

RESTRICTED

Report No. AS-67b

FILE COPY

This report was prepared for use within the Bank. In making it available to others, the Bank assumes no responsibility to them for the accuracy or completeness of the information contained herein.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ECONOMIC SITUATION AND PROSPECTS OF IRAN

July 23, 1958

Department of Operations
South Asia and Middle East

CURRENCY EQUIVALENTS

1 US dollar	▪ 75.75 rials
1 rial	▪ 0.0132 US dollar
1,000 US dollars	▪ 75,750 rials
1,000 rials	▪ 13.2 US dollars

TABLE OF CONTENTS

	<u>Page</u>
Map of Iran	
Basic Statistics	i
Summary and Conclusions	ii-iii
I. Recent Economic Developments and Present Problems.....	1
Development of Production	1
Development of Investment and Consumption	2
Financial and Monetary Situation	3
General Characterization	3
Government Finance	4
Foreign Trade and Balance of Payments	9
Immediate Financial Prospects	9
II. Development Progress	11
Spending on Development	11
Factors Limiting Development	11
Sector Analysis	13
III. Prospects and Creditworthiness	14
Oil Revenues and their Allocation	14
The Ordinary Budget Problem	15
The Prospective P.O. Deficit	16
External Borrowing	17
The Need for Improved Programming	18
 Annex:	
Development Progress and Plans by Sectors	19
Agriculture	19
(a) Improvements in Husbandry	19
(b) Silos	20
(c) Mechanization	20
(d) Agricultural Credit	20
(e) Irrigation	21
Industry	24
(a) Private Enterprise	24
(b) Expansion and Rehabilitation of P.O. Industries	24
(c) Transfer of P.O. Industries to Private Ownership	25
(d) New P.O. Industrial Projects	25
Mineral Resources Development	26
Transport and Communications	27
Electric Power	30
Social Services	32
Regional Approach to Development	32

	<u>Page</u>
Statistical Appendix Tables:	34
1 - Basic Economic Data	35
2 - Agricultural Production (Estimate)	36
3 - Industrial Production	37
4 - Number and Ownership of Factories in Major Industries	38
5 - Main Exports of Minerals	39
6 - Expenditure of Non-Tax Revenues in Iran	40
7 - Change in Iran Money Supply	41
8 - Bank Melli Index of the Cost of Living in Seven Major Cities in Iran	42
9 - Budgeted Expenditures	43
10 - Ordinary Budget Revenues	44
11 - Balance of Payments	45
12 - Imports	46
13 - Exports	47
14 - 1956/57 Iranian Imports and Exports by Countries.	48
15 - U.S. Aid to Iran (Receipts)	49
16 - Iran - Barter Trade with USSR	50
17 - Plan Organization - Disbursements for Investment.	51-55
18 - Budget of Plan Organization - Hypothesis A: assuming a 10% growth rate in total oil revenue after 1958/59	56
19 - Budget of Plan Organization - Hypothesis B: assuming an 8% growth rate in total oil revenue after 1958/59	57
20 - Revenues and Expenditures of Plan Organization as Projected Now and at the Time of the IBRD Loan	58
21 - Iran - External Debt as of September 20, 1957 ...	59

Basic Statistics

Area: 164 million hectares - 628,000 square miles
(about 4 million hectares is the average area cropped)

Population estimate: 19 million. (Growth estimated at 2% per year)

National Income estimate: \$ 2.1 billion
or roughly \$110 per capita

<u>General Government Budget:</u>	<u>1957/58 estimate</u> (billion rials)
(a) Ordinary Revenue	16.1
(b) Expenditure	<u>21.7</u>
(c) Deficit before US aid and oil revenue	-5.6
(d) Oil Revenue	5.6
(e) US aid	<u>0.3</u>
(f) Overall balance	/ 0.3

<u>Plan Organization Budget:</u>	<u>1957/58 estimate</u> (million \$)
(a) Oil Revenue	100.3
(b) Expenditures	<u>161.5</u>
(c) Deficit before IBRD Loan	-61.2
(d) IBRD Loan	<u>65.0</u>
(e) Change in Cash Balances	/ 3.8

Internal Debt of Treasury
(as of December 20, 1957, billion rials): 11.8

Treasury Cash Balances
(as of December 20, 1957, billion rials): 6.0

<u>Balance of Payments</u>	<u>1957/58 estimates</u> (million \$)
(a) Receipts from trade other than oil	110.0
(b) Oil Receipts (oil revenue and rial purchases by foreign Consortium)	254.4
(c) US aid and Eximbank Loans	35.7
(d) IBRD Loan	65.0
(e) Other Foreign Loans	<u>20.0</u>
(f) Total Receipts	485.1
(g) Total Payments	424.3
(h) Increase in Foreign Reserves	/ 60.8

Foreign Exchange Reserves
(estimated as of March 20, 1958,
million \$ or \$ equivalent): 280.0

External Public Debt
(estimated as of September 20, 1957,
million \$ or \$ equivalent): 350.0

NOTE: The Iranian calendar year which corresponds to the fiscal year of the Iranian government runs from March 21 to March 20.

ECONOMIC SITUATION AND PROSPECTS OF IRAN

Summary and Conclusions

i. Rising oil income resulting from the rapid recovery of oil production and exports over recent years has brought an increased measure of prosperity to Iran. This income, supplemented by U.S. aid and the proceeds of foreign borrowing, has greatly stimulated purchasing power. Agricultural and industrial production have risen, partly in response to increasing demand and partly, particularly in industry, in response to higher investment. Above all, there has been a sharp rise in total imports, which have expanded from \$232 million in 1954/55 to an estimated \$375 million in 1957/58, and some decline in exports other than oil - a process which has not prevented foreign exchange reserves from rising in recent years to a level of about \$280 million, a sum equivalent to about two-thirds of last year's foreign exchange payments.

ii. In spite of the growth of imports, a considerable part of the foreign exchange income has at least initially been monetized, resulting in a substantial and continuing increase in money supply. This in turn has precipitated speculation in land around the major cities and a marked increase in the prices of goods and services which either cannot, or cannot readily, be imported. Rent, livestock products, fruits and vegetables have particularly gone up in price. This type of inflation, however, will remain limited as long as Iran's growing foreign exchange income enables it to import adequate quantities of such staples as cereals and textiles.

iii. The proceeds of oil and foreign borrowing have created an unusual opportunity to devote resources to the financing of development. The Plan Organization (P.O.), which accounts for the bulk of such spending, has raised its disbursements on development from an annual level of \$65.2 million in 1955/56 to \$151.2 million in 1957/58; and the National Iranian Oil Company (N.I.O.C.), which is also allocated a share of oil revenues, apparently invested on the average \$27 million in distribution facilities and exploration in the last two years.

iv. The P.O. has authorizations to spend money over a seven-year period (Sept. 1955-Sept. 1962), and these authorizations are allocated by five broad chapters (agriculture; communications; industry and mines; social development; and Khuzestan) and in varying degrees of detail over a considerable number of sub-chapters and individual projects. The projects and programs are not defined in particularly meaningful economic terms. The P.O. has not yet worked out overall goals in terms of total production, agricultural or industrial output; nor has the P.O. calculated the impact of the Plan on the volume and pattern of domestic production and foreign trade. This in turn makes it extraordinarily difficult to test the adequacy of the Plan's efforts to expand the "service industries", such as transport (roads, railroads and ports) and electric power.

v. Chronic difficulties in balancing the government's ordinary budget have affected the amount of oil revenues which could be devoted to development. While tax income has gone up in response to growing economic activity, current expenditures have been rising more rapidly and the difference has been made up with U.S. aid and increasing amounts of oil revenues. During 1958/59,

in order to provide for an extraordinary increase of Rls 7.3 billion (about 33%) in expenditures, the government changed the law governing the allocation of oil revenues. Under the new formula, beginning 1959/60 the P.O. is to receive 60% of the total oil revenues, and the remaining 40% is to be divided between the budget and the N.I.O.C. -- total oil revenues from the international consortium will probably increase at an average annual rate of 8%. The government should be able to manage its budget problem under this formula if strict economy in budget expenditures is observed and a determined national campaign to collect more taxes is made. Furthermore, the government has recently obtained a \$25 million bonus in connection with an oil concession to the Pan American Oil Company and it is possible that the government may obtain additional bonus payments in connection with future oil concessions.

vi. On the basis of the revised oil revenue allocation formula, the P.O. faces a deficit of around \$270 million during the remaining $4\frac{1}{2}$ years of the Seven-Year Plan. The P.O. apparently hopes to cover all or most of this deficit by external borrowing. A considerable amount in new external debt could undoubtedly be carried in view of the steadily growing foreign exchange income of the country and the very substantial reduction in the existing debt which will take place over the next 5 years. At the same time, however, it should be kept in mind that government agencies other than the P.O. have shown an increasing tendency to borrow abroad in recent years. The government will therefore need to keep a careful check on all new commitments to ensure that the total will not exceed reasonable bounds.

vii. The large deficit faced by the P.O. makes it imperative to avoid new commitments which would add to the total outlays now envisaged. Within this total more efficient use of resources could be achieved by better planning and programming. The recent establishment of an Economic Bureau in the P.O. is a recognition of this need. Improved planning could result in a tighter program in which the component parts are properly related and in the grading of projects and programs by priorities so as to establish a basis for judging the soundness of substituting new projects for projects of relatively low priority now included in the Plan and of temporarily deferring certain projects if a shortage of resources at any time should make this necessary.

I. Recent Economic Developments and Present Problems

Development of Production

1. During recent years rapidly increasing oil production and oil revenues have provided the basis for growing prosperity and rising government expenditures in Iran. Since 1954 when the new international Oil Consortium took over operation of the properties of the Anglo-Iranian Oil Company which the government had nationalized in mid-1951, oil production has recovered at a remarkable pace. Output has now attained an annual level of 315 million barrels of which about 275 million are being exported. Oil revenues paid to the government during 1957/58 amounted to \$210 million; and an additional \$45 million in foreign exchange income accrued to the economy as the result of local expenditures by the Oil Consortium. Crude oil exports are unquestionably largely responsible for the growth in G.N.P. They are now about 10% above the pre-nationalization peak, but are destined in the future to grow at a slower pace.
2. The rise in oil income, supplemented to some extent by foreign aid, has primarily stimulated investment and consumption. So far the impact on agricultural, mineral and industrial production appears to have been rather small. Table 2 of the Statistical Appendix shows the trend of agricultural output; the figures indicate that the volume of production rose by around 6% in the three-year period following 1952/53, by 7% in 1956/57 and by almost 10% in 1957/58. The large increases in the last two years appear to have been primarily the result of exceptionally good weather conditions. If the effect of the latter is discounted, output of most crops appears to have just kept pace with the annual population growth of around 2% per year. Production of cotton and sugar beets has, however, risen more rapidly. The overall increase in output is probably due primarily to an expansion of the area under cultivation, since there is little evidence that efforts to increase productivity have as yet borne fruit.
3. The output of minerals other than oil has never been very large in Iran despite widespread mineral occurrences. Production and export of ores has fallen somewhat in recent years under the influence of declining world market prices (see Table 5, Statistical Appendix); and the output of coal has suffered from the competition of oil. Mineral development continues to be handicapped by transport difficulties, inadequate attention to exploration and lack of capital and enterprise, both domestic and foreign.
4. Progress in industrial production has been spotty. Much of industry has been developed and is operated by the government (see Table 4, Statistical Appendix). Rough estimates of the value of industrial production made by the Ministry of Industries and Mines (see Table 3, Statistical

Appendix) indicate that cotton textiles are the most important product, with sugar and cement taking second and third place and the others ranking far below. In the last three years production has risen markedly in some branches of industry: cement by 500%; woolen textiles by 79% and tea by 30%. On the other hand, output in a number of industries, particularly in cotton textiles and cigarettes, has stagnated; and it has declined in still others, e.g. matches (-15%) and soap (-16%). In terms of the total value of output, however, an upward trend is undoubtedly apparent.

5. During the past several years expansion in government-owned enterprises has been and is being concentrated: on the sugar industry, which has been reserved entirely for government development; on the cement industry, where, after the completion of two government mills and one private mill now under construction, the government will control roughly 60% of total capacity; and, finally, on the textile industry, where the government's share in total capacity has recently dropped to about 25% but is slated to rise to 45% during the next four years. Private industrial investment has largely been channeled into cotton textiles and tea processing, and to a lesser degree into the manufacturing of matches and of soap. In a number of fields, particularly tea and matches and to some extent cement, local capacities have outgrown internal demand; in others, foremost sugar and textiles, local capacities still cover only a relatively small portion of Iranian consumption (1/3 in the case of sugar and cotton textiles).

6. With the progressive relaxation of quantitative import restrictions, import competition has become more severe, in spite of the fact that the average customs rate on imported manufactures is 40% ad valorem. This has been the main reason for the stagnation or even decline of production in certain industries. Unit costs of production in many factories are too high. A large part of the equipment is obsolescent because much of the industry was established in the early 30's and in many cases little additional investment took place until recently. A further handicap is poor management, not only in the public sector but also in most private mills. Moreover, many mills lack adequate capital, particularly working capital, because of the general preference for investment in trade and real estate speculation. However, there is evidence that interest in industrial investment is growing in view of the stimulus provided by expanding internal consumption. The government has provided some financial assistance to private industrial investors.

Development of Investment and Consumption

7. As already indicated, the oil revenues and foreign aid and loans have had their principal effect on investment and consumption. No overall estimates of investment exist, but the increase in imports of capital goods from roughly \$50 million to \$150 million during the last three years gives some indication of the acceleration in investment. The increase in private investment is reflected largely in the building boom around the big cities, primarily in Teheran, but also to some extent

in industry; in agriculture rising investment outlays have largely taken the form of the acquisition of agricultural machinery. In the public sector, the expenditures of the Plan Organization point to rising development outlays on irrigation and agriculture, industrial plant, transport and communications accompanied by complementary investment expenditures for public health, education, agriculture, training, etc. (See Statistical Appendix, Tables 17a-d). Data on rising consumption of a number of staple articles indicate that the standard of living has somewhat improved. This is particularly evident in Teheran where per capita income is considerably higher than in the provinces and seems to have risen much faster than in the rest of Iran. Apart from the general impression of a continued excessively unequal distribution of personal incomes, there is no evidence how the recent growth in national income has affected this distribution. As a matter of fact, there are no national income data available except for a rough estimate made by staff members of the U.S. Operations Mission for last year, which shows a total income of \$2.1 billion at current prices.

Financial and Monetary Situation

General Characterization

8. In the last three years the economy has been characterized by substantial inflationary pressures. These stem in the first instance from the expenditure of an increasing amount of revenue coming from abroad. Total expenditures of such non-tax revenues, including oil revenues, local expenditures by the foreign oil Consortium, and foreign aid and loans, rose from \$90 million in 1954/55 to \$375 million in 1957/58. (Statistical Appendix, Table 6). Less than half of this revenue has been spent directly abroad; most of it has been converted into rials and spent in Iran. The expansionary effect of this on the money supply has been considerable and has been accentuated by a steady increase in bank credit to the private sector, and, from time to time, by government resort to bank credit. Since much of the country's income is received in foreign exchange, (\$485 million, or perhaps 20-25% of present national income), the supply of foreign exchange has been adequate to finance all necessary imports. In recent years imports have risen considerably, but, for a number of reasons, not enough to offset the expansionary factors and attendant pressures on prices. There was some delay in liberalizing imports; some rise in prices was necessary before merchants found it profitable to import; and, above all, imports never fully replace or supplement certain domestically produced goods and services the production of which may not be susceptible of rapid expansion.

9. Changes in money supply and prices are shown in Tables 7 and 8 of the Statistical Appendix. During the last two years money supply as a whole rose from Rls 24.6 billion to an estimated Rls 34.0 billion or by 38%. The single most important factor in the increase in money supply was the accelerating expansion in bank credit to the private

sector under the stimulus of a rising volume of trade and some increase in building and speculative activity, all of which in turn was greatly stimulated by rising disbursements of oil income and foreign aid. During last year, the demands for foreign exchange did not keep up with the rate at which foreign exchange income was monetized, thus bringing about a substantial increase in the foreign exchange reserves.

