

# BTI 2012 | Iran Country Report

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scale: 1 (lowest) to 10 (highest)    score    rank    trend

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**Key Indicators**

Population	mn.	<b>74.0</b>	HDI	<b>0.707</b>	GDP p.c.	\$	-
Pop. growth <sup>1</sup>	% p.a.	<b>1.1</b>	HDI rank of 187	<b>88</b>	Gini Index		<b>38.3</b>
Life expectancy	years	<b>72</b>	UN Education Index	<b>0.640</b>	Poverty <sup>3</sup>	%	<b>8.0</b>
Urban population	%	<b>69.5</b>	Gender inequality <sup>2</sup>	<b>0.485</b>	Aid per capita	\$	<b>1.3</b>

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

## Executive Summary

The re-election of Ahmadinejad as president in June 2009 further strengthened the power of the hardliners, who today almost completely dominate the political, social and economic institutions within the theocratic state of the Islamic Republic of Iran.

From the viewpoints of both domestic and foreign affairs, the period from February 2009 to January 2011 constitutes an extremely turbulent period, comprising the end of Ahmadinejad's first presidential term, and the beginning of his second. This period witnessed the disputed presidential elections of 12 June 2009, and – in the aftermath – the most significant crisis faced by the Islamic republic since its creation in 1979. Domestically, these contentious elections were clearly the most important event of the period, and their (negative) effects remain evident today.

Waves of protest swept through the streets of Iran's cities after the elections. For the first time in its history, the Islamic republic faced a serious challenge from outraged protesters. The brutal repression of the mass protests shook the Islamic republican regime's legitimacy to the core. But as Ahmadinejad's administration was still strongly backed by Supreme Leader Ayatollah Ali Khamenei, it retained its dominant position among the executive, legislative and judiciary powers. In order to keep control over the country, the government suspended the rudimentary separation of powers and respect for civil rights that had previously existed.

Since taking office in 2005, transformation to a welfare economy has been a top administration priority. During the period under review, the government continued to pursue this goal, despite its previous failure to satisfy the material needs of the poorer segments of the population. Ahmadinejad's government came to power in 2005 promising to usher in "prosperity" and "economic justice," to bring "oil revenues to people's dinner tables," and to prioritize "economic development over political and cultural development." More than five years later, the country's situation looks much worse than before, and the economy has continued to deteriorate. Indeed, the combined effects of worldwide economic crisis, international sanctions and domestic

administrative mismanagement have put the Iranian economy on a path of persistent decline since the beginning of Ahmadinejad's presidency. The most important economic policy, which has been the target of sharp questions even within the fundamentalist-dominated parliament, has been the "Iranian targeted subsidy plan," also known as "the subsidy reform plan." Implementation of this policy began in October 2010. However, even the government-aligned parliament has expressed fears that the government's economic policy is leading to more inflation rather than to economic recovery.

With respect to foreign affairs, the conflict over Iran's nuclear program remained one of the prime focuses of international debate in 2009 and 2010. Ahmadinejad's relentless support for the country's nuclear program resulted in the passage of a new U.N. Security Council resolution targeting the Islamic Republic in June 2010. This was the fifth resolution renewing sanctions against the Islamic republic since December 2006. The Obama administration's Iran policy began with a significant review of previous positions, and is today aimed at resolving what is perhaps the most difficult foreign policy challenge faced by the U.S. president: how to halt Tehran's nuclear weapons program without resorting to military action. Iran's rejection of Barack Obama's hand of friendship and historic offer to end the three-decades-long state of hostility between the two countries isolated the country further within the international community. Unlike predecessor Mohammad Khatami, Ahmadinejad's foreign policy has not been directed toward the European Union. Rather, his foreign policy agenda has included harmonization with the Arab world as well as efforts to ally the country with the U.N. Security Council's non-Western veto holders, Russia and China – though both efforts have achieved little in the way of outstanding success. Iran's previously very good relationship with Russia has deteriorated, and Arab nations still regard the Islamic Republic of Iran with distrust.

## History and Characteristics of Transformation

The Iranian regime is based on a constitution approved after the victory of the Iranian revolution over the monarchy in 1979, and later revised in 1989. In blending republican-democratic elements with the Islamic legal system, the Iranian constitution gives rise to two contrary principles. The primary innovation was the introduction of the principle of supreme jurisprudence (*Velayat-e Faqih*). Under this concept, a supreme leader not directly elected by the people leads and governs the state, thus overshadowing the constitution's republican-democratic principles. These latter principles are manifested in the existence of three branches of government, the direct election of governmental bodies and authorities such as the parliament (*Majlis*) and of the president, and local elections. This duality of theocratic and republican-democratic law renders Iran's constitution one of the world's most complex. Although the supreme leader (*rahbar*) is elected by the Assembly of Experts, he acts as the representative of the 12th Shi'ite Imam Mahdi, who according to Shi'i doctrine has lived in a state of "great absence" since the 10th century. The Assembly of Experts, whose members are directly elected by the people, is in charge of electing or dismissing the supreme leader. However, candidates

must be approved by the Council of Guardians. The direct and indirect powers enjoyed by current Supreme Leader Ayatollah Ali Khamenei, anchored in the constitution's Article 110, give him a superiority which de facto puts him atop the nation's governing structure. He appoints the heads of many powerful institutions, including the commanders of the armed forces, the commander-in-chief of the army and chief of the joint staff; the commander-in-chief of the Islamic Revolutionary Guard Corps (IRGC); and the director of the national radio and television network. The Council of Guardians' six clerical members are appointed directly by the supreme leader, while the remaining six are laymen, confirmed by the parliament upon the proposal of a chief justice who is himself appointed directly by the supreme leader. The Council of Guardians rules on the compatibility of laws passed by the parliament with Islamic law (Shari'ah). The council also decides who may run for parliament or the presidency. The supreme leader must approve any revision to the constitution. No constitutional legal transformation within the Islamic republic is thus possible without the consent of the highest religious leader.

Establishing the Islamic republic was intended not only to reconfigure the concept of political sovereignty so as to privilege divine authority, but also to refashion the economic structure of government along ideological lines with the primary motive of protecting the poor. A plan for centralizing economic management was formulated, which involved not only the nationalization of the industrial and banking sectors, but also the establishment of charitable foundations to handle all the investment and distribution needs of civil society. Over time, this design has proven awkward to manage and highly susceptible to corruption, as it relies heavily on subsidies and lacks transparency. Yet, despite the long-term U.S. sanctions against Iran, which started at the time of the American hostage crisis and the eight-year Iran-Iraq war (1980 – 1988), the Iranian economy has grown at a consistent rate since 1991. This is in large part due to the country's significant income from both oil and gas exports (Iran is thought to have 11% of the world's total oil reserves; after Russia, it has the world's second-largest store of natural gas reserves). Though balancing the budget has remained an elusive goal, a growing awareness of the need to liberalize the economy and encourage private investment took hold during the presidency of Akbar Hashemi Rafsanjani (1989 – 1997), and has continued since. However, the looming specter of an economic squeeze as a result of the nuclear stand-off is causing concern at all levels of government, a fact reflected in the budgets for 2007 – 2008 and 2008 – 2009, which attempted to reduce important subsidies on oil and kerosene. Additionally, being largely dependent on oil revenues, Iran, as a rentier state, has traditionally been subject to the "oil curse." That is, the vagaries of the international spot market directly affect its operating budget. In good years, this provides the country with excess revenues for its Surplus Oil Fund (SOF), but in bad years causes financial distress. Oil revenues account for 60% of the entire Iranian budget and for 85% of the country's overall export revenue.

Iran's population, which totaled 73.6 million people at the end of the Iranian year 1388 (March 2009 – March 2010), exploded in the aftermath of the revolution, doubling within the span of 15 years. This new generation (70% of Iranians are under 30) now dominates, and the need to provide employment is both an economic and political imperative.

The main goals for the Islamic republican regime, as repeated daily by state officials, are maintenance of the Velayat-e Faqih principle and of the regime itself. All other things are deemed subordinate. Iran's high officials will seek to remain in power whatever the cost. This marks a constant in the 32-year existence of the Islamic Republic of Iran. The application of the religious Velayat-e Faqih dogma in everyday life has led to conflicts and huge social and political problems. The supreme leader regularly intervenes in the decisions of the parliament ("Khamenei order"). This was also true under President Khatami (1997 – 2005), when Khamenei rejected two bills aimed at enhancing the level of press freedom.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Iran's military and police forces control almost all areas of the country, with the important exception of some border areas. In particular, due to geographical features, length of borders, and cultural-ethnic sensitivity, government forces have less control over the eastern border areas with Afghanistan and Pakistan. Iran's biggest challenges at this border include the battle against drug smuggling, particularly across Afghanistan's borders, and most importantly the fight against the Sunni terror group Army of God (Jondollah). Since 2005, Jondollah has committed a number of terrorist actions against the province's government officials and Shi'ite population, and has killed several soldiers and civilians. The government's May and June 2010 arrest and execution of brothers Abdulhamid and Abdelmalek Rigi, the latter of whom was Jondollah's leader, failed to stop the group's terrorist activities. Less than a month after their executions in May (Abdulhamid) and June (Abdelmalek) 2010, Jondollah carried out an attack in a mosque in Zahedan, the capital of the provinces of Sistan and Baluchestan, in which many people were killed or injured. The terrorist organization also carried out a suicide bombing attack in the southeastern Iranian city of Chabahar in December 2010, which killed at least 39 people. After this, Jondollah declared it was not dead and was greater than it had been under its founder Rigi.

