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Millionaire Mullahs

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f A nuclear threat to the rest of the world, Iran is robbing its own people of prosperity. But the men at the top are getting extremely rich.

in It's rumble time in Tehran. At dozens of intersections in the capital of Iran thousands of students are protesting on a recent Friday around midnight, as they do nearly every night, chanting pro-democracy slogans and lighting bonfires on street corners.



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Suddenly there's thunder in the air.
A gang of 30 motorcyclists,
brandishing iron bars and clubs as
big as baseball bats, roars through
the stalled traffic. They glare at the
drivers, yell threats, thump cars.
Burly and bearded, the bikers yank
two men from their auto and
pummel them. Most protesters
scatter. Uniformed policemen
watch impassively as the thugs
beat the last stragglers.

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These Hell's Angels are part of the
Hezbollah militia, recruited mostly
from the countryside. Iran's ruling
mullahs roll them out whenever
they need to intimidate their
opponents. The Islamic Republic is
a strange dictatorship. As it moves
to repress growing opposition to
clerical rule, the regime relies not
on soldiers or uniformed police
(many of whom sympathize with
the protesters) but on the bullies of
Hezbollah and the equally thuggish
Revolutionary Guards. The powers
that be claim to derive legitimacy
from Allah but remain on top with

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gangsterlike methods of intimidation, violence and murder.

Who controls today's Iran? Certainly not Mohammad Khatami, the twice-elected moderate president, or the reformist parliament. Not even the Supreme Leader Ayatollah Ali Khamenei, a stridently anti-American but unremarkable cleric plucked from the religious ranks 14 years ago to fill the shoes of his giant predecessor, Ayatollah Khomeini, is fully in control. The real power is a handful of clerics and their associates who call the shots behind the curtain and have gotten very rich in the process.

The economy bears more than a little resemblance to the crony capitalism that sprouted from the wreck of the Soviet Union. The 1979 revolution expropriated the assets of foreign investors and the nation's wealthiest families; oil had long been nationalized, but the mullahs seized virtually everything else of value--banks, hotels, car and chemical companies, makers of drugs and consumer goods. What distinguishes Iran is that many of these assets were given to

Islamic charitable foundations, controlled by the clerics. According to businessmen and former foundation executives, the charities now serve as slush funds for the mullahs and their supporters.

Iran has other lethal secrets besides its nuclear program, now the subject of prying international eyes. Dozens of interviews with businessmen, merchants, economists and former ministers and other top government officials reveal a picture of a dictatorship run by a shadow government that--the U.S. State Department suspects--finances terrorist groups abroad through a shadow foreign policy. Its economy is dominated by shadow business empires and its power is protected by a shadow army of enforcers.

Ironically, the man most adept at manipulating this hidden power structure is one of Iran's best-known characters--Ali Akbar Hashemi Rafsanjani, who has been named an ayatollah, or religious leader. He was the speaker of parliament and Khomeini's right-hand man in the 1980s, president of Iran from 1989 to 1997 and is

now chairman of the powerful Expediency Council, which resolves disputes between the clerical establishment and parliament. Rafsanjani has more or less run the Islamic Republic for the past 24 years.

He played it smart, aligning himself in the 1960s with factions led by Ayatollah Khomeini, then becoming the go-to guy after the revolution. A hard-liner ideologically, Rafsanjani nonetheless has a pragmatic streak. He convinced Khomeini to end the Iran-Iraq war and broke Iran's international isolation by establishing trade relations with the Soviet Union, China, Saudi Arabia and the United Arab Emirates. In the 1990s he restarted Iran's nuclear program. He is also the father of Iran's "privatization" program. During his presidency the stock market was revived, some government companies were sold to insiders, foreign trade was liberalized and the oil sector was opened up to private companies. Most of the good properties and contracts, say dissident members of Iran's Chamber of Commerce, ended up in the hands of mullahs,

their associates and, not least, Rafsanjani's own family, who rose from modest origins as small-scale pistachio farmers.

