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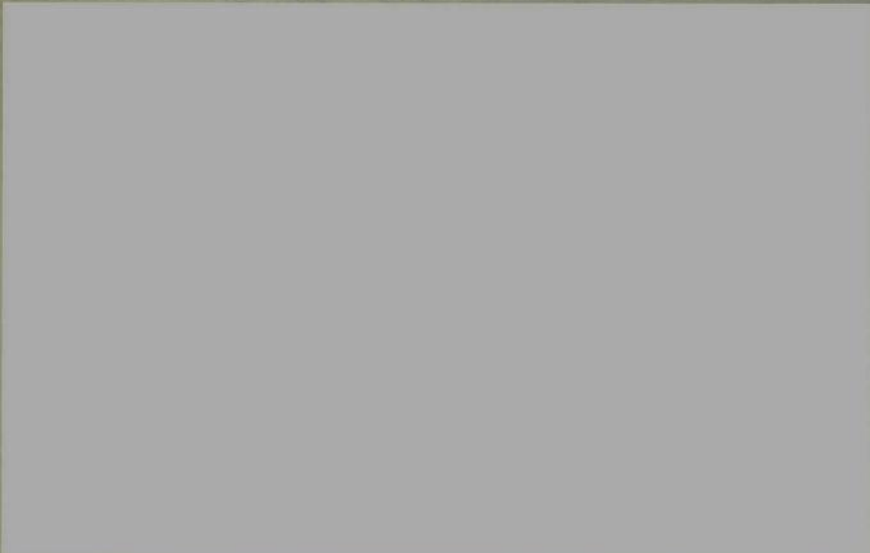
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372

GENERAL QUESTIONNAIRE FOR IRAN

Iran - copy
Prepared by Buchenki
December, 1949
Copy sent to Bayne
at Tehran

I. POPULATION

1. Latest census figures and later data or estimates, in particular those of the Civil Registration Department of the Ministry of Interior; subsidiary information derived from counts taken for rationing purposes.
2. Comments on the accuracy and completeness of the above data.
3. Distribution of population by:
 - sex
 - age groups
 - race
 - religion
 - urban and rural areas
 - geographic and administrative regions
4. Occupational statistics
5. Vital statistics
6. Density, also by provinces
7. Literacy
8. Emigration and Immigration figures
9. Numbers and distribution of Iranians outside Iran (if known)
10. Are there any seasonal migrations to or from neighboring countries?
11. Government's attitude and popular reaction to any immigration projects.

Note: In view of the fact that public health and education are fairly fully covered in Volume II of the O.C.I. report, additional information on these subjects is, for the time being, only required to the extent to which the Iranian Government itself would regard the above data as insufficient.

II. NATIONAL INCOME

1. Estimates of Iranian national income, total and per capita
2. Main components of the national income
3. Relation between national income, resources, consumption, and capital formation
4. Available data on income distribution.

III. AGRICULTURE

1. Land utilization in Iran with figures for: total area
cultivable area
cultivated area
crop area
(As far as not covered already by OGI Report, Volume III, Exhibit C-1)
2. Area under various types of irrigation, basin, perennial
(from rivers, pumping wells, kanats, etc.)
3. Description of various irrigation systems used in Iran and of how they
work in practice
4. Brief survey of the water supply available to Iran:
 - a) at present
 - b) after completion of contemplated flood control and
irrigation projects. (As far as anything in this
respect can be added to data from OGI Report Vol. III,
Chapter II)
5. Existing or contemplated agreements with neighboring countries concerning
common water resources and waterways (Karun, Aras, Tedzhen, etc.)
6. Area under main crops; average yields of the various crops and output per
agricultural worker
7. Estimates of farm labor:
 - a) Requirements of farm labor based on the present crop area
 - b) Present farm labor
 - c) The minimum number of farm ~~labor~~^{WORKERS} required for all the
cultivated area if all the contemplated irrigation
projects are carried out
 - d) Farm labor required for all the cultivable area.
8. Land tenure
 - a) Present system of land tenure: distribution of land holdings
 - b) Regulations concerning tenant farmers and sharecroppers
9. Contemplated land reforms, if any.
10. System of crop rotations in Iran
11. Problems of soil erosion, salination and drainage
12. Production costs of the main crops in Iran as compared to several other
countries
13. Consumption of fertilizers
14. Agricultural techniques including:
 - a) Extent of existing agricultural mechanization
 - b) Details of contemplated agricultural mechanization program

Agriculture (Continued)

15. Food situation, including the degree of self-sufficiency in:
 - a) Cereals
 - b) Meat
 - c) Milk products
 - d) Fats
 - e) Sugar
 - f) Tea
16. Livestock statistics
17. Methods of marketing and grading
18. Present conditions of agricultural cooperatives, experimental stations, and agricultural training programs
19. What is the Government's policy (and legislation) with regard to forestry; what are the regulations concerning cutting, reforestation, charcoal burning, etc.?
20. What steps, if any, have been taken to protect the existing forests against over-grazing?
21. Main provisions of the concession (agreement) of the Societe Mahie Iran; what ~~is~~^{are} the experiences under the operation of the agreement; what is intended after its expiration?

IV. INDUSTRY

A. Petroleum

1. What is the outlook for the petroleum industry in Iraq? *Iran.*
2. Data on potential and proven crude oil reserves
3. Annual data on oil production in Iran and total for past 11 years; estimated course of production in coming years
4. Refinery output of oil
5. Present pipelines and pipelines under construction; location, capacity, etc.
6. Estimated capital investment in the oil industry in Iran
7. Receipts from oil industry:
 - a) Main provisions of the agreements under which oil companies operate
 - b) Oil royalties, dead rent and other payments since 1937
 - c) The oil company's local expenditures since 1937
 - d) Sales of oil products within Iran since 1937
8. Main provisions of the revised agreement with A.I.O.C. and prospects of its ratification by the Majliss; to what extent will the royalty provisions be retroactive?

as not covered in O.C.I. report

B. Mining, Other Than Petroleum

1. Data on potential and proven mineral resources, other than oil
2. Information on the mining of coal, red oxide of iron, copper, lead, antimony, sulphur and rock salt. (As far as not covered already by O.C.I. Report Volume IV, Chapter 3)

C. Manufacturing

1. Description of existing industry, including cotton and woollen spinning and weaving, cement, sugar, rugs, tobacco, construction materials. (As far as not covered by O.C.I. Report Volume IV, Chapter 3)
2. ~~Study of raw material and power~~ *requirements* ~~basis~~ of existing industries *and* ~~handbook~~ *sources of supply* *(Domestic & foreign)*
3. Indexes of industrial production
4. How much capital is invested in industries and what are its returns?
5. What proportion of the various industries is Government owned or controlled?
6. Review of foreign capital invested in Iranian industries (other than oil)
7. *and treaties* Legislation concerning foreign investment

Industry (Continued)

8. Degree of state interferenceⁱⁿ activities of privately owned industries
9. Explain organization and supervision of state owned enterprises
10. Problems of skilled Iranian management and labor-training facilities

V. TRANSPORT AND COMMUNICATIONS

PROFITABILITY

1. State of Iranian railways; their adequacy to serve existing needs; ~~rentability~~; competitiveness with road and river transport; efficiency of management; development plans
2. Numbers of rolling stock and locomotives; state of their efficiency; repair facilities. Data on development of goods and passenger traffic before, during and after the war
3. At what stage is the construction of the Qum-Jezd and of the Mianeh-Tabriz lines?
4. Road transport in Iran: length of highways (by types); adequacy and state of the existing roads; road vehicles, numbers, prevailing types, repair facilities; problem of fuel and lubricants. *Development plan*
5. Statistics on traffic in the ports of Bandar Shah, Pahlavi; Khorramshahr, Bandar Shalpur and Abadan, including freight traffic, number and tonnage of commercial vessels entered and departed; data about merchant fleet (numbers and tonnage of commercial vessels; freight hauled -- by types of commodity; passengers carried)
6. Data on river transport on the Karun.
7. Air transport; traffic in Iranian airports; data concerning the Iranian Airways
8. What are the main inadequacies, shortages and bottlenecks of transport facilities; which areas suffer most from them?
9. What are the main development projects in the transport field?
(As far as not covered already by O.C.I. Report Volume IV, Chapter 1)
10. Any data on communications which the Iranian Government wishes to add to the information contained in the O.C.I. Report Volume IV, Chapter 2.

VI. LABOR

1. Numbers or estimates of working population and its subdivisions -- as far as not dealt with under I.
2. Skilled and unskilled labor; problems of training
3. Unemployment and under-employment -- labor scarcity (particularly with regard to agriculture)
4. What happened to labor groups occupied during the war directly or indirectly as a result of Allies War expenditure
5. What shortages of labor are anticipated in the various fields affected by the Seven-Year Plan and how is it proposed to overcome them?
6. Text of more important labor legislation
7. Extent to which labor unions are permitted; organized; influential
8. Extent of existent social insurance and health services
9. Labor unrest; extent and frequency of strikes and lockouts
10. Wage trends as compared with developments of the cost of living in general, and of rents and farm prices in particular
11. Labor migrations from land to town and vice versa; between ostan, etc.

VII. PUBLIC FINANCE

date revision 1978

Budget

A. General

1. What was the basis of public appropriations in Iran between 1323 (1944-45) and 1328 (1949-50) when no budgets were approved by the Majliss?
2. Figures of government actual revenues and expenditures between 1320 and 1325 (1941-46), given by the official government answers to the IBRD questionnaire (5th point) differ substantially from figures for the same years given by the Bank Melli Iran Bulletin No. 98, Vol. 16. Only the figures for 1326 (1947-48) are the same in both sources. Which of the two sets of figures is accurate?
3. Has the entire deficit, amounting to rials 2,215 million (according to government's answer quoted above) or to rials 3,722 million (according to Bank Melli Bulletin) been financed by loans from the Bank Melli?
4. The actual figures for the 1325 (1946-47) revenues and expenditures show a surplus of 153 million rials according to the Bank Melli Iran Bulletin No. 96, p. 128, but a deficit of 388 million according to the Bulletin No. 98, p. 251. Which figures are correct?

Expenditure

B. Revenues

5. Give actual revenue figures for last ¹¹~~three~~ years subdivided by main groups; explain whether profits of state owned enterprises are included into budgetary revenue.
6. What is the breakdown of oil revenues from 1319 (1940-41) to 1327 (1948-49) by sources (royalties, taxes, etc.); which portions of this revenue were used to balance current deficits and which portions, if any, went into investment or accumulated as reserves.

7. What portion of the oil revenue is earmarked for the Development Plan in the 1328 (1949/50) budget? What revenues, other than from oil, are earmarked for the Development Plan in the 1328 (1949/50) budget?
8. Information with regard to the taxation system in Iran, if possible texts of the main taxation laws.
9. Is any tax reform seriously contemplated in Iran and if so along what lines?

C. Expenditures

10. Give the breakdown of actual expenditures for the last ~~two~~^{three} or three years by main categories such as: salaries and wages, maintenance and repair of public property, etc.: explain how operational costs and losses of state owned enterprises have been reflected in the ordinary budget, especially after 1324 (1945/46) when the budget for the state owned Bank for Industry and Mines has been separated from the general (ordinary) budget.
11. What government enterprises remain outside the Bank for Industries and Mines; what do their ^{costs} balances amount to; how are their profits or losses reflected in the state budget?

Public Assets

12. Give exact values or estimates of the government's total assets in commerce, mining and industries and of the government-owned land and real estate (not including land under roads, railways, etc. public utilities or public buildings), subdivided into assets a) directly owned by the government, b) owned by government controlled companies or institutions.
13. If not included in the above: what was the value of government stocks

of goods and raw materials at the end of the last two or three financial years?

14. Have any government assets been sold in recent years and, if so, how did the prices obtained compare with:
- a) market prices?
 - b) the book values of these assets?

Public Debt — *Distribution of the national debt by holders by categories.*

15. Give a full list of public a) internal, b) external debts or confirm accuracy and completeness of the list of the government foreign indebtedness, given in the Bank Melli Bulletin (No. 98, Vol XVI, page 252); if possible, supply texts of agreements or laws referring to remaining (unredeemed) public debts; what is the repayment plan for these debts?
16. What repayments have been made with regard to the above debts until now?
17. Is it correct to assume that the 1911 Iranian loan had been completely repaid by the end of 1327 (1948/49) and, if so, which is the correct figure for the last payment, the one given by the Bank Melli Bulletin (see above) or that from Mr. Van Zeeland's report?
18. Has the repayment of the 1911 loan ended the pledge of custom revenues or are these or any other sources of public revenue still pledged?
19. Are there any allocations in the 1328 (1949-50) budget for payment of:
- a) the first installment of the 26 million dollar loan from the U.S.
 - b) an annual installment of the Bank Melli Iran loan?
 - c) interest and commission to the Bank Melli
20. Can the ^{ITEM} ~~position~~ "Emprunt a bail" in Mr. Van Zeeland's presentation of Iran's budget for 1948/49 be explained?

21. Give the fullest possible information on Iran's non-governmental foreign debts.
22. Were there two sterling loans of £1 million each floated in January 1945? If so, what is the present position of these two loans?
23. What is the present position of the dollar debt for purchases of U.S. army materials for lend-lease materials, and for the Abadan Aerodrome?

VIII MONEY, BANKING AND PRICES

1. Information on the organisation and activities of the major Iranian banks, other than the Bank Melli and of foreign banks operating in Iran (attach latest annual reports and balance sheets, whenever possible).
2. Fullest possible information on the Iranian money and capital market. *- other types of money banks, bazaars*
3. Latest available data on:
 - a) Demand deposits of all banks *11 years series!*
 - b) Fixed deposits
 - c) Saving deposits *- other sources of capital**Stock exchange methods of floating securities*
4. Data on the velocity of circulation, ~~if available~~ *on turnover of SBK deposits*
5. Latest indices of wholesale prices and cost of living (only if more recent or amended with regard to indices published currently in the Bank Melli bulletins and the I.M.F. International Financial Statistics)

interest rates

character of bank assets

IX FOREIGN TRADE

*all data for last 11 years
since 1928*

1. Supply the 1327 (1947/48) yearbook of the "Statistique Annuelle du Commerce Extérieur de L'Iran" published by the Iranian Ministry of Finance, or equivalent material; more recent data if available.
2. Balance of trade by currency areas. *11*
3. Information on trade control during the last ~~two~~ years.
4. Recent trade agreements with other countries.
5. Oil exports by oil companies, by quantity, value, and country of destination.
6. Imports of oil companies.

X. FOREIGN EXCHANGE AND BALANCE OF PAYMENTS

Foreign Exchange Rates

1. It is known that there are two sets of certificate rates in Iran, one established by Bank Melli, the other prevailing in the free market. It is also known that the certificate rate in the free market is higher, in terms of rials to U.S. dollars than the certificate rate fixed by the Bank Melli.

Since it is to the advantage of importers to buy exchange at the lower Bank Melli rate, why do some of them buy in the free market? Are the sales by the Bank Melli limited (and, if so, what are the limitations) or what else causes the difference between the two certificate rates? What explains the difference between the free market certificate exchange rate and the black market currency exchange rate?

Foreign Exchange Earnings and Assets

2. Give foreign exchange earnings, subdivided into difference sources (such as commodity exports, services, royalties, etc.), for each of the last two ~~Iranian~~ Iranian years. *various currency areas*
3. How has the recent devaluation of sterling and other currencies affected the various sources of Iranian foreign exchange earnings?
4. We understand that, according to an agreement between the Bank Melli and British authorities, sterling accruing currently to Iran is convertible to pay for Iranian imports where such imports are not obtainable in ~~Britain~~ ^{the sterling area} on equivalent prices or terms of delivery. Could we have the text of this and possible subsequent agreements? Or could it be explained whether only the sterling from the A.I.O.C. ^{is} ~~are~~ involved or all sterling

accruing currently?

5. Has the Anglo-Iranian Financial Agreement of November 1947 expired in November 1949, or has it been extended; if so, on what terms and, if not, what is the basis of present operations?
6. Give latest information on:
 - a) foreign exchange holdings, by currencies
 - b) foreign securities owned by the government. What do the foreign securities consist of and to what extent are they marketable?
7. We understand that Iranian sterling balances carried a guarantee against depreciation resulting from any unilateral devaluation of sterling. Does this apply to all the Iranian sterling balances and what were the amounts adjusted after devaluation?

Balance of Payments

8. Give latest balance of payments' figures subdivided into the following groups: a) operations with hard currency countries
b) operations with the sterling area
c) operations with other countries
9. Give short analysis of the invisible items of the Iranian balance of payments (other than oil items treated under public finance questions).

10. Projection of level of payments for next year



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Withdrawn by

Sherrine M. Thompson

Date

Jun 6, 2013

MEMORANDUM

To:

Mr. Campbell

From:

E. A. Bayne

Date:

December 22, 1949

Subject:

Plan Allocation of Funds

A summary table (I) of allocations of funds made to date by the Plan Organization's High Council is attached ^{billions} and shows a total allocation of about 4 million-rials. This exceeds 18 months expenditure, as this was plotted in OCI's master budget contained in the Phase II report, and is approximately 20 percent of the projected expenditure of the total Seven Year Plan.

As we have been informed, these authorizations are, in effect, approvals in principle of the future work of the Plan, under which authority the Managing Director of the Plan Organization may operate with more or less flexibility. The list, as it is approved by the Council of Ministers of the Government itself, becomes a general budget, in slightly greater detail than the organic law of the Plan. Presumably, when the majless meets, and is prepared to discuss budgets, the total list (which by that time may total the full 21,000 million rials) will be presented for confirmation and as described in the authorizations then becomes a general program of expenditures or plan. It has been suggested that this method of authorization is a tactic by the Managing Director of the Plan to allow himself freedom of action within each grouping, but it is also similar to the operating procedure of the ordinary Government budget itself, where actual control of expenditure under an approved budget is exerted by the Minister of Finance on the basis of the current cash position of the treasury.

Within the Plan Organization, as within each Ministry, there is a cash control which will govern the rate of expenditure against the current revenue month-by-month, and this perhaps is the only effective control of finance that exists, particularly since this present total of allocations exceeds the current rate of revenue (for an 18-months period) by 300%, and a fully authorized program of 21,000 million rials would exceed anticipated income for the 7-year period by about 8.5 billion rials. Such disparity between actual income and authorized programs would appear to defeat the whole purpose of a plan of expenditure, which is reduced to a month-by-month allotment of funds by the Managing Director among projects which

are certain to have less funds than originally budgeted. Each project may have its advocates in Government Ministries, whose own budgets are limited, now that oil revenues have been diverted from general budget purposes by the Plan, and who will therefore bring pressure upon the Managing Director for priority against available funds, to the possible exclusion of more desirable Plan activities. In effect, the Plan becomes a misnomer, and the Managing Director a pressure point for financial relief to powerful interests; and he has protection only in broad authorizations, any one of which could be changed by the Cabinet.

To set the record of annual financial resources straight, the figures offered to us by the Anglo-Iranian Oil Company should be cited (basis 25 million tons annual production.)

	<u>Under Present Contract</u>	<u>Under New Contract</u>
Royalty Income	£ 12,245,000	£ 18,085,000
Dividends	1,074,000	1,074,000
Share of Reserves	<u> </u>	<u>2,926,000</u>
	£ 13,499,000	£ 22,085,000
Converted at 90 Rials to £	R 1,214,910,000	R 1,987,600,000
Total for Seven Years	R 8,504,790,000	R 13,813,200,000

These figures assume production of 25 million tons, which will not be achieved for calendar 1949; and the estimate of time before the new and more beneficial contract is in effect is conservatively estimated at six months.

Under the new contract, however, as pointed out above, there will not be sufficient funds to support appropriations of 21,000 million rials even if it is assumed that there is a 100% diversion of royalties to the Plan Organization, as legally provided. The remainder of the 21,000 million rials program was to be financed by the Bank Mellî (which OGI has cautioned against except as a secondary source) and by foreign borrowing, which is problematical until stability in the economy is more assured than at present, and then only on a moderate scale.

It is clear that our position presented to the Plan Council concerning the fullest possible participation of private capital in Plan projects is not only sound policy, but financially necessary. It appears also clear that consistent support for a properly balanced development program, along the general lines of the Phase II report must be given.

Table II, attached, divides the project authorization into economic groups and indicates, as these have been approved, the estimated expenditure by projects. It does not indicate what rate of expenditure is anticipated or what proportion of expense

is in rials or foreign exchange. At the moment, this information is not available, and probably will not be until an economic analysis division of the Plan is established and staffed and detailed studies made. Presumably, the projects are known to our various consultants in more or less detail, but it is significant that the proportion of funds allotted so far do not agree, on the whole, with the recommendations of OCI. Allocations for industrial expansion far outweigh those for agriculture, for example, which would suggest that the Plan's Council is falling into the very fundamental error that OCI's planning function in Phase II was designed to prevent, even though, taken by themselves, the projects authorized may be commercially sound or so demonstrated in today's market conditions.

On the assumption that these allocations represent the present thinking of the Government and the Plan, even though the allocations are broadly conceived at present and may not necessarily be an actual program of expenditure, the issue presented would appear to be twofold. First that industrial expansion, without an increase in the productivity and purchasing power of the mass of Iranians, will not yield prosperous development. As OCI has repeatedly emphasized, the mass of Iranians are rural agriculturalists and their needs are obvious, and in terms of priority should rank ahead of undue textile expansion, for example. Second, the present economic situation in this country is not a healthy one. While the supply of money (but not the distribution of it) in the hands of the public (about 12,000 million rials) has remained relatively constant during the past few years, the cost of living continues to show slight increases, despite Government efforts to deflate prices through restriction of commercial credit and subsidies of basic commodities such as wheat flour. Normal exports are declining and the remaining, and highly important sources of foreign exchange (rial purchases by the Anglo-Iranian Oil Company) have shown a relative decline as a result of the devaluation of sterling in rial terms from 132 to 90 rials for £1.

It is reasonable to suggest that while the deflationary efforts of the Government and particularly the Bank Melli have had some effect in reducing land speculation and on prices of imported consumer goods particularly, import of which is encouraged in foreign exchange quotas for this year, the reduction in prices of imported goods that has taken place is more likely a reflection of world price reduction. However, merchants in Iran have a tendency to "bank" inventory, since confidence in the currency is not common, and the Iranian banking structure is extremely limited, and the world price reductions should thus have a delayed effect. On the whole, the present position on imported goods generally is one of obvious overstocking against the available and limited purchasing power, which will not basically improve until the means of increasing agricultural income is provided. Agricultural production for this year has been less than anticipated (perhaps 15% overall) and it is this

factor more than any other that contributes to the present difficulties.

There has not been time to make any reliable and thorough survey of the present economic situation beyond certain easily identified aspects. I do wish to suggest, in the light of this limited evidence, that OGI's acquiescence in the present proportions of Plan expenditure should be avoided, and an effort made to balance this program with priority activities that will have early results in increasing and broadening the efficiency of the existing agricultural structure. To superimpose capital investment in industry alone of the proportions allocated by the Plan on the present economy may be costly and, without the strong hand and army of a Reza Shah, politically dangerous should the cost go beyond the limited administrative and financial means of the Plan Organization. The Phase I report of OGI recognized this, and Phase II provided a flexible but comprehensive defense against such disproportionate expenditure.

What operational steps to increase our influence appear necessary will be the subject of another memorandum, but you agree, I believe, with the necessity for a coordinating body composed of the Plan Manager, his deputies and OGI. No allocations or policy recommendations would be made to the Plan Council without the approval of this body and it will afford, at a professional level, a constant opportunity for OGI's effective influence, particularly to avoid the major mistakes that would appear to be in the making.

I.

ALLOCATION OF PLAN FUNDS - FIRST 18 MONTHS
(in million rials)

	<u>OGI Recommendation</u>	<u>Plan Authorization</u>
Public Health	281.2	55.0
Education	304.6	40.0
Agriculture	619.8	187.4
Water Resources	253.0	661.7
Meteorology	8.9	
Surveying and Mapping	112.1	
Housing	277.5	
Transport	656.8	636.3
Communications	100.2	
Industry and Mining	875.5	1,880.0 1,880.0 ^{Year}
Power	160.5	
Petroleum	80.4	51.0
Statistics	32.4	
Distribution	8.3	
Administration (est.)*		126.0
Industrial Bank		253.0
Agricultural Bank expansion		100.0
Industrial Credit Institution		500.0
Total	3,771.2	4,382.4 4,490.4

*At rate for first four months.

Note: It is not known to what extent authorized projects will extend as expenditures beyond the 18-month period arbitrarily established for purposes of comparison with OGI recommendations for the same period.

II.

AUTHORIZED PROGRAMS
(in million rials)

		1,931.0
		1,823.0
I.	Industrial and Mining	
	1. Silk Company	100.0
	2. Coal Company	150.0
	3. Cotton Company	120.0
	4. Sugar Refining Company	500.0 ^{8/11 Tr}
	5. Chemical Industry	100.0
	6. Machinery for Industrial Rehabilitation	38.0
	7. Textile Company	400.0 ³²
	8. Fisheries	14.0
	9. Construction Machinery Pool	250.0
	10. National Oil Company	51.0
	11. Additional Sugar Mills	80.0
	12. Tehran Cotton Mill	120.0
	13. Mining Equipment Program	8.0
II.	Agriculture	187.4
	1. Azerbaijan Agricultural Program	10.0
	2. Plant Pest Control Program	47.4
	3. Animal Disease Control	69.0
	4. Forestry Program	61.0
III.	Water Resources	636.3
	1. Sistan Dam	40.0
	2. Kazerun Dam	6.5
	3. Moghan Plain Water Supply	1.0
	4. South and West Studies	1.8
	5. Karaj Dam Scheme	587.0 ¹⁸⁷
IV.	Transport	661.7
	1. Azerbaijan Railway	380.0
	2. Airport Improvement	29.7
	3. Port Authority	185.0
	4. Road Projects	67.0
V.	Education and Public Health	95.0
	1. Technical Education Program	40.0
	2. Malaria Control Program	55.0
VI.	Credit Operations	853.0
	1. Agricultural Bank Capital Expansion	100.0
	2. Advances to Industrial Bank Enterprises	253.0
	3. Capitalisation of Industrial Credit Institution	500.0
VII.	Administrative	126.0
	1. General (estimate for 18 months)	126.0

Total

~~4,440.4~~
4,440.4

Iran

Mr. J. Burke Knapp

December 14, 1949

F.G. Bochenski

ADDITIONAL QUESTIONNAIRE FOR IRAN

-no attach.

1. Attached for your approval (or, at least, information) is a new questionnaire for Iran which has been prepared by our section on request of the Working Party on Iran. It is intended that this questionnaire should be sent unofficially to Mr. Bayne in Teheran; he is a member of the Bank's Loan Department on leave of absence from the IBRD and is working at present in Iran as financial adviser with the Overseas Consultants Inc. Mr. Bayne will try to prepare with Iranian officials answers to these questions in order to facilitate, as far as possible, the work of the Bank's mission, which is supposed to leave for Iran toward the end of January, 1950.

2. I should like to add - for your orientation - a few words on our relations with the Iranians. The first Iranian request for a loan (of \$250 million) reached the Bank in October 1946, at a time when the Bank was not yet fully organized. This request has been periodically renewed, mainly in conversations between Mr. Ebtahaj, Governor of the Bank Melli and the management of the IBRD. These early top-level contacts were, unfortunately, not always accompanied by sufficient preparatory research and liaison on a working level. The Bank's first standard questionnaire ("Schedule outlining the information which the Bank will require in connection with any application for a loan") was sent to the Iranians in September, 1947, but the first answers arrived in October 1948. I worked on them with Iranian representatives in Washington and pointed out some of the remaining gaps. Additional answers arrived during 1949. In the meantime some economic information was also obtained from the Overseas Consultant report (which, however, is mainly technical), from Mr. Van Zeeland's financial study on Iran and from other sources. Unfortunately, there are almost as many discrepancies concerning the basic financial data on Iran as there are sources (as an illustration see questions under VII 2,4, 17).

The attached questionnaire aims at providing a little more clarity in this respect, but there is little doubt that full clarification will only be obtained by hard and prolonged work of the Mission in Iran itself.

3. While the attached questionnaire intends to facilitate the external work of the Mission, I am preparing a short preliminary report on "Problems of Iran's economic development" to push ahead our internal preparation. I hope to finish it before the end of this week, when I leave for a fortnight's vacation, and shall submit it to Dr. Welk, who returns on Friday this week. As the briefest possible illustration of the problems involved, I attach a copy of a half page note, prepared in November, for Mr. Rist.

2 Attachments

FILE COPY

Iran-Reg

December 14, 1949

Dear Mr. Ambassador:

✓
Thank you for your letter No. 2979, dated December 6th. I have recently been absent from Washington on a visit to the United Kingdom, and this is the first opportunity I have had of sending you a reply.

We shall, of course, be prepared to relate the timing of a Bank mission to Iran to the convenience of your Government.

With kind regards,

Yours very sincerely,

W. A. B. Iliff

W. A. B. Iliff
Loan Director

His Excellency
Hussein Ala
The Ambassador of Iran
3005 Massachusetts Avenue, N.W.
Washington, D. C.

WABIliff:dh
12/14/49.

Iran Negs.
15!
-

Iliff #261
CONFIDENTIAL

OFFICE MEMORANDUM

DECLASSIFIED

Cairo, Egypt

DATE: December 12, 1949

TO: W. A. B. Iliff

JUN 06 2013

FROM: C.V.H. Engert *CVH*

WBG ARCHIVES

SUBJECT: Relations between Persia and Iraq

Referring to my previous confidential reports on this subject, it appears that on November 26, 1949 the Persian Government suddenly announced that it had decided to expell within two weeks all Iraqi subjects residing in Persia.

No explanation was offered for this move other than a statement to the effect that it was in the nature of a reprisal "for the unfriendly treatment of Persian nationals in Iraq, which has increased in the last three months."

Upon making inquiries in Baghdad when I was there last week I learned that there are about 2,000 Iraqis in Persia, "many" of whom the Persian Government said it considered "undesirable." Although most of these appear to be Jews, the Persian Minister in Baghdad emphatically denied that their proposed expulsion was an indication of an anti-Semitic policy.

As there are about 150,000 Persians in Iraq it would be easy for the Iraqi Government to retaliate by expelling 2,000 or more of them. However, up to the time of my departure from Baghdad the Iraqi Foreign Office seemed to be hopeful that an amicable settlement of this incident would be reached in the near future. That the Government is anxious to avoid a deterioration in its present cordial relations with Persia may be inferred from the fact that the Regent - in his speech from the Throne on December 1st (see my Memo #250, Dec.7, '49) - stressed "the strong friendly ties" between the two peoples.

Filed: Iraq Negs.



Record Removal Notice



File Title Iran - General - General Negotiations - Correspondence 04	Barcode No. 1805822
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Document Date Dec 11, 1949	Document Type Letter
--------------------------------------	--------------------------------

Correspondents / Participants
 To: Robert L. Garner, Vice President
 From: E. A. Bayne, Overseas Consultants, Inc.

Subject / Title
 Plan Organization progress

Exception No(s).

1
 2
 3
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 10 A-C
 10 D
 Prerogative to Restrict

Reason for Removal
 Information Provided by Member Countries or Third Parties in Confidence

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by Sherrine M. Thompson	Date Jun 6, 2013
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IRANIAN EMBASSY
WASHINGTON, D.C.

No. 2979

December 6, 1949

Mr. W.A.B. Iliff,
Loan Director,
International Bank for Reconstruction
and Development,
Washington 25, D. C.

Dear Mr. Iliff:

In connection with the Mission which the Bank was to send to Iran early in January, this Embassy cabled Dr. Naficy some days ago asking whether the project in connection with which the Plan Organization intended to apply for loans would be ready by the time the Mission would arrive in Teheran and, if not, suggesting postponement of the departure of the Bank Mission to a later date.

A reply has been received this morning stating that due to the late arrival of Mr. E. A. Bayne who has only just reached Teheran, the projects will not be ready until the second half of January. It is therefore suggested that the departure of the Bank's Mission be postponed until the last week in January. I trust such a postponement will suit the Bank.

Yours very sincerely,

/s/ Hussein Ala
Hussein Ala
Ambassador of Iran

MN/j

Gran

Mr. D. Orena de Iongh

December 9, 1949

Norman G. Jones *NGJ*

IRAN

I attach for your information a copy of a letter dated December 6 from the Iranian Ambassador to Mr. Iliff, in which it is suggested that the Bank's Mission to Iran be postponed until the last week of January.

Attachment

NGJ:emk

*copy of attached also
handed to Mr. Connor.*

12/9/49

NGJ.

Iran. 129



IRANIAN EMBASSY
WASHINGTON, D. C.

No.2979

December 6, 1949.

Mr. W. A. B. Iliffe,
Loan Director,
International Bank for
Reconstruction and Development,
Washington 25, D.C.

Dear Mr. Iliffe,

In connection with the Mission which the Bank was to send to Iran early in January, this Embassy cabled Dr. Naficy some days ago asking whether the projects in connection with which the Plan Organization intended to apply for loans would be ready by the time the Mission would arrive in Teheran and, if not, suggesting postponement of the departure of the Bank Mission to a later date.

A reply has been received this morning stating that due to the late arrival of Mr. E. A. Bayne who has only just reached Teheran, the projects will not be ready until the second half of January. It is therefore suggested that the departure of the Bank's Mission be postponed until the last week in January. I trust such a postponement will suit the Bank.

Yours very ~~sincerely~~ sincerely

Hussein Ala
Ambassador of Iran.

MN/j

RECEIVED
REGENT AND DEVEL.
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D.C.
DEC 7 10 30 AM 1949



IRANIAN EMBASSY
WASHINGTON, D. C.

December 6, 1949

No. 2279

Mr. W. A. B. Lillie,
Loan Director,
International Bank for
Reconstruction and Development,
Washington 25, D.C.

Dear Mr. Lillie:

In connection with the Mission which
the Bank was to send to Iran early in January, this
Embassy called Dr. Bahiy some days ago asking whether
the projects in connection with the Iran Organi-
zation intended to apply for loans would be ready by
the time the Mission would arrive in Tehran and, if
not, suggesting postponement of the departure of the
Bank Mission to a later date.

A reply has been received this morning
stating that due to the late arrival of Mr. E. A. Payne
who has only just reached Tehran, the projects will
not be ready until the second half of January. It is
therefore suggested that the departure of the Bank's
Mission be postponed until the last week in January.
I trust such a postponement will suit the Bank.

Yours very sincerely

Hussein Ala
Ambassador of Iran

MW/3

DEC 7 10 35 AM 1949

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

gran

Mr. D. Crena de Iough

December 2, 1949

N.G. Jones *uf*
D.H. Connor *b*

IRAN

There is attached hereto for your information a memorandum of the first meeting of the Iran Working Party held on November 18.

Attachment

NGJ/DHC:emk

FIRST MEETING OF IRAN WORKING PARTY HELD NOVEMBER 18, 1949

PRESENT: Mr. D. Stephens, Loan Department
Mr. E. A. Bayne, " "
Mr. F. G. Bochenski, Economic Dept.
Mr. L. Murick, Legal Department
Mr. J. A. Villechaise, Legal Dept.
Mr. D. H. Connor, Treasurer's Dept.
Mr. N. G. Jones, " "

.

1. The first meeting of the Working Party on Iran was convened under the chairmanship of Mr. Dorsey Stephens on November 18, 1949.

2. A brief review of the discussions which have taken place between representatives of Iran and the Bank was given orally. Iran has been encouraged to enter negotiations for a loan and has been given a comprehensive questionnaire to which only partial or incomplete draft replies have, so far, been forwarded to the Iranian Ambassador.

3. The Engineering firm, "Overseas Consultants", have been employed by the Iranian Government: they have completed a preliminary survey of the country and have made recommendations of a considerable number of projects to be developed during the period of the "seven year plan".

4. The Iranian Government has been advised as to those of these projects which would be most likely to be considered by the Bank as suitable for a basis for a loan and has been advised of the type of information the Bank would require. It was stated that a copy of the report of Overseas Consultants had been received by the Loan Department, but that it was considered that it did not contain sufficient information for the Bank's purpose on the various projects.

5. Overseas Consultants are now setting up an organization for the purpose of administering the seven year plan and, among other things, will

proceed to assemble the information requested by the Bank.

6. It is understood that the present plans provide for the formation of an executive body to be known as the "Council of Organization" and that the administration will be divided into two divisions: (a) Operations, and (b) Board of Control. As to the Board of Control, some consideration has been given to placing this work in the hands of Price, Waterhouse & Company.

7. The Bank has been requested to send a mission to Iran, and it is expected that the mission will leave early in the New Year.

8. The Bank has been requested to nominate an officer to advise on how to secure private capital to assist in developing the resources of the country. Mr. Edward A. Bayne of the Loan Department has been given six months' leave of absence and will be attached to the staff of Overseas Consultants Inc. in Iran. Mr. Bayne will endeavour to prepare the ground for the Bank's mission to Iran.

9. Subsequent to the meeting, an Aide Memoire has been circulated (a copy of which is attached hereto).

Attachment

November 30, 1949

DHConnor:mncn:emk

AIDE MEMOIRE

IRANIAN DEVELOPMENT PROJECTS

1. The Iranian Plan Organization has submitted a diversified group of development projects for preliminary consideration by the Bank which involve a total estimated foreign exchange requirement of \$36 million. This group of projects is based largely on the study recently completed by Overseas Consultants covering a seven-year development program for Iran. The projects represent a portion of the program recommended by OCI to be executed during the first two years of the plan. The items involved in the estimated cost are given in Appendix A which is attached.

2. Based on the limited information available at this time, it is not possible to make an assessment of the various projects which have been submitted since the only information available is contained in the OCI report which is not intended to carry a full justification of all of the projects which have been recommended but rather to indicate those projects which offer promise of profitable returns on their execution.

3. Based upon the information which is available, the categories which seem most likely to yield bankable projects are:

- (1) Cement plants
- (2) Agricultural machinery
- (3) Power plants
- (4) Port development
- (5) Railway equipment
- (6) Industrial plants

In these categories, it seems probable that specific projects can be developed for selection by the Bank which will be productive and which will show an earning capacity at least adequate to liquidate a long-term loan.

