

The Role of Para-Governmental and Paramilitary Organizations in the International Political Economy of Iran

İran'ın Uluslararası İktisadi Politikasında Dini Vakıflar ve Paramiliter Kurumların Rolü

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Abstract

This article analyses internationalization of Iranian economy through a specific focus on the Iranian religious para-governmental and revolutionary paramilitary organizations. Contrary to the arguments that Iranian economy is under strict isolation due to the international sanctions, this study puts forth that Iranian economy has been integrated into the global economy under the control of these organizations that are located in between the public and private spheres. The study reveals that the mutual interdependency between these organizations and the political institutions in Iran prevent any structural transformation under a neoliberal agenda as it targets to create non-discriminatory policies towards different fractions of capitalists. Therefore, this article lays an emphasis on the role of para-governmental and paramilitary organizations in understanding the international economic policies of the Islamic Republic.

Key Words: Internationalization, Iran, Foundations, Bonyads, IRGC

Öz

Bu çalışma İran'daki dini ve devrimci vakıfların ve Devrim Muhafızları'nın oluşturduğu paramiliter örgütlerin ekonomi ve siyasi alan üzerindeki etkilerine odaklanarak İran ekonomisinin uluslararasılaşması sürecini incelemektedir. Özellikle uluslararası yaptırımlara odaklanarak İran'ın izole bir ekonomik sistem içerisinde iktisadi faaliyet yürüttüğü iddiasının aksine, bu çalışma İran'ın kamusal ve özel alan arasına sıkışmış olan bu kurumlar güdümünde uluslararası ekonomik sisteme eklenildiğini öne sürmektedir. İran devlet yapısının bu kurumlar ile kurmuş olduğu karşılıklı bağımlılık ilişkisinin, devletin neoliberal bir gündem ekseninde yapısal dönüşümler gerçekleştirerek sermayenin farklı fraksiyonlarına eşit mesafede durmasının önünü tıkadığı ortaya konulmaktadır. Bu sebeple bu çalışma İran'ın uluslararası iktisadi politikasının anlaşılmasında bu vakıfların ve paramiliter örgütlerin önemini vurgulamaktadır.

Anahtar Kelimeler: Uluslararasılaşma, İran, Vakıf, Bonyad, Devrim Muhafızları Ordusu

Introduction

In the last days of the year 2017, in the northern city of Mashhad, one of the largest displays of discontent in the history of the Islamic Republic of Iran has broken out. The protests instantly spread to the other segments of the

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society and turned into widespread demonstrations against stunted economy, low wages, chronic unemployment, rising fuel and food prices and corruption. Even though the roots of these protests are embedded in the political and economic structures of Iran, the Rouhani administration had been able to postpone the mass anger against the economic predicament by attributing the situation to the international isolation that Iran has been subjected since its establishment. With the support of 2009 protests, he was able to present the nuclear policy maintained by Ahmadinejad administration and hostile relations with the West as the main source of malfunctions in the Iranian economy. This discourse was based on a simple equation. The radical policies pursued by Ahmadinejad and the following nuclear crisis has prevented Iran's access to international capital and this created adverse impacts on the Iranian economy, such as unemployment. Therefore, the solution was to sit at negotiations table with the U.S. and to end Iran's everlasting isolation from the global economy. As a result of this strategy, Rouhani was elected to the presidency in 2013 and signed the Joint Comprehensive Plan of Action with P5+1 and the EU on July 14, 2015 to end the international sanctions. However, in the last two years since the agreement was signed, there has been no serious development in the chronic economic problems of Iran and this has transformed the dissatisfaction of the poor areas into a mass political movement. In this sense, the end of sanctions has not integrated Iran into the global economy in the way that it was expected, or this form of integration has not solved the problems of Iranian economy. Therefore, it is misleading to view the international sanctions as the only parameter behind the economic predicaments of the Islamic Republic.

This article, on the other hand, concentrates on the role of para-governmental organizations in the informal power structures of the Islamic Republic. By several scholars,¹ these informal sets of relations are used to define not only the personal networks between the political elite and economic agents but also the impersonal institutional relations formed by the para-governmental organizations. These institutions set the basis of the 'quasi-formal' economy of Iran through their unaccountable and non-transparent institutional structures. Analyzing the growing roles of these institutions and revealing their instrumental economic and political functions aim to demonstrate that the Islamic Republic has been integrated into the global economy under the domination of these organizations. Their dominance in political and economic sphere, together with their economic and ideological

1 See. Wilfried Buchta, *Who Rules Iran- The Structure of Power in the Islamic Republic*, Washington, Washington Institute of Near East Policy, 2000, p.7; Mehran Kamrava and Houchang Hassan-Yari, "Suspended Equilibrium in Iran's Political System", *The Muslim World*, Vol. 94, October 2004, p. 495; Narges Erami and Arang Keshavarzian, "When ties don't bind: smuggling effects, bazaars and regulatory regimes in postrevolutionary Iran", *Economy and Strategy*, 44:1, 2015, p.110

functions for the Islamic regime, have created a structural trap for Iran,² which prevents the adjustment of Iranian economy according to the dynamics of global capitalism.

