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IRAN BUSINESS  
RESPONSIBILITY  
PRACTICE NOTE

OPERATING IN IRAN POSES  
SIGNIFICANT RISKS  
FOR RESPONSIBLE BUSINESS

BUSINESS PRACTICES THAT CAUSE  
HARM TO PEOPLE AND THE  
ENVIRONMENT ARE PREVALENT IN  
IRAN, AND SO CAREFUL SELECTION AND  
MANAGEMENT OF BUSINESS  
RELATIONSHIPS ARE ESSENTIAL

MANAGING RISKS FROM BUSINESS  
RELATIONSHIPS REQUIRES A  
MULTIFACETED APPROACH

BEYOND  
SANCTIONS:

MANAGING RISKS  
FROM BUSINESS  
RELATIONSHIPS  
IN IRAN





MULTIFACETED APPROACH

1

CHOOSE THE RIGHT BUSINESS RELATIONSHIPS  
USE ENHANCED PARTNER AND SUPPLIER PRE-QUALIFICATION PROCESSES

REQUIRE RESPONSIBLE BUSINESS PERFORMANCE IN CONTRACTS  
FORMALISE PARTNERS' AND SUPPLIERS' COMMITMENTS TO RESPONSIBLE BUSINESS  
IN CONTRACTS

2

COLLABORATE AND SHARE KNOW-HOW  
PROVIDE ONGOING ENGAGEMENT AND SUPPORT FOR PARTNERS  
AND SUPPLIERS TO IMPROVE AND MONITOR PERFORMANCE

3

A close-up photograph of two hands shaking in a firm grip. The hand on the left is dark-skinned, and the hand on the right is light-skinned. Both are wearing dark blue business suits. The background is blurred, suggesting an office or business setting. The lighting is dramatic, highlighting the texture of the skin and the fabric of the suits.

CHOOSE THE RIGHT

BUSINESS RELATIONSHIPS

# CHOOSE THE RIGHT

# BUSINESS RELATIONSHIPS

## 1 Choose the right business relationships

Responsible partner selection requires screening on the full range of responsible business issues aimed at avoiding harm to people and the environment and thus goes well beyond sanctions compliance. The Iranian context warrants this more rigorous approach given pervasive business practices such as the use of child labour, exploitation of migrant workers, harmful environmental practices and unsafe workplaces.



IBR Briefing #1

### 1.1 Screening on worker welfare is critical

- > Prevalence of business practices that do not conform to responsible standards
- > Weak labour regulations
- > Large informal economy
- > Highly vulnerable workers

- 2 million undocumented migrants
- 3-7 million child labourers
- Majority of workers lack insurance or are significantly underinsured
- More than 90% of workers are employed under temporary contracts that offer little protection

### 1.1 Worker welfare screening in pre-qualification

In 2015, a company with projects in various Middle Eastern countries began implementing worker welfare screening into its subcontractor pre-qualification process. For existing and all new potential suppliers after 2015, the company requests information via a questionnaire on issues such as: the publication of worker welfare standards that contain provisions on wages, accommodation and grievance mechanisms; methods to communicate welfare standards to workers; due diligence processes to ensure the use of responsible employment agencies with similar worker welfare policies and standards; and other issues. Suppliers demonstrating little or no interest in working towards responsible business standards are eliminated; those demonstrating adequate standards or a commitment to improving existing standards are retained, and the company works with them to help them achieve the company's standards —at times through a jointly agreed action plan. The company also offers a set of key performance indicators to the subcontractors and encourages them to use them to measure their compliance with worker welfare policies. A mutually agreed timeline for improvement is developed, and contracts with those suppliers who do not meet the timeline are terminated. The foreign company also offers selected suppliers, at a negotiated fee, services to integrate worker welfare standards into subcontracting procedures and supply chains, and services to ensure implementation and enforcement of supplier requirements.

