

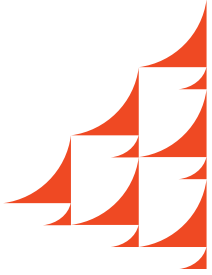


The Arab Gulf States  
Institute in Washington  
Building bridges of understanding



## Iran's Revolutionary Guards: Four Decades of Expanded Business and Military Influence

Sara Bazoobandi



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## Executive Summary

The Islamic Revolutionary Guard Corps was created in 1979, and it has grown to be the most powerful segment of the ruling establishment. The role of the organization in Iran's political, security, and economic structures has been debated extensively for decades. The IRGC has expanded its activities inside and outside of Iran through a set of costly strategies that are made autonomously from those of the rest of the Islamic Republic. And the senior leadership of the organization functions completely independently from the rest of the government. This independence has been achieved by expanding economic activities and maintaining strong links with the supreme leader to gain his constant support. This paper explores two main aspects of the rise of the IRGC: how the organization has advanced its position in Iran, and how it will be affected if the current economic pressure on Iran is sustained.

## Introduction: Business of the Islamic Revolution

The Islamic Revolutionary Guard Corps was created in 1979 by the founder of the Islamic Republic of Iran, Ayatollah Ruhollah Khomeini, and it has grown to be the most powerful segment of the ruling establishment. The role of the organization in Iran's political, security, and economic structures has been debated extensively for decades. This paper explores two main aspects of the rise of the IRGC: how the organization has advanced its position in Iran, and how it will be affected if the current economic pressure on Iran is sustained.

The IRGC is one of the Islamic Republic's oldest organizations, created during the early years of the revolution. At the time, the revolutionary ethos in Iran, referred to as "hezbollahi" (the party of God) ideology, dominated every aspect of political and social structures. It had three core elements: preserving a strong anti-Western sentiment; maintaining unconditional support for all the government's strategies (including violent and suppressive domestic policies); and promoting public displays of religious practice, including a conservative dress code and group prayers. It quickly became understood that citizens' loyalty to the establishment was correlated with compliance to the ideology. Compliance was rewarded by the establishment and noncompliance was responded to with heavy-handed persecution. The Islamic Republic required a supervising body to monitor and test citizens' loyalty to the regime. It also required an organization to punish the disloyal. The IRGC was created, therefore, to be the ideology monitoring and implementing machine of the establishment.

The IRGC was armed and permitted to use violence, if necessary. Its mandate was to implement the hezbollahi ideology across the country, serve as the trusted army of the Islamic Revolution (and counter the army if there were to be a military coup), and join the war effort to defend Iran during the war with Iraq.

On top of the strong security and military role the IRGC initially played, it began pursuing political and economic interests as well. Over the past two decades, the IRGC's function in Iran's political system has become more obvious. Increasing numbers of former IRGC members have been appointed to senior political positions in Parliament, the Cabinet, or as mayors of

large cities.<sup>1</sup> Additionally, the IRGC has been involved in meddling in elections in Iran,<sup>2</sup> and, since 2005, it has been directly supporting presidential candidates.<sup>3</sup> Four decades after it was founded, the IRGC functions like a complex business conglomerate with strong military and intelligence capabilities, with the mobilization capacity of a political party.

The IRGC is seemingly the closest ally of the supreme leader. The supreme leader appoints the senior ranks directly, and they receive his constant support and endorsement. As a result, the senior ranks are treated with a high degree of favoritism and are exempt from government monitoring mechanisms.

The IRGC has expanded its activities outside of Iran. Its expansionist strategies have been costly and have required a decision-making process that is autonomous from that of the rest of the Islamic Republic. The senior commanders in charge of IRGC operations outside of Iran function completely independently from government entities such as the Ministry of Foreign Affairs and the army. This independence has been achieved by expanding economic activities and maintaining strong links with the supreme leader to gain his constant support.

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To achieve financial independence and political power, the IRGC has created a network of relationships through which various benefits are distributed by the IRGC to its clients (e.g., ordinary citizens, current or former politicians, and members of the business community) in exchange for loyalty and support. The function of such networks has deepened the level of corruption across multiple segments of Iran's political and economic structures. The IRGC operates above the law and actively pursues illicit means to obtain resources to maximize its capacity for distributing gifts to constituents. Deep-rooted and widespread corruption has also allowed the IRGC's senior leadership to benefit individually. Bribery, fraudulent financial transactions, preferential business or building permits, discounted property prices, and tax exemptions are among the long list of methods that have been used by the IRGC leadership to advance personal and institutional gain. In a series of transactional relationships, the IRGC provides security for the establishment in exchange for political and economic power.