10. With rising money supply, prices have shown an upward trend. While the Bank Melli's overall cost of living index for seven major cities has risen by 13% during the last two years, certain prices have gone up much more, particularly those of services (20-25%), rents (27%), animal products (17-39%), charcoal (39%) and leather shoes (25%). It should be noted that these are services and products which cannot be or are not imported. During last year there was a trend toward price stability even though some components in the cost of living continued to rise in price. This trend was due partly to the cumulative impact of rising imports and more particularly to an unusually abundant harvest. On balance, prices and the cost of living over the last two years have increased much less than the growth in money supply would seem to have dictated. To some extent this can probably be explained by a declining velocity of circulation. Another factor accounting for the relatively moderate rise in the cost of living is undoubtedly the fact that much of the money pumped into the economy has evidently gone into construction, and, above all, into a rather wild speculation in both urban and agricultural land. This speculation has phenomenally appreciated land prices and continues unabated.

11. In May 1957, the government created the possibility of a rapid acceleration in the extension of bank credit to the private sector by revaluing the rial from 32.25 to 75.75 rials to the dollar. This revaluation affected only gold and foreign currencies held in the Issue Department of the Bank Melli (the central bank) as 40% note cover under the 1954 Note Reserve Act. Foreign assets held in the Banking Department of the bank and, consequently, commercial transactions had already been valued at the new rate since early in 1956. The revaluation released Rls 7 billion or \$92 million in gold and foreign assets from the note cover and transferred it to a Special Revaluation Fund in the Banking Department. The Banking Department can convert these foreign exchange assets at liberty into rials by sales to the Issue Department, but the latter cannot use these assets for any note issue beyond the rial equivalent of the foreign exchange. Half of the rials realized in this way are to be used for certain industrial loan operations; the balance, for additional credit operations of the Agricultural Bank. Through this device it will be possible ultimately to add Rls 7 billion or 20% to the present money supply.

Government Finance

12. The large amount of income from oil and foreign aid, including particularly the IBRD loan of \$75 million to the P.O., have enabled the

government generally to live within its means. It has therefore been possible for the government to adhere to certain legislative restrictions which prevent excessive government recourse to bank credit. ^{1/} As a matter of fact, the data on money supply (see Table 7, Statistical Appendix) show that the government's fiscal operations were somewhat deflationary in 1955/56 through 1957/58. This was due to the fact that in each of these years an estimated \$25 million in funds transferred by the P.O. to a number of ministries carrying out certain activities on behalf of the P.O. were not spent owing to administrative and technical difficulties.

13. It should not be inferred, however, that government finances have been in a satisfactory condition. There have been chronic difficulties in balancing the ordinary budget. Except for the year 1956/57 current expenditures have been rising more rapidly than revenues before taking into account oil income and U.S. aid. As the table below indicates, the annual increase in expenditures averaged about Rls 3 billion over

Iranian Government Ordinary Budget
(billion rials; cash transactions)

Years ending March 20:	<u>1954/55</u>	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u> (Revised estimate)	<u>1958/59</u> (Budget proposal)
1. Ordinary Revenues	10.0	10.6	13.9	16.1	19.2
2. Expenditures	<u>12.3</u>	<u>14.9</u>	<u>17.9</u>	<u>21.7</u>	<u>29.0</u>
3. Deficit before oil revenue and U.S. aid	-2.3	-4.3	-4.0	-5.6	-9.8
4. Oil revenues	-	0.8	2.8	5.6	8.4
5. U.S. budget aid	<u>2.3</u>	<u>3.6</u>	<u>1.5</u>	<u>0.3</u>	<u>-</u>
6. Balance after oil revenue and aid	0	0.1	0.3	0.3	-1.4

Source: Ministry of Finance, Teheran

the last 3 years and jumped by over Rls 7 billion in the current year's budget. Factors responsible for this steady rise in expenditures can be inferred only from successive budgets, since the government possesses no breakdown of its actual expenditures. (For the budget figures, see Table 9, Statistical Appendix). During the last 3 years all major

^{1/} The law on Central Banking provides that borrowing by the government from the Central Bank for purposes other than capital expenditure and state trading requires parliamentary approval; borrowing for development and state trading activities by any government agency must be recommended by the Minister of Finance, and the Central Bank is then theoretically free to decide on such lending.

categories of expenditures have risen by at least 50%. Out of a total increase of Rls 9.4 billion, roughly Rls 3.2 billion was probably due to defense and about Rls 2.0 billion to education; expenditures in these fields have more than doubled. In the current fiscal year the government considered it necessary to raise total budget spending by Rls 7.3 billion or by about one-third. Of this increase, Rls 3 billion was earmarked for higher pay for military and police personnel and Rls 1 billion for higher remuneration of certain other groups of civil servants. Even these increases were considerably below the demands made by various government ministries and agencies.

14. Ordinary revenues have risen by Rls 6.1 billion or 61% over the last three years as compared with the above increase in expenditures by 76%. The rise in revenue, which would appear rather gratifying, was actually not so large considering the fact that during this period the rapid recovery of oil production gave a great stimulus to the economy, producing a continuous expansion in imports and domestic trade, a considerable monetary expansion, and some degree of price inflation. Table 10 in the Statistical Appendix shows that revenue from direct taxation has risen almost twice as fast as that from indirect taxation, but the latter still accounts for about 90% of total government revenue other than oil. In the opinion of competent observers collection of direct taxes has been less than one-third of what legislation would have permitted had it been properly enforced. Enforcement is made difficult by such factors as the absence of commercial records and professional auditors, and the absence of any legal provisions for punishment of tax evasion either by fines or imprisonment.

15. The government is fully aware of the precarious revenue situation and has, in presenting the 1958/59 budget, proposed a number of steps to raise more direct taxes. Provisions for penalizing taxpayers convicted of tax evasion are to be incorporated in the income tax law; the rental value of buildings inhabited by the proprietor which has previously been tax exempt is to be made taxable, though at only half the rate of other rental property; in order to combat land speculation, taxes on real estate transactions are to be more than doubled, and a general property tax of 1% on undeveloped land is to be introduced; finally, the existing tax exemptions for new industries for a period of five years are to be repealed. At the time of writing this report these proposals are still pending in Parliament. The Director of Revenues and other competent observers have estimated that even if all these proposals become law and the government makes a real effort to improve the collection of direct taxes, the latter would at best rise from Rls 1.6 to Rls 2.3 billion during 1958 as compared with a budgeted figure of Rls 2.7 billion. The government thus continues to depend almost exclusively on revenues from indirect taxation which are budgeted fairly realistically to rise from Rls 14.5 to Rls 16.5 billion. In summary, the rise in ordinary revenues during 1958/59 will depend somewhat on the extent of reforms in the field of direct taxes and may be between Rls 2.3 and Rls 2.7 billion as compared with a budgeted rise of Rls 3.1 billion.

16. Past deficits have been met by U.S. aid, which has, however, been on a declining scale and ceased in mid-1957, and above all, by oil

revenues. The latter are apportioned among the ordinary budget, the Plan Organization and the National Iranian Oil Company (N.I.O.C. - a government company whose principal responsibility is the distribution of petroleum products in Iran and the development of certain oil resources on Iran's own account). Prior to 1958/59 the minimum guaranteed annual oil revenues of \$188 million were divided among the budget, the P.O. and the N.I.O.C. in the proportion of 10:62:28; and the budget received any excess over this minimum as well as any unspent balance of the N.I.O.C. share. In 1958/59 this allocation was to remain the same, except that the budget was at most to receive 5% of the minimum guaranteed amount, 1/7 with 75% going to the P.O. and 20% to the N.I.O.C. A more radical change in the allocation formula was envisaged for 1959/60 and subsequent years; the budget was to receive a maximum of 5% of total oil revenues, the P.O. 75%, and the N.I.O.C. 20%. It should also be noted that the annual compensation of \$7 million payable to the British Petroleum Company (formerly the Anglo-Iranian Oil Company whose facilities were nationalized in 1951) was shared by the budget and the P.O., with the former paying 1/7 and the latter 6/7 of the total.

17. In the face of pressures for an extraordinary rise in expenditures during 1958/59 the government decided that the budget could not be balanced without the use of more oil revenues. New legislation was accordingly enacted. This allocates to the 1958/59 budget 25% of the \$188 million guaranteed minimum, plus all revenues in excess of the minimum and the unused portion of the N.I.O.C. share. The N.I.O.C. is to receive 15% and the P.O. 60% of the guaranteed minimum. In addition the P.O. is to turn over to the budget \$13 million of its share in exchange for an equivalent amount of unutilized ICA procurement authorizations remaining from previous U.S. aid allocations. Beginning 1959/60, however, the P.O. is to receive 60% of total oil revenues, and the budget and the N.I.O.C. the balance. Allocation of oil revenues under the old and new legislations, on the basis of the P.O. paying 6/7 of the compensation to B.P.C. and the budget paying 1/7, are shown in the following table:

1/ The legislation made the receipt of this 5% dependent upon approval by a special Commission chaired by the Minister of Finance but there was hardly any doubt that this approval would be given.

Allocation of Oil Revenues
(in million US \$ equivalents)

Years ending March 20:	Old Legislation			New Legislation	
	<u>1957/58</u>	<u>1958/59</u>	<u>1959/60</u>	<u>1958/59</u>	<u>1959/60</u>
1. Total Oil Revenues (present estimates; assuming no decline in current posted prices)	<u>210</u>	<u>260</u>	<u>281</u>	<u>260</u>	<u>281</u>
2. Budget share after compensation to B.P.C.	74	97	48	135	87
3. N.I.O.C. share, net of payments of unspent oil revenue to the Budget <u>1/</u>	24	24	24	24	24
4. Plan Organization share after compensation to B.P.C.	100	132	202	94	163
5. Compensation to B.P.C.	12	7	7	7	7

1/ Assuming no increase in N.I.O.C. expenditures.

18. The 1958/59 budget shows a deficit of Rls 9.8 billion before taking account of oil revenue. With the likely shortfall in budgeted revenue from direct taxation (see para. 15 above) this deficit is likely to be increased even if the government should succeed in keeping expenditures at budgeted levels by means of strict pre-auditing and a continued policy of deferring payments to suppliers. Moreover, the parliament has already approved Rls 0.7 billion for certain extra-budgetary expenditures, and there is also a considerable amount of unutilized authorizations for extra-budgetary expenditures outstanding from last year. Consequently, the total ordinary budget deficit before taking into account oil revenues may well be Rls 11-12 billion. As against this deficit the government has conservatively budgeted oil revenues of about \$110 million or Rls 8.4 billion. However, if there is no decline in the posted price of Persian Gulf oil and if the present volume of oil exports is maintained, which appears likely, oil revenues accruing to the Budget may well be in the neighborhood of \$135 million or Rls 10.2 billion. (See above table). In that event the ordinary budget deficit may be between Rls 1 and Rls 2 billion.

19. The juggling of the ordinary budget for 1958/59 has in fact simply transferred the deficit from the budget to the Plan Organization. (Table 19 of the Statistical Appendix). The 1958/59 P.O. deficit, after taking into account recent changes in the budget, amounts to about \$75

million as compared with a surplus of \$6 million during 1957/58 after receipt of \$65 million from the IBRD loan. This deficit would be increased if the procurement authorizations cannot be fully utilized either by the P.O. itself or by sale to private importers. The deficit is the result of an increase in expenditures from \$160 million to \$182 million in the face of more or less unchanged oil revenues and the termination of IBRD disbursements. Of the rise in expenditure \$8 million is attributable to a decision of the Cabinet to make the P.O. pay back-taxes on account of its sugar factories which had so far been considered tax exempt; this is in fact an additional shift of oil revenues from the P.O. to the budget. The P.O. hopes to be able to finance the bulk of the above deficit by external borrowing - about \$40 million from the U.S. Development Loan Fund, and the balance from the IBRD and commercial banks.

Foreign Trade and Balance of Payments

20. Despite an apparently declining trend in non-oil earnings (amounting to approximately 25% of the total) and a steady rise in total payments, the balance of payments has in the last two years yielded a growing foreign exchange surplus. (See Table 11, Statistical Appendix). This has resulted from the spectacular rise in oil income (including investment), continued U.S. aid and, particularly in the last year, the disbursement of the IBRD loan. By April 1958, foreign exchange reserves had risen to roughly \$280 million, a sum equal to two-thirds of last year's foreign exchange payments. Free reserves, i.e. reserves not used as currency backing, amounted to \$205 million. The restrictions on imports and invisible payments have been rapidly removed, with the exception of a few import prohibitions maintained for protective purposes which may also be discontinued. As a result, private imports have almost doubled and private invisible payments have increased sevenfold during the last three years. Imports of most consumer goods and of all capital goods have followed an upward trend (Table 12, Statistical Appendix).

21. Receipts from exports other than oil have declined from \$120 million in 1954/55 to \$106 million in 1956/57, mainly because of increased local consumption of fruits and rice; rice exports have fallen from about 61,000 tons in 1954/55 to almost zero. Exports of carpets, which account for about 20% of the total, appear to be stagnating. (Table 13, Statistical Appendix).

22. The geographic distribution of imports has become more diversified during recent years, but the U.S., West Germany and the U.K. continue to be by far the largest suppliers of the country and together account for more than 40% of total imports (Table 14, Statistical Appendix). Iran's balance of payments shows a substantial deficit with the dollar area (about \$50 million last year) which is covered by U.S. aid and the conversion of sterling (the currency in which oil revenue accrues). Owing to the progressive liberalization of foreign transactions, discrepancies between free and official exchange rates are insignificant.

Immediate Financial Prospects

23. Expansionist tendencies in 1958/59 may well be considerably greater than in each of the last two years. Bank credit to the private

sector, which has been rising about Rls 3 billion a year, may increase by around Rls 4-6 billion, partly as the result of monetizing some of the revaluation profit fund through industrial investment loans (which will probably be supplemented by additional credit for working capital) and partly in consequence of further expansion in domestic and foreign trade. The deficit in both the ordinary budget and the P.O. budget will probably be in the neighborhood of Rls 7 billion. The monetary effect of this deficit will be the same irrespective of whether it is covered by external borrowing or by internal borrowing from the Bank Melli. The year 1958/59 will set new records with respect to both total public expenditures and the proportion of such expenditures financed out of oil revenues and foreign and internal borrowing. Under these circumstances the increase in money supply may well be larger than the 18% rise in 1957/58; and the increase will probably have a greater impact on prices since last year's bumper food crop is unlikely to be repeated.

24. How the balance of international payments will develop during the current year will depend largely on the extent to which the P.O. deficit will actually be covered by external borrowing. Total foreign exchange income from the operations of the Oil Consortium are likely to be \$60-\$70 million above last year's level; and, in addition, a \$25 million bonus payment is to be received from the Pan-American Oil Company under a concession contract recently negotiated with the N.I.O.C. From this additional oil income alone Iran could finance the same percentage increase, namely 20%, in total foreign exchange payments as last year. In view of the greater expansionist tendencies now manifest the rise in imports may, of course, be larger than 20%; and external debt service, including partial repayment of an I.M.F. drawing, will be about \$20 million higher. It seems likely, however, that aid from the U.S. Development Loan Fund, together with possible other external borrowing, will be more than enough to offset any deficit.

II. Development Progress

Spending on Development

25. Growing oil revenues, continued U.S. aid and foreign loans and credits have made possible the allocation of considerable resources to development. The Plan Organization has increased its disbursements on development from an annual rate of \$65.2 million during the first 6 months of its operation in 1955/56 to \$151.2 million in 1957/58. While the P.O. has been the principal agency for carrying out and financing public development activities, other government agencies have also been engaged in development projects financed out of special revenues or credits. The N.I.O.C. spent about \$20.7 million and \$33.8 million in 1956 and 1957, respectively, on distribution facilities and exploration. These outlays were financed from its own share in oil revenues. A \$10 million credit granted by the U.K. in March 1955 has enabled the Ministry of Customs and Monopolies, the Ministry of P.T.T., the Ministry of Roads, the Agricultural Bank and the Mortgage Bank to acquire equipment and supplies for some of their own investment projects. Similarly credits from the U.S. Export-Import Bank have permitted the Ministry of Roads to acquire equipment for a program of road maintenance and improvement and the Iranian State Railways to buy a considerable number of diesels. The Teheran Water Board has been engaged in providing the capital area with a water purification and distribution system and is now about to initiate the construction of a new large reservoir with the help of suppliers' credits. The Teheran Municipal Power Company is relying on similar means of financing for a substantial expansion program now under way. The Crown Estates has also been making a considerable number of investments, either directly or indirectly, in such ventures as cement plants, shipping and fishery enterprises, sugar factories and hotels. Part of these also are financed by suppliers' credits.

