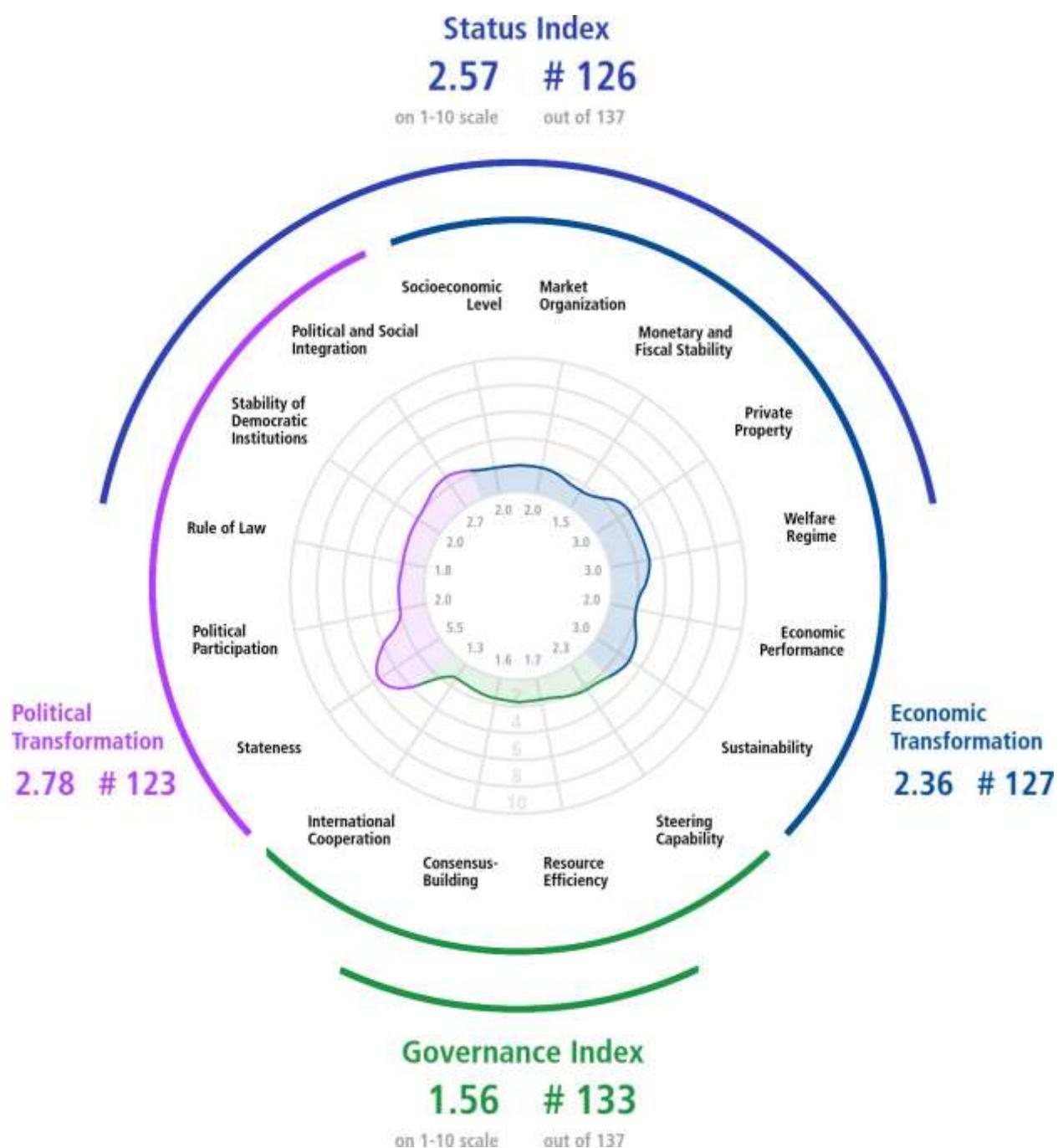


# BTI 2024 Country Report

## Iran



This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. 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	<b>88.6</b>	HDI	<b>0.774</b>	GDP p.c., PPP \$	<b>18075</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.7</b>	HDI rank of 189	<b>76</b>	Gini Index	<b>40.9</b>
Life expectancy	years	<b>73.9</b>	UN Education Index	<b>0.761</b>	Poverty <sup>3</sup> %	<b>5.7</b>
Urban population	%	<b>76.8</b>	Gender inequality <sup>2</sup>	<b>0.459</b>	Aid per capita \$	<b>3.5</b>

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

In September 2022, Iran witnessed the emergence of its most significant wave of protests, demanding regime change, in recent years. Unlike the street protests in 2009, 2018 and 2019, the “woman, life, freedom” movement encompassed various social classes. By early 2023, the government had temporarily quelled the street protests. However, a renewed wave is likely, given the government’s failure to adequately address the basic economic needs of an increasing portion of society. The outcome of this revolutionary process, which marks an irreversible divide between the state and society, hinges on whether the regime, resistant to meaningful political and economic reform, or the protesters will prevail.

In the June 2021 presidential elections, ultra-conservative Chief Justice Ebrahim Raisi emerged victorious. He was essentially hand-picked by Supreme Leader Ali Khamenei in a heavily managed electoral race that favored the elite hard-line faction. This came amid widespread disillusionment with the performance of his predecessor, the so-called moderate Hassan Rouhani. The monopolization of power by the broader conservative camp – encompassing traditional conservatives, ultra-conservatives, fundamentalists and extremists across the Islamist political spectrum – extended into the political sphere following the elections. The conservative camp had already exerted dominance in other critical areas of state and semi-state power, including the judiciary, intelligence services and various key political, economic and military entities.

By early 2023, halfway through President Raisi’s four-year term, the country faced its most severe political and economic crisis since the 1979 revolution. Economically, internal mismanagement and corruption worsened under an administration perceived as highly inept and driven by ideological zeal. It dismissed the remnants of technocratic expertise that were still present during Rouhani’s tenure, albeit tainted by corruption. Consequently, the national currency’s decline intensified, with the official inflation rate reaching approximately 50% (though the real rate was likely double that figure). Socioeconomically, poverty continued to expand, affecting larger segments of Iran’s increasingly diminished middle class. High inflation disproportionately

impacted essential expenses for economically vulnerable households, despite the Raisi administration's promises to combat poverty. Meanwhile, despite the failure to revive the nuclear deal and the ongoing U.S. economic sanctions, Iran managed to increase oil exports, primarily through an illicit international network. This resulted in a four-year high in oil exports to its main customer, China, by early 2023.

## History and Characteristics of Transformation

The constitution of the Islamic Republic of Iran, established after the 1979 revolution, combines both republican and theocratic elements. However, the theocratic aspects largely overshadow and undermine republican principles. The supreme leader, guided by the Islamic principle of guardianship of the jurist (*Velâyat-e Faqih*), holds a dominant role in governing the state, eclipsing the republican aspects of the constitution. The Assembly of Experts, elected directly by the people, is responsible for electing and removing the supreme leader, but candidates must first gain approval from the Guardian Council. This council comprises six clerical members appointed directly by the supreme leader and six jurists confirmed by the Iranian parliament, proposed by a chief justice who is also appointed by the supreme leader.

The Guardian Council oversees the alignment of laws passed by the parliament with Islamic (Shariah) law and determines the eligibility of parliamentary and presidential candidates. Any constitutional amendment requires the approval of the supreme leader, which consolidates power within his hands and that of the Guardian Council, without democratic accountability. Consequently, making legal changes within the constitution is virtually impossible without his consent.

In 1979, the Islamic Republic undertook an economic restructuring aimed at protecting the interests of the poor. This involved centralizing and nationalizing previously privately owned banks and industries, as well as establishing “charitable foundations” to manage investments and distribute resources for the benefit of society. However, this system proved highly vulnerable to corruption.

Despite the economic sanctions imposed by the United States in the early 1980s following the U.S. embassy hostage crisis in Tehran, the Iranian economy consistently grew during periods of pragmatism under President Akbar Hashemi Rafsanjani (1989 – 1997) and reform under President Mohammad Khatami (1997 – 2005). This growth was largely driven by substantial income generated from Iran's oil and gas exports, with the country possessing the world's second-largest natural gas reserves after Russia. These exports accounted for 60% of the Iranian budget and 80% of the country's overall export revenue. However, despite historic high oil revenues, Iran suffered a severe economic setback during President Mahmoud Ahmadinejad's tenure (2005 – 2013).

In 2009, after contested presidential elections, frustrated Iranians took to the streets in massive demonstrations, known as the “Green Movement,” only to face widespread police brutality and arbitrary arrests.

Under President Ahmadinejad’s administration, Iran’s foreign policy, especially its acceleration of the nuclear program, was seen as provocative and led to exceptionally severe sanctions. However, the government managed to quell domestic unrest by importing consumer goods to meet basic needs using record-high levels of oil income.

In 2013, President Hassan Rouhani was elected as a “ray of hope” and successfully negotiated the Joint Comprehensive Plan of Action (JCPOA) with the P5+1 nations, leading to initiatives to revive Iran’s economy. During this time, high-level trade delegations from the West and other countries visited Iran.

Despite these developments, Iran’s military involvement in other countries, such as Syria and Yemen, and missile tests violating U.N. Security Council Resolution 2231, shifted U.S. policy toward Iran. The Trump administration departed from Obama’s approach, resulting in the U.S. withdrawal from the JCPOA in May 2018 and the reimposition of crippling sanctions on Iran, coinciding with a period of low oil prices and rising domestic discontent toward all factions of the regime, including the reformists.

The shortcomings of the Rouhani administration contributed to the consolidation of power by the rival conservative camp, which manipulated the 2020 parliamentary and 2021 presidential elections. Since Ebrahim Raisi assumed office in August 2021, the Islamic Republic has faced its most serious internal and external pressures. Internally, economic decline has led to growing socioeconomic hardship affecting a significant portion of society. Combined with unabated authoritarianism and a regime resistant to meaningful reform in all pertinent areas, this has sparked a sociocultural crisis pitting a relatively young, modernized, secular and globalized society against an octogenarian patriarchal and exclusively Islamist elite that monopolizes economic and political power. This crisis has fueled the nation’s most severe and sustained wave of protests, starting in mid-September 2022, involving various social classes and groups. As a result, Iran finds itself in what can be described as a revolutionary process, with the crackdown on protests and unprecedented support from Iran’s large diaspora communities in key Western states contributing to the increasing international isolation of the Islamic Republic.

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

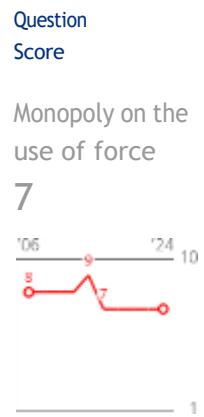
#### 1 | Stateness

In contradistinction to some neighboring countries (e.g., Afghanistan, Iraq and Syria), Iran has a strong central government with a complex institutional arrangement. The monopoly on violence is held by both state and semi-state entities that comprise the regime. In Iran's security apparatus, the Islamic Revolutionary Guard Corps (IRGC) is the most formidable force. Meanwhile, violence is also executed by regime-approved vigilante groups when it comes to quelling street protests.