## The Supreme Leader: A Broker for the IRGC

The current supreme leader is Ayatollah Ali Khamenei. However, in the Islamic Republic's political structure, the "supreme leader" embraces more than just Khamenei, serving as an institution that carries a great deal of economic and political power. It includes a large group of Khamenei's trusted allies and advisors.

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<sup>1</sup> Mehrzad Boroujerdi and Kourosh Rahimkhani, "Revolutionary Guards Soar in Parliament," *United States Institute of Peace*, September 19, 2011.

<sup>2</sup> Ahmad Majidyar, "Latest Crackdown in Iran Points to I.R.G.C.'s Meddling in Elections," *Middle East Institute*, March 20, 2017.

<sup>3</sup> Babak Dehghanpisheh, "Rouhani Warns Revolutionary Guards Not to Meddle in Iran Election," *Reuters*, May 17, 2017.

Over the past decades, the relationship between the IRGC and Khamenei has become a matter of public discussion. Iran's constitution defines the role of the supreme leader as the commander in chief of the armed forces (army, police, and IRGC) and the person in charge of resolving issues or disagreements among the legislature, administration, and judiciary.<sup>4</sup>

Not only has the supreme leader's support facilitated the IRGC's pursuit of domestic and regional strategies to increase political, military, and economic clout, but it has also provided the organization with a considerable degree of immunity from public scrutiny. Over the past years, a number of financial and other scandals by senior and middle-ranking political figures have been emerging and widely covered by social media, and in some cases, local newspapers and state-owned television channels. However, media coverage of such scandals is always the result of political infighting within the establishment rather than independent journalism and freedom of speech. Local and state-owned media outlets have been strictly prohibited from disclosing or discussing IRGC scandals. This strict protection of IRGC leaders and their public reputation is an indication of the organization's domestic power and the supreme leader's support.

Further, the IRGC's business entities have benefited from various economic privileges, including exemption from economic and financial regulations, particularly those related to tax payments. Although IRGC business entities operate independently from those owned by the government, and often compete with the private sector, they do not comply with the government's tax regulations. As a result, they have been put under a spotlight for their tax evasion. Criticism over IRGC entities' tax evasion has grown significantly during the economic sanctions, and senior politicians, including members of parliament and President Hassan Rouhani himself, have publicly criticized IRGC-affiliated organizations<sup>5</sup> for their lack of compliance with tax regulations.

Moreover, the IRGC's role in privatization of public companies in Iran (e.g., the Telecommunication Company of Iran) has been controversial. The administration of former President Mahmoud Ahmadinejad began privatizing some state-owned companies. The IRGC crowded out genuine private sector investors and took over some public companies by bypassing privatization regulations and manipulating the process. The IRGC's business entities have received the support of Khamenei during this process.<sup>6</sup> In March 2011, Commander General Mohammad Reza Yazdi, who was the deputy commander of the IRGC in legal and parliamentary affairs, told a local news agency that all the IRGC economic activities are in accordance with a guideline that has the stamp of approval of the supreme leader.<sup>7</sup>

Rouhani has addressed the country on various occasions and shared his administration's plans to clamp down on tax avoidance by some organizations with strong ties to the state that have replaced the "real private sector" in the country's privatization program.<sup>8</sup> In his

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4 "رهبری از نگاه قانون," Website of the Supreme Leader, March 21, 1984.

5 "Khamenei Reportedly Gives Tax-Exempt Status to Entities Under His Control," *Radio Farda*, November 11, 2018.

6 "Iran Seeks to Step Up Privatisation Programme," *The Economist*, September 2016.

7 "فعالیت های اقتصادی سپاه بر اساس دستورالعمل رهبری," *Entekhab*, March 24, 2011.

8 "روحانی: سپاه رقیب مردم و بخش خصوصی نیست," *Deutsche Welle*, September 16, 2013.

statements, Rouhani often avoids mentioning the IRGC directly, perhaps a sign of his lack of power in direct confrontation with the organization. In practice, the administration has failed to control such economic activities.

