for example in the slow handling and improper evaluation of bids and tenders on recent loans, the fact that the Bank must work with this "traditional" ministry offers an opportunity for us to assist in the institutional modernization of Iran.

Future Bank Lending in Transportation

Bank interest in road construction is continuing. An appraisal mission is now in the field to evaluate a fifth project, which we anticipate will lead to a $40 million loan. This project is designed to complete Iran's

network of major highways. Concurrently, a transportation sector mission is seeking to identify possible projects for additional Bank financing. These projects may be in the fields such as urban transportation, ~~airfields~~, pipelines, rail transportation and ports.

Electric Power

Background Information for Discussions of Bank Operations in Power

Responsible Ministries are:

(a) Ministry of Water and Power: Eng. Mansur Rouhani, Minister

(b) Plan Organization: Mehdi Samii, Managing Director

Power

Bank activities in the Power Sector have been symptomatic of our relations with Iran. They, perhaps incidentally, have flourished when the Plan Organization was strong and vigorous and enjoyed the support of the Shah; They faded with the demise of the Plan Organization in the years 1962-68. At the present time we hope to return to this field during the next fiscal year with a project for a transmission line and distribution facilities.

Electric power was introduced into Iran at the turn of the century, but developed slowly, partly at least as a result of the availability of oil. Initially a number of small private enterprises supplied residential consumers, while captive capacity met most industrial needs. Public power began in the late 1950s with the construction of three major hydro-electric projects which included irrigation and flood control features and a nation-wide electrification program. The Bank was associated with this stage of development. A loan (247-IRN) for $42 million made in 1960 now fully disbursed, assisted the construction of the largest of the three dams.

The history of Dez multi-purpose project financed by Bank loan 247-IRN reflects a conflict of judgments based on differing aims and criteria for evaluating a development scheme. The project, the heart of which is the 200 meter, thin-arched dam, now renamed the Mohammad Reza Shah Pahlavi Dam, had its origins in the period following the fall of Mossadeq and the restoration of the Shah. The Shah at this period wanted prestige and a project with visible impact. A major dam and an associated TVA-like project, he reasoned, would capture the imagination of the Iranian people and inject a measure of elan into the development effort. It certainly captured the imagination of the Shah's ally in this matter, David Lilienthal. The Bank, on the other hand, was distinctly skeptical of the economic justification of the project from the start. Many of the Bank staff

felt that a variety of smaller projects might produce the same results at less cost and doubted the justification for hydro-electric power in an oil rich area. The Bank decided to participate somewhat reluctantly. The Shah attached great importance to this project. The Bank is still concerned about the economic return, both with regard to the sale of power and to water charges for irrigation. The Khuzestan Water and Power Authority has in the past regarded itself as a service organization and felt little obligation to secure a return on capital which in any case it had not provided. This situation has improved, and the most recent project supervision report, October 3, 1969, indicates that KWPA will receive an increased income from power sales. The Dez irrigation project supported by Bank Loan 594-IRN (1969) is discussed in the section dealing with agriculture. Here it is necessary to remark that one of the Bank's concerns has been to insure that farmers pay rents and water charges sufficient to give the Government of Iran a satisfactory return on the Dez system as a whole.

By the early 1960s, in any case, the concept of public responsibility for electric power development was firmly established. The Plan Organization outlined and began to implement a program for the massive expansion of generating facilities, the beginning of a transmission grid and the rehabilitation of distribution networks in major population centers. In 1962 the Iran Electric Authority (IEA) was established to operated as an independent agency under the general supervision of the Plan Organization with regulatory functions over autonomous regional utilities. The Bank and the Plan Organization agreed on this institutional framework which reflected the belief that, given the widely disbursed nature of the power industry in Iran, it was preferable not to centralize operational responsibilities. The Bank made a $750,000 grant, part of which was subsequently cancelled, to finance the services of consultants to help establish IEA and define its responsibility.

This approach was abandoned in 1964 in favor of centralization. The Ministry of Water and Power was formed out of all agencies involved in electric power, including IEA, with authority over all of them. In the exuberance of the early years of the current boom there was little cost-consciousness. The Bank terminated its participation in power projects in Iran in 1965.