The Establishment and Institutional Structure of the Islamic Para-governmental Organizations: Bonyads

The para-governmental charity organizations, *Bonyads*, in Iran are products of the confiscation of enterprises that were originally owned by the Shah, his ruling elite and the other Iranian capitalists who had fled the country after the revolution, leaving behind hundreds of companies in the different sectors of the economy.³ Their creation was one of the first initiatives of the new revolutionary regime; with a decree of Imam Khomeini as early as February 1979, one of the largest bonyads of Iran, *Bonyad-e Mostazafan va Janbazan*, Oppressed and Disabled Veterans Foundation was founded. As it is stated in the website of the foundation,⁴ its capital is composed of the assets and movable and real properties donated to the Foundation or expropriated, or to be expropriated, by the Foundation in accordance with the supreme jurispudent's decree, or those obtained, or to be obtained, through the economic activities of the Foundation. As a result of these early initiatives of expropriation, the Bonyad has taken the control of 203 manufacturing and industrial factories, 472 large firms, 101 construction firms, and 238 trade and service companies in 1982.⁵ As it is mentioned by Saeidi,⁶ these religious charities reconstructed into giant private monopolies with no governmental discretion over their operations, while they could contribute to the ideological and cultural needs of an Islamic state. Apart from the *Bonyad-e Mostazafan* (Oppressed), *Bonyad-e Shahid* (Martyrs), *Bonyad-e Masken* (Housing), *Bonyad-e 15th Khordad*, *Bonyad-e Astan-e Quds* (Imam Reza Shrine) and Imam Khomeini Relief Committee are among these well-known institutions which control a big share of the country's economy.⁷

The control of these confiscated properties was passed to the religious leaders in the forms of the newly established bonyads. Moreover, they were used as mechanisms to reward the loyal bazaaris as those who mobilized their resources for the revolution were given the manager status in these

- 2 Hassan Hakimian, "Institutional Change, Policy Challenges and Macro-Economic Performance, 1979-2004", *Commission on Growth and Development Working Paper*, No.26, 2008
- 3 Akbar Karbassian, "Islamic Revolution and the Management of the Iranian Economy", *Social Research*, 67, 2, Summer 2000, p.621
- 4 See. Islamic Revolution Mostazafan Foundation Website, URL: <http://www.irmf.ir/En/default.aspx>, accessed 14.03.2018
- 5 Arang Keshavarzian, *Bazaar and State in Iran: The Politics of the Tehran Marketplace*, Cambridge: Cambridge University Press, 2007, p.167
- 6 Ali A. Saeidi, "The Accountability of Para-Governmental Organizations (bonyads): The Case of Iranian Foundations", *Iranian Studies*, Vol. 37, No.3, 2004, p.480
- 7 Hooshang Amirahmadi, *Revolution and the Economic Transition: The Iranian Experience*, State University of New York Press, 1990, p. 145

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institutions. For example, Habiballah Asgarawladi-Musalman, one of the founding members and of the public face of the Society of Islamic Coalition (SIC, *Jamiyyat-i Mutalifih-i Islami*), which was one of the main organization established by the bazaaris to support the revolutionary religious elements, was given the office of the representative of the supreme leader at the Imam Relief Fund Committee and has served as the member of the Central Council of the Bonyad-e 15th Khordad.⁸ Similarly Alinaqi Khamooshi, another SIC member from a bazaar family, served as the director of the Bonyad-e Mostazafan. Some of the volunteer organizations centered around the bazaars during the revolutionary turmoil were also transformed into the bonyads, as in the case of Imam Khomeini Relief Committee.

The most important institutional characteristics of the bonyads is their location in between the public and private spheres. As it is mentioned by Keshavarzian,⁹ bonyads are public in the sense that they do not pay taxes, are entitled to state-subsidized loans and foreign currency, tax and duty exemptions, receive contributions from the Supreme Leader and are tasked with the state's mission of redistribution. Within this setting, these institutions enjoy ideal positions for direct access to rents via the privileges mentioned above. Bonyads are also private in the sense that they are neither accountable nor monitored by the government. Even though the foundations are said to receive 58 % of the state budget, the popularly elected executive and legislature bodies do not have any authority over their performances.¹⁰ In this context, there is no control by the government over the foundations' economic activities and expenses; they have no public accounts, no correctly defined legal status, apart from their responsibilities to the Faqih.¹¹ As it is indicated in the article 4 of the Bonyad-e Mostazafan,

“The Foundation is an institution rooted in the Islamic Revolution, non-profit, a legal entity with financial, administrative and employment independence, administered under the high supervision of his highness the Supreme Leader, in accordance with the regulations enclosed in these articles of association, and the internal bylaws.”¹²

Moreover, the control of the Supreme leader over these institutions is sustained as the Faqih directly appoints the heads of the bonyads. As it is stated

8 Arang Keshavarzian, 'Regime Loyalty and Bazari Representation under the Islamic Republic of Iran: Dilemmas of the Society of Islamic Coalition', *International Journal of Middle East Studies*, Vol. 41, No.2, May, 2009, p.232

9 Keshavarzian, *Bazaar and State in Iran*, p.102

10 Ibid. p.167

11 Eva Patricia Raket, *Power, Islam and Political Elite in Iran: A Study on the Iranian Political Elite from Khomeini to Ahmadinejad*, Leiden, Brill, 2009, p.39

12 See. Islamic Revolution Mostazafan Foundation Website, URL: <http://www.irmf.ir/En/default.aspx>, accessed 14.03.2018

in the article 12 of the Bonyad-e Mostazafan, "The president of the Foundation shall be appointed by the decree of the Supreme Leader, and, as the highest executive official of the Foundation, shall be in charge of the implementation and execution of all affairs, directing the activities, and safeguarding the rights and interests of the Foundation; he shall perform his duties within the frameworks of these articles of association and the resolutions of the board of trustees." ¹³

This characteristic of the bonyads in between private and public sector, in some circumstances causes them to perform parallel roles with the official government institutions. For example, Bonyad-e Masken was operating along with the Housing Ministry in providing accommodation to the families in need.

This institutional character of the bonyads enabled them to extent their activities qualitatively and quantitatively. In fact, the original setting of these para-governmental institutions triggered the extension of their functions especially in the economic sphere. For example, Bonyad-e Mostazafan, while defining its general goals, along with its social functions, such as improvement of the material, spiritual and cultural level of living for the deprived and the disadvantaged of the society, stresses certain economic duties which enable the extension of their role. According to article 6 of the organization, these economic goals are the optimal management of the assets at disposal and an effective presence in the economic areas, within the framework of the general policies of the state. Correspondently, the general duties of the organization were categorized under two headings- duties related with the deprived and economic activities. Under the latter one, developing the economic potential of the Foundation, as well as performing activities of production and services in order to increase the national production, create income, expand the competitive atmosphere, and help to the implementation of the goals and policies of the government of the Islamic Republic of Iran are a set of duties that the organization is obliged to perform. This stated tasks, duties and goals have resulted in the monopolization, commercialization and, especially in the second decade of the Islamic Republic, internationalization of these para-governmental organizations as giant conglomerates.

