

## CSAG INFORMATION PAPER:

### Hezbollah's "Financial Pyramid"

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*The opinions and conclusions expressed herein are those of a number of international officers within the Combined Strategic Analysis Group (CSAG) and do not necessarily reflect the views of United States Central Command, nor of the nations represented within the CSAG or any other governmental agency.*

1. **Subject:** *Hezbollah's "Financial Pyramid"*

2. **Purpose:** This paper is the third in a series about Hezbollah. The aim is to present the results of the CSAG's analysis of *the principle of "following Hezbollah's money"*. It reveals Hezbollah's financial activities in the region and worldwide, with possible implications for the US/CENTCOM.

3. **Assessment**

Hezbollah is a challenging entity with multi-channel funding deeply rooted in Lebanese society and (local) governments. Hezbollah uses both official and unofficial activities to finance their needs. Hezbollah uses the space of domestic political integration, a diversified income portfolio and/or multi-structure financial involvement, making it a powerful organization in the Middle East and a key player in financing ITN activities. While Hezbollah took advantage of the sympathetic Lebanese diaspora, it created sophisticated financial structures around the world to support its desired objectives.

Iranian funding created Hezbollah's financial foundation, which gave them the opportunity to participate in the political domain in Lebanon. This base funding was the catalyst for a more sophisticated financial network. This global financial network is a synergy of legal and illegal activities that cover the financial needs not only for Hezbollah, but also for the ITN network. The diversity, complexity and scale of Hezbollah's financial portfolio can be conceptualized as "Hezbollah's financial pyramid" (see Annex 1).

#### HEZBOLLAH'S FINANCIAL PYRAMID

##### a) Iran support

Since the Iranian revolution in 1979, the Iranian financial system has transformed significantly. State property (e.g., mines, roads, power generation, banks, etc.) blended to non-government public, private property of the Setad Foundation, the Supreme Leader's

Office, the armed services and Bonyads.<sup>1</sup> This move eventually brought the whole Iranian economy under the control of the regime (IRGC), in support of Velayat-e Faqih.<sup>2</sup> The Iranian regime sponsors Hezbollah with up to \$700 million-\$1 billion annually.\*

#### **b) Hezbollah domestic funding**

The complexity of the Lebanese political system allowed Hezbollah to spread its financial tentacles within the government structure and maintain its financial base in Lebanon. This created a favorable situation to establish a “state inside the state” controlled by Hezbollah and nested itself into key state institutions.<sup>3</sup> One source of income is *Khums*. This concept is based on the Shia religion, which obliges all Shiites to donate 1/5 of their annual income to religious leaders.

#### **c) Hezbollah illicit case-activities**

Since its creation, Hezbollah has acted like a hybrid semi-state actor and has found various creative ways to finance its activities. In order to mitigate the effects of increasing sanctions against Iran, Hezbollah has formed its own flexibility and a greater ability to evade efforts targeting its financial ties with Iran. All of this took place not only in the region, but also globally, benefiting the huge Lebanese diaspora, which supported Hezbollah’s goals.

##### ***Hezbollah revenue via (illicit) oil activities***

As Hezbollah became more regional, it took an additional role in running illicit financial schemes to finance IRGC-QF and Iranian allies and proxies’ activities in the region. One way was to facilitate the transport of millions of barrels of Iranian oil, together with IRGC-QF and the help of Iranian operatives, Russian companies, and the Syrian Central Bank.<sup>4</sup> The Hezbollah unit responsible for facilitating the transfer of weapons, technology, and other support from Syria to Lebanon is Unit 108, which is used to coordinate the “Iranian’s oil-for-terror scheme.”<sup>5</sup>

##### ***Hezbollah revenue via narcotics***

Although Hezbollah denied its financial benefits from narcotics, a FATWA, presumably issued in the mid-1980s, “allowed” Hezbollah to sell drugs to non-Muslims.<sup>6</sup>

Hezbollah became a leading drug producer, procurer (captagon in Lebanon and Syria, cocaine from Colombia and Venezuela) and exporter worldwide.<sup>7,8,9</sup>

##### ***Hezbollah money laundering***

In order to avoid legal restrictions, Hezbollah morphed its criminal activities into legal networks (real estates, banking segment, car market). This money laundering is global and very hard to trace, but it offers Hezbollah the opportunity to use the network in assistance with established worldwide enterprises. One of the prominent examples of this pattern of work is that Hezbollah used a large-scale money laundering scheme based on drug cartels, US car dealers, and foreign banking systems.<sup>10</sup>

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\* The total amount fluctuated significantly due to external factors (sanctions, JCPOA, oil prices, etc.).