Present Position and Prospects

The public power sector has continued to grow rapidly without Bank assistance. Production of electricity has increased at about 18.1 percent per year. A reorganization of this sector is in progress. There will be up to 10 regional distribution companies, one procurement and one transmission and generating company. All will be under the general direction of the Ministry of Water and Power. The system will include all power facilities connected to the expanding grid and other systems outside the grid with 50 MW capacity or more. Pricing policies seem good. There is a considerable need for financing, particularly for transmission and distribution which has lagged somewhat behind the expansion of generating facilities.

Background Information for Discussions of Bank Operations in Telecommuncations

Responsible Ministries are:

(a)	Plan Organization:	Mehdi Samii, Managing Director
(b)	Ministry of Posts, Telephones and Telegraph:	Dr. Fathollah Sotudeh, Minister
(c)	Telephone Company of Iran	Mr. Ansari, Managing Director

Telecommuncations

Telephone services in Iran are very poor and create an increasing burden of social cost for the expanding economy.

The Telephone Company of Iran (TCI) is a Government Agency operating the urban telephone service throughout Iran. All other telecommunication services, with the exception of a few private networks, are operated by the Ministry of Posts, Telephones and Telegraph (PTT). A merger of the TCI and the PTT telecommunications services into a company is proposed by the Government, and the law giving effect to the change is expected to be passed within the next six months.

Both TCI and PTT are at present involved under the Fourth Development Plan (1968/69-1972/73) in very ambitious five-year programs of expansion to meet a very heavy demand. The Bank has been asked to finance part of this program.

A project identification mission recently visited Iran and concluded that there were four basic problems making Bank participation difficult.

(a) The expansion program is ambitious, has been drawn up without regard to costs and without the benefit of adequate financial preparation. There has been inadequate financial management. The organization and staffing require strengthening.

(b) Both the Ministry of PTT and TCI have entered into or are entering contracts for future delivery of equipment (not cables for which Bank financing is sought) at prices considerably above those that could be obtained if international competitive bidding had been employed. The cost of this equipment is likely to place such a burden on the assets of these agencies that profitability is not likely to be achieved for some time. It should be noted that the Bank through IMDBI is supporting the Iran Telecommunication Manufacturing Company, a company which will manufacture switching equipment and telephone sets, for TCT, its sole purchaser.

Inspite of these difficulties we propose that the Bank pursue the matter further at least to the extent of exploring with the Government if it would be

prepared to move in the direction of taking measures to improve the sector. If agreement can be reached the Bank would make a loan and then work with the Government in developing a program to improve telecommunications.

Industry -
IMDBI/IFC

Background Notes for Discussions of Problems of Industrialization and the Bank's lending to IMDBI

(a) Industrial Mining and Development Bank of Iran: A. Gasem Kheradjou, Managing Director

(b) Ministry of Economy: Hushang Ansary, Minister

INDUSTRIAL AND MINING DEVELOPMENT BANK OF IRAN

IMBDI was formed in 1959 by Iranian and American investors to assist private industry in Iran. In November 1959 the Bank made its first loan of $5.2 million. After a slow start, IMBDI has made substantial progress. In addition to expanding its operations and making a substantial contribusion to the industrialization of Iran, IMBDI has made an efficient transition from foreign to Iranian management. Mr. A. Gasem Kheradjou, the Managing Director, is a former member of the Bank's executive staff. Bank loans to IMBDI are listed below, as of August 31, 1969.

Loan	Date	Amount	Amount cancelled	Amount disbursed
IRN-240	1959	5,200,000.00	155,856.53	5,044,143.47
IRN-422	1965	10,000,000.00	189,505.82	9,810,494.18
IRN-459	1965	25,000,000.00	115,987.89	22,800,144.09
IRN-539	1968	25,000,000.00	41,076.00	4,967,402.32
IRN-602	1969	40,000,000.00	-	-

105 million

Bank policy on recent loans has been to make sums available sufficient to meet IMBDI foreign exchange needs for a period of eighteen months to two years. During negotiations for the last loan we urged IMBDI to seek to diversity its sources of foreign exchange.

