



GLOBAL FINANCIAL INTEGRITY

# Sudan and Trade Integrity







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## **Global Financial Integrity**

**May 2020**

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May 2020

Sudan is in the midst of a multi-year effort to transition from decades of civil strife, international sanctions, massive debt and a designation as a state sponsor of terrorism, to democratic rule and multi-party elections. The dual tasks of the transitional government during this period are to maintain political stability, while working to rebuild the nation's economy. As this report goes to press, media reports indicate that numerous gold mines allegedly linked to military interests have been turned over to a Government-owned firm. This is a very encouraging development for the Government and people of Sudan.<sup>1</sup>

In an effort to shed light on the challenges faced by the government in reviving a moribund economy Global Financial Integrity (GFI) has produced an in-depth analysis of Sudan's trade sector, examining trade misinvoicing since 2012 with a focus on the extractive sector along with a regulatory and legal analysis of Sudan's crude oil and gold sectors. The report offers actionable recommendations in the areas of policy, regulation and law for the consideration of the Government of Sudan. As part of this project, GFI also conducted a survey with 20 of Sudan's top thought leaders, revealing their views on the future trajectory of their country and the needed areas of reform.

The findings of this report speak to the magnitude of the misinvoicing problem facing Sudan. During the seven-year period covered in the study we found the following:

	USD	As a percentage of Sudan's reported trade value
Total trade value gap	\$30.9 billion	47.6 percent
Crude oil sector value gap	\$4.1 billion	85.4 percent
Gold sector value gap	\$4.1 billion	47.7 percent

In terms of potential lost revenue, and based on tariff, tax and royalty rates, the government may have lost as much as US\$5.7 billion due to these discrepancies in value during the period. To put this figure in context, Sudan's GDP for 2018 (the last year studied) was just US\$40.9 billion. The crushing impact of the lost revenue is self-evident.

International trade is the lifeblood of the Sudanese economy and given the high levels of natural resources in the country, significant amounts of hard currency could be flowing into government

<sup>1</sup> Alamin, Mohammed. "Warlord-Linked Sudanese Firm Hands Over Gold Mines to Government." Bloomberg.com. Bloomberg, May 5, 2020. <https://www.bloomberg.com/news/articles/2020-05-05/warlord-linked-sudanese-firm-hands-over-gold-mines-to-government?sref=4jBrxBfy>.

coffers if these resources were harnessed appropriately. However, due to a multitude of factors including the misinvoicing of trade which results in tremendous revenue losses; the opaque nature of free trade zones that operate with little government oversight or transparency; the preponderance of smuggling; and the lack of clarity in the crude oil and gold sectors that stifles competition, creates inefficiencies and reduces revenue, the country suffers from diminished value from its global trade transactions.

‘Trade Integrity’ is a concept that describes a legal, regulatory and policy framework that fosters international trade transactions that are legitimate, properly priced and transparent. Establishing such a framework is of the utmost importance in Sudan. Without sufficient investment to enhance the Sudan Customs Authority, deliver technical assistance to enable multi-agency investigation and enforcement efforts and establish multi-stakeholder risk-assessment groups in the extractive sector, the legitimacy of Sudan’s global trade transactions will continue to be in question. Moreover, massive leakages of revenue will occur, thereby undermining domestic resource mobilization efforts and any hope of implementing social programs to address COVID-19 challenges, or working towards the UN 2030 Sustainable Development Goals. Sudan’s economic future, with an increase in global trade leading the way, needs to be built on the legitimacy of its trade transactions.

While the crude oil and gold sector analyses and recommendations provided here offer much for policymakers and donor countries to consider, it is important to highlight some of the findings from the surveys conducted, given the participants’ unique and informed view of the politics and industry of Sudan (a more thorough analysis and spreadsheet of edited responses appears in the Appendix). The respondents represent an array of backgrounds, from government, business, civil society and academia, and the questions asked ranged from the broad (are you optimistic or pessimistic on the future of Sudan?), to the more focused (what should be done to boost the agricultural sector?). The names and exact place of work of the respondents have been anonymized in order to encourage frank responses. Selected quotes from the respondents are highlighted throughout the remainder of this report.

The most striking responses – especially given the economic hardships suffered in recent decades – was seen in the reported optimism for Sudan’s economic outlook. Eighty percent of participants (16 out of 20) stated they were either optimistic or somewhat optimistic about the

long-term prospects for the economy. Several individuals pointed to the as-yet untapped natural resources in the country as support for their views, while others noted their expectation that Sudan will be removed from the State-Sponsor of Terrorism list, along with the corresponding economic pressures that listing entails. Additionally, all 20 respondents agreed that the agricultural sector holds the most potential for economic growth, with one individual noting that this sector is “the main driving force in our economy.”

The answers to the surveys overall reveal a sense of hope, but also awareness of the difficult path ahead for Sudan. Indeed, for Sudan to fully overcome these obstacles, the concerted effort and cooperation of the government, private sector, civil society, donor countries and multilateral institutions will be needed for years to come. Still, the overriding optimism of the respondents is considerable and laudable. Additionally, the views of the respondents calling for increased transparency, accountability and oversight are greatly in line with those of GFI. Many of our suggested policy prescriptions target the need for additional oversight mechanisms in the crude oil and gold sectors, with specific calls for requiring beneficial ownership information as a fundamental component of a robust social contract.

This report was funded by a private organization that has requested anonymity. Global Financial Integrity thanks them for their generous backing of our work on this crucially important issue, which would not have been possible without their confidence and support.

Tom Cardamone  
President & CEO  
May 2020



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# Executive Summary

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Global Financial Integrity (GFI) has produced a comprehensive report, estimating the magnitude of trade misinvoicing since 2012 with a particular focus on the crucially important crude oil and gold sectors, given that these two commodities accounted for nearly half (47 percent) of Sudan's exports by value in 2017. GFI also completed a regulatory and legal analysis of Sudan's oil and gold sectors and has provided policy recommendations for all three areas of research.

## Findings

### *1. Trade Misinvoicing*

Using data from the International Monetary Fund's Direction of Trade Statistics (DOTS), GFI conducted a value gap analysis to detect trade misinvoicing related to Sudan's global trade transactions. A value gap is the difference in value between what any two countries report in a bilateral trade exchange. For example, if Sudan reported US\$46 million in exports to France in 2018, but France reported US\$66 million in imports from Sudan in that same year, this would reflect a mismatch, or a value gap, of US\$20 million. Value gaps are indicative of trade misinvoicing, which is used to move money or value out of one country and into another, as well as to evade value-added tax and customs duties.

The GFI trade value gap analysis found:

- Of the 374 bilateral trade relationships between Sudan and 70 of its trading partners examined between 2012-2018, which had a total reported value of US\$65.0 billion (as reported by Sudan), GFI identified an estimated US\$30.9 billion in value gaps.
- These estimated value gaps were equal to nearly 50 percent of Sudan's total trade during this period with the 70 trading partners.
- The estimated revenue loss related to the value gaps for this period could potentially be as much as US\$5.7 billion.
- Ethiopia was among the top ten trading countries with the highest value gaps as a percentage of total trade with Sudan in all seven of the years studied, while Japan was among the top ten in six of the seven years examined.

## ***2. Sector Analysis – Trade in Crude Oil***

Although petroleum exports have decreased in prominence since the secession of South Sudan in 2011, oil is still one of Sudan's primary generators of foreign currency. Post-secession, crude oil exports account for 11 to 64 percent of Sudan's exports each year and Sudan was the world's 42nd largest producer of crude oil in 2018. Using data from the Foreign Trade Statistical Digest (issued quarterly by the Central Bank of Sudan) and the United Nations Comtrade database, GFI conducted a trade gap analysis on the Sudanese crude oil sector, finding large discrepancies between reported levels of exported crude oil by Sudan, compared with reported imports of Sudanese oil by its trading partners:

- Over the seven-year period 2012-2018, Sudan reported exports of 62.3 million barrels, while the country's trading partners reported imports of 112.2 million barrels; a volume gap of 49.9 million barrels and equivalent to 80.1 percent of Sudan's declared export volume.
- In terms of value, Sudan reported exports valued at US\$4.8 billion during the seven-year period, while in comparison its trading partners reported imports of US\$8.9 billion; a value gap of US\$4.1 billion and equal to 85.4 percent of Sudan's declared exports by value.

Cumulatively, this gap in reported trade is indicative of large revenue losses to the Government of Sudan:

- Assuming a conservative royalty rate of 12.5 percent along with the country's corporate income tax rate of 35 percent, the Government could have lost nearly US\$2 billion dollars between 2012 and 2018. This represents an average annual loss of US\$279.4 million; more than three times the amount (US\$89.3 million) the Government spent on social benefits in 2017.

## ***3. Regulatory and Legal Framework Analysis – Sudanese Crude Oil Sector***

GFI identified a number of regulatory vacuums in Sudan's legal and regulatory governance of the crude oil sector:

- The governance architecture of the oil sector remains problematic, with no clear separation between the commercial and non-commercial roles of the Ministry of Petroleum and Gas\* and the Sudan Petroleum Company Limited, or Sudapet, the national oil company. This in turn raises the risk of regulatory capture.
- In awarding oil licenses, there is a marked lack of transparency and clarity in the licensing process and the awarding of concessions. This raises the risk of political interference and

involvement of politically-exposed persons (PEPs) in both the national and sub-national levels of the crude oil supply chain.

- Sudan continues to have problems with accurately reporting export volumes. This is an impediment to understanding the size, scale and loss of revenues through trade misinvoicing from the sector and prescribing policy initiatives for other parts of the economy.
- There is an absence of any guidelines on corporate board governance for Sudan's state-owned enterprises, which has adversely affected the independence and oversight authority of its institutions.
- The absence of any procedure or rules on criteria for entities involved in purchasing commodities from the crude oil sector weakens the integrity of the supply chain.
- The ownership structure of Sudan's state-owned enterprises, specifically Sudapet's subsidiaries, remain unclear, raising legitimate concerns about private ownership with PEP affiliations.

Such regulatory and legal gaps undermine the trade integrity of Sudan's crude oil sector, resulting in critical revenue and resource losses to the Government of Sudan.

#### ***4. Sector Analysis – Trade in Gold***

Following the secession of South Sudan – which controls a majority of the oil fields in the region – in 2011, the Government of Sudan turned to gold as a way to diversify its exports. Gold production in Sudan subsequently increased by 141 percent between 2012-2017 and by 2018 Sudan became the twelfth largest producer of gold in the world. Using data from the Central Bank of Sudan's quarterly Foreign Trade Statistical Digests and Comtrade, GFI conducted a trade volume gap analysis, again finding large discrepancies in the quantity and value of exported gold between Sudan and its trading partners:

- Between 2012-2018, the Central Bank of Sudan reported 205,446 kilograms of gold exports, whereas the country's trading partners reported 404,732 kilograms of gold imports, creating a volume gap of 199,286 kilograms (200 tons) of gold, equivalent to 97 percent of Sudan's declared gold exports by volume.
- Correspondingly, the total value gap equaled nearly US\$4.1 billion, with the Central Bank of Sudan reporting gold exports of US\$8.6 billion and its trading partners reporting gold imports from Sudan valued at US\$12.7 billion; the value gap is equal to 47.7 percent of Sudan's reported gold exports by value.



The value gap is most likely due to the unrecorded export of Sudanese gold, representing potentially significant financial losses to the Government of Sudan:

- With a value gap of US\$4.1 billion, and using annual royalty rates paid by gold producers, there was an estimated potential revenue loss of US\$575.2 million for the Government of Sudan over the period 2012-2018, which could cover the cost of thousands of additional teachers in a country where the average person receives only eight years of education.

### ***5. Regulatory and Legal Framework Analysis – Sudanese Gold Sector***

GFI identified a number of regulatory vacuums in Sudan's legal and regulatory governance of the gold sector:

- A lack of clear procedures regarding traditional land ownership and the awarding of concession and exploration rights to large (often foreign) mining companies has led to conflict, tension and the development of informal mining sites within the boundaries of awarded concession sites.
- There is no clear evidence that the Government of Sudan has comprehensive understanding of the amount and location of all of its available natural resources. This puts the Government at a disadvantage in negotiating concession or exploratory contracts with foreign companies.
- An absence of robust land registry records and ownership information hinders efforts at financial transparency and understanding of who owns what and for how much.
- A lack of clearly delineated roles between the Ministry of Minerals\* and the Sudanese Company for Mineral Resources suggests that the investment and profit making role of the government is clearly intertwined with its regulatory and oversight roles. This coupled with the high risk of participation of PEPs in all levels of the supply chain undermines overall trade integrity, and also institutional independence.
- In awarding mining rights, there is a lack of transparency in negotiations, bidding processes and the awarding of contracts. Political interference and collusion between bidders and government officials is known to take place and there is an absence of an open and competitive bidding process. Additionally, the governance architecture fosters monopolies, collusion and the entry of PEPs.

- During extraction operations, there are ill-designed local content regulations, poor enforcement of regulations at the national and sub-national levels, insufficient due diligence on intermediaries and consultants, and poor record keeping, among other risk factors.
- In analyzing trade financing and export processes, there is inadequate enforcement of the customs clearance process, a weak technical capacity to conduct counter trade-based money laundering supervision, weak cross-border exchange of information, poor record keeping regarding production, imports and exports, inadequate financing in the formal financial sector, and a poor enactment of anti-money laundering obligations regarding private entities in export processing.

Altogether, these regulatory and legal gaps undermine the trade integrity of Sudan's gold sector, resulting in direct revenue and resource losses to the Government of Sudan while illicit trade and mining activity continues unabated.

## Recommendations

GFI recommends that sufficient funding be allocated to implement the following legal, regulatory and policy suggestions to bolster and strengthen the trade integrity of Sudan:

- Prioritize and dedicate resources to the enforcement of Article 198 and 199 of the Sudan Customs Act, 1986. This is critical to combating the significant revenue leakages from Sudan's high value export areas of agriculture and minerals.
- The Sudan Customs Authority should conduct a risk assessment of its free trade zones as a source and conduit of trade misinvoicing and smuggling across different routes and different commodities. This should be done with specific reference to commodities like gold that are high value and high risk.
- Establish multi-agency teams to address customs fraud, tax evasion and other financial crimes.
- Implement commercially available risk assessment tools at the Sudan Customs Authority to detect trade misinvoicing of imports.
- Establish a public beneficial ownership registry.

Additionally, GFI recommends the Government of Sudan implement the following policies to reduce risks in the Sudanese gold and oil sector:

- Commit Sudan to reforming its extractive industry standards in line with the Extractive Industries Transparency Initiative and the Africa Mining Vision.
- Create greater disclosure of information on contracts, bidding, procurements processes and the stake of the Sudanese government in concession agreements.
- Amend the Petroleum Wealth Act, 1998 (PWA) and the Mineral Wealth and Mining Development Act, 2015 (MWMDA) to require that all legal entities subject to their provisions disclose their beneficial owner.
- Mandate that all public officials involved in the implementation of the provisions of the PWA and the MWMDA are not permitted to hold any financial or ownership interest in any legal entity involved in the extractives sector.
- Adopt a whole-of-government approach towards regulating the extractives sector, with participation from all relevant ministries to flag risks of fraud and tax evasion and formulate policy accordingly.
- Carry out a risk assessment of the extractives sector to identify the threats, vulnerabilities and criminal activities observed and design a risk-based policy mechanism that will enhance the regulatory approach.
- Involve multi-stakeholder groups, including civil society, in risk assessment and re-formulation of the legislative framework around extractives.



