

# U.S. Sanctions Are Hurting Hezbollah

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## ABOUT THE AUTHORS



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Brief Analysis

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**To further tighten the noose, Washington should disrupt the group's efforts to tap international aid, Lebanese ministry budgets, Syrian smuggling revenue, and other resources.**

**D**espite Hezbollah's repeated claims that foreign sanctions would not affect its capabilities, evidence suggests that the group is facing a serious financial crisis. Its leaders have already implemented harsh new austerity measures, and sources close to the group believe these efforts will become more severe over time. Many Hezbollah members and supporters are shocked by these measures, including rank-and-file fighters who have largely been spared from past budget cuts. Most significantly, the austerity campaign is shaking the group's image as a "father figure" within the Shia community. Hezbollah is now looking for new sources of funding, but there are ways to stop it.

## WHAT HAS CHANGED?

**M**ost of the austerity measures have been enacted in the past few months, with Hezbollah attributing them to U.S. sanctions on Iran, the group's principal patron. As Secretary-General Hassan Nasrallah stated on August 14, Hezbollah will face a financial problem "as long as U.S. President Donald Trump is in power." Yet while Nasrallah assured listeners that the group will persevere due to its strong infrastructure, officials have proven incapable of holding up to such promises so far.

As the fighting subsided in much of Syria over the past three months, Hezbollah has brought many of its personnel home, apart from the combat troops and logistics forces stationed in the Damascus area, Deir al-Zour, and south Syria. In particular, it has redeployed many of its newer fighters, whom it recruited during the war on a contractual basis and is no longer obligated to pay now that they are back home.

Meanwhile, according to a January report by Sky News Arabia, employees of Hezbollah's media, education, medical, and military systems have complained of deep pay cuts, with some reportedly receiving only 60 percent of their salaries that month. Employees believe further pay cuts may be imminent.

Fighters and their families are beginning to complain about lost wages as well—a largely unprecedented development. Married fighters are reportedly receiving only half of their salaries (which normally range from \$600 to \$1,200 per month), and single fighters are receiving only \$200 per month.

In other sectors, Hezbollah sources quoted by local media reported that employees in its religious institutions have not been paid in three months. The group has also closed around a thousand offices and apartments throughout Lebanon, merged many of its institutions, and frozen all hiring. Its social services budget has decreased as well, following a previous reduction in 2013.

## THINKING LONG TERM

**A**lthough Iran has not stopped sending money to Hezbollah so far, the group realizes that continued sanctions and/or altered regional circumstances may require it to seek alternative sources of funding down the road. For instance, if a new war breaks out with Israel, Tehran might not be able to send trucks full of cash to Lebanon as it did around the time of the 2006 conflict. Likewise, other states may not be as willing to fund another postwar reconstruction now that Hezbollah controls the government.

The group also realizes that Tehran is engaged in several expensive endeavors beyond Lebanon, many of which involve Hezbollah personnel. In Syria, their activities are entering a new phase—one focused on cementing their military and political presence via **soft-power initiatives (<https://www.washingtoninstitute.org/policy-analysis/view/pushing-back-on-iran-in-syria-part-1-beyond-the-boots>)**, purchasing large amounts of land, recruiting Sunni men in the south and Deir al-Zour, and establishing social and cultural services to indoctrinate Syrian youths. All of these initiatives require budgetary shifts, and Hezbollah leaders seem intent on making cuts in Lebanon (where they believe the Shia community can afford such sacrifices) in order to build roots in Syria (where their influence is more fragile).

## NEW SOURCES OF FUNDING

**T**o address the financial crisis and ensure it does not worsen due to sanctions, Hezbollah has been looking to tap several alternative sources of money:

- After making further inroads into government agencies following last year's parliamentary elections, Hezbollah aims to use various public resources to appease its community. For example, when the new government finally formed this January, the group gained **direct control over the Health Ministry (<https://www.washingtoninstitute.org/policy-analysis/view/why-does-hezbollah-want-lebanons-health-ministry>)**, which commands Lebanon's fourth-largest budget at \$338 million per year. In contrast to other top ministries, the Health Ministry gives the majority of its funds directly to the public rather than paying them out as salaries to ministry employees, potentially allowing Hezbollah to divert large sums to supporters affected by its internal austerity measures. It might also use the ministry to funnel Iranian pharmaceuticals to Lebanon.
- Via its political allies, Hezbollah has gained access to the Ministry of Public Works and Transport, the Agriculture Ministry, and the Ministry of Energy and Water, whose assistance may now be used to fund projects and businesses affiliated with the group.
- Hezbollah officials have reportedly informed the allied Amal Party that they will take charge of assigning half of the government jobs constitutionally allocated to the Shia community. Traditionally, Amal has used this privilege to maintain its own support base, but Hezbollah can no longer afford to relinquish such a windfall; instead, it will likely

give these positions to its own supporters and fighters.

