Introduction

The death of Mahsa Amini in the custody of Iran’s so-called morality police sparked protests that continue to spread across the country, posing the most serious challenge to Tehran’s theocratic dictatorship in years. The demonstrations have focused on opposing the compulsory wearing of the hijab, but Iranians are also venting anger at a regime that has lost legitimacy after decades of political repression, economic mismanagement, and systemic corruption.

Policymakers in the United States are rightly focused on constraining Iran’s nuclear program and state sponsorship of terrorism. Sanctions and other measures targeting the regime’s illicit financial networks tend to reflect these urgent priorities. But Iran’s theocratic regime is also a sprawling, deeply entrenched kleptocracy against which the US should apply more pressure.

This brief examines the prevailing forms of corruption within Iran, the implications for US policy, and how the US can intensify efforts to expose and target the regime’s kleptocracy.

Kleptocracy in Iran

Modern Iran has always struggled with corruption, but its current kleptocracy dates back to the aftermath of the 1979 revolution when the regime expropriated thousands of private businesses and transferred key sectors to state control. By the 1990s, mismanagement of the economy prompted calls for partial privatization. As a result, crony capitalists with close connections to the military acquired state holdings.

Supreme Leader Ayatollah Khamenei sits at the pinnacle of Iran’s kleptocracy. A 2012 Reuters investigation explored his control of Setad, a quasi-governmental organization that amassed wealth through “the systematic seizure of thousands of properties belonging to ordinary Iranians.” At the time, Setad’s holdings were estimated to be worth $95 billion. More recent estimates put the ayatollah’s total assets at $200 billion.

The report found no evidence that Khamenei had personally engaged in illicit self-enrichment, or that he pursued the kind of lavish lifestyle typically associated with “kleptocrats.” Like many other authoritarian systems, Iran’s kleptocracy centers
around strongmen primarily motivated by personal power and (perhaps) ideology, who develop corrupt networks to entrench their regime.

The organizing framework for Iran’s kleptocracy is the vast network of parastatal organizations connected to, and ultimately controlled by, the powerful Islamic Revolutionary Guard Corps (IRGC). These include the huge religious foundations known as bonyads, major financial institutions, companies, cooperatives, and pension funds. Through these myriad organizations, regime insiders and their supporters have opportunities for bribery, embezzlement, fraud, nepotism, and other forms of graft to accumulate wealth and privileges.

While outwardly a branch of Iran’s military, the IRGC has interpreted its constitutionally mandated role broadly enough to work toward, and achieve, a stranglehold over the country’s economy under the guise of supporting infrastructure and other economic development. Its front companies occupy dominant positions not only in defense contracting but also in fields as diverse as construction, oil and gas, and telecommunications. Control of the borders, ports, and airfields has also placed it in charge of Iran’s black market.

Iran’s private sector is therefore mostly a facade for regime control and the enrichment of its supporters. Ordinary Iranians unconnected to the regime through family, military, or political affiliations are effectively locked out of not just the most productive forms of economic activity, but even the most lucrative criminal enterprises.

**The Rich Kids of Tehran**

In Iran, a theocracy purportedly based on Shi’ite Islam, the regime regularly identifies consumerism as a sin and denounces it as a Western vice. But the children of senior regime officials—known as aghazadeh—still flaunt their implausible wealth on Instagram and other social media platforms.

In 2018, Ayatollah Khomenei’s grandson was forced to defend his family’s lifestyle after being photographed wearing designer clothes at an upscale equestrian facility. That same year, however, Khomenei’s granddaughter was identified in London flaunting a $3,800 Dolce & Gabbana handbag.

The son of a former Iranian ambassador became a well-known and hated figure after flooding Instagram with images of himself partying on yachts, driving luxury cars, and dining at fine restaurants. Shortly thereafter, he informed ordinary Iranians that they could “drop dead” if they weren’t as wealthy as him. He was subsequently arrested in Spain on money laundering and illegal gambling charges.

A television drama series exploring the aghazadeh’s privileged existence proved popular during Iran’s COVID-19 lockdown. (Though, given that its funding can be traced to the IRGC, it was more likely a political play than an even-handed treatment of the subject).

