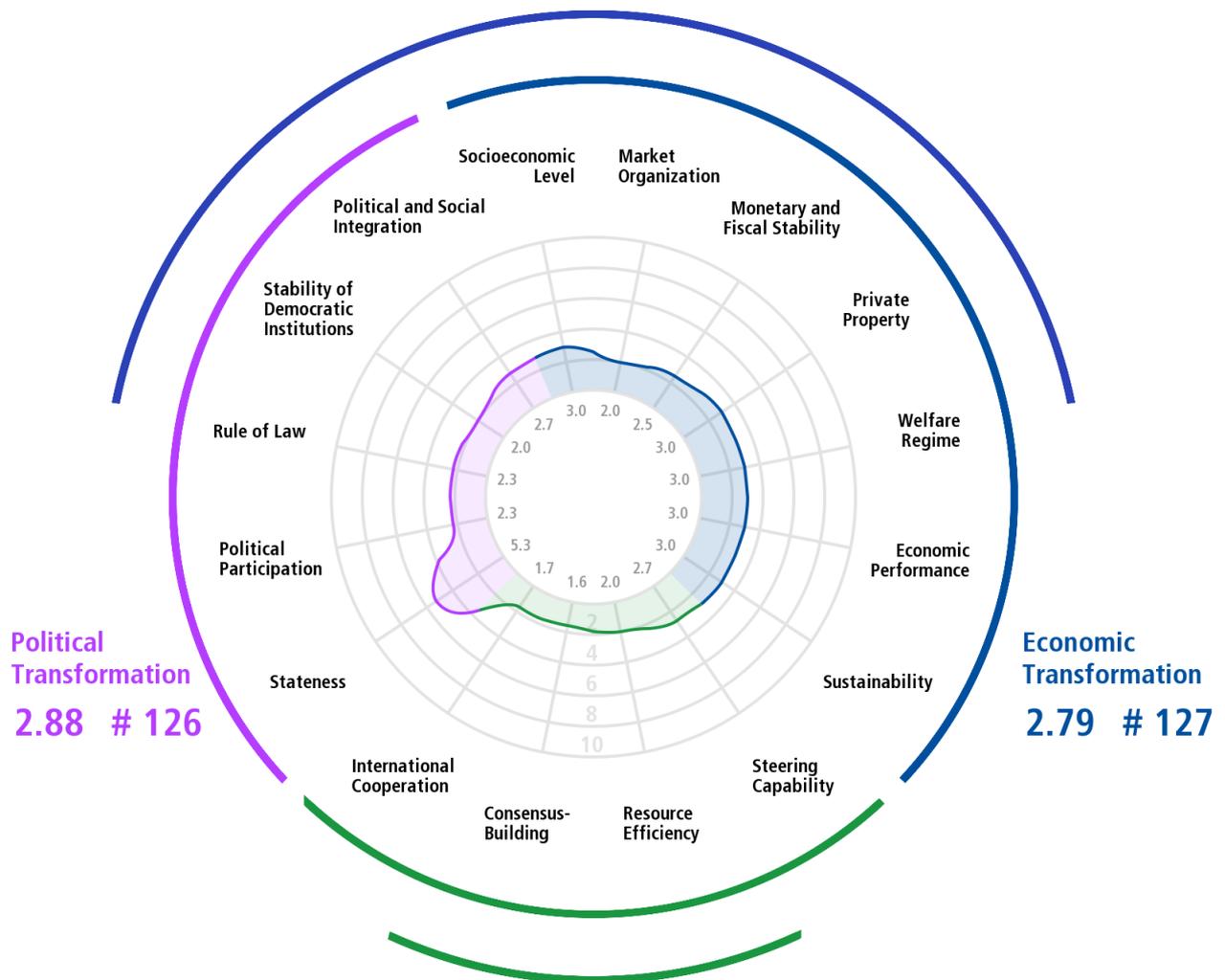


Iran

Status Index

2.83 # 127

on 1-10 scale out of 137



Political Transformation
2.88 # 126

Economic Transformation
2.79 # 127

Governance Index

1.79 # 131

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	81.8	HDI	0.797	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	1.4	HDI rank of 189	65	Gini Index	40.0
Life expectancy	years	76.3	UN Education Index	0.743	Poverty ³	% 2.5
Urban population	%	74.9	Gender inequality ²	0.492	Aid per capita \$	1.7

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

During the assessment period of this report (February 1, 2017, to January 31, 2019), the Islamic Republic of Iran prepared to celebrate its 40th anniversary on February 11, 2019. However, this event will be staged in the shadow of the regime's further decline.

The United States' exit from the nuclear deal, the Joint Comprehensive Plan of Action (JCPOA, Persian Barnameye Jame'e Eqdame Moshtarak, BARJAM), which U.S. President Donald Trump announced on May 8, 2018, marked the most important development. The agreement, seen as an historic deal to ensure that Iran's nuclear program would be peaceful, triggered hope for a badly needed economic recovery in an otherwise almost bankrupt country. The lifting of sanctions and renewed access to international markets seemed promising. Most important among the re-imposed sanctions, in place since November 4, 2018, were those on oil transactions with Iranian oil companies; the purchase of petroleum and petroleum or petrochemical products from Iran; and transactions between foreign financial institutions, and the Central Bank of the Islamic Republic of Iran (CBI) and other Iranian financial institutions. According to the Organization of the Petroleum Exporting Countries (OPEC), Iran sold about 2.9 million barrels of oil per day (bpd) in 2016 and 2.1 million bpd in 2017 and has had renewed access to funds held in international banks, which had previously been frozen. Now, the United States' withdrawal from the JCPOA has severely distressed Iran's already desolate economy.

Politically, the Trump administration increased pressure on Iran. The strengthened alliance between the United States, Israel and Saudi Arabia (following the rapprochement between Israel and Saudi Arabia) is a new development in the Middle East and has led to a shift in the balance of regional power to the disadvantage of Iran. However, the Iranian ayatollahs managed to keep their adherence to Syria's President Bashar al-Assad, seen as a success of Iran's foreign policy. Iran and Russia were the only players involved in the Syrian civil war who never doubted the goal of holding al-Assad in power.

Yet, there is also popular disapproval of the regime's policies in Iran. After the re-election of President Hassan Rouhani on May 19, 2017, who was seen by many as a "moderate," emerging mass protests quickly demonstrated people's dissatisfaction with his inability to deliver on his election promises. Moreover, the unexpected mass protests and demonstrations in more than 80 cities, which began on December 28, 2018 and continued until January 2019, were the largest since the 2009 Green Movement protests. Iranian citizens protested for economic, political and social demands. For the first time in Iran's history, demonstrations and protests did not start in the capital Tehran, but in provincial towns. More importantly, it was the first time that people attacked both the reformist and conservative camps of the regime, screaming "death to the dictator," "let go of Syria and think about us" and "reformists, hard-liner, the game is now over." Slogans in support of the former Shah Pahlavi's regime were also heard.

Indeed, the strictness of the Trump administration and the mass protests in the streets led to the convergence of so-called reformer and conservatives' positions, something that had never happened before. President Rouhani, his most prominent predecessor, reform President Mohamed Khatami, and many other prominent reformers described the angry demonstrators as a "small minority" that insulted Islamic holiness and endangered public security. They called on the security forces to crack down on the demonstrators who allegedly wanted to divide Iran. The United States, Israel and Saudi Arabia have been described as "arsonists."

Thus, politically as well as economically, much is at stake on the cusp of the Islamic Republic's 40th anniversary. Since his re-election in 2017, President Rouhani has not been able to stop the general downward trend that has gripped the Islamic Republic of Iran.

History and Characteristics of Transformation

The Constitution of the Islamic Republic of Iran, enacted after the Islamic revolution of 1979, combines two contrary principles, blending republican-democratic elements with an Islamic legal system, which makes it extremely complex. According to the principle of the guardianship of an Islamic jurist (Velayat-e Faqih), a supreme leader (Rahbar) leads and governs the state, overshadowing the constitution's republican-democratic principles. The Assembly of Experts, whose members are directly elected by the people, elects and may dismiss the supreme leader. However, candidates must be approved by the Guardian Council whose six clerical members are directly appointed by the supreme leader while the remaining six members (jurists) are laymen confirmed by the Iranian parliament (Majles) upon the proposal of a chief justice who is himself directly appointed by the supreme leader.

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

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

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

Ideological and religious dogmas often prevent the implementation of rational strategic plans, projects and expertise. The leadership of Ayatollah Khamenei and the entire ideological-religious foundation of the Islamic Republic are the major constraints.

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

President Rouhani, elected in 2013 as “ray of hope,” successfully concluded the Joint Comprehensive Plan of Action (JCPOA) on July 14, 2015, with the five permanent members of the U.N. security council (China, France, Russia, the United Kingdom and the United States) plus Germany (P5+1). Fresh initiatives to revive Iran’s economy were immediately implemented following the conclusion of the JCPOA agreement. However, Iran’s aggressive regional policy and military interference in other countries (e.g., presumably Syria and Yemen), and a series of missile tests (which violate U.N. Security Resolution 2231) altered the course of the United States’ policy approach to Iran. The Trump administration radically modified Obama’s Iranian policy approach, which eventually led to the withdrawal of the United States from the JCPOA agreement in November 2018.

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

Transformation Status

I. Political Transformation

1 | Stateness

Many militant-separatist Sunni Baloch and Kurdish parties and organizations have been established since the Islamic revolution in Iran in response to the central government's mass repression and discrimination of minorities. Most challenges to the regime's monopoly on the use of force come from the provinces of Sistan-Baluchestan, Ilam, Kermanshah, Kurdistan and Khuzestan Ahvaz, in which the Arab minorities are living.

Iranian border areas are still under governmental control, but some borders are becoming increasingly insecure. In 2018, violent clashes erupted between the Kurdistan Democratic Party of Iran (KDPI) and the Kurdistan Democratic Party (KDP) on the one side, and the Islamic Revolutionary Guard Corps (IRGC) on the other. Another Kurdish group, the guerrilla group Kurdistan Free Life Party (Partiya Jiyana Azad a Kurdistanê, PJAK), has been fighting the Islamic Republic since 2004. The PJAK is believed to have close links to the Kurdistan Workers' Party (PKK), which is based in Turkey and Iraq. In September 2018, missiles pounded KDPI's headquarter, which is exiled in Iraqi-Kurdistan, and the IRGC assumed responsibility for the rocket attack. In total, 12 people, including some members of the party's central committee, were killed and more than 50 people were injured. Violent clashes between the Kurdish groups and the IRGC intensified following the missile attack. The IRGC stated that the missile attacks were a reaction to an attack by militant Kurds on an IRGC post on the Iranian-Iraqi border in July 2018. At least 10 Iranian border guards were killed in that attack.

In December 2018, nearly 50 people were injured by a suicide bombing in the city of Chabahar in Sistan-Baluchestan. Ansar Al-Furqan, a militant Sunni Baloch organization, which was founded in 2013, was responsible for the attack. In October 2018, several gunmen attacked a military parade in Iran's southwestern city of Ahvaz, which left at least 25 people dead and 70 wounded. The victims were both military personnel and civilians, among them a journalist. The Islamic State group (IS) and the Arab Struggle Movement for the Liberation of Ahvaz (Harakat al-Nidhal al-Arabi, HNA) claimed responsibility.

