

CHAPTER 2

SOCIO-ECONOMIC BACKGROUND

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2.1 National Economy

The economy of Iran is characterized by its huge dependence upon the oil exportation; the fluctuation of oil price in the international market seriously affects the economic performance, especially towards balance of payments and debt accounts. Table 2-1-1 shows the composition of the sectors contributing Gross Domestic Product (GDP), and principal export commodities are tabulated in Table 2-1-2.

Table 2-1-1 Contribution to GDP by Sector, 1996/97

	Unit: US\$ Million
Oil	14.2
Agriculture	21.2
Mining and Manufacturing	19.4
Services	35.2
Deflator	10.0
<u>GDP at factor cost</u>	<u>100.0</u>

Table 2-1-2 Principal Export Items, 1995/96

Oil and Gas	15,141
Carpets	920
Fruits, fresh and dried	534
Chemical Products	388
<u>Total Export including Others</u>	<u>18,375</u>

Source: "EIU Country Profile: Iran", Sept., 2000, Economist Intelligence Unit.

In the first decade after the Islamic Revolution in 1979, Iran experienced an explosion of country's population, during which the war against Iraq was fought. A sudden drop of international oil price in 1986 aggravated the already declining growth trend of the national economy. As a result, in 1988, which is the last year of Iran-Iraq War, the economy size was shrunk by 9% in real terms, and the government budget deficit reached almost 50%. Owing to the doubling of foreign-exchange earnings in the oil sector caused by the sharp rise of oil price during the period after 1988 up to 1990, the real GDP growth in the years of 1990 and 1991 registered 11-12%. However, it returned to around 5% in the succeeding 1992 and 1993, because of the distorted economic structure being incapable to sustain development. 1994 was a recession year of Iranian economy; GDP grew merely by 1.6%. The economic performance, 1995 to 1999, is

presented in Table 2-1-3. Relatively high growth is only observed in 1996, when the international oil price rose, as well.

Table 2-1-3 Economic Indicators, 1995 to 1999

	1995	1996	1997	1998	1999
1. GDP at market prices(bn Rials)	178.9	235.2	277.8	328.3	407.4
2. GDP at market prices(bn US\$)	259.6	78.4	92.6	59.7	51.6
3. Real GDP Growth (%)	2.9	5.5	3.0	2.2	2.5
4. Consumer Price Inflation*(av,%)	49.7	28.9	17.1	19.4	21.0
5. Population (million)	59.2	60.1	60.9	61.8	62.8
6. Exports (FOB, billion US\$)	18.4	22.4	18.4	13.0	19.7
7. Imports (FOB, billion US\$)	12.8	15.0	14.1	13.6	13.5
8. Current Account Balance (bn US\$)	3.4	5.2	2.2	-1.9	4.7
9. Reserves excluding Gold (bn US\$)	6.4	9.1	5.0	3.5	5.3
10. Total External Debt* (bn US\$)	21.9	16.7	11.8	14.4	11.3
11. Debt Service Ratio*, paid (%)	30.2	27.5	31.3	20.2	18.1
12. Exchange Rate** (av. Rial:US\$)	3,000	3,000	3,000	5,500	7,900

Remarks: 1): *: Calendar years.

2): **: 1995, EIU estimates; 1996-98, Bank Markazi; 1999, TSC rate.

Source: "EIU Country Profile: Iran", Sept.,2000, Economist Intelligence Unit.

Recent figures of the overall economic growth, since 1995 onward, are disappointingly low, if compared to the aimed targets of 5-year Development Plans (Second Plan, 1995-1999; and Third Plan, 2000-2004) that cover the same duration.

According to the recently released "Economic Trends", a regular bulletin of Bank Makazi (the central bank), the real GDP growth in the fiscal year 1999/2000 have registered 2.4% at factor cost, and 2.5% in expenditure terms. The sectoral breakdown provided by the Bank suggests that the majority of expansion was generated in the non-oil sector. The oil sector contracted by 1%, although, in nominal terms, its growth reached 63%, as oil price strengthened. Non-oil sector growth was 3.2%: services, 4.3% due to domestic demand expansion; and manufacturing and mining, 4.4% after the stagnation in 1998/99. Encouragement of non-oil exports through the relaxation of foreign-exchange restrictions might stimulate the growth in the manufacturing sector, as well as the foreign financing in heavy industries such as steel and petrochemicals.

