The Revolutionary Guards’ Looting of Iran’s Economy

By Ali Alfoneh

On June 9, 2010, the United Nations (UN) Security Council imposed the fourth round of sanctions on the Islamic Republic of Iran in response to the Iranian leadership’s refusal to comply with its international obligations regarding its nuclear program. The sanctions include the Islamic Revolutionary Guards Corps (IRGC) and its engineering arm, which serves as the engine of Iran’s nuclear program. Sanctions against the IRGC, however, are likely to prove insufficient because they do not target the IRGC’s banking sector. An effective sanctions regime against the IRGC must necessarily also target the IRGC’s financial arm.

On June 9, 2010, in response to Iran’s refusal to comply with its international obligations regarding its nuclear program, the UN Security Council adopted Resolution 1929, imposing the fourth round of sanctions on Iran, including new measures to limit the role of the IRGC and fifteen IRGC-related companies linked to proliferation.1 The Security Council’s initiative follows the same line as the U.S. Treasury Department’s February 10, 2010, designation of the Khatam al-Anbia construction base (Gharargah-e Szazanegi-ye Khatam al-Anbia, or GHORB), the engineering arm of the IRGC, and its commander, General Rostam Qasemi, as “proliferators of weapons of mass destruction.”2 Treasury based its designation upon the U.S. government’s determination that the IRGC is “assuming greater responsibility” for the Islamic Republic’s nuclear program.3

Tehran’s answer to the Treasury Department’s initiative was swift. On February 18, 2010, the state-controlled daily Kayhan, whose editor the supreme leader appoints and who acts as his unofficial mouthpiece, editorialized, “The United States does not even know what the Guard is, let alone how to sanction it,” and continued that sanctions would “increase the Guard’s popularity.”4 With Kayhan preparing the public mind, Ahmadinejad addressed GHORB commanders and executives February 21 and asked them to ready themselves to “enter high-end oil and gas activities in order to satisfy the domestic needs of the country.”5 Sure enough, on March 15 the Oil Ministry gave GHORB a contract for an $850 million pipeline project.6 The next month, after Turkish companies

Key points in this Outlook:

• Since President Mahmoud Ahmadinejad’s election, the Islamic Revolutionary Guards Corps (IRGC) has used funds accumulated since the 1980s to purchase state enterprises and businesses privatized through the Tehran Stock Exchange.

• The IRGC and its front companies have been involved in various scandals that show the militarization rather than the privatization of Iran’s economy.

• By targeting the economic interests of the IRGC, the international community may be able to force the Guards to recalculate the risk of continuing the Islamic Republic’s nuclear program.

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said they were withdrawing from the development of the third phase of the South Pars oil and gas field, GHORB was granted—again on a no-bid basis—the $7 billion project. On May 13, Qasemi told parliamentary speaker Ali Larijani that the IRGC was replacing Shell and Total in South Pars. Larijani praised GHORB as “a model of development” and assured Qasemi of parliamentary support. As the Anglo-Dutch Shell and Spanish Repsol withdrew from development of the thirteenth and fourteenth phases of the South Pars oil and gas field on June 4, the Petroleum Ministry granted the $5 billion project on a no-bid basis to a certain Khatam al-Owsia Consortium (Konsersiom-e Khatam al-Owsia). Khatam al-Owsia Consortium consists of GHORB and two other IRGC-owned companies: Iran Shipyard and Offshore Industries Company (Mojtama’e Kashtisazi Va Sanaye’ Farasahel-e Iran) and Iran Marine Industrial Company (Sherkat-e San’ati-ye Daryayi-ye Iran), along with Oil Industries Engineering and Construction (Sherkat-e Sakhteman-e Sanaye’ Naft) and Iranian Offshore Engineering and Construction Company (Sherkat-e Mohandesi Va Sakht-e Ta’isat-e Daryayi).

Washington has turned a blind eye to the Guards’ parallel banking sector through which the IRGC manages its financial activities.

