



Cash Cabal

How Hezbollah Profits from Lebanon's Financial Crisis

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In the three years since the Lebanese government defaulted on its sovereign debt, two successive national governments have failed to enact meaningful reforms or present a full economic plan to qualify for an IMF bailout. More disconcerting still, these governments have failed to alleviate the economic pain suffered by Lebanese citizens, which is the result—according to a World Bank report—of a “deliberate depression.”¹

In the Lebanese crisis, the collapse of state institutions came before the March 2020 default, which in turn accelerated the financial meltdown. Today, restoring Lebanon's financial viability requires addressing the country's broken politics—and, namely, the predominant role of Hezbollah, which will

block reforms simply because it profits from the national crisis on numerous levels. Hezbollah initiatives include expanding its banking system, selling electricity and fuel,² building a money exchange network, and buying real estate and businesses.

Hezbollah is thus not only building its parallel state but exploiting the Lebanese national crisis to widen its private sector role. The Lebanese meltdown was characterized by the failure of financial institutions to return money to depositors, allowing a cash economy to proliferate—and playing into Hezbollah’s hands. Al-Qard al-Hassan (AQAH), the group’s finance firm, has taken advantage of billions of dollars from remittances, exchange companies, and a flood of Iraqi money. AQAH and its cash-based sub-entities are thriving amid the wreckage of traditional Lebanese financial institutions.

Yet Hezbollah faces challenges. Its constituency is crumbling (1) because the group’s efforts in the Syrian war detracted from its supposed devotion to the Lebanese nation; and (2) because it sided with the corrupt political class against the people during and after the 2019 national protests.³ This vulnerability makes cash all the more important in Hezbollah’s quest to maintain its national hegemony.

How It All Started

In 2020, the Lebanese government, headed by Prime Minister Hassan Diab, opted for a “hard default” on US\$32 billion in sovereign debt.⁴ In doing so, the government failed to negotiate with its Eurobond holders or investors and presented no strategy to address the consequences of default. This negligence laid the way for the cash economy.

To be clear, a hard default was not inevitable. Then Lebanese president Michel Aoun had been advised by international and local bankers to default, and the government invited the Paris-based office of the Lazard financial advisory firm to draft an economic recovery plan. The ensuing plan centered on

distributing the colossal losses to the entities responsible for the crisis—that is, the state, the central bank (Banque du Liban, BDL), and Lebanese banks. This plan, however, failed to account for the formidable influence of Hezbollah and its allies on decisionmaking (and blocking) in the country.

According to some members of the president’s Free Patriotic Movement (FPM), Aoun’s plan was to default on the sovereign debt, subsequently shutter nearly sixty Lebanese banks, and issue five licenses for new banks to start afresh.⁵ The president’s son-in-law, FPM leader Gebran Bassil, would have great influence over the new financial institutions. Today, three years since the default, evidence of this plan being enacted has started to emerge. On May 3, 2023, the Aounist head of the parliament’s economics committee called for a session to discuss the licensing of new banks in Lebanon.⁶ Meanwhile, the bill seeking to restructure the banking sector has been sitting in parliament for the past two years.⁷

Here, the alternative to hard default deserves attention. Some offered consent solicitation to avoid this outcome,⁸ and agreement from the Diab government could have resulted in far less catastrophic outcomes compared to the current situation.⁹ These outcomes might have included: (1) a shallow recession, amounting to less than a 10 percent drop in GDP; moderate currency devaluation, at about 30 percent; (3) open banks, maintaining an inflow/outflow equilibrium; and (4) resumed growth after a year with the restoration of financial flows.

At the BDL meanwhile, banks had deposited some US\$85 billion, but at the time of default, it became clear that the central bank had only US\$35 billion left in reserves. Worsening matters for the Lebanese people, instead of returning that money to depositors, the central bank spent most of the funds to subsidize the lira and purchase fuel and goods, most of which went to Syria through smuggling activity.¹⁰

As the country ran big budget deficits, especially after Aoun assumed power in 2016, Lebanese banks continued to fund the government with deposits. These banking-sector deposits sometimes reached

300 percent of GDP, ranking third globally after Hong Kong and Luxembourg.¹¹ And they were sticky at the time. As long as deposits grew, the banking sector/government arrangement worked out well, but it was fragile—susceptible to collapse amid a crisis of confidence. The Hezbollah-led government did not particularly worry about a crisis breaking the banking sector, because its leaders assumed they could rebuild new banks with a friendly new crop of shareholders.