Commercialization and Internationalization of Bonyads

As it is stated, the structural characteristics of the Bonyads and their organizational setting equipped them with the necessary tools and goals to commercialize easily. Apart from those structural drives, there were specific moments, especially after the 1990s, which triggered such incentives to the full capacity. In fact, the role of the bonyads in the economic field has been

13 Ibid.

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increasing gradually since 1980s. As capital flight has reached to tremendous levels during the revolutionary turmoil and afterwards, bonyads have started to increase their economic activities to fill this vacuum.¹⁴ Since these institutions maintained a primitive mode of accumulation through taking the control of previously produced capital, such as the Coca-Cola factories or Hilton Hotel, they were able to maintain economic functions when the economy was under large restrictions. At the end of 1980s, Bonyad-e Shahid for example, owned 150 companies in the agriculture, mining, construction, and trade, as the resources allocated to the foundation by the government increased annually by 29.3%, from 11.4 billion riyals in 1981 to 115 billion riyals in 1990.¹⁵ At the end of the decade, it is claimed that Bonyads' budget has reached nearly half of the government national budget.¹⁶ However, such numbers do not go beyond estimation as the total assets of the bonyads are not public and only accountable to the Faqih.

Since 1990s, three historical developments decreased the social functions maintained by the bonyads and triggered further commercialization. The first development was the decision of the Rafsanjani administration to cut the budget of the state ministries and organizations and impose the requirement that they must be financially self-sufficient. This policy forced the state organs to involve more into the economy in order to balance their budgets by launching profit-making enterprises that could compete for contracts in construction, manufacturing, commerce and services.¹⁷ This went hand in hand with a process of the sale of state owned enterprises. Since this privatization process was conducted under direct negotiations with the interested buyers, instead of public auctions, corruption was widespread. Under the direct negotiations, the enterprises were transferred to those with personal connections within the political mechanism. As it is mentioned by Harris, this has resulted in the emergence of a new "aghazadeh"- sons of elite.¹⁸

As a result of this, during the fourth Majles (1992-1996), the Bonyads have started to pressurize the conservative power circles to change the privatization policy. However, this was not a move to end the corruptions embedded in the process. Instead, Bonyads were demanding a privatization process that they could participate. Following this, in 1994 the parliament banned privatizations through negotiated transfers and started to sell state owned enterprises through the transactions houses. Under this amendment, it is allowed to sell

14 Shireen T. Hunter, *Iran after Khomeini*, New York, Praeger, 1992 p.61

15 Saeidi, "The Accountability of Para-Governmental Organizations", p. 488

16 Ibid. p.493

17 Arang Keshavarzian, "The Iran Deal as Social Contract", *MERIP*, 45: 277, Winter 2015

18 Kevan Harris, 'Vectors of Iranian Capitalism: Privatization Politics in the Islamic Republic', in S. Hertog, G. Luciani and M. Valeri (eds.) *Business Politics in the Middle East*, London, Hurst and Company, 2013, p. 221

the shares of enterprises to those devoted to the war, the prisoners of war and the relatives and members of those who were killed in the war. Especially, Bonyad-e Mostazafan and Bonyad-e Shahid were the main beneficiaries of this amendment. Harris states that, the half of the shares of the 331 companies that were fully or partially transferred in the name of privatization during 1989-94, went in the hands of the para-governmental organizations.¹⁹ In this sense, the efforts spent by the pragmatist government to liberalize the economy through privatizations was manipulated by the core institutions of the Islamic Regime and Bonyads started to increase their economic powers. As it is mentioned by Rakel, this first initiative of the reforms towards liberalization led to monopolization of the religious foundations.²⁰

The second historical development that conveyed the shift of economic ownership from the state to a variety of para-governmental organizations was the election of Mahmood Ahmadinejad to the presidency. Ahmadinejad was built his campaign on populist discourses such as “bringing oil money to the people’s dinner table.” In accordance with this, after his elections he initiated a program known as “Justice Shares”. His rhetoric was to support the poor by introducing a share of stock in the privatized state companies for the needy. Shortly after his election, Ayatollah Khamenei issued a directive reinterpreting the Article 44 of the constitution, which draws lines between the state, cooperative and private sectors of the economy. It is stated that the aim of this reinterpretation was:

“To speed up national economic development; expand ownership among the populace with the purpose of assuring local social justice; improve the efficiency of enterprises; enhance economic competition; reduce the fiscal and administrative burdens of the state; improve employment and income for the population; and encourage the people to invest and save.”²¹

As a result, the government was ordered to reduce its share in the non-essential sectors by 20 percent and to privatize 80 percent of its assets in the essential sectors such as mining, heavy industry, energy and banking. The transfer of the state properties took mainly three forms as it is mentioned by Kevan Harris.²² Firstly, the changes in the constitution enabled the government to pay its debt to the para-governmental organizations via direct transfers of the state-owned enterprises. For example, the International Exhibition Center of Tehran was sold to Islamic Revolutionary Guard Corps (IRGC) affiliated

19 Ibid.

20 Rakel, *Power, Islam and Political Elite in Iran*, p.83

21 Kaveh Ehsani, ‘Survival Through Dispossession, Privatization of Public Goods in the Islamic Republic’, *MERIP*, <http://www.merip.org/mer/mer250/survival-through-dispossession>, accessed, December 13, 2016.

