

## The “IRGC problem”: Iran’s major obstacle to attracting inward investment

*One month on from the US President’s “decertification” of the Iran deal, non-US businesses remain engaged, although sensitive to the growing risks. Chief among them is the IRGC’s opaque and pervasive role in the economy, which is increasingly problematic for foreign companies. The IRGC’s imprisonment of visiting foreign or dual-nationals, like the high-profile case of a British-Iranian mother visiting her family, is also damaging the country’s image among potential investors.*

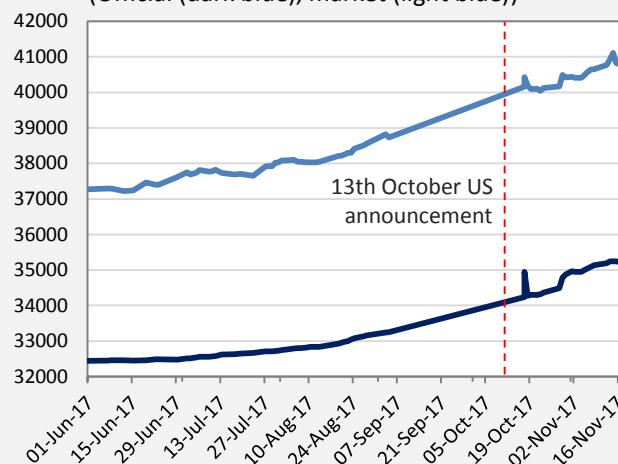
### **Iranian investors are keeping a watchful eye on the US Congress regarding its deliberations on the future of financial**

**sanctions.** The White House’s “decertification” of the JCPOA deal in October granted the US Congress 60 days to consider reimposing financial sanctions; it has passed the halfway point. Reports from Washington suggest little has yet been agreed, with the Republican-led effort apparently struggling to win cross-party support. Six thousand miles away in Tehran, prominent figures in the Iranian administration continue to threaten to tear up the deal themselves and restart the nuclear programme if the US elects to “snap” financial sanctions back into place. The Iranian stock market has continued to rise steadily since President Trump’s October announcement, although the Rial has lost almost 3% in value against the dollar, at the open market rate.

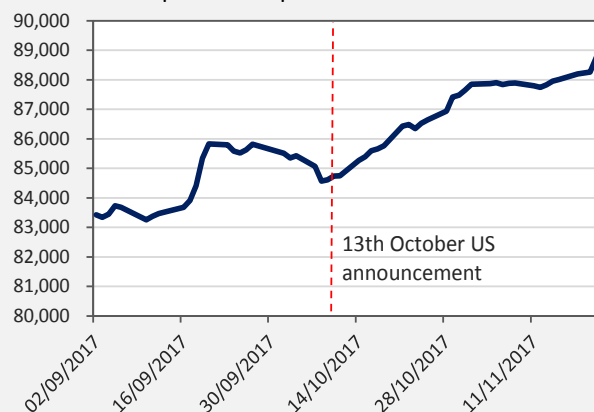
**Meanwhile in Europe, businesses are studying their options.** French oil major, Total, is continuing its US\$1 billion plan to develop phase 11 of the South Pars offshore gas field. But it has opened a new government relations office in Washington DC to try and hedge the risk of derailment. European Aircraft manufacturer, Airbus, remains committed to its supply agreement with Iran Air, but is vulnerable to the approval of a US Treasury licence for continued sales, as its aircrafts include US parts. The EU Commissioner for Agriculture and Rural Development led a 70-strong European business delegation to Tehran this month and reportedly said that regardless of what the US President says, “the EU will continue to encourage [its members] to implement the JCPOA.”

**The Islamic Revolutionary Guards Corps’ role in the economy is**

**Fig 1. Rial to USD exchange rate**  
(Official (dark blue), market (light blue))



**Fig 2. TEDPIX (All Shares) Stock Index**  
01 Sept 2017 to present



**coming under increasing scrutiny.** Its designation as a terrorist organization by the US government last month has underlined for foreign investors the importance of carrying out full and proper due diligence on their Iranian investments. Businesses are asking carefully: who are we dealing with? What is the company ownership? What is in the supply chain? Verity Iran's sources suggest the IRGC's pervasive presence in multiple sectors of the economy is holding investment up and putting many investors off altogether. The solution is, of course, to take the IRGC out of the supply chain, introduce greater competition and liberate the Iranian private sector to engage with international partners, free from association with the military group. This would be damaging to IRGC financial interests but beneficial for the wider Iranian economy.

**More generally, Iran suffers from a negative "image" problem, which is jeopardising the fragile trust that it retains among the non-US international business community.** The Paris-based Financial Action Task Force (FATF) this month urged Iran to act swiftly on the anti-money laundering and anti-terrorist financing measures it has committed to put in place before 31 January 2018. The Rouhani administration struck an agreement with the FATF to be temporarily removed from its "blacklist" in return for cleaning up its financial conduct and complying with international standards. But Iran is at risk of failing to keep its side of the bargain and may see its access to the international financial system closed again if it cannot clean up its act quickly. Again, meeting the conditions could be bad news for IRGC business if it illuminates shady money laundering structures, but it would be beneficial for the wider economy, potentially opening up trade and investment flows.

**The escalating diplomatic crises surrounding Iran's imprisonment of "dual-national" citizens is also bad for business.** The 19-month imprisonment of British-Iranian mother, Mrs Zaghari-Ratcliff, who was visiting family in Iran with her son, has caused a diplomatic storm. She is one of up to thirty foreign nationals currently falsely imprisoned for crimes against the Islamic state, including businessmen from the US, UK, Canada, Austria, Sweden, Netherlands and Lebanon. The treatment of these foreign citizens, often "dual national" visiting entrepreneurs, is regularly cited as a prominent risk factor for the Iranian diaspora and potential investors.

**Hundreds of casualties in the recent, tragic earthquake in Kermanshah Province have been linked to corruption in the construction of government social housing.** Reports suggest that most of the homes destroyed were part of the Mehr Housing Plan, an expensive social housing scheme undertaken by the Ahmadedjinad administration, which produced 1.5 million housing units across the country. The collapse of many Mehr housing units whilst private properties remained standing has symbolised for many the corruption and corner cutting that characterised the project. The use of poor quality materials and a failure to adhere to building standards appear to have led to the tragic death of many Iranian families in this powerful earthquake.

**Fig 3. Brent Crude Oil Futures**

01 Sept 2017 to present

