

BTI 2014 | Iran Country Report

Status Index	1-10	3.07	# 121 of 129	
Political Transformation	1-10	3.13	# 118 of 129	➔
Economic Transformation	1-10	3.00	# 119 of 129	⬇
Management Index	1-10	1.92	# 124 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	76.4	HDI	0.742	GDP p.c.	\$	-
Pop. growth ¹	% p.a.	1.3	HDI rank of 187	76	Gini Index		38.3
Life expectancy	years	73.4	UN Education Index	0.707	Poverty ³	%	8.0
Urban population	%	69.2	Gender inequality ²	0.496	Aid per capita	\$	0.9

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

The period from February 2011 to January 2013 was full of domestic and international tensions for the Islamic Republic of Iran. On the domestic level, the following developments were key events: the immensely growing tensions between the parties loyal to the conservative - fundamentalist regime; the increasingly bitter disputes between Ahmadinejad's government and the other two branches of governmental power (judiciary and legislative), which dominated Iranian politics during the ninth parliamentary elections in March 2012; and the end of the deep friendship between President Ahmadinejad and Supreme Leader Ayatollah Seyed Ali Khamenei, resulting in the supreme leader's withdrawal of support from Ahmadinejad's government. Hostility and growing distance between centers of power resulted, increasingly isolating the government; the closer the termination of Ahmadinejad's presidency in summer 2013 came, the more the clash between the two political heavyweights intensified. Without any doubt, Ahmadinejad's confrontation with Khamenei, which started in April 2011, marked the biggest domestic challenge to the regime.

The transformation to a welfare economy, which Ahmadinejad had declared to be a major priority as he took office in 2005, failed in large part due to the increasingly tight economic sanctions deriving from the international nuclear-arms dispute, but also because of government mismanagement and rampant corruption. The government's political and economic course resulted in low economic growth rates, high inflation and unemployment rates, and above all the deep decline of the Iranian rial against the U.S. dollar in October 2012. The regime's economic policy centerpiece was the so-called Iranian targeted subsidy plan. As it had mainly failed, the parliament decided in October 2012 to stop its second phase. However, Ahmadinejad ignored the decision, adding another difficult legacy to his successor's list of tasks.

The conflict over Iran's nuclear program dominated international debate in 2011 and 2012. The tensions became very acute, taking on a dangerous dimension that threatened to result in a military assault on Iran's nuclear facilities. Although no new sanction resolutions have been enacted by the

U.N. Security Council since June 2010, international sanctions, in particular those imposed by the United States and the European Union in 2012, have brought the Iranian economy almost to a standstill. During the period under review, the international community (as represented by the International Contact Group (ICG), consisting of five permanent members of the U.N. Security Council and Germany) radically changed its policies toward Iran. While the past approach primarily focused on negotiations with Tehran, the ICG increasingly shifted to a focus on strong diplomatic pressure, including devastating economic sanctions. Russia and China, Iran's most important supporters, opposed this tactic and prevented any new U.N. Security Council resolution, but despite their efforts to supply the Iranian market with (comparatively low-quality) products, they were unable to counterbalance the negative effects of the U.S./EU sanctions on Iran's economy.

The West's strategy of combining economic sanctions with negotiations has led to a very important result. At the end of 2012, Iran showed its willingness to engage in serious negotiations, signaling potential areas of concession. U.S. President Barack Obama and European politicians contributed substantially to this development.

Though Ahmadinejad aimed at harmonizing the country's relations with the Arab world, relations remained fragile and mistrustful. The Arab Spring complicated the picture even more. The shoulder-to-shoulder stance of Tehran with Syria's Bashar al-Assad deepened the suspicion between Iran and many Arab states. Iran is likely to slip into even deeper isolation from its Arab neighbors if Ahmadinejad's successor fails to find a completely different approach.

History and Characteristics of Transformation

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

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

Establishing the Islamic Republic was intended not only to reconfigure the concept of political sovereignty so as to privilege divine authority, but also to re-fashion the economic structure of government along ideological lines with the primary motive of protecting the poor. A plan for centralizing economic management was formulated, which involved not only the nationalization of the industrial and banking sectors, but also the establishment of charitable foundations to handle all the investment and distribution needs of civil society. Over time, this design has proven awkward to manage and highly susceptible to corruption, as it relies heavily on subsidies and lacks transparency. Nonetheless, and in spite of long-running U.S. economic sanctions (beginning in the early 1980s following the U.S. hostage crisis), the Iranian economy grew at a consistent rate throughout the era of pragmatism under President Rafsanjani (1989 – 1997) and the era of reform under President Khatami (1997 – 2005). This was in large part due to the country's significant income from both oil and gas exports (Iran is thought to have 11% of the world's total oil reserves; after Russia, it has the world's second-largest store of natural gas reserves). Oil revenues account for 60% of the entire Iranian budget and for 85% of the country's overall export revenue.

Iran suffered a sharp economic setback under President Mahmoud Ahmadinejad (2005 – 2013). Despite historically unprecedented oil revenues, Iran's economy was by early 2013 near the edge of collapse. While this development had numerous grounds, first and foremost was the incompetence of Ahmadinejad and his team. Most members of the cabinet are former high members of the Ministry of Intelligence and National Security or high-ranking IRGC generals. In addition, a severe dispute arose between Ahmadinejad and Supreme Leader Ali Khamenei. Hence, the government became more ideologically and religiously oriented, preventing it from pursuing a rational and secular course.

Iran's aggressive foreign policy, especially the nuclear program acceleration that included the enrichment of uranium to 20% fissile purity, triggered unprecedentedly severe sanctions. Regime collapse was averted only by the record-high levels of oil income, which enabled the country to satisfy the people through the massive import of consumer goods. However, this import policy also helped undermine domestic industries.

The main concern of the Islamic Republican regime, as repeated daily by state officials, is the maintenance of the velayat-e faqih principle and of the regime itself. All other things are deemed subordinate. The application of the velayat-e faqih dogma in everyday life has led to conflicts and huge social and political problems, however. Silence and the apparent order on the streets are deceptive. As in the Arab world, any spark could trigger mass social-revolutionary protests, although the Iranian regime's machinery of force and violence is more effective than that of its neighbors. In fact, the massive 2009 demonstrations following the rigged presidential elections showed the depth of frustration felt by Iranian citizens. The average age of Iran's population, which totaled 74.8 million people at the end of the Iranian year 1389 (March 2010 – March 2011), is just 26. Though the rate of population growth has come down tremendously (reaching just 1.1% in 2011), there is considerable potential for future uprisings.

The regime has reacted to these internal challenges by shifting responsibility for inner security from the (civil) police forces to the Revolutionary Guards. The two corps of the revolutionary guard, Mohammad Rasul Allah and Seyed al Shohada, are today tasked with protecting the capital against revolt and internal unrest and riots. Both act under the Sar-Allah-Command headquarters (Guards Sar-Allah base). Since 1995, the Sar-Allah-Command base and center has been responsible for ensuring the security of Tehran, and was responsible for cracking down on street revolts in 1995, 1999 and 2003, as well as on the waves of protests following the June 2009 presidential elections.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The government has full control over the entire domestic security forces and almost of the country's territory, with the important exception of some border areas. Traditionally, Iran's national police forces have been responsible for internal security, but have been supported by the Revolutionary Guards and the militia in the case of protests and social riots. In reaction to the massive protests against the regime in summer 2009, the Supreme National Security Council decided in October 2010 that the Revolutionary Guard and the Basij militia should be given primary responsibility for internal security. Their tasks also include control of political parties and civil society associations, the suppression of riots in universities and syndicates, primary control over the prisons (where political prisoners are held), interrogation of prisoners, and operations taken against protests and demonstrations.

Monopoly on the
use of force

9

At present, these forces have the situation completely under control. Street demonstrations no longer take place, and the Green Movement, which brought 3 million people to the streets of Tehran in June 2009, has effectively come to an end.

Though the government still has some problems at the state borders, longstanding conflicts and security threats in the remote provinces have diminished or even completely disappeared. Iran's biggest challenges include the battle against drug smuggling in the eastern provinces along the border with Afghanistan and Pakistan. The southeastern provinces of Sistan and Baluchestan have become more secure as the memory of several terrorist attacks recedes. The Sunni terror group Army of God (Jondollah), which was very active from 2005 until the beginning of 2011, is nearly defeated. The last appreciable Jondollah terrorist attack took place in December 2010 in the southeastern city of Chabahar, with at least 39 people killed. The northwestern province of Kurdistan, where a September 2010 bomb explosion in Mahabad killed 12 people during a military parade, has since enjoyed a certain level of stability and peace. September 2011 brought a cease-fire with the militant Party for a Free Life in Kurdistan (PJAK), though violations have occurred repeatedly since. On 25 April

2012, four IRGC members lost their lives in clashes near Paveh. Open conflict with the Sunni Arab minority in the oil-rich Khuzistan province along the southwest border has been resolved by force; however, demonstrations continue, as seen in April 2012.

Three cultures – the pre-Islamic Zoroastrian religion, Islamic culture and Western culture – meet in Iran. Around 2010, President Ahmadinejad and top adviser Esfandiar Rahim Mashaei (chief of staff and head of the presidential center until December 2012) launched a high-profile campaign for a return to a nationalist-Iranian culture. The conservative-Islamic camp under the leadership of Supreme Leader Ayatollah Khamenei in response defended the Islamic character of Iran.

State identity

8

This conflict notwithstanding, nearly all Iranians accept the nation-state as legitimate and agree on the broad definitions of citizenship. The majority of the Iranians do not understand the hostility against or the efforts to question the ancient Iranian civilization.