4. Special difficulties exist in the case of

- (1) Equipment for petroleum exploration
- (2) Bulk purchases of cement

5. The principal objection to the remaining categories, such as pumps and drilling equipment, road building machinery, communications, and similar items,

lies in the difficulty of establishing the earning power of such projects and, in some cases, the large number of small items which are involved and which will be widely distributed. It seems preferable to consider those projects in the program which can be isolated and justified as separate units. Based on the information now available, it appears that the following items would not be of interest to the Bank at this time:

- (1) Water pumps and drilling equipment
- (2) Road building machinery
- (3) Railway materials (ties, rails, etc.)
- (4) Communications equipment
- (5) Equipment for mines
- (6) Tugs and fishing boats

6. Even if it were possible at this time to make a selection of projects which could be considered on the basis of productivity and earning capacity, it is not possible to determine the amount of the loan which would be required. This would depend on the extent to which Iran might find it possible to provide finance for the projects without recourse to a Bank loan.

7. It seems that the next step to be taken by the Plan Organization should be the selection of specific projects in the various categories which can be fully justified at the present time. Such projects should be documented in a form acceptable to the Bank and formally submitted for our consideration as a basis for a loan. In general, the Bank desires a presentation along the following lines:

- (1) A description of the project including important technical details.
- (2) An estimated cost of the project broken down by items and into the various currencies required, including domestic currency.
- (3) Schedules of construction and expenditures.
- (4) Proposed methods of financing.
- (5) Estimated production capacity of the project and production costs broken down into principal elements.
- (6) A detailed justification of the project including such factors as need, earning power, foreign exchange earnings or savings, increased employment, and similar items. Substantiating data should be provided including detailed market analysis for the principal products.

- (7) A description of the company which will operate the project and information concerning the past financial standing of the company, and similar data.
- (8) A ten-year projection of the financial position (including cash flow) of the Company from the start of the project, this estimate being broken down into principal items with explanatory notes.

WASHINGTON, D. C.
3 October 1949

APPENDIX A

LIST OF PROJECTS SUBMITTED BY IRANIAN GOVERNMENT

SECTION I

AGRICULTURE AND IRRIGATION

- 1.(a) Purchase of Tractors and other Agricultural and Mechanical equipment and ten Repair Workshops one for each province.

Ref. Volume III, Pages 107 & 110 \$3,000,000

- 2.(b) Purchase of Pumps and Drilling Equipment

Ref. Volume III, Page 158 \$3,000,000 \$6,000,000

SECTION II

TRANSPORTATION

- 3.(a) Port Equipment for Khorramshahr and Bandarshahpour

Ref. Volume IV, Pages 51 and 56 \$1,000,000

- 4.(b) Road Building Machinery

Ref. Volume IV, Page 27 \$2,000,000

- 5.(c) Purchase of Rolling Stock and Equipment for Existing Railways in addition to sums expected from British Government

Ref. Volume IV, Page 21 \$2,000,000

- 6.(d) Purchase of Rails Ties and Fastenings for Lines under construction

Ref. Volume IV, Pages 21 and 24 \$5,000,000 \$10,000,000

SECTION III

COMMUNICATIONS

- 7.(a) Purchase of Requirements

Ref. Detailed in Exhibit J5, Volume IV \$2,000,000 \$ 2,000,000
\$18,000,000

Brought Forward \$18,000,000

SECTION IV

INDUSTRY AND MINES

8.(a)	First Cost of rehabilitation of existing Textile Silk Jute Cement Factories and completing Veramin Sugar Refinery and rehabilitating existing Chemical Industries		
	Ref. Volume IV, Pages 135, 145 & 153 and also exhibits K3 and K4	\$4,000,000	
9.(b)	Purchase of Two Dried Fruit Packing Plants		
	Ref. Volume IV, Exhibit K3	\$ 500,000	
10.(c)	Purchase of Two New Cement Plants for Dorood and another Provincial Center		
	Ref. Volume IV, Exhibit K3	\$4,000,000	
11.(d)	Equipment for Mines		
	Ref. Volume IV, Exhibit K6	\$1,000,000	
12.(e)	Equipment for Petroleum Company		
	Ref. Volume IV, Page 263	\$1,000,000	
13.(f)	Power Plants and Ancillary Equipment		
	Ref. Exhibit L3, Volume IV	\$5,000,000	
14.(g)	Purchase of Tugs and Fishing Boats and Equipment essential for Food Supply of Gulf Ports		
	Ref. This item has been superficially dealt with in Volume III, page 116	\$ 500,000	\$16,000,000

SECTION V

GENERAL

15.(a)	Purchase of Fifty Thousand Tons Cement required during next two years for construction Road Railways Ports Aerodromes Factories etc. in addition to local production and other construction material	\$2,000,000	\$ 2,000,000
	TOTAL		<u>\$36,000,000</u>

Iran - Reg

Mr. L.B. Rist

November 18, 1949

F.G. Bochenski

IRAN

The first meeting of the working party on Iran took place this afternoon with Mr. Stephens presiding and representatives of the Legal Department, Treasurer's Department and myself participating. Mr. Bayne, who is leaving for Iran on Monday evening (November 21st) was also present.

The history of the Iranian loan approach was briefly related by Mr. Stephens and the available sources of economic and financial information as well as the history of the first Iranian questionnaire was reviewed by myself.

Several problems of Iran, such as the country's income from oil, the possibility of having an oil revenue pledge, the role of the Overseas Consultants Inc., the Ulen Claims, etc. were briefly discussed. Mr. Stephens promised to circulate to the Working Party a recent memorandum by Mr. Rembert on some of the Seven Year Plan projects and I undertook to circulate next week the draft of a new general questionnaire, which - as it is suggested - could be forwarded to Mr. Bayne to Tehran to prepare the work of the Mission, which is supposed to leave for Iran in January.

I shall submit the new questionnaire for your approval on Tuesday, November 22.

Iran Dept.

IS.

Mr Bayne



IRANIAN EMBASSY
WASHINGTON, D. C.

November 10, 1949.

No. 2715.

Mr. W.A.B. Iliff,
Loan Director,
International Bank for
Reconstruction and Development,
Washington, 25, DC.

Dear Mr. Iliffe,

I am in receipt of your letter of November 7 and wish to express the appreciation of my Government to the Bank for its cooperation in extending leave of absence to Mr. E. A. Bayne, to enable the Plan Administration to have his services for a period of six months. I trust the Bank will be able to extend to him further leave of absence should his services be required for a longer period.

My Government fully appreciates that the Bank will not be responsible for any advice which Mr. Bayne may tender or any policies he may recommend.

With kind regards,

Yours sincerely,

Hussein Ala
Ambassador of Iran.

MN/j

no acknowledgement necessary

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IRANIAN EMBASSY
WASHINGTON, D. C.

November 10, 1949.

No. 2715.

Mr. W.A.B. Liff,
Loan Director,
International Bank for
Reconstruction and Development,
Washington, 25, DC.

Dear Mr. Liff,

I am in receipt of your letter of November 7 and wish to express the appreciation of my Government to the Bank for its cooperation in extending leave of absence to Mr. H. A. Payne, to enable the Plan Administration to have his services for a period of six months. I trust the Bank will be able to extend to him further leave of absence should his services be required for a longer period.

My Government fully appreciates that the Bank will not be responsible for any advice which Mr. Payne may tender or any policies he may recommend.

With kind regards,

Yours sincerely,

Hussein Ala
Ambassador of Iran.

NOV 15 8 45 AM 1949

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

11/15

[Faint handwritten notes or scribbles]

FILE COPY

Iran Reps.

November 7, 1949

Dear Mr. Ambassador:

We have been just formally notified by Overseas Consultants, Inc., that they would wish to have the services of one of the members of the staff of the Bank, Mr. E. A. Bayne, for a period of six months in connection with their work with respect to the Plan Organization in Teheran.

The Bank is agreeable to extending a six months' special leave of absence to Mr. Bayne in order that he might take up these duties, and we have today so notified Overseas Consultants, Inc.

When writing to Overseas Consultants, Inc., we have stated, as we have already pointed out to them in conversation on this subject, that during the period while Mr. Bayne is seconded for these duties from the regular staff of the Bank, the Bank, of course, will not be able to accept any responsibility for any advice which Mr. Bayne may tender, or for any policies which he may recommend. I am sure that you will readily understand the reasons why we find it necessary to make this reservation.

With kind regards,

Yours sincerely,

W.A.B.

W. A. B. Iliff
Loan Director

His Excellency
Hussein Ala
The Ambassador of Iran
3005 Massachusetts Avenue, N.W.
Washington, D. C.

CC: Mr. Howell

WABIiliff:dh

11/7/49.

*del.
Nov. 10*

Iran Nego.

OFFICE MEMORANDUM *x O.C.I.*

TO: Files
FROM: F. Dorsey Stephens *FD*
SUBJECT: Iran - Visit of Mr. Hammil, OCI

DATE: October 28, 1949

1. Mr. Hammil of OCI called on Thursday, October 27, and conferred at some length with Messrs. Rembert, Bayne and Stephens, and Dr. Tagi Nasr, Alternate Executive Director for Iran and representative in the U.S. of the Plan Organization.
2. Copies of the Bank's Aide Memoire of October 3, 1949, containing comments by the Bank's staff on the list of priority projects submitted to the Bank and an outline for the eventual presentation of any specific projects for Bank financing, were given to Mr. Hammil and discussed at some length.
3. Stress was laid by the Bank's representatives not only on the proper presentation of the technical aspects of the projects but also upon their financial aspects, particularly as regards domestic financing.
4. Mr. Hammil explained at some length OCI's views as to the methods which should be followed in the drawing up and awarding of bids. He stated that OCI's advice to the Plan Organization would be to call for bids on a "cost plus fixed fee" basis (in the past the various Government Ministries and agencies have been obliged to call for "lump sum" bids, but the Plan Organization is legally free to follow whatever method it desires). Mr. Hammil further stated that, while member firms of OCI expect to compete for contract business, they would only do so on a "cost plus fixed fee" basis.
5. Dr. Rembert stated that the Bank was in principle favourable to a "cost plus fixed fee" basis in the awarding of contracts but believed that not only should the fixed fee be open to international competition but also that the supplying of equipment should similarly be on a competitive basis. It was his opinion that in many instances European services and equipment, particularly since devaluation, would be found to be lower than the corresponding American figures.
6. Mr. Roy Campbell, who is leaving shortly for Teheran to act as OCI Deputy Director to Mr. Thornburg, will be asked by OCI to call at the Bank before his departure for a further exchange of views.

FDStephens/pm/mvp

cc: Mr. Garner
Mr. Iliff
Dr. Rembert
Mr. Bayne
Mr. Svoboda
Dr. Welk
Mr. Bochenski

Iran Nego.

OFFICE MEMORANDUM

TO: Files
FROM: F.D. Stephens *FDS*
SUBJECT: Iran

DATE: October 21, 1949

A cable has been received from the Iranian Plan Organization through the Iranian Embassy to the effect that the former hopes that a Bank mission will be able to leave for Iran during the first week in January, 1950.

I explained to Mr. Nemazee of the Iranian Embassy that the Bank was agreeable in principle but would like to have evidence prior to the departure of a mission that some of the projects envisaged were already in a bankable stage.

The departure for Teheran of a number of OCI high level consultants has been postponed until October 28. It is expected that one or more of the party will visit the Bank sometime during the course of next week in order to discuss with us the form of presentation of any projects which the Plan Organization proposes to submit as a basis for Bank financing.

FDS/pm
c.c. Mr. Bayne
Mr. Svoboda
Dr. Welk
Mr. Bochenski

Iran Negs.
K!
—

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Iliff No. 235

DECLASSIFIED

Cairo, Egypt, October 16, 1949

Confidential

JUN 06 2013

WBG ARCHIVES

Dear Iliff,

I quote below, for your confidential information, an excerpt from a recent personal letter received from a foreign official in Tehran, which contains illuminating observations on the effects of the devaluation of the pound on the economy of Persia, as well as some other interesting remarks:

"It seems to me that one unfortunate by-product of the pound devaluation, is that it makes it still more unlikely that the rial will ever be devalued to a reasonable figure. It was already badly overvalued in relation to the pound and dollar. Now it is absurdly overvalued in relation to the pound (an indifferent hotel room in Tehran now costs about six pounds per day). But, as the oil royalties and Iranian pound sterling balances in London were both on a gold basis, and as the AIOC must now spend 42% more pounds in order to buy the same amount of rials to pay the wage bill for 85,000 employees, the result of devaluation was immediately to increase the annual net intake of pounds from the AIOC by £10,000,000 (it was about £24,000,000). Plus a 42% increase in the sterling value of the balances in London. Under these circumstances, it is hard to conceive of any action by Persians which would reduce these sterling windfalls.

"And unfortunately it comes on top of the fact that for the past year, Ebtehaj has been pursuing a deflationary, or restrictive, exchange policy which has brought the effective trading rate of the dollar down from about 60, to 40 (and the pound correspondingly). Accordingly, exports from Iran had already been badly hit; and now they get another solar plexus blow in all the devalued areas. There would thus seem to be a tendency for Iran to become almost entirely dependent on oil for its foreign exchange with which to buy from abroad. I don't think this is at all a healthy thing for the country's economy; but I don't know what can be done about it.

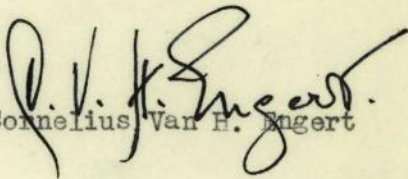
"We have now had two engineering surveys of Iran; but there has been very little in the way of advice about their financial and general economic policy. It is terribly needed, but no one can say whether such advice would be taken, when given. No one, except Ebtehaj and perhaps one or two others, really understands these matters; and Ebtehaj has far too much to do, and has far too much individual interest (as head of the National Bank) in the outcome, to be an acceptable adviser in these matters of broad financial policy. Also, he is inclined to act too hastily, and to be much too optimistic about what can be accomplished in a given time (or what legislation can be wheedled out of the Majlis - for two years he has been trying to get the 100% note cover requirement

/reduced

Copy to Bayne -

reduced, and has been basing his program on the assumption that the Majlis will agree to this reduction)."

Sincerely yours,


Cornelius Van H. Engert

W. A. B. Iliff, Esq.,
Loan Director,
International Bank for Reconstruction & Development,
Washington D.C.

Iran Negs.

FILE COPY

Mr. F. D. Stephens

October 14, 1949

Harold Folk

Iranian Working Party

We are advised by the other departments that their representatives on the Working Party for Iran are as follows:

<u>Department</u>	<u>Officer in Charge</u>	<u>Alternate</u>
Economic	Welk	Bochenski
Treasurer's	Jones	Connor
Legal (Luxford - General Counsel Responsibility)	Nurich	Villechaise

The Working Party for Iran will be included in our assignment schedule of working parties but it will be several days because of the inclusion of several other working parties at the same time.

Evan Negro.

Mr. W. A. B. Iliff

October 6, 1949

Leonard B. Rist

Working Party - Iran

✓
Answering your memorandum of September 30, I have designated
Messrs. Welk and Bochenski as officers on the Iranian Working Party.

cc: Mr. Welk
Mr. Bochenski

LBR:mlc:mec

Ivan

Mr. W.A.B. Iliff, Loan Director

October 3, 1949

D. Grena de Iongh, Treasurer

Working Party - Iranian Loan Application

In reply to your memorandum of September 30, I would like to appoint Mr. Norman Jones as a member of the Working Party, with Mr. Connor as his alternate.



cc Mr. Riley
Mr. Aldewereld
Mr. Jones
Mr. Street
Mr. Connor



Mr. Iliff

October 3, 1949

D. Sommers

Working Party - Iranian Loan Application

The Legal Department representatives on
the Iranian loan working party will be as follows:

Attorney
in charge

Alternate

General Counsel
Responsibility

Mr. Nurick

Mr. Villechaise

Mr. Luxford

cc: Mr. Luxford
Mr. Nurick
Mr. Villechaise

DS/km

OFFICE MEMORANDUM

TO: Mr. D. Sommers

FROM: W. A. B. Iliff

SUBJECT: Working Party - Iranian Loan Application

DATE: September 30, 1949

I think it desirable that we appoint at once a loan working party in connection with the Iranian Loan Application. I would be grateful to have nominations of the officers which you wish to serve the party from your department.

In the Loan Department I am appointing Mr. Stephens as Loan Officer in Charge, and Mr. Svoboda as assistant.

LST
—

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Overseas Consultants

American Appraisal Co. A B Hossack Pres
Coverdale & Colpitts. D V T Burgess - Partner
Glasco Services - F C Gardner. VP
Ford Bacon Davis - E S Caldwell. VP
Jackson & Moreland. F M Carhart. Partner
Madigan - Hyland - M J Madigan -
F H M'Graw & Co. Clifford S Stricki - Pres
Sanderson & Totes - R L Hamill. Partner
Standard Research Consultants Paul B. Hoffman Pres
Stone & Trebits . J R Lotz. Chmn Bd
J B White . W S Finlay, Jr. VP

Officers of OCI

Pres: Clifford S Stricki
VP: J R Lotz
Pres. D V T Burgess

Iran Nego.
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AIDE MEMOIRE

IRANIAN DEVELOPMENT PROJECTS

1. The Iranian Plan Organization has submitted a diversified group of development projects for preliminary consideration by the Bank which involve a total estimated foreign exchange requirement of \$36 million. This group of projects is based largely on the study recently completed by Overseas Consultants covering a seven-year development program for Iran. The projects represent a portion of the program recommended by OCI to be executed during the first two years of the plan. The items involved in the estimated cost are given in Appendix A which is attached.

2. Based on the limited information available at this time, it is not possible to make an assessment of the various projects which have been submitted since the only information available is contained in the OCI report which is not intended to carry a full justification of all of the projects which have been recommended but rather to indicate those projects which offer promise of profitable returns on their execution.

3. Based upon the information which is available, the categories which seem most likely to yield bankable projects are:

- (1) Cement plants
- (2) Agricultural machinery
- (3) Power plants
- (4) Port development
- (5) Railway equipment
- (6) Industrial plants

In these categories, it seems probable that specific projects can be developed for selection by the Bank which will be productive and which will show an earning capacity at least adequate to liquidate a long-term loan.

4. Special difficulties exist in the case of

- (1) Equipment for petroleum exploration
- (2) Bulk purchases of cement

5. The principal objection to the remaining categories, such as pumps and drilling equipment, road building machinery, communications, and similar items, lies in the difficulty of establishing the earning power of such projects and,

in some cases, the large number of small items which are involved and which will be widely distributed. It seems preferable to consider those projects in the program which can be isolated and justified as separate units. Based on the information now available, it appears that the following items would not be of interest to the Bank at this time:

- (1) Water pumps and drilling equipment
- (2) Road building machinery
- (3) Railway materials (ties, rails, etc.)
- (4) Communications equipment
- (5) Equipment for mines
- (6) Tugs and fishing boats

6. Even if it were possible at this time to make a selection of projects which could be considered on the basis of productivity and earning capacity, it is not possible to determine the amount of the loan which would be required. This would depend on the extent to which Iran might find it possible to provide finance for the projects without recourse to a Bank loan.

7. It seems that the next step to be taken by the Plan Organization should be the selection of specific projects in the various categories which can be fully justified at the present time. Such projects should be documented in a form acceptable to the Bank and formally submitted for our consideration as a basis for a loan. In general, the Bank desires a presentation along the following lines:

- (1) A description of the project including important technical details.
- (2) An estimated cost of the project broken down by items and into the various currencies required, including domestic currency.
- (3) Schedules of construction and expenditures.
- (4) Proposed methods of financing.
- (5) Estimated production capacity of the project and production costs broken down into principal elements.
- (6) A detailed justification of the project including such factors as need, earning power, foreign exchange earnings or savings, increased employment, and similar items. Substantiating data should be provided including detailed market analysis for the principal products.
- (7) A description of the company which will operate the project and information concerning the past financial standing of the company, and similar data.

- (8) A ten-year projection of the financial position (including cash flow) of the Company from the start of the project, this estimate being broken down into principal items with explanatory notes.

WASHINGTON, D.C.
3 October 1949

APPENDIX A

LIST OF PROJECTS SUBMITTED BY IRANIAN GOVERNMENT

SECTION I

AGRICULTURE AND IRRIGATION

- 1.(a) Purchase of Tractors and other Agricultural and Mechanical equipment and ten Repair Workshops one for each province.
Ref. Volume III, Pages 107 & 110 \$3,000,000
- 2.(b) Purchase of Pumps and Drilling Equipment
Ref. Volume III, Page 158 \$3,000,000 \$6,000,000

SECTION II

TRANSPORTATION

- 3.(a) Port Equipment for Khorramshahr and Bandarshahpour
Ref. Volume IV, Pages 51 and 56 \$1,000,000
- 4.(b) Road Building Machinery
Ref. Volume IV, Page 27 \$2,000,000
- 5.(c) Purchase of Rolling Stock and Equipment for Existing Railways in addition to sums expected from British Government
Ref. Volume IV, Page 21 \$2,000,000
- 6.(d) Purchase of Rails Ties and Fastenings for Lines under construction
Ref. Volume IV, Pages 21 and 24 \$5,000,000 \$10,000,000

SECTION III

COMMUNICATIONS

- 7.(a) Purchase of Requirements
Ref. Detailed in Exhibit J5, Volume IV \$2,000,000 \$ 2,000,000
\$18,000,000

SECTION IV

INDUSTRY AND MINES

8.(a)	First Cost of rehabilitation of existing Textile Silk Jute Cement Factories and completing Veramin Sugar Refinery and rehabilitating existing Chemical Industries		
	Ref. Volume IV, Pages 135, 145 & 153 and also exhibits K3 & K4	\$4,000,000	
9.(b)	Purchase of Two Dried Fruit Packing Plants		
	Ref. Volume IV, Exhibit K3	\$ 500,000	
10.(c)	Purchase of Two New Cement Plants for Dorood and another Provincial Center		
	Ref. Volume IV, Exhibit K3	\$4,000,000	
11.(d)	Equipment for Mines		
	Ref. Volume IV, Exhibit K6	\$1,000,000	
12.(e)	Equipment for Petroleum Company		
	Ref. Volume IV, Page 263	\$1,000,000	
13.(f)	Power Plants and Ancillary Equipment		
	Ref. Exhibit L3, Volume IV	\$5,000,000	
14.(g)	Purchase of Tugs and Fishing Boats and Equipment essential for Food Supply of Gulf Ports		
	Ref. This item has been superficially dealt with in Volume III, page 116	\$ 500,000	\$16,000,000

SECTION V

GENERAL

15.(a)	Purchase of Fifty Thousand Tons Cement required during next two years for construction Road Railways Ports Aerodromes Factories etc. in addition to local production and other construction material	\$2,000,000	\$ 2,000,000
--------	--	-------------	--------------

TOTAL

\$36,000,000

Mr. Max Thornburg left for Tehran on July 30, well-briefed on the contents of the final report, and will be in a position to guide the Plan Organization in its current activities and to present and explain the final report as soon as it reaches Tehran.

In the course of conversation, various members of O.C.I. expressed a decided preference for the awarding of contracts on a fee (i.e. cost-plus) basis. It is believed that objections to this basis might be forthcoming from the IBRD Engineering Division, insofar as the Bank may be requested to finance any particular project.

FStephens:mmmr

cc: Messrs. Bayne
Rembert
Welk
Svoboda

FILE COPY

Iran-Corres

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August 1, 1949

Dr. Taghi Nasr
Managing Director
Plan Organization
Planning Administration
Teheran, Iran

Dear Dr. Nasr:

I was pleased to receive your letter of July 11 with the enclosed memorandum.

With regard to the Bank's views as to the advisability of continuing the employment of Overseas Consultants Inc., I attach a copy of a letter of today's date to His Excellency, The Ambassador of Iran, from which you will note that the Bank is of the opinion that an organizational setup is preferable to an unintegrated group of individual consultants and also that it is important to preserve continuity.

I understand from your letter that you propose to send to us shortly a list of those projects which you intend to put into immediate execution and I infer that you would like the Bank to examine them with a view to possible participation in their financing. The Bank is prepared to consider a small loan for some one, or possibly two, specific projects included in an early stage of the General Plan. But we possess at present too little information regarding specific projects to be able to form a judgment at this stage. When the final report of Overseas Consultants Inc. is available, the Bank will be prepared to discuss with you and with Overseas Consultants Inc. the Plan as a whole and the selection of an initial project, or projects, which might be suitable for Bank financing.

I greatly appreciate your congratulations and good wishes and should like to reciprocate them most heartily as you enter upon your new and important duties.

Sincerely yours,

Eugene R. Black
President

Attachment

WAB:liff:jg

FILE COPY

Law-Corres
209

August 1, 1949

Dear Mr. Ambassador:

The Bank has given careful consideration to your letter of July 11 in which you transmitted the desire of the Council of the Planning Organization that the Bank give its opinion on the relative merits, on the one hand, of employment of O.C.I. as consultants and, on the other, the direct engagement by the Planning Organization of certain specialists and technicians, coupled, if possible, with an agreement with O.C.I. for a modified consulting service.

It is the view of the Bank, after being informed of the progress up to the moment of the development program of the Iranian Government, that, for a period which, at the moment, it is impossible to forecast, there are certain advisory and consultant functions to be discharged in connection with the program which can be better performed by an organization rather than by a group of individuals. The Bank believes that it is important that continuity should be maintained, and accordingly feels that it would be to the advantage of the Planning Organization if continued use of O.C.I. were made in the capacity of a consultant organization.

We feel that the question of the fees to be paid to a consultant organization is one which should be left for direct negotiation between the Government of Iran and the consultant organization itself. The Bank, however, understands that a modified proposal for fees has been put before the Iranian Government by O.C.I. which may prove acceptable to the Iranian Government.

In view, on the one hand, of the wish expressed in Dr. Nasr's letter (No. 1158 D/13th TIR 1328) that the constituent firms of O.C.I. should be free to participate in the execution of the program and, on the other hand, of the need to meet any possible criticism (however uninformed or unjustified) that the same firms were involved in both advisory and contracting activities, it occurs to us that the Planning Organization might well give consideration to the establishment of some internal machinery which would meet a criticism of this kind. We think that this objective might most conveniently and effectively be achieved by adding to the functions of the firm of


FILE COPY

Letter to Hussein Ala

August 1, 1949

auditors (who, we understand, are to be appointed in connection with the Plan), the responsibility of submitting to the Planning Organization, with reference to any particular project, a list of qualified contracting firms, of calling for tenders, and of assisting in determining to whom contracts should be awarded on the basis of the tenders received.

Yours sincerely,



Robert L. Garner

His Excellency
Hussein Ala
Ambassador of Iran
Washington, D.C.

Erwin

Mr. F. Dorsey Stephens

August 1, 1949

E. A. Bayne

Iran - Teheran Cement Plant

While in Teheran, I had a discussion with a group of Iranian contractors, all generally regarded as substantial people, concerning IBRD assistance for a cement mill in Teheran; this plant is in addition to the OCI recommended rehabilitation of the Government mill. The discussion chiefly turned on the steps needed to obtain IBRD assistance which they thought might be obtained.

Later, I discussed this with Dr. Nassr, who pointed out that it would be difficult to obtain a Majlis guarantee for a single private project. However, when his Plan Bank was established, he hoped that such projects might be included under a group guaranty, the borrower being the Plan Bank (Handelsbank formula).

I attach a memorandum, prepared by Somerville of the Embassy that gives a certain background on the matter, although with the Eximbank in mind rather than IBRD.

Iran Negs.
FDS

OFFICE MEMORANDUM

TO: Mr. R. L. Garner

DATE: September 30, 1949

FROM: F. D. Stephens *FDS*

[Handwritten mark]

SUBJECT: Iran

Attached is translation of the van Zeeland report on the Iranian note cover and the exchange rate of the rial.

TRANSLATION

FIRST QUESTION: FIDUCIARY CIRCULATION

The right to issue banknotes in Iran was given to the National Bank of Iran called "Banque Mellie Iran". This Bank has adopted the system now used by the Bank of England i.e., it has an Issuing and Banking Department.

The Issuing Department has put out rial notes in the amount of 7.8 billions. Of this sum, 6,309,000 were in circulation in April last, 1.5 billions were in the Banking Department and the balance (1 billion rials) were held in reserve.

In April 1949 the 7.8 billion notes were covered by gold up to 55.59% (most of it deposited in Teheran and South Africa); 22.05% were covered by foreign currency (8/10 by pounds sterling and 2/10 by dollars); the remaining 22.36% were covered partly by crown jewels and partly by State securities which in turn are guaranteed by the remaining crown jewels.

If we compare the circulation in April last with that of pre-war, for example 1936, we find (in million rials):

	<u>Banknotes Issued</u>	<u>Banknotes in Circulation</u>	<u>Banknotes in the Banking Dept.</u>
March 21, 1936	699.	595.	104.
March 20, 1948	7,800.	6,997.5	802.5
March 20, 1949	7,800.	6,639.	1,161.
April 4, 1949	7,800.	6,309.	1,491.

These figures show that:

Banknotes issued have gone up	11.1 times
Banknotes in circulation have gone up	10.6 "
Banknotes in the Banking Dept. have gone up	14.3 "

With regard to bank deposits, they increased from 884 million rials in 1936-37 to 6,627 million in 1948-49, that is, they have increased 7.5 times.

Let us compare these figures with some of the more important indices of economic and social life.

A. The cost of living index (100 = 1936-37) was 121.1 in 1937-38; 879 in July 1948; 989 in March 1949; in other words, it is now almost 10 times greater than in 1936-37.

The rise of the cost of living index follows the increase in the amount of the money in circulation. To illustrate, we shall quote figures for one year (1942-43) on banknotes and the average cost of living index for the year following. It is surprising how close they are. This is only an example taken at random but it confirms the general sense of our reasoning.

In the period March 21, 1942 - March 21, 1943 the notes in circulation had increased from 1,739 to 3,727 million rials due to war needs. The index of the increase is 2.15. Similarly the cost of living index went from 476 (1942-43 average) to 1,003 (1943-44 average) showing the multiplier to be 2.10.

Notes in Circulation

Living Cost Index

March 21, 1942.....	1,739 million rials	Average 1942-43.....	.476
March 21, 1943.....	2,727 " "	" 1943-44.....	1.003
Multiplier.....	2,15.....		2,10

B. The Wage Index (100 = 1936-37) was in March 1948, 1,313 or 916 according to whether we do or do not consider the advantages derived from the Social Security System; in March 1949 this index was 1,326 or 925 (same conditions as above) which yields a multiplier of 13 in the first case and a little over 9 in the second.

* *
**

A bill concerning monetary circulation is now under discussion before Parliament.

This bill would modify the requirements or the legal conditions of banknote coverage. It provides principally that the notes in circulation be covered by gold and foreign currencies guaranteed in terms of gold up to a minimum of 50%.

In fact, the purpose of the bill is to enable the Banque Mellie Iran to put notes in circulation as a counterpart of State securities, Treasury bills and commercial bills and eventually crown jewels.

The avowed purpose of such a circulation increase is to enable the Banque Mellie Iran to finance a considerable part of the Seven Year Plan. This Seven Year Plan is a large-scale and magnificent effort, its aims being to speed up the modernization and development of the country in many respects.

It covers a wide range of objectives, many of them greatly divergent. On the one hand, it consists of a vast program of public works, on the other, it undertakes to increase farm production and improve the nation's health, its education, etc.

It is estimated that to realize this Plan some 21 billion rials will be needed, almost 1/3 of which (i.e. 7 billion rials = \$230 million dollars) will have to be spent in foreign exchange for purchases abroad. The balance in rials will be used for works and services inside the country.

The funds necessary to meet the expenses of the Seven Year Plan would come from various sources such as:

- (1) Royalties from the Anglo-Iranian Oil Company by virtue of the Agreements of May 28, 1933 and May 1942, respectively.
- (2) Foreign currencies derived from sterling sold by the Anglo-Iranian Oil Company to the Banque Mellie Iran to obtain the rials needed for wages for the Company's Iranian workers (total of items 1 and 2: 7.8 billion rials).

- (3) An eventual Export-Import Bank loan, sig.(6.7 billion rials).
- (4) Credits from the Banque Mellie Iran (4.5 billion rials).

*

First it must be carefully examined whether the present fiduciary circulation is suitable to the economic situation of the country.

To answer this question two major factors must be considered: one is rooted in the past, the other in the present.

I. In order to find the reason why the number of banknotes circulating in 1949 is 11 times higher than that of 1936-37 one must remember that during the war Iran was the scene of important military operations of foreign armies such as the Russian, British and American. The needs of these armies, in a country of limited resources and which because of the war was more and more cut off from foreign imports, were bound to result in a demand out of proportion with supply. But it was war and therefore the needs had to be satisfied at any price. The Allied Armies bought from Iran the rials they needed with foreign currency, i.e., pounds sterling and dollars.

Obviously, these rial notes were duly guaranteed by foreign exchange. However, the new issues had an undoubted inflationary character since the volume of goods did not increase in proportion to the notes. On the contrary, naturally, goods became more scarce as the notes multiplied. Price increases became inevitable and occurred as we have seen. The following table compares the two indices:

<u>Evolution of Notes in Circulation</u>	<u>Evolution of the Cost of Living Index</u>
March 21, 1936.....595	1936-37.....100
March 21, 1938.....840	37-38.....121.1
March 21, 1939.....990	38-39.....132.5
March 21, 1941.....1,212	40-41.....161.9
March 21, 1942.....1,739	41-42.....243.1
March 21, 1943.....3,727 (o)	42-43.....476
March 21, 1944.....6,801	43-44.....1,003 (oo)
March 21, 1945.....6,663	44-45.....1,030
March 21, 1946.....6,844	45-46.....882
March 21, 1947.....7,011	46-47.....726/831
March 21, 1948.....6,997	July 1948.....879
April 4, 1949.....6,309	March 1949.....989
Multiplier..... 10,69,89

(o) Beginning of note issue due to war necessities.

(oo) Due (a) to the beginning of supplementary notes issues because of the war, and (b) to the growing scarcity of goods.

Without going deeper into the matter it would seem that there exists at present, all things considered, a relative and temporary equilibrium between prices and note circulation. We have neither the time nor the necessary documentation to examine the problem of how fast the money is circulating. On the other hand, as non-central bank money plays such a small part, we may for the present ignore them. Subject to re-examination, it seems unlikely that these factors would modify the conclusions we have drawn.

II. The Iranian State Budget has been considerably thrown out of balance during the last few years because of the war and its aftermath. At present (1948-49) total expenditure is estimated at 8.9 billion rials while total revenues are expected to be 7.1 billion, leaving a provisional or apparent deficit of 1,737 million rials.

State expenditure in 1936-37 was 1,000 millions; the multiplier therefore is 9. In respect to revenues, the multiplier is 7.

Some observers contend that the Iranian Budget has been balanced at least since 1944. Their explanations are:

- (a) On the one hand there has been a conversion to rials, after budget estimates had been made, of part of the royalties from the Anglo-Iranian Oil Company;
- (b) On the other, budgets are set up monthly and expenses are not paid unless sufficient revenue has been collected previously.

Be that as it may, we limit ourselves to showing the evolution of Iran's Budget as indicated hereafter:

EVOLUTION OF THE IRANIAN BUDGET
(In millions of rials)

	<u>Expenditure</u>	<u>Revenue</u>	<u>Difference</u>
1936-37	1,000	1,000	-
1937-38	1,248	1,250	/2
1938-39	1,527.5	1,528.4	/0.9
1939-40	2,613	1,930	- 683
1940-41	3,211	3,094	- 117
1941-42	4,324	3,614	- 710
1942-43	3,138	3,138	- (o)
1945-46	4,412	4,412	-
1946-47	6,094	5,417	- 677
1947-48	7,762	5,559	- 2,203
1948-49	8,891	7,154	- 1,737

(o) Beginning 1942, revenues from the Anglo-Iranian Oil royalties are included. Their inclusion has served to balance the Budget at least temporarily

The royalties paid by the Anglo-Iranian Oil Company in the course of the last 10 years are shown on the following table:

Royalties Paid By A.I.O.C.

	<u>In Pounds Sterling</u>	<u>Counter-value at the official rate (in rials)</u>
1940-41	4,000,000	243,000,000
1941-42	4,000,000	415,000,000
1942-43	4,000,000	527,000,000
1943-44	4,000,000	520,000,000
1944-45	4,463,779	580,000,000
1945-46	5,626,032	731,000,000
1946-47	7,130,149	927,000,000
1947-48	7,101,149	923,000,000
1948-49	9,172,244	1,192,000,000

Comparing expenditure and revenue for 1948-49 to those of 1936-37 when the Budget was balanced we arrive at the following conclusions:

The Budget is seriously unbalanced. On the other hand, it is clear that State expenditure is at a level out of proportion with the country's capacity. One explanation is at once apparent. The number of State employees has gone from 60,000 before the war to 130,000 at present. Admittedly, they are badly paid. In respect to the excessive number of State employees, it has been remarked that this is just another way to fight unemployment and give unemployment relief to people who, without it, would go hungry. No doubt this is a problem which must be solved through other and better means. It is hoped that the Seven Year Plan will absorb all or part of these disguised unemployed. The fact remains, however, that the total of these remunerations is an excessive burden on the budget.

Another important consideration is that before the war the royalties of the A.I.O.C. were not included in the budget receipts. They were used for extraordinary payments payable abroad and in particular to purchase arms for Iranian troops.

Beginning in the year 1942-43 these royalties have been treated as normal budget revenue.

In the future they will again be treated separately and earmarked for financing an important part of the Seven Year Plan. Thus they will disappear from the budget in toto, or in large part.

The first conclusion is obvious: complete and urgent reorganization of the Budget both in respect to revenue and expenditure; without this no possible defense of the monetary position could be maintained in the long run.