# CHAPTER 1

## Sudan's Regional Trade Issues: Trade Misinvoicing, Leakages and Capital Flight

### Outline:

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# I. Trade: The Current Sudanese Context and Challenges

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Sudan is a member of the Common Market for Eastern and Southern Africa (COMESA), which comprises 21 countries, and a member of the Greater Arab Free Trade Area (GAFTA), with 17 member states. Both of these blocs provide governments with lower tariffs on imports, which is intended to make imports more affordable. Sudan is also considering joining the Arab-Mediterranean Free Trade Agreement (Agadir) as a way to facilitate greater entry into the European market.<sup>1</sup>

Despite Sudan's proximity to its African trading partners, the many years of economic sanctions imposed by the United States in retaliation for state support of terrorism reduced the country's options for trading partners within the continent, and resulted in Sudan developing more substantial trade relations with less risk-averse countries in the Gulf Cooperation Council (GCC) and in Asia. However, following the removal of US sanctions in 2017, there are enhanced prospects for Sudan to greatly expand its trade relations and thus, its economic potential. Of particular importance are two major African initiatives to which Sudan is a party, the continental-wide Tripartite Free Trade Agreement (TFTA) and the African Continental Free Trade Area (AfCFTA).

***“[I am] optimistic [about the economy], but a bit frustrated! The potential is there, but the financial realities are grim.”***

—GOVERNMENT OFFICIAL

The TFTA is a proposed African free trade agreement between the 28 countries of three regional African trading blocs: COMESA, the Southern African Development Community (SADC) and the East African Community (EAC). Under the TFTA, tariffs are intended to be lowered to zero for trade in goods among the three blocs over a five to eight-year process of implementation. Sudan signed the TFTA on June 10, 2015, and it will come into force when 14 governments ratify the agreement. Seven countries have already ratified the TFTA and

Sudan is one of seven additional African countries considered to be in the advanced stages of the ratification process.

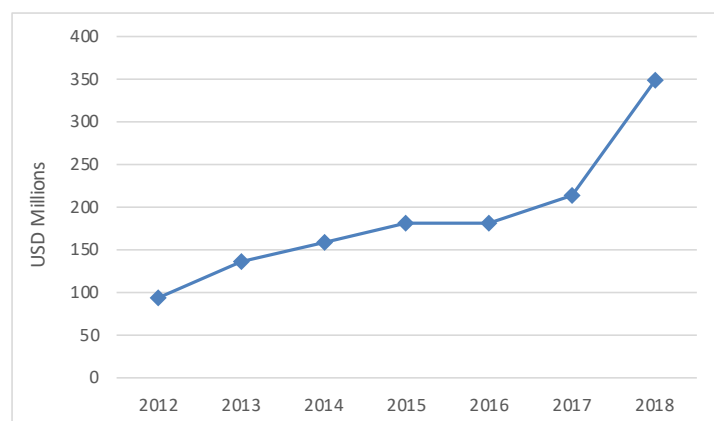
The AfCFTA differs from the TFTA by its more expansive agenda, including liberalization of trade in both goods and services and liberalization of foreign investment regulations. The AfCFTA calls for 90 percent of tariffs to be lowered, however the levels of tariff reductions and transition periods are expected to vary depending on the level of economic development of each country. Sudan signed the AfCFTA on March 21, 2018 along with 43 other African countries, but has not yet ratified the agreement. The AfCFTA came into force on May 30, 2019 after being ratified by the required minimum of 22 countries; however, negotiations for implementation will continue until July 2020, and many expect talks to continue beyond this date.

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<sup>1</sup> Fitch Solutions, “Sudan Trade and Investment Risk Report: Q1 2020,” Fitch Solutions Group Limited, 2019.

While both the TFTA and the AfCFTA are expected to expand opportunities for Sudan's trade within the region, it is important to highlight two key concerns related to increased trade volumes. Firstly, as the volume of Sudan's trade increases, so will the opportunities for trade misinvoicing activity, underscoring the need for Sudan to take steps to address this problem. Secondly, while liberalization agreements such as TFTA and AfCFTA will increase opportunities for Sudan to expand exports to new markets, the reduction of tariffs on imports is likely to lead to a decrease in government customs revenues. Table 1 shows that the pending agreements come at a time when Sudan's tariff revenues from international trade have been increasing in recent years, and at a time when developing countries are being called on to mobilize more resources domestically for national economic development (i.e., SDG 17.1). This poses significant challenges for Sudan and other low-income countries (LICs), which still rely on trade-related duties and other taxes for about 45 percent of government tax revenue.<sup>2</sup> For many LICs like Sudan, the benefits of increased trade have failed to offset the related loss in tariff revenues due to trade liberalization.

**Figure 1. Sudan's Tax Revenues From International Trade, in USD millions**



Source: Sudan's Ministry of Finance and Economic Planning, October 2019.<sup>3</sup>

The remainder of this chapter offers an overview of the problem of trade misinvoicing in Sudan, and an analysis of issues that may contribute to leakage, capital flight and illicit financial flows. Such issues include those related to the scarcity of foreign exchange; problems with customs and border enforcement; a lack of oversight at ports and in free trade zones (FTZs) and an overview of revenue losses regarding Sudan's trade with its immediate neighbors.

<sup>2</sup> World Trade Organization, "World Trade Report 2015: Speeding Up Trade – Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement," Geneva, 2015. [https://www.wto-ilibrary.org/trade-facilitation-and-customs-valuation/world-trade-report-2015\\_1cee73f9-en](https://www.wto-ilibrary.org/trade-facilitation-and-customs-valuation/world-trade-report-2015_1cee73f9-en).

<sup>3</sup> Ministry of Finance and Economic Planning, Republic of Sudan, "Implementation of the Istanbul Plan of Action for Least Developed Countries (IPoA) 2011-2020: Sudan National Report," Khartoum, October 2019. [http://unohrls.org/custom-content/uploads/2019/11/Sudan-National-Report\\_IPoA.pdf](http://unohrls.org/custom-content/uploads/2019/11/Sudan-National-Report_IPoA.pdf).

## II. Trade Misinvoicing

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Trade misinvoicing is the act of the deliberate manipulation of the value of a trade transaction by falsifying, among others, the price, quantity, quality, and/or country of origin of a good or service by at least one party to the transaction. Trade misinvoicing is a well-established method of hiding illicit financial flows within the international commercial trade system, as well as evading and/or exploiting customs regimes. For example, value can be illicitly moved out of countries by either over-invoicing imports, or under-invoicing exports. Conversely, value can be illicitly moved into countries by either over-invoicing exports, or under-invoicing imports.

According to the 2019 Annual Report of the UNODC-WCO Container Control Programme, in 2017 there were over 750 million container movements, compared to only 470 million in 2009, and less than one in fifty containers are ever physically inspected.<sup>4</sup> This small scale of inspection provides a channel for illicit activity. This also raises the concern that as the volume of global trade increases over time, the opportunities for trade misinvoicing increase as well.

There are many reasons for engaging in trade misinvoicing, including evading tax and/or customs duties, laundering the proceeds of criminal activity, circumventing currency controls and hiding profits offshore, among others. Table 1 breaks down the four major types of trade misinvoicing activities and their purposes, two of which constitute illicit financial outflows from countries and two which result in illicit financial inflows to countries.

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<sup>4</sup> UNODC-WCO, "2019 Annual Report of the UNODC-WCO Container Control Programme (CCP)," United Nations Office on Drugs and Crime and World Customs Organization, 2020. [https://www.unodc.org/documents/Container-control-programme/CCP\\_AR\\_2019\\_20.02.2020\\_web\\_1.pdf](https://www.unodc.org/documents/Container-control-programme/CCP_AR_2019_20.02.2020_web_1.pdf).

**Table 1. The Four Main Types and Common Purposes of Trade Misinvoicing**

Direction of Flow	Type of Misinvoicing	Purpose
<b>Illicit Financial Outflows</b> →	<b>Import Over-Invoicing</b> →	– to shift money abroad (evade capital controls, shift wealth into a hard currency, etc.); – overstating the cost of imported inputs to reduce income tax liability; – to avoid anti-dumping duties.
	<b>Export Under-Invoicing</b> →	– to shift money abroad (evade capital controls, shift wealth into a hard currency, etc.); – to evade income taxes (lowering taxable income levels); – to evade export taxes.
<b>Illicit Financial Inflows</b> ←	<b>Import Under-Invoicing</b> ←	– to evade customs duties or value-added taxes; – to avoid regulatory requirements for imports over a certain value.
	<b>Export Over-Invoicing</b> ←	– to exploit subsidies for exports; – to exploit drawbacks (rebates) on exports.

Any of these four pathways constitutes a major channel for facilitating illicit financial flows (IFFs), illegal movements of money or capital from one country to another, and are a major global problem. IFFs are particularly damaging for developing countries like Sudan, as they hamper a government's ability to raise enough domestic tax revenue to finance social, development and government spending.

For a full discussion and description of the types of trade misinvoicing, please see the January 2020 report from GFI "Trade-Related Illicit Financial Flows in 135 Developing Countries: 2008-2017."<sup>5</sup>

5 "Trade-Related Illicit Financial Flows in 135 Developing Countries: 2008-2017," Global Financial Integrity. Accessed March 31, 2020. <https://gointegrity.org/report/trade-related-illicit-financial-flows-in-135-developing-countries-2008-2017/>.

### III. Analyzing Trade Misinvoicing – GFI’s Methodology

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For this report, GFI used the International Monetary Fund’s Direction of Trade Statistics (DOTS) database.<sup>6</sup> Each year, most countries around the world submit to the IMF annual trade reports of all of their imports and exports with all of their trading partners over the previous year. In order to estimate the potential amount of trade between two countries that may have been misinvoiced, GFI used data from the DOTS database to undertake a “partner-country” analysis, meaning a comparison of what any set of two countries officially reported about their trading with each other. By comparing and contrasting Sudan’s official reports to DOTS with those submitted by all of its trading partners, GFI identified the “value gaps,” or the mismatches that show up in the data when contrasting the country reports. For example, if Sudan reported US\$46 million in exports to France in 2018, but France reported US\$66 million in imports from Sudan in that same year, this would reflect a mismatch or a value gap of US\$20 million. As it is often difficult to know which trading

***“The government has to adopt limited aspects of planned intervention to protect the poor and the vulnerable as it supports individual ownership and aspects of market economy.”***

—ACTIVIST

partner might have engaged in how much of the trade misinvoicing within any given value gap identified, this report focuses primarily on the scale of the value gaps that can be empirically identified in Sudan’s international trade data in the DOTS database.

Because most countries report the value of their imports on a “cost, insurance and freight” (CIF) basis and report the value of their exports on a “free on board” (FOB) basis, these two prices for the same

shipments must be aligned for comparative purposes. To do so using DOTS data, GFI made no adjustments to records by FOB reporters and, in the case of the CIF reporters, GFI followed the IMF’s latest best practice by applying an average six percent markup on the FOB price, enabling the data to be aligned and then compared and contrasted to identify value gaps.<sup>7</sup>

Using this approach for analyzing DOTS data, GFI examined 374 sets of bilateral trade data for Sudan and 70 of its trading partners over the seven-year period of 2012-2018 (Note: data was not

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<sup>6</sup> UN Comtrade, the preferred data set for this type of analysis, could not be used for this exercise due to insufficient data for Sudan during the time period studied.

<sup>7</sup> An updated consensus on the best estimates for average rate of about 6 percent for CIF-FOB conversion was achieved in recent years between leading researchers at the Centre d’Etudes Prospectives et d’Informations Internationales (CEPII), the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund. For more info, see: Guillaume Gaulier and Soledad Zignago, “BACI: International Trade Database at the Product-Level. The 1994-2007 Version,” CEPII Working Paper Number 2010-23, Centre for Prospective Studies and International Information (CEPII), October 2010, [http://www.cepii.fr/PDF\\_PUB/wp/2010/wp2010-23.pdf](http://www.cepii.fr/PDF_PUB/wp/2010/wp2010-23.pdf). See also Guannan Miao and Fabienne Fortanier, “Estimating CIF-FOB Margins on International Merchandise Trade Flows,” Working Paper, Statistics Directorate, Committee on Statistics and Statistical Policy, Organization for Cooperation and Development, Paris, March 21-24, 2016 [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=STD/CSSP/WPTGS\(2016\)8&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=STD/CSSP/WPTGS(2016)8&docLanguage=En) and Global Financial Integrity, “Illicit Financial Flows to and from 148 Developing Countries: 2006-2015,” January 2019 <https://gfin.org/report/2019-iff-update/>.



available for every partner for each year over the period). We compared and contrasted what Sudan had reported against what each of its 70 partners over the period had reported (a summary of the key findings are presented in Table 2). Of US\$65 billion in trade reported by Sudan, GFI identified an estimated US\$30.9 billion in value gaps within such trade, which equaled 47.6 percent of all such trade over the period. During this period, GFI also estimated that Sudan potentially lost up to as much as US\$5.7 billion in unpaid trade-related taxes. This suggests that nearly half of all of Sudan's trade over the period was either underpriced or overpriced.

**Table 2. Summary of Key Findings: Value Gaps in Sudan's Trade With Partners and Estimated Potential Trade-tax Revenue Foregone, 2012-2018 (in USD millions)**

Year	No. of Trading Partners	Total Value of All Trade*	Total of All Value Gaps Identified	Average Value Gaps as % of Total Trade	Estimated Potential Trade-Tax Revenue Foregone
2018	54	8,548.7	3,855.8	45.1	713.3
2017	55	10,026.0	4,285.5	42.7	792.8
2016	48	8,058.5	4,498.3	55.8	832.2
2015	57	8,748.5	4,146.4	47.4	767.1
2014	54	9,541.4	5,006.4	52.5	926.2
2013	55	9,822.3	4,662.4	47.5	862.5
2012	51	10,232.2	4,476.6	43.8	828.2
<b>Totals</b>	<b>374</b>	<b>64,977.6</b>	<b>30,931.4</b>	<b>57.9**</b>	<b>5,722.3</b>

Source: All data derived from the International Monetary Fund's Direction of Trade Statistics (DOTS) database.

Note: All figures are rounded to one decimal point.

\*As officially reported by Sudan.

\*\*Average value gap as a percent of total trade over the 2012-2018 period.

The first column of Table 2 shows the number of bilateral trading relationships examined in each year, based on the available data in the IMF dataset. The second column of Table A shows the total value of all trade between Sudan and its trading partners for each year examined, as reported by Sudan. The first figure of US\$8.5 billion reflects the sum of all exports and imports reported by Sudan for its trade with 54 partners in 2018.

The third column of Table 2 shows the total of all value gaps identified within Sudan's trade with its partners for each year in terms of USD millions. For example, if Sudan reported US\$30 million in imports from Spain in 2016, but Spain reported only US\$20 million in exports to Sudan in that same year, this would reflect mismatch or a value gap of US\$10 million. Therefore, the first figure of US\$3.9 billion shown in the third column reflects the sum of all of the value gaps, or mismatches, that were identified within the official data when contrasting Sudan's reports with those of its 54 trading partners in 2018.

While viewing the value gaps in terms of USD millions is important, it is also useful to view value gaps as a percent of total bilateral trade for a given year, as it provides a more useful sense of proportionality for comparing value gaps across countries and over time. Therefore, the fourth column of Table 2 shows the total of all value gaps as a percent of total bilateral trade for each year examined over the period. In other words, the figure of 45.1 percent in the fourth column reflects that the size of the value gaps identified between Sudan and its 54 trading partners in 2018 was equal to 45.1 percent of the value of its total bilateral trade as reported by Sudan.

Lastly, the fifth column of Table 2 provides a rough estimate of the amount of trade-related tax revenues that were lost or foregone due to trade misinvoicing, presented in USD millions. For this column, we applied the estimate of 18.5 percent of the identified value gaps for each year. The 18.5 estimate is based on the average ratio found in nearly a dozen in-depth country case studies conducted by GFI that examined the potential amounts of trade-related tax revenues that were lost or foregone due to trade misinvoicing activity.<sup>8</sup> GFI estimates such losses within certain potential ranges, and the 18.5 percent figure represents the average upper bound of such ranges. In other words, the fifth column represents the higher-end estimates of the amounts of trade-related tax revenues that were potentially lost or foregone in Sudan due to trade misinvoicing for each year of the period examined. Therefore, the figure of US\$713.3 million, which is 18.5 percent of the identified value gap of US\$3.9 billion shown in the third column, reflects a rough estimate of the upper bounds of the potential amount of trade-related tax revenues that were lost or foregone in Sudan in 2018 as a result of trade misinvoicing activity.