The protests that erupted in mid-September 2022 witnessed citizens clashing with security forces. In the clashes, 70 regime forces and 527 protesters were killed, according to January 2023 data from the Iranian Human Rights Activists News Agency (HRANA).

Iran's territorial integrity has been frequently challenged by alleged drone attacks and major explosions, which the authorities have often attributed to thunder and lightning. Nonetheless, observers have suggested that military action was the more likely cause, although no perpetrators have been identified. As such, it remains unclear whether major explosions, such as the explosion at a military factory near Isfahan on January 29, 2023, were the result of a drone strike and, if so, who was behind them.

Border disputes (e.g., with Afghanistan on July 31, 2022) and disputes with Oman and the United Arab Emirates concerning ships passing through the Strait of Hormuz occasionally flare up. The Islamic State (IS) group claimed responsibility for a terrorist attack against a Shi'ite mausoleum in Shiraz on October 27, 2022, which killed 15 people.

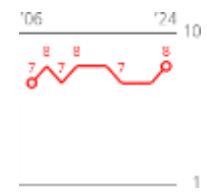


Iran is a multiethnic and multicultural country. While 99% of Iranians are regarded as Muslims, approximately two-thirds are of Persian ethnicity.

Most Iranians accept the nation-state as legitimate and agree with a broad definition of citizenship that encompasses several ethnic and religious groups. A majority of Iranians have a strong sense of nationality and are very sensitive about it. Many Iranians are wary about separatist parties and groups and oppose secessionist demands, but not necessarily federalism or the right of ethnic minorities to speak and teach their language or practice their customs, among other things.

State identity

8



Iran's government accuses Kurdish (and other) armed groups of separatism, terrorism and "relations with foreigners." These groups in turn accuse the Islamic Republic of violating the rights of Iranian Kurds and claim to defend the rights of the Kurds. During the first two weeks of 2023, at least 96 Kurds were arrested in the government crackdown on the nationwide protests; among those arrested were 13 children, according to a Kurdish rights group.

As seen in the reactions to the 2022 uprising, in order to delegitimize those marginalized non-Persian ethnicities seeking equal rights and more autonomy, the regime tends to portray them as secessionist. However, there is little evidence of a strong separatist tendency among marginalized ethnicities. During the 2022 protests, these groups displayed cross-ethnic solidarity, countering the regime's misleading portrayal of the protests as driven by Kurdish separatism simply because the protests began in that region. In this vein, it is fair to assume that the majority of Iranians support the territorial integrity of the country.

In March and April 2020, the World Values Survey (WVS) polled 1,499 Iranians and found that 83.5% were "very proud" and 10.7% "quite proud" to be Iranian. Meanwhile, 81.7% felt "very close" and 13.8% "close" to their country. However, this must not be confused with support for Iran's theocratic regime.

In the Islamic Republic's political and legal systems, religious dogma dominates. The religious-ideological nature has remained unchanged since 1979: the country's political structure, while semi-republican in form, continues to be dominated by theological influences. Within it, the supreme leader amasses extraordinary tools of power and influence over all branches of government. The country's power structure rests on both the ruling Shi'a clergy and an increasingly powerful military, the IRGC, which is tasked with protecting the Islamic Republic.

No interference of religious dogmas

1



However, despite the dominance of fundamentalist and extremist dogmas, during crises, the regime prioritizes its survival, even if that means deviating from religious prescriptions. This approach is referred to as the *maslahat-e nezâm* ("system's expediency") principle.

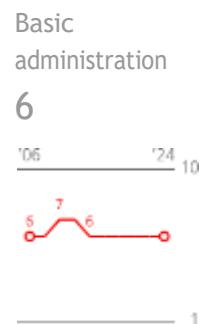


Moreover, the legal system is heavily influenced by Islamic law (Shariah) and has a parallel pillar involving so-called revolutionary courts and courts solely designated to try clerics, often dissenters. During the 2022 protests, demonstrators were charged with “spreading corruption on Earth” (efsad-e fel arz) and “enmity against God” (moharebeh), both of which carry the death penalty.

Friday prayer imams in provincial capitals, who serve as representatives of the supreme leader, have almost the same authority and power as the governor and interfere in almost all matters. These and other representatives of Supreme Leader Khamenei are dominant in ministries, the army and IRGC, universities, and so-called religious foundations (Bonyâds).

In terms of foreign policy, the regime’s initial ambition to export the revolution to other countries has faded over time, which has allowed competing views and concepts to emerge among the regime’s various factions. Although the ultimate objective of these factions remains the preservation of the Islamic Republic, they are not *per se* theocratic in nature.

Although highly centralized, Iran’s administrative structures comprise 31 provinces, cities, divisions, municipalities and villages. The governors, as the high representatives of the government, are accountable to the president and the cabinet, especially the interior minister. Elected local councils are responsible for the administration of each entity and select mayors and heads of each administrative level. All council candidates must be obedient and loyal to the system and to the supreme leader.



Throughout the country, the state provides basic services to its citizens, including electricity, natural gas, education and health care. World Bank data for 2020 show high rates of access to basic services: 97.5% of Iranian households have access to basic water sources, 94.0% access to a safely managed water source, 90.3% access to at least basic sanitation and 100% access to electricity. Yet, most state services and administrative institutions operate inefficiently. For instance, access to clean water has increasingly become a problem for many, such as in the oil-rich Khuzestan province.

Furthermore, public employees’ religious affiliation and loyalty to the regime are valued higher than professionalism or competence in leadership. Bureaucratization, nepotism, corruption and interference by other authorities make these apparatuses even less efficient.

Inefficiency and corruption are widespread among local administrative units. For instance, water and power shortages negatively impacted Iranians’ quality of life in 2021 and 2022.

Despite the wider conservative camp's monopolization of power following the 2020 parliamentary and 2021 presidential elections, their privileged access to resources and wealth has not improved the performance of the Ebrahim Raisi administration. A failure that has arguably deepened popular disillusionment with the system.

## 2 | Political Participation

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

Article 99 of the constitution grants the Guardian Council – a body dominated by hard-liners – power to oversee all elections (except for local council elections, which are supervised by the parliament). The Guardian Council approves or dismisses candidates for office, ensuring their loyalty to the regime.

In the 2020 parliamentary and 2021 presidential elections, the Guardian Council disqualified candidates of the moderate conservative and reformist faction to a degree unprecedented even by the standards of the Islamic Republic. As such, the already very limited space for political competition among regime loyalists has shrunk to its lowest level ever.

On June 18, 2021, the 13th presidential elections were held. Ebrahim Raisi, then Iran's chief justice, was declared the winner in a highly controversial election that many observers referred to as selection. Raisi's victory was paved by the mass disqualification of popular candidates by the supreme leader-controlled Guardian Council. After the record low turnout for the February 2020 parliamentary elections, the 2021 presidential elections witnessed a similarly low turnout, with only around 49% of eligible voters turning out – and just 25% in the capital Tehran. Meanwhile, the election recorded the highest share (around 13%) of protest votes (e.g., blank, invalid and lost votes) – a result of a boycott campaign by citizens.

Seen as the supreme leader's favored candidate due to his loyalty toward him, Raisi won with 72% of the votes, with former IRGC commander Mohsen Rezaei finishing second with 14% and former Central Bank of Iran (CBI) Governor Abdolnaser Hemmati third with 10%. The latter was supported by the establishment's reformist faction but nevertheless scored a poor result, which is indicative of the loss of popular support for the regime's reformists or so-called moderates.

President Raisi later appointed Mohsen Rezaei as his vice president for economic affairs, while he retained the roles of secretary of the Supreme Council of Economic Coordination and secretary of the administration's economic headquarters. Before becoming Raisi's vice president, Rezaei had served as a member and secretary of the Expediency Discernment Council since 1997.

Free and fair  
elections

3

106 74 10



Iran's supreme leader, Ayatollah Ali Khamenei, wields ultimate power and has the final say in decision-making. As such, he is clearly the head of state, while the president assumes a much less powerful position.

Unaccountable, Khamenei *de facto* selects key ministers (e.g., for defense, intelligence, interior and foreign affairs) and holds the power to veto their appointment by the administration. Thus, Khamenei can heavily interfere in government and parliamentary decision-making.

In this context, the administration or government has limited powers. The president, although elected in elections pre-managed by the Guardian Council's selection of regime loyalists, has little power and is accountable to the supreme leader, the parliament and the judiciary. The president can introduce policy initiatives of his own but ultimately depends on the goodwill of institutions controlled by the supreme leader.

In comparison to his predecessor, President Raisi can be viewed as extraordinarily pliant to Khamenei and having no political or economic agenda of his own.

The Islamic Republic of Iran's constitution grants the right to association and assembly through articles 26 and 27, under the condition that the exercising of these rights must not violate the principles of Islam. However, in practice, the right to free assembly is frequently violated since the interior ministry generally forbids protests and mass gatherings. Pro-regime mass demonstrations are meanwhile frequently promoted and protected by the security forces.

The nationwide protests, sparked by the killing of 22-year-old Kurdish-Iranian woman Mahsa "Jina" Amini in September 2022, were initially peaceful but were met with brutal regime violence, with the regime severely restricting internet access since the November 2019 protests. During this period, more than 500 protesters were killed and almost 20,000 were arrested.

In recent years, Iranian authorities have clamped down on civil society by going after organizations and imprisoning activists.

Authoritarianism and repression remain characteristics of the Islamic Republic, creating significant barriers to positive change. Political freedoms are extensively violated and include: (1) the political repression of dissidents, ethnic and religious minorities, as well as women, students, workers and their respective social movements; (2) press censorship, with Iran listed as the third worst country for press freedom behind Eritrea and North Korea, according to the World Press Freedom Index 2022; (3) the violent restriction of cultural and academic freedoms; and (4) the world's highest execution rate (likely second to China, which does not disclose execution numbers), with 582 confirmed executions in 2022, Iran was responsible for 70% of executions across the MENA region, according to Amnesty International.

Effective power to govern

2

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Association / assembly rights

2

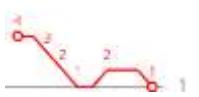
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Freedom of expression

1

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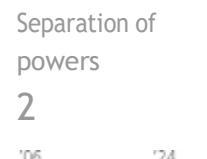


The 2022 Global Rights Index of the International Trade Union Confederation (ITUC), an annual survey of violations of trade union rights, ranked Iran in its worst category, in which no rights are guaranteed. The report highlighted that the independent trade union movement in Iran regularly faces repression, executions and extrajudicial killings.

The regime met the country-wide protests for greater social and political freedoms in fall 2022 with fierce brutality. The unwillingness (or inability) of the regime to address the demands of its citizens is increasingly transforming political protests into calls for regime change.

### 3 | Rule of Law

Like many other constitutional principles in the Islamic Republic, the separation of powers exists only on paper. The supreme leader directly or indirectly appoints the heads of all three branches of government. The powerful, hard-line-dominated Guardian Council vets parliamentary and presidential election candidates.



There are rivalries among the various branches of the state, especially when a president hailing from the reformist or “moderate” elite faction is faced with mostly hard-line-dominated bodies. This can result in the administration’s agenda being undermined.

In reality, the supreme leader’s quasi-omnipotent status, a highly politicized judiciary and the absence of the rule of law collectively contribute to the dismal state of the separation of powers in Iran.

