

## Hezbollah Finances: Funding the Party of God

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### Introduction

It is a painful reality that no counterterrorism technique or effort, however extensive, international, or comprehensive, will put an end to terror attacks or uproot terrorism. There will always be people and groups with entrenched causes, an overwhelming sense of frustration, a self-justifying worldview, and a healthy dose of evil, who will resort to violence as a means of expression.

The goal of counterterrorism, therefore, should be to constrict the environment so that it is increasingly difficult for terrorists to carry out their plots of destruction and death -- making it harder for terrorists to operate at every level, such as conducting operations, procuring and transferring false documents, ferrying fugitives from one place to another, and financing, laundering, and transferring funds. This includes cracking down not only on operational cells, but on their logistical and financial support networks as well. In fact, one can so constrict a terrorist group's operating environment that it will eventually suffocate.

September 11 drove home the central role logistical and financial support networks play in international terrorist operations. Clearly, individuals who provide such support must be recognized as terrorists of the same caliber as those who use that support to execute attacks.

Since September 2001, America -- together with many of its allies -- has spearheaded a groundbreaking and comprehensive disruption operation to stem the flow of funds to and among terrorist groups. Combined with the unprecedented law enforcement and intelligence efforts to apprehend terrorist operatives worldwide and thereby constrict the space in which terrorists can operate, cracking down on terrorist financing denies them the means to travel, communicate, procure equipment, and conduct attacks. Though the amount of money frozen internationally remains negligible, the impact of freezing terrorists' assets can be significant if the right accounts, companies, or front organizations are shut down. Denying terrorists access to their preferred means of raising, laundering, and transferring funds complicates their efforts to conduct their activities.

However, al-Qaeda is not the only international terrorist network that poses a serious threat. Deputy Secretary of State Richard Armitage identified Hezbollah as "the A team of terrorism," and warned "their time will come, there's no question about it." (2) Semantics aside, such statements are more than just tough talk. Highlights of Hezbollah's record of terror attacks include suicide truck bombings targeting US and French forces in Beirut (in 1983 and 1984) and U.S. forces again in Saudi Arabia (in 1996), its record of suicide bombing attacks targeting Jewish and Israeli interests such as those in Argentina (1992 and 1994) and in Thailand (attempted in 1994), and a host of other plots targeting American, French, German, British, Kuwaiti, Bahraini and other interests in plots from Europe to Southeast Asia to the Middle East. (3) As discussed in greater detail below, Hezbollah cross-border operations have spiked since the Israeli withdrawal to the "Blue Line" in May 2000, as has its proactive support for Palestinian terrorist groups targeting Israel.

According to U.S. authorities, concern over the threat posed by Hezbollah is well placed. FBI officials testified in February 2002 that "FBI investigations to date continue to indicate that many Hezbollah subjects based in the United States have the capability to attempt terrorist attacks here should this be a desired objective of the group." (4) Similarly, CIA Director George Tenet testified in February 2003 that "Hezbollah, as an organization with capability and worldwide presence, is [al-Qaeda's] equal, if not a far more capable organization." (5)

Still, some maintain that Hezbollah is merely a "resistance" organization responding to Israeli occupation of disputed land. The distinction is, appropriately, lost on most Western experts, given that the "resistance" groups in question employ acts of terrorism such as suicide bombings to achieve their goals and that many of the operatives go back and forth between serving in guerilla units fighting in South Lebanon and international terror cells plotting bombings abroad. (6) In any event, no goal, however legitimate, legitimizes the use of terrorist tactics and the killing of innocent civilians.

US intelligence officials have also expressed concern over possible links between Hezbollah and Abu Musab al-Zarqawi, highlighting the ad hoc tactical relationship brewing between Iran's shi'a proxy and the loosely affiliated al-Qaeda network. In September 2003, when US authorities designated Zarqawi and several of his associates as 'Specially Designated Global Terrorist' entities, the Treasury said that Zarqawi not only had "ties" to Hizbullah, but that plans were in place for his deputies to meet with both Hizbullah and Asbat al-Ansar (a Lebanese Sunni terrorist group), "and any other group that would enable them to smuggle mujaheddin [sic] into Palestine." (7) The Treasury claimed that Zarqawi received "more than \$35,000" in mid 2001 "for work in Palestine," which included "finding a mechanism that would enable more suicide martyrs to enter Israel" as well as "to provide training on explosives, poisons, and remote controlled devices." (8)

Similarly, while the 9/11 Commission found no evidence that Iran or Hezbollah had advance knowledge of the September 11 plot, the commission's report does note that Iran and Hezbollah provided assistance to al-Qaeda on several occasions. For example, al-Qaeda operatives were allowed to travel through Iran with great ease. Entry stamps were not put in Saudi operatives' passports at the border, though at least eight of the September 11 hijackers transited the country between October 2000 and February 2001. The report also noted a "persistence of contacts between Iranian security officials and senior al-Qaeda figures" and drew attention to an informal agreement by which Iran would support al-Qaeda training with the understanding that such training would be used "for actions carried out primarily against Israel and the United States." Indeed, al-Qaeda operatives were trained in explosives, security, and intelligence on at least two occasions, with one group trained in Iran around 1992, and a second trained by Hezbollah in Lebanon's Bekaa Valley in the fall of 1993. (9)

In the final analysis, whether suspected ties between Hezbollah and global jihadist elements such as Zarqawi and the 9/11 plotters are proved or not, Hezbollah warrants being designated a terrorist group of global reach on the merits of its own activities. The means by which the group finances its vast and varied activities is therefore of paramount concern to U.S. intelligence officials and policymakers.