Agriculture sector, which contributes almost one-quarter of the national economy and, as a large employment source, has a direct impact on private consumption. According to "Economic Trends", agriculture sector contracted in 1999/2000 by 0.3%. While all the other sectors expanded, the high growth of annual average 13% between 1996/97 and 1998/99 has come to an

end, in agriculture sector. This is partly the direct impact of last year's severe drought: rain-fed crops have failed, and fodder production and livestock grazing have become unavailable. The drought conditions have still persisted, and the hope of agricultural recovery has begun to retreat.

2.2 Development Plan

2.2.1 Previous Development Plans and Implementation

Upon the coming to an end of Iran-Iraq War, an ambitious reconstruction and economic reform programme was formulated by the Plan and Budget Organization, in the form of the First 5-year Economic, Social and Cultural Development Plan. The Plan aimed at market liberalization, through resolving complex price and quantity control of the commodities, withdrawing a quota system in the importation, and gradually relaxing foreign-trade restrictions with the fixation of exchange rate. The Plan implementation being not entirely successful in its accomplishment, it had a noticeable effect by producing continual deliberations on the removal of highly-centralized government interventions as well as on economic adjustment.

In the year 1994, an entrenchment policy was adopted in the government budget, to cope with the accumulating foreign debt. Foreign debt burden and balance-of-payments deficit were at last resolved; however, there was an extensive affection in the national economy leading to the lower-most growth of 1.6%, as described in the preceding Section.

From 1995 to 1999, the Second 5-year Economic, Social and Cultural Development Plan was implemented, which was formulated, based on the review and reflection of the First Plan, also by the Plan and Budget Organization. The Second Plan targeted with economic growth of 5.1% throughout the Plan period; however, as previously seen, it was only attained in the year 1996.

Targets of economic growth in the First and Second Plans are indicated below, with their actual attainment. That of the current Third Plan is attached, for the purpose of comparison.

Table 2-2-1 Five Year Plan

	Plan Period	Target Growth	Attained Growth
First 5-year Plan	1989-1993	8.1%	7.3%
Second 5-year Plan	1995-1999	5.1	3.2
Third 5-year Plan	2000-2004	6.0	(just started)

2.2.2 Current Development Plan and Its Contents

The Third 5-year Economic, Social and Cultural Development Plan came into effect in March 2000, committing the government to a range of fiscal and structural reforms. For the implementation, the Third Development Plan Law was passed by in the Majlis (the Parliament), and fund resources have been secured for the allocation to the programmes in the Plan.

In determining the Third Plan programmes, an economic improvement of the country has been considered as fundamental. In the social and cultural aspects, emphasized was a practically and legally performing society. Towards the foreign policy formulation, distress and national security have been taken into consideration. The Third Plan contents are delineated hereunder.

- (1) Improvement of executive structure and governmental corporations
 - Improvement of office structure and governmental management
 - Improvement of governmental corporations, and privatization

- (2) Expansion of production and investment
 - Recognition and removal of production constraints in all sectors
 - Identification of policies for production promotion, and regulation
 - Recognition and removal of investment constraints in the private sector
 - Identification of policies for investment promotion, and regulation of the private sector
 - Recognition and removal of foreign investment constraints
 - Identification of policies for foreign investment promotion, and regulation
 - Development of the personal sector
 - Development of the cooperative sector
 - Improvement of legal basis and provisions for the regulation of production and investment

- (3) Regulation of monopoly, and facilitation of economic competition
 - Regulation of natural monopoly
 - Regulation of constitutional monopoly
 - Regulation of other monopolies
 - Competition, and enforcement of the Anti-monopoly Basic Law
 - Legal bases for the consumer protection

- (4) Improvement of financial market
 - Improvement of bank structure
 - Improvement of insurance structure