"They were not rich people, so they worked hard and always tried to help their relatives get ahead," remembers Reza, a historian who declines to use his last name and who studied with one of Rafsanjani's brothers at Tehran University in the early 1970s.

"When they were in university, two brothers earned money on the side tutoring theological students and preparing their exam papers."

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Sources: U.S. Census Bureau; U.S. Department of Labor; Atieh Bahar Consulting; Forbes estimates.

Discontent Unveiled Disaffected, denied opportunity and just plain bored, Iran's youth have taken their frustrations with the clerics' regime to the streets.

	Iran	U.S.
Population	67 million	283 million
Percent under 25	65%	35%
GDP per capita	\$1,800	\$37,000

Inflation	25%	2%
Unemployment	18%	6%

The 1979 revolution transformed the Rafsanjani clan into commercial pashas. One brother headed the country's largest copper mine; another took control of the state-owned TV network; a brother-in-law became governor of Kerman province, while a cousin runs an outfit that dominates Iran's \$400 million pistachio export business; a nephew and one of Rafsanjani's sons took key positions in the Ministry of Oil; another son heads the Tehran Metro construction project (an estimated \$700 million spent so far). Today, operating through various foundations and front companies, the family is also believed to control one of Iran's biggest oil engineering companies, a plant assembling Daewoo automobiles, and Iran's best private airline (though the Rafsanjanis insist they do not own these assets).

None of this sits well with the populace, whose per capita income is \$1,800 a year. The gossip on the street, going well beyond the

observable facts, has the Rafsanjanis stashing billions of dollars in bank accounts in Switzerland and Luxembourg; controlling huge swaths of waterfront in Iran's free economic zones on the Persian Gulf; and owning whole vacation resorts on the idyllic beaches of Dubai, Goa and Thailand.

But not much of the criticism makes its way into print. One journalist who dared to investigate Rafsanjani's secret dealings and his alleged role in extrajudicial killings of dissidents is now languishing in jail. He's lucky. Iranian politics can be deadly. Five years ago Tehran was rocked by murders of journalists and anticorruption activists; some were beheaded, others mutilated.

Some of the family's wealth is out there for all to see. Rafsanjani's youngest son, Yaser, owns a 30-acre horse farm in the super-fashionable Lavasan neighborhood of north Tehran, where land goes for over \$4 million an acre. Just where did Yaser get his money? A Belgian-educated businessman, he runs a large export-import firm

that includes baby food, bottled water and industrial machinery.

Until a few years ago the simplest way to get rich quick was through foreign-currency trades. Easy, if you could get greenbacks at the subsidized import rate of 1,750 rials to the dollar and resell them at the market rate of 8,000 to the dollar. You needed only the right connections for an import license. "I estimate that, over a period of ten years, Iran lost \$3 billion to \$5 billion annually from this kind of exchange-rate fraud," says Saeed Laylaz, an economist, now with Iran's biggest carmaker. "And the lion's share of that went to about 50 families."

One of the families benefiting from the foreign trade system was the Asgaroladis, an old Jewish clan of bazaar traders, who converted to Islam several generations ago. Asadollah Asgaroladi exports pistachios, cumin, dried fruit, shrimp and caviar, and imports sugar and home appliances; his fortune is estimated by Iranian bankers to be some \$400 million. Asgaroladi had a little help from his older brother, Habibollah, who,

as minister of commerce in the 1980s, was in charge of distributing lucrative foreign-trade licenses. (He was also a counterparty to commodities trader and then-fugitive Marc Rich, who helped Iran bypass U.S.-backed sanctions.)

The other side of Iran's economy belongs to the Islamic foundations, which account for 10% to 20% of the nation's GDP--\$115 billion last year. Known as *bonyads*, the best-known of these outfits were established from seized property and enterprises by order of Ayatollah Khomeini in the first weeks of his regime. Their mission was to redistribute to the impoverished masses the "illegitimate" wealth accumulated before the revolution by "apostates" and "blood-sucking capitalists." And, for a decade or so, the foundations shelled out money to build low-income housing and health clinics. But since Khomeini's death in 1989 they have increasingly forsaken their social welfare functions for straightforward commercial activities.