Ahmadinejad’s defiance and Larijani’s attempt to ingratiate himself with the IRGC signal the Guards to stay the nuclear course since the Iranian government—as the above examples demonstrate—is ready to compensate the Guards for any sanctions-related losses. The Iranian leadership can also be expected to demonstrate a similar pattern of behavior in the wake of the June 9 UN Security Council resolution. In his first reaction to the fourth round of sanctions against the Islamic Republic, Ahmadinejad said, “These resolutions are not worth a nickel to the Iranian nation. I sent the message to one of them that the resolutions you issue are like a used tissue which must be dumped in a trash can.” Also Brigadier General Hossein Salami, an IRGC deputy, said the Guards were not concerned about the sanctions. There may be a reason for Ahmadinejad and the IRGC commanders’ self confidence: Washington has turned a blind eye to the Guards’ parallel banking sector through which the IRGC manages its financial activities.

The IRGC’s financial activities began during the Iran-Iraq War (1980–88) as its microbanks provided interest-free loans to war veterans and their families. During the postwar reconstruction, IRGC-owned microbanks laundered money from the IRGC’s illicit smuggling enterprise and, in the process, accumulated vast sums. However, these financial activities were very limited compared with the parastatal foundations (bonyads) such as the Islamic Revolution’s Foundation of the Oppressed (Bonyad-e Mostazafan-e Enghelab-e Eslami), Foundation of the Martyrs and Veterans Affairs (Bonyad-e Shahid Va Omour-e Isargaran), and Astan-e Ghods-e Razavi Foundation. The foundations were established by confiscating real estate, funds, and production units of exiled Iranians connected with the Pahlavi regime, which enabled the foundations to dominate the Iranian economy during the first two decades of the Islamic Republic. Since Ahmadinejad’s election, the Guards have used funds accumulated since the 1980s to purchase state enterprises and businesses privatized through the Tehran Stock Exchange. As long as the Guards’ financial institutions remain outside the sanctions regime, the IRGC can expand its control over Iran.

Three-Card Monte

According to Article 44 of the Islamic Republic’s constitution, Iran should have a planned economy in which “the state sector is to include all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation, dams and large-scale irrigation networks, radio and television, post, telegraph and telephone services, aviation, shipping, roads, railroads and the like; all these will be publicly owned and administered by the state.” Beyond the state sector, Article 44 also defines a so-called cooperative sector, which includes “cooperative companies and enterprises concerned with production and distribution, in urban and rural areas,” as well as a private sector, which consists of “those activities concerned with agriculture, animal husbandry, industry, trade, and services that supplement the economic activities of the state and cooperative sectors.”

Just over a month before Ahmadinejad’s 2005 election victory, Khamenei issued a decree reinterpreting Article 44 to abrogate the constitution by calling for a smaller government and a 20 percent annual reduction in public-sector economic intervention over five years.
Khamenei’s directive called for the privatization of large-scale industries to include large-scale oil and low-end gas industries, mines, foreign trade, many banks, shareholder-owned cooperatives, power generation, many postal services, roads, railroads, aviation, and shipping. Khamenei’s directive obliged the government to transfer ownership of 25 percent of Iran’s economy to the cooperative sector by the end of the five-year plan and to support expansion of cooperatives with tax rebates and loan guarantees with the aim of encouraging cooperatives to participate in all spheres of the economy, including banking and insurance.20

Khamenei’s directive, codified into law on January 28, 2008,21 effectively meant the privatization of $110–$120 billion worth of public assets.22 Iranian economists worried, however, that the domestic private sector would be barred from the privatization process due to a lack of transparency, and they also expressed concern about Iranian legislation that makes foreign direct investment difficult. In effect, any privatization would constitute the transfer of state-owned enterprises to other parts of the state sector.23 Coupled with a lack of antitrust legislation in Iran, the economists warned that the privatization proposal would actually strengthen state monopolies.24

Ahmadinejad, however, embraced Khamenei’s privatization schemes. In an April 2010 interview, Ahmadinejad said, “The total sum of [privatizations prior to 2005] was 30 trillion rials [$3 billion], but since then, there has been more than 600 trillion rials [$60 billion] worth of transfers, most of which has been through the [Tehran] Stock Exchange.”25 Ahmadinejad also boasted of Iran’s speed of privatization compared with other state-run economies, which, Ahmadinejad said, had taken twenty years to achieve what Iran had achieved in five.26

