

# BTI 2016 | Iran Country Report

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This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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### Key Indicators

Population	M	78.1	HDI	0.749	GDP p.c., PPP \$	16391.6
Pop. growth <sup>1</sup>	% p.a.	1.3	HDI rank of 187	75	Gini Index	37.4
Life expectancy	years	74.1	UN Education Index	0.683	Poverty <sup>3</sup>	% 0.7
Urban population	%	72.9	Gender inequality <sup>2</sup>	0.510	Aid per capita	\$ 1.7

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

## Executive Summary

The period between February 2013 and January 2015 was a time of paradoxes in the domestic and international affairs of the Islamic Republic of Iran. This 24-month review period was divided into two phases: Mahmud Ahmadinejad's last year in office (to July 2013) and the beginning of Hassan Rouhani's presidency. At the domestic level, President Ahmadinejad polarized Iran's society and political landscape with his increasingly bitter disputes with the other two branches of governmental power (judiciary and legislative), which dominated Iranian politics during the ninth parliamentary elections in March 2012. The end of the deep friendship between President Ahmadinejad and Supreme Leader Ayatollah Ali Khamenei, which resulted in the supreme leader withdrawing support from Ahmadinejad's government, also caused tensions within the ruling elite.

The failure of Ahmadinejad's welfare policy, which he had declared a major priority on taking office in 2005, was in large part due to the increasingly tight economic sanctions arising from the international nuclear arms dispute, but government mismanagement and rampant corruption also played a part. Since then, Iranians have faced low economic growth rates and high inflation and unemployment. Internationally, Ahmadinejad's nuclear policies brought the Islamic Republic to its lowest point since its establishment in February 1979. Strict US and EU sanctions on Iran's key resource, oil, and financial sectors (with assets of Iranian entities and frozen and a boycott of the Iranian central bank) caused enormous disruption to Iran's economy. At its conclusion, Ahmadinejad's presidency was described by many as a "disaster."

The election of moderate Hassan Rouhani as Iran's president in June 2013 initiated the second phase. In international relations, Iran has adopted a new tone in its rhetoric which has helped ease tensions. Iran's acceptance of at least temporary restrictions on its nuclear program led to the Geneva Interim Agreement ("Joint Plan of Action," JPA) on 24 November 2013. While economic indicators have improved since Ahmadinejad's departure, Rouhani failed to make good on promises relating to internal policy which he had declared a priority on taking office in August

2013. This period was marked by voter disappointment, followed by relief and then a return to socio-political pressure and repression.

Iran is still fully engaged in regional competition, especially with Saudi Arabia and Turkey. The country's relationship with Turkey has suffered. Turkey's military intervention in Syria and Iraq crossed Iran's self-declared "red lines." However, the developments in both countries have placed an increasing burden on Shi'a-dominated Iran, which views the rise of radical Sunni groups such as the "Islamic State" (IS) with growing concern. As a multi-ethnic, multi-religious state, Iran is vulnerable to a shift in the overall religious composition of the region.

## History and Characteristics of Transformation

The Iranian regime is based on a constitution approved after the victory of the Iranian revolution over the monarchy in 1979 (revised in 1989). In blending republican-democratic elements with an Islamic legal system, Iran's constitution combines two contrary principles, making it extremely complex. The primary innovation was the introduction of the principle of the guardianship of an Islamic jurist (*velayat-e faqih*). Under this concept, a supreme leader ("rahbar," not directly elected by the people) leads and governs the state, thus overshadowing the constitution's republican-democratic principles. These principles manifest themselves in the three branches of government – the judiciary, directly elected parliament (*majles*) and the president – as well as local elections. Although the supreme leader is elected by the "Assembly of Experts," he acts as the representative of the 12th Shi'ite Imam Mahdi, who according to Shi'i doctrine lives in a state of "great absence" since the ninth century. The Assembly of Experts, whose members are directly elected by the people, is in charge of electing or dismissing the supreme leader. However, candidates must be approved by the Guardian Council whose members (six clerics and six jurists) are appointed directly or indirectly by the leader himself. The supreme leader's direct and indirect power, anchored in the constitution's article 110, effectively puts him atop the nation's governing structure. He appoints the heads of many powerful institutions, including the commanders of the armed forces, the commander in chief of the army and chief of the joint staff; the commander in chief of the Islamic Revolutionary Guard Corps (IRGC); and the director of the national radio and television network. The Guardian Council's six clerical members are appointed directly by the supreme leader, while the remaining six are laymen, confirmed by the parliament upon the proposal of a chief justice who is himself appointed directly by the supreme leader. The Guardian Council rules on the compatibility of laws passed by the parliament with Islamic law (Shariah). The council also decides who may run for parliament or the presidency. The supreme leader must approve any revision to the constitution. No constitutional legal transformation is thus possible without his consent.

The Islamic Republic also restructured the economy along ideological lines with the primary motive of protecting the poor. A plan for centralizing economic management was formulated, which involved not only the nationalization of the industrial and banking sectors, but also the

establishment of charitable foundations to handle all the investment and distribution needs of civil society. Over time, this design has proven awkward to manage and highly susceptible to corruption, as it relies heavily on subsidies and lacks transparency. Nonetheless, and in spite of long-running US economic sanctions (beginning in the early 1980s following the US hostage crisis), the Iranian economy grew at a consistent rate throughout the era of pragmatism under President Rafsanjani (1989 – 1997) and the era of reform under President Khatami (1997 – 2005). This was in large part due to the country's significant income from both oil and gas exports (Iran is thought to have 11% of the world's total oil reserves; after Russia, it has the world's second-largest store of natural gas reserves). Oil and gas revenues account for 60% of the entire Iranian budget and for 85% of the country's overall export revenue.

Iran suffered a sharp economic setback under President Mahmoud Ahmadinejad (2005 – 2013). Despite historically unprecedented oil revenues, Iran's economy was near the edge of collapse by early 2013, mainly because of incompetence and disputes within Iran's leadership which was becoming more ideological and religious, less rational and secular.

Iran's aggressive foreign policy under Ahmadinejad, especially the acceleration of its nuclear program that included the enrichment of uranium to 20% fissile purity, triggered sanctions of unprecedented severity. Regime collapse was only averted by record-high levels of oil income, which enabled the country to satisfy the people through the massive import of consumer goods. However, this import policy also helped to undermine domestic industries and if left to continue would have resulted in state bankruptcy.

The main concern of the Islamic Republican regime, as repeated daily by state officials, is the maintenance of the velayat-e faqih principle and of the regime itself. All other things are deemed subordinate. However, the application of the velayat-e faqih dogma in everyday life has led to conflicts and huge social and political problems. Silence and apparent order on the streets are deceptive. As in the Arab world, any spark could trigger mass social-revolutionary protests; in fact, the massive 2009 demonstrations following the rigged presidential elections (the "Green Movement") showed the depth of frustration felt by Iranian citizens. The average age of Iran's population, which totaled 78 million people in early 2015, was under 30. Though the rate of population growth has come down tremendously, reaching just 1.7% in 2014, 24% of the population is below 15, and only 6% over 60, as indicated by the director of the National Organization for Civil Registration in Tehran, Mohammad Nazemi Ardekani. According to a report by the Central Bank of Iran, at the end of 2020 the majority of the people could be over 40 years old. Iran's population is aging dramatically. There is considerable potential for future uprisings.

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

Question  
Score

The government has full control over all security forces and almost the country's entire territory, with the important exception of some border areas. Traditionally, Iran's (civil) national police forces have been responsible for internal security, supported by the Islamic Revolutionary Guard Corps (IRGC) and the Basij militia in the event of protests or riots. Yet in reaction to increasing internal challenges, the regime has shifted more responsibility for inner security to the IRGC. Their two corps, "Mohammad Rasul Allah" and "Seyed al Shohada," are tasked with protecting the capital against revolt and internal unrest. Both act under the command of the Sarallah (Avengers of God) Corps, an elite infantry unit of the IRGC, which was responsible for cracking down on street revolts in 1995, 1999, 2003 and 2009.

Monopoly on the  
use of force

7

In reaction to the massive anti-regime protests in summer 2009, the Supreme National Security Council decided in October 2010 that the IRGC and the Basij militia should be given primary responsibility for internal security. Their tasks also include control of political parties and NGOs, suppression of riots in universities and syndicates, primary control over prisons (where political prisoners are held), interrogation of prisoners, and countering protests and demonstrations.

Despite continuing discrimination against ethnic and religious minorities in the remote provinces, longstanding conflicts and security threats along the state's borders have diminished or even completely disappeared over the last years. Nonetheless, the number of attacks by radical Sunni groups, particularly the Islamic State (IS) group, against Iranian border police and the IRGC has increased dramatically in the last two years. Internally, the armed Baluchi group Jaish al-'Adl (Army of Justice) has replaced the defeated Sunni Jundullah (Army of God) militia, which was highly active between 2005 and 2011. Since 2013, the IRGC is the main body responsible for security in the Sunni-dominated southeastern province, Sistan and Baluchestan, which borders Pakistan and Afghanistan; here, the situation remains problematic.