IMBDI, has ridden the crest of Iran's prosperity over the past five years. Per force, IMBDI's lending program has followed the pattern of Iran's industrialization, which has concentrated on import substitution. IMBDI may be in the position of having supported high-cost industries behind a high protective tarrif barrier. The potential dangers to Iran of having concentrated on these industries aimed at the internal market has been ably

pointed out both in the Bank and to Iranian authorities by Mr. Dragoslav Avramovic. IMBDI officers are aware of this problem.

IFC

Brief for Mr. McNamara

IRAN

I. SUMMARY OF EXISTING INVESTMENTS

Ahwaz Steel Rolling and Pipe Mills

			$
Original investment:			3,876,594
Held by IFC:	Loan	1,835,000	
	Equity	717,117	2,552,117
Disbursements:			1,936,000
Participation:			1,324,477
Repayments:			300,000

In September 1968, IFC made an investment of about $3.88 million in Ahwaz Rolling and Pipe Mills Company for the construction of a steel strip rolling mill and a pipe welding plant at Ahwaz in the province of Khuzestan in southwestern Iran. The project will have annual production capacities of 140,000 tons of strip and 40,000 tons of pipe on a two-shift basis. The total project cost is estimated at Rls 1,360 million ($18 million). Since there are no primary steel-making facilities in Iran, the rolling mill will use imported slabs.

There have been delays in construction but the company still expects to complete the project substantially within the original schedule. A cost overrun is expected which would be more clearly estimated after the negotiations with equipment suppliers presently being conducted. Progress report on details expected by November.

II. PROSPECTS FOR IFC OPERATIONS

Iran has achieved substantial industrial growth during the past few years, mainly in the field of consumer goods. The country is now moving into a more advanced stage of industrialization where the manufacture of intermediary and engineering goods could be undertaken. Processing of natural resources particularly for export is another area where substantial growth is expected in the future.

III. APPLICATIONS UNDER CONSIDERATION

IFC has been asked to help finance several projects sponsored by IMDBI and local groups. The following are the projects that are likely to proceed in the near future:

(1) Investment Trust

Inquiry received: June 1969 from IMDBI
Total cost: --

The Government and IMDBI have requested IFC assistance in evaluating the feasibility of establishing an investment trust. Preliminary findings of IFC indicate that there may be sufficient demand and scope for a viable company under certain conditions. Further studies to develop the proposal are to be made.

(2) Caspian Paper Project

Inquiry received: April 1969 from IMDBI
Total cost: $55 million

The project is to produce 100,000 tons of printing and writing paper, wrapping paper and fluting. IMDBI has forwarded to IFC a feasibility study prepared by Austroplan. IMDBI is conducting discussions with possible Swedish technical partners and a decision on their interest in participating is expected within the next two months.

(3) Cold Rolling Mill

Inquiry received: April 1969 from IMDBI
Total cost: Not yet available

The project is to produce 200,000-400,000 tons of cold rolled steel sheets. IFC is awaiting the results of a review by IMDBI and the Government of proposals from two prospective technical partners, one British and the other a Japanese group.

(4) Kerman Copper Industries Limited

Inquiry received: June 1969 from sponsors
Total cost: $130 million

The project is for the exploitation of a copper ore deposit and the installation of ore beneficiation and smelting facilities at Sar Cheshmeh in the Kerman Province of southeastern Iran. Upon completion, the project would produce 82,000 tons of blister copper annually. The sponsors of the project are Mr. Mahmoud Rezai and his associates and the Selection Trust group of the U.K. Iranian Selection Trust Ltd., a subsidiary of Selection Trust Ltd. of the U.K., has an option expiring on December 31, 1969 to participate with Mr. Rezai in the development of the project. IFC considered the financial plan suggested by the company unacceptable and proposed alternative plans. IFC is not acting on the project until the company formulates acceptable financial arrangements.

Education

Background Information for Discussions of Bank Operations in Education

Responsible Ministries are:

(a) Plan Organization:	Mehdi Samii, Managing Director
(b) Ministry of Education:	(Mrs.) Farokhru Parsa, Minister
(c) Ministry of Scientific Research and Higher Education:	Dr. Majid Rahnema, Minister

Education

Following upon a Unesco Project Identification Mission, and after discussions with the Bank, the Iran Government and a Unesco project preparation mission in September/October 1969 wrote a request to the Bank for financing of:

(a) Primary guidance schools (grades 6-8) feeding into experimental comprehensive secondary schools;

(b) Teacher Training Colleges for training primary and lower secondary teachers;

(c) a rationalization scheme for agricultural seconary education;

(d) expansion of voational training;

(e) secondary teacher training, including a department of agricultural education and extension.

