

## **The Economic Involvement of the Pasdaran in the Iranian Economy: Review and Analysis**

The Islamic Revolutionary Guard Corps (IRGC), also known as the Pasdaran, was founded by decree on May 5, 1979, as a force under the authority of Ayatollah Khomeini. It became a full-fledged military force during the Iran-Iraq War (1980-1988), independent of the Iranian Armed Forces (Artesh). During this war, its popular component, the Basij, notably enlisted and sent inexperienced fighters to the front lines, resulting in immense casualties<sup>1</sup>. While the Iranian Army traditionally protects the country's sovereignty, the primary objective behind the creation of the Pasdaran was to safeguard the Islamic Republic both externally and internally. Thus, it serves as a conservative political force, upholding the ideals of the Islamic Revolution, and acts as an internal security force, particularly in suppressing political dissidence.

However, the Pasdaran's activities extend beyond mere militia actions in service of the Supreme Leader. The IRGC has evolved into a multifaceted organization with various dimensions, including serving as a mass organization aimed at structuring society through its numerous affiliated organizations and sub-organizations, such as Basij unions and other corporatist entities. Moreover, it has emerged as a major economic actor. Here, we will focus on the role of the Revolutionary Guards in the Iranian economy.

The involvement of the military or a paramilitary organization in the economy is not unique to Iran. In Western countries, direct or indirect links between the military-industrial complex and the armed forces are common. Similarly, in other nations like Turkey, the military directly controls prominent companies (In Turkey, it's the case via the Turkish Armed Forces' pension funds<sup>2</sup>).

The aim of this paper will be to analyze the various dimensions of the economic face of the Guardians of the Revolution, excluding the "traditional" economic dimensions of an armed force (i.e. the Defence industrial base).

### **Historical Overview of the Pasdaran's Role in the Iranian Economy**

Following the Iran-Iraq War, the IRGC was neither dismantled nor integrated into the Artesh but retained its autonomy and a dedicated role enshrined in the constitution (Article 150).

However, the reintegration into civilian life of former IRGC combatants, especially the Basijis (young men recruited mainly from lower-income classes) posed a significant political and social challenge in a bloodless Iranian society. The Iranian government lacked the capacity to economically integrate these former combatants and thus advocated for the creation of various

---

<sup>1</sup> Golkar, Saeid, Organization of the Oppressed or Organization for Oppressing: Analysing the Role of the Basij Militia of Iran, Politics, Religion & Ideology, (2012), 13:4, 455-471.

<sup>2</sup> Akça, İsmet. Military-economic structure in Turkey: present situation, problems, and solutions. Tesev Publications (2010).

economic structures by the IRGC aimed at providing social and economic services to facilitate their reintegration<sup>3</sup>.

Authorities also sought the IRGC's involvement in the country's reconstruction and economic development. President Rafsanjani, in May 1993, promoted the economic integration of the Pasdaran, stating, "In this way, IRGC members earn an income, which they can use to maintain and repair their military machinery, while adding to the country's capacity for contractual work."<sup>4</sup>

Even the constitution mandates during periods of peace *"the utilization of armed forces in relief operations, education, productive endeavors, and the Construction Jihad, ensuring that such utilization doesn't compromise the Army's combat readiness."* (Article 147).

The Pasdaran gradually expanded their economic influence through organizations like the Bonyad Taavon-e Sepah (BTS), initially established to provide services to Basijis (including housing, medical, educational, and financial support) but which has progressively evolved into a conglomerate active in multiple sectors. Another important Pasdaran entity was the Reconstruction Headquarters (Khatam), created in 1990, initially focused on construction in conflict-affected areas<sup>5</sup>.

Subsequently, their economic ascendancy was facilitated by several large privatization plans, allowing entities under the IRGC's ownership to acquire formerly state-owned assets previously under ministries' control. The privatization program implemented during Hashemi Rafsanjani's government in the mid-1990s transformed Pasdaran's economic structures into significant conglomerates, this process was backed by Ayatollah Khamenei's who was stating that Basijis and war veterans should have priority in purchasing stock in newly privatized companies.

This economic ascent experienced only a halt during The Reform Era (1997–2005) under President Mohammad Khatami (reformist) with an attempt to diminish the Pasdaran's economic influence and pursue genuine privatization benefiting the "true" private sector.

## **A Multisectoral Presence**

Favoritism and extensive privatizations have enabled the Pasdaran to expand into multiple sectors of the "traditional" economy, including construction, finance, distribution, telecommunications, heavy industry, and more. In this section, we'll delve into certain Pasdaran conglomerates to illustrate this multidimensional economic influence<sup>6</sup>.

