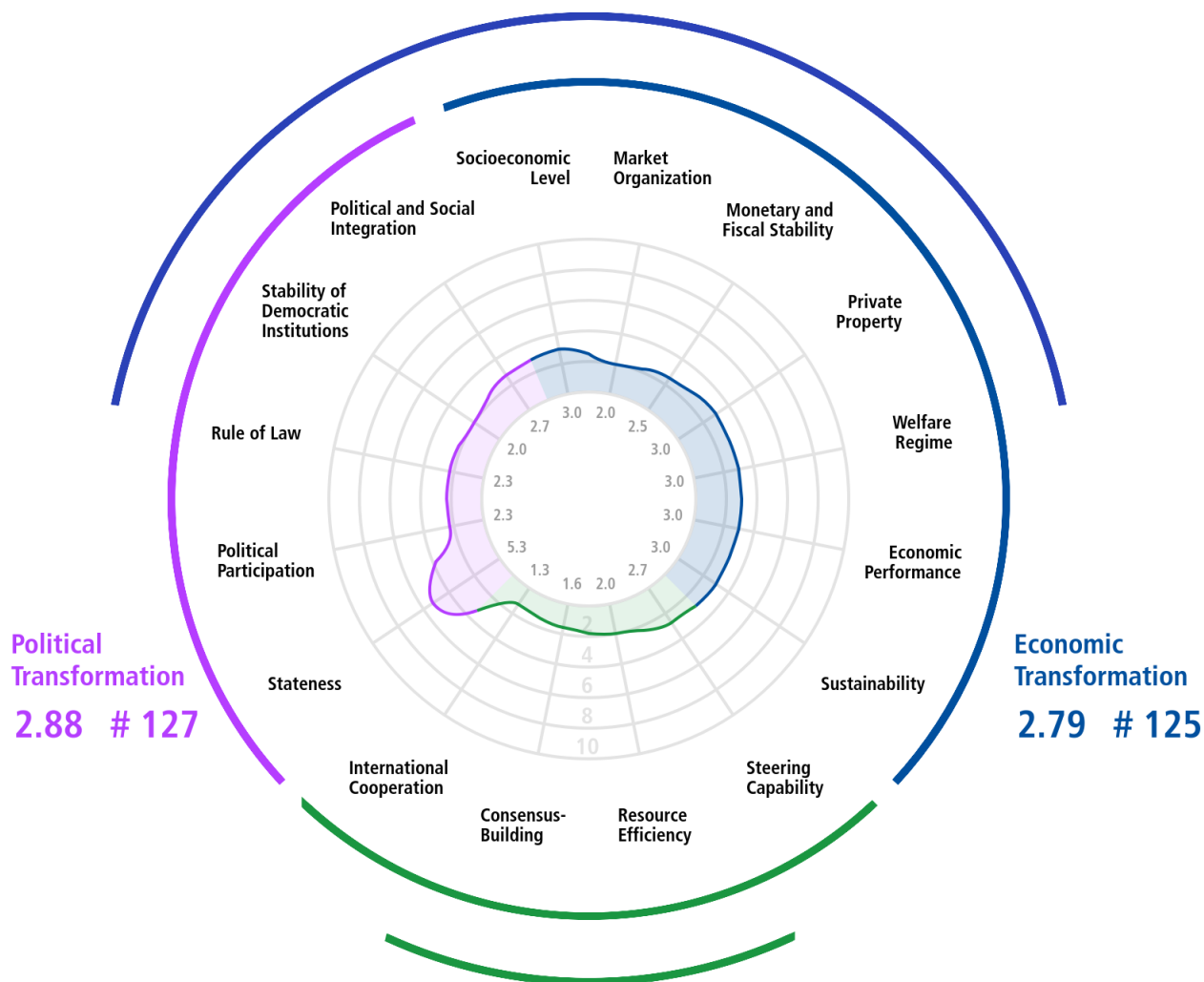


# Iran

## Status Index

**2.83 # 127**

on 1-10 scale out of 137



**Political Transformation**  
**2.88 # 127**

**Economic Transformation**  
**2.79 # 125**

## Governance Index

**1.70 # 132**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2022 Country Report – Iran. Gütersloh: Bertelsmann Stiftung, 2022.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

## Contact

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### Sabine Donner

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### Hauke Hartmann

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### Claudia Härterich

Phone +49 5241 81 81263  
[claudia.haerterich@bertelsmann-stiftung.de](mailto:claudia.haerterich@bertelsmann-stiftung.de)

### Sabine Steinkamp

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>84.0</b>	HDI	<b>0.783</b>	GDP p.c., PPP \$	<b>13116</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.3</b>	HDI rank of 189	<b>70</b>	Gini Index	<b>42.0</b>
Life expectancy	years	<b>76.7</b>	UN Education Index	<b>0.756</b>	Poverty <sup>3</sup>	% <b>3.1</b>
Urban population	%	<b>75.9</b>	Gender inequality <sup>2</sup>	<b>0.459</b>	Aid per capita \$	<b>2.5</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

The review period, equaling Bahman 12, 1397 – Bahman 12, 1399 in the Iranian calendar, saw serious internal and external challenges to the Islamic Republic of Iran. Externally, the U.S. withdrawal from the Joint Comprehensive Plan of Action (JCPOA, “nuclear deal”) in 2018 dominated political and economic developments. The resulting sanctions triggered not only a significant drop in oil production, leading to a reduction in income of almost two-thirds, but also a strengthening of hard-line policies in Iran. In December 2020, Iran’s parliament approved plans to drastically increase its nuclear enrichment program, intending to enrich uranium up to 20% purity. In addition, tensions with Israel and a number of Arab states, among them Saudi Arabia and the United Arab Emirates (UAE), isolated Iran further and increased the pressure on Tehran.

Domestically, the government continued to disappoint Iranian society in almost all respects. After the brutal suppression of nationwide protests in November 2019, President Hassan Rouhani and his so-called “reformist camp” lost nearly all credit among large segments of the population. Ever since, the ruling political system sustains itself primarily by exercising direct violence. The parliamentary elections of February 2020 mirrored this disappointment: turnout was the lowest since the 1979 revolution (officially only 42.6%), and while conservative candidates won 221 out of the 290 seats, reformist candidates secured only 19. This was a major setback for Rouhani, whose current term will end in August 2021 (presidential elections are planned to be held in mid-June 2021).

The coronavirus pandemic has hit Iran very hard. Up to January 2021, over 1.2 million infections and nearly 60,000 deaths were reported, by far the highest number in the region. This can be attributed to blatant government mismanagement, combined with insufficient medical infrastructure and a lack of citizen awareness. Throughout the pandemic, Iran’s government has pursued a policy of deception, lies and concealments, in particular the ministry of health. While Iranians launched the hashtag #BuyVaccines on social media in January 2021, Iran’s Supreme

Leader Ayatollah Khamenei banned the import of vaccines from the U.S., the UK and France for political reasons. A license to use the Russian vaccine “Sputnik V” was issued, despite no trustworthy information about this vaccine having been published at the time.

The Iranian economy faced a triple shock of sanctions, the collapse of the oil price, and the impact of the COVID-19 pandemic. The most imminent consequences were rapidly shrinking foreign exchange reserves, reduced tax revenues, lower consumer demands for goods and services, and increased government spending to deal with the costs of the health crisis. The budget deficit, already widening over the last few years, is expected to widen further.

Major-General Qasem Soleimani, the powerful commander of the Iranian Revolutionary Guard Corps’ (IRGC) Quds Force, was killed by a U.S. drone strike near Baghdad International Airport on January 3, 2020. This act was a reaction to a long list of provocations and attacks on the U.S. presence in Iraq by Iranian proxies loyal to Soleimani. Iran swore hard revenge but has so far refrained from acting in a dramatic manner, out of fear of provoking the U.S. to enter an all-out war with Tehran that could pose a risk to the stability and even survival of the Iranian regime.

During Iran’s retaliation for the Soleimani murder, the IRGC shot down a Ukrainian passenger plane on January 8, 2020, shortly after its departure from Imam Khomeini Airport in Tehran, killing all 176 people on board. The authorities first tried to obscure the reason for the crash, infuriating many Iranians and triggering major protests from Ukraine and Canada, the two nations with the greatest number of passengers on board.

## History and Characteristics of Transformation

The constitution of the Islamic Republic of Iran, enacted after the revolution of 1979, combines two contrary principles, blending republican-democratic elements with a theocratic system, with however the latter dominating over and de facto hollowing-out the former. According to the principle of the guardianship of an Islamic jurist (Velâyat-e Faqih), a Supreme Leader (Rahbar) leads and governs the state, overshadowing the constitution’s republican-democratic principles. The Assembly of Experts, whose members are directly elected by the people, elects and may dismiss the Supreme Leader. However, all candidates must be approved by the Guardian Council whose six clerical members are directly appointed by the Supreme Leader while the remaining six members (jurists) are laymen confirmed by the Iranian parliament (Majles) upon the proposal of a Chief Justice who is himself directly appointed by the Supreme Leader.

The Guardian Council also controls the compatibility of laws passed by the Majles with Islamic (Shariah) law and decides which candidates can run for Majles or the presidency. The Supreme Leader must approve any revision of the constitution. Constitutional legal transformations, therefore, are not possible without his permission. Hence, power is concentrated in the institutions of the Supreme Leader and the Guardian Council, with neither democratically accountable.

After 1979, with the primary motive to protect the poor, the Islamic Republic restructured the economy along its ideology, including the centralization and nationalization of the formerly private banks and industries, and the establishment of “charitable foundations” to handle the investment and distribution needs of society. This system turned out highly susceptible to corruption.

Despite the U.S.-imposed economic sanctions in the early 1980s following the hostage crisis at the American embassy in Tehran, the Iranian economy grew at a consistent rate throughout the era of pragmatism under President Akbar Hashemi Rafsanjani (1989 – 1997) and the era of reform under President Mohammad Khatami (1997 – 2005). This was in large part due to the country’s significant income both from oil and gas exports. Believed to have the world’s second largest natural gas reserves after Russia, oil and gas revenues account for 60% of the entire Iranian budget, and 80% of the country’s overall export revenue. Despite historically unprecedentedly high oil revenues, Iran suffered a sharp economic setback under President Mahmoud Ahmadinejad (2005 – 2013). Frustrated Iranians protested in mass demonstrations (the so-called “Green Movement”) after rigged presidential elections in 2009, stopped only by massive police brutality and random arrests.

Iran’s provocative foreign policy during the Ahmadinejad presidency, especially the acceleration of its nuclear program, triggered sanctions of unprecedented severity. The regime’s collapse was only averted by record-high levels of oil income, which enabled the government to calm people and prevent riots through massive imports of consumer goods to satisfy basic needs.

President Rouhani, elected in 2013 as a “ray of hope,” successfully concluded the Joint Comprehensive Plan of Action (JCPOA) on July 14, 2015, with the five permanent members of the U.N. security council (China, France, Russia, the United Kingdom, and the United States) plus Germany (P5+1). Fresh initiatives to revive Iran’s economy were immediately implemented following the conclusion of the JCPOA agreement in 2015. Western and other trade delegations traveled to Iran at high levels at the time.

However, Iran’s aggressive regional policy and military interference in other countries (e.g., Syria and Yemen), and a series of missile tests (which violate U.N. security council resolution 2231) altered the course of the U.S. policy approach to Iran. The Trump administration radically modified Obama’s Iranian policy approach, which eventually led to the withdrawal of the United States from the JCPOA agreement in May 2018 and the re-imposition of crippling sanctions against Iran, this time during a period of low oil prices and rising domestic discontent with all regime factions, including the reformists.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Compared to neighboring states such as Iraq, Lebanon, Syria and Afghanistan, Iran has a very strong central government with powerful intelligence and security authorities. Besides the regular army, the Islamic Revolutionary Guard Corps (IRGC) and the powerful Basij militia dominate the country's military and quasi-military security architecture. Except for some peripheral border areas, the government maintains control over the country's territories.

