



## BARNĀMA-RĪZĪ

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**BARNĀMA-RĪZĪ** “planning.” Among the countries of the Middle East Iran has a relatively long history of economic development planning. By the time of the revolution in 1357 Š./1979, five development plans of various durations had been implemented in Iran over a thirty-year period; and these planning efforts had been preceded by less formal types of state intervention in the country’s mixed public and private economy.

The earliest economic policies aiming at planned economic development in modern Iran date back to the final decade of Reżā Shah’s reign (1304-20 Š./1925-41). These uncoordinated public policies, however, did not constitute development planning as the term has come to be understood after World War II. The overall aim of the prewar policies was modernization, with the more specific economic objectives of achieving industrialization and developing the country’s infrastructural facilities, while almost no attention was given to the agricultural sector (A. Banani, *The Modernization of Iran, 1921-1941*, Stanford, 1961, pp. 112-45; Z. Y. Hershlag, *Introduction to the Modern Economic History of the Middle East*, Leiden, 1964, pp. 194-207). The industrial policy of the period was basically determined on the basis of a vaguely expressed desire for self-sufficiency in a number of consumer goods. Consequently, much attention was given to import substitution and to the protection of the newly established state-owned industrial enterprises; foreign trade in fact became a state monopoly. The traditions of centralization in Iran’s public administration and in the official decision-making processes also go back to the prewar years.



The Allied occupation of Iran and the abdication of Reżā Shah in 1320 Š./1941 ushered in a period of political unrest and economic chaos. During the immediate postwar years, the idea of reconstructing and developing the Iranian economy through government initiative gained fresh ground in the country. Early in 1325 Š./1946, a commission was formed at the Ministry of Finance for the purpose of development planning; and it produced a draft plan, containing essentially some broad financial allocations. Soon afterward, a Supreme Planning Board was created to formulate a more definitive plan. The Board prepared an ambitious plan, envisaging 62 billion rials (\$1.9 billion) in public investments, which could not be financed domestically, without identifying adequate investment projects. Consequently, when the Iranian government made an informal loan application to the then newly founded International Bank for Reconstruction and Development, the consideration of the loan was made conditional on the inclusion of a sufficient number of projects in the plan and on their feasibility. An American firm of consulting engineers, Morrison-Knudsen, was hired to generate the required list of projects. This firm completed its work by Mordād, 1326 Š./August, 1947 (Morrison-Knudsen International Company, Inc., *Report on Program for the Development of Iran*, San Francisco, 1947), giving the government a choice of three alternative investment programs, ranging from \$1.2 billion (for 240 projects) to \$260 million (for 24 projects). The actual size and the method of financing the program were left to the government. These issues were settled in a subsequent report prepared by Mošarraḥ Nafisī, with the cooperation of other members of the Supreme Planning Board. This report, submitted in Āḍar, 1326 Š./December, 1947, provided the basis for Iran's First Seven-Year Development Plan Act, which was eventually ratified by the Majles in Bahman, 1327 Š./February, 1949. Meanwhile, the government had hired the services of Overseas Consultants, a consortium of eleven American consulting firms, to evaluate the adequacy of the First Plan in the light of Iran's investment requirements. The detailed study of these foreign advisers proved invaluable for some time as a guide to planning in Iran (see Overseas Consultants, Inc., *Report on the Seven Year Development Plan for the Plan Organization of the Imperial Government of Iran*, New York, 1949, 5 vols.).

As the initial planning efforts were taking shape, it was decided that Iran's development activities should be supervised by a new government agency. Accordingly, the Plan Organization (Sāzmān-e Barnāma) was set up in 1327 Š./1949. The Plan Organization was to have a certain degree of independence so as to insulate it from the chronic governmental inefficiencies; but it was not



to be an executive body. Its chief functions were to design development plans and to supervise and coordinate their execution. Aside from exceptional cases, the implementation of development programs and projects was to be the responsibility of the appropriate ministries. In practice, the Plan Organization deviated from the intent of the First Plan Act and directly executed most of the projects, a practice maintained also during the Second Plan. This was because the ministries had proved incapable of executing development projects, while the Plan Organization had failed to develop its supervisory and coordinating functions. Initially, the organizational structure of the Sāzmān-e Barnāma was specified only in broad terms; it had a managing director, a high council, a board of control, and a technical bureau charged with appraising the feasibility of the individual projects.