22 Kevan Harris, “The Rise of the Subcontractor State: Politics of Pseudo-Privatization in the Islamic Republic of Iran”, *International Journal of Middle East Studies*, 45, 2013, p.56

Armed Forces Social Security organization for government's debt. Secondly, the sale of the state-owned enterprises was held through the Tehran Stock market, public auction or negotiations. Even though private investors were active in this process, they were not able to compete with the economic power of the para-governmental institutions. Lastly, state owned enterprises were transferred through the Justice Shares. It is stated that during the first term of Ahmadinejad, of the total divested state owned enterprises, 68.5% went to Justice Shares, 12.5 % to debt cancellations, and only 19% was sold or negotiated through the stock market.²³ As Justice Shares was located at the heart of the process of privatizations, fractious conflicts and claims structured around it. The board executing the privatization process, The Central Board of Justice Share Distribution, was composed of the ministers, the head of Bonyad-e Shahid, the commander of Basij and the head of the Imam Khomeini Relief Committee.²⁴ It can be deduced that the state-affiliated classes and institutions had a strong presence within this setting. In November 2009, the Parliament Research Center's report, entitled "Transition from the State to the Pseudo-State Economy", revealed that 264 companies were sold from 2004 to 2009 and within these sales from 2007 to 2009, 82 firms' share were given to para-governmental organizations- it is stated in the report that especially the Social Security Investment Company and Iranian Mehr Eqtesad (IRGC affiliated Bank) obtained 46 % of these shares.²⁵ The phase of these pseudo-privatizations during Ahmadinejad had reached to tremendous levels as the number and value of the companies divested were larger than the ones divested by Rafsanjani and Khatami combined. In 2009, the head of the Iranian Privatization Organization was declaring that government has divested 800,000 billion riyals and 370 companies so far.²⁶ In December 2010, the commission was reporting that out of seventy billion USD worth of assets of State Owned Enterprises divested since 2006, only 13.5 percent of the shares had transferred to the private sector, the remainder were taken by the para-governmental organizations.²⁷ Since these para-governmental institutions are composed of numerous organizations, which do not make up a single connected entity, their participation in the process of privatizations as state-affiliated organizations are even less visible. For example, in its website, Bonyad-e Mostazafan names 13 different holdings under its control, such as Paya Saman Pars Investment, Sina Investment, Iran Housing Development, Kaveh Pars Mining, Sina Energy, and so on. These holdings, together with the others, are further separated into smaller compartments. Due to their control over the economic system through a complex web, they have succeeded in dominating the process of

23 Ibid. p.58

24 Harris, "Vectors of Iranian Capitalism", p.227

25 Harris, "The Rise of the Subcontractor State", p.58

26 Ibid. p.56

27 Ibid. p.46

privatizations. As a common critique of this type of privatization in Iran, it is said that the process resembles to the privatizations of Russia in 1990s which created oligarchic industrial class and Russia's version of popular capitalism.²⁸ In Iranian case, this dominance of the para-governmental organizations creates a structural trap, since the capital cannot be reallocated from one sector to another. The efforts to decrease the inefficiencies of the economy through divesting subsidized state owned enterprises, ended up transferring these firms into the hands of the other unregulated public institutions, such as the bonyads.²⁹

The third historical development that further triggered commercialization of the para-governmental organizations was the sanctions. Bonyads' capacity to import, export, and sell goods at below market prices has already made them an important player in the international trade regimes. These organizations are able to bypass the domestic trade bans and duties with their access to special licenses (*mojavvez-e moredi*) to conduct trading activities, and subsidized foreign currencies. During the course of international sanctions, the economic capabilities and international connections of the Bonyads were used by the Islamic Regime to subvert the sanctions. Since these para-governmental organizations has turned into large monopolies and compartmentalized in dozens of smaller entities in and out of Iran, they were able to transfer funds from one entity to another without being detected. This is why some commentators call these institutions as the excellent mechanisms to bypass the U.S. sanctions.³⁰ Moreover, as these institutions are not accountable and transparent, the companies under their control are not known and this makes it even more difficult to impose effective sanctions. IRGC, as another para-governmental organization, has also enlarged its economic powers during the course of the sanctions. IRGC affiliated firms started to replace the companies that retreated from Iran after the international sanctions.

As a result of this whole process, bonyads have commercialized and turned to be the largest monopolies of the Islamic Republic. Keshavarzian claims that these organizations own 20 percent of the asset base of the Iranian economy and contribute 10 percent to the country's GDP.³¹ For instance, Bonyad-e Mostazafan has become the second largest commercial enterprise in the country. It is claimed that the organization employs up to 400,000 workers and its assets are above 10 billion dollars.³² According to the website

28 Harris, 'Vectors of Iranian Capitalism', p.237

29 Massoud Karshenas and M. Hashem Pesaran, "Economic Reform and The Reconstruction of the Iranian Economy", Middle East Journal, Vol. 49, No. 1, Winter 1995, p.95

30 Kerry Patton, "Bonyads: Iran's Greatest Strength against Sanctions", *American Thinker*, 2012

31 Keshavarzian, *Bazaar and State in Iran*, p.168

32 Paul Klebnikov, 'Millionaire Mullahs', *Forbes*, 07.21.2003, <http://www.forbes.com/global/2003/0721/024.html>, accessed December 13, 2016.

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of the Bonyad, with an annual turnover of \$3.5 billion, the Bonyad and its affiliated organizations manage more than 400 companies and factories. It is also stated that the bonyad controls huge areas of economy from food and beverage, chemicals, cellulose items, metals, petrochemicals, construction materials, dams, lowers, civil development, farming, horticulture, animal husbandry, tourism, transportation, five star hotels, commercial services, financing, joint ventures etc. Bonyad-e Mostazafan's largest subsidiary, the Agricultural and Food Industries Organization, owns more than 115 additional companies. Bonyad also has contracts on large engineering projects such as the construction of Terminal One of the Imam Khomeini International Airport. The former director of the Bonyad, Mohsen Rafiqdoost, stated that while the bonyad allocates 50 percent of its profits for providing aid to the needy in the form of low interest loans and monthly pensions, the remaining 50 percent is used for such investment projects.³³