Until recently they were exempt from taxes, import duties and most government regulation. They had access to subsidized foreign currency and low-interest loans from state-owned banks. And they were not accountable to the Central Bank, the Ministry of Finance or any other government institution. Formally, they are under the jurisdiction of the Supreme Leader; effectively, they operate without any oversight at all, answerable only to Allah.

According to Shiite Muslim tradition, devout businessmen are expected to donate 20% of profits to their local mosques, which use the money to help the poor. By contrast, many bonyads seem like straightforward rackets, extorting money from entrepreneurs.

Besides the biggest national outfits, almost every Iranian town has its own bonyad, affiliated with local mullahs. "Many small businessmen complain that as soon as you start to make some money, the leading mullah will come to you and ask for a contribution to his local charity," says an opposition economist, who declines to give his name. "If you

refuse, you will be accused of not being a good Muslim. Some witnesses will turn up to testify that they heard you insult the Prophet Mohammad, and you will be thrown in jail." The Cosa Nostra meets fundamentalism.

Other charities resemble multinational conglomerates. The Mostazafan & Jambazan Foundation (Foundation for the Oppressed and War Invalids) is the second-largest commercial enterprise in the country, behind the state-owned National Iranian Oil Co. Until recently it was run by a man named Mohsen Rafiqdoost. The son of a vegetable-and-fruit merchant at the Tehran bazaar, Rafiqdoost got his big break in 1979, when he was chosen to drive Ayatollah Khomeini from the airport after his triumphal return from exile in Paris.

Khomeini made him Minister of the Revolutionary Guards to quash internal dissent and smuggle in weapons for the Iran-Iraq war. In 1989, when Rafsanjani became president, Rafiqdoost gained control of the Mostazafan Foundation, which employs up to

400,000 workers and has assets that in all probability exceed \$10 billion. Among its holdings: the former Hyatt and Hilton hotels in Tehran; the highly successful Zam-Zam soft drink company (once Pepsi); an international shipping line; companies producing oil products and cement; swaths of farmland and urban real estate.

Theoretically the Mostazafan Foundation is a social welfare organization. By 1996 it began taking government funds to cover welfare disbursements; soon it plans to spin off its social responsibilities altogether, leaving behind a purely commercial conglomerate owned by--whom? That is not clear. Why does this foundation exist? "I don't know--ask Mr. Rafiqdoost," says Abbas Maleki, a foreign policy adviser to Ayatollah Rafsanjani.

A picture emerges from one Iranian businessman who used to handle the foreign trade deals for one of the big foundations. Organizations like the Mostazafan serve as giant cash boxes, he says, to pay off supporters of the mullahs, whether they're

thousands of peasants bused in to attend religious demonstrations in Tehran or Hezbollah thugs who beat up students. And, not least, the foundations serve as cash cows for their managers.

"It usually works like this," explains this businessman. "Some foreigner comes in, proposes a deal to the foundation head. The big boss says: 'Fine. I agree. Work out the details with my administrator.' So the foreigner goes to see the administrator, who tells him: 'You know that we have two economies here--official and unofficial. You have to be part of the unofficial economy if you want to be successful. So, you have to deposit the following amount into the following bank account abroad and then the deal will go forward.'"

Today Rafiqdoost heads up the Noor Foundation, which owns apartment blocks and makes an estimated \$200 million importing pharmaceuticals, sugar and construction materials. He is quick to downplay his personal wealth. "I am just a normal person, with normal wealth," he says. Then, striking a Napoleonic pose, he

adds: "But if Islam is threatened, I will become big again."

Implication: that he has access to a secret reservoir of money that can be tapped when the need arises.

That may have been what Ayatollah Rafsanjani had in mind when he declared recently that the Islamic Republic needed to keep large funds in reserve. But who is to determine when Islam is in danger?