While the Iran Privatization Organization generally supports Ahmadinejad’s claims, reporting 233 trillion rials ($23 billion) worth of privatization conducted through the Tehran Stock Exchange in 2006 alone (see figure 1), the Iranian economists’ concerns were valid. Larijani criticized the privatization efforts of the Ahmadinejad government for not involving “the genuine private sector.”27 Similarly, a Strategic Majlis Research Center report found that between 2005 and 2009, only 19 percent of formerly state-owned enterprises’ assets were purchased by the private sector, 12.5 percent of the assets were privatized to the so-called public, nonstate sector, and 68.5 percent of the assets were purchased by the cooperative sector (see figure 2).

The Strategic Majlis Research Center identified a number of factors detrimental to private-sector participation in privatization. The state sector’s privileges, monopolies, and unlimited access to investment capital frustrate...
private-sector involvement, and the government’s declared policy of withdrawing $10 billion annually from the foreign-exchange reserve to provide credit for the private sector remains more rhetorical than real. Furthermore, the lack of transparency and the presence of state-enterprise employees with privileged access to information at the Tehran Stock Exchange impede private-sector involvement in the process.  

**Militarization Rather than Privatization**

Larijani and the Strategic Majlis Research Center fail to mention the most serious problem: the so-called privatization scheme that enables the Iranian leadership to transfer ownership from relatively transparent parts of the public sector to parts of the public sector shielded from public scrutiny. Purchases of the IRGC and its subordinate volunteer militia, the Basij, are conducted by their credit and finance institutions, such as the IRGC and Basij Cooperative Foundation and their subsidiaries (see appendices 1 and 4). The latter has its own subsidiaries, including the IRGC’s Cooperative Foundation (Bonyad-e Ta’avon-e Sepah) and the Ansar Financial and Credit Institute (Moassesseh-ye Mali/Eghtesadi-ye Ansar). These institutions describe themselves as noninterest or Islamic banking institutes, but, according to Hamid Tehranfar, the Central Bank’s supervision deputy for banks and credit institutes, “they engage in everything but giving interest-free loans.” They function as financial arms of the IRGC and the Basij on the Tehran Stock Exchange and elsewhere, purchasing shares of Iranian companies.

The Mehr Finance and Credit Institution (formerly called the No-Interest Loan Institute of the Basij Members [Moassesheh-ye Gharz al-Hassanah-ye Basijian]), currently headed by Gholam-Hossein Taghi Nattaj, was established in 1991 and has five main subsidiaries. The No-Interest Loan Institute of the Basij Members performs most of the Basij’s financial activities to provide housing and issue job-creating loans to Basij members. Mehr Finance and Credit boasts more than seven hundred branches across Iran, making it the largest “private” bank in the Islamic Republic. Its own documents suggest that its goals include “loyalty toward the goals of the sacred regime of the Islamic Republic of Iran,” “propagation of the culture of no-interest loan banking,” and “propagation and loyalty toward the culture and thought of the Basij.” Nowhere is there any mention of profit.

The Iranian press has criticized Mehr Finance and Credit for withholding loans from the poor and needy—those without “credible guarantors”—while engaging in major trades on the Tehran Stock Exchange through its subsidiaries, especially Mehr-e Eghtesad-e Iranian Investment Company (see appendix 2 for a full list of Mehr Finance and Credit subsidiaries). Mehr-e Eghtesad-e Iranian Investment Company is one of the largest purchasing entities of the IRGC and owns stakes in a number of major Iranian companies (see appendix 3). Coupled with a lack of antitrust legislation in Iran, the economists warned that the privatization proposal would actually strengthen state monopolies.