Question
Score

Monopoly on the
use of force

7



1

Iran is a multiethnic state, even though 99% of the population is Muslim. Non-majority ethnic and religious groups have a precarious status, since the central government discriminates against them, sometimes with force. Regarding these groups, the conservative Islamic establishment has failed to enforce its Islamic ideology under Shariah law even after 40 years of its reign.

Most Iranians accept the nation-state as legitimate and agree with a broad definition of citizenship that encompasses several ethnic and religious groups – except for a large number of Iranian Kurds, who consider themselves primarily as Kurd and not Iranian. A majority of Iranians have a strong sense of nationality and are very sensitive about it. Many Iranians are very angry with the separatist parties and groups, and condemn secessionist demands. On the one hand, the clear majority of Iranians stand for the territorial integrity of the country. On the other hand, ethical-religious minorities see no hope for an improvement in their situation under the rule of the Mullahs. Indeed, their situation is actually getting worse. Under these circumstances, there is a danger that separatist tendencies will grow. The debate about the future form of the state after the rule of the Mullahs has vanished and federalism is gaining popularity among some political groups. The majority of Iranians do not understand the regime's hostility to and criticism of the ancient Iranian civilization. During the assessment period, the security forces prevented the participation of citizens in the anniversary celebrations of the ancient King Cyrus the Great's birthday, which is celebrated on October 29 each year, after 10,000 Iranians celebrated at the Cyrus tomb in 2016, with some chanting anti-regime slogans.

Despite most Iranian elected presidents belonging to the “reformers camp” (with the notable exception of Ahmadinejad), the religious-ideological nature of the Islamic Republic has remained unchanged since its establishment. While people's interests and the ideological principles of the regime often contradict each other, the latter enjoys absolute priority. One of the most important organs of the constitution is the Council for the Discernment of the Interests of the Regime (Majma Tashkhis Maslahat Nezam) and there is no equivalent organ (e.g., the Council for the Discernment of National Interests) representing the interests of the general population.

In the period under view, the Islamic Republic continued to implement the Shi'ite interpretation of Islam, which is the interpretation of the ruling establishment. The ruling elite's religious understanding serves as the basis for politics and society, and is key for the understanding of the Islamic Republic. Ayatollah Khamenei is the most powerful authority in Iran and is not accountable to any constitutional body. Even “ordinary institutions” (e.g., the Ministry of Oil) can employ around 1,800 clerics, according to Fereyduun Hasanvand, chair of the parliamentary energy committee, who stated in December 2018 that they work for religious-cultural affairs. Extreme religious education institutions, such as Howzeh Elmiye Qom, are tasked with promoting religious ideology and dogmas in society.

State identity

7



1

No interference of religious dogmas

1



1

Some of the norms imposed by the regime have been vehemently challenged by Iranian women. For instance, the mandatory Hijab has become a topic of national debate and dispute.

Iran has 31 provinces and a number of cities, divisions, municipalities and villages, but its administrative structures are highly centralized. However, most state services and administrative institutions operate inefficiently. Public employees' religious affiliation and loyalty to the regime are valued more highly than professionalism or leadership competence. Bureaucratization, nepotism, corruption and interference by other authorities make these apparatuses even less efficient. Rouhani has taken no more initiatives to improve public services than Ahmadinejad.

The police forces are also highly inefficient and corrupt. Driven by religious views, the police in coordination with the Basij militia and the IRGC immediately take action against socially and politically motivated protests but are less responsive when it comes to protecting citizens against criminal activity. The state police has contributed to the suppression of the recent mass protests.

Elected local councils are responsible for the administration of each entity and select the mayors and heads of each administrative level. However, religious doctrines and insufficient funds impact on their work.

The 2018 Global Competitiveness Index ranked inefficient government bureaucracy as the second most problematic factor undermining business in Iran.

2 | Political Participation

Iran holds elections for the president, the parliament (Majles), the Assembly of Experts and local councils. Nevertheless, none of these institutions can be described as democratic.

Article 99 of the constitution has entitled the Guardian Council to oversee all elections since 1991 (Nezarat-i Estesvabi, "approbatory approval"). Thus, the Guardian Council approves or dismisses candidates for office, ensuring their candidates' compliance to the regime. In addition, the IRGC has played a major role in recent elections.

Iranians only have the choice between so-called reformers and conservative hardliners. The two camps differ to some extent, but both camps are totally loyal to the regime and do not strive to significantly change the system's structure. Real opposition does not exist.

During the presidential elections of May 2017, incumbent Hassan Rouhani prevailed, winning 57% of the votes against the ultra-conservative Ebrahim Raïssi (38%), who was supported by the supreme leader. Voter turnout was 73%. While some voters hoped that Rouhani would implement his reform plans, a respectable number of voters voted for Rouhani to prevent Raïssi's victory.

Basic
administration

6

'06 '20 10



1

Free and fair
elections

3

'06 '20 10



1

Nevertheless, the presidential elections, like all other elections, are not democratic because the Guardian Council only allows candidates whose absolute loyalty to the regime has been proven. Women are per se excluded from running as candidate and are also barred from running for office in the Assembly of Experts, which is responsible for the selection of the supreme leader. Despite many citizens participated in those elections to ensure that the reformists secured control of the two state bodies, the ultra-conservative Ayatollah Ahmad Janati was appointed chairman of the Assembly of Experts. Furthermore, despite being dominated by reformers, the parliament has largely disappointed the aspirations of many voters. Thus, there is a tangible public perception that elections are meaningless.

Iran's supreme leader, Ayatollah Seyed Ali Khamenei, wields ultimate power and has the final say over decision-making in the Islamic Republic of Iran. Omnipotent and unaccountable to any instance, the supreme leader can veto the appointment of ministers and interfere in the government's daily decision-making. For example, Mansour Gholami, the current Minister of Science, Research and Technology, is said to have been Rouhani's 12th choice for the ministerial position, after Khamenei had refused all 11 previous nominations.

Meanwhile, the president, who is elected by the people, has little power and is accountable to the supreme leader, the Majles and the judiciary. The deputy speaker of the parliament, Ali Motahari, has stated that the former president, Mahmoud Ahmadinejad, appeared more independent than Rouhani. Khamenei's blatant interferences and (even worse) the often undocumented interferences by the IRGC, which lack any legal justifications, represent a complete disrespect for the 24 million votes cast in favor of President Rouhani. This disregard for democratic principles contributed to the mass protests a few months after the 2017 elections.

In addition, the distribution of funds is highly problematic, especially since the economy is under increasing pressure. While the government's overall budget has been seriously cut, the budget of the Revolutionary Guards increased by about 40%. Similarly, religious foundations and institutions close to the establishment of Ayatollah Khamenei are lavishly favored. On December 28, 2017, Majles speaker, Ali Larijani, publicly complained that it was not possible to administer the state under such tight financial conditions.

Many Iranian cities have been the scene of mass protests in recent months, with all mass protests taking place without official permission. Some of the protests led to clashes with the security forces.

Association and assembly rights are granted in articles 26 and 27 of the constitution, but only under the condition that the exercise of these rights does not "violate the foundations of Islam," for which the constitution sets two conditions. These first condition is not to carry arms. The second condition requires that the foundations of Islam are not disturbed. President Rouhani often proclaimed that Iranian people have

Effective power to govern



Association / assembly rights



the right of free assembly and can protest against the government and state. However, in practice, the Islamic Republic rarely tolerates protests and demonstrations, and the Interior Ministry does not issue permissions. The right of free assembly is often massively violated.

Pro-regime mass demonstrations are often promoted and protected by the security forces, while they massively intervene in regime-critical mass protests. The security special forces and the so-called Lebas Shakhshi-ha (the plain-clothed agents, mostly associated with the IRGC or the Basij militia) also violently subdue numerous peaceful protests and meetings, and strikes by laborers, teachers and miners.

In summer 2018, Rouhani's government designated parks, stadiums and public squares as special places for public protests, rallies and assemblies in Tehran as well as in provincial and urban centers. In January 2018, Tehran's City Council had already implemented the idea of special places for public protests.

In December 2017, June 2018 and December 2018, a number of peaceful demonstrations over economic problems had broken out in Tehran and more than 80 other cities. All three powers of the Iranian State, the president, the head of judiciary and the Majles speaker reacted with fierce threats. The gatherings escalated when the police and the Lebas Shakhshi-ha attacked the demonstrators. In the December 2018 protests, groups of participants damaged public property in some cities, and launched attacks on police stations and government buildings. More than 20 people died during the riots.

Though guaranteed by article 24 of the constitution, Iranian authorities and the Rouhani administration continue to restrict the freedom of expression. The independence of the Iranian media, both print and electronic, is severely limited. The National Iranian Radio and Television (IRIB) is controlled by the supreme leader. Newspapers and magazines are liable to censorship, which encompasses even the selection of lead features and cover pages.

The authorities continue to ban Facebook, Twitter, YouTube and other social media websites. In May 2018, Iran blocked Telegram, which was the most popular social media app in Iran, which had accrued 40 million users since 2014. In January 2018, Reporters Without Borders (RSF) reported that the Telegram managers of Urmia and Khoy were imprisoned and flogged.

The government and the judiciary also filter several Iranian websites, harming online business activities, according to a January 2018 statement of Iran's Association for Online Commerce (AOC). University professors, activists and journalists, who work for Persian-speaking media outside the country, are under massive pressure and are regularly intimidated. The two leaders of the Green Movement, Mir-Hossein Mousavi and Mehdi Karroubi, are still under house arrest.

Freedom of expression

2

'06 '20 10



Yet, while the regime does its best to control the flow of information, online media have broken the state's monopoly, and Iranians continue to share their complaints and criticism against the regime more than ever.

In 2018, RSF's World Press Freedom Index ranked Iran 164 out of 180 countries, a slight improvement to Iran's ranking during the Ahmadinejad era.

3 | Rule of Law

A separation of powers exists in Iran only on paper, since the "fourth power" (i.e., the supreme leader) distorts the independence of the trias politica. The supreme leader directly or indirectly appoints them. The Guardian Council decides upon the candidates who may run for Majles, the presidency or the Assembly of Experts (which is tasked with selecting the supreme leader). The supreme leader must approve any revision of the constitution. Thus, constitutional legal transformations are not possible without the supreme leader's permission.

The supreme leader even controls the daily work of the Majles by sending members of parliament confidential messages or issuing "executive orders" to prevent them from passing a law that he opposes.

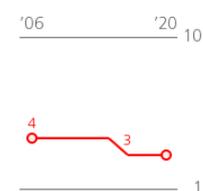
The Guardian Council composes 12 members, with six clerical members directly appointed by the supreme leader and the remaining six members (lay jurists) are confirmed by the Majles upon the proposal of a chief justice who is himself directly appointed by the supreme leader.

Since February 2016, the Majles is under the control of the so-called reformists. The Majles has been a platform for vehement political debate and criticism of the government. The legislators frequently challenged the president and his cabinet. For example, the legislators proposed a vote of confidence challenging government ministers. In August 2018, the Minister of Labor and Social Welfare, Ali Rabiei, was removed from office because of the economic crisis.