As minister of the Revolutionary Guards in the 1980s, Rafiqdoost played a key role in sponsoring Hezbollah in Lebanon--which kidnapped foreigners, hijacked airplanes, set off car bombs, trafficked in heroin and pioneered the use of suicide bombers.

According to Gregory Sullivan, spokesman for the Near Eastern Affairs Bureau at the U.S. State Department, the foundations are the perfect vehicles to carry out Iran's shadow foreign policy. (One of them offered the \$2.8 million bounty to anyone who carried out Ayatollah Khomeini's fatwa to kill British author Salman Rushdie.) Whenever suspicion of complicity in a terrorist incident--in Saudi

Arabia, Israel, Argentina--turns to Iran, the Tehran government has denied involvement. State Department officials suspect that such operations may be sponsored by one of the foundations and semiautonomous units of the Revolutionary Guards. If anyone in Iran is aiding al Qaeda, that may be the best place to look.

Iran's foundations are a law unto themselves. The largest "charity" (at least in terms of real estate holdings) is the centuries-old Razavi Foundation, charged with caring for Iran's most revered shrine--the tomb of Reza, the Eighth Shiite Imam, in the northern city of Mashhad. It is run by one of Iran's leading hard-line mullahs, Ayatollah Vaez-Tabasi, who prefers to stay out of the public eye but emerges occasionally to urge death to apostates and other opponents of the clerical regime.

The Razavi Foundation owns vast tracts of urban real estate all across Iran, as well as hotels, factories, farms and quarries. Its assets are impossible to value with any precision, since the foundation has

never released an inventory of its holdings, but Iranian economists speak of a net asset value of \$15 billion or more. The foundation also receives generous contributions from the millions of pilgrims who visit the Mashhad shrine each year.

What happens to annual revenues estimated in the hundreds of millions--perhaps billions--of dollars? Not all of it goes to cover the maintenance costs of mosques, cemeteries, religious schools and libraries. Over the past decade the foundation has bought new businesses and properties, established investment banks (together with investors from Saudi Arabia and the United Arab Emirates), funded real estate projects and financed big foreign trade deals.

The driving force behind the commercialization of the Razavi Foundation is Ayatollah Tabasi's son, Naser, who was put in charge of the Sarakhs Free Trade Zone, on the border with the former Soviet republic of Turkmenistan. In the 1990s the foundation poured hundreds of millions of dollars into

this project, funding a rail link between Iran and Turkmenistan, new highways, an international airport, a hotel and office buildings. It even paid \$2.3 million to a Swiss firm to erect a huge tent for the ceremonies inaugurating the Iran-Turkmenistan rail link.

Then it all went wrong. In July 2001 Naser Tabasi was dismissed as director of the Free Trade Zone. Two months later he was arrested and charged with fraud in connection with a Dubai-based company called Al-Makasib. The details of the case remain murky, but four months ago the General Court of Tehran concluded that Naser Tabasi had not known that he was breaking the law and acquitted him.

Few receive even a slap on the wrist. A rare exception: Hard-line cleric Hadi Ghaffari, who specialized in seizing expropriated properties, like Star Stockings (maker of sexy lingerie), and reselling them at a nice profit. He was convicted of embezzlement in the early 1990s.

Iran's most distinguished senior clerics are disgusted by the

mullahcrats. Ayatollah Taheri, Friday prayer leader of the city of Isfahan, resigned in protest earlier this year. "When I hear that some of the privileged progeny and special people, some of whom even don cloaks and turbans, are competing amongst themselves to amass the most wealth," he said, "I am drenched with the sweat of shame."

Meanwhile the clerical elite has mismanaged the nation into senseless poverty. With 9% of the world's oil and 15% of its natural gas, Iran should be a very rich country. It has a young, educated population and a long tradition of craftsmanship and international commerce. But per capita income today is actually 7% below what it was before the revolution. Iranian economists estimate capital flight (to Dubai and other safe havens) at up to \$3 billion a year.

No wonder so many students turn to the streets in protest. The dictatorship tells them what to think, what to wear, and what to eat and drink. It has also been robbing them of their future.