Table 3 shows the top ten largest value gaps within the 374 bilateral trade relationships between Sudan and its trading partners, ranked by USD millions, as identified from the data covering all of the seven years examined, 2012-2018. It adds the value gaps identified in Sudan's import gaps and export gaps with each partner to estimate total value gaps found in the trade with each partner. In terms of the top ten largest value gaps, the analysis identified Sudan's trade with Ethiopia in 2017 as comprising the largest gap of those examined, estimated at more than US\$973 million. In the case of Sudan's trade with the United Arab Emirates (UAE) in 2012, the import gap identified was very low, and in this case, 0.00 signifies that the gap was below US\$50,000; however, because the export gap was so large, at US\$942.6 million, the total value gap still ranked within the top ten largest value gaps among all 374 trade relationships examined. Among the top ten largest partner-specific value gaps identified in Table 3, the average amount was about US\$909.6 million, whereas the average amount across all trading partners examined was US\$82.7 million. Notably, Sudan's value gaps with Ethiopia occupied six of the top ten largest gaps during the period.

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8 Examples include GFI, "India: Potential Revenue Losses Associated with Trade Misinvoicing," Global Financial Integrity, June 3, 2019. <https://gfintegrity.org/report/india-potential-revenue-losses-associated-with-trade-misinvoicing/>; GFI, "Indonesia: Potential Revenue Losses Associated with Trade Misinvoicing," Global Financial Integrity, June 23, 2019. <https://gfintegrity.org/report/indonesia-potential-revenue-losses-associated-with-trade-misinvoicing/>; and GFI, "Egypt: Potential Revenue Losses Associated with Trade Misinvoicing," Global Financial Integrity, June 26, 2019. <https://gfintegrity.org/report/egypt-potential-revenue-losses-associated-with-trade-misinvoicing/>.

**Table 3. Sudan's Top Ten Value Gaps Ranked by Value, 2012-2018**  
(all values in USD millions)

Rank	Year	Partner	Import Gaps in USD millions	Export Gaps in USD millions	Total Value Gaps in USD millions
1.	2017	Ethiopia	895.2	77.8	973.0
2.	2014	Ethiopia	892.9	73.3	966.1
3.	2018	Ethiopia	895.4	54.9	950.3
4.	2015	Ethiopia	893.6	54.9	948.4
5.	2012	UAE	0.0	942.6	942.6
6.	2016	Ethiopia	893.4	45.4	938.8
7.	2013	Ethiopia	892.8	32.5	925.3
8.	2016	Egypt	508.2	371.3	879.4
9.	2017	Egypt	470.0	341.8	811.8
10.	2014	India	185.6	574.4	760.0

Source: All data derived from the International Monetary Fund's Direction of Trade Statistics (DOTS) database.

Note: All figures are rounded to one decimal point.

As it is also useful to view value gaps as a percent of total bilateral trade, Table 4 presents the top ten largest partner-specific value gaps identified within the 374 bilateral trade relationships examined between Sudan and its partners over the seven years ranked by percentage of total bilateral trade. In all of the top ten cases, the value gaps registered between 180 and 200 percent of the value reported by Sudan. Value gaps registered at over 100 percent in cases when the reported total trade of one partner was vastly different from that reported by the other. Among all 374 cases, the 77 largest value gaps measured as a percent of total trade registered at over 100 percent, whereas in the remaining 297 cases, the gaps registered at below 100 percent of total trade. Among the top-ten largest value gaps measured as a percent of total trade listed in Table 4, the average was 191.9 percent. This means that, in the top ten cases, the differences between what Sudan and its trading partners had each reported in terms of the value of their bilateral trade with one another (the value gaps) was substantial, nearing 200 percent over what Sudan had reported for its total trade with its partners. In contrast, however, the average across all 374 cases examined was 57.9 percent, a level that still reflects considerable discrepancies.

For the entire period examined, 2012-2018, it is notable that Ethiopia was among the top ten trading countries with the highest value gaps as a percentage of total trade with Sudan in all seven of the years studied, while Japan was among the top ten in six of the seven years examined.

**Table 4. Sudan's Top Ten Value Gaps Ranked by Percent of Total Trade, 2012-2018**

Rank	Year	Partner	Total Value of All Trade in USD millions*	Total Value Gap in USD Millions	Value Gap as % Total Trade
1.	2018	Algeria	2.8	5.6	199.4
2.	2015	Namibia	1.6	3.1	195.5
3.	2016	Singapore	258.9	504.8	195.0
4.	2018	Norway	13.7	26.5	194.0
5.	2015	Eswatini	9.4	18.3	193.6
6.	2016	Australia	210.4	404.1	192.1
7.	2014	Malawi	1.4	2.8	191.2
8.	2012	Eswatini	7.5	14.2	188.7
9.	2017	Algeria	10.5	19.4	185.0
10.	2018	Morocco	19.6	36.0	184.3

Source: All data derived from the International Monetary Fund's Direction of Trade Statistics (DOTS) database.

Note: All figures are rounded to one decimal point.

\*As reported by Sudan.

For the most recent year data is available, the top ten value gaps as a percentage of total trade differed from previous years, as seen in Table 4. Table 5 below presents the top ten largest value gaps as ranked by percentage of total bilateral trade in 2018, the most recent year for which data are available.

**Table 5. Sudan's Top Ten Value Gaps Ranked by Percent of Total Trade, 2018 (values in USD millions)**

Rank	Partner	Total Value of All Trade in USD millions*	Value Gaps in USD Millions	Value Gaps as % Total Trade
1.	Algeria	2.8	5.6	199.4
2.	Norway	13.7	26.5	194.0
3.	Morocco	19.6	36.0	184.3
4.	Pakistan	65.7	114.5	174.3
5.	Ethiopia	578.9	950.3	164.1
6.	Oman	89.4	128.8	144.1
7.	Belgium	56.8	80.4	141.7
8.	Egypt	526.9	672.7	127.7
9.	Kuwait	42.9	54.6	127.3
10.	Japan	91.7	99.2	108.3

Source: All data derived from the International Monetary Fund's Direction of Trade Statistics (DOTS) database.

Note: All figures are rounded to one decimal point.

\*As reported by Sudan.

## In-depth: Sudan-Egypt

Given the frequency and magnitude of value gaps in Sudan's trade with Egypt and Ethiopia, GFI examined these trade relationships in depth. Table 6 presents the total value gaps identified for Sudan's trade with Egypt, both in USD millions and as a percent of total trade, between 2012 and 2018, and provides rough estimates of the potential amounts of trade-tax revenues foregone in USD millions. Within this trade, GFI identified an estimated US\$3.3 billion in value gaps, which equaled 79.4 percent of all such trade over the period, during which Sudan is estimated to have lost up to as much as US\$615.4 million in unpaid trade-related taxes. This is significant because, although Sudan's most important trading partners in terms of value are not its immediate neighbors, neighboring Egypt is one of Sudan's significant partners in this respect, and stands to become potentially more important in Sudan's future trade relations. Going forward, both Sudan and Egypt should deepen cooperation to reduce trade misinvoicing (see the recommendations in Section VII).

**Table 6. Total Value Gaps Identified in Sudan's Trade With Egypt, as a Percent of Total Trade, and Estimated Potential Trade-Tax Revenue Foregone, 2012-2018 (values in USD millions)**

Year	Total Trade in USD millions*	Value Gaps Identified in USD millions	Value Gaps as % of Total Trade	Estimated Potential Trade-Tax Revenue Foregone in USD millions
2018	526.9	672.7	127.7	124.4
2017	563.1	811.8	144.2	150.2
2016	530.0	879.4	165.9	162.7
2015	684.7	313.6	45.8	58.0
2014	576.4	200.3	34.8	37.1
2013	706.8	180.1	25.5	33.3
2012	601.9	268.6	44.6	49.7
<b>Totals</b>	<b>4,189.8</b>	<b>3,326.6</b>	<b>79.4</b>	<b>615.4</b>

Source: All data derived from the International Monetary Fund's Direction of Trade Statistics (DOTS) database.

Note: All figures are rounded to one decimal point.

\*As reported by Sudan.

## In-depth: Sudan-Ethiopia

Table 7 presents the total value gaps identified in Sudan's bilateral trade with Ethiopia (as reported by Sudan), both in USD millions and as a percent of total trade, between 2012 and 2018, and provides rough estimates of the potential amounts of trade-tax revenues foregone in USD million. Within this trade, GFI identified an estimated US\$5.9 billion in value gaps, which equaled 168.9 percent of all such trade over the period, during which Sudan is estimated to have lost as much as US\$1.1 billion in unpaid trade-related taxes.

**Table 7. Total Value Gaps Identified in Sudan's Trade With Ethiopia, as a Percent of Total Trade, and Estimated Potential Trade-Tax Revenue Foregone, 2012-2018 (values in USD millions)**

Year	Total Trade in USD millions*	Value Gaps Identified in USD millions	Value Gaps as % of Total Trade	Estimated Potential Trade-Tax Revenue Foregone in USD millions
2018	578.9	950.3	164.1	175.8
2017	599.3	973.0	162.4	180.0
2016	534.2	938.8	175.7	173.7
2015	546.9	948.4	173.4	175.5
2014	555.0	966.1	174.1	178.7
2013	509.7	925.3	181.5	171.2
2012	208.6	265.4	127.2	49.1
2011	N/A	N/A	N/A	N/A
<b>Totals</b>	<b>3,532.7</b>	<b>5,967.4</b>	<b>168.9</b>	<b>1,104.0</b>

Source: All data derived from the International Monetary Fund's Direction of Trade Statistics (DOTS) database.

Note: All figures are rounded to one decimal point.

\*As reported by Sudan.

N/A signifies data not available.

Referring back to Table 2, this analysis shows that nearly half (47.6 percent) of all of Sudan's trade over the period of 2012-2018 was estimated to have been either underpriced or overpriced, resulting in substantial illicit inflows and outflows through trade misinvoicing activity. Such activity is estimated to have cost Sudan up to as much as US\$5.7 billion in unpaid trade-related taxes. Therefore, trade misinvoicing is very likely to be a major channel through which Sudan is losing a significant amount of critical domestic resources in the form of unpaid trade-related taxes. Additionally the illicit inflows/outflows through trade misinvoicing may very likely be facilitating capital flight, tax evasion and other illegal activities.

***“The defunct Soviet Union style of total control is not appropriate; however, the active involvement of the government in policy planning and price control is essential in a poor country like Sudan.”***

—PRIVATE SECTOR CONSULTANT



## IV. Foreign Exchange

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The secession of South Sudan in 2011 led to the loss of most of Sudan's oil reserves and consequently its main source of foreign exchange earnings from exports. The scarcity of foreign exchange sparked a crisis from which Sudan has yet to emerge. Foreign exchange is critically important because it is needed for all imports, and a limited supply of foreign exchange can constrain the (legal) availability of goods, especially for developing countries which are heavily reliant on imports of manufactured products. When importers cannot acquire foreign exchange to legally import goods, it creates incentives for smugglers to obtain imports through the black market at higher rates and sell the goods at higher prices. Traditionally, the supply of black market foreign exchange for such illegal imports comes from either under-invoicing or smuggling of exports, over-invoicing of imports, and worker remittances sent through non-official channels. Therefore, the scarcity of foreign exchange is likely to be a factor that contributes to trade misinvoicing, trade-based money laundering and smuggling – all of which lead to trade-related revenue losses for the government.

Because of these dynamics, Sudan's black market greatly expanded as a result of the scarcity of foreign exchange following the secession of South Sudan, effectively driving a wedge between the official exchange rate for the Sudanese pound (SDG) and the black-market rate. Ironically, while the removal of US economic sanctions in October 2017 is a step that will ultimately help Sudan, in the short-term it has led to stepped-up demand for US dollars by traders, which in turn has driven black market premiums even higher. While the demand for dollars was lower under sanctions, the removal of those sanctions has revealed that the Central Bank of Sudan (CBS) suffers from a lack of US dollars that could otherwise be made available for trading purposes. Consequently, the demand for foreign currency to be used for the financing of smuggled goods has increased at the same time that the demand for conventional sources of foreign exchange at official rates has decreased. Furthermore, the political instability of 2018-19 led to even higher black-market premiums relative to the official exchange rate.

Adding to the pressures on the official exchange rate of the SDG is the high level of inflation that has been sparked by excessive printing of currency by the CBS as a way of financing the extensive subsidies for key commodities in Sudan, such as fuel and wheat. On the one hand, the highly subsidized goods are a necessary lifeline for millions of Sudan's poor and therefore are a critical tool for maintaining the political stability needed for the political transition. Yet at the same time, the difference between what smugglers can make by selling the subsidized goods at black market rates

and official rates remains a major driving factor in ongoing smuggling and illicit trade activity.<sup>9</sup>

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<sup>9</sup> Economist Intelligence Unit, "Country Report: Sudan," March 9th 2020.

***“I’m highly optimistic, but nonetheless realistic, as I am aware that change doesn’t happen overnight, neither does development. However, I believe we have great leaders at the moment working at breakneck speed trying to devise effective solutions to the different challenges facing our economy.”***

—RECENT UNIVERSITY GRADUATE

In the first week of March 2020, the exchange rate for US dollars on the black market jumped to SDG 113 (selling) for one US dollar from SDG 107 the previous week.<sup>10</sup> This is in sharp contrast to the official exchange rate SDG 55.14 for US\$1. Traders, along with ordinary citizens, have reported a desire to keep their savings in foreign currencies or real estate, as the value of the SDG continues to fall.<sup>11</sup> Because inflation erodes the value of wealth, such pressures create strong incentives for capital flight, as those with wealth may seek to illicitly transfer wealth out of Sudan and into hard currency jurisdictions overseas, often through the trade misinvoicing channel. Such capital flight leads to a loss of capital that might have otherwise been invested in productive activities needed to support long-term national economic development in Sudan.

Once the US de-lists Sudan from its State Sponsor of Terrorism list, the International Monetary Fund (IMF) will be able to provide adequate foreign exchange support to the CBS so that it can build the reserves needed to more effectively maintain the SDG’s peg. With greater access to IMF resources, increased foreign investment, and increased access to export markets, Sudan will gain greater access to foreign exchange and these pressures related to the scarcity of foreign exchange will begin to be alleviated.

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<sup>10</sup> Radio Dabanga (Amsterdam), “Sudan Minister Announces ‘Unprecedented Wage Hike’” March 4, 2020. <https://www.dabangasudan.org/en/all-news/article/sudan-minister-announces-unprecedented-rise-of-wages>

<sup>11</sup> Ibid.

## V. Customs and Borders

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Sudan has historically had great difficulty in controlling its national borders. The lengthy and porous boundary with all six of its neighbors, particularly those to the east and south, have long been troubled by lax border controls that regularly enable large numbers of migrants and traders to cross at will. As Dr. Mohamed Babiker of the University of Khartoum explained, border control is difficult in a region where tribal communities exist across, and often pass over, relatively arbitrary colonial borders and where “the concept of borders does not exist.”<sup>12</sup>

For many years, Sudan’s trade has been impeded by the inefficiency of its border operations and customs enforcement. The performance problems of the Sudan Customs Authority (SCA) have led to Sudan being regularly ranked very poorly on various international indices, most notably in the World Bank’s annual *Doing Business* indicators. In 2015 and 2016, Sudan was ranked near the bottom of all countries in the world at 184<sup>th</sup> out of 189 countries in the World Bank’s Trade Across Borders ranking. In the 2019 World Bank *Doing Business* report, Sudan ranked 180<sup>th</sup> out of 189 countries on the ‘Trading Across Borders’ indicator. The report found that the average cost to import into Sudan (the cost for border compliance which includes costs for obtaining, preparing and submitting documents during port or border handling, customs clearance and inspection procedures) was US\$1,093, while the average in Sub Saharan Africa is nearly half that at US\$643. Additionally, regarding the cost to export from Sudan (the cost for border compliance includes charges for obtaining, preparing and submitting documents during port or border handling, customs clearance and inspection procedures), the World Bank report found the average fee was US\$967, in contrast to the average in Sub Saharan Africa which is a little more than half that amount at US\$542.<sup>13</sup> Regarding the ‘Ease of Doing Business’ indicator within the World Bank’s recent annual *Doing Business* reports, Sudan continuously ranked near the bottom at 170<sup>th</sup> out of 190 countries in 2018; 162<sup>nd</sup> in 2019, and 171<sup>st</sup> in 2020.

