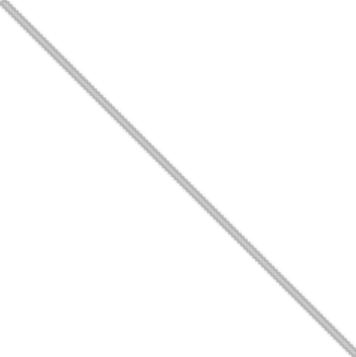




IRAN BUSINESS  
RESPONSIBILITY  
**PRACTICE NOTE**

# Beyond Sanctions: Managing Risks from Business Relationships in Iran



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.





**MULTIFACETED, THREE-PART APPROACH**

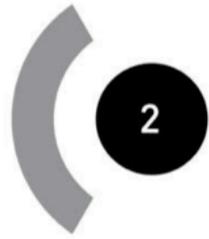
Managing risks from business relationships requires a multifaceted approach.





MULTIFACETED, THREE-PART APPROACH

**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



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



IRAN BUSINESS  
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PRACTICE NOTE

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

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 (see [IBR Briefing #1](#)).



**PRACTICE EXAMPLE**

## 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.

*Continue reading* →





## PRACTICE EXAMPLE

### 1.1 Worker welfare screening in pre-qualification

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.



## IBR INSIGHTS ON IRAN

## 1.1 In Iran, 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

## 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





## PRACTICE EXAMPLE

### 1.2 Screening potential partners on OHS and environment

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.

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## PRACTICE EXAMPLE

### 1.2 Screening potential partners on OHS and environment

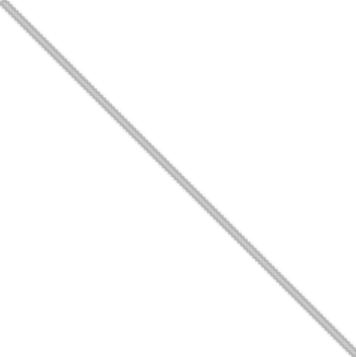
Through this process, the foreign company works to ensure that potential Iranian vendors and partners prioritise responsible business issues in their operations and in their own supply chains. On the formal side of the screening, the company directly vets potential partners during tendering processes. 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.



## IBR INSIGHTS ON IRAN

- 1.2 Screening on OHS and environmental practices essential in Iran
- 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](#))





## IBR INSIGHTS ON IRAN

### 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





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

In Iran, requiring responsible business practices beyond legal requirements is not typical practice. (Additionally, many business negotiations with subcontractors and suppliers are done informally and without written contracts. See [IBR Briefing #4](#).) 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.





## PRACTICE EXAMPLE

### 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.





## IBR INSIGHTS ON IRAN

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 Issues to address in contracts in Iran

- Mechanisms to prevent child or forced labour
- Requirements for safe and clean onsite 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



## PRACTICE EXAMPLE

### 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 noncompliance 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.





## IBR INSIGHTS ON IRAN

2.2 Contractual requirements address gaps in monitoring and enforcement in Iran

- 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

Contract commitments in Iran need rigorous, independent monitoring

- Noncompliance of contractual requirements in practice is common
- Responsible business practices are not commonly implemented





## 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.

*Continue reading* →





## PRACTICE EXAMPLE

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

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 On-site supervision of OHS addresses risks in Iran

- 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





## 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.

*Continue reading* →





## PRACTICE EXAMPLE

### 2.4 Using technology to track business partner and supplier commitments

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 Technology can assist monitoring given its widespread use in Iran

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

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





3

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

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.





## 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 onsite, 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.

*Continue reading* →





## PRACTICE EXAMPLE

### 3.1 'Permit-to-work' training programme

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 live up to the main company's standards.





## IBR INSIGHTS ON IRAN

- 3.1 In Iran, 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

There is high interest in collaboration and sharing know-how

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





## PRACTICE EXAMPLE

### 3.2 Skill-based training programmes for workers

In 2001, a foreign multinational company initiated skills-based training for 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.

*Continue reading* →





## PRACTICE EXAMPLE

### 3.2 Skill-based training programmes for workers

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 in Iran

- 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.



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The Iran Business Responsibility project encourages and guides companies to act responsibly when doing business in Iran.

For more information, please visit  
[www.ibrproject.org](http://www.ibrproject.org).