After Diab approved the hard default, the majority parliamentary bloc comprising Hezbollah, Amal, and FPM saw personal opportunity in the failure of government institutions and the banking sector, and they derailed the Lazard economic recovery plan. Today, the numbers bear out the “unbanking” of the economy: whereas in January 2020, 2.8 million account numbers were identified in the sector, by June 2022 that figure had been halved, to 1.4 million.¹²

The Lebanese banking collapse did not happen on its own, nor did it happen suddenly. Politics, corruption, and—especially—Hezbollah’s control of state institutions were central. The following sections explain how Hezbollah is flourishing amid the growing cash economy.

Lebanon’s Illicit Financing Scheme and the Central Bank’s Role

Lebanon’s cash economy is dominated by four companies: the two main Western Union agents in Beirut—OMT and BoB Finance, the latter linked to Bank of Beirut—along with the CTEX Exchange, which was sanctioned by the U.S. Department of the Treasury in January 2023,¹³ and Whish Money.¹⁴ To put the situation in stark terms, two Western Union agents—and another couple of outlets—have effectively replaced sixty Lebanese banks dissolved amid the default.

De facto control over OMT was previously held by Amal Abou Zeid, a former FPM parliamentarian, and his partner Toufic Mouawad—and subsequently passed on to Abou Zeid’s two sons.¹⁵ Abou Zeid is a close friend of FPM leader Gebran Bassil, who since November 2020 has been under U.S. Treasury Department sanctions.¹⁶ (In 2016, when Aoun became president, Abou Zeid was appointed as his advisor on Russian affairs.¹⁷) OMT makes its money not only from Western Union remittances but also, according to reports, from a central bank initiative to collect money from the retail market amid shortfalls in U.S. dollar reserves.¹⁸

The Central Bank, the Money Exchangers, and the Political Parties

As a matter of practice, it is highly unusual for a central bank to pay commissions to remittance companies for collecting retail dollars. But BDL governor Riad Salameh found a way to capture the remittances, or “fresh dollars” from abroad, by working with these companies as if they were foreign exchange agents. Licensing the Western Union agents to spontaneously change U.S. dollars to Lebanese lira ensured that OMT and BoB Finance retained large dollar holdings, and the agents earned up to 3.8 percent commissions from BDL on every dollar, with commission amounts varying among OMT, BoB Finance, and CTEX, as negotiated daily through WhatsApp messaging with the governor himself. Industry sources had long complained that the central bank governor favored OMT because Abou Zeid was one of Gebran Bassil’s main funders,¹⁹ followed by CTEX—owned by Hassan Moukalled—who was later shown to be funding Hezbollah and likewise sanctioned by the Treasury Department in January 2023.²⁰

After being sanctioned, Moukalled was effectively replaced by Salim Khalil, a notary public who served as the main buyer of black market dollars for an institution called Credit Bank,²¹ which then supplied the dollars to BDL.²² Khalil was likewise the main buyer during the banking crisis of so-called depositor’s checks, an arrangement whereby

account holders desperate to salvage a fraction of their savings cashed them out in highly unfavorable deals.²³ Moukalled, since his blacklisting, has been the principal dollar-collector for BDL. And Khalil also happens to be a close friend of Mohamed Hamdoun, the former deputy general manager of the now-sanctioned Lebanese Canadian Bank.²⁴

U.S. restrictions prevented Hezbollah from running its own banks, so the group built a network of Shia-run foreign exchange offices close to Hezbollah or the Amal Party.²⁵ The resulting foreign exchange network became the largest in Lebanon, encompassing just a few institutions licensed by the central bank. Its affiliates deal only in cash, in line with Hezbollah's prevailing practice for its shadow economy.

When OMT and BoB Finance fell short of the dollar amounts sought by BDL, they turned to the black market and the foreign exchange houses to close the gap. They made their purchases through WhatsApp groups, whose agents delivered the dollars physically. This cash-based business boomed as default caused a whole nation to become “unbanked.” Simultaneously, OMT opened up more and more unlicensed, unvetted branches, as revealed by central bank leaks, facilitated by bribes to BDL officials to turn a blind eye to improper licensing practices.²⁶

The entire scheme was premised on advance knowledge by the foreign exchange house operators that BDL was about to buy retail market dollars through OMT and BoB Finance—and, before it was sanctioned, CTEX. What would follow was an exercise known in financial markets as “front-running,” or opportunistically driving up the dollar exchange rate to maximize profitability. For a central bank out of options and desperate for dollars, the black market price had to suffice, and central bank agents thereafter compensated the houses.²⁷ Overall remittances to Lebanon in 2022 reached US\$6.84 billion, and the black market, according to sources within this network, stood at US\$40–\$50 million weekly, traded mostly on WhatsApp.²⁸