### 1.1 Major challenges to partner screening

- > Opaque ownership structures
- > Informal subcontracting practices impede accountability
- > Pre-screening on responsible business issues not common and could engender mistrust



SCREENING ON OHS  
AND ENVIRONMENTAL  
PRACTICES IS ESSENTIAL

## 1.2 Screening on OHS\* and environmental practices is essential

### > Poor standards, little attention to OHS

- Poor awareness of OHS standards
- Lack of management commitment
- Limited company resources for training and safety equipment
- Large number of undocumented workers do not report OHS problems (See [IBR Briefing #3](#))

### > Harmful environmental practices unchecked

- Environmental impact assessments (EIAs) severely lacking
- Social impacts effectively ignored
- Little monitoring of business practices or regulatory enforcement (See [IBR Briefing #5](#))

\*Occupational Health and Safety

## 1.2 Screening potential partners on OHS and environmental practices

One medium-sized enterprise operating in the construction sector in Iran embeds Occupational Health and Safety (OHS) and environmental management plans (among other issues) in procurement under a two-fold process—one informal and one formal. The informal process, carried out by the company's Engineering, Procurement and Construction (EPC) partner in charge of subcontracting work to local construction companies, is based on dialogue with potential suppliers and business partners to try to gauge their interest in learning about and complying with responsible business standards that go beyond local law. This informal process requires an investment of time to build relationships with potential partners, and in Iran this may be met with some initial resistance. Through this process, the foreign company works to ensure that potential Iranian vendors and partners prioritise responsible business issues in their operations and in their own supply chains. On the formal side of the screening, the company directly vets potential partners during tendering processes. Specifically, the company asks the potential partners to demonstrate that they have policies and standard procedures to develop health, safety and environmental management plans on topics including occupational health and safety, environmental stewardship and respect for workers, and to demonstrate commitments on monitoring and documenting compliance.

## 1.2 Screening will help address OHS risks

- > Rate of fatal work-related accidents eight times higher than world average
- > Falling from heights and crush injuries are most common work-related accidents
- > Accident rate dramatically higher for workers in 15-24 year age range
- > Musculoskeletal disorders, respiratory disorders and noise-induced hearing loss are most common work-related illnesses

## Screening will lower risks of exacerbating Iran's environmental crisis

- > Dangerous levels of air pollution require major cities to be periodically shut down
- > A water scarcity crisis has rendered many villages uninhabitable
- > Severe soil, air and water pollution results from improper waste management and other industry practices

REQUIRE  
RESPONSIBLE  
BUSINESS  
PERFORMANCE  
IN CONTRACTS

جمهوری اسلامی ایران  
وزارت تعاون، کار و رفاه اجتماعی

موضوع تبصره ۴ الحاقی ۱۳۹۴ به قانون کار  
وزارت تعاون، کار و رفاه اجتماعی



# REQUIRE RESPONSIBLE BUSINESS PERFORMANCE IN CONTRACTS

## 2 Require responsible business performance in contracts

In Iran, requiring responsible business practices beyond legal requirements is not typical practice in Iran. Additionally, many business negotiations with subcontractors and suppliers are done informally and without written contracts. However, some foreign companies, even small and medium-sized companies, have been successful in framing responsible business performance as part of the contractual requirements of business partners and suppliers. They have included specific requirements and monitoring measures to help ensure business partners and their suppliers uphold their commitments to responsible business throughout their activities in Iran.



CONTRACTUAL  
REQUIREMENTS  
ARE NEEDED  
TO ADDRESS  
PRACTICE AND  
REGULATORY  
GAPS

CONTRACTUAL REQUIREMENTS ARE NEEDED TO ADDRESS PRACTICE AND REGULATORY GAPS

### 2.1 Contractual requirements are needed to address practice and regulatory gaps

- > Responsible business practices are not commonly implemented
- > Laws and regulations in Iran are

- Inadequate to guarantee responsible business
- Poorly enforced
- Loopholes exempt many workers from most regulations

### 2.1 Integrating responsible business requirements in contracts

A foreign multinational company operating in Iran required its partners and suppliers to transpose principles equivalent to those in the foreign company's codes of conduct into their contractual agreements. Specifically, the foreign company required partners and suppliers to specify commitments in several areas in their contracts, including respect for people, treatment of workers, health, safety and the environment, among others. The foreign company further required suppliers to submit to independent auditors who would look carefully at standards and procedures relevant to worker protections—specifically their employees' working conditions—to ensure that their suppliers and contractors respect equivalent principles.