In addition, the creation of new bodies such as the Supreme Council of Economic Coordination, which includes the supreme leader along with the heads of the three branches of government, further undermines the separation of powers. In November 2019, the Supreme Council of Economic Coordination decided to triple fuel prices overnight, thereby kicking off nationwide street protests.



Article 57 of the constitution provides the supreme leader with far-reaching supervisory powers over judicial institutions. The supreme leader appoints and dismisses the country’s chief justice, who is responsible for appointing and dismissing judges. The supreme leader also appoints the chief of the Supreme Court and the attorney general, in consultation with the judges of the Supreme Court. As such, the judiciary is not an independent institution, nor are the judges. Even the minister of justice has little influence in this sphere, compared to the supreme leader.



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

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

More recently, in the wake of the 2022 revolutionary protests, German Iranian Jamshid Sharmahd has been sentenced to death, with Germany reacting by expelling two diplomats from the Iranian Embassy in Berlin. More broadly, the regime responded to the protests with widespread repression, making nearly 20,000 arrests and killing more than 500 protesters. In addition, four protesters have so far been executed following sham trials and forced confessions, which U.N. High Commissioner for Human Rights Volker Türk called “state-sanctioned killings.” Up to 100 more protesters face the same fate. The demand for the death penalty for demonstrators was supported by the overwhelming majority of the parliament (227 out of 290 members of parliament) – further evidence of the blurred lines between branches of government. In addition, there have been massacres in the Kurdish and Baluch regions of Iran.

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

Given Iran’s highly politicized judiciary and high levels of political corruption, individuals affiliated with the regime who abuse their power often escape accountability, even those involved in large-scale abuses of public office.

The September 2022 “woman, life, freedom” protests were met with widespread civil rights violations perpetrated by the regime. Human rights organizations such as Amnesty International have documented the torture of arrested protesters, among them children, including sexual violence, physical and psychological torture, and executions. Show trials have taken place in front of cameras, presided over by biased judges. In most cases, convictions are based on confessions obtained through torture.

The legal system of the Islamic Republic structurally discriminates against women, whether as witnesses or with respect to martial and custody laws. Male custodians, typically fathers or husbands, can take far-reaching decisions limiting a woman’s freedoms to work or travel. Effectively, there is also no protection against rape or violence in marriage.

Prosecution of office abuse  
2  
'06 — '24 10



Civil rights  
1  
'06 — '24 10



Women also face discrimination in the labor market with respect to employment opportunities and equal pay. Moreover, they are not allowed to practice certain professions (e.g., to become judges). Women are forced to obey strict Shariah-inspired dress codes.

By regional standards, Iran's education system offers somewhat more opportunities for women, including widespread access to tertiary education.

The Islamic Republic actively discriminates against LGBTQ+ persons.

Officials from the police, the Ministry of Information and the IRGC's intelligence service randomly storm houses and apartments to arrest opposition and civil society activists – and have even shot into apartment windows (e.g., in Tehran) from where anti-regime slogans were heard. They also confiscate personal property such as laptops, computers, cell phones and other items without official notification. The arrests, which are often accompanied by brutality and result in serious injuries, frequently take place in front of relatives, including children. In most cases, the officers do not have an arrest or search warrant.

Iran has not acceded to any international treaty on the elimination of discrimination or violence against women.

Iran is among the countries that most extensively apply the death penalty, with the highest per capita rate of executions in the world. In 2022, the number of executions increased by 75% to a total of 582 people, according to figures by Norway-based Iran Human Rights (IHR) and France's Together Against the Death Penalty (ECPM). The bulk of death penalties are applied for drug trafficking, according to the claims of the highly politicized judiciary, at least.

Lethal repression and human rights violations include massacres in the Kurdish and Baluch regions of Iran. Besides the large number of people detained or killed during protests, in December 2022 and January 2023, four protesters were hanged.

#### 4 | Stability of Democratic Institutions

While the president, parliament and Assembly of Experts are elected by the people, they can hardly be described as republican institutions based on free and fair votes, as the candidates are vetted by the hard-line-dominated Guardian Council. Government ministers for intelligence, education, defense, foreign affairs, culture and Islamic guidance are only appointed with the consent of the supreme leader. Once in office, ministers and parliamentarians remain under the supreme leader's control.

With the wider conservative camp securing an overwhelming majority following the February 2020 parliamentary elections, the majles has become much more uniform and more loyal if not pliant to the supreme leader. This transformation was facilitated by the disqualification of reformist members of parliament from running for office in the first place.



Legally recognized and tolerated political parties must demonstrate their loyalty and commitment to the Islamic Republic, according to party law. The result is an exclusively Islamic political spectrum, from reformists or so-called moderates all the way to fundamentalists and extremists.

As a result, all political parties defend the interests of the system of the Islamic Republic rather than the interests of their voters or wider society.

Powerful figures and institutions, primarily the supreme leader and the IRGC, frequently undermine the elected parliament, the president and local governmental bodies, especially when they hail from the reformist faction. In addition, there are a number of other powerful non-elected institutions over which neither the government nor parliament exert any influence or possess the power to hold them to account. These include the Executive Headquarters of the Imam's Directive, the religious-commercial foundation Astân-e Qods Razavi, the Khatam al-Anbiya Construction Headquarters (the IRGC's construction and engineering conglomerate) and the Bonyad-e Mostazafan Foundation. These organizations and institutions pay scant regard to the government, parliament or judiciary.

## 5 | Political and Social Integration

Only political parties and factions that are loyal to the regime and its ideology are permitted. Even so-called reformists must be loyal to the establishment, according to the party law. The funding and administrative structures of parties or factions usually lack transparency.

Over the last few years, both main elite factions – the hard-liners and the reformists – have lost significant legitimacy, resulting in historically low participation rates during the 2020 parliamentary and 2021 presidential elections.

While political parties and formations exist, they are not central to the political process. In particular, they do not serve as hubs for shaping political will, incorporating popular demands into the political process, implementing policies, controlling the government or recruiting political personnel. Rather, politics in the Islamic Republic is conducted through (at times, somewhat fluid) inter-personnel networks among regime elites.

Civil society associations, critics of the regime and interest groups are severely suppressed by the Ministry of Information, the IRGC and the judiciary. Under both the so-called moderate (Hassan Rouhani) and hard-line (Ebrahim Raisi) administrations, repression of civil society has remained significant.

For the first time since the emergence of the “woman, life, freedom” movement in September 2022, various civil society groups have gained momentum as co-organizers behind these protests. This coalition includes some 20 independent trade unions and civil society organizations from within Iran, including labor movements; teachers and pensioners associations; the movement for the equality of women,

Commitment to democratic institutions

2

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Party system

2

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Interest groups

2

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students and youth; the movement against the death penalty; and the Council for Organizing Protests of Contract Oil Workers (Shorâ-ye Sâzmândahi-e Eterâzât-e Kârgarân-e Peymâni-e Naft).

In a joint effort, they have tried to make it clear that change must come from below, as top-down improvements are unrealistic. Yet, despite the severe suppression of the security forces, they have been unable to bring about meaningful change.

Given the significant legitimacy crisis of dictatorial rule, in addition to the apparent inability of the regime to meet even the basic needs of its citizens, Iranians' trust in the entire political system, whether elected or unelected, conservative or reformist, has dwindled enormously.

Approval of  
democracy  
n/a

'06 '24 10

Most Iranians no longer attribute their suffering primarily to the policies or conduct of Iran's official enemies (usually, the United States or Israel) but instead place responsibility on domestic governance.

n/a 1

Both in Iran and among the diaspora, there are strong calls to overthrow the Islamic Republic and to replace it with a democratic and secular political system. By 2023, many domestic civil society organizations had released joint statements sharing their vision and aspirations, largely aligning with the aforementioned goals. However, there is currently no coalition of social forces capable of toppling the existing system and establishing a new one.

The regime rarely tolerates civil society self-organization. After two decades of relative economic prosperity in the 1990s and 2000s, Iran's middle class has begun to shrink substantially due to gross domestic mismanagement and international sanctions. The exacerbated economic crisis between 2021 and 2023 has further aggravated the increasing impoverishment of the population, including most notably the middle class, with major ramifications for Iran's future sociocultural and political trajectories.

## Social capital

4

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The regime's harsh crackdown on activists further limits citizen engagement.

Decades of pre- and post-revolution authoritarianism have instilled a deep sense of mistrust among Iranians, both inside and outside the country. In the 2020 World Values Survey, only 14.8% of respondents argued that “most people can be trusted,” while 85.0% said that one needs to be “very careful.” In this context, however, the “woman, life, freedom” protests represent a turning point, as the protests brought together Iranians from different societal and political backgrounds.

The regime sought to delegitimize the protests as a Kurdish separatist project, instigated by outside forces (Israel and the United States). Yet, Iranians undermined this effort by showing solidarity across regions and ethnicities. After protests initially kicked off in Iran's Kurdistan province, people from neighboring Azeri-speaking

Tabriz joined in, chanting “Tabriz is awake, and has Kurdistan’s back” (in Azeri), as well as in Baluchistan.

Overall, however, both inside the country and among the diaspora, apart from the shared desire to overthrow the Islamic Republic, there remains profound mistrust and infighting.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Iran’s socioeconomic crisis has steadily worsened in recent years, leading to extensive protests that have often taken on a political dimension. While the Islamic Republic ranks 76th in the 2021 Human Development Index (HDI) with a score of 0.774, placing it in the “high human development” category, Iran’s Gender Inequality Index score of 0.459 contributes to an overall HDI loss of 11.4% due to inequality. In 2019, the World Bank reported that 6.0% of Iranians were living on less than \$3.65 a day at 2017 international prices adjusted for purchasing power parity (PPP), while Iran’s Gini coefficient was 40.9 in the same year.

The socioeconomic crisis is primarily shaped by the Islamic Republic’s political economy and its economic policies, which favor those loyal to the regime over the general population. Additionally, the absence of crucial structural reforms has exacerbated the situation. In a significant development, in June 2022, 61 economists in Iran signed an open letter detailing the nation’s extensive economic challenges. The economists emphasized that the root cause of these problems lies in governance failures, reflecting the ongoing political crisis as the central issue.

Iran’s high Consumer Price Index (CPI) inflation rate, which reached 43.4% in 2021, impacts lower-income households particularly hard. Prices for essential goods, such as food items, surged 86% by the summer of 2022, marking a decade-high increase.

Simultaneously, Iran’s wealthy citizens, many of whom have ties to the regime, have seen their fortunes rise. Forbes reported in June 2021 that the number of high-net-worth individuals (HNWIs) in Iran increased by 21.6% in 2020, significantly exceeding the global average of 6.3%. The collective wealth of these U.S. dollar millionaires grew even faster at 24.3%.

It is safe to assume that most Iranians live in precarious conditions, with poverty and instability disproportionately affecting women, workers and pensioners. Iran’s absolute poverty rate has doubled over the last decade, increasing from 15% in 2013



to 30% between 2017 and 2019, as measured against flexible income thresholds that vary by geographic location. In 2019, Iran's Ministry of Cooperatives, Labor and Social Welfare reported that one-third of Iranian households lived below the poverty line. In October 2022, during the recent uprising, Iranian media cited a labor expert who stated that 65 million of the country's 84 million population lived below the poverty line.