The most important successes of the Majles include the ratification of a bill to combat the financing of terrorism and money-laundering. In October 2018, the Majles voted to join the intergovernmental Financial Action Task Force (FATF). Though, one month later, the Guardian Council dismissed the efforts of the Majles. Currently, the Expediency Discernment Council, which consists of 52 permanent and non-permanent members all appointed by the supreme leader, mediates and decides on the dispute between the Majles and the Guardian Council.

Separation of powers

3



Compared to the executive and legislative powers, the Iranian judiciary is the most dependent power. The judiciary is fully loyal to the supreme leader. International human rights organizations, and Iranian activists in Iran and abroad have severely criticized the practices of the judiciary, which is led by the hardline cleric Sadeq Larijani. The United States has blacklisted Larijani, whose office tenure was supposed to end in July 2019. Ayatollah Khamenei appointed Larijani as the new head of the Expediency Discernment Council, whose previous head Mahmoud Hashemi Shahroudi died in December 2018.

International human rights organizations and Iranian activists sharply criticized the apparent increase in unlawful activities of the judiciary during the 10 years under which Larijani headed the judiciary. The high number of executions, including of minors, has been reason for particular concern. Security forces increasingly interfere in trials, preventing fair and impartial proceedings, especially concerning security and political affairs.

The duty of the head of the judiciary is to hire and dismiss judges, whose conditions and qualifications must be in accordance with the criteria of the “Fiqh” (Islamic Jurisprudence), as stipulated by article 163 of the constitution.

Between 2017 and January 2019, Iran’s judiciary under Larijani continued its work against the Rouhani government with the indirect backing of Khamenei.

Corruption and the violation of laws are widespread among the political elite. However, people are rarely prosecuted and (when they are prosecuted) the prosecution is mainly a result of political rivalry.

Within both the conservative and the so-called reformist camps, a complex and powerful relationship system of mafia-like family relations exists, which makes it hard to reform the republic. At the top of the hierarchy of mafia-like families are the Larijans, Rafsanjanis, Khameneis, Khomeinis and Fereydoun (the clan of Rouhani and his brothers). Members of these families hold important offices – such as Mohammad Baqer Qalibaf, Tehran’s mayor from 2005 until 2017, and Ahmad Alamolhoda, an influential Friday prayer leader in Mashhad. Most appointments are made on the basis on familial connections, without regard for the appropriate qualifications. Appointments are rarely called to account and (when they are) do not face severe penalties.

Under Rouhani’s presidency, several middle-ranking officials have been accused of embezzlement. Some of them fled abroad, such as an unnamed official of the Ministry of Petroleum who fled only hours after his summons over the apparent mishandling of IRR 1 trillion. In the lower ranks, public employees often prioritize their own financial well-being over their designated tasks.

Nepotism is widespread. For example, Minister of Industry, Mine and Trade Reza Rahmani appointed as head of the geological survey the 33-year-old Kambiz

Independent
judiciary

2

'06 _____ '20 10



Prosecution of
office abuse

2

'06 _____ '20 10



Mehdizadeh, Rouhani's son-in-law. Via social media, however, people increasingly disclose and criticize such appointments, and some lawmakers and civil society personalities have accused Rouhani and Rahmani of abuse of power. In December 2018, Mehdizadeh eventually resigned.

The brother of the former president, Hossein Fereydoun, was accused of corruption and arrested for a few days in July 2017. While he was released on bail apparently due to Rouhani's influence, he was taken to court again in early 2019. Similarly, Ahmadinejad's former deputy, Hamid Baghaei, was sentenced to 63-years imprisonment for corruption in December 2017. In both cases, the conservatives are seen as the driving force behind the convictions, using the convictions to put pressure on the (acting or former) presidents.

The constitution guarantees civil rights in its articles 19 to 27. Yet, regulatory institutions in Iran clearly do not fulfill their duty. Especially the judiciary systematically violates human and civil rights. Accountable to none except Ayatollah Khamenei, the judiciary has become infamous for unjust deeds, such as the execution of convicted minors, the oppression of religious minorities (e.g., the Baha'is and Dervishes).

The laws and state institutions systematically discriminate against women and religious minorities. Homosexuality is a crime punishable by death. Some ethnicities, especially Kurds and Arabs, are systematically discriminated against, since the regime does not consider them as loyal citizens.

In 2017, Iran executed at least 507 people, among them at least four who were minors at the time of their crimes. Worldwide, Iran ranks second in terms of number of executions after China. In, 2018, the situation did not change for the better. Officially, at least 31 executions were registered only in April of that year.

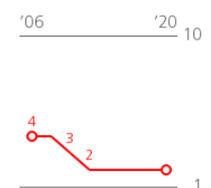
President Rouhani and the Majles refuse to more closely supervise the judiciary, arguing that the government was not in a position to tackle the increase in human rights violations. Even worse, Foreign Minister Mohammad Javad Zarif repeatedly denied human rights abuses in Iran and the existence of political prisoners. By this, even the reformist government indirectly justifies the unfair trials against human rights defenders held by the Revolutionary Courts and the security institutions.

Department 209 of the infamous Evin Prison, which consists of solitary cells and torture chambers, is under the full control of Rouhani's Ministry of Intelligence and Security (MOIS). In this department, prisoners are threatened, interrogated and tortured. The IRGC carries out many summonses and arrests. The Iranian judiciary and the IRGC has been heavily involved in human rights violations.

The human rights activists and lawyers Reza Khandan, Nasrin Sotoudeh, Golrokh Iraee, Abdolfattah Soltani and Narges Mohammadi are prominent activists, who were either arrested or received prison sentences between 2017 and early 2019. In February

Civil rights

2



2018, Iranian security forces and police cracked down on Iran's Dervishes who protested in Tehran, injuring and arresting several members of the Dervish community, among them Hajj Nour Ali Tabandeh, the religious leader of the Gonabadi Sufi Order.

Women are subordinated to their male relatives. Article 1,117 of the civil code stipulates that "a husband may prevent his wife from working in a profession or trade deemed incompatible with the interests of the family or with his or his wife's dignity." President Rouhani missed the chance of taking a lead in furthering gender equality in Iran. Having promised before the 2017 elections to appoint six women ministers, no woman has since been appointed to a ministerial post.

4 | Stability of Democratic Institutions

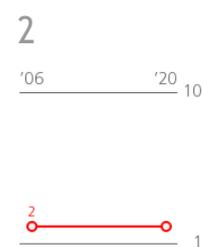
The supreme leader, who is not elected by the people, holds absolute power in Iran. He determines Iran's domestic and foreign policy, and has the power to interfere in legislative, judicial and executive decision-making. Iran's democratic institutions (mainly the president and the parliament) are completely subordinate to the supreme leader and other unelected authorities (e.g., the Guardian Council), which severely limits their powers. The government ministers for intelligence, education, defense, foreign affairs, and culture and Islamic guidance can only be appointed with the consent of the supreme leader.

Rouhani's government does not have full control over the country's oil revenues. Rouhani cannot freely decide on the state budget and the Revolutionary Guards frequently interferences in government decision-making. Consequently, Rouhani's so-called Government of Hope performed very weakly across nearly all measures of democratic performance.

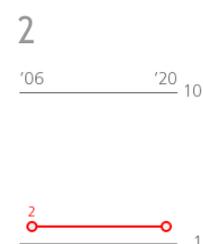
Although the Majles has been a platform for heated political debate and criticism, it is not free from the interference of the supreme leader. The Majles wields only limited influence over foreign and domestic policies.

Powerful figures, including the supreme leader, frequently undermine the elected Majles, the president and local governmental bodies. President Rouhani shows little resistance to this pressure and cooperates with these unelected authorities in some nondemocratic and legal matters. Since the mass protests and the beginning of the U.S. Trump administration, the positions of the so-called reformers and of the conservatives have converged. Non-elected authorities and some forces that are actually subordinate to or have to cooperate with the government (e.g., the Revolutionary Guards) recognize the legitimacy of the elected government only to a limited extent. This also applies to elected local city councils, whose power is curtailed by the Friday preachers and local ayatollahs.

Performance of democratic institutions



Commitment to democratic institutions



In February 2018, President Rouhani criticized the interference in government work of other institutions. Indeed, since the first day of his presidency, Rouhani has addressed a number of critical issues. Yet, no significant changes have been introduced to date. Rouhani also occasionally contradicts himself. For instance, Rouhani criticized the Revolutionary Guards, but then doubled their budget.

In March 2018, Rouhani officially made the Revolutionary Guards responsible for tackling smuggling along the southern borders of the country. Indirectly, though, Rouhani alleges that the Revolutionary Guards are involved in the smuggling.

5 | Political and Social Integration

According to the Ministry of Interior, there are currently 400 licensed parties in the country, but 90% of them exist in name only. Approximately 40 to 50 parties actively compete during in elections.

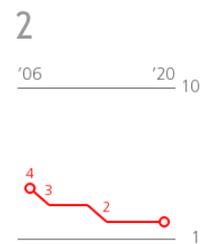
Parties are not particularly productive and their financing and administrative structures lack transparency. They have little input in shaping opinion and are not able to mobilize their party members. Neither reformist nor conservative parties proactively invite citizens to become a member and climb up the ranks, and the high positions are reserved for a group of confidants.

The Islamic Republic of Iran only permits political parties and factions that are loyal to the regime and to the state ideology. Even the so-called reformist parties and politicians who have been critical but loyal to the establishment face increased state repression. Two reformist parties, the Participation Front and the National Trust (Etemad), have almost been banned by the regime and do not operate much.

During the presidential elections of May 2017, however, some reformist and pragmatist parties were crucial in supporting Rouhani, particularly the Executives of Construction Party (Hezb-e Kargozaran-e Sazandegi) and the Party of Moderation and Development (Hezb-e Etedal va Toseh). The Islamic Coalition Party (Hezb-e Motalefeh-ye Eslami) and the Tehran Combatant Clergy Association (Jameh-ye Ruhaniyat-e Mobarez-e Tehran), which are vigorous followers of the imam and the supreme leader, supported the hardline candidate Ebrahim Raïssi, however.

Before his mysterious death, Farshid Haki, an Iranian lawyer, environmental activist and university lecturer, had tried several times to secure official permission to form a moderate party with human and civil rights demands. In 2013, Haki applied three times to form a party, but received three rejections. Haki's efforts failed in the era of President Rouhani, too. In October 2018, the police found the burned body of the 43-year-old in his car near his apartment in Tehran.

Party system



Pressure on activists and restrictions on social media prevent the effective articulation of civil society interests. A civil society with various independent interest groups does not exist in Iran. Conformity to the system and the regime is a precondition for the registration of interest groups by the Ministry of Interior.

NGOs flourished under President Khatami, but faced a crackdown under Ahmadinejad's rule, from which they have never recovered. The only thing left are the efforts of some individuals who continue to be oppressed by the regime.

Thus, independent interest groups have no reasonable chance of forming. Between February 2017 and January 2019, many syndicates and interest groups – among them the Haft Tapeh sugar factory syndicate, the Syndicate of Workers of Tehran and Suburbs Bus Company (SWTSBC), and teacher and pensioner interest groups – came under severe pressure after becoming increasingly unable to pay the wages of their staff.