Armed clashes between the IRGC and separatist groups occur frequently on the western border with Iraqi Kurdistan and the provinces of West Azerbaijan and Kermanshah. Such ethnic groups oppose the Islamic Republic and include the Kurdistan Democratic Party of Iran (KDP) and the Kurdistan Free Life Party (Partiya Jiyana Azad a Kurdistanê, PJAK). Iranian agents have assassinated several Iranian-Kurdish opposition activists in Iraqi Kurdistan. On November 13, 2020, armed clashes erupted along the border with Azerbaijan, where three members of the Iranian border guards had been reportedly killed by unnamed fighters.

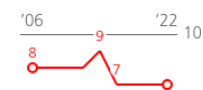
Iran is a multiethnic and multicultural country. While 99% of Iranians are Muslims, approximately two-thirds of the population are of Persian ethnicity.

Most Iranians accept the nation-state as legitimate and agree with a broad definition of citizenship that encompasses several ethnic and religious groups – except for a large number of Iranian Kurds, who consider themselves primarily as Kurd and not Iranian. A majority of Iranians have a strong sense of nationality and are very sensitive about it. Many Iranians are wary about separatist parties and groups, and oppose secessionist demands, but not necessarily federalism. In fact, in order to delegitimize those ethnic minority groups seeking equal rights and more autonomy, the regime tends to portray them as secessionist. On the one hand, the clear majority of Iranians stand for the territorial integrity of the country. On the other hand, ethical-religious minorities see no hope for an improvement in their situation under

Question  
Score

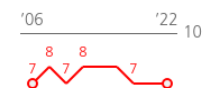
Monopoly on the  
use of force

7



State identity

7



the Islamic Republic. Indeed, their situation is actually getting worse. Under these circumstances, there is a danger that separatist tendencies will grow. The debate about the future form of the state after the Islamic Republic has vanished and the ideas of federalism and separatism are gaining popularity among some political groups.

Iran's government accuses Kurdish (and other) armed groups of separatism, terrorism and "relations with foreigners." These groups in turn accuse the Islamic Republic of violating the rights of the Kurds in Iran and claim to defend the rights of the Kurds. In December 2019, Mustafa Hijri, the leader of the Democratic Party of Iranian Kurdistan (KDPI), publicly prophesied that "if the situation continues like this, it will be very difficult to maintain Iran's territorial integrity."

The position of the clergy, especially the Supreme Leader, is foremost in the Islamic Republic. In 1987, Ayatollah Khamenei said at the Tehran Friday prayer: "The work and practice of the Supreme Leader is to govern the state and society based on Islam. But in areas and fields where the Supreme Leader alone recognizes the Islamic and social interests and issues an order according to the expediency, that is the order and judgment of God. The people have to obey this judgment obligatorily. The decisions of the Supreme Leader are like the decisions and judgment of God. In Islamic society, all bodies, whether the legislature or the executive bodies, including the judiciary, have their legitimacy by virtue of their connection with the Supreme Leader, otherwise even the legislature [parliament] itself has no right to legislate."

Khamenei was president at the time. Since he succeeded Ayatollah Khomeini as supreme leader, he has been precisely following this line and – apart from the usual differences of opinion within the factions of the regime – considers the people to be underage and subject to tutelage.

The religious-ideological nature of post-revolutionary Iran in both domestic and foreign policy has remained unaltered since 1979. Official names such as Islamic Republic of Iran and the Islamic Consultative Assembly (the parliament) are as much an expression of this religious prominence – if not dominance – as the Islamic Revolutionary Guard Corps (IRGC).

Friday Prayer Imams in provincial capitals, who serve representatives of the Supreme Leader, have almost the same authority and power as the governor and interfere in almost all matters. These and other representatives of Supreme Leader Khamenei are dominant in ministries, the army and revolutionary guards, universities and foundations.

During the first months of the COVID-19 pandemic, religious gatherings including the central Ashura ceremonies were still permitted. Other festivities such as the pre-Islamic Yalda Night (winter solstice) on December 21, 2020 were banned, however.

No interference of religious dogmas



On January 8, 2021, the Supreme Leader forbade imports of COVID-19 vaccines from the U.S., France, and the UK. This sparked a wave of anger among Iranians, who are eager for the vaccine to arrive.

Iran's administrative structures are highly centralized but exist at the level of provinces (31), cities, divisions, municipalities and villages. The governors, as the high representatives of the government, are accountable to the president and the cabinet, specifically the interior minister. Elected local councils are responsible for the administration of each entity and select mayors and heads of each administrative level. All council candidates must be obedient and loyal to the system and to the revolutionary leader.

Most state services and administrative institutions operate inefficiently. Public employees' religious affiliation and loyalty to the regime are valued higher than professionalism or competence in leadership. Bureaucratization, nepotism, corruption and interference by other authorities make these apparatuses even less efficient. President Rouhani has made no more effort to improve public services than his predecessor Ahmadinejad.

Inefficiency and corruption are widespread among local administrative units. State rescue efforts in the Spring 2019 floods were insufficient, and at least 70 people died. Driven by religious views, police forces, coordinating with the Basij militia and the IRGC take swift action against socially and politically motivated protests, but are less responsive when it comes to protecting citizens against criminal activity.

The coronavirus crisis negatively impacted public transportation systems. In the first months after the coronavirus hit the country, the Tehran Metro reported a 70% decrease in passengers, leading to losses of \$11.2 million up to June 2020.

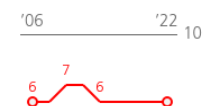
## 2 | Political Participation

Iran holds elections for president, the parliament (Majles), the Assembly of Experts and local councils. Nevertheless, none of these institutions can be described as democratic. Article 99 of the constitution grants the Guardian Council power to oversee all elections (except for local council elections which are supervised by parliament). The Guardian Council approves or dismisses candidates for office, ensuring their loyalty with the regime.

On February 21, 2020, Iran held its 11th parliamentary elections since the 1979 revolution. Conservatives and hard-liners won 221 out of 290 seats, a gain of 83 seats compared to the 2016 elections. The elections were neither free nor fair: the Guardian Council had disqualified 7,296 out of 14,500 registered candidates, and conservative factions faced little to no competition during the campaign. 75

Basic administration

6



1

Free and fair elections

3



1



incumbents, most of them reformists, were barred, including two prominent centrist political figures from the former parliament, Ali Motahari and Mohammad Sadeghi. The official turnout was 42.6%, the lowest since the 1979 revolution.

The February 2020 parliamentary elections had a direct effect on the severity of the COVID-19 pandemic in Iran, as early news about existing infections were withheld to ensure voter turnout.

The next presidential elections are scheduled for June 18, 2021.

Iran's Supreme Leader, Ayatollah Seyed Ali Khamenei, wields ultimate power and has the final say in decision-making. Unaccountable, he can veto the appointment of ministers and interfere in the government's or parliament's daily decision-making. In December 2020, he decided that the government may use almost twice as much money from Iran's National Development Fund in the 2021 budget bill than normally permitted (38% instead of 20%).

In this context the government has limited powers. The president, who is elected by the people, has little power and is accountable to the Supreme Leader, the parliament, and the judiciary. The more "reformist" a president is, the more he is put under pressure from the other more conservative centers of power.

The same applies to the whole cabinet. During the COVID-19 pandemic, the ministry of health in particular failed terribly to monitor, manage and fight the virus, and Iran became one of the most severely affected countries in the world. Field data, forensic figures, burial rates and independent media reports show that real COVID-19 deaths were two to three times higher than official records. This mismanagement is partly due to incompetence within the administration, but also a result of the country's overall subjugation to the clerical ideology.

At the beginning of the outbreak of the COVID-19 pandemic, many experts suggested that Iran's close connection to China – forged as a counterweight to the West – served as the entry point for COVID-19 into Iran. Qom, the holy city of the Shi'ites, was the epicenter of pandemic in Iran, and there is a large Chinese presence in the city, from projects building railways and high-speed subways to the presence of approximately 700 Chinese theology students.

In particular, the role of the Iranian airline "Mahan Air" was strongly criticized. The airline that is closely associated with the Islamic Revolutionary Guard Corps (IRGC), carried infected passengers from China to Iran and on to Iraq and Lebanon, helping to spread the coronavirus throughout the Middle East.

Effective power to govern

2

'06 '22 10

2 1

The constitution grants the right to association and assembly through Articles 26 and 27, under the condition that the exercising of these rights must not violate the principles of Islam. However, in practice, the right to free assembly is frequently violated, since the interior ministry generally forbids protests and mass gatherings. For instance, on the first anniversary of the downing of a Ukrainian passenger plane near Tehran, no commemorative events were permitted. Peaceful protests by laborers, teachers and miners are typically violently suppressed by special security forces and plain cloth agents (the *Lebâs-Shakhsihâ*). Pro-regime mass demonstrations are meanwhile frequently promoted and protected by the security forces.

The nationwide protests in response to the rise in gasoline prices that began on November 15, 2019, were initially peaceful but were met with brutal violence perpetrated by the regime. Videos emerged showing security forces firing directly at protesters. Under a near-total internet shutdown, the two-week protests faced the bloodiest crackdown in the history of the Islamic Republic. According to Amnesty International, at least 304 people were killed and more than 7,000 detained. Reuters reported approximately 1,500 killed.

Formally, the COVID-19 pandemic had no significant impact on the right to assembly in Iran. The government did not proclaim any emergency decree. However, since the right to association and assembly were already restricted, there was little material change.

Although President Rouhani repeatedly stresses the right of Iranians to express their opinions freely, his record is even worse than that of his predecessor Ahmadinejad.

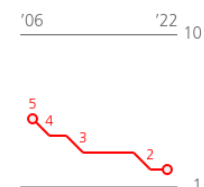
Since 2018, Iran has imprisoned at least nine prominent human rights lawyers who were representing civil society activists and political prisoners, among them Nasrin Sotudeh, Soheila Hejab and Amirsalar Davoudi. Ismael Abdi, Secretary-General of Iran's Teacher's Trade Association from 2013 to 2016, has been arrested several times. Between 2015 and 2020, he spent nearly five years in prison.

Since hard-line cleric Ebrahim Raisi was appointed Chief Justice in 2019, crackdowns against dissidents have intensified. Raisi arrested female activists who were challenging the restrictive social laws for crimes such as "insulting Islam" and "promoting prostitution." During the November 2019 mass protests, a countrywide near-total internet shutdown suppressed communication. Authorities reportedly harassed families of people killed during the protests, partly to prevent them from sparking new protests at memorial gatherings.

In December 2020, the execution of journalist and activist Ruhollah Zam led to international condemnation, after he had been lured from his asylum in France to Iraq, where Iranian agents kidnapped him and took him to Iran.

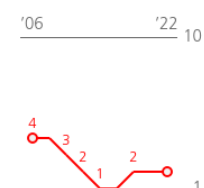
#### Association / assembly rights

2



#### Freedom of expression

2



Two additional political kidnappings took place in 2020: The California-based Iranian-German dissident Jamshid Sharmahd was lured to Dubai by Iranian intelligence agents in July. Habib Chaab, also called Habib Asyud, the former leader of the Arab Struggle Movement for the Liberation of Ahvaz (ASMLA), was kidnapped by Iranian agents in Istanbul in December and taken to Iran.

In January 2021, Reporters Without Borders declared that the Islamic Republic had recorded the highest number of murdered journalists in the world. Press freedom is almost nonexistent.