- Development and intensification of capital market
- (5) Land use
- Formulation of general policies for regional development on the basis of capacity determination and priorities
 - Removal of regional imbalance and privations
 - Dispersion, and stable management of the region
 - Approach to the population and activity placemen
- (6) Macro-economy
- Financial policy for improvement of budget structure and taxation
 - Monetary policy, and inflation
 - Foreign exchange policy, and structural adjustment of exchange rate
 - Trade policy
- (7) Security and social welfare
- Social insurance
 - Improvement of physical health and fluency
 - Structural improvement, and organizations
 - Non-insurance protections
- (8) Subsidies and conservation of purchasing power
- Subsidies
 - Price structure
- (9) Employment
- (10) Non-oil export
- (11) Social and cultural development
- Education and human resources development
 - *Juridical security*
 - Enhancement of social cooperation
 - Development of policies for making a legal society
 - Establishment of legal holders and society order
 - Promotion and exaltation of an ideal culture
 - Exchange and cultural development in confronting the cultural invasion
 - Fertility of the leisure time

- (12) Improvement of foreign policy
 - Tension removal in the international relations
 - Development of the national security
- (13) Environment
 - Development of industrial technology for pollution control
 - Policies for the recovery and reuse of wastes
- (14) Development of science and technology, and innovation
 - Strengthening of facilities and functions for the technology development and transfer
 - Research and development
 - Development of extensive functions for innovation
 - Development of the information technology
 - Structural improvement and organizations

2.3 Policy on Watershed Management and Rural Development

2.3.1 Watershed Management Policy and Strategies

Watershed management is touched upon in the Policy and Strategies for Water and Agriculture Sector, in the Third 5-year Plan. Strategic Policies in Water and Agriculture Sector are 10, which are as follows:

- (1) Emphasis on generalization and reduction of roles of the government, in order to optimize the office structure and organization.
- (2) Prevention of degradation, conservation, restoration, development and optimal exploitation of basic natural resources, so as to achieve sustainable development.
- (3) Optimal exploitation of boundary rivers and common water resources.
- (4) Human resources development, and optimization of production factors and resources.
- (5) Enhancement of capital security, and investment promotion.
- (6) Stabilization and secured support of production.

- (7) Improvement of exploitation system, so as to economize the scale of exploitation units.
- (8) Development of employment opportunity, by alternating agricultural activities.
- (9) Priority on education and research, and promotion and support of information system.
- (10) Development of agricultural produce exportation.

On the basis of these Strategic Policies, Executive Policies and Executive Strategies have been formulated in the Water and Agriculture Sector. Executive Policies delineate financial arrangements to secure resources for the investment to various Plan programmes, guidance of water users in optimal water exploitation, and advantage to encourage private sector investment in water projects; thereafter, the following priorities are set forth:

- a) To provide the agricultural machinery, and to improve machinery/equipment efficiency.
- b) To improve drainage efficiency, and to increase irrigation areas.
- c) To manage livestock production in harmony with rangeland capacity, for the benefit of tribal societies.
- d) To increase forage production, in order to reduce dependency on imports.
- e) To support in the creation of agricultural production cooperatives and in the formation of water, soil or natural resources users' associations.
- f) To increase agricultural/aquatic production, to attain food security.

Executive Strategies for Water and Agriculture Sector in the Third Plan contain 27 items in total, in which watershed management related description could be found in the tenth (10th) item. That is:

[Executive Strategies-10]

"Watershed management for the conservation and exploitation of soil and water resources; especially, in the river basin having water supply projects (completed or on-going) shall be the priority to be implemented."

Out of total of 27 Executive Strategies, watershed management is placed with the tenth (10th) priority in Water and Agriculture Sector. This means that watershed management occupies rather a fair significance in the Water and Agriculture Sector, and also in the context of national development. It should be born in mind that the above Executive Order-10 calls for the implementation of watershed management project specifically

relating to water supply projects in the surrounding areas; which suggests a close relationship between watershed management and water resources management.

