

ISN:1531

265HG01/46

PD-AAJ-953

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

HOUSING INVESTMENT GUARANTY

Proposal and Recommendations
For the Review of the
Development Loan Committee

IRAN - MINISTRY OF HOUSING AND DEVELOPMENT

AID-DLC/P-2015

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

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AID-DLC/P-2015
December 10, 1973

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Iran - Ministry of Housing and Development

Attached for your review are the recommendations for authorization of a guaranty not to exceed twenty five million dollars (\$25,000,000) assuring against losses of not to exceed one hundred per centum (100%) of loan investment and interest by an eligible U.S. Investor or Investors acceptable to A.I.D. to the Imperial Government of Iran acting through the Iranian Mortgage Bank for the financing of public housing projects in Iran.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Friday, December 14, 1973.

Development Loan Committee
Office of Development
Program Review

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES - I - II

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Iran - Ministry of Housing and Development

Housing Guaranty Loan

November 28, 1973

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SUMMARY AND RECOMMENDATIONS

1. Purpose: The purpose of the A.I.D. guaranteed HG loan is to enable the Government of Iran (GOI) to proceed with its program to provide low income housing within the overall context of the current development plan. The HG loan will provide resources which are not available from either the private sector or the GOI budget. The broader goal to which the program will contribute is the strengthening of the institutional base supporting the well conceived lower income portion of the housing plan. This will be done both by providing funding to allow projects to proceed in a timely manner and by making available technical assistance in project design, construction, and management on the policy level.

2. Specific Objectives: Previous Iranian budgets and development plans have concentrated heavily on basic infrastructure, industry, and defense. These elements, which have met their earlier goals, continue in the current Fifth Development Plan. However, the Fifth Development Plan has added a substantial number of socially oriented programs, including housing. The ambitious goals targeted for the Iranian economy in the Fifth Development Plan anticipate substantial foreign borrowing, using projected oil revenues as collateral. It has been demonstrated, however, that the oil revenues, significant as they are, are inadequate to meet the capital needs of the plan. The GOI, through Plan Organization, the economic planning agency, has indicated their desire to use the long term borrowing available through the HG program as the most appropriate funding source for lower income housing finance within their housing plan. The specific objective of this proposed HG program is to develop, in cooperation with the GOI, a significant program of publicly sponsored and privately owned lower income housing with the necessary institutional, financial, and human resources to play a continuing role in meeting future requirements. Government subsidy will play an important role in housing low income groups through the provision of land at prices below market value, with a relatively low interest rate on the mortgage, and in providing administrative services. Needed technical assistance will be provided on the policy level. Every effort will be made to predict increases in construction cost to ensure that the intended purchasers are not priced out of the market.

3. Background: Iran has been the scene, over the past 15 years, of impressive industrial and economic growth and social reform. The GOI has been a motivating force behind these changes, building upon oil revenues and a highly capable, though thin, human resources base. Per capita income rose from \$275 in 1967 to \$513 in 1972, while economic growth was 10 - 12 per cent annually. This growth has been accompanied

by a dramatic shift in the population from rural to urban areas, with a consequent strain upon social facilities and urban housing. The GOI has estimated a shortage of 1.1 million urban housing units in 1973, with 25% of all urban dwellings occupied by two or more families.

The GOI has incorporated a housing sector in the Fifth Development Plan in recognition of the need to alleviate the social and political pressures resulting from the critical housing shortage. Since industrial development and defense continue to receive the high priority which they had in previous development plans, social and housing expenditures have necessarily placed an additional burden on the GOI budget. The decision has been made to continue with the strategy of using oil revenue as collateral for long term international borrowing while avoiding the use of short term credit as much as possible. This policy has been concurred in by international financial institutions.

The GOI housing plan for 1973 - 77 projects a total of 740,000 housing units, with 575,000 to be provided by the private sector and 165,000 supported by the public sector. Housing is viewed by the GOI as basically a private sector activity. GOI intervention is limited to areas where the private sector can not realistically participate. The private sector, which will be strained to meet the housing goals of the Fifth Development Plan, has and will continue to concentrate its construction efforts on the middle and upper middle income sectors of the population. The GOI will sponsor projects in the area of social housing where questions of equity and redistribution of income are relevant considerations. GOI activity is aimed at assuring a minimum production level rather than creating an exclusive area of government activity. The use of subsidies for this purpose is contemplated by the GOI both indirectly through low land prices and directly by payments to the Iranian Mortgage Bank which in turn will subsidize part of the interest payments by low income purchasers. A.I.D. shelter policy, while generally questioning such subsidies as a basically unrealistic policy, recognizes certain exceptions where this policy may be acceptable. Iran, with its present and long range potential oil revenues, qualifies as such an exception. A.I.D. authorized a \$25.0 million HC to Iran in April 1972. The project, for which construction is nearly completed, provided for housing to be constructed in the ranges of \$3,961 to \$8,351 for industrial workers under the auspices of the Industrial Development and Rencvation Organization (IDRO). No serious problem areas have been encountered in this project. However, it was noted that the Iranians, while possessing significant housing skills and experience, should be able to benefit from technical assistance in specialized areas of low income housing design, construction, and project administration.

4. The Project: The project is designed to provide crucial "start-up" funding and technical assistance to the low income housing portion of the GOI housing plan. The GOI is determined to proceed as rapidly as possible with their low income housing program. However, the necessary mix of long term financing and technical assistance which will enable the program to gain momentum through large scale construction of projects and the development of an experienced institutional base with the appropriate procedures and skills is best provided through the proposed HG loan. Once this momentum is obtained, the program should be able to obtain the additional resources required to maintain its progress through increased private sector participation, continued GOI capitalization of the Iranian Mortgage Bank, and possibly additional long term foreign borrowings. Specifically, the project consists of providing within the low income housing portion of the current five year development plan: (a) Funding for up to \$5 million of initial "start-up" costs; (b) 20 year mortgage finance for houses constructed under the project, and; (c) technical assistance. Approximately 5,800 low income housing units will be built in projects in nine development pole and six secondary urban centres. The projects will be related to GOI financed town planning schemes, including water supply and sewage disposal improvement programs. The housing will primarily be 2 or 3 bedroom (50 - 70 square meters) units located in apartment complexes. Selling prices, based on construction cost at current prices, should vary from \$2,500 - \$5,600 per unit. These prices, together with a GOI interest subsidy, will make the units available to purchasers within the lower strata of the range of disposable income.

The technical assistance, which will be provided as required or requested to the Ministry of Housing and Development and the Housing Organization at the policy level, is a necessary concomitant to the provision of funds through the HG loan. One supports and gives impetus to the other. Presently envisaged is one full time resident consultant and a series of short term specialized consultants over the life of the project. These consultants will be financed by the A.I.D. Office of Housing through fee income from both the \$100,000 one time initial A.I.D. fee charged to the borrower and the continuing $\frac{1}{2}$ of 1 per cent guaranty fee on the outstanding principal balance of the guaranteed loan. The technical assistance should improve performance or provide capacity for both the Ministry of Housing and Development and the Housing Organization in the areas of:

- (1) low income housing project planning and unit design, with emphasis on design to cost;
- (2) large scale project construction techniques for low income housing;
- (3) housing policy, administration and project management.

The GOI request was for a guaranteed loan of \$50 million. However,

this amount was reduced to \$25 million during the Feasibility Study, based on projections of construction schedules and an estimate of the absorptive capacity of the concerned institutions.

5. Project Administration: (a) The Borrower will be the Government of Iran. (The loan will have the full faith and credit guaranty of the Government of Iran.)

(b) The Administrator will be the Iranian Mortgage Bank, which is an independent state corporation under the general supervision of the Minister of Housing and Development. The Iranian Mortgage Bank will serve as the principal channel of GOI funds to the housing market.