The First Plan, consisting merely of a partial investment program for the public sector, called for public investment expenditures of 21 billion rials (about \$650 million), later raised to 26.3 billion rials in 1331 Š./1952, to be undertaken during a seven-year period starting in Mehr, 1327 Š./September, 1948. All of the country's oil revenues were to be set aside for financing the First Plan. The implementation of the First Plan, however, never gained any momentum. The first two years of the plan period were chiefly devoted to the setting up of the Plan Organization and the related administrative matters. Subsequently, for more than three years following the nationalization of the oil industry and the cessation of activities in that industry in 1330 Š./1951, the Plan Organization lost its main source of finance and could not effectively execute the planned investments. Therefore, the results of the First Plan turned out to be very disappointing; actual public investment expenditures amounted to 4.1 billion rials, or only sixteen percent of the planned total, during the "nominal" plan period. Meanwhile, with the resumption of activities in the oil sector in 1333 Š./1954, the government decided to adopt a new development plan, a plan that would also be more in line with Iran's increased oil revenues under the Oil Consortium Agreement.

The Second Plan, for the seven-year period from Mehr, 1334 Š./September, 1955 through Šahrivar, 1341 Š./September, 1962, was prepared in a few months. Like its predecessor, it was not a comprehensive plan; it did not concern itself with the overall rate and pattern of development in the economy. The partial nature of the Second Plan was due not merely to its exclusion of the private sector, but also to its failure to embrace all the development activities of the public sector. It consisted of that portion of the



public investments which was to be controlled by the Plan Organization; this accounted for only about one-half of the total public investments during the plan period. This line of demarcation reflected an arbitrary arrangement for allocating a certain share of the country's oil revenues to the Plan Organization for financing the Second Plan. The design of the Second Plan did not follow from any particular planning methodology, and most of the investment decisions were made in an arbitrary fashion and without reference to any specific investment criterion. At the time, the lack of statistical data and familiarity with planning techniques were among the major problems of plan formulation in Iran. The investment program of the Second Plan, both in terms of its size and allocations, was revised several times, mainly due to the underestimation of the project costs. Originally, the planned public investments amounted to 70 billion rials (about \$930 million); this figure was finally raised to 84 billion rials in 1336 Š./1957. The sectoral allocations of the Second Plan revealed a heavy emphasis, more pronounced in the final revision, on the development of infrastructure and social overhead capital; transport facilities and dams, for instance, accounted for almost two-thirds of the planned expenditures. By contrast, directly productive activities, in both agriculture and industry, received low priorities. Furthermore, the Second Plan was dominated by a relatively small number of capital-intensive projects, as the planners had continued to face a shortage of well-designed investment projects. The Second Plan had all the shortcomings of an unintegrated investment program prepared on a piecemeal basis and without clearly defined development objectives.

In the absence of quantitative targets, the results of the Second Plan cannot be measured in any precise manner. However, a comparison between the actual and the revised planned expenditures indicates a high degree of plan fulfillment, about ninety percent; the same applies to the sectoral investments. But this success is more apparent than real, because the revised investment program itself represented a drastic reduction in the scope of the original program so as to bring the plan more in line with actual developments. During the Second Plan, as previously, the planning machinery did not follow the traditional administrative setup of the government. The formulation and execution of the plan remained largely the responsibility of the Plan Organization, although the Second Plan Act had assigned important implementation functions to the ministries. Moreover, the specific duties of the various units of the Plan Organization continued to be undefined. However, in 1336 Š./1957, a planning unit was established for the first time in



the Sāzmān-e Barnāma. This was the Economic Bureau, later renamed the Division of Economic Affairs, which for a few years also received the technical assistance of a team of foreign economists known as the Harvard Advisory Group. The Economic Bureau undertook a valuable mid-term review of the Second Plan and by 1340 Š./1961 had formulated a framework for the Third Plan; later it expanded into the Planning Division which played a crucial part in designing the Fourth and the Fifth Plans.