### **Khatam al-Anbiya Construction Camp (Khatam) and The Construction Basij Organisation (CBO)**

---

<sup>3</sup> Golkar, Saeid. "Paramilitarization of the economy: The case of Iran's basij militia." *Armed Forces & Society* 38.4 (2012): 625-648.

<sup>4</sup> Harris, Kevan. "The rise of the subcontractor state: politics of pseudo-privatization in the Islamic Republic of Iran." *International Journal of Middle East Studies* 45.1 (2013): 45-70.

<sup>5</sup> Coville, Thierry. « The Economic Activities of the Pasdaran », *Revue internationale des études du développement*, vol. 229, no. 1, (2017), pp. 91-111.

<sup>6</sup> Wehrey, Frederic, et al. "Economic Expansion: The IRGC's Business Conglomerate and Public Works.", in *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, (2009).

As mentioned earlier, Khatam didn't confine its projects solely to the reconstruction of war-torn areas post-Iran-Iraq War. Khatam was subsequently engaged in projects like dams, highways, water distribution networks, and more. Among its notable undertakings are the Karkhe dam, the Southern Bypass Highway of Tehran, and currently the design of the 10th Line of Tehran Subway Project<sup>7</sup>.

While Khatam focuses its activities at the macro level with large-scale projects, the Basij is involved at the micro level. For instance, The Construction Basij Organisation (CBO) executes small construction projects, whereas Khatam undertakes national projects.

### **Bonyad Taavon-e Sepah<sup>8</sup>**

BTS's official objective was to provide housing to IRGC members. Consequently, the organization engaged in commercial activities to finance its housing programs. These activities enabled BTS to establish a vast conglomerate active across various sectors, including agriculture, industry, energy, commerce, telecommunications, import-export, finance, and cinema.

All these organizations have been identified as unmistakably linked to the IRGC and consequently subjected to economic sanctions. To circumvent these sanctions, the Pasdaran has established numerous subsidiaries, at times in joint ventures with other companies, to diminish traceability of connections between entities. This is exemplified by the Pars Kish Drilling Company<sup>9</sup>, a joint venture between Oriental Oil Kish (a subsidiary of Khatam) and Japan Drilling Company (a foreign entity).

## **Involvement in the Iranian Black Market**

The Pasdaran not only restrict their activities to the legal economy but are also involved in the Iranian black market. This implication of the IRGC is supported by empirical analyses as well as past criticisms from certain politicians on this matter.

The black market in Iran is significant due to the illegality of a wide range of goods (alcohol, numerous CDs and films, etc) and services (VPN) because of political and religious restrictions (especially regarding alcohol consumption<sup>10</sup>). Moreover, there is a substantial potential consumer base for these products due to low adherence to the regime's political and religious ideology, as well as the existence of an urban middle and upper class attracted by these

---

<sup>7</sup> Khatam official website, "Road and urban development projects" (access on <https://www.khatam.com/en/roadandurban/projects>).

<sup>8</sup> Iranwire, "The IRGC Commercial and Financial Institutions: (Bonyad-e Ta'avon-e Sepah)", (2019).

<sup>9</sup> Iranwacth, « Iranian entities: Oriental Oil Kish », (access on <https://www.iranwatch.org/iranian-entities/oriental-oil-kish>).

<sup>10</sup> Amnesty International, "Iran: Man executed for drinking alcohol", (July 10, 2020).

products<sup>11</sup>. The economic potential of this black market is therefore a windfall for the Pasdaran, who can profit by 200 to 300% on these goods. Additionally, the legal and logistical barriers for implementing this smuggling are weak: as previously mentioned, their activities are legally opaque, and they control borders (especially the Iran-Iraq border) and harbors through which such goods can enter easily on Iranian soil<sup>[12][13]</sup>.

The existence of this black market and networks of smuggling controlled by the Pasdaran have even been revealed at times by accusations from some politicians challenging the power of the IRGC. For instance, Khatami indirectly accused the IRGC of operating illegal jetties in the country, thus suggesting the possibility of illicit product importation. In 2007, Ali Ghanbari, a member of the Parliament, directly accused the Pasdaran of their role in the black market. He stated, *"Appointed institutions [by Supreme Leader Khamenei] that don't obey the [rules of] the government and have control over the means of power [violence]; institutions that are mainly military, are responsible [for those illegal activities]."*<sup>14</sup>

Moreover, the abundant availability of banned commodities in Iran, including alcoholic beverages and narcotics, seems to demonstrate the involvement of the Pasdaran, which is the only organization that could engage in such large-scale trafficking.