Partly excluded from this consensus are the Kurds and other ethnic groups who have fought for recognition as autonomous minorities for decades. The Kurds in particular, noting the flourishing Iraqi Kurdistan in the geographic neighborhood, could represent a challenge to the country's territorial integrity should an opportunity arise.

Hardly any speech or official action goes by without a reference to Islam and the Quran. For the last 34 years, the regime has sought to impose a certain lifestyle based on Shi'a Islamic doctrine on the population. Their unworldly interpretation of Islam is omnipresent and increasingly permeates society. For example, extreme religious education institutions such as Howzeh Elmiye Qom and its preachers have been given more room to engage in religious agitation. The regime has recently expressed an intention to bring schools under the control of such religious institutions, furthering the lack of democratic embedding.

No interference of religious dogmas

1

The clergy has been unable to remove some "secular" elements of societal practice, as for example the pre-Islamic Norooz (new year) celebrations opposed by some fundamentalists. This remains on the official calendar because it has deep roots in Iranian culture and makes up part of the people's identity. Ayatollah Khamenei controls all authorities aside from Ahmadinejad's executive. Thus, religious interference (specifically the Shi'ite Islamic religious doctrine) in judicial and parliamentary functions occurs daily. Both branches of government express an absolute loyalty to the Supreme Leader, and the high clergy takes key positions in both. Civilians who hold government offices are usually extremely pious people who are also subordinate to the clergy. The Friday Prayer leaders in Tehran and the provinces, who are directly appointed by Khamenei or his representatives, are sometimes more powerful and influential than provincial governors. Furthermore, Khamenei has clerical representatives in nearly all areas of influence, including the

army, the Revolutionary Guard Corps, the police, the universities, the influential state banks and other big public corporations.

The state creates and promotes powerful religious foundations. These have broad political and religious influence, and access to significant wealth. They operate like large-scale commercial enterprises and are generally led by a cleric. These clerics have enormous political influence in their cities.

The effect of religious dogmas in public life has increased in recent times. The last instance of these dogmas affecting secular events took place in December 2012, when Iranian airplanes were ordered not to fly during prayer times. The increased influence of religious dogma in political, social and public life runs contrary to the interests of young Iranians, who mostly desire a better and more honorable life. President Ahmadinejad seems to understand this message. With only a few months remaining before the end of his presidency, he publicly pleaded for a freer society. However, this has to be considered in the context of his conflict with the conservative fundamentalist establishment.

Most state services and administrative institutions operate inefficiently. Nepotism drives hiring practices for most leading public agency positions, as a rigid religious worldview and loyalty to the regime are more decisive for employment than are professionalism or leadership competence. Bureaucratization, corruption and interference by other authorities make these apparatuses even less efficient.

Basic
administration
6

Despite these deficiencies, the state provides basic public services in most parts of the country, though usually on a low level of quality. The tax authorities and their revenue system are very weak. The religious foundations, which act as large commercial enterprises, as well as the cultural and economic bodies linked to the Revolutionary Guards or the supreme leader are exempted from paying taxes. The state has considerable difficulty enforcing debts and tax compliance on the part of influential and prominent persons such as formerly high-ranking Revolutionary Guards officers now engaged in business. The state has suggested that the tax system may be revised, including an elimination of the tax exemption for the groups mentioned above.

The Iranian police forces are highly inefficient. Citizens' security suffers as a result of the religious worldview and the high level of corruption. The police, joined by the Basij militia and the Revolutionary Guards, take immediate action against socially and politically motivated protests, but are less quick to protect citizen against criminal actions. The crime rate (murder, robbery, armed robbery, rape) is rising relentlessly, especially in the capital, despite the judicial imposition of severe penalties as a deterrent.

2 | Political Participation

On 2 March 2012, the ninth parliamentary elections since the revolution of 1979 took place. The elections were held in the absence of reform-oriented candidates, whose leaders, Mir Hossein Mousavi and Mehdi Karroubi, have been under house arrest since early 2011. Former reformist President Mohammad Khatami called for a boycott of the elections as long as political prisoners had not been released. More than 50% of the candidates belonging to the Sunni minority were excluded during the elections. Most wrote several letters protesting this discrimination, but did not receive a response.

Free and fair elections

3

The elections consequently became a contest between the supporters and opponents of President Ahmadinejad. Before the elections, the Guardian Council (as the constitutional body in charge of evaluating all candidates before an election, composed of six appointed clerics and six elected lawyers) banned several candidates close to Ahmadinejad from the ballot. The two top conservative parties, the United Principalist Front and the Islamic Revolution Steadfastness Front, won the elections. Although about 20 members of pseudo-reformist parties and several pseudo-independent candidates belong to the new parliament, it is completely under the control of Khamenei.

In May 2012, Ali Motahari, a prominent but critical conservative parliament member and one of the strongest Ahmadinejad opponents, accused the IRGC of having interfered in the 2012 parliamentary elections, and warned of more IRGC interventions in future.

The actions of the extremely conservative Guardian Council, which decides who may run for parliament, the presidency or the local elections, ensure that there are no truly democratically elected politicians in Iran. Sitting at the peak of state political power, Ayatollah Khamenei directly intervenes in sensitive and critical matters; in cases of disputes between the executive, legislative and judiciary branch; or if something appears to be contradictory to his interests.

Effective power to govern

2

The government's independence is further reduced by the fact that, since the days of Ayatollah Khomeini, key ministers – specifically the ministers of Foreign Affairs, Intelligence, Interior, Defense, and Culture and Islamic guidance – are allies of the supreme leader. Though their appointment is officially made by the president, candidates must be approved by Khamenei. This has repeatedly provoked conflict between the president and the supreme leader. In April 2011, for example, after Ahmadinejad had dismissed Heydar Moslehi as intelligence minister, Khamenei reappointed him to office. Khamenei's second spectacular intervention occurred in November 2012, when the parliament asked the Iranian president about the dire state of the Iranian economy. Ahmadinejad took the opportunity to threaten Khamenei,

saying he would reveal the intrigues and the enormous levels of corruption in Khamenei's camp. Khamenei subsequently restrained the parliament's criticism of Ahmadinejad. Given this antagonism, the executive and the Khamenei-backed legislative branch serve as mutual stumbling blocks.

To be sure, a reform-focused politician in the person of Mohammad Khatami, was elected president in 1997, backed by the majority of Iranians. But Khatami himself often remarked that he served only as "errand boy" for the supreme leader, lacking any decisive power himself. His most important reform bills (regarding press freedom and the expansion of the president's authorities, the so-called twin bills), failed due to a Khamenei-ordered blockade in parliament.

Association and assembly rights are guaranteed in Article 26 and 27 of the constitution. However, these rights exist primarily on paper, and have never been fully applied. Since the disputed presidential elections in 2009, pressure on the civil society associations and regime critical groups has increased. It is highly risky for any associations to organize even peaceful public meetings, as the police (and other repressive apparatuses such as the Basij militia) will often shut down the gatherings. In July 2012, a protest by hundreds of Iranians in the city of Nayshabur against the soaring price of chicken was attacked by the police. In October 2012, a clash between the police and protesters took place because of the plunge of the Iranian rial. Even commemorative ceremonies for people such as bloggers and human right activists killed in prison at the end of November 2012 have been targets for the security forces. In December 2012, security forces attacked people assembling at the gravestone of Sattar Beheshti, a 35-year-old Iranian blogger who was killed in custody. His mother and sister were among the people injured.

Association /
assembly rights
3

Though guaranteed in Article 24 of the constitution, freedom of expression exists only on paper. Reporters Without Borders' 2013 World Press Freedom Index ranks Iran at 174th place out of 179 countries, with only Somalia, Syria, Turkmenistan, North Korea and Eritrea being worse. The deaths of several Iranian bloggers have shown how dangerous free expression of opinion can be. On the occasion of the World Day against Censorship on 12 March 2012, the Iranian Writers Association (IWA) published an open letter vehemently criticizing the regime's extreme repression of all critical and oppositional press, Internet media, and bloggers. Two members of the IWA, Manijeh Najm Eraghi and Fariborz Rais Dana, were subsequently arrested in June and May 2012, respectively. IWA sources confirm that censorship of media has become worse in the Ahmadinejad era.

Freedom of
expression
1

In July 2011, Khamenei defended the censorship of media and books in a speech. He stated: "The book market must not be free. We should not allow every book to come on the book market. Sometimes one looks at the book market writings which seem to be only cultural. In reality, they are political and conspiracy works. One must be very careful about this matter." The IWA has evaluated this speech as a signal for even

more censorship. Several Iranian authors have complained about the hard censorship they experience. In summer 2012, prominent Iranian author Mohammad Ali Sepanlu said that about one-quarter of his collection of poems was censored by the Ministry of Culture and Islamic Guidance. In January 2013, novelist Jamal Mirsadeqi called the Ahmadinejad era a nightmare for all authors and artists. He has waited the publication of his novels to be approved for a number of years now. The censorship authority cuts out words such like “wine” or the sentence “Your fiancée is pretty.”

In the past, Iranians were able to criticize the regime in Internet forums and on blog sites more freely. However, the Iranian regime has launched a huge operation aimed at prosecuting its Internet critics. A cyber police group called “FATTA” was created for this purpose in January 2011.

A small glimpse of hope can be seen in the few reformist newspapers still published in Iran, as well as in socially critical movies such as “Nader and Simin: A Separation,” which premiered in 2011 at the International Fajr film festival in Tehran. All such works are produced under immense pressure from the authorities, though.