The reasons for Sudan’s poor rankings were assessed by a Time Release Study undertaken by Sudan Customs in May 2015, in which eight main causes of clearance delays were identified:

- Existence of repetitive and unproductive processes in the clearance system;
- Documentary checks based on transaction rather than risk management;
- Over control of transactions resulting in checking and rechecking of the same information by several different sections (valuation, assessment, etc.);

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<sup>12</sup> Frey Lindsay, “Sudan Unrest Led EU To Suspend Funds For Migration Control, But Khartoum Process Should End For Good,” *Forbes*, August 6, 2019. <https://www.forbes.com/sites/freylindsay/2019/08/06/the-eu-says-it-has-stopped-giving-money-to-sudan-for-migration-control/#79aac9a97faf>.

<sup>13</sup> World Bank, “Doing Business 2019: Training for Reform,” The World Bank, October 31, 2018. <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2019>.

- Poor quality of some declarations lodged by clearing agents resulting in rejection and queries;
- Delay in the procedures of agencies like Standards and Quarantines;
- Delayed payment of duties and taxes and other charges by importers and their clearing agents;
- Lack of interconnectivity between customs and other agencies;
- Lack of equipment for movement of goods, examination and off-loading areas.<sup>14</sup>

Regarding the World Bank's Logistics Performance Index (LPI), Sudan ranked 121<sup>st</sup> of 160 countries in 2018 and regularly ranks poorly on the Index due to its severe constraints in trade logistics and customs services. In its overall ranking in logistics, Sudan is often ranked closely with Ethiopia – a landlocked country.

While these indices help provide guidance in areas where Sudan needs to take proactive measures to improve revenues from trade, the focus of these indices is on trade facilitation and not trade integrity. Therefore, any comprehensive efforts to reform trade in Sudan must necessarily go hand in hand with addressing the IFF risks that make up these revenue losses.

Such inefficiency and high trade-related transaction costs create significant incentives for formal sector traders to engage in smuggling and informal cross-border trade and are therefore considered contributing factors for illicit financial flows and trade revenue losses for Sudan. Such inefficiency and transaction costs include: formal sector traders having to work through corrupt custom brokers at the borders and checkpoints requiring illegal payments; time-consuming and pre-shipment inspections, and can also often involve corruption; multiple documentation requirements for single transactions; expensive trade-related fees and charges for export and import procedures relative to the services received and a lack of transparency in how such fees are determined; complex procedures, including sanitary and phytosanitary barriers to trade, for the release of goods from customs; and the high costs associated with the length of time required to export and import.<sup>15</sup>

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14 World Bank, "Doing Business 2016: Measuring Regulatory Quality and Efficiency," The World Bank, October 27, 2015. <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2016>. See also: UNCTAD, "Sudan National Trade Facilitation Roadmap – 2017-2020: When Sudan eases trade, Sudanese trade," UNCTAD's Empowerment Program for National Trade Facilitation Committees, United Nations Conference on Trade and Development, 2016. [https://unctad.org/en/PublicationsLibrary/dtl\\_ttf\\_2016\\_TFRoadMap\\_Sudan\\_en.pdf](https://unctad.org/en/PublicationsLibrary/dtl_ttf_2016_TFRoadMap_Sudan_en.pdf).

15 Antoine Bouet, Kathryn Pace and Joseph W. Glauber, "Informal cross-border trade in Africa: How much? Why? And what impact?" IFPRI Discussion Paper, International Food Policy Research Institute, 2018. <https://www.ifpri.org/publication/informal-cross-border-trade-africa-how-much-why-and-what-impact>; See also: C. Lesser and E. Moisé-Leeman, "Informal Cross Border Trade and Trade Facilitation Reform in Sub-Saharan Africa," OECD Trade Policy Papers N0. 86, Organization for Economic Cooperation and Development, 2009. <http://dx.doi.org/10.1787/225770164564>.

If Sudan can address such inefficiencies and reduce the high trade-related transaction costs, it could reduce the incentives for formal sector traders to engage in smuggling and informal cross-border trade and increase trade-related revenues for Sudan. However, Sudan's ability to reduce such inefficiencies and costs has been undermined by the poor performance of the SCA.

The SCA has taken steps intended to improve its overall performance, including updating its facilities, sanitation laboratories and acquiring X-Ray scanners at Port Sudan and Khartoum to speed customs procedures for importers and exporters. In addition, the SCA began using ASYCUDA World – a computerized customs management system developed by the United Nations Conference on Trade and Development (UNCTAD) that is designed to facilitate trade efficiency and competitiveness by substantially reducing transaction time and costs; improve security by streamlining procedures of cargo control, transit of goods and clearance of goods; reduce corruption by enhancing the transparency of transactions; increase efficiency by replacing paper documents with electronic transactions and documents.

***“Time is needed for development, but in each time period there is a risk of conflict... In turn, the conflict can sufficiently slow development so that, even when the country returns to peace, it is likely to fall back into conflict before having had sufficient time to develop.”***

—RECENT UNIVERSITY GRADUATE

Sudan also recently introduced an electronic payment system and single window trade facilitation system with assistance from UNCTAD and the United Nations Economic and Social Commission for Western Asia. The customs authority also began work with the European Union's Customs Risk Management Framework, with assistance from the World Customs Organization (WCO), designed to exchange risk-related information directly between operational officials and risk analysis centres in the EU. The amended 2010 Customs Act has incorporated the World Trade Organization (WTO) requirements and new methods of evaluation in conformity with international standards and best practices based on WCO Revised Kyoto Convention and SAFE Framework of Standards.<sup>16</sup>

Sudan also created a National Committee on Trade Facilitation in line with the recommendations of the World Trade Organization's Trade Facilitation Agreement (TFA).<sup>17</sup> The committees are intended to enable governments to fulfil their TFA commitments related to efforts to combat trade misinvoicing, particularly under Article 3.9(b) for pre-clearance, Article 7.5 for post-clearance audits and Articles 12.2–12.12 for information exchange between countries.

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16 Ministry of Finance and Economic Planning, Republic of Sudan, “Implementation of the Istanbul Plan of Action for Least Developed Countries (IPoA) 2011-2020: Sudan National Report,” Khartoum, October 2019. [http://unohrrls.org/custom-content/uploads/2019/11/Sudan-National-Report\\_IPoA.pdf](http://unohrrls.org/custom-content/uploads/2019/11/Sudan-National-Report_IPoA.pdf).

17 Ali Giido Adam, “Taking the First Step to Facilitate Trade in Sudan: Setting Up a National Committee on Trade Facilitation,” SmartLessons, International Finance Corporation, The World Bank, February 2017. <http://documents.worldbank.org/curated/en/483531488783258055/pdf/113165-BRI-IFC-SMART-LESSONS-BRIEF-PUBLIC-20170302T111010-2017-Sudan-Trade-A.pdf>.

Additionally, Sudan has taken steps to improve tax collections. Sudan's Tax Chamber realized increased tax revenues from around six percent of GDP in 2011 to 7.4 percent of GDP in 2018. The increase was driven by the taxes on goods and services (VAT collected by both Customs and Tax Administrations), which increased from 3.7 percent of GDP during 2010-2013 to 5.5 percent of GDP in 2018. However, Sudan's tax revenues represented only six to seven percent of GDP on average compared to 12 percent in other fragile low- and middle-income countries. Among several constraints that are considered to undermine Sudan's stated future plans for revenue mobilization are: "large revenue losses arising from widespread tax exemptions and tax holidays in the VAT, customs and corporate tax" and "apparent weaknesses in the capacities of the customs and tax administration."<sup>18</sup>

***“...the government should listen to foreign investors and solve their complaints as quickly as possible. The recurring problems that investors kept complaining about were mostly known and they include the inability to transfer their profits outside Sudan, excessive and harsh tax system, and the denial of any form of land ownership.”***

—GOVERNMENT OFFICIAL

One of the problems undermining Sudan's ability to increase tax collections has been corruption in the administering of tax exemptions, particularly related to exemptions for certain imports and exports. Adding to its problems with inefficiency, the SCA has long been criticized for its lack of uniformity and transparency in the enforcement of customs regulations; for enabling companies with political connections to be exempted from paying customs duties; and for allowing high level officials to import goods without paying the necessary taxes and tariffs.<sup>19</sup> If such practices can be reduced, Sudan's level of trade-related tax revenue could be increased.

In terms of its governance structure, the SCA is part of the police force under the authority of the Ministry of the Interior, and is granted the same powers as the

police. Officially, Sudanese Customs has established close cooperation with other police services in charge of intelligence in economic affairs and channels for formal exchange of information have been established, particularly to monitor transit movements.<sup>20</sup>

<sup>18</sup> Ministry of Finance and Economic Planning, Republic of Sudan, "Implementation of the Istanbul Plan of Action for Least Developed Countries (IPoA) 2011-2020: Sudan National Report," Khartoum, October 2019. [http://unohrrls.org/custom-content/uploads/2019/11/Sudan-National-Report\\_IPoA.pdf](http://unohrrls.org/custom-content/uploads/2019/11/Sudan-National-Report_IPoA.pdf).

<sup>19</sup> Maira Martini, "Corruption and anti-corruption in Sudan," U4 Expert Answer, No. 342, August 22, 2012. [https://www.transparency.org/files/content/corruptionqas/342\\_Corruption\\_and\\_anti-corruption\\_in\\_Sudan.pdf](https://www.transparency.org/files/content/corruptionqas/342_Corruption_and_anti-corruption_in_Sudan.pdf).

<sup>20</sup> Thomas Cantens and Gaël Raballand, "Cross-Border Trade, Insecurity and the Role of Customs: Some Lessons from Six Field Studies in (Post-)Conflict Regions," ICTD Working Paper 67, International Centre for Tax and Development at the Institute of Development Studies, August 2017. <http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/research/papers/crossborder-trade-insecurity-and-the-role-of-customs.pdf>.



Sudan's customs authority has regularly been identified as a particular challenge. For example, the World Bank's 2016 *Doing Business* report advised international companies to exert caution when dealing with exports and imports in Sudan, noting that petty bribery and patronage systems are widespread in the country and are likely to affect the customs administration.<sup>21</sup> Transparency International also warned that bribery is a commonplace demand made by public officials for citizens to access public services. Of respondents to a 2011 Transparency International survey who had dealt with various Sudanese government entities, almost a quarter reported being forced to pay bribes.<sup>22</sup> Bribery demands were particularly high among the police, the customs agency, tax authorities, and land services.<sup>23</sup>

The interconnected nature of the problems with Sudan's customs duties, smuggling and porous borders was exemplified in a 2015 article by *Reuters*. The report detailed the rampant smuggling of sugar that began following Sudan's removal of customs duties on sugar imports, showing that the country began importing amounts of sugar that far exceeded its domestic demand, with the excess sugar being smuggled into neighboring countries such as South Sudan, Chad and Eritrea to evade customs duties and shipping costs which were much higher. The scheme would not have worked, the *Reuters* story noted, if Sudan's borders had not been so notoriously porous.<sup>24</sup>

The combination of the widespread use of cash and lax border controls has created a context that increases the risks for money-laundering and smuggling. As US economic sanctions prevented local banks from establishing correspondent banking relationships to process international transactions, Sudan has remained a largely cash-based economy, leaving traders and legitimate business people who need to transact across borders with few choices other than cash. Yet the heavy reliance on cash has reduced transparency and can exacerbate money laundering risks.<sup>25</sup>

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21 World Bank, "Doing Business 2016: Measuring Regulatory Quality and Efficiency," The World Bank, October 27, 2015. <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2016>.

22 Transparency International, "Most People Pay Bribes For Public Services in East Africa," December 7, 2011. [https://www.transparency.org/news/pressrelease/most\\_people\\_pay\\_bribes\\_for\\_public\\_services\\_in\\_east\\_africa](https://www.transparency.org/news/pressrelease/most_people_pay_bribes_for_public_services_in_east_africa).

23 Ibid.

24 *Reuters*, "Sudan emerges as regional hub for sugar imports, smuggling rife," November 26, 2015. <https://www.reuters.com/article/sudan-sugar/sudan-emerges-as-regional-hub-for-sugar-imports-smuggling-rife-idUSL8N13K3K020151126>.

25 The Atlantic Council, "Sudan Still a 'State Sponsor of Terrorism'?" June 8, 2016. <https://www.atlanticcouncil.org/blogs/africasource/sudan-still-a-state-sponsor-of-terrorism/>.

## VI. Informal Cross-Border Trade

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Another major challenge for Sudan's customs enforcement is the issue of informal cross-border trade (ICBT). The COMESA group of trading countries defines ICBT as illegal and unregulated (unregistered, undocumented or officially unaccounted) trade and consequently, criminalizes the traders and their economic activities. However, academics, economists and food security specialists describe ICBT as activities involving a legitimately produced good or service, which escape government regulatory framework, thereby fully or partially evading taxes, duty payments, and other charges.<sup>26</sup> Such trade includes transactions which pass through unofficial routes and avoids customs, or those which pass through official routes but are related to unlawful practices such as bribery. In such cases, unfair competition from ICBT traders may have a long-run effect of weakening competition, and as such may hinder the further activities of formal firms from entering or expanding in marketing.

Yet many African countries have a long tradition dating back to the pre-colonial era of informal and regional trading networks that continue to traverse the official borders of modern nation states.<sup>27</sup> Some economists argue that ICBT is a “normal market response to cumbersome, time consuming export regulations and regional price distortions, and should be encouraged as a means to increase intraregional trade, meet local demand that is not being met by national production and domestic markets, and insures regional food security.”<sup>28</sup> A 2018 report by the International Food Policy Research Institute found that for certain products and countries, ICBT, among other things, provides a source of income for approximately 43 percent of Africa's population, plays an important role in terms of promoting food security, and creates jobs in rural areas for women who lack other opportunities.<sup>29</sup>

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26 C. Lesser and E. Moisé-Leeman, “Informal Cross Border Trade and Trade Facilitation Reform in Sub-Saharan Africa,” OECD Trade Policy Papers N0. 86, Organization for Economic Cooperation and Development, 2009. <http://dx.doi.org/10.1787/225770164564>.

27 Victor Ogalo, “Informal Cross-Border Trade in EAC: Implications for Regional Integration and Development,” Research Paper in Consumer Unity & Trust Society (CUTS), African Resource Centre, Nairobi, Kenya, 2010. [http://www.cuts-geneva.org/pdf/BIEAC-RP10-How\\_Might\\_EAC\\_Reduce\\_Negative\\_Implications.pdf](http://www.cuts-geneva.org/pdf/BIEAC-RP10-How_Might_EAC_Reduce_Negative_Implications.pdf).