In the north, PJAK and other Kurdish separatist groups have increased operations since shifting their focus towards IS and support of fellow Kurds in Iraq and Syria. Open conflicts in other border regions, especially with the Sunni Arab minority in the oil-rich Khuzestan province along the southwest border, have been resolved by force.

Although the conservative Islamic establishment has been trying to enforce its point of view under Shariah law since the Iranian Revolution, Iran remains home to three cultures: Zoroastrianism, Islam and Western culture.

State identity

8

Notwithstanding this conflict, nearly all Iranians accept the nation state as legitimate and agree on the broad definitions of citizenship. The majority of Iranians do not understand the hostility against (or questioning of) the ancient Iranian civilization. Partly excluded from this consensus are the Kurds and other ethnic groups in the southeast who have been fighting for recognition as autonomous minorities for decades.

Barely a speech or official action goes by in Iran without a reference to Islam and the Quran. The regime's unworldly interpretation of Shi'a Islam is ever-present, increasingly permeating society. As an example, extreme religious education institutions such as Howzeh Elmiye Qom and its preachers have been given more latitude for religious agitation.

No interference of religious dogmas

1

The city of Qom is generally considered the "religious capital." It is home to senior clerics, most of them close to Khamenei, making the city the second center of political power after Tehran. Some of the country's most significant decisions are shaped in Qom, reflecting the enormous political influence of Shi'ite clerical centers such as the Qom Seminary Scholars' Community and the Imam Khomeini Education and Research Institute (led by hard-line cleric Ayatollah Mohammad Taqi Mesbah-Yazdi).

The Iranian News Agency (IRNA) reported in April 2014 that more than 1.5 million clerics work in schools and other educational institutions, teaching the Quran and promoting Islamic principles. About 1,000 schools are supported by the main Shi'ite seminary in the country. Iran applies strict religious regulations in schools, which are separated by gender; girls must wear headscarves, and all students must take part in the noon prayer.

The state creates and promotes powerful religious foundations, always headed by clerics. With access to significant wealth and operating like large-scale commercial enterprises, they wield immense political and religious influence in their cities. President Rouhani provided religious institutions and foundations with generous funding in his two state budgets for 1392 (March 2013 – March 2014 in the Western calendar) and 1393 (March 2014 – March 2015).

However, Iranian society has become more and more secular in recent years. Many of the younger generation defy religious education. Pre-marriage relationships have increased drastically (some even speak of a “sexual revolution”), and during the past decade, the divorce rate has almost doubled.

Iran makes very little of its potential and possibilities (including abundant natural resources and human capital), largely due to governmental mismanagement and rampant corruption. Most state services and administrative institutions operate inefficiently. Religious affiliation and – even more so – loyalty to the regime weigh more heavily in employment than professionalism or leadership competence. Bureaucratization, corruption and interference by other authorities make these apparatuses even less efficient.

Iran has 31 provinces and a number of cities, divisions, municipality and villages, but its administrative structure is highly centralized. Elected local councils are responsible for the administration of each entity; they also choose mayors and manage the heads of each administrative level.

The state provides basic public services in most parts of the country, though usually of low quality. The tax authorities and their revenue system are particularly weak due to a lack of modern, effective taxation mechanisms. As an oil-rich country, Iran has had little dependence on the taxes of its citizens to date. The enterprise-like religious foundations (bonyads), the economic bodies linked to the IRGC that run lucrative projects in major economic fields (oil, gas, etc.) and the supreme leader are exempt from tax. The state has considerable difficulty enforcing debts and tax compliance on the part of influential and prominent persons such as formerly high-ranking IRGC officers now engaged in business. Despite Rouhani’s critical statements on tax exemptions, nothing has changed so far: according to the reputable newspaper “Shargh,” 40% of the entire Iranian economy was still exempt from taxation in December 2014.

This weak financial base makes a crisis in social security systems, particularly pensions and health care, nearly inevitable. The proportion of the population in employment compared to pensioners (and non-workers) is dropping steadily.

Road and railway networks have been neglected for decades. After 20 years of planning and construction, less than a third of the 123-kilometer Tehran-Shomal freeway, connecting the capital with the northern province of Mazandaran, has been completed, due to the incompetence and corruption of the bonyad in charge of construction, the Mostazafan Foundation of Islamic Revolution (Foundation of the Oppressed and Disabled).

Police forces are highly inefficient. Driven by religious views and affected by high levels of corruption, the police, in coordination with the Basij militia and the IRGC, take immediate action against socially and politically motivated protests, but are less

responsive when it comes to protecting citizens against criminal activity. Crime rates are rising relentlessly, especially in the capital, despite the judicial imposition of severe penalties as a deterrent. In October 2014, hardliners in Isfahan attacked 14 young women with acid, deeming their clothing inappropriate. Earlier, Iran's parliament had passed legislation that supported the morality police and plainclothes militia in their actions against citizens, giving them an almost free hand.

## 2 | Political Participation

On 14 June 2013 the pragmatist cleric Hassan Rouhani won the presidential elections with 50.71% of the vote. It was “a victory of moderation over extremism”, as Rouhani himself stated shortly after the elections.

Free and fair  
elections

4

Three of the six candidates were moderate conservatives: former IRGC Commander Mohsen Rezai, Tehran's mayor Mohammad Bagher Ghalibaf and former Foreign Minister Ali Akbar Velayati (currently acting as Khamenei's adviser in foreign affairs). Other candidates included low-profile ex-minister Mohammad Gharazi who ran as an independent, and the extremely conservative Saeed Jalili. Jalili, former secretary of the National Security Council and Iran's chief negotiator in nuclear affairs, was considered the most prominent pro-Khamenei candidate. Hassan Rouhani was the only pragmatic, reformist clerical candidate on the ballot. Candidates from the conservative (Gholam-Ali Haddad-Adel) and reformist (Mohammad Reza Aref) camps withdrew from the race.

Almost 36,792,000 Iranians participated (turnout rate 72.77%). Though international observers were not admitted, the election seemed to be free of major manipulation; however, the election process was still not free and democratic. For instance, the Guardian Council, constitutionally charged with pre-selecting candidates for election, excluded Ali Akbar Hashemi Rafsanjani, president between 1989 and 1997 and one of the country's most influential men, who seemed to have had a good chance of winning the election.

Parliamentary elections will take place in February and March 2016. The Guardian Council and the entire conservative establishment is already planning to defend its majority in parliament.

Sitting at the peak of state political power, Ayatollah Khamenei directly intervenes in sensitive and critical matters in disputes between the executive, legislative and judiciary branches, or – even more so – when his interests or views are threatened. Without his support, Rouhani cannot carry out his policies. While Khamenei backs Rouhani on foreign affairs, especially the nuclear issue, he favors a more conservative approach domestically.

Effective power to govern

2

The government's independence is further restricted by the fact that key ministers – specifically the ministers of intelligence, the interior, defense, foreign affairs, and culture and Islamic guidance – are usually allies of the supreme leader, though at present, the latter two positions are held by prominent pragmatists.

Since Rouhani took office, the other two constitutional powers (judiciary and legislative) have attempted to pressure him and block his reform policies. Parliament has passed laws which hinder the work of government, and challenged cabinet nominees on several occasions. In Rouhani's first year, the judiciary ordered a record number of executions (mostly drug dealers and drug consumers).

IRGC has also set up major barriers to reform. In September 2014, Akbar Torkan – the chief advisor to the president – declared that the government could not exert any influence on the powerful IRGC unit, Khatam al-Anbiya Construction Headquarters.

Association and assembly rights are granted in articles 26 and 27 of the constitution. In 2005, the cabinet of then President Khatami issued the decree "Regulations for the Establishment and Activities of NGOs". In 2009, the Interior Ministry reported that there were 124 NGOs with licenses to operate at the national level in health, charity, environment, culture and other fields.

Association / assembly rights

3

However, these rights exist largely on paper, and have never been fully applied. Public demonstrations and assemblies are considered detrimental to the fundamental principles of Islam. Iran's government is terrified of social and political assemblies and acts to prevent them. Deaths of popular personalities can only be commemorated on a large scale if the deceased was a supporter of the regime. Spontaneous protest meetings such as the ones against the October 2014 acid attacks in Isfahan are suppressed by the police and security forces. A lone exception was the funeral of the popular Iranian pop music star Morteza Pashaei in Tehran on 16 November 2014. Tens of thousands attended this funeral which marked the biggest gathering since the 2009 Green Movement protests. The incident arose spontaneously leaving the government powerless to prevent it, but the funeral remained peaceful.

Although guaranteed by Article 24 of the constitution, freedom of expression exists only on paper. Some reformist newspapers were banned during the first 18 months of President Rouhani's presidency, including "Roozan," "Bahar," "Khorshid," "Ebtekar" and "Aseman." Even links to hardliners are no guarantee that a publication will be spared.