3 | Rule of Law

While a separation of powers is alluded to in the constitution, no real separation of powers exists in the Islamic Republic of Iran. However, the balance of power in Iran has shifted since the previous BTI review period. Previously, despite harsh parliamentary and judiciary criticism of President Ahmadinejad, he still enjoyed the protection of the supreme leader. However, since tensions between Ahmadinejad and Khamenei rose in April 2011, Khamenei has completely backed the judiciary and parliament. Ali Larijani, speaker of the parliament, confirmed this subservience in February 2011, stating: “We are completely loyal to him (Khamenei) and we have the religious duty to obey him.”

Hence, Ahmadinejad has become the strongest Khamenei opponent, even more dangerous for the conservative Islamist camp than the oppositional Green Movement that erupted after the controversial presidential elections of 12 June 2009. The conservatives call Ahmadinejad and his team, especially his top adviser Esfandiar Rahim Mashaei, a “deviant current” with visions of an Iran less fully dominated by the clerics.

However, Khamenei cannot take strong direct action against Ahmadinejad, as the president evidently possesses incriminating material or circumstantial evidence against the supreme leader and his people. It has thus been an open secret in Iran that the establishment has simply been waiting for the end of Ahmadinejad’s term of office in August 2013.

Separation of
powers
4

Since Sadeq Larijani was appointed as the head of Iran's judicial system on 15 August 2009, the judiciary has developed into a constitutional body essentially expressing the will of the supreme leader. Larijani, brother of the parliamentary speaker, has repeatedly emphasized that his branch of government obeys the supreme leader's orders. One of the points of conflict between Ahmadinejad and the powerful Larijani circles is their third brother, Mohammad Javad Ardeshir Larijani, head of the judiciary's human rights council, who Ahmadinejad has accused of corruption. For its part, judicial figures have accused Ahmadinejad's allies, particularly Vice President Mohammad Reza Rahimi, of other significant offences. In early January 2013, Ahmadinejad sent a letter to Sadeq Larijani with a list of the most corrupt top personalities. He stated that the state bank's problems have been caused by nonperforming debts, asserting that just 300 people were in possession of 60% of the bank's money, with no evident intention of repaying it. In this letter, Ahmadinejad included people around Khamenei and high-ranking personalities of the Revolutionary Guards, as well as other powerful influential personages. However, the dependent judicial system could not act because its own people were on the list. This body uncompromisingly backs its own staff as well as the staff of the security forces, the Basij militia and the intelligence agents, irrespective of their crimes. Members of these bodies have no fear of sanction. Even worse, interrogators from the Ministry of Information and the Revolutionary Guards have more power in judicial investigations than do judicial judges. Agents of the Ministry of Information and the Revolutionary Guards are often responsible for making judgments.

Independent
judiciary

2

Some in the Iranian judicial system oppose this regime influence, but lack power. Politically sensitive cases are always given to judges who cooperate closely with the intelligence service. When a judge fails to satisfy the rulers, his verdicts are revoked and he himself is fired or retired.

Office abuse is an everyday part of life in Iran, with legal juridical authorities helpless – and unwilling – to take action against prominent state-backed personalities. The Khamenei and Ahmadinejad camps are both responsible for this situation, as they both protect their own corrupt allies. The main contributors to this office abuse are the lack of a legal rule of law and the absence of control mechanisms such as a free press or media landscape. Although Ahmadinejad backs his subordinates, nobody has accused the president himself of abusing his office for his own advantage, perhaps because he leads a materially modest life.

Prosecution of
office abuse

3

Officeholders are typically punished for corruption only in the context of power struggles between factions. For example, former President Rafsanjani's sons have for several years been under enormous pressure on the basis of corruption charges. One of them, Mehdi Hashemi, was arrested on 24 September 2012, allegedly for supporting the 2009 postelection riots, as well as for corruption charges related to oil deals. However, he was released in December 2012 without trial.

Civil rights are guaranteed in Articles 19 to 27 of the constitution, but like all other similar rights in Iran, they are only nominal. They are not granted in practice, and cannot serve as the basis of a legal claim. The situation is particularly dramatic when political matters or sociopolitical activities are concerned. The security forces and the agents of the Ministry of Information act arbitrarily on the basis of no more than suspicions, violating the civil rights of citizens, using force, and threatening family members of investigation targets, mostly without any judicial decision or search warrant. According to Article 38 of the constitution, all forms of torture for the purpose of extracting confession or acquiring information are forbidden. However, several political prisoners wrote public letters in 2011 and 2012 to the supreme leader and head of the judiciary complaining about inhuman torture and other maltreatment.

Civil rights
2

Pressure on women and ethnic and religious minorities has increased in recent years. Since 2011, women have been forbidden to study a list of 77 subjects. The Islamic Republic was ranked 127th out of 135 countries in the 2012 Global Gender Gap Index.

The Christian minority, in particular the Protestants, live in a condition of fear and intimidation. As Ahmad Shahid, United Nations Special Rapporteur for Human Rights in Iran, emphasized in a recent report, more than 300 Christians were arrested between the end of 2010 and September 2012 simply for practicing their religion. The regime accuses these individuals of being a threat to internal security. The Sunni minority has also suffered under repression. Between 2011 and January 2013, a number of Sunni individuals were arrested. Some have been sentenced to capital punishment, with six persons already executed early in 2011. Some Sunni priests have been forbidden to act in a religious function. The situation of the Baha'i is even more dramatic, since this religious minority lacks official state recognition. In October 2012, 11 Baha'i women were arrested in the city of Shahroud on the basis of their belief alone. An old Baha'i cemetery in Sangsir was recently destroyed. Religious fanatics are often incited against the Baha'is by high-ranking Shi'ite clergy, and including Ayatollah Khamenei.

People whose cases gain international attention have a higher chance of being treated more humanly and released sooner. Without international attention, defendants can easily die under torture.

After China, the Islamic Republic is the country with the highest number of executions per capita. Iran carries out many death penalties in public places, seeking to intimidate potential criminals. Amnesty International reported more than 500 executions in 2012 alone; in addition, secret mass executions occur in some prisons.

4 | Stability of Democratic Institutions

The Iranian constitution contains republican-democratic elements as well as Shari'ah-based Islamic legislation. The direct election of government bodies and authorities such as the parliament and the president, as well that of local government bodies, is undermined by powerful figures including the supreme leader and the members of the Guardian Council, who themselves lack any democratic legitimacy. The 35-year-old history of the Islamic Republic, including the failure of the reform government of former President Mohammad Khatami (1997 – 2005) and the controversial presidential elections of 2009, has shown that the state is unable to implement any democratic reforms. Apparently democratic institutions cannot assert themselves, a phenomenon which again was confirmed by sociopolitical developments between February 2011 and January 2013.

Hence, the Islamic Republic has a semi-democratic façade, but is at its core a totalitarian regime.

In the absence of any democratic institutions in Iran, only the clients of the regime believe in the legality of the state and its institutions. Followers are chiefly kept in line by a system of patronage. Virtually all groups and people exercising political power are protected by patronage, including the clergy, military groups such as the Basij and the IRGC, and many people from the traditional religious class. Even elections for communal authorities and institutions are influenced and manipulated by high-level local clerics. Since most Iranians are aware of institutions' lack of democratic legitimacy, they generally have no confidence in them. The several failures experienced by reform movements have contributed to this state of disillusionment and resignation.

5 | Political and Social Integration

The Islamic Republic has developed a broad spectrum of parties, but these play only a narrow role in the political process. Traditionally weak, and during the shah era less important than the print media, the party system remains fragile. Parties are not particularly productive, and their financing and administrative structures lack transparency. Although exact party membership figures are difficult to assess, the number of followers of all legal parties together hardly reaches the membership of either of the two big parties in Turkey (AKP and CHP), a country of similar population size.

All major political parties (such as the communist Tudeh party) were eliminated in the years after the 1979 revolution. The “parties” created afterward consisted of people who were part of the establishment and had merely minor differences with

Performance of
democratic
institutions

2

Commitment to
democratic
institutions

2

Party system

2

respect to the political agenda. Ordinary people generally have no opportunity to enter the political parties or to engage in a political career. Even the reformist parties that emerged under Khatami were closed to the public.

The fragmentation that occurred after the 2009 elections was a unique incident, with parts of the old elite turning into opposition. However, in the absence of a leader due to the house arrest of the leading opposition figures, the Green Movement was unable to close ranks or continue to mobilize supporters after the 2009 mass demonstrations. Between 2011 and January 2013, no significant protest actions were taken by the opposition. Some reformist personalities and representatives feared loss of their parliamentary mandate, and stayed loyal to – if critical of – the regime. After the most important reformist parties, the Islamic Iranian Participation Front (Jibhe Mosharekat Iran-e Islami) and the Organization of the Mujahedeen of the Islamic Revolution (Sazemane Mojahedine Enghelabe Eslami) were banned in 2009, the most important legal and active reformist parties are The Servants of Construction Party (Hezb-e Kargozaran-e Sazandegi) under Secretary-General Gholamhossein Karbaschi, the former mayor of Tehran, and the Party for Democracy (Hezb-e Mardomsalari), led by the reformist parliament member Mostafa Kewakebian. The last named is deemed a semi-reformist party because of its loyalty to the establishment, as well as its efforts to distance itself from the Green Movement protests in 2009 and from the opposition leaders Mousavi and Karroubi in particular.