The following table shows the tax returns for the last two years as compared with the pre-war:

TAX RETURNS

(In millions of rials)

	Direct	Indirect (Beverages, opium)	State Monopolies (Cotton, sugar, tob.)	Oil from The South A.I.O.C.	Misc.	Total
1936-37	116	148	540	-	196	1,000
1947-48	721	568	4,655	930	-	6,874
1948-49	679	672	4,893	1,196	-	7,440

The Multiplier on incomes is only 7 while that on expenditure is 9. On the other hand, it is intended to withdraw the A.I.O.C. royalties from the ordinary revenue. Under such conditions it is probable that revenues will have to be increased and at the same time efforts must be made to lower expenditure.

Finally, we must call attention to indirect taxes which, levied as they are on essential consumer goods, adversely affect the standard of living of the masses. If the cost of living is really to be reduced, then the incidence of indirect taxes must be closely watched. The exploitation methods of certain monopolies must be urgently examined. (To this we shall return when replying to Question No. 3).

Be that as it may, the important thing is to reduce expenditure by cutting out waste and economizing on non-productive items.

*

Let us assume that by revising tax and revenue policy and also that of expenditures we have re-established a budgetary equilibrium at a level more in line with the real burden which the pre-war balance imposed on the national economy as a whole, in other words, at a reasonable level compatible with the present stage of the Iranian economy.

This point once settled, we can turn with greater confidence to the other elements of the problem.

In normal times there is an equilibrium between the amount of money in circulation, price levels and wage levels, which equilibrium makes it possible to work for the economic and financial consolidation of the country.

From what precedes, it would seem that there is in Iran at the present time a kind of relative or approximate and temporary equilibrium between these various factors of economic activity.

To be sure, this equilibrium is at too high a level. It may be hoped that a sound general policy will bring it down to a more reasonable level.

But if our reasoning is correct, it doesn't seem proper to increase the money in circulation whatever the ultimate aim may be.

We are not considering for the time being the question of coverage for the notes in circulation

To our way of thinking there could be no objection to a lowering of the gold coverage on banknotes from 77% to, say, 50%, for example, provided the newly issued notes did not result in excessive circulation. There is no objection to issuing new notes in answer to the legitimate needs of circulation, thus avoiding deflationary action. In other words, we would find it quite normal if a certain coverage requirement, for example 77% in gold, were to be reduced if the notes to be issued were in response to economic activities of a self-liquidating nature, on a short-term basis and which would render a direct economic service to the production or distribution of goods.

Consequently it is not in the field of note coverage that the problem of new issues must be placed. The important thing is to know whether the newly issued notes, whatever their coverage may be, will or will not constitute surplus circulation. In other words, will they exercise a definitely inflationary influence?

In effect, the information we have would lead us to believe that the new notes are intended for financing public works or other long-term policy measures within the framework of the Seven Year Plan.

We believe that such a program to finance part of the Seven Year Plan by credits from the Banque Mellie Iran, if adopted, might lead to note issues entailing inflationary risks.

It seems more prudent to seek other methods for finding the remaining resources needed to finance the Plan.

Naturally - and this should be repeated again - insofar as intervention on the part of the Banque Mellie Iran is limited to the financing of self-liquidating paper of a maturity not exceeding the usual few months and relating to the production and distribution of goods, or even to wages paid for productive work, the above objections would not apply.

If, in order to make such activities possible, it should appear necessary to modify the present percentage of gold coverage on banknotes, such modification would by itself present no danger.

The essential point is to establish and specify when and how, at what periods and to what extent the issues made under the new conditions could be utilized in facilitating, indirectly, the completion of the Seven Year Plan.

The conclusions therefore are:

1. In respect to the country's current needs, the volume of notes in circulation seems sufficient especially if one takes into account the Government's lower-price policy which the legitimate anxiety to boost exports also demands.
2. As regards the country's extraordinary needs, direct financing of part of the Seven Year Plan through note issues does not seem advisable; however, there could be no objection to putting more notes into circulation -- within certain limits, of course -- provided that such issues follow rather than precede the increase in the volume of essential goods produced or distributed in the country.

The second question reads:

FOREIGN CURRENCIES, PARITY, TRADE CONTROL, BALANCE OF PAYMENTS AND MEANS FOR ITS IMPROVEMENT.

Iran's Balance of Payments present some apparently paradoxical features. The figures for 1948-49 are:

IRAN'S BALANCE OF PAYMENTS

(In millions of rials)

1948-49

Purchases by authorized banks of export revenues and revenues derived from the sale of silver by the Banque Mellie Iran.....	1,745.
Foreign currencies bought from A.I.O.C.,.....	2,068.
Foreign currencies coming from other sources.....	117.
Government revenue in foreign currencies derived from A.I.O.C.'.....	<u>1,174.</u>
	<u>5,104.</u>
Sales of foreign exchange by authorized banks for imports and for the Government's commercial and non-commercial requirements.....	4,082 .
Non-commercial sales of foreign exchange to travelers, students and sick persons.....	201.
	<u>4,283.</u>
Repayments of Government external debt:	
Loan of 1911.....	98.
Lease Loan.....	71.
	<u>4,452</u>
Balance in favor of Iran.....	<u>652</u>
	<u>5,104.</u>

Note: The 832 million rials, equalling 26 million dollars, loaned by the American Government to the Iranian Government in 1948-49 for the cost, insurance and freight of arms and ammunition have not been included in the above table.

The country's trade balance is in great disequilibrium; exports in 1947-48 were but half of imports (4.7 billion rials of imports against 2.3 billion of exports, a ratio of 2 to 1).

Before the war, trade was more closely balanced; for example, 1937-38 imports amounted to 970 million rials and exports to 671 million, giving a ratio of 1.4 to 1.

In the course of the last 10 years the trade balance has developed as follows:

TRADE BALANCE OF IRAN
(in millions of rials)

	<u>Imports</u>	<u>Exports</u>	<u>Balance</u>
1937-38	970 (o)	671 (oo)	-299
1938-39	695	650	- 45
1939-40	612	804	192
1940-41	865	925	60
1941-42	614	812	198
1942-43	1,314	558	-756
1943-44	1,527	704	-823
1944-45	2,957	792	-2,165
1945-46	3,106	1,698	-1,408
1946-47	4,115	2,570	-1,545
1947-48	4,706	2,324	-2,382

(o) Merchandise subject to customs duty

(oo) With the exception of oil and fish (products controlled by the Concession).

Despite the present huge deficit in the trade balance, the balance of payments is in equilibrium because of two very important entries.

(a) The first is that of the royalties collected regularly by the Iranian State by virtue of its agreement with A.I.O.C. The sums involved are considerable - 4 million pounds sterling in 1937-38; 9 million pounds sterling in 1947-48 - as indicated in the following table:

ROYALTIES PAID BY A.I.O.C.

	<u>In Pounds Sterling</u>	<u>In Millions of Rials at the official rate</u>
1940-41	4,000,000	243
1941-42	4,000,000	415
1942-43	4,000,000	527
1943-44	4,000,000	520
1944-45	4,463,779	580
1945-46	5,626,032	731
1946-47	7,130,149	927
1947-48	7,101,149	923
1948-49	9,172,244	1,192

In reality these figures correspond at least in part, to the counter-value of an exported Iranian product, i.e. oil.

(b) The second entry, equally important, consists of the considerable sterling amounts sold by A.I.O.C. to the Banque Mellie Iran to obtain the rials necessary for the payment of its employees and workers in Iran: 650,000 pounds sterling in 1937-38; 16 million pounds sterling in 1947-48, as shown in the following table:

RIAL PURCHASES MADE BY A.I.O.C.

(In Pounds Sterling)

1940-41.	651,337
41-42.	365,216
42-43.	376,359
43-44.	2,611,000
44-45.	3,580,000
45-46.	4,475,000
46-47.	10,300,000
47-48.	12,430,000
48-49.	16,160,000

In reality, the above sums appear as a payment, as in the case of royalties, of part of the price of oil, the labor of Iranians being included therein with a view to its export. (sic)

However, it is evident that such exports are of a very special nature. The foreign currencies they bring into the country are received in lump sums through a single channel; they are outside the current of general business; they directly supply the financial authorities with currency resources which otherwise would be obtainable only through multiple and various channels.

If such exceptional entries in the balance of payments are not used for the settlement of purchases made abroad, the issue of rial notes corresponding to currency purchased (see entry No. 2 on Balance of Payments) risks creating inflationary results within the country.

In fact, in such case, the number of notes would increase without a concomitant increase in the volume of goods to be purchased therewith.

Before the war, the Iranian authorities used the foreign currencies derived from oil royalties to buy goods abroad directly. Merchandise thus bought was imported. As such purchases were principally for arms and war material, their influence was not felt on the money in circulation nor on the volume of goods available to the public. Moreover, the currencies involved were not included as revenue in the Budget.

It would seem indeed that the idea to include royalties among the means with which to finance the Seven Year Plan is sound. They are intended to be used for direct payments on capital goods imported as such into Iran. These amounts would no longer appear among the revenues of the ordinary budget. Thus the pre-war situation would more or less be resumed.

As regards the receipt of sterling derived from the sale of rials to meet the requirements of the A.I.O.C. within the country, it seems logical that it be used to pay for imported goods which, sold in the country, will mean the return of the rial notes temporarily issued. The advantage of such a policy would be that it would not affect, artificially, the relation between the supply and demand for rials, in other words, the natural rate of exchange.

If we consider the rate of the rial, expressed either in terms of pounds sterling or of dollars, one is at first surprised how exceptionally stable it is.

The following table shows the development of the rate during the last 10 years.

OFFICIAL RATE OF RIAL

	<u>1 Pound</u>	<u>1 Dollar</u>	<u>1 Rial in Relation to \$1</u>
March 3, 1937-March 3, '38	80.50	16.41	\$ 0.0609
38	80.50	16.96	0.0591
39	40 77.20	18.3439	0.0545
40	41 65.64	17.1133	0.0585
41	42 103.80	25.82	0.0387
42	43 131.75 (1)	32.94 (2)	0.0304 (2)
43	44 130	32.50	0.0308
44	45 130	32.50	0.0308
45	46 130	32.50	0.0308
46	47 130	32.50	0.0308
47	48 130	32.50	0.0308

September - October 1948

- (1) The official rial rate relative to the pound was raised in May 1942 to 128 (buyer) and 130 (maximum seller).
- (2) The official rial rate relative to the dollar was raised in May 1942 to \$0.0308.

The official depreciation index of the rial in relation to the pre-war dollar is 2. Let us compare this index with the other indices mentioned previously: apparent price increase index 10; wage increase index 10 to 13; circulation increase index 11.

Of course one should not completely ignore the free market, where in June 1949 the dollar stood at 44.50 (a depreciation index of 2.6) and the pound sterling at 200 (depreciation index of 2.5).

One is obliged to note that there is at present a market disparity between the foreign and the domestic purchasing power of the rial.

The authorities who direct monetary policy have at their command such enormous foreign currency revenues derived from the aforementioned two big entities that they are, in effect, able to impose on the market the exchange rate they want. Their policy is the more effective in that the import license system is most effective. Authorities who have within their power on the one hand the possibility of limiting imports and on the other can dispose of huge sums of foreign exchange made available in the two ways previously indicated may, at their will, fix at any rate the parity of the rial vis a vis the dollar.

However, the question is what is the level at which the rial should be maintained? Is the present rate well chosen or would some other rate be preferable? And if so, why?

The first general observation is that, barring basic modifications in the domestic and external activities of the country, it is advisable to maintain an equilibrium analogous to that prevailing during the normal pre-war period between prices, volume of circulation, wages, budgetary expenses and rate of exchange.

However, if this rule is correct, it must be applied with great care.

It seems evident that the economic health of the country calls for a lowering of the price and budget indices. The Government's lower-price policy is legitimate. Some present prices are exaggeratedly high and are due to temporary causes such as speculation on the real estate market, lack of marketing facilities for certain products in the towns (vegetables, fruits, dairy products) or to the conditions under which certain nationalized industries are operated.

For example, in March 1949 the food index was 1,023 and lodging 1,467 by comparison with 100 in 1936-37. (The general index is 989). On the other hand, while the general index for wholesale prices in March 1949 was 712 (100 = 1936-37) the index for "merchandise produced and consumed within the country" (other than food) was 765.

It may be hoped that through an adequate policy it will be possible to reduce Iranian price levels, at least to some extent.

Furthermore, as we have seen above, the whole budgetary policy must be carefully revised, the number of State employees reduced to its pre-war level, many items of expenditure reduced, and at the same time serious measures must be taken to collect revenue more effectively.

Therefore, it would be premature and wrong to compare the present index of exchange depreciation with the other indices just quoted and so to jump to hasty conclusions.

Moreover, there are certain considerations extraneous to Iran which also make it necessary to be careful and not over-hasty. It may be assumed by and large that prices expressed in terms of gold have been, because of the war, affected to an extent difficult to determine and open to discussion, but probably not far from a multiplier of 2.

In other words, prices expressed in gold or in gold currencies have more or less doubled. Therefore it follows that the foreign exchange index mentioned before must be multiplied in theory by 2 if comparison is to be made with the pre-war situation.

Such reasoning, however, must be followed with the utmost reserve. It can't pretend to mathematical accuracy; it can only lead to approximations, but bearing this in mind it may lead to conclusions which are very close to reality.

At present there are many question marks concerning the situation of prices and currencies all over the world. Will pound sterling be devalued or not in relation to the dollar and other currencies? Will European currencies be revalued or fixed at new levels either among themselves or in relation to gold and the dollar? And, finally, will the dollar price of gold be revised either in terms of industrial gold or in terms of currencies?

It would be highly unwise to try today to answer these questions formally or precisely. It may well be that coming events will furnish answers to them which will lead to opposite conclusions.

The only wise attitude at present, it seems to us, is the old slogan "wait and see."

Therefore, there is no need for Iran to define, at once or hurriedly,

a new and precise position in respect to the rial rate. And in particular as regards the International Monetary Fund, it seems to us advisable to adopt a waiting attitude of reserve.

From what precedes, however, two indications of immediate policy seem to stand out both of which will have to be re-examined at the opportune time. The first is of a negative nature; there seems to be no reason at present why action should be taken or efforts continued to return to the pre-war parity of the free rial. The second indication, which should be studied with much more care and approached in a broader and more subtle manner, refers to the natural level at which the rial would settle if royalties derived from the A.I.O.C. were left out of consideration.

This, of course, should go hand in hand with a policy destined to increase exports in all branches where export possibilities exist.

In this respect we should like to make a comment to be developed later in reply to one of the seven questions put to us: the necessary precautions must be taken that in no case - neither as a result of a broader policy as regards the rial rate nor as a consequence of an eventual change in the gold parity of the pound - should the actual counter-value of A.I.O.C. royalties, when exchanged into rials, be so large as to decrease the real purchasing power put at the disposal of Iran.

In other words, precautions should be taken to avoid that monetary changes of whatever nature should unduly lighten, to the detriment of Iran, the actual contribution made by A.I.O.C. whether in the form of royalties or as rials which the Company buys to pay its expenses within the country.

Justice demands that in these matters the idea of real value be maintained so that obligations will be fulfilled as originally accepted.

In our opinion, no useful purpose can be served at this time in examining further the first two questions put to us. We hope that we have expressed our opinions clearly and that they will make it easier for the Iranian authorities to make the necessary decisions.

Eventually we shall return to our first conclusions either to revise, supplement or confirm them; we shall do this once we have added to our documentation and have reached an opinion in respect to all the problems which were brought to our attention.

Brussels, July 14, 1949

Translated by A. Balasy
9/28/49

Mr. Robert L. Garner

September 30, 1949

William Diamond

Turkey and Iran

OFFICIAL FILE COPY FILED

Turkey Negs

1. Turkey

- a. I have just spoken to Mr. Barker, who is happy at the opportunity to delay his visit to Washington to meet Ambassador Erkin, since he will be quite busy during the next 12 days. This delay will give us an opportunity to settle the issue of compensation to the mission and will give E.C.A. the time to review and perhaps come to a decision regarding the recommendations of Mr. Blough, who is to leave Turkey this week. On his next visit to Washington, therefore, Mr. Barker will be able not only to see the Turkish Ambassador but to discuss the public finance issue with E.C.A.
- b. Mr. Barker told me that he would be unable to leave America until about November 10, instead of November 1, which was the date I had understood you and he had previously discussed. He said this was the best he can do. Would you let me know whether you agree with this date, so that I may advise Stewart Mason, whose departure from Turkey will have to be correspondingly postponed? Mr. Barker also suggests that it might be advisable for him to spend a day with Professor Rist in Paris.
- c. Mr. Barker will take a vacation during the last two weeks of October. He will then be available to come to Washington sometime between November 1 and November 10, if the latter date is accepted for his departure.
- d. Mason's report No. 3 has just arrived. (It is being typed and will be sent to you shortly.) In it, he refers to the fact that the British Economic Counsellor in Ankara, Mr. Muntz, will visit London in November to discuss with the British Government questions regarding devaluation and the Turkish debt. Mason suggests that it might be useful for him to visit London at the same time to resume the conversations he started in early September. It occurs to me that, if Mr. Barker's new date is accepted (which will delay his arrival in Turkey until mid-November), you might wish Mason to go to London in early November with Mr. Muntz. In this way, he can be back in Turkey in time for Mr. Barker's arrival, spend two weeks or so with him, and return here in early December. Such a plan would make maximum use of Mason's time and would permit him to be back in Washington just at about the time when the reports of the technicians on the three projects are likely to be completed.

2. Iran

Mr. Barker asked me to give you the following message. After his meeting with you, Mr. Barker visited Mr. Estahaj, of the Bank Melli, who had objected to Mr. Barker's part of the O.C.I. report because of his (Barker's) insistence that the Government should not use its borrowing powers for the Seven-Year Plan until all other sources of revenue had been tapped and squeezed to the utmost. Mr. Barker told Mr. Estahaj that the position taken in the O.C.I. report gave the Government "a weapon to use against politicians", who would bring pressure to bear against measures to strengthen the Iranian fiscal position. The O.C.I. report could be used as an argument against them. Mr. Barker stated that Mr. Estahaj said he hadn't thought of that angle before, was now satisfied with the position of the report, and would withdraw his objection.

WD/bt

cc: Messrs. Iliff
Mason

Mr. Robert L. Garner

September 30, 1949

William Diamond

Turkey and Iran

COPY

OFFICIAL FILE COPY FILED

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2. Iran

Mr. Barker asked me to give you the following message. After his meeting with you, Mr. Barker visited Mr. Eshatahaj, of the Bank Melli, who had objected to Mr. Barker's part of the O.C.I. report because of his (Barker's) insistence that the Government should not use its borrowing powers for the Seven-Year Plan until all other sources of revenue had been tapped and squeezed to the utmost. Mr. Barker told Mr. Eshatahaj that the position taken in the O.C.I. report gave the Government "a weapon to use against politicians", who would bring pressure to bear against measures to strengthen the Iranian fiscal position. The O.C.I. report could be used as an argument against them. Mr. Barker stated that Mr. Eshatahaj said he hadn't thought of that angle before, was now satisfied with the position of the report, and would withdraw his objection.

WD/bt

cc: Messrs. Iliff
Mason

FILE COPY

Iran Negs
x Iraq Negs.

Mr. W. A. B. Iliff

COPY

September 30, 1949

E. A. Bayne

OFFICIAL FILE COPY FILED

Iraq Neg.

Middle East Oil Royalties as Potential Capital.

As a note for the file following your comment this morning on the potential capital export of certain Middle East territories, the following may be of interest.

Iraq and Iran, as we know, probably would not be important sources of capital for some years with the development plans and attitudes now prevailing in each country. Saudi-Arabia, being a dollar oil country purely, may find her income cut (production is now cut from 430,000 barrels a day to 200,000 as a result of sterling oil sales) below her present development plan requirements. The semi-autonomous territories of the Gulf area are more promising as early sources of export capital, particularly sterling.

Bahrein, which produces 20,000 barrels a day and receives transit fees for 80,000 barrels a day more, receives 22 cents a barrel royalty. The handling of the oil income is generally adjudged to be a moderate other oil producing areas might follow. One third of the oil income is paid into a sinking fund against the day Bahrein's oil is exhausted, another third is put into a development budget for public works. This fund is administered by a British trustee. The remainder is paid to the sheikh and to certain general budgets of government. The funds are understood to be invested in United Kingdom Treasury obligations.

Kuwait will enjoy a very high oil income within a few years. At present, although Kuwait's main concession is exploited 50-50 by American and British companies, Kuwait's oil income is paid in sterling at a gold rate of 13 cents per barrel produced. Within a few years production will rise to 500,000 barrels a day. In addition, the neutral zone to which Kuwait has part claim will be producing an estimated 200,000 barrels a day at a similar rate.

The income in Kuwait is voluntarily paid into the Public Treasury by the sheikh now and arrangements have not yet been completed concerning the administration of this money. The assumption is that under the guidance of British officials an arrangement similar to that in Bahrein will be instituted with a percentage of the income paid to the sheikh for expenses, and the remainder spent on development projects. It is understood that a relatively high debt which the sheikh assumed before the post-war oil development was begun is being paid off now, but serious consideration is being given to a number of major projects such as a canal to bring water from the Shatt-el-Arab. Kuwait has no drinking water of its own and is at present supplied by water-carrying dhows. Kuwait's oil reserves are enormous, estimated at 12 billion barrels (which approaches half the proven reserves in the United States).

FILE⁻²⁻COPY

While the importance of the problem of working out markets for the sterling and dollar oil is of serious concern now, presumably within a few years sterling royalties will be potential exportable wealth to anywhere in the world. The prospect of utilizing these funds in IBRD operations seems entirely possible, even if premature today.

My source for most of this is Mr. Richard Sanger, author of a forthcoming book to be called "Arabian Frontiers."

Iran

Mr. D. Sommers

September 30, 1949

W. A. B. Iliff

Working Party - Iranian Loan Application

I think it desirable that we appoint at once a loan working party in connection with the Iranian Loan Application. I would be grateful to have nominations of the officers which you wish to serve the party from your department.

In the Loan Department I am appointing Mr. Stephens as Loan Officer in Charge, and Mr. Svoboda as assistant.

HFolk/bt

cc: Messrs. Stephens, Svoboda, Iliff

⑦

Iran

Mr. Crena de Longh

September 30, 1949

W. A. B. Iliff

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HFolk/bt

cc: Messrs. Stephens , Svoboda, Iliff

Iran 209

September 30, 1949

Mr. L. B. Rist

W. A. B. Iliff

Working Party - Iranian Loan Application

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In the Loan Department I am appointing Mr. Stephens as Loan Officer in Charge, and Mr. Svoboda as assistant.

HFolk/bt

cc: Messrs. Stephens, Svoboda, Iliff

(7)

FILE COPY

Iran Reg.

Mr. W. A. B. Iliff

September 29, 1949

F. D. Stephens

Iran

Mr. Nemazee advised me that Mr. Ebtehaj repeated to him over the telephone a cable received from Dr. Naficy in which the latter stated that he would like to have an early Bank mission visit Iran and also advance notice of the type of information such mission would require. Mr. Nemazee interpreted "early mission" as one which would arrive in Iran sometime in October.

Do you not think that the time has come to set up a Working Party for Iran?

FDStephens/pm
c.c. Mr. Bayne
Mr. Svoboda
Mr. Bochenski
Dr. Welk

CROSS REFERENCE SHEET

COMMUNICATION: *letter*

DATED: *Sept 28, 1949*

TO: *Mr Garner*

FROM: *Mr Eager*

SUMMARY: *concerning agreement between
Iran and Iraq -
encloses summary of agreement*

FILED UNDER: *Secret File*

CROSS REFERENCE: *1) Iraq Rego
2) Iran Rego*

OFFICE MEMORANDUM

209
Kam. - W.S.
Neg.

TO: Files

DATE: September 23, 1949

FROM: F. Dorsey Stephens *LOS.*

SUBJECT: Iran

On September 22 Mr. Nemazee, Commercial Counselor of the Iranian Embassy, accompanied by Messrs. Majidian and Ahari of the Bank Melli Iran, called on Messrs. Iliff and Stephens. The purpose of the visit was to present a list of foreign exchange requirements totalling \$36 million for high priority projects in various sectors to be executed over the first 18 months of the 7-year program.

The Iranian representatives explained that in presenting the list they were not making a formal application for a loan from the Bank but merely wished the Bank to examine the list in the light of comments thereon contained in the final OCI report and to indicate which projects, if any, the Bank would consider suitable for financing.

It was agreed that the Bank's staff would examine the list submitted and give its reaction thereto at the earliest possible opportunity. Attached is a copy of the list in question.

The Iranian representatives were not clear as to when the Iranian Government might be in need of Bank financing but considered that for certain items such as additional railway or harbour equipment, the Plan Organization might like to place orders fairly soon, as no detailed engineering studies are required. They were apparently under the misapprehension that the Bank, on the basis of the full OCI report, might not consider it necessary to send a mission to Iran prior to the conclusion of a loan. It was pointed out to them that under no circumstances could the Bank conclude loan negotiations without having sent its own representatives to examine both the creditworthiness of the prospective borrower and the projects for which financing was asked. Obviously, however, a thorough survey such as that made by OCI would be of material assistance to the Bank in reaching its conclusions.

There was some discussion as to the appropriate time for a Bank mission to visit Iran and the consensus appeared to be that a visit would be premature until the new parliament has met which should be some time within the next month and a half.

FDSStephens/pm

- c.c. Mr. Bayne
- Mr. Svoboda
- Mr. Bochenski
- Dr. Welk

SECTION I

AGRICULTURE AND IRRIGATION

1. (a) Purchase of Tractors and other Agricultural and Mechanical Equipment and ten Repair Workshops one for each province.
Ref. Volume III, Pages 107 & 110. \$ 3,000,000.-
2. (b) Purchase of Pumps and Drilling Equipment.
Ref. Volume III, Page 158. \$ 3,000,000.- \$ 6,000,000.-

SECTION II

TRANSPORTATION

3. (a) Port Equipment for Khorramshahr and Bandarshahpour.
Ref. Volume IV, Pages 51 and 56 \$ 1,000,000.-
4. (b) Road Building Machinery
Ref. Volume IV, Page 27. \$ 2,000,000.-
5. (c) Purchase of Rolling Stock and Equipment for Existing Railways in addition to sums expected from British Government.
Ref. Volume IV, Page 21. \$ 2,000,000.-
6. (d) Purchase of Rails Ties and Fastenings for Lines under Construction.
Ref. Volume IV, Pages 21 and 24. \$ 5,000,000.- \$10,000,000.-

SECTION III

COMMUNICATIONS

7. (a) Purchase of Requirements.
Ref. Detailed in Exhibit J5, Volume IV. \$ 2,000,000.- \$ 2,000,000.-
- \$18,000,000.-

Brought Forward .. \$18,000,000.-

SECTION IV

INDUSTRY AND MINES

8. (a) First Cost of rehabilitation of existing Textile Silk Jute Cement Factories and completing Veramin Sugar Refinery and rehabilitating existing Chemical Industries..
- Ref. Volume IV, Pages 135,145 & 153, and also exhibits K3 & K4. \$ 4,000,000.-
9. (b) Purchase of Two Dried Fruit Packing Plants.
- Ref. Volume IV, Exhibit K3. \$ 500,000.-
10. (c) Purchase of Two New Cement Plants for Dorood and another Provincial Center.
- Ref. Volume IV, Exhibit K3. \$ 4,000,000.-
11. (d) Equipment for Mines.
- Ref. Volume IV, Exhibit K6. \$ 1,000,000.-
12. (e) Equipment for Petroleum Company.
- Ref. Volume IV, Page 263. \$ 1,000,000.-
13. (f) Power Plants and Ancillary Equipment.
- Ref. Exhibit L3, Volume IV. \$ 5,000,000.-
14. (g) Purchase of Tugs and Fishing Boats and Equipment essential for Food Supply of Gulf Ports.
- Ref. This item has been superficially dealt with in Volume III, Page 116. \$ 500,000.- \$16,000,000.-

SECTION V

GENERAL

15. (a) Purchase of Fifty Thousand Tons Cement required during next two years for construction Road Railways Ports Aerodromes Factories etc. in addition to local production and other construction material. \$ 2,000,000.0 \$ 2,000,000.-

Total .. \$36,000,000.-

Iran Negs.

Mr. F. Dorsey Stephens

September 23, 1949

L. Svoboda

Note on Iran Government's selected development projects

On September 20th the Iranian Government submitted for the Bank's consideration a list of priority projects calling for a total external expenditures over an 18-month period of \$36,000,000. It is to be understood that this amount should ~~primarily~~ ^{sobly} be made available in dollars to cover purchases in U.S.A. although some of the material required may also be available in Belgium. The following is a survey of the projects in the light of the OCI report:

I. Agriculture & Irrigation

1. (a) Tractors and other agricultural and mechanical equipment and 10 repair shops (Ref. Page 107-110, Volume III, O.C.I. Report).

Amount required \$3,000,000

Many kinds of farm machinery and equipment are needed in Iran. OCI considers the distribution, servicing and maintenance of imported machinery a major problem, and recommends distribution through local merchants which will need support of Plan in form of short term credit and also readjustment of their profit margin, at present ^{around} 15%. Loans between three to five years are proposed to selected operators or groups of farmers. Demonstration period is recommended to introduce machinery in respective ostans. Use of tractors for sugarbeet production should be demonstrated in respective sugarbeet centers. As a first step 5 complete tractor and machinery units are envisaged for each sugar factory area. ~~Storage~~ ^{ag} place and shop for repair services should be provided by the respective sugar factories. Customs operators in initial phase are considered preferable, to cooperative ownership.

OCI envisages within the agricultural program an amount of R 169.129 million to be spent over an 18-month period for "special projects". Apart

from the importation of machinery this program provides also for the import of fruit drying and processing equipment ^{for a} and seed stock program, the program for animal improvement, as well as for various emergency relief and rehabilitation measures, for disease control, plant disease and insect control, and various other services. No breakdown of the above allocation as to its various items is given in the report. Foreign exchange expenditures included in the above total are stated at \$3.1 million. This amount would appear almost exclusively to be absorbed by the importation of tractors and other farm implements as suggested by the government under the above heading. Further clarification of this point as well as of the organizational aspects as mentioned above seems to be needed.

2. (b) Purchase of pumps and drilling equipment (Ref. page 158, Volume III, OGI report)

Amount required \$3,000,000

OGI considered general improvement of water supply of great urgency and recommend immediate initiation of sub-surface water development. First consideration should be given to Marran, Baluchistan and the Gulf Coast "where subsistence is at an incredibly low level and disease and poverty are rife". Of the three methods for dealing with the interception of underground water i.e. Kanats, buried cut-offs and pumped boreholes, OGI recommended the latter as a most desirable solution. OGI estimated that 45 wells could be drilled and tested in 1949, the majority of which could be filled with pumps from ~~own~~ ^{existing} stock. Increase of reserve of pumping equipment for subsequent years is considered necessary and should be ordered promptly. No extensive stocks should however be accumulated until pumping tests have been completed. Only 15 wells are immediately required for supply of water to agricultural experimental stations and to demonstration farms, while the larger part of the pumps appears to be needed for town water supply.

Total allocation of Plan funds for development of water resources are 1.850 million rials including approximately \$18.3 million of total external expenditures. These amount in the first 18 months of construction to about \$3.6 million including \$2.4 million for pumped boreholes equipment. This amount compares to \$3 million requested by the government as indicated above. It would appear that only a small portion of the equipment required will be used for immediately productive purposes such as irrigation while the greater part of it is primarily needed to improve town water supply.

II. Transportation

3. (a) Port equipment for Khorramshahr and Bandarshahpour (Ref. Volume IV, Pages 51-56 of OCI report)

Amount requested \$1,000,000

The bulk of Iran's present overseas trade passes through two northern ports of the Persian Gulf, i.e. Khorramshahr and Bandarshahpour. In spite of the fact that these ports are not adequate to deal with the current trade of about 450,000 tons, only a small portion of the trade is handled by other ports, particularly those in the south which suffer from bad road connections. Khorramshahr handles almost all the commercial cargo imported overseas to Iran, which has been steadily increasing in volume, and a major part of Iran's exports. The port is poorly equipped and its road and railway service is inadequate and suffers from floodings. The port's maximum rate of discharge^{per ship} is 2½ days. To increase the working capacity of the port OCI recommend (a) purchase of equipment for mechanical handling of cargo (b) construction of repair and maintenance shops and of transitory sheds (c) necessary engineering work in harbour and lay of railway track and construction of road in harbour.

The completion of the above program will require 93 million rials including external expenditures equivalent to \$2.1 million. During the first

18 months period \$475,000 will be needed for the purchase of locomotives (\$310,000) of grading and concreting surfaces (\$138,000) and for consulting engineers fees (\$27,000).

Bandarshahpour harbour serves besides military needs the Government's wheat transport as well as AIOC traffic. The port suffers from congestion of transit goods, the lack of adequate handling and storage facilities being the major limiting factors. OCI recommend rehabilitation of the port and expansion of its facilities with a view to its future development to a capacity of 1 million tons. The immediate program includes (a) expansion of the jetty to make possible the simultaneous discharge of two vessels (b) provision of additional handling and storage space in customs area and expansion of the latter, (c) purchase of mechanical cargo equipment (d) construction of proper workshops, transitory sheds and water supply line to ships.

Total cost of the project is estimated at 112 million rials of which the equivalent of \$2.6 million is in foreign exchange. Of the latter amount about \$753,000 will be needed in the first 18 months including \$310,000 for the purchase of locomotives and cargo handling equipment, about \$200,000 for grading and concreting surfaces, \$153,000 for the extension of the old jetty, \$46,000 for water supply installations and the balance of \$36,000 for foreign consultants fees.

The combined external expenditures of the two projects over an 18-month period total \$1,228,000 and appear to a large extent to be covered in the government's loan request of \$1 million as mentioned above. Corresponding local expenditures of the 2 projects over the 18-month period, ^{estimated at R 39.9 million,} are ~~not~~ covered by the above request, though recommended by OCI, are two other major port development projects for Bushire and Bandar Abass calling for external expenditures of

\$3.5 million, approximately \$1.1 million of which to be spent in the first 18 months. This seems to call for some explanation regarding the composition and order of priorities of the government's port development program, which with regard to its general significance and the individual merits of the projects involved, as discussed above, would seem to deserve the Bank's further consideration.

4. (b) Road Building Machinery (Ref. Page 27, Volume IV, OCI report)

Amount requested \$2,000,000

There is at present no road building machinery in Iran, all construction being done by hand methods which are both costly and time consuming. OCI recommend the immediate purchase of road building machinery in the approximate amount of \$2 million which compares to the amount as requested above. A tentative list of the equipment is given. The improvement and extension of existing roads and the construction of new roads totaling 11½ thousand kilometers as well as the construction of an appropriate number of bridges is envisaged under the program. Fifteen construction crews are envisaged to operate the machinery. Except for the above only little is said in the report regarding the organizational aspect of the construction program. It is indicated, however, that the work may be undertaken either by the Government or by contractors. If foreign contractors are awarded part of the work some reduction in the above equipment is considered possible. The program in its present stage seems to lack adequate planning regarding its organizational and managerial problems.

5. (c) Purchase of rolling stock and equipment for existing railroads in addition to sums expected from British Government (Ref. Page 21, Volume IV, OCI report)

Amount requested \$2,000,000

Total railway rehabilitation requirements over a 7-year period are estimated by OCI at \$20.2 million. To cover this an amount of \$18.8 million

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should be made available to the railways from an expected U.K. payment of \$22.8 million (57 million £) to the Iran Government in settlement of war traffic claims. Only the balance between both figures of \$1.4 million would, therefore, according to OCI calculations, be chargeable against the 7-year plan. These calculations, however, differ substantially from those of the railway administration which are on the higher side including such items as maintenance of way material (\$2.8 million) considered by OCI current expenditures to be made from the railway's ordinary budget. On the assumption that the expected U.K. payment will be realized in the near future and promptly utilized by the government for imports from U.K. of railway equipment to cover the requirements of the railroad program (estimated at \$12.6 million for the first 2 years) the need for additional 2 million dollar imports would in the light of the above calculation need some further justification.

6. (d) Purchase of rails, ties and fastenings for lines under construction
(Ref. pages 21-24, Volume IV, OCI report)

Amount requested \$5 million

There is considerable difference in opinion between OCI and the Iran Government as to the general benefits to the economy of 3 railway construction projects and of their order of priority within the government's total transportation development program of 5 million rials. With due regard to the urgent needs of other transportation sectors such as roads, ports and airways, OCI recommend that (a) work on the Meshed line be continued to completion within two years, (b) work on the Tabriz line be discontinued at present but completed in a later phase of the 7-year plan and (c) the Kisan-Yezd railway project be deferred. External expenditures of the Meshed project for rails, ties, fastenings, etc. are estimated by OCI at \$5.2 million. This amount roughly corresponds

to the government's \$5 million project as mentioned above which however still has to be identified.

III. Communications

7. (a) Purchase of requirements (Ref. detailed note on Exhibit J5, Volume IV, OCI Report)

Amount required \$2,000,000

A total amount of 511 million rials is envisaged by OCI for the development of Iran's communications. Of this amount 274 million are required for the development of long-distance telephone and telegraph services, international radio communications, broadcast and other services, to be effected and operated by the Government. The balance of 237 million rials should be made available to the Telephone Company (private) which at present operates local telephone services, for the extension of such services. An additional amount of 300 million rials from other than Plan sources is, however, needed to finance essential additional development and replacement projects in this field.

Total foreign exchange requirements of the program are estimated at \$9.4 million out of which approximately \$1.9 million will be needed in the first 18 months of the construction period which compares with the \$2 million requested above. This amount includes initial expenditures of about \$490,000 on an automatic exchange plan, \$570,000 on two new broadcast stations and associated equipment, as well as several other items such as wire lines, international telephone facilities, etc. There seems little attraction for a Bank loan to cover this program with regard to the largely unproductive nature of its items.

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IV. INDUSTRY AND MINES

9. (a) First Cost of rehabilitation of existing Textile Silk Jute Cement Factories and completing Veramin Sugar Refinery and rehabilitating existing Chemical Industries. (Ref. Volume IV, Pages 135, 145 and 153, and also exhibits K3 & K4 Amount required \$4,000,000.)