Whish Money, the fourth major player in Lebanon's cash economy, deals largely in intramoney transfer operations, aka internal transfers. The company is owned by Toufic Koussa, a Syrian reportedly close to Mohammed Samer Afdar, who ran a similar firm in Syria, and Shahwan Mouawad, who is associated with Lebanese presidential aspirant and Assad ally Sleiman Frangieh. Mouawad was recently on the municipality list for Frangieh's pro-Syrian Marada Movement and previously served as mayor of Frangieh's stronghold, Zgharta. Whish Money currently allows private-sector companies to pay employees' wages through its network. And the company has been granted a digital wallet license from the central bank; in the absence of regulators or regulations, it has begun accepting deposits and holding accounts as well.²⁹

In the Lebanese cash economy, Hezbollah's Christian allies control the foreign remittance services and the hard currency coming from abroad, while Hezbollah and Amal actors run the foreign exchange houses, and the internal transfer market—which deals mainly with payment to government ministries—is controlled by former Zgharta mayor Mouawad. This three-way setup ensures the financial health of the Hezbollah-Amal-Bassil axis—which in turn relies on BDL, the facilitator of a highly corrupt process, and the Ministry of Finance, the collector of payments and the distributor of contracts to internal transfer companies.

Circular 165: A Dubious BDL Effort to Control the Cash Economy

In the current scene, Lebanon's central bank has sought to reconstitute its reserves by capturing incoming remittance dollars and, through foreign exchange offices, buying retail dollars circulating in the market. Nevertheless, “fresh dollars” from the banks—i.e., the “real” dollars held with their correspondent banks abroad plus the cash dollars in their vaults—have remained out of reach, given a lack of trust in BDL since the central bank's dollar deposits disappeared in 2020.³⁰ This is why, on April

19, 2023, BDL issued Circular 165, asking the banks to open fresh dollar accounts with the central bank to allow the clearing of dollar transactions locally.³¹ (Such an arrangement, it is worth noting, applied before the crisis as well, when dollars from the banks and depositors at BDL were transformed into “local” dollars, or “lollars,” a pseudo-currency today accepted by fewer and fewer businesses given diminishing access to the Lebanese banking sector.³²) In practice, this means that if a client of Bank A were wiring dollars to a client of Bank B, the Lebanese central bank would directly settle and clear the transaction by debiting Bank A’s fresh dollar account and crediting that of Bank B—rather than having the banks’ correspondents abroad handle the transaction, as occurs now with fresh dollars.

The purpose of Circular 165, according to BDL, is to restrain the dollar cash economy and return some of that cash to the banking system. But given the sometimes questionable sources of cash dollars, recycling this potentially dirty cash back into the system is hardly the ideal solution. To the contrary, it may actually facilitate the laundering of money, according to activists and some prominent bankers, who have voiced their objection to Circular 165.³³ Without oversight from correspondent banks abroad, actors can more easily mask money laundering and shady transactions via a local settlement.

So Bank B—taking up the earlier example—has no way of knowing the origins of the money of Bank A’s client, or whether it was a cash deposit, especially if Bank A is a smaller bank with no foreign correspondent. In recent years, large amounts of cash have sometimes been deposited at Lebanese banks. If these dollars are cleared locally at BDL, banks will have no reason to fear the transaction will be blocked at the other end given lax enforcement and Hezbollah’s corrupt role, potentially giving an even greater incentive for unsavory transactions. Moreover, small banks, which cannot comply with the requirements of correspondent institutions, will have an easier time dealing in large cash-dollar transactions if cleared locally.

Others have seen in the BDL circular a desperate move to rebuild its reserves by trapping the fresh dollars. Indeed, this is exactly how depositors’ money disappeared at BDL before the crisis. Therefore—and unless BDL has obtained a no-objection from the U.S. Treasury Department for this local clearing mechanism for fresh dollars—it will likely create problems more troubling than the large cash-dollar economy it purportedly seeks to limit.

Al-Qard al-Hassan

The rapidly expanding al-Qard al-Hassan is classified not as a bank but rather as a charity licensed by the Interior Ministry.³⁴ Nevertheless, the Hezbollah-run AQAH, which began operations in 1980, acts like a bank and operates like a bank, so it should be treated as a bank. It has its own cash machines, issues loans—collateralized by gold reserves—and holds cash deposits for members.