More than 60 percent of Iranians live in relative poverty, according to the Islamic Labour Council, with half of them in extreme poverty. Yet the number of high-net-worth individuals in Iran grew by an estimated 21.6 percent in 2020, far exceeding the global average of 6.3 percent. Skyrocketing wealth inequality, and its visible manifestation in the online antics of the aghazadeh, have created a growing backlash against a regime that preaches austerity while indulging its offspring.

**Stealing with Impunity**

The public often learns of corruption scandals only because of underhanded tactics between competing political factions. Otherwise, patronage networks extending down from the supreme leader provide favored regime insiders and their families with opportunities for illicit self-enrichment and protection from potential consequences.
When an illegally constructed 10-story residential building collapsed recently in Abadan, killing 41 people, residents blamed local authorities for failing to enforce building regulations against a favored developer. Despite official claims and a DNA test purporting to prove that he too had died in the rubble, protestors still insisted that his influential backers must have helped him to flee the country. Such is the level of distrust and frustration.

Iran’s leaders frequently acknowledge the existence of pervasive corruption and the harm that it does to the economy. Hardline President Ibrahim Raisi, for example, openly campaigned as an austere anti-graft champion. But, as in most authoritarian regimes, those who make such pronouncements are themselves the products and beneficiaries of a deeply corrupt system. Raisi himself is a former head of the bonyad that serves as custodian of the Imam Reza shrine and oversees a vast business empire that reportedly controlled 7 percent of Iran’s economy in 2007.

In fact, corruption cases are piling up during Raisi’s presidency. In addition to the Abadan building collapse, a high-profile nepotism case at the Ministry of Cooperatives and an attempted $735 million fraud by Agriculture Ministry officials have stoked public anger. These examples have reinforced the perception that Tehran’s elites are only interested in tackling corruption when it involves their political rivals.

Unsurprisingly, Iran’s leaders have also failed to legislate, let alone implement the kind of basic anti-money laundering regulations that would indicate a serious attempt to crack down on corruption. The country consequently languishes on the Financial Action Task Force’s blacklist alongside North Korea.

The Cost of Corruption: Iran’s COVID-19 Response

Estimating how much money kleptocrats have stolen from the Iranian people through four decades is impossible. But the dollar cost of Iran’s kleptocracy surely runs into hundreds of billions. However, the real-world consequences of systemic corruption are easily identifiable; indeed, tens of millions of Iranians experience them every day.

The COVID-19 pandemic created and exacerbated corruption risks worldwide, and Iran was no exception. Tehran’s response—botched by mismanagement and hijacked by profiteers—provides a particularly harrowing example of the suffering that Iran’s kleptocracy causes.

Iran suffered the worst COVID-19 outbreak in the Middle East. Official statistics are unreliable, as the regime did not cooperate with the World Health Organization and instead attempted to cover up the death toll. By the authorities’ admission, 144,000 people died, and 51,000 Iranian children lost at least one parent. Frontline medical professionals have suggested that the figure is at least twice that number.

Many have been quick to blame US sanctions for this situation. Sanctions can complicate the import of medicines and other goods, as banks and suppliers sometimes avoid related transactions out of an abundance of caution. But there are no US sanctions on exporting medicine to Iran, and a special humanitarian channel through Switzerland had been set up for that purpose.

At the height of the pandemic, Iranian Health Minister Saeed Namaki declared, “Although it is hard to fight the coronavirus under sanctions, since the beginning [of the outbreak] we have not faced a shortage of special drugs.” This was a tacit suggestion that other factors were primarily to blame.

In January 2021, Khamenei announced that Tehran would ban US and British vaccines as they were “completely untrustworthy,” drastically reducing the availability of vaccines when they were needed most. But a recent Washington Post investigation exposed how, at the same time, his regime was...
fast-tracking approval for a domestic vaccine produced by a company within the supreme leader’s vast business empire. The firm vastly under-delivered on doses, and the vaccine proved ineffective.\textsuperscript{23}

The shortage of vaccines prompted many wealthy Iranians to travel abroad for inoculation, while others took their chances with the thriving black market for foreign vaccines.\textsuperscript{24} In a country where the average salary is around $200 per month, each shot reportedly cost between $150 and $1,500. At the height of Iran’s outbreak, just 4 percent of the country was vaccinated.\textsuperscript{25}