The longstanding conflict between the central government and the Kurds in the northeastern province of Kurdistan seems to have mellowed. However, a bomb explosion in a crowd watching a military parade in Mahabad in September 2010, in which 12 people were killed and dozens injured, rekindled tension between the government and the Kurds. The oil-rich Khuzistan province along the southwest border is home to a Sunni Arab minority, along with related separatist groups with which the state had violent disputes in the years following the revolution. This region was peaceful between 2009 and 2011, with no open conflict. Overall, it can be said that with the post-election crisis and some signs of divisions within the

Question  
Score

Monopoly on the  
use of force

8

central government, the state of tension between the state and ethnic-religious minorities has intensified in the last two years.

In the 2009 – 2011 period, President Ahmadinejad and controversial advisor (and head of the presidential office until his dismissal on April 9, 2011) Esfandiar Rahim Mashaei launched a high-profile campaign for a return to nationalist-Iranian culture. In Iran, three cultures – the pre-Islamic Zoroastrian religion, Islamic culture and Western culture – mix with one another. This is one of Iran's most prominent defining features. However, today's Iran has become a battlefield between these three religions/cultures. But this notwithstanding, nearly all Iranians accept the nation-state as legitimate, and agree on the broad definitions of citizenship. Partial exceptions to this statement include the Kurds and other ethnic minorities who have been fighting for recognition as an autonomous minority within Iranian state borders for decades.

State identity  
8

Hardly any speech or official action goes by in which no reference to Islam and the Quran is made. The Islamic republic has sought for the last 32 years to impose on its population a certain lifestyle based on Shi'a Islamic doctrine. To maintain power, and enforce this Islamic lifestyle, the regime has relied on an army – the Artesh – of 450,000 soldiers, as well as the more ideologically driven Islamic Revolutionary Guard Corps (Army of the Guardians of the Islamic Revolution, IRGC) of 150,000 members. The supreme leader controls both bodies. In addition, Iran maintains a paramilitary force, the Basij, which is under the command of IRGC commander Major General Ali Jafari. Ahmadinejad's relationship with the conservative clergy is somewhat fragile, and some of his actions have annoyed them. Particularly in the last two years, extremely conservative clerics have more frequently gained access to public state forums in order to expound their views. Worth mentioning in this respect are the efforts of a faction within Ahmadinejad's government. Grouped loosely around Esfandiar Rahim Mashaei, who was head of the presidential office until April 9, 2011, this faction has sought to defy conservative clerics' religious dogma by stressing the importance of Iran and Iranian culture in Islam. The conservative clergy called for Mashaei's dismissal, and finally succeeded in this goal in April 2011.

No interference of  
religious dogmas  
1

With the growing demands of the young population, secular and religious norms are likely to come increasingly into conflict. President Ahmadinejad has had a hard time balancing these two aspects of Iranian culture.

With only a few exceptions, state's administrative presence can be felt throughout the country. The state maintains a basic infrastructure such as administrative institutions, judicial functions and other apparatuses. But these bodies are filled with incompetent people and are very ineffective. This, combined with

Basic  
administration  
7

bureaucratization, corruption and interference by other authorities, makes their operations rather ineffective.

In addition, this presence seems to be driven more by security or militaristic goals than by any real service orientation. Leaders' statements betray a perpetual fear of threats to the stability and existence of the regime. Enemies from within the country and abroad, conspiracies, and plans for an overthrow of the regime are frequently topics of discussion. Critics are quickly accused of maintaining conspiratorial connections abroad. In addition, the state suffers from widespread corruption, particularly among the political and clerical elite. The effects of religious dogma, corruption and discrimination against citizens, including Shi'ite dissidents, render the state incapable of guaranteeing even the protection offered in theory by the constitution.

## 2 | Political Participation

From the standpoints of transparency and democratic outcome, the presidential election of 12 June 2009, was the most questionable ballot in the Islamic republic's post-1979 history, and raises serious concerns about the potential democratic character of future Iranian elections. The ultraconservative Council of Guardians served as supervisor, while the election's organizer was Ahmadinejad's very controversial interior minister Sadeq Mahsuli, a former commander of the Revolutionary Guard Corps. The state crisis following the elections has de facto eliminated any opportunity for free sociopolitical activity. Shortly after the elections, virtually the entire leadership of the two major opposition parties, the Islamic Iranian Participation Front (Mosharekat Jibhe Iran-e Islami) and the Organization of the Mujahedin of the Islamic Revolution (Sazemane Mojahedin Enghelab Eslami) was arrested. Leaders of Iran's largest student organization, Daftar Tahkim Vahdat (Office to Strengthen Unity), including Chairman Ahmad Zaidabadi, were also arrested. In October 2010, Iran's chief prosecutor, Gholamhossein Mohseni-Ejei, announced that the two opposition parties had been banned by a court and could no longer continue their political activities. In the same month, eight members of the Nehzat-Azadi political group (Iran Freedom Movement, or Nahzat-e Azadi-e Iran; the group was for a long time illegal but tolerated), including the group's head Ibrahim Yazdi (a pre-revolution foreign minister), were arrested in Isfahan, but subsequently released in the meantime. As a result of the post-election period's internal crisis, all legal opposition is now almost wholly excluded from power. Even the pragmatic-conservative politician Ali Akbar Hashemi Rafsanjani has been greatly weakened, especially following his resignation as the chair of the Assembly of Experts, the organization that elects the supreme leader. Rafsanjani was also removed from his post as head of the influential Expediency Discernment Council of the System in February 2011.

Free and fair  
elections

3



According to the constitution, it is the task of the supreme leader to set the Islamic republic's general political objectives, in both domestic and foreign affairs. The scope of authorities and organs elected directly by the people, such as the president and parliament (Majlis), is very limited. The government has the power to govern only with the backing of Ayatollah Khamenei. During the Khatami era (1997 – 2005), when the parliament was dominated by reformers, both the president and the legislature encountered vehement protest from Khamenei and the Council of Guardians. The latter blocked and annulled proposals made by the reformist government and parliament. During the run-up to the elections in 2008 and 2009, the supreme leader indicated several times that he favored a second term in office for Ahmadinejad. Ayatollah Khamenei is still the final decision maker, although Ahmadinejad has opposed him on some insignificant issues such as the appointment of Esfandiar Rahim Mashaei as the president's first deputy. The president and the parliament's President Ali Larijani have traded accusations, with Larijani asserting that the government has ignored the parliament's legislative decisions during the last two years. With the support of the supreme leader, Ahmadinejad has been able to resolve a number of conflicts with the parliament in his favor. Therefore, the executive under Ahmadinejad's administration has been more powerful than the legislative or judiciary branches. In September 2010, Ahmadinejad claimed that the executive is the main branch of the government, dismissing a famous quote by Ayatollah Khomeini, the founder of the Islamic republic, to the effect that the parliament was the main branch and has full authority.

Effective power to govern

2

Association and assembly rights are guaranteed in the constitution of the Islamic Republic of Iran (articles 26 and 27). But these rights exist primarily on paper, and have never been fully applied. At present, opposition parties, student organizations, human rights organizations and other civil society groups critical of the regime can hardly act. The enforcement of the two constitutional articles is de facto suspended by the regime. Not a single application by the opposition leaders Mir Hossein Mousavi and Mehdi Karroubi to exercise these rights was authorized by the Interior Ministry. Rather spontaneously organized illegal protest actions take place sporadically. Nationwide protests were held at various universities, mainly in Tehran, on Iranian Students' Day, 7 December (16 Azar), 2010.

Association / assembly rights

3

The Iranian bazaaris were among the only groups able to defend their rights, closing their shops in Tehran's (mainly jewelry) bazaar in September 2010 to protest against Ahmadinejad's plans to raise the value-added tax (VAT). This represented a new challenge to the president. The bazaaris (merchants) are a powerful class in Iran. Their strikes in 1979 played a very important role in the fall of the shah's pro-United States regime. They have been recognized as a religiously conservative basis of support for Iran's Islamic clerical leadership. The government cannot ignore their interests and claims. In 2008, Ahmadinejad suspended his tax plan after the

merchants' strike. In July 2010, Ahmadinejad ventured another offensive against the bazaaris, but the government again later withdrew its plans to increase the tax.

The country is dominated by a regulated and supervised media. Radio and television are largely state-controlled; politically independent newspapers find it almost impossible to function, even should they manage to secure a license to publish. In June 2009, before the presidential elections, Iranian TV broadcast nightly debates between two candidates at a time. Thus, the four presidential candidates got the opportunity to debate publicly on state TV. These were the most controversial televised debates between candidates Iran had ever witnessed. During the 3 June 2009 debate between President Ahmadinejad and reformist rival, former Prime Minister Mousavi, Ahmadinejad made accusations regarding former presidents Mohammad Khatami and Ali Akbar Hashemi Rafsanjani, as well as other high-ranking clerics. Rafsanjani responded to these charges on June 9 in an open letter to Supreme Leader Ayatollah Ali Khamenei, warning him of the upcoming disaster. Before the June 12 elections, the candidates were given a relatively free hand with respect to election campaigning. The TV debates and Ahmadinejad's aggressive (and incompetent) appearance damaged him and the radical conservatives.

