

Iran

Country Brief – June 2009



DEVELOPMENT PROGRESS

Iran has the second largest population, after Egypt, in the Middle East and North Africa region. Most of its 73 million people are young, with increasing hopes and expectations of a better future. Larger numbers of increasingly well-educated women seek opportunities to participate at all levels of Iran's labor market and civil society; however their labor market participation rate remains low, while the unemployment rate among women is high. The country's health and education indicators are among the best in the region.

Education and Training: Fifteen years ago, the Government of Iran embarked on a comprehensive program to develop its human-resources capabilities. These efforts have enabled Iran to increase enrollment ratios, extend educational opportunities to the poorest regions of the country, and reduce gender gaps in all levels of education. Consequently, Iran is well placed to achieve the MDG target with regard to eliminating gender disparities. Similarly, youth literacy rates increased from 86 percent to 94 percent over the same period, rising significantly for girls. Currently, women outnumber men at university (undergraduate) level by a factor of 2. Efforts are under way to reform the Technical and Vocational Training System. Quantitative improvements however outpaced improvements in quality of education which is currently the main item on the education policy agenda.

Health: Health outcomes in Iran have improved greatly over the past twenty years and now generally exceed regional averages. Key to this success has been the Government of Iran's strong commitment to and effective delivery of primary health care. Iran's "Master Health Plan", adopted in the 1980s for the period of 1983-2000 accorded priority to basic curative and preventive services as opposed to sophisticated hospital-based tertiary care, and focused strictly on the population groups at highest risk, particularly in deprived areas. Moreover, as a result of the prioritization and effective delivery of quality primary health care, health outcomes in rural areas are almost equal to those in urban areas, with outcomes in terms of infant and maternal mortality nearly identical between urban and rural areas.

Social Protection: Iran has a large social protection system with some 28 social insurance, social assistance, and disaster relief programs benefiting large segments of the population. These programs include training and job-search assistance, health and unemployment insurance, disability, old-age and survivorship pensions, and in-kind transfers including subsidies (e.g., housing, food, energy), rehabilitation and other social services (e.g., long-term care services for the elderly and marriage and burial assistance). Various social insurance, social assistance, and active labor market programs operate with little coordination, and there are problems with their financial sustainability, efficiency and equity.

CURRENT CHALLENGES

Notwithstanding some improvements in social indicators, the Iranian economy continues to confront major challenges. While labor market pressures continue to increase because of demographic dynamics and increased participation of women in the labor force, Iran's economy is still unable to generate enough needed jobs to absorb the new flows into the labor market and at the same time significantly reduce unemployment. In addition to **employment creation, inflation is high; price subsidies and controls hinder efficiency; and major structural impediments prevent private sector development.**

A **large public enterprise sector** dominates Iran's economy, in addition to the quasi-public *bonyads* which have a large presence in the manufacturing and commercial sectors. Over 60 percent of the manufacturing sector's output is produced by the state-owned enterprises; the financial sector is also dominated by public banks despite establishment of four private banks in the early 2000s. Progress in privatization and the creation of a level playing field for private firms has moved very slowly in the past years. In July 2006, the Government announced a major privatization program whereby large, strategic industries mandated to be state-owned by Article 44 of the Constitution could be privatized. These include, among others, the downstream oil sector, the utilities sector, a large proportion of the financial sector, and the large industrial and commercial sectors. However, implementation of the program has been hindered by low demand for large public sector assets by the private sector. In order to improve the operational environment for private firms and to enhance private returns to investment, the government launched in 2008 a program of investment climate reforms.

To overcome the **unemployment problem**, fueled by a labor supply growth of about 4 percent, the challenge is to ensure high and sustainable economic growth with strong employment creation, driven by a broader participation of the private sector in the economy, particularly in non-oil and export sectors. Furthermore, the current shift in structure of the supply of labor toward higher female participation and higher skill composition requires a shift in the demand side, implying a qualitative change in the growth structure toward the knowledge economy, a direction endorsed by the Fourth Five-Year Development Plan.

Iran also struggles with **macroeconomic instability**. Despite major efforts of the Central Bank, inflation has consistently remained at double-digit levels, and the balance of the Oil Stabilization Fund was reduced, not increased, during the period of exceptionally high oil prices. The result is boom and bust cycles in economic performance which increase the uncertainty faced by private firms, thus further impeding private investment and job creation.

A major challenge is how to channel the network of **untargeted energy subsidies** -- amounting to more than 10 percent of gross domestic product (GDP) -- into productive, job-creating, private-sector investment. Another growth constraint is limited access to knowledge and information technology and related infrastructure. Moreover, improved governance, public-sector inclusion, accountability, and transparency are needed. Finally, addressing these issues during transition requires a social safety net and programs to preserve stability and prevent the more vulnerable groups from descending into poverty.

Targeting the poor more accurately by the public transfers would help to reduce poverty. Half of the poor in Iran, about 4.5 million people, or 1.5 million households, benefit from social coverage by government social safety net programs, charity institutions, and other nonprofit organizations. Whereas this support is partly effective, it is not specifically targeted to the poor, and remains expensive. Extensive subsidies, including energy subsidies, and credit subsidies are excessively large, and their distribution is skewed toward the rich. Subsidies for bread and medicine, for example, are highly untargeted vis-à-vis the poor, and the richest decile of households benefits 12 times more from gasoline subsidies than the poorest decile.

Iran faces major **environmental challenges**, especially given its growing population and declining infrastructure. Air pollution poses a major urban environmental concern, especially the pollutants released into the atmosphere by motor vehicles, estimated at 5 million tons every year. Air pollution in Tehran and other major cities far exceeds the standards set by the World Health Organization, and is the cause of serious health problems for many Iranians. In Tehran, schools occasionally must close because of dangerously high levels of air pollution. In addition, the lack of adequate wastewater and disposal systems is contributing to ground and surface water pollution through infiltration and over-flowing—the effects of which pose serious health risks. In an effort to overcome these challenges, the Government has taken a number of actions, including the installation of an air quality monitoring network with stations in a number of provinces (Mashad, Esfahan, and Arak) and has initiated the revision of the water and soil standards. In addition, the Government has allocated a budget to conduct economic valuations of the Iranian Ecosystem.

Current priority areas in the **health** sector include: (i) designing and implementing new incentives and regulations for health service providers to ensure more equitable and effective access to health care; (ii) expanding the "family physician" care model to serve as the first point of contact and gatekeeper; (iii) redesigning provider payment mechanisms and harmonizing the existing fragmented social health insurance system for better cost containment; and (iv) mobilizing additional resources for health.

In the education system large challenges remain with regards to **aligning education, enrollment and particularly training** with the needs of the economy and industry. The Fourth Five-Year Development Plan envisages upgrading the quality of the educational system at all levels, as well as reforming education curricula, and developing appropriate programs of vocational training, a continuation of the trend towards labor market oriented education and training.

All dollar figures are in US dollar equivalents. **June 2009**

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