## Confiscation and Economic Crimes

In addition to the black market, the IRGC leverages its coercive power and political connections to engage in the seizure of private property for its own benefit. Some of its members are thus accused by human rights observers of economic crimes.

These crimes often involve the confiscation of assets, from opponents or members of ethnic minorities in Iran. It's the case of Mohammad Forouzandeh, former Head of Joint Staff of the IRGC (1987-1989), who also served as the head of the Mostazafan Foundation (a foundation linked to the Supreme Leader). Forouzandeh was responsible for confiscating and auctioning off 14,979 properties, including those belonging to Baha'is, dissidents, and political prisoners<sup>15</sup>. Similarly, Parviz Fattah, Head of the BTS (2009-2015), has been accused of confiscating and selling property belonging to religious minorities and political dissidents<sup>16</sup>.

---

<sup>11</sup> Negari Namaghi, Romina; and Perry, Douglas G. "The Perception of Young Adult Alcohol Consumers Regarding Alcohol Consumption and the Risky Behaviors of Drinking Alcohol in Tehran, Iran." *Journal of Substance Use* 25, no. 3 (2020): 301–7.

<sup>12</sup> Al Monitor. "Billion dollar smuggling industry drains Iran's economy" (2015). (access on <https://www.almonitor.com/pulse/fr/originals/2015/02/iran-smuggling-trafficking.html>)

<sup>13</sup> Duheume, Tony. "Analysis: Tracing Iranian Quds Force links to illegal drugs trade". *Al Arabiya News*. (2017).

<sup>14</sup> Wehrey, Frederic, et al. "Economic Expansion: The IRGC's Business Conglomerate and Public Works." in *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*, RAND Corporation, (2009), pp. 55–76.

<sup>15</sup> Faces of Crime, "Profile: Mohammad Forouzandeh AKA: Foroozandeh", (access on <https://facesofcrime.org/profile/281/mohammad-forouzandeh/>)

<sup>16</sup> Faces of Crime, "Profile: Parviz Fattah", (access on <https://facesofcrime.org/profile/278/parviz-fattah/>)

## Estimating the True Weight of the IRGC in the Iranian Economy

It is exceedingly challenging to gauge the extent of the Pasdaran's influence in the Iranian economy, given its sprawling structure that extends from subsidiaries to subsidiaries, the numerous entities in which they hold only minority stakes, and the difficulty in determining the independence or subordination of their subcontractors. Furthermore, while some activities are extremely lucrative for the Pasdaran (such as the black market), certain assets yield low profitability, such as the steel and aluminum company IRALCO, which survives solely due to state-mandated purchase prices above global market rates. Therefore, we will not try to quantify the Pasdaran's exact weight by providing a percentage of the Iranian GDP, but we will rather underline that this weight should not be overestimated, as is the case with some analysts who estimate their economic significance at one-third of the Iranian GDP<sup>17</sup>.

Various factors indicate that the weight is lower, notably due to the existence of other organizations not affiliated with the Pasdaran that also play a significant role in the Iranian economy, such as the numerous Bonyads directly under the Supreme Leader's authority<sup>18</sup>. These Bonyads were initially charitable organizations established under the monarchy, these entities were transformed following the 1979 Revolution to redistribute confiscated assets to the poor and martyrs and have evolved later into vast private monopolies that enjoy non-accountability to the government. Their purpose is to distribute revenues to groups supporting the Islamic Regime while providing limited charity to the poor. Many of these bonyads fall under the auspices of the Execution of Imam Khomeini's Order (EIKO), the organization responsible for managing assets held by the Supreme Leader, which control numerous companies and Bonyads, such as the Bonyad Mostazafan (the most important one).

Moreover, despite extensive "privatizations" that enabled the Pasdaran to massively acquire public assets, some companies remain public, such as the National Iranian Oil Company, under the direction of the Ministry of Petroleum of Iran. Additionally, other independent entrepreneurs, also enjoying political ties, own wealthy private companies.

It is also worth noting that the IRGC has not consistently adopted a predatory approach to the Iranian economy. By pragmatism, the Pasdaran agreed to form consortia with foreign companies during periods when Iran was not subjected to nearly total sanctions. For instance, in the 2000s, Khatam established a consortium with a Norwegian energy company, Aker Kvaerner, to develop the South Pars gas field.