Another consequence of the socioeconomic crisis is the precarious state of housing. Rent prices have skyrocketed in major cities like Tehran, Mashhad and Isfahan. In late June 2022, the head of Iran's State Welfare Organization (Behzisti), Ali-Mohammad Ghaderi, stated that about 13 million Iranians (15% of the total population) were residing in slum areas. President Ebrahim Raisi even cited a figure of 16 million slum dwellers during a 2021 presidential election TV debate, attributing it to then-President Hassan Rouhani's economic performance.

While the official unemployment rate stood at 9.2% in spring 2022, the real rate is believed to be much higher, possibly twice as high or more. According to data from the Statistical Center of Iran (SCI) in late 2021, the overall unemployment rate for 18- to 35-year-olds increased from 15.6% in spring 2021 to 17.6% in summer 2021. During the same period, the unemployment rate for men in the same age group rose from 12.9% to 14.6%, while for young women in the same age group, it increased from 27.8% to 31%. In summary, the Islamic Parliament Research Center corrected the overall unemployment rate in November 2020 from 9.8% to a staggering 24%. Some economists suggest an even higher rate, possibly up to 40%.

The situation is particularly dire for Iran's rural youth. Over the years, Iran's rural population has decreased from approximately 50% in 1979 to about 25% in the early 2020s. A staggering 22% of the world's most affected rural youth live in Iran, according to the 2019 Rural Development Report.

Iran's labor market exhibits significant gender gaps, including a low female participation rate. According to the SCI, the labor force participation rate of women aged 15 and above stood at only 13.8% in the first quarter of the Iranian year 1400 (March–June 2021), while the male participation rate reached 68% for the same period. In other words, the female participation rate was just one-fifth that of men. Furthermore, according to International Labor Organization (ILO) estimates, the female workforce participation rate in 2021 was a mere 14.35%, while the rate for men was five times higher at 68.09%.

During the same period, unemployment among graduates or those with higher education stood at 13.2%, making up almost two-fifths of overall unemployment. Here again, a significant gender gap exists, with female graduates 2.5 times more likely to be unemployed than their male counterparts. According to the SCI, in the second quarter of the Iranian year 1401 (June 22 – September 22, 2022),

approximately 41% of the total unemployed population were graduates. Male graduates faced an unemployment rate of 8.8%, while female graduates endured a rate of 23.2%, making it 2.6 times higher.

These statistics underscore why these three groups – youth, women and graduates – bear the brunt of socioeconomic hardship and are more inclined to seek radical change. In fact, they have been at the forefront of the 2022 revolutionary uprising.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	283649.5	239735.5	359096.9	<b>388544.5</b>
GDP growth	%	-2.7	3.3	4.7	<b>2.7</b>
Inflation (CPI)	%	39.9	30.6	43.4	-
Unemployment	%	10.7	9.7	10.8	<b>11.0</b>
Foreign direct investment	% of GDP	0.5	0.6	0.4	<b>0.4</b>
Export growth	%	-17.3	-12.8	5.2	<b>7.3</b>
Import growth	%	-32.5	-29.7	24.1	<b>9.2</b>
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	46.7	48.3	42.4	<b>34.1</b>
External debt	\$ M	4855.4	5433.2	10348.9	-
Total debt service	\$ M	334.0	328.1	344.3	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	15.3	14.4	14.2	<b>15.1</b>
Public education spending	% of GDP	3.3	3.2	-	-
Public health spending	% of GDP	2.9	2.9	-	-
R&D expenditure	% of GDP	0.8	-	-	-
Military expenditure	% of GDP	2.0	2.0	2.2	<b>2.6</b>

Sources (as of December 2023): 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

Approximately 80% of Iran's economic activity is driven by the state sector, which includes state-owned and semi-state-owned companies. The private and cooperative sectors account for the remaining share. Additionally, the Iranian National Tax Administration estimated in August 2020 that the informal economy constituted 37.7% of the country's GDP, with tax evasion reaching 3.5% during the fiscal year 2017/18, equivalent to IRR 515 trillion (\$2.2 billion). In late February 2020, Member of Parliament Hadi Ghavami claimed that tax evasion amounted to IRR 1 quadrillion equivalent to \$3.125 billion at the exchange rate of IRR 320,000 to \$1. Of this total, 50% resulted from direct tax evasion, while the other 50% came from individuals refusing to pay their taxes. In summer 2022, Member of Parliament Rajab Rahmani asserted that the sum of tax evasion equaled the combined budgets of 15 out of the 31 provinces in Iran.



Iran's market mechanisms face significant challenges due to highly restrictive regulations, weak protection for minority investors and underdeveloped financial markets. The Islamic Republic's political economy prioritizes regime loyalists over the general population, and structural reforms are sorely lacking. The economy is characterized by a monopolistic power structure, with institutionalized state-business-military relationships. This structure is aptly described as a "monopolistic, religious-commercial system" or a "capitalist state with a paramilitary polity and theocratic rule." It encompasses the economic empires of the IRGC, the bonyads and Supreme Leader Ali Khamenei.

In addition to this monopolistic structure, the Islamic Republic has undertaken a process of "illiberal neoliberalization." This process has involved austerity measures, clientelist privatization, deregulation and the prioritization of capital over labor. These policies have deepened the precariousness of Iranian workers, further destabilizing their socioeconomic status.

Consequently, Iran's economy grapples with mismanagement, nepotism, corruption, brain drain and capital flight, all of which are at internationally high levels. In the Heritage Foundation's 2023 Index of Economic Freedom, Iran ranked 169 out of 184 countries. Among the 14 countries in the Middle East and North Africa, Iran ranks 14th, well below both the global and regional averages.

The state wields considerable influence over pricing, exchange rates, duty rates, trade and investment. It also manages core industries, especially in the oil and petrochemical sectors. The Ministry of Labor and Social Affairs regulates wage levels, calculates inflation and analyzes economic conditions.

Finally, Iran's economy grapples with low levels of capital formation and productivity. Without reform, the country risks becoming trapped in a cycle of low economic growth, exacerbating the unemployment crisis and potentially leading to further discontent.

Iran's Competition Council is tasked with implementing anti-monopoly measures and overseeing privatization efforts. However, the council's independence is compromised due to its composition, which includes members from the government, parliament, and notably the supreme leader and influential entities like the bonyads. These economically powerful religious, revolutionary and military foundations (e.g., the Imam Khomeini Executive Headquarters, the Mostazafan Foundation and the Khatam Camp) are directly or indirectly controlled by the supreme leader. As a result, they are structurally insulated from competition, distorting the principles of a free market. These entities enjoy numerous privileges, including tax exemptions and exclusive access to lucrative government contracts. Collectively, they are believed to wield significant control over a large portion of Iran's economic activities.

Despite the economic dominance of state and semi-state entities in Iran, it is the highly marginalized private sector that plays a crucial role in creating the majority of employment opportunities.

Regarding economic freedom, the 2022 Fraser Global Research Institute report ranks Iran 159th out of 165 countries, with a score of 4.96. This represents a continuous decline in economic freedom compared to the 2017/18 edition when Iran received a score of 5.72. The decline can be attributed primarily to factors such as Iran's international economic isolation, lack of transparency and financial corruption.

According to the World Trade Organization, Iran ranks second among 156 countries with a simple average tariff rate of 20.1%. In comparison, Türkiye, China and Russia have reported rates of 10.7%, 7.5% and 6.6%, respectively.

U.S. sanctions have had significant adverse effects on Iran's economy, particularly during Donald Trump's "maximum pressure" campaign, which led to a sharp decline in oil exports from \$60.7 billion in 2018 to \$21 billion in 2020.

Despite these challenges, the Islamic Republic managed to continue selling approximately one million barrels of oil per day, mainly to China. Additionally, non-oil exports increased due to Joe Biden's decision not to enforce "maximum pressure" sanctions. In early 2023, Iran's oil exports, including many illicit transactions, reached a four-year high at \$38.7 billion, albeit at lower prices. An analyst at Vortexa Analytics, Emma Li, noted that Iran competes with Russia in offering cheaper oil to China.

The Trump/Biden dynamic is reflected in Iran's overall exports, which dropped from \$103.42 billion in 2018 to \$53.54 billion in 2020 but rebounded to \$71.64 billion in 2021. Iran's primary trade partners include China (21% of total exports), Iraq (21%), the United Arab Emirates (14%), Afghanistan (6.8%) and South Korea (5.9%). In terms of imports, China is the leading supplier, accounting for 25% of total imports, followed by the United Arab Emirates (14%), India (6.5%), Türkiye (6.3%) and Germany (6%).

Competition policy

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Liberalization of foreign trade

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The country heavily relies on oil exports, with crude oil and petroleum products making up a significant portion (67.2%) of its exports. In an effort to reduce economic vulnerability, the government is actively attempting to diversify the country's exports. This strategic objective recognizes that diversifying non-oil exports would decrease reliance on a single sector and enhance overall economic resilience.

According to the Central Bank of Iran (CBI), Iranian non-oil exports amounted to an average of \$17.168 billion per year between 1995 and 2021, reaching a peak of \$40.748 billion in 2021, while hitting a record low of \$2.445 billion in 1998.

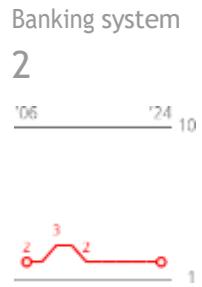
Most Iranian banks have affiliations with the state, and a significant number of them have ties to the IRGC (18 as of September 2020). The United States sanctioned these banks in May 2022, reinforcing terrorism sanctions against the Central Bank of Iran (CBI) with the intention of disrupting cooperation between Tehran and Beijing, Iran's top oil customer.

As of June 2020, there were eight state banks, with Bank Melli being the largest with 3,330 branches. Additionally, there were two al-Qard al-Hassan banks (the banking and finance arms of Lebanon's Iran-backed Hezbollah group) and 16 private banks, with Bank Saderat being the dominant one with 2,704 branches. Private banks are typically controlled by influential individuals close to the regime.

Iran's banking system, which is outdated, primarily functions well at the micro-level for activities like paying bills, processing salaries and safeguarding customer savings. However, the nontransparent and pervasive involvement of regime members prevents the implementation of modern working structures.

Furthermore, U.S. extraterritorial and SWIFT sanctions have effectively cut off Iranian banks from the global financial system. Iranian banks were isolated from the global financial system post-2010, coinciding with the introduction of internationally significant regulations in response to the 2008/2009 global financial crisis. This divergence in regulation widened the gap between the Iranian financial system and the global financial system.

The CBI is responsible for maintaining price stability, stability in the banking system and enforcing prudential banking regulations. However, it is not entirely independent and has become increasingly politicized under the Raisi administration. For example, in April 2022, the CBI announced improvements in foreign exchange reserves and claimed a significant rise in exports. Shortly after, the CBI declared that Iran had the best foreign exchange reserves. In December 2022, during protests and deepening inflation, CBI head Ali Saleh-Abadi blamed the protesters for the national currency's decline. In reality, the protests had prompted many people to withdraw their capital from the country, contributing to the severe depreciation of the national currency.



