

Hezbollah Has Created Parallel Financial and Welfare Systems to Manage the Current Crisis

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Brief Analysis

To contain corrupt actors and facilitate reform, the international community must provide alternatives to Hezbollah pharmaceutical and food programs while filling gaps that the group is unable to address.

Despite Lebanon's deteriorating financial and economic situation, the country's political elite have made clear that they will not implement reforms laid out by the international community as prerequisites for a bailout. In their view, the changes specified by the IMF, the World Bank, and the French-sponsored aid framework CEDRE would mean the eventual collapse of their political class, whose corruption and illegal business dealings are protected and encouraged by Hezbollah. Indeed, the emergence of a more independent secular political class [that reflects the October 2019 protests \(https://www.washingtoninstitute.org/policy-analysis/view/the-lebanon-protests-views-from-beirut-and-policy-implications\)](https://www.washingtoninstitute.org/policy-analysis/view/the-lebanon-protests-views-from-beirut-and-policy-implications) is a serious concern for the militia and its allies in government, so they have chosen to manage the crisis rather than resolve it.

Thus far, Hezbollah's crisis-management efforts have far surpassed those of every other political party, civil society organization, and foreign assistance channel. The group's military structure, organizational expertise, and access to alternative sources are enabling it to pursue temporary strategies for surviving the current crisis, while also retaining independence from state institutions, preserving a measure of support from its core Shia community, and discouraging Shia from joining any further rounds of public unrest. In the longer term, Hezbollah seems to be hoping that a transformative regional development—perhaps a new U.S.-Iranian nuclear agreement or a favorable U.S.-European partnership on Lebanon—will allow it to resolve its [own financial crisis \(https://www.washingtoninstitute.org/policy-analysis/view/u.s.-sanctions-are-hurting-hezbollah\)](https://www.washingtoninstitute.org/policy-analysis/view/u.s.-sanctions-are-hurting-hezbollah) and regain access to hard currency, either from the Iranian regime or through international assistance mechanisms.

Yet even if Hezbollah seems fairly well-positioned to weather the storm, the Lebanese people—including the group’s support base—are not. According to [a new World Bank report \(https://www.worldbank.org/en/country/lebanon/publication/lebanon-economic-monitor-fall-2020\)](https://www.worldbank.org/en/country/lebanon/publication/lebanon-economic-monitor-fall-2020), half the population is living below the poverty line, and more will soon join them if the Central Bank stops subsidizing medicine, fuel, wheat, and other essentials two months from now as projected.

THE PHARMACEUTICAL PLAN

Before the financial crisis hit in fall 2019, Hezbollah was already using [its control over the Health Ministry \(https://www.washingtoninstitute.org/policy-analysis/view/why-does-hezbollah-want-lebanons-health-ministry\)](https://www.washingtoninstitute.org/policy-analysis/view/why-does-hezbollah-want-lebanons-health-ministry) to coordinate with pharmacies in south Lebanon, the Beqa Valley, and the southern suburbs of Beirut. The aim: to provide its members and employees with medications at lower prices. Since then, however, many of these pharmacies have suffered from the Health Ministry’s inability to pay its expenses, and from the scarcity of medications that arose once importers could no longer access hard currency.

To resolve these problems, Hezbollah started using U.S. dollars to buy up financially troubled pharmacies, especially those in big cities such as Tyre and Nabatiyah. The group then flooded its pharmacies and health centers with Syrian and [Iranian medications \(https://www.washingtoninstitute.org/policy-analysis/view/iran-south-korea-humanitarian-trade-requires-u.s.-assurances\)](https://www.washingtoninstitute.org/policy-analysis/view/iran-south-korea-humanitarian-trade-requires-u.s.-assurances) smuggled across the border and through the airport. These methods have enabled Hezbollah vendors to avoid paying import taxes and undersell other merchants. Moreover, they should be able to maintain this approach even after the Central Bank stops subsidizing other sellers. Hezbollah could then kill two birds with one stone—continue making money from Iranian medications while at the same time preserving its popular support.

THE SOCIAL ASSISTANCE PLAN

In the past few weeks, Hezbollah established the new grocery chain “Al-Nour Markets,” opening three stores in the south, two in the Beqa, and two in the Beirut suburbs. Each location is full of Iranian and Syrian products sold at lower prices than imported goods in rival supermarkets. By entering this sector, Hezbollah will be able to reap profits in Lebanese pounds, which it could later transfer to U.S. dollars on the black market.