(c) The Housing Organization, an independent state corporation under the supervision of the Ministry of Housing and Development, will do the planning, contracting, and supervision of construction for the project. Actual construction will be done by private builders in accordance with established procedures.

6. Amount of Guaranty: Not to exceed \$25 million.

7. Term: The loan will be for 25 years.

8. Interest Rates: The interest rate payable to the U.S. Investor(s) shall not exceed the allowable rate of interest presented by the A.I.D. administrator pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar type loans.

9. Condition of Guaranty: Proposed terms and conditions to be incorporated in the documentations for this guaranteed loan are set forth in Annex I (Draft Guaranty Authorization).

10. Recommendations: On the basis of the conclusions reached during project review and set forth in this paper, it is recommended that a housing guaranty be authorized to the Government of Iran in an amount not to exceed \$25 million. It is further recommended that technical assistance be provided as appropriate in the fields of low cost housing project planning and unit design, and housing administration and project management.

Note: For purposes of this presentation all currency figures are converted into dollars at the rate of 67.50 rials = \$1.00.

AID-DLC/P-2015
December 10, 1973

I. BACKGROUND

A. General

For approximately the past fifteen years, Iran has been the scene of a peaceful revolution directed by the government which has brought in its wake far reaching social reforms, spectacular industrialization and accelerated urbanization. Under dynamic and modern leadership committed to economic growth and social improvement, the country has enjoyed an economic take off over the last ten years which has been steep by any standards. In the last decade Iran has more than doubled its national income; per capita income which started at \$275 in 1967 rose to \$513 by 1972 on the strength of a sustained economic growth of 10 - 12 per cent annually.

This rapid economic growth has been accompanied by a fundamental change in the structure of the economy and the pattern of sectoral output and employment. In combination with the events sketched above, there was a dramatic acceleration in the growth of urban population. It is estimated that Iran's population in 1972 stood at approximately 31.2 million, of which 13.2 million or 42% was urban. Population overall was increasing at the rate of 3.1 per cent annually and the urban population at an annual rate of 5.5 per cent. The increasingly urban orientation of the Iranian economy which emerged during a decade of rapid economic growth has produced in its wake serious problems in the areas of housing and urban services.

Plan Organization, the GOI agency responsible for coordinating national development planning, established that at the start of 1973, there was a shortage in urban centres of approximately 1.1 million housing units, with 25% of all urban dwelling units occupied by two or more families. This situation, in combination with a known increase in the formation of urban households at a rate in excess of 115,000 per annum (116,000 in 1972) and the realization that continued industrialization will pull additional rural unemployed to the urban development poles indicated that the present inadequate housing stock will be the object of continuing and increasing pressure.

The GOI in an attempt to alleviate social and political pressures building up from the acute housing shortage and to provide a more equitable distribution of national income, has given housing a new, higher priority in the Fifth Development Plan for the economy. In brief, this calls for the production of a total of 740,000 urban housing units over the life of the Fifth Development Plan with a strong subsidy component in the form of the provision of land at prices below market value and interest subsidies calculated to permit this housing to reach lower income groups. The use of subsidies should always be carefully examined, since it is frequently an unrealistic measure if it is not supported by adequate revenue projections. It should be noted, however, that the use of low interest rates for low income groups as an effective means to achieve some redistribution of wealth to substantial numbers of lower income groups where government revenue

permits is in accordance with the A.I.D. "Shelter Sector Policy", Policy Determination, PD-55, August 1, 1973. Iran is such a case, with its present and projected oil revenues.

During the feasibility study (November 1971) preceding the earlier \$25 million guaranty to the Industrial Development and Renovation Organization (IDRO) the Minister of Housing and Development requested a meeting with the U.S. Embassy and the feasibility team to discuss the GOI plans to make housing a high priority item in the national development program and the possibility of HG assistance. Subsequently in Washington a representative of the GOI entered into further discussions with the Office of Housing to determine the necessary administrative procedures required for a formal GOI request.

As a result of those discussions a pre-investment survey was made in April of 1972. This survey recommended a \$50 million HG loan with technical assistance in the field of saving and loan associations, cooperative housing and community organizations, housing management and architecture and land planning.

On May 6, 1972, a formal request was received from the Minister of Housing and Development for a \$50 million HG loan. The request envisioned an action program during the early stages of the GOI's 10 year housing program (1972 - 1982). The action program proposed a \$50 million HG loan along with a \$30 million loan from the GOI to finance construction of approximately 20,000 middle and low income housing units.

In a memo to the Asia Bureau HGRC of May 26, 1972, the Office of Housing recommended a \$50 million HG loan to support the first two years of the 10 year housing plan, and requested authorization to proceed with discussions with the GOI to finalize project details. The HGRC met on the \$50 million HG loan on June 2, 1972, and concurred with the Office of Housing's recommendations by memo dated June 5, 1972.

Accordingly, in December 1972 a team of housing technicians went to Iran for the purpose of conducting a feasibility study. The team was unable to finish the study at that time, however, because the GOI housing planners had not completed all of their plans. Subsequently a team went to Iran in August of 1973 to complete the feasibility work.

On the basis of further discussions with the GOI and the additional information on the National Housing Program, HG support to the 10 year housing program will start with the Fifth Development Plan's Housing Program (1973 - 1977).

B. Previous A.I.D. Housing Guaranties

In March of 1972, the Industrial Development and Renovation Organization (IDRO) of Iran, was the recipient of a housing guaranty in the amount of \$25 million for the long term financing of a worker's housing project.

The program is in support of GOI efforts to achieve a more balanced economic growth by channeling investment in industry to areas away from the capitol city into specific, designated development pole cities. This guaranty (continued on page 3)

program was designed to support the financing of the specific housing projects deemed immediately essential for the population growth expected to result from the growth of industry and location of new industry in the two cities as targeted by IDRO. The \$25 million IIC loan is providing part of the long term financing requirements for the approximately 5,500 units of workers housing under construction in Arak and Tabriz, at a total estimated project cost of \$49.5 million.

The physical program is progressing satisfactorily, and some completed units are already occupied, with the balance in various stages of actual construction and nearing completion. No major problem areas have developed which would prevent the realization of project goals. However, experience gained with this project has led to the conclusion that technical assistance in the areas of construction techniques in large scale projects, as well as in management of completed projects would be useful and welcomed by the Iranians.

II HOUSING SECTOR

A. Fifth Development Plan, Housing Chapter

The housing chapter of the Fifth Development Plan for the Iranian economy 1973-1977 envisions a total of 964,000 new housing units, broken down as between urban and rural, and public sponsorship versus private sector, as shown in the following table:

Table I

New Housing Units - Fifth Development Plan

	<u>Urban</u>	<u>Rural</u>	<u>Total</u>
Public Sector	165,000	24,000	189,000
Private Sector	<u>575,000</u>	<u>200,000</u>	<u>775,000</u>
Total:	740,000	224,000	964,000

Some of the specific targets established for the publicly sponsored housing program are as follows:

- 1) to build 25,000 dwelling units for workers in industrial estates, both in existence and planned for the short term future;
- 2) to build 45,000 dwelling units in housing estates or apartment blocks at low cost, for sale on long installments to low income groups;
- 3) to build 20,000 low cost dwelling units for urban fringe inhabitants;
- 4) to build 53,000 dwelling units for teachers, civil servants, police, etc., to facilitate the process of administrative decentralization and provide housing in areas where the likelihood of private investment is remote;
- 5) to finance construction of 16,000 low cost rural dwelling units by making credit facilities available;
- 6) to build approximately 8,000 dwelling units for such government employees as extension workers, veterinary staff, cooperative officials, etc., in agricultural development centres.

An examination of the Fifth Development Plan chapter on urban development investment goals clearly demonstrates that funds have been budgeted to provide the infrastructure components for the implementation of the balanced regional growth around urban development poles strategy adopted by the GOI.