In 2021, the hacking group SpiderZ infiltrated AQAH, seizing data from its servers that showed the firm provided loans to both member-borrowers and unsecured applicants in exchange for gold deposits or other guarantees, including cash.³⁵ Based on December 2019 figures garnered by the hack, AQAH had a carried loan forward of US\$450 million,³⁶ a balance that was increasing steadily at 13.4 percent per year. In 2019, AQAH issued some US\$475 million in loans to about 20,000 borrowers. Furthermore, deposit accounts were offered to 307,000 association members, 83,000 contributors, and 600 companies. The source of cash deposits cannot be traced since AQAH is not a true bank subject to banking rules and regulations.

Further, around US\$1.5 billion was deposited to AQAH’s customer deposit accounts in 2019. Some 64 percent of the deposits were guaranteed by underappraised gold deposits.³⁷ Also, as of December 2019, members were given 50 percent of their gold value in loans, versus a typical 75 percent offered

by gold banks.³⁸ AQAHA had a strained cash position of US\$50 million, and the association's cash-to-deposit ratio stood at 10 percent, the worst showing in Lebanon.

Moreover, as revealed by the hack, AQAHA disbursed secured loans of US\$434 million in the financial year 2019,³⁹ backed by gold deposits or other guarantees. The average disbursement was US\$18,804 for loans guaranteed by gold, US\$7,493 for loans guaranteed by memberships or other participation, and US\$53,975 for loans guaranteed by other means, such as land or other property. As of February 2023, the firm was circulating advertisements claiming it had given out US\$4 billion in loans while provocatively asking the Lebanese banking sector, "And what have you done?"⁴⁰ The AQAHA promotions suggest 212,000 loans were granted in 2020–21 for an eye-popping total of US\$553 million.⁴¹ This was, to be sure, quite an increase amid an otherwise collapsing economy.

AQAHA claims to issue three types of loans: loans issued in Lebanese lira backed by gold deposits, loans issued in Lebanese lira backed by U.S. dollar deposits, and small business loans to agriculture and industry backed by members' deposits.⁴² It claims to have issued 1.9 million loans to 300,000 people in 2020–21.⁴³ The firm also appears to have expanded beyond its typical zone of influence in South Beirut/southern Lebanon to include Christian and Druze locales such as Souk El Gharb, in the Aley district.⁴⁴

The obvious questions arise: where is the money coming from, and who is screening it for "know your client requirements" and anti-money laundering compliance?⁴⁵ Here, the documents hacked by SpiderZ exposed Iranian account holders, including sanctioned entities and persons of interest, such as Hezbollah's Martyrs Foundation, the Imam Khomeini Relief Aid Committee, Mahan Air, and Iran Air, in addition to accounts for the office of Iran's Supreme Leader Ali Khamenei, among others.⁴⁶ The leaks also show that AQAHA has eight correspondent accounts with Iran's Bank Saderat–Lebanon branch.

In cases where an institution is not under BDL authority, the dilemma arises of who conducts oversight of the dollar deposit trail. And if an entity defaults, what happens then? By extension, if an institution not under BDL authority can fold the collateral easily (i.e., capture the original collateral offered), why would Lebanese banks be denied this same opportunity? In seeking such answers, attorneys Majd Harb and Elie Kirlos submitted a case to Mount Lebanon prosecutor-general Ghada Aoun in April 2021 aimed at investigating AQAHA.⁴⁷ The brief accused the Hezbollah firm of conducting banking activities without an appropriate license and of being a money laundering organization. Yet as with many anti-Hezbollah cases before Judge Aoun, these charges were neither investigated nor prosecuted.

Hezbollah's Utility Play

Exploitation by Hezbollah extends beyond the banking system. In one notable post-default development, the group began advertising loans for solar power installations (see figure 1). These pitches surged amid stricter rationing by Électricité du Liban, a general deterioration of services, inflation-bloated prices for generator power, and the lifting of a fuel subsidy.⁴⁸ The sustainable offering appeared to dovetail with U.S. and European efforts to provide solar power to the Lebanese people as part of new humanitarian aid programs. But inspection of the details reveals cracks. Although Hezbollah-furnished solar energy is essentially cheaper than generator power, AQAHA loan amounts cover only panels made by Chinese companies operating in Lebanon. In the final analysis, Hezbollah benefits, the Chinese companies benefit, and AQAHA borrowers get access to electricity. But the Chinese panels do not last very long. And municipalities have somehow skirted rules against taking out loans and have borrowed from Hezbollah, meaning government institutions are directly supporting the growth of AQAHA.⁴⁹

Figure 1. AQAH Solar Power Advertisement



Hezbollah's al-Qard al-Hassan financial arm offers loans for solar power: US\$35,000 for municipalities and US\$5,000 for individuals, to be paid over sixty months. An analysis shows this option to be cheaper than generator power, but the Chinese-made solar panels are not well made.