Democratic and independent interest groups can exert no influence on the strictly ideological-religiously guided and controlled state. Only those groups represented in official circles, conforming themselves to the prevailing political norms, have an opportunity to influence policy. This situation has become increasingly rigid under Ahmadinejad. Even domains that are not political in the technical sense suffer under restrictions. Organizations such as the House of the Cinema and the interest group of cinema artists, filmmakers and directors are affected by this. Before Ahmadinejad took office, famous independent artists and filmmakers, respected figures in society, used their positions to exert influence despite the persistent pressure of the Ministry of Culture and Islamic Guidance. However, after years of dispute, the supreme-leader-controlled ministry disbanded the Iranian House of Cinema in January 2011. The regime fears enlightenment through political and social signals propagated by art and writing.

Though no opinion polls are available, it can be assumed that the middle and upper classes hold a fairly high level of approval of democratic norms and procedures, while the lower classes are more interested in material needs. All influential groups, such as the clergy or the military, fail to comply with democratic norms. Nevertheless, they exert substantial influence on the Iranian people's thinking, even in the case of people critical to the regime and their associations, interest groups and civic organizations. The society and its individual members have enormous problems enacting basic democratic norms such as solidarity, tolerance, mutual respect, and

Interest groups
2

Approval of
democracy
n/a

even in refraining from using violence in disputes. Moreover, most citizens do not know exactly how democratic institutions work.

Among Iranians, a dramatic lack of trust is evident, particularly with regard to state institutions and apparatuses. This is in significant measure the result of the high levels of corruption engaged in by authorities, public officials and their families, often amounting to billions of rials and given tacit approval through the silence of their peers. Trust between individual citizens, as manifested in self-organized civic groups, exists only in rudimentary form. Self-organization within civil society is strongly hindered by the regime, with the consequence that many Iranian non-governmental organizations (NGOs) have been banned and their leaders arrested. Nevertheless, Iranians remain able to draw together in difficult times, helping each other by creating spontaneous and autonomous groups and organizations. The strong earthquake of August 2012 in the province of East Azerbaijan in northwestern Iran demonstrated the widespread distrust in government authority and institutions on the one hand, and the significant potential of popular solidarity during hard times on the other. Famous society members including actors, filmmakers, university professors, students, soccer players, and managers of the premier soccer league visited areas devastated by the earthquake. The security forces attacked many of these unofficial aid workers' camps and took many people into custody for a short time. On 15 January 2013, 20 of these aid workers were even condemned to prison sentences between three months and two years by the revolutionary tribunal in the city of Tabriz, the provincial capital of East Azerbaijan.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

The period under review was marked by further economic decline. Low levels of growth, pervasive nepotism, high levels of corruption and a world view among decision makers dominated by religious and ideological concerns have strengthened social as well as structural exclusion.

Growth rates have turned negative, and inflation has reached an annual rate of about 25%, bringing heavy burdens for many Iranians. As the Statistical Center of Iran (SCI) has indicated, the average costs faced by private Iranian households exceeded their income in 2011. This also applies to rural people. The authorities have not released information on the current official poverty rate, but in August 2008, the SCI reported that more than 14 million Iranians were living below the poverty line.

Question
Score

Socioeconomic
barriers
4

According to official sources, the unemployment rate decreased from 13.5% in 2010 to 12.3% in 2011, but observers contend that the real figures are much higher.

The UNDP's 2011 Human Development Index (HDI) assigns Iran an optimistic score of 0.707, ranking it 88th out of 187 countries worldwide. The Heritage Foundation's 2013 Index of Economic Freedom, however, put Iran at 168th place out of 177 countries, as compared to 171st out of 179 countries the previous year before.

Government critics, political activists (including Shi'ites), lecturers and students have been suspended from participation in educational settings. Members of state-acknowledged religious minorities (members of the "religions of the book," including Christians, Jews and Zoroastrians) face significant problems and barriers in schools and universities and in the labor market. The provinces that are home to significant numbers of Iranian ethnic and religious minorities show the country's highest unemployment rates.

Iran is one of the seven U.N. member states that have not acceded to the Convention on the Elimination of All Forms of Discrimination against Women. The UNDP's Gender Inequality Index (GII) assigns Iran a score of 0.5927, giving it a rank of 127th out of 135 countries (based on 2012 data). According to the World Bank, Iran's 2009 female to male enrollment ratio at schools and universities was nearly equal, but the female labor market participation rate was just 29.8%.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	362661.1	422568.0	514059.5	-
GDP growth	%	1.8	-	-	-
Inflation (CPI)	%	13.5	10.1	20.6	27.3
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	0.8	0.9	0.8	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	14.7	16.7	13.7	10.7
External debt	\$ M	18264.8	20040.8	19113.5	-
Total debt service	\$ M	2428.6	1820.8	1637.3	-

Economic indicators		2009	2010	2011	2012
Cash surplus or deficit	% of GDP	0.5	-	-	-
Tax revenue	% of GDP	8.4	-	-	-
Government consumption	% of GDP	-	-	-	-
Public expnd. on edu.	% of GDP	4.7	4.7	-	-
Public expnd. on health	% of GDP	2.3	2.1	2.4	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.2	-	-	-

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

Private sector activity is limited and suffers from a highly restrictive regulatory environment. Iran's economy is still dominated by the state, which is the recipient of the revenues from crude oil exports.

Market-based
competition
2

There is no effective institutional or juridical framework for market competition providing equal opportunities for all participants. Quasi-state actors such as the bonyads (foundations established after the revolution) and the commercial entities associated with the IRGC enjoy many privileges, such as easy access to foreign currencies with convenient exchange rates, or the ability to obtain lucrative government contracts without prior bid. During the Ahmadinejad era, the IRGC became the most powerful economic entity after the state, and therefore the prime target of the U.N., U.S. and EU sanctions.

In addition, there are a number of influential clerics and family members who hold a monopoly over lucrative parts of the economy (especially the import of particular foreign goods). Though the bonyads are non-state bodies, they operate wholly under the control of the supreme leader. They are economically powerful, with a workforce of more than 200,000 employees.

State-owned or pro-government entities such as the IRGC control an estimated 80% of the Iranian economy. The state monopoly is a very serious challenge to the private sector. In recent years, the government has ended some of its direct monopolies (in automobile importing, for example), but in fact influential institutions or individuals have replaced the government. The 2009 privatization of the Telecommunication Company of Iran (TCI) serves as one such example. First Vice President Mohammad Reza Rahimi admitted in December 2012 that TCI had been a competent and lucrative

Anti-monopoly
policy
2

company under the management of the Ministry of Information and Communications Technology; however, he said, “We had to privatize it under pressure from above.” The new owner of TCI, the Mobin Trust Consortium, is partially controlled by the IRGC.

Non-tariff barriers and the economic dominance of state-supported entities have a negative impact on trade activities. Despite the approval of its WTO membership application in 2005 and some minor reforms conducted by the government to meet WTO requirements, the state continues to strictly regulate investments and trade. Inefficient trade conditions combined with investment (including foreign investment) and tax regulations are factors that significantly impede foreign trade activities. The lending policy of the state-owned banking system, the activities of which are directed by the government, is based on patronage and nepotism. Trading activity in 2011 and 2012 fell to the lowest level since 1998, according to the Heritage Foundation’s 2013 Index of Economic Freedom. The government increased import tariffs from about 45% to 55% in autumn 2012. The state’s comprehensive trade monopoly and interventionist practices, as well as the activities of pseudo-governmental entities such as the IRGC, remain a major obstacle to the freedom of trade.

Liberalization of
foreign trade
2

Iran’s inefficient banking and monetary system is one of the main factors contributing to the country’s failure to achieve sustainable economic growth. The state’s financial policy controls and dominates monetary policy; the central bank is not an independent institution, as the banking interest rate is often set by the government. The central bank’s primary goal is thus not price stability, but rather ensuring the presence of a money supply sufficient for the government’s policies and decisions. As the result of its dependence, banks cannot independently manage or administrate their own monetary portfolios. Under pressure by the government, banks offer credit with preferential terms and conditions. Indeed, under Ahmadinejad, the Iranian banking system has developed into a money distribution channel. The relationship between bank lending and repayment is tenuous at best, as banks have no effective juridical or personal mechanisms by which they can call in their loans. Many debtors are influential personalities with strong ties to top state authorities. The World Economic Forum’s 2010 – 2011 Global Competitiveness Report noted that Iran’s financial market had very poor prospects in terms of serving as a pillar of development. Iran was ranked 133rd of 130 countries with regard to the availability of financial services, 129th with respect to the affordability of financial services, and 133rd as to the soundness of banks.

Banking system
2

8 | Currency and Price Stability

Rial-dollar and rial-euro exchange rates have fluctuated significantly in recent years, with Iran’s currency persistently losing value. However, the Iranian rial quite suddenly lost half its value relative to foreign currencies in January 2011, following

Anti-inflation /
forex policy
1

the U.S. and EU announcement of sanctions in combination with a boycott of Iranian oil and its central bank. The rial's freefall reached bottom in October 2012, when the exchange rate for \$1 was IRR 40,000 (as compared to IRR 1,800 to IRR 1,900 to \$1 in early January 2011, or IRR 2,200 rials to €1). In January 2013, these currency fluctuations eased to some extent.