The group has also created a new social security system for its members and employees: the “Al-Sajed” card, which can be used to purchase items and get discounts at Al-Nour Markets. The card is refilled with 300,000 liras per month, which is not much money at current exchange rates (about \$200 USD) but still enough to make a major impact, especially in poorer communities. According to Hezbollah sources cited by Lebanese outlets, the card will eventually be distributed to poor Shia families, many of whom already receive seeds, equipment, and other farming supplies from the group’s U.S.-designated foundation Jihad al-Binaa.

Apart from generating additional profits, this part of Hezbollah’s strategy is mainly tailored to keep the Shia community under control. The country’s social and economic structure may fall apart quickly once subsidies stop completely. Hence, the political class is worried about another wave of protests by angry citizens who may be increasingly willing to face violence with violence. By making the Shia dependent on Hezbollah assistance, the group aims to ensure that at least one constituency stays quiet.

THE BANKING ALTERNATIVE

When Lebanese banks began limiting the withdrawal of U.S. dollars in October 2019 and imposing informal capital control on accounts, many depositors decided to take out as many dollars as they could. Since then, Lebanese residents have withdrawn an estimated \$6 billion in cash from banks, and Hezbollah has sought to benefit from this unofficial public cash reserve. Among other tactics, the group has encouraged people to use its financial

institutions to exchange and deposit their money—especially al-Qard al-Hassan, a U.S.-designated foundation that has become Hezbollah’s main money exchanger and the default bank replacement for its Shia constituency.

Recently, al-Qard al-Hassan installed ATMs at its branches in Beirut’s southern suburbs, reportedly allowing locals to receive cash payments and loan money from Hezbollah without the restrictions seen at other banks. The foundation is not a bank or financial institution, so it does not receive money from the Central Bank or any other official state organ. This arrangement allows it to set its own rules, cut its own deals, and otherwise boost Hezbollah’s parallel economy and financial structure. Down the road, Hezbollah hopes to regain access to hard currency, particularly the large cash deliveries Tehran used to make before sanctions. If and when that happens, the group aims to be the only party in Lebanon with substantial amounts of U.S. dollars, thereby transforming al-Qard al-Hassan into the country’s only viable banking system.

CHALLENGES AND OPPORTUNITIES

Despite the currency hurdles created by U.S. pressure and sanctions, Iran is still able to send goods to Hezbollah in order to shore up the group’s influence and finances. Yet other challenges could upend Hezbollah’s strategy for surviving Lebanon’s financial crisis and holding onto its support base.

First, even if the group is able to offset national shortages by providing its supporters with certain foods, household items, and medications from Iran and Syria, this plan does not cover other pressing national needs such as electricity, Internet service, hospitalization, and employment. The Shia have felt the quick decline in their standard of living and know the main reasons behind it: the corruption and clientelism that Hezbollah staunchly defends.

Second, Hezbollah’s internal financial crisis has decreased its access to hard currency, forcing it to pay its civilian staff in Lebanese pounds—which have lost almost 80 percent of their value compared to U.S. dollars. This is creating serious financial and social gaps between the group’s military and civilian employees, while also widening the gap between Hezbollah members and the wider Shia community. Indeed, most Shia have lost their jobs or are receiving a fraction of their salaries, and the state no longer provides them with the social, health, and educational services that Hezbollah personnel are still receiving. Although these services could help the group maintain loyalty among its closest circles and most essential employees, the sense of inequality is exacerbating discontent among the wider Shia community, as indicated by a recent [Fikra Forum poll \(https://www.washingtoninstitute.org/fikraforum/view/lebanon-poll-drop-hezbollah-support-shia-plurality-back-israel-talks\)](https://www.washingtoninstitute.org/fikraforum/view/lebanon-poll-drop-hezbollah-support-shia-plurality-back-israel-talks) that showed Hezbollah’s support dropping among all constituencies.

In short, the group’s tools for providing social and humanitarian assistance are flawed, insufficient, and largely geared toward ensuring its own survival. To contain Hezbollah and make reform the only way out of the crisis, the international community should consider a two-fold strategy for providing humanitarian aid to the Lebanese people: (1) compete with the group in sectors where its plans are already in motion, and (2) fill the gaps that Hezbollah is unable to address. The sums dedicated to these efforts do not have to be large—donors could go far toward undermining the group’s grip among the Shia with investments that supply adequate medications, basic foodstuffs, and services that Hezbollah cannot sufficiently provide, such as hospitalization, medical care, and Internet access. The alternative—forcing the Lebanese people to depend on Hezbollah for survival—would only empower the group and its enablers while diminishing the push for long-lasting reforms.

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