## The relations with politics

To further their economic activities or at least maintain them, relations between the Pasdaran and civil political powers (Government, Parliaments, City mayors...) as well as religious authorities (Supreme Leader, Office of the Supreme Leader, Guardian Council, Assembly of Experts) are crucial to ensure their privileges (such as non-taxation and lack of legal and administrative accountability), to counter opposition (such as that of Khatam during his first term), to easily obtain public contracts, or even to secure highly favorable legislative

---

<sup>17</sup> Canna, Sarah, "IRGC's Role in the Black Economy", Virtual Think Tank (ViTTa) Analysis, (2020)

<sup>18</sup> Saeidi, Ali A. "The accountability of para-governmental organizations (bonyads): the case of Iranian foundations." *Iranian studies* 37.3 (2004): 479-498.

frameworks<sup>19</sup> (e.g. Laws requiring local authorities to contract with CBO for their construction projects).

For this, the IRGC can rely on the blending of Pasdaran and political domains. Thus, the IRGC can rely on a powerful network of former members who now hold important positions in the most powerful administrative and political institutions in Iran.

Some specific cases illustrate the conflicts of interest that Pasdaran economic entities can exploit. For example, the Minister of Energy during Ahmadinejad's first government (2005-2009), Parviz Fattah, was the former director of Bonyad Taavon Sepah. The case of Rostam Ghasemi<sup>20</sup> is also interesting, former director of Khatam, he served as Oil Minister (2011-2013), and more recently as Minister of Roads and Urban Development under the presidency of Ebrahim Raisi (2021-2022). This obviously facilitated the allocation of construction work to Khatam in the energy sector or road construction sector. In fact, this minister did not hide his favoritism towards his former "employer"; in a short speech during his farewell ceremony (in 2013), he stated that Khatam-ol-Anbiya's construction division should replace giant foreign corporations<sup>21</sup>.

At the governmental level, although the presence of Pasdaran has decreased compared to the Ahmadinejad period, we can note the presence of various ministers who hold leadership roles within the IRGC or the Basij, such as Ezzatollah Zarghami (Minister of Ministry of Cultural Heritage, Handicrafts and Tourism), Ahmad Vahidi (Interior), or Esmail Khatib (Intelligence).

But it is also at the local level that Pasdaran can rely on favorable political figures. The most notable case is Ahmadinejad's tenure as the mayor of Tehran (before he became president). He supported the involvement of the Basij in municipal projects and assigned many urban construction projects, such as highway construction, to a Basij company without competitive bidding.

## Negatives economic consequences

The involvement of the IRGC in the Iranian economy has had negative consequences for the country's economic dynamics and entrepreneurial opportunities. The monopolistic control exercised by the Pasdaran in certain sectors has diminished the potential for growth and wealth creation.

Firstly, the Pasdaran have opposed the entry of foreign companies to maintain their monopoly in various fields, thereby limiting competition and preventing the emergence of more competitive pricing and innovation. For instance, the IRGC resisted the entry of foreign companies into

---

<sup>19</sup> Golkar, Saeid. "Paramilitarization of the Economy: The Case of Iran's Basij Militia." *Armed Forces & Society*, vol. 38, no. 4, 2012, pp. 625–48. JSTOR, <https://www.jstor.org/stable/48609114>. Accessed 10 May 2024.

<sup>20</sup> Kia, Shahria. "Iran's Election 2021: Who is Rostam Ghasemi?", National Council of Resistance of Iran, (May 2021)

<sup>21</sup> Mehr News Agency, "Khatam-ol-Anbiya should replace foreign investors: oil minister ", (Aug 7, 2011), (access on <https://en.mehrnews.com/news/47360/Khatam-ol-Anbiya-should-replace-foreign-investors-oil-minister>)

sectors such as telecommunications, leading to the withdrawal of Turkcell<sup>22</sup>, the Turkish telecommunications company, from the Iranian market.

Furthermore, by unfairly obtaining public contracts through their political connections and exemption from taxes unlike potential private competitors, the IRGC has hindered the activities of other Iranian entities unable to enter Pasdaran-monopolized markets. This has led to a reduction in market competition.

Additionally, the economic networks of the Pasdaran have adverse effects on Iranian public finances. They do not pay any direct or indirect taxes, resulting in significant costs for public finances. Moreover, corruption in privatizations has led to the undervaluation of state assets during sales. Corruption also often involves kickback systems between the Pasdaran and politicians during the awarding of public contracts, leading to costs for public finances. This issue of corruption due to the ties between Pasdaran and politics has been raised by some Iranian politicians, such as Ali Motahari, a conservative representative in Parliament, who opposed the appointment of Rostam Ghasemi, the former head of Khatam, as the new Oil Minister in 2011<sup>23</sup>.

## **Decoding the Pasdaran's Economic Role: Unveiling the Regime's Strategic Intent**

While the economic involvement of the Pasdaran in the Iranian economy is generally ineffective or even counterproductive, it still serves certain needs for the maintenance of the Regime.