The rapid depreciation of Iran's national currency led the Raisi administration to replace Ali Saleh-Abadi with Mohammad-Reza Farzin as CBI governor in late December 2022. Farzin is a senior banker and former deputy finance minister. In the weeks leading up to this change, Iran's foreign exchange rates dropped to record lows, signaling the government's inability to maintain a stable economy. Saleh-Abadi had attributed the new currency crisis to nationwide protests.

In August 2022, the administration failed to fulfill its promise of building one million housing units per year. Even state-controlled banks refused to provide loans to individuals seeking to register for the National Housing Project. Rostam Qasemi, minister of roads and urban development, warned the banks that the Raisi administration would pursue compensation.

The Financial Action Task Force (FATF) has consistently urged Iran's banking system to adhere to international standards in combating money laundering and terrorist financing. After years of negotiations, the FATF and Iran have deemed the talks a failure. As a result, Iran still lacks access to the SWIFT system.

## 8 | Monetary and fiscal stability

Despite the CBI's efforts to maintain currency stability and government promises to reverse the trend, the Iranian rial reached record lows under the Raisi administration.

In early May 2022, the administration introduced a significant economic reform program referred to as "economic surgery." This program included measures like restructuring subsidies and discontinuing the use of a lower exchange rate for importing essential goods such as food and medicine.

Between April 2018 and March 2022, Iran applied a subsidized exchange rate of IRR 42,000 per U.S. dollar for the import of various basic goods. However, the main exchange rate for commercial imports valued the U.S. dollar at approximately IRR 260,000, which resulted in higher consumer prices and negatively impacted the average citizen. The rationale behind this reform was that preferential access to the lower exchange rate had facilitated widespread corruption.

While the global average inflation rate in 2022 stood at 9.4%, according to OECD estimates, Iran experienced a much higher rate in the second half of the year, reaching 52.2%. Consequently, Iran had the 10th-highest inflation rate worldwide. In certain sectors, particularly those affecting lower-income households, the inflation rate was even higher. For instance, official reports indicated that the inflation rate for food items exceeded 70% in late 2022, with a peak of 86% during the summer, marking the highest level in the past decade. In spring 2022, transportation costs were reported



to have increased by up to 45%. However, some economists, including Steve H. Hanke from Johns Hopkins University, have suggested that the actual inflation rate in Iran is more than double the official figure.

Moreover, the ongoing U.S. sanctions further complicate efforts to alleviate the high inflation rate plaguing the country.

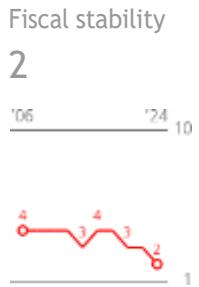
President Ebrahim Raisi's first annual budget for the Iranian year 1401, which began on March 21, 2022, primarily focused on consolidating the regime's power and implementing austerity measures to maintain control over society rather than prioritizing much-needed economic recovery. The budget aimed to bolster regime security by allocating funds to strengthen three key pillars of the Islamic Republic: the security-military apparatus, propagandistic organizations and commercial-clerical entities.

This proposed budget amounted to a total national budget of approximately €116 billion (IRR 36,310 trillion). This represented a €24 billion, or 26%, increase compared to the budget for the Iranian year 1400. It was divided into two main parts: the proposed general government budget, which accounted for around 41% of the total, and the budget allocated for the "public enterprise" (e.g., public companies, banks and institutions), which made up the remaining portion. Compared to the year 1400, the general government budget was set to increase by 9.57%, while the public enterprise budget would see a significant 29% increase.

The proposed budget included an ambitious annual GDP growth rate target of 8%, with Raisi urging everyone to strive for this level of growth.

However, considering an expected inflation rate of approximately 40% for the following year, a nominal increase of less than 10% in the general government budget translated to a real decrease of about 22%. Even more concerning, the proposed budget relied on overly optimistic revenue projections. It anticipated a 9% increase in oil export revenues compared to the previous year. However, there were doubts about the feasibility of these estimates, particularly regarding the discounts Iran offered to China for oil purchases. Reports indicated that Iran provided China with a monthly discount of \$5 to \$6 per barrel on 15 million barrels of oil exports, amounting to a monthly discount of \$90 million. Over a year, this discount equated to 10 months' worth of cash-subsidy payments to Iran's entire population.

Furthermore, the proposed budget relied on a massive 62% increase in tax revenue compared to the previous year, including higher import tariffs. Achieving such an ambitious target would place additional pressure on the marginalized private sector and ordinary citizens who were already grappling with the economic crisis. While the government pledged to identify and pursue tax evaders, it remains to be seen whether tax-exempt semi-public entities like foundations (bonyads), which are politically sensitive, will be subject to such measures.



Given these constraints, the fiscal policy of the Iranian government was likely to have a contractionary effect. Ongoing U.S.-Iranian tensions continued to discourage business sentiment, creating significant obstacles to investment. Moreover, sanctions and Iran's inclusion on the Financial Action Task Force (FATF) blacklist have impeded efforts to increase net exports. Essentially, achieving the promised growth rate was contingent on the removal of U.S. sanctions, which depended on the success of negotiations to revive the JCPOA.

The proposed budget sparked heated debates, particularly on social media, as it allocated significant funds to the Islamic Republic's "trinity": the Islamic Revolutionary Guard Corps (IRGC), the Islamic Republic of Iran Broadcasting (IRIB) and religious organizations. Critics argued that the 1401 budget forced individuals and private companies to pay more taxes to strengthen organizations that helped officials gain and maintain power.

The IRGC emerged as the primary beneficiary of the budget, receiving a 131% increase compared to the previous year. This continued the trend under President Rouhani of increasing the IRGC budget, with the previous year's budget increasing 58% year-on-year. Other components of Iran's military-security apparatus – such as the Basij paramilitary organization, the Ministry of Defense, the Joint Staff of the Islamic Republic of Iran Army and the General Staff of the Armed Forces of the Islamic Republic of Iran – also received larger allocations. Collectively, the military-security apparatus witnessed a 24% rise in allocations, although the real increase was lower given the inflation rate. Notably, the budget reallocated resources from the Ministry of Defense to the IRGC.

The IRIB, Iran's public broadcaster, also received a significant budget increase of 46% to support its programs. While domestic programs by the IRIB had historically struggled to attract Iranian viewers, the organization aimed to enhance its "soft power" through foreign-language channels that disseminated the views of the Islamic Republic.

Religious organizations also saw substantial budget increases, including the Seminaries Services Center, the Islamic Propagation Organization, and the Waqf and Endowments Organization.

By reinforcing these pillars, Tehran aimed to prepare for the increasingly turbulent times ahead. However, relying on repression, propaganda and overstated future income will exacerbate rather than resolve the nation's problems.

In July 2022, OPEC announced that Iran received more than \$25 billion in 2021, marking a year-on-year increase of 216%. While Iran improved its oil revenue in the first half of 2022, media reports suggested that its total oil revenues had since reached around \$380 billion, some of which remain uncollected and frozen in foreign banks.

Notably, if sanctions had not been in place, Iran could have earned almost twice this amount, approximately \$750 billion. Iran's central bank reported that a significant portion of its foreign exchange reserves remain frozen in foreign accounts. Although specific figures have not been officially disclosed, Iran's state-run media reported that approximately \$20 billion remained frozen in Chinese banks, \$6 billion in Iraqi banks (earmarked for gas and electricity imports from Iran), around \$7 billion in both South Korea and India, and roughly \$1.5 billion in Japan. Consequently, Iran's foreign exchange reserves, as reported by the IMF, declined from \$122 billion in 2018 to \$85 billion in 2020. However, it appeared that only \$8.8 billion was available to the regime, severely limiting their access to these reserves.

In 2021, global oil prices experienced significant volatility due to various factors, including the COVID-19 pandemic and fluctuations in global demand and supply. The average annual Brent crude oil price stood at approximately \$71 per barrel in 2021 and \$101 in 2022, compared to only \$41 in 2019.

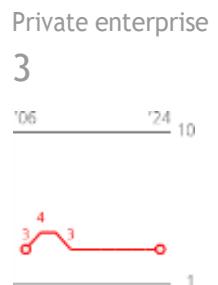
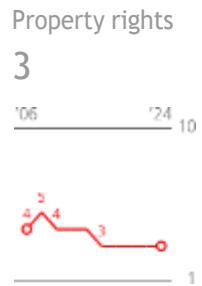
In 2021, Iran's public debt accounted for 42.4% of GDP and its external debt amounted to \$10.3 billion, with a total debt service of \$344.3 million. Government consumption constituted 14.2% of GDP.

## 9 | Private Property

While the Iranian constitution grants its citizens the right to establish private businesses and own private property, the reality on the ground paints a different picture. To undertake medium- and large-scale projects, individuals are often compelled to navigate a landscape rife with bribery and nepotism within the circles of power. Ordinary citizens lacking such privileges face discrimination, particularly from clerical tax-exempt foundations (bonyads) and institutions closely associated with the establishment and IRGC entities. These clerical bodies operate without scrutiny from any authorities, and corrupt judges often aid the privileged in wrongfully confiscating the property of others.

In the Heritage Foundation's 2023 Index of Economic Freedom, Iran received a dismal score of 25 out of 100 in terms of property rights, categorizing it as a "repressed state." This represents a decline from its 2020 index score of 36.9, highlighting the worsening conditions for property rights in the country.

The transfer of state-owned enterprises to IRGC-affiliated construction conglomerates and religious-commercial foundations, all under the authority of the supreme leader, has proven to be a highly profitable arrangement for the regime. In a broader sense, entities with ties to state elites have reaped the benefits of various privatization rounds. However, it is worth noting that competition among state elites also influences the privatization process.



Research conducted up to 2020 exposed the inefficacy of privatization in Iran. It revealed that during the 15-year period of implementing this policy, a mere 16% of state-owned or semi-state-owned company transfers actually went to the private sector, while the remaining 84% were funneled to the government through mechanisms like Justice Shares. This statistic unequivocally illustrates the failure of privatization in Iran, as highlighted by Yasir Rashid in a 2022 study conducted for the Istanbul-based IRAM Center of Iranian Studies.

## 10 | Welfare Regime

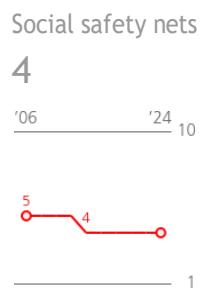
Since 1979, the primary aim of bonyads has been to enhance social security and welfare for vulnerable individuals. These foundations include the Foundation of Martyrs and Martyr Affairs, the Imam Khomeini Relief Committee (IKRC), the 15th Khordad Foundation, and the Bonyad-e Mostazafan Foundation for the Oppressed and Disabled Veterans. These organizations operate under the supervision of Supreme Leader Ali Khamenei.

According to the World Bank, Iran's total health care expenditure in 2020 amounted to 2.9% of GDP, a notable decrease compared to the 3.7% recorded in 2015. Out-of-pocket spending increased from 35.83% of total health expenditure in 2018 to 39.49% in 2019, dropping slightly to 37.06% in 2020. Nevertheless, life expectancy at birth consistently increased, reaching 76.9 years in 2020.