**4. Conclusions**

- a. Hezbollah's financial pyramid consists of many various independent sources and provides the flexibility and survivability of the financial enterprise to feed the organization financially.
- b. Over time, Hezbollah cultivated the diversification and amplitude of its sources of income, making it more resilient.
- c. Hezbollah's mutual interest in criminal organization worldwide, combined with money laundering, makes it very difficult to track down and combat them.
- d. The Lebanese diaspora is a valuable asset for Hezbollah around the world and provides it "strategic depth."
- e. Hezbollah controls various seats in the Lebanese government, giving them direct access to state funds.
- f. Iran remains a constant financial supporter of Hezbollah, as it allows Iran plausible deniability and provides more freedom for IRGC-QF with the development of Hezbollah.

**5. Recommendations for US/CENTCOM**

- a. Coordination of activities with other national and international agencies to follow and cut financial flow.
- b. Using the international community to support the efforts of different states to disrupt Hezbollah's activities (use US/CENTCOM influence to connect countries which don't have bilateral agreements).
- c. Use STRATCOM to strengthen the message to Iran about the risk of a more independent Hezbollah.
- d. Investigate the possibility of using Artificial Intelligence to analyze the modus operandi and possible cash flow for Hezbollah.
- e. Target narcotics production sites in the region to cut off one of the tentacles for Hezbollah funding, making it more expensive for them.

## Annex 1

**Hezbollah's Financial Pyramid**

## Notes:

- 1) The size of the segments does not represent the actual proportion of the depicted domains contribution to group's financial influx.
- 2) Iranian financial contribution is positioned at the base of the pyramid to reveal Iran's constant/reliable support of group's needs.

<sup>1</sup> *The Rise of the Revolutionary Guards' Financial Empire: How the Supreme Leader and the IRGC Rob the People to Fund International Terror* (Washington, DC, U.S.: National Council of Resistance of Iran – U.S. Representative office, 2017), 8-9.

<sup>2</sup> Ibid

<sup>3</sup> Lina Khatib, "How Hezbollah holds sway over the Lebanese state" Chatham House, June 30, 2021.

<https://www.chathamhouse.org/2021/06/how-hezbollah-holds-sway-over-lebanese-state/02-influence-through-state-institutions>, (Accessed March 6, 2023)

<sup>4</sup> Mathew Levitt, "Hezbollah's regional activities in support or Iran's proxy networks," The Middle East Institute, July 2021. page 15. <https://www.mei.edu/publications/hezbollahs-regional-activities-support-irans-proxy-networks>, (Accessed January 15, 2023)

<sup>5</sup> Ibid

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<sup>6</sup> Majid Rafizadeh, "The Mullahs and Hezbollah, Lords of Drug Smuggling," Gatestone Institute, August 12, 2020. <https://www.gatestoneinstitute.org/16332/iran-hezbollah-drug-smuggling>, (Accessed March 6, 2023)

<sup>7</sup> Chris Kraul, Sebastian Rotella, "Drug probe finds Hezbollah link," Los Angeles Times, October 22, 2008. <http://articles.latimes.com/2008/oct/22/world/fg-cocainering22>, (Accessed March 6, 2023)

<sup>8</sup> "17 arrested on Curacao for involvement in Hezbollah-linked drug ring," Associated Press, April 29, 2009. <https://www.theguardian.com/world/2009/apr/29/curacao-caribbean-drug-ring-hezbollah>, (Accessed March 6, 2023)

<sup>9</sup> "Hezbollah in Latin Latin America-Implications for U.S. Homeland Security," Hearing before the House Committee on Homeland Security, Subcommittee on Counterterrorism and Intelligence, July 7, 2011, page 9. <https://www.gpo.gov/fdsys/pkg/CHRG-112hrg72255/pdf/CHRG-112hrg72255.pdf>, (Accessed March 6, 2023)

<sup>10</sup> Aref Abdul Basir, "Secret funding networks. Where does Hezbollah get its money from?" Al Jazeera in arabic, February 6, 2022. <https://www.aljazeera.net/midan/reality/politics/>, (Accessed March 15, 2023)