The intensive sanctions that became effective in summer 2012 rendered it impossible for the government to pursue price stability or a stable monetary policy. As a consequence, inflation rose by more than 20%. Ahmadinejad declared the turbulent situation on the foreign exchange market to be a "psychological and economical war" carried out by the country's foreign enemies and domestic profiteers. The president's administration reacted to this development with a threat of violence and the use of security forces and police against profiteers (i.e., currency or foreign exchange dealers) allegedly trying to disturb the foreign exchange market. However, the government was criticized even from within the regime for having intentionally reduced foreign currency sales in order to keep the dollar rate high, thereby reducing the government budget deficit and giving the government the ability to implement the second phase of the subsidy plan.

The U.S. and EU sanctions in combination with other trade restrictions are paralyzing the Iranian economy. According to the International Energy Agency (IEA), Iranian oil exports decreased dramatically from 2.5 million barrels per day (bpd) at the end of 2011 to 1.0 million bpd in April and May 2012. Oil revenues account for 60% of the entire Iranian budget, as well as for 85% of the country's total export revenues. The disastrous consequences of the sanctions imposed against the central bank have led to considerable trouble in terms of getting money from oil that is sold. As a joint consequence of its own ineffective policies and the foreign sanctions, Ahmadinejad's government has been unable to achieve its medium-term macroeconomic goals. According to Gholamreza Mesbahi Moghadam, the chairman of the parliaments' economic commission, Iran faced a \$60 billion deficit in 2012. The Iranian central bank estimated the country's external debt at \$22 billion at the beginning of 2011. This amount included \$10.6 billion in short-term and \$11.4 billion in medium and long-term debt.

The Iranian government takes illegal measures in order to cover its budget deficit. It is legally required to deposit a portion of the country's oil revenue into the state treasury. But in at least one case, it has failed to deposit a sum equal to \$12 billion. In 2000, a currency reserve fund was created in order to save of oil income surpluses for future use. The Iranian government has never revealed exactly how much money was deposited in this fund, but according to one influential Iranian parliamentarian, Ahmad Tavakolli, it reached \$160 billion at some point. Ahmadinejad's government has used this money to cover its budget deficit both with and without parliament's

permission. In 2012, Ahmadinejad announced to the Iranian parliament that the fund was empty.

9 | Private Property

Private property is protected by law. However, since corruption is rampant, a fair adjudication of property rights in lawsuits cannot be assumed. Creating private businesses such as mid-sized industrial facilities requires subsidies, which are not easy to obtain. Connections and corruption (provisions, bribes) are usually the most important criteria for obtaining financial support. The ability to sell significant properties or land parcels is restrained by the patronage system. The Iranian constitution gives the government the right to confiscate property acquired either illicitly or in a manner not in conformance with Islamic law.

Property rights
4

The Heritage Foundation's 2013 Index of Economic Freedom, which reviews property rights, ranks Iran at 168th place out of 177 countries, compared to 171st out of 179 countries in 2012.

It is estimated that the public sector (including state-owned and pro-government entities such as the IRGC) controls some 80% of the Iranian economy. In January 2013, President Ahmadinejad proclaimed the failure of the government's privatization policy. Instead of being denationalized, formerly state-owned economic entities today belong to semi-governmental bodies and personalities with strong connections to the establishment. He added that the existence of many decision makers and the complex succession of decisions have complicated privatization processes. He criticized the wealth of the IRGC by saying that the organization could finance the expenditures of the entire Ministry of Education for two years by selling some of its entities and properties. Only 14% of state enterprises slated for privatization have been properly handed over to the private sector. The lack of government transparency and the presence of undemocratic structures such as the government monopoly on crude revenues and the IRGC's control of key economic branches including oil and gas are the most important factors accounting for the failure of privatization.

Private enterprise
3

10 | Welfare Regime

The Iranian Social Security Organization (SSO) is one of the country's largest insurance organizations, with more than 27 million beneficiaries. However, the benefits provided by the health insurance, unemployment insurance and annuity insurance programs are completely insufficient. The Iranian insurance system is not well organized. Services provided by public hospitals and clinics are mostly ineffective and insufficient. Furthermore, the prices for medicine are very high. In

Social safety nets
4

November 2012, former Iranian Health Minister Marzieh Vahid-Dastjerdi complained about the weak and ineffective health and insurance system. She said that insured individuals must still settle 59% of the expenses for their medical treatment themselves, which de facto amounts to 70%. Approximately 5% to 7.5% of people every year live below the poverty line because of the high costs related to severe and incurable illnesses, the minister added, emphasizing that the health of the country's citizens was evidently not taken as a serious matter in Iran.

The Iranian social security system and health insurance programs are suffering from the effects of foreign sanctions, the government's misguided social policies, and corruption. Vahid-Dastjerdi, the only female minister to serve in Ahmadinejad's cabinet (though dismissed in December 2012), starkly criticized the policies of the Iranian central bank. "Medicine is more essential than bread. I have heard that luxury cars have been imported with subsidized dollars but I don't know what happened to the dollars that were supposed to be allocated for importing medicine," the minister said on Iranian television. Specific individuals such as war veterans from the Iran-Iraq War in the 1980s do receive preferential treatment, however. Since April 2011, 100% of the health costs for the retired and jobless war veterans and their families have been absorbed by the government and ideologically oriented foundations.

One foundation, Imam Khomeini's Relief Committee (Komite-ye Emdad-e Emam Khomeini), which is partly financed by charity boxes, is responsible for providing help to poor people. But this foundation is in reality ineffective, and primarily provides support to individuals loyal to the regime.

Discrimination against and pressure on women, ethnic-religious minorities, and previously loyal dissidents has strongly increased in the Ahmadinejad era. Female students, which had outnumbered their male counterparts for several years, again became the minority in 2010 (with a ratio of 49.5% female to 50.5% male). In summer 2011, 36 universities announced that female students would be barred from 77 subjects within bachelor of arts (BA) and bachelor of science (BSc) degree programs, including engineering, accounting, education, counseling and chemistry. At some universities this list also included social and political sciences. The Islamic Republic ranks 127th out of 135 countries in the World Economic Forum's 2012 Global Gender Gap Index.

Religious minorities including Sunnis and Christians are under immense pressure. However, from 2011 to January 2013, the Baha'i community faced the most significant faith-based discrimination. Members of this faith have great difficulty in gaining access to university educations or to the job market.

Equal opportunity

2

11 | Economic Performance

According to World Bank data, Iran is the second-largest economy in the Middle East and North Africa (MENA) region after Saudi Arabia, with a GDP of \$400 billion in 2011. The country's per capita GDP on a purchasing-power parity (PPP) basis was \$13,184 in 2011, a rise from \$11,500 in 2009.

According to the IMF, Iran has shown negative economic development in recent years, with its growth rate (real GDP growth at market prices) falling from 5.9% in 2010 to 2.0% in 2011. The IMF predicted a growth rate of -9% in 2012 and 0.8 in 2013. The annual inflation rate rose from 10.1% in 2010 to 21.3% in 2011, with the IMF forecasting a rate of 25.2% for the year 2012. As perhaps the only positive development, the unemployment rate decreased from 13.5% in 2010 to 12.3% in 2011 according to official sources, but it must be remembered that the de facto unemployment rate is probably much higher. Statistical data provided by the Iranian government are not entirely reliable, as the government occasionally manipulates indicators to achieve better results.

A budget deficit of more than 29% in the Iranian calendar year 1391 (from March 2012 until March 2013) – up from 18.2% the previous year – illustrates the lack of balance in the state budget. The expansion in the country's money supply has taken on particularly dramatic proportions. According to Mahmoud Bahmani, director of the Iranian central bank, money supply increased by 22.1% between December 2011 and December 2012. Since Ahmadinejad took office, the overall volume of money in the economy has increased by a factor of six (from 2005 to 2012). In 2011, oil revenues totaled approximately \$115 billion in just one year. Thus, this sector accounted for 87.9% of Iran's entire export volume, which totaled \$130.54 billion. In 2010, Iran earned \$72 billion from its oil exports, out of a total export volume of \$102 billion. Iran's export dependence on oil increased from 73.5% in 2010 to 87% in 2011.

External debt levels (approximately \$22 billion) remained constant as compared to the last BTI review period (i.e., from 2009 to 2011).

12 | Sustainability

Environmental policy has marked one of the weakest points of Ahmadinejad's administration in the last two years of his presidency. This is partly due to the country's stark urbanization, but also a reaction to the increasingly difficult economic situation following the enactment of international sanctions. To counterbalance the shortage of fuel and gas, for example, Iran has increased its refinery capacities, and is now producing its own low-quality gasoline. This has further increased air

Output strength
3

Environmental
policy
3

pollution in the already overpopulated cities. Tehran, the country's biggest city with more than 12 million inhabitants, is burdened with about 4 million mostly old automobiles, although the city has a capacity to support just 800,000. Many of these cars still run on leaded gasoline. In addition, thousands of companies and refineries producing inside the city or in its surroundings fail to meet modern environmental standards. According to Iran's Ministry of Health and Medical Education, air pollution killed more than 4,460 people alone in the capital from March 2011 to March 2012.

The previous government of President Khatami paid more attention to environmental issues. Under Khatami, the production and sale of some cars (such as the domestically produced Peykan) that failed to meet environmental standards were stopped. Under Ahmadinejad, production was resumed. Deterioration of the country's environment accelerated in 2012, although the Iranian government raised budget allocations dedicated to environmental issues considerably.

