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Between Rebuilding Lebanon and Weakening Hezbollah: The Dilemma of Economic Aid

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Changes in Lebanon's leadership and Hezbollah's weakened position following the war with Israel appear to have created an opportunity to shift the country's internal balance of power through extensive aid to revive its economy and strengthen its sovereignty. Beyond the challenges posed by Lebanon's deep systemic economic crisis, the main concern is that aid could also benefit Hezbollah, which is firmly embedded in Lebanon's deep state and its security and civil institutions. The main conclusion of this article is that Lebanon urgently needs assistance, both to improve its economic condition and to support the recovery of the Shiite population affected by the war. Such aid should be provided alongside continued efforts to weaken Hezbollah, and should be accompanied by established mechanisms to ensure that aid does not fall into the organization's hands. This would help residents of southern Lebanon recognize that the state, and not Hezbollah, is providing them with assistance.

Over the past three years, Lebanon has found itself embroiled in wars not its own against Israel, serving the interests of Hezbollah and Iran. These wars have further worsened the country's economic situation, which was already dire following the 2019 crisis. The Lebanese state urgently requires external assistance for economic recovery and the rehabilitation of damage caused by the war, particularly for the Shiite residents of the south. Hezbollah, too, is in dire financial straits. It joined Hamas on October 8, 2023, opening a "support front" for the Palestinians, and later resumed fighting in service of Iran's interests after the ceasefire that lasted from November 27, 2024, to March 2, 2026. The question, then, is how to assist Lebanon under its current leadership, which is favorably disposed toward Israel, while maintaining pressure on Hezbollah and ensuring that aid neither benefits the organization nor perpetuates the Shiite population's dependence on it.

Lebanon's Urgent Need for Assistance in Reviving its Economy

Hezbollah's participation in the "Swords of Iron" war (October 2023 – November 2024) inflicted severe direct and indirect damage on the Lebanese state, compounding the damage caused by Lebanon's ongoing economic crisis. According to World Bank data, Lebanon's economy contracted by about 40 percent between 2019 and 2024. Following the ceasefire, the economy showed modest signs of recovery in 2025, with growth of 4.7 percent. That trend reversed when fighting resumed in March 2026. A new ceasefire was reached in April 2026, and direct talks between Lebanon and Israel began, leading to the "Framework Agreement" in June 2026. However, the IDF's continued presence in roughly 6 percent of Lebanese territory in the south, along with the ongoing conflict with Hezbollah, is impeding the repair

of war damage and efforts to improve economic conditions. In an address to the Lebanese Parliament on September 15, 2026, Lebanon's Prime Minister reported that the war had caused $20 billion in direct damage to date, a figure that could rise to $27 billion. The World Bank forecasts a 6.4 percent contraction in Lebanon's GDP in 2026, alongside inflation of approximately 17.5 percent.

Beyond the severe damage caused by the war, Lebanon's economy continues to grapple with long-standing problems. The country's limited budget cannot provide residents with adequate services; inflation has eroded the Lebanese pound's value by more than 98 percent since the 2019 crisis and driven the dollarization of an economy that operates largely on a cash basis; state institutions are plagued by widespread corruption and dysfunction; and the banking system has yet to recover from the financial crisis.

On October 1, the Lebanese news outlet *Al-Modon* published an article on the high cost of living for a household in Beirut. According to *Numbeo*, an unofficial database based on user-submitted data, there is a stark gap between an average family's monthly income (roughly $500 to $800) and its basic living expenses (estimated at $3,000 to $3,500 a month). This figure excludes rent, which has also soared. The gap is driven largely by rising costs for energy, education, and food. Protests over the status quo are becoming increasingly visible across Lebanon, but the government is struggling to meet demands for higher wages to compensate for the erosion of workers' incomes.

Despite Lebanon's urgent need for extensive external aid, such assistance has been slow to materialize. A major obstacle is Lebanon's difficulty in meeting the conditions set by the International Monetary Fund (IMF) in April 2022 for $3 billion in financing. No comprehensive recovery program has yet been agreed upon, owing to difficulties advancing and implementing the necessary legislation. In recent years, legislative progress has been extremely limited and has not met the IMF's requirements:

- In August 2026, parliament approved amendments to the Bank Resolution and Restructuring Law. The IMF called this a "significant step forward," but made clear that assistance is conditional on the amendments taking effect.
- In April 2025, the "Banking Secrecy Law" was amended, but it was not approved due to disagreement over the degree of independence of the central bank (Article 3). After parliament passed the law on August 12, 2026, it was stalled following an appeal by President Aoun.
- Legislation on the "Financial Gap Law," which would determine how banks' losses are allocated, has yet to be completed. The central bank has called for exceptions to be included in the law, which the IMF has described as severe. The legislation is unlikely to be completed in the coming months.
- The IMF also requires approval of a 2027 budget and a multi-year fiscal framework consistent with the state's capacity to meet its debt obligations. The Central Bank of Lebanon, for its part, insists that the IMF-proposed reforms be implemented exclusively through the bank.

