

Targeting Hezbollah's Home-Front Finances

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Brief Analysis

A law passed in late 2015, known as HIFPA, has successfully intensified pressure against the Lebanon-based militant group.

During a June 26 televised address, Hassan Nasrallah, secretary-general of the Lebanese Shiite militia Hezbollah, made the stunning admission that his organization's "budget, its income, its expenses, everything it eats and drinks, its weapons and rockets, are from the Islamic Republic of Iran." The statement was unprecedented -- but it was also untrue. In addition to substantial Iranian support, Hezbollah has for decades helped fund its terrorist and social service initiatives through a diverse portfolio of commercial activities. The timing of Nasrallah's spurious revelation was no coincidence: on May 3, the Banque du Liban (BdL), Lebanon's central bank -- in compliance with new U.S. legislation -- issued a circular ordering banks to close accounts belonging to individuals and institutions associated with the organization. Hundreds of such Hezbollah-linked accounts have since been closed, according to BdL, threatening the militia's social support network and commercial interests. It is widely believed that in response to these financial pressures, Hezbollah detonated a bomb on June 12 outside the headquarters of Blom Bank in central Beirut, injuring two and substantially damaging the bank's offices.

Background

The Hezbollah International Financing Prevention Act (HIFPA), which was signed into law in mid-December 2015, targets financial institutions found to knowingly facilitate a significant transaction on behalf of Hezbollah or

anyone affiliated with or acting on its behalf. Similar to authorities adopted vis-à-vis Iran prior to the nuclear deal, HIFPA empowers the U.S. Treasury Department to cut off such institutions from accessing the U.S. financial system. As part of the law's implementation, in March, the Treasury published a list of close to one hundred entities globally already subject to domestic asset blocking due to their affiliation with Hezbollah. Implementing regulations published in April also limited the definition of Hezbollah under the law to the organization itself and the hundred or so previously designated affiliates.

BdL's circular, issued May 3, builds on Basic Circular 126 of 2012, which called on Lebanese financial institutions to "deal with [foreign correspondents] in conformity with the laws, regulations, procedures, sanctions and restrictions adopted...by the sovereign authorities in the correspondents' home countries." Beyond reminding banks of Basic Circular 126, the May 3 circular mandates that banks report account closures to the Special Investigation Commission, or SIC, Lebanon's Financial Intelligence Unit. The May 3 circular itself does not indicate that banks need BdL approval to close accounts. Still, some Lebanese bankers whisper that the BdL is weighing in to prevent account closures.

While the U.S. regulations present a fairly high bar for action against foreign banks, press reporting and anecdotal accounts claim that Lebanese banks are closing scores of accounts for undesignated individuals, including Hezbollah-affiliated hospitals, members of parliament, and even family members. Western banks have adopted no-tolerance policies with regard to foreign correspondents in the wake of large sanctions-related enforcement actions in recent years. With 55 percent of Lebanese trade conducted in dollars, Lebanese banks would likely be unable to operate if cut off from dollar clearing, either as a result of an ultracautious New York bank or if "made an example of" by U.S. officials.

Pressure on Lebanon

Even before implementation of the HIFPA, Lebanon's economy was facing severe challenges. Since 2011, spillover from the war in Syria has undermined Lebanese commerce, slowed building, and spooked would-be tourists, retarding growth. In 2015, according to the World Bank, Lebanon's real GDP growth slowed to 1.5 percent. The arrival of 1.5 million Syrian refugees -- 25 percent of the state's current population -- has also proven costly, both financially and in terms of social dislocation. Making matters worse, Hezbollah's deployment of troops to Syria in support of the nominally Shiite Alawite Assad regime has deepened sectarian tensions between Lebanon's Sunnis and Shiites, hamstringing the government's already limited ability to make difficult economic and political decisions, and -- for the past two years -- parliament's capacity to elect a president.

Prospects for Lebanon's economy worsened in February, after the Hezbollah-aligned Lebanese foreign minister, Gebran Bassil, abstained from a nearly unanimous Arab League resolution condemning Iran for complicity in the January 3 sacking of the Saudi embassy in Tehran and consulate in Mashhad. In the aftermath of Bassil's nonvote, Saudi Arabia canceled a \$3 billion grant to the Lebanese Armed Forces (LAF) and a \$1 billion donation to the Internal Security Forces, and threatened to withdraw its deposits from BdL. These steps were the latest in a series of Saudi actions against Lebanon, including an official advisory against travel there, a move that could further damage hopes for a decent tourist season this summer.