In exchange for the support of the supreme leader, the IRGC seems to have become a personal security guarantor for Khamenei. The supreme leader stands above the judicial, executive, and legislative powers in Iran. The IRGC is the only entity in Iran that has Khamenei's trust and the adequate capacity to assist him in maintaining his position.

## An Army of Business Leaders

The IRGC's economic activities extend across sectors such as housing development, infrastructure, construction, food processing, transportation, retail, media and entertainment, and oil and gas. There are limited public details available on the IRGC's business activities. Some estimates show that the organization's network of companies could be valued at around \$100 billion.<sup>9</sup> The most well-known companies in the business network of the IRGC are the oil tanker building business Sadra; the large construction company Shahid Rajaei Group; the major telecommunication company Etemad Mobin; and the local bank Ansar.<sup>10</sup> Khatam al-Anbia, the IRGC's construction arm, is believed to be Iran's largest company.<sup>11</sup> The network of the IRGC's businesses goes beyond what is officially known to be owned by the organization and includes front companies that are used to protect its business interests from international scrutiny caused by economic sanctions.

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The International Monetary Fund reported that between 1988 and 2000 in developing countries (including Iran), the informal or shadow economy formed about 35% to 44% of official gross domestic product.<sup>12</sup> There is no accurate estimate of the IRGC's recent economic activities in Iran. However, the economic activities of IRGC affiliate organizations have increased over the past two decades. Even assuming the IRGC's share in Iran's GDP has remained unchanged over the past two decades, according to IMF figures, the IRGC is responsible for half of Iran's economic activities. The organization had up to 40 megaprojects in 2018<sup>13</sup> and most of the contracts were awarded by the government without any bids from competitors.

The IRGC also controls various trading points in Iran, allowing its subsidiaries to import and export freely via land, air, and sea. Low insurance, shipping, and banking costs enable the IRGC subsidiaries to import equipment and technology easier and at a reduced rate

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<sup>9</sup> Najmeh Bozorgmehr, "Iran Cracks Down on Revolutionary Guards Business Network," *Financial Times*, September 14, 2017.

<sup>10</sup> Ibid.

<sup>11</sup> Parisa Hafezi and Louis Charbonneau, "Iranian Nuclear Deal Set to Make Hardline Revolutionary Guards Richer," *Reuters*, July 6, 2015.

<sup>12</sup> Friedrich Schneider and Dominik Enste, *Hiding in the Shadows: The Growth of the Underground Economy* (Washington, DC: International Monetary Fund, March 2002).

<sup>13</sup> Ahmad Majidiyar, "IRGC's Role in Iran's Economy Growing with Its Engineering Arm Set to Execute 40 Mega-Projects," *Middle East Institute*, May 7, 2018.



in comparison with their competitors. The former head of Iran's organization for fighting smuggling, Mohammad Bagher Ghalibaf, claimed it found proof of smuggling in about half of Iranian customs offices.<sup>14</sup>

Despite the heavy support of Khamenei for the IRGC, both Rouhani and his predecessor, Ahmadinejad,<sup>15</sup> have made various public remarks expressing their concerns, and to some extent frustration, over the IRGC's illegal trade and smuggling. In 2011, Ahmadinejad referred to the IRGC as "smuggler brother."<sup>16</sup> In 2018, Rouhani said: "the IRGC is in control of the country's southern borders to control smuggling, but they catch only one out of 10 cases of smuggling and the rest slips through their hands."<sup>17</sup> The IRGC activities have often become a source of tension between the government and the supreme leader, who pressures the government to make decisions that favor the IRGC. The issue of uncontrolled ports and illegal trade has been widely debated in Iran. However, the government has failed to address this issue.

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IRGC-affiliated business entities have an inherent advantage over their competitors, in the public and private sector, as they directly benefit from the military and political clout of the organization that is under the supreme leader's constant protection. Policies such as easing regulatory restrictions, unregulated trade activities, and reducing the cost of capital or providing favorable credit regulations have helped the IRGC to dwarf competitors and strengthen its economic empire. IRGC businesses have overcome institutional limitations in commercial and financial markets and crowded out other economic players, including state-owned and private competitors. By using political and military power, the IRGC leadership undermines other government bodies as well, such as ministries, the Parliament, and the central bank.