Freedom of  
expression

1

However, after spending around six years in prison for "propaganda against the Islamic Republic" and "collaboration with hostile governments", prominent blogger Hossein Derakhshan was released from prison in November 2014. Yet at the same time, Tehran police closed 20 popular coffee shops where young Iranians were known to spend their free time.

Freedom of expression is severely limited for prominent critics. A senior member of the Shi'a clergy and an advocate for separation of religion and state – Ayatollah Kazemini Boroujerdi – was arrested for "expressing anti-government views and statements." The 56-year-old cleric is currently in prison, confined to his cell since January 2009, his exact location undisclosed since October 2014. Human rights activists fear that he may have been secretly executed in the meantime.

The media are forbidden from publishing news or photos of Mehdi Karroubi or Mirhossein Mousavi, the leaders of the Green Movement, who have been under house arrest since 2011, nor even of former president Mohammad Khatami. The hardliners consider him one of the main engines of the protests in 2009.

In November 2014, Iran's nuclear program and activities attracted harsh criticism at a roundtable at Tehran University, with two university professors criticizing Iran's nuclear ambitions. The speakers said that the damage done by the nuclear program was greater than that caused by the Iran-Iraq war (1980-1988), which left tens of thousands dead and caused widespread devastation. It was the first time that this issue had been the subject of public debate. One of the speakers was later summoned to court and sentenced to 18 months in prison.

Rouhani's Ministry of Culture and Islamic Guidance permitted the re-opening of the House of Cinema which was closed under Ahmadinejad. However, the government removed the autonomy of filmmakers, making them answerable to the government.

According to a 2014 report by Reporters Without Borders, Iran is still one of the world's most repressive places for media workers, with 65 journalists and bloggers imprisoned at the time. Iran is also one of the world's most repressive countries when it comes to freedom of information, ranked 173rd out of 180 countries in the 2014 World Press Freedom Index. Social media services such as YouTube, Facebook and WhatsApp are blocked. However, millions of Iranians, including some high-ranking politicians, are among permanent users of these websites thanks to anti-filtering software. Rouhani's own tweets went viral right after he was elected.

### 3 | Rule of Law

While the country's constitution alludes to separation of powers, in reality it does not exist in Iran. The supreme leader has absolute secular and religious authority over the institutions of government, including the judiciary. The two powerful brothers Ali Larijani (speaker of parliament) and Sadeq Amoli Larijani (head of the judiciary, directly appointed by Khamenei) are completely loyal to him. With a "supreme leader order" (which carries more weight than an executive order from the US president), Khamenei can annul any bill passed by parliament, most of whose members – all pre-selected by the Guardian Council – are loyal to him. The supreme leader also seeks to control the executive through direct orders or indirect pressure on the government through his proxies.

Separation of  
powers  
3

Of the three branches of state power, the judiciary is the least autonomous. Ayatollah Khamenei directly appoints the head of the judiciary, who in turn appoints senior judges.

Independent  
judiciary  
2

Iran's constitution provides for civil and criminal courts, as well as military courts, revolutionary courts and a special court for the clergy. Right of appeal is guaranteed, but limited in reality, particularly in cases affecting "national security," or drug-related offences.

Judges, most of whom are clerics, are trained in Islamic jurisprudence at universities or hold degrees from religious law schools, particularly those in the Shi'ite stronghold Qom. They must be accepted as mujtahids (authoritative interpreters of Islamic law) by religious authorities.

In August 2014, Khamenei extended Ayatollah Sadeq Amoli Larijani's term as head of the judiciary a further five years. The judiciary's lack of autonomy can be seen in the fate of the three Green Movement leaders: Mehdi Karroubi, Mir Hossein Mousavi and his wife Zahra Rahnavard have been under house arrest since 2011, their trial pending, as Larijani stated in December 2014, the supreme leader's approval. Khamenei, who approved their house arrest, was quoted as saying: "If there is a trial, the verdict will be very harsh."

The Supreme National Security Council, headed by the state president, enforces the house arrest.

However, the major issue in the judiciary is corruption. In political cases, intelligence services determine the outcome of trials. Rich and influential figure are either spared from prosecution or can move a trial in their favor.

Office abuse is omnipresent in Iran, with legal authorities helpless – and unwilling – to take action against prominent state-backed personalities. The greatest embezzlement in the history of Iran occurred under Ahmadinejad’s rule, allegedly involving a sum of \$2.6 billion. Since Rouhani assumed the presidency, barely a month passes without his ministers disclosing another case of embezzlement carried out by Ahmadinejad’s men, although the perpetrators are almost never named.

Prosecution of  
office abuse

3

The sole exception to date is Mohammad Reza Rahimi, first vice president under Ahmadinejad. In January 2015, Rahimi was sentenced to five years’ prison and a fine of ten million rials (\$364,000). The judiciary accused Rahimi of extensive dealings in embezzlement and corruption.

The judiciary is rarely willing to prosecute embezzlers whose wealth is made possible by the overall corruption of the state. Many of these figures make donations to high-ranking clergy – including the supreme leader – and other influential people to avoid prosecution. Sadeq Amoli Larijani and his two brothers Ali Larijani (speaker of parliament) and especially Mohammad Javad Ardeshir Larijani (head of the judiciary’s human rights council) are all thought to be corrupt.

Civil rights are guaranteed in articles 19 to 27 of the constitution, but are not granted in practice, and cannot serve as the basis of legal claims. There are no constraints on the government and intelligence services’ ability to monitor, wiretap, and collect data from citizens. The situation is particularly dramatic when political matters or sociopolitical activities are involved, worsening since the protests against Ahmadinejad’s re-election in 2009. Pressure on journalists, as well as social and political activists, has increased markedly.

Civil rights

2

Women still face widespread discrimination. Since 2011, women have been banned from studying a total of 77 subjects. The 2013 Global Gender Gap Index put Iran at 130th out of 136 countries.

One of Rouhani’s election promises was an increase in the rights of ethnic and religious minorities. More than 75% of the Sunni minority voted for him (70.85% in Kurdistan and 73.3% in Sistan and Baluchestan). However, Germany’s Open Doors organization still lists Iran in its 2015 “Weltverfolgungsindex” (World Persecution Index) in 7th place among discriminating against Christians. One of the most suppressed groups are the Baha’i; while they originated in Persia, only a small number remain in Iran due to increased suppression since 1979.

Iran’s penal code, based on the Shariah, is strictly applied. It provides for flogging, amputation, and execution by hanging for a range of social and political offenses. Most of these are drug-related offenses, although a number of political prisoners convicted of moharebeh (enmity against God) have also received death sentences. Amnesty International reported 369 executions in 2013, second only to China and confirming a trend which has been increasing for years. Of these executions, 59 occurred in public places such as soccer stadiums and city squares, with children in attendance.

#### 4 | Stability of Democratic Institutions

Iran's polity, built on a unique mix of republican elements and Shariah-based legislation, provides little room for democratic institutions. The parliament is largely devoted to the supreme leader, and judicial procedures, supervised by the supreme court, are mostly unjust and undemocratic.

Performance of  
democratic  
institutions  
2

Rouhani's "government of hope and prudence" has inspired hope and confidence, but its performance has so far been ambivalent. Aside from talking about the problems and criticizing the conservative camp, it has done very little to counter pressure from the hardliners.

The direct election of government bodies and authorities such as the parliament and the president, as well local government bodies, is undermined by powerful figures including the supreme leader and the members of the Guardian Council, who themselves lack any democratic legitimacy.

Commitment to  
democratic  
institutions  
2

As most Iranians are aware of these facts, they generally have little confidence in institutions. The repeated failure of reform movements, along with the public's knowledge of widespread corruption, have contributed to this disillusionment and resignation.

Some reformist politicians such as former president Khatami remain popular. However, his numerous supporters have no direct influence on political events. The judiciary has prohibited the media from publishing Khatami's name or image in any form. There was considerable support for Rouhani on the eve of the presidential elections; now it is up to him to inspire confidence in both himself and the whole largely discredited regime.

The political sphere is polarized. Conservative and hardline factions are protected by like-minded clerics, and insist on a Shariah-based state with ultimate power held by the supreme leader. His power effectively comes from his allies in clerical and non-clerical establishments. The reformist camp, which is seeking to reconcile Islam and democracy, has very limited prospects, with minimal access to the state's political and administrative power. The military and state security forces, the IRGC and the police are not committed to democratic values and support the establishment absolutely.

## 5 | Political and Social Integration

Though the Islamic Republic has developed a broad spectrum of parties, these play only a narrow role in the political process. Parties are not particularly productive, and their financing and administrative structures lack transparency. They have little input in shaping opinion nor are they able to mobilize their party members. Although exact party membership figures are difficult to assess, the number of followers in all the legal parties together is unlikely to match membership in either of the two big parties in Turkey (AKP and CHP), a country of comparable population.