However, after the 2009 election, the Islamic Republic of Iran recovered its status as the world's biggest prison for the media, with a total of 42 journalists detained, according to a Reporters without Borders report. According to this group's 2010 World Press Freedom Index, the Islamic Republic of Iran was ranked 175th out of 178 countries (only Turkmenistan, North Korea and Eritrea received lower ranks).

On 23 November 2009, Ahmad Zeydabadi, a winner of the World Association of Newspapers' 2009 Golden Pen of Freedom Award, was accused of sedition and propaganda against the regime and sentenced to six years in jail. In 2009 and 2010, the government started an unofficial and undeclared war against the critical and oppositional press, including those working with Internet-based media and bloggers. The government has blocked access to the media more actively than ever, especially to sources on the Internet. This has included sites such as the BBC, Twitter and Facebook. Between June 2009 and March 2010, more than 10 reformist and critical newspapers and magazines were closed, and many independent websites were filtered. In October 2010, the Ministry of Culture and Islamic Guidance declared it would close any media organization that covered opposition activities.

More than 100 journalists were reportedly arrested between the June 12 election day and the end of 2009. Although most were subsequently released, more than 50 ultimately fled the country. Because of criticism of the government, the famous Iranian film director Jafar Panahi was sentenced to six years in prison. Moreover, his ability to travel abroad and engage in other professional activities were

Freedom of  
expression  
2

curtailed, so that he is today not allowed to make movies, write scripts or give interviews. Authorities have sought to regulate and eliminate any news source that differs with their ideology. Iranian press freedom and rights of free speech have suffered substantial setbacks under these pressures.

### 3 | Rule of Law

The immutability of the two pillars of Iranian theocracy, Islamism and republicanism, often leads to conflicts in practice, and is the basis of intense debate concerning the maximalist view of Islamic legal rules (based on believers fulfilling their duties) versus the maximalist view of the state (based on granting citizens their rights). There are tensions between each of the branches of government, the judiciary, legislature and executive. The judiciary does not serve as an effective check against corruption, because corruption extends throughout the entire state apparatus. Moreover, the judiciary lacks functional efficacy as well as the necessary territorial penetration. As mentioned above (see “effective power to govern”), the legislature and judiciary cannot effectively press the government to act constitutionally, as the supreme leader is one-sided in his support of Ahmadinejad’s executive power. However, in some areas, the parliament has shown signs of opposing President Ahmadinejad, not only in recent months, but even as early as the beginning of Ahmadinejad’s presidency. However, the parliament cannot prevail on the points that it raises. As one reformist member of the parliament said, the Majlis is unable to defend the rights of Iran’s citizens.

Separation of powers

4

Iran’s judiciary functions under the watchful eyes of the supreme leader. This has caused increasing dissatisfaction on the part of the people, who find themselves under extreme pressure, while being subject to the regime’s desire to control and eliminate any open protest. Since the supreme leader’s appointment of Ayatollah Sadeq Larijani, a young cleric loyal to the regime, as head of judiciary on 15 August 2009, this branch of government has moved even closer to Khamenei. The torturers, interrogators and intelligence agencies of the Islamic Revolutionary Guard Corps (IRGC) and Ministry of Intelligence and National Security of the Islamic Republic of Iran (MISIRI) are more powerful than the judges of the judiciary. Larijani might have been expected to protest to Khamenei due to IRGC and MISIRI intervention in judicial affairs, and indeed, according to unofficial reports he threatened to resign. However, even the dismissal of Tehran Prosecutor General Saeed Mortazavi, a hard-line conservative known as the “butcher of the media,” did nothing to change the course of the judiciary. In fact, Larijani’s loyalty to the supreme leader is stronger than that of his predecessor Ayatollah Hashemi Shahroudi, who is an open-minded conservative cleric. In December 2010, Sadeq Larijani and Tehran’s new public prosecutor, Abbas Jafari Doulatatabadi, emphasized the total obedience of the judiciary to the supreme leader.

Independent judiciary

2

Sadeq Larijani is a young cleric, who was just 48 when appointed as head of Iran's judicial system. Larijani held no high juridical position before his appointment. He is completely loyal to the supreme leader, and claimed recently that the Expediency Council has no right to control the supreme leader.

Abuse of office and of power is part of everyday life in Iran, and Ahmadinejad's administration has been no exception. Judges only rarely succeed in punishing such office abuse. The case of Ahmadinejad's First Vice President Mohammad Reza Rahimi is the best known: According to some conservative members of the Iranian parliament, Rahimi was supposed to be the head of an "economic corruption ring," which, according to them, could not be tracked or prosecuted. However, Prosecutor General Gholam Hussein Mohseni Ejeii said in December 2010 that Rahimi had been indicted and would soon be brought to court. This statement notwithstanding, as of the time of writing, Ayatollah Khamenei had prevented any prosecution of Rahimi.

Prosecution of  
office abuse

3

In Iran, religious prestige and power guarantees protection. The hegemony of the mullahs over the political process is paramount, with the result that access to clerical support is far more important than an independent rule of law. In January 2010, Moulavi Abd al-Majid, Iran's most famous Sunni cleric and leader of Friday prayers in Zahedan (the capital of the Sunni province Sistan and Baluchestan), vehemently criticized the regime for its discrimination against Sunni believers. He noted that Sunnis are not allowed to build even a single mosque in Tehran, the nation's capital. Religious minorities not acknowledged by the state, such as the Baha'i, suffer from outright repression. In order to strengthen its own grip on political power after the election of June 2009, the government has weakened rights such as the freedom of press and assembly, the right to a fair trial and the rule of law.

Civil rights

2

The mass legal process against opposition activists and protesters in August 2009 turned out to be a regime-choreographed show trial. Particularly since June 2009, Iran has experienced among the most substantial period of misuse of civil rights since the 1980s, exceeded only by the early days of the revolution (when the regime was still in its infancy), and the eight-year period of war against Iraq.

#### 4 | Stability of Democratic Institutions

The lack of the rule of law – due to political interference and corruption, the bureaucracy's implementation of legislative provisions, and the inefficacy of responsibility-holding people – prevent the few bodies with democratic legitimacy, such as some communal institutions, from working effectively.

Performance of  
democratic  
institutions

2

Iran's constitution emphasizes the sovereignty of man as the vicegerent of God on earth. According to Article 56 of the Iranian constitution, "No one can deprive man of this divine right, nor subordinate it to the vested interests of a particular individual or group. The people are to exercise this divine right in the manner specified in the following articles." But in reality, Article 57 is applied in accordance with the constitution: "The powers of government in the Islamic Republic are vested in the legislature, the judiciary, and the executive powers, functioning under the supervision of the absolute religious leader." Therefore, a reformist president and a reformist parliament might be able to carve out room for more civil society activities, but cannot accomplish any fundamental changes. Any such attempts would be annulled by the Council of Guardians or the supreme leader, just as happened during the era of reformist President Khatami and the sixth parliament. Iran's constitution thus provides for a "semi-democracy," but no more than that. Even aspects of this "semi-democracy" have somehow disappeared, particularly in the period under review.

Local populations' views on the conduct of the parliament and the executive frequently find expression in provincial media, which act as forums for comment and criticism on government actions. Iranian civil society as a whole, with the exception of the conservative Islamist bodies, does not see Islamic republican institutions as legitimate. Relatively speaking, this was the case with the reformist sixth parliament and with Khatami as president. Only groups with political power such as the bazaar merchants, the clergy, military powers (such as the Basij) and the IRGC protect (and have influence on) the government and decision makers. In October 2008, after a week-long strike by bazaar traders against a new value-added tax, Ahmadinejad canceled the tax's introduction. In July 2010, Ahmadinejad ventured another offensive against the bazaaris, but protests by merchants in Tehran's main bazaar again forced authorities to retract plans to increase taxes on their businesses. The protests in September 2010 were mainly carried out in the Jewelry Bazaar.

The bazaar merchants played an important role in the revolution three decades ago and are strategic allies of the clergy, although their function has changed over the course of history. Civil society elements critical of the regime, such as women's rights groups, students' organizations and journalists have comparatively less power to influence Ahmadinejad's government.

## 5 | Political and Social Integration

Iran's party system is fragile, lacking a long tradition. The (print) media has historically played a greater role than the parties, which have largely been produced by the government. This was especially true in the era of the shah. The Islamic republic has today developed a broad spectrum of parties, but they nevertheless play

Commitment to  
democratic  
institutions

2

Party system

3

only a narrow role in the political process. Iranian parties are not particularly productive, and are not deeply rooted in society.

Today there are two relatively large conservative factions, one minority faction, and an independent group which is also conservative. There is quantitatively moderate fragmentation in parliament, which means the minority reform fraction cannot realistically influence decisions.

Following the election, the government imposed constraints on the two most significant reformist parties, the Islamic Iranian Participation Front (Jibhe Mosharekat Iran-e Islami) and the Organization of the Mujahedeen of the Islamic Revolution (Sazemane Mojahedine Enghelabe Eslami), as well as the Executives of the Construction Party (Hezb-e Kaargozaaraan-e Saazandegi), which operates under the unofficial protection of former President Rafsanjani. Although a minority faction, they are following their interests cautiously. The National Confidence Party (Hezb-e Etemad-e Melli) of former parliamentary president and June 2009 presidential candidate Mehdi Karroubi is de facto but not officially forbidden. Many of these parties' leadership figures are still in prison, as is Ebrahim Yazdi, chairman of the illegal but formerly tolerated Iran Freedom Movement (Nahzat-e Azadi-e Iran). The conservatives, who control the executive, the legislature and (since August 2009) the judiciary, use these levers of power to prohibit any reformist election victories. Indeed, after the June 2009 election there has been no serious legal opposition to the political system except within the conservative wing. Critical voices are not heard. In the period between 2009 and January 2010, vehement struggles occurred between parliament and the judiciary on the one hand and the parliament and the executive under Ahmadinejad on the other hand, ending only with the supreme leader's intervention. The intensity of this infighting and of the various power struggles will remain a serious threat to the regime's future existence.