Costs may be in the order of ~~$32~~ 43 million; corresponding to potential Bank financing of about ~~$16~~ 15-20 million.

The project justification would be twofold: meeting certain manpower requirements for agriculture and industry in a more economical way; introducing a reformed structure of general secondary education, supported by improvements at all levels of teacher training. Technical assistance related to secondary education reform implementation, school location planning, and the feasibility of relocating the Arya Mehr Engineering University may also be part of the request.

The Government may raise the question whether the Bank would be prepared to finance teaching hospitals as part of an education project or as part of a population project, and if technical assistance could be financed on a grant basis (we are discussing the latter with the UN).

Population

Background Information for Discussion of Population Problems

(a) Plan Organization: Mehdi Samii, Managing Director

(b) Ministry of Health: Dr. Manuchehr Shahqoli

The Demographic Situation

The population of Iran has nearly doubled since the end of the Second World War, from about 15 million in 1946 to about 28 million in 1969. More significant from the viewpoint of economic development is the fact that half of this growth has occurred since the beginning of the present decade. The rate of growth has accelerated from 2.4% during the early fifties, to 2.7% in the late fifties and to 3.0% per year in the late sixties. This latter figure corresponds to a birth and death estimate of 50 and 20 per thousand respectively.

The steady rise in Iran's population growth rate has been caused by decreasing mortality with sustained high fertility and negligible net migration. The reduction is mortality has occurred among the young so that there has been an increase in the proportion of the total population which is under the age of 15 years: from 42% in 1956 to 46% in 1966.

The Family Planning Program

Government interest in family planning dates from 1960. Milestones in the development of interest in family planning have been the Population Council's mission which studied the population problem in 1966 and in 1967 when the Shahanshah gave official support to family planning by joining twenty-nine other world leaders in signing the Declaration on Population which was presented to the UN Secretary General. The family planning activities are presently carried out by a Family Planning Unit in the Ministry of Health and headed by H.E. Dr. Amir Masoud Sardari a senior government official who holds the title of Undersecretary of State for Health and Family Planning.

The Family Planning Unit is organized in three divisions: (1) clinics and supplies, training and communications, (2) planning, evaluation and research, and (3) administration and office management. It has a professional

staff of 5 doctors, 6 midwives, 4 administrators, and 17 other general staff. This includes experts in communications, clinics and training but no professional staff in the key fields of demography and evaluation. Other personnel are used from the Ministry of Health, other ministries, the armed forces and numerous private groups and agencies.

Although no official objective has been set for the program the Prime Minister has mentioned to Parliament that the growth rate should be reduced from 3% to 2% per annum. Subsequent to this the Ministry of Health has established the target of 500,000 contraceptive users by 1973. Progress towards the achievement of this goal has been slow as by the end of 1968 the program had recorded less than 70,000 contraceptive users with oral contraceptives as the mainstay of the program. Given the magnitude of the resources which are being assembled to carry out the family planning program it is not likely that the above targets will be achieved. These resources include an allocation in the present development plan of US$6.7m. for the five year period which will be supplemented by resources from the Health Corps and other agencies. External assistance is being received already from the Population Council and several other international and bilateral agencies have been approached for assistance. A more detailed review must be done of the program to assess more precisely the inputs required to achieve its objectives and from what sources this assistance can be best obtained.