26. A comprehensive estimate of development expenditures by all these agencies was not available but the total is undoubtedly high. As in other underdeveloped countries, however, the availability of resources is by no means the only critical determinant of development progress. Much depends on non-economic and non-financial factors such as the ability to enlist widespread popular support and enthusiasm for a truly national effort, the efficiency and devotion of the civil service and the capacity for effective planning and programming.

Factors Limiting Development

27. Development in Iran is generally regarded as a government responsibility. Within the government, however, development activities appear to be inadequately coordinated. The inadequacies of government administration are realized by many people, and the government has made some effort to improve the situation. Steps have been taken to improve job classification and to attract better personnel.

28. In some government agencies, notably the P.O. and the N.I.O.C., the standard of personnel and performance are considerably superior to that in the rest of the government. Accounting and accountability are much better. Both organizations have higher salary scales and have made special efforts to attract properly qualified personnel. The P.O., for instance, has engaged many individual foreign experts and consulting firms to assist in its work. A number of young Iranians who have received their training and early experience abroad have recently been given opportunities for useful employment in the P.O. The P.O. has established two special bureaus to assist it in improving the quality of its performance and its effectiveness. The Technical Bureau, established in 1955, has recently been complemented by an Economic Bureau. The experts in the Technical Bureau were recruited by the IBRD under the Bank-Plan Agreement of May 20, 1955 but paid for by the Plan Organization. The experts for the Economic Bureau were recruited by Harvard University and are being paid for out of a Ford Foundation grant. In addition, an American firm, financed by an ICA grant, is studying the organizational and administrative set-up of the P.O. with a view to recommending improvements.

29. There are, of course, still deficiencies in the P.O. It is only recently that steps have been taken to compile some record of future contractual commitments or of the implications of existing programs in terms of additional commitments that must be undertaken in the future. There is a tendency to assume new commitments or to resort to ad hoc diversion of resources from one project or program to another without full realization of the future implications. The administration of the Plan appears to be overburdened, so that inadequate attention is given to the consequent execution of projects. The P.O. also seems overburdened because it is charged with the task of operating a large number of government factories ranging from small ginneries and tea-processing plants to canning factories, sugar factories and textile mills.

30. The P.O. has authorizations to spend money over a 7-year period (Sept. 1955-Sept. 1962), and these authorizations are allocated by 5 broad chapters (agriculture; communications; industry and mines; social developments and Khuzestan) and in varying degrees of detail over a considerable number of sub-chapters and individual projects. The projects and programs are not defined in particularly meaningful economic terms. The P.O. has not yet worked out overall goals in terms of total production, agricultural or industrial output; nor has the P.O. calculated the impact of the Plan on the volume and pattern of domestic production and foreign trade. This in turn makes it extraordinarily difficult to test the adequacy of the Plan's efforts to expand the "service industries", such as transport (roads, railroads and ports) and electric power.

31. The inadequacies of planning have made it difficult to determine the relative priorities of various projects and programs. Under these conditions, decisions regarding adjustments within the Seven-Year Plan or on the inclusion of new projects must often be undertaken without a knowledge of all the relevant facts. While there has been growing and welcome tendency to make studies and surveys before

embarking on new projects, there is a tendency to neglect the evaluation of the resulting studies for the purpose of establishing the priorities of the affected projects and determining how and to what extent they might fit into an overall program.

32. The establishment of the Economic Bureau within the P.O. is a recognition of the need for more effective planning. The activities of this Bureau, together with those of the Technical Bureau, may result in the elaboration of a more meaningful program in which the component parts will be properly related and which will make some distinction in priorities.

Sector Analysis

33. In the Annex to this report the Mission has tried to review development progress and plans by sector. Owing to the difficulties outlined above and the limited time and personnel of the Mission, a definitive appraisal was impossible. Much of the actual and proposed expenditure on development will seem worthwhile in terms of objectives and directions. Many useful development activities in the field of agriculture, industry, transport, health and education have been financed. Some parts of the program, including road building and rural electrification have lagged rather badly. In industry the P.O. is undertaking some large projects such as a steel plant, the timing of which is open to question.

34. The review in the Annex concentrates primarily on development activities and programs of the P.O., but, where appropriate and possible, it comments also on development being carried on outside the Plan. The reader is referred to Table 17 of the Statistical Appendix for a breakdown of the estimated actual and projected disbursements of the P.O. These disbursements (other than non-development outlays including those on administration) may be summarized in terms of millions of rials and percentages as follows:

<u>Sector</u>	<u>Estimated Actual</u> (2.5 years up to end 1957/58)		<u>Projected</u> (4.5 years to Sept. 21, 1962)		<u>Total</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
I. Agriculture & Irrigation	5,052	23.7	15,790	23.9	20,842	23.9
II. Transport & Communications	8,609	40.4	20,430	31.0	29,039	33.3
III. Industry	3,257	15.3	7,680	11.6	10,937	12.5
IV. Social Services	2,938	13.8	16,501	25.0	19,439	22.3
V. Khuzestan	1,450	6.8	5,549	8.4	6,999	8.2
Total	21,306	100.0	65,950	100.0	87,256	100.0
Dollar equivalent (mil.)	281		871		1,153	

It should be noted that the outlays for Khuzestan, which is a special regional development scheme, are principally devoted to irrigation, power and industry.

III. Prospects and Creditworthiness

35. There is little doubt that the work of the Plan Organization is of critical importance to the future of Iran and that the total resources now being devoted to development are not excessive in relation to the country's requirements. The P.O. is now faced, however, with a problem in finding the financial resources necessary for the continuation of its program. It has already been pointed out that the P.O. budget for 1958/59 shows a deficit of \$75 million without taking into account possible new loans. Whether or not the P.O. will have to cope with a continuing crisis will depend not only on the resources accruing to the government and how they are allocated, but also on the ability of the government as a whole to live within its means. This poses, first of all, the question of the future trend of oil revenues, and, secondly, the question of their allocation.

Oil Revenues and their Allocation

36. Future oil revenues will be governed by market considerations, for, as already indicated, the contemplated expansion of oil production and transport facilities are likely to keep well abreast of the market. It is generally expected that oil exports will remain at about the present level for the balance of the current fiscal year and that this will ensure an oil revenue of about \$260 million at current posted prices. The Iranian government expects that, beginning in 1959/60, oil exports and oil revenues will rise at an average annual rate of 10%. The informed opinion of oil experts canvassed by the Mission indicates, however, that this expectation may well be over-optimistic. One expert acquainted with the policies and sales territories of the marketing companies comprising the International Oil Consortium considered that 8% would be more realistic even after taking into account that 62% of Iranian oil is sold east of Suez where consumption is rising somewhat more rapidly than west of Suez. There are, however, experts who are slightly more optimistic. In Tables 18 and 19 of the Statistical Appendix oil revenues are projected on the basis of both an 8% and a 10% average annual growth. These certainly indicate the range of possibility, although the Mission believes the assumption of 8% more realistic. Another reason for accepting the more conservative assumption is the possibility of a reduction in prices. In view of the price reductions which have taken place elsewhere the possibility of some decline also in Persian Gulf prices should not be entirely discounted even though the latter are under less pressure because they were not raised to the same extent in response to the Suez crisis.

37. Unless otherwise noted it will be assumed in the balance of this report that oil revenues will rise at an annual rate of 8%. According to this assumption they would increase from \$260 million in 1958/59 to \$352 million in 1962/63. Under the new legislation recently enacted the Plan Organization is to get 60% of total revenues beginning in 1959/60. Taking into account the distribution in the current fiscal year, 1958/59, the P.O. would be assured, on this basis, total oil revenues amounting to \$752 million for the remaining 4-1/2 years of the Plan.

38. Under existing law, oil revenues accruing to the ordinary budget will drop sharply from \$136.1 million in 1958/59 to \$88.1 million in 1959/60; and although the budget portion will slowly rise thereafter, it will remain below the 1958/59 level for the balance of the Seven Year Plan period. (See Table 19, Statistical Appendix). The shortfall, as compared with 1958/59 will be as follows:

	<u>Million \$</u>	<u>Billion Rials</u>
1959/60	48.0	3.64
1960/61	39.2	2.97
1961/62	29.6	2.24
1962/63 (6 mos.)	9.8	0.74
<hr/>		
Total	126.6	9.59

Thus, beginning in 1959/60, the government will have to raise enough additional tax revenues not only to cover the steady increase in ordinary budget expenditures but also to offset the above drop in oil revenues.

The Ordinary Budget Problem

39. In the last three years budget expenditures have risen by Rls. 2.55, Rls 3.11 and Rls 3.76 billion respectively; and the current year's budget foresees an extraordinary increase of Rls 7.3 billion. It seems doubtful that the government can keep the increase in the future to less than Rls 3 billion a year. The government will be under constant pressure to raise expenditures for a variety of reasons; for maintenance and operation of development projects as they are completed; for social services; for internal and external security; and for more compensation for the ill-paid civil service and armed forces whose claims were only partly satisfied this year.

40. Non-oil revenues have risen by Rls 0.59, Rls 3.29 and Rls 2.23 billion in the last three years; and an increase of Rls 3.14 billion is anticipated in this year's budget. Judging by past performance an annual addition of Rls 3 billion may be all that can be expected for the future. In that event the increase in non-oil revenues would just about match the probable rise in budget expenditures.

41. With strict economy in budget expenditures and a determined national campaign to collect more taxes, the budget situation could be improved. A real effort to collect existing taxes as well as increases in taxes on income from real property and agriculture might bring in considerably more revenue. The government has recently obtained a \$25 million bonus in connection with an oil concession to the Pan American Oil Company and it is possible that the government may obtain additional bonus payments in connection with future oil concessions. It might be argued that such bonus payments should be used to cover investment expenditures by N.I.O.C. instead of using them for budget purposes. The N.I.O.C. however, is unlikely to have an urgent need for additional investment resources. All together therefore, the government should be able to manage within the terms of the new legislation allocating oil revenues.

The Prospective P.O. Deficit

42. If the P.O. actually receives \$752 million in oil revenues during the remaining 4-1/2 years of the Plan, its resources will still fall substantially short of expected development expenditures. There are a variety of deductions from these revenues for such purposes as compensation payments to the British Petroleum Company, service on the IBRD loan, administration costs, etc. (See Table 18, Statistical Appendix). After taking these deductions into account and adding about \$13 million in ICA procurement authorizations turned over to the P.O. this year in compensation for the surrender of an equal amount of oil revenue, the total amount available for meeting development or investment expenditures is only \$600 million.

43. Just what P.O. development expenditures are likely to be during the remaining 4-1/2 years is difficult to forecast. According to the original Plan budget, they were to be \$701 million, but this amount does not take into account the shortfall in expenditures in the preceding years. The Budget Bureau of the P.O. made a projection for the Mission indicating total expenditures of \$871 million. As against these two expenditure targets, the anticipated revenues show a deficit of \$101 million and \$271 million respectively. The P.O. now expects a substantial deficit during the Seven-Year Plan period because oil revenues accruing to it would probably fall substantially short of the amounts originally anticipated and investment expenditures are now expected to be somewhat higher than previously contemplated.

44. The deficit of about \$270 million could be bridged by external borrowing and, if necessary, by economies in expenditures. In theory some internal borrowing from the Bank Melli might also be justified, since the Bank could use part of its large foreign exchange reserves (about \$280 million of which \$205 million are in the banking department) for offsetting the effect of such borrowing by additional imports. Such borrowing would at least initially have no different monetary effect than foreign borrowing. However, the mere fact that internal borrowing could take place for some time without unfavorable consequences might encourage the government to resort to bank financing of the ordinary budget and the P.O. budget long after it has ceased to be safe. The experience of other countries demonstrates that consequences of this type of financing are often long delayed; and when they do become manifest, the foreign exchange available for imports to dampen the generated inflation may then be insufficient. In this connection it should be pointed out that Iran's need for foreign exchange will in any event rise in view of the multiplier effect of expansionist tendencies already set in motion. The volume of credit to the private sector is likely to rise at an accelerating tempo with the tendency to take advantage of investment opportunities in a rising market. Resources of the Revaluation Fund (\$92 million) will gradually be monetized as the result of credits from the industrial loan fund and expanding operations of the Agricultural Bank. Under these circumstances resort to the Bank Melli to cover an overall deficit in the remaining years of the Plan would be highly inadvisable.

External Borrowing

45. The prospects of rising foreign exchange income should offer the basis, however, for additional external borrowing. Foreign exchange receipts from oil, exports and invisibles may be expected to rise from the equivalent of \$365 million in 1957/58 to \$540-\$570 million, say \$550 million, in 1962/63. Not only is oil revenue expected to rise sharply, but local oil company investment defrayed by sales of foreign exchange to the Bank Melli will also increase substantially, largely as the result of the investment program of the Consortium but also as the consequence of investments by other foreign oil companies. Export earnings will, however, probably show a continued downward trend owing to rising home consumption.

Projected Foreign Exchange Receipts
(in millions of U.S. dollar equivalent)

	<u>1957/58</u>	<u>1962/63</u>
Income from oil		
Oil Revenue	209.4	350-360
Local Investment of Foreign Oil Companies	45.0	90-100
Exports	90.0	80-85
Invisibles	<u>20.0</u>	<u>20-25</u>
Total	364.4	540-570 (say 550)

46. Iran already has a considerable government and government-guaranteed external debt. On the basis of tentative information available to the Bank, it amounted in September 1957 to the equivalent of about \$406 million of which \$110 million was still undisbursed. Service on the outstanding debt in 1957/58 amounted to \$33.3 million or about 9% of foreign exchange earnings. Next year (1959/60), however, service payments, including a final payment of \$16.9 million on an IMF drawing, are to rise to a peak of \$82 million or 18-19% of prospective foreign exchange earnings that year; and they will continue high for a few more years. (See Table 21, Statistical Appendix). Heavy amortization payments over the next five years will reduce the principal amount of the debt now outstanding to a level of less than \$120 million by 1963/64. By that time the service on this debt will amount to about \$22 million or 4% of projected foreign exchange earnings; and in another 5 years service will decline to \$4.1 million.

47. Under these circumstances Iran could probably service a considerable amount of new debt as old debt is retired and foreign exchange earnings rise. The "hump" in service-payments on the existing debt over the next 3 or 4 years will probably not occasion serious difficulties in view of Iran's substantial foreign exchange reserves. In contracting new debt, however, care will have to be taken not to add significantly to the debt service during this period. Moreover, the amount of external borrowing for the Seven-Year Plan will have to take into account any new

borrowing for other government agencies as well. In view of the rapidity with which foreign debt has mounted over recent years it is essential that the government maintain a tight control over the incurring of further external indebtedness in order to ensure that the total does not exceed reasonable bounds.

The Need for Improved Programming

48. Even if it should prove possible to cover the entire P.O. deficit by external borrowing, this should not obviate the need for better planning and programming to achieve the most efficient possible use of available resources. The total of the P.O.'s projected expenditures is not excessive in view of the country's requirements for development as long as all these funds can be spent with reasonable efficiency. However, limitations on resources as well as on the available technical, administrative and organizational capacity make it highly inadvisable to exceed this total.

49. Any re-examination of the program within this total should obviously focus on establishing the most appropriate relationships between various sectors and on determining relative priorities. It should presumably give the highest priority to the rapid completion of projects and programs on which considerable sums have already been spent. It would be particularly useful to determine what could be accomplished with the resources from oil revenues alone and what more could be achieved through successive increments in resources. This would give the Iranian government as a whole and the P.O. in particular a better conception of the real benefits of borrowing additional resources. The minimum total would include projects and programs of the highest priority and the successive additions would include those of progressively lower priority. Such a division of the entire Plan would make it possible to make sounder decisions on the postponement of the lower priority projects and programs if it is necessary to make room for new and more urgent projects or to compensate for any temporary shortage of resources that may develop.

50. In theory it would be necessary to consider also whether additional borrowing which would make possible higher expenditures would not unduly promote inflation. As already indicated, rising expenditures of non-tax revenues in Iran undoubtedly do create inflationary pressures even if ample foreign exchange is available to bring in imports. However, the ability to meet all the demand for imports at least puts a limit on price increases of the most important staple goods such as textiles and cereals. There will unquestionably be increases in the prices of livestock products, fruits, vegetables, rents and wages; and this will raise the cost of government operations, including the cost of the Seven-Year Plan. It is difficult to contend, however, that essential development expenditures in a country such as Iran should be kept down because of the danger of limited price increases; and this is particularly true in the case of Iran where a substantial and growing foreign exchange income should enable the government to keep price increases more restricted than in other countries with a less favorable foreign exchange situation.