Source: <https://twitter.com/bintmachgara/status/1508351151112175617>

For those choosing power from generators, their main option is to pay the neighborhood operator, feeding into an elaborate scheme that has enriched the few at the expense of the many for decades.

Most generator operators affiliate with and thus fund political parties—Hezbollah and Amal in Shia areas.⁵⁰ According to a 2021 report published on the website Janoubia, private generator fees are much higher than government electricity fees, and they have increased as the crisis deepens and inflation rises.⁵¹ The report further details how the two Shia parties own the generator networks in Beirut's southern suburbs and the country's south. It does not cover the Baalbek-Hermel area, but local observers confirm the same trend there.⁵²

Generator networks are run in one of three ways in Hezbollah-controlled areas: (1) They are owned and operated by the municipalities—which are typically controlled by Hezbollah (or Amal) members.⁵³ (2) The party works through an individual to run the network as a private enterprise, even as the investment and profits consist mostly of Hezbollah cash. Or (3) they operate through a “private-public partnership” involving the municipality and private actors. Whichever the arrangement, the infrastructure and funding come from the “Party of God” and ultimately benefit Hezbollah operations. Unsurprisingly, the individuals and their companies are usually fronts for Hezbollah, or parts of its business network.⁵⁴

The money trail is equally troubling. Municipality-owned generators yield profits in U.S. dollars, which go not to municipal coffers but rather to special funds to which a Hezbollah municipal council member has access.⁵⁵ Municipality sources interviewed for the Janoubia story reported that all money from these generators is deposited in AQAH accounts.⁵⁶

Even as some generators in Hezbollah-run areas are provided by UNIFIL and other NGOs as part of humanitarian aid efforts, no private-generator entity independent of the Hezbollah-Amal axis can operate in these areas unless protected by, and partnering with, the Shia overlords.⁵⁷ In the end, Hezbollah always benefits—financially by controlling the energy market in Shia areas, and politically by maintaining its dominance as an energy provider.

U.S. Dollars from Iraq to Lebanon

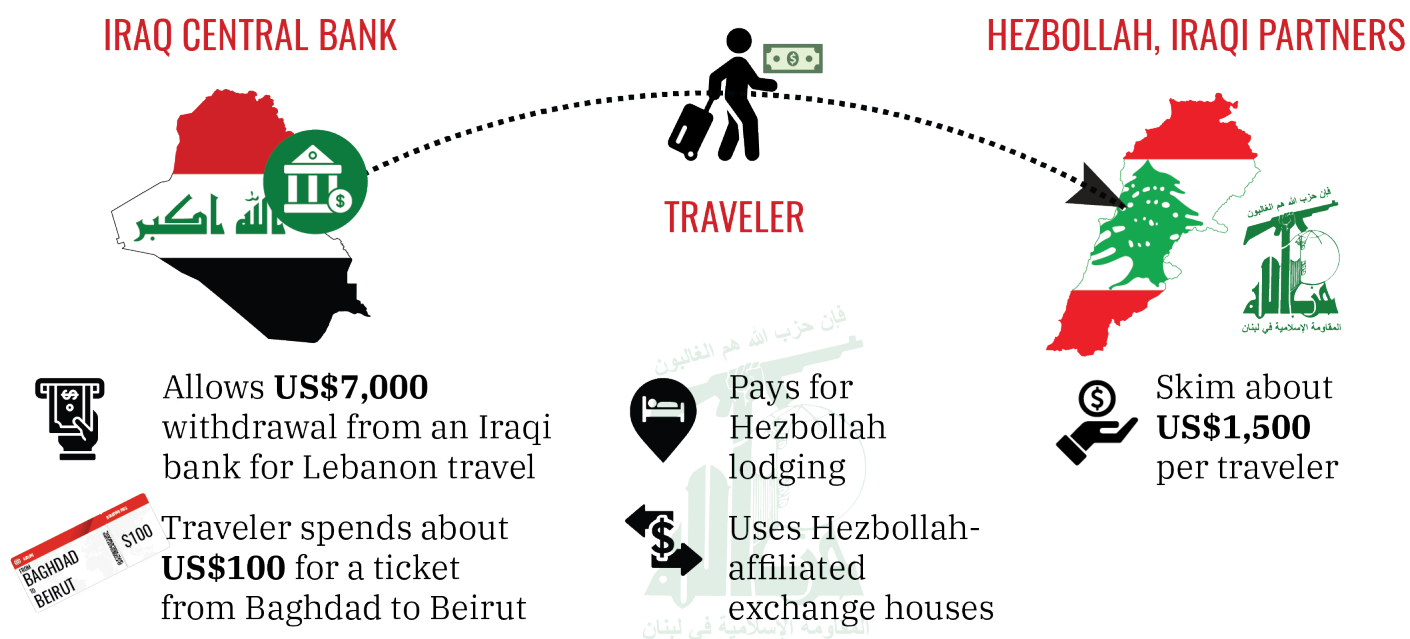
Efforts to address money laundering and other such violations in Iraq have perversely opened up further opportunities for bad actors in Lebanon. In January 2023, to counter money laundering, the United States placed restrictions on Iraq's access to its U.S. dollars, and the Central Bank of Iraq must now meet additional U.S. Federal Reserve requirements.⁵⁸ These conditions stipulate that anyone or any company requesting wire transfers of U.S. dollars must disclose the identity of the receiver through an electronic system, which will be accessed and reviewed by Iraq's central bank and the New York Federal Reserve Bank. Before these restrictions were imposed, a large portion of the U.S. dollars circulated by the central bank were transferred outside Iraq—mainly to Iran and Syria—through gray market trading and fake invoices.⁵⁹