28 P.D. Little, “Unofficial Cross Border Trade in Eastern Africa,” paper presented at FAO workshop on “Staple Food Trade and Market Policy Options for Promoting Development in Eastern and Southern Africa,” Food and Agricultural Organization, Rome, Italy, 2007; cited in Angassa Tesfaye and Negassi Amaha, “A Review on Cross-Border Livestock Trade Across Dry Land Borders of Ethiopia: The Trends and Implications,” *Journal of Scientific and Innovative Research* 2018; 7(2): 36-42. [http://www.jsirjournal.com/Vol7\\_Issue2\\_02.pdf](http://www.jsirjournal.com/Vol7_Issue2_02.pdf); See also: Food Security and Nutrition Working Group, “East Africa Crossborder Trade Bulletin,” Vol. 21, April 2018. [https://climis-southsudan.org/uploads/publications/Quarterly\\_GHA\\_Cross\\_Border\\_Trade\\_Bulletin\\_April\\_2018.pdf](https://climis-southsudan.org/uploads/publications/Quarterly_GHA_Cross_Border_Trade_Bulletin_April_2018.pdf).

29 Antoine Bouet, Kathryn Pace and Joseph W. Glauber, “Informal cross-border trade in Africa: How much? Why? And what impact?” IFPRI Discussion Paper, International Food Policy Research Institute, 2018. <https://www.ifpri.org/publication/informal-cross-border-trade-africa-how-much-why-and-what-impact>; See also, Jacqueline Andall, “Women, migration, and cross-border trade in Africa,” International Centre for Trade and Sustainable Development, November 6, 2018. <http://www.ictsd.org/opinion/women-migration-and-cross-border-trade-in-africa>.

***“Sudan should seek to free itself from the designated list of States Supporting Terrorism, SST as a prerequisite for normalization of financial transactions. Also, Sudan should work hard to join the World Trade Organization and reap the great benefits of trading freely with members of that exclusive club.”***

—GOVERNMENT OFFICIAL

While lax border controls are often abused by smugglers, human traffickers, armed groups and sometimes by political opposition groups, in Africa they are also often used for basic commercial purposes by local communities for whom national borders are essentially artificial barriers splitting otherwise cohesive social groups and often constitute an obstacle to shared economic benefits on either side of a border.<sup>30</sup> For Sudan and its neighbors, ICBT typically involves bypassing border posts, concealment of goods, under-reporting, false classification, under-invoicing and other similar tactics. In addition to seeking to evade taxes or fees imposed by governments, traders may also try to avoid administrative formalities in areas such as health, agriculture, security and immigration, which are perceived as costly, complex and time-consuming.<sup>31</sup> ICBT might also involve trade in goods which are legal imports or exports on one side of the border, but are considered illicit on the other side. It could also include trade of legitimately produced goods and services, which, directly or indirectly, escape the regulatory framework of taxation and other procedures set by the government and often go unrecorded or under-recorded into official national statistics of the trading countries.<sup>32</sup>

However, this does not mean that ICBT should be criminalized in the same way as smugglers, human traffickers and armed groups because, as noted above, there are considerable differences between such groups and informal traders.<sup>33</sup> According to official reports of the Sudan Custom Authority and the Sudanese Anti-Smuggling Forces, most traded goods passing through the Sudan-Eritrea border in Kassala are informal imports such as sorghum, wheat, onions, dates, flour, cement, petroleum products and electrical appliances and not illicit contraband, such as

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30 ElTayeb Mohamadain and Hassan A. Abdel Ati, “Informal Cross-Border Trade in Eastern Sudan: A Case Study from Kassala and Gedarif States,” Sudan Working Paper 2015:6, Chr. Michelsen Institute, 2015. <https://www.cmi.no/publications/file/5668-informal-cross-border-trade-in-eastern-sudan-a.pdf>.

31 Daniel Njiwa, “Tackling informal cross-border trade in Southern Africa, Bridges Africa, Volume 2, No 1, COMESA, 2013. <http://www.ictsd.org/about-us/daniel-njiwa>.

32 Victor Ogalo, “Informal Cross-Border Trade in EAC: Implications for Regional Integration and Development,” Research Paper in Consumer Unity & Trust Society (CUTS), African Resource Centre, Nairobi, Kenya, 2010. [http://www.cuts-geneva.org/pdf/BIEAC-RP10-How\\_Might\\_EAC\\_Reduce\\_Negative\\_Implications.pdf](http://www.cuts-geneva.org/pdf/BIEAC-RP10-How_Might_EAC_Reduce_Negative_Implications.pdf).

33 Africa, Jean-Guy K and G. Ajumbo, “Informal cross Border trade in Africa: implications and policy recommendations,” Africa Economic Brief, Vol 3, No 10, African Development Bank, 2012. <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic%20Brief%20-%20Informal%20Cross%20Border%20Trade%20in%20Africa%20Implications%20and%20Policy%20Recommendations%20-%20Volume%203.pdf>.

arms or human trafficking. In fact, from a macroeconomic perspective, ICBT represents the largest proportion of trade flow through Sudan's border with Ethiopia and Eritrea.<sup>34</sup>

On June 21, 2018, delegates from Sudan and the other member countries of the Intergovernmental Authority on Development (IGAD) region endorsed a new policy on ICBT and cross-border security governance (CBSG). While acknowledging the losses to governments in terms of trade taxes, the policies, drafted by experts from the IGAD secretariat, as well as member states' security and customs agencies, acknowledged the beneficial aspects of ICBT, which constitutes about 15 percent of total trade. The policies are intended to help governments better address the issues while identifying ways to assist small scale traders on borderlands mainly comprised of women and youths whose trade contributes to overcoming local food security challenges.<sup>35</sup>

The policy frameworks seek to strengthen border security systems, support trade facilitation at border crossings and promote participation of border and communities in policy making. The Informal Cross-Border Security Governance policy tackles issues related to food security, employment, and peace and security in the region's borderlands. Implementing the ICBT policy would help countries better regulate the informal trade among IGAD members and provide an opportunity to develop the informal sector. Together, the two frameworks are intended to underscore the linkages between cross-border informal trade and cross-border security issues.<sup>36</sup>

***“Corruption is a huge problem and to fight it vigorously the government, the civil society and the religious institutions must play a significant role.”***

—FORMER GOVERNMENT OFFICIAL

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34 ElTayeb Mohamadain and Hassan A. Abdel Ati, “Informal Cross-Border Trade in Eastern Sudan: A Case Study from Kassala and Gedarf States,” Sudan Working Paper 2015:6, Chr. Michelsen Institute, 2015. <https://www.cmi.no/publications/file/5668-informal-cross-border-trade-in-eastern-sudan-a.pdf>.

35 Patrick Beja, “IGAD ministers endorse policy on informal cross-border trade,” The Standard (Nairobi), June 21, 2018. <https://www.standardmedia.co.ke/business/article/2001284982/igad-ministers-endorse-blueprint-to-unlock-cross-border-trade-and-minimize-conflicts>; See also: IGAD Secretariat, “Communiqué of Meeting of Ministers in-charge of trade from IGAD Member States on a draft regional policy framework on Informal Cross-border Trade (ICBT) and Cross-border Security Governance (CBSG),” Mombasa, Kenya, June 21, 2018. <https://igad.int/attachments/article/1872/Communique%20of%20IGAD%20Ministerial%20Meeting%20on%20informal%20cross-border%20trade%20and%20security%20-%2021%20June%202018.pdf>.

36 Kazungu Samuel, “Igad signs cross- border trade policy,” *The East African* (Nairobi), June 23, 2018. <https://www.theeastafrican.co.ke/business/igad-signs-cross-border-trade-policy/2560-4627794-m6nhfn/index.html>.

Thus, ICBT could involve a combination of both the informal sector and formal firms which may be fully evading trade-related regulations and custom duties or partially evading them through illegal practices such as under-invoicing, misclassification, bribery, or trading in illegal goods and services. In fact, numerous factors incentivize traders to engage in informal trade, or to avoid engaging in the formal trade sector.<sup>37</sup> As noted above, the World Bank's *Doing Business* reports have documented that Sudan and its neighbors in Sub-Saharan Africa comprise the world's most expensive region to trade with in terms of fees, official custom charges and costs due to delays.

Although ICBT can lead to significant revenue losses for Sudan, and can involve trade in goods that violate health and safety standards, the activities may also provide some clear macroeconomic benefits at local and regional levels. ICBT can encourage entrepreneurial activities and regional trade, contribute to greater food security and enhance employment opportunities and income-earning for poor households. Thus, it may enable small-scale entrepreneurs to escape poverty and to meet education, housing and other basic needs, and from a consumer perspective, it is a mechanism for securing lower prices of the informally imported products. In fact, lower prices offered by ICBT can sometimes put a competitive pressure on firms operating in the formal sector, which may promote price efficiency, especially where the formal sector was initially seeking higher than normal profits.<sup>38</sup>

ICBT reflects the fact that Sudan's economy is characterized by a large informal sector, that there are still significant incentives for participating in the informal sector and disincentives for participating in the formal sector, particularly as it relates to cross border trade. In addition, the pervasive nature of ICBT along several of Sudan's borders reflects the fact that border security is lax, which creates a context that is conducive to illicit financial flows.

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37 ElTayeb Mohamadain and Hassan A. Abdel Ati, "Informal Cross-Border Trade in Eastern Sudan: A Case Study from Kassala and Gedarif States," Sudan Working Paper 2015:6, Chr. Michelsen Institute, 2015. <https://www.cmi.no/publications/file/5668-informal-cross-border-trade-in-eastern-sudan-a.pdf>.

38 Ibid.

## VII. Free Trade Zones

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While originally intended to facilitate international trade, the existence of many free trade zones (FTZs) in Sudan which are characterized by poor regulation and a lack of oversight creates opportunities for illicit financial flows in the form of trade misinvoicing.

The opacity, limited oversight, and poor coordination commonly [attributed to/found in] FTZs unquestionably diminishes the capacity of customs authorities to detect trade misinvoicing.

Frequently, national customs authorities exercise very limited control or oversight over cargo moving

***“I think Sudan should focus on achieving political, macroeconomic and social stability to achieve sustainable development.”***

—UNIVERSITY GRADUATE

in and out of FTZs. A 2018 study by the World Customs Organization (WCO) found customs procedures and controls were so limited inside FTZs, along with insufficient integration and utilization of information technology, that the resulting lack of the requisite data concerning cargoes inside the zones rendered customs agencies’ risk-management controls “virtually useless”.<sup>39</sup>

In 1995, Sudan established two special economic zones at the Red Sea coast in Port Sudan and in Al-Gaili. There are 1,500 registered companies with 400 permanent employees in the Red Sea Free Zone and 2,700 registered companies with 3,000 permanent employees in the Al-Gaili Free Zone. According to UNCTAD’s “Investment Policy Review” for Sudan, the regime for free zones is governed by the 2009 Free Zones and Free Markets Law and an implementing regulation was adopted on May 18, 2013. It states that the authority responsible for the free zones is the National Council for Free Zones, which started operating in January 2013 and is headed by the Chairman of the National Investment Authority. The Council is administratively under the Authority’s supervision, while it remains solely in charge for all technical and operational issues, for example licensing, in the free zones.<sup>40</sup>

Concerns have been raised by the African Development Bank about the performance of the Sudanese Free Zones and Markets Co. Ltd., a Sudanese publicly traded company established as the result of the merger of different governmental and private entities in 1993 which manages the free trade zones and infrastructure development areas. These concerns include a lack of

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39 Kenji Omi, “‘Extraterritoriality’ of Free Zones: The Necessity for Enhanced Customs Involvement,” World Customs Organization Research Paper No. 47, September 2019. [http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/research/research-paper-series/47\\_free\\_zones\\_customs\\_involvement\\_omi\\_en.pdf?la=en](http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/research/research-paper-series/47_free_zones_customs_involvement_omi_en.pdf?la=en). See also Isabella Chase, Anton Moiseienko and Alexandria Reid, “Free Trade Zones and Financial Crime – A Faustian Bargain?” Royal United Services Institute (RUSI) Commentary, November 5, 2019. <https://rusi.org/commentary/free-trade-zones-and-financial-crime-faustian-bargain>.

40 UNCTAD, “Investment Policy Review: The Sudan” United Nations Conference on Trade and Development, 2015. [https://unctad.org/en/PublicationsLibrary/diaepcb2014d5\\_en.pdf](https://unctad.org/en/PublicationsLibrary/diaepcb2014d5_en.pdf).



coordination among entities operating within the FTZs, principally the Sudanese Customs Authority (SCA) and others, as well as challenges including the poor governance and a weak regulatory environment.<sup>41</sup> In addition to the zones at Port Sudan and Al-Gaili, Sudan has established several additional FTZs and plans for more.<sup>42</sup>

With the proliferation of FTZs in Sudan, there is a concern that poor regulatory oversight in these zones could further corrode trade integrity in the country including exacerbating the risk of money laundering and trade misinvoicing. Although there have not been any known reports of money laundering activity taking place in Sudan's FTZs, the Financial Action Task Force (FATF) has warned that jurisdictions with existing systemic weaknesses in their anti-money laundering (AML) regime are at greater risk for abuse through FTZs.<sup>43</sup> Among these weaknesses are inadequate AML regulations and combating the financing of terrorism (CFT) laws, poor oversight by domestic authorities, insufficient procedures to inspect goods and register legal entities, and a lack of coordination between zone and customs authorities. Sudan is plagued by many of these weaknesses. Additionally, Sudan's free-trade zone law established in 1994, specifically exempted money invested in the free zones from being frozen or confiscated. Since then a new law, the Duty-Free Zones and Shops Act of 2009, repealed the 1994 law – and has slightly modified the language to stipulate that funds and goods in the free zones may not be frozen, confiscated, or nationalized, except by judicial order – but the legislation remains insufficient to prevent Sudan's FTZs from being used to launder money.<sup>44</sup>

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41 ADB, "Sudan Economic Report: After Two Decades of 'Solitude': Targeted strategies for quick economic wins," African Development Bank Group, 2018. <https://www.afdb.org/en/documents/sudan-economic-report-after-two-decades-solitude-targeted-strategies-quick-economic-wins>.

42 Fitch Solutions, "Sudan Trade and Investment Risk Report: Q1 2020," Fitch Solutions Group Limited, 2019.

43 FATF, "Money Laundering vulnerabilities of Free Trade Zones," FATF Report, Financial Action Task Force, March 2010. <https://www.fatf-gafi.org/media/fatf/documents/reports/ML%20vulnerabilities%20of%20Free%20Trade%20Zones.pdf>.

44 The Sentry, "Sudan's Anti-Corruption Whitewash: The Bashir Regime's Hollow Commitment to Combating Illicit Finance," Sentry Alert, *The Sentry*, April 2019. [https://cdn.thesentry.org/wp-content/uploads/2019/04/SudansAnticorruptionWhitewash\\_TheSentry\\_April2019.pdf](https://cdn.thesentry.org/wp-content/uploads/2019/04/SudansAnticorruptionWhitewash_TheSentry_April2019.pdf); See also: UNCTAD, "Invest Policy Review: The Sudan" United Nations Conference on Trade and Development, 2015. [https://unctad.org/en/PublicationsLibrary/diaepcb2014d5\\_en.pdf](https://unctad.org/en/PublicationsLibrary/diaepcb2014d5_en.pdf).

## VIII. GFI's Recommendations for Improving Trade Integrity in Sudan

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### Major Challenge: Fiscal Transparency

The US Congress has called for “demonstrable steps to improve fiscal transparency” to be taken by the Government of Sudan, including government control of the finances and assets of the Sudanese security and intelligence services. Also, the Government must establish means for curtailing the “illicit trade in mineral resources, including petroleum and gold.” The Government must also identify the shareholdings in all public and private companies held or managed by the security and intelligence services and transfer that information to the Ministry of Finance, or any other public civilian entity established for this purpose. Additionally, the bill calls for the government to develop a “transparent budget that includes all expenditures related to the security and intelligence services.”<sup>45</sup> The “Sudan Democratic Transition, Accountability, and Financial Transparency Act of 2020” (H.R. 6094) was introduced in the US House of Representatives Committee on Foreign Affairs on March 6, 2020.