The case of Imam Reza Shrine, which is located at the city of Mashhad where the recent protests has broken out, is another sample of the rise of the para-governmental organization. This largest charity of centuries old foundation, at the end the 1990s, owned vast tracts of urban real estate, hotels, factories, farms and quarries. Even though it is difficult to predict its holdings as they are not transparent, some Iranian economists speak of a net asset value of \$15 billion or more.³⁴ The parliamentary representative of Mashhad has claimed that the Imam Reza Shrine, together with the other foundations, controls 70 % of the economy.³⁵ Over the time, these organizations not only established quasi-banking institutions but also got the control of financial subsidiaries, such as Sina Bank or the Finance and Credit Company, which are outside the regulatory control of the Central Bank of Iran and Islamic Banking Law.³⁶

The accumulation of huge amounts of capital within the hands of these para-governmental organizations inevitably induced their international business activities in the following decades. Similar to their commercialization, the internationalization of Bonyads' capital was embedded in their original institutional settings. For example, Bonyad-e Mostazafan defines its main strategies as the development of participation with domestic and foreign investors, development of exports of goods and diversifying methods of provision of financial resources and investment. Moreover, consolidating and administrating the capital and the assets in an optimum fashion, rendering

33 Ibid.

34 Ibid.

35 Keshavarzian, *Bazaar and State in Iran*, p.168

36 Rodney Wilson, "Etatisme Versus Market Driven Islamic Banking: the Experience of Iran and Arabian Peninsula Compact" in M. Kamrava (ed.), *The Political Economy of the Persian Gulf*, London, Hurst Publisher, 2014, p.126-7

activities of production and services inside the country and abroad, and administrating the affiliated companies and units optimally are enumerated missions of the bonyad.³⁷ Especially the emphasis on administrating the capital of the organization efficiently triggered the production and services activities of the Bonyads inside and outside the country. Bonyad-e Mostazafan, rationalizes these activities by putting forth its mission of maximizing the value of optimal composition of its assets and stocks. Under this notion, the organization is allowed to authorize the establishment of branches or offices inside or outside the country as deemed necessary. As a result, Bonyad-e Mostazafan subsidiaries pursued contracts in the late 1990's to construct a railway system and urban rail system and to manage a livestock project in Libya; they maintained economic connections with the Middle East, Europe, Africa, South Asia, Russia and former Soviet Republics, and the General Mechanic Civil and Housing Organization of the Bonyad-e Mostazafan is building a 37-km road into the Hajar mountains in the UAE.³⁸ According to the information gathered from the website of the Bonyad, it has also conducted business partnerships with companies from Denmark as it purchased machineries for their gas factory. Moreover, with the German companies, collaboration for technology transfer was conducted until the participation of EU into the sanctions regime. Imam Reza Shrine, similarly, involved in investment activities together with the investors from Saudi Arabia and UAE. Ayatollah Tabasi, who served as the chairman of the organization, in order to support the international activities of the institution put his son in charge of the Sarakhs Special Economic Zone that is on the Turkmenistan border. The bonyad poured hundreds of millions of dollars not only into the project, but also for the establishment of a rail link between Iran and Turkmenistan.³⁹ Bonyads had also expanded their economic power to overseas as they have started to invest in the joint ventures in Latin America. For example, it is claimed that these organizations are holding at least ten manufacturing plants in Venezuela⁴⁰ They are also holding executive boards in international banks. The institutional capabilities of these relations were actively employed by the Islamic Regime during the course of international sanctions. Moreover, countries such as Argentina and Brazil are known to invest in Iranian Bonyad ventures.⁴¹ In fact, since any foreign investor looking for investment opportunities in Iran are forced to find a local partner and since the economy is dominated by the bonyads, international capitalists inevitably merge with the companies controlled by the para-governmental

37 Islamic Revolution Mostazafan Foundation Website, URL: <http://www.irmf.ir/En/default.aspx>, accessed 14.03.2018

38 Frederic Wehrey et al, *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, Rand Corporation, 2008, p.58

39 Klebnikov, "Millionaire Mullahs"

40 Patton, "Bonyads: Iran's Greatest Strength against Sanctions"

41 Ibid.

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organization. Therefore, Bonyads are the main beneficiaries of the existing political economic structures of Iran and its form of integration into the global economy.

A New Economic Actor: Islamic Revolutionary Guard Corps

Another important economic actor, which owes its economic power to the existing political structures, is the IRGC. Unlike Bonyads, within its original institutional set up, IRGC was not assigned with any economic tasks. IRGC was designed and institutionalized as a parallel military force in 1982 and linked directly to the institution of Faqih; and similar to the other para-governmental organizations they are functioning for the Islamic regime, instead of the state. Defending the Islamic Revolution and cooperation with the other armed forces were the only tasks assigned to the organization.⁴²

However, the political structures that triggered the accumulation of huge amounts of capitals in the hands of religious charities, such as importing licenses, tax exemptions, subsidized hard currency, and control over the procurement boards, produced the same consequences for this para-military organization. Moreover, the same moments that led the monopolization of Bonyads have encouraged commercialization of the IRGC as well. In fact, the war with Iraq and IRGC's leading role in the war-field were the first motivations for organization's involvement in the economy in the mid-1980s. The first arms factory was established in 1984 as IRGC was allowed to create its own defense industry in order to supply the necessary war equipment.⁴³ At the end of the war, since IRGC was the most organized entity, it has started to lead the reconstruction efforts. This process, together with Rafsanjani's policy of involving government organizations in business transactions as a way to generate independent income, has resulted in IRGC's entrance into the economy in the early 1990s. The organization took the control of several confiscated factories after the war and established the headquarters of reconstruction and headquarters of self-sufficiency -also known as GHORB (*Gharargah'e Sazendegi-ye Khatam'al Anbiya*) or Khatam'al Anbiya.⁴⁴ In the early 1990s, through these headquarters, IRGC started to establish companies in non-military fields, such as agriculture, industry, mining, transportation, construction of roads, refineries, depots, pipelines for gas, oil import and export sector.