Despite of the lack of equal opportunities for all citizens, the Islamic Republic's education policy is quantitatively quite successful. The majority of the population (with the exception of some residents of remote border areas) has access to free school education. The budget for higher education increased slightly from 4.8% of GDP in 2008 to 5% in 2011. According to Minister of Science, Research and Technology Kamran Daneshju, 4 million students attended university in 2011 as compared to 2 million in 2005. Education quality has increased, but has not yet reached the international average. In the Global Competitiveness Report, Iran is ranked 94th worldwide in terms of "quality of the education system." A very critical point is the disastrous score related to Internet access in schools, for which the country is ranked 117th. According to the Statistical Center of Iran, the literacy rate among the Iranian adult population (15 years of age and up) reached 84% in 2011, and was indeed well ahead of the regional average of 62%. However, several neighbors including Turkey, Saudi Arabia, Qatar and Bahrain have higher rates.

Since the beginning of Ahmadinejad's presidency, a policy aimed at reducing the number of women at universities has been pursued. In 2001, women outnumbered men at universities for the first time, and at the end of the Khatami era (1997 – 2005), fully 60% of the students were female. This ratio had been significantly reduced by 2010 – 2011. Today, male students make up 50.5% and female students 49.5% of the university student population. In addition, discrimination against university students has become a significant issue since the start of Ahmadinejad's presidency. The Ministry of Advanced Education in Iran uses a "star" system to crack down on student activists. Critical and protesting students are assigned "stars" and are considered to have disciplinary problems, and are often subsequently banned from university.

Education policy /
R&D
4

Transformation Management

I. Level of Difficulty

Iran is endowed with very significant natural and geographic resources. With 11% of the world's total proven oil reserves, the country has the globe's fourth largest oil reserves and after Russia, the second-largest store of natural gas reserves. Without any doubt, Iran is an energy superpower. With a population of nearly 75 million people, including 4 million students, the country possesses broad human capital. The capital city, Tehran, is the country's main commercial center, but there are no serious geographic or infrastructural deficiencies standing in the way of decentralization or regional strengthening that couldn't be overcome by good political management.

Structural
constraints

6

Boosted by these positive conditions, Iran's per capita GDP reached about 64% of the average of the 12 Western European countries in 1976. This continued to grow under the Rafsanjani and Khatami presidencies, but economic performance has gone continuously downhill since Ahmadinejad took office, with poverty widespread today. This is only partly due to a lack of competence; the main contributor is the underlying tendency of Iran's political officials to act on the basis of ideological motives rather than of rational and technical expertise. The religious establishment considers even earthquakes – the only serious natural danger threatening Iran – to be God's will. Tehran in particular, with a population of more than 12 million people (16% of the country's entire population), predominantly living in old, unreinforced buildings, would be helpless in the case of a significant temblor. According to estimates, an earthquake measuring 7.5 on the Richter scale would destroy huge areas of the city. But rather than investing in better architecture and construction practices, many high-ranking clerics have attributed the many earthquakes Iran has already experienced to the un-Islamic dress of women.

Due to centuries of dictatorship, Iran has a weak tradition of civil society. The country has experienced only a few short phases of freedom in which civil society associations could be established. In recent times, the era of reformist President Mohammad Khatami (1997 – 2005) offered the best chances for the development of a relatively free and active civil society, while Ahmadinejad's presidency counts among the worst eras in the history of the Islamic Republic in this regard. Under Khatami, the feminist movement revived, and several very active and effective women-focused NGOs and groups were created. In addition, many environmental

Civil society
traditions

7

NGOs emerged. The women-focused NGOs all have been eliminated under Ahmadinejad, but some environmental groups remain active thanks to the nonpolitical nature of their activities. Due to the brutal repression of the opposition-led protests, Iran's civil society has suffered harsh setbacks since the 2009 presidential elections. Human Rights Watch reported in 2012 that the authorities had intensively persecuted civil society activists (especially lawyers), human rights activists, students and journalists in 2012. In April 2012, the parliament passed several articles of a draft bill taking aim at non-governmental organizations. The Majlis created a supreme committee to supervise NGO activities, chaired by the Ministry of the Interior instead of the Ministry of Justice and staffed by members of the intelligence services, the security forces, the police, the foreign ministry and the judiciary. NGOs are not allowed to protest in public or on the streets without governmental approval. A prominent Iranian civil society actor has called the Ahmadinejad era an "icy civil society age."

Iran is a multiethnic country in which the areas inhabited by religious and ethnic minority groups are structurally and economically disadvantaged. As in previous years, these groups were exposed to significant pressure during 2011 and 2012. According to the Human Rights Activists News Agency (HRANA), which was established by Iranian Human Rights Advocates in 2009, most of the reported violations of rights related to ethnic issues were directed against the Azeri minority (69%), followed by the Kurds (20%), the Arabs (9%) and the Balochs (with 2%). Among religious minorities, members of the Baha'i faith suffered the most violations of rights with 63% of the reported whole, followed by Christians (13%), the Darawish-Gonabadis (12%) and the Sunni minority (11%). The number of capital punishment sentences issued against minorities increased in 2011 and 2012. At least six Arabs were executed in Ahwaz, the capital of Khuzestan province, in April 2011. One of them, Hashem Hamidi, was 16 years old at the time of his hanging. Three were hanged in public. The executions of another five Arabs behind closed doors in 2011 made people in Ahwaz furious. The year 2013 began sadly for the Kurds, thanks to 10 executions carried out in January. However, Iran's war against its own citizens is concentrated on the metropolis of Tehran, with 37% of the entire country's reported rights violations taking place here. In 2012, 587 death penalties were carried out, the majority of which (63%) were drug-related. Aside from 360 officially announced executions, an additional 274 hidden executions were carried out. Violations of the rights of ethnic and religious groups in Iran is initiated by the state (in the form of legal prosecution or intimidation by the intelligence service), and not by the people, who largely live in peace together.

Despite the state's "undeclared war" against its own citizens, the capital and other cities were by no means in a state of constant riot or revolution during the period under view. The machinery of violence operated by the security forces functioned very effectively (indeed, the security forces can be seen as the only sector in the

Conflict intensity
5

Islamic Republic which works effectively). In this context it must also be noted that a large proportion of the traditionally religious middle class protects the regime, or at least does not act against it.

II. Management Performance

14 | Steering Capability

In 1989, a year after the end of the Iran-Iraq war, Iran began producing five-year development plans. However, these plans have never been implemented properly, in large part due to the joint effects of policymaker incompetence and the interference of short-term interests.

With the fifth development plan underway, the populist President Ahmadinejad has failed in almost all of his medium- and long-term policy aims. The important strategic aim of reducing budgetary dependence on oil income remains all but farcical as his presidency draws to an end. As a short-term priority, his government had promised that the citizenry would benefit directly from the oil money. Furthermore, he gave his word to take action against corruption as a long-term goal of his administration. These promises helped Ahmadinejad win the 2005 presidential elections against Rafsanjani, who was publicly believed to be corrupt. Ahmadinejad's administration subsequently focused on the process of Islamization, on advocating Islamic purity and on a return to revolutionary values. In his second presidency, particularly after the dispute with the supreme leader, he changed course and emphasized the Iranian (i.e., national) element.

Ahmadinejad also took a stand in support of cutting subsidies in 2010, the most important project since the beginning of his presidential term. This was a step in the right direction with respect to the liberalization of the Iranian economy. The improvement of social and civil freedom, however, does not seem to be a priority for the government. The temporary, limited efforts to bolster some civil liberties, such as his support for the free movement of women, have encountered resistance and vehement opposition from senior clergy. Among the medium- and long-term objectives of the current government are the continuance of the country's present nuclear course, with the aim of making Iran a nuclear power while publicly stressing the peaceful aspect of the nuclear program. Iran cooperates with the International Atomic Energy Agency (IAEA), but not to an extent that has satisfied either the IAEA itself or the western observers who accuse Iran of hiding important details of its nuclear program. Recently, Ahmadinejad's administration signaled its willingness to cooperate even with the "great Satan," the United States, particularly with regard

Question
Score

Prioritization
3

to the nuclear negotiations. However, this is an issue on which Khamenei himself will have the last word.

During the first period of his presidency (2005 – 2009), Ahmadinejad had the full protection of the supreme leader. However, he has gradually lost this backing. The parliament and judiciary, both supported by Khamenei, have hindered the government's attempts to reach its goals as much as possible. In November 2012, the parliament halted the implementation of the second phase of subsidy reform, which should otherwise have taken place soon. Many similar examples have led observers to conclude that in recent years, the government's branches have mutually blocked each other most of the time.

Implementation

2

In his parliamentary speech on 16 January 2013, Ahmadinejad criticized the Majlis. In this context he said that it was unacceptable for the minister of economic affairs and finance and the director of the central bank to spend two-thirds of their time present in the parliament for questions and criticism.

Certainly, Ahmadinejad is a phenomenon in the history of the Islamic Republic of Iran. He has been elected as president of the republic in two disputed elections. He has implemented (at least the first step of) a subsidy reform, the most important economic project in the history of the Islamic Republic. He has sped up the pace of development in the country's nuclear program extensively, making Iran a target for international sanctions. But with the exception of the first Iranian President Abol Hassan Bani Sadr, who was forced into exile in 1981, Ahmadinejad is the only president who has positioned himself against the supreme leader. Since the beginning of the conflict with Khamenei in April 2011, he has tried to change his domestic and foreign policy course, but these attempts have proved unsuccessful. Even during the electoral campaign for his first term, he called for a more generous society and a reduction in the repression of women. Ahmadinejad does not believe that clergy should take a leading role in the state. In his speech to the U.N. General Assembly in September 2012, he did not appear as aggressive as in previous instances, nor did he attack Israel strongly. All indications are that Ahmadinejad's administration was willing to act with more flexibility than the supreme leader, although this could have been a tactical and populist act aimed at remaining in power. He espoused free elections, more freedom, implementation of the rule of the law, and even a revision of the constitution. Despite the parliament's obstruction of his policies, he announced he would provide people with more money in the second phase of the subsidy plan. However, as of the time of writing, the outcome of this policy and power struggle had not yet been decided; it may be that the second phase of the reform will not take place before the end of his tenure, as many barriers remain.