### 3 | Rule of Law

Like many other constitutional principles in the Islamic Republic, the separation of powers exists only on paper. The Supreme Leader directly or indirectly appoints heads of all three branches. The powerful Guardian Council vets the candidates for parliamentary and presidential elections.

There are rivalries among the various branches of the state. The executive branch under President Rouhani is challenged by the currently conservative-dominated parliament and judiciary. Parliament Speaker Mohammad-Bagher Ghalibaf and Chief Justice Ebrahim Raisi are particularly obstructive. The COVID-19 pandemic did not alter this balance since neither parliament nor government were interested in pursuing meaningful cooperation.

In 2019, when parliament was still dominated by reformists, the government succeeded in approving important amendments to the counter-terrorism finance and anti-money laundering bills in an effort to be removed from the call for action issued by the Financial Action Task Force on Money Laundering (FATF). They however failed to pass two remaining bills, the U.N. Convention against Transnational Organized Crime (Palermo Convention, UNTOC) and the International Convention for the Suppression of the Financing of Terrorism (Terrorist Financing Convention, CFT). Iran thus remains on the FATF blocklist, which is an obstacle to its international banking activities, even in the event of sanctions being lifted.

Separation of powers

3

'06 '22 10

4 3

1

Article 57 of the constitution invests far-reaching powers of supervision over the judicial institutions in the Supreme Leader. He appoints and dismisses the country's chief justice, who is responsible for appointing and dismissing judges. The Supreme Leader also appoints the chief of the Supreme Court and the attorney general, in consultation with the judges of the Supreme Court. The judiciary as an institution is not independent. Nor are the judges. Even the minister of justice has little influence in this sphere, compared to the Supreme Leader.

As bailiffs, the IRGC and especially their dreaded intelligence organization (Sâzmân-e Etelâ'ât-e Sepâh) have a strong influence on the course and outcome of legal processes. Forced confessions through brutal torture are common, especially in the cases of civil society and human rights activists.

The intelligence organization is also strongly involved in detaining dual nationals who usually have no access to diplomatic or consular protection. Since 2015, at least 30 people with dual nationality have been imprisoned, among them the Iranian-Swedish national Ahmadreza Djalali who was sentenced to death in November 2020, and 66-year-old Iranian-German Nahid Taghavi who was arrested in October 2020 and has been placed in solitary confinement at the dreaded Evin prison in Tehran since.

Corruption and the violation of laws are widespread among the political elite. However, people are rarely prosecuted – and when they are, the prosecution is mainly a result of political rivalry. Within both the conservative and the so-called reformist camps, a complex and powerful system of mafia-like family relations exists, most notably the Larijanis, Rafsanjanis, Khameneis, Khomeinis and Fereydoun (the latter being the clan of Rouhani and his brothers). Members of these families hold important offices.

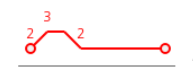
In October 2020, Iran's judiciary chief Ayatollah Ebrahim Raisi signed the Document on Judicial Security that banned torture and forced confessions, as well as increasing the transparency of the judicial process, including granting the right to freely choose a lawyer and the principle of the presumption of innocence.

In August 2020, Parviz Fattah, head of the Mostazafan Foundation, accused the IRGC, the parliament and other institutions under Supreme Leader Ali Khamenei's control of looting public property, including real estate in highly valuable areas of Tehran and the nearby luxury resort Lavasan, that were seized and subsequently given to political loyalists of Ayatollah Khamenei and the IRGC. Despite Fattah apologizing for his attacks on officials shortly after he made them, many people firmly believe that officials from both factions (reformists and conservatives) are deeply involved in corruption.

#### Independent judiciary

2

'06 \_\_\_\_\_ '22 10



#### Prosecution of office abuse

2

'06 \_\_\_\_\_ '22 10



In late January 2021, Mehdi Jahangiri, the brother of Iran's first vice president and founder of the private Gardeshgari Bank as well as former board member of the Tehran Chamber of Commerce, was sentenced to two years in prison for "professional currency smuggling" involving more than €600,000 and over \$100,000. Many Iranians perceived this sentence as too mild, compared to the legal consequences normal citizens would expect for similar misconduct.

The November 2019 protests exemplify the widespread infringement of civil rights in Iran. Amnesty International has documented the torture of arrested people, including sexual violence, mock executions, disappearances and death sentences. Various forms of psychological torture, intimidation and harassment of family members have been reported. Mass arrests, routine torture, extorted confessions and harsh punishments for vaguely worded offenses are endemic, sometimes even affecting those as young as ten-years-old. Show trials have taken place in front of cameras and were presided over by biased judges. In most cases, convictions are based on confessions obtained through torture.

The Iranian Human Rights Activists (HRA), operating from the U.S., reported that at least 256 citizens were executed and another 96 sentenced to death from October 10, 2019, to October 8, 2020. Two juveniles were among those executed. Two executions were carried out in public. According to the same report, 77% of executions in Iran were conducted "in secret."

Officials from the police, the ministry of information and the intelligence service of the IRGC (Pasdaran) randomly storm houses and apartments to arrest opposition and civil society activists. They confiscate personal property such as laptops, computers, mobile phones and other items without official notification. The arrests, which are often accompanied by brutality and result in serious injuries, frequently take place in front of the eyes of relatives, including children. In most cases, the officers do not have an arrest or search warrant.

HRA reported that security forces arrested 1,426 citizens for civic or political activities in 2020. Five citizens were prosecuted for their type of lifestyle, of which three were arrested for modeling activities and two for sporting activities. Nevertheless, the number of arrests in 2020 were 84% lower than in 2019, according to HRA.

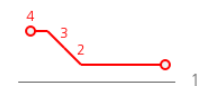
Iran has not acceded to any international treaty on the elimination of discrimination and violence against women. Zahra Nejad Bahram, a member of the presidium of the Tehran City Council, spoke in November 2020 about an increase in violence against women during the COVID-19 pandemic.

In Iran, female circumcision is practiced in Kurdistan, Bushehr, Hormozgan, Bandar Gang, Jask, Khuzestan, West Azerbaijan, Kermanshah and Sistan and Baluchestan. In the Western regions, female circumcision occurs in Azerbaijan, Oramanat, Baneh, Nosud, Paveh, Piranshahr and around Urmia.

Civil rights

2

'06 '22 10



The U.N. have warned about the dangers of the coronavirus in prisons and called for the immediate and temporary release of political prisoners, many of whom are human rights defenders or environmentalists. Upon the order of the head of the Iranian judiciary, 100,000 prisoners were temporarily released. However, most of them remain in prison.

#### 4 | Stability of Democratic Institutions

While the president, parliament and Assembly of Experts are elected by the people, they can by no means be described as democratic, since there is considerable discrimination and filtering of candidates by the hard-line-dominated Guardian Council. The ministers for intelligence, education, defense, foreign affairs, and culture and Islamic guidance can only be appointed with the consent of the Supreme Leader.

Once in office, ministers and parliamentarians remain under the Supreme Leader's control. As an example, the foreign ministry cannot conduct international negotiations without Khamenei's approval. Tellingly, in February 2019, Foreign Minister Mohammad Javad Zarif offered his resignation after the Tehran visit by Syrian President Bashar al-Assad, initiated by the IRGC-Quds Force commander Qasem Soleimani, had taken place without his knowledge or participation. However, after both Supreme Leader Khamenei and Soleimani asked Zarif to remain in office, he agreed to do so.

When parliament was dominated by reformists, a slightly more productive spirit as a result of more independently-minded deputies characterized the work within the assembly. Since conservative parliamentarians regained their overwhelming majority back in May 2020, the loyalty toward the Supreme Leader has become much more tangible again. Likewise, the judiciary fully operates under the control of conservatives and hard-liners.

Legally recognized and tolerated political parties must show themselves loyal and committed to the system of the Islamic Republic, according to party law. They therefore defend the interests of the system rather than the interests of their potential voters.

Performance of  
democratic  
institutions

2

'06 \_\_\_\_\_ '22 10

2

\_\_\_\_\_ 1

Powerful figures and institutions, primarily the Supreme Leader and the Revolutionary Guards, frequently undermine the elected parliament, the president and local governmental bodies. In addition, there are a number of other powerful non-elected institutions over which neither the government nor parliament exert any influence or possess the power to hold them to account, such as the Executive Headquarters of the Imam's Directive, the religious-commercial foundations Astan Quds Razavi, the Khatam al-Anbiya Construction Headquarter (i.e., the IRGC's construction and engineering conglomerate) and the Bonyad-e Mostazafan Foundation. These organizations and institutions pay scant regard to the government, parliament or judiciary.

## 5 | Political and Social Integration

The Islamic Republic of Iran only permits political parties and factions that are loyal to the regime and to state ideology. Even so-called reformists must be loyal to the establishment, according to the party law. Their funding and administrative structures usually lack transparency.

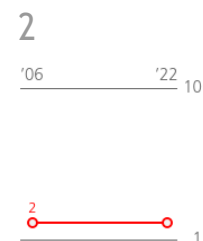
Official sources list 120 parties in the country, of which 33 are provincial and 87 are national. 60 parties, organized in 14 "fronts," participated in the parliamentary elections of February 2020. Conservatives and hard-liners were represented in these elections by three electoral groupings: the IRGC-affiliated Coalition Council of Islamic Revolution Forces headed by Mohammad-Bagher Ghalibaf; the conservative Islamic Coalition Party, headed by Minister of Culture and Islamic Guidance Mostafa Mir-Salim; and the ultraconservative Endurance Front of the Islamic Revolution headed by Morteza Agha-Tehrani. A coalition of eight reformist parties also contested the election with minimal success.

Mostafa Moin, a former minister of science, 2005 presidential candidate, and member of the reformist camp, said in an interview in February 2020 that ordinary Iranians would not see any difference between reformists and conservatives, and that both political camps had lost their social base. In fact, the Islamic Republic's reformist camp finds itself in an unprecedented crisis of legitimacy as President Rouhani, whose electoral victories were rendered possible by support from reformists, has failed to deliver on his economic and political promises.

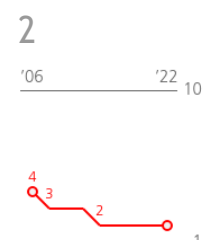
Civil society associations, critics of the regime and interest groups are severely suppressed by the repression apparatus of the ministry of information, the IRGC and the judiciary. Especially since the appointment of Ebrahim Raisi as chief justice, the pressure on and repression of civil society has increased considerably.

In August 2019, 260 political and civil society activists protested against the increasing pressure exerted on human and women's rights activists and the harsh prison sentences imposed on them. They claimed that activists for women's rights, workers' rights, teachers, ethnic and religious minorities, children, environmental

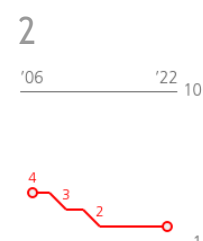
Commitment to democratic institutions



Party system



Interest groups





activists, students, journalists, human rights lawyers, writers and artists had all been harassed in various ways via subpoenas, home inspections or detention on contrived charges. Almost all of the 14 signatories of the so-called Declaration by 14 Political Activists, which called for the resignation of Supreme Leader Khamenei, were arrested in August 2019.

Iran is a state without a distinct democratic and liberal tradition, and reliable polls on citizens' opinions about democracy are unavailable.

Given the significant legitimacy crisis of the dictatorial rule, in addition to the apparent inability of the regime to meet even the basic needs of its citizens, citizens' trust in the entire political system, whether elected or unelected, conservative or reformist, has dwindled. The state's failures in managing the COVID-19 pandemic, with obvious lies and deception, deepened people's distrust in the political system.