Basic objectives for urban development as stated are:

- 1) establish better balance among cities and towns through a fair distribution of urban development installations;
- 2) improve town planning systems;
- 3) approve administration of municipalities and local authorities.

Policies will include grants in aid to cities and towns for water supply, sewage, and similar installations. Here again, consistent with determinations taken on housing, we see a sharp increase in total investment planned, as compared with the Fourth Development Plan.

Savings Plans for Housing

Savings plans for housing will be set up nationwide, involving the branch networks of the major banks in such a manner as to produce a national network fully equipped and prepared to grant housing loans. A principal vehicle will be the Mortgage Bank of Iran, where in fact the plan has been in operation for several months. In brief, the aim here is to generate national capital for housing, and attract those savers who normally remain outside the organized institutional mechanisms by offering a loan for housing. Below market interest rate loans are offered, a multiple of the amount saved varying with the time of the deposit, favorable loan ratios, and extended term. While no doubt there will be some diverting of savings, results to date though admittedly preliminary, indicate that the savings for housing scheme is also attracting substantial new savings. Such GOI action, by in effect softening the term for ownership and greatly increasing the amount of long term financing available, increases the real market for housing, and so stimulates increased private sector production of new housing.

Shown below is a table demonstrating the various alternatives open to the saver in the Iranian Mortgage Bank's new savings for housing program. The Program of a modified form of contract savings is not limited to the Iranian Mortgage Bank, but rather is intended in time to be operational throughout the banking system. The column titled "Period of Savings in Months" refers to the length of time a given balance must have been on deposit to qualify for the various loan multiples-

TABLE II

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Iran Mortgage Bank Savings^a Plan

<u>Period of Savings in Months</u>	<u>Percentage of Loan to Balance of Savings</u>	<u>Maximum Amount of Loans in Rials</u>	<u>In U.S. \$ (approx.)</u>	<u>Interest</u>	<u>Service Charge</u>
6	100 %	600,000	\$ 8,590	7%	N.C.
9	150 %	1,200,000	17,780	7%	1%
12	200 %	2,000,000	29,600	7%	1 -1-1/2%
18	300 %	2,500,000	37,000	7%	2%

Maximum loan period is 20 years; maximum percentage of loan to house value is 70%, savings earn 6.5% annually.

B. Policy Status

The policy of the GOI as it pertains to housing calls for a programmed elimination of the housing shortage, reduction of overcrowding in housing, and the provision of more housing for lower income families, within the framework of the overall economic growth strategy being pursued and reflected in the Fifth Development Plan.

One of the principal aims of the Fifth Development Plan is to create more activity in the low income housing field than was generated during the Fourth Development Plan. Although more money was invested in housing by the private sector during the Fourth Plan than GOI planners had originally anticipated, most of the investment was expended on higher income and luxury residences without sufficient activity generated in the direction of creating lower income housing units.

In the Fifth Development Plan the GOI, through a combination of direct construction and long term financing by the public sector, and through inducements to the private sector aims to change the axis of thrust to be followed in new housing production, and so generate a greater total volume of production of lower cost housing.

Another aim of the GOI policy is the achievement of balanced regional urban growth, a corollary of this being concrete efforts to slow down and limit the growth of Tehran. In accordance with this objective, a network of urban development poles has been identified, to which employment will be directed and housing investment guided. First order of priority has identified nine provincial cities in which further industrialization and its consequent population growth will be concentrated. Second order of investment priority will be

given to redressing the existing conditions in Tehran. Third order of priority has been assigned a second group of six large, secondary cities, with fourth and fifth order of priority going to medium size cities (25,000 - 100,000 population range) and small urban centres, respectively.

Further, the GOI is cognizant of inequities in the actual distribution of incomes flowing from the rapid growth of the economy, and views the provision of subsidies for housing not merely as a means of attending to the shelter needs of the lower income group, but as a conscious effort at some redistribution of the nation's income.

In terms of the production of housing, this is officially viewed as basically a private sector activity, with GOI intervention limited to those areas where it is not realistic to depend on private sector initiation, e.g. housing for public officials of varying grades posted to remote areas; and in the area of social purpose housing where larger questions of equity and redistribution of income are in play, and where GOI activity is calculated more to guaranty a minimum production level rather than to carve out an exclusive sphere of government activity.

C. Institutional Framework

1. Institutions directly involved in the proposed HG program

a) The Ministry of Housing & Development

Charged with overall responsibility in the area of Housing, the Ministry is obviously a key factor in orchestrating the activities of the various elements in the housing sector. The Ministry has a direct voice in the activities of various of the public sector implementing institutions which are organized as independent state corporations. The Ministry is organized into four major agencies: High Council for City Planning, The Investment and Promotion Section, Housing Organization, and the Mortgage Bank of Iran. These four agencies are responsible for the execution of the government policies for housing and urban development, including the ten year plan for housing 1972 - 1982.

b) The Housing Organization

The Housing Organization is an independent state corporation under the general supervision of the Ministry of Housing. Its capital, currently totaling \$12.6 million, is wholly owned by the GOI.

The Purposes of the Housing Organization are:

- a) construction and sale of housing units;
- b) construction and management of subsidized rental units for government employees;
- c) land development;
- d) consulting engineering services; and
- e) production of construction materials, primarily concrete products such as blocks, beams, etc.

When considering the production side of the public sponsored activities in housing, it must be noted that the Housing Organization is one of the two principal instrumentalities employed by the GOI for the implementation of its programs. Discussions at the Ministry of Housing and the Plan Organization indicate that the Housing Organization is expected to continue to play a major role in the execution of GOI plans for public sector activity in housing during the Fifth Development Plan.

As the only stockholder, the GOI is represented by the Minister of Housing, who must approve the annual budget and annual financial statement. Operating controls are the responsibility of a three-man Board of Directors, named by the Decree of the Council of Ministers for a three-year term, one of whom is also designated by Decree as President-Director General.

The Housing Organization has 1,000 employees, about half of whom are technicians, and an additional 150 laborers involved in the production of construction materials.

The Organization has built and sold about 12,000 housing units located in urban areas and in rural areas that suffered earthquake destruction. It has recently started construction of 2,000 low income units in four Development Poles (Ahwaz, Shirz, Esfahan, and Mashhad) as part of the Housing Development Plan. The Organization also builds and manages 500 to 600 rental units a year in outlying administrative centres at subsidized rates to newly assigned government employees.

The Organization's 1970-71 operating budget totaled \$2.6 million. In addition, it receives advances from the Plan Organization for construction of specified housing projects and reinvests its own capital.

The strength of the Housing Organization lies mainly in the fields of planning and actual unit construction. In the fields of architecture and engineering the Housing Organization has numerous well trained and experienced professionals. The area of housing project management on a very large scale is new to the Iranian experience. Some of the main problems presently confronting staff of the Housing Organization, and becoming more pressing as increasing numbers of multi-family housing units are produced in large scale projects and sold as condominiums or cooperatives are in the fields of project management - collections, administration of lease - purchase contracts, organization of home owners associations and general management and maintenance problems associated with such housing.

The contemplated technical assistance for the proposed \$25 million HG program stems from the needs for development of the new management and planning technologies mentioned above.

Successful development of increased expertise and efficiency in the planning, promotion and production of lower income housing within the Ministry of Housing and Development and especially within the Housing Organization as the principal institution charged with translating program goals to physical reality, is clearly one of the aims of the proposed loan.

c) The Iranian Mortgage Bank

The Iranian Mortgage Bank will be the borrower and implementing agency under the proposed \$2' million housing guaranty program here under discussion.

a. Origin, Legal Status & Relationship to GOI

The Mortgage Bank is an independent state corporation under the general supervision of the Minister of Housing and Development, established by legislation in 1938.

Its capital is entirely provided by GOI, 60 per cent from the Ministry of Housing and 40 per cent from the National Bank of Iran, itself wholly owned by GOI.