Masks and other protective equipment were also in suspiciously short supply. In early 2020, officials uncovered a hoard of medical supplies that included 28 million pairs of gloves stashed in a remote warehouse.\textsuperscript{26} The health minister took the unusual step of accusing another government agency of running a “highly complicated network” that “hoards millions of antiviral masks” across Iran. In a letter to then-President Hassan Rouhani, Namaki also complained that his ministry was being forced to purchase masks from “smugglers.”\textsuperscript{27}

Namaki was hardly the first health minister to publicly express frustration with corruption. In 2012, Marzieh Vahid Dastjerdi was fired by then-President Mahmoud Ahmadinejad after she told a television audience that “luxury cars have been imported with subsidized dollars, but I don’t know what happened to the dollars that were supposed to be allocated for importing medicine.”\textsuperscript{28}

So attempts to blame US sanctions for chronic shortages of medicine, food, and other essentials are often misplaced. Iran’s situation is the byproduct of a dangerous regime that has prioritized an illegal nuclear program and the sponsorship of terrorism above the basic needs and aspirations of its own citizens.

Exporting Crime and Corruption

All kleptocracies suffer from corrupt domestic governance, but powerful regimes also export corrupt practices beyond their borders and exacerbate corruption risks in other countries. Iran’s kleptocracy has accordingly shaped Tehran’s foreign policy and interactions with other regimes.

The IRGC uses its bonyads and other entities to fund clandestine military and other influence operations overseas. The public recently learned more about these operations because of a leaked audiotape of two senior IRGC officers discussing a corruption case involving the apparent embezzlement of $2 billion.\textsuperscript{29} The case involved Yas Holding, a subsidiary of the IRGC’s Cooperative Foundation that was reportedly set up to funnel resources for Quds Force operations in Syria. Their discussion implicated senior Iranian officials, including Ayatollah Khamenei and the now-eliminated Qasem Soleimani.

Iran has a strategic interest in undermining good governance throughout the Middle East because corruption vulnerabilities provide opportunities for political interference and illicit revenues. In Iraq, for example, Iran-backed militias are among the most prolific fraudsters and money launderers, fueling the systemic corruption that has destroyed ordinary Iraqis’ trust in political institutions and turned many toward protest and violence.

The militia’s schemes include participation in a massive exchange rate arbitrage fraud that has led to the disappearance of at least $20 billion from public coffers.\textsuperscript{30} Most of this money lined the pockets of local officials and militia leaders, but billions have been funneled to the IRGC and other terrorist organizations. A \textit{New York Times} investigation found that “the fraud was sometimes laughably obvious. In 2017, Iraq officially imported $1.66 billion worth of tomatoes from Iran—more than a thousand times the amount it imported in 2016. . . . These amounts would be ludicrous even if Iraq didn’t grow large amounts of its own tomatoes.”
In Venezuela, Iran has been instrumental in propping up the illegitimate regime of Nicolás Maduro by shipping oil and other supplies to help circumvent US sanctions. This assistance has allowed the regime in Caracas to continue paying off its patronage networks, strengthened its ability to repress an embattled population, and provided a lifeline in the face of crippling international sanctions.

In return, the IRGC and Hezbollah preserved an Iranian ally against the US that might otherwise have transitioned to democracy, and they established an operational beachhead in the Americas. From here they can expand drug trafficking and other criminal measures while conducting military training and operations. In 2021, for example, Iranian operatives reportedly planned to kidnap a US citizen from New York and transport them to Iran via Venezuela.

Policy Recommendations

Iran’s kleptocracy has entrenched a dangerous regime that ruthlessly oppresses its own population while fueling nuclear proliferation and promoting instability across the Middle East and beyond. By engaging in corrupt practices through overseas criminal activities and clandestine military operations, the IRGC and Hezbollah also exacerbate corruption risks and prop up anti-Western regimes in other countries.

Every country experiences corruption to some degree. But Iran’s kleptocracy is so entrenched that the system is incapable of reform, and to remove it Iranians will need to overthrow the regime, dismantle its corrupt networks, and rebuild their government. The United States should partner with the Iranian people in this dangerous and difficult task, not only to demonstrate solidarity with an oppressed population but also to strengthen US national security.