Most Iranians no longer believe that their suffering is primarily a result of Iran's enmity with the U.S., Israel and other official enemies. The IRGC's shooting down of a Ukrainian passenger plane on January 8, 2020, infuriated Iranians, and was perceived as symbolic of the entire system's failure.

The regime rarely tolerates civic self-organization. After the 1979 revolution, Iran's middle class – typically considered to be the most important pillar of social capital – was transformed and experienced a process of incremental decline. The exacerbated economic crisis between 2018 and 2020 has further aggravated the increasing impoverishment of the population, including most notably the middle class, with possible major ramifications on Iran's future sociocultural and political trajectories. The regime's harsh crackdown on activists further limits citizen engagement.

However, Iranians still demonstrate solidarity in emergency situations. When flooding caused substantial damage in 25 provinces in March/April 2019, people offered their homes as shelter to strangers, while hotel owners opened their doors in the flooded areas in an effort to provide temporary accommodation for those left stranded.

On social media, it can be generally observed that Iranians have grown closer to each other emotionally. During the coronavirus pandemic, some charity associations addressed some essential needs such as the distribution of food and medication. The provision and distribution of masks and protective clothing for medical personnel, disinfection and hygiene equipment for the public, and disinfection of public places were priorities that rapidly became the focus of most associations and grassroots groups. Since February 2020, the Aid Network (Shabakeh Komak), a newly formed coalition of 14 NGOs, coordinated activities to address the consequences of the coronavirus outbreak in Iran. At the local level, various civic groups and campaigns have formed to organize public aid. The Corona Prevention Campaign in Saqqez in the Kurdish-dominated provinces is but one example.

Approval of  
democracy

n/a

'06 '22 10

n/a

1

Social capital

4

'06 '22 10

4 3 4 3 4

1



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Regime mismanagement, incompetence and corruption, U.S. President Trump's Iran policy of "maximum pressure" with its crippling sanctions, and the COVID-19 pandemic has left a deep mark on the socioeconomic condition of Iran's 83 million citizens.

These conditions have become so bad during the assessment period that people took to the streets to protest against the daily hardships – notably before the COVID-19 pandemic hit the country. After the government had tripled the price of gasoline to offset its debt and budget deficit, nationwide protests erupted in November 2019. The regime responded with brutal force, killing between 300 (Amnesty International) and approximately 1,500 (Reuters) protesters within a week.

Although the socioeconomic situation overall is precarious for many Iranians, women and minorities are particularly subject to social exclusion. They suffer politically, economically and legally under a system with a high degree of discrimination and inequality. Within the labor force, 5.27 million are female and 21.8 million are male. According to the World Bank, only 14% of Iranian women were employed in 2020.

The deepening recession following the outbreak of COVID-19 pandemic increased the gender gap in the labor market. The World Economic Forum's 2020 Global Gender Gap Index ranked Iran 145 out of 152 countries, which is the lowest rank of all Persian Gulf states.

Iran's Ministry of Cooperatives, Labor, and Social Welfare is responsible for setting the poverty line, however, official statistics on poverty in Iran are unavailable. Informal sources estimate at least 15 to 20 million Iranians live below the absolute poverty line, with numbers increasing over the course of the review period. The COVID-19 pandemic has further heightened the risk of poverty. In October 2020, the vice chairman of the money and capital commission of the Tehran chamber of commerce, industries and agriculture, Abbas Argun, stated that about 60 million Iranians are in need of donations due to living in poverty. Massoud Khansari, head of the Tehran chamber of commerce, industries, mines and agriculture, stated on January 25, 2021, that 35% of Iranians live below the poverty line.

According to the Statistical Center of Iran (SCI), Iran's Gini coefficient fell from 40.93 in 2018 to 39.92 in 2019. However, in 2013, the first year of Hassan Rouhani's presidency, the Gini coefficient was 36.5.

Question  
Score

Socioeconomic  
barriers

3

'06 '22 10



1

The UNDP's 2019 Human Development Index assigned a score of 0.783 to Iran, ranking it 70 out of 189 countries, and therefore still within the group of countries with high human development.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	445345.3	294356.7	258245.5	<b>191718.3</b>
GDP growth	%	3.8	-6.0	-6.8	<b>1.7</b>
Inflation (CPI)	%	8.0	18.0	39.9	-
Unemployment	%	12.1	12.1	11.1	<b>11.0</b>
Foreign direct investment	% of GDP	1.1	0.8	0.6	-
Export growth	%	1.8	-12.5	-29.9	<b>-12.2</b>
Import growth	%	13.4	-29.5	-38.1	<b>-32.4</b>
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	36.9	38.5	47.9	<b>39.5</b>
External debt	\$ M	6819.1	5773.7	4855.4	<b>5451.2</b>
Total debt service	\$ M	490.4	193.8	334.0	<b>328.4</b>
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	13.4	12.2	11.6	<b>11.7</b>
Public education spending	% of GDP	3.8	4.0	3.7	-
Public health spending	% of GDP	4.4	4.0	-	-
R&D expenditure	% of GDP	0.8	-	-	-
Military expenditure	% of GDP	3.1	2.5	2.1	<b>2.2</b>

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

The state sector (state-owned and semi-state-owned companies) accounts for approximately 80% of Iran's economic activity, while the private and cooperative sectors account for 20%. A large number of state-owned enterprises do not belong to the government but to economically strong religious, revolutionary and military foundations ("bonyâds"). These are directly or indirectly controlled by the Supreme Leader and enjoy many privileges, such as tax exemptions and exclusive access to lucrative government contracts.

In August 2020, the Iranian National Tax Administration estimated the informal economy to have reached 37.7% of GDP and tax evasion 3.5% in the fiscal year of 2017/18. The size of the informal market economy was estimated at 5,584 trillion rial (\$24 billion) and the tax evasion estimated to amount to 515 trillion rial (\$2.2 billion). Member of parliament Hadi Ghavami said in late February 2020 that 30% of GDP was linked to the underground economy or smuggling.

In the World Bank's Ease of Doing Business 2020 report, Iran was assigned 58.5 out of 100 points for the category "starting a business," in which it was ranked 127 out of 190 countries. It takes 72.5 days and 10 procedures to start a business and involves costs of 1.1% of per capita GNI.

The primary challenges remain the weak protection of minority investors and underdeveloped financial markets. Iran ranked 164 out of 180 countries in the Heritage Foundation's 2020 Index of Economic Freedom. Among 14 countries in the Middle East and North Africa, Iran is placed at 13, and well below the world average.

Iran also performed poorly in the 2019 Global Competitiveness Index, placed 99 out of 141 countries.

The state has a considerable influence on pricing, fixing the exchange rate and the rate of duty, controlling trade and investment, and managing core industries, especially the oil and petrochemical sectors. The Ministry of Labor and Social Affairs regulates wage levels and calculates inflation and analyzes economic conditions.

Iran's Competition Council is responsible for anti-monopoly measures and privatization. The independence of the council is undermined by the dominant presence of members from the government and the Majles, especially the Supreme Leader and affiliated religious-commercial foundations, such as the Imam Khomeini Executive Headquarters, the Mostazafan Foundation and the Khatam Camp. These members are structurally protected from competition and thus distort free-market principles. As outlined in the BTI 2020 Iran report, the unsuccessful

Market  
organization

2

'06 '22 10



1

Competition policy

2

'06 '22 10



1

price formation for domestically produced cars was a prime example of the weakness of the Competition Council. After long-standing demands from carmakers, the Competition Council voted for a price liberalization of 45% for domestic cars in December 2020, hoping this would eventually lead to lower prices. In reality, the opposite happened, because car manufacturers have successfully lobbied their interests within the country's monitoring institutions.

Hassan Karimi-Sanjari, an automotive expert, told "Dunya-e-Eqtasad" that the sanctions restrict production permits, based on the rules of competitiveness and profitability, and that stemming car imports due to international sanctions could exacerbate the market monopoly. There are approximately 30 automakers in Iran but only the two major manufacturers (SAIPA and Iran Khodro) have been able to continue to produce under sanctions. These two accounted for 95.9% of the passenger car market in the first eight months of the year 2020, thus enjoying a de facto duopoly.

In terms of economic freedom, the 2020 Fraser Global Research Institute report places Iran with 4.80 points at rank 158 out of 162 countries. Compared to the 2017/18 edition, when Iran received 5.72 points, the country has experienced a continuous decline in economic freedom, primarily resulting from its international economic isolation, lack of transparency, and financial corruption. In the 2019 Global Competitive Index, the Islamic Republic of Iran ranked 130 out of 141 countries regarding competition in services, compared to rank 124 out of 140 countries in the 2018 edition.

According to the World Trade Organization, Iran has the third highest level of simple average tariffs (20.1%) among 138 countries. In comparison, Turkey, China and Russia were reported to have 10%, 7.6% and 6.7%, respectively.

Due to the serious economic hit triggered by U.S. sanctions, Iran stopped publishing economic statistics from March 21, 2019, but announced a surprising increase to \$85 billion of foreign trade in March 2020 for 2019, of which \$41.3 billion related to exports and \$43.7 billion related to imports. Most exports went to China and Iraq with approximately \$9 billion each. Turkey accounted for \$5 billion and the United Arab Emirates for \$4.5 billion.

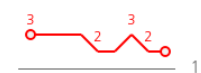
Sources outside Iran suggest exports are on a downward trend, however. China, for instance, reported an average of 75,000 imported oil barrels per day from Iran between January and November 2020, equaling only one-quarter of China's oil imports from Iran in the same period for 2019.

Iran's combined exports to China, South Korea, Japan and India have allegedly fallen to a third from 2019 to 2020.

Liberalization of  
foreign trade

2

'06 '22 10



Iran boasts the largest Islamic banking system, accounting for a third of the estimated global total of Islamic banking assets. However, the majority of Iranian banks (18 as of September 2020) are included on the U.S. sanctions list. In June 2020, there were eight state banks (Bank Melli with 3,330 branches being the largest), two al-Qard al-Hassan banks (the financial and banking arm of Lebanon's Iran-backed Hezbollah group; non-profit banks with interest-free loans: Qarz al-Hasaneh Mehr Iran Bank and Qarzol-Hasaneh Resal) and 16 private banks (dominated by Bank Saderat with 2,704 branches). Private banks are typically controlled by influential people close to the regime. Iran's outdated bank system functions well only at the micro level of paying bills and salaries and holding customers' savings. The nontransparent and omnipresent involvement of regime members prevents state-of-the-art working structures. The COVID-19 pandemic may trigger modernization through the rise of mobile banking, increasing electronic services and the use of ATMs.

Iran's central bank (CBI) is not independent from political interference. It is responsible for maintaining price stability and the stability of the banking system and is charged with enforcing prudential regulation of banks.

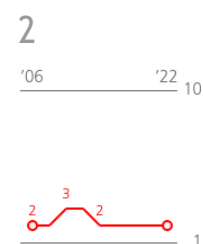
In the 2019 Global Competitive Index, Iran ranked 136 out of 141 countries regarding the soundness of its banks. The Financial Action Task Force (FATF) has consistently called on the Islamic Republic's banking system to comply with international standards in fighting money-laundering and terrorist financing. After four years, negotiations between the FATF and Iran have been deemed a failure, which explains why Iran still has no access to the SWIFT system.

## 8 | Monetary and fiscal stability

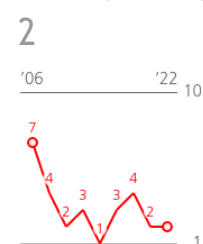
Despite U.S. sanctions, the Tehran Stock Exchange's overall index recorded the world's largest growth, from 159,855 points in February 2019 to 1,398,000 points at the end of December 2020 (a record high of two million points was recorded in August 2020). This was largely due to a significant number of small shareholders who, at the invitation of the government and to compensate for growing poverty, bought shares of state-owned companies in the stock market so that the government could address part of its budget deficit. The major losses since August 2020 pushed many investors back into extreme poverty.