These two shareholders, representing GOI, approve the annual statement and budget; nominate the President-Managing Director for appointment by the Shah and the two other Directors from appointment by the Council of Ministers; and approve any changes in By-Laws, pay-schedules, and any increase in capital.

b. Principal Business

The mortgage Bank is exclusively concerned with housing finance, including construction loans and advances of various types, mortgage loans, stimulation of savings; sponsorship of housing cooperatives; direct sponsorship of housing projects; and administration of mortgage programs funded by other agencies.

c. Non-Profit Status

No interest is paid on GOI capital. Formerly any surplus, after reserves, had been returned to GOI. Recent legislation now permits the Bank to add surplus to its capital, for use in financing its housing programs.

d. Table of Organization

The Bank operated from 140 locations, broken down into 41 banks, 42 sub-banks, and 57 temporary agency locations. Current staff totals approximately 600.

e. Activity Level

The following data is useful in conveying an impression of the scale of Mortgage Bank operations:

TABLE III

The Annual Commitments & Disbursements

	<u>Mortgage Loans</u>		<u>Increase in Savings for Housing Accounts</u>	
	<u>No.</u>	<u>Amt. (\$million)</u>	<u>No.</u>	<u>Amt. (\$million)</u>
1971-72	34,000	47.1	41,000	2.7
1970-71	30,500	42.5	42,100	3.6
1969-70	41,750	43.8	37,800	5.0

As of the close of business June 30, 1973, the following was the picture concerning the Bank mortgage portfolio and its saving programs:

(1) Number of Mortgages in Bank's Portfolio	133,491
(2) Balance Outstanding (U.S.Dollars)	\$235,981,761.00
	(Rials) 15,928,768,811
(3) Number of Savings Accounts	268,843
(4) Value of Savings (U.S.Dollars)	\$151,866,256.00
	(Rials) 10,150,972,328

Recently, the Bank inaugurated a new savings for housing plan, which is seen as a major component of the total housing planning for the Fifth Development Plan period. It is anticipated that this particular mechanism will be the principal vehicle for satisfying lower middle and middle income needs for housing, though, of course, many lower income earners are also participating.

2. The major elements involved in public and private sponsored housing and housing finance,

a) The Plan Organization

The Plan Organization is responsible for formulating the various development plans which establish the goals for the Iranian economy, and form the basis for the individual budgets. Furthermore, the Plan Organization is responsible for monitoring the implementation of the plan by the various responsible agencies, and for arranging corrective action where necessary. Should the public sponsored component lag, or the inducements and projections for private sector activity in housing during this period of the Fifth Development Plan fail to materialize as targeted, the Plan Organization will be directly involved in remedial action.

b) The High Council for City Planning

The High Council for City Planning has the responsibility for general city planning policy and for the review and approval of the Master Plans of individual municipalities. The High Council is chaired by the Vice Minister of Housing and contains representatives of other interested ministries.

Execution of various aspects of the Master Plan is left to the municipalities under supervision of the High Council.

c) The Investment Promotion Section

The Investment Promotion Section was organized in 1970 as an integral part of the Ministry and carries out four major functions:

1. Project Preparation of Prototype Projects

(which can be developed by private sponsors).

If a sponsor wishes to utilize prototype plans on his land, he must have available the equivalent of the down payment necessary for the entire project. With this equity, he may then obtain a commitment for long term financing from the Mortgage Bank, a process facilitated by his use of Ministry Plan prototypes. Actual construction is performed by the sponsor, who must assume a one-year obligation for construction defects.

2. Project Evaluation

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Project evaluation is carried out on proposals initiated by private sponsors for projects to be financed through the Mortgage Bank on land to be purchased from the Housing Organization.

3. Planning and Programming

The planning and programming of the future activities.

4. Investment Promotion

Investment Promotion and development of sources of long term mortgage financing.

d. Workers Welfare Bank

The Workers Welfare Bank was founded in 1961 with capital of \$5.2 million from the Social Insurance Organization (SIO). Entirely owned by SIO, it benefits from the requirement that SIO deposit all of its net income in the Welfare Bank, of which 15% must be in time deposits. The Bank pays 7% on these time deposits, compared to the rate of 7-1/2% paid by other banks on comparable maturities.

The Welfare Bank's charter authorizes it to make loans to workers and to workers' cooperatives. It assists worker's housing activities, and maintains worker's savings accounts. The Welfare Bank also fulfills banking obligations of the Social Insurance Organization and engages in regular banking operations.

Because of the growth in income of the Social Security system resulting from economic expansion and increased coverage, the Welfare Bank is one of the fastest growing segments of the Iranian Housing finance sector. Total outstanding loans have risen from 1,100 to 6,000 million rials (\$16.3 to \$88.8 million) from 1965-1971, of which housing loans represented \$70.6 million in 1971.

The Bank has organized its own construction company, the Iran Housing Company, which on a small scale, parallels the Housing Ministry's Housing Organization.

Under a new program, whose start was synchronized with the start of the Fifth Development Plan, 30,000 new low and moderate priced units will be built and financed by the Workers Welfare Bank. This particular program is also tied into a savings for housing plan, as applicants, having a savings for housing account at the Workers Welfare Bank, will receive preference. Main features of this new housing plan are:

- a) 80% - 90% mortgages;
- b) 15 year term on single family houses;
- c) 20 year term on apartments;
- d) Interest rate of 1% - 3%. The GOI through the Plan Organization will subsidize the balance; at year end the differential being paid to the Workers Welfare Bank.

e) Savings and Loan System

Under Mortgage Bank sponsorship, a system of stock savings and loan associations was started in Iran in 1971. According to the approved rules, the association can make loans to members only. The maximum amount of a loan is \$14,800 for home purchase, maximum loan to house cost is 70%, and maximum amortization is limited to 15 years. Interest rates are currently 12%.

At the present time, only the Tehran Savings & Loan Association is in operation, but two additional associations are in the process of formation in Mashhad and Tabriz, respectively.

Some indication of the quite remarkable acceptance and growth achieved by the Tehran Savings & Loan Association may be grasped from the following figures, as of close of business July 31, 1973, after only approximately 18 months of operation:

a) Number of Savings Accounts	10,000 (approx.)
b) Value of these Savings	Rials: 832,183,632.00
	U.S.Dollars : 12,328,600.00
c) Number of Loans Made	3,000
d) Value of Loans Made	Rials:1,000,000,000.00
	U.S.Dollars : 14,800,000.00

f) Other Agencies

A number of other public and semi-public agencies administer special mortgage programs for their employees, some of them quite substantial. For example, the third largest institutional source of long term mortgage financing in the country in recent years, has been the National Iranian Oil Company. Its loan value for the fiscal year ending March 20, 1971, was in excess of \$12 million.

The Government of Iran owned Bank Melli, the largest commercial bank in the country, also administers a program for its own employees and those of the central Bank.

g) Commercial Banks

The commercial banks made a significant number of housing loans involving down payments of one-half to one-third of the selling price of the home. Such loans are made mostly for upper-income families at amortization periods of 3 to 10 years.

The use of individual mortgages, particularly in the case of higher priced homes, is not common in Iran. Frequent practice is for the home buyer to take a personal short term loan to assure the necessary funds for a house purchase. Reasonable assured employment and sufficient income is generally considered as acceptable security.

The banking system in Iran is highly developed and employs modern systems and technology. The nation enjoys relatively complete access to banking facilities through a network of 6,000 commercial bank offices.

Viewed as a whole, the housing sector is seen to contain all of the major institutional elements required. The planning and banking functions are exceedingly well developed and operate at a high level of efficiency and sophistication. The Housing Ministry, and Housing Organization enjoy dynamic leadership, and are moving to develop the additional capability it will require to implement the GOI's new major interest in low cost housing.

