

How does Iran's strategic reliance on its proxy army reshape regional power structures and long-term stability by altering accountability mechanisms and systemic risks for Tehran's governance?

September 18, 2026 | SnugLab Research

Executive Summary

Iran's strategic reliance on its proxy army fundamentally reshapes regional power structures by creating parallel governance systems and altering accountability mechanisms through plausible deniability. However, this strategy increasingly compromises Tehran's long-term governance stability by introducing systemic risks, primarily through principal-agent failures, unsustainable fiscal drains, and the structural degradation of its proxy network. While proxies initially offered a low-cost means of projecting power and externalizing conflict, their declining effectiveness and growing autonomy now impose unpredictable strategic costs and divert critical resources from domestic priorities, weakening Tehran's capacity for coherent strategic action and internal stability.

Key Findings

Altered Accountability Mechanisms and Plausible Deniability

Iran's proxy strategy redefines accountability by employing a system of decentralized plausible deniability and gray zone warfare [4, 7]. This approach leverages semi-autonomous non-state actors to absorb direct attribution for military actions, thereby functionally decoupling Tehran from conventional diplomatic and military responsibility [3, 4, 7]. This decoupling is achieved through:

- **Plausible Deniability:** Iran provides material support, funding, and ideological alignment, allowing it to deny direct operational orders for proxy attacks, which complicates international attribution under traditional state-centric legal frameworks [3, 4, 7].
- **Gray Zone Thresholds:** The proxy network facilitates "calibrated confrontation" below the threshold of conventional war, enabling Iran to achieve strategic gains and

erode adversary sovereignty without triggering formal state-to-state retaliation [5, 7].

- **Operational Autonomy:** The IRGC-Quds Force acts as a coordinating nexus rather than a direct commander, allowing individual militias to maintain distinct national objectives and operational autonomy. This makes it difficult for adversaries to formulate coherent counterstrategies or attribute specific tactical decisions to Tehran [7, 8].

However, this decoupling is not absolute. While successful in shielding Tehran from direct attribution for specific events-such as the October 7, 2023 Hamas attack, which intelligence agencies found no direct evidence of Tehran ordering despite public praise [7]-it introduces significant principal-agent failures. Divergent local interests and coordination breakdowns generate reputational costs and make it increasingly difficult for Tehran to control escalation dynamics [6].

Reshaped Regional Power Structures and Deterrence

The institutionalization of Iran's proxy networks has fundamentally restructured regional power by creating hybrid parallel governance systems that often eclipse central states [5, 7]. Groups like Hezbollah in Lebanon, the Houthis in Yemen, Hamas in Gaza, and Iraqi Shia militias operate outside or parallel to state institutions, collecting taxes, providing public services, and maintaining independent military commands that rival or exceed those of their respective central governments [7]. This institutionalization erodes the traditional Westphalian model of state sovereignty, hollows out state institutions, and normalizes continuous low-intensity confrontation [5, 7]. As the Middle East transitions toward a fragile state-centered security framework, it is marked by militia fragmentation, local instability, and new security vacuums [6].

This reliance on proxy forces also alters the causal chain of regional deterrence. Layering non-state actors lowers Iran's conflict initiation threshold by allowing it to project power and foster instability without direct state engagement, minimizing economic costs and international backlash [4, 7]. This asymmetric approach forces adversaries to divert substantial defense resources; for instance, Israel spends an estimated \$18 billion annually on defense largely due to proxy threats [7]. However, this strategy simultaneously increases long-term diplomatic and military response costs for Tehran during systemic crises. The entrenched parallel governance structures, consolidated during the 2010-2023 period, have generated divergent local interests and declining command cohesion, making it difficult for Tehran to enforce central policy or control escalation dynamics [6, 7].

Systemic Risks and Long-Term Governance Stability

Iran's proxy network, while providing strategic assets like plausible deniability, increasingly acts as a systemic liability that directly threatens Tehran's long-term governance stability due to principal-agent failures and unsustainable fiscal drains [6, 9].

Principal-Agent Failures and Loss of Control:

The operational autonomy of Iran's "axis of resistance" introduces significant principal-agent failures. The expansion of the network has led to strategic overextension, characterized by declining command cohesion, divergent local interests, and coordination breakdowns [6]. Proxies, such as the Houthis, exhibit independent decision-making due to factors like geographical distance from Tehran [9]. This means Tehran bears the reputational and strategic costs of unpredictable proxy actions without possessing the command authority to prevent them, directly compromising its strategic predictability and exposing its domestic governance to regional failures [6, 7].

Fiscal Strain and Resource Diversion:

Sustaining the proxy architecture imposes massive, continuous funding demands that directly compete with domestic priorities, degrading Tehran's capacity for effective long-term domestic governance [6].

- **Funding Allocations:** Iran provides an estimated \$700 million annually to Hezbollah and over \$100 million annually to Hamas [7]. Syrian brigades supported by Iran receive monthly stipends between \$450 and \$700 [8].
- **Budgetary Diversions:** Since 2019, Iran has formalized the diversion of funds through various mechanisms:
 - In January 2019, the Rouhani administration withdrew approximately \$4.8 billion from the National Development Fund (NDF) to amend the budget allocated to the IRGC and IRIB, with the Central Bank facilitating multi-billion dollar transfers to the IRGC-Qods Force [1, 2].
 - A March 2020 Supreme Leader's decree, following parliamentary rejection of the budget bill, increased the IRGC's budget by one-third to 243 trillion rials and more than doubled Basij militia funding to 22 trillion rials [10].
 - The government quietly raised the armed forces' share of oil export revenues within the 2023-2024 budget without public disclosure [13].
 - The proposed 2025/26 military budget anticipates a 200% increase in military spending, quadrupling the armed forces' share of oil export revenues and directing

roughly \$12.6 billion (47% of projected oil resources) to sustain regional proxies [13].