## Eliminating Competitors

The mixture of political, defense, and business interests of the IRGC combined with the blanket exemption from the law and unlimited protection for corruption has allowed the IRGC to eliminate competitors and often monopolize certain economic activities. The IRGC's leadership has applied numerous methods to put pressure on various sections of the establishment to maintain and expand its economic power. These methods highlight the way in which business is done in Iran and often are the root causes of economic inefficiency. Only a few projects, negotiations, and disputes are covered by the media, two of which are discussed here as examples of the IRGC's strategies to eliminate competitors.

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<sup>14</sup> "سپاه از هر ده قاچاق یکی را می‌گیرد؛ روایت حسن روحانی از ناتوانی سپاه پاسداران در مبارزه با قاچاق" VOA, March 7, 2019.

<sup>15</sup> Saeed Ghasseminejad, "How Iran's Mafia-Like Revolutionary Guard Rules the Country's Black Market," *Business Insider*, December 10, 2015.

<sup>16</sup> "احمدی نژاد: شماری از نهادها از معیار و اسکله های غیرقانونی کلاه وارد می کنند" *Radio Farda*, July 2, 2011.

<sup>17</sup> "سپاه از هر ده قاچاق یکی را می‌گیرد؛ روایت حسن روحانی از ناتوانی سپاه پاسداران در مبارزه با قاچاق" VOA, March 7, 2019.

In 2004, Imam Khomeini Airport was shut down just a few hours after it was first opened. The minister of roads and transportation was attending the opening ceremony of the airport when IRGC forces closed the runways with their vehicles and shut down the computer systems. The first scheduled flight to arrive at the airport, from Dubai, rerouted to land in Isfahan. The IRGC announced that the airport would remain closed due to security concerns.<sup>18</sup> A Turkish-Austrian consortium, TAV Airports, had won the contract to operate the newly built airport, but the IRGC did not give its stamp of approval for a foreign company, allegedly with links to Israel,<sup>19</sup> to run the project.<sup>20</sup> TAV Airports was forced to withdraw its offer and the project was given to IRGC affiliates without a new tender and pricing competition, preventing competitors from submitting bids.

In 2016, a South Korean company, SK Group, along with a Turkish company, Unit International, won the tender for a contract with Iran's Ministry of Energy to build five power plants in Iran. The \$3 billion project prompted a great deal of controversy.<sup>21</sup> MAPNA Group, an IRGC affiliate company, with experience in this sector, was not given any share of the project. This was partly due to the reputation of the IRGC companies in the construction sector. IRGC affiliates are known to be less reliable in delivering projects on time and at the agreed cost in comparison with their foreign counterparts. The General

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Inspection Authority investigated the terms of the contract to ensure a fair and transparent tender and contract process. After the conclusion of the investigation, the Ministry of Energy was required to reduce the project's size (to allow domestic competitors in the next phases of the project). Shortly after that, Unit International signed a \$7 billion contract with Zarubezhneft, a Russian state-owned oil company, and Ghadir Holdings, an IRGC affiliate company in the oil and gas sector, to extract oil and gas in Iran. The contract was to explore and extract oil from a field (total size of the field: 10 billion barrels) with production at 100,000 barrels per day. In addition, the contract included extracting 78 billion cubic meters of natural gas per year.<sup>22</sup> After the inclusion of an IRGC affiliate company in this project, the Ministry of Energy was allowed to proceed with signing the contract for the power plant construction project with the consortium led by SK Group.<sup>23</sup> Although the two projects (oil and gas extraction and power plant construction) are handled completely separately, they highlight a trend in the IRGC business strategy – creating obstacles for the Ministry of Energy by claiming an unfair tender process in order to win profitable oil and gas extraction projects. According to numerous individuals with experience working for IRGC business entities or their competitors, particularly those in the construction sector, senior IRGC policymakers often use contracts and incomplete projects as a bargaining chip in negotiating existing or new contracts.

18 "گزارش تکمیلی فرودگاه بین المللی امام (ره) چند ساعت پس از بهره برداری تعطیل شد" ISNA, September 10, 2005.

19 Julian Borger and Robert Tait, "The Financial Power of the Revolutionary Guards," *The Guardian*, February 15, 2010.

20 "Iran to Compensate Turkey's TAV," *Reuters*, March 10, 2008.