D. Market and Existing Situation

1. General

The GOI is aware of the inequities currently existing as a result of the skewed distribution of income and is taking steps to improve the situation. Recognition of the economic and social problems inherent in this inequality of incomes has motivated the GOI to action on varied fronts, one of which is the housing program which seeks some redistribution of income through government expenditures for subsidized housing solutions.

For the purposes of its housing strategy, the GOI has divided the population into five annual income (expenditure) groupings:

		<u>% of Urban Families</u>
Group I	- less than \$740	25 %
Group II	- from \$741 - \$1,480	31.5%
Group III	- from \$1,481 - \$2,960	30 %
Group IV	- from \$2,961 - \$5,920	11 %
Group V	- more than \$5,921	2.5%

It should be noted that the determinations on the percentage of urban families in the various categories of annual expenditures is updated to 1971 and is based on samplings conducted by the Central Bank of Iran.

It should further be borne in mind that depending on the marginal propensity to save, as the expenditure level rises (viewed as an index of income), it is safe to assume that some savings are occurring; to that extent, the expenditure figures shown here, are progressively understating the real acquisitive power of the family unit in the market place.

To meet the housing needs of the five income (expenditure) groupings listed above, the GOI has outlined four basic strategies:

1. For Group I (less than \$740) Government sponsored construction on land provided below market value. Maximum downpayment will be 10%, 20 to 25 year term, and interest rates ranging from 1% to 3%.
2. For Group II (\$741 - \$1,480) some direct Government construction by the Housing Organization and/or the Iran Housing Company to guaranty a minimum level of production for this group, with land provided below market rate, 20 year loans and interest rates of 4%.
3. For Group III (\$1,481 - \$2,960) some direct Government construction by the Housing Organization and/or the Iran Housing Company to guaranty a minimum level of production for this group, with land provided below market rate, 20 year loans and interest rates of 6%.
4. For Group IV and Group V, the Government leaves these groups in the main to satisfy their housing needs through the normal mechanisms operating in the housing market. Some families will no doubt qualify for the saving for housing schemes.

2) Housing Need and Effective Demand

a) As a Function of Inadequate Housing Stock

Plan Organization established that at the start of 1973, there was a shortage in urban centres of approximately 1.1 million units. Occupancy density stood at 8.1 persons per dwelling and 2.4 persons per room, largely as a result of the fact that approximately 25% of all urban dwelling units were occupied by two or more families.

Further, as the government progresses with plans for locating new industry and plant in the development pole cities throughout the country, more acute pressure will be generated as skilled and semi-skilled workers are relocated and rural employed and unemployed are attracted.

Thus the 740,000 new units planned for the urban centres aim to relieve the housing shortage, improve housing conditions for lower urban income groups, and provide for predictable increased housing need logically stemming from actions taken in the area of industrial growth and placement of urban job producing activities.

b) As a Function of Increasing Purchasing Power

Notwithstanding the aforementioned inequities in income distribution, the spectacular growth of the Iranian economy over the past 10 years has meant increasing amounts of disposable income for increasing numbers of gainfully employed Iranians. Substantial increases in real disposable income have produced strong pressures for improved standards of living. Further, the sustained growth climate has produced a rising level of expectations, perhaps more strongly felt by the urban low income groups.

c) As a Function of New Household Formation

The figures presented below further demonstrate the pressure being generated in the urban areas for the provision of additional housing units. Moreover, with a young population, 45,5% of all Iranians are 15 years of age or younger; this will not level off in the near future, all things being equal:

TABLE IV
Annual Increase in Households

	1968	1969	1970	1971	1972
Urban:	97,000	102,000	106,000	111,000	116,000
Rural:	54,600	54,000	54,600	54,200	53,800
Total:	151,600	156,000	160,600	165,200	169,800

d) As a Function of Effective Demand

A political decision has been taken by the GOI, reflected in the Fifth Development Plan, that there will be improved income distribution, and that one vehicle to be employed for implementing this decision will be the housing program.

Through a combination of interest subsidies and the provision of land at below market value, the GOI, by significantly lowering the selling cost, and improving the terms of purchase for the homebuyer, has effectively brought greater numbers of potential buyers into the market, and thus greatly increased the volume of effective demand for housing on the part of the lower 50% of the urban population, to the extent that it is a function of the family's ability to meet the terms of sale.

III SPECIFIC OBJECTIVES OF THE LOAN

The Government of Iran has for the past decade pursued a very successful course of accelerated industrialization. The GOI views its very large and growing oil reserves as a means of securing international borrowing to finance a continued rapid rate of growth. Aware of the socio-economic distortions which rapid industrialization has wrought, the GOI has expressed its desire and need for parallel accelerated social development, which objectives are embodied in the Fifth Development Plan; and specifically expressed in its chapter on Housing.

The very ambitious goals targeted for the economy in the Fifth Development Plan anticipate substantial foreign borrowing, and the Plan Organization has instructed that in the case of such additional borrowing as has been programmed for the Housing portion, the HG program be addressed to secure that financing. Of the total volume of housing to be produced by the public and private sectors of the economy, the \$25 million HG loan has been programmed for application to the long term financing requirements of the program contemplated, and securing those inputs of low income housing expertise considered necessary to improve the performance of those key institutions charged with physically implementing the public sector housing program. The HG program will help provide both the additional long term financing required by the public sponsored lower income housing program and the needed technical assistance for the implementation of the GOI's housing program.

Therefore, in brief, the proposed loan has as its primary objectives:

- (a) to provide an immediate line of credit for start-up financing and the additional long term financing required by the public sponsored housing program for the production of new housing units for sale to the lower income target group, Group II (\$741 - \$1,480 annual income);
- (b) to help provide the needed technical assistance to support and develop the GOI institutional framework for the planning, promotion, production and property management of lower income housing projects;
- (c) to support the balanced urban growth strategy of the Iranian Government and reduce the overcrowding and scarcity of shelter for lower income families.

The accomplishment of these objectives should have a significant impact on the housing sector in Iran, particularly with respect to lower income housing. No other appropriate source of financing for the lower income portions of the housing program has been identified. It is highly unlikely that the lower income housing program would proceed as projected without this input of HG funding. With HG funds, however, the program as discussed above should be able to gain an impetus and establish an institutional structure which will allow it to continue on a level which will significantly contribute to Iran's housing goals. Also, the technical assistance input should allow the Iranians to add necessary low income skills, which do not presently exist, to their impressive human resources base. Future Iranian low income housing programs will, therefore, benefit directly from this proposed HG program, regardless of whether they continue to receive HG funding.

IV THE PROJECT

1. Housing Program

The \$25 million Housing Guaranty program proposed here is to assist the GOI in the achievement of the public sponsored housing targets identified in the Housing program of the Fifth Development Plan, as they pertain to the mounting of a nationwide program to produce a large volume of housing for lower income groups. The loan monies are seen as providing start-up funds, which with technical assistance will assure rapid implementation of the public sponsored lower income portion of the total housing program.

In the urban areas, the total public sponsored housing program will produce 165,000 new housing units. This represents planned expenditures of approximately \$1.4 billion. The proposed housing program, however, represents a full range of house types and correspondingly varied selling prices, as the program envisions public sector production of housing for public officials and technicians of various levels in remote areas of the country, as well as other target groups.

Working with the Ministry of Housing and Development, in particular with the Housing Organization on the production side, and the Iranian Mortgage Bank on the financial and administration side, the HG program will focus on the provision of financing and the necessary technical assistance to implement those areas of the program producing housing destined for sale to lower income families, specifically, expenditure Group II, with annual expenditures ranging from \$741 to \$1,480, and constituting the 25th to 56th percentile. In those instances possible, the HG program will also go further down into the upper levels of Group I.

Taking this target Group II as point of departure, the following table is prepared to demonstrate capacity to pay, on the part of families at various levels within Group II (annual income \$740 - \$1,480) and the size mortgage hypothetically manageable under the loan conditions contemplated for this Group.