Pressure on Hezbollah

In recent years, a series of U.S. actions has constrained Hezbollah's financial operations, but the pressure has been increased by HIFPA. Today, according to Acting Treasury Undersecretary Adam Szubin, the organization is in "its worst financial shape in decades." While it's difficult to assess with certainty the organization's financial health, the U.S. Treasury has engaged in a multiyear effort to target Hezbollah business interests used both to generate revenue and provide commercial cover for illicit activities.

Last July, Nasrallah denied that Hezbollah profited from commercial activity and condemned U.S. sanctions for undermining financial stability in Lebanon. His remarks followed a number of new sanctions actions against Hezbollah highlighting its use of commercial cover, including the June 2015 designation of Adham Tabaja and his al-Inmaa Engineering and Contracting group, which had been used to "obtain oil and construction development projects in Iraq that provide both financial support and organizational infrastructure to Hizballah." In February, the U.S. Drug Enforcement Administration, in cooperation with Interpol, announced a number of arrests associated with what law enforcement called Hezbollah's Business Affairs Component, which according to U.S. officials operates under the control of Tabaja and senior Hezbollah official Abdallah Safieddine and was responsible for the movement of large quantities of cocaine in the United States and Europe.

Salameh on the Ropes?

At the center of the controversy over Lebanon's new banking practices is Riad Salameh, who has served for the last twenty-three years as the Central Bank governor. Salameh, who at one time worked for Merrill Lynch, has a distinguished record at the bank, adeptly managing fiscal policy in a state plagued with profound sectarian divisions, a stultifying former Syrian military occupation, routine political assassinations, and periodic but intense wars between Hezbollah and Israel. Through it all, Salameh demonstrated a steady and prescient hand, increasing foreign reserves from \$300 million in 1993 to nearly \$37 billion today. Indeed, Salameh was instrumental in helping insulate Lebanon from the 2008 global financial meltdown by issuing -- years earlier -- a bank circular prohibiting local banks from subscribing to subprime mortgage products. Earlier this year, based on his record, which has benefited Lebanon's Sunnis, Shiites, and Christians alike, Salameh was mentioned as a possible candidate for the presidency.

In his role as governor, and under pressure from U.S. authorities, Salameh in recent years occasionally oversaw the closure of Hezbollah bank accounts. Understanding this was part of doing business, Hezbollah appeared to harbor little animus toward Salameh for these measures. Since HIFPA, however, Hezbollah and its allies have been overtly attacking Salameh in the media. In mid-May, Hezbollah parliament member Hassan Fadallah accused Salameh of being overzealous in his implementation of the regulations, describing him as "more American than the Americans." More recently, just a day before the Blom Bank bombing, Iran's Fars News Agency accused the Lebanese Central Bank, under Salameh, of perpetrating "economic and ethnic cleansing" by implementing the banking sanctions.

Instead of complying with U.S. "aggression," according to the pro-Hezbollah daily al-Akhbar, Hezbollah wants Salameh to "defend Lebanese sovereignty," abolish the May 3 circular, and resume his understanding with Hezbollah to apply U.S. regulations only to dollar -- and not Lebanese lira -- accounts. While in recent days the ad hominem attacks on the governor have diminished slightly, pressures on Salameh are likely to persist.

Conclusion

The Blom Bank bombing was an unambiguous warning from Hezbollah: should Beirut continue to focus on Hezbollah assets, the militia could decide to more violently target Lebanon's financial sector, undermining a key node of stability in the state. Notwithstanding Hezbollah pressure, however, it is not clear that the BdL could encourage Lebanese banks to take a more *laissez faire* approach to Hezbollah accounts. The costs of noncompliance are so severe that few of Lebanon's large, profitable banks -- and very few international financial institutions -- are willing to take the risk.

Facing increased financial pressures, it is possible that Hezbollah could lash out *a la* 2008, when the militia invaded Beirut, killing a hundred, to reverse unfavorable government edicts. More likely, though, the organization will find temporary, albeit cumbersome, work-arounds. Still, the Treasury measures will continue to greatly complicate the organization's finances. Since 2001, Washington has been narrowly focused on targeting al-Qaeda and more

recently on the Islamic State. HIFPA represents a welcome U.S. initiative to target, at least financially, the "A team" of terrorism.

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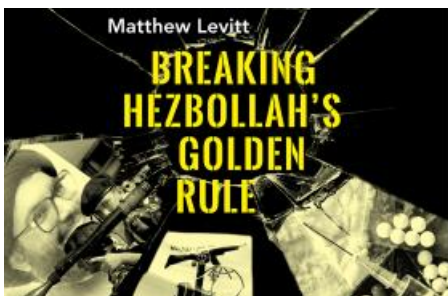
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