***“Any crime, big or small, eats up national resources and ruins the economy. The society as a whole has to join in this fight [to curtail crime].”***

—POLITICIAN

### Major Challenge: Customs Enforcement

The SCA is responsible for the collection of duties and a number of other trade-related taxes from importers and exporters. Such taxes are a critical source of government revenues for Sudan, even as it stands to lose much of this revenue in accordance with plans to join the TFTA and the AfCFTA. Sudan should take steps to ensure that it can find alternative sources of revenue to make up for the expected loss of duties and import tariffs from trade liberalization.

Furthermore, when customs authorities audit the value of traded goods, they often focus primarily on under-invoiced imports, in line with their traditional mandate to maximize customs duties. For example, the World Trade Organization’s (WTO) Valuation Agreement sets customs valuation standards for imported goods only, not for exported goods. As a consequence, the three other types of trade misinvoicing (over-invoiced imports, under-invoiced exports, and over-invoiced exports) have not been the main focus of customs authorities.<sup>46</sup> As noted by the African Union Commission, in order to effectively combat trade misinvoicing, monitor invoices and detect

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45 ST, “U.S. Congress links Sudan’s debt relief to fiscal transparency of security services,” *Sudan Tribune*, March 8, 2020. <https://www.sudantribune.com/spip.php?article69078>.

46 Kunio Mikuriya, “Capital flight in trade payment,” The Global Governance Project, November 22, 2018. <http://www.globalgovernanceproject.org/2018/11/22/capital-flight-in-trade-payment/>.

irregularities in both export and import declarations, Sudan's SCA requires adequately increased resources and skills capacity.<sup>47</sup>

The problem of insufficient detection of trade misinvoicing by the SCA is further compounded by the opacity of activities within Sudan's free trade zones (FTZs). As mentioned above, national customs authorities frequently exercise very limited control or oversight over cargo moving in and out of FTZs. Given that the aforementioned 2018 study by the WCO found customs procedures and controls of FTZs worldwide were so limited as to be considered "virtually useless", it would be useful for Sudan to clarify what steps have been taken to enact oversight of operations within the FTZs and to regularly publish the data on such oversight.<sup>48</sup>

## **GFI's Recommendations for Sudan to Improve Customs Enforcement, Combat Trade Misinvoicing and Improve Trade Integrity at the National Level**

### ***Amend Articles 198 and 199 of the Customs Act, 1986 to more comprehensively address all possible methods of manipulation in trade misinvoicing***

Articles 198 and 199 of the Customs Act, 1986 read together penalize trade misinvoicing in Sudan. As per Article 199(b), any person that employs methods to avoid paying taxes is committing fraud, and as per Article 199(d), any false statement on any part of the invoice or listing an amount that lowers tax revenues also constitutes fraud. Article 198 prohibits smuggling which includes non-payment of taxes. Reading these provisions broadly, it is clear that the legislation aims to address trade misinvoicing. However, it is recommended that to provide the customs department more specific guidance, the language be amended to be in line with the standards recommended by GFI such that the provisions of Articles 198 and 199 explicitly address the manipulation of origin, quantity, volume, value and type of commodity as a violation of the customs law in Sudan.

### ***Strengthen customs oversight of free trade zones***

It would be useful for the National Council for Free Zones, which administers FTZs, to more regularly and publicly report on its operations, such as licensing, in the free zones. It would also be useful for both the Council and the National Investment Authority to more regularly publish data on its oversight of operations within the zones. Additionally, the Government of Sudan in 2005 expressed an intention

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47 African Union Commission, "Domestic Resource Mobilization: Fighting Against Corruption and Illicit Financial Flows," Addis Ababa, September 5, 2019. <https://au.int/en/documents/20190905/domestic-resource-mobilization-fighting-against-corruption-and-illicit-financial>.

48 Kenji Omi, "'Extraterritoriality' of Free Zones: The Necessity for Enhanced Customs Involvement," World Customs Organization Research Paper No. 47, September 2019. [http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/research/research-paper-series/47\\_free\\_zones\\_customs\\_involvement\\_omi\\_en.pdf?la=en](http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/research/research-paper-series/47_free_zones_customs_involvement_omi_en.pdf?la=en). See also Isabella Chase, Anton Moiseienko and Alexandria Reid, "Free Trade Zones and Financial Crime – A Faustian Bargain?" Royal United Services Institute (RUSI) Commentary, November 5, 2019. <https://rusi.org/commentary/free-trade-zones-and-financial-crime-faustian-bargain>.

to implement the WCO's voluntary SAFE Framework of Standards to Secure and Facilitate Global Trade, which includes a set of global recommendations designed to strengthen the effectiveness of customs controls, both in and out of FTZs.<sup>49</sup> However, the degree of actual implementation by the Government of Sudan remains unclear at this time.<sup>50</sup> When and where it has not yet done so, all components to the SAFE Framework should be implemented in Sudan, including in the FTZs.

### ***Establish multi-agency teams to address customs fraud, tax evasion and other financial crimes***

The OECD,<sup>51</sup> World Bank and other institutions have advocated that governments take a collaborative approach to fighting financial crimes. This would require Sudan to eliminate silos

***“It is a serious problem. The whole society should fight kleptocracy. Corruption is a contagious ethical, criminal, social and financial [problem] that is rampant and not limited to one group.”***

—GOVERNMENT OFFICIAL

between relevant agencies (ex. customs, financial intelligence units, revenue authority, and law enforcement, among others) and engage in enhanced cooperation, information sharing and interdiction strategies among such agencies. These steps are needed to foster an effective and centralized approach to curtail fraud, tax evasion, grand corruption and transnational crime in Sudan's trading sector.

The 2016 MENA-FATF review reported Sudan had taken such steps to strengthen inter-agency coordination, however more recent data is not available to determine the extent of multi-agency work.<sup>52</sup>

### ***Establish a public beneficial ownership registry***

The current Sudanese law covering collection of beneficial ownership information (that is, the identification of the true owners of companies) is only applicable to financial institutions, and not at the time of registration or creation of a company. This is problematic because many entities

49 World Customs Organization, “SAFE Framework of Standards 2018 edition,” Brussels, June 2018. <http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/instruments-and-tools/tools/safe-package/safe-framework-of-standards.pdf?la=en>.

50 World Customs Organization, “Members who have expressed their intention to implement the WCO Framework of Standards to Secure and Facilitate Global Trade,” Brussels, November 1, 2019. <http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/instruments-and-tools/tools/safe-package/wco-table-intention-to-implement-the-fos.pdf?la=en>.

51 OECD, “Effective Inter-Agency Co-operation in Fighting Tax Crimes and Other Financial Crimes - Third Edition,” OECD Publishing, Paris, 2017. <https://www.oecd.org/tax/crime/effective-inter-agency-co-operation-in-fighting-tax-crimes-and-other-financial-crimes-third-edition.pdf>.

52 FTAF MENA, “Mutual Evaluation Report: 3rd Follow-Up Report for Republic of Sudan,” p. 57, April 2016. [http://www.menafatf.org/sites/default/files/SUDAN\\_3RD\\_EXIT\\_FUR\\_EN.pdf](http://www.menafatf.org/sites/default/files/SUDAN_3RD_EXIT_FUR_EN.pdf).

operating in Sudan rely on foreign banking services, leaving little to no opportunity to record of their beneficial ownership information during a financial services transaction. Furthermore, the law does not capture information of entities incorporated and/or registered in Sudan that do not hold accounts with local financial institutions, thereby further reducing the chances that the Sudanese government will have accurate information.

Therefore, Sudan should adopt legislation establishing a public beneficial ownership registry at the time of incorporation, including entities that are registered and/or incorporated in Sudan but do not use local financial services. The law should also be retroactive, and require information from all those that have not yet reported such beneficial ownership information to the Government of Sudan. The Sudanese government should also incorporate beneficial ownership declarations as part of its customs act.

When and where possible, it would also be helpful for Sudan to proactively encourage other governments in the region to establish public registries of beneficial ownership information on all legal entities and require gatekeepers to the financial system, such as lawyers and accountants, to know the true beneficial owner(s) of any account or client relationship they open;

### ***Implement trade misinvoicing risk assessment tools***

Sudan should adopt commercially available tools that help identify potential trade misinvoicing in international trade. The system chosen needs to provide officials with real-time price comparisons for goods while they are still in the port in order to help customs officials determine if further investigation is needed. Such tools are essential in assisting governments to maximize domestic resource mobilization and tackle trade misinvoicing.

## **GFI's Recommendations For Improving Financial Transparency at the International Level**

In addition to the country-specific recommendations outlined above, GFI also recommends a series of broad financial reforms Sudan can make to support ongoing international efforts to improve financial transparency globally:

### ***Expand information-sharing between importing and exporting countries***

The WCO and the United Nations Office on Drugs and Crime (UNODC) have established a joint Container Control Programme, establishing inter-agency units within countries for exchanging information with their counterparts in other countries that allow customs agencies and port authorities to share information about high-risk containers and verify identification numbers,

for example. The WCO also recommends countries establish a legal basis and/or develop administrative arrangements for the exchange of information between and among customs administrations in partner countries for purposes of compliance and enforcement using WCO instruments and tools, such as the revised Model Bilateral Agreement, the Guide to the Exchange of Customs Valuation Information, etc. As of 2018, only 54 countries have adopted this system, and Sudan is not one of them. When and where possible, Sudan should move to adopt the WCO and UNODC system.

### ***Utilize country-by-country reporting data***

The lack of adequate data on corporate taxation has been a major obstacle for measuring scale of tax avoidance by multinational enterprises (MNEs). This presents a challenge for Sudan's tax authorities to carry out transfer pricing assessments on transactions between linked companies and to carry out audits, especially in the extractives sector where many foreign MNEs operate. GFI recommends Sudan enter into bilateral competent authority arrangements with countries like the Cayman Islands, China and Sweden where some MNEs that invest in Sudan's extractives sector are either incorporated or headquartered. This is vital to both the exchange of information and developing the infrastructure to be able to get the requisite corporate taxation data as Sudan opens its economy.

### ***Participate in the automatic exchange of tax information***

For the purposes of strengthening coordination with tax authorities in other countries, Sudan should join the international Global Forum on Transparency and Exchange of Information for Tax Purposes, and establish mechanisms for the automatic exchange of information (AEOI) on taxation data with partner countries. AEOI is the automatic exchange of tax-related information between countries, without other countries having to first request it, which speeds the process with which information is shared across countries. The main purpose of the AEOI initiative is to help countries cooperate in reducing global tax evasion. Sudan should seek to establish AEOI agreements with as many other countries as possible. Furthermore, Sudan should join the Addis Tax Initiative, a group of 55 countries committed to enhancing mobilization and effective use of domestic revenues and improving the fairness, transparency, efficiency and effectiveness of their respective tax systems.

***“The elements of success are there, but the snail's pace of movement causes confusion in the business community and breeds pessimism.”***

—ENTREPRENEUR

# CHAPTER 2

## Sectoral Analysis: Crude Oil and Gold

### Outline:

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This chapter provides an in-depth look at the top two export commodities of Sudan's economy: crude oil and gold. These two sectors and their corresponding outputs, have long played a significant role for the Sudanese economy.

First, a trade gap and regulatory analysis for each commodity has been conducted, examining the volume and value gaps between Sudan's reported exports of crude oil and gold, and those reported by partner countries as imports from Sudan. Secondly, an in-depth exploration of the policy and regulatory landscape of these two sectors follows each trade analysis.

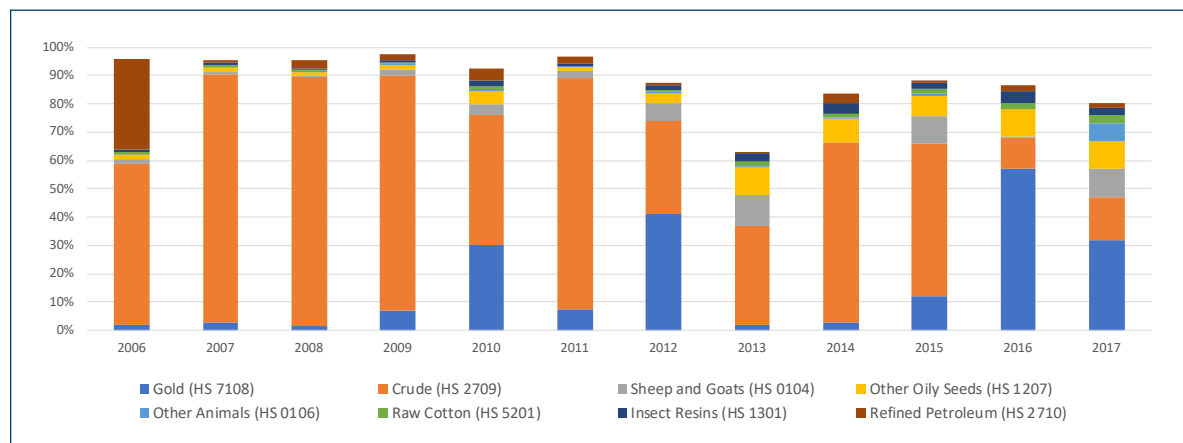


# I. Overview of Sudan's Economy

As noted above, crude oil (HS 2709) and gold (HS 7108) are Sudan's two primary exports, together making up nearly half (47 percent) of Sudan's exports by value in 2017 (See Figure 2).

The country has worked to diversify its economy since the secession of South Sudan from Sudan in July 2011. This is due in large part to the fact that much of the former Sudan's oil reserves are now located in South Sudan (See Figure 3). For the six years prior to secession (2006-2011), crude oil exports accounted for between 46 and 88 percent of former Sudan's annual exports by value; for the six years post-secession (2012-2017), crude oil exports accounted for 11 to 64 percent of Sudan's exports each year.

**Figure 2: Sudan's Primary Exports, 2006-2017 (percentage of total export value)**



Source: Observatory for Economic Complexity.

**Figure 3. Division of Petroleum Reserves Between Sudan and South Sudan**



Source: "South Africa-Sudan: Oil Exploration Deal", Africa Research Online, May 8, 2019, <https://africaresearchonline.wordpress.com/2019/05/08/south-africa-sudan-oil-exploration-deal/>

***"I'm optimistic because Sudan is known for its rich and proven resources. It is blessed with vast rural land, animal wealth, water, oil and minerals."***

—GOVERNMENT OFFICIAL

## II. Crude Oil Production

Since the secession, the volume of crude oil production in Sudan has varied from year to year, as has its share of the country's exports by value. Table 8 shows a comparison of crude oil production as reported by the Central Bank of Sudan and the US Energy Information Administration (EIA).<sup>53</sup> The comparison is useful, as Sudan has yet to report its level of crude oil production for 2018.

**Table 8. Crude Oil Production in Sudan, 2012-2018 (in millions of barrels)**

Year	Central Bank of Sudan	US EIA	Average (CBS and EIA)
2018	N/A	34.7	—
2017	31.6	37.2	34.4
2016	34.7	38.3	36.5
2015	28.7	39.4	34.1
2014	29.0	41.6	35.3
2013	45.1	48.9	47.0
2012	37.4	33.6	35.5

Source: Central Bank of Sudan, Annual Reports 2013-2017 (Khartoum: Central Bank of Sudan, 2013-2017), [https://cbos.gov.sd/en/periodicals-publications?field\\_publication\\_type\\_tid\\_i18n=43](https://cbos.gov.sd/en/periodicals-publications?field_publication_type_tid_i18n=43); U.S. Energy Information Administration, "Sudan Petroleum and other liquids: Crude oil including lease concentrate (Mb/d)," accessed 03/24/2020, <https://www.eia.gov/international/data/country/SDN/petroleum-and-other-liquids/>

Globally, Sudan was the 42<sup>nd</sup> largest producer of crude oil in the world in 2018 based on US EIA estimates (Table 9).