GIVEN:

- 1) 20 year mortgage
- 2) 4% interest rate
- 3) Monthly payment calculated on the basis of allotting 25% of income to monthly housing payment.

<u>Family Annual Income</u>	<u>Monthly Payments possible</u>	<u>Approx. Size of Mortgage Possible</u> <u>4% Interest</u>	<u>Monthly Payment Required for Same Amount at Current 12% Market Rate</u> <u>Monthly Payment</u>
\$ 741.00	\$ 15.44	2,550.00	\$ 28.10
1,100.00	22.92	3,780.00	41.66
1,480.00	30.83	5,100.00	56.20

Referring to the physical production planned by the public sector agencies for the years 1973, 1974 and 1975, we find that approximately 35,000 units of housing are programmed which fall within the capacity to pay of the Group II families targeted by the HG program; and which will benefit from this first tranche of \$ 25 million. It should be noted however, that all the funding for the 35,000 units has not yet been indentified. It is anticipated that, as the program gathers momentum, additional private sector GOI support and Foreign borrowing will have become available. The financial plan described below was based on the assumption the requested \$50.0 million in HG funds would be available, and relies heavily on long term foreign borrowing.

Group II income, constitutes the 26th through the 56th percentile of the population on an income (expenditure) basis.

<u>No. Units</u>	<u>Average Selling Price (U.S. \$)</u>	<u>Average Mortgage</u>	<u>Total Selling Price</u>	<u>Total Mortgage Amount Required</u>
5,000	\$ 3,000	\$ 2,700	\$15,000,000	\$13,500,000
10,000	4,000	3,600	40,000,000	36,000,000
10,000	4,750	4,275	47,500,000	42,750,000
<u>10,000</u>	5,630	5,067	<u>56,300,000</u>	<u>50,670,000</u>
<u>35,000</u>			<u>\$158,800,000</u>	<u>\$142,920,000</u>

The HG program first tranche will thus provide long term financing through the Iranian Mortgage Bank for the initial construction of approximately 5,800 lower income housing units destined for sale to Group II families. These units will be constructed in projects outside of the Capital City of Tehran in the development pole cities and 80% of the units will be multi-story, multi-family construction.

The sale price of the housing to receive long term financing from the HG monies will not exceed \$5,600 per unit. Downpayment will be 10%, the interest rate 4% and the term of the mortgage 20 years.

In their determination to reach these lower income groups with permanent standard housing solutions, and use the housing program as a device to redistribute national income, the GOI will employ two main vehicles. The first will be the provision of land at below market prices, which is feasible considering the GOI, through the Housing Organization, is one of the largest holders of urban and semi-urban land in the country. The second is the interest subsidy, in this case charging the purchasers only 4%.

Discussions with Officials of the Plan Organization indicated that approximately \$20.7 million (1.4 billion rials) was budgeted in the Fifth Development Plan for housing subsidy, and that it was further calculated that the commitments so incurred during the Fifth Development Plan would entail a further outlay of approximately \$89 million per year over the succeeding 20 year period. Given the present strength and size of the economy, and projected continued economic growth, the amount is well within the means of the GOI.

2. Technical Assistance

A number of technical assistance components are contemplated in the HG program. They are designed to improve performance or provide capacity in areas of importance for the successful implementation of the lower cost housing aspects of the total public sponsored program. The Office of Housing will respond to requests from the GOI for technical assistance in the three areas mentioned below through the use of short term consultants and/or a resident advisor.

The areas for which technical assistance will be provided are:

1. low income housing project planning and unit design;
2. low income housing large scale project constructing techniques;
3. housing policy, administration and project management.

The output targets of the technical assistance projects with the Housing Organization are 1) improvement of low-income housing project planning by providing assistance in setting up systems of information, collection organization and analysis; 2) less expensive low-income housing through the application of design techniques and construction methodology; 3) better managed low-income housing projects through the establishment of well conceived management and maintenance policies; 4) stronger focus on low-cost housing through policy and organizational techniques. Technical assistance with the Mortgage Bank will be provided as requested. It will primarily be on the policy level. It may include assistance with areas, such as savings and loans which are not directly involved with the project but which may provide the financial base for further low income housing programs.

Assistance will be made available to the Ministry of Housing and Development in the area of general housing policy planning.

Technical assistance will be provided to both the Mortgage Bank and the Housing Organization for personnel training programs probably using the wide range of services available from such organizations as the American Savings and Loan Institute.

3. Project Administration

The GOI will be the borrower, through the Iranian Mortgage Bank, which will also function as loan administrator.

The loan will permit an immediate \$ 5 million drawdown for start-up costs, and so encourages and permit the most expeditious start on implementing the public sponsored housing program for the lower income groups. Subsequent drawdowns will be against closings producing certification of mortgages.

The Housing Organization will be the principal institution performing on the production side; letting contracts, inspecting construction, etc. The actual construction of projects, however, will be done by private contractors.

V TECHNICAL CONSIDERATIONS

A. Land

GOI urban land policy provides for government ownership of all unclaimed, undeveloped land in order to assure proper development. Within a 30 km radius of each city, such land is owned by the Housing Organization. Unclaimed land outside this radius is owned by the Ministry of Agriculture and Natural Resources, which is empowered by decree to transfer tracts of up to 10 acres in size to the Housing Organization.

Additional undeveloped land is owned by municipalities and by religious organizations. Religious organizations, however, can only dispose of their land by lease-hold, not by sale.

The Housing Organization controls the sale and lease of all undeveloped urban land, including that owned by municipalities and religious organizations. About 50% of its holdings are within present municipal boundaries, and the GOI authorizes the expansion of municipal boundaries to keep pace with development.

Litigation to clear title from the final vestiges of customary claims has been completed for about one-third of the Housing Organization's present holdings and is before the courts for the balance. The Housing Organization does have clear title to 90% of the land required for the initial three year program of 30,000 units focused on by the HG project.

B. Materials

Given the fact that total Fifth Development Plan investment in housing is more than twice the sum allotted during the Fourth Development Plan, and that this is in the larger context of an overall increase in economic activity planned, much of it implying construction, there may develop certain short run and/or geographical scarcities, especially of cement. Licenses have been issued for the importation of the equipment for four additional cement plants. However, until this additional production comes on line, any short fall will have to be made up by resorting to importation. A growing world scarcity makes this alternative increasingly more costly and difficult. Given the priority enjoyed by the public sector housing programs, this should not substantially affect the proposed HG program, but may very well produce a less balanced implementation of the total housing program envisioned in the Plan.

C. Skilled Manpower

The question of sufficiency and availability of skilled construction labor must be seen against a matrix of interdependent and mutually reinforcing variables present in the total economy. Education and training are the essential means by which the supply of skills is matched to the demand; the speed with which the system attracts, trains and places "graduates" will be a critical factor. The competition for labor, the readiness of construction firms to accept trainees in place of direct on the job training of raw laborers, the real mobility of homebuilding firms and their supervisory and skilled craftsmen, the actual scale of priorities which emerges as between defense construction, infrastructure needs and homebuilding, all of these will also influence the supply of manpower for the homebuilding industry.

A very ambitious target has been set by the GOI for the homebuilding industry, and while the institutional and budgetary machinery assure insofar as is possible, the timely implementation of the HG related public sector housing program, it is possible that temporary shortages of skilled labor, despite an ambitious manpower training program, may cause a short fall as regards the total level of housing production contemplated in the Plan.

The question of the availability of sufficient numbers of skilled construction trades workers in the face of the large increase of homebuilding targeted must be seen in the context of the larger growth strategy embodied in the Fifth Development Plan for the Iranian economy. One facet of the plan for housing is that function it performs in adding new jobs to the economy. The Plan Organization calculates that the entire construction industry, including the homebuilding sector, should generate 300,000 additional jobs in the course of the Plan, 1973-1977. While there will no doubt be some trade off in a temporary lowering of the normally high standard of craftsmanship exhibited in homebuilding, the planners and managers of the economy have taken steps through vocational training and manpower training programs to soften these effects, and feel that this is a price the total economy must pay to create the new jobs required and avoid rapid formation of large pockets of urban unemployed.

