The Structure of Corruption in Iran

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Iran is currently in the midst of its deepest economic and legitimacy crisis since the inception of the Islamic Republic about four decades ago. At the root of these twin crises is a long period of political decay [1] which has slowly but consistently eroded all three institutions that constitute modern governance: namely the state, rule of law, and accountability [2]. Political decay occurs when governmental institutions which were created in the past under different circumstances fail to adjust to underlying changes in the society and economy [2]. Corruption is known to accelerate political decay by distorting resource allocation and incentivizing powerful players to block reforms to protect their vested interests. **Figure 1** demonstrates the mechanism by which corruption and political decay have formed a vicious cycle in Iran. The aim of this short paper is to describe the structure and extent of corruption in Iran and discuss its dominant types and manifestations in recent years.

According to the World Bank and Transparency International [3,4], Iran consistently ranks among the top third of countries for having the highest perception of corruption (**Figure 2**). Indeed, Iran's latest rank in the Transparency International's corruption perception index is somewhere between Russia and Iraq and much worse than China and India, which are themselves notorious for having high levels of corruption. Yet, the picture depicted by these agencies likely understates the spread of corruption in Iran given the harsh repression of the media and civil society which are essential elements in identification of corrupt activities. (According to Freedom House, Iran ranks near the bottom 10% of the countries in terms of political freedom and civil liberty [5].) Therefore, it seems logical to assume that by lifting pressure on the media and civil society, not only will the number of corruption scandals in Iran rise drastically but also Iran's position in terms of corruption perception relative to other countries will further deteriorate and could even become on par with countries such as Afghanistan and Somalia. In fact, it is an established practice in the Iranian judiciary to punish the whistleblowers and journalists who reveal cases of corruption rather than the officials who committed the corrupt actions. In any case, regardless of where Iran stands on the global corruption ladder, it is certain that the corruption in Iran has become systemic; that is, corruption is deeply embedded in political and administrative systems and can no longer be attributed only to the rogue behavior of a limited number of bureaucrats.
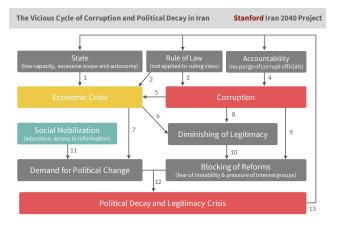

Figure 1. The vicious cycle of corruption and political decay. See references [1,2] for detailed discussion about the framework.

Corruption is broadly defined as the use of public office for direct or indirect personal gain. Rent seeking, which is a different concept from corruption, but closely related to it, is when a person gains added wealth without increasing productivity or benefiting the society. Corrupt governments can distribute rents to their patronage networks by creating artificial scarcity and semi-monopoly markets. Although there is a vast body of literature on corruption, there is still no universally accepted framework and vocabulary to describe various forms of corruption [6]. Here, in order to discuss the structure of corruption in Iran, I categorize corrupt actions into the following major groups while acknowledging that, in some cases, there could be some degree of overlap among them: (I) political corruption, (II) administrative corruption, (III) corruption that involves parties from the nongovernmental sector, (IV) favoritism, and (V) coercive corruption. A list of specific corrupt actions that fall into each of these categories along with a few examples for each type are provided in **Figure 3**.

Among the above five broad groups of corruption that are today prevalent in Iran, political corruption—which is also referred to as "grand corruption" or "state capture" [7]—is by far the most consequential type. Political corruption in Iran entails a wide array of activities including clientelism, patronage appointments, corruption in elections, smuggling and money laundering by the state, and manipulation of statistics.

Since its early days, clientelism has been embedded in the political machinery of the Islamic Republic in a number of different ways, but all with a common denominator of distributing goods and jobs in exchange for political
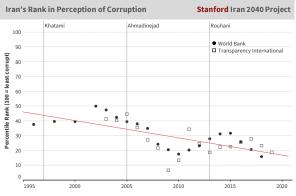
Figure 2. Iran's percentile rank in perception of corruption (100 = least corrupt country).

support through hierarchical organizations which can in turn mobilize people. Examples of such organizations include the Basij, pro-poor bonyads (e.g., Mostazafan Foundation, Imam Khomeini Relief Committee), and the Islamic Advertisement Organization. The task of monitoring the client side of the contract to ensure their loyalty to the regime is performed by Jihadi-type, highly autonomous local institutions such as *Herasat*, which carry the DNA of the Islamic Republic at a micro-level. Although clientelism is among the chief reasons why Iran has been stuck in a low equilibrium for so long, it can also be viewed as an initial phase of transition to democratic accountability.