Iran's manufacturing capacity is limited and the nation is extremely dependent upon imports of essential commodities. The larger part of the existing industry such as textile, sugarbeet, cement, munitions and chemical plants are government-owned and centrally controlled by the Industrial and Mining Bank.

Cotton Textiles: There is a potential market for cotton piece goods but present domestic production is extremely inefficient and highly uneconomic. OCI recommend rehabilitation of existing mills to put them on a competitive basis as well as expansion of the industry on a decentralized basis at a later stage. A pool of foreign experts should determine the rate of rehabilitation and allocations of equipment to individual plants. Of the estimated \$1.4 million external expenditures involved in the program approximately \$1.1 million are required in the first 18 months period. These should cover the rehabilitation of two government-owned mills at Behshar and Shahi (about \$900,000) the organization of a private engraving plant to supply printed rolls to the domestic industry (60,000) as well as fees of foreign experts (110,000).

Silk: The present situation of Iran's silk industry is characterized by obsolete methods, outworn equipment and a static if not declining market. OCI recommend improvement of quality through better methods in all phases of production as well as of sales. The industry, now government-owned, should be transferred to private ownership except for egg production which should remain under strict governmental control. The total program calls for \$410,000 external expenditures over an 18 month period. More than 2/3 of this amount is needed for the rehabilitation of the Chalus power plant while about 1/3 is needed for the repair of threading, weaving and finishing machines.

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Wool: Depending upon the improved grading of domestic raw material as envisaged under the Plan, Iran's wool industry is expected largely to work from domestic raw material. The rehabilitation of existing facilities and construction of 5 new wool mills each with 600 tons of yarn per year capacity is recommended by OCI. Of the total cost of 100 million rials about 3/4 or \$2.3 million are needed in foreign exchange. Of the latter \$1,60,000 will be spent within the first 18 months for a new woolen mill.

Jute: At present 2 jute mills, one governmental owned, one privately owned, are in operation in Iran, producing about 3 million meters of cloth. If properly overhauled they should be adequate together with a new private mill at Dizful to meet the nation's requirements. An amount of 5 million rials including a foreign exchange component of \$90,000 has been allocated by OCI to provide for rehabilitation of the government-owned mill at Shahi within an 18 month period.

Sugar: The present production capacity of 7 sugar factories now operating in Iran does not exceed 50,000 tons and covers only a small fraction of the nation's sugar consumption estimated at 135,000 tons p.a. With improved economic conditions and a possible reduction in price, consumption may further increase to an estimated 150,000 tons. Based on these calculations OCI provide within the 7-year period for a gradual increase of refining capacity to a total of 124,000 tons. This would be achieved by the addition of 3 raw sugar mills, 2 new sugarbeet refineries, 2 cane sugar refineries and the enlargement of an existing sugarbeet factory. The total cost of the program is estimated at 882 million rials including foreign expenditures equivalent to about \$11 million. Of these approximately \$4.4 million should be spent in the first 18 months to cover the external cost of about \$3,480,000 for two new sugar plants ordered from Skoda, deliveries of which have recently started; another \$920,000 is required to provide new equipment for the refinery in Veramin for the production of cane sugar at an annual capacity of 25,000 tons. According to OCI, negotiations are currently proceeding with Skoda regarding the delivery of the above equipment which because of the war has been halted.

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Of the above sugar development projects, only financing of the external cost of equipment for the Veramin plant is included in the Government's cumulative request for \$4 million as mentioned above. In view of the reported negotiations with Skoda regarding delivery of such equipment by Czechoslovakia the request for dollar financing of this transaction needs further clarification.

Chemical Industry: Apart from the AIOC plant in Abadan, production of industrial chemicals in Iran is negligible. There are several plants which are government-owned, mostly located in the Teheran district, which are in a completely run-down condition and operate at excessive costs. Rehabilitation of these involves a difficult problem but is generally recommended by OCI to prepare for future increased demand. In its initial 18 months' construction period the program calls for \$960,000 external expenditures to cover the cost of a government soap factory (\$550,000) erection of production facilities for caustic soda (\$175,000) and some other minor items. Total cost of the program over the seven year period is estimated at 250 million rials and includes as its principal item the construction of a fertilizer plant, at a later period after thorough study, calling for external expenditures of \$4.1 million. ^PAs may be seen from the attached table, summarizing the above items, the combined cost of the above projects (if the two sugar factories of Resich and Turbat are excluded) amounts to \$3.9 million, roughly equalling the amount as requested by the Government under the above heading. Pending clarification of certain technical aspects, as well as of some organizational and financial questions, it would appear that some of the projects involved such as the new wool factory or the Veramin sugar plant might deserve further consideration.

9. (b) Purchase of two dry food packing plants (Ref. Volume IV, Exhibit K3)
Amount required \$500,000

Large quantities of fruit and nuts are grown in several parts of Iran with Azarbaigan, Fars, Khorassan, Kermanshah and Mazandaran as centers of the production areas. With reference to the considerable potentialities for dried desiduous fruit existing particularly in Azarbaijan, OCI recommends a project

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which should provide preliminary processing and packing facilities in orchards to handle about 100,000 tons of fresh fruit. These include equipment for processing of raisins, citrous and pomegranate juicing plants as well as grading and packing sheds. At least 1000 lye-dipping tanks (each only 120 tons of grapes in 40 day season) to supply about 250,000 sulphuric houses, would be needed besides an amount of associated implements such as drying trays, etc. in the earlier years of the program. The equipment should be sold to individual growers or groups of growers on 3 to 5 year credits. In addition to the above preliminary equipment OCI recommend the erection of 5 final processing and packing plants, 2 with annual capacities of 6000 tons of dry fruit each and 3 with capacities of 2000 tons each. Construction of the first 2 plants as mentioned above should start as soon as possible to be ready for operation by fall 1950.

Total cost of the 5 plants is estimated at 6 million rials, half of this amount or approximately \$92,000 in foreign exchange. Of the latter \$55,000 will be required over the first 18 month period to complete the erection of the 2 packing plants of 6000 tons capacity each. No cost estimate is available for the preliminary processing and packing equipment envisaged in the above program and it may be assumed that it has been included in the government's total request for \$500,000 as mentioned above. Pending a more detailed breakdown of the latter amount, it would appear that some of the projects involved such as the 2 final fruit processing plants and/or the juice plants, would offer certain possibilities for Bank financing.

10. (c) Purchase of two new cement plants for Dorood and another Provincial center

Ref. Vol. IV, Exhibit K3

Amount required \$4,000,000

There is a definite need for an expansion of Iran's cement production considering the requirements of the 7-year plan and present inadequate production facilities. ^{At present} There is only one cement factory located in Teheran and operated by the government, which has an approximate daily capacity of 193 tons. The actual output of the factory is inadequate and substantial imports are needed to meet the nation's requirements. These amounted in 1949 to 83,000 tons which only to the extent of 58,000 tons were covered by the above plant. Furthermore high prices resulting from high production cost and excessive transportation charges constituted a serious ^{detriment} to an increase in consumption.

While thus there is no doubt as to the immediate need for an expansion of cement production capacity, disagreement exists as to the proper distribution of such capacity. To achieve the quickest possible expansion of cement production the Government would favour a project whereby the capacity of its present plant in Teheran would be increased to 600 tons per day. This in turn would require erection of a new power generating plant with two 5,000 kilowatt turbo generators and a 69,000 volt transmission line to Teheran. The power plant would also serve other industrial purposes and supply municipal needs of Teheran.

On the other hand OCI recommend against the enlargement of the Teheran cement mill although they consider the rehabilitation of the latter to its full capacity of 300 tons as of first priority. In addition OCI recommend two new cement mills of 200 ton daily capacity each to be erected in such location as the Karun river valley and in the vicinity of Shiraz or Isfahan where a more

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economic distribution would be possible. The former should be located on the railway as near to the port as possible so that in addition to supplying the provinces of Khuzistan, Kermanshah and Kurdistan, it could also serve the cement requirements of the oil companies in the Gulf area which are expected to exceed 100,000 p.a. in the next few years. If a firm commitment can be secured from AIOC over a period of years that it will purchase a fixed amount of cement the capacity of the plant could be correspondingly increased. The second projected cement plant could conveniently be located either in Shiraz or Isfahan to cover the consumption of areas not served by railways including the cities of Kerman and Yezd. In addition, to the above, three more plants are envisaged by OCI of a daily capacity of 200 tons each to be constructed at a later stage, one of them to serve the Tabriz and one the Meshed area.

To cover the above program 435 million rials will be needed of which 2/3 of \$9 million in foreign exchange. About \$3.6 million of the latter will be spent in the first 18 months for the rehabilitation of the Teheran cement mill (\$600,000) and the erection of two new mills (\$3 million). The cost estimates of the construction of the new plants have been based on the price of U.S. equipment which, though more expensive than European equipment, is stated to be more economical in operation and more efficient.

In considering the above the amount of \$4 million requested by the government would seem sufficient to cover both the erection of the 2 new cement mills of 200 ton daily capacity as well as the rehabilitation of the Teheran mill. Dorood mentioned as a site for one of the proposed mills is a place south of Arak in the Karun Valley located on the railroad line about half way between Teheran and the Gulf Coast. The above would seem to offer some interesting possibilities for Bank financing provided the technical aspects of the two new projects are confirmed and no other way exists of obtaining their equipment from other than dollar sources.

11. (d) Equipment for Mines (Ref. Volume IV, Exhibit K6)
 Amount required \$1,000,000

Although Iran's geological structure is largely of a type favourable for the occurrence of coal, oil and other minerals, little is known about it except for oil. Most of the mines at present in operation are poorly equipped and inefficiently operated. OCI recommended (a) that all principal mines should be put in good working condition and operating methods be improved; (b) a systematic search for minerals should be made; (c) an adequate number of foreign mining specialists should be engaged to direct the above work and (d) private capital in mining should be encouraged by expansion of the terms of mining concessions to a minimum period of 25 years.

A total amount of 131 million rials has been allocated by OCI to the above construction program to be spent in the first 18 months of the plan including foreign exchange expenditures of \$2.1 million. These are distributed as follows:

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Coal	<u>487</u>	For rehabilitation of existing coal mines to finance underground development, purchases of diamond drilling and other equipment.
Iron	555	For the partial reactivation of iron mines in the Saman area to cover purchases of 2 diesel locomotives heavy construction material as well as drilling equipment. Further development of these mines are awaiting <i>to await</i> results of study regarding the advisability of establishing a blast furnace.
Copper	197	Principally for rehabilitation of the Damaghal mine to repair flooding, bleaching and fine crushing plant and minor repair work in several other mines.
Salt	244	For development of deposits of rock salt on Ghisul Is. which has considerable reserves and should be very cheaply operated by rosters and bulldozers and directly discharged to vessels. Construction of jetty is needed, loading facilities as well as 4 lighters and one sea-going tug. An additional amount of \$340,000 external expenditures will be needed in the latter phase of the plan to carry these projects to completion.

(continued)

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000's of \$

Misc. 476

For rehabilitation and development purposes in several other fields of mining including lead, chromide, red oxide of iron, fire clay, etc.

Services &
Surveys 114
Total 2,073

For foreign personnel and exploration for new minerals

Considering the above it appears that OCI immediate plans provide principally for the rehabilitation and some moderate extension of existing mines, their future development as well as exploitation of new mines depending on the results of studies which still are to be undertaken. It may be noted that the amount requested by the Government under the above heading provides only for half of the financing considered necessary by OCI to cover external expenditures for the first 18 months of the mining program.

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12. (e) Equipment for Petroleum (Ref. Volume IV, Page 263)

Amount required - \$1,000,000.

A concession for oil exploration and development is being granted under the 7-year plan to a government-owned joint-stock company, covering the entire country, except for areas already under concession. Also included in the concession is the refining, transportation and marketing of oil.

OCI recommendations regarding the above project deal with its economic, legal, technical, organizational, as well as financial aspects. The need for an extensive exploratory program is particularly stressed in the recommendations to include the study of existing information, topographical, and geological surveys, etc., to be directed under foreign expert guidance. Special attention is drawn to the need for careful and continuous study aimed at improving domestic distribution and marketing of products, with a view to providing the population with low cost fuel and thereby reducing destructive use of forest resources. The possibilities of oil and gas distribution by pipeline should be carefully studied in relation to the country's development program.

Initial external expenditures of the program will at first be limited to salaries and other costs of foreign expenses, as well as to the cost of the program for preliminary investigation and surveys without including any substantial expenditures for ~~the cost of~~ ^{costly} drillings and geological surveys. Accordingly, the first 18 months external expenditures are estimated by OCI at \$1,000,000, which amount corresponds to the amount above requested by the government. Considering the present experimental stage of the above project as well as its general nature, financing of the requested amount of \$1 million does not appear suitable for the Bank.

13. (f) Power plants and ancillary equipment.

(Reference: exhibit L 3, Volume IV)

Amount requested: \$5 million.

Existing power capacity in Iran is inadequate to cover even the current very small power demand. To comply with the drastic increased power requirements as may be expected from the implementation of the Seven-Year Plan, a large scale expansion of power production will be necessary.

OCI recommend a minimum power program covering central electric power stations for all major and several minor cities, two small mobile power plants for emergency use and certain special surveys and investigations. The central stations as mentioned above should be organized in form of private electric companies with the desirable participation of all major consumers. Majority control by the Government is not considered desirable although Government assistance in form of loans will be necessary. The program provides for a raise in the nation's total power supply by 220,000 kws. of generating capacity (present capacity is 90,000 kws), 55% of which would be steam generated and the remainder diesel generated. A certain modification of the planned thermal power to hydroelectric power capacity is provided for in the program depending on further investigations regarding water power development, particularly from the snow fed streams of the Elborz Mountains, which should be accomplished within about a year's time. The total cost of the program is estimated at 2,078 million rials, 66% or about \$42.6 million in foreign exchange. An additional amount of about the same order of magnitude would be needed for distribution facilities. The latter had not been included in the program and should be met from governmental loans and by other means. OCI recommend a total contribution by the Plan to the above power program of 1,013 million rials, of which 1,009 million or about \$31 million in foreign exchange. Of this amount about \$4.8 million are needed over the first 18 months, including \$4.4 million

for the initiation of the central station program. This involves the expansion by 1952 of power capacity by 97,000 kws, and provides for the installation in 34 principal and minor cities of 61 diesel units (varying between 200 and 3,000 kws. capacity) of a combined capacity of 51,000 kws., as well as of several steam units including 3 steam turbine generators for Teheran of 31,500 kws. capacity. The former category includes a prompt pool order of 18 diesel units of 16,000 kws. total capacity, representing a manufacturing commitment of about \$1.5 million, the specific location of the respective units to be determined at a later date. About 70% of the power installed during the first 18 months will be for industrial purposes, the balance of 30% for public, residential and commercial needs. In addition to the above program also envisaged at an earlier date is the purchase of ²mobile diesel power plants for emergency purposes, estimated at \$300,000 as well as certain expenses for surveys and investigations regarding rehabilitation and distribution needs and rates of power (\$81,000). Corresponding, internal expenditures involved in the first 18 months of construction work are estimated at 3.550 million rials. Not included in the power program but provided for in other sections of the Plan are integral power facilities attached to sugar, cement and chemical factories covering 13 plants of a combined capacity of 19,900 kws. installed. Furthermore, not included in the program is an uncertain amount of power capacity for irrigation needs in locations not adjacent to cities.

The amount of \$5 million requested by the Government for the first 18 months of power development exceeds by about \$600,000 the respective allocation recommended by OGI for the above power program. It might be assumed that to the extent of the above margin, funds are envisaged for financing specific power facilities outside the power program as mentioned above. Although power development, particularly for industrial needs, would appear an attractive proposition for a Bank loan, without further more detailed information regarding the composition of the requested \$5 million with respect to

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the individual power projects covered by this amount, it would be difficult to evaluate the possibility for Bank financial assistance in this sector.

14. (g) Purchase of tugs and fishing boats and equipment essential for food supply of Gulf Ports.

(Reference: This item has been superficially dealt with in Volume III, Page 116)

Amount requested: \$500,000.

Considering the population's poor food energy of less than 2,000 calories per person principally contributed by food grain (60%) and only to the negligible extent (5%) by meat and fish, an increase in the supply of the latter would appear most desirable as it would contribute to the quantity of the diet as well as to its protein content. The Caspian Sea, the Persian Gulf as well as inland lakes and rivers should, therefore, fully be utilized as sources for needed food for the nation.

As to the amount of fish that can be secured in the Persian Gulf, OGI have been faced with conflicting reports but seem to have come to the preliminary conclusion that in "the quantity now being removed is quite small." Bushire catches were reported meager and the facilities used for fishing small and primitive. A fish canning factory in Bantar Abbass has reportedly been closed down recently because of the sharply reduced, unprofitable output. OGI considers it therefore necessary that a careful analysis of fish resources should be made in the first year of the Plan. Prior to this study no purchases of fishing equipment of the above-mentioned nature seem to have been recommended by OGI at this time, although they may have been contemplated for a later period. This project does not seem to offer possibilities for a Bank loan.

V.

GENERAL

15. (a) Purchase of 50,000 tons of cement required during next two years for construction of roads, railways, ports, aerodromes, factories, etc., in addition to local production and other construction material.

Amount required: \$ 2 million.

Considering the rapid expansion of cement consumption involved in the implementation of the Seven-Year Plan, it must be assumed that considerable increased imports of cement will become necessary to supplement present local inadequate production until domestic capacity can be adequately increased to meet current as well as increased requirements. It would seem difficult, however, to provide Bank financing for purchases of this as well as for any other bulk commodity, the utilization of which would escape the Bank's control.

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SUMMARY

In summarizing the above, the following observations may be made regarding the nature and bankability of the selected projects as listed in the Iran Government's statement totaling \$36 million:

- (a) With only a few minor exceptions, the projects included in the list have been dealt with and recommended by OCI on a priority basis.
- (b) Making proper allowance for the projects not specified in the OCI report, i.e. purchase of tugs and fishing boats 14(g), purchase of Fifty Thousand Tons Cement 15(a) totaling \$2.5 million, the respective total cost estimates for the remaining program would appear roughly comparable, calculated by the Government and OCI at \$33.5 million and \$33.9 million respectively. The margin of \$0.4 million is primarily due to certain conflicting calculations of the Government and OCI regarding the cost of and funds available for several projects involved.
- (c) The amount of corresponding local expenditures involved in the program may roughly be estimated at about the same order of magnitude as foreign exchange requirements over the first 18 months construction period.
- (d) Pending the appraisal of the projects by the Bank's technical expert, they might at this time tentatively be grouped in three categories:
 - (1) projects which appear to offer possibilities for Bank financing. The cement plant project

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10(c), the port development project 3(a), and the fruit processing and fruit drying project 9(b) might, with certain reservations, be classified under the above heading.

- (ii) projects on which considerable more information appears to be needed before any opinion can be expressed. The tractor and agricultural machinery project 1(a), the combined development project for textiles, sugar and chemicals 8(a), and the power development project 13(f), ~~which~~ appear to belong to this group.
- (iii) projects which, if at all, at least at their present stage do not offer any attraction for a Bank loan. This group comprises the greater part of the projects listed, including 2(b) purchase of pumps and drilling equipment; 4(b) road building machinery; 5(c) purchase of rolling stock and equipment; 6(d) purchase of rails, ties and fastenings; 7(a) purchase of requirements; 11(d) equipment for mines; 12(e) equipment for petroleum company; 14(g) purchase of tugs and fishing boats; and 15(a) purchase of 50,000 tons cement.
- (e) Although the above external financing of \$36 million of import requirements is requested solely in dollars, it should be reasonably expected that also other currencies, particularly in the transferable sterling areas, will be needed to finance such imports of materials required which may be available in other than the dollar area countries.

Iran - report

OFFICE MEMORANDUM

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TO: Files

DATE: September 15, 1949

FROM: F. Dorsey Stephens *FDS.*

SUBJECT: Iran - Conference with Governor Ebtehaj of Bank Melli

1. Governor Ebtehaj, accompanied by Mr. Nemazee of the Iranian Embassy, called on September 12 on Mr. Garner. There were also present Messrs. Iliff, Stephens and Bayne.
2. Governor Ebtehaj said that he had been advised by cable that a recommendation to employ Overseas Consultants Inc. had gone forward to the Cabinet for final decision which he said would undoubtedly be favourable. Max Thornburg, Vice President of O.C.I., would remain in Teheran as the latter's principal representative. Ebtehaj considers Thornburg an ideal man for the job because of his ability and of his understanding of Iranian mentality.
3. The new Managing Director of the Plan Organization, Dr. Naficy, is, in the opinion of Ebtehaj, the best man that could possibly be found for the position. Ebtehaj believes that Naficy will work very closely with O.C.I. and follow their recommendations. He understands that in conjunction with Thornburg a schedule of priority projects for early execution is now being drawn up and he mentioned particularly those covering cement plants and irrigation wells on which considerable engineering work has already been done.
4. In discussing the economic section of the O.C.I. report, Ebtehaj said that he disagreed fully with Barker as to the latter's recommendation against borrowing for the development program from Bank Melli. Ebtehaj would not hesitate to lend a substantial amount of Bank Melli funds for truly productive purposes, even though it meant some inflation in prices which he hoped would be partially offset by an increase in incomes. The necessity to raise the standard of living in Iran was so great that a big increase in production and in particular of food, was essential regardless of cost. He did not explain how an increase in consumer goods to offset an increase in purchasing power was to be accomplished during the period of several years before the development projects have greatly affected production.
5. Ebtehaj, who has always been in favour of a reduction in the note cover, said he thought that a law to this end would probably be passed by the new Majless which is shortly to be elected. If his recommendation that the note cover be reduced to 50% (as against 77% at present) is followed, Bank Melli would have the equivalent of \$66 million for immediate release. \$30 million of this Ebtehaj would utilize as cover for the issue of new rials and the remaining \$36 million would be available for imports under the 7-year program.
6. Ebtehaj reiterated the view that he expressed to Mr. Garner during the latter's trip to Iran, i.e. that Iran does not need a Bank loan now and perhaps never will during the life of the 7-year program. This, however, presupposes a reduction of the note cover if the program is to be carried out at the tempo recommended by O.C.I.

In spite of Ebtehaj's personal view he, nevertheless, considers that the Government of Iran may ask for one or two small loans from the Bank in the near future. It is possible that he will hear from Teheran on this subject during the next two weeks that he remains in Washington.

7. In the opinion of Ebtehaj, it will be very difficult to obtain Majless approval of the new AIOC royalty agreement which would double the present rate on the ground that Iran was not receiving her full dues. Ebtehaj pointed out that last year the U.K. Treasury received in income tax from the AIOC some £26 million whereas Iran's share, even under the terms of the new agreement, would not have been more than £18½ million. Ebtehaj considers that both governments concerned should be on an equal basis.

8. Ebtehaj is well satisfied with the progress in setting up the machinery of the Plan Organization. Key posts are being filled daily with high-grade Iranians and the necessary foreign specialists will soon be engaged. Ebtehaj expressed the hope that a firm of auditors like Price, Waterhouse would soon be employed for this very important function.

9. No solution had yet been reached on Russian holdings of Iranian gold and currency (\$12 million and \$8 million respectively). Ebtehaj was considering the possibility of suing the Russian Government.

10. Ebtehaj had been successful in forcing down the unofficial rate for dollars from 46 to 40 as against the official rate of 32½.

11. Ebtehaj expressed a very poor opinion of the Van Zeeland report on the note cover and the rate of exchange. The advice as to reduction of the note cover was "yes and no"; as to the rate of exchange, Van Zeeland recommended "wait and see". A copy of this report was promised to Mr. Garner.

FDStephens/pm
copies to Messrs Bayne, Svoboda,
Welk, Bochenski

FILE COPY

Iran

Mr. W.A.B. Iliff

August 30, 1949

F. Dorsey Stephens

Iran

Mr. Nemazee said that he had received a cable this morning to the effect that the High Council of the Plan Organization had agreed to the general terms of the proposed OCI contract, and that the matter had now been referred to the Government for approval.

FDStephens/mvp

cc: Messrs. Welk, Bochenski, Bayne, Svoboda

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JUN 06 2013

WBG ARCHIVES

Iliff No.206

Restricted

MEMORANDUM

Cairo, Egypt, August 26, 1949

To: W. A. B. Iliff
From: C. V. H. Engert *CVH*
Subject: Economic Conditions in Iran:

From information obtained from an official who was recently in Tehran I gather that the Persian Government is seriously worried about the economic outlook. Food prices continue to be very high - partly due to an exceptionally severe winter, but chiefly to the exploitation of food shortages by speculators. (As you probably know, Iran appealed to the U.S. for 200,000 tons of wheat, of which about half on credit).

The Government's financial difficulties were revealed by the large initial deficit in the budgetary estimates submitted to the Majlis. Mr. Ebtehaj, the Governor of the Bank Melli, is still opposed to a foreign loan in the near future, but his attempt to secure the early enactment of his Bill to reduce the note cover failed. The financing of the Seven-Year Plan is therefore still in abeyance, and the long delay in reaching an agreement with the Anglo-Iranian Oil Company did not help the situation.

There is lack of confidence in the Government among the bazaar merchants who feel that the country is facing a grave economic crisis. The growing discontent came to a head about six weeks ago when the Chamber of Commerce held a mass meeting at which its President ascribed the deterioration in the situation to the following causes:

- (a) The increase in the rate of discount caused by the decline in business activity;
- (b) Large stocks of imported merchandise which cannot be sold and which are depressing the market for local manufactures;
- (c) Unnecessary difficulties created by the customs authorities;
- (d) The uneconomical application of the Government monopoly laws;
- (e) Inefficiency in the assessing and collecting of the income tax;

/(f)

Iran
W. A. B. Iliff
W. A. B. Iliff
W. A. B. Iliff

(f) The activities of speculators who hope to take advantage of the impending slump.

The main burden of the complaints seemed to be that the severe restrictions of credit imposed by the Bank Melli were crippling business, and there was even some talk of organizing a strike in the bazaars unless the Government took effective steps to remedy the general economic conditions.

The general public has gained the impression that this trial of strength between Ebtehaj and the local merchants is the main element of uncertainty in the present situation, and that apparently neither Ebtehaj nor the bazaars can be controlled by the Government!

Iran - Negot
W.S.

OFFICE MEMORANDUM

TO: Files

FROM: F. Dorsey Stephens *FDS*

SUBJECT: Iran

DATE: August 24, 1949

209

I was advised today by Mr. Nemazee of the Iranian Embassy that he had received a cable from Teheran stating that Dr. Taghi Nasr had resigned as Managing Director of the Plan Organization and had been replaced by Dr. Naficy. Mr. Nemazee stated that there had been three resignations (including Dr. Naficy's) from the Council, and that one new appointment had been made - that of Mr. Noury-Esfandiary - who was formerly Minister at the Iranian Embassy in Washington.

The State Department likewise had received a cable advising of the above changes in the Plan Organization with the comment from the U.S. Embassy in Teheran that the change in the Managing Director might be considered as a victory for Ebtahaj and a setback for Prince Abdorreza.

It may be recalled that Dr. Naficy was considered as the father of the 7-Year Plan.

FDStephens/mvp

cc: Mr. Welk
Mr. Bochenski
Mr. Svoboda

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 8/31

TO-	Name	Room No.
1	Mr. Levy	401
2	Mr. Stephens	413
3	Mr. Roschinski	
4	Mr. Swoboda	419

FOR ~~by~~ STEPHENS Files 413

Action	Initialing
Approval	Preparing Reply
Comment	Previous Papers
Filing	Noting and Returning
Full Report	Recommendation
Information	Signature

REMARKS

FROM- GENERAL FILES AND CORRESPONDENCE,
Archive Division

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JUN 06 2013

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Iran

LOS

Iiliff No.202

Restricted

MEMORANEUM

Cairo, Egypt, August 22, 1949

To: W. A. B. Iiliff
From: C. V. H. Engert *CH*
Subject: Iran. Imports from U.K. & U.S.

I learn from a reliable source that during the last quarter of the Persian year which ended March 20, 1949, Iran imported about twice as much (in value) from the United States as from the United Kingdom.

According to the credits opened and payments made against documentary bills by the two authorized banks (Bank Melli and Imperial Bank of Iran), the payments made or credits opened in favor of exporters in the United Kingdom amounted to a little over £ Stg.2 million. The equivalent figures for exporters in the United States totalled over £ Stg.4 million. This difference seems to be largely due to the fact that most orders for cotton piece goods were placed in America, for by June 1949 the U.S. exported about three times as much to Iran as the United Kingdom.

Incidentally, the £ Stg.2 million mentioned above included a little over £ Stg.1 million for machinery, most of which was accounted for by a few large credits for textile machinery.

Some of the dollars required to pay for American imports were, of course, earned by Iran's own exports to the U.S. However, these exports are estimated to have shrunk to about one-third of what they were in 1947/48, and now amount to only about £ Stg. 1.5 million per annum.

It is therefore obvious that the bulk of dollars which are being paid to American exporters must be obtained from the Bank of England for sterling. For you will recall that under the terms of the financial agreement between the Bank of England and the Bank Melli (which was renewed for one year from November 20, 1948) the Bank of England agrees to convert Iran's sterling into dollars for goods which Iran can obtain in the American monetary area on better terms (as regards price, quality and delivery) than from the sterling area, or from countries accepting sterling.

RECEIVED
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Iran
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WBG ARCHIVES

Iliff No. 195

Restricted

MEMORANDUM

Cairo, Egypt, August 16, 1949

To: W. A. B. Iliff
From: C. V. H. Engert *CEH*
Subject: Iran. Barrage in Keredj.Valley.

I am informed that a dam is to be constructed in the Keredj Valley, near Tehran, to increase the drinking water supply of the capital, to help irrigation, and possibly to produce hydro-electric power.

The dam is to be 100 meters high and is intended to form a reservoir with a capacity of 70 million cubic meters. The cost is estimated at about 8 million dollars.

I understand that the "Independent Irrigation Corporation" has recently concluded a contract with the French firm "Société d'Entreprises Métropolitaines et Coloniales" for the preparation of the plans for such a barrage. The "Independent Irrigation Corporation" is said to have invited both British and French firms to submit tenders for this survey work.

As you probably know, Sir Alexander Gibb & Partners have already been working in the Keredj Valley region in connection with their Tehran Water Supply scheme, and they had some time ago made certain preliminary suggestions regarding the proposed dam. But when asked to make an offer for the survey work, they declined to participate unless given a guarantee that they would be put in charge of the supervision of any work that might be based on their survey report.

The French firm mentioned above had not previously undertaken any work in Persia.

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WBG ARCHIVES

WBG No. 122

Restricted

MEMORANDUM

Cairo, Egypt, August 18, 1949

To: W. A. B. Hill
From: C. V. H. Ewert
Subject: Iran. Barrage in Kerej Valley.

I am informed that a dam is to be constructed in the Kerej Valley, near Tehran, to increase the drinking water supply of the capital, to help irrigation, and possibly to produce hydro-electric power.

The dam is to be 100 meters high and is intended to form a reservoir with a capacity of 70 million cubic meters. The cost is estimated at about 8 million dollars.

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Cairo, Egypt, August 15, 1949

Iliff No. 194

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WBG ARCHIVES

Confidential

Dear Iliff,

N.R.

Referring to my letter No. 66 of December 29, 1948, I now learn confidentially that this year's opium crop in Iran will probably amount to over 1500 tons, which is more than usual.

In this connection I am told that the Persian Government has apparently decided to give up any serious attempt to enforce the prohibition of opium growing which has now been in effect for over three years. No official announcement has yet been made, but as the ban was widely ignored, and opium was always easily obtainable from private growers, the Government is said to have become convinced that the law cannot be enforced.

The Opium Department of the Ministry of Finance therefore intends in future to buy the whole opium crop. I doubt, however, whether this will or can prevent sales to private buyers, for the simple reason that opium smoking is so widespread a habit in Persia, and the opium dens will, of course, not be able to obtain their supplies from Government sources.

Sincerely yours,

C. V. Engert
Cornelius Van H. Engert

W. A. B. Iliff, Esq.,
Loan Director,
International Bank for Reconstruction & Development,
Washington 25, D.C.

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INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Cairo, Egypt, August 15, 1948

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JUN 8 2013
WBG ARCHIVES

Litt No. 194

Confidential

Dear Litt,

Referring to my letter No. 66 of December 28, 1948, I now learn confidentially that this year's opium crop in Iran will probably amount to over 1500 tons, which is more than usual.

In this connection I am told that the Persian Government has apparently decided to give up any serious attempt to enforce the prohibition of opium growing which has now been in effect for over three years. No official announcement has yet been made, but as the ban was widely ignored, and opium was always easily obtainable from private growers, the Government is said to have become convinced that the law cannot be enforced.

The Opium Department of the Ministry of Finance therefore intends in future to buy the whole opium crop. I doubt, however, whether this will or can prevent sales to private buyers, for the simple reason that opium smoking is so widespread a habit in Persia, and the opium dens will, of course, not be able to obtain their supplies from Government sources.

Sincerely yours,

D. V. Hoopes
Cornelius Van H. Edgart

W. A. B. Litt, Esq.,
Loan Director,
International Bank for Reconstruction & Development,
Washington 25, D. C.

Copy to R. A. ...
AUG 24 10 30 AM 1948

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RECONSTRUCTION AND DEVELOPMENT

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OFFICE MEMORANDUM

TO: Files
FROM: F. Dorsey Stephens
SUBJECT: Iran

DATE: August 15, 1949

FDS

Mr. Nemazee of the Embassy of Iran advises that he has been informed by O.C.I. that the latter's final report has not yet been printed in full. One volume dealing with "Summary and Conclusions" as well as a volume dealing with agriculture, are expected to be ready on August 22 and the remaining volumes on August 29.

The Embassy of Iran will make available to the Bank copies of these reports as received.

FDStephens/pm
c.c. Mr. Bayne
Mr. Svoboda
Dr. Welk

FILE COPY

Iran

August 8, 1949

Dear Engert:

I enclose a copy of a memorandum which Svoboda prepared at my request, commenting on the Decree on Foreign Banks in Iran which you sent with your Memo. #178.

I think Svoboda's memorandum will interest you.

With kind regards.

Yours sincerely,

W.A.B. Iliff
Loan Director

Mr. Cornelius Van H. Engert
c/o American Embassy
Cairo, Egypt

Dyan

Mr. W.A.B. Illiff

August 5, 1949

Ladislav Svoboda ✓

Export's Memo No. 173 Re: Decree on Foreign Banks in Iran

The above Decree, issued on 21 March 1949, is a restrictive measure on foreign banks, primarily with the objective of limiting their operations in favor of a further increase in the activities and influence of the Bank Melli. It is no coincidence that the Decree was issued at the termination of the sixty year concession of the British-owned Imperial Bank of Iran, which at one time combined the privileges of banking and note issue and enjoyed freedom from taxation. While these privileges had in the course of time gradually been withdrawn or modified, now that the concession has lapsed, as a result of the above legislation, the I.B.I. is faced with an entirely new situation. X

The principal feature of the new Decree is the requirement for foreign banks to maintain 55 per cent of their total deposits with the Bank Melli on interest-free account. To comply with the above requirement, the I.B.I. will have to transfer a large portion (approximately 350 million rials) of its deposits to the Bank Melli. Because of the limitations on the ratio of deposits to capital, in order to continue its operations even on a smaller scale, the Bank will have to substantially increase its capital. A transfer guarantee has, however, been obtained under which the entire capital can be repatriated at six months notice, at the rate at which it had been originally transferred to Iran. These developments have already been reflected in the I.B.I.'s accounts for the year ending March 20, 1949, which show a considerable strengthening of its cash position accompanied by a substantial reduction in investments. While the Bank has left no doubt that it will continue business in Iran, a gradual shift of its principal activities to other Middle Eastern regions, particularly the Persian Gulf where it has recently substantially increased its activities, may probably be expected. These tendencies are also reflected in the Bank's new, more appropriate title of "The British Bank of Iran and the Middle East."

The blocking of foreign bank deposits to the extent of 55 per cent, cannot be justified purely as a device for credit control. Although an increase in obligatory deposits with the Central Bank is a general measure of a restrictive credit policy, the ratio applied in other countries, even in times of crisis, remains far below the above percentage. Thus Italy's very strict credit restrictions provide for the re-depositing of a maximum of 25 per cent of commercial bank deposits, allowing at the same time for interest on such deposits up to 4½ per cent. Present deposit requirements for U.S. member banks with the Federal Reserve Bank range between 6 to 24 per cent, depending on the kind of deposit. Of the comparable Middle Eastern countries, neither Egypt, Iraq, Syria or Lebanon, have so far introduced discriminatory measures against foreign banks.

It is apparent that the main objective of the Decree is, under increased repositing requirements to transfer a substantial part of the deposits of I.B.I. to the Bank Melli and at the same time, by applying limitation on the ratio of deposits to capital, to force I.B.I. to fill the gap by an increased employment of its own funds.

The above provisions will undoubtedly strengthen the Bank Melli's position and will add to its present credit potential. They will also enforce the Bank's credit control, which heretofore was constantly paralyzed by the flourishing bazaar money market, dealing at exorbitant rates. On the other hand, the I.B.I. being the only bank which besides the Bank Melli is of any consequence, the limitations imposed on its activities will further reduce the country's banking facilities. These will thus principally be concentrated at the Bank Melli, the influence and responsibility of which will further be increased.

Such measure of centralization will undoubtedly afford the Bank Melli large possibilities for coordination of monetary and credit policy, which in view of the expected large-scale financing requirements of the Seven-Year Plan is of great importance. However, it will also increase the strong dependence of the economy's further development on the policies of the Bank's management. Recent evidence of such policy would indicate a rather cautious and conservative line. A change in the person of the Bank's Governor might, however, easily lead to the development of a policy in the opposite direction.

cc: Messrs. Stephens
Bayne

FILE COPY

*Iran-Gen
Corres*

August 4, 1949

Dear Mr. Nemazee:

As promised I am sending you a complete set of Loan and Guarantee Agreements, minus those for Finland and the Netherlands, which have not yet been printed.

Yours sincerely,

F. Dorsey Stephens

Encl.