**Table 9. Crude Oil Production by Country, 2012-2018 (in millions of barrels)**

Country	2018 Rank	2018	2017	2016	2015	2014	2013	2012
United States	1	4,011.5	3,413.4	3,226.3	3,445.1	3,207.2	2,734.9	2,379.2
Russia	2	3,926.9	3,861.8	3,851.3	3,742.3	3,689.1	3,669.7	3,621.4
Saudi Arabia	3	3,805.2	3,698.8	3,818.2	3,711.4	3,553.4	3,538.0	3,588.8
Iraq	4	1,683.6	1,625.6	1,621.9	1,476.4	1,229.3	1,114.9	1,088.9
Canada	5	1,585.3	1,451.5	1,342.9	1,342.2	1,318.8	1,213.7	1,145.3
Iran	6	1,553.0	1,631.1	1,515.2	1,202.0	1,182.3	1,136.4	1,236.2
China	7	1,377.1	1,394.7	1,454.0	1,561.4	1,536.0	1,519.8	1,487.0
UAE*	8	1,174.0	1,158.6	1,183.6	1,149.6	1,098.7	1,072.4	1,092.7
Kuwait	9	1,038.7	1,004.8	1,060.3	1,016.0	964.4	967.3	961.8
Brazil	10	944.1	957.0	918.1	889.7	822.9	738.7	752.3
Sudan	42	34.7	37.2	38.3	39.4	41.6	48.90	33.6
World	—	30,267.0	29,600.0	29,509.3	29,478.2	28,612.4	27,913.3	27,885.7

Source: U.S. Energy Information Administration, "Annual petroleum and other liquids production", accessed March 17, 2020, <https://www.eia.gov/international/data/world>

\*UAE stands for United Arab Emirates

Note: Totals may not match due to rounding.

<sup>53</sup> Per correspondence with a representative of the US EIA, the agency's sources for its data come from a number of different third-party market research companies, media sources, and discussions with internal and government stakeholders; they also monitor for potential disruptions due to security concerns.

### III. Crude Oil Trade Analysis

Examining Sudan's exports as well as the imports of its trading partners presented challenges, as there is a lack of consistency in the reported data. In estimating trade gaps between countries, Global Financial Integrity's (GFI) methodology typically involves the analysis of trade data reported to the United Nations Comtrade database (Comtrade) by countries each year. However, Comtrade only contains trade records for Sudan for the years 2017, 2015, and 2012 and only for a very limited number of commodities. Though each of these three years does contain records for exports of crude oil (as well as gold) from Sudan, it was decided that for accuracy and consistency, trade data for crude oil exports would be taken from the Central Bank of Sudan's Foreign Trade Statistical Digests. Concomitantly, as Sudan's primary crude oil trading partners have reported to Comtrade consistently over the period study, GFI used Comtrade data to evaluate the imports of Sudanese crude oil.

Sudan reports its exports of crude oil and petroleum, as well as other primary commodities, in the Central Bank of Sudan's quarterly Foreign Trade Statistical Digests. The fourth quarter report of each year provides detailed provisional data from that year, as well as a summary of adjusted, or finalized, data from the previous year. In order to ensure that the most accurate representation of the value and volume of Sudan's crude oil exports is provided, the adjusted data for each year was used in Table 10.

**Table 10. Volume and Value of Sudan's Crude Oil Exports to the World, 2012-2018**  
(in millions of barrels, millions of kg, and millions of USD)<sup>54</sup>

Year	Volume (barrels)	Volume (kg)	Value (USD)
2018	4.6	630.7	\$320.9
2017	5.9	814.3	\$321.5
2016	6.9	954.3	\$271.1
2015	12.1	1,676.1	\$573.9
2014	9.8	1,358.3	\$1,014.3
2013	15.8	2,190.9	\$1,614.1
2012	7.2	997.5	\$698.8
<b>TOTAL</b>	<b>62.3</b>	<b>8,622.2</b>	<b>\$4,814.7</b>

Source: Central Bank of Sudan's quarterly Foreign Trade Statistical Digests 2013-2019.

Note: Totals may not match due to rounding.

<sup>54</sup> Sudan declares their export volume in barrels. To determine the volume in kilograms, a conversion rate of 1 barrel = 138.35kg was used. This was based on information found in: Hanse Oil, "How much does a barrel of oil weigh", accessed 3/19/2020, <https://hanse.helpsite.com/articles/9488-how-much-does-a-barrel-of-oil-weigh>; and Wamda Faisal Elmobarak and Fares Almomani, "Laboratory Evaluation of Fractional Distillation Products of Sudanese Crude Oil", *IOSR Journal of Applied Chemistry*, Vol 12, Issue 10, October 2019, p13 (10-15). <http://www.iosrjournals.org/iosr-jac/papers/vol12-issue10/Series-1/C1210011015.pdf>.

Over the seven-year period 2012-2018, Sudan reported the export of 62.3 million barrels of crude oil (equivalent to 8.6 billion kilograms) valued at US\$4.8 billion (Table 2). The highest year for exports was 2013, when 15.8 million barrels of crude (2.2 billion kilograms) of crude oil worth US\$1.6 billion was exported from the country. After 2014, there was a significant reduction in the value of Sudan's crude oil exports, with the value dropping by 43 percent between 2014 and 2015, and falling off another 53 percent between 2015 and 2016. The decrease in export value between 2014 and 2015 is due in large part to falling world market crude prices. The decrease in value between 2015 and 2016 is largely attributable to the 43 percent decline in export volume rather than external factors.

***“Sudan’s regime change has created a window of opportunity for essential reforms and improving governance could prove fundamental in addressing major macro imbalances and revamp broad-based growth.”***

—ECONOMIST

The following paragraphs and tables analyze Sudan's reported oil exports, its partners' reported imports and the corresponding value gaps.

The total value and volume of imports of Sudanese crude oil by Sudan's trade partners over the period 2012-2018 was reviewed. Trade data for HS 2709 (Petroleum oils and oils obtained from bituminous minerals; crude) from Sudan's trade partners was obtained from the Comtrade database, as there was



Photo by Zbynek Burival via Unsplash

consistent reporting of imports of Sudanese crude for the years studied. As seen in Table 11, between 2012 and 2018, Sudan's trade partners reported imports of 112.2 million barrels (equivalent to 15.5 billion kilograms) of Sudanese crude oil with a value of US\$8.9 billion. Comtrade data shows that 2013 was the year with the highest volume and value of imports of Sudanese crude oil, at 24 million barrels (3.3 billion kilograms) and US\$2.5 billion, respectively. Likewise, the major drops in volume and value seen between 2014-2015 and 2015-2016 in the data from the Sudan Central Bank are also reflected in the imports of Sudanese crude oil as reported in Comtrade.

**Table 11. Volume and Value of World Imports of Sudanese Crude Oil, 2012-2018**  
(in millions of barrels, millions of kg, and millions of USD)<sup>55</sup>

Year	Volume (barrels)	Volume (kg)	Declared CIF Value (US\$)	Estimated FOB Value (USD) <sup>†</sup>
2018	15.5	2,148.0	\$1,046.0	\$972.8
2017	12.8	1,771.6	\$665.2	\$618.6
2016	8.1	1,115.8	\$361.7	\$336.4
2015	14.0	1,935.0	\$773.0	\$718.9
2014	19.9	2,753.0	\$2,036.9	\$1,894.3
2013	24.0	3,322.1	\$2,663.3	\$2,476.9
2012	17.9	2,475.3	\$2,057.8	\$1,913.7
<b>TOTAL</b>	<b>112.2</b>	<b>15,520.9</b>	<b>\$9,603.8</b>	<b>\$8,931.6</b>

<sup>†</sup>Imports are traditionally reported in terms of "cost, insurance, and freight" (CIF), whereas exports are reported in terms of "free on board" (FOB, i.e. only the cost of the good). In order to convert the declared CIF value found in Comtrade to FOB, a conservative conversion rate of seven percent was used to remove the insurance and freight components in order to arrive at just the cost of the good.

Note: Totals may not match due to rounding.

A trade gap analysis was then performed comparing Sudan's declared exports with the total volume and value of imports of Sudanese crude oil as declared by all of Sudan's trading partners (Table 12).<sup>56</sup> Over the seven-year period 2012-2018, Sudan reported exports of 62.3 million barrels, while the country's trading partners reported imports of 112.2 million barrels, a volume gap of 49.9 million barrels and equivalent to 80.1 percent of Sudan's declared export volume. In terms of value, Sudan reported exports valued at US\$4.8 billion, in comparison its trading partners reported imports of US\$8.9 billion, a value gap of US\$4.1 billion and equal to 85.4 percent of Sudan's declared exports by value.

<sup>55</sup> UN Comtrade database, accessed March 11, 2020, <https://comtrade.un.org/data/>. Comtrade reports both imports and exports of crude oil in kilograms. To determine the volume in barrels, a conversion rate of 1 barrel = 138.35kg was used. This was based on information found in: Hanse Oil, "How much does a barrel of oil weigh", accessed 3/19/2020, <https://hanse.helpsite.com/articles/9488-how-much-does-a-barrel-of-oil-weigh>; and Wamda Faisal Elmobarak and Fares Almomani, "Laboratory Evaluation of Fractional Distillation Products of Sudanese Crude Oil", *IOSR Journal of Applied Chemistry*, Vol 12, Issue 10, October 2019, p13 (10-15). <http://www.iosrjournals.org/iosr-jac/papers/vol12-issue10/Series-1/C1210011015.pdf>.

<sup>56</sup> It is worth noting that while the Central Bank of Sudan does publish the export value of primary commodities by country partner, it aggregates crude oil with commodities such as benzene, kerosene, and light gas into the commodity category "Petroleum & Petroleum Products". It is therefore not possible to complete a value gap analysis at the country level for crude oil with Sudan's trade partners.

**Table 12. Trade Gap Assessment Between Sudan and Its Trade Partners, by Year, 2012-2018 (in millions of barrels and millions of USD)**

Year	Volume (barrels)			FOB Value (USD)		
	Central Bank of Sudan	Trade Partners in Comtrade	Gap	Central Bank of Sudan	Trade Partners in Comtrade	Gap
2018	4.6	15.5	(11.0)	\$320.9	\$972.8	\$(651.8)
2017	5.9	12.8	(6.9)	\$321.5	\$618.6	\$(297.1)
2016	6.9	8.1	(1.2)	\$271.1	\$336.4	\$(65.3)
2015	12.1	14.0	(1.9)	\$573.9	\$718.9	\$(144.9)
2014	9.8	19.9	(10.1)	\$1,014.3	\$1,894.3	\$(880.0)
2013	15.8	24.0	(8.2)	\$1,614.1	\$2,476.9	\$(862.8)
2012	7.2	17.9	(10.7)	\$698.8	\$1,913.7	\$(1,214.9)
<b>TOTAL</b>	<b>62.3</b>	<b>112.2</b>	<b>(49.9)</b>	<b>\$4,814.7</b>	<b>\$8,931.6</b>	<b>\$(4,116.9)</b>

Note: Totals may not match due to rounding.

Royalty and corporate tax payments from oil companies represent an extremely important source of income for the Government of Sudan. If 49.9 million barrels of crude oil are being exported from Sudan “off the books”, the Government would lose considerable revenues. Assuming a conservative royalty rate of 12.5 percent along with the country’s corporate income tax rate of 35 percent, the Government could have lost nearly US\$2 billion dollars between 2012 and 2018. This represents an average annual loss of US\$279.4 million which is more than three times the amount (US\$89.3 million) that the Government spent on social benefits in 2017.<sup>57</sup>

***“Corruption is one of Sudan’s chronic financial diseases that has eaten up a good portion of its wealth and it has to be eradicated.”***

—GOVERNMENT OFFICIAL

<sup>57</sup> Central Bank of Sudan, 57th Annual Report 2017 (Khartoum: Central Bank of Sudan, 2018), p111, <https://cbos.gov.sd/en/content/annual-report-2017>.

## IV. Regulatory Analysis – Crude Oil Sector

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The relationship between natural resources and its role as a driver of conflict is complex, as the fight for control of such resources has long played a role in creating and sustaining conflict. Since the early 1990s, countries rich in valuable extractive resources have been plagued by internecine struggles, with the United Nations estimating that at least 19 violent conflicts have been fueled by competition over monopoly of natural resources and around 40 percent of civil wars fought over the last 60 years have been associated with natural resources.<sup>58</sup> In Africa, 75 percent of civil wars have been funded through the natural resource wealth of the country. The experience of armed conflict and an enduring struggle for control of natural resources in Sudan has unfortunately been similar.

### Transitional Governments and Risks of Illicit Financial Flows to Natural Resource Governance – The Case of Sudan

Competition and monopoly control over high value natural resources including gold, timber, iron ore, and petroleum can severely handicap peace process efforts if practices around effective management, transparency and governance are not factored early into the peacebuilding process. A history of international conflicts and civil wars provides a plethora of evidence that inadequate structural safeguards can torpedo fragile peace agreements and can plunge a country back into violent conflict or civil war.<sup>59</sup>

Navigating the labyrinthine nature of illicit financial flows (IFF) risks to extractive sectors can be difficult under normal circumstances, as the extractive sector is already disposed to high levels of IFF risks due to the preponderance of monopolies and the role of government as both regulator and and beneficiary.

The post-colonial history of Sudan is emblematic of the importance in judiciously managing and governing the IFF risks to natural resource wealth. The civil wars in Sudan that led to the independence of South Sudan in 2011 are the longest on record. The first from 1955-1972 and the second from 1983-2005 were decades long, and resulted in the devastation of the country, its people and in many ways its economy. A 2013 UN Committee<sup>60</sup> guidance note on Sudan's post-conflict needs assessment stated that, "Competition over access to natural resources, including land and water, was identified as a driving factor in the civil war and a potential threat to peacebuilding" in Sudan.<sup>61</sup> What is critical therefore in transitioning a country from a state of conflict

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58 United Nations, "Toolkit And Guidance For Preventing And Managing Land And Natural Resources Conflict", (2012) available at [https://www.un.org/en/land-natural-resources-conflict/pdfs/GN\\_Extractive.pdf](https://www.un.org/en/land-natural-resources-conflict/pdfs/GN_Extractive.pdf) at p.9.

59 Michael L. Ross, "What do we know about Natural Resources and Civil War?", *Journal of Peace Research*, Vol. 41, No.3, May 2004, pp 337 – 356.

60 The Guidance note was from the UN Development Group and the Executive Committee on Humanitarian Affairs which referenced findings from a 2005 UN report assessing Sudan's post conflict needs.

61 David Jensen, Stephen Loneragan, "Assessing and Restoring Natural Resources In Post-Conflict Peacebuilding" (2012) Routledge, New York at p.48.



to one of fragile peace and on to long standing stable democratic governance is understanding how natural resources contributed to the conflict in the past and assess how the potential mismanagement of these resources presents a risk to ‘conflict relapse’.<sup>62</sup>

## Choosing an Assessment Tool For Sudan – Navigating an Ocean of Toolkits

Before Sudan can embark on any structural, regulatory, or legal reforms to the sector, the Sudanese government must have a baseline assessment of where their institutions, laws and operating environment stand against international best practices on managing IFF risks. Currently, there are a plethora of overlapping, but slightly differing, recommendations and tool-kits available from international organizations and civil society organizations to help countries shepherd and judiciously harness their resource wealth.

There is unfortunately no single tool that will address all of Sudan’s needs to reform and address the IFF risks within its extractive space. Many of the international tools suggested by myriad international organizations frequently do not reflect the complex realities on the ground, and are often designed by countries whose economies are vastly different from Sudan. As a consequence, there is very often little political will to meaningfully implement these measures in-country, because the systems, institutional knowledge and technical capacity are vastly different from what is envisioned within such toolkits.