Despite dissent within the conservative ranks, the parliament articulates the interests of the supreme jurisprudence system. For example, at the end of 2010, the parliament as a whole did not support an investigation against First Vice President Mohammad Reza Rahimi, who was accused of being involved in a major corruption scandal. The request was made by some conservative parliament members critical of the government. Only those groups represented in official circles, and which conform to the prevailing political norms, have any opportunity to influence policy. This situation has become increasingly rigid under Ahmadinejad's presidency. Thus, even though relatively strong interest groups exist, they cannot work effectively because of the repressive government. As an example, the vice president of the Syndicate of Workers of Tehran and Suburbs Bus Company, Ebrahim Madadi, who was arrested in 2008, is still in jail. The parliament, the judiciary, the

Interest groups

3

government and the state administration simply do not allow critical voices to influence political and social processes.

There is no reliable data concerning public consent to democratic norms, which is not surprising given the repressive political climate in Iran. But it seems realistic to assume that approval of democratic norms and procedures by the middle and upper classes is fairly high, while the lower classes are more interested in material needs. Government bodies, as well as groups with direct or at least potential veto power such as the clergy or the military, show no compliance with democratic norms. For the majority of people, there is no consent to the regime. They surely want a better, non-authoritarian government. But that does not mean that people possess certain consent to democratic norms. The 32 years of Islamic Republic's existence have left traces in the people's subconscious. This is true even of people critical of the regime, and of their associations, interest groups and civic organizations. The society and its members have enormous problems enacting basic democratic norms such as tolerance, mutual respect, forgoing the use of force in disputes and solidarity. Therefore they do not exactly know how democratic institutions work.

Approval of  
democracy  
n/a

Due to rising economic misery, many urban dwellers in the big cities are focused on their own specific needs. Even among family members and relatives, unethical and solidarity-undermining behavior is now widespread. The population's lack of solidarity and expressions of mutual distrust have increased dramatically in recent years, as prominent Iranian sociologist Hamid Reza Jalali-Pour showed in a recent investigation. Significant levels of trust between individual citizens, as manifested in self-organized civic groups, exist only in rudimentary form. Self-organization in civil society is strongly hindered, as many Iranian NGOs have been banned and their leaders arrested. However, in small towns and villages, family bonds are still strong. Villages often raise funds for the needy, such as older or divorced women.

Social capital  
3

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Key indicators show a low level of socioeconomic development for Iran during the last two years. The country's level of development restrains the freedom of choice for most citizens. This is true even though Iran's ranking in the UNDP's 2010 Human Development Index (HDI) improved to 70th out of 169 countries, up from 96th of 177 countries in 2004, and 84th out of 177 in 2009. This 2010 ranking puts it higher than Brazil (73th), Venezuela (75th), and Turkey (83rd). IMF forecasts put Iran's economic growth rate (real GDP growth at market prices) at 1.1% in 2009,

Question  
Score

Socioeconomic  
barriers  
5

and 1.6% in 2010 (World Bank estimates for the same years are somewhat different, falling respectively at 1.0% and 2.2%). The Iranian Central Bank has not provided per-capita GDP statistics for the years 2008, 2009 or 2010. The low growth rate, the prevalence of nepotism, the high corruption rate and the prevailing religious-ideological world view have strengthened social exclusion as well as structural exclusion. Iranian socioeconomic development has suffered substantially from political, ideological and religious inequality. Critical and political activists (including Shi'ite), lecturers and students have been suspended from participation in educational settings. Members of state-acknowledged religious minorities (members of the "religions of the Book" – Christians, Jews, Zoroastrians) have many problems and barriers in schools, universities and the labor market. For example, the Shi'ite-led state has sought to increase its control of Sunni educational institutions. Prominent Sunni clerics such as have protested this state of affairs, with Molawi Abd al-Hamid (Imam and leader of the Sunni Friday prayers in southeast Iran) vehemently criticizing state intervention in his community's religious and social affairs in February 2010. Abd al-Hamid termed the reorganization of Sunni schools as an "occupation plan." With respect to gender, discrimination is substantial, as the government has since 1998 successfully sought to reduce the number of female students. According to official statistics from the Institute for Research and Planning for High Education, in July 2010, 49.5% of the 3.5 million students across the country were women, down from 60% in 2006. According to the UNDP, women's labor market participation rate is 27%, compared to 73% for men. Iran's Gender Inequality Index (GII) score is 0.674, giving it a rank of 98th out of 138 countries based on 2008 data. Unlike some other countries in the region such as Iraq and Afghanistan, which allocate a certain share of parliamentary seats (25%) to female representatives, winning a parliamentary seat as a woman in Iran is based on eligibility, political and social background, and the potential candidate's other activities. Ahmadinejad's appointment of Marziyeh Wahid Dastjerdi as minister of health and medical education was the first time since the 1979 revolution that a woman had held a cabinet-level post.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	286057.9	338187.3	331015.0	-
GDP growth	%	7.8	2.3	1.8	-
Inflation (CPI)	%	17.2	25.5	13.5	<b>10.1</b>
Unemployment	%	10.6	10.5	-	-



Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	0.6	0.5	0.9	-
Export growth	%	2.8	-	-	-
Import growth	%	4.9	-	-	-
Current account balance	\$ mn.	-	-	-	-
Public debt	% of GDP	17.9	13.8	14.0	12.0
External debt	\$ mn.	21073.7	13968.8	13463.7	12569.7
Total debt service	\$ mn.	2955.1	2777.4	2577.1	1965.9
Cash surplus or deficit	% of GDP	7.9	2.8	0.6	-
Tax revenue	% of GDP	7.3	7.6	9.3	-
Government consumption	% of GDP	11.2	-	-	-
Public expnd. on edu.	% of GDP	5.5	4.8	4.7	-
Public expnd. on health	% of GDP	5.5	5.5	5.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.5	1.8	-	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Iran's economy is still dominated by the state (which is the recipient of revenues from crude oil exports) and quasi-state actors such as the bonyads (foundations established after the revolution) and the commercial entities associated with the IRGC. Private-sector activity is limited. The bonyads are not state bodies, but operate under the control of the supreme leader. They are economically powerful, with a workforce (the so-called Oppressed and War Veterans (Bonyad-e Mostazafan va Janbazan, MJF)) that exceeds 200,000 employees. The IRGC began its economic influence only after the Iran-Iraq war, and since the Rafsanjani presidency, but under President Ahmadinejad, himself a former IRGC member, has become the second most powerful economic power after the state. The corps, which was born as a volunteer militia in the heat of the 1979 revolution, has now grown into a behemoth that dominates both Iran's official and black market economies. It is impossible to gauge its market share, but Western estimates range from one-third to nearly two-thirds of Iran's GDP – a sum amounting to tens of billions of U.S. dollars. Mobin Trust Consortium (Etemad-e-Mobin), a company affiliated with the

Market-based  
competition

3

IRGC, received 51% of the shares of the Telecommunication Company of Iran for the price of \$7.8 billion in September 2009. This was the largest Tehran Stock Exchange transaction in history. During the Ahmadinejad era, the IRGC's most powerful economic entity, the Khatam al-Anbia construction company, has won many lucrative government contracts, usually without having to bid. Therefore the Guards are the prime target of the United Nations sanctions. During the Ahmadinejad presidency, the U.N. Security Council has imposed five resolutions (Res. 1696/31.07.2006, Res. 1737/23.12.2006, Res. 1747/24.03.2007, Res. 1803/03.03.2008, and Res. 1929/09.06.2010) against Iran. Four of these included sanctions against high officials and Iranian companies and banks.

It is estimated that the public sector (state owned and pro-governmental forces such as the IRGC) controls some 80% of the Iranian economy. The remaining 20% belongs to the private sector (17%) and cooperatives (3%). The private sector is mainly present in domestic and foreign trade, small industry, and mining companies. Large economic activities are reserved to the state and para-governmental forces, thus representing a monopolization of Iran's market and foreign trade. Given this state and para-governmental monopoly position, in combination with the weak private sector, there is no serious competition in Iran.

Anti-monopoly  
policy

2

Iran has thus far been unable to join the World Trade Organization (WTO). This is the result of external political pressures as well as Iran's internal economic difficulties. Iran's accession to the WTO has been prevented mainly by the United States. This blockade has contributed to the lack of liberalization within the Iranian economy. The rejection of the country's WTO membership bid has prevented a number of economic and trade opportunities; Iran could have better introduced its goods and services into global markets, and in return gained many comparative advantages and economic opportunities that global trade offers. However, the comprehensive trade monopoly wielded by the state and pseudo-governmental powers like IRGC remains a major obstacle. However, the Iranian parliament too opposed the rapid accession of Iran to the WTO in December 2010. There are a number of powerful factions and groups within the country that are reluctant to lose their privileges. By most estimates, the IRGC controls one-third of Iran's annual budget and almost all of the country's black market. Such problem, along with Iran's very complicated, unstable and restrictive trade laws, especially concerning import and export trade tariffs and taxes, deter foreign investors from engaging with Iran. The country's targeted subsidy plan, which began in October 2010, is one of the most important undertakings in its recent economic history. Although the plan is deemed necessary for the reform of the Iranian economy, and entails a gradual adaptation of WTO guidelines, experts remain skeptical about its long-term potential for economic enhancement.