#### Iran: State Sponsorship of Hezbollah

Iran is believed to fund Hezbollah to the tune of at least \$100 million per year. Recently, Western diplomats and analysts in Lebanon estimated Hezbollah receives closer to \$200 million a year from Iran. (10) The increase is likely due to Iran's keen interest in undermining prospects for Israeli-Palestinian peace (and, in general, further destabilizing the Israeli-Palestinian conflict), and Hezbollah's growing role as Iran's proxy to achieve this goal. Hezbollah success in funding and training Palestinian groups -- not just the Iran's interest in it -- may well explain the increase in funding since Iran is known to employ a results-oriented approach to determining the level of funding it is willing to provide terrorist groups. As a U.S. court noted in *Weinstein v. Iran*, the period of 1995-1996 "was a peak period for Iranian economic support of Hamas because Iran typically paid for results, and Hamas was providing results by committing numerous bus bombings such as the one on February 25, 1996." (11) Iranian funding to terrorist groups like Hamas and Islamic Jihad (most often funneled via Hezbollah) increases when they carry out successful attacks and decreases when they fail, are thwarted or are postponed due to ceasefires or other political considerations.

Some of this financial support comes in the form of cash funds, while much is believed to come in the form of material goods such as weapons. Iranian cargo planes deliver sophisticated weaponry, from rockets to small arms, to Hezbollah in regular flights to Damascus from Tehran. These weapons are offloaded in Syria and trucked to Hezbollah camps in Lebanon's Bekaa Valley. In the wake of the death of Palestinian leader Yasser Arafat, Hezbollah reportedly received an additional \$22 million from Iranian intelligence to support Palestinian terrorist groups and foment instability. (12)

Iran also funnels money to Hezbollah through purportedly private charities closely affiliated with the revolutionary elite led by Supreme Leader Khomeini that controls such key Iranian institutions as the intelligence and security services, the judiciary, and the revolutionary council. Mohammed Raad, leader of Hezbollah's "Loyalty to the Resistance Bloc" in the Lebanese parliament, readily accedes that the group receives funds from Iran, but maintains these are only for "health care, education and support of war widows." (13)

Beyond this tangible support, however, Iran also provides Hezbollah less quantifiable financial support through the training and logistical operation support it provides the group. Indeed, the most significant *modus operandi* that runs through all Hezbollah global activities -- financial, logistical and operational -- is that at some level all Hezbollah networks are overseen by and are in contact with senior Hezbollah and/or Iranian officials.

For example, Hezbollah operatives in Charlotte, North Carolina, responded directly to Sheikh Abbas Haraki, a senior Hezbollah military commander in South Beirut. At the same time, Hezbollah procurement agents in Canada who coordinated with the Charlotte cell worked directly with Haj Hasan Hilu Laqis, Hezbollah's chief procurement officer who operates closely with Iranian intelligence. (14)

In Southeast Asia, members of the Hezbollah network behind a failed truck-bombing targeting the Israeli embassy in Bangkok in 1994, as well as a series of other terrorist plots in the region throughout the 1990s, were intimately tied to Iranian intelligence agents. Comprised almost entirely of local sunni Muslims, the network was led by Pandu Yudhawitna who was himself recruited by Iranian intelligence officers stationed in Malaysia in the early 1980s. (15)

Other examples include senior Hezbollah operatives and Iranian agents involved in the 1996 Khobar Towers bombing in Saudi Arabia, in Hezbollah's efforts to smuggle weapons to Palestinian terrorists through Jordan since 2000, in Hezbollah operations in South America (including the 1992 and 1994 bombings), and in the recruitment of Shia students in Uganda. (16) Throughout these and many other cases, a key common thread is the direct contact

each cell maintains to senior Hezbollah and/or Iranian intelligence operatives.

Perhaps the best documented example of the operational relationship Iran maintains with Hezbollah is Tehran's role in the Jewish community center (Asociacion Mutual Israelita Argentina , or AMIA) bombing. According to Abdolghassem Mesbahi, a high-level Iranian defector, the decision to bomb the AMIA building was made at a meeting of senior Iranian decision makers on August 14, 1993. (17) The meeting reportedly included the Supreme Leader Ali Hoseini Khamenei, former President Ali Akbar Hashemi, Rafsanjani, former Foreign Minister Ali Akbar Velayati, the Head of Intelligence and Security in Khamenei's Bureau, Mohammed Hjazai, former Intelligence Minister Ali Fallahian, and Iranian secret service agent Mohsen Rabbani. (18) According to Argentinean court documents, the Argentinean intelligence service (SIDE) believes that Khamenei issued a fatwa concerning AMIA. This fatwa was then handed down from Fallahian to Imad Mughniyeh, the "special operations" chief of Hezbollah. Mughniyeh worked in conjunction with Rabbani, who was able to help orchestrate the plan for the bombing clandestinely under the guise of heading the Iranian Cultural Bureau at the Iranian Embassy in Buenos Aires. (19) Rabbani attempted to buy a Renault-Trafic model van, the same model that was used in the bombing, and is suspected of being involved with several commercial activities through fictitious or undercover enterprises on behalf of Iranian intelligence. (20) Investigators also uncovered records of phone calls between the Iranian embassy in Buenos Aires and suspected Hezbollah operatives in the triborder area who operated out of a mosque and a travel agency there. (21)

According to expert opinions included in the Argentinean court document, it is well known that Hezbollah operatives often receive training in Iran. (22) In addition, Hezbollah prefers outside operatives to local contacts when running its major operations in other countries. These operatives generally are more trustworthy and better trained. (23) The terrorists that conducted the AMIA bombing would have had greater difficulty operating without the operational support of Iran, which reportedly included the bribing of then Argentinean President Carlos Menem with a payment of \$10 million dollars to keep Iran's involvement quiet. (24)