The case of Khatam'al Anbia deserves a special attention since the economic operations of the IRGC are mostly concentrated in this organization. This also situated the organization at the center of the international surveillance, as the Western-backed sanctions mostly targeted its operations

42 Bayram Sinkaya, *The Revolutionary Guards in Iranian Politics*, London, Routledge, 2016, p.44

43 Ibid. p.54

44 Wehrey et al, *The Rise of the Pasdaran*, p.59

and individual commanders affiliated with this base. Since its establishment, Khatam'al Anbia has become one of the largest contractors in Iranian industrial and developmental projects as it is awarded more than 750 contracts in different fields and completed more than 150 projects.⁴⁵ The Ministry of Oil, Transportation and Energy and the mayor of Tehran signed several contracts with the IRGC through Khatam al-Anbia. Since, the most of these projects are subcontracted to the subsidiaries or private companies, conglomerates affiliated with the IRGC have become a source of wealth creation for the bureaucrats holding the offices in these organizations. As it is mentioned by Harris, many of the subcontracting companies that Khatam'al Anbia gives its project are staffed with the IRGC retirees.⁴⁶ This rise of the military-linked contractors in Iran has also been observed in the post-Communist Eastern European countries.

Having reached to a tremendous economic capacity during the course of 1990s, Khatam'al Anbia has started to dominate the economy, especially with the election of Ahmadinejad; as he started to offer no-bid contracts to IRGC in the areas oil and natural gas extraction, pipeline construction, and large-scale infrastructure development.⁴⁷ This was a strategy for Ahmadinejad administration to mobilize financial resources to the affiliated groups. Two prominent Khatam subsidiaries, the Sepasad Group and Hara Company, are the most beneficiaries of these projects. For example, the former was awarded a \$1.2 billion contract to build the line seven of the Tehran Metro. According to the International Crisis Group, only in 2006, Khatam'al Anbia headquarters were awarded \$2.09 billion worth no-bid contracts to develop phases fifteen and sixteen of the South Pars Natural Gas field and \$1.3 billion contract to build the multiple destinations pipeline between Assalouyeh and Iranshahr.⁴⁸ The organization has also constructed Tehran-Tabriz railway and several dams. In 2010, IRGC affiliated companies were awarded one of its largest projects; the construction of a high-speed railway from Tehran to Qom and Isfahan, worth \$2.7 billion.⁴⁹ For the project, the Khatam has collaborated with China Railway Engineering Corporation. This refutes the arguments that Iranian para-governmental organizations are against the internationalization of the Iranian economy. In fact, integration into the global economy serves the interest of these organizations unless their privileged position within the political and

45 Ibid. p.60

46 Harris, "The Rise of the Subcontractor State", p.59

47 Hessam Daryani and Nima Nakhae, "The Changing Formations of the Power Bloc in Iran and the Neo-National Bourgeoisie", *Global Discourse*, Vol.2, 2011, p.103

48 Mohammad Majloo, "Three placement modes of the Economy in Post-revolutionary Iranian Society", in E. Hooglund and L. Stenberg (eds.), *Navigating contemporary Iran: challenging economic, social and political perceptions*, London, Routledge, 2011p. 39

49 Benoit Faucon et al, "Iran's Government and Revolutionary Guards Battle for Control of Economy", *Wall Street Journal*, 18 May 2016.

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economic structure is not challenged. Khatam'al Anbia companies for example, worked with the European companies, as in the construction of Gudar-i Landar dam and more recently with Chinese, Indian and Russian firms on gas and oil projects, as it is discussed in the previous chapter. The companies affiliated with the Revolutionary Guards have started to hire Western consultants and recruit politically moderate professionals to help companies in participating into foreign businesses.⁵⁰ Telecommunication Company of Iran, whose control was taken by the IRGC with the cancelation of an international agreement signed with Turkcell, hired French IT consultancy Sofrecom in 2014 to improve service and computerize networks.

With the projects awarded to the headquarters, Khatam'al Anbia has become the sole contractor in Iran's gas industry. In one of these, the organization was given the contract to build 900 km natural gas pipeline worth 1.3\$ billion, without any formal bidding requirement in 2006. As a response to the criticisms, the Oil Ministry legitimized the process by claiming that providing gas to the underprivileged regions was an urgent necessity and that a formal bidding process would have taken more than a year to complete; therefore, it is directly given to the GHORB.⁵¹ Another indicator of the dominance of the organization in the energy sector was the appointment of the head of the Khatam'al Anbia, General Rostam Ghasemi to the Ministry of Oil during the presidency of Ahmadinejad.⁵²

As it is also mentioned before, international sanctions contributed to further commercialization of IRGC, similar to Bonyads. With their immunity from the rules of the government and their control over the means of power, these institutions are equipped with the necessary mechanisms to function in the quasi-legal networks. As a result, IRGC started to engage in large-scale trading, such as exporting the state subsidized gasoline outside the country through Martyr Rajai Port Complex in Hormuzgan. It is claimed that IRGC is yielding 200-300 percent profit on such illegal sales.⁵³

As a result of these economic activities, during the course of the Islamic Regime, the para-military organization of the Revolution has turned out to be one of the largest monopolies in the economy, alongside the bonyads. This is why some commentators define the IRGC as a militarized bonyad.⁵⁴ In fact, there are strong connections and common interests between these para-governmental organizations as they are dependent on the same political structure. The former head of the Bonyad-e Mostazafan, Mohammad

50 Faucon et al, "*Iran's Government and Revolutionary Guards Battle for Control of Economy*",

51 Wehrey et al, *The Rise of the Pasdaran*, p.59

52 Daryani and Nakhae, "*The Changing Formations of the Power Bloc in Iran*", p.104

53 Wehrey et al, *The Rise of the Pasdaran*, p.56

54 Ibid.

Forouzandeh, was the former head of the Ministry of Defense and Armed Forces Logistics and a former IRGC officer. Similarly, the former IRGC Air Force commander Hossein Dehghan served as the president of Bonyad-e Shahid and these two organizations conducted numerous economic endeavors, including participation in a joint venture with the Industrial Development and Renovation Organization and Defense Ministry subsidiary, the Iran Electronic Development Company.⁵⁵ Similar to the bonyads, since IRGC is also unaccountable, acting above the legal limitations, the value of its total assets are unknown. Harris claims that the organization controls about 60 percent of the economy⁵⁶ and Morady asserts it controls 70 % of the state-run economy.⁵⁷ Even though these are not beyond predictions, it is known that IRGC runs more than 800 companies from dental and eye clinics to car factories and construction firms, owns 51 % of the National Telecommunications Company, bought two of the largest financial institutions,⁵⁸ and dominates the Tehran Stock Exchange.⁵⁹