### 2.1 Issues to address in contracts

- > Mechanisms to prevent child or forced labour
- > Requirements for safe and clean on-site living quarters when relevant
- > Provision of safety equipment, gear, procedures and training
- > Proper waste management
- > Provision of health insurance to all workers
- > Guarantees of safe grievance and whistle-blowing mechanisms
- > Requirements for worker, subcontractor and supplier contracts
- > Requirements for worker compensation, working hours and overtime payments
- > Mechanisms to prevent hiring and wage differentials based on gender, religion, ethnicity, disability or sexuality
- > Privacy of company and worker online communications
- > Independent and rigorous monitoring and enforcement measures over life of project



CONTRACTUAL  
REQUIREMENTS  
ADDRESS GAPS IN  
MONITORING &  
ENFORCEMENT

# CONTRACTUAL REQUIREMENTS ADDRESS GAPS IN MONITORING & ENFORCEMENT

## IBR INSIGHTS ON IRAN

2

### 2.2 Contractual requirements address gaps in monitoring and enforcement

- > Weak government oversight (e.g. 1 government labour inspector per 15,000 registered workers)
- > Weak company oversight
- > Lack of local expertise in many responsible business areas such as OHS and environmental and social impact assessment

## PRACTICE EXAMPLE

2

### 2.2 Independent monitoring of contractual requirements

While integration of responsible business requirements is a positive first step, monitoring is key to ensuring their implementation. Practice has shown that the appointment of third-party, independent monitors is one way to help ensure contractual performance. However, guaranteeing the independence of the monitors is essential. For example, successful monitoring by a university in the United Arab Emirates increased significantly when it replaced its first monitoring firm, which had financial ties to the project's governmental benefactor. That monitoring firm had failed to note in its compliance reports that ten thousand subcontracted workers were excluded from the university's worker welfare policies. The non-compliance was only uncovered through reports by investigative journalists and a global law firm. While the appointment of external compliance monitors is a step in the right direction, companies should guarantee true independent oversight and contractors respect equivalent principles.

## IBR INSIGHTS ON IRAN

2

### 2.2 Contract commitments need rigorous, independent monitoring

- > Non-compliance of contractual requirements in practice is common
- > Responsible business practices are not commonly implemented

ON-SITE SUPERVISION  
OF OHS ADDRESSES  
RISKS



# ON-SITE SUPERVISION OF OHS ADDRESSES RISKS

IBR INSIGHTS ON IRAN

## 2.3 On-site supervision of OHS\* addresses risks

- > High rate of fatal workplace accidents
- > Fatalities in construction account for 60% of workplace deaths
- > Migrants are often used for hard labour and not provided personal protective equipment or training

\*Occupational Health and Safety

PRACTICE EXAMPLE

## 2.3 On-site supervision—even in smaller projects

A foreign multinational in Yemen and an SME in Iran have successfully included on-site supervisors as a form of daily monitoring for supplier compliance. In a foreign multinational company's contracts for large projects in Yemen, clauses required the company to subcontract part of the services to local companies. The foreign company voluntarily added supervisors to their workforce to oversee more closely the work of the local contractor and subcontractors. An SME operating in Iran has applied a similar practice. The SME sent its own skilled experts to stay at every project site in Iran, even if under typical circumstances it would not have done so - and even if international finance rules did not require it. Via these on-site experts, the company conducted regular follow-ups and carried out capacity-building initiatives with suppliers, including informal safety meetings on workplace hazards and safe work practices, the proper use of personal protective equipment and awareness-raising activities, among others. These companies have found that trained eyes and ears on the ground are an added layer of risk management especially in contexts where health and safety risks for workers are high.

IBR INSIGHTS ON IRAN

## 2.3 Contract commitments need rigorous, independent monitoring

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TECHNOLOGY CAN ASSIST  
MONITORING, GIVEN ITS  
WIDESPREAD USE





TECHNOLOGY CAN ASSIST  
MONITORING EVENTS  
WIDESPREAD USE

IBR INSIGHTS ON IRAN

2.4 Technology can assist monitoring given its widespread use

- > 61% of households have computers
- > 100.07 mobile phone subscriptions per 100 people