Iran has also supported Hezbollah's involvement in the Palestinian-Israeli conflict and support of Palestinian militants. U.S. officials contend that, shortly after Palestinian violence erupted in September 2000, Iran assigned Imad Mughniyeh, Hezbollah's international operations commander, to help Palestinian militant groups, specifically Hamas and Palestinian Islamic Jihad (PIJ). (25) According to a former Clinton administration official, "Mugniyeh got orders from Tehran to work with Hamas." (26) In fact, in the March 27, 2002, "Passover massacre" suicide bombing, Hamas relied on the guidance of a Hezbollah expert to build an extra-potent bomb. (27)

Iran has also demonstrated consistent financial and logistical support of Hezbollah and other terrorist groups by establishing terrorist training programs and camps. As of August 2002, Iran was reported to have financed and established terrorist training camps in the Syrian-controlled Bekaa Valley to train Hezbollah, Hamas, PIJ and PFLP-GC terrorists to use rockets such as the short range Fajr-5 missile and the SA-7 anti-aircraft rocket. (28) The camps, including one in Khuraj near the Syrian border, were reported to be under the command of Iranian Republican Guard Corps (IRGC) General Ali Reza Tamzar, commander of IRGC activity in the Bekaa Valley. (29) According to a "Western intelligence agency" report, which puts the cost of the Iranian program at \$50 million, Tamzar's IRGC detachment also trains the Lebanese and Palestinian terrorists to carry out "underwater suicide operations." (30) The Iranian terrorist training program was the result of a secret meeting held in the Tehran suburb of Darjah on June 1, 2002, in advance of a two-day conference in support of the Palestinian Intifada held in Tehran on June 1-2, 2002.

Beyond training and arming Hezbollah, Iran bankrolls the group's well-oiled propaganda machine as well. Al-Manar is the official television mouthpiece of Hezbollah. Called the "station of resistance," it serves as Hezbollah's tool to reach the entire Arab Muslim world to disseminate propaganda and promote terrorist activity.

At the time of al-Manar's founding in 1991, the station reportedly received seed money from Iran (31) and had a running budget of \$1 million. By 2002 its annual budget had grown to approximately \$15 million. (32) Middle East analysts and journalists maintain that most of this funding comes from Iran. (33)

Avi Jorisch, author of *Beacon of Hatred: Inside Hezbollah's al-Manar Television*, writes that "Iran provides an estimated \$100-200 million per year to Hezbollah, which in turn transfers money to al-Manar, making Iranian funding of the station indirect." (34) This was confirmed by former al-Manar program director Sheikh Nasir al-Akhdar who asserted that al-Manar receives a large portion of its budget through subsidies offered by Hezbollah. (35)

Syria: Patronage, Headquarters, and Sanctuary in Lebanon

Practically, there is no dealing with Hezbollah without first dealing with Syria. According to press reports from 2002, Syria has actually integrated elements of Hezbollah's military units into the Syrian army in Lebanon and, in a sharp break from the caution exercised by his father, Bashar al Assad supplied Hezbollah with heavy arms itself (on top of Iranian arms transshipped via Damascus), including a new 220 mm rocket in 2002. (36)

Since Assad inherited the presidency from his father, there is strong evidence that the Syrian-backed Hezbollah has moved energetically into the Palestinian arena -- both by sending its own operatives to attempt terrorism inside Israel, as in the case of Jihad "Gerard" Shuman, arrested in January 2001, and by establishing links with terrorist groups in the West Bank, Gaza, and among Israeli Arabs. (37)

For example, Hezbollah operatives working with Force 17 colonel Masoud Ayad in Gaza reportedly directed small arms and mortar attacks against Israeli civilians in Gaza. (38) In June 2002, Israeli authorities conducting a search

in Hebron arrested a Hezbollah operative who had entered the country on a Canadian passport. (39) The arrest of this individual coincided with the discovery in Hebron of mines previously only used by Hezbollah in Lebanon. (40)

In August 2004, Israeli forces arrested Jordanian national Mohammad Abu-Juyad, who was reportedly plotting to recruit Israeli-Arabs, attack the Israeli train system, kidnap Israeli soldiers and target Israeli facilities in Jordan. Trained by Hezbollah operatives in Syria to conduct operations in the Palestinian arena, Abu-Juyad first went to Iraq to fight against U.S. forces there. He was wounded lightly in Iraq and returned to Jordan, then went to Syria for further Hezbollah training, and finally arrived in the West Bank in June 2004. (41)

Hezbollah and the Iranian Revolutionary Guards Corp are more active in Syrian-controlled Lebanon than ever, including recruiting, training, and dispatching a cell of Palestinians which killed 7 Israelis in a cross-border raid on the northern Israeli community of Metsuba in March 2002. (42) Hezbollah has also engaged in a proactive effort to recruit Israeli-Arabs to provide intelligence on Israel and logistical support for terrorist operations. Israeli authorities have broken several cells of Israeli-Arabs associated with Hezbollah and other "Lebanese groups," including a four-person cell suspected of passing "computer programs, maps, various objects and documents which may constitute intelligence" through the village of Ghajjar (which straddles the Blue Line separating Israel and Lebanon) to groups in Lebanon in exchange for drugs and weapons. (43)

Similarly, a Hezbollah operative recruited a terrorist cell of Israeli Arabs from the Galilee village of Abu Snan, which was uncovered by Israeli authorities as the group was planning kidnapping operations that would have targeted Israeli soldiers. (44) In July 2002, Israeli authorities arrested Hussein Ali al-Khatib and Hatem Ahmad al-Khatib, two Syrians from the Golan who, on top of smuggling weapons and drugs, were spying on Israel and passing classified information to Hezbollah contacts. (45) In fact, Hezbollah operatives are known to have gone to Europe, where they picked up false identification and travel documents and continue on to Israel, the West Bank and Gaza to train and assist Palestinian terrorist groups. (46)