2.3.2 Rural Development Policy and Strategies

The Third 5-year Plan carries Strategic Policies and Executive Policies for rural development, formulated based on the analysis of present conditions and future perspectives. Executive Policies, in its stipulations, give the activities and mandates of the government/ public institutions in charge of rural development. The analysis has been carried out, divided by ordinary farming villages and the tribal societies. The following are the stipulations:

(1) Strategic Policies:

- To provide rural improvement, in attention to operation and rolling of the village economy, to be attained by structural reform of the production system, for favorable exploitation of the existing production resources.
- To support in creating small credit-supplier groups, to facilitate presentation to rural villagers as well as to find-out new financing sources.
- To reorganize the existing establishments for rural improvement, for creating conditions required.
- To avoid over-centralized institutional set-up and duplicate activities of the entities in charge of rural improvement, for obtaining clear roles and duties.
- To reduce incumbency surrounding executive activities in rendering services to the rural villages.
- To accord with standards/criteria in services and for approval of plans for rural improvement.
- To provide visiting works, based on rangeland-livestock balance, for social and economic requirement.
- To provide settlement sites for tribes in a voluntary manner.
- To improve the existing management/organizations, for reducing the governmental incumbency, enhancing the cooperation with effectiveness, and promoting the tribes to become active in works performing in the tribal region or favorable local management-running area, for tribal biosphere.

(2) Executive Policies:

a) General

- To determine the duties, roles and areas of organizations relating to rural

improvement and development, in order to correct, renew and remove similar/duplicate activities as well as to delegate part of executive powers to the Islamic Consultants, local organizations, or private companies and institutions.

- To formulate principles to found rural services, to classify presentation services, to provide rural sites- based development/improvement plans, and to support in private sector as small-credit suppliers, in order to promote rural presentation for economic, social and cultural activities including the integrated development of agriculture, industry and services sectors, support to the executives.
- To support in humanitarian and private investment to the rurals for the provisions of favorable facilities, specifically for employment generation; part of the facility benefits shall be paid towards the deprived areas.
- To provide the visiting and support to the vountary tribes for the settlement.

b) MJS mandates relating to rural villages

- To provide soil and water resources, with a priority of handing over of fertile farmland to rural youths.
- To identify comparative advantage and possibility of establishing rural industries (conversion from agriculture or handicrafts), with a priority of employing youths and women.
- To provide industrial areas, by limiting the new site according to legally approved plans.
- To improve and to give assistance to the existing cooperatives for the production promotion.
- To provide educational, technical and vocational services, formally and informally.
- To encourage rural handicrafts and carpet industries, to improve production and business method, and to promote the private sector cooperation.
- To identify less-developed areas, for the formulation of development and employment programmes.

c) Mandates of Islamic Rural Foundations in village area:

- To identify the areas exposed to natural disasters, and to provide spaces for safety design and optimization of rural constructions.
- To provide and execute construction design and equipment to the villages, in the framework of development and improvement of design.
- To exert inspections on rural housing constructions, and to control the

technical regularity.

- To protect, repair, construct, optimize and revive precious structures in the rural areas, in coordination with the responsible organizations
- d) MJS works for tribal livelihood, migration and settlement:
- To investigate and confirm tribal settlement plans of the authorities.
 - To provide operation programmes of the tribal settlement.
 - To implement strategic programmes for migration and settlement, by applying land management for the integrated development or ecologically stable development studied in the approved plans.
 - To improve and revive rangeland and watershed, in cooperation with tribes, by means of favorable method of range management used by tribes.
 - To provide technical services and credit facilities to the tribes, with subsidies, so as to enhance the carrying capacities of rangeland.
 - To convert less-efficient dry farms.
 - To make equipment design in the migrating tribal areas.
 - To improve production structure, planning and education for preservation of rangeland.
 - To administer an annual migration programme.
 - To provide migration paths, and roving services to migratory tribes.
 - To implement supply programmes of soil and water resources.
 - To support in development programmes for farming, horticulture, animal husbandry, and other activities such as fish culture, medicinal herb gardening and handicrafts, for the diversification of tribal income source.
 - To implement the firewood replacement programme, through choosing favorable conversion measures as well as distributing fossil fuel.
 - To hand over maintenance works and planning instruments exploitation.

The mission of Ministry of Jihad-e-Sazandegi is to increase people's welfare through rural development, and main field of their activities are rural area. Ministry of Jihad-e-Sazandegi keeps close communication with rural peoples, and has been attached importance to villager's willingness to development. It can be said that the Ministry have been taken Islam-style participatory approach. This participation approach can be set a high valuation on, and much useful to realize sustainable development in the Karoon watershed.