21 با مشارکت ترکیه و کره جنوبی صورت می گیرد؛ "Tahlile Iran, March 18, 2017; "ساخت بزرگترین مجموعه نیروگاهی برق خاورمیانه در ایران" *Shoma News*, March 18, 2017.

22 "حضور مجدد یونیت اینترنشنال در ایران با قرارداد نفتی ۷ میلیارد دلاری" *Moqavemati News*, August 17, 2017.

23 "قره خانی در گفتگو با خانه ملت: ابهامات اساسی در قرارداد وزارت نیرو و یونیت اینترنشنال" *Islamic Consultative Assembly News Agency*, September 6, 2017.

In these two cases, the IRGC pressured various government organizations to either completely exclude the competitor (as in the case of Imam Khomeini Airport) or allow a competitor to conduct its business (as in the case of power plant construction) after gaining a share in another profitable government project.

Another common practice by the IRGC to crowd out competitors is to offer the lowest bid, win at the tender stage of a project, and then increase the price during the construction phase, according to employees of the IRGC's competitor companies. IRGC business managers also commonly bribe and intimidate key decision makers. According to employees of competitor construction companies, senior IRGC officials attend business meetings with their weapons and bodyguards to highlight their military power in business negotiations.

## Creating a New Elite

Since 2005, the IRGC has formed a new business elite in Iran. Various segments of the IRGC's business network have been using front companies that are managed by young Iranians (mostly men from an underprivileged background). These companies are provided with unique access to specific aspects of the IRGC's economic activities in order to protect the identities of the real stakeholders. In exchange, they are offered quick and generous access to financial resources. According to an exiled business owner who had closely cooperated with some IRGC entities for several years in Iran, an increasing number of Iranian dual nationals are recruited to run the front businesses and in various cases individuals have changed their names to provide another degree of protection for the economic activities of the main stakeholders. Another businessman, who formerly conducted business with the IRGC, shared stories about individuals who have been transporting precious stones worth millions of dollars in and out of the country for the IRGC. Recruiting individuals, often with no previous links to the establishment, to form a new business elite has become a key strategy for the IRGC under tightened sanctions.

In some sectors, the IRGC has employed small, less-known companies as contractors for their projects, particularly in the telecommunication sector. This has also expanded the network of the IRGC-linked business elite in Iran. In the current economic climate of Iran, with high unemployment and low job security, IRGC contractors are becoming increasingly attractive for the labor force. According to an employee of one of the largest IRGC contractors in the telecommunication sector:

The most important (and positive) point about working for such companies is that they offer job security and prospect of promotion. This is because they have good links with the IRGC, which operates independently. Therefore, changes in the government do not lead to loss of projects and redundancies. There is also a negative side to this. These companies are rather chaotic and disorganized in general. It is because they grow rapidly through personal links of their managers with senior IRGC commanders without properly building their business capacities. Their pay scale is also lower than the competitors'.

The model of the new business elite of the IRGC, who benefit from the clientelist model of distributing resources, is ideal for both sides. In this model, the IRGC's companies carry out their economic operations, even under tightened sanctions, and the business elite receive financial gifts for their services for the organization. The clientelist relations formed around

the IRGC as a patron have remained unchanged for several decades, but the new business elite are significantly different than the traditional supporters of the IRGC. In the new networks, compliance with hezbollahi ideology is no longer a prerequisite for collaboration with the IRGC. The new business elite do not adhere to the conservative dress code or participate in religious ceremonies. On the contrary, most of the young associates of the IRGC maintain a cosmopolitan lifestyle, travel freely, and have a taste for luxury.

## Sanctions, Nuclear Deal, and the Way Forward

Prior to the lifting of sanctions following negotiation of the Joint Comprehensive Plan of Action, while the rest of the Iranian economy was suffering, the IRGC benefited considerably. Most of the contracts that were previously given to foreign companies were reallocated and IRGC affiliates won many of the projects. After the JCPOA was signed, the IRGC leadership frequently expressed its disapproval of the nuclear deal. This was in part because it interrupted the economic opportunities that the sanctions provided for the IRGC. An open market that welcomes foreign investors and global competitors is an existential threat for the IRGC's economic empire.