- Hezbollah has been increasingly exhorting Lebanese Shia to pay the *khums*, a religious tax representing one-fifth of whatever money they earn. The group is affiliated with many of the religious authorities who collect this tax, so it would benefit significantly.
- The increase in smuggling along the Lebanon-Syria border and via Beirut port has also helped Hezbollah, which controls both sides of the frontier and the port facilities.
- Hezbollah recently gave its blessing to the \$11 billion in aid pledged at the French-sponsored CEDRE development conference last April, after opposing the idea for months because it will open Lebanon up to international scrutiny (for more on the current status of this aid, see the closing section of this PolicyWatch). Yet the group is pushing for the money to come through ministry budgets rather than public-private partnerships—the generally preferred route for foreign investments, and one that the previous government prepared for by passing the “PPP Law” in 2017. If its demands are met, Hezbollah will have an easier time accessing CEDRE funds through the many service ministries controlled by its allies.

## DON'T PUNISH LEGITIMATE SHIA BUSINESSES

**B**ecause of Hezbollah's many illegal activities at home and abroad, Lebanon's Shia community as a whole is now considered “high risk.” For many investors considering deals there, the easiest decision is to avoid any partnership with Shia-owned companies, which unfairly alienates legitimate businesspeople.

Accordingly, the U.S. government should focus on educating international institutions and Lebanese citizens about which entities and activities are targeted by sanctions against Hezbollah. Treasury Department officials have repeatedly stated that sanctions are not meant to punish the entire Shia community, but no serious efforts have been made to reach out to Shia businesses. Such discussions would help Washington better understand the impact of sanctions and develop strategies to avoid serious collateral damage.

At the same time, sanctions have had promising results so far. Businesspeople who oppose Hezbollah want to protect their investments. More significantly, many Shia businesspeople are eager to extricate all of their interests from companies close to Hezbollah, and are looking for guidance and information on how best to do so.

For its part, Hezbollah is blaming the financial problems on the United States and asking supporters to resist and persevere, acknowledging the depth of the problem while seemingly regarding it as temporary. For example, one high-ranking commander told an interviewer in January that the group had lost more than 40 percent of its Shia supporters: “We know that this figure will rise; however, we are not worried. Those we've lost have nowhere to go, and they will come back to us when the crisis is over.”

Indeed, the disheartened Shia have no alternatives at the moment, which has left many of them feeling isolated and collectively punished. Yet this state of affairs can be reversed if the United States and other actors give them tangible alternatives such as [better access to loans and jobs \(https://www.washingtoninstitute.org/policy-analysis/view/economic-alternatives-could-help-split-shiites-from-hezbollah\)](https://www.washingtoninstitute.org/policy-analysis/view/economic-alternatives-could-help-split-shiites-from-hezbollah).

## WHAT TO DO ABOUT CEDRE FUNDS?

**U**ntil such alternatives are available, Washington should make sure that any CEDRE money Lebanon receives from the World Bank, Saudi Arabia, or other top donors is sent through public-private partnerships rather than Beirut's ministry budgets. That way, Hezbollah will not be able to control how it is spent or obstruct the reforms associated with it.

Currently, the World Bank is planning to issue a policy letter outlining the conditions for disbursement of these funds. Yet according to Hayya Bina—a Lebanese NGO with lengthy experience monitoring the country's donor

relations—international organizations lack the knowledge necessary to avoid unintended transactions with Hezbollah-affiliated institutions. This is why it is vital for the United States to engage in assertive dialogue with the World Bank as soon as possible, to help ensure that these billions do not become yet another slush fund for Hezbollah.

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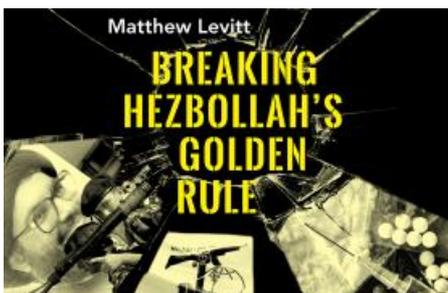
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