In its auto-theocratic system, Iran's ruling clerical establishment and its unelected institutions exert more influence on the state's internal and external policies than the elected parliament and government. Thus, Iran is a state without a distinct democratic and liberal tradition. After 40 years of religious rule, most citizens simply do not know how democratic institutions work. It is most likely that the upper class and the upper-middle class of Iranian society would generally approve of democratic norms and procedures, while the lower classes are more interested in material needs.

In recent demonstrations, some demonstrators called for Reza Shah, the founder of the Pahlavi dynasty, chanting "Reza Shah, Ruhat shaad" (Reza Shah, Rest in Peace). The sad and failed experiment, the Islamic Republic of Iran, has awoken a nostalgia for the monarchy. Iran's former crown prince, Reza Pahlavi, is perhaps the most popular figure among the very weak and split Iranian opposition (outside and inside the country). However, he is not uncontroversial, since a considerable number of Iranians fear the continuation of the dictatorship of his father Mohammad Reza Shah Pahlavi.

In the period under view, protests against forcing women to wear the Hijab (headscarf) increased substantially. During the first half of 2018, many Iranian women publicly removed their veils. This movement, called The Girls of Enghelab Street, started in December 2017 when a woman took off her headscarf in Tehran's central Enghelab (Revolution) street. It was a public expression of a democratic demand.

Interest groups

2

'06 '20 10



Approval of democracy

n/a

'06 '20 10



The Islamic Republic has banned or pressurizes politically oriented NGOs. The establishment rarely tolerates independent civil society self-organization. However, from 2017 until early 2019, trust and solidarity between individual citizens and groups increased, mainly induced by the various mass protests, many of which were workers' strikes. Some of the residents of the Ahvaz expressed their solidarity with the striking workers from the Haft Tapeh sugar factory and the Ahvaz Steel National Industrial Group (Foolad Company). When shop-owners closed the Grand Bazaar of Tehran in June 2018 in protest to their miserable situation, traders from the Bazaar of Tabriz closed their shops in solidarity as well.

After a devastating earthquake hit the city of Kermanshah in the western part of Iran in November 2017, 525 kilometers from Tehran, famous Iranians (from film, sports, science and industry) rushed to help the victims. Among them was the Iranian soccer legend Ali Daei as well as Professor Sadegh Zibakalam of Tehran University. Many Iranians also supported the relief work financially. However, the judiciary did not tolerate this self-organized form of help, fearing the popularity of these efforts represented a threat to the regime's own rescue efforts. As a result, several of the helpers were summoned to court.

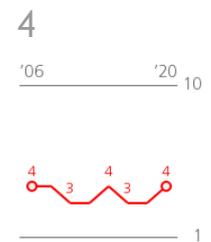
II. Economic Transformation

6 | Level of Socioeconomic Development

Mismanagement, incompetence and corruption within public administration, combined with the pressure of external sanctions on Iran have left a deep mark on the socioeconomic reality of Iran's 81 million citizens.

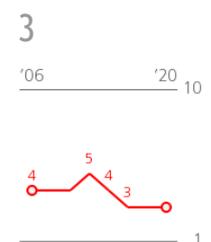
Structural and legal socioeconomic problems, such as the discrimination and exclusion of women and minorities, constitute an obstacle to economic development. The World Economic Forum's 2018 Global Gender Gap Index ranked Iran 142 out of 149 countries. UNDP's 2017 Gender Inequality assigned Iran 0.461 points (which ranks the country better than Morocco, surprisingly). While the World Bank reported that 18.4% of Iranian women participated in the labor market in 2013, Vice-President for Women and Family Affairs Masoumeh Ebtekar stated in May 2018 that the female labor participation rate was about 12%, and that the unemployment rate of educated women was two to three times higher than that of comparable men. Member of Tehran's City Council Zahra Khorasin Nouri said in March 2018 that female participation in business management was only 8%. According to the Statistical Center of Iran (SCI), in autumn 2018 the economic participation rate of men was 64.4%, but only 16.4% for women.

Social capital



Question Score

Socioeconomic barriers



Ethnic and religious minorities are severely affected by socioeconomic exclusion. Mawlawi Abdul Hamid, one of Iran's prominent Sunni minority leaders, spoke in November 2017 about discrimination and inequality in public administration employment, and problems assigning responsibilities and positions to Sunni employees. His several letters to Ayatollah Khameni have made no difference, however.

From the first year of Rouhani's presidency in 2013 until the end of 2018, inequality has increased, with the Gini coefficient for Iran widening from 36.5 to 38.8. According to a Financial Tribune report of February 12, 2018, "ultra-rich Iranians, those who belong to the top income percentile, spend 86 times more than the poorest percentile, as the bottom 10% (the poorest decile) spend 1-14th of the sum spent by the richest decile." Official statistics on poverty in Iran are unavailable, although informal sources estimate at least 15 to 20 million Iranians live below the absolute poverty line.

The United States' withdrawal from the JCPOA agreement in May 2018 triggered a period of currency turbulence, leading the IMF to forecast that Iran's inflation rate would reach 30% or more in 2019, while GDP would decrease by 3.6%.

Those negative developments notwithstanding, UNDP's 2017 Human Development Index assigned a not-too-bad score of 0.798 to Iran, ranking Iran 60 out of 189 countries and placing Iran in the group of countries with "high human development." Iran's human capital also rated relatively well in the 2018 Global Competitiveness Index at rank 84, although the country ranked 76 in 2016/2017.

Informal labor is a major problem for the Iranian economy. The IMF reported in May 2017 that more than 31% of Iran's economic activities occurred in the informal sector. The then labor minister, Ali Rabie, stated in April 2016 that of the 22.5 million people employed, 6.5 million worked in informal jobs, with women forming a large proportion of the informal workforce. The increase in informal jobs is a result of increased poverty, according to Rabie.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	385874.5	418976.7	454012.8	-
GDP growth	%	-1.3	13.4	3.8	-
Inflation (CPI)	%	13.7	8.7	10.0	-
Unemployment	%	11.1	12.4	12.1	12.0

Economic indicators		2015	2016	2017	2018
Foreign direct investment	% of GDP	0.5	0.8	1.1	-
Export growth	%	12.1	41.3	1.8	-
Import growth	%	-20.2	6.1	13.4	-
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	38.4	47.5	39.5	32.2
External debt	\$ M	6375.1	5971.4	6761.1	6323.9
Total debt service	\$ M	782.5	2083.2	430.5	947.1
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	12.7	13.3	13.4	-
Public education spending	% of GDP	2.8	3.4	3.8	4.0
Public health spending	% of GDP	4	4.4	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.8	3.0	3.1	2.7

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The state sector (state-owned and semi-state-owned companies) accounts for about 80% of Iran's economic activity, while the private and cooperative sectors account for only 20%. The role of the government in pricing, fixing the exchange rate and the rate of duty, controlling trade and investment, and managing core industries (especially oil and petrochemical industries) is of considerable importance. The Ministry of Labor and Social Affairs regulates the wage level and calculates the inflation and economic conditions.

During the assessment period, Iran's economy suffered significantly from the influence of clerics and their family members (the so-called Aghazadeh-ha, the sons of clerics and high-ranking officials). The Aghazadeh-ha hold monopolies in lucrative areas of the economy and are widely involved in illegal practices, such as corruption, smuggling and tax evasion. The former director of the CBI, Mahmoud

Market organization

2

'06 '20 10



Bahmani, stated in July 2018 that the account balance of the Aghazadeh-ha is higher than the entire Iranian foreign exchange reserves.

The private sector, meanwhile, is powerless against this unfair competition, especially against the state-owned and semi-state-owned companies that dominate the economy. “Bonyads” (foundations) and commercial enterprises established after the revolution by the IRGC, enjoy many privileges, such as tax exemptions and exclusive access to lucrative government contracts.

On average, starting a business in Iran takes 72.5 days and 10 procedures, and costs 1.2% of GNI per capita. In the World Bank’s “Ease of Doing Business” 2019 report, Iran was assigned 67.79 out of 100 points for the “starting a business” category, ranking it 173rd out of 190 countries. The main challenges to market organization in Iran are the weak protection of minority investors and underdeveloped financial markets. The share of the informal sector amounts to approximately 19% of the GDP.

Iran ranked 174 out of 181 countries in the Heritage Foundation’s 2017 Index of Economic Freedom. Iran also performed poorly in the 2018 Global Competitiveness Index, ranked 89 out of 140 countries, following the country’s deteriorating performance over the last decade.

The government of Iran is the major monopolist in the country, followed by the IRGC, and other influential institutions and people. There is a law against monopoly, although no company or person has ever been held accountable for monopolistic measures.

The Iranian Competition Council is responsible for anti-monopoly measures and privatization. The independence of the council is undermined by the dominant presence of members from the government and the Majles, compared to members from the private sector. In particular, the lack of independent experts, free from political ideology or religious indoctrination, is a major drawback for the Competition Council. Established with the aim of creating fair conditions within the private sector, the council has frequently hindered the freedom of action and the growth of independent industries. The Iranian competition law does not anticipate a judicial control mechanism over the Competition Council’s decisions, although there is a Retrial Board for reviewing some of the Competition Council’s decisions. The structure of Retrial Board is, however, ambiguous, as the Retrial Board is also only a quasi-judicial body and does not follow the mandatory procedural requirements of the court.

The unsuccessful price formation for Iranian car models in 2018 illustrates the weakness of the council.

In December 2018, Iran’s Minister of Industry Reza Rahmani, who is connected with the Iranian Competition Council, declared a formula for pricing newly manufactured affordable cars valued below IRR 450 million (roughly \$10,500). Though the pricing

Competition policy

2

'06 '20 10



of more sophisticated cars (i.e., cars valued over IRR 450 million) would remain with the car manufacturer. There are two main domestic carmakers: Iran Khodro (44% share in Iranian car production) and Saipa (42% market share). The government holds a stake of 15% and 17%, respectively, in the manufacturers. Pressured by the depreciation of the Iranian rial, both companies demanded the ability to set the prices of their vehicles themselves according to economic necessity. In the wake of major differences between the Competition Council, the Ministry of Industry, Mine and Trade, and the Iranian car manufacturers, car prices spiraled out of control, rising by up to 100% between the middle and end of 2018.

Iran ranked 124 out of 140 countries regarding competition in services in the 2018 Global Competitive Index.

Iran's economy is dominated by the state, and the government regulates and controls most parts of foreign trade, especially oil and gas exports. According to the World Bank, foreign trade accounted for over 46% of Iran's GDP during the assessment period, partly stimulated by the lifting of sanctions following the JCPOA agreement in 2015. The re-imposition of sanctions after the United States' withdrawal from the JCPOA agreement, however, is expected to dampen foreign trade again and damage Iran's broader economy.

Iran has the highest international trade tariffs, which in 2016 amounted to 28% for all products. In 2016, Iran had the world's highest customs tariff, followed by Bhutan amounted to 22.4%. Regarding trade tariffs, Iran ranked last among 140 countries on the 2018 Global Competitive Index.

