

# Briefing

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### Due Diligence for Responsible Business in Iran: Challenges and Recommendations

The most effective way for companies to avoid and mitigate negative impacts on people and the environment is to have in place an ongoing due diligence process for responsible business. The first step of this due diligence process is identifying actual and potential adverse impacts from any business activity.

Yet companies will find there are challenges in Iran to obtaining the information and enlisting the local cooperation necessary to identify and assess such impacts. In this briefing, we summarise these challenges and propose ways forward. Subsequent IBR briefings will explore challenges to other steps of the due diligence process for responsible business.



## WHAT ARE THE CHALLENGES?

### **1. A lack of familiarity in Iran with the requirements of responsible business practices**

The notion of responsible business, understood as the need for business activity to avoid and mitigate adverse impacts on people and the environment, is novel in the Iranian context. While some companies are familiar with Corporate Social Responsibility (CSR), their understanding is that CSR is equivalent to philanthropy, sponsorship and charity. The prevailing view is that social, economic or environmental impacts are state responsibilities to be addressed by the government, and not a business concern. Only three firms and three NGOs in Iran are currently members of the UN Global Compact on corporate sustainability.

Unfamiliarity can result in resistance and distrust, and this will impact the way foreign companies can communicate with workers and communities and interact with their Iranian counterparts.

### **2. Obstacles to obtaining information needed to know your partners**

Obtaining information on a local partner and its practices, and on the impact of any business activity on workers and communities, is made more challenging in Iran by a scarcity of independent information. Publicly available company information is limited, and there are no legal or regulatory requirements regarding reporting on responsible business practices or established practice of companies providing public information on practices relevant to non-financial issues. Independent civil society organizations investigating such issues and an independent domestic press that could provide valuable information are largely absent.

This has important implications for knowing your partner, an imperative in the Iranian context. While international sanctions related to Iran's nuclear program have been lifted, certain UN, EU and US sanctions remain, and hundreds of individuals and entities are still under sanctions. Sanctions compliance is complicated by the fact that full information regarding company ownership, effective control of a firm, or individuals in a company acting on behalf of others (who might be sanctioned) can be hard to obtain. Publicly listed companies provide some information, but, as in many geographies, information can easily be obscured and individuals can act as representatives for others. Less information is available for privately held companies.

In addition, an entity may not be on any sanctions list, but might be partly owned by or a subsidiary of a sanctioned entity. This is not unlikely because sanctioned entities such as Iran's Revolutionary Guards have significant holdings throughout major sectors of the Iranian economy. A sanctioned entity's ownership or stake may not be clear because it may sit behind other company structures.

Companies also face the risk of being involved with entities that are not on any sanctions list but which engage in practices that depart significantly from responsible business practices. This risk is heightened by the fact that such practices are prevalent in Iran (see IBR Briefing #1). Difficulties obtaining information on a partner's or supplier's practices raises a company's risk of being linked to violations of responsible business standards.

### **3. Obstacles to effective engagement with people and communities**

Engagement with workers and communities, an essential part of responsible business due diligence, is not standard practice in Iran and is made difficult by the lack of established channels and interlocutors. The lack of local civil society organisations focused on responsible business reduces the available channels that can facilitate engagement and build trust with local communities. It also deprives companies of an important feedback loop that could help identify risks to people and the environment posed by business activities.

In a context where this kind of engagement is unusual and unfamiliar, companies may face an environment of distrust that can make communication with local partners, workers and communities more challenging, and it may even pose risks to company personnel or local interlocutors carrying out due diligence.

### **WHAT COMPANIES CAN DO:**

- > Checks against all sanctions lists should be paired with contractual requirements that local partners disclose all ownership stakes and conduct sanction screening for all subcontractors.
- > Identify and enlist suitable local expertise to undertake rigorous background research on partners' owners, policies and practices.
- > Enlist local expertise to guide the company's engagement with the people and communities that are potentially affected by the business activity to fully identify salient issues and impacts.
- > Train local employees on responsible business practices and communicate expectations regarding responsible business standards when building relationships with partners and suppliers in Iran.
- > Communicate to Iranian state and local officials the company's commitment to responsible business practices and explain the potential legal, financial and reputational risks to the company of failing to meet this commitment.
- > Seek support and guidance from home governments on responsible business practices.
- > Devote additional time and resources to tailor materials, language and approaches to the local experience in Iran so that inclusive engagement is facilitated.



## RESPONSIBLE BUSINESS

Respecting people and the environment

Reducing risk for companies

Enhancing the benefits of business for all



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**IBR** is a nonprofit initiative that works with companies, governments and other stakeholders to foster responsible business practices that respect people and the environment, enhancing the benefits business can bring and reducing the risks for companies.

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