PRACTICE EXAMPLE

2.4 Using technology to track business partner and supplier commitments

In the United Arab Emirates, companies are asking their subcontractors—who predominantly employ low-income workers—to use banking technology accessed by workers on mobile phones to guarantee on-time payments to workers and provide cost-cutting remittance options for workers (especially migrants) who do not have access to traditional bank accounts. This type of system can prevent common worker payment issues in Iran, such as delayed wages and loss of back-pay, that can occur throughout company supply chains. In Iran, banking innovations might streamline payments to low-wage workers employed by partners and suppliers, who are generally more susceptible to incur payment problems in multi-layered supply chains. These innovations would also provide companies with an opportunity to ensure that their business partners and suppliers comply with worker welfare policies and pay their workers on time. On-time payment of wages is a particularly significant issue in Iran.

IBR INSIGHTS ON IRAN

2.4 Use of technology should address lack of online security

> Strategies include

- Using servers based outside the country
- Using foreign-owned mobile applications, software and online tools
- Using secure and encrypted platforms for worker grievances

# COLLABORATE AND SHARE KNOW-HOW



# COLLABORATE AND SHARE KNOW-HOW

### 3 Collaborate and share know-how

Together with pre-qualification of potential business partners and suppliers, and contractual requirements and monitoring, companies have found that close collaboration and support to help build the practical skills needed for implementing responsible standards among partners and suppliers is an important supplemental practice.



IBR Briefing #4

KNOWLEDGE AND  
TECHNOLOGY  
TRANSFER  
HAMPERED BY  
DECADES OF  
ISOLATION



# KNOWLEDGE AND TECHNOLOGY TRANSFER HAMPERED BY DECADES OF ISOLATION

IBR INSIGHTS ON IRAN

## 3.1 Knowledge and technology transfer has been hampered by decades of isolation

- > Iran has been largely isolated from international business practices for the last 40 years
- > There is significant lack of familiarity with international standards on responsible business

PRACTICE EXAMPLE

### 3.1 “Permit-to-work” training programme

A medium-sized foreign company operating a small construction site in Iran with local partners has introduced a permit-to-work training programme to ensure workers are properly trained to carry out specific construction and technical activities. Under this system, which is supervised by one of the company’s engineers on-site, workers are permitted to carry out specific jobs (such as welding, bricklaying or other jobs that carry inherent risks) only after they are trained and certified to perform such jobs—reducing the risk of worker injuries. Workers are trained in the proper use of personal protective equipment, harness training for working at heights, and other pertinent tasks. While these permit-to-work training programmes are common in large construction sites and industrial facilities in many countries, the medium-sized company operating in Iran found that putting this in place even at a smaller construction site (with less sophisticated and less expensive tools to run the programme) was highly effective in preventing accidents. The project’s investor saw the training programme as a medium to long-term investment for building a local supplier base that could meet the main company’s standards.

IBR INSIGHTS ON IRAN

### 3.1 High interest in collaboration and sharing know-how

- Companies are likely to find a welcoming environment for training and knowledge transfer. Both the Iranian government and private companies have voiced interest in this direction.

KNOWLEDGE AND  
TECHNOLOGY AND  
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HAMPERED OVER  
SEVERAL DECADES



### 3.2 Knowledge and technology transfer hampered over several decades

- › Iran has been largely isolated from international business practices for the last 40 years
- › There is significant lack of familiarity with international standards on responsible business

### 3.2 Skill-based training programmes for workers

In 2001, a foreign multinational company initiated skills-based training to workers in Iran. Hundreds of workers employed by one of the company's Iranian partners, a private company in charge of supplying workers, participated in the training programme. Workers were provided with basic wages, accommodation, food and training materials, as well as three months of intensive English courses and nine to eleven months of other specialised training. Every trainee also received a personal development plan devised by the foreign company. Upon completion of the courses, trainees were pre-selected, according to their capabilities, for possible positions within a seven-year-long project. Workers were initially provided with temporary recruitment contracts for a two-year period, a common contractual arrangement in Iran, after which they were later offered permanent contracts. The training programme created hundreds of engineers and other highly skilled workers after the project's completion. Similar training programmes were implemented by at least one Iranian company and one foreign multinational company that took over subsequent stages of the project.

### 3.2 Expertise to support training can be found

- › Iranian universities and research centres are rich sources of local expertise and can be valuable partners to help design education and training programs for business partners and suppliers