In 2018, Iran exported goods of the amount of \$97.5 billion and imported goods worth \$93.2 billion. In 2017, exports reached \$102.8 billion and the imports \$93.6 billion, highlighting the effect of U.S. sanctions on the export side.

A particular problem concerns the widespread and flourishing smuggling trade, which is partly controlled by influential businessmen with close links to the highest levels within the regime. A report of the Majles stated in 2016 that about one-third of Iran's imported goods are smuggled into the country (estimating its value at \$22 billion out of a total import value of \$70 billion). Ordinary businessmen with no ties to the establishment can only operate in niche sectors, with no significant trade volumes.

Iranian banks are mainly state-owned. The semi-private banks and financial institutions are in the hands of influential people with close ties to the regime. Some of these institutions have gone bankrupt in recent years due to a lack of proper regulation and supervision.

Iran's outdated banking system has become one of the main challenges for the Iranian economy in 2018 and is at risk of financial collapse. The Central Bank of Iran (CBI) has approved credit institutions over which it has no control, with nepotism playing

Liberalization of
foreign trade

2



Year	Score
'06	3
'07	2
'08	3
'09	2
'10	2

3



Year	Score
'06	3
'07	2
'08	3
'09	2
'10	2

Banking system

2



Year	Score
'06	2
'07	3
'08	2
'09	2
'10	2

2



Year	Score
'06	2
'07	3
'08	2
'09	2
'10	2

a major role in this respect. Iranian banks suffer from sanctions, internal mismanagement, corruption and a high ratio of non-performing loans. Many of these banks and credit institutions are bankrupt and unable to repay their customers' deposits. During the assessment period, several private investors protested in front of the central bank and parliament, as well as in cities outside Tehran, against the banks' inability to repay deposits.

In addition, experts criticize the power of the large shadow banking system, which amounts to 25% of all banking activity. In November 2018, the U.S. Treasury's sanctions forbid transactions by foreign finance organizations and intuitions to 50 Iranian banks, including the CBI.

The CBI announced in December 2018 that the public sector debt owed to banks reached over IRR 302.8 trillion. More than 89% of this debt belongs to the state/government, and less than 11% of it belongs to state enterprises and institutions.

In the 2018 Global Competitive Index, Iran ranked 131 out of 140 countries regarding the soundness of its banks.

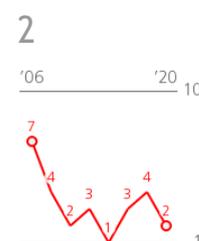
8 | Monetary and fiscal stability

After U.S. President Trump's announcement that the United States would withdraw from the JCPOA in 2018, the Iranian rial (IRR) depreciated alarmingly against the dollar. At the beginning of 2018, the official exchange rate was IRR 42,000 to \$1. In March 2018, Rouhani's government decided to freeze the value of the rial at IRR 42,000 to \$1, despite the increasing value of the dollar. As a result, exchange rates offered by the widely used informal money exchangers exploded, as many Iranians attempted to protect their savings by buying U.S. dollars or speculated against the rial (anticipating that the value of the rial would continue to fall). In October 2018, \$1 cost more than IRR 190,000 in the informal market and, even by January 2019, \$1 stood at IRR 120,000.

According to estimates of the Parliament Research Center from July 2018, every 10% in the exchange rate's growth would increase the inflation rate by 2%. The Iranian Statistics Center reported that families spent an average 42.3% more on purchasing the same goods and services in early 2019 than one year before. Red meat became a luxury product, after the average prices for one kilogram of beef, for instance, rose from IRR 450,000 in May 2018 to IRR 500,000 one month later, reaching IRR 850,000 in January 2019.

The Majles dismissed the minister of economic affairs and finance, Masoud Karbasian, following a no-confidence vote in August 2018. While the government's attempt to fix the exchange rate at IRR 42,000 to \$1 brought little economic relief, it

Monetary stability



signaled a break from President Rouhani's campaign pledge in 2013 to strengthen the independence of the CBI – in fact, he undermined its independence.

Furthermore, the government implemented several harsh political measures. For example, many prominent money changers, who exchanged money at unofficial exchange rates, were imprisoned, while the bank accounts of stock exchange speculators were frozen. Various economic sectors, reliant on the dollar or the euro to make international transactions, suffered under this policy. The CBI decided to decrease interest rates to less than 15%, which worsened the foreign exchange situation. Additionally, the shortage of the CBI's foreign currency reserves, the demand of travelers in Iran for the dollar and smuggling contributed to the debasement of the IRR.

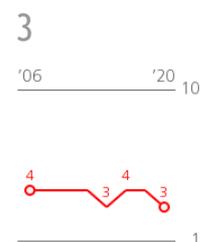
In June 2018, CBI Governor Abdolnaser Hemmati admitted that the root cause of Iran's recent economic challenges was the excessive money supply, which led to domestic banks borrowing heavily from the CBI. The same month, the former CBI Governor Valiollah Seif announced that from March 2017 to March 2018 (Iranian calendar year 1396), the money circulation exceeded Iranian GDP for the first time in Iran's history.

The driving factor behind the liquidity growth was the government's hope to compensate and manage its increasing debts to banks and the central bank. The growth of money supply, however, in combination with the rial's depreciation against foreign currencies, fueled inflation and lowered the purchasing power of the national currency.

During the Iranian year 1396, total state revenue amounted to IRR 483.7 trillion (\$11.17 billion), an increase of 35.8% compared to the year before. Spending, however, amounted to IRR 753.7 trillion (\$17.41 billion), an increase of 23.2% compared to the CBI's previous annual budget report. Thus, Iran's overall budget deficit continued to widen, although at a slower rate than the CBI had anticipated.

The gross public debt-to-GDP ratio fluctuated from 49.1% in 2016/2017 to 40.9% in 2017/2018 to 53.9% in 2018/2019. The external foreign debt-to-GDP ratio had little variation and decreased from 2.3% in 2016/2017 to 2.0% in 2017/18. The World Bank reported Iran's foreign debt to be \$9.3 billion on 21 March 2019.

Fiscal stability



9 | Private Property

Economic freedom, private businesses and private property rights are enshrined in the Iranian constitution. However, these rights mainly apply to clerical tax-exempt foundations and institutions that are close to the establishment and IRGC entities. There are no authorities that scrutinize the clerical bodies. For others, the adherence to these rights is not ensured. The judiciary, and in some cases even the government or IRGC, confiscate property for obscure reasons. Corrupt judges may also help individuals to seize other people's properties.

The 2018 Global Competitiveness Index ranked Iran 103 out of 140 countries in terms of property rights.

Article 44 of Iran's constitution names the private sector as one of three sectors of Iran's economy, along with the state and "cooperative" sectors. The cooperative sector is also part of the private sector.

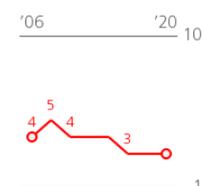
Even though the same article claims that "national industries, foreign trade, major mines, banking, insurance, energy sources, dams and large water irrigation networks, radio and television, post, telegraph and telephone, aviation, navigation, roads, railroads, and others" are part of the state sector, Iran's third Development Plan Law (ratified in 2004) provided that the government should start to privatize state companies and establish a Privatization Organization (done in 2008) as many state companies were loss-making.

A Majlis Research Center report stated in 2016 that over the past 14 years, 16% of all state-owned companies have been privatized. This, however, obscures the fact that many privatized entities were taken over by other state-owned companies, a clergy-favored elite or IRGC entities. For example, the former public sugar company, Haft Tappeh, was sold in January 2016 reportedly for one-tenth of its actual price to two young entrepreneurs, Mehrdad Rostami and Omid Asadbeigi. Rostami is currently in prison, while Asadbeigi is still on the run.

The process of privatization often fails because of cronyism and corruption. In December 2018, more than 50 parliamentarians questioned the work of the Privatization Organization under the directorship of Mir Ali Ashraf Abdullah Pouri-Hosseini. The parliamentarians accused Pouri-Hosseini of abusing his position for his own business interests, buying companies himself after privatization. Pouri-Hosseini has rejected the accusations.

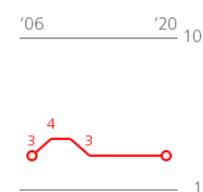
Property rights

3



Private enterprise

3



10 | Welfare Regime

Since the foundation of the Islamic Republic of Iran, many NGOs and Bonyads that aim to improve the social security and welfare of vulnerable people in Iran have emerged, including the Foundation of Martyrs and Martyr Affairs, the Imam Khomeini Relief Committee (IKRC), the 15th Khordad Foundation, and the Bonyade Mostazafan Foundation for the Oppressed and Disabled Veterans (MJF). These civil society organizations play an important role in the country's social security and welfare systems. These institutions, however, are supervised by Ayatollah Ali Khamenei and are not accountable to the government or the judiciary.

The Iranian Social Security Organization (SSO) is a public and independent organization, which provides pensions, and health and unemployment insurances for its members. SSO members include workers, government employees and self-employed individuals. At the end of 2017, a report by the Majles Research Center claimed that the SSO is at threat of bankruptcy, since the organization possesses many unprofitable companies. The head of the SSO in 2016, Saeed Mortazavi, was convicted of corruption.

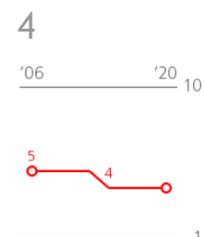
Most of Iran's pension funds face financial troubles and rely on heavy subsidies from the government, which keep the Iranian retirement system from collapse. In October 2018, Vice President Eshaq Jahangiri announced that the Rouhani government would cover the cost of up to 80% of Iran's retirement funds and 100% of the armed forces pension funds. Iranian pensioners and unemployed university graduates made up a considerable proportion of the demonstrators during the recent mass protests.

Iran's subsidy system places significant pressure on the state finances. In the budget plan for March 2018 to March 2019, President Rouhani reduced government subsidies on food and fuel from IRR 420 trillion (approximately \$10 billion) to IRR 230 trillion (approximately \$5.5 billion) and intends to continue financing the increasing cash payments made to citizens. These actions are likely going to cause problems for Rouhani's government in 2019 following the reinstatement of U.S. sanctions.

The recent rial devaluation had a massive impact on the majority of pensioners, with many pensioners increasingly unable to cover their daily living costs. Several Iranian cities have been the scene of mass pensioner protests over the last few months.

According to the World Health Organization (WHO), total expenditure on health care in 2013/2014 amounted to 6.9% of GDP. In 2018, Iranian health care spending amounted to 8% of the country's GDP, according to Deputy Minister Mohammad Reza Farahani in January 2019.

Social safety nets



Iran's regime under Rouhani continues to strongly oppress and discriminate against the Baha'is and some Muslim groups that do not align with the regime. The construction of Sunni mosques is prohibited in Iran's larger cities and the pressure on Sufis has increased.

In June 2018, the authorities executed the Sufi Mohammad Reza Salas following what Amnesty International called a "grossly unfair trial" in which Mohammad Reza Salas was accused of killing three police officers during clashes between dervishes and the police in Tehran in February 2018.