In February 2002, Israeli foreign minister Shimon Peres told a press conference outside the UN in New York that with Syria's blessing Hezbollah had deployed 10,000 rockets capable of penetrating well into Israel to southern Lebanon. The Christian Science Monitor reported in February that "well informed sources" referred to "truck[load] after truckload" of weapons that arrived in southern Lebanon from May 2000 to December 2001. (47)

According to senior US officials, Hezbollah leader Shaykh Hassan Nasrallah and Imad Mughniyeh worked together in planning terrorist attacks globally and across the UN-certified blue line separating Israel and Lebanon. (48) Asked if Syria would now allow Lebanon to "trace and hand over" Mughniyeh -- who is prominently listed on the Federal Bureau of Investigation's "most wanted terrorist" list -- to US authorities, Syrian spokeswoman Buthaina Shaaban recently responded, "I don't think this is the issue of the moment." (49)

Syria and Lebanon host the greatest concentration of terrorist training camps, with Iran a close second. Camps for Hezbollah and the PFLP-GC dot the Syrian and Lebanese landscapes, where Hezbollah and Iranian trainers have schooled a motley crew of Palestinian, Kurdish, Armenian, and other recruits in a variety of terrorist and intelligence tactics. For example, several of the terrorists who carried out the 1996 Khobar Towers bombing were recruited in Syria and trained in Hezbollah camps in Lebanon and Iran. (50)

To a group like Hezbollah, which maintains parallel and intertwined terrorist, guerilla, political and social-welfare wings under the banner of one large movement, the multiple and varied forms of support Iran (and to a lesser degree Syria) offer are at least as significant as the cash Tehran deposits in the group's bank accounts. Not only does such support provide Hezbollah with technical know-how and material it would otherwise be hard pressed to find, it frees up funds Hezbollah raises from other sources, including expatriate remittances, charities and front organizations, and criminal enterprises.

#### Foreign Expatriate Remittances

Hezbollah receives significant financial support from the contributions of Hezbollah supporters living abroad, particularly from Lebanese nationals living in Africa, South America and other places with large Lebanese shia expatriate communities. Hezbollah's main income, according to Hezbollah Parliamentarian Mohammad Raad, comes from the groups own investment portfolios and wealthy Shiites. (51)

Take the example of the case of the Union Transport Africaines (UTA) Flight 141, bound for Beirut, which crashed on take-off from Cotonou in Benin, West Africa on 25 December 2003. According to accounts in the Arab press, a "foreign relations official of the African branch of the Lebanese Hezbollah party and two of his aides" were among those killed. (52) Arab press reports also claim the Hezbollah officials were carrying US\$2 million in contributions, raised from wealthy Lebanese nationals living in Africa, to the organization's headquarters in Beirut.

Arab media reports regarding the US\$2 million that Hezbollah lost in the aircraft crash noted that "this amount represented the regular contributions the party receives from wealthy Lebanese nationals in Guinea, Sierra Leone, Liberia, Benin, and other African states". (53) The fact that Hezbollah immediately sent an envoy to Benin "to console the sons of the Lebanese community" indicates the value that the group places on these expatriate communities. (54)

As is the case among all terrorist groups that raise funds under the cover of charitable giving, some donors are defrauded unwittingly into funding terrorism while others are willing participants in Hezbollah's financing schemes. As the Israeli estimate suggests, the transfer of US\$2 million at once and by human courier is remarkable in its audacity. The last known transfer of this size occurred in 1998, when Lebanese expatriates in Senegal attempted

to smuggle approximately US\$1.7 million to Lebanon. (55) At the time, the local community claimed the smuggling operation was merely an attempt to evade Senegalese law, not to finance Hezbollah. Israeli intelligence, however, ranks Senegal as the "secondary centre for Hezbollah's fundraising activity in Africa" after the Ivory Coast. (56) Israeli intelligence report focusing on Hezbollah fundraising operations in the Ivory Coast, Senegal, the Democratic Republic of Congo (formerly Zaire) and South Africa estimated that the organization raises "hundreds of thousands of US dollars yearly" on the continent. (57) The sum would be higher had more attempts to smuggle such remittances to Hezbollah succeeded.

Hezbollah supporters living in the U.S. also sent remittances back to Lebanon to fund Hezbollah activities. For example, in Charlotte, NC Hezbollah support networks organized regular parlor meetings held in members' homes where a collection basket was passed around after watching Hezbollah propaganda videos, usually produced by al-Manar. (58)

Similar activity has been documented in South America, where authorities investigating the activities of Hezbollah operative Assad Barakat noted his involvement in "a network of economic financing, that would have as its center of operations Ciudad del Este, Paraguay, which would be sending funds to Lebanon disguised as benefiting the families of victims of the conflict with Israel. It is fitting to mention that the remittances have as their destination relatives fallen in terrorist acts and the economic strengthening of Hezbollah." (59) Argentinean officials express similar concern about Hezbollah activity in Ciudad del Este. Mario Baizan, a former Argentine presidential advisor, described the city as "one of the world's biggest centers for financing of the pro-Iranian militant group Hezbollah." (60)

### Charities and Front Organizations

Hezbollah uses charities and front organizations to conceal their fundraising activities. Take, for example, the al-Aqsa International Foundation, a terrorist front organization banned by the United States, Germany and Great Britain (though not the European Union). While al-Aqsa primarily served as a Hamas front organization, Sheikh Moayad, the head of the the al-Aqsa office in Yemen, was arrested in Germany and extradited to the United States for providing financial support to al-Qaeda. Moayad proudly told an undercover FBI informant that he not only funded Hamas but also raised millions of dollars, recruited operatives, and provided weapons to al-Qaeda. According to one report, one of the foundation's offices in Europe also raised funds for Hezbollah. (61)