The Third Plan, covering the five-and-a-half-year period from Mehr, 1341 Š./September, 1962 through Esfand, 1346 Š./March, 1968, was Iran's first comprehensive development plan. The Plan Organization was to prepare, with the assistance of the ministries, a draft plan, called the "plan frame," of the Third Plan. The ministries were then to proceed with the task of designing specific investment projects. Eventually, the detailed projects, together with the plan frame and statements on general economic policies, were to appear in a single document that would constitute the Third Plan. The actual process of planning did not go far beyond the stage of the plan frame. Therefore, the Third Plan essentially came to consist of an investment program for the public sector, covering tentative sectoral allocations and broad programs for the major sectors, together with some forecasts for the private sector; it did not specify how private investments were to be realized. But the Third Plan Law introduced a major change regarding plan implementation, a change that was observed also in connection with the Fourth and the Fifth Plans. Thenceforth, all development projects, after being approved by the Plan Organization, were to be implemented directly by the ministries and the regular government agencies.

The Third Plan frame was based on an overall growth target, an average annual rate of increase of six percent in real gross national product (GNP). A number of secondary objectives were also specified in general terms. Originally, the Third Plan envisaged some 348 billion rials (\$4.6 billion) in development outlays, consisting of fixed investments and certain supplementary expenditures; the public and the private shares were set at 190 and 158 billion rials, respectively. Since the oil revenues increased more rapidly than anticipated, the size of the public sector program was eventually raised to 230 billion rials by 1345 Š./1966, while nothing more was said regarding the investments of the private sector. Indeed, the Third Plan proved to be very open-ended in respect to the private sector. No formal planning model was used in preparing the Third Plan; the essential method of planning adopted



was one of trial and error, or planning in stages, reflecting the absence of much of the statistical data required by more complex techniques. The sectoral allocations of the plan frame represented a sort of balanced growth strategy, envisaging a balance between investments in social overhead capital and directly productive activities. Agriculture, industry and services were equally emphasized; and about sixty percent of the public development outlays in these sectors were to be absorbed by relatively less capital-intensive projects.

In practice, the Third Plan's growth target was surpassed, as the measured growth rate amounted to nine percent per annum. The Third Plan frame had specified no sectoral production targets, except for agriculture. The planned annual rate of 4.1 percent for agriculture, however, was not attained. The government's agricultural policy had, in fact, changed drastically at the beginning of the plan period. A major land reform program, not foreseen in the plan frame, had replaced the measures planned for increasing agricultural production (see Plan Organization, *Third Plan Frame: Agriculture*, Tehran, 1961). During the Third Plan period, public development outlays actually amounted to 205 billion rials, implying an almost 90 percent fulfillment of the revised target. But private investments, amounting to 249 billion rials, were far in excess of the magnitude specified in the plan frame. The revised sectoral investment targets of the public sector were also attained with a high degree of success, except for manufacturing which showed a forty percent shortfall. In industry, too, actual developments deviated significantly from the industrial policy of the plan frame, which in the light of Iran's comparative advantages stressed the development of small and medium-scale industries (see Plan Organization, *Third Plan Frame: Industries and Mines*, Tehran, 1961). Starting in 1344 Š./1965, the government established a number of new, highly capital-intensive, and complex industries, including steel, machine tools, tractors, and petrochemicals. Such heavy industries absorbed the largest share of the industrial investments, as well as the country's scarce skilled manpower resources, during the Fourth and the Fifth Plan periods.

During the Third Plan period, a drastic change occurred in Iran's budgeting system. Until then, the preparation of the government's ordinary budget had been the responsibility of the Ministry of Finance, while the Plan Organization had developed its own budgetary procedures and had prepared the country's development budget. There was, however, some overlapping between the two budgets. In 1343 Š./1964, the budgetary functions of the Ministry of Finance



were transferred to the new Central Budget Bureau established in the Plan Organization, which since that time has prepared Iran's annual budget, covering both current and capital transactions (F. Daftary, "Development Planning and Budgeting in Iran," in CENTO, *Seminar on Budget Administration*, Ankara, 1973, pp, 221-32). Moreover, as a major step toward improving the availability of statistical information, the Statistical Center of Iran, affiliated with the Plan Organization, was set up in 1344 Š./1965.