Although the CBI attempted to control Iran's currency stability, the Iranian rial strongly depreciated in open markets from 190,000 rials per U.S. dollar in July 2020 to nearly 300,000 rials two months later – a stark contrast to the official rate of 42,000 rials used by exporters and used for imports of state-subsidized food and medicine.

Banking system



Monetary stability



High inflation of 41% in 2019 meant Iran was grouped into the world's top four countries of demonetization (alongside Argentina, Sudan and Venezuela). For 2020, the IMF reported a still worrying 30.5% inflation rate. In March 2020, the CBI announced plans to lower the rate of inflation to 22%. Price hikes in food (84% for chicken and 88% for eggs) within a year (between October 2019 and October 2020) led to an overall decline in calorie intake among the general population. Iran's Parliament Research Center stated that the consumption of meat each month was only 25 grams per person.

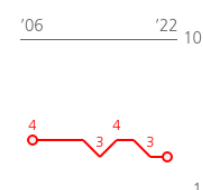
Rouhani's government predicted oil exports of 1 million barrels per day at \$50 per barrel for the Iranian calendar year 1398 (March 20, 2019 – March 20, 2020), resulting in a total income of \$18 billion. U.S. extraterritorial sanctions and the contraction of global oil prices (the latter due to the coronavirus pandemic) rendered these calculations unrealistic. Between March and December 2020, the oil price averaged only \$39 per barrel, down from an average of \$64 per barrel in 2019. The IMF estimated in October 2020 that the general government gross debt of Iran would reach approximately \$260 billion in 2020, equaling 44% of Iran's GDP. This would mark an increase on the gross debt of \$118 billion recorded in 2018, before U.S. sanctions were reimposed. Iran's total budget deficit was expected to reach \$58 billion in 2020 (compared to approximately \$17 billion in 2019), equivalent to one-tenth of the country's economy. Withdrawals from the country's National Development Fund (NDF), hard currencies held by the CBI, and the issuing of bonds to the value of approximately \$6 billion were used to try to help make up the deficit.

The government aimed to raise 1,000 trillion rials (\$5.8 billion) through the issuing of bonds. By the end of September 2020, the CBI had conducted 21 auctions in which government bonds worth 716.3 trillion rials (approximately \$3 billion) were sold to banks, financial institutions and other investors.

In January 2021, the Iranian parliament gave the government approval to borrow \$5 billion from Russia. This credit should assist with financing infrastructure projects such as transport and rail networks.

#### Fiscal stability

3



## 9 | Private Property

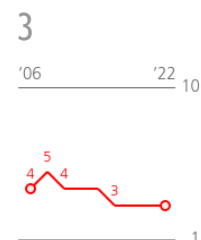
The constitution grants Iranians the right to establish private businesses and to own private property. However, bribes and kinships within the circle of power are necessities when it comes to medium and large-scale projects. Ordinary citizens without such privileges are discriminated against, especially by the clerical tax-exempt foundations and institutions that are close to the establishment and IRGC entities. While no authorities scrutinize these clerical bodies, corrupt judges help the privileged to confiscate the property of others.

The Heritage Foundation's 2020 Index of Economic Freedom gave Iran a score of 36.9 in terms of property rights, classifying it as a "repressed state." The 2019 Global Competitiveness Index ranked Iran 123 out of 141 countries in terms of property rights.

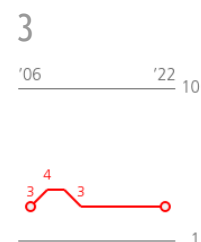
According to the Supreme Audit Court, 894 former state enterprises worth 1,490 trillion rials (approximately \$3.5 billion) were privatized between 2001 and 2018. However, only 23% were sold to genuine private investors, as Adel Azar, president of the Supreme Audit Court since 2016, has stated. Meanwhile, military, security and public institutions such as the Social Security Organization (SSO) benefited greatly from the privatization of enterprises, receiving around 60% of the proceeds. Transferring state-owned enterprises to IRGC-affiliated construction conglomerates and religious-commercial foundations, which are subordinated to the Supreme Leader, has been a very lucrative arrangement for the Iranian regime.

The government has attempted to embellish its privatization policy. Minister of Economic and Finance Affairs Farhad Dejpsand claimed that in 2019 Iran had generated 60,000 billion rial from privatizations, and in the first six months of 2020 320,000 billion rial. He further claimed that all privatizations were conducted transparently at the stock market. Among the most striking examples of cosmetic privatization has been "Sahâm-e Edâlat" ("Justice Shares"), invented under former President Ahmadinejad and sold to people in need for half of their face value. The control and management of these shares are predominantly in the hands of state institutions. According to Ali-Akbar Karimi, a member of the economic committee of the Iranian parliament, approximately 40 million people owned Sahâm-e Edâlat shares in June 2020, with a total value of 2,000,000 billion rial (\$12 billion). Ayatollah Khamenei had approved these Sahâm-e Edâlat sales at the end of April 2020, hoping to make the country's investment market flourish in the short term. Similarly, "Shestâ" shares for investments in the oil, gas, pharmaceutical and chemical industries were put up for sale with an estimated value of more than 200,000 billion rial (\$1.2 billion) in March 2020.

Property rights



Private enterprise



## 10 | Welfare Regime

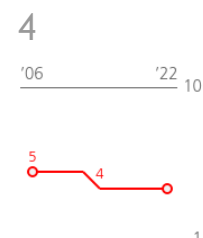
The religious-revolutionary regime since 1979 has cultivated “bonyâds” (formally religious foundations that are heavily involved in economic activity while being tax-exempt) that aim to improve the social security and welfare of vulnerable people. The Foundation of Martyrs and Martyr Affairs, the Imam Khomeini Relief Committee (IKRC), the 15th Khordad Foundation and the Bonyad-e Mostazafan Foundation for the Oppressed and Disabled Veterans and others play an important role in the country’s social security and welfare systems, albeit under the supervision of Supreme Leader Ali Khamenei.

According to the World Bank, Iran’s total expenditure on health care in 2018 amounted to 8.7% of GDP, which was supposed to increase to 9.1% and 9.6% in 2019 and 2020, respectively, according to government sources. The Iranian Social Security Organization (SSO) provides pensions as well as health and unemployment insurances. The Ministry of Health and Medical Education estimates that 39 million Iranians have health insurance from the SSO; the Iran Health Insurance Organization (IHIO) is the second largest health insurance provider, covering a further 34 million Iranians. However, political interference is a serious problem: the government owes approximately 3,000,000 billion rial (\$15 billion) to SSO and wanted to clear the debt by issuing government shares, which it did, reducing the overall debt to \$12 billion by January 2021. However, this arrangement forced the SSO to borrow money, resulting in it facing bankruptcy, and putting the pensions of about 80% of retirees and employed people at risk. As many as 44 million families of Iranian citizens are covered by the SSO. This precarious situation poses the risk of provoking new social protests.

Cash handouts of 455,000 rials (approximately \$1.9) per person per month help contain poverty only in the short-term, if at all. The high inflation rate erodes its value and reduces the poverty-reducing effect of the payment significantly. To fight the negative impact of the COVID-19 pandemic, the government announced in October 2020 that one-third of the population would receive a grant for four months for the amount of 1,000,000 rial (\$4) per person. The Corona Livelihood Support Program of the ministry of welfare reported that 34 million people received corona livelihood assistance in October 2020, among them nearly 9 million who received 1,200,000 rial from the relief and welfare committee. According to the Parliament Research Center, between 2.8 million and 6.4 million Iranians have lost or will lose their job due to the COVID-19 pandemic.

The government was unable to adequately reimburse companies and people during the pandemic due to lack of revenue, which are the result of the U.S. sanctions and the mismanagement of the Iranian state.

Social safety nets





The divisions between left and right, and then conservative/hard-liner and reformist, have changed to loyalists (“insiders”) and “outsiders.” The determining characteristic is the degree of obedience to the Supreme Leader of the Islamic Republic. The insiders and their entourage have access to political and economic resources due to the close connection to the central circle of power, while the outsiders remain deprived of this. A prime example is ex-President Ahmadinejad, who fell into disfavor when he no longer obeyed Khamenei and even criticized him indirectly.

The Islamic Republic strongly oppresses and discriminates against religious minorities, especially the estimated 350,000 Bahais and some Muslim groups that do not align with the regime. While four religions are officially recognized (Islam, Christianity, Judaism and Zoroastrianism), the Bahais are Iran’s largest religious minority. They are the victims of severe socioeconomic exclusion, along with the notable groups of Sunni Muslims, Christians, Dervishes and Jews. Members of minorities do not hold high offices and are often discriminated against in daily life, including through arrests and victimization, suspension of business licenses and closures of shops. In May 2020, seven Bahai followers were sentenced to 33 years in prison for their religious convictions.

The unemployment rate (15-64-year-olds) for women (19.2%) is twice that of the rate for men (10.6%) The World Bank recorded a figure of 19.5% for females as a percentage of the total labor force in 2020. The Statistical Center of Iran (SCI) reported an economic participation rate of 71% for men and 17.5% for women. According to the SCI, only five countries (Algeria, Iraq, Jordan, Syria, and Yemen) had a worse women’s economic participation in 2019 worldwide.

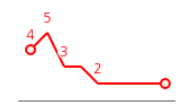
The female-to-male enrollment rate was 1.1 in primary education (with 110.7% gross enrollment rate), 1.0 in secondary education (86.3% gross enrollment) and 0.9 in tertiary education (62.8% gross enrollment; World Bank, 2020). Literacy rates were 90.4% for men and 80.8% for women in 2016 (85.5% in total).

According to the 2020 Global Gender Gap Index, the number of women in ministerial positions was 6.5% in comparison to 93.5% for men. President Rouhani does not have a single woman in his current cabinet. In 2017, President Rouhani appointed two female vice presidents (Masoumeh Ebtekar and Laya Joneydi) and one female adviser (Shahindokht Molaverdi, Iran’s former vice president for women’s affairs).

Equal opportunity

2

'06 '22 10



## 11 | Economic Performance

Iran's GDP reached \$610.66 billion in 2020, compared to \$583.7 billion in 2019 and \$435.59 billion in 2018. Real GDP growth contracted from 12.5% in 2016 to -5.4% in 2018, -6.5% in 2019 and -5% in 2020, as published in the IMF Iran data mapper.

Donald Trump's campaign of "maximum pressure" reduced Iran's oil exports from 2.6 million barrels per day (bpd) in May 2018 to approximately 700,000 bpd in 2020. Iran's non-oil GDP, however, grew by 1.1% in 2019/20, driven by growth in the agriculture and manufacturing sectors.

The inflation rate (CPI) decreased from 41% in 2019 to 30.5% in 2020. The unemployment rate increased from 10.7% in 2019 to 12.2% in 2020.

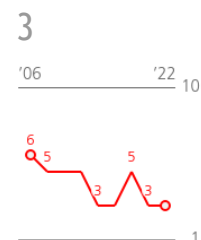
The director general of the Islamic Republic of Iran's Customs Administration (IRICA), Mehdi Mir-Ashrafi, announced an increase in foreign trade in 2019 to \$85 billion and added that \$41.3 billion of this was related to exports and \$43.7 billion to imports. Regarding Iran's import partners, Mir-Ashrafi said that China was Iran's primary import partner with \$11.2 billion, followed by the UAE with \$8.9 billion, Turkey with \$4.9 billion, India with \$3.6 billion, and Germany with \$2.1 billion.