Mehr-e Eghtesad-e Iranian Investment Company has also been involved in various scandals, including the August 2, 2009, purchase of the Angouran zinc mine in Zanjan Province. Iran Zinc Mines Development Company, a subsidiary of Mehr-e Eghtesad-e Iranian Investment Company, purchased the mine for 1.86 trillion rials ($186 million). Following the trade, experts said the real value was closer to 10.55 trillion rials ($1 billion). The acquisition started a wave of criticism against the IRGC. Hojjat al-Eslam Mohammad-Taghi Vaezi, Zanjan Friday prayer leader and representative of the supreme leader to the province, raged from the pulpit: “It would have been better if the government had given the mine away for free!” Parliamentarian Jamshid Ansari, and even Reza Abdollahi, Parliament’s Plan and Budget Committee chairman, attacked Industry and Mines minister Ali-Akbar Mehrabian and demanded an investigation into the privatization of the Angouran Zinc Mine.

The investigation, which was conducted by the Supreme Audit Court, disclosed that the three companies competing for ownership—Zinc Production Company (Sherkat-e Tahiyeh Va Tolid-e Rouy), Pasargad Company (Sherkat-e Pasargad), and Iran Zinc Mines Development Company—all belonged to “the same family.” E’temad reported that “Iran Zinc Mines Development Company owns 100 percent of the shares of Zinc Production Company and 70 percent of the shares of Pasargad Company, while the rest is owned by Mehr-e Eghtesad-e Iranian Investment Company.” The Supreme Audit Court’s
The investigation also disclosed that the application forms of each company for ownership of the Angouran zinc mine were signed with the same handwriting. The court promptly declared the trade void.

The Mehr Finance and Credit Institution and its subsidiaries are not the only companies to engage in such shenanigans. The IRGC Cooperative Foundation, established August 23, 1986, has developed into one of Iran’s major financial players. (For a list of companies and investment institutes entirely or partially owned by the IRGC Cooperative Foundation, see appendix 4.) While it does not engage directly in trades on the Tehran Stock Exchange, its front companies and subsidiaries are active players. On September 27, 2009, in its latest major assault against Iran’s economy, the IRGC purchased 50 percent plus one of the shares of Iran Telecommunications in the largest trade in the history of the Tehran Stock Exchange, valued around $8 billion. The company completed the trade only after the IRGC disqualified the only genuine private-sector competitor—Pishgaman-e Kavir-e Yazd Cooperative—due to security reasons just hours before. The Mehr-e Eghtesad-e Iranian Investment Company was itself barred from bidding for Iran Telecommunications, but it provided a substantial loan to Tose’eh-ye Mobin Consortium to purchase Iran Telecommunications on its behalf. Tose’eh-ye E’temad-e Mobin Consortium itself consists of Tose’eh-ye E’temad Investment Company (Sherkat-e Sarmayehgozari-ye Tose’eh-ye E’temad), Shahriar-e Mahestan Investment Company (Sherkat-e Sarmayehgozari-ye Shahriar-e Mahestan), and Mobin Iran Electronics Development Company (Sherkat-e Gostaresh-e Elektronik-e Mobin-e Iran). Tose’eh-ye E’temad Investment Company and Shahriar-e Mahestan Investment Company are both owned by the IRGC Cooperative Foundation, although they both deny this to obfuscate the extent of IRGC interests in the economy. Majid Soleymanipour, Tose’eh-ye E’temad-e Mobin’s executive general, and his wife died under mysterious circumstances in their home as the Iranian parliament demanded an investigation into the “noncompetitive privatization” of Iran Telecommunications.

Another front of the IRGC Cooperative Foundation is Ansar Financial and Credit Institute (Moassesheh-ye Mali/Eghtesad-e Ansar), previously known as Ansar al-Mojahedin No-Interest Loan Institute (Sandogh-e Gharz al-Hassaneh-ye Ansar al-Mojahedin), itself established as a subsidiary of the IRGC Cooperative Foundation in 1986. Its primary task is to provide no-interest loans to Revolutionary Guardsmen, veterans, and active-duty Basij members. According to Nattaj, its director, Ansar Financial and Credit Institute has six hundred branches across Iran, and 6 million Iranians have savings accounts in the bank. Following a long conflict between the Central Bank and no-interest credit and finance institutes, the government reportedly transferred control of Ansar al-Mojahedin to the Central Bank on December 30, 2007, but it is unclear whether the Central Bank is actually in control of the institute.

