

Iran's 'Resistance Economy' -- and Stalled Reform Efforts

by [Matthew Levitt \(/experts/matthew-levitt\)](/experts/matthew-levitt), [Katherine Bauer \(/experts/katherine-bauer\)](/experts/katherine-bauer)

Sep 23, 2016

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ABOUT THE AUTHORS



[Matthew Levitt \(/experts/matthew-levitt\)](/experts/matthew-levitt)

Matthew Levitt is the Fromer-Wexler Fellow and director of the Reinhard Program on Counterterrorism and Intelligence at The Washington Institute.



[Katherine Bauer \(/experts/katherine-bauer\)](/experts/katherine-bauer)

Katherine Bauer is the Blumenstein-Katz Family fellow at The Washington Institute and a former official at the U.S. Treasury Department.



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Rather than honoring its pledge to comply with international norms on money laundering and terrorist finance, Iran may point to two prominent banks in particular as safe spaces for Western engagement.

Iran caught a break in its efforts to court global banks in June, when an international task force that sets standards against money laundering and terrorist financing suspended for one year its call for countries to take "proactive countermeasures" to [protect their financial systems from illicit Iranian schemes \(http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-june-2016.html\)](http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-june-2016.html).

In return, Tehran pledged to improve controls to help counter the financing of terrorism and other illicit financial conduct rampant within the Iranian financial system. The chances of Iran implementing the reforms by next June are small, a point likely to surface this week as Iranian officials continue to meet with other diplomats on the sidelines of the United Nations General Assembly.

The Financial Action Task Force has included Iran on its blacklist since the list's inception in 2008. By next June, Iran is expected to show progress on an "action plan" to end illicit financial conduct, including financing terror groups such as Lebanese Hezbollah, Iraqi Shia militias, and Iran's own Qods Force. Otherwise, countermeasures are to be re-imposed. Iran wants to persuade foreign banks to serve as channels for much-needed investment and trade. But there may be little progress to show.

Debate in Iran over the relevant law, and its definition of terrorism, has stymied progress. A meeting with task-force officials who focus on high-risk jurisdictions was scheduled to be held in Rome last week, but Iranian officials canceled less than 48 hours before the subgroup was to convene.

Iranian officials at the UN General Assembly this week are expected to highlight the difficulty of implementing reforms to counter money laundering and terrorist financing.

Measures to reduce or cut off funding for Iran's terrorist proxies are strongly opposed by hard-liners close to the Islamic Revolutionary Guard Corps and Iran's supreme leader, Ayatollah Ali Khamenei. Iranian officials are likely to argue that the issue could be used against President Hassan Rouhani next year when he runs for re-election and that the West should revise its expectations in an effort to neutralize this as a political issue.

Mr. Rouhani called for high-level meetings (<http://abcnews.go.com/International/wireStory/iran-meet-world-powers-nuclear-deal-differences-42089440>) in New York to air Iranian complaints that banking sanctions have not been fully lifted. He wants the West to unilaterally ease what many Iranians consider uncalled-for banking "obstacles."

The cycle is clear: Banks are wary of engaging with Iran because Tehran has yet to curb the illicit conduct that makes it a financial risk. Meanwhile, Iranian officials have yet to address the technocratic issue of complying with international standards against money laundering and terrorist finance.

Rather than complying with international norms, Iran may point to two prominent banks -- Bank Sepah and Bank Mellat -- as potential safe spaces for Western engagement. Letters published in Iranian media outlets appear to show these banks -- historically among the most egregious violators of international sanctions -- refusing to conduct foreign-exchange transactions on behalf of Khatam al-Anbiya, the IRGC's massive engineering and construction company; the letters **cite its inclusion on U.S. sanctions lists (<http://www.hamshahronline.ir/details/345323>)**.

Holding up these two banks as an example may be an effort to present an alternative to full compliance under Iran's deal with the international task force. It's effectively saying: We may not be able to implement everything being asked of us, but here are two clean banks through which the international financial community can do business in Iran.

That's not how anti-money-laundering efforts work. Without systemic reform, there's no reason to believe that these banks would not continue to engage in deceptive activity. That is exactly how the Iranian system weathered sanctions and facilitated illicit financing in years past. Absent substantive reforms, it is how the Iranian economy is likely to continue to function.

Matthew Levitt is the Fromer-Wexler Fellow and director of the Stein Program on Counterterrorism and Intelligence at The Washington Institute. Katherine Bauer is a senior fellow at the Institute and a former Treasury Department official. This article originally appeared on the Wall Street Journal blog "[Think Tank](http://blogs.wsj.com/washwire/2016/09/23/irans%E2%80%8B-resistance-economy-and-stalled-reform-efforts/?cb=logged0.8635195400458011)."

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