The "Martyr's Organization" (Bonyad-e Shahid), headed by Mohammad Hasan Rahimiyan, admittedly supplies charitable funds for the family of suicide bombers. In 2001, Paraguayan police searched the home of Hezbollah operative Sobhi Mahmoud Fayad in Ciudad Del Este, a town along the Tri-Border area where the borders of Brazil, Argentina, and Paraguay meet. Searching Fayad's home, police found receipts from the Martyr's Organization for donations Fayad sent totaling more than \$3.5 million dollars. (62) Authorities believe Fayad sent over \$50 million to Hezbollah since 1995. According to press reports, Iran has traditionally funded Palestinian dissident groups in the Lebanese refugee camps, including al Maqdash, through the Institute of the Palestinian Martyrs. (63)

Another example is the Al-Mabarrat Charity Association headed by Sheikh Mohammed Hussein Fadlallah. Formerly the spiritual leader for Hezbollah, Fadlallah maintains intimate ties with the organization and remains on the U.S. Treasury's list of Specially Designated Terrorists. In 2003, Lebanese Finance Minister Fuad Siniora was barred from entering the United States because of a donation he made to the Al-Mabarrat Charity Association in 2000.

In some cases, the foreign remittances discussed above are funneled to Hezbollah through the group's charities. Members of the Hezbollah cell in Charlotte, North Carolina, received receipts from Hezbollah for their donations, including receipts from the office of then-Hezbollah spiritual leader Sheikh Mohammad Fadlallah. (64) One receipt, signed by Ali Abu Al Shaer, the financial manager of "the office of his Excellency Ayat Allah Mr. Mohammed Hussein Fadlallah," thanked "brother Mohammed Hammoud," the subsequently convicted leader of the Charlotte cell, for a \$1,300 donation. (65)

According to a declassified research report based on Israeli intelligence Hezbollah also receives funds from charities that are not directly tied to Hezbollah but are radical Islamist organizations and donate to Hezbollah out of ideological affinity. "Besides operating a worldwide network of fundraisers, funds are also raised through so-called 'charity funds.' Some of these are extremist Islamic institutions that, while not directly connected to Hezbollah, support it, albeit marginally, in view of their radical Islamic orientation." (66) The report cites many such charities worldwide, including four in the Detroit area alone: The Islamic Resistance Support Association, the al-Shaid Fund, the Educational Development Association (EDA) and the Goodwill Charitable Organization (GCO). Also cited are the the al-Shahid Organization in Canada, the Karballah Foundation for Liberation in South Africa, the Lebanese Islamic Association and al-Shahid Social Relief Institution in Germany, and the Lebanese Welfare Committee, The Help Foundation and The Jamiyat al-Abrr (Association of the Righteous) in Britain.

While some of these funds undoubtedly paid for Hezbollah's military and terrorist operations, other funds enable the group to provide its members with day jobs, to drape itself in a veil of legitimacy, and to build grassroots support among not only Shia but Sunni and Christian Lebanese as well. For example, Hezbollah runs the al-Janoub hospital in the southern Lebanese city of Nabatiyah -- one out of a network of some fifty hospitals the group runs throughout the country. The hospital receives \$100,000 a month from Hezbollah and is run by Ahmad Saad, the hospital director who is also a member of Hezbollah's "national health committee." (67)

In light of its support from Iran, Hezbollah needs not rely on charities to raise funds as much as other groups like al Qaeda or Hamas. Nonetheless, as Assistant Secretary of State E. Anthony Wayne testified before Congress in September 2003, donating money to charities affiliated with terrorist groups like Hamas or Hezbollah frees up

existing monies to support the group's terrorist activities. "If you are funding the organization, even if there are many charitable activities going on, there is some fungibility between funds. You are strengthening the organization." (68) Moreover, such funds are objectionable in their own right when they build grassroots support for terrorist organizations and subsidize the families of suicide bombers.

According to US intelligence officials, "Hizbullah maintains several front companies in sub-Saharan Africa". (69) Little information is available on these purported fronts, though they are widely assumed to include import-export companies (an established terrorist modus operandi). These officials say that many Hizbullah activists in the tri-border region relocated to Africa and other locations as a result of the increased attention drawn to Hizbullah activity after the group's role in the 1992 and 1994 truck bombings in Argentina. In an effort "not to have all their eggs in one basket", one analyst adds, some Hizbullah operatives have "moved on" from locations in South America and Europe and set up shop in Africa, Asia and less conspicuous parts of South America. (70)

### Criminal Enterprises

Hezbollah depends on a wide variety of criminal enterprises, ranging from smuggling to fraud to drug trade to diamond trade in regions across the world, including North America, South America, and the Middle East, to raise money to support Hezbollah activities. Published reports even suggest that Al-Qaida and Hezbollah have formed additional tactical, ad-hoc alliances with a variety of terrorist organizations to cooperate on money laundering and other unlawful activities. (71)

In the United States, law enforcement officials are investigating a variety of criminal enterprises suspected of funding Middle Eastern terrorist groups, including the stealing and reselling of baby formula, food stamp fraud, and scams involving grocery coupons, welfare claims, credit cards, and even unlicensed t-shirts sales. U.S. officials believe "a substantial portion" of the estimated millions of dollars raised by Middle Eastern terrorist groups comes from the \$20 million to \$30 million annually brought in by the illicit scam industry in America. (72) Recent examples include an Arab-American in Detroit caught smuggling \$12 million in fraudulent cashiers checks into the United States, and a fitness trainer in Boston accused of providing customers' social security and credit card numbers to Abd al-Ghani Meskini, an associate of Ahmad Ressam, the Algerian convicted of plotting to blow up Los Angeles international airport in 2000. (73) A senior U.S. law enforcement official concluded, "There is a significant amount of money moved out of the United States attributed to fraud that goes to terrorism." (74)