Conclusion

The IRGC and Basij’s financial activities have a far-reaching impact on the Iranian economy and society. IRGC intervention distorts the market and marginalizes not only the private sector, but also the revolutionary foundations that have dominated the Iranian economy since the revolution. The IRGC also places a burden on the public sector because of the hidden flow of public funds to IRGC companies through generous subsidies. The IRGC distributes some of its profits to keep its officer corps happy, some funds to buy the loyalty of civilians in the political arena, and some funds to elect politicians who then allocate additional national resources to the IRGC or its front companies. In addition, the IRGC’s increasing wealth makes it increasingly independent of the state budget. The IRGC’s transfer of wealth into these front companies, however, can also make these companies targets for international sanctions. By targeting the economic interests of the IRGC, the international community may be able to force the Guards to recalculate the risk of continuing the Islamic Republic’s nuclear program. But as long as the international community does not target these companies, the IRGC can simply continue to play three-card Monte.

Notes


9. Ibid.


11. Ibid.


34. “Moassessat-eh Mali Va Etebari Vam-e Kouchak Be Faghiran Nemidahand” [Credit and Finance Institutes Don’t Lend Small Loans to the Poor], Samuyeh (Tehran), July 20, 2008.
36. Ibid.
38. Ibid.
39. Ibid.
40. Ibid.
44. “Vam-e 300 Milliard Tourmani-ye Moassesseh-ye Mehr Be Kharidaran-e Mokhaberat” [300 Billion Iranian Lira Loan to Mehr Institute in Order to Purchase Telecommunications], Donya-ye Eghtesad (Tehran), November 18, 2009.
45. Masoumeh Taherkhani, “Hame Chiz Darbareh-ye Em Va Rasme Kharidaran-e Moameleh-ye Bonyad.”
46. Ibid.
47. “Konsersium-e Kharidaran-e Saham-e Mokhaberat: Hich Ertibat Be Sepah Naqshin” [Consortium Purchasing Communications Shares: We Have No Relationship with the Guards], Jam-e Jam (Tehran), October 4, 2009.

Appendix 1: Main Subsidiaries of the Basij Cooperative Foundation

Basij Housing Foundation [Moassesseh-ye Ta’min-e Maskan-e Basij]
No-Interest Loan Institute of the Basij Members [Moassesseh-ye Gharz al-Hassaneh-ye Basijian]
Consumer-Goods Provision Foundation of the Basij Members [Moassesseh-ye Ta’min-e Masrafi-ye Basijian]
Cultural/Artistic Institute of the Warriors of Islam [Moassesseh-ye Farhangi/Honari-ye Razmandegan-e Eslam]
Scientific and Pedagogic Services Institute of the Basij Members [Moassesseh-ye Khadamat-e Elmi Va Amoinesh-e Rayzandegan]

Appendix 2: Subsidiaries of the Mehr Finance and Credit Institution

Azerbaijan Kowsar Company [Sherkat-e Kowsar-e Azerbaijan]
Kousha Paydar Company [Sherkat-e Kousha Paydar]
Mehr Ayandehnegar Commerce Services Company [Sherkat-e Khadamat-e Bazargani-ye Ayandehnegar-e Mehr]
Mehr Housing and Development Investment Company [Sherkat-e Sarmayehgozari-ye Maskan Va Omran-e Mehr]
Mehr-e Eghtesad-e Iranian Investment Company [Sherkat-e Sarmayehgozari-ye Mehr-e Eghtesad-e Iranian]
Tadbirgaran-e Atyieh Company [Sherkat-e Tadbirgaran-e Atyieh]

Appendix 3: Companies Entirely or Partially Owned by Mehr-e Eghtesad-e Iranian Investment Company

