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CONDUCTING BUSINESS IN IRAN: OBSTACLES AND CHALLENGES

With the lifting of sanctions, Iran has been approached by numerous foreign companies eager to explore opportunities. After its long isolation however, there are several obstacles faced by both Iran and the foreign companies in finalising these deals and in attracting investments needed for the numerous projects that are on the table.

A number of these obstacles are well known: the reluctance of global banks to engage with Iran in financing the deals due to lack of confidence in the Iranian economy and the absence of a western-compliant financial system in Iran, as well as the fear of being penalised by the US. Additionally, there are often overlooked differences in business culture between Iran and the West.

In order to address the issue of instilling confidence in its economy, Iran has taken steps to obtain a sovereign credit rating which will facilitate the issuance of foreign debt by Iran. It is now working with Fitch Ratings, who have recently visited Iran and are conducting an examination of the Iranian economy. Iran is also working on the implementation of anti-money laundering and anti-terrorism policies. It has also successfully lowered inflation, from over 40% in 2013, to less than 8% in 2016 through an overhaul in its internal financial policies. As a result, there has been a drop in the interbank lending rate from 30% to 17.5% and a bank deposit rate of 15%, down from 20% just a year ago. The lowering of the deposit rate is aimed at increasing public spending, in order to stimulate economic growth. Iran's GDP growth has also steadily increased in the past few years from a negative figure of -6.8% in 2012, to +1% in 2015. Iranian Minister for Economic Affairs is hoping that that GDP growth will figure will increase to 5% in 2016, with a long-term forecast of 8%. Another positive development is the reduction in non-performing loans from 14% to 10% in the past three years.

Iran is now expecting $25 billion in oil contracts in the next 1-2 years, according to the managing director of the National Iranian Oil Co., which has plans to develop several oil and gas fields under the terms of a new contract model. Iran is hoping to attract $50 billion in foreign investment through joint ownership of oil and gas fields and has already increased its oil and gas market share lost due to nuclear sanctions to close to its pre-sanction levels. However, the drop in the price of oil has decreased oil revenues to less than half of the level in 2011, despite the increase in production.

In addition to the problems of financing through larger banks, one of the important factors contributing to the slowness of real change is the difference in business culture between Iran and the West. There is in general a culture of opaqueness in Iran when it comes to company ownership structures and the inner workings of a company, including its financial statements. Business is conducted usually through family contacts and close friends. Many businesses are family owned and it is very important to have a solid network of friends. This reliance on a close personal network is due to the very strong importance of trust, which is essential for doing business with Iranians. Establishing this trust is of paramount importance in conducting business in Iran and to this end, patience is a key factor. Decision-making and implementation move slowly in Iran and any pressure on speeding up the process might be interpreted negatively. Furthermore, Iranians as a whole enjoy haggling and do not react well to rigid terms. Flexibility is highly appreciated.

In addition, the due diligence and compliance processes that are required by western companies are not well received in Iran as a rule. Iranian companies might delay or refuse to cooperate, which could be frustrating to western businesses. This is particularly true for private and non-listed companies, where their cooperation is necessary in order to obtain any information. Publicly listed companies however, publish a list of shareholders with more than 1% stake, however, they could be representing the true stockholders whose identity is not revealed. One way of identifying significant shareholders is to examine the company's board of directors, since according to Iranian law, only shareholders can be board member. The difficulty in penetrating the ownership structure of Iranian firms poses a significant problem for western companies, as the remaining EU and American sanctions forbid any dealings with companies or shareholders who are still on the sanctions list. Apart from a declaration by the Iranian companies that their shareholders are not on the sanctioned list, it is essential for western companies to conduct due diligence through a specialised legal firm.

In general, Iranians have a short term view of profiting from a transaction and prefer short-term profits to long-term gains. As a result, they are reluctant paying for consultancy services on a regular basis and are more inclined to pay a lump sum introduction fee after a contract has been finalised.

While the financial and banking impediments may be removed in the hopefully near future, these cultural differences are there to stay and must be taken seriously in any dealings with Iran.

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