The new restrictions have prompted Iraq's central bank to reject most transactions, and commercial banks have been added to a running blacklist in

response to money laundering suspicions.⁶⁰ To circumvent these obstacles, actors that previously sought Iraqi central bank dollars for potential laundering or transfer to Iran or Syria have pursued new avenues for their corruption. One such avenue is tourism. According to an *al-Modon* report by the Lebanese economist Ali Nouredine,⁶¹ Hezbollah and its Iraqi partners now operate a vast network of “fake Iraqi tourists” who use Lebanon's uncontrolled exchange market to access and launder Iraqi dollars.

The scheme works like this: A plane ticket from Baghdad to Beirut costs around \$100, but according to the new Iraqi rules, a traveler can buy \$7,000 in U.S. dollars per the official exchange rate, which is lower than the parallel market rate, and carry it abroad. Hezbollah and Iraqi militias have exploited this loophole by sending huge numbers of young Iraqis to Beirut on short fake tours and skimming \$1,500 per traveler from their various travel expenditures. This gambit in turn feeds Hezbollah's foreign exchange houses, its real estate enterprises, and Iraq–Lebanon tourism businesses.⁶² And it has two stark effects: allowing breathing space for Hezbollah and placing the credibility of the Iraqi central bank at risk. (The experience is illustrated in figure 2.)

Figure 2. The “Fake Traveler” Racket



Real Estate, Imports, and Captagon

Among the casualties of Lebanon's economic crisis was the real estate market. The value of homes, businesses, and land fell by more than 50 percent,⁶³ and those with access to currency—namely, expats in Lebanon, Lebanese expats abroad, and Hezbollah—saw an opportunity to scoop up these potentially lucrative investments. Thus, a network of Hezbollah-affiliated businesspeople has been busy buying property in Beirut, and in other cities where the group has less of a presence.⁶⁴ According to local media, Shia businesspeople in Africa are sending cash to Lebanon to buy houses and apartments in the poshest areas in Beirut, including downtown, which is traditionally a site of Saudi/Sunni investment linked to the Hariri clan and is one of the country's highest-end areas, encompassing the parliament, other government buildings, and multiple embassies.⁶⁵

Hezbollah also controls a network of wholesale traders that import expensive goods and electronics such as smartphones and laptops, and thanks to Hezbollah's control over customs,⁶⁶ they can avoid paying tax at the port. This helps keep prices affordable and ensures a growing customer base, given the lack of competitors. Since the crisis, this network of wholesale traders and importers has become ever more dominant, concentrated especially in Beirut's southern suburbs.⁶⁷

Trade in the illicit amphetamine replacement Captagon is an area in which Hezbollah is deeply involved. Although Syria's Assad regime is considered the main operator and beneficiary in this space, Hezbollah participates in both Lebanon and Syria.⁶⁸ A main link exists in Lebanon's Beqa region and border towns such as Tfail, where the recently U.S.-sanctioned "King of Captagon," Hassan Muhammad Daqou, runs one of the biggest Captagon operations, between Hezbollah and the Syrian president's brother, Maher al-Assad, who heads the army's Fourth Division.⁶⁹ Even since reporting to

prison after being sentenced in late 2022,⁷⁰ Daqou and his Tfail-based agents have continued to run their operation, coordinating with their Syrian counterparts under Hezbollah protection.