2.3.3 Organization Structure of Ministry of Jihad Agriculture

Ministry of Jihad-e-Sazandegi was founded in the form of a revolutionary organization,

Jihad-e-Sazandegi, in 1979. It becomes an independent ministry in 1988. The present form of ministerial structure was determined in 1990, with the functional separation from Ministry of Agriculture. In 2001, Ministry of Jihad-e-Sazandegi and Ministry of Agriculture were united, and Ministry of Jihad Agriculture was formed. Headquarters of the ministry is seated in Tehran, and its field organizations are operating all over the country; at provincial, township and district/ rural district levels.

Figure 2-3-1 (1) and 2-3-1 (2) show the Headquarters of Ministry of Jihad Agriculture, and Figure 2-3-2 shows organization structure of Forest and Range Organization, where Watershed Management Deputy is positioned below. Field organizations of Ministry of Jihad Agriculture are shown in Figure 2-3-3.

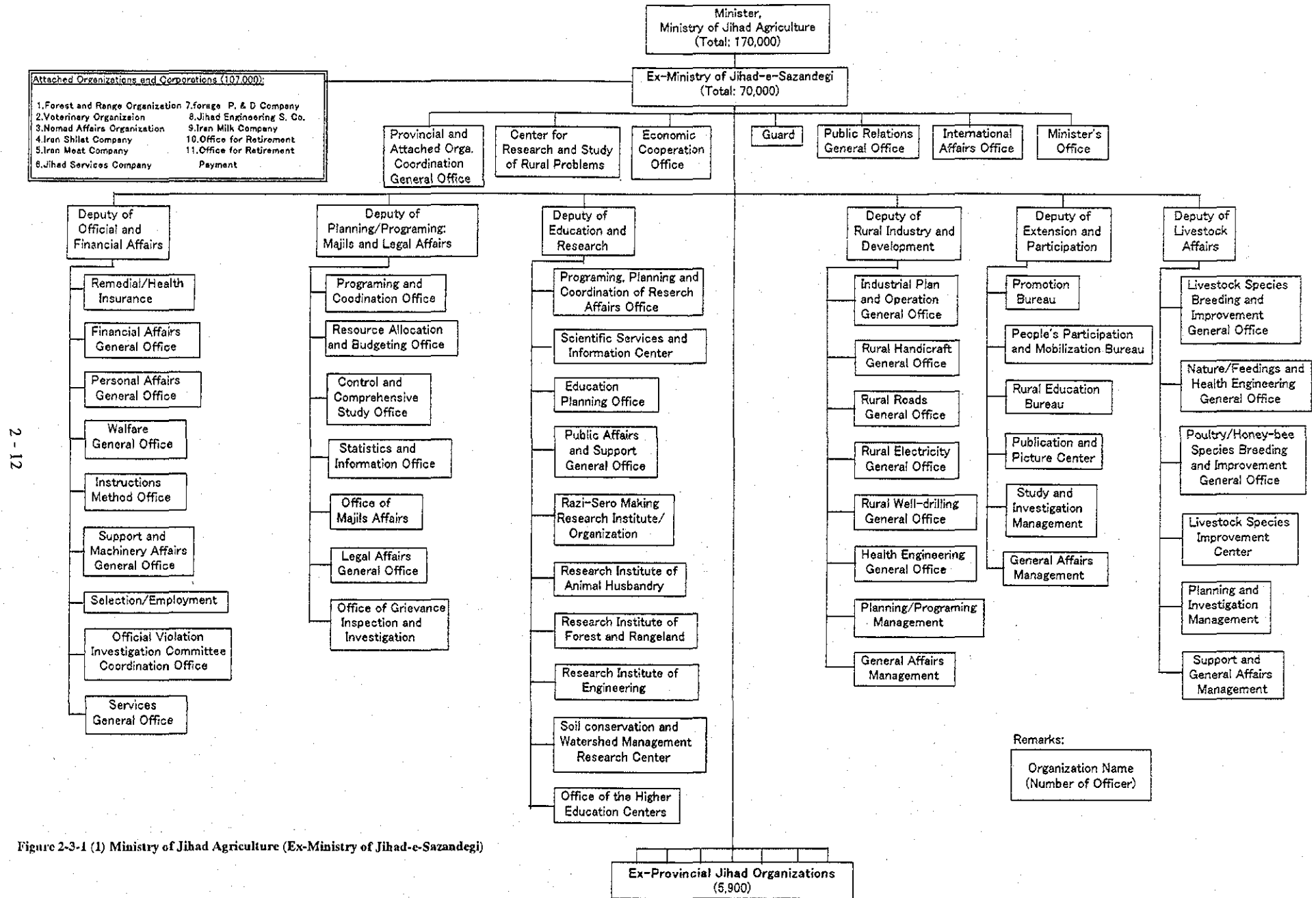


Figure 2-3-1 (1) Ministry of Jihad Agriculture (Ex-Ministry of Jihad-e-Sazandegi)