The Iranian Social Security Organization (SSO) provides pensions, health insurance and unemployment insurance. The Ministry of Health and Medical Education estimates that 39 million Iranians have health insurance through the SSO, while the Iran Health Insurance Organization (IHIO) is the second-largest health insurance provider, covering an additional 34 million Iranians. In total, 72% of the population enjoys essential health service coverage. According to the World Social Protection Report (2020 – 2022) by the International Labour Organization (ILO), approximately 50% of Iran's labor force actively contributes to a pension scheme, providing them with pension coverage.

However, political interference poses a significant problem. The government owes approximately IRR 3 quadrillion (\$15 billion) to the SSO and attempted to settle the debt by issuing government shares, which reduced the overall debt to \$12 billion by January 2021. However, this arrangement forced the SSO to borrow money, putting it at risk of bankruptcy and endangering the pensions of about 80% of retirees and employed individuals. As many as 44 million Iranian citizens are covered by the SSO, and this precarious situation continues to spark new social protests.

The government has been offering cash handouts of IRR 455,000 (approximately \$1.90) per person per month for many years to alleviate poverty. After the removal of import subsidies on basic goods in the first half of 2022, another support program was introduced, providing payments of IRR 4 million to the three poorest income



deciles and IRR 3 million to deciles 4–9. However, these measures only provide short-term relief, if any relief at all, as the high inflation rate erodes the payments' value, significantly undermining the poverty-reducing impact.

Iranian political dynamics have evolved from traditional divisions between left and right, conservative/hard-liner and reformist, to a new distinction between loyalists ("insiders") and "outsiders." Insiders enjoy privileged access to political and economic resources, while outsiders remain marginalized and lack access to these resources.

Discrimination in the Islamic Republic takes various forms and impacts different segments of the population based on factors such as gender, religion, ethnicity and politico-ideological beliefs.

Women in Iran experience legal, social and cultural discrimination. The country's legal system enforces discriminatory laws that restrict women's rights and freedoms. For example, women are mandated to wear hijabs in public, and gender segregation is enforced in many public spaces. Women also face restrictions on their personal and reproductive rights, are under-represented in decision-making roles, and encounter limited opportunities for education and employment.

The unemployment rate for women (aged 15 and higher) at 18.96% is twice that of men (9.89%). According to the Statistical Center of Iran (SCI), labor force participation among women stood at only 13.8% in the first quarter of the Iranian year 1400 (March–June 2021), whereas the male participation rate reached 68%. According to International Labour Organization (ILO) estimates, female workforce participation in 2021 was merely 14.35%, while that of men was five times higher at 68.09%. Other groups disproportionately affected by unemployment are the youth, with an official unemployment rate that has hovered around 25% for years, and graduates, with an unemployment rate of 13.2%. In both groups, women's unemployment rates are 2 to 2.5 times higher than those of their male counterparts.

The female-to-male enrollment rate in Iran shows slightly higher enrollment for women in primary education (1.1), a gross enrollment rate of 110.7%. In secondary education, the female-to-male enrollment rate is 1.0, with a gross enrollment rate of 86.3%. In tertiary education, the female-to-male enrollment rate is 0.9, indicating slightly lower enrollment for women, with a gross enrollment rate of 62.8% (World Bank, 2020).

Regarding literacy rates, in 2016, the literacy rate was 90.4% for men and 80.8% for women, for a total rate of 85.5%.

Religious minorities in Iran, such as Baha'is, Christians, Sunni Muslims, Dervishes, Jews and others, face discrimination and persecution within the Shi'a-majority country. Members of these minorities are systematically excluded from high-ranking positions and frequently experience discrimination in their daily lives. This

Equal opportunity

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discrimination results in arrests, victimization, business license revocation and forced shop closures. It also imposes limitations on their freedom of worship and cultural practices. Baha'is, in particular, face systematic persecution, including exclusion from higher education and severe repression by the regime.

Non-Persian ethnic groups, including Azeris, Kurds, Arabs, Baluchis and others, often encounter discrimination and marginalization. They may face restrictions on their cultural rights, language use limitations, and unequal access to resources and opportunities. Marginalized ethnic groups have also reported instances of forced displacement, land confiscation, arbitrary arrests and disproportionately face the death penalty.

Homosexuality is criminalized in Iran, and same-sex relationships are severely punished, sometimes with the death penalty. LGBTQ+ individuals face discrimination, social stigma and harassment, compelling them to live in fear and hide their identities. Transgender individuals encounter significant obstacles in accessing health care, gaining legal recognition and seeking acceptance.

Furthermore, the Islamic Republic has had a history of suppressing political dissent and limiting freedom of expression since its establishment in 1979. Activists, journalists and political critics of the regime often face persecution, imprisonment and harassment. The government exercises strict control over the media and the internet, restricting access to information and suppressing freedom of speech.

It is important to note that discrimination and its impact can vary among individuals and regions within Iran. While there are movements and individuals advocating for change and equality, addressing systemic discrimination in all its dimensions remains a significant challenge. The revolutionary protests in the fall of 2022 have provided new momentum to raise awareness of these grievances.

## 11 | Economic Performance

Iran's GDP reached \$469.95 billion in 2021, compared to \$448.77 billion in 2020 and \$434.3 billion in 2019, as reported by the World Bank. Real GDP growth followed a pattern of contraction, declining from 8.8% in 2016 to -1.8% in 2018 to -3.1% in 2019. However, it rebounded to 3% in 2020, 4.7% in 2021 and 2.5% in 2022, according to data from the IMF Iran data mapper. Per capita GDP (PPP) also fluctuated, dropping from \$18,981 in 2011 to \$13,828 in 2015, before increasing to \$16,484 in 2021, marking a year-on-year increase of 4.0% compared to 2020.



The inflation rate in Iran exhibited an increase, rising from 34.62% in 2019 to 36.44% in 2020, 40.13% in 2021 and 48.96% in 2022, according to IMF figures, though experts suggest that the actual rates may be up to twice as high. The unemployment rate also experienced an uptick, climbing from 10.7% in 2019 to 11% in 2022.

Foreign direct investment declined to 0.4% of GDP in 2021, which was lower than the 1.0% observed in the post-JCPOA year of 2017. After peaking at 48.3% of GDP in 2020, Iran's government public debt decreased to 42.4% in 2021 and to 34% in 2022. It is worth noting that, in 2013, public debt stood at 11.3% of GDP.

12 | Sustainability

Iran, like many other countries in the MENA region, faces severe ecological crises. These crises, characterized by significant environmental degradation largely driven by decades of misguided policies and compounded by the impacts of climate change, have given rise to economic challenges, public health issues, social disruption and political protests. These environmental problems further exacerbate the Islamic Republic's primary crises, namely the socioeconomic and political challenges it faces.

Prolonged droughts, coupled with shortsighted water management practices by the authorities, have nearly depleted Iran's groundwater resources. This situation is compounded by high demand, particularly from the inefficient agricultural sector and rapid population growth. Inadequate water distribution policies contribute to the problem, with nearly all of Iran's 31 provinces experiencing water scarcity, affecting towns and cities alike. The Iran Meteorological Organization reports that 97% of the country grapples with water shortages.

In the summer of 2021, these water shortages led to widespread protests that were met with severe repression. Government promises to address the water crisis have largely gone unfulfilled due to limited action and the economic crisis, compounded by U.S. sanctions, which hinder essential and substantial investments.

The drought crisis has given rise to various other ecological challenges. As groundwater resources dwindle, desertification in Iran continues to advance, with several regions likely to be uninhabitable within the next two decades, according to Ahad Vazifeh, the head of the National Center for Drought and Crisis Management at the Iran Meteorological Organization. This trend results in forest dieback, reduced biodiversity and an increase in land subsidence, endangering densely populated areas and critical infrastructure. Expanding desertification also leads to a surge in sandstorms and, coupled with pollution from outdated vehicles, results in significantly elevated air pollution levels in major cities, posing health risks to millions and often necessitating the closure of schools and offices. Several Iranian cities, particularly Tehran and many in the south, are already among the world's most polluted.

Iran's environmental crisis, primarily rooted in human activity and worsened by decades of misguided government policies, has become a prominent political issue. It adds to public discontent over socioeconomic challenges and policy failures. This volatile combination of unemployment, environmental disasters and policy



shortcomings has sparked protests, including the Dey protests (December 2017 – January 2018), as well as subsequent waves of demonstrations. Between January 2018 and October 2019, there were 261 environmental protests. However, due to the regime's fear of environmental protests, which threaten the livelihoods of tens of millions of Iranians and compound other pressing socioeconomic problems, many of these protests have been met with heavy repression by security forces. Additionally, civil society organizations and non-governmental groups face strict regulations and surveillance, with environmental experts, like activists in other domains, often detained and sentenced to lengthy prison terms for their activism.

The adult literacy rate in Iran has shown a slight improvement, reaching 89% in 2021. However, the country still faces significant challenges, with approximately nine million Iranians considered totally illiterate, as reported in a 2018 study by the Parliament Research Center. Meanwhile, the number of school students has been steadily increasing, surpassing 15.5 million in 2021.

Despite obtaining tertiary education, a notable proportion of university graduates in Iran face daunting unemployment rates. The Statistics Center of Iran disclosed that, as of 2021, nearly 40% of the country's unemployed individuals hold a university degree. This segment of the population, often referred to as the "middle-class poor," played a pivotal role in the nationwide uprisings that occurred in 2018 and 2019.

Each year, an estimated 150,000 to 180,000 highly educated young Iranians leave the country in pursuit of employment and residency opportunities abroad. In 2021, the Iranian minister of science, research and technology, Mansour Gholami, revealed that approximately 900 university lecturers had emigrated in 2020 alone.

According to recent data from the World Bank, Iran's GDP allocation for education in 2020 was 3.6%, a decline from 4.0% in 2018. Nevertheless, Iran has made progress in research and development, with R&D spending tripling between 2013 and 2019 to 0.9% of GDP. The budget for the Ministry of Science, Research and Technology was increased from IRR 209 trillion (\$4.9 billion) in 2020 to IRR 253 trillion (\$5.95 billion) in 2021, marking a 21% increase. However, this boost may not be sufficient to cover salary expenses, leaving limited funds for investments in educational infrastructure and development at present.

In the U.N. Education Index, Iran achieved a score of 0.761 in 2021, reflecting its progress in education. The overall literacy rate stood at 85.5% in 2016.

Education policy /  
R&D

4

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## Governance

### I. Level of Difficulty

Iran possesses substantial advantages, including the fourth-largest confirmed oil reserves in the world (11% of the global reserves) and the second-largest natural gas reserves after Russia. The population is well educated, and there is significant potential for profitable tourism, particularly for religious pilgrims and culturally inclined visitors.

However, hard hit by climate change, food insecurity has been on the rise as a result of volatile agricultural production, natural disasters, food price hikes, subsidy cuts and high levels of unemployment and underemployment, which limit Iranians' access to nutritious foods. As the continuing droughts make Iran increasingly dependent on wheat imports, the spillover effects of Russia's invasion of Ukraine have meanwhile exacerbated this problem by disrupting supply chains and creating shortages on the world market, with Russia and Ukraine together accounting for 30% of the world's grain production.