Mr. Mohammad Nemazee
Iranian Embassy
3003 Massachusetts Avenue N.W.
Washington, D.C.

FDS/gkg

August 3, 1949

Miss Elizabeth C. Burns
Secretary
Overseas Consultants, Inc.
51 East 42nd Street
New York 17, New York

Dear Miss Burns:

I am in receipt of your letter of August 1 in which you list the names of those attending the meeting on Friday, July 29. Thank you very much for forwarding this list to me.

Very truly yours,

F. Dorsey Stephens
Loan Officer

FDStephens:mmr

OVERSEAS CONSULTANTS, INC.

51 EAST 42ND STREET

NEW YORK 17, N. Y.

August 1st, 1949

Mr. F. Dorsey Stephens, Loan Director
International Bank for Reconstruction
and Development
Washington 25, D. C.

Dear Mr. Stephens:

The names of those attending the meeting
held in the office of the corporation on Friday the 29th of
July, are as follows:

Mr. W. A. B. Iliff, Loan Director
International Bank for Reconstruction
and Development
Washington, D. C.

Mr. F. Dorsey Stephens, Loan Officer
International Bank for Reconstruction
and Development

Mr. John R. Lotz, Chairman
Stone & Webster Engineering Corporation
90 Broad Street
New York, New York

Chairman, Overseas Consultants, Inc.
51 East 42nd Street
New York, New York

Mr. Clifford S. Strike, President
F. H. McGraw & Company
780 Windsor Street
Hartford 1, Connecticut

President, Overseas Consultants, Inc.

Mr. Robert L. Hamill, Partner
Sanderson & Porter
52 Williams Street
New York, New York

Vice President, Overseas Consultants, Inc.

August 1st, 1949

Page 2

Mr. F. Dorsey Stephens
International Bank for Reconstruction
and Development

Mr. Frank M. Carhart, Partner
Jackson & Moreland
21 St. James Avenue
Boston, Massachusetts

Vice President, Overseas Consultants, Inc.

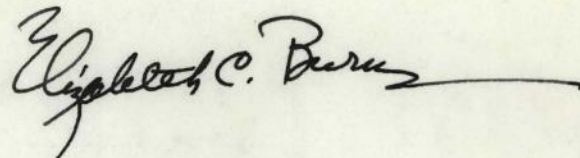
Mr. Max Weston Thornburg, Vice President
Overseas Consultants, Inc.
51 East 42nd Street
New York, New York

Mr. G. V. T. Burgess, Partner
Coverdale & Colpitts
120 Wall Street
New York, New York

Treasurer, Overseas Consultants, Inc.

Very truly yours,

OVERSEAS CONSULTANTS, INC.



Elizabeth C. Burns
Secretary

RECORDED AND INDEXED
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RECONSTRUCTION AND DEVELOPMENT
AUG 1 1949

Mr. F. Dorsey Stephens
International Bank for Reconstruction
and Development

Mr. Frank M. Gardner, Partner
Jackson & Moreland
21 St. James Avenue
Boston, Massachusetts

Vice President, Overseas Consultants, Inc.

Mr. Max Weston Kibburg, Vice President
Overseas Consultants, Inc.
51 East 42nd Street
New York, New York

Mr. G. V. T. Burgess, Partner
Coverdale & Collette
120 Wall Street
New York, New York

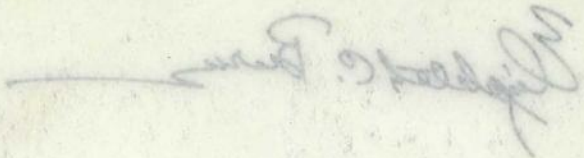
Treasurer, Overseas Consultants, Inc.

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Very truly yours,

OVERSEAS CONSULTANTS, INC.



Elizabeth C. Burns
Secretary

Iran
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OFFICE MEMORANDUM

TO: Files

DATE: August 1, 1949

FROM: F. Dorsey Stephens *FDS*

SUBJECT: IRAN

Messrs. Iliff and Stephens conferred on July 29 with members of O.C.I. at the latter's address in New York. There were present:

Messrs. Strike
Lotz
Hamill
Thornburg
Burgess
(and one other)

The principal subject discussed was that of a new contract to be concluded between O.C.I. and the Iranian Government. On this point, Mr. Iliff repeated the Bank's view that for the sake of continuity, and to give the Iranian Plan Organization the full backing of an organization, O.C.I. should remain in the picture as long as was necessary, but particularly during the period when the over-all development program was to be drawn-up and put into effect. It was made clear that the Bank felt the question of remuneration was a matter to be settled directly between the parties concerned.

The Bank representatives also explored with O.C.I. the possibility of a single firm acting as a buffer between O.C.I. as a consultant, and the constituent members of O.C.I. as contractors. The principal activity of such firm would be to submit comprehensive lists of primary consultants, to prepare calls for tenders, and to assist in awarding of the contracts on the basis of tenders received.

The O.C.I. felt that the naming of one of their constituent firms to perform this function would be merely a subterfuge. They further expressed the opinion that it would be difficult and expensive to the Iranians to procure the services of some outside consulting firm for this function.

On the other hand, they appeared to like the idea put forward by Mr. Iliff that whatever firm of public accountants was selected to advise the Plan Organization, e.g., Price Waterhouse, might itself perform this function. The O.C.I. people pointed out that in reality the accountants would probably have to come to them for lists of competent primary consultants in connection with specific projects and would also have to rely on them to prepare an analysis of bids received and justification of proposed awards on the basis of such bids. Nevertheless, it undoubtedly would be of assistance to the Plan Organization to have the impartial recommendation of a recognized firm of accountants before closing contracts.

The final O.C.I. report probably will not be available before August 15.

Iran 209
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OFFICE MEMORANDUM

TO: Files

DATE: July 29, 1949

FROM: F. Dorsey Stephens *FS*SUBJECT: Iran

Mr. Stephens met with Messrs. Walsh, Huber and Holmquist of Sanderson and Porter, one of the member firms of O.C.I., and discussed various high priority projects which would be recommended by O.C.I. for early execution. Any detailed examination of these projects must await publication of the O.C.I. final report, but there would appear to be three fields in the industrial sector which might contain projects of interest to the Bank.

a. Textiles

The O.C.I. report will recommend the construction of, say, three new textile plants as soon as possible at a total cost in foreign exchange of about \$12 million of which, say, \$9,000,000 would be required in the form of foreign exchange. Provided deliveries from the U.K. are now better than they have been, the above equipment might be purchased there as the quality is high and prices somewhat better than those now ruling for similar U.S. equipment. There may be some private capital available to cover the larger part of the internal costs. It would take about two years to put these plants into operation. It was pointed out that the production of consumers' goods would tend to "mop up" surplus local currency, thereby putting a brake on the inflationary potentialities of the investment.

b. Sugar

The O.C.I. will recommend the construction of two beet sugar plants, plus a relatively small amount of foreign exchange expenditure for an existing sugar refinery. Foreign exchange cost for 1949-1950 is estimated at about \$4 million. A further \$400,000 would be required for imports for 1950-51. Designs exist for both plants, which will be owned by the Government, and it is understood that certain down payments already have been made. The operation of these two plants would mean a considerable savings in foreign exchange. Some \$7 million are required in the form of foreign exchange to complete the sugar program in the later years of the Plan.

c. Cement

The O.C.I. will recommend the immediate rehabilitation of the existing Tehran Plant (theoretical capacity 300 tons daily versus actual 180,000 tons) at a foreign exchange cost of about \$600,000 and would also recommend that work commence as soon as possible on two new plants (capacity 200 tons per day each) at a total foreign exchange cost of about \$3 million. It was suggested that one of these plants be located in the Karun Valley, in the oil area of southwest Persia, and the other at either Shiraz or Isphahan—preferably the former. It is to be hoped that private capital will be available for internal investment, although

MICROFILMED

during the early years, some Government help may be necessary.

Total foreign exchange requirements for the above-mentioned projects amount to some \$17 million. When more complete information is available the Bank might undertake to examine one or two with a view to possible financing.

FDStephens:mmr

cc: Messrs. Bayne
Rembert
Welk
Svoboda

Iran - Caracas at app.

July 25, 1949

His Excellency Hussein Ala
Ambassador of Iran
Washington, D.C.

Dear Mr. Ambassador:

You have requested our suggestions as to the type of legislation the Government of Iran should enact in order to meet the requirements of the Bank in the event your Government should negotiate a loan or guarantee agreement with the Bank.

I am enclosing a draft of the type of legislation we have furnished to other member Governments making a similar request. However, this draft legislation has been prepared without consideration of any special provisions which might be included in any loan or guarantee agreement entered into with the Government of Iran, or of the requirements of the domestic law of Iran which any legislation would, of course, have to meet in order to be satisfactory. Before any loan or guarantee agreement with Iran could become effective, the Bank would require an opinion of legal counsel satisfactory to the Bank that such loan or guarantee agreements have been duly authorized and constitute valid and binding obligations of the respective borrowers or guarantors.

You will note that in Article III of the draft legislation the space in which the maximum permissible aggregate sum of loans contracted or guaranteed by the Government of Iran is to be inserted has been left blank. The determination of that amount must be made by Iran, and you will appreciate that the Bank is not in a position to comment on what that amount should be.

The Bank is also unable to determine the rate of interest

*file
LWS*

2 - His Excellency Hussein Ala

and the period of amortization of a loan in advance, and it will only be able to discuss those terms when negotiations regarding particular projects to be financed by such a loan have begun. Various other terms and conditions of a loan or guarantee agreement can likewise be discussed only after particular projects have been selected. However, the recent loan and guarantee agreements sent to Mr. Ebtehaj by Mr. Onaran on April 29, 1949, should serve in a general way to indicate the type of terms and conditions which have heretofore been included in agreements with the Bank.

Sincerely yours,

W

W. A. B. Iliff
Loan Director

Enclosure

FMOppenheimer/lk

copy
July 19, 1949

DRAFT OF ENABLING LEGISLATION

I. The Government of Iran is hereby authorized to negotiate and contract with the International Bank for Reconstruction and Development, in the name and on behalf of Iran, one or several loans, for the purpose of promoting the development of the economy of the country.

II. The Government of Iran is hereby also authorized to guarantee, absolutely and unconditionally, assuming the character of a co-obligor "in solidum", the due performance of the loan agreements entered into between public or private entities and the International Bank for Reconstruction and Development, and having such purpose as determined in Article I of this Law.

III. The aggregate sum of the loans contracted by the Government of Iran with the International Bank for Reconstruction and Development, and the loans guaranteed "in solidum" by the said Government, pursuant to the provisions contained in Articles I and II of this Law, shall not exceed the amount of \$ _____ of principal, in lawful currency of the United States of America, or its equivalent in other currencies.

IV. Exercising the authority granted in Articles I and II of this Law, the Government of Iran is empowered to covenant without any restriction whatsoever with the International Bank for Reconstruction and Development the pacts, conditions, clauses, charges and pledges which the parties shall choose to insert in the agreements entered into with said Bank.

V. The Government of Iran is hereby further authorized to delegate to the Bank Melli Iran all the rights vested in it by this Law, in order that, acting as an agent of the said government, it may exercise such rights, acting with full powers in the name and on behalf of Iran.

VI. The Government of Iran is hereby authorized to grant in connection with the loans entered into or guaranteed pursuant to the provisions of this Law exemption from payment of all kinds of imposts, taxes and contributions of the State, and all political subdivisions and agencies thereof.

VII. All legal provisions contrary to this Law are repealed.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

7/25/49

note for Iran file:

Text
of Enabling legislation
sent to Mr. Durnoy
State Dept. & is being
cabled to Iran today
with ref. in cable to
covering letter.

Draft #1
FM Oppenheimer/dg
July 22/49

His Excellency Hussein Ala
Ambassador of Iran
Washington, D. C.

LEGAL DEPARTMENT FILES

Dear Mr. Ambassador:

You have requested our suggestions as to the type of legislation the Government of Iran should enact in order to meet the requirements of the Bank in the event your Government should negotiate a loan or guarantee agreement with the Bank.

I am enclosing a draft of the type of legislation we have furnished to other member Governments making a similar request. However, this draft legislation has been prepared without consideration of any special provisions which might be included in any loan or guarantee agreement entered into with the Government of Iran, or of the requirements of the domestic law of Iran which any legislation would, of course, have to meet in order to be satisfactory.

You will note that in Article III of the draft legislation the space in which the maximum permissible aggregate sum of loans contracted or guaranteed by the Government of Iran is to be inserted has been left blank. The determination of that amount must be made by Iran, and you will appreciate that the Bank is not in a position to comment on what that amount should be.

~~The Bank~~ Before any loan or guarantee agreement with Iran could become effective, the Bank would require an opinion of legal

such loan or guarantee agreements have been duly authorized and constitute valid and binding obligations of the respective governments or guarantors.

that satisfactory to the Board Council

the rate of interest and the period of amortization

The Bank is also unable to discuss ~~terms and con-~~
~~ditions of loans~~, until preliminary negotiations regarding
particular projects, have begun. However, the recent loan
and guarantee agreements sent to Mr. Ebtehaj by Mr. Onaran
on April 29, 1949, should serve in a general way to indicate
the type of terms and conditions which have heretofore been
included in agreements with the Bank.

Sincerely yours,

W. A. B. Iliff
Loan Director

*to be financed by
such a loan*

Enclosure

*Various other terms and conditions
of a loan or guarantee agreement
can likewise be discussed only after
particular projects have been
selected.*

July 25, 1949

His Excellency Hussein Ala
Ambassador of Iran
Washington, D.C.

LEGAL DEPARTMENT FILES

Dear Mr. Ambassador:

You have requested our suggestions as to the type of legislation the Government of Iran should enact in order to meet the requirements of the Bank in the event your Government should negotiate a loan or guarantee agreement with the Bank.

I am enclosing a draft of the type of legislation we have furnished to other member Governments making a similar request. However, this draft legislation has been prepared without consideration of any special provisions which might be included in any loan or guarantee agreement entered into with the Government of Iran, or of the requirements of the domestic law of Iran which any legislation would, of course, have to meet in order to be satisfactory. Before any loan or guarantee agreement with Iran could become effective, the Bank would require an opinion of legal counsel satisfactory to the Bank that such loan or guarantee agreements have been duly authorized and constitute valid and binding obligations of the respective borrowers or guarantors.

You will note that in Article III of the draft legislation the space in which the maximum permissible aggregate sum of loans contracted or guaranteed by the Government of Iran is to be inserted has been left blank. The determination of that amount must be made by Iran, and you will appreciate that the Bank is not in a position to comment on what that amount should be.

The Bank is also unable to determine the rate of interest

2 - His Excellency Hussein Ala

and the period of amortization of a loan in advance, and it will only be able to discuss those terms when negotiations regarding particular projects to be financed by such a loan have begun. Various other terms and conditions of a loan or guarantee agreement can likewise be discussed only after particular projects have been selected. However, the recent loan and guarantee agreements sent to Mr. Ebtehaj by Mr. Onaran on April 29, 1949, should serve in a general way to indicate the type of terms and conditions which have heretofore been included in agreements with the Bank.

Sincerely yours,

W. A. B. Iliff
Loan Director

Enclosure

FMOppenheimer/lk

Iran Reg 1949
57. 2

OFFICE MEMORANDUM

TO: Files

DATE: July 25, 1949

FROM: F. Dorsey Stephens *FDS*

SUBJECT: IRAN - Priority Projects

The following information was given on behalf of O.C.I. by Mr. Holmquist of Sands and Porter (constituent firm) with regard to the priority projects mentioned in Mr. Bayne's memorandum of July 18:

1. Railways

O.C.I. recommends the immediate completion of the Tehran-Meshed railway but does not recommend, except for the later stage of the program, the completion of the Tabriz-Mineh railway. The foreign exchange requirements, largely for rails, for both projects should not exceed \$300,000.

2. Cement

O.C.I. recommends only two cement plants to be built at this time at a total foreign exchange cost of about \$6.5 million. They recommend that private capital be invested to the extent of 50% which would leave the Government's foreign exchange requirements at \$3,250,000.

3. Power

O.C.I. recommends the construction of two thermal power plants of 10,000 I.W. each at a foreign exchange cost of \$4.2 million. They recommend the study of a dam on the Koradj River, but not actual construction at this time.

FDS:stephens:mmr

cc: Messrs. Bayne
Rembert
Svoboda
Welk

Iilff No. 178.

MEMORANDUM

Cairo, Egypt, July 24, 1949.

To: W. A. B. Iilff

From: C. V. H. Engert

Subject: Iran: Decree regarding Foreign Banks

I am sending you an English translation - in case the Bank does not already possess one - of the Decree of March 14, 1949, which establishes stringent regulations to govern the operations of foreign banks in Iran. It went into effect on March 21, 1949.

By Decree No. 32834 of November 23, 1946, which is referred to in the preamble to the present one, foreign banks had been required to maintain in a special account with the Bank Melli 15% of public current deposits, and 6% of fixed deposits, in Iran. These re-deposits were all in Rials and earned no interest. At the same time foreign banks were required to hold Iranian Government Treasury Bonds to the extent of the same percentages of the same deposits with it by the Iranian public. The effect of these two obligations on the Imperial Bank of Iran was that 30% of its demand deposits, and 12% of its time deposits became immobilized and earned only 1/2% per annum.

When Mr. Garner was in Tehran last March we were told that a new Decree was being prepared and I was shown a rough draft of it. In fact, as it was obviously aimed at the "Imperial Bank of Iran", a British concern whose 60-year concession had expired in January 1949, a very strong delegation from the headquarters of the Bank in London (including Sir Kinahan Cornwallis, a former Ambassador to Iraq) was in Tehran at the time negotiating with the Persian Government. Lord Kennet, the chairman, had already been there in December 1948.

Originally the "Imperial Bank of Persia" (as it was called until 1936) had the sole right to issue notes, but when the "Bank Melli" was established in 1932 as the National Bank of Iran, this and several other privileges were gradually withdrawn from it. And as the "Bank Melli" is not only acting as the government bank but does ordinary commercial banking as well, the Imperial Bank also lost much profitable business.

/The

The most startling requirement in the Decree is contained in Article 2, which states that foreign banks must deposit with the Bank Melli, without interest, at least 55% of all their deposits. This will necessitate a considerable increase in the capital of the Imperial Bank in Iran, and the only concession made by the Government - I understand at the vigorous insistence of Sir Kinahan Cornwallis - was a guarantee that any capital or reserves transferred to Iran may be repatriated, in whole or in part, at the same rate of exchange at which they were converted into Rials, on giving six months' advance notice.

Under Article 3 (a) foreign banks can have branches outside of Tehran "only by special permission of the Council of Ministers", and as the Imperial Bank has long been anticipating that such authorization would not be easily obtained, it has for several years been establishing branches in a number of other Middle Eastern countries, e.g. Damascus (where, incidentally, its manager was recently killed in a Jewish air raid), Beirut, Tripoli, etc., but especially in most of the great oil centers of the Persian Gulf. For this reason, and also because it is no longer the bank of the "Imperial" Persian Government, it decided to change its name to "British Bank of Iran and the Middle East", and it may ultimately do more business outside of Iran than in that country.

1 Encl.

DRAFT
FM Oppenheimer/lk
July 22/49

His Excellency Hussein Ala
Ambassador of Iran
Washington, D.C.

OK
RJR
LEGAL DEPARTMENT FILES

Dear Mr. Ambassador:

You have requested our suggestions as to the type of legislation the Government of Iran should enact in order to meet the requirements of the Bank in the event your Government should negotiate a loan or guarantee agreement with the Bank.

I am enclosing a draft of the type of legislation we have furnished to other member Governments making a similar request. However, this draft legislation has been prepared without consideration of any special provisions which might be included in any loan or guarantee agreement entered into with the Government of Iran, or of the requirements of the domestic law of Iran which any legislation would, of course, have to meet in order to be satisfactory. Before any loan or guarantee agreement with Iran could become effective, the Bank would require an opinion of legal counsel satisfactory to the Bank that such loan or guarantee agreements have been duly authorized and constitute valid and binding obligations of the respective borrowers or guarantors.

You will note that in Article III of the draft legislation the space in which the maximum permissible aggregate

sum of loans contracted or guaranteed by the Government of Iran is to be inserted has been left blank. The determination of that amount must be made by Iran, and you will appreciate that the Bank is not in a position to comment on what that amount should be.

The Bank is also unable to ^{determine} ~~discuss~~ the rate of interest and the period of amortization of a loan, ^{in advance, and it will only be able to discuss these terms when} until preliminary negotiations regarding particular projects to be financed by such a loan have begun. Various other terms and conditions of a loan or guarantee agreement can likewise be discussed only after particular projects have been selected. However, the recent loan and guarantee agreements sent to Mr. Ebtehaj by Mr. Onaran on April 29, 1949, should serve in a general way to indicate the type of terms and conditions which have heretofore been included in agreements with the Bank.

Sincerely yours,

W. A. B. Iliff
Loan Director

Enclosure

Iran Meetings

OFFICE MEMORANDUM

TO: Files

DATE: July 22, 1949

21

FROM: L. Svoboda *L.S.*

SUBJECT: IRAN - Meeting with OCI Representatives re OCI Final Report on Iran

A meeting was held in Mr. Hoar's office at 10:00 A.M. yesterday. Present at the meeting were:

- Messrs. Iliff
- Stephens
- Bayne) IBRD
- Rembert
- Svoboda

- Lotz
- Barker
- Hamill) OCI
- Thornburg

- Gorlitz) State Department

ECONOMIC SECTION OF OCI REPORT

Mr. Lotz introduced Mr. Barker as the Financial Expert who had covered the economic and financial field of the Group's Report and suggested that he summarize his findings. Mr. Barker referred to the economic section of the Report prepared by him and suggested reading it and discussing it afterwards from whatever angle it might be desired. The following are its highlights:

The financial problems of the Plan should be considered from three aspects:

- I. External Expenditures
- II. Rial Expenditures
- III. Control of Rate of Rial Expenditures

I. External Expenditures

- a. Considering the AIOC oil revenue as earmarked under the Plan, the external expenditures appear generally to be assured. The rate of oil revenue in the future cannot, of course, be predicted but can be assumed to be substantial and adequate for the above purpose.
- b. Foreign currency loans - In view of the above, no IBRD loan appears to be necessary to cover external expenditures of public projects under the Plan. However, one or several small pilot loans by the Bank to the private sector would, at this time, be a most effective contribution.

II. Rial Expenditures

Potential sources of supply are:

- a. Taxation - No substantial increase from this source, however, can be expected until a tax reform is effected.
- b. Financing from the current budget-only possible through budget economy by elimination of some current expenditures, otherwise inflationary.
- c. Governmental borrowings from the public - In the absence of a regular capital and money market and in view of the highly speculative nature of private lending, (interest rates from 24 - 48%), no contribution from this source might be expected. The issue of lottery bonds, however, may offer some possibilities.
- d. Government borrowings from Banks - Banks under their present organization are only a limited source for financing. Re-organization of existing banks appears to be urgently needed prior to the creation of any new banks.
- e. Advance from the Bank Melli - The greatest caution should be exercised in tapping this source which should be considered only after all other non-inflationary sources have been exhausted.
- f. Devaluation of the Rial - The present exchange rate of 32 Rials to one dollar is unrealistic. The black market rate of 50 to 60 Rials to the dollar reflects its actual purchasing power. The devaluation of the Rial would free substantial foreign exchange and gold holdings for additional imports or as cover for a currency expansion. At the request of the Iranian Government, Mr. Van Zeeland has recently visited Iran to advise the Government on the above problem. OCI makes no recommendation on this question.
- g. Diversion of Governmental employees to the Plan - Greatest emphasis should be put on this transfer which should save considerable funds for the Plan.
- h. Diversion of expenditures of Ministries to avoid duplication - The same as under "g." applies to the above.
- i. Sale of Governmental property - The Government owns, through the Industrial Bank, (holding company), a great number of industrial plants. These plants, however, are mismanaged and show hardly any profits. It would, therefore, be difficult to sell them at anything near their real value. Sale of Governmental real estate, on the other hand, may at present be hampered by the extensive speculation in real estate.

- j. Increased earnings from Government-owned industries - These should be possible, to a great degree, through expansion of production and increased efficiency.
- k. Income from projects - It is difficult to make any estimate of the above source.
- l. Customs duties -

III. Control of the Rate of Rial Expenditures

Greatest emphasis should be put on this point. The large sterling funds currently accruing under the AIOC Agreement involve a potential inflationary danger. Insofar as these funds are used for imports of capital equipment, they create an amount of corresponding Rial expenditure requirements for transport and installation of such equipment. If excessive, such expenditures might lead to an expansion of note circulation which, if not accompanied by a similar increase in the volume of goods, will result in a general rise in the price level. Thus, both the stability of the economy, as well as the cost calculations of the Plan, may be fundamentally affected. It is, therefore, necessary that in order to prevent any such developments, external expenditures of the Plan should be determined in accordance with the capacity of the internal economy to absorb their internal counterpart. On the other hand, supplementary supply of the domestic market with consumption goods, through additional imports (effected from sterling receipts of Rial sales to the AIOC for operational expenditures) and through increased domestic production, should help to relieve the inflationary pressure.

DISCUSSION OF ECONOMIC REPORT

In the following discussion in the reply to various questions, Mr. Barker explained several points of his report:

- 1. The financial problem of Iran's Development Plan is not so much a question of how to raise the funds as, rather, a question at what rate to spend them.
- 2. It is not possible, in advance, to put a "bench mark" for such expenditures and to determine the point where inflationary danger exists. A constant watch on the economy instead is necessary and on the price level which is an indicator. Generally, it may be said that the annual allocation of funds under the Seven-Year Plan should be regarded as a maximum, if not excessive.
- 3. The principal sources of Rial expenditures should be:
 - a. diversion of Governmental employees to the Plan.
 - b. diversion of part of Governmental expenditures through budget economy.

- c. expansion of cash balances through increased earnings of Governmental industries, savings through elimination of duplication of expenditures, etc.
4. Foreign expenditures:
 - a. Iran's own sources appear adequate but must be coordinated with local expenditures with due regard to the potentially inflationary danger involved.
 - b. Modest IBRD loan for pilot projects in private sector is recommended.
 5. Price controls may have been useful in wartime to keep price level constant; in peacetime they are not effective. In contrast with this opinion, it was felt that cheap food policy has been successfully employed by several Governments, even in the postwar period.
 6. Statistics are either non-existent or unreliable. Figures of the report should be, therefore, used with the greatest caution.
 7. The management of the Bank Melli is exceptionally good and efficient, thanks to Governor Ebtehaj who has a wide technical knowledge, although lacks a theoretical-economic background. Mr. Ebtehaj's position having recently been weakened, his resignation would certainly be followed by a drastic change in Iran's financial policy.

OCI FINAL REPORT

Mr. Hamill explained the setup of the OCI Final Report. It consists of five volumes including the economic section discussed, as well as a top report summarizing all sectors. The Development Program has been drawn up with a view to coordinating it as much as possible with the goals of the Seven-Year Plan and includes priority projects for each sector to be carried out within the annual allocations under the Plan. These representing maximum targets, the actual work will have to be carried out in accordance with the principles as outlined in the economic section of the report. In spite of several technical obstacles, work on the Report is proceeding satisfactorily and it is hoped that it can be finished by August 1 as originally envisaged.

LSvoboda:mmr

cc: Messrs. Stephens
Bayne
Rembert

Iran Negot
151
-

OFFICE MEMORANDUM

TO: Files

DATE: July 21, 1949

FROM: F. Dorsey Stephens *FS*

SUBJECT: IRAN

1. Messrs. Lotz, Barker, Hamill and Thornburg of O.C.I. and Messrs. Bayne and Stephens attended a conference at the Iranian Embassy at which the relative merits of an organizational consultant service, as opposed to direct employment of individual consultants, were discussed.
2. Representatives of O.C.I. made it quite clear that they would be opposed to sending out top-level experts except as employees of O.C.I. and responsible to it. In their opinion, it would not be possible to secure the services of high-grade experts on any other basis.
3. There was an informal discussion as to a revised basis on which O.C.I. would be willing to continue its services, i.e., a flat fee of \$25,000 per month; plus any number of consultants up to 12 at salary cost; and any other experts recruited by O.C.I. at salary cost plus actual out-of-pocket recruiting cost. It is understood that the revised O.C.I. proposal will be cabled to Tehran.
4. Mr. Thornburg is expected to return to Tehran as soon as the O.C.I. final report is ready in order to discuss this with the Plan Organization.

FDStephens:mmr

cc: Messrs. Bayne
Rembert
Svoboda
Welk

draft

His Excellency Hussein Ala
Ambassador of Iran
Washington, D. C.

LEGAL DEPARTMENT FILES

Dear Mr. Ambassador:

You have requested our suggestions as to the type of legislation the Government of Iran should enact in order to meet the requirements of the Bank in the event your Government should negotiate a loan or guarantee agreement with the Bank.

I am enclosing a draft of the type of legislation we have furnished to other member Governments making a similar request. However, this draft legislation has been prepared without consideration of any special provisions which might be included in any loan or guarantee agreement entered into with the Government of Iran, or of the requirements of the domestic law of Iran which any legislation would, of course, have to meet in order to be satisfactory.

Sincerely yours,

W. A. B. Iliff
Loan Director

Enclosure

FMO/AFL:GW
7/20/49

Iran - Nego.

FILE COPY

Dr. Antonin Basch

July 20th, 1950

F. G. Bochenski

DECLASSIFIED

Confidential

Latest developments in Iran

JUN 06 2013

WBG ARCHIVES

1. Information received yesterday from several sources (mainly the Dept. of State and the OCI) indicates a number of developments under the new Razmara Government, which affect the Seven Year Plan. The following are the highlights:

- a) In Tehran, the emphasis is shifted from the Plan Organization to the Government; the functions of the Plan Organization's High Council are to be taken over by the Economic Council of Ministers (comprising the ministers of National Economy, Finance and the Governor of Bank Melli).
- b) More is to be done for the economic development of the provinces, which are to cooperate through local committees composed of "honest and competent people."

(While the two above points involve, simultaneously, a better coordination on top levels and a decentralization of activity, according to the available data, the central control of the development program seems to be assured and the Plan Organization retains responsibility for the plan finances.)

- c) Governor Eftehaj has resigned and has been replaced by Mr. Zand, a former Governor of Bank Melli and former Minister of Interior (he stands on record as being opposed to the lowering of the note cover requirements.)
- d) Dr. Naficy, head of the Plan Organization, has resigned and is replaced by a former Minister of Roads, Mr. Sajjedi.

2. There has been some informal enquiry from the Iranian Government about the time when somebody would be sent to Washington to negotiate a loan. Additional information received on the cement project seems still unsatisfactory.

3. At the Working Party meeting yesterday, Mr. Stephens presented two alternatives for further action:

- a) to delay any commitment now and demand further explanations and assurances from Iran on future policies with regard to the Seven Year Plan, etc.,
- b) to declare the readiness for negotiations off Khorramshar and, simultaneously, make enquiries as above.

4. I made a plea for alternative b) with the following justification:

Latest FILE COPY

20th

- (i) There has been no indication, so far, that the new government is relenting on development policy. The administrative organization of the Plan (though regrettable for Dr. Naficy's resignation) may eventually lead even to an improvement. Under the previous system, there was not enough cooperation between the government agencies and the Plan Organization. The Mission did not criticize that state of affairs too strongly, assuming that the Plan Organization was slightly more efficient and more honest than the government and, therefore, its far-going independence may be justified. If now, as is believed by some observers, the new ministers introduce higher standards of integrity and competence, the justification for the former state of affairs would no longer be valid.
- (ii) The accent on development in provinces may simply mean more investment in agriculture and, from this point of view, might also be an improvement.
- (iii) Even if the Plan Organization should suffer from the above changes (which seems by no means certain), the Khorramshar project deserves assistance, as its justification does not depend entirely on the continuation of the Seven Year Plan.
- (iv) The resignation of Governor Ebtahaj is regrettable in many ways, but was probably inevitable in view of the clash of personalities.

5. Messrs. Stephens, Wheeler and Svoboda were, generally speaking, of my opinion; the representative of the Treasurer did not take a clear stand. Mr. Clark from the Legal Department expressed himself against any loans which, in his opinion, would mean political support for Gen. Razmara, a man with dictatorial tendencies. Mr. Clark was also afraid that the Plan Organization would turn into a public works program and deviate completely from the original intentions.

not correct

you see

Not complete

6. In view of the lack of unanimity among the members of the Working Party, Mr. Stephens referred the matter to Mr. Iliff last night. Mr. Iliff seemed to share our opinions and intends to take the matter up with the Legal Department. It was decided to postpone the Staff Loan Committee meeting, originally scheduled for Tuesday of next week. A Working Party meeting will presumably take place early next week.

July 19, 1949

DRAFT OF ENABLING LEGISLATION

LEGAL DEPARTMENT FILES

I. The Government of Iran is hereby authorized to negotiate and contract with the International Bank for Reconstruction and Development, in the name and on behalf of Iran, one or several loans, for the purpose of promoting the development of the economy of the country.

II. The Government of Iran is hereby also authorized to guarantee, absolutely and unconditionally, assuming the character of a co-obligor "in solidum", the due performance of the loan agreements entered into between public or private entities and the International Bank for Reconstruction and Development, and having such purpose as determined in Article I of this Law.

III. The aggregate sum of the loans contracted by the Government of Iran with the International Bank for Reconstruction and Development, and the loans guaranteed "in solidum" by the said Government, pursuant to the provisions contained in Articles I and II of this Law, shall not exceed the amount of \$_____ of principal, in lawful currency of the United States of America, or its equivalent in other currencies.

IV. Exercising the authority granted in Articles I and II of this Law, the Government of Iran is empowered to covenant without any restriction whatsoever with the International Bank for Reconstruction and Development the pacts, conditions, clauses, charges and pledges which the parties shall choose to insert in the agreements entered into with said Bank.

V. The Government of Iran is hereby further authorized to delegate to the Bank Melli Iran all the rights vested in it by this Law, in order that, acting as an agent of the said government, it may exercise such rights, acting with full powers in the name and on behalf of Iran.

VI. The Government of Iran is hereby authorized to grant in connection with the loans entered into or guaranteed pursuant to the provisions of this Law exemption from payment of all kinds of imposts, taxes and contributions of the State, and all political subdivisions and agencies thereof.

VII. All legal provisions contrary to this Law are repealed.

Iran Reg.

OFFICE MEMORANDUM

TO: W.A.B. Iliff
FROM: E. A. Bayne *EB*
SUBJECT: Present Iranian Situation

DATE: July 18, 1949

We found the situation in Teheran considerably changed from what it had been in March when the Garner mission was there. The Government is operating on a deliberate budget deficit of as much as 25% and tax increases indicated in March have not been put into effect. The rise in the cost of living is reported to have been proceeding upward already on about the same basis as during the last two years, despite an increasingly restrictive credit policy of the Bank Melli. The importers (who represent a pressure group of considerable strength in the Majlis) are in a badly overstocked position, particularly in textiles, which, while apparent in March, has become more critical with the deliberate tight money policy of the Bank Melli. Several textile factories have closed giving the oversimplified reason as an inability to sell goods at prices yielding what mill owners believe to be an operating profit.

In the north, there have been sporadic food riots which are alleged to be the result of poor distribution of Government stocks of food rather than any general shortage of foodstuffs in the area. The Government is maintaining that it needs to import as much as 120,000 tons of wheat in order to maintain its cheap bread distribution program. Exports have continued at about the same rate as 1948, and there has been a slight softening of prices on export commodities. Despite other estimates that the economy is verging on collapse, what we found in a short visit would not support such a view. Rather, there is a readjustment reaction to world prices with the addition of certain special internal factors.

Negotiations between the Government and the Anglo-Iranian Oil Company for revision of the present contract have reached a final stage and should result in a considerable increase (about 50%) of income to the Government, arising from both a higher royalty rate and current distribution of company profits to the Government. My conversations with the Chairman of the Anglo-Iranian Oil Company in London indicated that the revised agreement should be signed within a few months.

Politically it is the opinion of observers in Iran that the Sa'ed Government is reasonably secure even though the situation is confused. The present Majlis ceases to exist this month, to be followed in October by a new Parliament of two houses as a result of general elections. The Government is generally acknowledged to be weak, and at the moment embarrassed by the restrictive credit policy of the Bank Melli. To the extent that Governor Ebtehaj is invulnerable, the Government is unable to ease the financial situation without an attack in force upon the bank's policies. This has given rise to considerable speculation that the Government, with the assistance of the Shah, may remove Governor Ebtehaj by appointing him as Ambassador to Washington or as Minister of Finance. The situation was too fluid to evaluate while we were there, but it was acknowledged that such a change would mean a considerable change in Iran's internal financial policy. Such a change would certainly mean a loosening of credit now, both to the market and to the Government itself. The Government has recently (and illegally) raided the allocation of funds to the Planning Administration, setting a definite limit of not more than £7,000,000 from oil royalties to be expended on the Plan in a year, instead of a potential £15,000,000 on the basis of 100% of oil royalties being allocated. A table is attached indicating the comparison of income for the Plan, as originally envisaged and approved by the Majlis, and as presently proposed by the Government.

II. Relationship with IBRD

In Iran's relationship with the Bank, the most notable change from March was in the Iranian Government's decision to apply to the Bank for financial assistance in the immediate future. We held a meeting with the Board of the Seven-Year Plan Administration with the Prime Minister, the Minister of Finance and other members of the Cabinet present. Both Taghi Nassr, Director of the Plan, and Prince Abdor Reza, who is the Shah's personal representative for the Development Program, stated the policy of the Government as follows:

(1) That the impression given to the Garner mission in March, that Iran did not need to borrow for the first years of the Development Program was erroneous.

(2) That assistance would, therefore, be needed immediately, and that this assistance would probably amount in the first request to as much as \$60 million.

(3) Projects that were to be discussed were in five general sectors. These were included in the O.C.I. recommendations (except for the railway program for which O.C.I. had suggested highways instead) and the Planning Board had decided that these were of first priority, after certain other programs which were "non-financeable" by the Bank. The projects mentioned:

(a) Railways: completion of the Meshed-Teheran railway of about 500 kilometers and completion of Tabriz-Mianeh railway of about 350 kilometers.