Liberalization of  
foreign trade

3

Iran's inefficient banking system is one of the core contributing factors in the country's failure to realizing sustained economic growth. The existence of private and state banks as well as financial credit institutes demonstrates structural problems related to ideologically and politically driven policy. All private banks were nationalized after the 1979 revolution. According to RSM International, there were 17 commercial banks in Iran in 2008. Private banking restarted its activity in late 2001, but its growth has been relatively fast. Currently, six privately owned banks (Bank Parsian, Bank Kafarin, Bank Saman, Bank Pasargad, Bank Eqtesad-e-Novin and Bank Sarmaye) exist in Iran. There are also many credit institutes, the two strongest and richest of which belong respectively to the IRGC (Mehr), and the Iranian police and security forces (Ghawamin). While privately owned banks are committed to the government and cannot operate independently of the laws regulating state banks, the two financial and credit institutes are not committed to the central bank. These have a free hand for activity, are not subject to review by the government or the central bank, and pay no tax.

Banking system  
3

At the moment, private banks hold a 22% market share. Their performance and productivity levels are significantly higher than those of the state banks. Nevertheless, they are subject to anti-competitive governmental interference. Additionally, state-owned banks can slash the privately owned banks' profitability, since the state banks tend to care less about profits. Moreover, they receive a large number of unfair benefits from the central bank. By international standards, Iran does not have an adequate number of private banks as compared to the number of state-run banks. There are fewer private banks in Iran than in developed countries, because the state banks' monopoly limits private institutions' access to the financial market.

In comparison to the federal banks in Western countries, the Iranian central bank is not an independent institution. Thus, the central bank's primary target is not price stability, but rather ensuring a sufficient money supply for the government's policies and decisions. President Ahmadinejad is head of the general assembly of the central bank, so money supply decisions ultimately lie in his hands, though a long and complicated internal bank decision-making process takes place first (with the central bank's board of directors at its core). The supreme leader backed Ahmadinejad when he suspended three successive central bank governors because he doubted their loyalty to him.

## 8 | Currency and Price Stability

The period under review witnessed considerable fluctuation in the rial-dollar and rial-euro exchange rates, with Iran's currency persistently losing value against the dollar. Iran's central bank intervened, injecting enough dollars to stabilize the market artificially. In order to achieve this goal, it pumped portions of its own

Anti-inflation /  
forex policy  
3

foreign currency reserves into the market. This monetary policy led to an artificial appreciation in the value of the rial relative to foreign currencies, as a result making Iranian exports less competitive in the world marketplace. This primarily affected the energy sector, which accounts for 80% of Iran's export earnings.

Despite these negative factors, the inflation rate fell from 25.5% in 2007 – 2008 to 13.5% in 2008 – 2009, and then to 8.5% in 2009 – 2010. One explanation for this substantial fall in the inflation rate is the considerable reduction in Iran's economic growth rate in the years 2008 (1.0%), 2009 (1.1%) and 2010 (1.6%). By contrast, Iran's GDP growth for calendar year 1386 (March 21, 2007 to March 19, 2008) was 6.9%. For the year 2011, the IMF forecasts per-capita GDP growth of up to 3.2%. The rapid decrease in Iranian per capita GDP has been associated with the collapse of the country's economy, an increasing unemployment rate and sinking inflation. According to government officials, the inflation rate in 2011 will reach 30% due to the subsidy reform.

The U.N. Security Council and United States-led economic sanctions against Iran have rendered the country's economy extraordinarily vulnerable. Associated with Iran's nuclear policy, these sanctions are paralyzing the Iranian economy. Foreign investment levels have fallen dramatically, particularly in the oil, gas and petrochemicals industries. Access to credit provided by international banks has been curtailed, and the country's foreign trade flows significantly disturbed. While Iran insists that its nuclear program is peaceful, the international community accuses Iran of pursuing a military nuclear program.

However, Ahmadinejad government policy is another significant factor behind the nation's lack of macroeconomic stability. The government's survival depends on access to oil revenue. According to Iran's central bank, the country's 2009 oil sales were valued at approximately \$70 billion. The sanctions have undermined the economic growth rate, and most companies and factories are working below their full capacity. The unemployment rate is increasing.

## 9 | Private Property

Private property is protected by law. But though many small, family-run businesses and mid-sized industrial facilities have been founded, the processes of licensing, opening and closing businesses are regulated heavily by an intrusive and highly inefficient bureaucracy. Corruption is rampant, and the fair adjudication of property rights in lawsuits cannot be assumed. The foundation of private businesses (such as mid-sized industrial facilities) has to be carried out with government support, which is not easy to obtain – connections and corruption (provisions, bribes) are the most important criteria.

Macrostability

4

Property rights

4

The Heritage Foundation's 2011 Index of Economic Freedom, which reviews property rights, ranks Iran at 171st place of 183 countries, compared to 169th in 2010.

Iran's private sector has only a small share in key industries, with the country's new class of companies mostly owned and operated by the Revolutionary Guards. Under Ahmadinejad, hundreds of small and large private companies have been created by former members of the Revolutionary Guards or by the corps itself in a number of areas, including construction, energy, food processing and textiles. This offers loyalty incentives for pro-revolutionary forces, and has created a new class of entrepreneur that possesses a military background, and is also capable of running the economy.

Private enterprise  
3

In 2006, Supreme Leader Ali Khamenei criticized the country's slow pace of privatization, issuing a decree aimed at accelerating the implementation of the country's privatization law (known as Article 44). He called for 80% of state-owned assets to be transferred out of the public sector. This process had barely gotten underway by the end of President Mohammad Khatami's term in office (1997 – 2005). Ahmadinejad's administration accelerated the process of privatization, but problems such as the prevalence of cronyism and patronage within Iranian politics have proved a considerable hindrance. Iran's para-governmental sector, led by the IRGC, has benefited most from privatization. Since 2004, only 13% of privatized institutions have in fact gone into the private sector. The rest has been handed over to government-affiliated institutions, primarily the IRGC, according to a December 2010 report by the Iranian parliament. In this respect, administration statistics regarding the transfer of publicly owned companies to the private sector tell only half the real story.

## 10 | Welfare Regime

According to the government, 15 million people – about 20% of the population – still live in poverty. The Iranian Social Security Organization (SSO) is one of the country's largest insurance organizations, with more than 27 million beneficiaries. However, the country has a weak system for support and compensation in case of illness or unemployment, and for providing for income during retirement. The Iranian insurance system is not well organized. Services provided by publicly owned hospitals and clinics are mostly ineffective and insufficient. Prices for medications are very high. Alireza Zali, chairman of the board of the Medical Services Insurance Organization, reported in 2009 that insured individuals must still bear 60% to 70% of the costs of their own medical expenses, although under the goals of the fourth five-year plan, individuals were meant to be responsible for just

Social safety nets  
5

25% to 30% of these costs. Zali said that many people have fallen into poverty – perhaps 3.5% to 4.5% of the population – simply because of the high cost of health care.

The rural population and nomads, which together make up 29% (2009) of the country's total population, are still excluded from social insurance due to their specific situation and characteristics. In 2005, a rural insurance fund was founded. But because of certain barriers, only 6% of rural dwellers and nomads were covered by this fund by 2007, the most recent data available. People living in villages cannot afford the per capita contributions, and thus cannot participate in the fund. Poor people are supported by the village community if possible. Community bonds in villages are still stronger than those in the cities. The state-financed, ideologically oriented bonyads (foundations) also provide insurance coverage for many people, but these have their own specific clientele, and cannot be seen as strong informal social safety nets. However, the country's life expectancy at birth has been rising, from 70 years (in 2005) to 71.9 years (in 2010).

Discrimination against women and religious minorities, despite an ostensibly guaranteed freedom of religion, takes place on a legal basis. Members of “religions of the Book” – Christians, Jews and Zoroastrians – enjoy greater rights than others, including the right to have a member of parliament for their communities and to maintain religious schools. But their freedom is nevertheless limited to a very large extent. They have many problems and face barriers in schools, universities and the labor market. For example, the Shi'ite-led state has sought to increase its control over Sunni education institutions.

Equal opportunity  
3

Moreover, government policy rarely addresses the question of justice, equality and opportunity for members of Sunni groups. Religious minorities such as the Baha'i, which lack official state recognition, suffer from the most repression. Iranian socioeconomic development has been deeply undermined by this political, ideological and religious inequality. Even Shi'ite lecturers and students who have been critical of the regime or who have acted as political activists have been suspended from participation in educational settings. Since 1998, the number of female students has been higher than that of male students, but discriminatory measures by the Ahmadinejad government has brought this situation to an end, with 49.5% of the student body today being female and 50.5% male.