Instability in the immediate neighborhood – particularly, Afghanistan and Pakistan, two countries with which Iran shares a border – further constrains Iran's government. Yet, this is of minor importance compared to Iran's own internal constraint, which has grown over recent decades: the strict religious and ideological dogmas that prevent Iran from fully exploiting its immense potential. In fact, the political system represents the primary impediment to Iran's sociopolitical advancement. Foreign investment is urgently needed to revive the country's struggling oil and gas industry, ailing infrastructure, and crucial sectors like civil aviation and industry, which require modernization to remain competitive. Religious-ideological barriers hinder the development of leisure travel, such as beach tourism. To loosen them would require a radical change in the supreme leader's attitudes or the end of the regime. However, the president and his cabinet alone are unable to change them, even if they wish to do so.



The Islamic Republic of Iran endorses activities that are consistent with the ideology of the regime, such as religious congregations and rituals. Nonetheless, autonomous associations and dissenting organizations are not accepted. Even environmental activists who speak out against the government's damaging environmental policies have been detained and subjected to brutality.

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

Today, Iranian civil society encompasses movements advocating for women's, labor and student rights, as well as the concerns of youth and marginalized ethnicities, as well as professional associations (e.g., bus drivers, truck drivers, lawyers and doctors). Together, these movements were the driving force behind the 2022/23 protest wave.

Iran's religious-ideological, incompetent, and highly corrupt rulers and officials have caused deep polarization within the country. The most significant division exists between the ruling class and the citizenry, with an impotent populace and a government that cannot (and does not want to) establish a connection between the two, leading to the widespread erosion of trust and resilience in Iranian society. In just two years, two nationwide protests occurred with slogans protesting against the entire sociopolitical system, exposing the profound wounds caused by a highly repressive regime. An atmosphere of discontent and violence has permeated a frustrated, fragile and fragmented society. Disturbing statistics reveal a surge in social violence. Street and neighborhood clashes, where blunt weapons and firearms are commonly utilized, have increased significantly. According to recent data, quarrels and fights were the second most common cause of death in emergency departments in 2021. Furthermore, Gallup's 2022 Global Emotions report ranked Iranians among the angriest and most depressed people in the world.

As the 2022/23 protest wave indicates, the gulf between state and society has become massive, probably irreversible. This is due to the regime's inability – or unwillingness – to cater to the most basic needs of a great variety of social as well as civil society groups.

Civil society traditions

7

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Conflict intensity

7

'06 '24 10

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## II. Governance Performance

## 14 | Steering Capability

Ebrahim Raisi assumed the presidency with the goal of improving the economy, fighting poverty and corruption, deepening support for the Tehran-led “axis of resistance” (a militia network present throughout the Middle East) and strengthening ties with non-Western great powers.



In March 2005, Supreme Leader Khamenei released a significant and binding document known as the Outlook of the Islamic Republic of Iran by 1404 (i.e., 2025 in the Christian calendar). This document garnered widespread attention. The outlook combines Iran's desire for postwar economic reconstruction with newfound international ambitions. It sets forth a vision that by 2025, after completing four five-year development plans, Iran aims to achieve the status of a fully advanced country and a leader among 28 countries in West Asia and North Africa in terms of economic, scientific and technological indicators. Iran also aims to maintain its Islamic and revolutionary identity, serving as an inspiration to the Islamic world, while actively engaging in constructive international relations.

To achieve these objectives, the outlook outlined several economic goals. These included achieving rapid and sustainable economic growth, creating lasting employment opportunities, increasing productivity, establishing a strong presence in regional and international markets, fostering a diversified and knowledge-based economy, combating inflation, ensuring food security, and creating an economic environment that supports domestic and international entrepreneurship.

Currently, the Seventh Development Plan is in force, proclaimed by Supreme Leader Khamenei in September 2022. Among other things, it envisages average GDP growth of 5% over the five-year period.

Given the current realities and conditions of the country, neither the latter economic growth rate nor the Outlook's regional pole-position goals can be seen as realistic.

While the regime has, to some extent, succeeded in raising support for the Tehran-led “axis of resistance” (a militia network present throughout the Middle East) and has strengthened ties with China and Russia (albeit without tangible economic advantages so far), none of the regime’s domestic pledges have been realized.



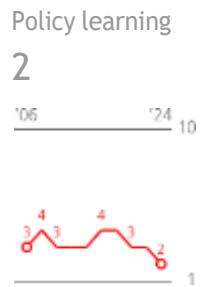
For instance, the 25-year deal Tehran signed with Beijing in spring 2021 has so far failed to bring the desired amount of Chinese investment to Iran.

The Raisi government has fallen short of fulfilling its promised policy objectives due primarily to three reasons: a lack of competence and effectiveness; a sense of hubris given the wider conservative camp's monopolization of power; and the worsening economic situation exacerbated by the reimposition of sanctions in the wake of the U.S. withdrawal from the Joint Comprehensive Plan of Action (JCPOA) in May 2018. Additionally, Iran's involvement in Middle East conflicts, particularly in Syria, Iraq and Yemen, its missile program, and tensions with Saudi Arabia have further complicated the situation.

Moreover, a key factor behind failing to implement the government's stated objectives is the sidelining of technocratic expertise, especially by the hard-line faction of the establishment.

Iran has prioritized ideology over rationalism in both domestic and foreign policymaking since the establishment of the Islamic Republic in 1979. This is evident in the regime's hostile attitude toward the United States and Israel, its unnecessary nuclear program (despite the availability of cheaper and safer energy sources such as solar power) and its support for proxy militias in regional conflicts. If Iran were to prioritize rationalism over ideology, it could become a prosperous state due to its vast natural resources and educated young population. However, the prevailing ideology has hindered policy learning at various levels.

Iran's conservative-dominated parliament has hindered the government's efforts to join the Financial Action Task Force (FATF) and the U.N. Convention Against Transnational Organized Crime (Palermo Convention), having rejected two necessary laws. This rejection is rooted in two factors. First, conservative deputies are ideologically committed to militant groups such as Hezbollah, Hamas and Ansarullah, which are considered terrorist organizations in Europe and the United States. However, Iran refers to them as "resistance forces" against "Western colonial domination" and the "Zionist regime." Secondly, after the United States declared the Islamic Revolutionary Guard Corps (IRGC) a terrorist group in March 2019 and imposed sanctions on its commanders, members and affiliated entities, Iran's banking system would be prevented from continuing to aid militant groups such as Hezbollah if it joined the FATF. Additionally, it would have to cease all financial transactions with the IRGC and its foreign operations arm, the Quds Force, which is not feasible in an economy controlled by the IRGC.



## 15 | Resource Efficiency

Iran's inefficient use of assets can be attributed to the country's dual governance structure, which consists of a regular administration and a quasi-parallel government based in Supreme Leader Khamenei's "office" (Beyt), as well as the regime's corrupt practices and ideological-religious orientation. Khamenei holds significant power in both the cabinet and the recruitment process for all key positions, even down to middle-ranking officials. Loyalty to him is the primary selection criterion. More generally, elite recruitment hails largely from the IRGC.

Although state initiatives such as the missile program or Iran's nuclear policy are primarily controlled by the IRGC, these initiatives have resulted in enormous costs for the country while providing little value.

The government's budget planning has been criticized as "unrealistic" by experts due to its heavy reliance on expected revenues from oil exports at a time when Iran still faces U.S. extra-territorial sanctions on its energy exports. In the first years of the Raisi administration, the annual budgets were marked by heavy investment in the military, security and propaganda apparatuses – a pattern consistent with the previous "moderate" Hassan Rouhani administration.

The Iranian political system is characterized by a complex power structure, with conflicts arising between the executive, legislative and judicial branches. The supreme leader, who is omnipotent and forms a shadow government with the IRGC, exerts significant influence over all branches of government. However, the monopolization of power by the wider conservative camp has reduced tensions between the three branches of government, with the president seen as a pliable person who is at the mercy of the supreme leader.

There are institutional arrangements in place to tackle corruption, yet their effectiveness and implementation have been criticized.

Iran's Supreme Audit Court (Divân-e Mohâsebât-e Keshvar, SAC), formally supervised by the parliament, is responsible for auditing state spending. Concerns have been raised regarding its independence and effectiveness, as it de facto operates under the supervision of the judiciary, which is influenced by political and religious authorities. For instance, the SAC is not allowed to audit IRGC-related finances, where most of the country's corruption is believed to hail from.

Regulations on political party financing do exist but lack transparency and accountability. The sources of party financing are not adequately disclosed and nontransparent funding can influence political processes.

Efficient use of assets

2

106 74 10



Policy coordination

2

106 74 10



Anti-corruption policy

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106 74 10



Iran has legal provisions for accessing information, but implementation is limited, particularly regarding corruption and government activities. Obtaining and disseminating information that conflicts with regime propaganda is difficult and risky. Robust mechanisms for public and media access to information are necessary for transparency and accountability.

Officeholders are required by law to declare assets and follow codes of conduct. However, enforcement and effectiveness have been questioned. Non-compliance, a lack of transparency in asset declarations and limited consequences for violating conflict of interest rules have been observed.

Iran's public procurement system aims at achieving transparency and fairness. However, corruption and favoritism persist. A lack of transparency, limited oversight and inadequate competition present challenges.

To combat corruption and promote integrity, Tehran needs to strengthen the independence, transparency and accountability of these mechanisms. Comprehensive efforts are necessary for progress in combating corruption and promoting good governance in Iran. However, given the dominant political realities in the Islamic Republic, any such improvements are unlikely.

## 16 | Consensus-Building

The monopolization of power by hard-liners has been accompanied by the top leadership ousting reformist or so-called moderate elite members from the halls of power and, as such, any semblance of democracy within the ruling political system. As a result, there is now a greater willingness to steer the country toward a more robust autocracy. However, at the same time, there is widespread societal opposition to dictatorship and support for democracy, as evidenced by the revolutionary protests following the September 2022 state murder of Mahsa "Jina" Amini over a "bad hijab." As such, the state and society find themselves not only totally opposed on the issue of democracy but on a collision course.

The Raisi administration represents a faction within the establishment that has privileged access to economic resources and wealth and favors an authoritarian monopoly-capitalism that benefits affiliated state- and semi-state entities. President Raisi not only previously served as chief justice but also as the chairman of Astân-e Qods-e Razavi, an economic empire based in northeastern Iran, with formidable political links to the country's top leadership. As such, any liberal market opening is seen as a threat to their politico-economic might. Therefore, it is of little surprise that under this administration, Tehran remains opposed to the ratification of bills that would align Iran's financial and banking systems with international standards. The resulting continuation of the non-integration of Iran in the international banking system allows the regime to preserve the nontransparent nature of its financial activities, which facilitates high rates of corruption and wealth accumulation, as well as investments in regional militias.

Consensus on goals

2

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Almost all matters of the state are ultimately influenced by unelected authorities, who hold significant power in Iran. This includes conservative, fundamentalist and extremist Islamists, as well as entities such as the IRGC, Basij paramilitary militia, Friday Prayer imams, and many clerics and religious institutions. These groups are supported by Supreme Leader Khamenei, and their substantial economic conglomerates, known as “religious foundations” (bonyâds), give them considerable financial and military power. This allows them to promote Islamist attitudes and obstruct reform efforts. Moreover, unelected authorities have the ability to bypass government and parliamentary decisions and can even overrule them, as Supreme Leader Khamenei possesses the power to overturn or negate government and parliamentary decisions.