Table 1

	mid-year Population (000) 1/	Crude Death Rate (per 1000 pop.) 2/	Crude Death Rate (per 1000 pop.)	Rate of Population Growth (% per yr)
1948	15802			
1949	16131			
1950	16276	48	24	
1951	16667			
1952	17067			
1953	17476			2.4%
1954	17896			
1955	18325	46	22	
1956*	19300			
1957	19900			
1958	20400			
1959	21000	45	18	
1960	21500			2.7%
1961	22100			
1962	22700			
1963	23300			
1964	23900			
1965	24549	48	17	
1966*	25283			
1967	26284			3.1%
1968	26930 3/			
1969 4/	27900	50	20	3.0%

1/ U.N. Demographic Yearbook, 1965, 1966, 1967

2/ U.N. Demographic Yearbook, 1965

3/ U.N. Population and Vital Statistics Report, XXI(2), 1969

4/ Population Reference Bureau, 1969 World Population Data Sheet

* Census Year

Note: All U.N. references are acknowledged to be of questionable reliability.

Population Studies Division
Economics Department

I R A N

POPULATION, LABOR FORCE AND FERTILITY CONTROL

1969 estimates:	mid-year population		27,900,000
	births		1,395,000
	deaths		558,000
	rate of natural increase		3.0%

		1956	1966
% of population under age 15		42%	46%
Number of females age 15-44		3,860,000	5,213,000
Females age 15-44 as % of total population		20.4%	20.8%
Dependency Ratio	$\frac{0\text{-}14,\ 65+}{15\text{-}64}$	0.86	1.005
% Urban (resident in towns of 5000 +)		38%	39%

Employment

Agriculture	54%
Industry	22%
Services	24%
	100%

Economically Active Population
(46% of total population over age 10)

Male	6,624,000	87%
Female	990,000	13%
	7,614,000	100%

Family Planning

Targets: reduce population growth rate to 2%; 500,000 contraceptive users by 1973.

Achievements: (1967-68)	IUD	24,647 insertions
	Pill (clinics)	44,000 cycles
	Pill (sales)	50,000 cycles
	Condom (clinics)	2,500 doz. (peak month)

Estimate of illegal abortions per year: 300,000

Population Studies Division
Economics Department

FACTS

Facts on IBRD, IFC, IDA Membership and Bank Group Operations

(a) Membership

IBRD	Total capital subscription	$128.6 million
	9% portion	$ 11.57 million
	Release	$ 8.10 million
IDA	Total capital subscription	$ 4.54 million
	10% portion	$454,000
	No release	
IFC	Total capital subscription	$372,000

(b) Holding of Bank Bonds

$ 8 million

(c) Settlement of Investment Disputes

Iran has not signed the Convention

(d) Bank Lending

No.	Year	Borrower	Purpose	Amount US$ M.	Undisbursed at Sept.30, 1969 US$ M.
160	1957	Govt. of Iran	Equipment for Development	75.0	-
227	1959	"	Roads	72.0	-
240	1959	IMDBI	IMDBI	5.2	-
247	1960	Govt. of Iran	Multi-Purpose Project	42.0	-
422	1965	IMDBI	IMDBI	10.0	-
381	1964	Govt. of Iran	Roads	18.5	1.3
410	1965	"	Roads	32.0	18.3
411	1965	"	Roads	8.5	3.3
459	1966	IMDBI	IMBDI	25.0	1.9
517	1967	Govt. of Iran	Agriculture	22.0	19.0
539	1968	IMDBI	IMDBI	25.0	19.4
594	1969	Govt. of Iran	Irrigation	30.0	30.0
602	1969	IMDBI	IMDBI	40.0	40.0
	TOTAL			405.2	133.3

70 86
71 135
72 105
73 140
516

(e) IDA Credits:

There have been no IDA credits to Iran.

~~(f) IFC:~~

~~$372,000.~~

Population: 26.7 m
Per Cap Inc: $257

IVa. IRAN - 5 YEAR LENDING PROGRAM

($ millions)