### **Facing the sanctions**

Firstly, during periods of economic sanctions, the economic networks of the Pasdaran and their expertise in economic activities in degraded contexts allow the Iranian Regime to partially circumvent sanctions. Consequently, the Pasdaran have been able to swiftly replace foreign companies in sectors where they had to withdraw due to sanctions. For instance, Khatam was able to continue alone the development of phases 15 and 16 of the South Pars oil field, originally undertaken in collaboration with foreign companies.

Furthermore, the Pasdaran have played an essential role recently in enabling the establishment of a highly complex network for the exportation of Iranian oil to circumvent sanctions, an undertaking impossible for "traditional" oil companies. Thus, despite the sanctions, Iran has managed to maintain some of its oil exports abroad<sup>24</sup>, these exportations are crucial for obtaining foreign currency and financing the Iranian regime, especially its military programs.

Thus, IRGC contributes to the "Resistance Economy," promoted by the Supreme Leader, which aims to grant Iran autonomy in various sectors, and face the sanctions. The Pasdaran meet the demand of Ayatollah Khamenei who is calling to confront the American sanctions: *"I stated that the country's economy should not be tied to American sanctions and others [...], despite the*

---

<sup>22</sup> Bell, Pete, "Turkcell Unsuccessful With Iran Lawsuit", Telegeography (December 2022)

<sup>23</sup> Coville, Thierry. « The Economic Activities of the Pasdaran », Revue internationale des études du développement, vol. 229, no. 1, 2017, pp. 91-111.

<sup>24</sup> Financial Times, "Iran oil exports hit 6-year high as west prepares sanctions", (17, April 2024)

*existence of American sanctions, progress in the economic field is possible [...] It is also possible to achieve certain things in the field of oil and other economic domains”<sup>25</sup>.*

### **Attracting Basij Members**

Moreover, the economic networks of the IRGC are essential for attracting new members and ensuring the loyalty of Basijis through material incentives. The Basij is one of the most influential forces in suppressing opposition demonstrations, consequently, it is an essential component for the Regime safety.

Thus, the services provided by the Basij Cooperation Foundation (BCF) are essential, given that material motivation is the main incentive for joining the Basij<sup>26</sup>. To ensure the loyalty of Basij members to the regime, political authorities have supported the expansion of Basij participation in business.

The Basijis receive incentive from numerous organizations: the Basijis Housing Institution (providing housing at preferential rates), the Basijis Medical Institution (providing medical care), Mehr Bank (offering loans at preferential rates), the Consumer-Goods Provision Institution (providing products at reduced rates in Basij stores), Cultural Institutes, and Scientific Institutes. The economic activities of the Basij also create job opportunities for its members.

### **Ensuring loyalty from the peripheries**

Finally, the economic activities of the Pasdaran are also essential for ensuring (relative) loyalty from the peripheries, particularly regions inhabited by non-Persian minorities<sup>27</sup>.

The IRGC has two goals in the peripheries (especially the ones inhabited by minorities). Firstly, the Guardians of the Revolution act as a preventative security measure and a bulwark against popular uprisings against the state. Secondly, construction activities (undertake by CBO and Khatam) help to create a positive image for the Basij and the IRGC, the aim is to bolster the economic development of impoverished areas by improving infrastructure and local services. For instance, The IRGC has initiated several large-scale development projects throughout Iran. One such project is the 900-km "peace pipeline" originating in Bushehr province and extending to Hormozgan province. And the Basij dispatched Basij volunteers to villages and poor areas to assist with small projects such as tree planting, harvesting, renovating schools, building mosques, and others.

---

<sup>25</sup> Televised speech delivered on March 21, 2022 by Ayatollah Khamenei, Supreme Leader of the Islamic Revolution, on the occasion of the Iranian New Year. "A knowledge-based economy will solve all the country's economic problems".

<sup>26</sup> Ostovar, Afshon. "Iran's basij: Membership in a militant Islamist organization." *The Middle East Journal* 67.3 (2013): 345-361.

<sup>27</sup> Wehrey, Frederic, et al. *The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps*. Rand Corporation, (2008).



In conclusion, while the economic influence of the Pasdaran shouldn't be exaggerated, it undeniably holds significance within the Iranian economy, extending its reach across various sectors, particularly with political backing. Despite its often-detrimental impact, evident in the strain it places on the Iranian economy's dynamics and its involvement in illicit activities, it also serves as a pillar for the regime's stability.

The authoritarian tightening of the regime over the last few years, and the loss of power of the more moderate elements within the political system, suggests that the role of the IIRCG in the economy is not likely to diminish in the coming years, as the support of the IIRCG and the stability of this institution are more than ever essential to the survival of the Islamic Republic.