Policy learning

3

The government has been very creative in circumventing the international sanctions, adopting means such as using other countries' flags for oil tankers, receiving gold instead of dollars for payment, and so on. The same creativity has been applied to the

nuclear program. Hence, despite the sanctions, Iran has remained able to import technology and equipment from countries around the world. However, as the sanctions have become stricter, the scope for bypassing them has become more limited. Bypassing the sanctions has also led to increases in corruption and nepotism.

15 | Resource Efficiency

At the beginning of his presidency, Ahmadinejad enjoyed economic and personnel conditions that could have supported a significant step forward for the country. He had access to considerably greater oil revenues than any government since the 1979 Islamic revolution (under predecessor Khatami, the average oil price was just \$20 per barrel). Moreover, unlike Prime Minister Mousavi (1981 – 1989) and President Rafsanjani (1989 – 1997), Ahmadinejad faced no immediate challenges such as the Iran-Iraq war and its expensive consequences. However, Ahmadinejad's government used these advantages ineffectively. First, his administrative staff was selected due to personal connections rather than according to education and qualifications. This has caused a clear loss of competence within the state administration. For example, the head of the most important department, Minister of Petroleum Rostam Ghasemi, is a former IRGC commander. Later, the dismissal of more than 14 ministers, among them the country's only female minister in the person of Health Minister Marzeih Vahid-Dastjerdi, further reduced the effectiveness of government work. Ahmadinejad's dismissal orders were based primarily on personal rather than political grounds. For example, Vahid-Dastjerdi was dismissed because of her critical utterances about Ahmadinejad and the central bank. Second, the political elite has proven unable to manage Iran's substantial natural resources revenues in such a way as to bolster the country's economic development.

Efficient use of assets

2

In the absence of independent and efficient auditing, government bodies have no reason to fear the discovery of or penalties related to mismanagement. Neither the institutions under the control of Ayatollah Khamenei nor the Council of Guardians, the Expediency Council or the Assembly of Experts are subject to any auditing. Furthermore, the IRGC and its wealthy companies are given considerable freedom concerning income and expenditure.

The International Monetary Fund reported in 2009 that Iran was experiencing the most significant brain drain of 99 countries evaluated. Since the early 1990s, between 150,000 and 180,000 specialists and other highly educated individuals have left Iran because of the unfavorable economic, political and ideological environment imposed by the clerics.

Iran's governmental structure is absolutely hierarchical, ceding considerable power to Ahmadinejad. Only the supreme leader has the power to stand in his way. As a consequence, the two most powerful men in the country were on a collision course

Policy coordination

2

with each other beginning in April 2011. Despite this hierarchical government system, coordination between related institutional bodies is relatively chaotic due to officials' interference in the internal matters of other departments. The foreign affairs portfolio offers a clear example of such confusion. Three high-ranking officials are involved in this area: Foreign Minister Ali Akbar Salehi; the secretary of Iran's Supreme National Security Council and chief nuclear negotiator Saeed Jalili; and Ali Akbar Velayati, senior foreign policy adviser to the supreme leader.

Ahmadinejad has tried to keep all branches of the government under his own control. For that reason he has dismissed several of his ministers and the head of the central bank. He failed in this aim only in the case of Intelligence Minister Heidar Moslehi, a Khamenei ally, as the dismissal was revoked by the supreme leader. This episode marked the beginning of the conflict between the president and the supreme leader.

Corruption has always been an integral part of Iran's economic and business life. In April 2010, Mostafa Pour-Mohammadi, director of the National Inspection Organization, referred to Ahmadinejad's government as the most corrupt government in the history of the Islamic Republic of Iran. In August 2012, Pour-Mohammadi, who served as interior minister in Ahmadinejad's first cabinet but was dismissed in April 2008, was himself reproached by First Vice President Rahimi for having misappropriated billions of rials during his ministry. Other serious sources and indicators have further demonstrated the corrupt nature of the government. In September 2011, the country was shaken by the most significant embezzlement scandal in the history of Iran. Many Iranian state and private banks were involved in this episode, in the course of which approximately \$2.6 billion was embezzled. The scandal took on political dimensions when top Ahmadinejad aide Esfandiar Rahim Mashaei was accused of involvement. Anti-corruption policy has little impact in large measure because of the rampant corruption in each of the two opposing political factions; each is in the possession of evidence that would implicate the other, leading to a paralyzing standoff.

Anti-corruption
policy
1

16 | Consensus-Building

Iran's political landscape is deeply divided and polarized at the highest level. Since the last BTI report, the gap between the conservatives has widened further, following President Ahmadinejad's challenge of the supreme leader. Members of the pragmatic reformist camp, led by the two former presidents Rafsanjani and Khatami, still believe that development of a market economy and of democratic practices with strategic, long-term goals are possible within Iran's Islamic context. Ayatollah Khamenei, however, polarizes the political landscape. In January 2013, he criticized individuals who were insisting on free elections for the presidency in August 2013. A day later, Rafsanjani courageously repeated his call for electoral freedoms, despite

Consensus on goals
2

the fact that the previous year he had come under heavy political pressure, with two of his children (his son Mehdi and his daughter Faezeh) jailed on political grounds.

Rafsanjani, Khatami and other pragmatic reformist politicians have called for free elections and the release of political prisoners, especially opposition leaders Mousavi and Karrubi. The opposition seems ready to participate in elections if they are conducted in a free manner. Previously, the release of the two opposition leaders had been a condition for participation in new elections. However, the conservative elite appears unwilling to make any concessions.

Compared to the previous review period, the pragmatic reformist camp in this period disassociated itself increasingly from Ahmadinejad's nuclear policy, evidently convinced that it this path is leading the country to economic and social collapse. The nuclear program has also been criticized by many ordinary Iranians, which was not the case in 2010 and 2011. However, opposition parties, interest groups, and economic actors and politicians critical of the regime lack any significant influence on the government's political and economic decision-making process.

The Islamic Republic's chief power-holders clearly seek economic improvements without political reforms and or the granting of new freedoms. Policymakers believe partially in the development of a market economy, but their incompetence and the current miserable economic situation present serious obstacles.

Potential reformers have been completely excluded from the political game since the 2009 presidential elections. This is not only because of the massive repression directed against opposition politicians. The deep divide between the anti-democratic actors with President Ahmadinejad on the one side and Ayatollah Khamenei on the other, has further reduced the leeway afforded to possible democratic actors. As partial consequence of this split, Ahmadinejad and his followers changed their domestic social policies, as well as their stance on individual and political freedoms. Reformists are unable to pursue their goals or reform plans in the area of long-term democratic and market economic transformation without Khamenei's consent.

Anti-democratic
actors

2

Significant tensions exist across nearly the whole country. Iran's government apparatus and regime are the primary causes for these tensions, producing cleavage-based conflicts between the government and the citizens as well as between the government and ethnic-religious minorities. The supreme leader, who should be a unifying figure and a mediator, is a polarizing figure within society. The regime and the government contribute to the escalation of the cleavages. The increasing number of executions, growing levels of injustice and the daily harassment of citizens by the morality police, the security forces and the Basij militia divides the whole society, including religious and ethnic minorities. The government has also been unable to reduce the gap between the rich and the poor, with people clearly seeing how luxuriously the high-ranking clerics, officials and their families live.

Cleavage /
conflict
management

3

In addition, major conflict exists among different regime factions, a fact that has also divided segments of society that share the factions' political ideas.

During the period under review, Iran's civil society and its actors – whether men or women; intellectuals, scientists or journalists; or religious or ethnic minorities – faced the strongest pressure felt since the death of Ayatollah Khomeini in 1989. Institutionalization of civil society requires a strong government that respects the rule of law. However, real and independent non-governmental associations are today rare in Iran, with only a few environmental groups remaining from the Khatami era. Under Khatami, civil society organizations could have some influence on policymaking; under Ahmadinejad civil society has been excluded from participation and its members have been suppressed.

Civil society
participation
2

No reliable statistics on the number of civil society associations exist. There are several thousand registered economic, scientific and other associations. In the labor arena, the House of Laborer and the Islamic Council are the only legal assemblies. More than 50,000 traditional and religious foundations, charities and councils exist, many enjoying governmental aid. All non-governmental associations need the government's permission for their activities. It is easy for the government to ban these associations, as seen when the Iranian House of Cinema was disbanded in January 2011. In this case, the artists and filmmakers had no intention of fomenting revolution or riot, but did want to remain independent.

Many crimes and injustices initiated by the state have occurred during the 35 years of the Islamic Republic. The peak of injustice was reached during the 1980s, however. In the summer of 1988, shortly after the end of the Iran-Iraq War, the regime ordered the execution of at least 3,000 convicted political prisoners, mostly from the People's Mujahedin of Iran organization (Mojahedin-e Khalq Organization, MKO). MKO was a leftist organization with an Islamic outlook, and was involved in an armed fight with the regime in 1981. Many members of Marxist groups were also among the state's victims. Since that time, none of the persons in charge of the incident has been allowed to talk about the events officially. Instead, the Islamic Republic has taken great pains to cover up historical events and injustices.