		Fiscal Year						Total	Total
		1969	1970	1971	1972	1973	1974	1964-68	1969-73
Greater Dez Irrigation	IBRD	30.0							
Agricultural Development Fund	IBRD		6.5						
Agriculture Unidentified II	IBRD			30.0					
Agriculture Unidentified III	IBRD				25.0				
Agriculture Unidentified IV	IBRD				25.0				
Agriculture Unidentified V	IBRD					25.0			
Agriculture Unidentified VI	IBRD						25.0		
Agriculture Unidentified VII	IBRD						25.0		
Communications	IBRD		20.0						
IMDBI V	IBRD	40.0							
IMDBI VI	IBRD			40.0					
IMDBI VII	IBRD					50.0			
Education I	IBRD			15.0					
Education II	IBRD					20.0			
Power Transmission	IBRD		20.0						
Highways IV	IBRD		40.0						
Transp. Unidentified II	IBRD			30.0					
Transp. Unidentified III	IBRD				25.0				
Transp. Unidentified IV	IBRD						25.0		
Unallocated	IBRD			20.0					
Unallocated	IBRD				15.0				
Unallocated	IBRD				15.0				
Unallocated	IBRD					15.0			
Unallocated	IBRD					10.0			
Unallocated	IBRD						15.0		
Unallocated	IBRD						15.0		
Unallocated	IBRD						20.0		
	IBRD	70.0	86.5	135.0	105.0	120.0	125.0	141.0	516.5
	No.	2	4	5	5	5	6	7	21

P & B 10/15/69

Too much will work this for

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BASIC DATA

Area: 1,648,000 square kilometers

Population:

Total:	about 28 million (September 1969 estimate)
Estimated birth rate:	about 50 per 1,000
Estimated death rate:	about 20 per 1,000
Rate of Growth:	above 3 percent per annum

Density: 16.9 per square kilometer
140 per square kilometer of arable land

Gross National Product at Market Prices	1962/63	1968/69
in Rls. billion 1959/60 prices	321.2	530.8
in Rls. billion at current prices	349.2	618.4

Gross National Product at Factor Cost in Rls. billion, 1959/60 prices	Sectoral Distribution 1968/69, %	Growth rate 1962/63 - 1968/69
Agriculture	23.7	4.6
Mining and manufacturing	11.6	11.6
Petroleum, contribution to balance of payment	15.1	16.0
Domestic operations, N.I.O.C.	2.6	6.1
Water and power	2.6	32.0
Construction	6.1	14.6
Services	42.6	8.9
of which		
Transport and Communication	7.7	6.5
Administration and Defense	11.4	14.9

Money and Banking	March 1969 (billion rials)	Average Annual Change March 1964-1969
Money Supply	85.6	14.9
Time and Savings Deposits	86.4	33.2
Bank Credit to Public Sector, net	40.3	47.7
Bank Credit to Private Sector	165.9	25.5

Prices	Average Annual Rate of Change 1968/69	1962/63 - 1968/69
Cost of Living Index	3.1	2.2%

NOTE: $1 = Rls.75.75

Government Operations	1968/69 (billion rials)	As % of GNP (at market prices) 1968/69	1962/63
Government current receipts	128.3	21	17
Government current expenditure	98.7	16	14
Current surplus	29.6	5	3
Government capital outlays	76.9	12	5
of which, debt repayment:	12.2	2	1

External Trade	1968/69 (million dollars)	As % of GNP (at current market prices) 1968/69	Change 1962/63 - 1968/69 (in % p.a.)
Earnings from Petroleum sector	988	12.0	16.0
Non-Oil Exports	217	2.6	11.2
Merchandise Imports	1,432	17.4	20.8

Composition of Exports (as percentage of non-oil exports)	1962/63	1968/69
Cotton	23.5	19.8
Carpets	19.4	27.5
Fruits	21.7	13.0
Others	35.4	39.7

Balance of Payments (US $ million)	1962/63	1968/69
Earnings from oil sector	407	988
Other merchandise exports	125	217
Merchandise imports	-461	-1,432
Other current	- 63	- 260
Net capital inflow:	- 8	487
Private	5	25
Government	16	372
Monetary	- 29	90

Foreign Exchange Position (US $ million)	March 1968	March 1969
Net foreign assets	317	247
Gold and Foreign exchange held by Central Bank	352	270
IMF position		
Quota	125	125
Drawings	31	31

External Public Foreign Debt (US $ million)

Contracted, including undisbursed (March 22, 1969):	2,251.2
Disbursed only: 1/	1,052.5
Debt service ratio: (% earnings from oil sector and non-oil merchandise exports)	
1968/69	12%
1969/70 (rough estimate)	20%
Debt service ratio, including estimated service on private debt:	
1969/70 (rough estimate)	25%

1975

1/ According to Plan Organization data.