Patronage appointments are the second type of political corruption in Iran. In fact, virtually all high-level public officials are appointed to office by top political leaders based on patronage relationships with little or no regard for the appointee's qualifications for the job. In return for the favor, patronage appointees show political loyalty and pay lip service toward the patron. Some examples of patronage in Iran include appointments made by the supreme leader (e.g., military commanders and heads of state media and bonyads, cities' Imams of Friday Prayer, and members of Expediency Discernment Council) and by the president or his appointees (e.g., ministers, provincial governors, ambassadors, and heads of the central bank, public banks, pension funds, and universities). Besides unmeritocratic recruitment of rank-and-file bureaucrats, patronage appointments are the primary cause of low state capacity in Iran.

For a long time, smuggling of goods from IRGC's exclusive ports and government involvement in drug trafficking have been a source of funds for the state. According to the Basel AML index [8], Iran's financial system tops the world in terms of money-laundering risk. In fact, Iran has committed to address its anti-money laundering regulatory deficiencies since 2016 but has not done anything at the time of this writing. Considering the

insurmountable consequences of FATF counter-measures on Iran's already troubled economy, there is good reason to believe that high officials have significant interest in keeping the status quo and deferring regulatory reforms that can make the financial system more transparent.

In true democracies, elections play an important anti-corruption role by providing a peaceful way for people to purge corrupt officials. In Iran, however, not only would elections not play any such role, they are themselves associated with various forms of corruption, including nontransparent and illegal campaign contributions, inflation of voter turnout, and manipulation of the results. It is also highly likely that the state manipulates sensitive statistics (particularly in difficult times) such as inflation, unemployment, GDP, financial statements of state-owned enterprises, and the number of emigrants, protests casualties, political prisoners, drug addicts, and, more recently, coronavirus deaths.

The second most important group of corrupt activities are those known as administrative (or petty) corruption. Bribery (both with and against the rule), outright theft (e.g., from a government inventory or office supply), embezzlements (e.g., in banks), fraud (e.g. fake university degree), conflicts of interest (officials awarding government contracts to companies in which they have an interest), and influence peddling (public officials facilitating a meeting with political leader in exchange for money or favor) constitute the dominant forms of petty corruption in Iran.

Another type of corruption related to the Islamic Republic is concerned with the professional activities of some among the diaspora community who fail to disclose their ties (or in some cases, official contracts) with the regime. This type of corruption exists among academics, journalists, and lobbyists in the Iranian diaspora community, particularly in the US, UK, and Canada. Depending on their professions, they deliver various forms of favors to the regime such as more favorable media coverage, sugar-coated analysis of the state of economy, and lobbying on behalf of the regime with governments of other countries.

Favoritism based on family (nepotism) or other forms of personal relationships such as friendship is one of the most visible types of corruption in Iran. In fact, the widely used sarcastic terms of "*Agha-zadeh*" and children with "good genes" were invented to refer to the omnipresent nepotism of the Islamic Republic.

Extortion, which is the extraction of bribe from unwilling victims by threat of violence, is a common form of corruption in Iran with greatest prevalence in the police

The most common form of corruption in Iran, widely prevalent in the police, judiciary, customs officers, municipalities, banks, tax administration, insurance companies, procurement offices, sport clubs, and schools.

Politicians keeping *dirt* against each other, not just for direct personal benefit but as a way to create trust and deterrence.

Illegal confiscations of private property including manufacturing companies and real estate by bonyads.
Illegal land grabbing by Oghaf.
Forced bribery of Cultural Police (*gasht-e-ershad*) from women without what they perceive as proper hijab.

Appointing friends and associates from one's city or school to public positions including as one's *consultant* without having required qualifications.

Commonly known in Iran as the issue of "*agha-zadeh-ha*" and those with "*good genes.*"

Systematic distribution of spoils by the regime as a whole or individual politicians, often through a hierarchical organization (e.g. *Basij, bonyads*) to the lower class in exchange for their support.

Appointments of cabinet members and deputies, managers and board of directors of state-owned enterprises and banks, head of the central bank, head of bonyads, military commanders, ambassadors, provincial governors, managers of state-owned media, university professors.