Hezbollah's role in drug production and smuggling precedes the Syrian war, and collaboration with the Fourth Division has flourished in recent years. Hezbollah's control of Lebanon's ports, airport, and borders—as well as access to the Latakia port in Syria—has facilitated the construction of more drug factories in both countries, and the interstate smuggling culture thrives.

Maintaining Levers of Power

Leadership succession at the Central Bank of Lebanon and stakes in the telecommunications and pharmaceutical industries offer further opportunities for Hezbollah to reinforce its position in Lebanon—as well as opportunities for the United States and other friends of the Lebanese people to weaken it.

An Ally at BDL

The mandate for Lebanon's central bank governor, Riad Salameh, is set to expire at the end of July 2023, and another renewal is unlikely given his expected indictment on corruption charges by a French court.⁷¹ A priority for Hezbollah will therefore be to secure another ally at the central bank. Specifically, the group is keenly aware that BDL controls major assets such as Middle East Airlines and Casino du Liban, along with vast tracts of land.⁷² It also controls the country's foreign exchange reserves, including billions of dollars in gold, some of which is stored at the Federal Reserve Bank of New York.⁷³ The idea of selling this gold has been anathema in Lebanon for decades, but the possibility resurfaced amid the country's currency crisis and looming default on some US\$32 billion in foreign debt.⁷⁴ If the central

bank does sell the gold, Hezbollah could benefit, with the bank feeding the corrupt system and the cash economy that Hezbollah so adeptly manipulates.

Telecommunications Sector

Hezbollah views the telecommunications sector as another fount of continued wealth. The group controls the Ministry of Telecommunications through Johnny Corm, who was appointed minister by Sleiman Frangieh. Management of the sector was placed under direct ministry authority by Corm's predecessor, Talal Hawat, thus ousting the two private companies—Alpha and Touch—that once filled this role for the state. Pre-crisis annual profits from telecommunications reached around US\$1 billion, making it a particularly attractive prize, and the group has reportedly prepared a comprehensive state telecom strategy that aligns with its goals.⁷⁵

Pharmaceuticals

In pharmaceuticals, a tragedy for the Lebanese people has become a windfall for Hezbollah. The country's residents lack access to medicine, and most available drugs are no longer subsidized, making them entirely unaffordable. So Hezbollah has stepped in with a typically self-serving bid. The group, blaming the United States for the crisis and calling for a boycott of American products, now promotes Iranian and Syrian pharmaceuticals.⁷⁶ Hezbollah imports these products tax-free and sells them at low prices to Lebanese desperate for medicine, however low the quality. In 2020, the U.S. Treasury Department highlighted this link by slapping terrorist designations on several Lebanese pharmaceutical companies affiliated with Hezbollah's Martyrs Foundation,⁷⁷ but this has not stopped the imports, through new and different channels.⁷⁸ To sidestep such pressure and maintain the flow of goods, Hezbollah increased its smuggling operations along the Lebanon-Syria border, as well as the Syria-Iraq and Iraq-Iran borders.

Conclusion

In today's Lebanon, none of the major players—not Hezbollah, not the corrupt political elite, not the central bank, not the commercial banks—has any interest in systemic reform. They all benefit from the system, and the commercial banks prefer to avoid IMF restructuring requirements because these would mean taking responsibility and bearing a large part of the losses. Some of the banks would rather keep the status quo of “no solution” and let depositors continue taking a “haircut” in the form of losses exceeding 70 percent. Thus, the power brokers get to keep their personal assets and their existing banks, and depositors shoulder the losses associated with the vanished BDL deposits.

Hezbollah undoubtedly would prefer to return to the halcyon days of 2018, when the group held a parliamentary majority, controlled all national decisions, and manipulated government to serve its constituency and operations. This is no longer an option, however, given the group's relinquished legislative majority and eroding public support, so the Hezbollah leadership has pursued a strategy rooted in exploiting the national crisis and Lebanon's proliferating cash economy. Implementing reforms, the group understands, means losing control.

A fundamental question is how, three years after default, Lebanon has managed to pass only one of five IMF requirements (about which talks began in 2020 and a staff-level agreement was made in April 2022): the state budget for 2022, which the Fund has indicated is inadequate to qualify for a bailout plan.⁷⁹ The four additional IMF requirements are these: a capital control law, anti-money laundering measures, reforms to the 1956 banking secrecy act, and a banking-sector restructuring law.⁸⁰ Most such legislation was supposed to have been drafted by the Finance Ministry, adopted by the government, debated, and voted on by parliament.