For the Iranian calendar year 1399 (March 2020 – March 2021), Mir-Ashrafi reported that from March to November 2020, there were \$25.1 billion in non-oil exports, marking a 20% decrease compared to the same period in the previous year. He added that in the same nine months the country's imports had dropped by 17% to \$26.8 billion.

The IMF estimated in September 2020 that the Iranian government's net debt will reach approximately \$260 billion by 2020. This figure is equivalent to 44% of the country's GDP. In 2018, before U.S. sanctions were reimposed, the government's net debt was below \$118 billion, meaning the net debt more than doubled within these two years.

According to the CBI, a large part of Iran's foreign exchange reserves have been frozen abroad. While official numbers were not disclosed, Iran's state-run media estimated the country's frozen assets in Chinese banks at approximately \$20 billion, in Iraqi banks at \$6 billion (which is earmarked for gas and electricity imports from Iran), approximately \$7 billion in both South Korea and India, and approximately \$1.5 billion in Japan. Thus, while Iran's foreign exchange reserves declined from \$122 billion (2018) to \$85 billion (2020), according to IMF estimates, in fact just \$8.8 billion appears to be available to the regime.

Output strength



## 12 | Sustainability

Iran's ecological crisis contributes to a range of economic hardships, health problems, social disruptions and citizens protests. Key challenges include almost exhausted groundwater resources, climate change, deforestation, land degradation, air pollution and the loss of biodiversity.

In April 2019, devastating floods killed 77 people and caused more than \$8 billion worth of damage in 25 provinces. This catastrophe was abetted by decades of deforestation, destruction of riverbanks and other ecologically harmful measures. Warnings by experts were continuously disregarded, and environmental activists were instead arrested. In September 2020, Isa Kalantari, the head of Iran's department of environment and former minister of agriculture, affirmed that water shortages posed a serious danger to the country, noting that some territories may even become uninhabitable in the future if water consumption remained at its currently high, unsustainable level. The inefficient agricultural sector, responsible for 90% of groundwater consumption, adds to this imminent danger.

Air pollution is another major concern and has already led to rising numbers of hospitalizations. Besides the notorious situation in Tehran, where the air quality index reached unhealthy levels of pollution on 57 days in the Iranian year 1399, the provinces of Isfahan, Alborz, Markazi, Qazvin, Qom, East Azerbaijan, West Azerbaijan, Khuzestan, and Yazd also suffer from poor air quality. Due to high levels of polluted air, schools and universities have on occasion been closed for many days. The main cause of bad air quality is the burning of substandard diesel fuel. In December 2020 and January 2021, electricity was cut in Tehran between midnight and the early morning hours for apparently ecological reasons, with Kalantari presenting these measures as a choice between "either gas or fresh air."

The government's 2019 - 2020 budget devoted only 0.01% of the total to environmental issues.

While still perceived as comparatively well developed (a score of 0.756 in the 2019 U.N. Education Index), Iran's education sector, like all sectors, suffers from both externally imposed sanctions and blatant internal mismanagement and the predominance of religious dogmas over rational decision-making.

According to the World Bank, Iran's GDP share for education was 4.0% in 2018. R&D spending doubled from 2015 to 2018, reaching 0.8% of GDP; the budget of the ministry of science, research and technology has increased from approximately 134,000 billion rials in 2019 to 209,000 billion rials in 2020. However, observers believe that this 10% increase will not be sufficient to even pay the salary bill, meaning there is in fact little to spend on educational development or infrastructure at present.

Environmental  
policy

2

'06 '22 10



Education policy /  
R&D

4

'06 '22 10



The adult literacy rate was 85.5% in 2018. While progress is being made, the Parliament Research Center reported in 2018 that almost nine million Iranians are suffering from absolute illiteracy.

The number of school students increased from 14 million in 2018 to over 15 million in 2020.

Those who complete tertiary education suffer disproportionately from high unemployment: according to the statistics center of Iran, approximately 40% of the unemployed people in the country are university graduates. This segment of the population can be referred to as the “middle-class poor” (i.e., those with a middle-class university education and concomitant expectations but who are economically poor). They were a key force behind the nationwide uprisings in 2018 and 2019.

Between 150,000 and 180,000 highly educated young people leave Iran every year to live and work abroad. Approximately 900 university lecturers left Iran in 2020 alone, according to Iranian Minister of Science, Research and Technology, Mansour Gholami.

## Governance

### I. Level of Difficulty

Iran has the world's fourth largest proven oil reserves (11% of the globe's total proven oil reserves) and the second largest natural gas reserves (after Russia), making the country a potential energy superpower. Its population is classified as well educated, and the potential for lucrative tourism is high, both for religious pilgrims and culturally interested travelers. Thus, Iran has many potential structural advantages.

Religious and ideological dogmas, however, prevent Iran from exploiting its enormous potential. Iran's ailing oil and gas industry is in urgent need of foreign investment in order to guarantee production and export. Important sectors such as civil aviation and other industrial sectors urgently need modernization to remain competitive. Leisure travel (e.g., beach tourism) remain unviable due to religious-ideological barriers. Inflation is high, and Iran's currency, the rial, is on a continuous trend of depreciation.

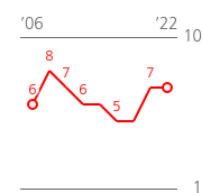
Iran's ideological hostility to Israel and the U.S. and its aggressive military foreign policy have led to the country's isolation. U.S. sanctions have crippled Iran's economy, as other industrialized countries are forced by U.S. pressure to minimize their cooperation with Iran.

The COVID-19 pandemic has had a substantial impact on Iran, which was already in a weakened state. According to the ministry of health, until December 21, 2020, 1,200,465 people in Iran have been infected and 54,693 people have died from COVID-19. On December 26, 2020, state news agency IRNA predicted that the financial losses of the Iranian syndicates would be at least 8,000 billion rial (c. \$32,000,000) by the end of the year. Iran's chamber of trade unions announced that approximately 1.4 million guilds have been directly affected by the coronavirus pandemic, while agricultural exports have fallen by at least 10% and farmers' income by an average of nearly 8%. The future outlook is also worrying: between 2.8 and 6.4 million Iranians are expected to lose their jobs because of the pandemic. For 2021, the trade deficit is expected to widen dramatically, with exports reaching a maximum of \$30 billion while approximately \$35 billion will be required to pay for necessary imports.

For Iran's ideological-religious regime, costly regional interventions, whether in Lebanon, Syria or Yemen, are more important than the prosperity of the Iranian population and the modernization of the country. Iranian reformists have been co-opted by the political system and as such there is no hope for fundamental changes in the country's position. It is the political system itself which is the major constraint on Iran's sociopolitical development.

Structural  
constraints

7



The Islamic Republic of Iran promotes activities that are aligned with the ideology of the regime, particularly religious gatherings and ceremonies. Independent associations and critical organizations are, however, not tolerated. Even environmental activists who criticize the state's destructive environmental policies have been arrested and tortured.

The appointment of hard-liner Ebrahim Raisi as chief justice in March 2019 was a signal to Iranian civil society that times were going to become even more difficult: Raisi was involved in the killing of thousands of prisoners at the end of the Iran-Iraq War in 1988. According to Human Rights Activists (HRA), an organization operated by Iranian oppositionists based abroad, 211 activists from various political and civil society groups were arrested and sentenced to long terms of imprisonment, lashes, and large fines during the first six months of Raisi's tenure (March – September 2019).

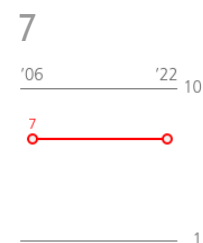
These repressions notwithstanding, a new generation of civil society activists in fields like women's and young people's rights, community solidarity and the environment has emerged. Although their numbers are not large, they have initiated creative civic initiatives, both online and offline, such as "I am Lake Urmia." This movement successfully mobilized supporters and raised awareness of environmental degradation of Iran's Lake Urmia and pushed for action to prevent the lake from being completely destroyed.

Iran has become a polarized nation because of its religious-ideological, incompetent and extremely corrupt rulers and officials.

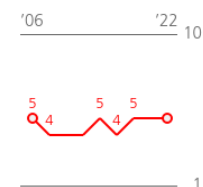
The deepest division is between the rulers and the citizens. A powerless citizenry and a government that cannot (and does not want to) forge links between rulers and citizens has led to widespread erosion of trust and resilience in Iranian society. Two nationwide protests in just two years with slogans protesting against the entire sociopolitical system show the deep wounds caused by an immensely repressive regime. An atmosphere of discontent and violence permeates a frustrated, fragile and atomized society. The statistics on the growth of social violence are extremely worrying. Street and neighborhood clashes, in which blunt weapons and firearms are all too easily used, have increased significantly. According to the ministry of health, in 2019 quarrels and fights are the second leading cause of death in emergency departments. Gallup's Global Emotions 2019 ranked Iran among the angriest and most depressed nations in the world.

The political pressure is aggravated by social restrictions and lack of freedoms, embodied by strict moral codes. Increasing poverty adds to economic pressure and has been exacerbated by the coronavirus pandemic. The gap between the affluent middle and upper class, and those who do not have enough to live a dignified life is widening. Tellingly, this middle class did not participate in the two nationwide protests between 2017 and 2019.

#### Civil society traditions



#### Conflict intensity



Iran is a multiethnic, multilinguistic country. Approximately 60-65% are Persian-speaking, while the remainder are Azeri (16%), Kurdish (10%), Lur (6%), Arab (2%), and Baluch (2%). Due to the government's heavily discriminatory policies, the rift between the ethnic-religious minorities and the state, as well as the Persian ethnic group, is growing.

## II. Governance Performance

### 14 | Steering Capability

Rouhani assumed his presidency with the officially stated medium- and long-term goals of improving Iran's international standing, to lift sanctions, to valorize the Iranian passport, and to attract more foreign investment. In his first term (2013 – 2017), his government managed to lift the sanctions and enhance diplomatic relations tangibly. In 2016 economic growth increased to 12.5% and inflation fell to 9.1% (at least officially). In his second term (from August 2017 onwards), this trend did not continue, despite campaign promises to lower inflation, create thousands of jobs, improve people's living standards, and a guarantee for greater social and political freedoms.

The "Vision 2025," which the expediency discernment council submitted to the government in 2003, included plans to increase economic growth and reduce inflation, unemployment, inequality and the government's dependence on oil revenues. Since 2003, each Iranian government has set five-year plans with specified priorities, among them most prominently a reduction of oil dependence. Vision 2025 set an ambitious project for Iran: it pointed to a change from direct government ownership and management of companies and enterprises to policymaking, guidance and regulatory functions; to attracting foreign investment, the promotion of a genuine private sector, and the development of a free market economy. However, the document was relatively vague and has remained largely unfulfilled.

The government attempted to address its high debt and budget deficit by increasing the price of gasoline threefold, and in March 2020, Iran's central bank announced an inflation rate of 22% as a mid-term target. Developing effective measures against the COVID-19 pandemic was apparently not among the government's priorities: initially it tried to ridicule the threat of the virus, and when Iran was among the most badly affected countries in the world, the compensation measures offered by the government were too little, too late.

Question  
Score

Prioritization

3

'06 '22 10



1

The Rouhani government has failed on almost all levels in the implementation of its promised policy goals. This is primarily due to three reasons: a lack of competence and effectiveness, coupled with high corruption in the administration itself; increasing limitations set by hard-line domestic rivals; and the deepening economic malaise after the withdrawal of the U.S. from the Joint Comprehensive Plan of Action (JCPOA) in May 2018 and the reimposition of sanctions. Iran's adventurous interference in Middle East conflicts, especially in Syria, Iraq and Yemen, the promotion of its missile program and the aggravation of tensions with Saudi Arabia were additional factors.