Minorities generally lack equal access to public sector jobs and university education and are excluded from many other social and economic sectors.

Foreigners are discriminated against especially in personal status affairs. Marriages between Iranian and non-Iranian partners are complicated to authorize, and children of an Iranian mother and a foreign father do not receive Iranian nationality automatically. Work permits are difficult to obtain for foreigners.

Contrary to the expectations of his 24 million voters, President Rouhani did not appoint a single woman, or a member of a religious or ethnic minority to a ministerial post following his re-election in May 2017. The unemployment rate of women is almost double the unemployment of men, 19.8% against 10.3%.

11 | Economic Performance

Iran's GDP reached \$439.5 billion in 2017, a recovery from the ten-year rock bottom of \$383.9 billion in 2015, but still a far cry from a peak of \$598.9 billion achieved in 2012. GDP per capita grew by 3.2% in 2017, reaching \$20,950 (PPP).

National and international experts predicted negative economic growth rates for 2018 and 2019 due to the renewed U.S. sanctions: -1.5% in 2018 and -3.6% in 2019. The IMF forecasts that Iran's GDP will fall to \$333.6 billion in 2019.

The oil sector in particular is forecast to contract by 7.4% in 2019/2020. Though Iran's non-oil sector is also expected to fall into recession, growing by -1.2% in the same period, having grown by 4.6% in 2017. Accordingly, the unemployment rate has increased from 10.4% in 2013 to 12.5% in 2017.

Inflation (CPI) increased to 10.5% in 2017 from 8.6% the year before, although this is still much better than the ten-year record of 39.3% in 2013.

The total foreign exchange reserves and gold reserves decreased from \$111.7 billion in 2017 to \$99.8 billion at the end of 2018 and are predicted to further decline.

The economic turmoil, in combination with widespread frustration over Rouhani's apparent empty promises, were one of the main triggers of the mass protests held during the assessment period.

Equal opportunity

2

'06 '20 10



Output strength

3

'06 '20 10



12 | Sustainability

Isa Kalantari, head of the Department of Environment, described Iran in July 2018 as one of the most disgraceful countries in the field of environmental protection. Despite major challenges, the government's 2018/2019 budget devoted only 0.099% to environmental issues. Meanwhile, the Environmental Protection Agency, despite employing 7,000 staff, can provide only half of the total number of environmental guards required. Irrespectively, most of its initiatives and recommendations are ignored or overruled by the government or powerful institutions, such as the IRGC.

Iran faces an urgent water crisis. 70% of Iranians are potentially exposed to severe drought. Without sufficient expertise and elaborated plans, the government has built dams on nearly every river, which has led several rivers to dry up. During the assessment period, the province of Khuzestan recorded more than 100 days of above average rates of dust and air pollution. In December 2017, the state had to shut schools across several major Iranian cities, including Tehran, due to air pollution. The air pollution is caused by millions of people driving low quality, fuel-inefficient cars and motorcycles, which the government has still not banned.

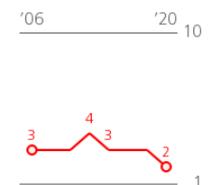
Instead, the regime takes massive action against critical environment experts and activists by imprisoning and torturing them under false accusations (e.g., high treason or espionage). In January 2018, the Intelligence Protection Organization of the IRGC arrested the Iranian environmental scientist Kavous Seyed-Emami and eight environmental activists. Under mysterious circumstances, Seyed-Emami died in prison on February 8, 2018. The official cause of death was declared to be suicide.

Public spending on education (3.4% of GDP in 2016) is comparatively low. More than 90% of the Ministry of Education's budget is spent on staff salaries, which means that relatively little is spent on educational development or infrastructure at present. Iran's education sector, like all sectors, is suffering from the externally imposed sanctions, but also blatant internal mismanagement and the predominance of religious dogmas over rational decision-making. Notwithstanding this, Iran fares relatively well in the U.N. Education Index with a score of 0.741 (2017).

According to May 2018 data published by the Ministry of Science, Research and Technology, 3,794,420 students (1,723,269 female and 2,071,151 male students) are currently enrolled at Iran's 2,569 universities, among them 530 so-called Islamic free (Azad) universities and 141 state universities. In addition, 309 non-profit institutions, 170 vocational centers, 466 Noor Center and 953 applied science units have been registered across the country's 31 provinces. At school level, about 14 million pupils were enrolled in 2018, up from 13.5 million in 2016. The increasing number of school children is a serious challenge for the provision of quality education. Adult literacy rate was only 84.7% in 2014.

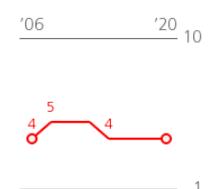
Environmental policy

2



Education policy / R&D

4



In December 2018, Iran's Planning and Management Organization (PMO) declared that 42% of unemployed people in Iran have a university degree. Since access to universities is much easier than to the labor market, high school pupils mostly go to universities after graduating high school to avoid potential unemployment.

Kazem Jalali, head of the Parliament Research Center, said in January 2019 that government spending on research and development amounted to only about 0.5% at the time. The majority of government R&D spending is on military and nuclear research.

Governance

I. Level of Difficulty

The Islamic Republic of Iran inherited several structural constraints from the Pahlavi dynasty (1925 – 1979), including poverty and poor national infrastructure. Nevertheless, after four decades of the Islamic Republic, structural constraints have massively expanded rather than diminished.

Religious and ideological dogmas, which undermine domestic and foreign policy, prevent Iran from exploiting its enormous potential. Iran has the fourth largest proven oil reserves (with 11% of the globe's total proven oil reserves) and the second largest store of natural gas reserves (after Russia) globally, which makes Iran an energy superpower.

However, Iran's ailing oil and gas industry is in urgent need of foreign investment in order to guarantee production and export, and to remain competitive in the global market. The U.S. decision in May 2018 to unilaterally withdraw from the Joint Comprehensive Plan of Action (JCPOA, often referred to as nuclear deal) and to reinstate sanctions on Iran's economy has so far prompted 53 international European, Asian and American companies to exit or suspend their activities in Iran. The resulting economic drop hit Iran's eight major industries: oil, transportation, automotive, banking, insurance, electricity, aviation, mining and metals, and communications technology.

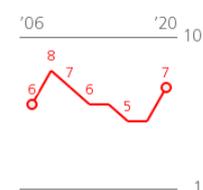
Wide-ranging social and economic reforms are needed. With a regime based on ideological-religious dogmas, these reforms have proven difficult to implement though. Differences between Ayatollah Khamenei and the pragmatic reformist Rouhani, and even more so the structure of the regime of the Islamic Republic of Iran account for the difficulties in reforming the economy.

The regime is very suspicious of NGOs, fearing that NGOs intend to undermine the regime's power. Thus, the regime does not tolerate the activities of environment activists and has accused several environment activists of espionage.

The Mullahs also consider foreign organizations to be tools of Western powers, which aim to weaken the Mullahs' power. As such, the Mullahs do not welcome foreign organizations to Iran.

Structural constraints

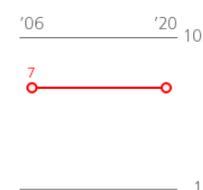
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Civil society traditions

7



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Meanwhile, any activities that are aligned with the ideology of the regime are welcome, particularly religious gatherings and ceremonies.

The most important change concerning civil society under Rouhani has been the geographical limitation of civil society associations to provincial organizations, which happened in 2016. In 2019, the Association of Journalists of Tehran Province was established, which – unlike the country-wide Association of Iranian Journalists (AoIJ), which had been banned following the Green Movement protests in 2009 – is limited to the province of Tehran. Despite Rouhani’s promise in 2013 to re-open the AoIJ, no permission has been issued yet.

The Syndicate of Workers of Tehran and Suburbs Bus Company, the Teachers Association of Iran, the Free Workers Union of Iran, and the Defenders of Human Rights Center of Iran are the most important nationwide civil society associations. However, the members of these associations are permanently under pressure.

Most Iranian civil society organizations have been suppressed or banned since the 2009 protests. The institutions that have remained or redefined themselves have had to accept the government’s limitations on their geographical scope. This is a problem that many critics and opponents challenged, but – within the current state of Iran – many supporters of organizations argue that there is no way out.

Many prominent civil rights activists are in jail, such as Narges Mohammadi, vice president of Tehran-based Defenders of Human Rights Center. Narges Mohammadi has been sentenced to 16 years in prison for political crimes and has been held in the infamous Evin Prison since April 2016, after almost two decades of repeated court trials and intermediate imprisonments. In January 2019, she announced she would go on hunger strike until her request for medical treatment is considered.

The Iranian regime discriminates against religious and ethnic minorities, such as Sunnis, Kurds, Baluchis or the Dervishes/Sufis. This has repeatedly led to mass demonstrations, which often encounter police violence. As the handling of such mass protests shows, the Islamic Republic exploits a rift between Iran’s wealthy middle class and the poor sections of society (e.g., unemployed workers, pensioners, slum dwellers and impoverished middle class), since affluent middle class people are rarely involved in the mass demonstrations.

An attack on a military parade in Iran’s southwestern city Ahvaz in October 2018 and a suicide car bombing in the city Chabahar in the province Sistan-Baluchistan in December 2018 are signs of an intensification in the conflict between state security forces, and separatist Balochi, Arab and Kurdish groups.

Conflict intensity

5

'06 '20 10



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II. Governance Performance

14 | Steering Capability

The so-called Vision 2025, which the Expediency Discernment Council submitted to the government in 2003, includes plans to increase the economic growth rate, and reduce inflation, unemployment, inequality and the government's dependence on oil revenues.

Indeed, the budget dependence on oil revenues sank from 40% in 2012 to 27.3% in 2016 and is predicted to range between 25% and 35% until 2020, depending on the effects of the renewed U.S. sanctions.

However, these plans lack internal consistency and are subordinate to the security sector's predominance. Even in times of economic decline, the corrupt and often semi-legal structures of the regime absorb existing means and channel them into unproductive areas. Potential reformers, such as many of the Islamic Republic's elected presidents, have largely failed to implement their plans in reality.

The government, especially under Ayatollah Khamenei, has no priorities whatsoever regarding steps toward political liberalization. On the contrary, any democratic claims are encountered with suspicion and potential demands for democratization are often violently suppressed.

A number of observers agree that inefficient and incompetent managers within and outside the government are the main contributors to Iran's current economic situation.

Rouhani has not been able to fulfill many of his campaign promises, such as lowering the inflation rate, creating thousands of jobs, improving people's living standards and lowering the cost of living, and guaranteeing higher social and political freedom. The United States' withdrawal from the JCPOA, and Iran's adventurous regional policies and missile program have been the major reasons for Rouhani's policy failures.

The government has also been sabotaged by its opponents. Meanwhile, widespread corruption and the country's structural failures, such as the bankruptcy of several financial institutions, are also important factors in this regard.