The most outstanding case in North America is the Charlotte North Carolina cell run by two brothers, Mohammed and Chawki Hamoud. In June 2002, the Hamoud brothers were convicted of a variety of charges including funding the activities of Hezbollah from the proceeds of an interstate cigarette smuggling ring. Seven other defendants pled guilty to a variety of charges stemming from this case, including conspiracy to provide material support to terrorists, cigarette smuggling, money laundering and immigration violations. (75) Mohammed Hassan Dbouk and his brother-in-law, Ali Adham Amhaz, ran the Canadian portion of this network under the command of Haj Hasan Hilu Laqis (Hezbollah's chief military procurement officer). Their activities were funded in part with money that Laqis sent from Lebanon, in addition to their own criminal activities in Canada (eg, credit card and banking scams). (76) Among the items that they purchased in Canada and the US and smuggled into Lebanon were night-vision goggles, global positioning systems, stun guns, naval equipment, nitrogen cutters and laser range finders. The Canadian Hezbollah network also sought to take out life insurance policies for Hezbollah operatives committing acts of terrorism in the Middle East. (77) According to a wiretapped conversation with another member of his cell that was summarized by Canadian intelligence, "Dbouk referred to a person down there [in Southern Lebanon] . . . who might in a short period of time go for a 'walk' . . . and never come back, and wondering if Said [the other cell member] could fix some papers and details . . . for him (person) and put himself (Said) as the reference." (78)

Members of the Charlotte cell entered the U.S. from South America using false documents, entered into sham marriages in Cyprus, and conducted their activities under multiple identities. Cell members paid indigent Americans to travel to Cyprus at Hezbollah's expense and engage in sham marriages so additional operatives could get visas to come to America. (79)

In South America, Hezbollah operatives engage in a wide range of criminal enterprises to raise, transfer, and launder funds in support of their terrorist activities. These enterprises include, among others, mafia-style shakedowns of local Arab communities, sophisticated import-export scams involving traders from India and Hong Kong, and small-scale businesses that engage in a few thousand dollars worth of business but transfer tens of thousands of dollars around the globe. (80) In one case, Paraguayan officials arrested Ali Khalil Mehri for selling millions of dollars in pirated software and funding Hezbollah with some of the profits. (81) The triborder area is especially important to Hezbollah, where the group raises close to \$10,000,000 a year, according to a study produced by the U.S. Naval War College. (82)

According to the U.S. Treasury Department, Assad Barakat, "threatened TBA [triborder area] shopkeepers who are sympathetic to Hezbollah's cause with having family members in Lebanon placed on a 'Hezbollah blacklist' if the shopkeepers did not pay their quota to Hezbollah via Barakat." (83) The Treasury Department noted that Barakat is reported to be "the deputy to a Hezbollah financial director, Ali Kazan, and the primary liaison in the TBA for Hezbollah's Spiritual Leader Hussein Fadlallah." (84) Barakat not only served as a treasurer for Hezbollah, he was also "involved in a counterfeiting ring that distributes fake U.S. dollars and generates cash to fund Hezbollah operations" and personally couriered contributions to Lebanon for Hezbollah. (85) Barakat's personal secretary, Sobhi Mahmoud Fayad, served as Hezbollah's military leader in the triborder region. Fayad was arrested at least three times since 1999, including once for surveilling the U.S. embassy in Asuncion. (86)

Hezbollah activities in Latin America, however, are by no means limited to the triborder area. Chilean officials have identified several import-export companies, primarily located in free trade zones such as the Iquique Free Trade Zone (ZOFRI) in northern Chile, that are suspected as serving as either front organizations or shell companies for Hezbollah. These include Kalmiar Ltd, Bahamas Ltd., Las Vegas Nevada Ltd., San Francisco Ltd., Saleh Trading Ltd., Frankfour Ltd., Guarany Ltd., Teen Chile Ltd., and Lucky Crown Ltd. (87)

According to Chilean law enforcement officials, "starting in 1980 Lebanese members of Hezbollah have been expanding its presence in South America and continue developing its network of contacts in the Triple Border area." (88) In 1994 and 1995, these officials note, Hezbollah operatives began visiting Chile "to establish a new operational center for the development of their activities since the authorities of the Triple Border countries initiated greater and more rigorous control with respect to the activities of these foreigners, especially the Lebanese, who according to information provided by international security services are associated with terrorist members of Hezbollah." (89) According to a U.S. Naval War College report, "U.S. Southern Command estimates that Islamist terrorist groups raise between three hundred million and five hundred million dollars per year in the Triple Frontier and the duty-free zones of Iquique, Colon, Maicao, and Margarita Island." (90)

Hezbollah members in Venezuela -- centered within the large Lebanese expatriate community on Margarita Island -- helped several members of the Hezbollah cell in Charlotte, North Carolina infiltrate into the United States through Venezuela in 1992. (91) In the free trade area of Maicao, Columbia, Hezbollah is believed to participate in cigarette smuggling and may have operated a clandestine radio station broadcasting the group's propaganda. (92)

Hezbollah also raises money from the drugs and diamonds to support their operations. Hezbollah benefits both financially and operationally from the Bekaa Valley's poppy crop, which the group trades to Israeli-Arabs for intelligence on Israeli infrastructure and placement of Israeli soldiers. Israeli authorities have broken up a series of Israeli-Arab cells working for Hezbollah in return for money and, frequently, drugs. Some of these cells, like one operating out of the Galilee village of Abu Snan, were planning to kidnap Israeli soldiers. In September 2002, an Israeli military court indicted a Lieutenant Colonel in the Israeli army, part of a ten member gang, for spying for Hezbollah. The officer, who reportedly lost an eye fighting Hezbollah guerillas, passed classified information to Hezbollah operatives in return for money, hashish and heroin. (93) Hezbollah benefits from the drug business in Lebanon (which in turn is linked to the group's activities in other drug producing areas like South America and Southeast Asia). (94)