The Fourth Plan, covering the five-year period from Farvardīn, 1347 Š./March, 1968 through Esfand, 1351 Š./March, 1973, was the first comprehensive plan designed entirely by Iranians. The plan was based on an overall growth target, to increase real GNP at an average annual rate of nine percent. A number of secondary objectives regarding employment, income distribution, balance of payments, and the general level of prices were also stated. The total size of the Fourth Plan was originally set at 810 billion rials (\$10.8 billion), ninety-two percent of which was to be financed domestically mainly through oil revenues. The public and the private sector programs were set at 443.5 and 366.5 billion rials respectively. The figure for the public sector was increased several times, being finally fixed at 555 billion rials. Once again, the plan was rather open-ended in terms of private investments and the policies required for calling forth the appropriate responses from that sector. As in the case of the Third Plan, the essential method of formulating the Fourth Plan was one of trial and error. The task of planning was broken into a number of stages and the process started by estimating total investment requirements on the basis of the overall growth target. Sectoral investment allocations were determined on the basis of sectoral production targets. The outstanding feature of the Fourth Plan's sectoral allocations was the high priority given to services, especially to transport and communications, while agriculture received a low emphasis in comparison with industry. According to the final revision, agriculture, manufacturing and mining, and transport and communications were respectively allocated 8.4, 20.9, and 23.6 percent of total development outlays of the public sector; other services subsectors were to absorb another 20.2 percent.

The growth of the Iranian economy was rather impressive during the Fourth Plan period. The real rate of growth in GNP amounted to 11.6 percent per annum, indicating an overfulfillment of the planned rate by about two percentage points. With the exception of agriculture and construction, all the sectoral value-added growth targets were either attained or surpassed.



Agriculture, with 3.9 percent per annum, had the lowest growth rate, while oil, industry, and services grew at the average annual rate of 14-15 percent each. Concerning other objectives of the Fourth Plan, employment increased by 1.2 million persons, as against the target of 966 thousand. During the first three years of the plan period the general level of prices remained relatively stable, while in the final two years prices rose at about six percent per annum. Total fixed investments amounted to 789 billion rials (at 1338 Š./1959 prices) during the plan period; and public development outlays amounted to 507 billion rials, implying a ninety-one percent plan fulfillment. Sectoral investment targets were also attained with a similar degree of success.

The Fifth Plan, covering the five-year period from Farvardīn, 1352 Š./March, 1973 through Esfand, 1356 Š./March, 1978, was destined to be the last development plan executed during the reign of Moḥammad Rezā Shah (1320-57 Š./1941-78). Much effort was devoted to preparing this plan; alternative growth paths were investigated and the ministries participated actively in the planning process. Furthermore, several foreign advisory teams assisted the Plan Organization in connection with the more specialized planning tasks, including a team organized by the Battelle Memorial Institute, an American entity, to initiate regional planning in Iran. During the Fourth Plan period, the Plan Organization had already established, without much success, provincial offices throughout the country, as a first step toward decentralization in planning. A number of more sophisticated quantitative techniques were used in the preparation of the Fifth Plan, at various stages and to different degrees, including econometric models and linear programming techniques. Subsequently, a Planometrics Bureau was set up in the Plan Organization to develop more such mathematical models of planning as well as long-range perspective plans for the Iranian economy. The Fifth Plan also specified, for the first time, the sectoral composition of private investments.

The Fifth Plan Law, ratified by the Majles in Esfand, 1351 Š./March, 1973, introduced certain important changes into the planning machinery and the structure of the Plan Organization, which thenceforth came to be called the Plan and Budget Organization (Sāzmān-e Barnāma wa Būja), taking account of the integration of the tasks of planning and budgeting and of the ordinary and development budgets of the country. The head of the organization was given the rank of minister of state, and as such he would be a member of both the Council of Ministers and the Supreme Economic Council created earlier. The



duties of the Plan Organization's High Council were transferred to the Supreme Economic Council, headed by the prime minister and with the membership of selected ministers. Furthermore, the internal organization of the planning agency was revised and expanded to encompass eight major divisions, including those for planning, budgeting, regionalization, technical affairs, coordination and supervision, and information.