(b) Four cement factories located in various parts of the country, the first two to be located in Teheran and Shiraz. Locations for the others to await the recommendations of the O.C.I.

(c) Building of two thermal power plants of 10,000 kilowatts each; one in Teheran and one on the Caspian littoral; and the building of a hydro-electric station for Teheran for 20,000 kilowatts (Koradj).

(d) Certain food processing, canning and drying plants, the details of which were not specified.

(e) Well-drilling equipment for use in Azerbaijan; and a quantity of agricultural machinery for a Government program to centralize maintenance and distribution of tractors, combines, etc.

I pointed out that as the Board and the Cabinet undoubtedly knew, the Bank would not make a general loan but would approach any application from the Iranian Government on the basis of individual projects and would be inclined to discuss a series of small loans as these projects matured in their detailed planning. Further, we suggested that before presenting any formal application, the Government should apply to the Bank for a mission to establish the credit worthiness of Iran, which was a prerequisite to any commitment by the Bank.

The Iranians then asked if the Bank would, without giving any commitment whatsoever, outline the type of wording for a general enabling legislation the Government needed to contract a loan with the Bank. They requested that such wording, if possible, include an indicated maximum interest rate and the maximum and minimum term of the loan, which they feel is necessary to present to the Majlis. They particularly desire to have the suggested wording presented to the present Majlis since the new Parliament would not convene until October and would be of relatively unknown character. I agreed to transmit the request to the Bank and reiterated the point that no commitment could be made now. I indicated my doubt that the Bank would care to establish a maximum interest rate or even the maximum term of a loan except in the most general way. I admitted, however, that the Bank had suggested general legislation from time to time to member governments.

We had reported on arrival to Governor Ebtehaj as the appropriate contact for the Bank; his views, now almost isolated from Iranian opinion, differed from those of the Planning Administration. His view, now well known, meant that if the Majlis would pass his proposed bill reducing the Bank Melli currency cover to 50%, he would have available more than \$60 million with which to finance the initial stages of the Plan. In view of this high-level difference in outlook, I discussed the subject with the Shah, who confirmed the policy that Iran wished to borrow now; and also that he felt that "one generation should not bear a disproportionate share of the development program," that the sooner the Bank could take action on the suggested wording for guaranty legislation, send a mission and indicate directly its support of Iran, the stronger would be the whole concept of development. He made a clear differentiation between other aid he was expecting from the United States, particularly, and his country's relationship with the Bank, and he pronounced these relations completely satisfactory so far.

Detailed discussions with Dr. Nassr were held on the program of the Planning Administration, indicating the following as new points of interest to the Bank:

- (1) That projects, although built by foreign contractors, would be within the administrative framework of Government Ministries, supervised and financed by the Planning Board.
- (2) That financing for small projects, particularly those involving private capital, would be handled by a to-be-formed Plan Bank, to which the IBRD could lend foreign exchange.
- (3) That the Planning Administration did not consider the present allocation of funds (on the new basis) a final arrangement, and would on presentation before the Majlis in March 1950, present a program involving up to the original basis of 100% of oil royalties, depending upon the project decisions of the Board.

(4) That the offer of O.C.I. to service the Plan at a basis rate of \$500,000 a year was exorbitant, and that the Administration questioned the necessity for O.C.I. during the next phase of the Plan, preferring direct contracting of advisers and specialists, hiring through an O.C.I. or other technical recruiting service or directly. However, no firm decision had been taken, and the advice of the Bank would be helpful.

(5) That the Administration wished to maintain considerably closer contact with the Bank than heretofore.

(6) That the Administration was not satisfied with the attitude of the Bank Melli, nor with its statement that it was not in a position to assist financing of the Plan without authority of a reduced currency cover. (This view was shared by several foreign observers as well.)

(7) That the Plan Board did not consider O.C.I. to be responsible for the establishment of specific priorities for projects, that the O.C.I. report would be a most competent guide, but that the Board would have to make decisions, which it had done in listing the early projects.

III. Summary

As a result of these discussions in Teheran:

(1) The Bank is asked to interest itself in the problem presented by the relationship of O.C.I. to the next phase of operations in Iran.

(2) The Bank is asked to suggest the general text of guarantee legislation for loans to Iran.

(3) The Bank is asked to send a general mission as soon as convenient, such a mission to study the economy but also with reference to the projects listed, on which considerable detailed engineering is still to be done.

ESTIMATED FUNDS FOR FINANCING OF
IRAN'S SEVEN-YEAR PLAN

	<u>Allocation from all sources</u>	
	<u>Law</u> (millions of rials)	<u>Dr. Naficy's original proposal</u> (millions of rials)
Oil royalties	8,400	7,200
Bank Melli*	4,500	5,600
IBRD	8,125	4,800
Taxes*	—	<u>3,400</u>
	21,025	21,000

<u>Fiscal year March-March</u>	<u>Allocation of oil royalties</u> under		
	<u>old</u>	<u>new</u>	<u>actual</u>
	I	II	III
	(millions of rials)		
1949 (second half)	600	1,170	365
1950	1,200	1,950*	910
1951	1,200	1,950	910
1952	1,200	1,950	910
1953	1,200	1,950	910
1954	1,200	1,950	910
1955	1,200	1,950	910
1956 (first half)	<u>600</u>	<u>980</u>	<u>455</u>
	8,400	13,850	6,280

I First year rials 600 million; following years 100% of estimated total L9.2 million.

II First year 60%; following years 100% of estimated total L15 million.

III First year 40%; following years 100% of L7 million.

Note: Under present thinking in Teheran, early loans from Bank Melli and any income from tax sources are not expected to be included, although the plans for use of the Bank Melli are not yet clear.

\$1 = rials 32.5

L1 = rials 130

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Iran Nego.

Mr. E. A. Bayne

July 18, 1949

Ladislav Svoboda

Question of Iran's Capacity to Finance Seven-Year Plan in Initial Phase

1. Utilization of Own Resources. When discussing the financial aspects of the Iranian Seven-Year Plan, the Governor of the Bank Melli, Mr. Ebtehaj, repeatedly emphasized that Iran was well in a position of financing the initial phase of the Development Program out of its own resources, provided the note cover could be reduced by 28% to 50% of the total currency circulation, and thus an additional volume of gold and foreign exchange could be released to be utilized for payments for additional imports and/or as cover for supplementary note issues.

This proposition has been opposed by the greater part of governmental authorities as well as the Majlis and appears now to have been dropped. The question whether Iran even without recourse to the above-mentioned monetary transaction could avail itself of adequate own funds to cover the expenditures of at least the first two years of the Seven-Year Plan estimated at R. 1 billion and R. 2 billion, respectively, seems still to call for further examination. In this respect, attention should be drawn to the generally favorable financial position of the Bank Melli as well as to the increased revenue expected to accrue to the Government from oil royalties under the new agreement with the A.I.O.C.

2. Bank Melli's Position. Considering the financial position of the Bank Melli, the following general observations may be made on the basis of the Bank's balance sheet as of March 20, 1949. (See annexed statement I.)

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(a) Out of an authorized maximum note issue of R. 7.8 billion only R. 6.7 billion were actually in circulation as of March 1949, while the balance of R. 1.1 billion was carried as cash by the Banking Department. It is apparent that this balance represents a marginal volume of currency, a substantial part of which (probably one half) could be put into circulation without endangering the liquidity of the Banking Department.

(b) For several years the Bank Melli has been carrying on the accounts of its Issuing Department an offsetting pro forma entry of R. 1 billion. This item, according to its heading, represents a supplementary amount of currency which could be put in circulation on the basis of additional note cover which currently is deposited with the Banking Department. It may thus be assumed that the Bank of Issue is in a position to expand the note circulation under present cover requirements by a maximum of R. 1 billion above the existing ceiling of R. 7.8 billion, provided authorization is obtained from the Majlis.

(c) Apart from this theoretical possibility for a marginal note expansion for which corresponding cover appears to have been earmarked for several years, it may be noted that during the past fiscal year (ending March 1949) the Central Bank's technical position has considerably further been strengthened.

(1) There was a general over-all increase in the Bank's turn over by 27%. The main share in this expansion on the asset side took the accounts representing the Banking Department's foreign assets (money at call and at short notice with banks abroad and foreign currencies). These increased during the year by R. 1.8 billion from R. 2.3 billion to R. 4.1 billion. This would indicate to an improvement in the Bank's foreign exchange position by as much as 75% in course of the year, presumably primarily on sterling account. Even assuming that part of this increase may

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have been absorbed by an expansion of the Bank's commercial credit operations on foreign accounts, it would seem probable that a fairly large portion of supplementary sterling has been accumulated. It would seem that these could be used for either payments for additional imports or as part of cover for an increase in the note circulation.

(2) On the liability side, there was a substantial increase by 1.9 billion on short-term deposits, 0.7 billion of which on governmental account. Considering the only negligible increase in the Government's borrowings from the Bank Melli during the period, the latter amount represents practically a net improvement of the Government's financial position. In contrast to the substantial increase in the Bank's deposits for private account (short-term by 1.2 billion and long-term by 0.5 billion) there was a relatively moderate expansion of the Bank's commercial credit operations which increased by about 0.4 billion on discounts and 0.5 billion on advances (debtors).

(3) In considering the above, it might be said that as a result of substantially increased foreign exchange earnings in 1948/1949 the Bank's foreign assets have considerably been strengthened. On the other hand, there was no simultaneous expansion in the note circulation as the local currency proceeds from the above earnings largely accumulated in form of deposits with the Central Bank. As there was no notable commercial credit expansion either and the Government's borrowings from the Central Bank remained negligible, these developments resulted in a moderate contraction in the note circulation accompanied by a simultaneous strengthening of the Banking Department's cash reserves. It would thus appear that the Bank Melli's technical position at present is generally favorable in providing a basis for both a moderate increase in foreign exchange spendings as well as limited expansion of the money supply within the present cover regulations. To what extent such expansion would be possible can hardly be evaluated without

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knowing the actual amount and composition of the Bank's foreign exchange holdings as well as those of the Treasury. It can, however, be assumed that a substantial amount of the Banking Department's cash reserves (as of March 1949, say 40% or R. 450 million) could be mobilized without endangering the Banking Department's liquidity. Furthermore, it would seem that within the limits of R. 1 billion additional foreign exchange funds could be made available to provide financing of supplementary imports or cover for additional note issue for local expenditures under the Seven-Year Plan in its initial phase.

3. Oil Revenue. Apart from these generally favorable elements in the Bank Melli's present position, resulting from the current improvement in its external financial position, future prospects in this respect indicate to still more favorable developments. These will principally be affected by the drastic increase in the Government's oil revenue following the signing of the new A.I.O.C. agreement which reportedly is pending. The financial effect of this agreement as regards the estimated total increase in oil revenue as well as the possible proportional increased allocation of funds for financing the Seven-Year Plan may be seen from the attached tables II and III. It may be noted that under the new agreement oil royalties are estimated at £15 million p.a. or more than 50% above their present levels. To this amount an about equal amount of £14.7 million should be added in 1949 for account of reserve distribution 1947 and retroactive payment for reserve and royalty 1948, while about £15 million should accrue from A.I.O.C. capital and operational local expenditures. This raises Iran's total sterling earnings in 1949 under the A.I.O.C. agreement alone to almost £45 million. Furthermore, if account is taken of an additional amount of £5 million payable in 1949 by U.K. in settlement of Iran's railroad claims for wartime

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transportation, Iran's sterling earnings in 1949 should reach a total of almost £50 million. Comparing this income to about £24 million of total oil revenue in 1948/1949 (March), the drastic improvement of Iran's sterling position becomes more than apparent.

Assuming that the increased oil revenue under the new A.I.O.C. agreement were allocated to development at the same rate as provided in the original bill for the Seven-Year Plan (i.e., 60% of oil royalties in first and 100% following years) the funds from this source should be increased from R. 600 million to R. 1,170 million in 1949/1950, from about R. 1,200 million to R. 1,950 million in the following years and from about R. 8,400 million to about R. 13,850 million for the whole Seven-Year period. On the same assumption, the Plan's total financing requirements from other than local sources would correspondingly be reduced from R. 8,125 million (\$250 million) to R. 2,670 million (\$82 million). According to this calculation, the financing requirements of the first two years of the Seven-Year Plan estimated at R. 1,000 million and R. 2,000 million for 1949/1950 and 1950/1951, respectively, could fully be met from current oil royalty allocations unless the local counterpart of these is used up for current budget financing. External assistance, on the other hand, would seem to be necessary in a later stage of the Plan. The internal part of the expenditures of the Plan could not be effected without a substantial increase in the note circulation. Apart from the inflationary problem of this transaction which is outside the scope of this note, this raises the question of the additional note cover. While the Bank Melli's foreign exchange holdings would appear sufficient for the maximum increase of note circulation required, the Bank's present gold holdings would seem to be adequate for an expansion by not more than R. 1 billion above the present ceiling of R. 7.8 billion. Any further expansion might require change in the note cover regulations. On the

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other hand, a reduction of the cover requirements to 50% of the note circulation, as suggested by Mr. Eftehaj, would immediately free an amount of approximately R. 2 billion of gold and convertible foreign exchange, which, if exclusively used as backing for additional note issues, would make possible a currency expansion by more than R. 4 billion (see table IV).

4. Conclusions. In summarizing the above, it may be said that Iran's capacity for financing the expenditures of the first two years of the Seven-Year Plan would seem to be reasonably assured. As a result of substantially increased foreign exchange earnings in the past fiscal year, the Bank Mellī appears to have accumulated a considerable surplus on its external accounts. On the other hand, there was no corresponding expansion of note circulation, as the local counterpart of the foreign exchange earnings accumulated primarily in form of deposits with the Central Bank. In absence of any notable credit expansion as well as of governmental borrowing, this situation resulted in a moderate contraction in currency circulation. As a result of these developments, the Bank's present position would seem to provide a limited basis for a moderate monetary expansion and/or for supplementary foreign exchange spendings.

Furthermore, the immediate prospects for considerably increased oil revenue under the new A.I.O.C. agreement would indicate to a further radical improvement of Iran's sterling position already in 1949/1950. It would appear that oil royalties alone after their expected increase by 50% would be sufficient to cover the estimated total expenditures of R. 1 billion and R. 2 billion for the first two years of the Plan, provided they are not drawn down for current budget financing and assuming they are allocated at a rate as originally provided in the Bill for the Seven-Year Plan. The local part of these expenditures cannot be effected without a substantial

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increase in the note circulation. Whether such increase will be possible within the present note cover regulations will primarily depend on the extent of the Bank's gold holdings which appear at present to be adequate for a currency expansion by R. 1 billion above the present ceiling of R. 7.8 billion

cc: Stephens

LSvoboda/pnn

TABLE I

BANK MELLI IRAN

Comparable Statements March 20, 1949, 1948

ISSUE DEPARTMENT

<u>LIABILITIES</u>			<u>ASSETS</u>				
	<u>1949</u>	<u>1948</u>	<u>±</u>		<u>1949</u>	<u>1948</u>	<u>±</u>
	<u>(Millions of rials)</u>				<u>(Millions of rials)</u>		
<u>Notes issued</u>				Gold - 110,479,536-2530			
In Circulation	6,672	7,024	- 352	grams fine	4,030	4,117	- 87
In Banking Department	<u>1,128</u>	<u>776</u>	+ 352	Iran's subscription to			
	<u>7,800</u>	<u>7,800</u>		IMF and IERD	308	220	+ 88
	7,800	7,800		Foreign exchange	1,718	1,719	- 1
				Crown jewels up to	344	344	
				Govt. liability secured			
				by excess-value of			
				Crown jewels	<u>1,400</u>	<u>1,400</u>	
					7,800	7,800	
<u>Reserve</u>	<u>1,000</u>	<u>1,000</u>		Deposits in Banking Dept.	<u>1,000</u>	<u>1,000</u>	
	<u>8,800</u>	<u>8,800</u>			<u>8,800</u>	<u>8,800</u>	

BANKING DEPARTMENT

<u>Paid-up capital</u>	300	300		Gold and silver	594	661	- 67
<u>Reserves</u>	1,030	900	+ 130	Notes on hand	1,128	776	+ 352
<u>Fixed Deposits</u>				Money at call with banks			
Govt.	363	315	+ 48	abroad, foreign cur-			
Others	<u>1,567</u>	<u>1,067</u>	+ 500	rencies, etc.	4,128	2,333	+ 1,795
	1,930	1,382		Securities	1,076	1,322	- 246
<u>National savings</u>	954	849	+ 105	Bills	1,468	1,092	+ 376
<u>Current accounts and</u>				<u>Advances</u>			
<u>Demand Deposits</u>				Govt.	3,646	3,492	+ 154
Govt.	2,334	1,634	+ 700	Govt. concerns, com-			
Others	<u>7,040</u>	<u>5,784</u>	+ 1,256	panies, banks and			
	9,374	7,418		Municipalities guar-			
<u>Sundries</u>	<u>2,009</u>	<u>1,404</u>	+ 605	anteed by Ministry			
	15,597	12,253		of Finance	380	472	- 92
				Others	<u>1,122</u>	<u>634</u>	+ 488
					5,148	4,598	
				Premises, furniture &			
				stationery	171	155	+ 16
				Sundries	<u>1,884</u>	<u>1,316</u>	+ 568
	<u>15,597</u>	<u>12,253</u>			<u>15,597</u>	<u>12,253</u>	

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TABLE II

ESTIMATE OF IRAN'S OIL REVENUE IN 1949 UNDER NEW CONTRACT

A.I.O.C. Payments (on signing of new contract)	
For account of 1947, Reserve distribution	£ 5,000,000
For account of 1948, retroactive payment of reserve and royalty	9,750,000
For account of 1949, royalty	<u>15,000,000</u>
	£29,750,000
Plus A.I.O.C. capital and operating local expenditures	£15,000,000
Plus settlement of U.K./Iran Railway (wartime) payment	<u>5,000,000</u>
	£49,750,000

TABLE III

ESTIMATED FUNDS FOR FINANCING OF
IRAN'S SEVEN-YEAR PLAN

	<u>Allocation from all sources</u>	
	<u>Law</u> (millions of rials)	<u>Dr. Naficy's original proposal</u>
Oil royalties	8,400	7,200
Bank Melli*	4,500	5,600
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Taxes*	—	<u>3,400</u>
	21,025	21,000

<u>Fiscal year March-March</u>	<u>Allocation of oil royalties</u> under		
	<u>old</u>	<u>new</u>	<u>actual</u>
	<u>I</u>	<u>II</u>	<u>III</u>
	(millions of rials)		
1949 (Second half)	600	1,170	365
1950	1,200	1,950	910
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1956 (first half)	<u>600</u>	<u>980</u>	<u>455</u>
	8,400	13,850	6,280

I First year rials 600 million; following years 100% of estimated total $\text{L}9.2$ million.

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III First year 40%; following years 100% of $\text{L}7$ million.

Note: Under present thinking in Teheran, early loans from Bank Melli and any income from tax sources are not expected to be included, although the plans for use of the Bank Melli are not yet clear.

\$1 = rials 32.5

$\text{L}1$ = rials 130

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IRAN

MAXIMUM NOTE EXPANSION POSSIBLE UNDER PROPOSED REDUCTION OF COVER REQUIREMENTS TO 50% OF NOTE CIRCULATION

	<u>Millions of Rials</u>	
Present maximum note circulation authorized		7,800
Present note cover		
Gold	4,030.4	
Convertible foreign exchange	1,718.0	
Subscriptions to IMF & IBRD	<u>307.3</u>	6,056
50% of R.7,800 million note circulation to be backed by above cover		3,900
Surplus of gold and convertible foreign exchange under above cover requirements		2,056
Maximum note expansion possible under above surplus		4,112

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Mr. Balasy:

Could you please have
this translated for Mr. F. Dorsey
Stephens, Loan Department.

Thank You.

P.M.

(Mr Stephens)

July 14, 1949

Première question: CIRCULATION FIDUCIAIRE

Le privilège d'émission des billets de banque en Iran a été confié à la Banque Nationale d'Iran, appelée Banque Mellîé Iran. Cette banque a recouru à la division actuellement en vigueur à la Banque d'Angleterre, à savoir: département d'émission d'une part, et département bancaire d'autre part.

Le département d'émission a émis pour 7 milliards 800 millions de rials en billets. Sur cette somme, 6 milliards 309.000.000 environ étaient en circulation au mois d'avril 1949; un milliard 5000.000.000 se trouvaient au département bancaire; il restait en réserve 1 milliard de rials de billets.

Les 7 milliards 800 millions de billets émis étaient couverts à cette date, c'est à dire en avril 1949, à concurrence de 55,59% par de l'or, (déposé en majeure partie à Téhéran et en Afrique du Sud,) et à concurrence de 22,05% par des devises (£ pour les 8/10 et dollars pour les 2/10). Enfin, le solde, soit 22,36%, était couvert, soit par les joyaux de la couronne, soit par des titres d'Etat, garantis à leur tour par le surplus des mêmes joyaux de la Couronne.

Si l'on compare la circulation en avril dernier à celle qui existait dans le pays quelque temps avant la guerre, par exemple en 1936, on trouve les chiffres ci-après: (en millions rials)

	'Billets de 'banque émis	'Billets de 'banque en 'circulation	'Billets de 'banque au départ. 'bancaire
21 mars 1936	699.-	595.-	104.-
20 mars 1948	7.800.-	6.997,5	802,5
20 Mars 1949	7.800.-	6.639.-	1.161.-
4 avril 1949	7.800.-	6.309.-	1.491.-

Ce qui donne les indices d'augmentation suivants:

- Billets de banque émis: 11,1
- Billets de banque en circulation: 10,6
- Billets de banque au département bancaire: 14,3

De leur côté, les dépôts bancaires passaient de 884 millions de rials en 1936-37 à 6.627 millions en 1948-49, accusant ainsi un indice d'accroissement de 7,5.

Rapprochons ces chiffres de certaines indices importants de la vie économique et sociale.

A. L'indice du coût de la vie, sur la base de 100 en 1936-37, est passé de 121,1 en 1937-38 à 879 en juillet 1948, et à 989 en mars 1949, c'est à dire qu'il est près de 10 fois supérieur à sa base de 36-37.

L'élévation de l'indice du coût de la vie suit l'augmentation du montant de la monnaie en circulation. A titre d'indication, nous citons ci-après les chiffres d'une année (-42-43-) pour les billets, et les indices du coût de la vie pour la moyenne de l'année qui suit ces chiffres. Le rapprochement est frappant. Ce n'est qu'un coup de sonde. Mais, il confirme le sens général du raisonnement.

Du 21 mars 1942 au 21 mars 1943, les billets en circulation sont passés de 1.739 à 3.727 millions de rials,

par suite des nécessités de guerre. L'indice d'augmentation est de 2,15. Corrélativement, l'indice du coût de la vie est passé de 476 (moyenne 1942-43) à 1.003 (moyenne 1943-44), faisant apparaître un indice d'accroissement de 2,10.

<u>Billets en circulation</u>	<u>Indice du coût de la vie</u>
21/3.42 1.739 millions rials	- Moyenne 42-43. .476
21/3.43 3.727 " " " "	43-44. 1.003
Indice d'accroissement 2,15	2,10

B. L'indice des salaires, sur la base de 100 en 1936-37, s'élevait, en mars 1948 à 1.313 ou à 916 (selon que l'on tient compte ou non des avantages découlant du régime de sécurité sociale) et en mars 1949 à 1.326 ou 925 (mêmes conditions), ce qui donne un indice d'augmentation de 13 dans le premier cas et de plus de 9 dans le second.

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Un projet de loi relatif à la circulation monétaire se trouve en ce moment en discussion devant le Parlement.

Il tend à modifier les exigences ou les conditions légales mises à l'émission de billets quant à la couverture. La disposition principale qui s'y trouve inscrite prévoit que la couverture des billets en or, et en devises étrangères garanties en fonction de l'or, sera au minimum de 50%.

En fait; le but que la loi poursuit, c'est la possibilité pour la Banque Mellié Iran de mettre de la nouvelle monnaie

en circulation, en contre-partie de fonds d'Etat, de Bons de Trésor, aussi bien que d'effets de commerce, et éventuellement de joyaux de la Couronne.

La raison avouée de cette augmentation de circulation est de permettre à la Banque Mellié Iran de financer une part importante du Plan de Sept Ans.

Ce Plan de Sept Ans est un vaste et magnifique effort, conçu dans le but de hater la modernisation et le progrès du pays, à de multiples égards.

Il couvre une série d'objets et vise des buts fort différents les uns des autres. Pour une part, il constitue un vaste programme de travaux publics. Pour une autre part, il tend à améliorer le rendement agricole, la santé de la population, son niveau éducatif, etc...

Les montants prévus pour la réalisation de ce plan s'élevaient à la somme de 21 milliards de rials, dont près d'un tiers, soit environ 7 milliards de rials ou 230 millions de dollars, devront être dépensés en devises étrangères et consacrés à des achats au dehors. Les autres fonds, en rials, serviront au financement des travaux ou des efforts, à l'intérieur même des frontières du pays.

Les capitaux prévus pour couvrir le financement de ces vastes projets proviennent de diverses sources, telles que:

- 1.-Redevances de l'Anglo-Iranian Oil Cy, en vertu de l'accord du 28 mai 1933, et de l'accord de mai 1942.
- 2.-Devises provenant des sommes en £ vendues par l'Anglo-Iranian Oil Cy à la Banque Mellié Iran pour obtenir les rials nécessaires au paiement des salaires dus par la Compagnie aux travailleurs iraniens (postes 1 & 2: total: 7,8 milliards)

de rials).

- 3.-Un prêt éventuel de l'Import-Export Bank (6,7 milliards de rials).
- 4.-Des prêts de la Banque Mellié Iran (4,5 milliards de rials).

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Le premier soin est de savoir si la circulation fiduciaire actuelle est adaptée ou non à la situation économique du pays.

Deux considerations majeures dominent la réponse à cette question: la première est empruntée au passé, la seconde au present.

I. Pour trouver l'explication de la multiplication par 11 de la quantité des billets de banque émis en 1949 par rapport à 1936-37, il faut se souvenir que l'Iran a été, pendant la guerre, le theatre d'operation d'importantes armées étrangères: russes, anglaises, américaines. Les besoins de ces armées dans un pays dont les ressources étaient limitées, et ou les importations de marchandises se faisaient de plus en plus rares et difficiles, du fait même de la guerre, devaient nécessairement provoquer une demande disproportionnée à l'offre. Mais, c'était la guerre; il fallait satisfaire ces besoins à tout prix. Les armées alliées achetèrent à l'Iran contre devises étrangères (£ et \$) les billets en rials qui leur étaient nécessaires.

Manifestement, ces billets étaient dûment garantis par des

devises. Néanmoins, il s'agissait là d'une émission, dont le caractère inflationniste était indiscutable puisque le volume des biens n'était certainement pas en accroissement proportionnel à la multiplication des billets. Au contraire, les biens se raréfièrent, par la force des choses, à mesure que les billets se multipliaient. La hausse des prix était inévitable. Elle se produisit, ainsi qu'on l'a vu.

Voici, à ce propos, un tableau comparatif des deux indices:

<u>Evolution du montant des billets en circulation</u>		<u>Evolution de l'indice du coût de la vie</u>	
21.3.36	595	1936-37	100
21.3.38	840	37-38	121,1
21.3.39	990	38-39	132,5
21.3.41	1.212	40-41	161,9
21.3.42	1.739	41-42	243,1
21.3.43	3.727 (o)	42-43	476
21.3.44	6.801	43-44	1.003 (oo)
21.3.45	6.663	44-45	1.030
21.3.46	6.844	45-46	882
21.3.47	7.011	46-47	726/831
21.3.48	6.997	juillet 48	879
4.4.49	6.309	mars 49	989
Indice d'accroissement: 10,6 9,89	

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- (o) Debut de l'émission de monnaie due aux nécessités de guerre.
 (oo) Influence a) du debut de l'émission supplémentaire de monnaie due aux circonstances de guerre, et
 b) de la rarefaction des marchandises.

A l'heure présente, sans vouloir pousser notre analyse plus à fond il semble bien qu'il y ait, tout compte fait, une sorte d'équilibre relatif et provisoire entre les prix et le volume de la circulation fiduciaire. Le temps et les documents nous manquent pour examiner le problème de la vitesse de circulation de la monnaie. D'autre part, le faible rôle joué par la monnaie scripturaire nous permet de la négliger temporairement. Sauf nouvel examen, il ne semble pas que ces éléments du problème modifieraient le caractère des conclusions générales auxquelles nous nous trouvons amenés.

II. Le budget de l'Etat iranien a subi au cours de ces dernières années, du fait de la guerre et des difficultés d'après-guerre, des bouleversements considérables. A l'heure actuelle, (année 1948-49), le total des estimations de dépenses s'élève à 8,9 milliards de rials, tandis que le total des estimations de recettes se chiffre à 7,1 milliards, ce qui laisse un déficit provisoire ou apparent, estimé à 1.737 millions de rials.

En 1936-37, les dépenses budgétaires s'étaient élevées à 1.000 millions; l'indice d'accroissement est donc 9. Quant aux recettes, elles sont à l'indice 7.

Certains commentateurs prétendent que le budget iranien est en équilibre - tout au moins depuis 1944. Ils donnent comme explication:

a) d'une part, l'intervention du résultat de la conversion en rials, postérieure aux estimations budgétaires, d'une partie des redevances de l'Anglo-Iranian Oil Cy;

b) d'autre part, le fait que les budgets étant établis

mensuellement, les dépenses ne sont payées que si des recettes suffisantes ont été effectivement perçues au préalable.

Quelle que puisse être la valeur de cette argumentation, nous nous bornons à relever l'évolution du budget de l'Iran, telle que la présente le tableau ci-dessous:

Evolution des budgets de l'Iran

(en Millions de rials)

	' <u>Dépenses</u>	' <u>Recettes</u>	' <u>Différence</u>
1936-37	' 1.000	' 1.000	' =
1937-38	' 1.248	' 1.250	' + 2
38-39	' 1.527,5	' 1.528,4	' + 0,9
39-40	' 2.613	' 1.930	' - 683
40-41	' 3.211	' 3.094	' - 117
41-42	' 4.324	' 3.614	' - 710
42-43	' 3.138	' 3.138	' = (o)
45-46	' 4.412	' 4.412	' =
46-47	' 6.094	' 5.417	' - 677
47-48	' 7.762	' 5.559	' -2203
48-49	' 8.891	' 7.154	' -1737

(o) à partir de cette année (1942), sont incluses dans les recettes les redevances de l'Anglo-Iranian Oil Cy. Leur intervention a servi à équilibrer le budget, provisoirement tout au moins.

Les redevances payées par l'Anglo-Iranian Oil Cy se sont présentées comme indiqué ci-dessous au cours des dix dernières années.

Redevances payées par l'A.I.O.C.

	<u>'En Livres Sterling</u>	<u>'Contre-valeur au taux officiel ' (en rials)</u>
1940-41	4.000.000	243.000.000
1941-42	4.000.000	415.000.000
1942-43	4.000.000	527.000.000
1943-44	4.000.000	520.000.000
1944-45	4.463.779	580.000.000
1945-46	5.626.032	731.000.000
1946-47	7.130.149	927.000.000
1947-48	7.101.149	923.000.000
1948-49	9.172.244	1.192.000.000

Si nous comparons les deux postes budgétaires de l'année 48-49 à ceux de la période 1936-37, année au cours de laquelle le budget était en équilibre, les conclusions suivantes s'imposent:

Le budget apparaît en déséquilibre, et en déséquilibre grave. D'autre part, il est clair que les dépenses de l'Etat sont à un niveau hors de proportion avec la capacité du pays. Une explication se présente immédiatement. Le nombre des fonctionnaires est passé de 60.000 avant la guerre à 130.000 à l'heure présente. Ils sont certes insuffisamment payés. Concernant ces fonctionnaires en surnombre, on nous a fait observer que c'était là un moyen détourné de lutter contre le chômage et de payer une sorte d'indemnité de chômage à des citoyens qui, sans cet expédient, seraient réduits à la misère. Il y a, certes, là un problème dont la solution s'impose; mais elle doit être obtenue par d'autres moyens, mieux adaptés. L'on compte sur

l'effet du plan Septennal pour résorber tout ou partie de ces chômeurs déguisés. Mais, quoi qu'il en soit, le total des rémunérations pèse sur le budget d'un poids nettement excessif.

Une autre considération est importante: avant la guerre, les redevances de l'Anglo-Iranian Oil Cy ne figuraient pas en recette du budget. Elles servaient à payer des dépenses de caractère extraordinaire, qui étaient soldées à l'étranger, et tout particulièrement des achats d'armes pour les troupes iraniennes.

A partir de l'année 1942-43, elles ont figuré parmi les recettes normales du budget.

A l'avenir, elles seront de nouveau remises dans un autre cadre et destinées à financer une part importante du plan Septennal. Elles disparaîtront donc des recettes du budget, en tout ou en grande partie.

Une première conclusion se détache nettement: une réorganisation complète du budget, tant des recettes que des dépenses, s'impose de toute urgence; sans elle, aucune position monétaire quelle qu'elle soit ne pourrait se défendre à la longue.

Le tableau succinct, reproduit, ce-dessous, indique le rendement des impôts au cours des deux dernières années par rapport à l'avant-guerre.

Rendement des imports

(en million s de rials)

	<u>Directs</u>	<u>'Indirects</u> Boissons Opium	<u>'Monopole</u> d'Etat Cotton sucre tabac	<u>'Pétrole du</u> du Sud (A.I.O.C.)	<u>'Divers</u>	<u>'Total</u>
1936-37	116	148	540	-	196	1.000
1947-48	721	568	4.655	930	-	6.874
1948-49	679	672	4.893	1.196	-	7.440

L'indice d'accroissement des recettes n'est que de 7, alors que, comme nous l'avons signalé plus haut, l'indice des dépenses est de 9. D'autre part, on a l'intention, juste d'ailleurs, de retirer des recettes ordinaires les redevances de l'Anglo-Iranian Oil Cy. Dans ces conditions, il est probable que l'on devra envisager un accroissement des recettes, en même temps que l'on s'efforcera d'abaisser les dépenses.

Enfin, attirons l'attention sur les impôts indirects, car ils frappent des biens de consommation première, et pesent ainsi sur le niveau de vie des masses. Si l'on veut effectivement abaisser le coût de la vie, il faudra prendre garde à l'incidence des impôts indirects. Un examen sévère des méthodes d'exploitation de certaines monopoles s'avère urgent. (Nous reviendrons d'ailleurs sur le sujet dans notre réponse à la question 3).

Quoi qu'il en soit, il importe de comprimer les dépenses par une politique d'élimination des gaspillages et d'économies strictes sur les postes non productifs.

Supposons qu'après avoir revu toute la politique des impôts et des recettes, en même temps que la politique des dépenses, on soit arrivé à rétablir l'équilibre budgétaire à un niveau correspondant davantage à la charge réelle qu'il faisait peser sur l'ensemble de l'économie du pays avant la guerre, c'est à dire à un niveau raisonnable, compatible avec l'état actuel de l'économie iranienne.

Ce point réglé, nous pouvons avec plus d'assurance nous retourner vers les autres éléments du problème.

Entre la quantité de monnaie en circulation, le niveau des prix, et le niveau des salaires, il s'établit, en temps normal, une relation d'équilibre sur la base duquel il est possible de travailler efficacement à la consolidation économique et financière du pays.

Or, nous l'avons vu précédemment, il semble qu'il y ait, tout compte fait, à l'heure actuelle, en Iran, une sorte d'équilibre relatif ou approximatif et provisoire entre ces divers facteurs de l'activité économique.

Certes, cet équilibre se place à un niveau trop élevé. Il est permis d'espérer qu'une bonne politique d'ensemble permette de le ramener à un niveau plus raisonnable.

Mais, si le raisonnement que nous venons de faire est exact, il semble peu indiqué d'augmenter la quantité de monnaie en circulation, quel que soit le but ultime que l'on se propose d'atteindre.

Le point de vue auquel nous nous plaçons, en ce moment, n'est pas celui de la couverture des billets en circulation.

A notre sens, rien ne s'opposerait à ce que la couverture

or des billets soit ramenée de 77% à quelque 50% par exemple, si les nouveaux billets émis n'étaient pas en surcroît dans la circulation. Il n'y aurait pas d'objection à émettre de nouveaux billets pour répondre à des besoins directs et indiscutés de monnaie de circulation, et éviter ainsi une action positive de deflation. En d'autres termes, nous trouverions fort normal de ne pas s'arrêter à des exigences de couverture (par exemple, à une couverture de 77% en or) s'il s'agissait d'émettre des billets en contre-partie d'opérations économiques, de nature à se liquider d'elles-mêmes, en un temps court, et correspondant à un service économique directement rendu à la production ou à la distribution des biens.

Ce n'est donc point sur le plan de la couverture qu'il convient de placer le problème des émissions nouvelles.

Ce qui compte, c'est de savoir si les nouveaux billets émis, quelle que soit leur couverture, seront ou non en excédent dans la circulation, c'est à dire s'ils exerceront en définitive une action inflationniste.

Or, les intentions dont on nous a fait part, nous mènent à croire que, ces billets nouveaux, on se propose de les émettre pour financer des travaux publics ou des mesures de politique à longue échéance, dans le cadre du Plan Septennal.

Nous estimons qu'un tel projet, qui revient à financer une partie du Plan Septennal par des avances de la Banque Mellié Iran, risquerait, s'il était adopté, de donner lieu à des émissions de monnaie dont l'effet pourrait être inflationniste.

Il semble plus prudent de rechercher d'autres méthodes pour compléter les ressources nécessaires au financement du Plan.

Bien entendu - nous tenons à le répéter encore - dans toute la mesure où l'intervention de la Banque Mellié Iranserait limitée au financement d'effets "self liquidating" d'une durée ne dépassant pas les quelques mois traditionnels et correspondant à la production et à la distribution de biens, ou même à des salaires investis dans des travaux rendables, les objections formulées ci-dessus ne s'appliqueraient pas.