Azerbaijan Development Investment Company [Sarmayehgozari-ye Tose’eh-ye Azerbaijan]
Iran Aluminum Company [Sherkat-e Alouminium-e Iran]
Iran Marine Industrial Company [Sherkat-e San’at-ye Daryayi-ye Iran]
Iran Mineral Products Company [Sherkat-e Farawani-ye Mawad-e Ma’dani-ye Iran]
Iran Industrial Development [Tose’eh-ye San’at-ye Iran]
Iran Tractor Factory [Traktorsazi-ye Iran]
Iran Tractor Foundry Company [Rikhigariye Traktorsazi-ye Iran]
Iran Zinc Mines Development Company [Tose’eh-ye Ma’aden-e Rony]
Isfahan Mobarakhe Steelwork [Foudad-e Mobarakhe-ye Esfahan]
Jaber Ben Hayan Pharmaceuticals [Darouasazi-ye Jabeber Ben Hayan]
Middle East Tidewater Company [Tidewater-e Khavar-e Mianeh]
Persian Bank [Bank-e Persian]
Sadid Pipe and Equipment Company [Sherkat-e Loudah Va Tajhizat-e Sadid]
Tabriz Tractor Factory [Traktorsazi-ye Tabriz]
Technotar Engineering Company [Sherkat-e Mohandesie-ye Teknotar]
Tous-Gostar Investment Company [Sarmayehgozari-ye Tous-Gostar]

Appendix 4: Companies and Investment Institutes Entirely or Partially Owned by the IRGC Cooperative Foundation as of May 31, 2010

Baharan Company [Sherkat-e Baharan]
Bahman Group [Gorouh-e Bahman]
Behinesas Engineering Prefabricated Articles [Mohandesi-ye Amadeh-ye Behinesaz]
Chaharmahal and Bakhtiari Food Products Yeast Company [Mavad-e Ghazayi-ye Khamir-Mayeh Chaharmahal Va Bakhtiari]

Housing Jihad Companies [Sherkatha-ye Jahad-ye Khaneh-sazi]
Iran Telecommunications [Sherkat-e Mokhaberat-e Iran]
Isfahan Zowb-rou Company [Sherkat-e Zowb-ro-ye Esfahan]
Kermanshah Petrochemical Industries [Sanaye’ Petroshimi-ye Kermanshah]
Khorasan Shadad Agricultural and Industrial Company [Sherkat-e Kesht Va San’at-e Shadab-e Khorasan]
Kish Atlas Commerce and Industrial Company [Sherkat-e Bazargani Va San’ati-ye Iran Atlas-e Kish]
Kish Bahrestan Company [Sherkat-e Bahrestan-e Kish]
Kowsaran Institute [Moasseseh-ye Kowsaran]
Maedeh Food Industries [Sanaye’ Ghazayi-ye Maedeh]
Misagh-e Basirat Institute [Moasseseh-ye Misagh-e Basirat]
Mowj-e Nasr-Goster Communications Company [Sherkat-e Mokhaberat-ye Mowj-e Nasr-Gostar]
Navid-e Bahman Company [Sherkat-e Navid-e Bahman]
Omran-e Mohit Consultancy and Development Company [Sherkat-e Andisheh Va Omran-e Mohit]
Pars Air Services [Sherkat-e Khadamat-e Havayi-ye Pars]
Pre-Fabricated Light Structures Consulting Engineering Company [Sherkat-e Mohandesin-e Moshaver-e Sazeh-ha-ye Pishskahkhe-ye Sabok]
Rahian-e Komeyl Commercial and Consulting Services Institute [Moasseseh-ye Khadamat-e Bazargani/Moshaverehi-ye Rahian-e Komeyl]
Razmandeh Social Housing Company [Mojtama’e Khaneh-sazi-ye Razmandeh]
Sepahan Social Housing Company [Sherkat-e Mojtama’e Khaneh-sazi-ye Sepahan]
Shahab-Sang Mining Industries [Sanaye’ Ma’dani-ye Shahab-Sang]
Shahriar-e Mahestan Investment Company [Sherkat-e Sarmayehgozari-ye Shahriar-e Mahestan]
Tose’e-ye Etemad Investment Company [Sherkat-e Sarmayehgozari-ye Tose’e-ye Etemad]
Yazd Bahar Wool Company [Sherkat-e Pashmhabi-ye Bahar-e Yazd]
Zagros Steel [Foulad-e Zagros]