The U.S. withdrawal from the JCPOA in 2018 has had negative consequences for all sectors of the Iranian economy. IRGC affiliates' international activities in bypassing the sanctions have declined, in particular since the U.S. government designated the IRGC a terrorist organization. Unofficial trade and smuggling, particularly in bypassing oil sanctions, which formed a substantial part of the IRGC's economic activities, has also been targeted.<sup>24</sup> Escalation of tensions with the United States has increased<sup>25</sup> the risk of confrontation with Iran. This seems to have shifted the leadership's focus toward utilizing the military power of the IRGC. Since the U.S. withdrawal from the JCPOA, the IRGC has been focusing on gaining more military power to offset some of the financial losses caused by intensified sanctions. Although the pressure of the sanctions has affected the business activities of the IRGC, the organization will likely have sufficient financial buffer, provided from a combination of its own assets and those of the government, to carry out its military and intelligence operations.

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The most recent round of sanctions seems to have prompted a heavy-handed campaign by the IRGC toward domestic security issues. For decades, the establishment has used an unclear definition of "national security" to suppress dissidents. The intelligence arm of the IRGC has frequently arrested, imprisoned, tortured, and even executed individuals without transparent legal processes. In opaque trials, IRGC prosecutors use vague or spurious allegations to charge and imprison individuals (without access to lawyers) for espionage and cooperation with rivals or even more opaque allegations like threatening national security and acting against the will of God.

<sup>24</sup> "تحریم شبکه نفتی و پاداش ۱۵ میلیونی برای افشای چرخه مالی سپاه" *Deutsche Welle*, September 4, 2019.

<sup>25</sup> "Iran Asks West to Leave Persian Gulf as Tensions Heightened," *CNBC*, September 22, 2019.

The recent economic sanctions have also incited major reshuffling of the IRGC's senior leadership. The supreme leader appointed a new IRGC commander, Brigadier General Hossein Salami, from an IRGC pool of commanders that seem to be the last of the Iran-Iraq War veterans.<sup>26</sup> Salami has made a lot of new appointments of middle-ranking commanders. Some top-level positions have also been reshuffled directly by Khamenei – for example, Ali Fadavi, the acting commander of the IRGC, and Mohammad Reza Naqdi, the IRGC's coordinating commander.<sup>27</sup>

## Conclusion

Over the past four decades, the IRGC has expanded its capabilities and its realm of influence significantly. It has established itself as the only organization, other than the Iranian government itself, with a track record of handling a combination of political, economic, and military activities at the same time. Additionally, pressure from economic sanctions has not slowed down the IRGC's multilayered activities (i.e., military, economic, and political). Corruption, nepotism, evaporation of assets, and distribution of wealth through the “new elite” have continued, and perhaps increased, despite the elevated economic pressure. Sanctions have limited the official economic activities in Iran (e.g., oil exports, bank transactions, and non-oil trade) and have created an environment in which the IRGC's activities for bypassing the sanctions have strengthened the role of the organization in the Iranian economy.

The IRGC has expanded its power across the region and invested heavily in its regional alliances. Iraqi Popular Mobilization Forces and Lebanese Hezbollah forces alongside IRGC forces provided emergency help in Iranian cities (mainly in the south) that were affected by floods in March. The residents of flooded cities criticized the poor and delayed government response to the affected areas. These interventions by the IRGC along with Iraqi and Lebanese forces were widely perceived by the public as a demonstration of power, independent from that of the government.

Over the past years, multiple scandals have surfaced that confirm the IRGC's elite have been using government financial resources (including those controlled by the IRGC's business entities) as their private wealth and siphoning millions of dollars to their personal accounts (including those of their family members) inside and outside of Iran. Such trends confirm that despite preparations for various scenarios, the fear of political instability has motivated the elite to move financial resources outside of the country, in case they must make an emergency departure from Iran.

All in all, the IRGC's economic, political, and military strategies indicate that, over four decades, the organization has expanded its realm of influence in a way in which: the stability of the establishment and longevity of the IRGC are interlinked; the organization is not prepared for a peaceful transition of power in the future; and when civil unrest erupts, violent responses by IRGC forces are predictable.

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<sup>26</sup> Morad Veisi, “The Appointment of New IRGC Commanders Shows the Concerns of Iran's Ruling Clerics,” *Radio Farda*, May 18, 2019.

<sup>27</sup> “Iran Guards Deny Reports of Several Commanders Fleeing or Arrested,” *Radio Farda*, June 11, 2019.