Si, pour permettre le développement d'une telle activité, il apparaissait nécessaire de modifier le pourcentage actuel de couverture-or des billets, ce changement ne présenterait en lui-même aucun danger.

L'essentiel serait de préciser et de spécifier quand et comment, à quelles époques et dans quelle mesure, les émissions faites dans les conditions nouvelles pourraient intervenir pour faciliter indirectement l'accomplissement du Plan Septennal.

Vàici donc la conclusion:

1. en ce qui concerne les besoins courants du pays, le volume de la circulation semble être suffisant, surtout si l'on tient compte de la politique de baisse des prix que souhaite le Gouvernement et que parait d'ailleurs réclamer le juste souci d'augmenter les exportations.

2. en ce qui concerne les besoins extraordinaires du pays: un financement direct d'une partie du Plan Septennal par des émissions de billets ne parait pas recommandable; rien cependant ne s'opposerait à la mise en circulation de nouveaux billets - dans certaines limites, bien entendu - pourvu que cette émission

ne précède pas, mais, au contraire, suit l'augmentation du volume des biens utiles, produits ou distribués dans le pays.

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Voici le texte de la seconde question:

DEVISES, PARITE, CONTROLS DES ECHANGES, BALANCE DES COMPTES
ET MOYENS DE SON REDRESSEMENT

La balance des comptes de l'Iran présente, à première vue, des traits paradoxaux. Voyons les chiffres correspondant à l'année 1948-49:

Balance des paiements de l'Iran

(en millions de rials)

Année 1948-49

Achats par les banques autorisées, des revenus des exportations et des revenus de la vente d'argent par la Banque Mellié Iran	1.745.-
Devises achetées de l'A.I.O.C.	2.068.-
Devises provenant d'autres sources	117.-
Recettes gouvernementales en devises provenant de l'A.I.O.C.	<u>1.174.-</u>
	<u>5.104.-</u>
Ventes par les banques autorisées pour importations et besoins commerciaux et non-commerciaux du gouvernement	4.082.-
Ventes non commerciales aux voyageurs, étudiants et personnes malades	<u>201.-</u>
	<u>4.283.-</u>
Remboursement de dettes gouvernementales étrangères	
Emprunt 1911	98.-
Emprunt à bail	<u>71.-</u>
	<u>4.452.-</u>
Solde en faveur de l'Iran	<u>652.-</u>
	<u>5.104.-</u>

N.B. - Le montant de 832 millions de rials équivalent aux 26 millions de dollars de crédit accordé par le gouvernement américain en 1948-49 au gouvernement iranien pour le prix, l'assurance et le fret d'armes et munitions, n'a pas été pris en considération dans les calculs ci-dessus.

La balance commerciale est en profond déséquilibre; les exportations n'atteignent, pour l'année 1947-48, que la moitié des importations (4,7 milliards de rials aux importations contre 2,3 milliards seulement aux exportations, ce qui donne un rapport de 2 à 1).

Avant la guerre, ce rapport était bien plus proche de l'équilibre; pour l'année 1937-38, les importations s'élevaient à 970 millions de rials et les exportations à 671 millions, ce qui donnait un rapport de 1,4 à 1.

La balance commerciale a présenté l'évolution chiffrée ci-dessous au cours des dix dernières années:

Balance commerciale de l'Iran

(en millions de rials)

	<u>'Importations</u>	<u>'Exportations</u>	<u>'Balance</u>
1937-38	' 970 ^(o)	' 671.-	' - 299
38-39	' 695.-	' 650.-	' - 45
39-40	' 612.-	' 804.-	' / 192
40-41	' 865.-	' 925.-	' / 60
41-42	' 614.-	' 812.-	' / 198
42-43	' 1.314.-	' 558.-	' - 756
43-44	' 1.527.-	' 704.-	' - 823
44-45	' 2.957.-	' 792.-	' -2.165
45-46	' 3.106.-	' 1.698.-	' -1.408
46-47	' 4.115.-	' 2.570.-	' -1.545
47-48	' 4.706.-	' 2.324.-	' -2.382

(o) Marchandises passibles de droits d'entrée

(oo) A l'exception du pétrole et du poisson (produits de la Concession).

Malgré l'énorme déficit actuel de la balance commerciale, l'équilibre de la balance des paiements se trouve rétabli par deux postes d'une importance exceptionnelle.

a) Le premier est celui des redevances qu'encaisse régulièrement l'Etat iranien en vertu de l'accord intervenu avec l'Anglo-Iranian Oil Cy. Il s'agit de sommes considérables: 4 millions de £ en 1937-38; 9 millions de £ en 1947-48, comme l'indique le tableau ci-dessous:

Redevances payées par l'A.I.O.C.

	<u>en Livres Sterling</u>	<u>En millions de rials au cours officiel</u>
1940-41	4.000.000	243
41-42	4.000.000	415
42-43	4.000.000	527
43-44	4.000.000	520
44-45	4.463.779	580
45-46	5.626.032	731
46-47	7.130.149	927
47-48	7.101.149	923
48-49	9.172.244	1.192

Dans la réalité des choses, ces montants correspondent, pour partie tout au moins, à la contre-valeur de l'exportation d'un produit iranien, à savoir: le pétrole.

(b) L'autre poste, également important et exceptionnel, est constitué par les montants considérables en Livres Sterling que l'Anglo-Iranian Oil Cy. vend à la Banque Mellie Iran, pour obtenir les rials nécessaires au paiement des employés et ouvriers qu'elle occupe en Iran: 650 mille £ en 1937-38; 16 millions de £ en 1947-48, comme on peut le constater à la lecture du tableau que voici:

Achats de rials par l'A.I.O.C.

	(en £ Sterling)
1940-41	651.337
41-42	365.216
42-43	376.359
43-44	2.611.000
44-45	3.580.000
45-46	4.475.000
46-47	10.300.000
47-48	12.430.000
48-49	16.160.000

Si l'on va au fond des choses, les sommes indiquées ci-dessus apparaissent, à l'instar des redevances, comme étant le paiement d'une partie de la valeur du pétrole, le travail des Iraniens s'étant incorporé à cette matière en vue de son exportation.

Mais, il est évident que pareille exportation revêt des caractères tout particulières. Les devises qu'elle apporte dans le pays le sont en bloc, par un canal déterminé; elles échappent au mouvement général des affaires; elles mettent directement à la disposition des autorités monétaires des ressources en devises qui, autrement ne viendraient que par une série de canaux multiples et variés.

Si ces postes exceptionnels de la balance des paiements ne servent pas à solder des opérations d'achats à l'étranger, l'émission des billets rials correspondant à l'achat des devises (cfr poste No. 2 de la balance des paiements), risque d'exercer à l'intérieur du pays une action inflationniste.

En effet, dans cette hypothèse, le nombre de billets serait augmenté sans que se soit accru concomitamment le volume des biens auxquels ils doivent servir de moyens d'échange.

Avant la guerre, les autorités iraniennes employaient les devises provenant des redevances du pétrole à des achats faits à l'étranger directement. Les fruits de ces achats étaient importés dans le pays. Comme il s'agissait surtout d'achats d'armes ou de fournitures pour l'armée, aucune influence n'était exercée ni sur la monnaie en circulation, ni sur le volume des biens utiles mis à la disposition du public. Ces devises ne figuraient pas davantage parmi les recettes du budget.

Il semble bien que l'idée d'inscrire les redevances parmi les moyens de financement du Plan Septennal soit saine. On se propose de les employer à payer directement des biens de capital qui seraient introduits tels quels en Iran. Ces montants cesseraient de figurer parmi les recettes du budget ordinaire. On en reviendrait ainsi à une position voisine de la normale d'avant-guerre.

Quant à l'entrée de £ provenant de la vente de rials destinée aux besoins de la Compagnie en Iran, il semble logique de les employer à payer des biens d'importation qui, mis en vente dans le pays, feront rentrer les rials qui auraient été temporairement émis. Pareille politique aurait l'avantage de ne pas influencer artificiellement le rapport entre les offres et les demandes de rials, soit en fin de compte le cours naturel du change.

Si l'on considère les cours du rials, exprimés en fonction de la £ ou du \$, on est surpris, à première vue, de constater sa fermeté exceptionnelle.

Voici l'évolution des cours durant les dix dernières années:

Cours officiel du rials

	<u>1 £</u>	<u>1 \$</u>	<u>1 rial par rapport au \$</u>
21/3/37-21/3/38	80,50	16,41	0,0609
" 38 " 39	80,50	16,96	0,0591
" 39 " 40	77,20	18,3439	0,0545
" 40 " 41	65,64	17,1133	0,0585
" 41 " 42	103,80	25,82	0,0387
" 42 " 43	131,75(1)	32,94(2)	0,0304(2)
" 43 " 44	130	32,50	0,0308
" 44 " 45	130	32,50	0,0308
" 45 " 46	130	32,50	0,0308
" 46 " 47	130	32,50	0,0308
" 47 " 48	130	32,50	0,0308
Sept-Oct. 48	130	32,50	0,0308

- (1) Le taux officiel du rial par rapport a la £ a ete a 128 (acheteur) et a 130 (maximum vendeur) en mai 1942.
- (2) Le taux officiel du rial par rapport au \$ a ete porte a \$0,0308 en mai 1942.

L'indice officiel de depreciation du rial, par rapport au dollar et a l'avant-guerre, est de 2. Rapprochons cet indice des autres indices que nous avons rappelés tout a l'heure: hausse apparente des prix: indice: 10; des salaires: indice: 10 a 13; du volume de la circulation: indice: 11.

Il convient sans doute de ne pas ignorer completement le marché libre: en juin 49, le \$ est a 44.50 (donc indice de depreciation 2,6); la £ est a 200 (indice de depreciation 2,5).

On est obligé de constater qu'il y a, a l'heure actuelle une disparité ^Wmarquée entre le pouvoir d'achat extérieur et le pouvoir d'achat intérieur du rial.

Disposant des énormes rentrées en devises étrangères qui viennent des deux grands posts relevés plus haut, les Autorités qui dirigent la politique du change manient des armes si puissantes qu'elles sont en réalité en position d'imposer sur le marché le cours qu'elles décident. Leur politique est d'autant plus effective que le regime de licences en matière d'importation est plus efficace. Toute autorité ayant en mains d'une part la possibilité de restreindre ou de limiter les importations, et, d'autre part, les masses énormes de devises étrangères fournies par les deux postes mentionnés ci-dessus, peut, a son gré, fixer au niveau qui lui convient la parité du rial vis-à-vis du dollar.

Mais la question qu'il convient de poser est de savoir quel est le niveau auquel il convient de se maintenir. Le cours actuel est-il bien choisi? un autre cours s'indiquerait-il davantage? Eventuellement pourquoi?

La premiere observation generale, c'est que, sauf modifications dans les conditions de base ou se developpent l'activite interieur et l'activite exterieure du pays, il convient de maintenir un equilibre analogue a celui qui existait durant la periode normale de reference avant la guerre, entre les prix, le volume de la circulation, les salaires, les charges budgetaires et le cours du change.

Mais, si la regle ainsi rappee demeure exacte, il faut cependant l'appliquer avec toute la prudence necessaire.

Il apparait evident que la sante economique du pays demande que les indices des prix et du budget soient ramenes a des niveaux plus bas. Le gouvernement a une politique legitime de baisse des prix. Un certain nombre de prix actuels sont exagerelement eleves et tiennent a des causes passageres, tels que la speculation sur le marche immobilier, le defaut d'organisation des marches de certains produits dans les villes (legumes, fruits, laitages) ou encore aux conditions dans lesquelles sont exploitees certaines des industries nationalisees.

Ainsi, en mars 1949, la nourriture etait a l'indice 1023 et les appartements a l'indice 1467 par rapport a 100 en 1936-37 (indice general 989). D'autre part, alors que l'indice general des prix de gros etait en mars 1949, de 712 par rapport a la base de 100 en 1936-37, l'indice des "marchandises produites et consommees dans le pays" (autres que la nourriture) etait de 765.

Il est permis d'esperer qu'une politique adequate reussira a abaisser, dans une certaine mesure tout au moins, le niveau des prix en Iran.

D'autre part, nous l'avons vu plus haut déjà, toute la politique budgétaire devra être revue de très près, le nombre des fonctionnaires ramené à leur niveau d'avant-guerre, une série de postes énergiquement comprimés, cependant que de sérieuses mesures devraient être prises pour faire rentrer les recettes.

Il serait donc prématuré et erroné de comparer l'indice actuel de la dépréciation du change aux autres indices relevés ci-dessus, et d'en tirer des conclusions hâtives.

D'autre part, certaines considérations empruntées à la situation hors de l'Iran, incitent également à la prudence et au délai.

On peut, semble-t-il, estimer, grosso modo, que les prix exprimés en fonction de l'or, ont, à la suite de la guerre, été affectés d'un indice certes très difficile à déterminer, sujet à caution et à discussion, mais qui ne doit pas s'écarter beaucoup de l'indice 2.

En d'autres termes, les prix, exprimés en fonction de l'or ou en monnaie-or, ont, grosso modo, doublé ou à peu près. Il s'ensuit donc que l'indice du change que nous avons relevé tout à l'heure, doit être théoriquement multiplié par 2, si l'on veut s'en servir à des fins de comparaison avec la situation d'avant la guerre.

Des raisonnements comme ceux que nous faisons en ce moment-ci ne doivent être suivis qu'avec d'extrêmes réserves. Ils ne peuvent prétendre à une précision mathématique; on ne doit en attendre que des ordres de grandeur; mais nous pensons bien que, moyennant ces réserves, ils conduisent à des conclusions concrètes qui serrent la réalité d'assez près.

D'autre part, pesent en ce moment-ci sur l'ensemble de la situation des prix et des monnaies dans le monde entier, une serie de points d'interrogation. La livre sera-t-elle, ou non, devaluee par rapport au dollar et aux autres monnaies? Les monnaies europeennes seront-elles revaluees ou fixees a d'autres niveaux, les unes par rapport aux autres, et les unes et les autres par rapport au dollar ou a l'or? Enfin, les prix de l'or exprimes en dollars seront-ils revus, soit les prix de marche, soit les prix monetaires?

Bien imprudent celui qui essaierait de donner aujourd'hui une reponse formelle ou precise a ces questions. Il est a remarquer, d'ailleurs, que les reponses que les evenements apporteront, pourront mener a des conclusions qui seront les unes, dans un sens, les autres, dans l'autre.

La seule attitude qu'il nous paraisse sage d'adopter dans ces conditions-la, c'est le vieux mot d'ordre "wait and see".

Il n'y a donc pas lieu pour l'Iran de definir, d'urgence ou en hate, une nouvelle position precise en ce qui concerne le cours du rial. En particulier, il nous semble opportune de rester, a l'egard du Fonds Monetaire, dans une attitude de reserve et d'expectative.

Cependant, de tout ce qui precede, il semble ressortir deux indications de politique immediate, indications qu'il conviendra eventuellement de reviser le moment venu. La premiere est d'ordre negatif; il semble, en tout cas, peu indique d'entreprendre ou de continuer des efforts pour ramener le rial libre a sa parite d'avant-guerre. La seconde, est qu'il conviendra ~~peut-etre~~ de rechercher graduellement et avec beaucoup de prudence et d'attention, par une politique plus souple et plus large, des indications quant au niveau naturel auquel s'etablirait le cours du rial, si l'on faisait abstraction des redevances de l'Anglo-Iranian Oil Company.

Bien entendu, cette experience devrait se developper a la faveur d'une politique d'ensemble destinee a augmenter les exportations, dans tous les domaines ou existent des possibilites dans ce sens.

A ce propos, nous nous empressons de faire ici une reflexion qui devra etre developpee plus tard en reponse a une des sept questions qui nous ont ete posees: les precautions necessaires doivent etre prises pour qu'en aucun cas, - ni par suite d'une politique plus large en ce qui concerne les cours du rials a aucun moment, ni par suite d'une modification eventuelle dans la parite-or de la livre-la contre-valeur reelle des redevances de l'Anglo-Iranian Oil Company ne soit traduite en un montant en rials, qui diminuerait la puissance d'achat veritable mise a la disposition de l'Iran.

En d'autres termes, les precautions devraient etre prises pour empecher qu'a la faveur de changements monetaires quels qu'ils puissent etre, la charge reelle assumee par l'Anglo-Iranian Oil Company, soit du chef de redevances, soit du chef des rials qu'elle achete en vue de solder ses depences a l'interieur du pays, ne se trouve indument allee au detriment de l'Iran.

La justice exige, qu'en ces matieres, la notion de valeur reelle soit dument preservee, pour rester la mesure des obligations qui doivent s'executer telles qu'elles ont ete assumees.

Nous ne croyons pas utile d'aller, en ce moment, plus loin, dans l'etude des deux premiere questions qui nous ont ete posees. Les opinions que nous avons exprimees sont claires, du moins nous l'esperons, et apporteront des elements propres a faciliter les decisions que doivent prendre les autorites iraniennes.

Nous reviendrons éventuellement sur ces premières conclusions, soit pour les réviser, soit pour les compléter, ou les confirmer; lorsque nous aurons pu étendre notre documentation, et nous faire une opinion sur l'ensemble des problèmes sur lesquels notre attention a été attirée.

Bruxelles, le 14 juillet 1949

Signé: _____

Iran Negs.

OFFICE MEMORANDUM

TO: Mr. W. A. B. Iliff

DATE: July 14, 1949

FROM: F. D. Stephens *FDS*

SUBJECT: IRAN

June 30

1. With reference to paragraph 4 in Mr. Hoar's memorandum to Mr. Garner, attached, I talked first with Mr. Garner. He was of the opinion that it would be a mistake, psychologically, to forward suggested draft legislation at this time, first, because it might give the Iranians an exaggerated idea of the amount which the Bank might be willing to lend to Iran and, second, because it might lead to the impression that the Bank was indifferent in the matter of the firm and irrevocable allocation of oil royalties to the Plan Organization. The attached letters from Engert and Somerville would indicate that a certain amount of "chiseling" is going on.

2. I later talked to Mr. Sommers on the same subject. His view was that it would be extremely difficult to draft a document of the type desired with the information actually at hand. He, therefore, suggested that the following might be included in a cable to be sent through the State Department in reply to one from the U.S. Ambassador in Tehran which also raised this question:

"World Bank Loan Conditions-- Bank cannot now set rate of interest or term of loans. These should be discussed after preliminary negotiations regarding particular projects. Recent loan and guarantee agreements mailed to Ebtehaj by Onaran April 29 show general conditions being included in current agreements with Bank. Bank doubts desirability of enabling legislation at this stage in view of difficulty of drafting adequate legislation until negotiations have determined form of agreement and provisions to be included."

Attachments

FDStephens:mmr

Iran Regs

PROPOSED LOAN TO IRAN

Loan of \$5,800,000 for a period of 10 years. Interest 3 3/4% p.a. payable semi-annually. 3 years grace on principal. Principal and interest payable in 11 approximately equal semi-annual payments starting in the first half of the fourth year.

Year	Principal outstanding after each payment	Principal payment	Interest payment	Total payment
1a	\$5,800,000	-	\$108,750.00	\$108,750.00
b	5,800,000	-	108,750.00	108,750.00
2a	5,800,000	-	108,750.00	108,750.00
b	5,800,000	-	108,750.00	108,750.00
3a	5,800,000	-	108,750.00	108,750.00
b	5,800,000	-	108,750.00	108,750.00
4a	5,434,000	\$366,000	108,750.00	474,750.00
b	5,061,000	373,000	101,887.50	474,887.50
5a	4,681,000	380,000	94,893.75	474,893.75
b	4,294,000	387,000	87,768.75	474,768.75
6a	3,900,000	394,000	80,512.50	474,512.50
b	3,498,000	402,000	73,125.00	475,125.00
7a	3,089,000	409,000	65,587.50	474,587.50
b	2,672,000	417,000	57,918.75	474,918.75
8a	2,247,000	425,000	50,100.00	475,100.00
b	1,814,000	433,000	42,131.25	475,131.25
9a	1,373,000	441,000	34,012.50	475,012.50
b	924,000	449,000	25,743.75	474,743.75
10a	466,000	458,000	17,325.00	475,325.00
b	-	466,000	8,737.50	474,737.50

I.B.R.D. Statistics Section
July 13, 1950

*Iran Nego*OFFICE MEMORANDUM CONFIDENTIAL

TO: Mr. W. A. B. Iliff
FROM: F. Dorsey Stephens *FDS*
SUBJECT: IRAN

DATE: July 13, 1949

DECLASSIFIED**JUN 06 2013****WBG ARCHIVES**

1. Iran has come to life as a potential borrower. On June 9, the State Department advised us that the Shah was anxious to obtain, as soon as possible, loans from the U.S. Government and/or the Bank as evidence of "moral and tangible support." This advice is contrary to that given to Mr. Garner on his recent trip which was to the effect that no loan would be necessary for at least a year and a half.
2. On June 15, a conference was held with State Department representatives who repeated the information previously given and stated their desire to inform the Iranian Government as to the extent of possible Bank participation in financing Iran's Seven-Year Program. It was agreed that the Bank would prepare a confidential memorandum for the use of the State Department in its discussions with the Iranian Government. This memorandum was transmitted to the State Department on June 20 (copy attached).
3. On July 8, a meeting was held with a State Department representative and Mr. Max Thornburg, Special Consultant to the Iranian Government and liaison between that Government and the OCI. Later, there was a meeting with the Iranian Ambassador and Commercial Counselor. The principal subject under discussion was the impasse reached between the Iranian Government and the OCI regarding a long-term contract for consultants' services during the execution of the Seven-Year Program. The Iranians believe that the fees demanded are much too high relative to the amount of work to be performed and suggest, as an alternative, the employment of individual expert consultants if OCI is unwilling to change its views as to fees.
4. The Bank has gone on record as favoring a consultant organization with single direction and proper backing as opposed to an unintegrated group of individual consultants. The problem, therefore, is the extent to which the Bank should make its influence felt in support of OCI.
5. Copies of classified cables received by the State Department have been made available to the Bank. These not only summarize the OCI controversy, but throw considerable light on current developments in Iran, not all of which are favorable.
6. The Iranian matter is still being handled on a confidential basis. It has not been brought up in Loan Department Staff Meetings and no Working Party has been appointed.

Attachment

FDS Stephens:mmr

Iran Reg.

file

209

OFFICE MEMORANDUM

TO: Files

DATE: July 12, 1949

FROM: F. Dorsey Stephens *FDS*

SUBJECT: IRAN

I talked at some length today with Messrs. Gorlitz and Goldstein, of the State Department, regarding the contents of recent cables from the U.S. Ambassador in Tehran. It was agreed that a further meeting would be held to discuss the substance of replies to be given to questions raised by the U.S. Ambassador to Iran which concerned the Bank.

FDStephens:mmr

Iran-Cover



IRANIAN EMBASSY
WASHINGTON, D. C.

July 11, 1949

Mr. Robert L. Garner, Vice President
International Bank for Reconstruction
and Development,
1818 - H Street, N. W.,
Washington, D. C.

Dear Mr. Garner:

As you are no doubt aware, the report of Overseas Consultants on the Development Programme is expected to be submitted early next month.

In the meantime, the Council of the Planning Organization intends to proceed with the engagement of specialists and technicians as soon as possible so that work on the execution of the Programme may be started without delay.

For reasons detailed in a letter, translation of which is enclosed herewith, although the Council is anxious to continue its connection with O.C.I., it has reached the conclusion that the proposal submitted by O.C.I. for consulting services would not suit the needs of the Planning Organization and would also be too costly.

The matter has been discussed with Mr. Bayne and Dr. Welk who were recently in Teheran. They understand and appreciate the point of view of the Planning Organization and will no doubt explain it to you when they arrive.

In view of the importance of the decision to be made, the Council would like to have the benefit of the Bank's advice; it has therefore cabled me to request the bank's opinion on the relative merits of the employment of O.C.I. as Consultants and the direct engagement of specialists and technicians by the Planning Organization as detailed in the enclosed letter, coupled, if possible, with an arrangement with O.C.I. for a modified consulting service.

An early reply will be greatly appreciated.

Yours sincerely,

Hussein Ala

Hussein Ala
Ambassador of Iran

ack. August 1

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TRANSLATION OF LETTER FROM DR. NASSR - No.1158 D/13th TIR 1328.

Two days before their departure from Teheran O.C.I. submitted two proposals for the continuation of their services to the Planning Organization. A copy of both these proposals is enclosed herewith.

Furthermore, Mr. Bookwalter was invited to attend a Meeting of the Council to give such explanations as he considered necessary direct to its members.

At that meeting, after about two hours discussion the Council informed Mr. Bookwalter that the need for the services of foreign experts is definite and established; furthermore, that in respect of the continuation of the work of O.C.I., the Council is favourably disposed in principle.

As Mr. Bookwalter was leaving Teheran the next day, and, as he had asked for a direct and definite decision; he was told that the Council could not make an immediate decision in respect of either of the two proposals submitted by O.C.I. The Council however promised him that it would give the matter further consideration and would communicate its views to O.C.I. later.

After the discussion with Mr. Bookwalter the proposals of O.C.I. were carefully studied and full consideration was given to the evident fact that to find practicable and profitable means to benefit from the services and expert knowledge of specialists constitutes one of the primary conditions of the successful and efficient execution of the program. The result of this study is as follows:-

The Council is still of the same opinion - as already conveyed to Mr. Bookwalter - that further use should be made of the services of O.C.I. However, as from now on, that is to say in the execution phase of the Program, their services - as compared to the preceding two (study)phases - will be of a totally different nature it follows that the relative agreement must also be concluded on a different basis.

To clarify the point the following is a summary of the services from foreign and local experts which the Planning Organization will be in need of from now on.

1. FIRST STAGE.

The services of a group of 12 specialists of high calibre will be needed to cooperate and assist the Planning Organization directly in its work and in formulating its general policies. These specialists should reside in Iran for at least one year.

For this purpose O.C.I. has suggested a group of four or five men and proposes to change them every few months so that during the year specialists in each field may be at the service of the Organization.

In the opinion of the Planning Organization, in view of the peculiar conditions in Iran;

Firstly: Sufficient benefit cannot be derived from the services of specialists who are only two or three months on the spot.

Secondly: As work on several different elements of the program will be started simultaneously, operations cannot be deferred or advanced to suit the arrival dates of the experts concerned.

Thirdly: Travelling expenses and salaries for time wasted in preparations for the departure of the specialists and until they commence work in Iran will constitute an undue proportion of the total expenditure; thus entailing an unnecessary increase in the budget of the Organization.

The ten or twelve outstanding specialists which the Planning Organization consider it needs are as follows. These specialists must be men whose background and long experience in their particular field equips them to express authoritative views in the field of their speciality and enables them to guide the executive of the Planning Organization in planning and putting into effect the Program in each field.

- 1) A person such as Mr. Thornburg or Mr. Bookwalter to assist in coordinating and planning the administrative Organization.
- 2) A person such as Dr. Turner for Public Health.
- 3) A person such as Dr. Hall in Education.
- 4) A specialist in Irrigation.
- 5) A specialist in Industries and particularly in Textile Industries such as Mr. Huber.
- 6) A specialist in the Organization of Model Farms, in experimentation (research) and in modern methods of agriculture.
- 7) A specialist in Animal Husbandry.
- 8) An accountant to organize the Accounting Department of the Organization, that of its related agencies, as well as to set up a course for training local men in accountancy.
- 9) A specialist in Finance and Economics.
- 10) A specialist in marketing and in Foreign Trade.
- 11) A specialist in Mining.
- 12) A specialist in Chemical Industries particularly in Sulphur, Salt, Petroleum and Nitrogen.

2. IN THE SECOND STAGE.

Technical experts will be needed to prepare detailed working plans for the various projects of the Program.

For example, if, in principle, it is decided to build a dam, a contract will be made with one or more consultants or a firm of consultants to study and to prepare detailed plans just as such an agreement has recently been concluded with the French firm of Metropolitan Colonial to study and to prepare detailed plans for a dam at Karaj.

The member firms which constitute O.C.I. can of course participate in this type of work irrespective as to whether O.C.I. is acting (as general

consultants) for the Planning Organization or not. In fact, in view of the reputation which these member firms enjoy their participation in the execution of the Program should be ensured.

3. IN THE THIRD STAGE.

Technicians of lower calibre will be needed to supervise the execution of the plans above referred to, either to act as overseers if the projects are let out to contractors or to act as field managers and supervisors if the projects are carried out by the Planning Organization itself.

4. In addition to these a certain number of specialists will be required to act as technical managers in the various departments of the Planning Organization itself or of its subsidiary agencies such as Factories, Technical Schools, Ministry of Roads, The State Railways etc., etc., also, to reorganize these agencies and to improve their general efficiency.

In these four stages the basic assistance which O.C.I. can render to the Planning Organization is to do its utmost to find the ten or twelve specialists (of the highest calibre) mentioned under Stage 1.

These ten or twelve resident specialists will then, in turn guide the Planning Organization to find and engage:

- a) Consultants to study projects and to prepare detailed plans.
- b) Contractors.
- c) Other technicians from America or from other countries. And, if the relations with O.C.I. (As general consultants) are to be maintained this group of ten or twelve permanent specialists can to some extent cooperate to that end.

Another basic difference between the previous phases of the Program in respect of which agreements have been concluded with O.C.I. and the present (coming) phase lies in the fact, that in the previous phases after specialists sent to Iran by O.C.I. had completed their studies and submitted their individual

reports to O.C.I. the latter submitted these reports to the specialists of its member firms; and after studying these individual reports the member firms drew up the definite report finally submitted by O.C.I. to the Planning Organization.

For this reason a large proportion of the heavy fees involved by the employment of a firm of consultants such as O.C.I. is due to this additional study. Whereas, from now on, the ten or twelve specialists of high calibre residing in Iran will express their views and opinions (directly to the Planning Organization) as and when problems come up for consideration. It will only be under exceptional circumstances that occasion will be found for an exchange of views with the specialists of the member firms of O.C.I.

Therefore, in the present or execution phase an agreement with O.C.I. would only be for the purpose of benefitting from the reputation and general experience of (the member firm of) O.C.I. in finding the (10 or 12) high grade specialists. The Planning Organization ~~can~~ therefore ~~only~~ ^{that it should only} consider ~~paying~~ a fee to O.C.I. commensurate with such a service.

On the basis of O.C.I.'s proposal, the Planning Organization must pay \$500,000.- per annum for the services of four or five specialists. In other words, each of these specialists, who, according to Mr. Bookwalter receive about \$18,000.- a year, would cost the Planning Organization \$100,000.- per annum.

Furthermore, if, besides these four or five men, an additional number of specialists be needed, in terms of clause 5 (c) the Planning Organization will not be able to engage these additional specialists by payment of their actual salary; rather if they are in the regular employ of O.C.I. it (the Planning Organization) must pay per diem rates which may amount to as much as \$200.- a day, and if they are not in the regular employ of O.C.I. the Planning Organization must pay O.C.I. a fee of 25% on their salary.

In view of the above (objections) the Planning Organization requests your Excellency to discuss the matter with O.C.I. and to ask it to submit a new proposal on the basis of the views detailed in this letter.

Should O.C.I. not wish to make a proposal on the lines suggested in order to lose no time please request their courtesy to enter into direct discussions with the specialists mentioned on Page 2 of this report (Messrs. Thornburg, Beckwalter, Dr. Turner, Dr. Hall, Mr. Huber). The good offices of International Bank and other persons and agencies who can assist in the engagement of the type of specialist required might also be requested.

Before his departure, Mr. Thornburg informed me that he could devote 8 or 9 months each year to our work; and, in view of his personality and the wide knowledge of Iran which he has gained, his engagement would undoubtedly be of benefit to the Planning Organization.

The question of the engagement of consultants was also discussed with Mr. Bayne and Dr. Welk of The International Bank who were here last week and they are fully acquainted with our views.

The Planning Organization appreciates the advantages of securing the services of O.C.I. as consultants which your Excellency has pointed out and attaches due importance to all the factors mentioned.

However, it is desirable to find a way to achieve our object in an expeditious and correct manner and at the same time at not too excessive a cost which might occasion unfavourable comment and criticism in Iran.

Of the two proposals made by O.C.I., the one which relates to the temporary phase (between the second and third phases) has not been considered because the Planning Organization is adopting the view that it should start work on the execution phase forthwith.

In conclusion it is to be added that the object of proposing the engagement of experts in this manner (as detailed in this letter) is to facilitate benefiting from technical assistance from the U.S. Government under existing acts or under Point 4.

AGREEMENT FOR CONSULTING SERVICES

THIS AGREEMENT, made and entered into as of this _____ day of _____, 1949 (_____ 1328), by and between the GOVERNMENT OF IRAN and OVERSEAS CONSULTANTS, INC., a corporation organized and existing under the laws of the State of Delaware, United States of America, with headquarters at 51 East 42nd. Street, New York, New York:

W I T N E S S E T H

WHEREAS, the legislation authorizing the execution of the Seven Year Development Program (herein referred to as the Seven Year Plan) has been approved; and

WHEREAS, the studies and reports called for in the Agreement between OVERSEAS CONSULTANTS, INC. and the GOVERNMENT OF IRAN, dated February 1, 1949, have progressed to a point where it is possible to consider plans for the undertakings which are provided for under the Seven Year Plan; and

WHEREAS, the GOVERNMENT OF IRAN desires to retain OVERSEAS CONSULTANTS, INC. to furnish consulting and such other services with the third phase of the Seven Year Plan, as outlined in this Agreement, and OVERSEAS CONSULTANTS, INC. is prepared to furnish these services; and

WHEREAS, OVERSEAS CONSULTANTS, INC. has also declared its readiness, **Plan to prepare programs for certain undertakings and to furnish certain** during the progress of the second step of the Seven Year/Services in connection with those undertakings as outlined in the Agreement covering the second step;

NOW, THEREFORE, the parties hereto agree as follows:

1- The nature and purpose of the services to be furnished by OVERSEAS CONSULTANTS, INC. under this agreement shall include but not be limited

to the following:

- 1- To establish and maintain a staff with its working headquarters in Tehran, consisting of a Chief Consultant and such additional personnel, including experts and assistants, as are agreed upon from time to time for the performance of the services to be provided hereunder.
- 2- To consult with the properly authorized representatives of the GOVERNMENT OF IRAN and the appropriate organs of the Plan Organization (herein collectively referred to as the Administration) and to make recommendations for the purpose of assisting in the competent carrying out of the Seven Year Plan. These recommendations will concern the adequacy or improvement of the various projects included in the program, and of alternative or additional projects within the scope of the Seven Year Plan which might be considered advantageous to the entire program.
- 3- To advise and assist the Administration in establishing its own organization for the effective carrying out of the Seven Year Plan, and in securing and training such technical personnel as will be required. An objective of this service would be to advise on the progressive establishment within the Administration of appropriate subdivisions competent to perform as many as possible of the technical and administrative functions which are essential to the successful operation of the Seven Year Plan. The purpose of the subdivisions may include preliminary technical design, selection and procurement of material and equipment, selection of contractors and the preparation of contracts, comparative economic and technical analyses of alternative projects, the preparation of cost estimates, the control and accounting of projects expenditures, the establishment of effective inspection and maintenance procedures, and the preparation of time, labor, material and expenditure schedules and their consolidation into master schedules for overall control, the establishment of statistical services, the establishment of accounting and auditing systems.

4- To furnish the Administration, on appropriate request, advice concerning laws, decrees or regulations, which may be of importance to the successful execution of the Plan, and concerning the procedures and practices involved in their administration.

5- To assist the Administration in securing the services of experts or specialists in any field whatsoever which is related to the Plan.

6- To assist the Administration in general, whether or not particularly mentioned in the foregoing paragraphs, both through the application of technical and expert knowledge and by making available to the Administration the broad experience of OVERSEAS CONSULTANTS, INC. with, and knowledge of, economic development practices in the United States and other countries. This advice would embrace the broad field of managerial, industrial, operating, engineering and construction activities, and of labor and economic studies. It is understood, however, that direct supervision of the carrying out of specified projects undertaken pursuant to the Seven Year Plan will not be the function of Overseas Consultants, Inc. but of the Plan Organization.

II. For the performance of the consulting services to be rendered by Overseas Consultants, Inc. under this agreement it is agreed as follows:

1- Overseas Consultants, Inc. will establish and maintain in Tehran a resident staff which on the average throughout the period of the contract will consist of one Chief Consultant, four Consultants and such Stenographic and Clerical assistants as may be required for their own use.

The composition of the resident staff, as to type and special qualification of its members, may be changed from time to time at the discretion of Overseas Consultants, Inc. or as may be agreed, to accord with the prevailing type of consulting service required.

2- If consulting service should be required in addition to that which can be supplied by the resident staff provided in paragraph (1) above, the resident staff will be supplemented by Special Consultants as agreed upon, at such times and for such periods as are agreed upon

3- The consulting services provided by the resident staff / paragraph 4
II (1) -/ and by such special consultants as may be provided/

II (2) - will at all times be supplemented by such additional consulting services as can be provided by the Overseas Consultants, Inc. organization in New York through such Resident Staff or Special Consultants.

Whenever in the opinion of OVERSEAS CONSULTANTS, INC. it would be of benefit to the execution of the work, a representative of the Board of Directors of OVERSEAS CONSULTANTS, INC. will visit Iran for consultation with the staff of OVERSEAS CONSULTANTS, INC. and with the Administration.

4- For the consulting services of the resident staff and the Overseas Consultants, Inc. organization in New York, we discussed above, the Government of Iran will pay to Overseas Consultants, Inc. a monthly sum in the amount of \$ & _____ which sum shall compensate Overseas Consultants, Inc. in full for all overhead costs in New York and such consulting services including the cost of transportation between New York and Tehran and all living costs incurred within Tehran or elsewhere as necessary to the performance of the consulting services provided for under this agreement.

5- For such Special Consultants as may be provided under paragraph II(2), the Government of Iran will pay Overseas Consultants, Inc. on the following basis:

- a) If the consultant is a regular member of the organization of any one of the constituent firms or companies of Overseas Consultants, Inc., payment to Overseas Consultants, Inc. will be at the regular per diem rates normally charged by the constituent organization.