## 11 | Economic Performance

Iranian central bank reports have not published per-capita GDP statistics for the years 2008, 2009 and 2010. The IMF has estimated the country's economic growth rate for these years successively as 1.0% (2008), 1.1% (2009) and 1.6% (2010). For 2011, the IMF has forecast per-capita GDP growth of 3.2%. According to Iranian

Output strength  
5

sources, GDP growth for the calendar year 1386 (March 21, 2007 to March 19, 2008) was 6.9%. The rapid decrease in per-capita GDP growth is associated with the collapse of the Iranian economy, a rising unemployment rate and declining inflation. The inflation rate fell from 25.5% in 2007 – 2008 to 13.5% in 2008 – 2009. The inflation rate in the period between March 2009 and March 2010 was announced as 8.5%. However, there are differences between the economic data released by Iran's authoritative national organizations and that of international organizations such as the World Bank and IMF. In additions, there are differences in the data from Iran's central bank and the Statistical Center of Iran (SCI), which have a competitive relationship. According to an SCI report, the unemployment rate was 11.1% in 2008 – 2009, and approximately 14.6% in the 2009 – 2010 Iranian calendar year. In March 2010, the Iranian parliament approved Ahmadinejad's budget for the calendar year 1389 – 1390 (2010 – 2011). Government revenue projections total 596 trillion rials (about \$59.6 billion) for the 2010 – 2011 fiscal year. However, budgetary spending reaches \$368 billion, representing an increase of 31% compared to 2009, and is based on a projected oil price of \$60 per barrel. This should have dangerous inflationary impact. According to the IMF, Iran had official currency reserves of \$79.6 billion in 2008, \$78 billion in 2009 and \$88.9 billion in 2010. Total external obligations have declined by 2.7% from \$45.67 billion (in 2008 – 2009) to \$44.43 billion (in 2009 – 2010). Actual external obligations rose by 0.1% to \$21.53 billion (in 2009 – 2010), while contingent obligations fell by 5.3% to \$22.90 billion compared with the previous year. The share of long-term debt as a proportion of total debt was about 59.2% in 2009 – 2010, down by nearly 10 percentage points compared to previous years, according to Iran's central bank.

Iran's 20-year strategic development document "Vision 2025," which was first drafted in 1999 and was assessed in 2002 by the Expediency Council, was approved and submitted to the government's three branches in 2003. The fourth five-year plan covered the period from 2005 to 2010, with the new (fifth) five-year plan guiding governmental policies between 2011 and 2016. In 2003, oil prices were estimated at \$25 per barrel for the purposes of planning. Oil prices have increased dramatically since the beginning of Ahmadinejad's first term in 2005, but none of the goals of Iran's long-term strategic document – increases in economic growth, declines in inflation and unemployment, a gradual reduction in the budget's dependence on oil revenue, etc. – have been reached. One additional goal of the Vision 2025 plan was for Iran to become the world's 12th largest economy by 2015. Iran is currently the world's 17th largest economy in terms of total GDP.

Iran's total population, according to the central bank's annual review in the calendar year 1388 (2009 – 2010), grew by 1.5% in that year to 73.6 million persons, 50.8% of whom are male. Urban residents accounted for 71% of the population. The young generation now dominates (70% of Iranians are under 30 years of age), and the need

to provide employment is both an economic and a political imperative. Iran also has weaknesses in the energy sector. Despite abundant oil resources, insufficient refinery capacities mean that Iran is able to meet just 60% of its gasoline demand through domestic production.

## 12 | Sustainability

Iran faces chronic environmental problems, but the country's administration has to date shown little competence in terms of management or improvement of the environment. The most urgent challenges include the population's rapid expansion, and related to this, an advancing urbanization that has left cities with increasingly inadequate infrastructure. The major cities are overpopulated. Tehran, the capital city, has more than 12 million inhabitants. Millions of old cars running on leaded petrol still pollute the air. Thousands of companies and refineries producing inside the city or its surroundings fail to meet modern environmental standards. According to a November 2010 report from Iran's Ministry of Health and Medical Education, air pollution kills more than 10,000 people every year in Iran, with approximately one-third of these in Tehran (although only about 15% of the Iranian population resides there). Since 2009, has Iran increased its refinery capacities, and now produces its own low-quality gasoline. This has contributed to an increase in air pollution.

Environmental  
policy  
4

The causes and effects of Iran's environmental problems are thus evident, but ecological concern has only recently gained in importance for Iran's government. Though awareness of the need for environmental protection is growing rapidly in the Iranian public, the state is still far from undertaking action sufficient to the scale of the problems, even though protection of the environment is grounded in Article 50 of the constitution. The share of the budget earmarked for environmental programs was increased in 2010, but still accounts for just 0.2% of Iran's total spending.

Iran's Department of the Environment warned in April 2010 that Iran is among world's top 10 countries in terms of causing environmental degradation. The 2010 Environmental Performance Index (EPI) ranks Iran at 78th place out of 163 countries (compared to 67th place of 149 countries in 2008).

There are many well-educated, skilled workers in Iran. Investment in the education sector expanded after the revolution. The budget for higher education stood at 4.8% of GDP in 2008, although public expenditure on research and development is just 0.67% of GDP (according to World Bank data for 2006). The Islamic Republic of Iran is considerably more successful in the educational sector than its predecessor, the shah's monarchical regime. In 1980, Iran had just 175,000 students and 15,000 lecturers in 20 cities. Today, Iran has approximately 4 million tertiary students and

Education policy /  
R&D  
5



more than 110,000 lecturers in 120 cities, both big and small, as well as 14 million primary and secondary students. According to Iranian statistics, Iran accounts for 1% of global science and knowledge production, substantiating the growing expenditure on R&D.

## Transformation Management

### I. Level of Difficulty

Structural constraints in Iran are in part responsible for the country's socioeconomic regression. The country has an educated workforce. The capital, Tehran, is the country's main commercial center, but there are no serious geographic or infrastructural deficiencies which could not be overcome by good political management. However, peripheral areas and provinces with a major share of ethnic and religious minorities are comparatively poorer, and are administratively neglected. Management efficiency is undermined by the high prevalence of nepotism, bribes and corruption.

Structural  
constraints

6

Iran has access to tremendous natural resources, and possesses enough financial and human capital to rectify any geographic or infrastructural deficiencies, given competent decision makers. But the tendency of Iran's political officials to act from ideological motives instead of technical expertise is a major barrier to the implementation of effective policy.

Iranian civil society has deepened substantially since the founding of the Islamic republic, as compared with the Mohammad Reza Shah era. More parties and media outlets exist today than was the case 32 years ago. Khatami's reformist government injected some additional life into civil society. However, President Ahmadinejad has appointed many former IRGC commanders and heads of intelligence services to positions as ministers, vice ministers, governors and directors of key institutions. The regime today declares independent parties and civil society groups to be agents of foreign powers, and a threat to the security of the regime. Iran's civil society has suffered since the presidential election of 2009, with the brutal repression of opposition protests leading to harsh setbacks.

Civil society  
traditions

7

Iran is a truly multiethnic country with a number of recognized religious minorities (Christians, Jews, Sunni Muslims and Zoroastrians) and other ethnic groups. Typically, the ethnic minorities inhabit Iran's borderlands, thus giving their presence a strategic dimension. However, in these structurally and economically disadvantaged areas, the government has only used the policy of force instead of development policy.

Conflict intensity

4

Tensions between the state and its ethnic-religious minorities have recently reached a new peak, especially on the issue of terrorists moving in the southeastern border province of Sistan and Baluchestan, and crossing to Afghanistan and Pakistan. That region has been the scene of recurrent battles between Iranian forces, drugs and arms smugglers, and the Jondollah terrorist group. Between July and December 2010, the Sunni terrorist group Jondollah killed more than 60 people in the course of four suicide bombings, targeting a group of Shi'i worshippers and several members of the Revolutionary Guard. The United Nations Office on Drugs and Crime (UNODC) also estimates that 60% of Afghanistan's opium is trafficked across Iran's border, much of it on its way to Europe. Iran has an estimated 3 million drug users, and by many accounts the world's worst heroin problem.

The intensity of conflict between the government and citizens increased substantially following the presidential elections of 2009. The use of force against citizens has become commonplace, both with respect to dissident citizens and to socially disadvantaged small-scale drug dealers and weak groups of drug consumers. According to an Amnesty International report, 100 prisoners were hanged between October 2010 and the end of January 2011, most of whose offenses were drug-related.

## II. Management Performance

### 14 | Steering Capability

No government since 1989 has been able to pursue its objectives effectively. By extension, no government has been able to achieve completely the goals set at the time of taking office. Rafsanjani's administration made rebuilding the country after the devastating Iran-Iraq war its main priority. It failed because of Iran's international isolation, massive corruption and its own faults. Nevertheless, Rafsanjani's attempts to bring professionals and technocrats into his cabinet were relatively successful. From 1997 to 2005, Khatami's governmental priorities included the development of democracy, civil society, civil rights and the market-based economy. Khatami failed due to massive resistance from the powerful conservative and Islamist establishment, especially by Khamenei and his allied IRGC and Basij militia. However, during Khatami's era, the level of respect for civil society and civil liberties improved.