ANNEX

Development Progress and Plans by Sectors

Agriculture

1. Apart from the modest activities of the two existing agricultural credit institutions, development activities in the field of agriculture have been almost entirely financed by the P.O. which has disbursed funds for irrigation, agricultural training institutions, extension service and community development, pest and disease control, seed improvement, fertilizers, agricultural mechanization, silos, etc.

(a) Improvements in Husbandry

2. There is as yet little evidence of any significant improvement in agricultural methods and animal husbandry. The Ministry of Agriculture has set up an extension service and the Ministry of Interior a community development or village improvement staff to both of which the P.O. has contributed funds. The field staff of the extension service now totals 235, a number sufficient to cover about 5% of all Iranian villages; and the community development program extends, but only theoretically and inadequately, to about one-third of Iran's villages. In general these agencies have as yet had little impact, partly because they are still in their infancy, partly because they do not have sufficient well-trained and dedicated personnel. Their efforts are also handicapped by the lack of a good agricultural research organization capable not necessarily of basic research, but of laying down and carrying out proper field trials of new methods, new seeds, etc.

3. The development, multiplication and distribution of better seeds has not made much progress. Some success has been achieved in the selection and distribution of better strains of cotton and sugar beets, but it should be noted that average cotton yields are only half those in the United States and sugar beet yields about one-third of those in Western Europe. Some funds have been made available for the purchase and subsidized distribution of fertilizer, but in the absence of preliminary experimentation and field trials the program has inevitably been rather haphazard and wasteful; and it is only recently that measures have been taken to initiate systematic field trials on fertilizer responses. Only a few thousand tons of fertilizer are imported.

4. Some progress has been achieved in the field of pest and disease control: in combatting locusts and the senn pest in cereals; in mass vaccination of cattle against anthrax and rinderpest, and in the organization of better veterinary services. The P.O. has provided essential funds for the completion of an excellent institution producing vaccines and serums and in the expansion of veterinary work in the field. Improvement of livestock through selective breeding and better grazing and feeding has, however, made virtually no progress.

(b) Silos

5. Capacity for the cleaning and storage of grain has long been an urgent requirement in Iran. Before the last war, silos were erected at Shiraz, Meshed, Kermanshah and Ahwaz, the first three with a capacity of 16,000 tons each and the latter with a capacity of 32,000 tons. No provision, however, was made for equipping these silos so that they have remained idle. The P.O. is only just now processing contracts for equipment which are supposed to ensure the completion of the silos by 1961/62. Unless appropriate arrangements can be worked out for the use of the completed silos by the private trade, there is some danger that their capacity will be inadequately utilized solely for the storage of government-held grain.

(c) Mechanization

6. Mechanization has made significant strides in recent years and has probably contributed both to an expansion of the area under cultivation and to improved and more timely preparation of the soil. Over the last three or four years the number of tractors in Iran has grown from a rather insignificant number to around 4,000. Both the P.O. and the Agricultural Credit Bank originally purchased a considerable number of tractors and other machinery for re-sale on deferred payment; and the P.O. established a number of agricultural repair stations. This government operation of a large-scale agricultural machinery business proved inefficient and wasteful; and the P.O. has now wisely embarked on a better program of financing the sale of machinery through regular dealers who are accredited on the basis of their willingness to abide by certain pricing regulations and to establish repair facilities when the number of their machines operating in designated regions has reached a predetermined number. It is still somewhat anomalous, however, to have the P.O. engage in an activity which should really be the responsibility of an agricultural credit institution. Meanwhile the Agricultural Bank continues to deal in agricultural machinery.

(d) Agricultural Credit

7. As in most underdeveloped countries, agriculture is seriously handicapped by inadequate credit. There are two agricultural credit institutions - a small one, the Bank Omran, catering only to the needs of peasants who are the beneficiaries of the distribution of land from the Crown Estates, and a larger one, the Agricultural Bank, operating throughout Iran. The former had made credits available up to March 1958 of only about Rls 50 million. The latter has not had adequate resources and is not well-managed. At the end of 1956/57 it had loans outstanding of only Rls 1,282 million (\$17.6 million); and it had been able over the last 3 years to extend on the average only Rls 315 million (\$4.15 million) of new loans a year. In recent years it has managed to collect only a little over 60% of the loan repayments which fall due. Both the scope and the method of its operations have been deficient. The Bank does not have sufficient trained staff or transport facilities to supervise the use of its credits. Moreover, the vast majority of the cultivators do not own their land and cannot put up the security to obtain access to the Bank's credits.

In theory cooperatives can be organized for the purpose of obtaining credit, but the progress in this field has been almost negligible. Under these conditions, most farmers must rely for whatever credit is available on landowners and merchants who generally provide it only on onerous terms.

8. The P.O. has put some additional resources at the disposal of the Agricultural Bank, primarily for the construction of ganats, underground canals which tap the water-bearing strata in higher lying areas for the irrigation of lower lying areas. The Bank's financial resources are also to be greatly strengthened by the allocation, over the next 5 years, of Rls 3.5 billion (\$46.2 million) from the profits realized in 1957 from the revaluation of the gold and foreign exchange assets in the issue department of the Bank Melli. What the Bank needs above all else, however, is a better organization and staff. Moreover, there is little prospect under existing land tenure conditions that agricultural credit can be effectively channeled to the actual cultivators of the soil who need the credits most urgently.

(e) Irrigation

9. Considerably more than half of the funds spent by the P.O. on agriculture has been devoted to the study and execution of various irrigation projects. Irrigation is undoubtedly an urgent requirement in Iran, for over most of the country rainfall is either inadequate or excessively irregular; even where, as in most of the Caspian area, the annual rainfall may appear sufficient, the distribution is such that it must be supplemented by irrigation. Probably about 2 million hectares are in some way irrigated, perhaps a little over one-half by ganats and the rest by rather primitive diversions from streams and by pumping. Until fairly recently irrigation schemes were left almost wholly to private initiative. Since irrigation projects depend only on natural drainage, salinity has become a growing problem in some areas.

10. The carrying out of irrigation projects in Iran encounters many difficulties. Since the country is extremely mountainous and has few large rivers, a considerable number of projects are required to realize a substantial expansion in the irrigated area. The cost of storage dams, diversion structures and canals tends to be excessive in relation to the water made available, the more so because most irrigation schemes contribute only an increase in output in areas which either are already partially irrigated or are under dry-farming. Even for the better irrigation projects the net benefits in terms of additions to national income tend to be only 15% or at most 20% of the investment cost. Moreover, nearly all irrigation projects are to serve land already wholly or largely under cultivation; and experience has shown that in these cases it is difficult to get landowners to agree to the construction of irrigation canals and the resulting supply of water on terms which make the beneficiaries pay an equitable share of the cost. The diversion of water from natural streams is regarded as a natural right, and the landowners are often disinclined to pay for water made available by government irrigation projects. There are actually cases where water has become available but has not been used because the lack of prior agreement with the landowners has held up distribution.

11. Anticipated benefits from irrigation projects being carried out or planned have not yet been calculated. Some of the P.O.'s funds are being used to complete projects which were started before the Seven Year Plan, primarily by the independent Irrigation Bongah or Department of the Ministry of Agriculture, and which in large part have suffered from faulty planning and protracted delays in execution. Among these have been the Sistan irrigation system in Eastern Iran, the Kuhrang project near Isfahan, the Moghan plain irrigation scheme in northwestern Iran and the Karkheh project in southern Iran. Of these projects the Moghan scheme, involving diversion of water from the Arras River for the irrigation of 25,000 hectares, is one of the best; it is partially completed, with about 5,000 hectares already under irrigation. One of the worst is the Karkheh project which was to irrigate a largely saline area and was initiated by the Irrigation Bongah, with the construction work entrusted to the N.I.O.C. Owing to a shortage of funds the P.O. has recently suspended work on an attempt to salvage something of this project.

12. The Sefid Rud project in northern Iran is the only major irrigation scheme being carried out by the P.O. itself. French contractors are engaged in the construction of a large dam on the Sefid Rud designed to store 1.6 billion m³ of water and costing about Rls 3.6 billion (\$48.2 million) of which around Rls 0.9 billion had been spent by the end of 1957. The project is to provide additional water for about 90,000 hectares of land in the Caspian plain which is already under cultivation and to irrigate approximately 50,000 to 90,000 hectares of new land depending on whether or not some of the stored water will be used for the generation of power. While the project may well prove to be economically justified, it should be noted that it was begun before any comprehensive survey of the total costs and benefits was completed. In fact, a survey to determine the extent of the irrigable area and the layout, design and cost of the irrigation network and the diversion barrage is just now being carried out and will take another 3 years to complete.

13. A number of important projects have been studied for the P.O. by foreign consultants, although no steps have been taken to carry them out. An American firm of consultants has studied the Zarrineh Rud scheme in the province of Azerbaijan and the Doroudzan project in the province of Fars. The first, estimated to cost Rls 1 billion (\$13.2 million), involves the construction of a storage dam at Yamine Abad to irrigate some 59,000 hectares of land most of which is already under cultivation and inadequately irrigated. The second, costing perhaps Rls 1.8 billion, calls for the building of a storage dam on the Kor River and would irrigate 32,800 hectares of land now devoted largely to dry-farming. Another project on the Zayanderud not far from Isfahan has been studied by a French firm of consultants, but a final report has not been delivered.

14. Meanwhile the P.O. has increasingly turned its attention to a program for development of the southwestern province of Khuzestan which features, above all, a major multipurpose project on the Diz River, a tributary of the Karun which is Iran's largest river. The planning of

this project as well as others in Khuzestan has been undertaken by the American firm, Development and Resources Corporation, which has set up for this purpose the Khuzestan Development Service as part of the P.O. The Gotvand project, an irrigation scheme on the Karun River, on which a study had already been initiated by another American firm of consulting engineers, also falls under its general jurisdiction.

15. The construction cost of the Diz dam, including two initial power units of 65,000 KW each and associated transmission lines, has been initially estimated at Rls 4,370 million (\$58.3 million) to which will have to be added the cost of the irrigation works, which is still being determined, as well as interest during construction. While the final design and cost estimates on the dam and power facilities are being prepared, a Netherlands firm is carrying out a study of the irrigation and agricultural aspects of the project for completion by mid-1958.

16. The Diz storage dam is expected to provide irrigation water for a net area of 126,000 hectares. Of this area, 85,000 hectares are already irrigated, but the water supply coming at present from the Karkheh River is only sufficient to irrigate about 15% of this area in the summer. The remainder of the land is devoted to dry-farming, primarily with tractors. Some major problems may well be encountered in carrying out the irrigation scheme. The existing system of land tenure under which most of the land is owned by large landowners, with a few holding more than 10,000 hectares each, will pose problems, particularly in ensuring that an adequate share of the benefits accrue to the actual cultivators of the soil. The question inevitably arises whether irrigation projects of this type should not be utilized as an opportunity to establish a better tenure system rooted in a peasant proprietorship which might give peasants a greater stake in the social and economic structure. The Netherlands firm is expected to make some recommendations on possible ways and means of dealing with this land-tenure problem as well as the general agricultural management of the irrigated area.

17. Sugar cane is expected to be one of the crops suitable to this irrigated area; and on the basis of cane experiments carried out over recent years the Khuzestan Development Service is already making plans for the cultivation of this crop and the establishment of a cane crushing plant. Pending the completion of the irrigation system, the cane will be irrigated by pumps. A tract of 10,000 hectares has already been acquired, and it is planned to put in ultimately 8,000 hectares of cane in two successive stages of 4,000 hectares each. The required investment, including the sugar mill which would be completed in 1961, has been tentatively estimated at \$22 million. Experiments are said to have indicated yields of as much as 70 tons of cane per hectare each year, with a recoverable sugar content of 11-12%. These rather high yields are reported to justify an expectation that raw sugar could be produced at a cost of Rls 8 to 9 (US 10.6 to 11.9¢) per kilogram.

Industry

(a) Private Enterprise

18. There has been some acceleration of industrial development over recent years. In the private sector there has been a growing awareness of the investment opportunities created by the growing purchasing power of the population. A fillip was given to private investment by the establishment in 1957 of an industrial loan fund out of the profits from the revaluation of the gold and foreign assets in the currency cover of the BMI. By April 1, 1958 the Ministry of Industries and the High Economic Council had approved applications for loans from this fund of about Rls 1.7 billion, of which the Bank Melli, which was designated to investigate the creditworthiness of the applicants, had approved Rls 0.5 billion. The Bank Melli, however, is expected ultimately to approve all but perhaps 10% of all the recommended applications. The total investment entailed in all these applications will apparently be in the neighborhood of Rls 4.8 billion (\$63 million). Most of the new investment is going into textiles including cotton cloth and yarn, woolen yarn, knitwear and jute; building materials such as cement, bricks and tiles, pipe, iron and steel castings, nails, etc.; and a variety of consumer goods including matches, vegetable oil, enamelware, refined sugar, etc. The scope of operations of the industrial loan fund have considerably exceeded those of the Industrial Credit Bank of the P.O. which from its inception in mid-1956 to February 8, 1958 approved loans totaling Rls 655 million of which Rls 356 million had been disbursed by the latter date.

19. A continuing problem may well be the provision of adequate working capital to industry. Industrial ventures in Iran, as in many other underdeveloped countries, are generally under-capitalized and are chronically short of working funds. Existing commercial banks are accustomed to confining their financing primarily to merchants and have been reluctant to lend to industrialists. Even sound industrial enterprises often have to obtain much of their working capital from the bazaar money market and at rates of 18 to 24%.

(b) Expansion and Rehabilitation of P.O. Industries

20. The P.O. has meanwhile been struggling with the many problems arising from the operation of the large number of government plants for which it is responsible. Some resources have been devoted to the rehabilitation and, above all, to the expansion of these plants. The capacity of 3 sugar beet mills has been extended, and that of two others is being expanded. There have been some additions to the equipment of two canning factories at Shahi and Bandar Abbas, and to the vegetable oil plant at Varamine. A virtually new jute mill is being added to an already existing plant at Shahi, which, considering the expansion also taking place in the private sector, is likely to create considerable excess capacity. The P.O.'s Chitsazi textile factory in Teheran has to some extent been modernized and expanded. Equipment for two new textile mills which was originally obtained from Italy in exchange for oil under the Mossadegh regime and remained unutilized for several years is now being installed, partly as a new mill supplementing the existing oil cotton textile plant at Shahi, partly as an addition to the Chitsazi factory. The two existing P.O. cement mills (in one of which the P.O. has only a minority interest) are being supplemented by two new mills

the construction of which is well advanced - one at Manjil in northern Iran, with a daily capacity of 300 tons; the other at Doroud in central Iran, with a daily capacity of 600 tons.

21. On the whole little progress has yet been made in rehabilitating the rather old and poorly maintained equipment of many of the P.O. factories or to improve the management which in most instances is deficient. The consulting firm of Geo. Frye Associates, whose services have been made available to the P.O. by the U.S. Government, has been instrumental in making some improvement in organization and methods, including accounting practices. The technical management of the Shahi and Beshahr textile plants has been entrusted to the German firm of Winkler which is slowly effecting some improvement; and the technical management of the Chitsazi mill has recently been turned over to an American firm, United Merchants and Manufacturing. The marketing of textiles, however, is still in the hands of a company which appears to be rather badly managed.

(c) Transfer of P.O. Industries to Private Ownership

22. The realization has gradually gained ground that the operation of all these plants should not be a government responsibility. The P.O. recently appointed a commissioner to look into the disposal of these factories. Very tentative plans envisage that the smaller plants, including tea factories, cotton gins, small mines, etc., might be sold to private interests at auction, with a floor price set by the appraised value of the plant. The larger plants, including sugar, cement and textile mills, would be sold, however, only after they have been rehabilitated and assured of continuing good management in such a way that sufficient confidence would be established to attract many small investors. While this objective is in theory commendable, it is questionable whether the P.O. can in fact create these conditions.