Neither conservatives nor reformists within Iran's political establishment are striving for a democratic change and/or a socially embedded market economy. Both groups have strong bonds to the ruling clergy. Therefore, for the daily life of ordinary Iranians, the two political elite factions make no discernible difference.

When the COVID-19 pandemic became an overwhelming and undeniable health threat, the government ordered social restrictions and quarantine measures, yet religious institutions and clerics opposed these policies. Rouhani's government has used the pandemic to make some positive changes. It points to improved investment opportunities and the development programs it has realized through enhanced e-commerce and online business possibilities. There has been promotion of digitalization in the insurance sector, the reduction of taxes on online shopping, and the transformation of college and university education to online teaching. Indeed, the pandemic has offered the opportunity to transform traditional industries by developing modern infrastructure in Iran; online sales, for instance, increased by approximately 40%.

On the other hand, people's mistrust was furthered by top officials, institutions and medical authorities contradicting the officially announced COVID-19 statistics and protective measures implemented. Iran's largest airline Mahan Air, accused of having strong links to the IRGC, contributed to the spread of COVID-19 by continuing flights to China throughout February 2020, although the Iranian government had officially banned flights to China on January 31. Likewise, the airline operated hundreds of flights to Middle Eastern countries such as Iraq, the United Arab Emirates, Lebanon and Syria in disregard of existing bans on routine flights from Iran, thus contributing to the regional spread of the virus.

Since the creation of the Islamic Republic in 1979, ideology trumps rationalism in Iran in both domestic and foreign policies. Without its notorious hostility to the United States and Israel, the unnecessary nuclear program (given the abundant alternative, inexpensive and less harmful energy sources such as solar energy), an expensive missile program and its interferences in regional conflicts by supporting proxy militias, Iran would be a prosperous state due to its large natural resources and a well-educated young population. However, this ideology-over-rationalism prevents policy learning at many levels.

## Implementation

2

'06 '22 10



## Policy learning

3

'06 '22 10





This was clear during debates over managing the COVID-19 pandemic: although all experts at the national corona headquarters were opposed to holding the religious Muharram mourning ceremonies in August 2020, President Rouhani nevertheless approved them.

Since parliament is dominated by conservative deputies since the February 2020 elections, the government failed to pass two remaining laws in parliament that were necessary for Iran to join the Financial Action Task Force (FATF) and the United Nations Convention Against Transnational Organized Crime (Palermo Convention). Deputies rejected those proposals for two reasons. The first is an ideological commitment to militant groups such as Hezbollah in Lebanon, Hamas in Palestine and Ansarullah in Yemen – all labeled “terrorist groups” in Europe and the U.S., while the Islamic Republic calls them “resistance forces” to “Western colonial domination” or to the “Zionist regime.” The second was that after the U.S. had declared the IRGC a terrorist group in March 2019 and enacted sanctions against many of its commanders, members and affiliated entities, Iran’s banking system would not only be forced to stop helping militant groups such as Hezbollah if it joined the FATF but would also have to stop paying and receiving money from the IRGC and its foreign-operations arm, the Quds Force. This is not possible in an economy under the command of the IRGC.

Amidst the mismanagement, the COVID-19 pandemic has still presented a glimmer of hope for more rational Iranian decision-making. Rouhani’s government has become aware of the importance of digitalization, now that physical meetings have been reduced to a minimum. The health sector is likely to receive more attention in future budgets as well, and this may result in additional funds with an alleged increased budget of 57% for the Iranian calendar year March 2021 – March 2022.

## 15 | Resource Efficiency

Iran’s dual governance structure of an administration and a quasi-parallel government assembled in Supreme Leader Khamenei’s “office” (Beyt), coupled with the regime’s ideological-religious orientation and rampant corruption, are the major obstacles to an efficient use of assets.

Supreme Leader Khamenei interferes in the cabinet and the recruitment of all important positions. Down to the middle ranking levels such as department heads, all employees are absolutely supportive to him – loyalty is the prime selection criteria. Prominent state actions such as the missile program or Iran’s nuclear policy, both primarily controlled by the IRGC, have brought little value to the country, but have resulted in tremendous costs.

Experts criticize the government’s budget planning as “unrealistic,” especially regarding the expected revenues generated by oil exports. The two budgets (February 2019 – January 2021) were largely offset by debt accumulation, as the

Efficient use of assets

3

'06 '22 10



1

Parliament Research Center noted in November 2020. The government began to require banks to buy government bonds and has mandated that banks set aside at least 3% of bank customers' savings to buy bonds. In June 2020 the CBI reported that 49 trillion rials (\$288 million) worth of government bonds were sold to banks in a second round of bond auctions.

While the Supreme Leader wields omnipresent control over the political system, and forms a shadow government together with the IRGC, there are important conflicts between the executive, the judiciary and the legislative that are caused by the complexity of the political structure and a widespread lack of competence. Since his appointment in March 2019, tensions between Rouhani and the new Chief Justice Ayatollah Ebrahim Raisi have arisen over the latter's allegedly selective investigations in cases of corruption, nepotism and embezzlement. Together with the conservative speaker of parliament, former Tehran mayor Mohammad-Bagher Ghalibaf, Raisi forms a powerful front against President Rouhani. In addition, powerful ministers such as the minister of intelligence are usually directly dependent on the Supreme Leader; the government, much less parliament, do not have any control over the Iranian intelligence service.

In late January 2020, the country's general prosecutor summoned the minister of information and communications technology, Mohammad Javad Azari-Jahromi, to face accusations of not following the orders issued by Iran's supreme council of cyberspace to filter Instagram, block virtual private networks (VPNs), and promote locally developed online messaging apps. For Iranians, access to most social media apps like Twitter, Facebook and Telegram remains blocked. The minister was later released on bail.

There has been an obvious lack of coordination in the fight against the COVID-19 pandemic. While President Rouhani and CBI governor Abdolnaser Hemmati accused the U.S. administration of being responsible for problems Iran faced in providing medical equipment and vaccines, Naser Riahi, chairman of the medical supplies importers union, rejected their claims, arguing that 30% of the imported medicines originated in the United States. He argued that the sanctions would not prevent Moderna and Pfizer-BioNTech from exporting their vaccines to Iran. Shortly after this dispute, Ayatollah Khamenei banned the import of vaccines from the U.S., the United Kingdom and France for political-ideological reasons and thus put an end to any further debate.

Policy  
coordination

2

'06 '22 10



Iran's supreme audit court (SAC) is a government body supervised by the Iranian parliament. It is tasked with controlling the financial operations and activities of all ministries, institutions, government companies and other organizations which benefit from the state budget. However, the court mostly acts as a “ceremonial body” since the judiciary often overturns its verdicts. The SAC is not permitted to inspect any finances related to the IRGC, nor the foundations and institutions controlled by the Supreme Leader. These are the most corrupt institutions within the country.

In December 2020, the Iranian parliament released an investigative report into corruption in the Sarmayeh Bank. In the report, many prominent figures were accused of being involved in fraudulent businesses and financial transactions. Legal prosecutions are still pending.

The “anti-corruption” campaign launched when Ebrahim Raisi was appointed as head of the judiciary is politically driven: it clearly targets his predecessor Ayatollah Sadeq Amoli Larijani and his high-ranking staff.

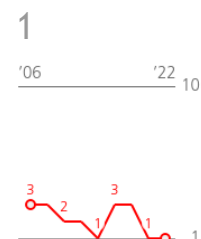
## 16 | Consensus-Building

Although Hassan Rouhani's re-election in May 2017 was accompanied by hopes that he would push for reforms, his second tenure has been largely disappointing. Too strong are the anti-democratic, authoritarian forces around Supreme Leader Khamenei and the religious-revolutionary complex, and too negligible the willingness of the administration with its reformist and centrist backers to push for democratization. Amid the impossibility of pushing for change, reforms or democratization within the Islamic Republic's institutional structures, nationwide protests erupted that were met with violence by the security apparatus. The brutal suppression of the November 2019 protests in particular made clear that Iranians cannot hope for any improvement of their political and economic situation as long as the regime in its current configuration remains in power.

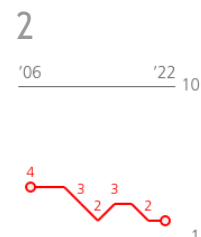
In summary, Rouhani not only failed to bring improvements, but during his presidency, censorship and restrictions intensified.

Some, including Rouhani himself, point to an “economic war” U.S. President Trump initiated against Iran with severe sanctions and a policy of “maximum pressure.” Indeed, the sanctions have had a negative impact, but they are not the only reason for Iran's miserable economic situation. Experts estimate that while approximately one-third of Iran's economic problems are due to the sanctions, the majority of the challenges are the product of homemade mismanagement, inefficiencies, structural problems, and corruption. The inefficient state administration often interferes in the economy with disruptive decisions. The artificial exchange rate of 42,000 rials to one U.S. dollar completely disregards the

### Anti-corruption policy



### Consensus on goals



real relations between the Iranian economy and its global competitors. The abundance of privileged enterprises belonging to the Iranian regime distorts any meaningful competition. Thus, incentives for innovative entrepreneurship are minimal. Moreover, official statistics are often engineered, which makes informed policy planning for effective economic strategies even more difficult. Rouhani and the reformists stand for a careful sociopolitical relaxation (albeit not in the sense of liberalism) and a development of a market economy (albeit not in the sense of a free market economy). But they know very well that they cannot achieve these goals against the resistance of the overwhelming conservative and hard-line camps supported by Khamenei.

Unelected authorities exert great influence in almost all matters of the state. Most prominently, Supreme Leader Khamenei supports anti-democratic actors such as conservative, fundamentalist and extremist Islamists, the IRGC, the Basij paramilitary militia, the Friday Prayer imams, and the majority of clerics and religious institutions. Their money and their weapons, often generated via their uncontrolled substantial economic conglomerates (so-called “religious foundations”), make them powerful anti-democratic actors who promote Islamist attitudes and impede reform. Unelected authorities have much more power and they can bypass government and parliamentary decisions. If needs be, Supreme Leader Khamenei has the power to overturn or negate government and parliamentary decisions.

The Friday Prayer imams who act as Khamenei’s representatives in the provinces are important. Despite the spread of the COVID-19 pandemic, the imams successfully pressured the government into authorizing large-scale mourning processions in July and August 2020.

Rouhani’s term as president will come to an end in August 2021, and given the widespread disappointment among Iranians it is likely that the IRGC will promote someone from their ranks as candidate for the presidential elections in June 2021. In the case of an IRGC-affiliated candidate becoming the next president, prospects for democratization may diminish even further.

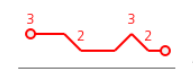
Iran’s regime used to systematically exploit the cleavage-based conflict between the well-educated and prosperous middle and upper classes, and the deprived and poor masses, to its favor. Since the “Green Movement” that rose in 2009 against the rule of then-President Ahmadinejad, members of the affluent middle class have remained largely absent from more recent nationwide protests. They had shown some support for Rouhani and the “reformist camp,” despite his disappointing policies. At the same time, many from the urban middle class have benefited from the regime’s economic clientelism, especially those working in the oil sector.

After the U.S.’s withdrawal from the JCPOA in May 2018 – an agreement that many Iranians strongly supported – the middle class became more supportive of the

Anti-democratic actors

2

'06 '22 10

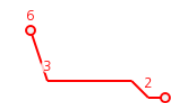


1

Cleavage / conflict management

2

'06 '22 10



1

government. Yet, when the IRGC fatally shot down Ukraine International Airlines Flight 752 on January 8, 2020, middle class Iranians turned against the regime. It was predominantly the urban middle class that participated in the anti-government protests that followed the downing of the plane, which turned out to be the first protests of the middle class since the “Green Movement.” But while only one IRGC member has been detained for mistakenly shooting down the passenger plane, 27 people were sentenced to more than 41 years in prison for participating in protests over the crash and sympathizing with the victims.