Reconciliation
2

This taboo did seem to crumble somewhat following the 2009 presidential elections, though not on the part of the conservatives or the ruling groups. Rather, former office holders such as opposition leaders Mousavi and Karroubi began to talk about the regime's past atrocities. In 2011 and 2012, Ayatollah Abdolkarim Musavi Ardebili, the head of the judiciary in the early 1980s, and Hojatol-Islam Seyed Hossein Musavi Tabrizi, who was prosecutor-general under Khomeini, also spoke about the crimes of the 1980s. The great survivor within Iranian politics, Ali Akbar Hashemi Rafsanjani Bahremani, called for personalities who were directly involved and responsible at that time to break their silence (though he may have been more interested in preserving his own reputation than in any true reconciliation). Pressure on the regime

to break its silence was added by a campaign called Iran Tribunal, started in 2007 by Iranians living abroad, which had access to Persian-language media networks outside the country including BBC Persian, Radio Farda and Voice of America. However, the political elite manipulated the facts, claiming that the persons executed had been involved in a plot against the regime. Ultimately, the breakthrough failed, and there has been no reconciliation between the victims and the state to date.

17 | International Cooperation

Iran's dispute with the U.N. Security Council and the International Atomic Energy Agency (IAEA) over the country's nuclear program continued in 2011 and 2012, and for some months there appeared to be serious danger of a military attack on Iranian uranium enrichment facilities. The United States also put pressure on countries working with Iran, especially in economic matters. Some countries, such as Japan, reduced their trade with the Islamic Republic. Iran's largest destination for exports, the United Arab Emirates (UAE), also decreased its volume of trade with Iran, partly because of American pressure, but also because of the dramatic plunge of the rial.

The development of a market-oriented economy will require a long-term economic strategy in parallel with domestic democratic reforms. Due to its isolation, Iran made no appreciable progress toward a market-oriented economy during the period under review. The country's provision of financial and military assistance to Syrian dictator Bashar al-Assad further hampered long-term strategy-making, as this made Iran unpopular on the global scene as well as in the Arab sub-region.

Ahmadinejad appealed to deep-rooted stereotypes about Western colonial interests to counterbalance his serious internal political challenges. For example, two doctors were jailed in 2008 for alleged cooperation with international institutions on HIV/AIDS programs. With this act, Ahmadinejad conclusively brought to a close the short period under Khatami during which international assistance had been more welcome.

Under Ahmadinejad, Iran gambled away the credibility and perception of reliability that had been gained during Khatami's term in office. Although Ahmadinejad did modify his foreign policy, backing away from holocaust denials and his early anti-Israel statements, the loss of Khamenei's support led to a further decline in his credibility with the international community. World politicians prefer to negotiate with actors who have an influence on state decisions. As Ahmadinejad's end of office drew to a close, no international actor was seriously engaged in negotiations with his administration.

The country's unconditional support of Syrian dictator Bashar al-Assad, providing money, war equipment and military instructors, is another reason the decline in

Effective use of support

1

Credibility

1

international confidence in Iran. A high clerical official officially stated in early 2013 that it would be better to lose Khuzestan (the oil-rich province of Iran) than Damascus. The international community's lack of trust in the Iranian government has been exacerbated by the dispute over the nuclear program and Iran's support for terrorist organizations.

Iran's regional relations have alternately been driven by an overall pan-Islamist world view and response to the Western orientation and alliances allegedly held by Iran's neighbors.

Within this arc, the improvement of relations with neighboring states, especially the Arab Gulf states, was one of the priorities of Ahmadinejad's administration from the beginning. This marked a clear difference with the Khatami administration, who had declared the cultivation of good relations with Western Europe to be the main focus of his foreign policy. No previous president had visited the neighboring Arab countries more often than Ahmadinejad. However, problems such as territorial disputes, ideological-religious differences (Shi'a versus Sunni) and regional competition (especially with Saudi Arabia and Turkey) have made any advancement difficult.

In April 2012, Ahmadinejad visited Abu Musa, one of three strategically important islands close to the Strait of Hormuz at the entrance of the Persian Gulf. These three islands are controlled by Iran, but are also claimed by UAE. The visit exacerbated the dispute between the Islamic Republic and the Arab countries. Paradoxically, the UAE (Dubai) is Iran's largest trade partner.

Iran's relationship with the strongest Arab state in the Persian Gulf area, Saudi Arabia, is very difficult. The Arabs fear the destabilizing effects of Iran's influence on their own Shi'ite population, which makes up about 15% of the total population in Saudi Arabia (as well as 60% in Iraq and 70% in Bahrain). The Arab neighbors dread the Al-Quds force, a special unit of Iran's Revolutionary Guard Corps that operates outside the country's borders. Saudi King Abdullah seems to have urged the United States to attack Iran's nuclear program. In April 2008, with reference to Iran, King Abdullah supposedly said to General David Petraeus, "Cut off the head of the snake."

Iran's significant support of Syria has exacerbated tension between Iran and its neighbors. In September and October 2012, Iraq forced two Iranian cargo planes flying in the direction of Damascus to land at Baghdad airport. Turkey took a similar act in early 2011.

In August 2012, Tehran hosted the 16th summit of the Non-Aligned Movement. This was undoubtedly Iran's regional and international highlight in the period from 2011 to January 2013. The centerpiece of the summit was a speech by Egyptian President Mohamad Morsi. This was the first time since 1979 that an Egyptian president had

visited Iran, as diplomatic ties between the two countries had been broken following the Iranian revolution and because of the 1978 Camp David accord. However, Morsi angered the Iranians with his abrasive criticism of Syria. He also refused to meet Supreme Leader Khamenei.

Iran's relationships with its eastern, northeastern and northern neighbors, with the exception of Azerbaijan, are much better. Iran is a member of the regionally important Economic Cooperation Organization (ECO), which along with Iran includes nine Eurasian countries, including Turkey and Afghanistan. Iran's membership in the Organization of the Islamic Conference (OIC) represents one of the few regional panels on which Iran takes part, but this is only of symbolic relevance.

Strategic Outlook

The future of Iran after Ahmadinejad's departure from the presidential stage is completely unpredictable. Whoever wins the 2013 presidential elections will face a difficult policy legacy. In January 2013, Ahmadinejad's government passed a spectacular employment plan aimed at providing giving jobs to just 400,000 people. The financial aid that Iranians receive during the second phase of the subsidiary reform in the Iranian calendar year 1392 (March 2013 until March 2014) is slated to be quintupled. These policies, if implemented, will leave any future administration with less financial maneuvering room.

Ahmadinejad himself is constitutionally barred from standing for a third term, but could be candidate again after a break. He sought to follow the Putin-Medvedev example by putting one of his own allies – his controversial Chief of Staff Esfandiar Rahim Mashaei, whose daughter is also married to Ahmadinejad's son – in the race. However, the Guardian Council did not approve Mashaei's nomination.

Ayatollah Khamenei, the final arbiter of policy in Iran, wants an absolutely loyal president so as to avoid repetition of his experience with Ahmadinejad. He has announced that the presidential system could be replaced by a parliamentary one. In this way, through the passage of a constitutional amendment, troublemakers such as Ahmadinejad could be prevented from taking power, and crises like that following the 2009 election could be averted.

No matter who Iran's next president turns out to be, no government will be able to resolve the country's external and internal problems without a relaxation in foreign affairs and an accommodation in the nuclear policy. Iran relies on its oil income to satisfy the needs of its 75 million citizens and to prevent a social revolt. No regime can retain power long if its people are in poverty, and also face continual social and political suppression.

The Islamic Republic faces challenges from the outside (America and Israel) and the inside (opposition and angry citizens). After having achieved no tangible results in recent years, the upcoming years will be decisive for the nuclear challenge between Iran, Israel and the United States. The leaders of the Islamic Republic have always clearly declared that the maintenance of the Islamic regime is their top priority. All other aims are subordinated to this strategic goal. Hence concessions at the last minute are possible.

The regime today controls its own population with the help of a very efficient apparatus of violence and the import of a large volume of consumer goods (at the expense of domestic manufacturers and producers). The international sanctions, intended to bring the regime to the point of concession in the nuclear dispute, are in fact increasing popular dissatisfaction with the regime and could lead to new uprisings.

Though the Arab Spring brought down several strong U.S. allies (Mubarak, Ben Ali), Iran did not benefit from the great transitions in the region. Its own interpretation of the Arab Spring as an Islamic awakening (Bidari-ye Eslami) inspired by Iran's Islamic revolution of 1979 is not shared by any Arab country. However, the country's biggest regional challenge remains Syria. If Assad loses power, Iran loses its most important ally in the region. With the exception of some elements of Iraq, Iran's influence in the region would almost completely vanish. The Gulf states have evinced considerable distrust toward Iran throughout the period under review. If Iran wants to reduce tension on its borders, it must improve its relations with the Arab countries.

Indeed, the current calm at the Iranian borders is unstable. In almost all border provinces, separatists are waiting for a more advantageous hour to act. In January 2013, a Conference to Support the People of Ahvaz took place in Cairo at the same time as the visit of Iranian Foreign Minister Ali Akbar Salehi. This was a summit of separatist peoples who wish the Khuzestan province in southern Iran (the center of the Arab minority in Iran) to secede from the rest of the country. The separatists have been backed by Saudi Arabia and other Gulf States as well as Egypt. The presence of Ammar Abdolghafur, an adviser to Mohamed Morsi and a radical Salafist, was sign that relationships between the Arab world (especially Cairo) and Tehran may face challenges ahead. Strategically, Arab hostility backed by powerful Arab countries such as Saudi Arabia and Egypt could endanger Iran's territorial integrity.