Party system  
2

The most important reformist parties, the Islamic Iran Participation Front (Jebhe Mosharekat Iran-e Islami) and the Organization of the Mujahedeen of the Islamic Revolution (Sazman Mojahedin Enghelab Eslami) have been banned since the disputed presidential election in 2009. The Conservative Alliance and the Reformist Alliance in the current conservative-dominated Iranian parliament are made up of factions and do not represent genuine parties. Influential civil and religious personalities, including the supreme leader and his entourage, exert major influence on election procedures as well as the formation of, and agreements among, coalitions.

Two top conservative parties, the United Principlist Front and the Islamic Revolution Steadfastness Front (the latter led by ultra-conservative cleric Ayatollah Mohammad-Taqi Mesbah-Yazdi) dominate the parliament. Although the current parliament includes around 20 members of pseudo-reformist parties and several pseudo-independent candidates, it is completely under Khamenei's control. During election campaigns as well as parliamentary sessions, high-ranking conservative clerics can easily mobilize people, during Friday prayers, for instance, especially in the many religious centers in Qom, Iran's "secret capital."

Iranian civil society, to the extent that it has existed at all, has been crushed by various repressive state apparatuses. Democratic and independent interest groups, for instance those that pushed the Green Movement forward in 2009, are unable to exert influence on the state, which is subject to strict ideological control. Only groups represented in official circles which conform to prevailing political norms have the opportunity to influence policy; this was especially true under Ahmadinejad.

Interest groups  
2

The cemented dominance of individual clerics and security institutions means that both legal and illegal lobbying is widespread. This lobbying system, which also encompasses the reform camp and pragmatists like Rouhani, creates a breeding ground for cronyism and rampant corruption. Independent interest groups suffer under this lobbying system; generating support beyond the regime remains impossible.

There is no data on the level of approval for democratic norms in Iran. The state, forsaking its obligation to train children and other citizens in democratic norms through education and mass media, instead does the opposite. Its efforts are entirely focused on justifying the theocratic political system and Islamic norms. In the 36 years of the Islamic Republic, the regime appears to have split the country and the people. Extensive corruption and a major devaluation of ethical and moral principles have spread to the people. The society and its individual members have enormous problems enacting basic democratic norms such as solidarity, tolerance, mutual respect or even refraining from violence in disputes. Moreover, the many years of non-democratic, overwhelmingly religious rule mean most citizens simply do not know how democratic institutions work. One might assume that the upper-middle and upper classes generally approve democratic norms and procedures, while the lower classes are more interested in material needs. One result of hard economic sanctions against the Iranian economy and extreme state mismanagement is that the middle class is removed from democratic training and education. Therefore, even if the regime were to undergo fundamental reforms, it would require a long process before Iran could be declared a democratic culture.

Approval of  
democracy  
n/a

Trust between individual citizens, as manifested in self-organized civic groups, exists only in rudimentary form. Self-organization within civil society is greatly hindered by the regime, with the consequence that many Iranian non-governmental organizations (NGOs) have been banned and their leaders arrested. Nevertheless, Iranians are able to stick together in difficult times, helping each other by creating spontaneous and autonomous groups and organizations. Over several months in 2014 more than 5,000 miners at the Bafgh Iron Ore Mines in Yazd province (central Iran), struck against the government's privatization policy, which is likely to lead to job cuts. Although some miners were arrested, the strike finally achieved its objective, obtaining the government's promise to "temporarily cancel" the planned privatization. Some prominent Iranian personalities and civil society associations supported the miners indirectly.

Social capital  
3

A group of prominent Iranian human rights activists – among them the lawyer Nasrin Sotoudeh, the women's rights activist Narges Mohammadi and journalists Jila Baniyaghoub, Isa Saharkhiz and Mohammad Nourizad – support the families of imprisoned members of minority religious groups, in particular the heavily suppressed Baha'i faith. Over the last two years, however, high security risks and sanctions meant that these activities have not translated into broad support within civil society.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Socioeconomic  
barriers  
3

Although Iran rates relatively well in the UNDP's Human Development Indices (a score of 0.749 in 2013, putting the Islamic Republic at 75th place and thus among the countries with "high human development"), declining economic performance has increased poverty and exclusion levels in Iran tremendously. The Statistical Center of Iran (SCI) estimated unemployment at 10.5% at the end of 2014, its greatest effects felt by women (24%) and youth (20%). Unofficial estimates, however, put the overall unemployment rate at 20%. Data and statistics in Iran are subject to discrepancies and of limited reliability.

The Heritage Foundation's 2014 Index of Economic Freedom put Iran at 173th out of 177 countries, down five places from the previous year. Iran is one of seven UN member states that have not ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). The World Economic Forum's Global Gender Gap Index assigns Iran a score of 0.5842, 130th out of 136 countries (based on 2013 data), three places lower than in the previous year.

Many Iranians face discrimination in education and employment based on their religion, ethnicity or gender. The overall literacy rate is 84.3% (men 89.4%, women 79.2%). Enrollment rates are 106.0% (primary), 86.3% (secondary) and 55.2% (tertiary education), with near gender equality (female-to-male enrollment ratios: 98.7% primary; 93.7% secondary; 100.1% tertiary education). However, female participation in the labor market was just 18.4% in 2013 (World Bank 2014 data).

High-level economic and business activities are almost entirely reserved for those close to the ruling elite. Due to sanctions and high levels of mismanagement and corruption many people live below the poverty line; according to the SCI, 27% of Iranian households are under the national median poverty line. In 2005 the World Bank found that 8% were living on less than \$2 per day, but this number has almost certainly increased due to sanctions, government mismanagement and population growth. The Gini index, which stood at 38.3 in 2005, is also likely to have deteriorated.

Residents of border regions, especially in the remote east and west, suffer disproportionately from poverty and lack of basic facilities due to the government's negligence, a situation that has deep historical roots.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	192014.9	422568.1	493798.4	<b>415338.5</b>
GDP growth	%	4.6	6.6	-1.9	<b>1.5</b>
Inflation (CPI)	%	13.4	10.1	39.3	<b>17.2</b>
Unemployment	%	12.1	13.5	13.2	-
Foreign direct investment	% of GDP	1.5	0.9	0.6	-
Export growth	%	6.8	-	-	-
Import growth	%	2.1	-	-	-
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	13.6	12.2	15.4	<b>15.8</b>
External debt	\$ M	21543.4	20030.4	7646.6	-
Total debt service	\$ M	2790.7	1854.3	405.3	-
Cash surplus or deficit	% of GDP	6.0	-	-	-
Tax revenue	% of GDP	7.9	-	-	-
Government consumption	% of GDP	13.0	-	-	-
Public expnd. on education	% of GDP	4.7	4.3	3.7	-
Public expnd. on health	% of GDP	2.4	2.8	2.7	-
R&D expenditure	% of GDP	0.73	-	-	-
Military expenditure	% of GDP	3.5	3.2	-	-

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

## 7 | Organization of the Market and Competition

Iran's private sector only represents around hardly 20% of the country's economy. It is too weak to compete with the state-owned and semi-state-owned companies that dominate the economy. However, informal economic activities have proliferated under the sanction regime, not least in the area of financial services. In February 2014, Mohammad Reza Sabzalipour, head of the Iran World Trade Center stated that "the current administration wants to minimize its role in the national economy and secure the situation for the private sector for making investment," but it is doubtful whether

Market-based  
competition

2

the government, with its poor implementation capacity, is really in a position to do so.

A number of influential clerics and their family members hold monopolies in lucrative areas of the economy (especially the import of certain goods). Although the bonyads (foundations established after the revolution) are non-state bodies, they operate wholly under the control of the supreme leader. The commercial entities associated with the IRGC enjoy many privileges, such as tax exemption, easy access to foreign currencies at favorable exchange rates, and lucrative government contracts not subject to tender. During the Ahmadinejad era, the IRGC became the most powerful economic entity after the state, and therefore the prime target of the UN, US and EU sanctions.

In 2011, Iran's simple mean applied tariff for all products was 25.36%.

State and state-affiliated monopolies are an immense challenge for the private sector. Even the private sector is monopolized to a large extent by those close to the ruling elite. The powerful Khatam al-Anbiya Construction Headquarters, owned by the IRGC, dominates the entire construction and development sector. The government is powerless to promote private companies in this area, and there is little hope of improvement.

Anti-monopoly  
policy  
2

A Competition Committee was founded in 2009. The main task of this committee is to break up monopolies and enforce anti-competition rules. The Competition Committee is answerable to the president, who appoints its chairman. So far, the committee has had only limited success, failing to remove the monopoly on the lucrative automotive market, for instance.

Iran is still not a member of the World Trade Organization (WTO) although its application was approved in 2005. In August 2013, Mohammad Reza Nematzadeh, minister of industries, mines and trade, declared Iran's accession to the WTO to be one of his priorities.