(d) New P.O. Industrial Projects

23. Meanwhile, the P.O. is going forward with rather ambitious plans to establish new industries which it believes Iran should have. Among these are (1) a steel plant at Azna in central Iran to produce 110,000 tons of crude steel and 87,000 tons of rolled steel, (2) a nitrogenous fertilizer plant at Ahwaz in Khuzestan, with a capacity of 100,000 tons, and (3) a polyvinyl chloride plant at Ahwaz, with a production of 9 million pounds per year. The latter two plants are to be based on natural gas for which the Khuzestan Development Service has planned a pipeline from the Agha Jari oilfield to Ahwaz. All three plants are to obtain their power from the projected Diz dam.

24. The estimated cost of these new enterprises has been put, respectively, at \$70 million, \$20-25 million and \$4 million. Technical studies on all these plants have been made by foreign consultants. There are tentative plans for adding, at a later date, a caustic soda factory which would supply chlorine to the PVC plant. Provision for a start on

the steel and PVC plants was made in the P.O.'s budget for 1958/59, but construction of the fertilizer plant appears to have been temporarily deferred. The P.O. hopes to avoid the evils of government operation and management by entering into management contracts with qualified foreign firms. It is planned, for example, to get August Thyssen, a German firm, to manage the steel plant.

25. The steel mill has been designed by Krupp-Demag who are expected to be the principal suppliers and were also requested to investigate the economic justification of this venture. Coal for the mill is expected to come from mines in the Elbourz Mountains, will be taken 110 kilometers by road to Karadj where it will be coked and thence railed 460 kilometers to Azna, the location of the steel mill which is 420 kilometers south of Teheran on the trans-Iranian railway. The iron ore, which is reported to have an average Fe content of 46%, is to come from Shams Abad, about 100 kilometers from Azna. Since the coke is not of sufficient hardness for use in ordinary blast furnaces, the pig iron will be produced in electric blast furnaces. It is claimed that the production cost of rolled steel, exclusive of a return on capital, will be Rls 7,000 (\$92.41) per ton, which, if confirmed, would make it amply competitive with imported steel.

26. Almost invariably projected cost calculations tend to be over-optimistic and fail in particular to take adequate account of the local conditions which limit the efficiency of operations and the full utilization of capacity. While private managing agents may overcome some of the difficulties inherent in government operation and ownership, they seldom have all the necessary power, discretion and incentive to ensure really good management. The P.O. hoped to persuade Krupp-Demag to make an equity investment in the steel mill as a token of confidence, but the firm has evidently agreed to invest about \$5-6 million (the equivalent of 20% of the cost of material and equipment to be supplied) only under the condition that this participation will be purchased by the P.O. after 5 years. The market for fertilizer poses a serious problem in connection with the establishment of a fertilizer plant and should be carefully examined before proceeding with the proposed plant.

Mineral Resources Development

27. Mineral development has quite naturally concentrated on the expansion of production and exports of oil. The oil consortium has consistently spent large sums on development. Its current investment program is focussed on (1) the expansion of output at Agha Jari, the principal producing field, together with the construction of a new pipeline to the oil port of Bandar Mashur, and, above all, (2) the development of the Gach Saran field which, though one of the largest oil reservoirs in the Middle East, has hitherto been kept largely in reserve. In the latter field, production, gas-separating and sulphur-extraction facilities are being expanded and pipelines will be laid to Kharg Island where berthing facilities for tankers up to 100,000 d.w.t. will be established. By early 1960 it is expected that the oil consortium's export capacity, which is now about 850,000 bbls. per day, will

be raised to 1,100,000 bbls. which can in turn be significantly increased by the establishment of pipeline pumping stations. Under these circumstances physical capacity for production and export is likely to remain well abreast of developing market demand.

28. Most of the N.I.O.C.'s investment has been devoted to facilities for the distribution of petroleum products within Iran. It has finished a product pipeline from Ahvaz to Teheran which is now being supplemented by links with Resht in northern Iran and Isfahan in central Iran. It is continuing oil exploration in the Qum basin where the earlier discovery of a major gusher aroused great hopes. More recent exploratory work has to some extent deflated these expectations; and even if oil in considerable quantities is found, the geographic location of the field would seem to preclude its development for export unless really large investments in transport facilities are undertaken.

29. While certain areas have been reserved for exclusive exploration and development by N.I.O.C., other areas remain open for foreign concessions either with or without the participation of N.I.O.C. The Italian concern A.G.I.P. has been granted two small offshore concessions and a concession in the foothills of the Zagros Mountains in partnership with N.I.O.C. More recently a subsidiary of Standard Oil Co. (Indiana) has been given an offshore concession on similar terms, supplemented however, by a bonus payment of \$25 million.

30. The development of minerals other than oil has been relatively neglected. As already indicated, there is some production of coal, manganese, iron ore, lead, zinc and chromite. There are rather widespread mineral occurrences throughout Iran, but there has been little systematic exploration. Krupp-Demag have investigated certain coal and iron ore deposits for the projected steel mill; in 1954 a Swiss geologist on the staff of N.I.O.C. undertook a survey of coal and chromite deposits in the Kerman area for the Plan Organization; and more recently a team of German experts has been working in the Kerman area, under the auspices of the Ministry of Industries and Mines, on coal, iron ore and chromite deposits. There are apparently substantial coal and iron ore deposits to the east and north of Kerman, and some promising chromite deposits between Kerman and the Gulf Coast. The possibility of exploiting the coal deposits will depend partly on whether present tests determine them to be of coking grade. There seem to be rather definite prospects of developing considerable exports of chromite. The principal obstacle, however, is lack of transport facilities. It is still undetermined whether the mineral potentialities of the Kerman area would warrant the rather large investment which would be necessary for roads and the development of a port at Bandar Abbas at the entrance to the Persian Gulf. Another difficulty is posed by the terms of existing Iranian mining legislation which are not very attractive to potential foreign investors.

Transport and Communications

31. The fact that about a third of the P.O.'s budget has been set aside for transport and communications is a recognition of the importance of this field to the development of the country. The geographic extent of the country (1,200 km. from the Persian Gulf to the Caspian Sea and

around 2,000 km. from NW to SE) and its division into many areas by mountain ranges and deserts make a good communications network both essential and expensive.

32. Much has been accomplished in recent years in expanding and improving the operations of the Iranian State Railways which extends from the two Gulf ports of Khorramshahr and Bandar Shapur to Teheran and thence northwest to Tabriz and east to Meshed. The last 497 kilometer stretch of the line to Meshed, which had long remained unfinished, was completed and opened to traffic in May 1957; and the remainder of the line to Tabriz was finished and opened to traffic in March 1958. A dieselization program financed by a loan from the U.S. Export-Import Bank is well under way. A considerable amount of rolling stock has been delivered and is on order. As the result of this program and some technical assistance by the U.S. the operating efficiency of the railway has apparently improved considerably. The railway has a substantial operating surplus; its operational ratio in 1955 and 1956 was 0.76 and 0.77 respectively.

33. Much of the railway's expansion and rehabilitation program has been financed by the P.O. which by the end of 1957/58 had apparently disbursed about Rls 2,955 million out of a total allotment of Rls 5,553 million provided for this purpose in the entire Seven Year Plan. The Bank Mission was unable to find out, however, what effect the railway program as a whole has had or will have on the system's carrying capacity and how the latter might compare with the development of transport requirements in the future.

34. One of the drawbacks of the railway system is that it does not serve Isfahan, one of the principal industrial centers of the country. A branch line from Qum to Kashan in the direction of Isfahan does exist, and about 75% of the substructure and stations on a projected extension to Yazd has long ago been completed. No decision has yet been taken, however, on how Isfahan might be linked with this line or directly with Qum.

35. The major emphasis in the P.O. program for transport has been on roads. The Seven Year Plan provides nearly Rls 16 billion for the construction of 6,000 kilometers of roads. Of this program 2,612 kilometers, over half of which consist of provincial roads, are to be built by the Ministry of Roads, and the balance by the P.O. under the supervision of foreign consultants. As yet little progress has been achieved. The Ministry of Roads claims to have finished 1,398 kilometers of its share of the program for which it apparently had received Rls 1,418 million by the middle of 1957/58. Very little actual construction has been completed under that part of the program which is the direct responsibility of the P.O. By the end of 1957/58 total contracts awarded or on the point of being awarded only covered about 500 kilometers. The program has been held up by the time consumed in planning, by protracted difficulties with one of the principal firms of foreign consultants which led to the eventual dismissal of that firm, and by delays in reaching decisions. However, the rate at which construction contracts will be let is expected to rise sharply in the future as much of the preparatory work has been completed.

36. The P.O. has also assumed responsibility for the rehabilitation and expansion of the ports, another vital link in Iran's transport system. Work is proceeding on the three principal ports: Pahlevi on the Caspian Sea, which handles about 125,000 tons of traffic with the Soviet Union; and the two Persian Gulf ports, Khorramshahr, the chief commercial port which handles about 700,000 tons of import and export cargo, and Bandar Shapour which handles about 470,000 tons and functions primarily as a port for government imports. All these ports have suffered from poor maintenance and equipment. Piloting, navigational and anchorage facilities are generally inadequate; there is little or no cargo handling equipment; stevedoring services, performed by labor contractors, are inefficient; internal transport in the ports is poorly organized; and the clearance of goods through customs is cumbersome and time-consuming. Above all, responsibility for port administration is divided up between three agencies - the ports administration of the Ministry of Roads, the Customs and the Railways - all of which display very little inclination to cooperate harmoniously. The Customs Administration, whose responsibility in most countries is confined to the storage and clearance of dutiable goods, actually has the primary responsibility for all cargo handling. The Railway Administration, however, has the responsibility for internal rail services in the ports, and the Ports Administration is confined to the maintenance of berths, channels and pilotage. All are handicapped by lack of well-trained staff. Vessels at Khorramshahr have to wait at anchor 1 to 4 weeks before obtaining a berth, and even after berthing 5 to 10 days are required to discharge 1,000 tons of cargo.

37. Some of the principal deficiencies in physical facilities are now being remedied by programs under way. In Khorramshahr the existing jetty has been repaired and is being extended and furnished with new transit sheds. Existing customs stores have been rehabilitated and provided with better access. A somewhat similar program is being carried out at Bandar Shapour although development there is handicapped by the restricted space available and the cost of developing an entirely new port city at considerable distance from the port itself. At Pahlevi work is still in the initial stages, although contracts have been let for the repair of floating equipment, now largely useless, and dredging. In view of the completion of the Iranian railway to Tabriz where it links up with a railway line to the U.S.S.R., the utility of spending much money on Pahlevi may be questioned. The equivalent of \$32.2 million including \$14.7 million in foreign exchange, has been allocated to these three port programs which are being carried out under supervision of the Danish firm Kampsax; and of this total, an estimated \$10 million, including \$3.75 million in foreign exchange, had been spent by the beginning of 1958/59.

38. The Netherlands firm of Nedeco has been engaged to prepare plans for development of both the ports at Bushehr and Bandar Abbas which are situated considerably further down the Gulf Coast. The cost of developing Bushehr is estimated at \$6.6 million and Bandar Abbas \$18.6 million. In principle the development of these ports might be desirable. Bushehr is the natural port for the province of Fars (population 1,320,000) and its capital, Shiraz, ^{1/} and could also serve Isfahan whose foreign trade now goes in a round-about way via Teheran. Bandar Abbas is the only port for Kerman province (population 1,217,880), which appears to have

^{1/} Shiraz could also be served by Bandar Shapour but the distance to this port is probably about 120 kilometers longer than that to Bushehr.

considerable economic potentialities, and might also serve as a transshipment center for ports farther up the Gulf. The total volume of goods cleared by Customs through each of these two ports in 1956/57 amounted only to a little over 50,000 tons. Considerable sums should not be spent on these ports without first determining the traffic potential of the hinterland and without at the same time allocating substantial funds for the improvement of the wretched roads serving both these ports for which no provision has yet been made.

39. There is an urgent need for the appraisal of port requirements in the light of the overall development of the economy. Any port development undertaken in the light of such an appraisal would, however, be inadequate unless at the same time drastic steps were taken to remedy the present bad system of port administration. Some experts have recommended that responsibility for all aspects of port administration must be vested in a single agency with autonomous status. Legislation for this purpose was drafted a few years ago and is still pending in Parliament where, however, it has been so watered down as to promise little improvement. Moreover, there is no single agency which can take over complete responsibility without an adequate program of personnel training and the participation, at least for some time, of expert foreign port administrators.

40. A considerable sum - Rls 1,731 million or \$22.9 million - has been budgeted in the Seven Year Plan for the completion and building of new airports, but less than one-fifth of this was actually spent in the first two and a half years of the Plan. Almost half the total is allocated to the Mehrabad airport at Teheran on which work has been proceeding very slowly. In Shiraz it was decided to build a new airport at the time when the new terminal buildings at the old airport had been almost completed.

41. For the improvement of telecommunications and postal services, the P.O. has allocated Rls 1,584 million (\$20.9 million) of which about Rls 600 million had been spent by the end of 1957/58. As all businessmen and visitors to Iran will testify, these services require urgent improvement. The Mission was unable to determine, however, to what extent the present program is likely to meet the most serious deficiencies.

Electric Power

42. The electric power program of the P.O. has not made much progress. It consists on the one hand of a municipal electrification program and on the other hand of the installation of a number of hydroelectric plants at multi-purpose dams under construction. Electrification in Iran is only in its infancy. According to a survey made by Sanderson & Porter for the P.O. and published early in 1957 the total capability of all power plants, including those of industrial enterprises, amounted to only 221,533 KW and the peak load reached only 142,885 KW of which industry accounted for 74,975 KW. The International Oil Consortium plant at Abadan and the power plants in Teheran together accounted for 65% of the available capacity. Most industrial enterprises of any size have their own power plants. Except for some steam capacity at Teheran, the public utility

plants serving municipalities consist of small diesel units which are generally badly operated and poorly maintained. Some are municipally owned, others are in private ownership. In Teheran there are no less than 27 private companies supplying electricity in addition to the municipal company; and in Tabriz 7 private companies serve in many cases the same sections of the city. Distribution networks are generally very poor, resulting in losses ranging as high as 50%. Since public utility systems for the most part serve only lighting needs, the load factor is extremely low.

43. The P.O. has budgeted around Rls 2 billion (\$26.4 million) for a municipal electrification program outside Teheran, but by the end of 1957/58 only a little over one-tenth of this sum had been spent. The planning and supervision of this program is in the hands of three regional foreign consulting firms and the financing is to be shared on a fifty-fifty basis by the P.O. and the municipalities. By February 1958, however, only 11 out of a total of 222 projects, nearly all of them involving very small diesel units, were actually in the contract stage. Many reasons have been responsible for this poor record: inability of the municipalities to share the financing; problems posed by the existence of private power companies; delays in getting decisions from the P.O.; failures to follow through in negotiations with the municipalities; and difficulties encountered in obtaining bids on small contracts. Meanwhile, however, the Teheran Municipal Power Company, for which the P.O. has assumed no responsibility, has been proceeding with a substantial expansion program financed with the help of suppliers' credits.

44. The difficulties encountered in carrying out the municipal electrification program were at least partly responsible for a new proposal, worked out with the help of the P.O.'s Technical Bureau, to organize the existing private and municipal power companies into 7 regional companies which would be capped by a central power company to be known as the Iranian Electricity Company and to be capitalized by the P.O. This group of companies would blanket the whole country except for Khuzestan for which a special Khuzestan Energy Authority has been established under the auspices of Khuzestan Development Services. The plan provided that the regional companies would be owned by the local power companies and municipalities as well as other potential investors and by the central company to the extent capital for development needed to be supplied by the latter. The Iranian Electricity Company was to be managed by a syndicate of experienced European power companies which would be responsible not only for planning and carrying out power projects in the regions, but also for supplying managerial and technical staff for the operation of the regional companies and the training of their local staffs. The Iranian Electricity Company was also to set power rates for each region within ceilings to be established by the government.

45. The feasibility and acceptability of this rather elaborate proposal and other approaches to the problem are now under consideration. In general it appears clear that any plan would need to ensure (1) adequate planning on a continuing basis to meet developing power needs, (2) greater standardization of equipment and safety requirements, (3) efficient operation and proper maintenance of power facilities, (4) improved prospects in integrating the operations of private, municipal and industrial power plants,

and (5) gradual interconnection of the power systems of various localities as and when the situation requires. Many difficulties in working out a practical scheme to achieve these objectives must be expected.