D. Housing Projects

Projects will be located primarily in the nine development pole urban centers and the six secondary cities. These urban centers will receive grants in aid to improve water supply and install sewage collection and treatment systems. Project location and planning will be integrated into town planning schemes and related to urban improvement installations. Project planning will be done primarily by the Housing Organization in accordance with their own standards and procedures, subject to AID review and concurrence. The construction of projects will be done by private contractors under the management direction of the Housing Organization.

E. Housing Units

The housing units will consist of basic two and three bedroom units ranging in area from 50 to 75 square meters. Because of density requirements they will be primarily in apartment complexes with related community facilities and services. On the basis of current construction costs, it is estimated that selling prices can range from \$2,500 to \$5,600 depending on geographical location and materials and methods utilized.

F. Construction Costs and Selling Prices

On the basis of current construction costs, it is estimated that selling prices can range from \$2,500 to \$5,600 depending on geographical location and materials and methods of construction utilized. It is recognized that during the time span until projects are actually completed there will be an increase in the cost of labor and materials. At the same time there will probably be a concomitant increase in family wages and household expenditures. The objective is to complete and sell houses to the same income group now identified as the target group. (The Housing Organization will estimate, on the basis of past and current information, the wage and household expenditure levels of this target group at the estimated date of project completion and housing unit sale. At the same time they will estimate the increases in the cost of construction for the same period.)

On the basis of those projected estimates they will plan and design housing projects to match the ability of the target group to pay. Although we establish a maximum selling price now of \$5,600, this will undoubtedly be somewhat higher at the actual time of the sale of some of the houses in given projects. Increases in selling prices will only be agreed upon if there are increases in the cost of labor and materials and evidence that the range of the original target income group is still able to purchase the houses.

VI IMPLEMENTATION

On the basis of the AID authorization, the GOI will seek an eligible U.S. Investor in accordance with AID approved guidelines. Selection of the Investor is subject to the approval of AID. The Office of Housing will negotiate the required Guaranty and Implementation agreements with the Investor and the Government of Iran.

Only such housing that has been started since the signing of all agreements regulating the loan will be eligible for HG financing. The construction period will run approximately 30 months in accordance with the Housing Organization's schedule.

Drawdowns on the loan from the U.S. Investors will be made by the Mortgage Bank of Iran (administrator) from time to time upon completion and sale of those housing units constructed in accordance with plans and specifications approved by the Housing Organization, and sold to qualified buyers in accordance with the Housing Program of the Fifth Development Plan. Qualified buyers will be selected from annual income Group II, and to the extent possible Group I, as identified in the Housing Program and as further defined in the Implementation Agreement.

Loan funds will be channeled to eligible purchasers through the Mortgage Bank of Iran. Loans will be made by MBI to cover 90% of the unit selling cost. Unit sales prices will not exceed \$5,600. These costs are subject to upward revision based on increased costs and inflation. MBI branch offices will promote the projects and help individuals prepare loan applications for review by MBI. MBI will prepare individual loan agreements, disburse funds, and make collections. MBI will administer the HG funds, hold mortgages, and take any legal actions necessary on delinquent accounts.

Land use plans, site plans, housing unit plans, and specifications for all projects financed under HG loan will meet the standards developed by the Housing Organization and all construction will be in accordance with Iranian laws, ordinances, regulations, and codes governing construction, the physical planning of communities and the objectives of the Fifth Development Plan. Site plans and housing unit plans and specifications will have the concurrence of AID.

In accordance with Iranian law all multi-family unit projects will be organized either into cooperatives, or homeowner associations. These organizations will be organized according to government guidelines and under

the general supervision of the Ministry of Labor, Office of Housing Cooperatives. The large multi-family projects that have been constructed in the Fourth Plan and will be constructed in the Fifth Plan, are producing critical needs for specially trained personnel in the fields of project-property management and basic community organization. The new focus on low income housing is generating a need for research in the technical and organizational aspects of solving the shelter needs of marginal income groups.

Technical assistance in the fields on low-income housing project planning and unit design, and low-income housing administration, and project management will commence after the execution of all agreements between the GOI, the Investor, and AID. The main thrust of the technical assistance program will run during the thirty month period of construction. Some residual technical assistance efforts are anticipated after construction during the loan amortization period. This should be concerned with loan administration and project management and maintenance. The technical assistance projects will be developed primarily with the Housing Organization and the Mortgage Bank of Iran.

Monitoring responsibility for the \$25.0 million HC program will be with the Office of Housing.

Table V

PROJECTED TIMETABLE - (Estimated on the basis of normal or good conditions)

Authorization:	December 1973
Selection of Investor by GOI:	60 days from authorization
Execution of Necessary Agreements:	120 days from authorization
First Drawdown:	Estimated to be within 9 months from authorization
Project Completion:	39 months from authorization

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VII ECONOMIC CONSIDERATIONS

A. Financial Setting

The Government of Iran has for the past decade been on a course of accelerated industrialization. The Fifth Development Plan is a logical continuation of this process, exhibiting increased concern for social welfare and the long neglected, imposed upon agricultural sector, but still very definitely an exercise in economic growth planning and budgeting.

The GOI views its very large and growing oil resources as collateral for international borrowing to finance a still faster rate of growth. Viewed from the perspective of the past fifteen years, and the performance of the economy and its managers in that timespan, this is a perfectly sound, viable route.

Taken as a whole, the Fifth Development Plan programs anticipate foreign borrowing of an order of magnitude of \$5 billion. The total \$25 million contemplated for housing in this loan paper thus represents only 5 per cent of total contemplated foreign borrowing for the five year period.

B. Debt Service Burden

During the period 1964-65 to 1969-70, overall debt service rose from \$50 million to \$230 million, and is projected to have risen to about \$530 million during 1972-73. This sharp increase largely resulted from the unfavorable composition of foreign borrowing, i.e. short and medium term.

A continued increase in foreign borrowing is contemplated as stated above, projections signalling an increase in annual debt service from approximately \$530 million in 1972-73 to approximately \$700 million in 1974-75. The incremental annual debt service of \$4.6 million which a two tranche \$50 million HG loan would represent is only .65 per cent of Iran's projected \$700 million annual debt service burden at the approximate close of the drawdown period. Perhaps of greater significance, the Debt Service Ratio is projected to remain constant at 17% to 18%. Further, the HG loan presents the positive feature of being a long term debt, clearly a long sought objective of the GOI in terms of foreign debt composition.

C. Rate of Inflation

For the 10 years prior to 1971, the average rate of inflation in Iran was 3% per annum, which, viewed against the backdrop of spectacular economic growth presents a picture of remarkable price stability. However, in 1971-72, the rate of inflation rose to 6% and is currently running at the rate of 7% per annum. The economic management team of the GOI has a proven record vis-a-vis

inflation. Nevertheless, a strategy of continued and accelerated economic growth, increased employment and increased remuneration combined with an increasingly close interrelationship with an international economic system undergoing strong price inflation will provide a stern test.

D. General Economic Setting

Iran's success at mobilizing resources has been a major factor in the achievement of fast economic growth since the mid-1950's. In particular, rising foreign exchange receipts from the oil sector not only permitted a rapid increase in imports but also enhanced the country's creditworthiness and hence its ability to obtain additional external credit.

Since the mid-1950's, the Iranian economy has grown rapidly, and from the mid-1960's, when there was a further upturn in economic activity, the growth record has been remarkable, averaging over 11 per cent annually in real terms.