Para-Governmental Organizations and the Survival of the Islamic Regime

For the reproduction of its whole social formation, the Iranian state needs the resources of the para-governmental organizations. Perhaps what differentiates the Iranian capitalist state from its Western counterparts is the fact that the reproduction of the capitalist economy in Iran is attached to the reproduction of a specific regime type. This is mostly maintained with the establishment of these formal and informal power structures. Within this dual structure, as Saeidi states, bonyads reinforce the financial authority of the religious leaders without accountability.⁶⁰ By holding the control of these organizations, the clerical power centers -the supreme leader, his representatives, affiliates and political factions- capture the authoritative resources used for the consolidation and expansion of the central state apparatus.

Not only the domestic goals, but also international agenda of the Islamic Regime was maintained through these resources. As Kevan Harris underlines, Imam Khomeini Relief Committee (IKRC), for example, has branches in Lebanon, Syria, Palestine, Iraq, Afghanistan and Tajikistan.⁶¹ There are several

55 Ibid. p.57-59

56 Harris, "The Rise of the Subcontractor State", p.45

57 Farhang Morady, "Who rules Iran? The June 2009 election and Political Turmoil", *Capital and Class*, 35 (1), 2011, p.51

58 Sinkaya, *The Revolutionary Guards in Iranian Politics*, p.187

59 Parvin Alizadeh, "The political economy of petro populism and reform, 1997-2011", Parvin Alizadeh and Hassan Hakimian (eds.) *Iran and the Global Economy Petro Populism, Islam and Economic Sanctions*, Routledge, 2013, p.94

60 Saeidi, "The Accountability of Para-Governmental Organizations", p. 479

61 Kevan Harris, "The Politics of Welfare After Revolution and War: The Imam Khomeini Relief Committee in the Islamic Republic of Iran.", Sara Crabtree, Jonathan Parker, and Azlinda Azman (eds.), *The Cup, The Gun and The Crescent: Social Welfare and Civil Unrest in Muslim Societies*,

photographed visits from Hezbollah leader Sayyed Hassan Nasrallah and various Hamas dignitaries to the headquarters of the Bonyad. This is why some commentators claim that bonyads assist in fueling international terrorism.⁶² Paul Klebnikov, for example, pointed out Mohsen Rafiqdoost, who was the minister of the Revolutionary Guards in the 1980s and served as the head of several bonyads, as a key player in sponsoring Hezbollah in Lebanon.⁶³

Apart from the dependence on the economic means of the para-governmental organizations, the ideological functions of these organizations are vital for the construction of the hegemony and survival of the Islamic regime. As it is stated by Saeidi,⁶⁴ what is often not realized widely about these organizations is that they have been actively involved in Iranian polity by propagating the dominant ideology in a wide range of social and cultural activities. During the revolutionary era, the new ruling classes created these institutions as they could not trust the institutions of the previous regime. Therefore, these institutions were established and tied to the populist transformative agenda of the new regime.⁶⁵

For example, the establishment of the IKRC, was an effort to attach the welfare policies directly to the personality of Imam Khomeini, as it can be understood from the name given to the organization. After the end of Iran-Iraq war, the organization started to extend its welfare functions into the rural areas. It is claimed that nearly 10 % of the society receives services from the organization and 6-7 % gets month-to-month aid.⁶⁶ Bonyad-e Mostazafan plays a similar role in welfare policies as the social activities of the Foundation are defined as promoting the material, spiritual, and cultural life of the disadvantaged and the deprived of the society. The Bonyad was crucial in maintaining the hegemony of revolutionary forces over the subordinated classes. Together with the others, such as Bonyad-e Shahid, the Bonyad-e 15th Khordad, and IKRC, the welfare system provided by the para-governmental system is covering one in every four Iranians.⁶⁷ Since these institutions are also exempt from the budgetary constraints that are applied to the public welfare organizations, they are able to maintain their services even during the periods of economic recessions. Therefore, these welfare policies are functioning in a way to consolidate the support for the Islamic character of the political

London, Whiting and Birch, 2012, p.135

62 Patton, "Bonyads: Iran's Greatest Strength against Sanctions"

63 Klebnikov, "Millionaire Mullahs"

64 Saeidi, "The Accountability of Para-Governmental Organizations", p. 486

65 Keshavarzian, *Bazaar and State in Iran*, p.166

66 Kevan Harris, "A Martyrs' Welfare State and Its Contradictions: Regime Resilience and Limits through the Lens of Social Policy in Iran." in S. Heydemann and R. Leenders (eds.) *Middle East Authoritarianisms: Governance, Contestation, and Regime Resilience in Syria and Iran*, Stanford University Press, 2013, p. 69

67 Peyman Jafari, "Rupture and revolt in Iran", *International Socialism*, 124, 2009

structure. These organizations also establish schools, universities, research centers, publish books, journals, produce films and establish museums which further serve for the hegemonic ideology. As a result, these foundations have become capable of mobilizing tens of thousands of people, from urban and rural lower classes, for demonstrations that support the Islamic regime.⁶⁸ In a similar vein, they may be demobilized, as in 2009 the head of IKRC Hossein Anvari claimed that none of the families helped by the organization took part in the country's Green movement demonstrations.⁶⁹ In short, the ideological and welfare functions of the bonyads are inalienable for the Islamic Regime, as Mehdi Karroubi confessed "today we realized that if (bonyads) did not exist, there is no knowing what would have happened to the fate of the revolution and country."⁷⁰ Rafiqdoost, when he was the head of the Noor Foundation, said that he is a normal man, but if Islam is threatened he will become big again.⁷¹ This means that the resources of the bonyads can be tapped when the Islamic regime needs it.