Hezbollah and other terrorist groups also traffic narcotics in North America to fund their activities back in the Middle East. A Drug Enforcement Administration (DEA) investigation into a pseudoephedrine smuggling scam in the American Midwest led investigators as far as Jordan, Yemen, Lebanon, and other Middle Eastern countries, including bank accounts tied to Hezbollah and Hamas. DEA chief Asa Hutchinson confirmed, "a significant portion of some of the sales are sent to the Middle East to benefit terrorist organizations." (95)

Hizbullah is also believed to raise significant funds by dealing in so-called 'conflict diamonds' in Sierra Leone, Liberia, and Congo, a practice that al-Qaeda has reportedly copied using the model and contacts established by Hizbullah. (96)

In his US Senate testimony on the links between conflict diamonds and terrorism the former US ambassador to Sierra Leone, Joseph Melrose Jr., and the former Sierra Leonean ambassador to the US, John Leigh, confirmed that diamonds mined in Sierra Leone finance the activities of terrorist groups such as Hizbullah and al-Qaeda. (97)

According to David Crane, prosecutor for the Special Court in Sierra Leone: "Diamonds fuel the war on terrorism. Charles Taylor is harbouring terrorists from the Middle East, including al-Qaeda and Hizbullah, and has been for years." (98) Moreover, a July 2000 Belgian intelligence report stated that "there are indications that certain persons, the 'Lebanese connection' mentioned in the diamond smuggling file, also put in an appearance in files on money laundering, the drugs trade and the financing of Lebanese terrorist organisations such as Amal and Hizbullah." (99) Belgian intelligence reports also tie the Congolese diamond trade to the financing of various terrorist groups including Hizbullah. (100)

Speaking in the context of the diamond trade and its links to Middle Eastern terrorist groups, one official recently noted the "influx of hard-core Islamist extremists" in the Congo, over the past three years. He added, "We know Hezbollah is here, we know other groups are here, but they can probably operate a long time before we know enough to stop them." (101) The movement of Hezbollah operatives to Congo in the late 1990s and early 2000s is significant, given the rebellions that divided the country after the end of Mobutu Sese Seko's dictatorship in 1997.

Hezbollah operatives also run otherwise legitimate business enterprises that function as shell companies or fronts for raising, laundering and transferring large sums of money. The most egregious example appears to be the use of Western Union offices by local Hezbollah operatives. Though Western Union officials were not complicit in this activity, the company failed to make any real efforts to vet local operators even as their international operations grew exponentially over a few short years, especially in areas of conflict. (102) According to Israeli officials, Hezbollah operatives run several Western Union offices in Lebanon and use the coopted services of others worldwide, especially in Southeast Asia. In some cases, where the local Western Union agent is a Hezbollah member or supporter, experts believe Hezbollah gets a cut of the 7% service fee charge split between Western Union and the local agent. In other cases, Hezbollah simply uses the money wiring company to launder and transfer funds. For example, Hezbollah funding to Palestinian terrorist groups in the West Bank is almost entirely transferred via Western Union -- including some \$3 million over a one year period in 2003-2004 alone. (103)

## Trends in Raising and Spending Funds

Unlike most terrorist groups, which need to focus much time and attention on raising, laundering and transferring funds, Iran's largesse provides Hezbollah with a sizable and constant flow of reliable funding. By all accounts, Hezbollah operates under no revenue constraints; indeed, it often serves as a middleman funneling funds from Iran to other terrorist groups such as the Palestinian Islamic Jihad (PIJ), Fatah Tanzim, and others. Still, despite not having the need to be particularly successful at independent fundraising, the organization is in fact very adept at raising, laundering and transferring funds on its own through a wide array of activities. It remains unclear whether funds raised independently go toward specific, perhaps more clandestine, purposes and funds received from Iran toward other, perhaps more overt purposes. The little available evidence suggests that funds from all sources finance a wide array of needs, including both overt and covert activities (note, for example, Iranian funding of charities in Lebanon and direct support of Hezbollah bombings in Argentina). In any event, attempts to make such distinctions are hollow in any event since money is fungible and therefore funds provided for any one function frees funds for other functions. Hezbollah's fundraising activities can often be boiled down to simply taking advantage of opportunities that arise from having a vast expatriate Shia population sympathetic to the group. Lebanese expatriate support for parties and militias back home is an age old phenomenon. But the group's independent fundraising, conducted alongside its generous subsidies from Iran, are also intended to guarantee the groups' future independence through diversified funding no matter what happens to Iran. That is, Hezbollah likely wants to ensure that even in the event that Iran were to ever strike a "grand bargain" with the West (trading support for international terror, proliferation activities and pursuit of a nuclear weapon for full economic and diplomatic relations with the West) the group would continue to be able to exist and function on its own.

Interestingly, while engaging in criminal activity often increases groups' vulnerability by exposing them to the scrutiny of law enforcement authorities, Hezbollah's reliance on fellow sympathizers and members of local expatriate communities minimizes that potential exposure. Still, as the case of Hezbollah criminal activity in the triborder region of South America makes clear, the group does engage in criminal activities that gave rise to the unwanted attention of local and international authorities, including mafia-style shakedowns of local store-owners, illegal pirating of multimedia, and the international drug trade.

Hezbollah funds are spent primarily on furthering the group's overall agenda of establishing a Shia entity in Lebanon and radicalizing Muslims against the West. To that end, the majority of its funds finance social welfare and political activities that finance terror in a more indirect fashion (e.g., by freeing funds for other purposes, radicalizing and spotting future recruits, serving as a financial and logistical support network for the group's clandestine guerilla and terrorist activities). "Annuities" are paid to the families of killed or captured Hezbollah operatives, and the group aims to provide its members with jobs through its vast social welfare and political infrastructure.