The reasons for the failure are system immanent. Contrary to the claims of many foreign (often European) experts, there are no major differences between reformers and conservatives. It is a mistake to believe that reformers are striving for democratic change and a healthy market economy. For years, there has been this game of deception, with the regime seeking to tricks its own citizens as well as foreign

Question
Score

Prioritization

3

'06 '20 10



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Implementation

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'06 '20 10



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countries. Abroad, Foreign Minister Zarif tries to conceal Iran's foreign policy machinations through deceptive diplomacy. Zarif routinely lies about Iran's human rights situation. Rouhani promised during his election campaign to improve the human rights situation. Following the last election, massive human rights violations have been justified on the pretext of the independence of the judiciary.

The majority of the Iranian population now appears to doubt whether these people can govern and manage the country effectively. Their religious-ideological dogmas, blatant professional incompetence and rampant corruption are decisive reasons. Being aware of this, the regime increasingly resorts to state violence to remain in power.

The economic and sociopolitical outcome of the Islamic Republic shows that Iran's rulers have a strong aversion to learning from previous mistakes. In particular, the ideological-religiously oriented clerical leadership has hardly changed its behavior throughout the Islamic Republic's 40 years of existence. Since the 1979 revolution, the regime has intensified its control, oppressed opposition more violently, adopted a severe hostility toward the West, and clearly and openly rejected human rights. Meanwhile, since the 1979 revolution, most Iranians have learned to seemingly obey and avoid criticizing the regime.

Iran's political leadership, whether conservative or reformist, pursues a perennial pattern of deception in both domestic and foreign policy. While only one hard-liner conservative has been president of the country, Mahmoud Ahmadinejad (2005 – 2013), both the reformist and conservative camps are extremely corrupt. As such, neither faction is likely to drive any major change.

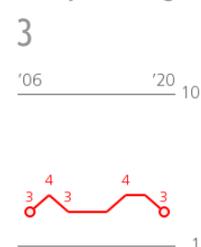
In most cases, Iran's rulers lack the expertise to diagnose and remedy policy errors, with the regime's ideological approach the major obstacle.

15 | Resource Efficiency

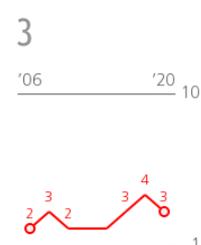
The dual governance of Iran – the government and Ayatollah Khamenei's entourage – coupled with the regime's ideological-religious orientation and rampant corruption are the major obstacles to the effective use of Iran's abundant natural resources and well-educated human capital. Following his victory in the May 2017 elections, President Rouhani could not freely assemble his cabinet and had to accept the influence of Supreme Leader Ayatollah Khamenei regarding the selection of his ministers. Throughout public administration, posts are filled on the basis of kinship rather than merit.

This all, admittedly, happens under the pressure of the massive U.S. sanctions, which have a substantial impact on state revenues. However, an administration interested in good governance would try even harder to make the best use of its available but

Policy learning



Efficient use of assets



limited resources. Yet, only in rare cases are civil servants with the appropriate qualifications properly recruited. In most cases, nepotism or loyalty to the regime and its supreme leader are the main criteria for securing a job in the state sector. The majority of people in the establishment are related to one another. They help their children and relatives acquire either high positions in the government or run lucrative businesses.

Conflicts between the executive, judiciary and legislative heads in Iran are never-ending. These tensions are affected by the complexity of the political structure, which gives control of government to the supreme leader and places the president in a subsidiary position and limits the other branches' powers.

Between February 2017 and January 2019, a heated dispute between Rouhani and the Chief Justice Ayatollah Sadegh Amoli Larijani became public. Rouhani's criticism of the judiciary reached a peak in October 2017 when the brother Rouhani's first deputy, Mahdi Jahangiri, was arrested; seven reformist activists were banned for political and press activities; and new restrictions were imposed on former President Mohammad Khatami. The judiciary, led by a hard-liner, bears considerable responsibility for massive human rights violations and arbitrary decision-making.

This notwithstanding, Rouhani has often verbally criticized the judiciary and the IRGC, but without taking action. Instead, Rouhani usually avoids action by dodging behind the independence of the three powers argument.

Tensions also persist within Rouhani's cabinet between certain ministries. Conflicts exist even in Rouhani's narrow circle, such as the dispute between first Vice-President Eshagh Jahangiri and Chief of Staff of the President of Iran Mahmoud Vaezi. As a result of this power struggle, Jahangiri is said to have submitted his resignation to Rouhani but was rejected.

There is a shadow government in Iran run by the supreme leader. The IRGC undermines some government initiatives through undertaking radical, contradictory actions (e.g., missile tests). The government does not have the control over its own intelligence service. While the government tried to improve its relationship with the European Union, the intelligence service was planning terrorist attacks in European countries.

Generally, a lack of experience and skills necessary to manage the country has been a constant characteristic of the Mullah regime throughout the four decades of its existence.

Policy
coordination

2

'06 '20 10



The lack of independent supervisory bodies, an autonomous judiciary and a powerful watchdog media contributes to Iran's high level of corruption. The 2018 Global Competitiveness Index of the World Economic Forum ranked Iran 109 out of 140 countries in terms of corruption.

The judiciary is one of the most corrupted institutions in the country. Even if judges are not corrupt, most judges lack the legal expertise necessary to reach a fair verdict. Most lawmakers are not sufficiently educated to develop and enforce the necessary laws to fight corruption. Following the 2018 economic crisis and the devaluation of the rial, several businessmen were arrested. Two of these businessmen accused of creating economic instability were convicted and executed following intransparent and unfair trials. But such measures are just show.

The supreme leader does not allow anyone to audit the judiciary, IRGC or other state institutions controlled by him.

In 2016, an Iranian news website reported allegations of corruption involving the former mayor of Tehran, Mohammad Bagher Ghalibaf, an ally of Khamenei. Subsequently, the editor-in-chief of the news website was arrested and no action was taken against Ghalibaf.

Rouhani's government and its so-called reformer supporters are deeply implicated in corruption. In July 2018, the former minister of industry (who is currently the minister of cooperatives, labor and social welfare), Mohammad Shariatmadari, admitted to corruption within the ministry regarding the illegal import of cars. In summer 2018, Iran's State Shariah Penal Authority (SSPA) acknowledged that organized crime occurred in government subsidized vehicle imports.

In July 2018, the Iranian Central Bank published the names of 1,500 companies and individuals who had received millions of U.S. dollars at the government rate of IRR 42,000 to \$1, but offered their goods at the free market rate, which was almost double the government rate.

The economy and financial institutions in Iran are in the hands of the main circles of power and government. The IRGC has its own extensive infrastructure facilities, such as seaports and airports, and secretly owns several news agencies, newspapers and online media outlets that influence the country's politics.

In addition to the IRGC and the Basij, there are a number of economic entities, such as the Mostazafan Foundation, which are under the control of the supreme leader. The economic activities of these institutions lack transparency and are beyond the control of the state. These entities are not only exempt from paying taxes, but also do not pay water or electricity bills to the government. The bulk of government bodies face system immanent corruption.

Corruption is deeply rooted in all state bodies. Even Western companies have to bribe Iranian individuals to acquire contracts, for instance, in Iran's energy sector.

Anti-corruption policy

1

'06 _____ '20 10



16 | Consensus-Building

Between 2017 and January 2019, a fierce domestic debate broke out over whether the Islamic Republic of Iran could be reformed and would be able to embark on a serious process of democratic transformation. A large number of the Iranian citizens are no longer optimistic and lack confidence in Rouhani's government.

The constitution leaves little room regarding a potential reform of the Islamic Republic's regime and power structure. Actors who have tried to change the system (e.g., former President Mohammad Khatami or the leaders of the Green Movement, Mir-Hossein Mousavi and Mehdi Karroubi) have been arrested and marginalized. Currently, there are no influential actors striving to make Iran more democratic.

Certain reformers believe in the free market economy. However, many politically and economically influential state positions are held by incompetent and corrupt officials, from both the reformist and conservative camps, who lack professional skills.

Medium- and long-term policy goals are obstructed by the dogmatic veto powers of the clergy.

Most conservatives within the ruling elite do not believe in a healthy social market economy. They believe in a corrupted version of capitalism involving cronyism, nepotism, patronage and clientelism.

Ayatollah Khamenei supports anti-democratic actors (e.g., conservative Islamists, hardliners, the IRGC, the Basij militia, the Friday imams, and most clerics and religious institutions) since their money and weapons make them powerful actors. Anti-democratic actors form a minority of the population and promote Islamic attitudes and impede reform policies.

In February 2017, less than three months before the 2017 presidential election, Rouhani criticized one of the most powerful nondemocratic actors, the IRGC. He described the IRGC as "a government with guns" due to the IRGC's interference in political and economic matters. The president added, "If the policies of Article 44 of the constitution were implemented exactly, we would have a great revolution and progress. Yet, what did we do? A part of the economy was controlled by an unarmed government and we delegated it to an armed government. This is not [a sound] economy or privatization."

Rouhani's harsh criticism of the IRGC and other non-elected actors earned him significant public sympathy shortly before the elections. In December 2017, only seven months after winning the elections, Rouhani increased the IRGC's budget for March 2018 to March 2019 by 42%, while other powerful religious bodies and propaganda institutions received substantial governmental grant benefits as well.

Consequently, many people believe that there are no real reformists in the country. The so-called reformists are not pro-democratic, but try to prolong the status quo.

Consensus on goals

2

'06 '20 10



Anti-democratic actors

2

'06 '20 10



The gap between the regime and the population, and between rich and poor has grown considerably during the assessment period. The government's mismanagement of the state and economy has increased the hopelessness and lack of prospects of civilians. In the past, Iranians usually reacted passively with patience or made jokes and ridiculed state officials. Now, they protest. People are less afraid. However, the ongoing mass protests are not a serious threat to the regime's existence, as the protests are uncoordinated and lack national networks.

Between February 2017 and January 2019, the Islamic Republic under President Rouhani continued to systematically and intentionally discriminate against religious and ethnic minorities (e.g., Sunnis, Kurds, the Bahai and the Baluchis), who are excluded from positions in public services and access to universities. By fueling and exploiting social conflicts, the regime also justifies strengthening the state security apparatus and semi-legal militias.

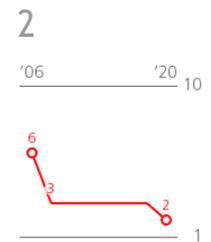
The supreme leader uses the cleavage-based conflict (i.e., the conflict between the well-educated middle-class and his lower-middle-class supporters) systematically in his favor. He asks them for rallies in his support and against his opponents.

After the nuclear deal in July 2015, many Iranians hoped that the country would become more open to the world and conditions for civil society engagement would improve. Rouhani, however, has done nothing in this respect.

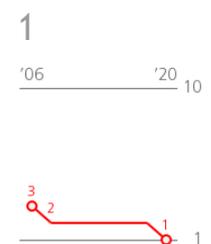
Between February 2017 and January 2019, several journalists, civil society activists and hundreds of striking workers were arrested and tortured. Ismael Bakhshi, a prominent trade unionist and spokesman for the independent workers from the Haft-Tappeh sugar factory, was severely tortured for 25 days in a Ministry of Intelligence and Security (MOIS) prison. In December 2017, prominent Journalist Hengameh Shahidi was sentenced to 12 years and nine months in prison for criticizing the head of the judiciary. According to national and international human rights organizations, Iran's Ministry of Intelligence (ICT) tortured civil society activist Sepideh Gholian and labor activist Asal Mohammadi. The ministry forced them to make false public confessions on television, an old method of the Islamic Republic.