Liberalization of  
foreign trade  
2

The government has two major obstacles to overcome: the nuclear dispute and the illiberal Iranian economy. Lucrative foreign trade sectors (oil, gas, automotive, etc.) are either controlled by the state or figures with close ties to the establishment.

The state continues to strictly regulate investments and trade. Non-tariff barriers and the economic dominance of state-supported entities have a negative impact on trade activities. Inefficient trade conditions combined with regulations affecting investment (including foreign investment) and tax are factors that significantly impede foreign trade activities. Without changes in this area, Iran has little chance of acceding to the WTO.

There are a number of import and export tariffs. According to a 2009 WTO report, Iran applied MFN-based tariffs on 26.0% of its imported items in 2008 (28.9% for agricultural goods and 25.6% for non-agricultural goods). The government began lowering tariffs in 2013, but there is clearly more work to be done. Iran has a long way to go before its trade numbers are back on track. The sanctions imposed on Iran continue to be a major obstacle.

Iran's banking system contributes to the country's financial corruption. One major problem for Iran's banking system is that the economy is essentially run by the government, which is also directly engaged in banking business. Lending policies of the state-owned banks are based on patronage and nepotism.

Banking system

2

The government uses the banking system as a reserve to back its plans. Furthermore, the lack of a totally independent central bank as well as improper monetary policies and the prominence of commission facilities and a lack of transparency in bank interest all contribute to the chaos and inefficiency of the Iranian banking system. The \$2.6 billion embezzlement scandal in 2011, the largest in Iran's history, and a current banking fraud case disclosed in December 2014 by economics minister Ali Tayebnia which apparently involves a sum of 120 Iranian rials (\$4.4 billion), suggest acute mismanagement of the banking system.

The Central Bank of Iran's (CBI) primary goal is not price stability, but rather ensuring a flow of funds for the government's policies and decisions. Its dependence ensures that other banks cannot independently manage or administrate their own monetary portfolios. Banks are under pressure from the government to offer credit with preferential terms and conditions. The Rouhani administration will find it very difficult to introduce effective reforms and put the banking system back in order.

## 8 | Currency and Price Stability

While Iranian authorities may wish to control inflation and the currency market, they are largely unsuccessful due to mismanagement, corruption, international isolation and sanctions.

Anti-inflation /  
forex policy

3

Rouhani inherited a terrible situation from his predecessor. The massive sanctions introduced in June 2012 have made it impossible for the Rouhani government to pursue stability in prices or monetary policy. The implosion of the Iranian economy and the collapse of the Iranian rial were direct consequences of the nuclear dispute and related sanctions. In the first ten months of 2012, the rial lost more than 80% of its exchange value. Although the Iranian currency experienced a slight, temporary recovery, the sharp decline in oil prices and unsuccessful negotiations in the nuclear dispute reignited the currency crisis. One important step in forex policy was the government's decision to cancel the "two classes currency category" in early 2013,

the so-called “currency room” with low exchange rates for importers and exporters (e.g., 25,000 rials to the dollar) with the free-market rate hovering around 35,000 rials. It was also highly corrupt, with those close to the ruling elite benefitting from this currency room and importing luxury goods such as limousines at reduced rates.

One positive economic trend relates to foreign debt. CBI estimated the country’s external debt at \$7.682 billion at the beginning of 2014, down from \$22 billion at the beginning of 2011. Thanks to an abundance of natural resources, public debt amounted to no more than 11.3% of GDP in 2013. Total debt service was \$405.3 million dollars in 2013.

Macrostability  
4

While there is a lack of reliable statistics, it is clear that Rouhani’s Iran lacks the basic preconditions for a stable economy, such as low inflation and unemployment figures or increasing growth rates. Future macroeconomic data is also greatly dependent on progress in the political negotiations around the nuclear dispute. Garbis Iradian, deputy director of Africa and the Middle East at the Institute of International Finance (IIF), expressed the hope that “with an agreement, foreign direct investment into the energy sector, long starved for investment and technical knowhow, could return and eventually help Iran raise oil production, potentially beyond pre-sanctions levels. Without an agreement, the Iranian economy would likely weaken further and unemployment would continue to rise.”

## 9 | Private Property

Guaranteed by Article 46 of the constitution, property rights are generally protected. Yet, the freedom to sell sizeable properties or land parcels is constrained by the patronage system. Creating private businesses such as mid-sized industrial facilities requires subsidies, which are difficult to obtain. Connections and corruption (provisions, bribes) are usually the most important criteria for obtaining financial support. Basic transactions, such as buying and selling real estate, is usually unproblematic.

Property rights  
3

The Heritage Foundation’s 2014 Index of Economic Freedom ranks Iran place 173th out of 178 countries in terms of property rights, compared to 168th out of 177 in 2013. Its score decreased by 2.9 points over the same period.

The extensive monopolies held by state enterprises and influential figures prevent private companies from acting and developing freely. Ongoing privatization processes suffer from corruption, as many state companies are sold below their market value to their managers or individuals close to the ruling elite.

Private enterprise  
3

Ahmadinejad’s legacy, especially his subsidy plan, will make it difficult for Rouhani’s government to push the privatization process forward. These “cash subsidies” have been an intolerable burden on a state treasury already suffering under

sanctions and low oil prices. In a wide-reaching campaign in April 2014, the Rouhani administration called on people not to register for cash subsidies. The reason was that more than half of the population is on an income of less than \$300 per month and therefore cannot be refused. In May 2013, prices for fuel, gas, electricity and water were raised by more than 20% with the aim of promoting the privatization program, under which water and electricity are to be fully privatized within three years. The new government has put a large number of companies up for sale, including mining companies, petrochemical and oil refineries, heavy industry, and power utilities. The head of Iran's privatization agency, Mir Ali Ashrafpour, said that in the first six months of the Rouhani administration, the government sold off \$13 billion worth of assets which represents more than double the amount sold in the first half of the 2013-2014 Iranian fiscal year and nearly a third of all assets sold since it launched the privatization program in 2001.

## 10 | Welfare Regime

The Iranian social security system is suffering under foreign sanctions, the government's misguided social policies, and corruption. The inconsistency of the country's health insurance and hospital system as well as its huge population, lack of facilities and equipment, poor health policies, environmental degradation and low food quality, particularly for the poor, have created numerous problems for doctors and patients alike. Even patients with insurance must pay 70% of their medical expenses. Approximately 5-7% of people live below the poverty line because of high costs related to severe and incurable illnesses. The conditions in hospitals are disastrous, especially in poorly equipped state hospitals. Physicians often act unethically, with a reputation for caring more for their own financial advantage than their patients. Official information on health insurance rates is contradictory. While Hossein Ali Shahriari, head of the parliament's health commission, announced in April 2014 that about ten million people in Iran were uninsured, Shahabuddin Sadr, head of the Iranian Medical Council, spoke of seven million people (approximately 10% of the country's population). In late 2014, health minister Seyed Hassan Hashemi announced simply that "All people are insured."

Many public hospitals deny treatment to patients suffering from severe and chronic, and therefore expensive illnesses. The quality of state and private hospitals differs greatly. The weak insurance system means that there is no actual control of the health system. Insurance bodies make almost no investment in medical and health research. Pension systems are generally insufficient. Pensioners with no additional income can barely cover basic costs. According to the UN, Iran will have one of the world's oldest populations in 2050. This means that the costs of insurance companies' retirement funds will increase, possibly leading to a financial crisis for these institutions.

Social safety nets  
4

Discrimination against women, ethnic and religious minorities, and dissidents, which increased markedly under Ahmadinejad, continues under President Rouhani. In a March 2014 report by the U.N. Special Rapporteur on the situation of human rights in the Islamic Republic of Iran, Ahmed Shaheed drew a gloomy picture of the new administration, with at least 307 members of religious minorities in detention as of 3 January 2014, among them 136 Baha'is, 90 Sunnis, 50 Christians, 19 Dervish Muslims (four Dervish human rights lawyers were also reportedly detained), four Yarasans, two Zoroastrians and six others. The minorities, especially Baha'is and Sunnis, face enormous difficulties in the education sector and the labor market, particularly public service positions. Access to higher education is barred to Baha'is and very limited for Sunnis. Sunnis still have no mosque in Tehran, even though they represent an estimated 10% of the capital's inhabitants. Rouhani is yet to make good on his promise to improve minority rights.

Equal opportunity  
2

In 2013, then-President Ahmadinejad appointed Marzieh Afkham as speaker to the foreign ministry, the first woman in such a top position within the diplomatic corps. Hassan Rouhani appointed Masoumeh Ebtekar as vice president of the Islamic Republic of Iran and head of the department of environment, an office that she had already held under Khatami from 1997 to 2005. However, Iranian women are still banned from the positions of judge, president or supreme leader, or membership of the Guardian Council and other powerful institutions.

## 11 | Economic Performance

The last years of Ahmadinejad's presidency were marked by the most serious economic decline in the history of the Islamic Republic, especially when the full impact of international sanctions was felt in the Iranian economy. For the first time ever, Iran's economic growth rate has fallen well into the negative. According to the IMF, World Bank and the central bank, Iran has experienced negative economic development in the last two years with the real GDP growth rate at market prices falling from 5.9% in 2010 to -5.8% in 2012.