- b) If the consultant is not a regular member of the organization or any one of the constituent firms or companies of Overseas Consultants, Inc., payment to Overseas Consultants, Inc. will be at the actual cost to Overseas Consultants, Inc. or one of the constituent organizations plus 25% thereof
- c) In addition to the per diem rates specified in (a) and (b) above, Overseas Consultants, Inc. will be reimbursed for the actual cost of all transportation, living and other reasonable expenses of the consultants incurred in the performance of the special consulting service agreed upon in each case.

6- All payments shall be made monthly in U.S. dollars (expenditures made under the Plan in rials or any currency other than dollars being convertible into dollars for the aforementioned purpose at the official buying rate for dollars at the time the respective expenditures are made.

7- The GOVERNMENT OF IRAN will furnish to OVERSEAS CONSULTANTS, INC. free of charge the following services: transportation and communications within Iran and suitable office space, light, heat and office equipment and office supplies.

8- The GOVERNMENT OF IRAN will establish in a bank in the City of New York a revolving credit of Two Hundred Thousand United States Dollars (U.S. \$200,000.00) which would be at the disposition of Overseas Consultants, Inc., to cover all the obligations and expenses incurred by them for the performance of the contract and the monthly charge and payment of the fee as outlined in Section II?

9- Neither OVERSEAS CONSULTANTS, INC. as a corporation nor its officers and employees, other than Iranian subjects will be required to pay any Iranian taxes with respect to any compensation received by them hereunder.

10- Materials and supplies imported by OVERSEAS CONSULTANTS, INC. for the purpose of carrying out this agreement as well as the personal effects and supplies reasonably required by the officers and employees of OVERSEAS CONSULTANTS, INC. stationed in Iran, shall be free from all Iranian Import or other duties.

III.- It is understood and agreed that the services to be performed by Overseas Consultants, Inc. under this agreement are limited to consulting and advisory services, and do not extend to the assumption of administrative or supervisory responsibilities or functions or to the preparation of designs or the performance of other services which are not essentially consultative or advisory.

It is recognized, however, that during the execution of the works to which this agreement relates, it may be mutually convenient for Overseas Consultants, Inc. either through its organization in New York or its Resident or Special Consultants in Iran, to perform or assist in the performance of other and related services for which no other adequate facilities are available to the Government of Iran. Examples of such related functions might be the selection or interviewing of special personnel for employment or engagement by the Government of Iran in connection with the Seven Year Plan; the performance of certain functions in connection with purchasing material or equipment or making arrangements with qualified persons for performing inspections or other special services in the United States or elsewhere outside Iran.

If such services are required and requested by the Government of Iran and accepted by Overseas Consultants, Inc., they will be performed under terms

to be arranged in each case between the parties to this agreement.

IV.- Unless previously terminated, this contract shall cover a period of seven years.

V.- OVERSEAS CONSULTANTS, INC. may terminate this agreement on three months written notice served on the Managing Director of the Plan Organization or the official representative of the Government of Iran in Washington.

THE GOVERNMENT OF IRAN may terminate the Agreement on like notice served on an officer of Overseas Consultants, Inc. in the United States of America, or its Chief Consultant or Project Manager in Iran. Either party may terminate the Agreement in case circumstances of force majeure beyond the control of either render it impossible for either party to carry out the Agreement.

This Agreement is executed in both the Persian and English languages. It is agreed between the parties to this Agreement that, in the event of any differences in interpretation between the Persian and English versions, the English text shall be controlling.

IN WITNESS WHEREOF, the IMPERIAL GOVERNMENT OF IRAN has caused this instrument to be executed in its name and on its behalf by a duly authorized official, and OVERSEAS CONSULTANTS, INC. has caused this instrument to be executed in its name and on its behalf by vice President, thereunto duly authorized, and its corporate seal to be affixed.

Witness

THE IMPERIAL GOVERNMENT OF IRAN

By

The authorized official of The
Imperial Government of Iran

Witness:

OVERSEAS CONSULTANTS, INC.

By _____
Vice President

Iran-Cover.



سازمان برنامه

PLANNING ADMINISTRATION

Teheran, Iran.

Tel. 4084

Cable Address:

Barnameh

July 11, 1949

Mr. Eugene R. Black, President
International Bank for Reconstruction
and Development
1818 H Street NW
Washington, D.C.

Dear Mr. Black:

Attached hereto are two copies of a memorandum which Mr. Bayne suggested when he was here that I should send along. This memorandum sets forth the principal features of Iran's Seven Year Development Plan Bill, outlines the general set-up and functions of the Plan Organization, and explains its position with respect to Overseas Consultants, Inc. There are also appended to the memorandum the complete texts of the Bill and amendments thereto. I believe that the facts outlined should be of assistance to the thinking of the Bank in the matter of our recent discussions.

I had also promised Mr. Bayne that I would forward to you at the same time a list of those projects which we intend to put into immediate execution. However, as these projects are presently pending approval by the Government, and I must of course await official ratification, I cannot include this list at the present time. I am hopeful, however, that it will go forward to you separately in the next mail.

If the facts presented in the attached memorandum are not adequate for your purpose, or you should wish elaboration on any particular point, I shall be very glad if you will let me know.

Very truly yours,

I take this opportunity to present to you my sincere congratulations for your new assignment and wish you the most complete success

Managing Director
Plan Organization

D. G. H. K.

ack. August 1



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PLANNING ADMINISTRATION

Teheran, Iran.

Tel. 4084

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MEMORANDUM

With further reference to our recent discussion in Tehran with Mr. Bayne and Dr. Welk of your Bank, the present memorandum has been prepared in order to present an overall view of the background, present position and activities of the Plan Organization.

STATUTES OF THE PLAN ORGANIZATION

On 26th Bahman, 1327 (15th February 1949) a Bill was passed by the Majliss (the Iranian House of Representatives) ordering the Government of Iran to implement, within a period of seven years from the ratification of this Bill, certain measures to be known in whole as the Seven Year Development Plan. The Government was further authorized to form, for the carrying out of this Plan, an organization to be known as the Plan Organization.

An English translation of the Bill, as well as subsequent amendments which have been made to it, are attached for your information (see Appendix 1).

The salient points of the Bill are as follows:



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M E M O R A N D U M

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1. Purpose

The purpose of the Seven Year Plan is: increase in production and in volume of exports; production of domestic requirements; improvement in the fields of agriculture and industry; prospecting for and exploitation of mineral resources, especially oil; improvement in transportation and communications; raising of the standard of living of the people through education and public health works; betterment of employment conditions, and reduction in the cost of living.

2. Allocation of Expenditures by Sections

The total expenditures proposed for the implementation of the above projects amount to Rials 21,000,000,000 (equivalent to \$650,000,000), allocated as follows:

	<u>Rials</u>
Agriculture and Irrigation	5,250,000,000
Roads, Railroads, Ports and Airports	5,000,000,000
Industry and Mines	3,000,000,000
Oil	1,000,000,000
Post, Telegraph and Telephone	750,000,000
Social and Municipal Reforms	<u>6,000,000,000</u>
	21,000,000,000



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3. Allocation of Expenditures by Years

The funds allocated under (2) above shall be divided between the seven years as follows:

	<u>Rials</u>
Second half of 1327	1,000,000,000
Year 1328	2,000,000,000
" 1329	2,800,000,000
" 1330	3,200,000,000
" 1331	3,500,000,000
" 1332	3,600,000,000
" 1333	3,600,000,000
First half of 1334	<u>1,300,000,000</u>
	21,000,000,000

In case of need, the Government is authorized, on the proposal of the Plan Organization, to reduce up to 10% the budget allocation of any fiscal year. Any portion of the budget allocation of one year not utilized shall be added to that of the following year.

Further, the sums allocated under (2) above shall be proportionately divided between the various provinces of the country, with due consideration of their capacity



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and requirements, in such a manner that the share of each province for the entire seven years shall be not less than Rials 1,000,000,000.

4. Source of Revenues

The above expenditures are to be met in the following ways:

a. Royalties and other revenues to the Government from the Anglo-Iranian Oil Company

The sum of Rials 6,000,000[?] from the royalties of the Anglo-Iranian Oil Company is to be paid to the Plan Organization for the second half of the year 1327 (9/21/48-3/20/49), and for the following six and a half years all of the royalties received from the Anglo-Iranian Oil Company are to be set aside for the Seven Year Plan and credited to the account of the Plan Organization. X

Out of these credits, to the present date, the sum of £3,082,947 (equivalent to \$12,344,227) has been paid by the Government to the Plan Organization.

The minimum amount expected to be paid per year by the Anglo-Iranian Oil Company, as royalties, is



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at present estimated at £7,054,435 (equivalent to \$28,257,970). This estimate is based on royalties paid by the company for the year 1326 (3/21/47-3/20/48) on the basis of the existing concession terms.

b. Loan from Bank Melli Iran

To assist in the financing of the Plan, the Government is authorized to borrow from Bank Melli Iran (the National Bank of Iran) up to the sum of Rials ^{4,500,000,000} ~~450,000,000~~ (equivalent to \$140,000,000).

c. Loan from the International Bank for Reconstruction and Development

The Government is authorized to negotiate with the International Bank for Reconstruction and Development for a loan up to the sum of \$250,000,000. Such a loan, however, is subject to ratification by the Majliss.

d. In the event that the abovementioned three sources of revenue should prove to be insufficient for the implementation of the Plan, the Government is authorized to obtain credits from domestic non-Governmental institutions and foreign commercial



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institutions.

e. At the end of the seven years, the royalties received by the Government from the Anglo-Iranian Oil Company will be set aside for the purpose of redeeming any loans obtained for the execution of the Plan.

5. The Plan Organization shall be composed of a High Council, a Board of Control and a Managing Director.

The High Council shall consist of seven members who will be appointed by Royal Decree on the proposal of the Government and will hold office for the entire period of the execution of the Plan. Vacancies which may occur in case of death, resignation or disqualification of one of the members shall be filled by Royal order on the proposal of the Government.

The High Council shall approve schemes, projects and budgets within the limits of the operational program approved by the Plan Committee of the Majliss. It shall also draft the required regulations and approve the various contracts, and in general supervise all of the functions assigned to the Plan Organization.



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The Managing Director is appointed by Royal Decree on the proposal of the Government for a period of three years, with provision for reappointment for a second term of office. In event of death, resignation or disqualification before the expiry of his term of office, he shall be replaced by another appointee on the proposal of the Government and by Royal order.

The Managing Director shall be the head of the technical bureau and subsidiary departments of the Plan Organization. He shall represent the Organization before the Council of Ministers and the various Ministries and in general will be responsible for the proper administration of the functions of the Organization.

The Managing Director and Members of the High Council who were appointed on May 8, 1949, by special order of H.I.M. the Shah, are as follows:

H.E. Ali Mansoor	President of the High Council
H.E. Abolghassem Najm	Member of the High Council
H.E. Dr. Mosharaf Naficy	" " " "
H.E. Ahmad-Hosseini Adl	" " " "
H.E. Ahmad Zangueneh	" " " "
Dr. Shams-ed-Din Jazaeri	" " " "
Dr. Fazlollah Moshaver	" " " "
H.E. Dr. Taghi Nasr	Managing Director

SOME FACTS ABOUT
GOVERNMENT
EMPLOYEES
Insurance Company



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Teheran, Iran.

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The function of the Board of Control will be to audit and supervise the accounts and activities of the Plan Organization.

This Board will be composed of six members, to be elected by the Majliss from a list of eighteen names to be submitted to the Government.

The Government has not yet submitted such a list, but it is expected that this will be done very shortly.

6. According to the law of February 15, 1949, the full program for the seven years was required to be presented to the Plan Committee of the Majliss and approved by that body within three months of the ratification of the Bill, i.e. by the middle of May, 1949. It was, however, found to be impractical to meet this requirement and accordingly, in order to expedite the work, a single article was submitted to the Majliss requesting authority for the Government to approve, within the limits of legal credits sanctioned for the second half of the year 1327 and the full year 1328, such operations as are recognized by the Plan Organization



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as being beneficial and practicable within one year from the date of the sanction of the law, and to authorize the Plan Organization to execute these projects. Furthermore, by this single article authorization was requested for the Plan Organization to prepare such statutes and financial, employment and budgetary regulations as might be recognized as being necessary for the efficient performance of the first year's operations.

This article was ratified by the Majliss on July 4, 1949.

RELATIONSHIP WITH "OVERSEAS CONSULTANTS, INC."

In October 1948 an agreement was made with Overseas Consultants, Inc. of New York, providing for an initial study in Iran, by certain representatives of that corporation, of the program under consideration by the Government for the economic and social development of Iran.

Accordingly, this group of five experts arrived in Iran on November 15, 1948 and left on December 2, after having made a study of the existing conditions.



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Their opinion, as expressed in their "Initial Report to the Government of Iran on the Proposed Seven-Year Plan," was that the plan is capable of execution in principle, that the program should be started as soon as possible, and indeed that certain parts of the program could be begun almost immediately.

On February 1, 1949, a second agreement was entered into with Overseas Consultants, Inc., which provided for a detailed study of the Plan. Some twenty-nine experts came to Iran in the months of February, March, April and May, visited virtually all of the provinces in the course of their field work and study, and have now returned to the United States for the preparation and printing of their complete report. The date for the submission of this report, according to Overseas Consultants' contract of February 1, was July 1, but at the request of Overseas Consultants the Plan Organization granted an extension of one month's time for the completion of the report.

A proposal has been submitted by Overseas Consultants, Inc. to the Plan Organization for the



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continuation of their services during the third, i.e. the execution phase of the Plan, on almost the same basis as the contract entered into for the second phase. The Plan Organization, however, stating the basic difference between the second and third phase of the Plan in regard to technical services, has requested the Iranian Embassy in Washington to enter into negotiations with Overseas Consultants, Inc. on the basis of a counter-proposal airmailed on 13 Tir 1328 (July 4, 1949). We shall not fail to inform you of any developments which may take place in this sphere.

July 11, 1949

FORM DS-10
2-10-47

DEPARTMENT OF
STATE

DATE

REFERENCE SLIP

7/22/49

TO:

Mr. Stephens, International Bank

<input type="checkbox"/> ADVISE	<input type="checkbox"/> NOTE & FORWARD
<input type="checkbox"/> APPROVE & RETURN	<input type="checkbox"/> NOTE & RETURN
<input type="checkbox"/> AS YOU REQUESTED	<input type="checkbox"/> PER TELEPHONE TALK
<input type="checkbox"/> ATTACH FILE	<input type="checkbox"/> PREVIOUS CORRESPON.
<input type="checkbox"/> ATTENTION	<input type="checkbox"/> PRIORITY ACTION
<input type="checkbox"/> COMMENT & RETURN	<input type="checkbox"/> RECONSIDER-
<input type="checkbox"/> CONSIDER	<input type="checkbox"/> RECOMMEND ACTION
<input type="checkbox"/> COPYING	<input type="checkbox"/> RECORD
<input type="checkbox"/> CORRECT	<input type="checkbox"/> REPLY
<input type="checkbox"/> FILE	<input type="checkbox"/> RETURN TO SENDER
<input type="checkbox"/> FOLLOW-UP	<input type="checkbox"/> REWRITE
<input checked="" type="checkbox"/> FOR YOUR INFORMATION	<input type="checkbox"/> SEE ME
<input type="checkbox"/> HOLD	<input type="checkbox"/> SIGNATURE REQUIRED
<input type="checkbox"/> INITIALS NEEDED	<input type="checkbox"/> TAKE ACTION
<input type="checkbox"/> INSTRUCT	<input type="checkbox"/> TRANSFER
<input type="checkbox"/> INVESTIGATE & REPORT	<input type="checkbox"/> TYPE
<input type="checkbox"/> JUSTIFY	<input type="checkbox"/> VERIFY
<input type="checkbox"/> KEEP ME ADVISED	<input type="checkbox"/> REPLY FOR SIGNATURE OF
<input type="checkbox"/> LEGAL MATTER	
<input type="checkbox"/> MEMO REQUIRED	
<input type="checkbox"/> INTERESTED	
<input type="checkbox"/> NOTE & DESTROY	
<input type="checkbox"/> NOTE & FILE	

REMARKS:

FROM

Samuel J. Gorlitz

OR

COPY

Enclosure No. 1 to Despatch No. 178 dated 8 July 1949, from
American Embassy, Tehran, Iran.

COPY

TRANSLATION

from Newspaper KATHAN
dated 7-4-1949

SINGLE ARTICLE LAW

Of July 4, 1949.

Hereby is the Government authorized to approve of actions considered by the Planning Organization as useful and possible of execution gradually within a year from the date of the passage of this law, the execution of the same to be within financial appropriation for the years 1327 and 1328. The Government will give the legal authorization to the Planning Organization for the execution of the above said actions and then at the end of the year, submit, together with the program for following years, as prepared by the Organization, the report of the year to the Majlis Planning Committee for approval.

NOTE: To expedite realisation in effect of matters covered by the above law, the Planning Organization is authorized to prepare its constitution, financial, personnel and budget regulations in a way deemed fit for the smooth working of affairs assigned to it. The Organization can prepare the above regulations without being forced to observe the provisions of Note 3 of the Single Article Law of 26 Bahman 1327 (February 15, 1949), and will tentatively execute the same after its approval by the Supreme Planning Council.

Translated by: MZarnegar
Copied by: fh:or



سازمان برنامه

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شماره

پیوست

BY THE GRACE OF

GOD ALMIGHTY

We,

Pahlevi, Shahanshah of Iran,

(His Imperial Majesty's Signature)

In view of Articles 27 of the Supplementary Fundamental Law (of the Constitution), issue the following order :

Article 1. The law authorizing the enforcement of the provisions of the Parliamentary Plan Committee's Report, together with the text of the Plan Committee's Report as approved by the Majless in its session of February 15, 1949 (Bahman 26, 1327) and attached to this Imperial Decree, ^{shall} should be put into effect.

Article 2. The Council of Ministers is charged with the execution of this law.

February 22, 1949 (Esfand 3, 1327)



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LAW AUTHORIZING ENFORCEMENT OF
THE PROVISIONS OF THE PARLIAMENTARY

PLAN COMMITTEE'S REPORT

(RELATING TO SEVEN YEAR PLAN)

The Government is in duty bound to execute report number 1, dated August 26, 1948 (4-6-27) of the Plan Commission of the Majless, which is composed of 15 Articles and one Note. In accordance with the Second Article of the above report the Government ^{shall} get the approval of the Committee for the practical program of the Seven Year Plan, within three months.

NOTE 1. The High Council, the Board of Control and the Managing-Director, in accordance with Article IX, will be appointed by the Royal order on the proposal of the Government and the approval of the Majless.

NOTE 2. The effect of the matters concerning the Anglo-Iranian Oil Company which are mentioned in the introduction and in the text of the Bill on the Plan, is temporary and the result depends on the conclusion of the negotiations of the Government with the Company.

NOTE 3. From the funds allotted to the execution of the plan no payment should be made as salary, increase allowance, compensation, etc. except to the technical employees



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for the technical work they do and the Government is in duty bound to use the special employees of the Ministries with their own salary budget for the administration organizations (to be set up) for the enforcement of the Plan.

NOTE 4. The Government is in duty bound to give priority, in drawing up the program (of operation) to the agricultural and public health affairs, and furthermore to see that the plan of improvements especially in the field of agriculture ^{shall} should be executed by the people.

This law consisting of one Article and four notes (and the text of the Report of the Plan Committee annexed thereto) was voted by the Majless in the session of February 15, 1949 (Bahman 26, 1327).

Signed

Reza Hekmat
President of the Majless



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REPORT NO. 1 OF THE PLAN COMMITTEE OF THE MAJLESS

Dated August 26, 1948 (4-5-27)

(Authorizing Plan)

Article 1.

For the purpose of increasing production and the volume of exports, meeting the needs of the people in the interior of the country, enhancing agriculture and industry, prospecting and exploiting mines and underground resources, specially oil, improving and perfecting the means of transport, reforming public health and carrying out measures of all kinds for the development of the country, raising the general standard of life and education, bettering the general living conditions and reducing the cost of living, the Government of Iran is in duty bound to carry out and complete, within a period of seven years from the date of the ratification of this law, the measures which are totally to be known as the Seven Year Program of Development.

Article 2

For the execution of the Seven Year Development Program the funds earmarked shall be used in various economic and social projects as stated hereunder:

SECTION 1- AGRICULTURE

	<u>Rls.</u>
Research and scientific establishments	300,000,000
Animal and plant disease prevention and control	1,100,000,000



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Rls.

Preservation of national wealth such as forests, pastures etc.	450,000,000
Expansion of crops and agricultural reforms	450,000,000
Irrigation and dam constructions	1,850,000,000
To be paid to Agricultural Bank for following purposes:	
Increase of capital	150,000,000
Loans to farmers	400,000,000
Purchase of shares in cooperative societies	250,000,000
(Purchase of) machinery and fertilizers	<u>300,000,000</u>
Total of Section I	5,250,000,000

SECTION II - HIGHWAYS, AIRPORTS,

RAILROADS AND SEAPORTS

Railroads	2,500,000,000
Construction and asphaltting of highways	1,850,000,000
Seaports	250,000,000
Airports	<u>400,000,000</u>
Total of Section II	5,000,000,000

SECTION III - INDUSTRY AND MINES

Textile Industry	1,200,000,000
Sugar	450,000,000
Iron melting	450,000,000
Chemical Industry	250,000,000
Clay Industry (earthen ware)	150,000,000
Carpet Industry and Miscellaneous	250,000,000
Mines	<u>250,000,000</u>
Total of Section III	3,000,000,000



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SECTION IV - OIL

Rls.

Capital for the formation of the Iran Oil Joint Stock Company	1,000,000,000
Total of Section IV	1,000,000,000

SECTION V - POST, TELEGRAPH AND TELEPHONES

Perfection of Postal Services	250,000,000
Perfection wireless, radio and telephone services	500,000,000
Total of Section V	750,000,000

SECTION VI - SOCIAL AND MUNICIPAL REFORMS

Construction of Cheap houses	1,500,000,000
Loans to municipalities for piping and water, utilizing mineral waters and power plants	1,000,000,000
Prophylactic measures for improvement of the level of public health	1,500,000,000
Grant to technical institutions for training of skilled workers, providing useful employment for the unemployed, raising the level of technical knowledge of artisans and farmers	1,000,000,000
Topographic mapping and statistics	300,000,000
Construction of modern prisons in important towns	200,000,000
Other public works	500,000,000
Total of Section VI	6,000,000,000
Grand Total	21,000,000,000

Funds allotted to various sections mentioned in this article shall exclusively be used for the same works specified. Should the fund allotted to a section be



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fund inadequate, or in excess of requirements, the Government can on the proposal of the Planning Organization, increase or reduce such a fund by 10%. The Government is in duty bound to prepare through the Planning Organization, within a period of four months from the date of the ratification of this law, the program of operations intended in each of the seven years, within the limit of the funds appropriated in this law for every year and for each section. The program of operations must be approved by the Plan Commission of the Majless.

Note: The Government is in duty bound to include in the detailed program:

a. plans for the replacement of the cultivation of poppy by useful crops and for the prohibition of cultivation and use of opium and also to take necessary steps for their enforcement.

b. to prepare and carry out useful projects for the construction of hotels and for attracting tourists and providing for their comfort during their stay in Iran.

ARTICLE 3

Funds mentioned in Article 2 shall be divided between the seven years as follows:

	<u>Fls.</u>
Second half of 1327 (9-21-48-3-21-49)	1,000,000,000
Second half of 1328 (3-21-49-3-21-50)	2,000,000,000
Second half of 1329 (3-21-50)	2,800,000,000



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Rls.

Second half of 1330	(3-21-52)	3,200,000,000
Second half of 1331	(3-21-53)	3,500,000,000
Second half of 1332	(3-21-54)	3,600,000,000
Second half of 1333	(3-21-55)	3,600,000,000
First half of 1334	(3-21-56)	1,200,000,000
TOTAL		21,000,000,000

The Government is authorized to reduce, on the proposal of the Planning Organization, up to 10% of the appropriations allotted to each year and to add the sum (thus saved) to the appropriation for the subsequent years.

Article 4

Funds mentioned in Article 2 shall be proportionately divided between various provinces of Iran with due consideration of their capacity and requirements in such a manner that the share of all the towns in each province shall not be less than one thousand million rials in seven years.

Article 5

In the year 1327, 600 million rials and in subsequent years up to the end of the seven year period, all the Government revenues from the payments made by the Anglo-Iranian Oil Company shall be earmarked for the execution of the program. At the expiration of the seven year period the aforementioned revenues shall be earmarked for the payment of interest and amortization of loans obtained by law for the execution of the program.



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Article 6

In order to complete the sums necessary for the execution of the program, the Government is authorized (to take the following measures) if it finds it impossible to secure at the beginning of each year all the necessary sums from the money which it has at its disposal:

1. To borrow in seven years up to Rials 4,500,000,000 from ^{the} Banké Mellîé Iran, bearing 2% interest per annum. The loan obtained in each year shall not exceed Rials 750,000,000.
2. To enter into negotiations with the International Bank for Reconstruction and Development with the view to obtaining a loan of not more than 250 million dollars for the execution of revenue-producing projects, on installments and conditions agreeable to both parties. Any contract entered into on this matter shall, however, be considered as definitive when such contract is approved by the Majless.
3. To obtain credits from domestic non-Governmental institutions and foreign commercial institutions for completing the financing of the program.

Article 7

The revenues which will be gradually derived from the operations mentioned in the program, shall first be counted as a part of the funds earmarked for the execution of the program. After the execution of the program such revenues shall be exclusively spent on



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the repayment of Government loans until they are paid off in full.

Article 8

The supervision of the operations mentioned in the program shall be entrusted to a special organization which shall be formed and known as the Planning Organization.

The duties of this organization shall be as follows:

1. To prepare schemes and projects, detailed budgets, executive regulations in accordance with the program of operations which must be approved beforehand by the Program Commission of the Majless, and to supervise from technical and financial standpoints the enforcement of operations included in the program and to ensure coordination and cooperation between executive sections.
2. To centralize all funds earmarked for the program and to pay the expenses which are to be defrayed out of the budget of the Plan and to prepare the balance sheets of the operations of each year.

The operations of the program shall, as far as such operations are connected with the Government, be carried out by Ministries, or Government Administrations, institutions or Government-owned corporations.

Where it is deemed more advisable to entrust the execution of the program to private individuals and institutions, the Planning Organization shall, subject to the approval of the council of Ministers, help and



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encourage such private individuals or institutions by preparing projects, securing necessary credits, offering guidance and rendering other technical assistance, in order that private capital shall be drawn to such projects.

Article 9

The Planning Organization shall comprise ^{the} High Council, ^{the} Board of Control and ^{the} Managing Director.

The High Council shall consist of seven members who will be appointed by ~~the~~ Royal order on the proposal of the Government for the whole period of the execution of the program. If a member dies or resigns during the period, or proves to be not suitable, his successor shall be appointed by Royal order on the proposal of the Government.

The Council shall approve schemes, projects and budgets within the limits of the operational program approved by the Plan Committee of the Majless. The Council is also entrusted with the preparation of regulations, approval of contracts and, in general, with the supervision of all the duties entrusted to the Planning Organization.

The Board of Control shall consist of six members who shall be selected by the Majless from ^{the} list of eighteen persons proposed by the Government to the Majless and who shall be appointed for ^{the} period of two years. The manner of selection is in accordance with the law for the selection of the advisors of the Tribunal of Accounts.

The Board of Control has the right to refer directly to the Government, and is ^{empowered} charged to investigate matters



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referred to it by the Government and to report its findings direct to the Government.

The Managing Director shall be appointed for a period of three years by Royal order on the proposal of the Government. He can be reappointed at the expiration of his term of office.

In case of death or resignation of the Managing Director or if he proves to be unsuitable before the expiration of his term of office, he shall be succeeded by another person on the proposal of the Council of Ministers and by Royal order.

The Managing Director shall be the head of the technical bureau and other dependent departments of the Organization. He shall be the representative of the Organization before the Council of Ministers and the Ministries. In general he is responsible for the proper execution of the duties assigned to the Planning Organization.

Members of the High Council, the Board of Control and the Managing Director shall receive remunerations for their services and are not permitted to have any other public or social office of free occupation whatsoever.

The Planning Organization shall enjoy juridical personality and financial independence. The scope of its activities and limits of responsibility shall be ascertained by a statute which shall be prepared with the consent of the Council of Ministers and approved of by the Program Commission of the Majless.



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Article 10

So far as financial and accounting affairs and foreign exchange transactions and conclusion of contracts are concerned, the execution of the program shall be subject to special rules and regulations which shall be drafted by the Council in consultation with the Board of Control, with a view to securing maximum speed, economizing in expenditure and obtaining best possible results. These rules and regulations shall be put into force on the approval of the Council of Ministers.

Article 11

The Ministries and Government administrations and Institutions are in duty bound to carry out the functions which are assigned to them in the execution of the program in accordance with the terms and instructions prepared by the Planning Organization. In case of delay or non-observance of the conditions and instructions, the Planning Organization shall report the matter to the Council of Ministers, and the latter is in duty bound to take appropriate action within 15 days of the receipt of the report in such a manner that the complaint shall be removed.

It is incumbent on the Ministries and Government Organizations to place at the disposal of the Planning Organization all papers, vouchers and books related to the execution of the Program entrusted to them and to provide all facilities for minute control and checking by the Planning Organization.



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Article 12

The Planning Organization is in duty bound to prepare every three months a complete report of its quarterly operations and to submit a yearly balance sheet showing the revenues and expenditure and any increase obtained in production and the national income as a result of the execution of the program.

The Board of Control shall investigate the balance sheet and, if it finds no objection to it, shall submit it to the Council of Ministers for approval. The approval of the Council of Ministers shall constitute the certificate of clearance of accounts for the period of operation concerned. The Planning Organization shall publish the quarterly reports as well as the Annual Balance Sheets for public information.

Article 13

The Planning Organization shall have at its disposal an adequate number of experts and functionaries for the preparation of projects, for technical and financial supervision and for other duties assigned to it. Its expenditure shall be included in the administrative budget of the Program which shall be prepared with the consent of the Council of Ministers and approved by the Plan Committee of the Majless.

All functionaries and other individuals needed for the execution of the program as well as for other activities of the Planning Organization shall be appointed in the first



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place from the present personnel and the disponsible Government functionaries (not in active service but awaiting assignment), unless an adequate number of technicians and experts cannot be found among them.

The Planning Organization can employ foreign experts for a period not exceeding one year after the period of the execution of the program. The employment of such experts shall be with the approval of the Council of Ministers within the limit of the number and the list of positions approved beforehand by the Program Committee of the Majless.

Article 14

Cooperative societies formed by authority of the Planning Organization for carrying out operations of public utility mentioned in the program, shall, on the proposal of the Planning Organization and with the approval of the Council of Ministers, be exempt from payment/registration fees, stamp duties and income tax for a period of five years beginning from the date of their formation.

Article 15

This law shall be put into force within one week of ~~the~~ approval by the Plan Committee of the Majless of the operational program mentioned in Article 2 above.

The Authority for the enforcement of ^{the} above articles has been granted by the Majless by virtue of ^{the} Single Article voted on February 15, 1949 (Bahman 26, 1327)

REZA HEKMAT
President of the Majless



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The original firman (decree) by His Imperial Majesty and (original text of) the law are on file in the office of the Prime Minister.

PRIME MINISTER

Iran Con.

UNIQUE ARTICLE

The Government is hereby authorized to approve, within the limits of legal credits sanctioned for the years 1327 and 1328, such operations as are recognized by the Plan Organization to be beneficial and gradually practicable within one year as from the date of sanction of this law, and to authorize the Plan Organization to execute these operations; and that, at the end of the year, the Government shall submit to the Plan Committee of the Parliament for its approval a report of the said operations together with such practicable plans as are prepared by the Plan Organization for the succeeding years.

NOTE To expedite the performance of the operations ^{which are the} being subject of this Article, the Plan Organization is authorized to prepare, without observing the provisions of Note 3 of ^{KC} Unique Article dated 26th Bahman, 1327, such statutes and financial, employment, and budgetary regulations as are recognized to be essential for ^{the} efficient performance of operations, and to put same into effect on a trial basis after having been approved by the Supreme Planning Council.

Sgd: Prime Minister Minister of Finance

Jean Nego

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Files

DATE: July 8, 1949

FROM: F. Dorsey Stephens *FDS***DECLASSIFIED**SUBJECT: IRAN**JUN 06 2013****WBG ARCHIVES**

A meeting was held today at which the following were present:

Messrs. R. L. Garner
Max Thornburg
Clyde Dunn
F. D. Stephens

The State Department has received a cable from Iran which treats a number of matters:

1. The Iranians were pleased with the Bank's memo re possible participation in financing of the Seven-Year Plan which had been submitted through the State Department.
2. News had been received of the passage of a single-article enabling act on July 3 which permitted the Plan Organization without further reference to the Majlis to go ahead with the employment of key personnel and to initiate a number of high priority projects.
3. While fully appreciating the reasons advanced by Mr. Garner for favoring a "corporate" setup for consultants, the Iranian Government does not like the costs involved in OCI's offer for a long-term arrangement (\$500,000 per annum for five permanent consultants in Teheran during the execution of the program). The Iranian Government is of the opinion that unless a more favorable arrangement could be made with OCI, it would prefer to employ individual consultants, including some of the OCI personnel who recently made a survey of Iran. The Government also expressed the opinion that it would require a larger number of consultants permanently on the ground.

Mr. Max Thornburg who, although not belonging to the staff of OCI, is the author of that part of the preliminary OCI report dealing with organization and who has already discussed with the Iranians the personnel requirements and possible key men, had suggested that the Iranians continue, on a temporary basis, the services of, say, four high-level technical experts of OCI during the interim period until the OCI's final report is ready. However, this suggestion had apparently been turned down on the grounds of excessive cost. Mr. Thornburg said that he favors the OCI setup to a un-integrated group of individual experts without strong backing. It was his opinion that OCI could not afford to undertake the Iranian job for less than the figure indicated, and thought it not unlikely that the OCI might break up if it was unable to sign a long-term contract with Iran. Mr. Thornburg expects to return to Iran in two or three weeks' time in his capacity as special consultant to the Iranian Government.

Although unable to judge as to the reasonableness of the fee proposed by OCI, Mr. Garner stated that he still was in favor of a "corporate" form for a body of consultants and that, also, he was opposed to "changing horses in midstream." He stressed the need for continuity and expressed the opinion that it was important that some OCI personnel should be in Iran in the interim period before the final report is presented and examined. (This report should be ready within about two weeks.)

It was agreed that discussions would be held with the Iranian Embassy on the subject of the situation created by the Iranian reluctance to proceed further with OCI on the basis suggested by the latter.

FStephens:mmr

cc: Mr. Iliff
Mr. Svoboda

Jean Rego

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Files

DATE: July 8, 1949

FROM: F. Dorsey Stephens *F.D.S.*SUBJECT: IRAN**DECLASSIFIED****JUN 06 2013****WBG ARCHIVES**

Messrs. Thornburg and Stephens conferred today with the Iranian Ambassador and Mr. Nemazee, Commercial Counselor. They were given verbally the substance of a letter from Teheran which indicated that the Government felt that the proposed OCI fee was too high and, if agreed to, would raise a political storm. (A written summary of the letter was promised for July 11.)

The Iranians appear to believe that they could accomplish the same results at much less cost by employing as many as 15 individual consultants on a straight salary basis. Such consultants would be on the payroll of the Plan Organization. The Iranian Government further suggested that OCI might be willing to give overall advice for a modest fee. If no agreement could be reached with OCI on this point, they wished the Iranian Ambassador to consult with the Bank and the U.S. State Department regarding their alternative proposal.

Mr. Thornburg argued that 15 top-level consultants stationed in Iran at any one time would be excessive. He said that he shared Mr. Garner's view that the "corporate" setup with the backing of such an influential group as the member firms of OCI was important. He agreed to consult the latter regarding the Iranian suggestion and to visit Washington again before his return to Iran in order to confer with the Iranian Embassy, the State Department, and the Bank. Mr. Stephens said that the Bank would be likely to view with some concern the substitution for an organization like OCI of a loosely associated group of experts without the necessary backing and authority.

Mr. Stephens also stressed the importance which the Bank attached to the guarantee of adequate funds for the Plan Organization, as it would appear from recent reports that some part, at least, of the oil royalties were being devoted to other purposes.

In the course of conversation, Mr. Nemazee said that it appeared that the Shah had been advised, through the American Embassy, that the Bank would require the "pledge" of oil royalties for any loan it might make. Mr. Stephens undertook to endeavor to trace the source of this report.

FDStephens:mmr

Iran Mess.
Mr. Schmitt
noted

OFFICE MEMORANDUM

TO: Mr. A. S. G. Hoar

DATE: July 5, 1949

FROM: F. Dorsey Stephens *FD*

SUBJECT: Iran

1. I talked today with Mr. Clyde Dunn, of the State Department, with regard to the latest developments in Iran as reported by Messrs. Engert and Bayne.

2. The State Department has not yet received from Teheran information of the nature which the Bank has obtained through its representatives. It was, however, Mr. Dunn's opinion that it is the intention of the Iranian Government to divert a substantial portion of the oil royalties to cover proposed military expenditures. In view of the fact that no word has as yet been received from the American Ambassador in Teheran as to the reaction to the Bank's memorandum of June 18, it was agreed that the State Department would wire for information on this subject.

3. I told Mr. Dunn that the Bank was not at all pleased with the latest developments as reported, and expressed the view that failure on the part of the Iranian Government to make a start at setting up a sound mechanism for the administration and execution of the Seven-Year Plan, with adequate means at its disposal, and delay in selection of key personnel might seriously prejudice the chance of a Bank loan. It is my understanding that this warning will be communicated to the American Ambassador in Teheran.

4. Mr. Dunn will communicate with us again when he has received an answer from Teheran.

cc: Mr. R. L. Garner

FDStephens:mmr

FILE COPY

*Iran Nego.
* Iraq.*

O. Harold Folk

July 5, 1949

Ladislav Svoboda

Sections on Iran and Iraq of Annual Report

Except for a few minor points as indicated on the attached draft,
sections on Iran and Iraq look o.k. to me.