46. The hydroelectric program of the P.O. is still largely in its genesis. Plans are definitely going forward to install 110,000 KW at the Karadj Dam which is now under construction. This plant, which will cost Rls 1,558 million (\$20.6 million), is to supplement the power supply of Teheran. Tentative plans call for the installation of 64,000 KW at the Sefid Rud dam, but a final decision has apparently not yet been taken. By far the most ambitious hydroelectric project is that calling for the installation of an initial capacity of 130,000 KW at the projected Diz dam in Khuzestan. This hydro plant is to be interconnected with the Abadan power plant of the Oil Consortium which will have some spare capacity. By 1962, when it is hoped that the Diz project will be completed, the maximum power demand of the region to be served by this plant is expected to be 161,500 KW. Of this total 65,000 KW will be for the projected steel mill near Azna, and 9,700 KW and 5,000 KW for the proposed fertilizer and PVC plants at Ahwaz.

Social Services

47. In the social sector the P.O. has financed a considerable number of development activities of the Ministry of Education and the Ministry of Health and a wide range of municipal improvement projects. The Mission found it difficult to assess the progress in these fields, particularly in the apparent absence of overall goals and programs. In the field of education the P.O. has assisted the Ministry in completing well over 500 elementary and secondary schools and in financing agricultural and technical schools. In health its most important contribution has probably been not in completing a number of hospitals and other health institutions for which sufficient staff is in any event not available but in bringing about a wholesome shift of emphasis in the direction of preventive medicine which, among others, has included effective campaigns for the control of malaria and smallpox. Among the municipal works the P.O. has financed are street paving, where considerable progress has been made, water supply and sewage, slaughterhouses, etc. By financing the construction of the Karadj reservoir and the purchase of water pipes the P.O. has also given considerable assistance to the Teheran Water Board in its continuing efforts to provide the Teheran area with a reliable supply of pure water.

Regional Approach to Development

48. Time and space prevent an exhaustive discussion of all the multitudinous projects included in the P.O. program. One aspect of its work, however, should still be mentioned; and that is the increasing tendency to approach development on a regional basis. This tendency found its first expression in the development survey and plan for Khuzestan. More recently it resulted in commissioning an Italian firm to do a rapid preliminary survey of Baluchistan in south-eastern Iran. Surveys for the province of Kerman are also being considered. A regional approach is not unreasonable in view of the fact that geographic barriers divide Iran into a number of natural regions which may be well-suited to integrated develop-

ment. The comments already made in this report on the development of the ports of Bushehr and Bandar Abbas illustrate, for instance, the need to examine transport problems on a regional basis. Nevertheless, there is a serious danger that the current enthusiasm for regional development in the P.O. will tend to distort the priority rating of projects from a national standpoint or lead to many new commitments in excess of the organizational, technical and financial resources available to cope with them.

STATISTICAL APPENDIX

Table 1

IRAN - BASIC ECONOMIC DATA

Year Ending March 20:	1954/55	1955/56	1956/57	1957/58 Revised Estimate	1957/58 ^a				1958/59 Budget
					I	II	III	IV	
POPULATION (Rough estimate in millions)	n.a.	n.a.	19	-	-	-	-	-	-
NATIONAL INCOME (Rough estimate in millions of US \$ - at 1957/58 prices)	n.a.	n.a.	n.a.	2,100	-	-	-	-	-
AGRICULTURAL PRODUCTION (1,000 metric tons)									
Wheat	2,750	3,100	3,000	3,500	-	-	-	-	-
Rice	550	440	543	580	-	-	-	-	-
Cotton	230	250	230	230	-	-	-	-	-
Sugar beets	n.a.	521	n.a.	n.a.	-	-	-	-	-
CRUDE OIL PRODUCTION (million metric tons)	3.5	15.8	26.2	38.2	7.5	9.4	10.8	105	-
WHOLESALE PRICES (1953 = 100; end of period)									
Over-all average	120	121	126	-	123	122	118	-	-
Home goods	122	118	131	-	132	132	132	-	-
COST OF LIVING (1953 = 100; end of period)	122	126	140	-	138	140	140	-	-
PRIVATE DEMAND DEPOSITS (billion rials; end of period) 1/	12.5	13.8	17.2	-	18.3	19.3	19.8	-	-
MONEY SUPPLY (billion rials; end of period) 2/	23.4	24.6	29.1	-	29.3	30.9	32.0	(34.0)	-
GENERAL GOVERNMENT BUDGET (billions of rials)									
(Cash Transactions in billions of rials)									
a. Ordinary Revenues	10.0	11.6	13.9	16.1	-	-	-	-	19.2
b. Oil Revenues	-	0.7	2.8	5.6	-	-	-	-	8.4
c. Expenditures	12.3	13.8	18.9	21.7	-	-	-	-	29.0
d. Deficit before aid	-2.3	-3.5	-1.2	0	-	-	-	-	-1.4
e. U.S. aid	42.3	41.6	41.5	40.3	-	-	-	-	-
f. Deficit after aid	-	40.1	40.3	40.3	-	-	-	-	-1.4
PLAN ORGANIZATION (million \$)									
a. Disbursements	n.a.	33.9 3/	104.9	161.5	-	67.8	-	91.7	182.3 5/
b. Oil Revenues	n.a.	22.6 3/	73.2	100.3	-	50.8	-	49.5	93.6
c. Deficit before other receipts	n.a.	-11.3	-30.7	-61.2	-	-17.0	-	-42.2	-88.7
d. Other receipts	n.a.	-	27.5	65.0	-	25.8	-	39.2	13.2
e. Balance after other receipts	n.a.	-11.3	-4.2	43.8	-	48.8	-	-3.0	-75.5
f. Total cash balances (million \$; end of period)	18.7	7.4	3.2	7.0	8.0	12.0	8.9	9.0	-
g. Rial debt to Banks (billion rials; end of period)	1.1	1.1	1.1	-	1.1	1.1	1.1	1.1	-
TOTAL PLAN ORGANIZATION AND BUDGET EXPENDITURE (billion rials)	n.a.	n.a.	26.9	34.0	-	-	-	-	41.2
TOTAL CASH BALANCE OF TREASURY (billion rials; end of period)	1.6	3.7	3.8	-	4.2	5.0	6.0	-	-
RIAL DEBT OF TREASURY (billion rials; end of period)	11.3	11.4	12.0	-	11.9	11.7	11.8	-	-
CASH DEFICIT (-) OR SURPLUS (+) OF BUDGET AND P.O. (billion rials)									
a. P.O. - Deficit after foreign borrowing	n.a.	-0.9	-0.4	-	-	40.7	-0.2	-	-
b. Budget Deficit after aid	-	40.1	40.3	-	-	40.4	40.1	-	-
c. Estimated Change in cash balances disbursed by P.O. to Treasury but not yet expended	-	41.9	-0.8	-	-	41.0	40.8	-	-
d. Total effects	n.a.	41.1	-0.9	-	40.9	41.2	40.7	-	-
TIME DEPOSITS OF PRIVATE SECTOR (billion rials; end of period)	0.9	0.8	1.3	-	1.4	1.7	1.8	-	-
BANK CREDIT TO GOVERNMENT CORPORATIONS AND MUNICIPALITIES (Excluding P.O.) (billion rials; end of period)	6.6	6.6	7.7	-	7.0	7.7	8.0	-	-
BANK CREDIT TO PRIVATE SECTOR (billion rials; end of period) 4/	7.6	9.2	10.1	-	11.5	12.1	13.1	-	-
MISCELLANEOUS RIAL ASSETS OF BANKS (billion rials; end of period)	1.8	2.8	3.9	-	n.a.	4.5	4.0	-	-
FOREIGN ASSETS									
a. Gold (million \$)	138	138	138	-	138	138	138	-	-
b. Foreign exchange (million \$)	73	72	81	-	114	91	119	-	-
c. Total (million \$)	211	210	219	-	252	229	249	-	-
d. Net of non-monetized accounts of Treasury and P.O. (1) Million \$	198	191	199	-	242	218	236	-	-
(2) Billion rials	15.0	14.5	15.1	-	18.4	16.6	17.9	-	-

1/ Includes all demand deposits other than those of the Treasury and P.O. at Bank Mellî and those of Banks with Bank Mellî.

2/ Includes demand deposits as specified in footnote 1 above plus currency outside banks.

3/ 6 months ending March 20, 1956, only.

4/ Includes inter-bank credits other than those to and from Bank Mellî.

5/ Revised.

Source: Various Iranian government agencies.

Table 2

AGRICULTURAL PRODUCTION (ESTIMATE)

	1331 (1952-53)	1332 (1953-54)	1333 (1954-55)	1334 (1955-56)	1335 ^{1/} (1956-57)	1336 ^{1/} (1957-58)
Index of Volume of Production	100	101	103	106	113	123
(a) Wheat	100	102	100	113	109	127
(b) Barley	100	98	98	105	109	115
(c) Rice	100	108	110	88	109	116
(d) Cotton	100	127	153	167	153	153
(e) Livestock and dairy products	100	100	102	106	117	125
Value of Production at 1955-56 prices (\$ million)	820	830	850	875	925	1,010

^{1/} Years of exceptionally favorable weather conditions.

Source: USOM/Iran Program Office

Table 3

INDUSTRIAL PRODUCTION

	<u>Unit</u>	Years ending March 20:			
		<u>1954/55</u>	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u>
Tea	000 metric tons	6.0	7.0	7.8	7.8
Sugar	" " "	61.7	76.8	85.2	86.5
Cement	" " "	65.0	131.9	321.5	322.0
Cotton cloth	million metres	64.5	55.3	61.9	63.0
Woolen cloth	" "	1.9	2.3	3.3	3.4
Jute cloth	" "	5.4	6.1	5.2	6.0
Silk cloth	" "	0.6	0.4	0.1	0.2
Cigarettes	million Nos.	6.7	6.8	6.6	6.7
Matches	" "	408.9	365.2	317.5	350.0
Soap	000 metric tons	58.0	58.7	53.7	54.7
Rubber shoes	million pairs	0.6	0.8	2.9	3.0
Glass	million square metres	-	0.3	0.5	0.6
Soft drinks	million bottles	n.a.	96.5	128.0	138.5

Source: Ministry of Industries and Mines, Teheran

Table 4

NUMBER AND OWNERSHIP OF FACTORIES IN MAJOR INDUSTRIES

End of Year ending March 20:

<u>Industry</u>	<u>1947/48</u>		<u>1954/55</u>		<u>1957/58</u>	
	<u>Private</u>	<u>Government</u>	<u>Private</u>	<u>Government</u>	<u>Private</u>	<u>Government</u>
Tea	-	6	48	6	80	6
Sugar	-	9	-	10	-	12
Cement	-	1	2	1	2	2
Cotton	12	4	16	4	23	4
Woolen	6	-	11	1	9	1
Jute	1	1	1	1	1	1
Silk	-	1	-	1	-	1
Cigarettes	-	1	-	1	-	1
Matches	14	-	20	-	24	-
Soap	6	-	15	1	21	1
Rubber shoes	3	-	11	-	10	-
Glass	4	-	13	-	16	-

Source: Ministry of Industries and Mines, Teheran

Table 5

MAIN EXPORTS OF MINERALS

(000 metric tons)

Years ending March 20:	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u> 1st half
Salt	35.7	211.4	0.6
Lime	2.7	0.2	0.1
Chalk	6.1	5.8	2.7
Red Oxide	9.0	5.5	3.5
Iron	14.0	6.5	3.6
Lead	24.1	23.3	14.7
Zinc	19.4	20.0 <u>1/</u>	n.a.
Chromite	32.8	45.1	19.3
Manganese	9.3	2.7	9.1

1/ Includes some lead.

Source: Ministry of Industries and Mines, Teheran

Table 6EXPENDITURE OF NON-TAX REVENUES IN IRAN

(in millions of US\$ equivalents)

<u>Years ending March 20:</u>	<u>1954/55</u>	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u> ^{1/}	<u>Total</u>
Oil Revenue	28.5	79.8	140.2	209.4	
Local Expenditures by Consortium	11.9	46.7	40.5	45.0	
U.S. aid	50.0	67.4	39.2	25.7	
Eximbank Loans	-	14.0	5.0	10.0	
Suppliers' Credits	-	3.7	11.0	20.0	
IBRD Loan	-	-	10.0	65.0	
IMF Drawings	-	-	16.5	-	
Total	90.4	211.6	262.4	375.1	939.5
<u>Of which spent directly abroad:</u>					
Imports under US aid including payments under Technical Assistance Program	35.4	19.4	28.0	25.7	
Imports under Eximbank Loans	-	14.0	5.0	10.0	
Foreign Exchange expenditure of the Ministry of Finance	3.1	26.0	65.4	10.0	
Foreign Exchange expenditure of NIOC	2.1	6.1	18.0	12.0	
" " " of P.O.	11.4	30.3	29.9	60.0	
Total	52.0	95.8	146.3	117.7	411.8
<u>Of which spent initially in Iran:</u>	37.6	115.8	116.1	257.4	527.7

^{1/} approximately.

Source: Bank Melli, Iran

Table 7

CHANGE IN IRAN MONEY SUPPLY
(billion rials)

<u>Years ending March 20:</u>	<u>1955/56</u>	<u>1956/57</u> <u>1st half</u>	<u>1956/57</u> <u>2nd half</u>	<u>1957/58</u> <u>1st half</u>	<u>1957/58</u> <u>3rd quarter</u>	<u>1957/58</u> <u>4th quarter</u> (estimate)
Money Supply (end of period)	24.6	26.2	29.1	30.9	32.0	34.0
Change in Money Supply: (a) billion rials (b) percent	f 1.2 f 5%	f 1.6 f 7%	f 2.7 f 11%	f 1.8 f 6%	f 1.1 f 4%	f 2.0 f 6%
(Net effect of Budget and P.O. operations)	(-1.1)	(-1.5)	(f 2.4)	(-2.1)	(-0.7)	
(Bank credit to government corporations and municipalities)	<u>(0)</u>	<u>(f0.7)</u>	<u>(f0.4)</u>	<u>(0)</u>	<u>(f0.3)</u>	<u> </u>
<u>Total government operations</u>	-1.1	-0.8	f 2.8	-2.1	-0.4	-0.5
(Bank credit to private sector)	(f 1.6)	(f 0.7)	(f 0.2)	(f 2.0)	(f 1.0)	
(Change in unspecified credits) ^{1/}	<u>(f1.0)</u>	<u>(f1.0)</u>	<u>(f0.1)</u>	<u>(f0.6)</u>	<u>(-0.5)</u>	<u> </u>
<u>Total credit to private sector</u>	f 2.6	f 1.7	f 0.3	f 2.6	f 0.5	f 0.8
Time deposits of private sector	f 0.1	-0.2	-0.3	-0.4	-0.1	-0.1
Net foreign transactions	-0.5	f 0.7	-0.1	f 1.5	f 1.3	f 1.8
Errors and omissions	f 0.1	f 0.2	0	f 0.2	-0.2	-

^{1/} Largely to private sector

Source: Bank Melli of Iran

Table 8

BANK MELLI INDEX OF THE COST OF LIVING IN SEVEN MAJOR CITIES IN IRAN

December 1955 = 100

	<u>Weight</u> %	<u>June '56</u>	<u>Dec. '56</u>	<u>June '57</u>	<u>Dec. '57</u>
<u>Foodstuffs</u>					
Chickens	0.3	102.4	107.9	141.0	122.6
Dairy products	0.3	98.7	112.0	106.2	138.6
Eggs	0.8	75.3	121.3	88.2	129.7
Flour	0.3	120.7	116.6	125.9	111.7
Cheese	2.0	86.0	107.9	89.6	117.0
Onions	3.0	155.4	114.9	145.4	92.2
Pepper	1.0	80.4	73.0	82.0	62.9
Turmeric	1.0	90.1	80.2	67.0	58.6
Cigarettes	2.0	133.3	133.3	133.3	133.3
Tea	2.5	102.4	96.5	90.0	96.8
Rice	3.3	104.5	114.4	115.4	110.5
Ghee	4.0	101.5	112.2	114.8	118.9
Mutton	7.0	100.7	97.3	111.0	101.9
Sugar	8.0	103.1	101.5	99.6	102.9
Bread	18.5	114.4	115.9	121.0	115.0
<u>All Foodstuffs</u>	<u>54.0</u>	<u>109.0</u>	<u>108.9</u>	<u>112.8</u>	<u>108.5</u>
<u>Textiles</u>					
Canvas shoes	1.0	100.9	98.0	115.5	109.2
Leather shoes	3.5	108.3	115.7	121.0	124.5
Men's socks	1.5	104.8	116.3	122.6	115.9
Men's shirts	2.0	112.5	111.8	106.6	106.4
Artificial silk cloth	3.0	110.0	110.0	103.9	100.6
Boys suits	2.0	93.5	86.0	87.9	111.4
Cotton piece goods	2.0	102.3	98.4	97.5	110.5
Men's suits	3.0	95.2	91.1	97.2	98.9
<u>All Textiles</u>	<u>18.0</u>	<u>103.9</u>	<u>104.1</u>	<u>106.1</u>	<u>109.7</u>
<u>Fuel and Light</u>					
Matches	0.4	100.0	95.3	95.3	95.3
Kerosene	2.3	103.1	98.8	97.7	100.4
Firewood	2.6	111.9	115.0	113.6	121.9
Charcoal	4.7	112.1	123.2	123.6	138.6
<u>All Fuel and Light</u>	<u>10.0</u>	<u>109.5</u>	<u>114.3</u>	<u>113.9</u>	<u>123.7</u>
<u>Sundries</u>	<u>6.0</u>	<u>101.1</u>	<u>106.5</u>	<u>108.5</u>	<u>114.0</u>
<u>Rent</u>	<u>12.0</u>	<u>110.9</u>	<u>116.4</u>	<u>120.2</u>	<u>127.0</u>
<u>Total Cost of Living</u>	<u>100.0</u>	<u>107.9</u>	<u>109.4</u>	<u>112.3</u>	<u>112.8</u>