In our assessment, given the resistance from the central bank, the banking lobby, and elements within the political establishment, coupled with the desire to preserve Lebanon's existing power structures at the expense of national recovery, the likelihood of Lebanon meeting the Fund's conditions and securing an aid package in the near future is slim. At the same time, beyond assistance to the Lebanese Armed Forces (which lies outside the scope of this article), there are signs of a willingness, however insufficient,

to provide economic aid and support reconstruction through other channels. Examples include the World Bank's Lebanon Emergency Assistance Project (LEAP) to repair war damage, through which $250 million of the $1 billion pledged has been disbursed, and Qatar's commitment of $400 million in aid for the electricity sector.

Hezbollah's Economic Distress

The severe blows Hezbollah suffered in its fighting with Israel have transformed the organization and plunged it into a deep economic crisis, which some describe as the worst in its history. The main reasons include:

- **A significant increase in the organization's expenses** because of its continued involvement in the fighting. Hezbollah urgently needs funds to rebuild the parts of its organization that were damaged, acquire weapons, restore its infrastructure, and recruit and train new military operatives to replace those killed, in addition to covering its day-to-day operations.
- **The need to meet its commitments to the Shiite population affected by the war.** More than 300,000 residents of the combat zones have yet to return to their homes. On October 13, Hezbollah announced a program to assist displaced people whose homes were destroyed, pledging to pay up to $14,000 per housing unit. However, the organization appears to be struggling to meet the demands of this dissatisfied population and is adopting the position that the Lebanese state should assist them. In a speech on September 27, marking the second anniversary of Nasrallah's killing, Hezbollah leader Naim Qassem reaffirmed the organization's commitment to helping its supporters in recognition of their sacrifices. However, he again emphasized that the state and the international community bear responsibility for full reconstruction.
- **Severe damage to Hezbollah's financial institution, al-Qard al-Hassan (AQAH),** following a series of targeted IDF strikes on its branches. The strikes undermined Hezbollah's ability to operate its parallel economy among the Shiite public (disbursing payments and issuing loans). The organization has had to reduce the number of branches and is now operating discreetly.
- **Economic pressure on Iran, which is struggling to support Hezbollah as it did in the past.** Iran faces obstacles both in using established channels to transfer funds and in providing assistance amid its own economic difficulties. Reports on the scale of Iran's current support for Hezbollah are conflicting. On October 7, *Iran International* reported that Iranian officials were continuing to send suitcases of cash to Lebanon. The report followed a Reuters account that $200 million had been transferred in September to fund payments to Shiite victims of the war. A U.S. official denied the report, however, and it is likely that Hezbollah leaked it to ease the disappointment of its Shiite supporters.
- **An expanded international effort to stop illicit transfers of funds to Hezbollah.** This effort is led primarily by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC), which has broadened its designations to include institutions, Hezbollah figures, and facilitators. In August, the United States imposed sanctions on a network of front men and money changers who had transferred millions of dollars to Hezbollah. Participants in this effort include actors in

Western Europe, the Gulf (particularly the United Arab Emirates), and South America, where Argentina is leading the action against Hezbollah.

- **A change in the organization's domestic standing.** The new government is seeking to curb Hezbollah's activities and reduce its control over both border crossings and government ministries from which it has drawn funds for its own benefit. This is taking place amid widespread criticism of the organization and Lebanese public opposition to its war in the service of Iran. Support among the Shiite population affected by the war, which has yet to receive adequate relief, also appears to be eroding. (The results of a recent *Statistics Lebanon* poll found that 63 percent of Lebanese Shiites support an agreement with Israel and 66 percent support transferring Hezbollah's weapons to the state). At the same time, banks and private actors appear increasingly unwilling to cooperate with Hezbollah's mechanisms.