In September 2017, the 2003 Nobel Peace Prize winner Shirin Ebadi accused Rouhani of persistent lying. Ebadi reminded Rouhani that the minister of information (who is jointly responsible for the suppression of civil society and human rights activities) is one of his ministers and sits in his cabinet. Rouhani, however, defended the wrongdoings by insisting that the judiciary arrested dissidents, while the plaintiff of most of the cases was the MOIS itself. Narges Mohammadi, Abdolfattah Soltani, and many other human right activists and lawyers have been jailed on the initiative of MOIS.

Cleavage /
conflict
management



Civil society
participation



Since February 2011, the leaders of the Green Movement, Mir-Hossein Mousavi and Mehdi Karroubi, have been under house arrest.

On February 15, 2017, Rouhani and former President Mohammad Khatami called the nation to unite in the face of possible new threats from the U.S. administration. Since the so-called reformers were marginalized under Khatami's second term, Iranians assume that Rouhani and Khatami do not seriously aim to achieve national reconciliation between the establishment and government critics, but intend to rehabilitate the former power of the reformers. The conservatives have imposed considerable restrictions on some reformers, including Khatami. Instead of considering a nationwide reconciliation, Khatami and Rouhani have sought to strengthen their position and increase their present in Iran's political power relations. They want to improve their currently limited access to political and economic resources.

The reactions of the two camps during the mass protests, as well as some other events reinforce these assumptions. Although both the reformers and the conservatives acknowledge the existence of grievances in Iran, they characterize the demonstrators as a minority supported by foreign powers. Both camps follow very similar patterns, which has formed the common practice of the regime over the past four decades.

In 2018, Rouhani's differences with the IRGC decreased. The establishment is neither able nor willing to meet the demands of the population. The regime's ultimate ambition is to keep itself in power through the use of propaganda, tricks and persistent lies, paired with the state's machinery of violence.

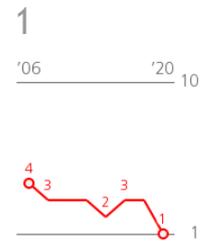
According to Amnesty International, Iran detained 7,000 people in 2018, including journalists, students, environmental activists, human rights defenders and lawyers, women's and minority rights activists, and trade unionists. Amnesty International called 2018 the "Shame Year" for the Iranian government.

The manipulation of historical memory is an everyday policy tool of the regime. For example, the regime seeks to influence societal memory regarding the mass execution of the former officials of the Pahlavi Regime or the mass execution of political prisoners in the 1980s.

Iran's regime has had great success in manipulating historical memory. About 65% to 70% of Iranians were born after the revolution and the regime has bombarded them for years with inaccurate information regarding the regime's crimes. The first decade of the 1980s is called the "black or bloody decade" by many Iranians.

Minorities (e.g., Sunni and Zoroastrian religious communities) have also suffered greatly from discrimination. But more than any religious denomination, Baha'i followers suffered during the first decade of the Islamic Republic. The Baha'i religion is not legally recognized as a confession by the Mullahs. Baha'is have no access to university education or public sector jobs, and even as private entrepreneurs they are

Reconciliation



widely oppressed by the Mullah regime. The regime sanctions people who do business with Baha'is.

17 | International Cooperation

The reintegration of the Islamic Republic into the international community, which has been one of Rouhani's key policy promises, has failed. In the period under view, Iran has been isolated due to its expanding intervention and ambition in the Middle East. Iran's intervention in Syria to keep Bashar al-Assad in power succeeded, but cost Iran billions of U.S. dollars and manpower, and increased poverty within the country and public discontent. The U.S. Trump administration has succeeded in isolating Iran economically. The alliance between the United States, Israel and Saudi Arabia, which did not exist during U.S. President Barack Obama's era, has put Iran under immense pressure. Several European countries (especially Germany, the United Kingdom and France) are opposed to Trump's withdrawal of the United States from the JCPOA and want to help Iran circumvent the U.S. sanctions.

The European-created mechanism, the so-called Special Purpose Vehicle (SPV), is based on the exchange of petroleum for commodities and services, and the substitution of the U.S. dollar for the euro in these deals.

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) has bowed to the U.S. pressure and severed its links with Iranian banks, which is a serious loss to Iran's financial system.

Iran's regime is only prepared to cooperate with the international community if there are no negative consequences in the sense of political pressure. The European Union has set conditions for implementing the Instex (Instrument in Support of Trade Exchanges). Instex is a special vehicle to facilitate trade between EU member states and Iran under the U.S. sanctions.

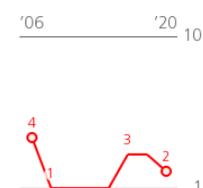
The European Union made the implementation of the Instex dependent on Iran's ratification and adoption of FATF (Financial Action Task Force on Money-Laundering) standards. However, Iran has rejected this intergovernmental agreement and, at the end of January 2019, is yet to ratify the agreement.

Iran suffers from a very poor international reputation. Iran is widely believed to support global terrorism and excessively interfere in the internal affairs of other states in the region. Iran still refuses to endorse and implement the Financial Action Task Force (FATF).

To fulfill FATF requirements, President Rouhani's administration presented four bills to the Majlis for approval. The U.N. General Assembly's Palermo Convention (Convention Against Transnational Organized Crime) of 2000 is still pending. Meanwhile, the Expediency Discernment Council is advocating for its final approval.

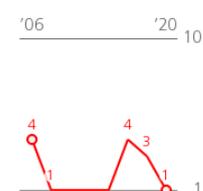
Effective use of support

2



Credibility

1



However, this certainly worsens Iran's international reputation. Recently, Iran endorsed a domestic Anti-Money-Laundering (AML) bill.

This negative image has made it difficult for European governments (especially France, Germany and the United Kingdom) and the European Union to help Iran circumvent U.S. sanctions. Nevertheless, European governments have attempted to defend the JCPOA agreement as much as they could, as they trusted that the Iranian government to stick to its promises.

In reality, Iran tested several ballistic missiles between February 2017 and January 2019. In 2018, the country test fired medium-range missiles at least seven times. Additionally, Iran fired at least 13 short-range and cruise missiles, the use of which could be in conflict with the international legal framework of the nuclear agreement.

The Iranian regime has a clearly defined ideological foreign policy, which is hostile to the West (particularly to the United States and Israel) and focuses on providing support to Shi'ites in other countries. Iran's relations with its neighbors fall within this framework.

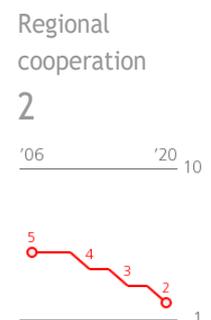
The U.S. sanctions represent a significant constraint on Iran's economy. It is not clear whether the European Union can help Iran decisively circumvent the sanctions. In the face of the regime's biggest challenge, the leadership in Tehran is seeking help from its neighbors to counter the sanctions. Tehran's endeavors, thus, depend on the goodwill of its neighbors. Iraq, Turkey and Russia can help Iran by buying Iranian oil. Nevertheless, there are significant tensions in the relationship between Iran and all its neighbors.

After the United States and India, the Iranian regime provides humanitarian aid in Afghanistan. However, several Afghani government officials and political groups ideologically view Iran as a threat to Afghanistan. Pakistan is a friend of Iran, but Prime Minister Imran Khan's government will not risk undermining its relations with the United States for the sake of its relations with Iran.

Since the populist Shi'ite cleric Moqtada al-Sadr won the Iraqi parliamentary elections in May 2018, the position and influence of Iran in Iraq has diminished. Iran's foreign minister, Mohammad Javad Zarif, visited Iraq in January 2019 to strengthen relations between the two countries. The volume of trade between Iran and Iraq reached \$8 billion in 2018.

Though relations between Turkey and Iran are not tension-free, Turkey can help Iran, since the country belongs to those five countries that are exempted from the United States' prohibition on the purchase of oil from Iran.

With the notable exception of Qatar and to a certain extent also Oman, the Arab Gulf states, influenced by Saudi Arabia, do not have good relations with Iran. In May 2018, the secretary-general of the Gulf Cooperation Council (GCC), Abdullatif bin Rashid



al-Zayani, said that Iran might fulfill their Five Requests to achieve regional security, which include ending the nuclear scene in terms of inspections, ending the missile defense of terrorists, respecting U.N. Security Council resolutions, not interfering in the internal affairs of other countries in the region and not supporting terrorist activities. Iran is yet to react to these suggestions.

Strategic Outlook

In the 40 years since its establishment, the Islamic Republic of Iran is heading into an uncertain future. The unresolved diplomatic dispute surrounding the continued existence of the JCPOA; the enormous pressure from the re-imposed U.S. sanctions; and increasing tensions between Iran, and Saudi Arabia and Israel have left Iran economically and politically isolated. Domestically, President Rouhani failed to achieve most, if not all of his policy goals, especially regarding democratization. Now, Iran's government faces the most extensive public protests since the Green Movement of 2009. In particular, poorer sections of the population have lost confidence in Rouhani's government. The upper-middle class still backs Rouhani, because they fear the Islamic Republic would collapse if the government were overthrown.

Medium- to long-term strategies need to be replaced by a survival strategy for the government. To weaken the effects of the U.S. sanctions, Iran has to wait for the end of U.S. President Trump's term in office and strengthen relations with its neighbors. The Trump administration expects Iran's economy to collapse, which would either lead to the relenting of the regime or further mass protests, which could overthrow the regime.

Iran will certainly reject any future U.S. demands. However, Iran could make use of confidence-building measures toward the European Union, and stop its missile testing, ratify the FATF and withdraw from Syria. Germany, France and the United Kingdom would certainly welcome such actions. On a domestic level, Iran could either continue its current policy of violent oppression or instigate a serious process of national reconciliation instead. While the latter case would implicate the enhancement of the democratic process and the recovery of the economy, and thus an improvement for civil society, the first option looks much more likely – the regime simply does not want to give up its decade-long corrupt and despotic power privileges, which a process of national reconciliation would threaten.

Several caveats and red lines complicate a peaceful solution for Iran's domestic challenges as well as international relations. First, Ayatollah Khamenei, while resistant to reform, holds the highest authority. Turning 80 in the year of the Islamic Republic's 40th anniversary, Ayatollah Khamenei could remain Iran's supreme leader for the foreseeable future, despite repeated rumors about his health and quarrels over his succession. Secondly, the IRGC acts as shadow government in domestic politics and is active across the entire Middle East region – they and their infamous Quds Force should cease any operation in foreign countries and be recalled to Iran instead. This would be an especially significant with regards to Syria, if the war there comes to a definite end.

However, above all remains the possibility of a broader military escalation in the Persian Gulf. An outbreak of war between Iran and Saudi Arabian-led coalition, which would likely be backed by the United States and possibly even Israel, would be a horror scenario, which would lead to unpredictable consequences. In times when rational approaches to politics are increasingly trumped by a growing number of populist leaders, who act seemingly irrationally, this option cannot unfortunately be excluded.