Restrictive policies toward ethnic-religious minorities remain a constant in the Islamic Republic. Persecution and harassment of members of the Bahai religion continue unabated. Between January 10 and 19, 2021 at least 43 Kurdish citizens were detained by security forces without apparent reason. Most of the detainees were students or perceived as activists in cultural or ecological initiatives. Only three of them were released shortly after arrest. The whereabouts of the others remain unknown.

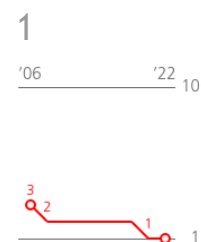
This report’s assessment period was the worst period of the Rouhani era for Iran’s civil society and its activists. The repression was particularly intense after the major protests of November 2019. Amnesty International documented in September 2020 statements of arrested protesters concerning various forms of physical and psychological torture to coerce confessions, including humiliating insults and obscenities, intimidation and threats to imprison, torture, kill, rape, or otherwise harm close family members, and threats to rape the detainees themselves or their female relatives.

As has occurred previously, several prominent civil society representatives were imprisoned. Human rights activist and 2012 Sakharov Prize Winner Nasrin Sotoudeh had gone on a hunger strike again after her renewed arrest in 2018. In October 2020, Narges Mohammadi, vice president of Tehran-based Defenders of Human Rights Center, was released from prison after receiving a 16-year sentence in 2016.

The judiciary and intelligence agencies typically charge civil society activists with “propaganda against the regime,” “insulting the Supreme Leader” or “disrupting the national security,” leading to disproportionately long prison sentences or even capital punishment. Rouhani and his government have shown little initiative to reduce or address these serious breaches of fundamental citizens’ rights by the intelligence, police and security services.

Charities are among the few civil society institutions that have continued to operate despite the repression. During the COVID-19 pandemic, these associations were the first to address essential needs such as food and medical equipment, including masks and protective clothing for medical personnel, and disinfectant and hygiene equipment for the general public. Since February 2020, a large national network of

Civil society participation



NGOs has emerged. The Aid Network (“Shabakeh Komak”), a coalition of 14 NGO networks, aims to consolidate the capabilities and experiences of civil society to coordinate activities to address the consequences of the coronavirus outbreak in Iran.

After the outbreak of the COVID-19 pandemic, at least eight civic groups and two campaigns have been formed to organize public aid in Saqqez, a city in the Kurdistan province. The Corona Prevention Campaign in Saqqez, a number of teachers in the city, and several doctors, marketers and civil society activists, have focused on helping the marginalized and poor areas of Saqqez. Government officials and security agencies did not approve the groups’ work and threatened some of these grassroots organizations with closure.

The Iranian regime has no intention of abandoning its expansive and costly regional policy, which can be seen as detrimental to Iranians’ national interest. Many Iranians are angry that their government is investing billions of U.S. dollars in Syria, Iraq and Lebanon, while in the last ten years, 35% of Iran’s population has fallen below the poverty line. This growing disaffection, if manifested in mass protests, is likely to be met with even stricter repression by the regime. In the last three years there have been two nationwide protests and more protests are expected to occur.

For the leaders of the 2009 Green Movement, Mir-Hossein Mousavi and Mehdi Karroubi, who have been under house arrest since 2011, the situation has improved marginally from January 2020 onwards after their visitation rights were gradually reestablished.

## 17 | International Cooperation

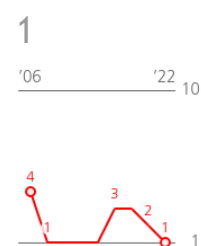
The reintegration of the Islamic Republic into the international community, which has been one of Rouhani’s key policy promises, has failed. Instead, Iran has increasingly isolated itself through its expanding ambitions and interventions in the Middle East. The Trump administration has succeeded in isolating Iran economically after the U.S. withdrawal from the JCPOA. Several European countries (especially Germany, the UK, and France) and the European Union fervently protested against Trump’s torpedoing of the JCPOA, but ultimately failed to help Iran and bring Washington back to the negotiating table. Instead, the Trump administration increased the pressure on Iran further through the newly created alliance between the U.S., Israel and Saudi Arabia, plus, more recently, other Persian Gulf Arab monarchies that started normalizing relations with Israel. In December 2020, Iran’s parliament approved plans to dramatically step up its nuclear program.

During the years of sanctions, Switzerland has become an important trade and diplomatic partner for Iran. Swiss Foreign Minister Ignazio Cassis visited Iran in November 2020, after the Swiss Humanitarian Trade Arrangement (SHTA) for the

### Reconciliation



### Effective use of support



transfer of food and medical supplies to the people of Iran was established shortly before, with U.S. approval. Since the 1979 revolution and the end of direct U.S.-Iran relations, the Swiss embassy in Tehran officially handles U.S. interests in Iran.

Apart from this, Iran's decision-makers have not solicited or listened to international expertise. Regarding FATF, Iran rejected international offers for counseling on how to reform its banking sector, and so is on FATF's call for action. Since the outbreak of the coronavirus pandemic, much financial and medical aid has been delivered to Iran from abroad through state and non-state organizations. Qatar, China, the United Arab Emirates, Kuwait, Japan, the EU and UNICEF were among those who helped Iran with cash and equipment. In February 2020, the World Health Organization shipped first aid packages to Tehran, consisting of 7.5 tons of medical equipment such as coronavirus detection kits, masks, and respirators.

The Islamic Republic has a strategic understanding of relations with Russia and China and considers "negah beh sharq" (looking east) as one of the main pillars of its response to U.S. power. Political, military and economic relations with the two great powers are growing, with Iran being forced to make concessions, given its obvious need for protection on the international stage.

Iran has a very poor international reputation. The Islamic Republic is accused of supporting global terrorism and excessively interfering in the internal affairs of other countries. Iran still refuses to endorse and implement the Financial Action Task Force (FATF), which makes Iran suspect in terms of justifying or even supporting money-laundering and the financing of international terrorism. After four years of negotiations, the FATF put Iran back on its blacklist in February 2020.

Between 2015 and 2018, Iran planned almost a dozen terrorist attacks on its own dissidents in several European countries. These included an attempted bomb attack against a high-level gathering of the oppositionist People's Mujahedin Organization (MKO) cult in Villepinte (near Paris) in June 2018 that French police were able to prevent. Assadollah Assadi, a Vienna-based Iranian diplomat, was accused of being the mastermind of the terrorist attack. This accusation was accompanied by the U.S. declaring the IRGC a terrorist organization in March 2019.

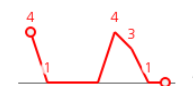
Iran is in general a difficult partner for international organizations such as the World Bank and the IMF, but also for regional organizations and institutions. Iran had the chance to somewhat restore its credibility among European partners through considerate behavior after the U.S.'s withdrawal from the JCPOA. Yet, despite a clear affirmation of the agreement, it has gradually reduced its own commitments, while indicating a possible reversal of its policies in the case that the U.S. returns to full compliance as well.

When the COVID-19 pandemic struck Iran, the government's erratic responses confirmed many of the international misgivings toward the regime. It is due to the Iranian mismanagement that the coronavirus initially spread throughout the Middle East, from Iran to Lebanon, Syria and Iraq, then to Jordan and North Africa.

#### Credibility

1

'06 \_\_\_\_\_ '22 10





Neighboring countries such as Turkey and Iraq closed their borders to Iran at a very early stage. Iran's credibility to fight the COVID-19 pandemic is highly damaged both domestically and abroad.

Iran's regime has a clearly defined ideological foreign policy, which focuses on providing support to fellow Shi'ites in other countries, although there are other objectives. Iran's regional relations are defined by this sectarian preference that is a harbinger of conflicts.

One of Rouhani's foreign policy promises was to improve bilateral relations with neighboring countries, primarily the Gulf Cooperation Council (GCC) and most importantly Saudi Arabia. In recent years though, Iran's relations with its neighbors have deteriorated, mainly due to Iran's involvement in regional conflicts. The targeted killing of IRGC-Quds Force commander Qasem Soleimani by a U.S. drone strike near Baghdad's international airport in early January 2020 was a reaction to a long record of provocations and acts by Iranian proxies in Iraq against U.S. interests there, above all the missile attacks on the U.S. embassy in Baghdad. In December 2020, Iran's top nuclear scientist Mohsen Fakhrizadeh was killed near Tehran, presumably by the Israeli Mossad. Iran-supported Houthi militias conducted large-scale drone attacks on production facilities of Saudi Aramco in Abqaiq and Khurais. Iran's strong ties with the Taliban and al-Qaeda are not well-received in neighboring states. This includes Turkey, whose leadership increasingly sees itself as a leader of the Muslim world, putting it in direct competition with the Islamic Republic.

Iran's relations with Oman have been better than with other members of the GCC, of which some, including Bahrain, Saudi Arabia and the United Arab Emirates, have started to normalize their relations with Israel. For Iran, this is very unwelcome, as hostility to Israel was often used as last resort to unite Muslim countries beyond their sectarian differences.

Regional  
cooperation

2

'06 '22 10





## Strategic Outlook

At the end of Hassan Rouhani's second (and final) term as president, Iran is in a deplorable state: economically drained, politically isolated, and overwhelmed by the COVID-19 pandemic. Iran's ideological regime has so far chosen to prioritize its own fundamental values over internationally accepted norms. Thus, Iran will need to work hard if it is interested in being reintegrated into the international community. If the Islamic Republic remains blocklisted by the FATF and the Palermo Convention, large corporations and international business will continue to avoid trade with Iran, even in the event of sanctions being lifted.

The trajectory of the country will depend primarily on two variables:

Domestically, there are important questions over who will win the June 2021 presidential elections and also who inherits the post as Supreme Leader. Ayatollah Ali Khamenei, born in 1931, will soon be obliged to put the revolutionary leadership into a new pair of hands. Current Chief Justice Ebrahim Raisi is believed to be a front-runner. Hopes for fundamental revisions to Iran's social, economic, and foreign policies would likely fade quickly in this event. Similarly, the new president will presumably be from the ranks of the wider conservative camp or the IRGC. If that is the case, all three branches of power – executive, legislature, and judiciary – will be monopolized by conservatives or hard-liners.

Internationally, the new U.S. administration under Joe Biden has sent initial signals of revising Trump's harsh policies toward Iran. This could inject fresh impetus into the JCPOA negotiations. France, Germany and the United Kingdom have already indicated that the July 2015 agreement is no longer sufficient and needs to be renegotiated. It is upon Iran to reverse its gradual reduction of nuclear commitments under the JCPOA as well as parts of its destructive regional behavior. However, in case of a mere return to the Obama-era JCPOA, it remains an unanswered question how Israel under Prime Minister Benjamin Netanyahu will behave. It may consider a military attack on Iranian nuclear facilities if necessary, and it is open to question whether it would ask for Biden's permission in that case.

During more than 40 years of ideologically driven domestic and foreign policies, Iran has been in constant conflict with the outside world, both in the Middle East and with the Western world. The few partnerships, mainly with Russia and China, along with key allies Lebanese Hezbollah and Syria's Assad regime, are fragile and cannot compensate for much needed yet lacking strategic alliances. At home, the regime increasingly rules with brute force.

Iran should engage with the Biden administration and European countries in order to lift the economic sanctions. If this does not happen, a new wave of nationwide protests will be very likely. Without internal and external pressures, the regime will fail to change, regardless of who succeeds Ayatollah Khamenei as Supreme Leader in the near future.