Ahmadinejad ran a populist election campaign, promising the people a fair distribution of the state's wealth. As a short-term priority, his government promised to funnel oil money to the citizenry. He also promised to take action against

Question  
Score

Prioritization  
3

corruption as a long-term administration goal. These promises helped Ahmadinejad to win the presidential elections against Rafsanjani, who was publicly believed to be corrupt. Ahmadinejad's administration subsequently lent its weight to the process of Islamization, to advocating an Islamic purity and for a return to revolutionary values. Ahmadinejad also moved toward cutting subsidies, the most significant project since the opening of his presidential term. This is a step in the right direction with respect to liberalization of the Iranian economy. The improvement of social and civil freedoms, however, does not seem to be a priority for the government. His temporary, limited efforts to improve some civil liberties, such as support for the free movement of women, have encountered resistance and vehement opposition from the senior clergy.

Among the medium- and long-term objectives of the current government is the continuance of the country's present nuclear course, with the aim of making Iran a nuclear power while still stressing the peaceful aspect of the nuclear program. Iran cooperates with the International Atomic Energy Agency (IAEA), but not to an extent that has satisfied either the IAEA itself or Western observers who accuse Iran of hiding important details of its nuclear program.

Ahmadinejad's goals have been criticized by many political and social forces, including influential conservative figures such as parliamentary speaker Ali Larijani. Only a minority of the political, social and military elite, such as the Revolutionary Guards, support his policy. However, these supporters have much power. Thus far, he has retained the support of Supreme Leader Ayatollah Ali Khamenei. It will be difficult for Ahmadinejad to achieve all his goals, as his presidency ends in August 2013. Furthermore, many of these goals are doomed to fail because of the incompetence of the cabinet and its ideological Islamic orientation. Concerning the nuclear disputes with the international community, the Ahmadinejad government's policy has been relatively successful. His critics, speaking partly from their own private interests, maintain that the nuclear policy is not geared toward the country's national interests, but rather toward the advantaging of a few conservatives at all levels of society. There is a certain truth in this critique, as the nuclear program does not lie at the core of the people's vital interests. Iran has lost billions of dollars because of its nuclear policy. It has lost foreign investments, particularly in the critical energy sector. The gas pipelines, which could bring in billions of dollars in revenue, are not delivering across Iranian borders because of American pressure on Iran's neighbor states. For example, a gas pipeline project with India was cancelled, a major setback for Iran's economy that was – as in many other cases – not transparently or honestly communicated to the people.

Implementation  
2

Ahmadinejad's administration and the supreme leader have shown little interest in or capability for learning. This can be seen in their iron-fist policy following the disputed 2009 presidential elections. Yet the pragmatist-reformist groups, which opposed President Ahmadinejad in the election of 12 June 2009, do seem to have learned from past mistakes. They now see ideological challenges and struggles as being in the national interests. Keeping control of ideological and religious dogmas is a central goal of the conservative groups. They always refer to national interests, which must be given more prominence than differences between political groups. They are searching for a pragmatic means of problem solving, by which to lead the country out of crisis. But they have no plan, and the lack of effective tools makes them unable to change the situation.

Policy learning  
3

## 15 | Resource Efficiency

The government of Iran uses its assets with only rudimentary efficiency. First, administrative staff is selected due to personal connections rather than according to education or qualifications. This has led to a clear loss of competence within the state administration. Second, the political elite has proven unable to manage the revenues associated with Iran's substantial natural resources in such a way as to bolster the country's economic development. Instead, the elite has turned the country into a rentier state based on oil and gas revenue. The extra cash injected into the economy has encouraged speculative activities, diverting capital away from production to real estate speculation and the ballooning services industries. The government receives only minimum tax revenues due to the tax system's inefficiency. The huge shadow economy is neither correctly taxed nor sufficiently monitored by the government. As noted above, the para-governmental institutions are not subject to review and audit by the government, and neither they nor the central bank pay tax.

Efficient use of  
assets  
2

Iran is not a federal state. The central government controls the entire state, with local authorities having little independent power. The central government lacks transparency comes frequently into conflict with the parliament due to the legislative body's lack of knowledge of current policy. The fluctuation in the ranks of cabinet ministers prevents the development and implementation of effective government policy. President Ahmadinejad has dismissed 13 ministers since 2006. The last of these, as of the time of writing, was then-Foreign Minister Manuchehr Mottaki, in December 2010. In October 2010, Ahmadinejad also fired 13 high advisers.

With respect to external debt, the government has not been successful in reducing the balance sheet. Actual external obligations rose to \$21.53 billion at end-2009 – 2010, an increase of 0.1% compared to end-2008 – 2009.

The structure of government is absolutely hierarchic, ceding considerable power to Ahmadinejad. Only the supreme leader has the power to stand in his way. Ministers often contradict one other, and interfere with other departments. For example, Secretary of the Supreme National Security Council Saeed Jalili bears more responsibility for strategic issues related to foreign affairs than dismissed Foreign Minister Manuchehr Mottaki ever did.

Policy  
coordination  
3

No government in Iran can develop an integrity mechanism to control corruption if it does not work tightly in concert with the parliament, the judiciary and its own administration. But this fight must also be backed by the supreme leader. Under current conditions, this hardly seems possible. Neither the institutions under the control of Ayatollah Khamenei nor the Council of Guardians, the Expediency Council or the Assembly of Experts can be made subject to any audit. Furthermore, the IRGC and its wealthy companies are given considerable freedom concerning income and expenditure. In the Khatami era, the parliament was dominated by reformers, and ordered an investigation and audit of radio and TV stations. Even though the parliamentarians pressed hard, the accounts of only five institutions could be checked. The fact-finding committee reported embezzlement of 525.8 trillion toman (a toman is a superunit of Iran's official currency, the rial) to the parliament. The director of Iran's state-run radio and television network at that time (from 1994 to 2004) was the conservative Ali Larijani, now the speaker of parliament. No manager within the state-run radio and television network was prosecuted as a result of the fact-finding committee's reports. Even parliamentarians lack detailed knowledge of administrative budget expenditures, as there are no audits of government spending.

Anti-corruption  
policy  
2

The implementation of anti-corruption policy has largely failed, as for example in the case of Ahmadinejad's first vice president, Mohammad Reza Rahimi. Ahmadinejad has promised many times to reveal the corruption of prominent persons, but has not done so to date.

## 16 | Consensus-Building

Iran's political landscape is deeply divided, and polarized at the highest level. The pragmatic reformist camp and actors still believe in the development of a market economy and of democracy as strategic, long-term goals within Iran's Islamic context. They still believe that a peaceful and nonviolent transformation can be achieved. But this position and attitude have suffered as a result of the bitter setback following the 2009 presidential elections. Meanwhile, the entire conservative spectrum opposes democracy and the expansion of human rights. This is why many human rights violations have been committed under Ahmadinejad without noteworthy protests by conservatives. There is little agreement among the political elite or between the two camps (conservative and reformist) over the desirability of

Consensus on goals  
3

a free market economy or the implementation of more democracy. Despite the efforts of pragmatist and reformist actors such as former presidents Rafsanjani and Khatami to find consensus between both camps, the conservatives have refused any compromise. Opposition parties, critical politicians, interest groups and economic actors critical of the regime lack any substantial influence on the government's political and economic decisions. Aside from the nuclear issue, which is marked by a considerable level of agreement among both the elites and the people, there is little consensus between the majority of Iranian civil society and the regime. Moreover, while the policy of enriching uranium on Iran's soil does enjoy widespread support, this consensus erodes as the costs of maintaining the policy rise. The pragmatist-reformist groups question the policy's advantage to the country. As it appears to them, Ahmadinejad's nuclear policy has led to the loss of billions of dollars, and the country has become increasingly internationally isolated.

Currently, anti-democratic activists have almost absolute power. Conservative political, economic and military actors are influential and powerful. Supreme Leader Ayatollah Khamenei has a de facto veto power and stands behind Ahmadinejad. The reformists have no instrumental ability to enforce their reform plans concerning long-term democratic and market economic transformation.

Anti-democratic  
actors  
2

Iran's government apparatus and regime are the primary causes for the tensions and cleavage-based conflicts between the government and the citizens, as well as between the government and ethnic-religious minorities. Under Ahmadinejad, and especially after the presidential elections of 2009, tensions between the regime's conservative and reformist camps have intensified dramatically, and splits within the conservative camp have widened. Ahmadinejad can still count on the support of a large number of poor people, but this too may change after the implementation of the government's subsidy plan. The government's ideologically oriented Islamic politics are incapable of neutralizing the tensions in the country.

Cleavage /  
conflict  
management  
3

The current political leadership is distinctly uninterested in civil society and its activities, and has made it more difficult for such organizations to establish themselves or operate without fear of closure and arrest. The only activities tolerated are those performed by civil society elements allied with the administration itself, such as the Basij students. The same is true for media, unions, chamber associations and other groups. Iran's civil society and its actors – whether men and women, intellectuals, scientists or journalists – today face the strongest pressure felt since the death of Ayatollah Khomeini in 1989. Several journalists, human rights activists and bloggers have been imprisoned or have left the country. Shirin Ebadi, winner of the 2003 Nobel Peace Prize, has also expatriated, and has been living in exile in the United Kingdom since June 2009.