- **Domestic Impact:** These outlays exacerbate Iran's domestic economic crisis, marked by high inflation, unemployment, and youth unrest [9]. Documented public consumption metrics directly correlate with these outflows, including subsidy cuts and widespread protests following an abrupt November 2019 fuel price hike [10]. The World Bank estimated southern Lebanon's reconstruction costs at approximately \$11 billion, an amount that exceeded the combined financing capacity of Iran and Hezbollah, highlighting the fiscal limits [6].

Structural Degradation and Diminished Effectiveness:

Since October 2023, Iran's proxy model has entered a phase of "structural degradation," accelerating the military, financial, and political weakening of its architecture [6, 10]. This degradation has exposed severe vulnerabilities, including military attrition, intelligence penetration, leadership decapitation (e.g., Hassan Nasrallah's assassination in September 2024), and financial constriction due to international sanctions [6, 10]. The loss of strategic depth, such as the fall of the Assad regime in Syria in December 2024, dismantled critical logistical backbones for groups like Hezbollah [6, 10].

During systemic crises, the degraded network proves largely ineffective. For example, during Operation Epic Fury, which began on February 28, 2026, Iran's proxies offered little more than condemnation rather than decisive military support, exposing their diminished capacity to protect Tehran from direct military shocks [6, 10, 11]. This contrasts with the historical cost-benefit ratio, where Iran's 2014 defense budget of \$14 billion was significantly lower than Saudi Arabia's nearly \$81 billion, demonstrating a highly efficient "low-cost power projection" model [12]. However, the post-2023 attrition rates and ineffectiveness are eroding these benefits, forcing Tehran to divert domestic resources to maintain diminishing regional influence, creating a governance deficit [6]. As one assessment noted, "For the first time, the military capabilities of Iran and all its partners had been degraded at once" [10].

Implications

Iran's strategic reliance on its proxy army has created a complex and increasingly precarious regional dynamic. While the proxy model initially provided Tehran with a powerful tool for asymmetric power projection and plausible deniability, its current state of degradation and the inherent principal-agent failures are generating significant systemic risks. The continuous diversion of resources to sustain a less effective and less

controllable network directly compromises Tehran's capacity for effective long-term domestic governance, exacerbating internal economic and social pressures. This dynamic suggests a future Middle East where Iran's influence may become more unpredictable and less strategically coherent, potentially leading to increased regional instability and a more fragile state-centered security landscape.

Limitations and Caveats

Direct quantitative data linking proxy degradation to Tehran's domestic governance stability is limited, and reasonable interpretations of the available evidence exist for both the benefits and liabilities of the proxy strategy. A direct quantitative comparison with Saudi Arabia and the UAE's reliance on private military contractors or state-to-state alliances is not possible due to a lack of specific metrics for the latter in the provided research. The precise cost-benefit ratios for specific proxy campaigns are also not explicitly quantified in terms of military expenditure-to-geopolitical-outcome ratios in open sources. Therefore, conclusions regarding the long-term impact on Tehran's governance stability should be treated as provisional, based on the available qualitative and indirect quantitative evidence.

Sources

- [1] [gov] Text - congress.gov - <https://www.congress.gov/event/118th-congress/senate-event/LC72981/text>
- [2] [edu] Viewcontent.Cgi - digital-commons.usnwc.edu - <https://digital-commons.usnwc.edu/cgi/viewcontent.cgi?article=3124&context=ils>
- [3] [edu] Downloads - scholarworks.calstate.edu - <https://scholarworks.calstate.edu/downloads/gf06gb672>
- [4] [edu] The Path Forward On Iran And Its Proxy Forces - brookings.edu - <https://www.brookings.edu/articles/the-path-forward-on-iran-and-its-proxy-forces/>
- [5] The Axis Of Instability Iran Proxy Warfare And The Fragmenti - meforum.org - <https://www.meforum.org/mef-online/the-axis-of-instability-iran-proxy-warfare-and-the-fragmenting-middle-east>
- [6] Degradation Irans Proxy Model - belfercenter.org - <https://www.belfercenter.org/research-analysis/degradation-irans-proxy-model>
- [7] Iran S Proxy Network The Role Of Hamas, Hezbollah, And The H - ijhssm.org - https://ijhssm.org/issue_dcp/Iran%20s%20Proxy%20Network%20The%20Role%20of%20Hamas,%20Hezbollah,%20and%20the%20Houthi%20in%20Shaping%20Regional%20Balance%20of%20Power.pdf
- [8] IJHSS V12I1P101 - internationaljournalssrg.org - <https://www.internationaljournalssrg.org/IJHSS/2025/Volume12-Issue1/IJHSS-V12I1P101.pdf>
- [9] PolicyFocus174ZamirIndexV2 - washingtoninstitute.org - <https://www.washingtoninstitute.org/sites/default/files/pdf/PolicyFocus174ZamirIndexV2.pdf>
- [10] Fracturing The Axis - inss.org.il - <https://www.inss.org.il/publication/fracturing-the-axis/>
- [11] The Global And Regional Impacts Of The Iranian Conflict - hiiia.hu - <https://hiiia.hu/wp-content/uploads/2026/03/The-Global-and-Regional-Impacts-of-the-Iranian-Conflict.pdf>

[12] Research - instituteofgeoeconomics.org -

<https://instituteofgeoeconomics.org/en/research/20260082101/>

[13] Illicit Finance In Regional Proxy Group Funding - iransto.com -

<https://iransto.com/illicit-finance-in-regional-proxy-group-funding/>