Source: Bank Melli, Iran

Table 9

BUDGETED EXPENDITURES

(million rials)

<u>Years ending March 20:</u>	<u>1954/55</u>	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u>	<u>1958/59</u>
Ministry of War	2,785	4,500	5,871	6,036	8,217
Gendarmerie	728	728	997	1,191	1,941
Police	737	841	1,052	1,125	1,275
Ministry of Posts and Telegraphs	390	390	526	726	756
Ministry of Education	1,878	2,111	3,584	3,895	4,128
Ministry of Agriculture	248	309	400	481	668
Road Maintenance	410	425	580	750	950
Ministry of Health	450	519	580	774	974
Ministry of Finance	570	581	676	716	798
Tobacco Monopoly	1,309	840	1,118	1,019	1,369
Other expenditure	2,710	3,582	4,481	5,233	7,955
Total budgeted expenditure	12,215	14,826	19,865	21,946	29,030
Actual expenditure	12,287	14,838	17,944	21,700	

Source: Ministry of Finance, Teheran

Table 10

ORDINARY BUDGET REVENUES

(million rials)

<u>Years ending March 20:</u>	<u>1954/55</u>	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u> <u>Revised</u> <u>estimates</u>	<u>1958/59</u> <u>Budget</u> <u>estimates</u>
Income Tax from Agriculture	n.a.	78	172	150	200
Tax on rental value of properties and real estate transfers	n.a.	37	40	50	100
Other Income Taxes	n.a.	800	970	1,350	2,360
Total Income Tax	n.a.	915	1,182	1,550	2,660
Inheritance Tax	n.a.	30	37	50	75
Total Direct Taxes	750	945	1,219	1,600	2,735
Customs	4,231	4,316	5,337	6,000	6,600
Tobacco Monopoly	2,297	2,477	2,923	3,200	3,500
Opium Monopoly	10	79	117	60	-
P.O. Sugar Factories	-	-	-	-	600
Alcohol Tax	{		378	{	500
Petroleum Products	{ 1,422	1,566	1,550	{ 2,000	1,600
Revenues earmarked for special purposes	{		422	{	1,198
All Other	{ 1,271	1,190	1,919	{ 3,240	2,511
Total	9,981	10,573	13,865	16,100	19,244

Source: Ministry of Finance, Teheran

Table 11

BALANCE OF PAYMENTS

- excluding barter trade with the USSR -
(in millions of US \$ equivalents)

	1954/55	1955/56	1956/57	1957/58 Estimates (based on 10 months actuals)
Exports other than oil	98.5 ^{1/}	82.1	88.5	90.0
Private invisible receipts	11.9	11.0	16.2	20.0
Total receipts on private account	110.4	93.1	104.7	110.0
Private imports of consumer goods and private capital goods except those under US aid	138.2	206.7	222.9	260.0
Private Invisibles	5.9	7.9	15.0	35.0
Total expenditure on private account	144.1	214.6	207.9	295.0
Deficit of the private sector	-33.7	-121.5	-103.2	-185.0
Purchase of rials by Consortium	11.9	46.7	40.5	45.0
Oil Revenue:				
(BPC)	(-)	(-)	(2.4)	(11.6)
(P.O.)	(28.5 ^{1/})	(22.6)	(73.2)	(100.3)
(Budget)	(-)	(57.2)	(34.2)	(74.0)
(NIOC)	(-)	(-)	(30.4)	(23.5)
Sub total	28.5 ^{1/}	79.8	140.2	209.4
Total Income from oil	40.4	126.5	180.7	254.4
Compensation payment to B.P.C.	-	-	2.4	11.6
Foreign exchange expenditure of P.O.	11.4	30.3	29.9	60.0
Foreign exchange expenditure of government	3.1	26.0	65.4	10.0
Foreign exchange expenditure of N.I.O.C.	2.1	6.1	18.0	12.0
Total imports of oil income recipients	16.6	62.4	115.7	93.6
Surplus of oil account	423.8	464.1	465.0	4160.8
US aid including Eximbank but excluding military hardware	50.0	81.4	44.2	435.7
of which spent abroad:	-35.4	-33.4	-33.0	-35.7
Suppliers credits and miscellaneous	-	3.7	11.0	20.0
IBRD loan	-	-	10.0	65.0
IMF drawings	-	-	16.5	-
Payment of share in IFC	-	-	- 0.4	-
Sub total	414.6	51.7	50.8	85.0
Foreign aid & loans net	414.6	451.7	450.8	485.0
(Total payments)	(196.1)	(310.4)	(356.6)	(424.3)
Calculated change in foreign exch. reserves	4.7	-5.7	12.4	60.8
Errors and omissions	2.3	4.7	- 3.0	-
Actual change in foreign exch. reserves	7.0	-1.0	9.4	-

^{1/} Approximate

SOURCE: Bank Mell1, Teheran

Table 12

IMPORTS CIF (Including government imports and imports under US aid and USSR barter trade)

Values: Million of US \$ equivalents

Quantities: 000 metric tons

Years ending March 20:	1952/53		1953/54		1954/55		1955/56		1956/57		1957/58 1st Half	
	\$	tons	\$	tons	$	tons	$	tons	$	tons	$	tons
Sugar	29.3	117.4	36.5	214.2	35.8	212.6	29.5	221.6	28.2	256.4	11.9	111.0
Cotton goods ^{1/}	26.4	8.2	23.4	11.5	21.7	11.2	18.3	8.7	16.2	7.5	7.7	3.6
Tires & tubes	11.3	6.3	9.7	6.3	10.2	6.9	12.5	6.6	8.3	6.2	6.1	3.5
Machinery	9.9	6.6	10.8	10.1	15.6	13.8	20.9	15.2	25.0	17.6	32.1	10.2
Chemicals & drugs	8.3	6.9	6.2	9.7	8.5	8.4	9.7	12.6	8.7	12.6	5.7	6.1
Iron & steel	7.6	21.8	12.2	58.8	15.5	86.2	23.5	124.0	23.6	113.2	17.0	79.1
Tea	4.6	2.6	4.4	3.3	9.5	4.6	22.0	10.1	12.5	7.3	8.1	4.9
Edible oil & fats	4.3	6.8	2.8	7.3	3.3	13.5	3.4	12.4	8.1	12.2	3.8	6.5
Paper products	4.0	9.7	4.2	18.8	3.8	16.1	4.1	17.2	7.4	28.0	2.4	10.6
Automotive equipment & spare parts	2.9	2.7	5.0	3.8	28.8	23.6	25.9	20.5	36.3	23.9	20.3	9.6
Dyes	2.2	3.2	2.1	3.4	2.7	4.4	3.8	5.9	3.0	5.4	2.0	3.5
Glassware	0.8	2.1	1.2	6.4	1.6	7.7	2.0	6.5	2.4	8.8	1.3	7.1
Others ^{1/}	43.5	-	48.0	-	75.0	-	109.5	-	124.8	-	70.3	-
Total	157.3		166.5		232.0		285.1		304.5		188.7	
<u>Bank Melli Payment Statistics</u>												
(a) Private imports					138.2		206.7		222.9		138.3	
(b) Imports under US aid and Eximbank loans					26.7		27.2		27.4		10.0 ^{2/}	
(c) USSR barter trade					19.0		24.9		18.1		5.0 ^{2/}	
(d) Sub total					183.9		258.8		268.4		153.3	
(e) <u>Difference</u> (largely Govt. imports)					48.1		26.3		36.1		35.4	

^{1/} Imports of cotton goods listed appear very incomplete; there is indication that most of these goods, owing to classification difficulties, have been included under "Other Imports".

^{2/} Approximate.

SOURCE: Ministry of Commerce, Teheran.

Table 13

EXPORTS FOB (except oil)
Millions of US \$ equivalents
000 metric tons

Years ending March 20:	1953/54		1954/55		1955/56		1956/57		1957/58		First 6 months
	tons	\$	tons	\$	tons	\$	tons	\$	tons	\$	
Raw Cotton	36.2	21.9	45.2	35.1	36.3	22.3	38.5	22.3	11.1	6.0	
Carpets	5.3	14.5	4.6	15.1	5.0	16.7	4.6	17.1	3.0	9.4	
Fruits	70.6	11.7	93.2	17.7	89.9	15.6	91.7	18.1	28.7	4.8	
Wool	10.2	5.8	10.2	7.2	9.0	9.5	9.5	8.9	3.9	3.2	
Hides & Skins	6.3	5.2	6.4	5.4	6.6	4.3	7.6	3.9	4.0	2.3	
Rice	49.0	6.4	61.2	8.1	28.4	3.7	3.1	0.4	0.2	0.0	
Gums	3.3	2.7	2.9	2.2	2.6	2.9	5.3	4.0	1.1	1.2	
Animal Casings	0.4	1.6	0.5	2.2	0.6	2.4	0.6	2.7	0.3	1.0	
Spice		n.a.		n.a.	9.5	1.8	1.0	0.3	0.0	0.0	
Other		23.9		27.2		26.0		28.1		12.5	
Total		93.7		120.2		105.2		105.8		40.4	
Bank Melli Payments Statistics:											
(a) Excluding trade with USSR				(98.5)		(82.1)		(88.5)		(40.0 ^{1/})	
(b) USSR				(26.0)		(13.9)		(17.7)		(8.0 ^{1/})	
(c) Total				(124.5)		(96.0)		(106.2)		(48.0 ^{1/})	

^{1/} Approximate

SOURCE: Ministry of Commerce, Teheran

Table 14

1956/57 IRANIAN IMPORTS AND EXPORTS BY COUNTRIES

	I m p o r t s					Exports other than oil			
	1938 %	1948 %	1953 %	1954 %	1955 %	March 21/56 - March 20/57 %	March 21/56 - March 20/57 (million US\$)	March 21/56 - March 20/57 %	March 21/56 - March 20/57 (million US\$)
US	8.5	29.7	17.8	23.9	19.7	16.4	50.1	11.4	12.1
West Germany	25.9	0.8	21.2	15.4	17.6	16.2	49.4	14.7	15.6
UK	8.1	27.4	10.5	9.3	9.7	10.2	31.1	7.3	7.7
Japan	3.3	0.5	11.7	10.0	8.2	6.7	20.5	17.2	18.2
USSR	36.4	3.4	-	9.9	11.1	5.9	18.1	16.1	17.7
India	7.6	8.9	2.5	5.2	6.4	4.2	12.8	3.5	3.7
Taiwan	0.2	0.2	-	4.1	2.3	4.1	12.5	-	.0
France	1.7	3.1	3.7	3.2	2.8	2.7	8.2	13.4	14.2
Italy	0.2	6.8	4.5	3.0	2.9	2.0	6.2	6.0	6.3
Netherlands	0.7	0.8	2.6	3.0	2.3	1.8	5.5	3.9	4.1
Kuwait	-	-	0.1	0.4	1.4	1.7	5.1	3.6	3.8
Others	7.4	18.5	25.5	12.7	15.6	28.0	85.1	2.3	2.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	304.6	100.0	105.8

SOURCES: Ministry of Commerce, Teheran, and "Direction of International Trade", UN Statistical Papers, Form T, Vol. VIII, No.7.

Table 15

US AID TO IRAN (RECEIPTS)
(\$ million)

Years ending March 20:	1954/55	1955/56	1956/57	1957/58 ^{1/}
Technical assistance	9.2	7.2	5.6	11.0
ICA - procurements	18.3	6.5	16.9	8.0
PL 480	7.9	5.7	5.7	6.7
Cash	14.6	48.0	11.0	-
Total ICA Aid	50.0	67.4	39.2	25.7
Eximbank (Disbursements from \$53 million credit line)	-	14.0	5.0	10.0
Total US aid	50.0	81.4	44.2	35.7

1/ Estimates, based on 9 months actuals

SOURCE: USOM Mission Teheran

Table 16

IRAN - BARTER TRADE WITH USSR
(million \$ equivalent)

Years ending March 20:	<u>1955/56</u>	<u>1956/57</u>	<u>1957/58</u> <u>Mission Estimate</u>
Exports from Iran	13.9	17.7	15.0
Imports into Iran	24.9	18.0	10.0
	<u>-11.0</u>	<u>-0.3</u>	<u>5.0</u>

SOURCE: Bank Melli, Iran.

TABLE 17

PLAN ORGANIZATION - DISBURSEMENTS FOR INVESTMENT

(Revised 7-Year Program as of March 1958)

(Millions of Rials)

Page 1

Years ending March 20	<u>1955/56/57</u>	<u>1957/58</u>	<u>1958/59</u>	<u>1959/60/2</u>		<u>1960/61/62/63/2</u>		<u>Total</u>	
	18 months	Estimate	Budget	Approved	Approved and proposed	Approved	Approved and proposed	Approved and proposed	Original plan
Chapter I - Agriculture and Irrigation	2,252	2,800	2,828	(2,241)	4,745	(3,040)	8,217	20,842	19,435
" II - Transport and Communications	4,209	4,400	5,679	(901)	6,546	(792)	8,205	29,039	30,136
" III - Industry	1,757	1,500	1,396	(281)	3,001	(2)	3,283	10,937	11,388
" IV - Social Sector	1,638	1,300	1,974	(445)	4,712	(345)	9,815	19,439	19,810
" V - Khuzestan Development Service <u>/1</u>	-	<u>1,450</u>	<u>1,728</u>	<u>(1,199)</u>	<u>1,199</u>	<u>(2,622)</u>	<u>2,622</u>	<u>6,999</u>	<u>200</u>
Total	9,856	11,450	13,605	(5,067)	20,203	(6,801)	32,142	87,256	80,969
Millions of \$	130.2	151.2	180.0	(66.9)	266.7	(90.0)	424.3	1,165.0	1,068.9

/1 Excluding second phase of sugar project./2 Tentative projections made by the Budget Commission of P. O. in February 1958.