Output strength  
3

However, in the World Economic Forum's 2013 "Global Competitiveness Report," Iran is still listed as second-largest economy in the Middle East and North Africa (MENA) region after Saudi Arabia, with a GDP of \$366.3 billion and a GDP per capita of \$4,751 (significantly lower than the oil-rich Gulf monarchies).

One of Rouhani's biggest successes so far has come with countermeasures against this accelerating downward trend. The growth rate returned to positive values in 2014 when it reached 2.2%. After peaking at 42.3% in August 2013, the inflation rate fell sharply to 17% at the end of 2014. However, the accuracy of these numbers is disputed: In March 2014, the new minister of economics Ali Tayyeb Niya stated that the combination of high inflation (over 40% at that time) and negative growth rate

(around -6%) was unprecedented in the history of Iran. That makes it rather questionable whether the government really managed to turn these numbers around in less than a year.

In December 2014, President Rouhani submitted his draft budget for the coming Iranian calendar year 1394 (March 2015 – March 2016) to the Iranian parliament. It shows an increase of 5.7% over last year's 1393 budget (March 2014 – March 2015). Rouhani's first draft budget recorded an enormous budget deficit with oil exports, the lifeblood of Iran's economy, down by 40% since 2011. Mohammad Bagher Nobakht, the head of the Management and Planning Organization and also the government's spokesperson, said in December 2014 that the budget deficit for the Iranian calendar year 1393 (March 2014 – March 2015) will be approximately \$9 billion, also attributable to lower oil prices. Rouhani submitted a budget of 8,400 trillion rials (\$312.13 billion at the official exchange rate) for the new Iranian fiscal year beginning March 20, 2015.

There were positive developments in foreign debt, with external debt levels falling from approximately \$22 billion in 2011. The Iranian central bank estimated the country's external debt at \$7.682 billion at the beginning of 2014. Yet, as the World Bank notes, the business environment remains weak with the country ranking 152nd out of the 189 countries surveyed in the 2014 Doing Business Report. Only Algeria, Djibouti, Syria and Libya ranked lower among Middle Eastern and North African (MENA) countries.

## 12 | Sustainability

There has been little attention to environmental policy in Iran since the establishment of the Islamic Republic 1979. This is partly due to the country's stark urbanization, but also a reaction to the increasingly difficult economic situation following the enactment of international sanctions. Flowing rivers, forests, and historical structures in a country with several millennia of civilization are threatened by utterly inept maintenance, carelessness and policy neglect. Iran may well degenerate into a great "desert" according to a recent report by the French newspaper "Le Monde." After the 1979 revolution, the regime forced peasants to leave more land fallow, irrespective of the massive consequences for income generation and food security. The aim was to create a poorer rural population and win its support for the regime. Iranian geologist Naser Karimi warns of bleak prospects unless measures are taken soon. These would include reducing agricultural land by 50% and destroying all illegal wells.

Air pollution in the already overpopulated cities remains at untenably high levels; according to the 2013 WHO report, four of the world's ten most polluted cities are in Iran. At the top of the list sits the city of Ahwaz, a center of heavy industry in western

Environmental  
policy  
3

Iran with a population of more than three million. Tehran, with more than 12 million inhabitants the country's largest city, is burdened with around four million mostly outdated automobiles, which far exceed the city's capacity. A high-ranking scientific official said in September 2014 that between 2,400 and 4,800 people die in Tehran annually due to complications resulting from air pollution. Iran has increased its refinery capacities and was producing its own low-quality gasoline until recently (when it was halted by Rouhani's newly appointed head of the Environment Protection Organization, Masoumeh Ebtekar). Further welcome steps by the new government include an end to the sale of public parks, the opening of the Center for Environmental Refining in Mashhad and Bushehr, and the establishment of a "green school" in Qazvin. However, some of the government's environmental plans have yet to transition from policy to reality.

Rural areas, particularly in the border regions, suffer from low-quality or non-existent educational facilities and teachers, even at elementary schools. People in other parts of the country have access to schools and colleges. According to the Education Ministry, about 12.3 million children were registered in the scholastic year 2014, more than half of them at primary schools. About 51% of students were male and 49% female. The overall literacy rate is at 84.3%, with slightly better rates for men (89.4%) than for women (79.2%).

According to Article 30 of the constitution, the government must provide all citizens with free education up to secondary school, and must expand free higher education to the extent required for the country to attain self-sufficiency. However, this is not the case in reality. The Education Ministry's share of the budget was less than 10% in 2013 and 2014, while public spending on education was as low as 3.6% in 2012.

Of the 144 countries in the 2014-2015 "Global Competitive Report" of the World Economic Forum, Iran came in 108th for overall quality of its education system (down from 94 the year before), 70th for primary education (down from 61), and 126th for internet access in schools (down from 117). For the quality of scientific research institutions, Iran came 45th (down from 40) and 94th in capacity for innovation (down from 59).

There are currently more than four million university students in Iran. The quality of higher education has suffered since Ahmadinejad's presidency, a negative trend that is evidently continuing. Similarly, lifelong learning services (availability of research and training services for staff) are dissatisfying.

This is only partly due to a lack of competence; the main contributor is the underlying tendency of Iran's political officials to act out of ideological motives rather than rationality and technical expertise.

Education policy /  
R&D  
4

## Transformation Management

### I. Level of Difficulty

Iran has huge potential, but makes little of it. Many countries in the world can only dream of around \$800 billion in oil revenues alone in just eight years (the Ahmadinejad era). With 11% of the world's total proven oil reserves, the country has the globe's fourth largest oil reserves and, after Russia, the second-largest store of natural gas reserves. Iran is, without a doubt, an energy superpower. However, Iran's oil and gas sector has suffered heavily under sanctions because the state lacks necessary means for investment. Iran's oil minister Bijan Namdar Zanganeh expects a "serious crisis" to hit the oil industry.

Structural  
constraints

5

With a population of more than 78 million, including four million students, Iran also possesses considerable human capital. However, population growth has been slowing, with officials already warning that the growth rate could fall to zero within 30 years. Supreme leader Ayatollah Ali Khamenei criticized Iran's current family planning as an imitation of Western lifestyles, ordering the government to increase the population from 78.5 million to 150-200 million in the coming decades.

Iran's problems could certainly be overcome by good political management. However, the ministerial competence which Hassan Rouhani's cabinet assuredly boasts is still constrained by rigid ideological and religious boundaries. A clean and effective fight against corruption cannot succeed because it would mean targeting many figures close to the powerful political establishment. Rouhani's economic policy has been too timid in the face of urgently needed reforms. Challenging the IRGC and the entourage around the supreme leader, which largely controls the Iranian economy and society, is beyond Rouhani's capabilities.

Iran's civil society revived under the presidency of Mohammad Khatami. Dozens of NGOs were founded and began operations, some of them working on particularly sensitive issues such as women's rights. Under Ahmadinejad, the judiciary shut many of these NGOs down and prosecuted their members.

Civil society  
traditions

7

Rouhani has so far achieved little in this area, unable to either gain control over the intelligence and security forces nor fulfill promises made during his election campaign. In an open letter to Rouhani in December 2014, the Iranian Journalists

Association called for an end to the ban imposed on the organization in 2009. However, actions taken so far point in a different direction, and arrests of journalists, bloggers and civil society activists may even have accelerated since Rouhani took power in August 2013. Detainees are generally charged with “anti-regime propaganda” or “activities against national security.” Filmmakers, writers, artists and civil society professional associations, particularly females, are under immense pressure.

Prominent voices have criticized the deteriorating human rights situation under Rouhani, among them Nobel Peace Prize winner Shirin Ebadi and UN Secretary-General Ban Ki-moon.

Iran has so far proven stable in a region ravaged by ethnic and religious conflict. However, this may just be a facade. The regime continues to discriminate against religious and ethnic minorities, such as Sunni Kurds and Baluchis. They are unable to practice their religions freely and are largely excluded from public service positions. This could have a negative impact on the security and territorial integrity of the state. The emergence of “terrorist” groups such as the Kurdish PJAK and the Baluchi Jundullah and Jaish al-‘Adl can be seen as a reaction to this discrimination.

Conflict intensity

4

The PJAK has been attacking army posts in the mountainous border region between Iran, Iraq and Turkey since 2008. The group claims to have killed seven Iranian soldiers in summer 2013, and has been held responsible for the death of three Iranian border guards in June 2014.