To support and consolidate rapid economic growth, the Government has also made attempts to develop a suitably flexible political and social framework. Yet recently there has been increasing concern, both within and outside Government circles, about disparities of income and wealth. The effect of such disparities on effective demand, and hence on employment, social mobility and economic structure, has been to cause the Government to modify some of its development policies. If the high rates of growth projected for the next five years are to be achieved, the initial impetus of social reform will need to be maintained.

The consequences and implications of the disparity in growth rates between what can conveniently be called the traditional sector (agriculture and small-scale industry) and the modern sector are manifold. In the first place, it has led to massive movements of population into a relatively small number of towns and cities. Indeed, three cities (Tehran, Esfahan and Mashhad) have been taking about 60 per cent of all internal immigrants. Some towns and cities are already experiencing a growth of under-employment, urban congestion and even water shortages as population density increases. Secondly, it has not helped to offset inequalities in the distribution of income and expenditure. (There are no direct statistics on income distribution in Iran.) Average per capita real expenditures by urban households (which now contain over 40 per cent of the population) appear to be about twice those of rural households, while 20 per cent of urban households have average per capita real expenditures about four times higher than the rest of the urban households. And thirdly, it is generating a pattern of final demand which may not be sufficient to absorb the potential capacity of the modern sector, and which may be greatly in excess of domestic supplies of agricultural and livestock products. The Government has recognized these problems and is adapting its policies accordingly in order to ensure that rapid economic growth can be maintained.

The economic trends in Iran since the mid-1950's have been, in large part, the result of conscious efforts by the Iranian Government to develop the country by the introduction of modern techniques in all sectors. Both by encouraging the private sector and by direct investment the Government is attempting to establish a modern industrial base, to introduce advanced practices in agriculture, to create an expanding middle class as the core of an urban-oriented modern sector and to provide modern infrastructural, social service and defense facilities. Since time is felt to be of the essence the Government has made the choice of maximizing the use of capital by exploiting the country's oil resources as rapidly as possible in order to create the base from which self-generating growth is expected to emanate in the longer term. At the hub of this policy is the Development Plan.

With recent changes in the structure of industry towards substitution of intermediate and capital goods imports, the amount of capital required to employ one new worker has risen very sharply. At the same time, the movement of people out of the rural areas and into a few major industrial cities has increased the supply of labor available for full-time employment. If employment-creation is to be generated to a sufficient extent over the next few years, it is not only necessary to stimulate the expansion of incomes and production both in the rural and small urban areas, but also to ensure that sufficient investment is channeled into activities which create full-time job opportunities and hence raise disposable incomes in these areas. For this reason the Government has planned to induce a high growth rate in the construction and housing sector. Construction is still relatively labor-intensive and, as past experience has shown, has proved capable of absorbing large numbers of migrant workers. Similarly, the higher proportion of planned expenditures on education and social welfare suggests that efforts to raise levels of literacy and education will be strengthened.

Despite the growth of oil revenues Iran continues to borrow from abroad. Official capital flows comprised 95 per cent of gross capital inflows in 1971 and amounted to \$888 million, compared with \$475 million in 1968 (93 per cent of gross capital inflows). Of the \$888 million, over \$200 million can be considered as non-development loans, while the remaining \$688 million has been required mainly to finance a number of ongoing, large, public sector development projects. By March 1972 total outstanding disbursed public foreign debt was \$2.9 billion, of which about 25 per cent was for non-development loans, and total outstanding public debt, including undisbursed, was \$5.1 billion. This compares with \$0.7 billion and \$1.9 billion respectively at the beginning of the Fourth Plan. Of the new debts incurred so far during the Plan, 30 per cent has been in the form of privately-held suppliers' credits and 35 per cent in the form of foreign government loans, with about half of the latter being from the Soviet Union. Because of the rapid rise of principal repayments over the past three years, the net capital inflow has remained roughly constant at about \$600 million. Interest payments have also been increasing quickly, and the debt service ratio, which was 11 per cent in 1968, increased to 18 per cent in

1970 and 1971. To help alleviate the debt service position, the Government hopes to be able to restrict further short- and medium-term borrowing, particularly when this is in the form of suppliers' credits. In this respect the proposed HG loan with its 25 year term appears to be entirely appropriate.

At the close of 1972 the overall Iranian foreign exchange position stood at U.S. \$960 million, and was comprised of the following major categories:

Gold	U.S. \$142 million
Special Drawing	
Rights	37 million
Reserve Position IMF	21 million
Foreign Exchange	760 million
Total	\$960 million

VIII CONDITIONS

AID will set forth certain conditions with which the Borrower must comply at each stage of the project which will include the following:

- 1) The guaranty shall extend for a period of up to twenty-five (25) years from the date of the initial disbursement of the loan.
- 2) The fee of the USAID shall be paid in U.S. dollars, and will be made up of: (a) one half of one per cent (.5%) per annum of the guaranteed portion of the outstanding loan investment, and (b) \$100,000 to be paid from early drawdowns.
- 3) The Government of Iran shall provide a full faith and credit guaranty of dollar repayment of the loan and payment of the AID guaranty fee.
- 4) The sales price of units financed by AID guaranty funds shall not exceed \$5,600, except for price increases based on increased cost of labor and materials, provided that the original target income group is still able to purchase the houses.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Annex I

AID-DLC/P-2015
UNCLASSIFIED

December 10, 1973
November 1973
Draft

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GUARANTY AUTHORIZATION

Provided From: Housing Investment Guaranty Authorization

Imperial Government of Iran

Pursuant to the authority vested in the Assistant Administrator, Bureau for Asia, by the Foreign Assistance Act of 1961, as amended ("FAA"), and the delegations of authority issued thereunder, I hereby authorize the issuance of a guaranty pursuant to Title III, Section 221 of the FAA of not to exceed twenty-five million dollars (\$25,000,000) assuring against losses of not to exceed one hundred per centum (100%) of loan investment and interest by an eligible U.S. Investor or Investors acceptable to A.I.D. to the Imperial Government of Iran acting through the Iranian Mortgage Bank for the financing of public housing projects in Iran. This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall be repaid within twenty-five (25) years from the first disbursement under the loan including a grace period of not to exceed four (4) years during which interest set forth in the loan agreement shall be paid to the investor. The guaranty shall extend until the loan is repaid in accordance with the terms of the loan agreement.
2. Interest Rate: The rate of interest payable to the U. S. Investor(s) pursuant to the loan shall not exceed the allowable rate of interest prescribed by the Administrator pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.
3. Imperial Government of Iran: The Imperial Government of Iran shall agree to repay the loan and pay interest in U.S. dollars in accordance with the loan agreement. The Imperial Government of Iran shall assume a full faith and credit obligation to pay A.I.D. in U.S. dollars for any and all

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losses resulting to A.I.D. by virtue of its guaranty to the U.S. Investor or Investors or from nonpayment of the guaranty Fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half of one per centum ($\frac{1}{2}\%$) per annum of the outstanding guaranteed amount of the loan.

Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

Assistant Administrator
Bureau for Asia

Date

STATUTORY CHECKLIST

Imperial Government of Iran

Section 221:

The total face amount of guaranties issued, outstanding at any one time, shall not exceed \$205,000,000.

Section 221 and 222(b)

The proposed program qualifies under the following criteria:

1. The Guaranty will finance self-liquidating housing projects suitable for conditions in the host country.
2. It will promote the development of thrift and credit institutions engaged directly or indirectly in the financing of home mortgages.
3. It is a local participation project in which 25% or more of the aggregate mortgage financing will be provided from sources within the host country.

Section 223 (a)

The A.I.D. guaranty fee will be in an amount consistent with fees previously charged for housing guaranties authorized by the Administrator in accordance with the powers delegated by the President.

Section 223(f)

The maximum rate of interest allowable to the eligible U.S. investor to be prescribed by the Administrator will not be more than one percent above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development.

Section 223(h)

No payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

Section 238(c)

The guaranty agreement will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued.

Section 620

There is no available information prohibiting the furnishing of assistance to the Imperial Government of Iran.