Civil society  
participation  
2

During the 32 years of the Islamic Republic, many crimes and injustices initiated by the state have occurred. The peak of injustice was reached during the 1980s. In the summer of 1988, shortly after the end of the Iran-Iraq war, the regime ordered the execution of at least 3,000 convicted political prisoners, mostly from the People's Mujahedin of Iran organization (Mojahedin-e Khalq Organization, MKO. MKO was a leftist organization with an Islamic world view, and was involved in an armed fight with the regime in 1981. The group initiated many terrorist attacks on top Iranian officials, and has since been brutally repressed). Since that time, none of the persons in charge of the incident has been allowed to talk about the events officially. Instead, the Islamic Republic has made great efforts to cover up historical events and injustices. Since the presidential elections of 2009, this taboo has seemed to break somewhat, but not on the part of conservatives or the ruling groups; instead, former office holders such as opposition leaders Mousavi and Karroubi have begun to talk about the regime's past atrocities. But to date, no reconciliation between the victims and the state has taken place.

Reconciliation  
3

## 17 | International Cooperation

Currently, international relations take place solely on an economic level. Given Iran's aggressive foreign policy, the country hardly expects any international support. On the contrary, the international sanctions have broken Iran's connections with the international community. The ongoing dispute with the U.N. Security Council and the International Atomic Energy Agency (IAEA) over Iran's nuclear program and uranium enrichment facilities, in combination with strong U.S. pressure that has been continued under Barack Obama, has forced Iran to intensify cooperation with Russia and China. The United States has also exerted pressure on Russia, suspending its planned Poland-based missile shield program as a concession for Russian approval of U.N. Security Council resolutions against Iran. Therefore, Russia has gradually changed stance since 2009.

Effective use of  
support  
1

International organizations and companies too are increasingly distancing themselves from the Islamic republic. Ahmadinejad's government has shown no viable long-term development strategy with respect to fostering a market-oriented economy. Democratic transformation is not a goal. High oil prices have meant that his administration has not had to depend on individual, bilateral or multilateral international investors or donors. The international community in the form of the P5+1 group (the five permanent members of the U.N. Security Council plus Germany) and the IAEA are still ready to cooperate with Iran, however. In addition, some limited UNICEF and other United Nations activities of minor importance take place in Iran.



Under the Ahmadinejad administration, Iran gambled away the credibility and perception of reliability that had been gained during Khatami's term in office. Ahmadinejad's repeated Holocaust denials and anti-Israel statements have opened a wide gap between Iran (and even non-state Iranian institutions) and the Western states. The government's lack of credibility and reliability has led several big European banks and companies to pull out of potential business engagements with Iran. January 2011 marked the first time that Iran was not invited to the World Economic Forum Annual Meeting in Davos.

Credibility  
1

Relations between Iran and its neighboring countries are difficult and complex. Relationships between Iran and the Arab world in general have deteriorated in recent years. According to documents released by Wikileaks, Arab leaders have asked the United States to attack Iran. The neighboring Sunni Arab countries fear destabilizing effects related to Iranian influence on their domestic Shi'ite populations, which make up 15% of the total population in Saudi Arabia, as much as 60% in Iraq and even 70% in Bahrain. Ahmadinejad has made efforts to improve Iran's relationship with the Arab Gulf states. Most remarkable was his attendance at the Gulf Cooperation Council summit in December 2007, where his presence under a banner emblazoned with the slogan "Arabic Gulf" triggered harsh criticism in Iran. The Ahmadinejad administration has also sought to create better relations with Egypt. Though no official diplomatic relations have been in place since 1979, talks between Cairo and Tehran have become warmer in recent years, culminating in Ahmadinejad's famous June 2007 quotation: "If the Egyptian government was willing, we would open our embassy in Cairo," a step that nevertheless still awaits his final approval (so far, there is only an Iranian "Interest/Consular/Commercial Section" in Cairo's al-Duqqi district). However, an agreement to resume direct flights between the Iranian and Egyptian capitals was signed in October 2010.

Regional  
cooperation  
4

Iran's relationships with Turkey, Pakistan and Afghanistan are stable. Some controversy mars relations with the United Arab Emirates (UAE), due to disputes over three islands in the Persian Gulf. However, overall economic cooperation with the UAE is very strong, as with Iraq. In 2010, Iraq was the second largest non-oil goods importer of Iranian goods (after China), followed by the UAE in third place. In the same year, the UAE was the largest exporter of non-oil goods to Iran, followed by China and Germany.

The Organization of the Islamic Conference (OIC) is one of the rare regional panels on which Iran takes part, but has only symbolic relevance. Iran is also a member of the regionally important Economic Cooperation Organization (ECO), which aside from Iran includes nine Eurasian countries such as Turkey and Afghanistan. In this context, President Ahmadinejad has met with the heads of state of a number of ECO member countries.

## Strategic Outlook

Domestically, Iran's regime has reason to continue fearing sudden outbreaks of mass protests. A year after the riots following the summer 2009 elections, Iran's streets were indeed quiet. But Iran's opposition has strong, if silent, potential. Revolutionary events in the Middle East often occur quickly and unpredictably. The shah of Iran was overthrown in just a few months in 1978 – 1979. The 2011 Arab uprisings frightened not only Arab dictators, but also the Iranian regime.

The subsidy reform plan and its consequences are predicted to be a second great challenge for Ahmadinejad's administration. Although the plan marks a step in the right direction according to IMF and World Bank guidelines, it alone will not be enough to revitalize Iran's slow-growth economy.

Internationally, the conflict over Iran's nuclear program remains the country's greatest external challenge. But the context for this issue has changed fundamentally in recent years. There has been both tactical and strategic change on the part of the P5+1 countries (the five permanent members of the U.N. Security Council and Germany). Since 2007, four top Iranian nuclear scientists have been killed under mysterious circumstances. In the same period, some Iranian nuclear physicists and military personnel such as former Vice Defense Minister General Ali Reza Asghari have been kidnapped or have fled abroad. Iranian sources have accused Western and Israeli intelligence services of being behind these actions. The dangerous Stuxnet computer worm, allegedly developed specifically to sabotage the Iranian nuclear program, appears to have damaged Iran's nuclear facilities in Bushehr and Natanz. Iran seems to be losing this intelligence war. The West has used a strategy that is effective and that costs almost nothing, especially in comparison with a military war.

International embarrassments for Iran, such as the discovery of heroin and arms smuggling to Nigeria in November 2010, have pushed the mullahs onto the defensive. Tehran is nervous. The Islamic republic may be able to maneuver its way through these difficulties and avoid further isolation, but only if its relations with the United States, the European Union and the entire international community are revised. The belt of sanctions is tightening, with a growing number of countries imposing sanctions against Iran. This will push Iranian society deeper into poverty, and cut Iran off from global development.

The regime around religious leader Ayatollah Khamenei and President Ahmadinejad continues to insist on its course of nuclear development. These leaders must make a serious cost/benefit analysis. Continuing sanctions prevent foreign investment and drive away very important foreign companies. Iran's energy sector is ailing. The gas and oil industry are in urgent need of modernization. With the technology currently in use, oil production will be hardly manageable from 2015 on at the latest. This will weaken the government economically and financially, and

foment social unrest. Thus, a consensus on the nuclear dispute would be in the interest of the regime too.

National interests must be awarded priority over ideological Islamic interests. The omnipresent dogmatic ideological climate diminishes the country's attraction for foreign investors. A consensus must also be achieved regarding domestic challenges. Ahmadinejad's administration has turned out to be bad for the legal and tolerated opposition, as well as for civil society, especially after the elections of June 2009. The release of political prisoners, reconciliation with regime victims, the holding of free elections and the granting of civil and political freedoms are the minimum steps needed to win the confidence of the population.

In summer 2009, the Arab world followed the events in Iran after the June 2009 presidential elections with interest. Arab media intensively covered the mass protest in the Iranian streets. Undoubtedly, this acted as an impetus for the Arabs to take the streets. Now, the Iranians look with jaundiced eyes to Tunisia, Egypt and other Arab countries where regimes have come under serious pressure virtually overnight. Surely they know that overcoming the Iranian religious dictatorship is much more difficult than removing one of the secular dictators in the Arab world. But the outbreak of the revolutions in the Arab world will encourage the Iranian people, too.

Although there are certain similarities between the Tunisian revolution and the green movement in Iran, there are considerable differences between the two. Whereas the protests in Iran were carried out by the middle class, the Tunisian revolution resulted from the protest of poor populations who were fighting for their survival. The Islamic Republic of Iran and its ruling regime are grounded in a religious (Shi'a Islam) ideology, and supported by a powerful minority. The Tunisian system of government was secular, and Ben Ali found no support among the population. Nevertheless, the Iranian movement, which can draw upon 32 years of experience with the mullahs, has considerably more experience than movements in Arab nations.

Iran's ruling elite is convinced that it faces the loss of its accumulated wealth and privileges if reforms were to occur. Its members also fear for their physical survival. Many cruel crimes have taken place in the last 32 years, but Iran's opposition seems to be ready for a dialogue with the ruling elite. The opposition recognizes that a democratic change has priority over a prosecution of the regime's elite, no matter how just this goal may be. This opportunity for dialogue thus represents the last chance for the regime's elite to escape what could otherwise result in severe punishment. A change in the presidential palace bringing a moderate politician without a damaged reputation to power, such as Ali Larijani, could contribute to national reconciliation.

In any case, few expect Ahmadinejad and the ruling regime to jump on the horse of domestic and foreign-policy reforms. Instead, as prominent American intellectual Francis Fukuyama has noted, the Iranian population is prevented from enjoying the fruits of their rich country, and it must be feared that Iran's clergy – the ruling elite – could lead the country into a regional war in efforts to regain its lost legitimacy. It is up to the Iranian to demand more in terms of democratic transformation.