While the attacks of September 11 raised public awareness of terrorism and created a surge in international counterterrorism efforts, Hezbollah financing efforts continue unabated. A small number of Hezbollah charities have been designated as terrorist entities by the United States, and fewer still individual Hezbollah operatives have been added to European lists, Hezbollah's reliance on local Shia communities -- with ties among members and supporters often as tight as family relations or shared neighborhoods from childhoods in Beirut -- has made it a particularly difficult group to penetrate. Iranian largesse alone provides the group with plenty of funds, and international fundraising tied to social welfare and political activities are still considered sacred cows in European capitals (not a single European country nor the EU itself has designated Hezbollah as a terrorist group, though several European countries denied the group permission to open "political" offices there for fear of what other activities such offices would facilitate). (104)

## Organizational Dynamics of Hezbollah Financing

Little is known about the internal decision making process that governs Hezbollah's covert activities, though these are not believed to be run separately by unknown elements. With the exception of Imad Mughniyeh, the group's mysterious international operations chief who is believed to be particularly close to Iranian intelligence, the leadership structure of Hezbollah -- from Secretary General Sheikh Hassan Nasrallah to the groups Shura council -- are widely known and believed to be responsible for all major decisions related to the group's over and covert activities alike. While the roles of mid-level operatives may shift over time -- note that Mohammed Dbouk, the al Manar television camera man and producer, also served for a time as Hezbollah's chief procurement officer in North America -- senior leadership positions tend to be more clearly defined over time.

What is known is that the myth that groups like Hezbollah maintain separate and distinct pools of funds for their purportedly legitimate social and political activities and their violent guerilla (which, while not terrorist, are no less illegal) or terrorist activities is just that -- a myth. Together with significant input from their Iranian sponsors, the most senior Hezbollah leaders -- specifically Nasrallah -- make the key decisions about how and where to spend funds. As an ideologically driven organization, fiscal honesty and responsibility by Hezbollah members is more often the norm than the exception, though the group is believed to maintain a policy of zero-tolerance for financial indiscretion not only to maintain its reputation as a clean organization (compared to the corrupt Lebanese regime) but to satisfy its sponsors in Tehran. Indeed, because of its intimate relationship with Tehran Hezbollah faces no competition for funds -- in fact Iran often uses Hezbollah as a middleman to fund other groups that further its agenda. While Hezbollah's relationships with Iran and Syria mean that few operational vulnerabilities are available to counterterrorism agencies, these same relationships suggest that the best means of targeting the group is by targeting its relationship with these two states.



## Policy Recommendations

Efforts have been made by US policy makers to hold states accountable for their support of designated terrorist groups such as Hezbollah. The Syria Accountability Act represents a long overdue effort to hold Syria accountable for its sponsorship of terrorism, its development of chemical weapons, its illegal smuggling of \$1.1 billion in illicit Iraqi oil in violation of UN resolutions, its procurement of military hardware and spare parts for the Iraqi military, and its ongoing occupation of Lebanon. (105) In fact, despite this activity Syria remains the only State Sponsor of terrorism not subject to trade or investment bans, nor are Syrian diplomats subject to the same travel restrictions as diplomats from other states listed as sponsoring terrorism. (106)

In the wake of September 11, the goal of compelling change in Syrian support for terrorism must become a higher U.S. priority than ever before, in order to check Syria's own sponsorship and cut off Iran's outlet to terrorist groups in Lebanon. Only with creative and persistent effort can Washington compel Damascus to discard its use of terrorism-by-proxy. Any such effort must incorporate measures to allow Syria to save face while demanding it jettison terrorism as a state policy and shut down local terrorist groups. Having said that, Syria must be held accountable for any continued double-dealing, i.e. providing some measure of cooperation in the war on al Qaeda while fanning the flames of other terrorist groups of global reach. As the United States considers what carrots and sticks to apply in its effort to motivate Syria, it should consider the need to apply inducements and consequences in tandem and in gradations: small carrots for small gestures, large sticks for large infractions.

Additionally, after significant pressure and lobbying by both Israeli and American authorities, several individual European countries (but not the European Union) have joined the United States in banning the al Aqsa International Foundation, a Hamas front organization which is also suspected of sending money to Hezbollah. The head of the foundation's office in Yemen was arrested in Germany -- not for fundraising on behalf of Hamas but for sending weapons and millions of dollars to al-Qaeda operatives well after September 11. (107) Banning Hezbollah in Europe would mark a significant step forward in the effort to stem the group's international financial activity. The first sign the movement in that direction may be possible occurred in Germany on January 5, 2005, when a Dusseldorf court denied a Hezbollah member a German visa because he "is a member of an organization that supports international terrorism." In a statement, the court said that "Hezbollah is waging a war with bomb attacks against Israel with 'inhumane brutality', and against civilians." (108)

Shutting down organizations such as front companies and charities that have been found to be facilitating financial support of international terrorist networks will go a long way toward stemming the flow of funds to and among terrorist groups. Terrorist groups will always find other sources of funding. The amount of money frozen and put into an escrow account is not the issue; the issue is shutting down the key nodes through which terrorists raise, launder and transfer funds.

The foreign funding of subversive domestic organizations linked to designated terrorist groups poses immediate dangers to the national security of the United States. This much is clear: should the U.S. fail to adapt the culture of our law enforcement and intelligence community, to enact appropriate laws and procedures, and to commit the necessary resources and resolve, we will find the war on terror that much harder to fight, lasting that much longer in duration, and exacting that much higher and tragic a cost in human life.

Counterterrorism is not about defeating terrorism; it is about constricting the operating environment -- making it harder for them to do what they want to do at every level: conducting operations, procuring and transferring false documents, ferrying fugitives from one place to another; financing, raising, and laundering funds. It is about making it more difficult for terrorists to conduct their operational, logistical, and financial activities. Only with greater international coordination will authorities succeed in targeting Hezbollah's international financial support network and constricting the operating environment in which this designated terrorist organization currently thrives.

### Notes:

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