Even in the majority culture, the daily harassment of citizens who supposedly transgress Islamic values and norms is stoking growing hatred against the establishment. Despite the state’s “undeclared war” against its own citizens, the capital and other cities were largely placid during the period under review. The machinery of violence operated by the security forces functioned effectively (indeed, the security forces can be seen as the only sector in the Islamic Republic that does work effectively). Here it must be noted that a large proportion of the traditionally religious middle class supports the regime, or at least does not act against it. However, permanent suppression of the citizenry coupled with an inability to protect them or to manage the state effectively represents a situation which cannot endure indefinitely.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

Iran's "Vision 2025" document – drafted in 1999, assessed by the Expediency Discernment Council in 2002 and submitted to the government in 2003 – forecasts increasing economic growth, declining inflation and unemployment, and a gradual reduction of the budget's dependence on oil revenue. A secondary goal was to become the world's 12th largest economy by 2015, a target that Iran is close to reaching – an IMF ranking of GDP (PPP), puts Iran at 18th for the year 2014.

Prioritization  
4

The legacy of his predecessor and the devastating international sanctions forced Rouhani to pursue new objectives and priorities. Foreign policy is the government's strong point. In the nuclear dispute, Rouhani aims to reach agreement with the P5+1 countries (United States, United Kingdom, France, Germany, Russia and the People's Republic of China). The most significant foreign policy event came in August 2014 with the start of direct political talks with the USA, once derided by Iran as the "Great Satan."

In other areas, however, there has been no progress. Regionally, Ahmadinejad's strategy of supporting Bashar al-Assad in Syria continues, increasing tension with Saudi Arabia and other Sunni governments in Iran's western geopolitical neighborhood. Domestically, the government appears disinclined toward even modest democratization, such as the re-empowerment of civil society.

Given the strong opposition towards his reform ideas from the judiciary and parliament, both under the control of Khamenei-backed conservatives, President Rouhani has largely left the domain of domestic politics to his opponents. His domestic policy objectives remain, with few exceptions, unfulfilled. In fact, there is even greater repression of civil society than before. Rouhani has opted for complete silence on this issue. It is clear that Ayatollah Khamenei still determines policy debates and outcomes in Iran, including the nuclear dispute, and it is unclear how long Rouhani can count on the supreme leader's support.

Implementation  
2

With successive changes of government in Iran generally accompanied by large-scale renewal of personnel, each new administration often contains numerous people with no prior experience in their respective fields. This fact makes learning progress very difficult.

Policy learning  
4

It is beyond contention that the previous government caused a serious crisis for Iran. Ahmadinejad followed a messianic ideology and was under the illusion that he could change the world order.

Under his rule, it was the economy and civil society which suffered the most. Nepotism as well as corruption reached record highs. Rouhani's government is more pragmatic and considerably less corrupt than the last one, and it should be noted that it has learnt from Ahmadinejad's fundamental flaws. New ministers have expressed their desire to correct fatal mistakes of the previous government. Rouhani's foreign minister Mohammad Javad Zarif has proved capable in his initial months in office.

However, the other two branches of power (the Khamenei-backed judiciary and legislature) have prevented the government from reducing corruption and introducing much-needed reforms.

## 15 | Resource Efficiency

President Rouhani is confronted with two major problems. Unlike Ahmadinejad, who had access to considerably greater oil revenues than any other government since the 1979 Islamic revolution, sanctions mean that Rouhani must manage the state on less than half of normal oil exports. Moreover, the price of oil has dropped by more than half since the last quarter of 2014. The resulting low revenues will not be enough to finance urgently needed salary rises in the lower and middle levels of the public administration. These are hardly desirable jobs; with the high cost of living, employees often take second jobs, further reducing their productivity and increasing their susceptibility to corruption. There are advanced training seminars for people working in public agencies and the public service. Hiring, particularly for top positions, tends to be based on kinship rather than merit. As a rule, only those with ties to influential ayatollahs hold high public offices, regardless of their suitability for the position.

Efficient use of  
assets  
3

One major task for the new president, then, is reducing the brain drain. Rouhani's (later dismissed) minister of science and technology Reza Faraji Dana admitted in April 2014 that every year "about 150,000 of our elite emigrate from Iran, costing our economy \$150 billion."

Within its limited scope for maneuver, the Rouhani government has initiated some reforms, such as a campaign against corruption in state authorities in late 2014. Rouhani even criticized the powerful IRGC by saying that "when a single public

organization possesses guns, newspapers, websites and power, it is unlikely to remain free of corruption.” Rouhani commanded the Task Force Against Smuggling Goods and Foreign Currency to begin coordinated actions to “shut down unauthorized ports and entry points” and to stop the interference of “unauthorized bodies” in imports. The government had earlier accused the IRGC of possessing illegal platforms and docks.

There is insufficient coordination between the government, judiciary and legislature, and within governmental units. Coordination between Rouhani and the parliament is particularly poor. Where Ahmadinejad dismissed several of his ministers and central bank heads to bring the government under his full control, Rouhani’s nominated ministers have been rejected by parliament on several occasions. Anyone connected with the reform camp led by former President Khatami or close to the two arrested opposition leaders Mousavi and Karroubi is rejected by the conservatives, particularly in parliament, and this is unlikely to change.

Policy  
coordination  
3

Progress in the nuclear dispute has not received majority consent from parliament. Conservative deputies have singled out chief negotiator, foreign minister Mohammad Javad Zarif, for criticism. However, the supreme leader supports the nuclear negotiations and backs the government, so the parliament has no authority on this matter.

Iran’s Middle East policy is hardly coordinated. The Foreign Ministry has no control over military planning and operations of the al-Quds Forces, an IRGC division responsible for operations outside Iran, or its commander Qassem Suleimani. The expanding interference of the al-Quds Forces in several countries of the Middle East stands in conflict with the regional détente promised by Rouhani at the beginning of his presidency.

Despite near-unified policies in areas where the government has full control, conflicts often arise between different governmental institutions, for instance, when environmental bodies impose standards for factories which the Ministry of Industry ignores. Under Rouhani, many cultural and art events which had been approved by the Ministry of Culture and Islamic Guidance were banned by judicial authorities, the police or security forces. So far, there is no evidence of effective coordination between ministries and departments.

In structural terms, the fight against corruption is insufficient, with a lack of effective independent supervisory bodies or powerful watchdog media. The strong will of the government alone is not enough to seriously fight corruption, particularly as noted figures of the reformist and pragmatic camps have been involved in corruption scandals.

Anti-corruption  
policy  
3

The Iranian judiciary, and more specifically the General Inspection Organization, are the main bodies responsible for fighting corruption. But a lack of qualified staff or

effective mechanisms and, more importantly, a lack of willingness has prevented the judiciary from fulfilling its duty.

Rouhani's government has revealed that the previous government improperly received several billion U.S. dollars. However, almost none of Ahmadinejad's high-ranking officials have been arrested until now, with Mohammad Reza Rahimi, Ahmadinejad's first vice-president, a lone exception. He was sentenced to five years' prison sentence and a 38.5 million rial fine (around \$1.3 million) in late January 2015. Rahimi was indicted in connection with a billion-dollar embezzlement, but corruption convictions pre-date the present government. In 2011 and 2013, respectively, two billionaire businessmen, Mahafarid Amir Khosravi and Babak Zanjani, were arrested in connection with the 2011 embezzlement scandal described as the largest in Iran's history. Khosravi was secretly executed without warning on 24 May 2014, prompting suspicion that the judiciary wanted to make further inquiries into the case impossible. According to Hossein Dehdashti, a member of the parliamentary inquiry committee, there was clear evidence that other members of Ahmadinejad's government and the parliament were involved in the fraud.

## 16 | Consensus-Building

Few of Iran's central institutions favor liberal democracy based on the rule of law. Although elections do lead to changes in political office, the omnipotent clergy led by Ayatollah Khamenei prevents any bottom-up decision-making contrary to their interests. The conservative-dominated parliament, the judiciary, and the powerful IRGC, in particular, are opposed to democratic initiatives, countering any move that could lead to greater political openness. Members of the pragmatic reformist camp, led by the two former presidents Rafsanjani and Khatami, still believe that development of democratic practices with strategic, long-term goals is possible within Iran's overall Islamic context, but they are widely isolated and lack effective influence. However, they support and encourage the new "pragmatic" President Hassan Rouhani who, in January 2015, called for referendums on key economic, social and political issues, which are considered medium- and long-term policy aims. The right to hold referendums is anchored in article 59 of the Iranian constitution, however they are subject to the supreme leader's approval (article 110).

Iran's most powerful figures have generally aimed for economic progress without political reform. President Rouhani has yet to prove whether he can change this course. The new government believes in the principles of a free market economy and liberalization of Iranian society within an Islamic context, however, it seems likely that Iran will remain a clientelistic market economy in a dictatorial framework with high levels of corruption, and low levels of judicial independence, transparency or social welfare.

Consensus on goals  
3

The supreme leader and radical cleric Ayatollah Khamenei is the most powerful person in the country, with no one able to veto his decisions. The current president, who is considered moderate, has to win his approval for any major new changes.