The capital control law, intended to prevent a run on banks and limit withdrawal amounts, was indeed drafted by the Finance Ministry in 2020, but three

years later, the drafting and redrafting continues. Most money that can flow out of the system did so already, as the crisis unfolded, with banks having wired funds to top clients abroad, along with anyone with connections to overseas accounts. Meanwhile, the cabinet debates the plan and passes the buck back to parliament, which is deadlocked and has failed to agree on legislation. And the banks continue transferring money to various political figures and officials,⁸¹ even as average citizens lack basic access to their life savings.

Whereas Lebanon faced an unsustainable sovereign debt situation in 2020 that required restructuring, the government was not insolvent. The default itself—seemingly orchestrated by a few figures—pushed Lebanon into insolvency. A structural and debt reform program would have been far less costly than the complete meltdown now playing out. In the current reality, Hezbollah continues to prosper, despite some weaknesses, and the Lebanese people experience daily misery. The international community today has an obligation to prod the country in a more sustainable, equitable, and transparent direction.

Policy Recommendations

To counter Hezbollah access to Lebanon's cash economy and remittances—and to break the cycle explained throughout this paper—the United States and other international actors can take the following steps:

- **Implement additional sanctions.** Money transfer companies involved with the Banque du Liban and Hezbollah's foreign exchange houses, especially OMT, BoB Finance, and Whish Money, along with their respective owners, should be targeted based on international money laundering rules.
- **Pressure the Lebanese government to prosecute BDL commissioner Riad Salameh along with other officials and private citizens**

responsible for the financial crisis. Any individuals who profited from the central bank's financial engineering, whether shareholders or executives, must be held to account. Recently, for example, Marwan Kheireddine, the CEO of al-Mawarid Bank, was linked to commissioner Salameh's money laundering case.⁸²If the Lebanese government does not take any action, the United States could assist European countries such as France and Germany in their prosecution of Salameh.

- **Pressure the Lebanese government to ensure that Salameh's successor is not allied with Hezbollah or any other party.** The central bank commissioner's term expires in summer 2023, and the battle to succeed him will be intense—and ultimately even more important than the battle to fill the long-vacant Lebanese presidency. The governor's role today in controlling access to the cash economy cannot be overstated. Given the current crisis, Salameh's successor must be independent and immune from political influence. Just as the United States is applying pressure on Lebanon's parliament to appoint an independent president, it should pressure the next president/cabinet, by threatening sanctions or travel restrictions, to choose a suitable successor to Salameh. Such a conversation should exclude Salameh's current deputy. An independent commissioner could help weaken Hezbollah's leverage in the banking sector.
- **Request an investigation of those who advocated a hard default.** This was not the only option for Lebanon's foundering economy, and the consequences of the 2020 decision have been devastating for Lebanese account holders while upholding the wealth of elites and the Hezbollah cartel. Only internationally led investigation can lead to true accountability, especially given the role of credit default swaps.
- **Apply stricter measures to prevent complicit Lebanese banking officials from insulating themselves against international probes.** In cases where banking officials and associates

are implicated in money laundering and sketchy BDL schemes, many will attempt to make deals with Hezbollah to protect themselves from international scrutiny, such as current legal efforts in Europe.⁸³ International actors must take steps to counter such moves by implementing tougher measures—i.e., sanctions or the threat of sanctions—thereby hindering further Hezbollah money laundering operations through banks and the financial sector.

- **Create extra monitoring layers for Iraq-origin dollars.** A number of tourism companies—in Lebanon and Iraq—are involved in these operations, which deliver dollars to Lebanon through “fake tourists,” exploiting loopholes in Iraqi banking rules. They should be monitored, exposed, and sanctioned.⁸⁴
- **Offer immunity for those willing to testify overseas.** The fear factor—induced by violence,

assassinations, and lack of accountability—has helped discourage Lebanese from speaking out with documented information about corruption and unsavory financial operations. Former and current officials could significantly contribute to the ongoing effort to expose their corrupt peers and hold them accountable. But they need overseas immunity to talk. This will not only expose corrupt practices, methods, and channels, but it could also help the internationally led effort to claw back looted funds: around US\$7 billion smuggled outside the country by Lebanese banks after the default. These efforts must continue and intensify.⁸⁵ Lebanon direly needs to locate and bring the missing money home, and the Lebanese people must be granted access to their bank savings. Otherwise, they will remain dependent on corrupt sectarian leadership. In addition, those who seized the money must be held accountable, sanctioned, and pushed outside the political system. ❖

NOTES

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