It is true that the US already maintains an expansive Iran sanctions program, including targeted sanctions on prominent individuals and entities. But Washington can do much more to expose and constrain Iran’s kleptocracy.

Do Not Offer Sanctions Relief

Beyond broader debates about Iran’s nuclear program, pursuing a return to the Joint Comprehensive Plan of Action (JCPOA) may necessitate concessions that empower Iran’s kleptocracy. Previously, the Obama administration reportedly derailed Project Cassandra—a Drug Enforcement Administration (DEA)-led task force targeting Hezbollah’s multi-billion-dollar transnational criminal enterprise—to reach the original deal with Tehran.

If granted, sanctions relief would likely involve the release of billions of dollars to Tehran. In addition to providing resources for the nuclear program and state sponsorship of terrorism, these funds could help Tehran intensify internal repression and further entrench the regime’s patronage networks.

Intensify Efforts to Locate and Freeze Regime Assets

The United States already devotes significant resources to developing and enforcing sanctions on Iran. These should increasingly target not only influential members of the regime but also their family members and other close associates. This is because kleptocrats rarely register assets in their own name and because the aghazadeh who benefit from the kleptocracy of a brutal regime do not deserve luxury shopping holidays in Europe.

The United States has extensive experience hunting down corrupt officials’ overseas assets through its interagency Kleptocracy Asset Recovery Initiative. These efforts have entered a new phase in the wake of Russia’s invasion of Ukraine with the launch of the US KleptoCapture task force and its multinational equivalent, the Russian Elites, Proxies, and Oligarchs (REPO) task force. These initiatives should be permanent and should also investigate China, Iran, Venezuela, and other regimes that spread corruption worldwide.
Strengthen US Financial Transparency
Meanwhile, the Biden administration should accelerate the implementation of its US Strategy on Countering Corruption. In particular, Washington needs to roll out the US corporate beneficial ownership register, which will help tackle shell company abuse, and extend anti-money laundering responsibilities beyond traditional banks to include other sectors. These basic transparency measures will make it harder for Iranian kleptocrats to use the US financial system for money laundering and sanctions evasion.

Pressure Money Laundering Hubs
Traditional tax havens such as the Cayman Islands are no longer the only or even the primary locations for authoritarian money laundering and sanctions evasion. Important US security partners such as the United Arab Emirates and Turkey have become major hubs for illicit finance. The United States needs to pressure these jurisdictions into strengthening financial transparency, enforcing sanctions, and cooperating with law enforcement. Doing so would not only increase the possibility of locating and freezing Iranian assets but also raise the cost of money laundering by forcing Iran to find alternative channels.

Wage an Information Campaign
The United States has traditionally been reluctant to engage in what used to be called “political warfare.” But in the face of growing authoritarian assertiveness, Washington needs to become more skillful and aggressive at disseminating (truthful) information within authoritarian societies. The US should elevate its efforts not only to expose and target Iranian leaders’ venality but also to break through the regime’s internet shutdowns and communicate to the Iranian people how much is being stolen from them. These efforts would further undermine the regime’s legitimacy, demonstrate international support for toppling Iran’s kleptocracy, and possibly attract more Iranians to the opposition.

Endnotes
10 Najmeh Bozorgmehr, “Spiralling Poverty in Iran Adds to Pressure on Regime,” Financial Times, January 24, 2021, https://www.ft.com/content/520b54e4-c793-4e7d-84f5-03f7f587532d.

11 Williams, “Iran Sees Millionaire Boom Amid Sanctions, Covid-19 and an Election.”


About the Author

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Sibley works closely with the US government and its allies to advance innovative policies in the fields of anti-money laundering, economic statecraft, and democracy promotion. His work is credited with helping to elevate transnational corruption as a core US national security concern.

Sibley has written for the Wall Street Journal, Foreign Policy, and the Washington Post among other publications, and is co-author of three Hudson reports, including Countering Global Kleptocracy. His media appearances include the BBC, CNN, and NPR. Nate hosts Hudson’s Making a Killing podcast.