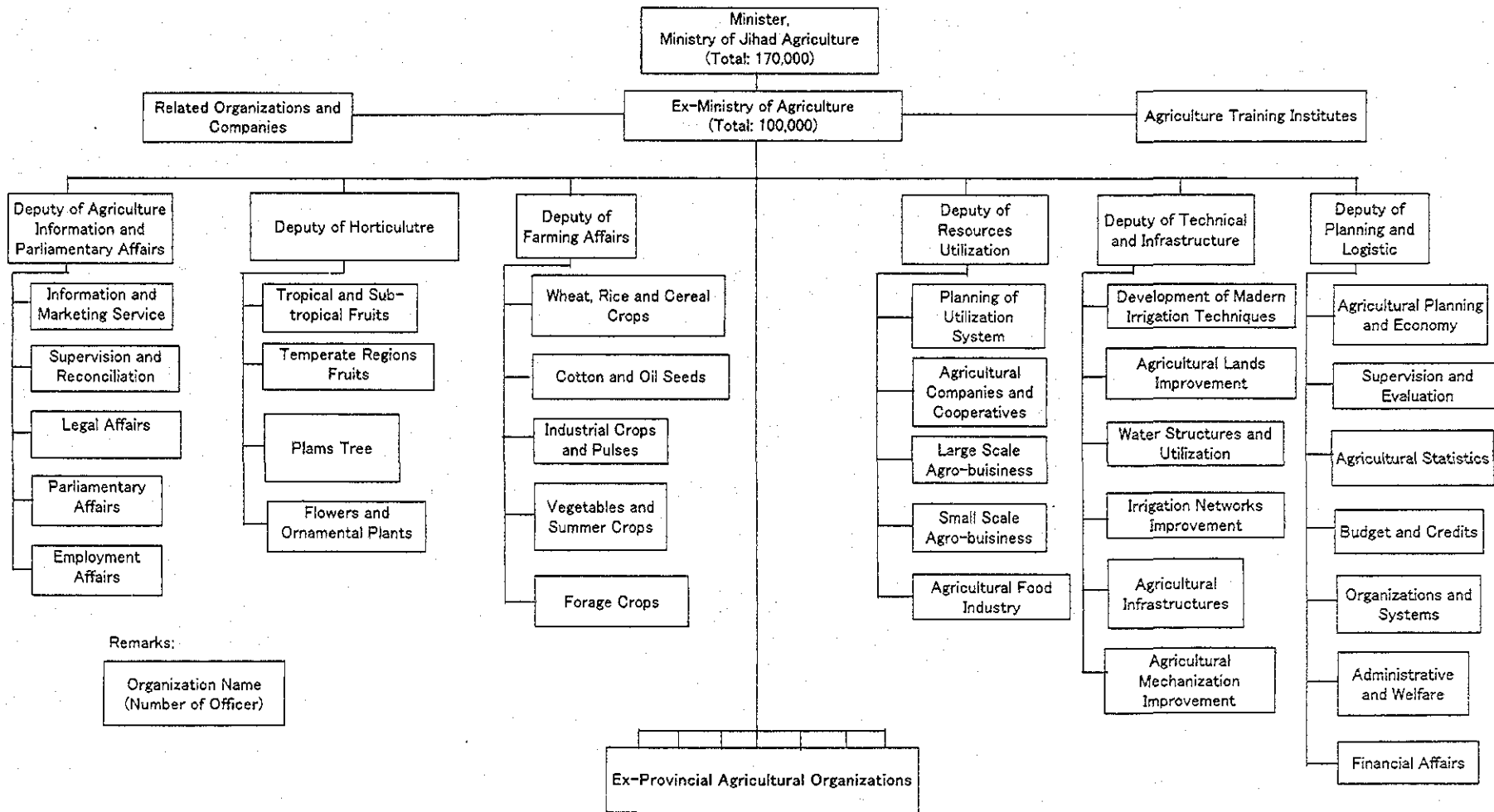