The Fifth Plan was to assign high priorities to social welfare programs, better distribution of income, and in general to the qualitative improvements in the economy. As planning proceeded, however, the government's excessive concern with quantitative changes and physical growth re-asserted itself to a large extent. Originally, the Fifth Plan envisaged an average annual growth rate of 11.4 percent in real gross domestic product (GDP). To achieve this growth target, total fixed investment requirements were placed at 2,461 billion rials (about \$37 billion), of which the public and the private sectors were to account for 1,549 and 912 billion rials, respectively. Agriculture, oil, industry, and services were to absorb 6, 19, 52, and 23 percent of planned total investments. With the unprecedented increase in the prices of crude oil during 1973-74, the estimate of Iran's oil revenues for the entire plan period was raised to almost \$100 billion, instead of the original figure of \$25 billion. Under the direct commands of the monarch, the government decided to disburse a major portion of the increased revenues, without considering the various types of non-capital constraints which had been examined in designing the original Fifth Plan. In 1353 Š./1974, the Fifth Plan was revised hastily and drastically. As a result, the annual growth rate target for GNP was more than doubled to 25.9 percent, and the production targets for agriculture, oil, industry, and services were increased to annual rates of 7, 51, 18 and 16 percent, respectively. The total size of the plan was also doubled to 4,699 billion rials (about \$70 billion), with the public and the private shares amounting to 3,119 and 1,580 billion rials. The sectoral pattern of investment in the revised plan, however, did not deviate significantly from the original pattern. Clearly, the attributes of optimality, internal consistency, and realism in planning and resource allocation, had become greatly undermined by the monarch's desire to embark on grandiose designs. In fact, development planning, requiring severe discipline and commitment, was practically abandoned in the final years of the Fifth Plan period; and no serious attempts were undertaken to formulate the sixth plan, whose implementation should have started in Farvardīn, 1357 Š./March, 1978.



The results of the revised Fifth Plan were never fully collected and published. Its overly ambitious nature, however, had become evident in practice. The decision to utilize Iran's relatively abundant financial resources, without due attention to the country's physical limits of absorptive capacity, including the administrative ability to design and execute sound development projects, proved to be catastrophic. Shortages and bottlenecks of various kinds, especially in terms of skilled manpower, raw materials, cement, and infrastructural capacity (notably ports and transport facilities), prevented realization of the revised goals. The average annual rate of growth of real GDP actually amounted to 6.9 percent, and in all the major sectors the growth rates fell short of the targets. The increased aggregate expenditures, in view of the supply shortages, generated excess demand and inflationary pressures in the economy, with consumer and wholesale prices rising at the average annual rates of 13 and 15 percent, respectively, during the plan period. There were drastic failures also in terms of the objectives for employment and income distribution. Total public investment outlays, amounting to about 2,300 billion rials at constant prices, fell short of the revised plan's target, but private investments, almost 1,890 billion rials, exceeded the revised target.

The oil revenues, providing substantial financial and foreign exchange resources, have created exceptionally favorable growth potentialities for Iran. These revenues make it possible for the country to finance large investment programs and achieve high growth rates, without having to witness, at least in principle, the so-called orthodox ailments of development: serious inflationary pressures and balance of payments problems. During 1341-56 Š./1962-77, coinciding with the Third, Fourth, and Fifth Plan periods, growth of the Iranian economy was indeed significant; the country's GDP increased at the real average annual rate of almost ten percent, and per capita income rose from about \$175 to over \$1,500. The oil revenues, however, proved to be a mixed blessing, as they undermined the necessity of sound planning, and increased the dependence of Iran on foreign economies. Furthermore, in the past the benefits of oil-generated economic growth in Iran were not distributed equitably to improve the existing unfavorable trend in the distribution of national income and wealth among households and geographical regions, as well as between rural and urban areas (see M. H. Pesaran, "Income Distribution and Its Major Determinants in Iran," in J. W. Jacqz, ed., *Iran: Past, Present and Future*, Aspen, 1976, pp. 267-86). These problems, together with the relative stagnation of the agricultural sector prompting the large-scale migration of the villagers to the cities, contributed to



the socioeconomic grievances underlying the 1979 revolution.

In the immediate years following the 1979 revolution, the Plan and Budget Organization, which remained intact, advocated a new type of planning, one in which the people themselves would participate directly, for the primary purpose of improving the standard of living of the underprivileged and the lower income groups in the society. Meanwhile, the sphere of government intervention in the economy had increased drastically through nationalization, confiscation, and the creation of a number of public foundations, while there had appeared spiral inflationary pressures as well as stagnation in most sectors. By 1361 Š./1982, the government of the Islamic Republic of Iran had apparently prepared a five-year development plan, which was never made public. Since then no other plans or drafts of plans have been formulated. As of Tīr, 1366 Š./July, 1987, the country is without a development plan.

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