Extensive involvement of both the state and the regime's elite in money laundering through shell and front companies and use of *hawala* networks as evidenced by failure to address AML/CFT deficiencies.

Smuggling of goods through IRGC-owned ports.
Government participation in drug trafficking.

Theft of public land, inventory, office items, and data.
Educational degree fraud including doctoral degrees of many top politicians.
Bureaucratic absenteeism.

Embezzlements of public funds and assets by managers of public and pseudo-public banks, insurance companies, municipalities, aid organizations, and bonyads.

Officials awarding government contracts or allotting resources to companies in which they have financial interests.
Officials receiving actual and in-kind gifts from private sector.
Judiciary's anti-corruption campaign to investigate itself.

Office of the supreme leader selling access to him.
Selling access to high-ranking officials by their family members and associates.

Favorable treatment of regime's elites with subsidized credit and foreign exchange, allocation of limited resources (e.g. natural gas, water, mines), government contracts and grants, import licenses, monopoly or semi-monopoly markets created by high import tariffs, special construction permits, insider information with financial implications, permissions to use of public properties under the control of Oghaf and bonyads, higher education opportunities at top universities, and privatization contracts.

Nontransparent corporate ownership, particularly in Bonyads and other nongovernmental public organizations.
Keeping double books and destroying records.

Movement of high-ranking officials between public and private sectors without a cooling-off period.

Lobbyists: unregistered groups working on behalf of regime.
Academics: undisclosed contracts with Iran's government.
Journalists: undisclosed ties with Iran's government while working in public broadcasting entities of foreign countries.

Listing nonexistent employees to receive government benefits.

Economic: inflation, unemployment, GDP, financial statements of state-owned banks and companies.
Political: protests death tolls, approval rating polls.
Social: coronavirus deaths, drug addicts, emigrants and brain drain.

Individuals: undisclosed and nontransparent campaign contributions.
Public organizations: logistical support, mandatory voting of members.
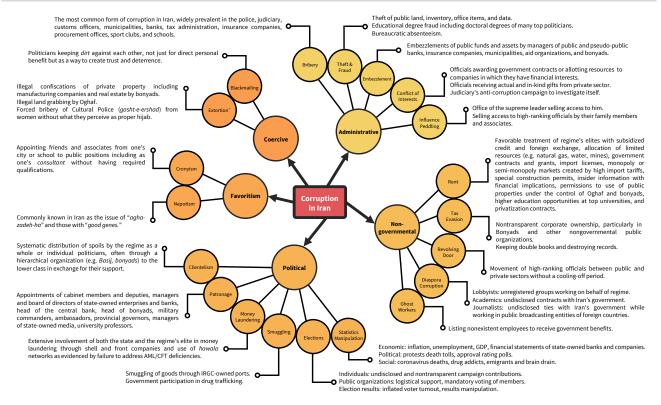Election results: inflated voter turnout, results manipulation.

Figure 3. Common types of corruption in Iran along with some important examples for each type.

and judiciary. For example, it is a fairly routine exercise for the cultural police (*Gasht-e-Ershad*) to ask a young woman who wears what they see as improper hijab to casually pay her "fine" on the spot. Otherwise, she will be held in custody and have to face trial as if she really had committed a crime. Another prevalent form of coercive corruption in Iran is blackmailing, which occurs after politicians and bureaucrats become blackmailable by another act such as receiving bribes. Besides its effects at the level of individuals, blackmailing plays an important role in creating trust among the players in Iran's political landscape, as every politician can blackmail other politicians and be blackmailed by them. This is one of the main reasons why broad coalitions against corruption never take root in the Islamic Republic.

The end of the dynastic times in Iran in 1979 did not lead to a change from a patrimonial to an impersonal state along Weberian lines. Iran's revolutionary regime, similar to its communist counterparts in the Soviet Union and China, have gradually become more corrupt over time, partly due to the lack of a viable democratic way for people to purge the corrupt politicians and partly because more opportunities have become available for ambitious people to get rich by entering into politics and gaming the system rather than entrepreneurship. Combating corruption is a collective action problem and it often takes a crisis to form the broad coalitions that are needed to break the political logjam created by the vested interests of powerful players. Whether the accumulated pressure in Iranian society today will lead to a meaningful change or the crisis will go to *waste* remains to be seen in the future.

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