Anti-democratic  
actors  
2

The conservative Islamic camp is heavily represented in the parliament and judiciary. In domestic affairs, they have the support of Khamenei's powerful entourage. The ayatollah has representatives and followers throughout the country, including the "Friday imams," who promote Islamic attitudes and impede reform policy. With Rouhani succeeding Ahmadinejad as president, the conservative camp has stepped up its attacks, eager that nothing should change under the new government. However if the reformists win the next parliamentary elections (scheduled for February/March 2016), their position will be further strengthened.

While "unification" has long been an important buzzword for Iran's political leaders, in practice there have been no significant efforts to attain it. Ayatollah Khamenei, who has the potential to act as a unifying mediator, is instead a polarizing figure within society, especially since he positioned himself against the Green Movement and threw his support behind President Ahmadinejad. Khamenei has greater powers than almost any other head of state, unaccountable to any state authority, but he exacerbates cleavages. The increasing number of executions, growing levels of injustice and the daily harassment of citizens by security forces divide the whole society, including religious and ethnic minorities. President Rouhani has not yet succeeded in repairing the gap between the state and minorities. Many Kurds and Baluchis live in the most deprived regions of the country and suffer from a lack of basic facilities.

Cleavage /  
conflict  
management  
3

The government has also been unable to reduce the gap between the rich and poor, and the luxurious lifestyles of the high-ranking clerics, officials and their families causes resentment among the population.

Although the 2013 presidential election was won by a reformist, Iran's civil society – intellectuals, scientists, filmmakers, women's activists and journalists as well as religious and ethnic minorities – continued to face intense pressure during the period under review. There is some evidence of decreasing tension since Rouhani assumed office, such as the re-opening of Tehran's House of Cinema which was disbanded in January 2011. The regime has created atomized interest groups exhibiting little solidarity with one other, each pursuing its own interests. Of the 58 journalists and bloggers currently in prison, 25 were arrested during Rouhani's reign. In a 2014 Reporters Without Borders ranking, Iran came in at 173 out of 180 countries, putting it in the same league as China, Syria, Somalia, North Korea and Turkmenistan. Since Rouhani is unwilling or unable to do anything about it, the hope of many of his supporters is fading. This offers further encouragement to his radical opponents who control the intelligence agencies and the judiciary.

Civil society  
participation  
2

The state has been responsible for considerable wrongdoing and injustice during the 36 years of the Islamic Republic. It peaked in the 1980s when thousands of political prisoners were executed within a few days. But the regime denies, ignores or even manipulates the relevant facts.

Reconciliation  
3

Most of the victims and their families who lost their lives or suffered serious damage after the disputed presidential election in 2009 have still not received compensation. The fate of the arrested opposition leaders Mousavi and Karroubi divided the nation, enhancing the divide between the reformist and conservative Islamist camp. Reconciliation, one of Rouhani's key election promises, will be difficult as long as this issue remains unresolved. Even the conservative parliamentarian Ali Motahari criticized the house arrest of Iranian opposition leaders in a January 2015 speech which was attacked by hardliners.

## 17 | International Cooperation

In the first years of the Islamic Republic, the leaders of the regime were highly suspicious of any cooperation with international institutions, considering them agents of "malicious" Western powers which sought regime change in Iran. This position has softened in recent years and Iran has received funds from institutions such as the UN and the World Bank for certain development projects. However, Iran's present situation suggests that these funds were not used effectively.

Effective use of  
support  
3

The Geneva Interim Agreement ("Joint Plan of Action") on 24 November 2013 was the highlight of that year, made possible by Iran's new course in the nuclear negotiations under Rouhani, which is described as more relaxed and friendly than ever before.

In accordance with sanction rules, Iran maintains bilateral relations with donor states such as Germany and Japan as well as the international financial institutions World Bank and the IMF, which sent a delegation to Tehran in January 2015. Fiscal and monetary policies are of prime significance for Iran in times of low oil revenues.

Iran has proven to be an unreliable country in the eyes of the international community largely due to its secret nuclear activities. Its support of radical groups such as Hamas and Hezbollah, as well as the repressive regime of Syria's Bashar al-Assad have severely harmed Iran's image.

Credibility  
4

Under Ahmadinejad, Iran gambled away the credibility it had gained during Khatami's tenure. Now under Rouhani, Iran's credibility has increased markedly. Rouhani met French President Francois Hollande, British Prime Minister David Cameron and other world leaders in October 2014. This would have been unthinkable in the era of Ahmadinejad, who outraged the international community with his position of Holocaust denial and his anti-Israeli statements. Even small gestures have

proved helpful, such as Rouhani's September 2013 tweet in which he extended greetings to Jews celebrating Rosh Hashanah.

Foreign minister Mohammad Javad Zarif has played a key role in nuclear talks and negotiations. Zarif is seen as the most competent and sophisticated Iranian foreign minister in the Islamic Republic's history, and he is respected by negotiating partners. It was mainly due to him that high-level talks with the US resumed in 2014 for the first time since the U.S. hostage crisis in Tehran which followed the Islamic Revolution 1979.

Iran's regional relations have suffered deeply due to its actions in Syria, Iraq and Lebanon. The relationship between Iran and its two main regional rivals Saudi Arabia and Turkey remains precarious. One of the main points of tension is the civil war in Syria. In October 2014, Foreign Minister Mohammad Javad Zarif called on Turkey to avoid aggravating tensions in the region after the Turkish parliament approved the use of armed forces against jihadists of the Islamic State (IS) in Syria and Iraq. Iran remains a close ally of Assad, while Turkey opposes the Syrian dictator. Tensions between Tehran and Ankara peaked when Iran increased tariffs on Turkish trucks carrying goods to Asia; however, a January 2015 agreement ended mutual transport restrictions.

Saudi Arabia has major concerns about the spread of Shi'a influence across the region. Iran is perceived as influential in three Arab capitals at present: Baghdad, Damascus and Beirut. In late January 2015, it appeared poised to add a fourth: Sana'a, Yemen's capital, where Shi'ite Houthi rebels captured the presidential palace on 20 January 2015. Bahrain, with a 70% Shi'ite majority despite its Sunni ruling family, is also vulnerable. Saudi Arabia perceives this "Shi'ite belt" as a fundamental threat to its security.

An agreement with Qatar over the joint use of the South Pars/North Dome gas fields is still pending with only limited, temporary coordination measures between the two sides so far.

Relations between Iran and Russia have traditionally been good, apart from some points of contention, such as competition for economic and political influence in the Caspian region and Central Asia. Relations have improved further under Rouhani.

## Strategic Outlook

2013 was a successful year for Iran. The change from the populist Ahmadinejad to the more pragmatic president Hassan Rouhani, bringing with him a far more competent team of ministers, raised fresh hopes of Iran's leadership. Rouhani's short- and mid-term priority is to mend fences with the West so that they might lift sanctions and welcome Iran back to the global economy and international community. The long-term strategy remains economic stability with continuous growth rates, and a relaxation of tension on the domestic front.

It would be wrong to expect Rouhani to bring about democratic transformation under the strict system of the Islamic Republic. Any change that does come will be dependent on settlement of the nuclear dispute; the Geneva Interim Agreement ("Joint Plan of Action") on 24 November 2013, was a step in the right direction, and there is hope that the parties will reach a positive agreement before the new deadline of 1 July 2015. This in turn will rely on Ayatollah Khamenei's continued support of Rouhani's nuclear course in defiance of the hardliners in both Iran and the US who wish to see the negotiations fail.

By contrast, 2014 was a time of setbacks for Rouhani's government. There was little progress in domestic issues, with Rouhani failing to bring intelligence forces under political control, or redeem his promise to give citizens more freedoms. In addition, the rapidly declining oil price has greatly affected Rouhani's budget. At the end of the analysis period, oil prices had fallen below \$50 per barrel.

Rouhani faces a tough test in 2015, a year which will see elections for the Assembly of Experts, in principle the highest constitutional organ of the Islamic Republic. This assembly is formed of 86 clerics elected for eight-year terms who "control" the most powerful man in the country, the supreme leader, and choose his successor when the time comes. While the assembly's absolute loyalty to the supreme leader has rendered it largely irrelevant in the past, the 75-year-old Khamenei's health problems, including prostate surgery in September 2014, make these elections unusually important.

Parliamentary elections will be held in February and March 2016, with preparations accelerating in the second half of 2015. Rouhani's success will depend on securing a more cooperative parliament, so voter support for him will be important in these elections as well. Former President Mahmoud Ahmadinejad recently suggested he would mount a comeback; this would be nothing short of a nightmare for Iran, which is currently on a path of greater openness and international re-integration.

Iran's increased activities across the Middle East, especially the proxy wars in Syria, Yemen and Bahrain, are of even greater concern to Saudi Arabia and other countries in the region than its nuclear program. Iran's rivals fear a secret deal between Iran and the U.S. in the nuclear negotiations. The future of Iran and of President Rouhani both depend on the result of the nuclear negotiations. Failure to reach agreement may even put the threat of war back on the agenda. Prospects for a decline in regional tensions will rely on a positive resolution of the nuclear dispute.