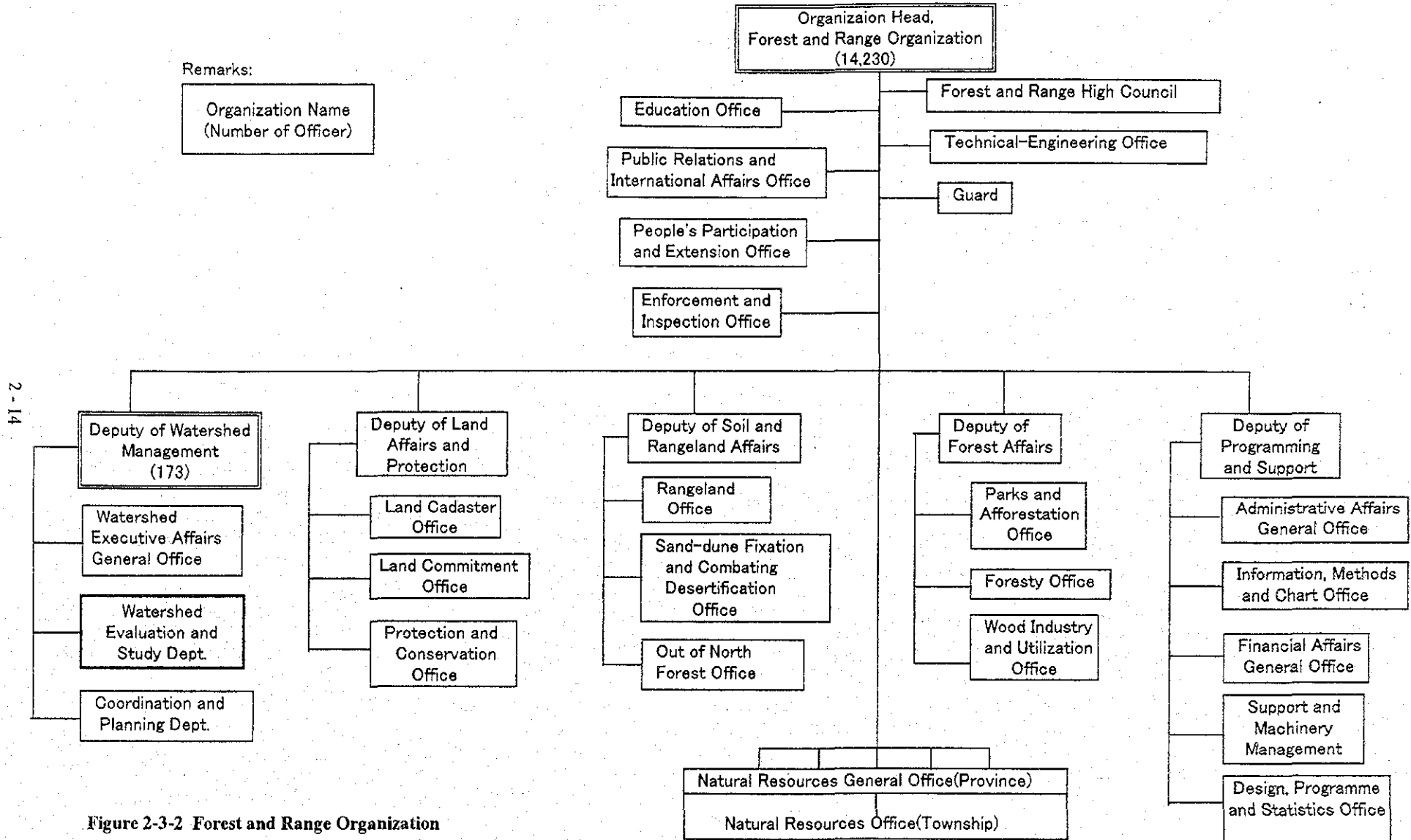