Nevertheless, Hezbollah is not giving up on finding new and old avenues to improve its financial position. Alongside the ongoing smuggling of cash in suitcases from abroad, the organization continues to use cryptocurrencies and smuggling methods such as *hawala* (a system for transferring money through a network of intermediaries who settle their debts outside the banking system). Hezbollah also continues to siphon funds from the Lebanese government's meager sources of financing (for example, by using local authority funds controlled by the finance minister, a position traditionally held by a Shiite). Another source of funding is Shiite communities abroad, especially in West Africa, Germany, and the United States, which could serve as Hezbollah's "emergency vault" as it rebuilds. For example, Ghaleb Khojok, the head of one of the largest Shiite centers in Africa, located in the Cote d'Ivoire capital, is identified as one of the organization's largest donors.

Can Lebanon Be Aided Without Strengthening Hezbollah?

Given the recent wars, an opportunity is emerging to alter the internal balance of power between Hezbollah and the Lebanese state. Two developments are unfolding in parallel: **Hezbollah's current weakness** and **a change in Lebanon's leadership**—the president and the prime minister—who seek to reform Lebanon, end Hezbollah's autonomy, curb Iranian influence, and improve relations with Israel. External economic assistance could carry significant weight in advancing this positive trajectory. However, a key concern is that funds intended to revive Lebanon's economy or assist people affected by the war could instead benefit Hezbollah. Hezbollah members, along with figures from the Shiite Amal movement—which cooperates with the organization—are embedded in the government and across state institutions.

For example, in the current Lebanese government, ministers representing the "Shiite Duo" hold portfolios related to the economy and reconstruction: the Minister of Finance (from Amal), as well as the Ministers of Health and Labor (from Hezbollah), serve the organization's interests. Similarly, the state-run "Council of the South," which channels funds for reconstruction, is also entirely controlled by Amal. This was particularly evident in the involvement of Hezbollah figures (ostensibly in civilian roles) in assisting Shiites who returned to Zawtar al-Gharbiyeh during the pilot phase of the IDF's withdrawal.

There are **three main approaches** to addressing this dilemma over economic aid to Lebanon:

- **Providing assistance in coordination with the Lebanese government,** both to revive the economy and to repair war damage. The main weakness of this approach is the difficulty of

preventing funds from being diverted into Hezbollah's coffers or transferred through figures aligned with the organization. Hezbollah could then claim credit for the assistance, helping preserve its standing, particularly among the Shiite population it supports.

- **Withholding all assistance at this stage**, especially assistance intended to rebuild the Shiite population's communities, while continuing to condition any economic support for Lebanon on Hezbollah's disarmament. Supporters of this approach argue that as long as Hezbollah retains residual military capabilities and a presence in the Lebanese government and institutions, aid will be exploited to strengthen it; undermine efforts to further erode its capabilities and weaken it; and prevent the Shiite population from distancing itself further from the organization.
- **Channeling aid toward improving conditions for the non-Shiite population** by promoting targeted projects for other groups in Lebanon (primarily the Sunnis, as well as Christians and Druze) who suffer from the country's severe economic situation. The aim would be to strengthen these groups vis-à-vis the Shiite population, while continuing to pressure the latter to distance itself from Hezbollah.

Israel has a clear interest in strengthening the Lebanese state and continuing to weaken Hezbollah, but its ability to influence decisions on aid to Lebanon is limited. It can exert influence mainly through dialogue with the United States, which recognizes the importance of assisting Lebanon and is working to advance that goal. **In our view,** Israel should join U.S. and other international efforts and support both assistance to Lebanon's economy and reconstruction in the south. It should, however, call for the **establishment of dedicated, monitored mechanisms** to limit Hezbollah figures' involvement and prevent the funds from serving the organization.

As part of this effort, Israel could call for four measures: excluding Hezbollah-controlled ministries and institutions from managing aid funds and reconstruction projects in Shiite communities; transferring funds directly to the Shiite population through the "Reconstruction and Oversight Council," rather than the "Council of the South," while highlighting the Lebanese state's contribution; establishing a dedicated body to verify displaced people's eligibility for assistance and help those returning to areas from which the IDF withdraws, while sidelining Hezbollah's civilian organizations; and creating an oversight mechanism to ensure that contractors are not affiliated with Hezbollah and that funds reach their intended recipients. All of this should take place alongside continued military pressure (by Israel) and economic pressure (by the United States and international actors) on Hezbollah.

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