Ethnic and religious minorities are widely repressed by the regime, a situation that has gotten worse since the onset of the COVID-19 pandemic and, especially, the Mahsa Amini protests –both of which occurred under the presidency of Ebrahim Raisi.

Historically, the Iranian regime has taken advantage of the divisions between the prosperous and educated upper classes and the impoverished masses for its own benefit. However, since the emergence of the “Green Movement” in 2009, the wealthy middle class has largely refrained from participating in subsequent protests. Instead, they have expressed some support for the “reformist” camp led by Rouhani, despite their dissatisfaction with his policies. Furthermore, many middle-class individuals employed in the oil sector have benefited from the regime’s economic patronage.

For the first time ever, the 2022 protests brought together societal groups that had hitherto acted separately. Thus, the regime’s harsh response to the protests has further deepened the cleavage between members and collaborators of the regime and regime critics.

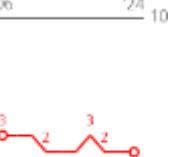
The political elite rarely consults with independent civil society groups, and, when it does, it is usually with groups connected to the regime. Although the government regularly seeks the advice of select expert groups and academics in various ways, this does not amount to an inclusive process. On less politically sensitive matters, their arguments are – to varying degrees – taken into account.

Despite occasional protests and acts of civil disobedience, government crackdowns on civil society remain a significant obstacle to public consultation. Political dissidents, human rights activists, journalists and religious minorities continue to face persecution, imprisonment and censorship.

In recent years, the government has also increased its efforts to control the internet and social media platforms, further limiting freedom of expression and access to information.

Anti-democratic actors

2

106  10

Cleavage / conflict management

2

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Public consultation

1

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The regime fails to realize reconciliation between the victims and perpetrators of past injustices. Political repression remains a key feature of governance in the Islamic Republic, with no efforts made to achieve reconciliation or question the regime's actions.

To varying degrees, members of the Islamic Republic's political elite occasionally bring up crimes committed by other (typically rival) elite members. To some degree, this keeps the public memory of certain injustices alive – although this does not equate to a process of reconciliation.

## 17 | International Cooperation

The Islamic Republic's elite have traditionally shared diverse geopolitical preferences. Simply put, the regime's reformists or so-called moderates had pinned hopes on the West, while hard-liners have favored a “look to the East” outlook that seeks closer relations with non-Western great powers. Throughout the 2010s, Iran sought to improve ties with the West and to cooperate with international actors in a broad range of fields, not least in the economic realm. However, sanctions served as an impediment to international cooperation and shaped Iran's approach toward international cooperation, further pushing the country toward “the East.” Today, with the hard-liners monopolizing power in Tehran, the “look to the East” orientation faces little opposition in government, despite concerns over its actual benefits.

Iran has a strategic understanding of its relations with China and Russia and considers its “look to the East” approach to be central to its response to the United States. Political, military and economic ties between Iran and the two global powers are growing, with Iran compelled to make concessions due to its urgent need for protection on the international stage.

Iran has a reputation among various international organizations, including the World Bank, IMF and regional institutions, for being a challenging partner. Although Iran had a chance to improve its relations with European partners following the United States' exit from the JCPOA, it failed to maintain its commitments and has indicated that it may reverse its policies even if the United States fully complies with the agreement.

Evaluating Tehran's credibility and reliability as a partner in its relations with the international community necessitates a thorough examination of its adherence to international agreements and collaboration with relevant institutions and mechanisms. Iran's track record is characterized by a mixture of compliance and non-compliance, rendering a definitive assessment challenging.

For instance, Iran initially complied with the July 2015 JCPOA, as confirmed by various IAEA reports. However, while Iran upheld its nuclear commitments, it did not fulfill the spirit of the agreement as outlined in its preamble, particularly concerning its contribution to reducing tensions in the Middle East. This paved the

### Reconciliation

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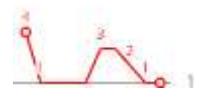
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### Effective use of support

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### Credibility

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106 124 10



way for various regional and international actors to criticize the JCPOA. Subsequently, the United States' withdrawal in May 2018 and subsequent reimposition of sanctions led Iran to gradually violate its commitments. While Tehran's non-compliance can be seen as a response to perceived violations by other parties (namely the United States), it has undermined confidence in its credibility.

Second, Iran has faced major criticism for its human rights record, marked by arbitrary arrests, restrictions on freedom of expression and women's rights, and the mistreatment of prisoners. These issues cast doubt on Iran's reliability in upholding human rights and the relevant conventions it has signed but not implemented in practice.

Finally, Iran's involvement in regional conflicts in Syria, Yemen and Iraq has been detrimental to peace efforts. Its support for armed groups perpetuating violence undermines cease-fire agreements and raises concerns about Tehran's commitment to regional stability.

Iran's cooperation with monitoring institutions and mechanisms is also mediocre at best. While Iran is not a party to the International Criminal Court's (ICC) jurisdiction, it has faced allegations of human rights violations. Iran's lack of cooperation with the ICC diminishes its credibility in addressing accountability for such abuses. The Islamic Republic's engagement with the UNHRC has been mixed, with limited cooperation and Iran having failed to implement UNHRC recommendations. Its selected engagement with international human rights mechanisms diminishes its credibility as a reliable partner.

Considering these factors, Iran's credibility and reliability as a partner face significant scrutiny. While it has demonstrated compliance with certain agreements, its behavior in areas such as human rights and regional conflicts raises concerns about its reliability. The mixed picture of the Islamic Republic's track record makes it difficult to categorize it as consistently credible and reliable.

Analyzing the willingness and capacity of Iran's political leadership to cooperate with neighboring countries involves examining the regime's engagement in developing good neighborly relations, cooperation in international and regional organizations, and support for regional and international integration.

Iran's relations with neighboring countries are characterized by a combination of cooperation and confrontation. While Iran has fostered close ties with some countries that are aligned with its interests, its relations with others have become strained due to geopolitical rivalries and conflicting regional agendas.

Iran's foreign policy is primarily driven by ideology, which includes providing support to Shi'ites in other countries. This sectarian preference often leads to conflicts and defines Iran's regional relations. While there may be other objectives involved in Iran's foreign policy, its ideological motivations remain a significant factor.

Regional cooperation  
2  
'06 '24 10



One of the main goals of the Raisi administration was to improve Iran's relations with its Arab neighbors. However, the continuation of Iranian policies in the region via the IRGC's Quds Force and Tehran-led militias has maintained tensions between Iran and its Arab neighbors.

Iran has engaged in various bilateral initiatives and agreements with neighboring countries in trade, energy, infrastructure and security, among other areas. However, political differences, historical disputes and conflicting interests have occasionally hindered the establishment of stable and cooperative relationships with all neighboring countries.

Iran actively participates in regional organizations like the Organization of Islamic Cooperation (OIC), the Economic Cooperation Organization (ECO) and the Non-Aligned Movement (NAM). Its engagement in these forums aims to enhance its influence. However, differing political and strategic interests among member states can limit comprehensive regional cooperation and Iran's actual dividends.

Iran has expressed support for regional integration initiatives, including economic projects and connectivity plans. Examples include the Iran-Pakistan-Türkiye gas pipeline and the North-South Transport Corridor. However, progress in these projects can be influenced by regional dynamics and geopolitical consideration, which have led to substantial delays in building the required infrastructure.

Iran has been involved in regional conflicts, providing support to various non-state actors. This involvement has contributed to tensions and strained relations with neighboring countries, especially those with differing geopolitical orientations or competing interests.

Iran has occasionally played a role in mediation and conflict resolution initiatives, particularly in Iraq and Afghanistan. However, its involvement is often guided by its own strategic interests and alliances, which may limit the extent of its cooperation with neighboring countries.

In summary, the Islamic Republic's willingness and ability to cooperate with neighboring countries vary based on geopolitical factors, ideological considerations, as well as regional and global dynamics. While Iran has engaged in bilateral agreements and participated in regional and international organizations, its relationships with neighboring countries have experienced both cooperation and tensions. Conflicting interests, historical disputes and regional rivalries have sometimes hindered the establishment or implementation of comprehensive and long-term cooperation.

## Strategic Outlook

As Ebrahim Raisi reaches the midpoint of his first term as president, Iran finds itself in a dire state. The country is facing severe economic challenges, witnessing widespread revolutionary protests that pose a significant challenge to the regime, and experiencing costs that outweigh the benefits of its international relations. If Iran is to seek reintegration into the global community, it must make substantial efforts. Even if sanctions are lifted, Iran's inclusion on the FATF and the Palermo Convention blacklists could still deter large corporations and international businesses from engaging in trade with the country.

The trajectory of Iran's future depends primarily on two factors. Internally, questions loom about the fate of the ongoing revolutionary process that began in September 2022 and the impending succession of the supreme leader. Ayatollah Ali Khamenei, born in 1931, will soon need to designate a new leader for the revolution. Presently, no clear successor is in sight. The prospects for fundamental revisions to Iran's social, economic and foreign policies appear unlikely in a post-Khamenei Iran. The IRGC is best positioned to extend its dominance across all spheres, potentially shifting the regime's ideological mix from Islamism to nationalism. Additionally, all three branches of power – the executive, legislature and judiciary – have been monopolized by conservatives or hard-liners, yet this has not translated into policies that benefit Iranian society or address pressing socioeconomic issues. Such an outcome could further deepen the public's disillusionment with the entire political system.

On the international front, the Biden administration's willingness to revive the nuclear deal has led to a more assertive stance from Tehran, demanding concessions that exceed the original 2015 JCPOA. This undermined hopes for a revived deal even before the fall 2022 protests, which made it politically costly for the West to engage Iran, began. Tehran's intransigence has been fueled by its perception of Western weakness and a lack of a Plan B beyond reviving the JCPOA. With U.S. presidential elections approaching in fall 2024, Tehran has little incentive to fully commit to JCPOA's nuclear obligations, fearing that a Republican successor to Biden might withdraw the United States from a renewed deal. As a result, Iran may not expect tangible or sustainable economic benefits from a new agreement. Furthermore, Iran's nuclear escalation and the limited likelihood of revising the JCPOA have heightened the possibility of Israeli sabotage of or military strikes against Iranian nuclear facilities. This situation could potentially usher in a new era of regional tensions.

Despite Iran's long-term agreements with non-Western great powers, such as a 25-year deal with China signed in March 2021 and a planned 20-year agreement with Russia, the economic benefits have fallen short of expectations. These agreements, marked by their lack of transparency, have raised concerns that Iran may have compromised national interests and resources to gain support from Beijing and Moscow, given the domestic and international pressures challenging regime stability. It remains uncertain whether Iran's partnerships with Russia and China will evolve into

strategic alliances, as Iranian propaganda suggests. Meanwhile, Iran's key allies, which include Lebanon's Hezbollah and the Assad regime in Syria, cannot compensate for the absence of strategic alliances.

Domestically, the regime has increasingly relied on brute force, as the country appears to be immersed in a revolutionary process for the foreseeable future. This process is driven by deep-seated economic and political grievances, as well as the state's inability to address society's basic needs, which has resulted in a growing and possibly irreversible gap emerging between the regime and society.

In summary, the prospects for political and economic reform in Iran appear bleak and are unlikely to materialize without internal and external pressure, regardless of who becomes the next supreme leader.