Figure 2-3-1 (2) Ministry of Jihad Agriculture (Ex-Ministry of Agriculture)

Remarks:

Organization Name
(Number of Officer)



2-14

Figure 2-3-2 Forest and Range Organization

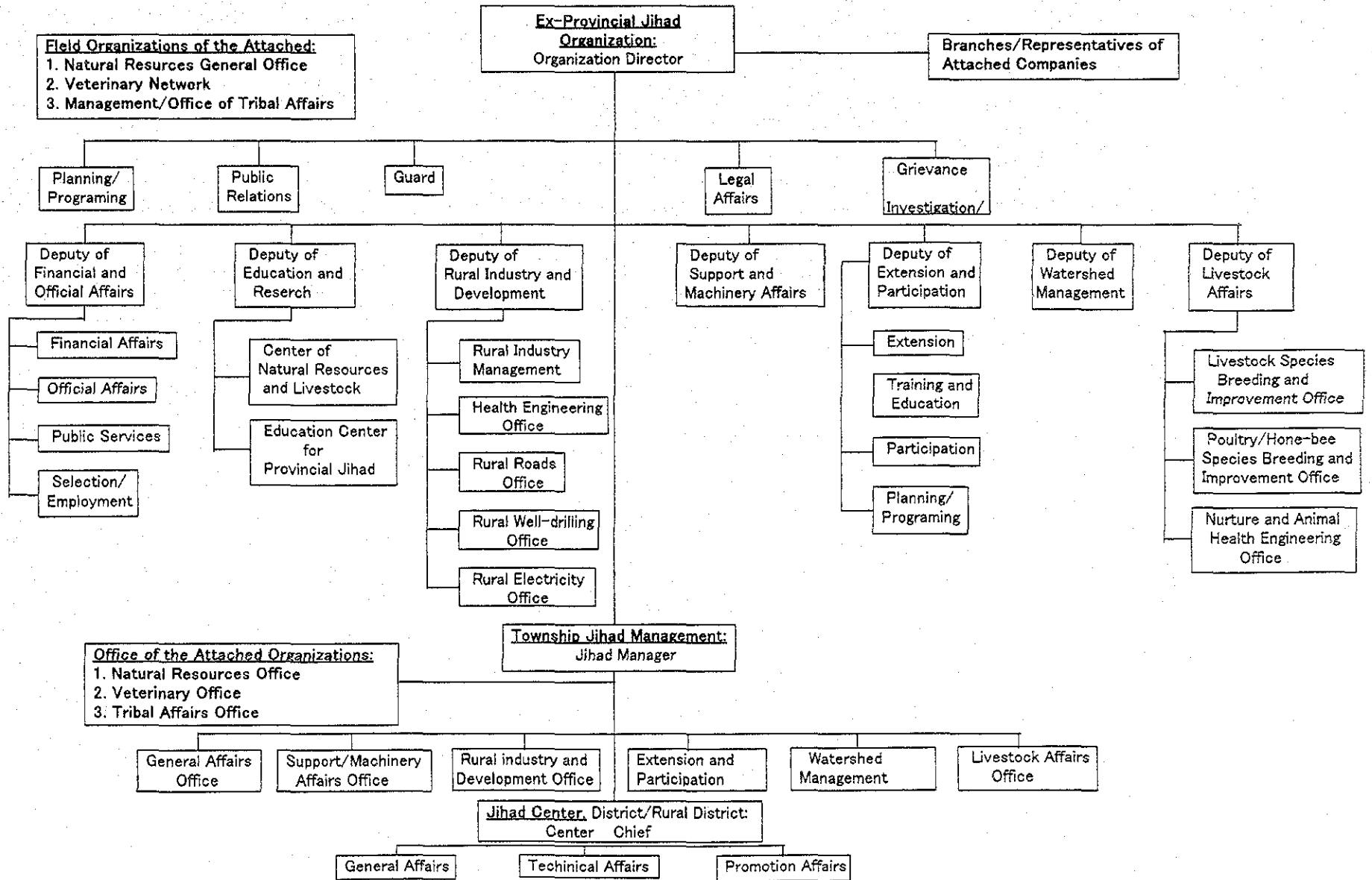


Figure 2-3-3 Field Organizations of Ministry of Jihad Agriculture