TABLE 17a - (Continued)
PLAN ORGANIZATION - DISBURSEMENTS FOR INVESTMENT
 (Revised 7-Year Program as of March 1958)
 (Millions of Rials)

Years ending March 20		<u>1955/56/57</u>	<u>1957/58</u>	<u>1958/59</u>	<u>1959/60</u>		<u>1960/61/62/63</u>		<u>Total</u>	<u>Original plan</u>	
		<u>18 months</u>	<u>Estimate</u>	<u>Budget</u>	<u>Approved</u>	<u>Approved and proposed</u>	<u>30 months</u>		<u>Approved and proposed</u>		
<u>CHAPTER I</u>											
	Subchapter 1	- Irrigation and Dam Surveys	67.3	120.0	392.5	(50.9)	115.0	(270.5)	325.5	1,021.2	756
	"	2 - Agricultural and Irrigation Training	52.4	76.0	69.0	-	43.0	-	23.0	263.4	316
	"	3 - Farming and Crop Improvement	90.8	45.0	26.5	-	113.0	-	223.2	498.5	695
	"	4 - Animal Husbandry	40.1	31.0	82.5	-	131.3	-	571.0	855.9	1,152
	"	5 - Plant and Pest Control	100.4	70.0	207.5	-	318.3	-	892.5	1,588.7	1,119
	"	6 - Forestry	28.6	30.0	150.0	-	215.0	-	498.0	921.6	1,168
	"	7 - Development of Villages and Barren Land	55.2	80.0	162.8	-	81.0	-	223.0	602.0	647
	"	8 - Agricultural Extension	64.8	35.0	50.0	-	64.0	-	219.0	432.8	406
	"	9 - Agricultural Machinery	38.4	230.0	181.0	-	183.0	-	125.0	757.4	703
	"	10 - Meteorology	6.0	9.0	22.0	-	22.0	-	42.0	101.6	109
	"	11 - Rural Economy and Agriculture Engineering	15.9	30.0	-	-	28.0	-	77.0	150.9	181

TABLE 17b - (Continued)
 PLAN ORGANIZATION - DISBURSEMENTS FOR INVESTMENT
 (Revised 7-Year Program as of March 1958)
 (Millions of Rials)

Years ending March 20	1955/56/57	1957/58	1958/59	1959/60		1960/61/62/63		Total	
	18 months	Estimate	Budget	Approved	Approved and proposed	30 months Approved	Approved and proposed	Approved and proposed	Original plan
CHAPTER I - (Cont.)									
Subchapter 12 - Silos	0.4	2.0	113.5	-	120.0	-	-	235.9	435
" 13 - Agricultural Industry	74.9	50.0	46.3	-	100.0	-	200.0	471.2	298
" 14 - Irrigation and Dam Construction <u>1</u>	1,193.9	1,800.0	1,320.0	(2,190.0)	2,210.0	(2,770.0)	4,040.8	10,604.7	8,552
" 15 - Loans for Qanats and Deep Wells	248.3	100.0	-	-	250.0	-	250.0	848.3	1,068
" 16a - Unclassified	174.1	92.0	-	-	-	-	-	266.1	-
" 16b - Fertilizer Plant	-	-	4.6	-	750.0	-	467.7	1,222.3	1,830
Total	2,252	2,800	2,828	(2,241)	4,745	(3,040)	8,217	20,842	19,435
<u>1</u> Except Khuzestan.									
CHAPTER II									
Subchapter 1 - Roads	1,555.0	1,400.0	3,060.0	(28.2)	4,365.0	(36.4)	5,156.7	15,536.7	15,903
" 2 - Railroads	1,772.4	1,570.0	1,268.3	(96.4)	342.7	-	600.0	5,553.4	6,741
" 3 - Airports	257.9	350.0	329.3	(374.5)	390.7	(207.5)	402.9	1,730.8	1,648
" 4 - Ports	375.4	600.0	689.6	(177.0)	982.5	(20.0)	1,022.3	3,669.8	3,708
" 5 - Telecommunications	202.4	400.0	191.9	(55.0)	295.0	-	495.0	1,584.3	1,600
" 6 - Cartography	45.6	80.0	140.0	(170.4)	170.4	(528.1)	528.1	964.1	536
Total	4,209	4,400	5,679	(901)	6,546	(792)	8,205	29,039	30,136

TABLE 17c - (Continued)

PLAN ORGANIZATION - DISBURSEMENTS FOR INVESTMENT

(Revised 7-Year Program as of March 1958)

(millions of Rials)

Page 4

Years ending March 20	1955/56/57	1957/58	1958/59	1959/60		1960/61/62/63		Total	
	18 months	Estimate	Budget	Approved	Approved and proposed	Approved	Approved and proposed	Approved and proposed	Original plan
CHAPTER III									
Subchapter 1 - Completion of Government owned Plants and Mines	41.1	80.0	118.2	(1.3)	1.3	(2.5)	2.5	243.1	-
" 2 - Textile Industry	665.3	200.0	399.6	(222.0)	360.0	-	93.0	1,717.9	1,807
" 3 - Sugar Industry	297.0	200.0	82.9	-	-	-	-	579.9	2,040
" 4 - Cement Industry	342.5	676.0	405.3	(56.2)	291.2	-	323.8	2,038.8	2,312
" 5 - Mines	45.6	8.0	25.0	-	41.0	-	60.0	179.6	302
" 6 - Copper	-	-	-	-	12.0	-	17.6	29.6)	3,124
" 7 - Steel	42.6	31.0	200.0	-	2,000.0	-	2,355.0	4,628.6)	
" 8 - Refractory Materials	-	-	10.0	-	9.0	-	-	19.0	40
" 9 - Fisheries	10.0	10.0	26.0	-	27.0	-	-	73.0	99
" 10 - Laboratories	-	-	1.1	-	21.1	-	22.8	45.0	45
" 11 - Vocational Centers	5.3	10.0	7.0	-	7.0	-	23.0	52.3	75
" 12 - Industrial Towns	3.6	15.0	21.8	-	15.0	-	45.0	100.4	120
" 13 - Industrial Credits	184.9	250.0	-	-	-	-	-	434.9	954
" 14 - Unclassified <u>1</u>	119.1	20.0	98.9	(1.0)	217.0	-	340.0	795.0	472
Total	1,757	1,500	1,396	(281)	3,001	(2)	3,283	10,937	11,388

1 Includes capital contribution to construction, mortgage and Export Banks.

TABLE 17d - (Continued)

PLAN ORGANIZATION - DISBURSEMENTS FOR INVESTMENT

(Revised 7-Year Program as of March 1958)

(Millions of Rials)

Page 5

Years ending March 20	1955/56/57	1957/58	1958/59	1959/60		1960/61/62/63		Total	
	18 months	Estimate	Budget	Approved	Approved and proposed	Approved	Approved and proposed	Approved and proposed	Original plan
CHAPTER IV									
Subchapter 1 - Health	464.7	290.0	462.6	-	1,128.6	-	3,385.9	5,731.8	6,226
" 2 - Education	535.9	300.0	326.8	-	438.1	-	950.0	2,550.8	2,787
" 3 - Municipal Power	111.7	100.0	448.2	(171.3)	693.2	(14.3)	666.3	2,019.4	2,073
" 4 - General Power Program	-	-	3.6	-	1,032.0	-	2,399.6	3,435.2	2,385
" 5 - Municipal Projects	388.6	555.0	668.0	(176.5)	1,190.0	(251.0)	1,998.0	4,799.6	5,299
" 6 - Statistics and Census	116.0	25.0	64.8	(61.6)	113.6	-	70.0	389.4	408
" 7 - Cooperatives and Rural Funds	21.0	20.0	-	(30.3)	70.3	(66.7)	162.2	273.5	407
" 8 - Aid to Workers' Organizations	-	10.0	-	(5.0)	45.8	(13.0)	183.3	239.1	225
Total	1,638	1,300	1,974	(445)	4,712	(345)	9,815	19,439	19,810
CHAPTER V									
Diz Dam	-	315.0	490.8	(930.0)	930.0	(2,500.0)	2,500.0	4,235.8	-
Other Khuzestan Projects	-	1,135.0	1,237.2	(269.0)	269.0	(122.0)	122.0	2,763.2	200
Total	-	1,450	1,728	(1,199.0)	1,199.0	(2,622.0)	2,622.0	6,999.0	200

Source: Plan Organization, Teheran

Table 16

BUDGET OF PLAN ORGANIZATION

(Million US \$ equivalent)

Hypothesis A: assuming a 10% growth rate in total oil revenue after 1958/59; no decline in posted prices

<u>Years ending March 20</u>	<u>1955/56</u> <u>6 months</u> <u>Actuals</u>	<u>1956/57</u> <u>Actuals</u>	<u>1957/58</u> <u>Rev. Est.</u>	<u>1958/59</u> <u>Rev. Budget</u>	<u>1959/60</u> <u>Est.</u>	<u>1960/61</u> <u>Est.</u>	<u>1961/62</u> <u>Est.</u>	<u>1962/63</u> <u>Est.</u>	<u>Total</u> <u>7 years</u>
<u>Total oil revenue</u>	48.0	140.2	209.4	260.0	286.0	315.0	346.0	190.0	1,794.6
<u>Allocation of Oil Revenue</u> (according to new legislation):									
NIOC	) 25.4	30.4	23.5	24.3	24.3	24.3	24.3	12.2	
Budget ^{1/}	)	36.6	75.6	136.1	90.1	101.7	114.1	63.8	
<u>Plan Organization ^{1/}</u>	22.6	73.2	110.3	99.6	171.6	189.0	207.6	114.0	987.9
<u>Other revenue of Plan Organization</u>									
IMF	-	17.5	-	-	-	-2.3 ^{2/}	-5.0 ^{2/}	-10.2 ^{2/}	0.0
IBRD	-	10.0	65.0 ^{2/}	-3.7	-23.6	-23.6	-23.6	-11.8	-11.3
BPC	-	-	-10.0	-6.0	-6.0	-6.0	-6.0	-3.0	-37.0
ICA	-	-	-	13.2 ^{3/}	-	-	-	-	13.2
Grants to PO industries	-	-3.0	-	-8.0 ^{4/}	-	-	-	-	-11.0
Administration and miscellaneous expenditures	-1.3	-3.0	-8.0	-6.0	-6.0	-6.0	-6.0	-3.0	-39.3
<u>Total non-oil revenue</u>	-1.3	21.5	47.0	-1.5	-35.6	-37.9	-40.6	-28.0	-85.4
<u>Available for investment before new loans</u>	21.3	94.7	157.3	89.1	136.0	/ 151.1	157.0	86.0 /	902.5
<u>Investment expenditure</u>									
a) Actual	32.6	98.9	151.2						
b) Present plan				164.6 ^{5/}	266.7		439.7		1,153.7
c) Original plan	(37.8)	(145.0)	(184.7)	(201.1)	(202.9)	/ (158.4)	(102.9)	(36.2) /	(1,068.9)
<u>Total deficit</u>	-11.3	-4.2	46.1	-75.5	-130.7		297.5	-35.6	-251.2

^{1/} Including BPC compensation^{2/} Excluding interest which is assumed to be included in administrative expenses^{3/} ICA procurement authorizations.^{4/} Payment of Rls 600 million tax arrears for PO sugar company. The official budget assumes that Rls 400 million of this amount will be paid by the company itself. However, it appears likely that the aggregate sugar profit left after the Rls 400 million tax payment will fall short by about an equal amount of the total net loss of the remaining PO companies. The shortfall of about Rls 400 million will then have to be covered from oil income of the Plan Organization.^{5/} The investment program has recently been changed to the extent that \$15.4 million of expenditures budgeted for 1958/59 have been postponed. The above data take this change into account.

Source: Plan Organization Teheran and Mission estimates.

Table 19

BUDGET OF PLAN ORGANIZATION
(Million US \$ equivalent)

Hypothesis B: Assuming an 8% growth rate in total oil revenue after 1958/59; no decline in posted prices.

<u>Years ending March 20</u>	<u>1955/56</u> <u>5 months</u> <u>Actuals</u>	<u>1956/57</u> <u>Actuals</u>	<u>1957/58</u> <u>Rev. Est.</u>	<u>1958/59</u> <u>Rev. Budget</u>	<u>1959/60</u> <u>Est.</u>	<u>1960/61</u> <u>Est.</u>	<u>1961/62</u> <u>Est.</u>	<u>1962/63</u> <u>5 months</u> <u>Est.</u>	<u>Total</u> <u>7 years</u>
<u>Total oil revenue</u>	48.0	140.2	209.4	260.0	281.0	303.0	327.0	176.0	1,744.6
<u>Allocation of Oil Revenues</u> (according to new legislation):									
NIOC Budget ^{1/}	25.4	30.4	23.5	24.3	24.3	24.3	24.3	12.1	
Plan Organization ^{1/}	22.6	73.2	110.3	99.6	168.6	181.8	196.2	105.6	957.9
<u>Other revenues of Plan Organization</u> (see table 18 on Hypothesis A)	-1.3	21.5	47.0	-10.5	-35.6	-37.9	-40.6	-28.0	-85.4
<u>Available for investment before new loans</u>	21.3	94.7	157.3	89.1	133.0	/ 143.9	155.6 377.1	77.6 /	872.5
<u>Investment expenditure</u>									
a) Actual	32.6	98.9	151.2						
b) Present plan				164.6 ^{2/}	266.7		439.7		1,153.7
c) Original plan	(37.8)	(145.0)	(184.7)	(201.1)	(202.9)	/ (158.4)	(102.9)	(36.2)/	(1,068.9)
<u>Total deficit</u>	-11.3	-4.2	46.1	-75.5	-133.7		(297.5) -62.6		-281.2

^{1/} Including BPC compensation.

^{2/} See footnote 5, Table 18.

SOURCE: Plan Organization Teheran and Mission estimates.

Table 20

REVENUES AND EXPENDITURES OF PLAN ORGANIZATION AS PROJECTED NOW AND AT THE TIME OF THE IBRD LOAN
(million \$ equivalent)

<u>Years ending March 20:</u>	<u>1955/56</u> 6 months	<u>1956/57</u>	<u>1957/58</u>	<u>1958/59</u>	<u>1959/60</u>	<u>1960/61</u>	<u>1961/62</u>	<u>1962/63</u> 6 months	<u>Total</u>	<u>Change since</u> <u>date of IBRD loan</u>
A. REVENUES										
1. Projected at time of IBRD Loan	26	86	113	150	176	189	201	113	1,054	
2. Projected now ^{1/} according to new legislation:										
(a) assuming 10% growth in oil revenue	22.6	73.2	100.3	106.8 ^{2/}	165.6	183.0	201.6	111.0	964.1	-90
(b) assuming 8% growth in oil revenue	22.6	73.2	100.3	106.8 ^{2/}	162.6	175.8	190.2	102.6	934.1	-120
B. EXPENDITURES										
3. Investment expenditure program at time of loan	27.0	110.0	135.0	174.0	175.0	380.0		1,001)
4. Present expenditure program (investment) ^{3/} (other)	(32.6) (1.3)	(98.9) (6.0)	(151.2) (8.0)	(164.6) ^{4/} (17.8)	(266.7) (8.5)	(439.7) (20.1)		1,153.7 61.7)
Total	33.9	104.9	159.2	182.4	275.2	459.8		1,215.4		+214

^{1/} Before deduction of administrative costs and debt service other than compensation payments to B.P.C.

^{2/} Including \$13.2 million ICA procurement authorizations obtained in lieu of oil revenue.

^{3/} Tentative projections made by the Budget Commission of P.O. in February 1958.

^{4/} Revised.

SOURCE: Plan Organization, Teheran and Mission estimates

Table 21

IRAN - EXTERNAL DEBT AS OF SEPTEMBER 20, 1957
(million)

A. Total debt outstanding and undi

	<u>Pu</u>			<u>Private</u>	<u>Total</u>
	<u>su</u>			<u>suppliers</u>	<u>debt</u>
	<u>ci</u>			<u>credit</u>	
Disbursed and still outstanding	51.63	219.76	271.39	24.36	295.75
Undisbursed	25.72	84.75	110.47	-	110.47
Total	77.35	304.57	381.86	24.36	406.22

B. Service Schedule^{2/}

Years ending March 20:

1958/59	44.5 ^{3/}	0.1	44.6 ^{3/}
1959/60	63.0 ^{3/}	2.2	65.2 ^{3/}
1960/61	59.8	5.6	65.4
1961/62	53.6	5.8	59.4
1962/63	30.5	3.3	33.8
1963/64	18.3	3.6	21.9
1964/65	17.0	2.1	19.1
1965/66	13.2	1.7	14.9
1966/67	5.6		5.6
1967/68	4.8		4.8
1968/69	4.1		4.1
1969/70	4.1		4.1
1970/71	4.1		4.1
1971/72	4.1		4.1
1972/73	4.1		4.1

NOTE: Based on preliminary information received from Ministry of Finance and Bank Melli, Teheran.

1/ Excluding (a) IMF drawings, (b) the \$24 million unallocated balance of \$53 million Eximbank credit line of 1953, and (c) the \$180,000 Eximbank credit line to Iran Techno Corporation of January 1957, which, as of February 28, 1958, was completely undisbursed and considered to be usable only for purpose of short-term (under one year) accommodation.

2/ Excluding service on \$23.5 million US surplus property credits, which has not yet been agreed upon; also excluding future interest payments on IMF drawings.

3/ Scheduled repayment of IMF drawings adds \$8.38 million and \$16.87 million to the totals for 1958/59 and 1959/60 respectively.