Apart from the regime's dependence on the para-governmental organizations, for securing the reproduction of their economic and institutional capacities, the survival of the Islamic regime is highly vital for the para-governmental organizations. Owing their power to their privileges in the political and economic structures, they oppose any transformation towards transparency and accountability as it is initiated by Khatami.⁷² Moreover, they have the institutional power to re-shape the direction of any policy as it happened during the privatizations. In fact, during the course of the Islamic state, bonyads have developed different strategies to prevent any structural transformation in the political and economic structures that may shake their status. For example, when Rafsanjani was trying to reformulate the economic structure in accordance with the IMF principles and therefore tried to revise Iran's foreign policy in 1989, Bonyad-e 15th Khordad announced that they would increase the reward for the assassination of Salman Rushdie in an effort to prevent a possible convergence with the West.⁷³ Moreover, their unaccountable and non-transparent structures turned these organizations into, with the words of Kamrava and Hassan-Yari, states within states.⁷⁴ In fact, in some occasions these organizations try to become the state itself, as the current custodian and chairman of Imam Reza Shrine, Ebrahim Raisi, was the conservative candidate in 2017 presidential elections.⁷⁵

68 Raket, *Power, Islam and Political Elite in Iran*, p.39

69 Harris, "Politics of Welfare After Revolution and War", p.146

70 Ibid. p. 140

71 Klebnikov, "Millionaire Mullahs"

72 Saeidi, "The Accountability of Para-Governmental Organizations", p.494

73 Ibid. p.495

74 Kamrava and Hassan-Yari, "Suspended Equilibrium in Iran's Political System", p.496

75 Arash Karami, "Conservative presidential candidate paints bleak picture of Iran", *Al Monitor*, April 14, 2017

The Impact of Bonyads and IRGC on the Internationalization of Iranian Economy

Contrary to the dominant discourse that Iranian economy was under isolation due to the international sanctions, the discussions above have demonstrated that the Islamic Republic has been integrated into the global economy under the domination of its para-governmental organizations. It is also generally claimed that these groups are against the integration of Iran into the global economy⁷⁶ and they are uncompetitive outside the protected domestic market.⁷⁷ However, the para-governmental organizations themselves have been internationalized since 1990s.

Moreover, the legal structures in Iran enforce the foreign investors to find a local partner. Therefore, international capitalists investing in Iran have to merge with the companies controlled by the para-governmental organizations since their affiliated companies control the domestic economy. Unless this domination or the privileged position within the political and economic structure is challenged, internationalization of Iranian economy serves to the interest of the para-governmental organizations. For example, the Head of the Astan Quds Razavi, Ebrahim Raisi, during his presidential campaign stated his support to the nuclear deal, but criticized its failure to end Iran's economic recession.⁷⁸ In this sense, para-governmental organizations support internationalization of Iranian economy as they are benefiting from it.

However, the existing political structures are vital for the accumulation strategies of these organizations. Therefore, they try to integrate into the global economy by keeping the political and economic structures of the Islamic Republic intact. This is the most crucial impact of the para-governmental organizations on the internationalization of Iranian economy. The efforts of these organizations to keep the Iranian political structures intact in the process of internationalization resulted in the integration of Iran into the global economy in a specific way. In this sense, the end of sanctions has not created the expected results, such as increase in the foreign investments, as Iranian economy cannot maintain the necessary liberalizations that may attract foreign capital. In fact, international capitalists demand nondiscriminatory policies, privatizations, independent monetary policies etc. However, such economic policies inevitably challenge the privileged political status of the para-governmental organizations and their access to the tax exemptions, subsidized loans and foreign currency. Therefore, they oppose any structural transformation of the Iranian economic and political structures or manipulate any such efforts. For example, they were able to manipulate the liberalization

76 Wehrey et al, *The Rise of the Pasdaran*, p.70-71

77 Harris, "*The Rise of the Subcontractor State*", p.64

78 Ali Hashem, "Iran's dark horse candidate for president", *Al Monitor*, May 10, 2017

efforts through privatizations by reallocating the capital from the hands of the state to the para-governmental organizations, instead of private investors. In this sense, their dominant position creates a structural trap that prevents infusion of foreign capital to Iran with the end of sanctions. This dominance also, together with the ability to prevent any structural transformation, generated the contradiction between Western neoliberal policies and Iranian form of internationalization.

Conclusion

The role of its para-governmental organizations in the international political economy of Iran appears to be persistent in the near future. Islamic regime's dependency on the resources of para-governmental organizations creates a political protection to these organizations as any structural transformation within the political and the economic system that may damage the accumulation strategies of the para-governmental organizations are prevented by the mechanisms of the fragmented state structure of Iran. Close political connections with the office of Velayet-i Faqih make this strongest institution of the political system as the protector of para-governmental organizations. For example, Rafsanjani and Khatami's liberalization efforts towards a more transparent and accountable economic system was challenging the interest of this fraction and therefore has never been put into practice.

In short, this dependent relationship between the Islamic regime and the para-governmental organizations and their upper hand in the political and economic structures of state has integrated Iran into the global economy under the control of these organizations. Therefore, the end of sanctions has not met the expectation of the masses in Iran as the form of Islamic Republic's integration into the global economy is still shaped by these organizations. This is not to say that integration into the global economy with a restructuring of the Iranian economy and political institutions may solve the economic predicament of the country. Instead, it is argued that the lack of foreign capital was not a consequence of the sanctions, and therefore expecting any change in the economy with the Joint Comprehensive Plan of Action was over optimistic.

The main roots of the economic discontent are rested in the economic structure of the Iranian economy that hands over the resources of the country to these Islamic Organizations. Para-governmental organizations, instead of serving to the economic well-being of the Iranian population, are functioning for crony capitalist relations and serving to the economic interest of a limited group with nepotism or a limited political faith with Islamic policies. Therefore, they prevent any structural transformation that may diversify and restructure the economy in a way that may solve the economic malfunction and discontent in Iran.

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