***“Crime has a big impact on the society, people’s behavior and, ultimately, the economy. Like corruption, the government must take the lead and could seek support from others.”***

—GOVERNMENT OFFICIAL

## Sudan and Oil Resources

At its heights, oil accounted for 92.6 percent of all of Sudan’s revenues.<sup>63</sup> Following South Sudan’s independence, Sudan lost 75 percent of its oil reserves and was in an economically dire position to find alternate resources to bolster the economy. While gold mining in Sudan has been the focus of much attention, oil in Sudan continues to remain a valuable export bringing in US\$321 million in 2018, and accounting for 13 percent of the value of the country’s total exports. Even though South Sudan controls the majority of Sudan’s former oil fields, the newly independent country is unable to keep 100 percent of its profits, as the refineries are located in the north of Sudan proper, and the only pipeline to the Port of Sudan runs through Sudan.<sup>64</sup> This has put both countries in a contentious but symbiotic relationship, because without Sudan – South Sudan is unable to profit from its oil, and without the buffer of South Sudan’s oil, Sudan will not have the economic capacity to diversify its economy.

62 Walter, Barbara F, “Conflict Relapse and the Sustainability of Post-Conflict Peace”, Washington, DC: World Bank. 2011 available at <https://openknowledge.worldbank.org/handle/10986/9069> License: CC BY 3.0 IGO.

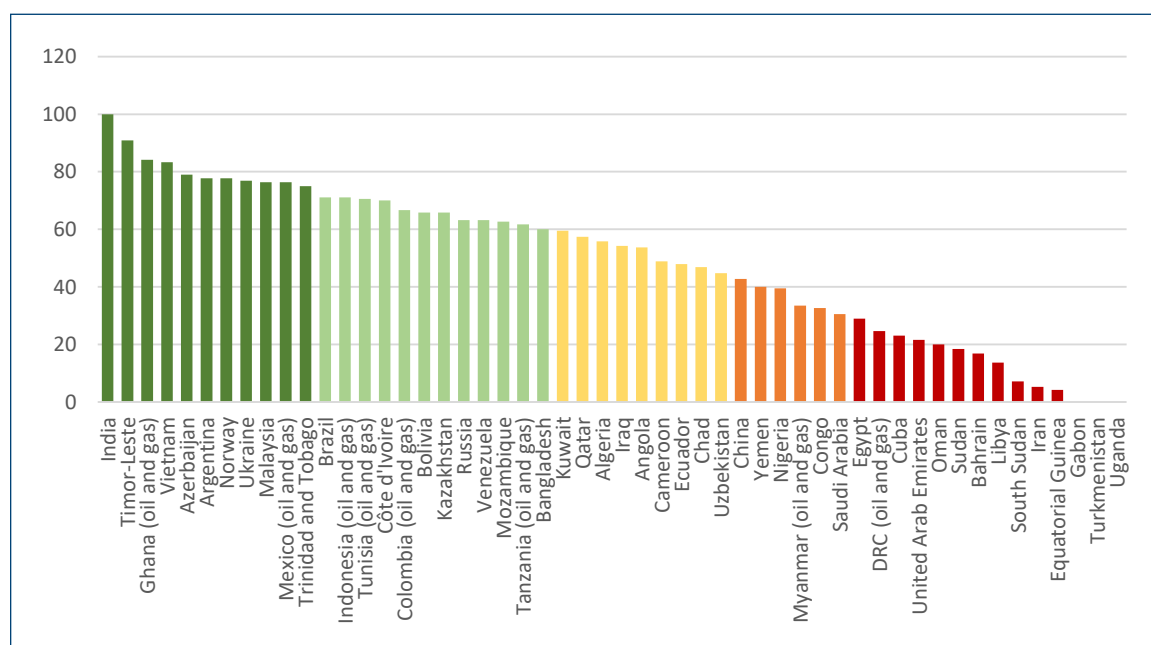
63 Fatal Transactions and European Coalition on Oil in Sudan, “Sudan’s Oil Industry: Facts and Analysis”, April 2008.

64 Denis Scopas, “Bound by oil: How petroleum is bringing Sudan and South Sudan closer together”, *Middle East Eye*, October 26, 2019 available at <https://www.middleeasteye.net/news/bound-oil-how-petroleum-bringing-sudan-and-south-sudan-closer-together>.

What demarcates and separates any assessment of the gold and oil sectors in Sudan is that Sudan's institutions, technical knowledge and governance capacity for oil go back as far as 1959, when the first explorations for oil commenced. Further, since the early days of Sudan's petroleum exploration, the institutions responsible for the management and distribution of oil revenues were always based in the north.<sup>65</sup> This demonstrates that the ready availability of a well-established governance apparatus with decades of institutional knowledge exists and could help mitigate against any IFF risks from within the sector.<sup>66</sup>

Still, the Sudanese government struggles with transparency within the oil sector. Despite publishing a mapping of its oil supply chain, fiscal transparency has long dogged the oil sector in Sudan, with questions raised regarding the loss of an estimated US\$9 billion oil revenue dating back to 2010.<sup>67</sup> In the most recent survey conducted by the Natural Resource Governance Institute (NRGI), Sudan ranked near the very bottom for transparency for the operations of Sudan Petroleum Corporation.<sup>68</sup>

**Figure 4: Oil and Gas State-owned Enterprises – Natural Resource Governance Institute Transparency Scores**



Source: Resource Governance Index, Natural Resource Governance Institute, 2017.

65 Fatal Transactions and European Coalition on Oil in Sudan, "Sudan's Oil Industry: Facts and Analysis", April 2008.

66 Ibid.

67 The Guardian, "WikiLeaks cables: Sudanese president 'stashed \$9bn in UK banks'", December 17, 2010 available at <https://www.theguardian.com/world/2010/dec/17/wikileaks-sudanese-president-cash-london>.

68 Country Profiles – Sudan, Resource Governance Index (2017), NRGI available at <https://resourcegovernanceindex.org/country-profiles/SDN/oil-gas>.

***“Without reforms, the current economic situation appears unsustainable. Loose fiscal and monetary policies are likely to fuel high and rising inflation. Moreover, delaying reform is likely to be costly: without corrective measures, macro imbalances are likely to increase over time.”***

—ECONOMIST

## **Sudan Oil Concession and Exploration Agreements**

An assessment of Sudan’s oil sector would not be possible without mapping the companies involved in the sector. The Sudanese government website provides information on production concession awardees from 2015, but has not updated its information since then. Additionally, Sudan’s government website does not include details of all licensees operating in the sector. Mapping out the participants in the oil sector helps assess IFF risks, as it provides information a) on the size, scale and reputation of the businesses involved; b) their countries of origin expose the levels of IFF controls in place within their home jurisdictions; and c) the ownership structures reveal the proximity and affiliation to politically-exposed persons. For instance, the chief executive officer and chairman of Lundin Petroleum AB were indicted by a Swedish court in 2018 for aiding and abetting war crimes in Sudan (now South Sudan) when the company carried out operations there between 1997 and 2003. The activities of the company and its consortium members Petronas and OMV Austria are alleged to have caused the deaths of thousands of people, the forced displacement of almost 200,000, and numerous cases of rape, torture and abduction. Cases like this emphasize the need to map out the stakeholders in Sudan’s oil sector. The company still appears to have a permit in Block 16 close to the Egyptian border.<sup>69</sup> A full mapping of Sudan’s oil sector is provided below in Table 13.

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69 Richard Milne, ‘Swedish oil bosses set to be charged over South Sudan deaths’, Financial Times, October 18, 2018 available at <https://www.ft.com/content/c7295ae6-d2cf-11e8-a9f2-7574db66bcd5>; Duncan Clarke, Africa: Crude Continent: The Struggle for Africa’s Oil Prize, Profile Books Ltd., London (2010) at p.452; Jemera Rone, Sudan, Oil and Human Rights, Human Rights Watch, New York (2003) at p.184

**Table 13. Oil Production/Exploration Blocks in Sudan, 2020**

Block	Consortium	Shareholders	Entity Type	Year
2 & 4 <sup>70</sup>	Greater Nile Petroleum Company	CNPC International Nile: 40 percent	SOE* – China	1997
		Petronas: 30 percent	SOE – Malaysia	
		ONGC: 25 percent	SOE – India	
		Sudapet: 5 percent	SOE – Sudan	
6	Petro-Energy <sup>71</sup>	CNPC: 95 percent	SOE – China For the Oil Pipeline Agreement CNPC has 100 percent	1995
		Sudapet: 5 percent	SOE – Sudan	
3 & 7	Petrodar Operating Company	CNPC: 41 percent	SOE – China	2000  Consortium with current partners 2008
		Petronas: 40 percent	SOE – Malaysia	
		Sinopec: 6 percent	SOE – China	
		Sudapet: 8 percent	SOE – Sudan	
		Tri-Ocean Energy: 5 percent  The company was listed by the Council of the European Union under the EU's Syrian Sanctions regime (Decision 2013/255/CFSP and Regulation (EU) No 36/2012	Egypt – Private	
8	Forever	Forever Investment: 90 percent	Private – Hong Kong	2012**
		Sudapet: shareholding unknown	SOE – Sudan	As of 2016 the block is listed as available for investment as per the website of the Ministry of Petroleum and Gas
9 & 11	Sudan Energia	STR Projects/Petra Energia: 75 percent	Brazil – Private	2012**  As of 2016 listed as open for investment
		Nile Valley Petroleum: 5 percent	Egypt – Private	
		Sudapet: 20 percent	SOE – Sudan	
10	International Petroleum	International Petroleum (UK): 80 percent	N/A	2012 – Formerly a Finnish company was involved in the block <sup>72</sup>
		Sudapet: 20 percent	SOE – Sudan	As of 2016 listed as open for investment

70 Names of oilfields: Heglig/Panthou, Bamboo, Diffra, Neem.

71 Names of oilfields: Fula, Hadida, Sufiyan, Shawka.

72 Duncan Clarke, "Africa: Crude Continent: The Struggle for Africa's Oil Prize", Profile Books Ltd., London (2010) at p.422, 505, 510; Opheera McDoom, "Sudan to drill 11 new oil wells for \$166.5 mln", September 29, 2010 available at <https://www.reuters.com/article/ozabs-energy-sudan-idAFJ0E68S0FZ20100929>.

**Table 13. Oil Production/Exploration Blocks in Sudan, 2020** (continued)

Block	Consortium	Shareholders	Entity Type	Year
12A	Greater Sahara	Al-Qahtani: 33 percent	Saudi Arabia	2006
		Ansan Wikfs: 20 percent	Yemen – Private	
		Sudapet: 20 percent	SOE – Sudan	
		Dindir: 15 percent	Private – Jordan, a subsidiary of Jordan's Edgo Group owned by the Palestinian Masri family. Some sources incorrectly identify it as a joint venture between Sudan and China. <sup>73</sup>	
		Hi Tech Group: 7 percent	Sudan – Private, formerly on a list of entities sanctioned by the US government. Sanctions against it were removed in 2017. <sup>74</sup>	
		All Africa Investment: 5 percent	Libya/Benin – a joint venture between Libya Oil Holding Limited <sup>75</sup> (which is mentioned in the Paradise Papers), formerly called Tamoil Africa, and Petrolin, a company owned by Samuel Dossou-Aworet <sup>76</sup>	
12B	Awaiting License	Sudapet: 100 percent Chine Petro Energy carried out operations	SOE – Sudan	2010
13	Coral Petroleum Operating Company	CNPC: 40	SOE – China	2007  As of 2016 listed as open for investment
		Petramina: 15 percent	SOE – Indonesia	
		Sudapet: 15 percent	SOE – Sudan	
		Express Petroleum: 10 percent	Private – Nigeria	
		Africa Energy: 10 percent	N/A	
		Dindir: 10 percent	Private – Jordan	
14	Statesman	Statesman Resources: 37.6 percent	Private – Australia	2012
		Express Petroleum: 15 percent	Private – Nigeria	
		Sirocco Energy: 37.4 percent	Private – Australia	
		Sudapet: 10 percent	SOE – Sudan	
15	Not Available	Forever Investment	Private – China (Hong Kong)	As of 2016 listed as open for investment

73 US blocks assets of 3 Sudanese, 30 companies, May 29, 2007 available at <https://sudantribune.com/spip.php?article22107>; Sudan Designations Removals, October 12, 2017 available at <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20171012.aspx>.

74 Libya Oil Holding – Registered in Malta and mentioned in the Paradise Papers available at <https://offshoreleaks.icij.org/nodes/56010389>.

75 He is an incredibly influential player in African energy markets and was the longtime financial adviser to Gabonese President Omar Bongo. Investigations by Swiss and American authorities revealed that Mr. Aworet helped open accounts for Mr. Bongo through which US \$130 million was deposited by the Gabonese President. Ken Silverstein, "The Secret World of Oil", New York, Verso (2014) at p.31

76 Name of Oilfield: Bursaya.

**Table 13. Oil Production/Exploration Blocks in Sudan, 2020** (continued)

Block	Consortium	Shareholders	Entity Type	Year
16	International Petroleum Sudan	International Petroleum Sudan: 100 percent  The company may have changed its name to Lundin Sudan  Company part of the Lundin Group that is now is being indicted for war crimes in Sudan by the Swedish Government	Private – Sweden	2001 or earlier
17	Star Oil <sup>77</sup>	Ansan wikfs: 66 percent	Private – Yemen  Yemeni Company incorporated in Cayman Islands. <sup>78</sup>	Prior to 2010  In 2016, the Sudan government offered the oil block to India's ONGC Videsh, but there is no further information. <sup>79</sup>  In October 2017, <sup>80</sup> Abdul Rahman Osman, Minister for Oil sent the Yemeni Billionaire Shaher Abdulhak taking back the oil fields from Ansan Wikfs.  Both Ansan Wikfs and Shaher Abdulhak were identified in a 2017 UN Security Council Report for making suspicious transfer of significant funds that made little commercial or economic sense. <sup>81</sup>
		Sudapet: 34 percent	SOE – Sudan	
18	Sudan Enregia	STR Projects/Petra Energia: 90 percent	Brazil	2012**
		Sudapet: 10 percent	SOE – Sudan	As of 2016 listed as open for investment

77 Sudan Tribune, "Sudan talks to Chinese firms for help in Darfur oil exploration", July 9, 2008 available at <https://www.sudantribune.com/Sudan-talks-to-Chinese-firms-for-27781>.

78 In 2016, the Sudan government offered the oil block to India's ONGC Videsh, but there is no further information. 'Sudan offers three oil and gas blocks to ONGC Videsh – minister', January 20, 2016 available at <https://www.reuters.com/article/india-sudan-oil/sudan-offers-three-oil-and-gas-blocks-to-ongc-videsh-minister-idUSKCN0UY1VM>.

79 Africa Intelligence, "Oil: game over for Yemenite billionaire Shaher Abdulhak", October 24, 2017 available at <https://www.africaintelligence.com/aem/oil/2017/10/24/oil-game-over-for-yemenite-billionaire-shaher-abdulhak.108277572-art>.

80 UN Security Council, "Final Report of the Panel of Experts on Yemen", January 31, 2017 available at <https://www.refworld.org/pdfid/5906f6a74.pdf10>. At p.44.

81 Final Report of the Panel of Experts on Yemen, UN Security Council, January 31, 2017 available at <https://www.refworld.org/pdfid/5906f6a74.pdf10>. At p.44

**Table 13. Oil Production/Exploration Blocks in Sudan, 2020** (continued)

Block	Consortium	Shareholders	Entity Type	Year
19	Niel	Niel Natural Resources: 90 percent	Private – Luxembourg	As of 2016 listed as open for investment
		Sudapet: 10 percent	Sudan	
23	Somat	Soma Group	Private – Turkey	2013  As of 2016 listed as open for investment
25 & 26	Al-Rawat	State Oil Company Canada Ltd: 50 percent	Canada	2014 – When the agreement was signed State Oil was involved. But later pulled out and Sudapet held 70 percent of the shares. In 2017, State Oil re-entered the JV <sup>82</sup>
		Sudapet: 20 percent	SOE – Sudan	
		MISANA: 15 percent	Private – Nigeria	
		Express Petroleum: 15 percent	Private – Nigeria	
C	Sudan Energia	STR Projects/Petra Energia: 82 percent	Brazil – Private	2012
		Sudapet: 10 percent	SOE – Sudan	
		Global: 6 percent	N/A	
		Khartoum State: 2 percent	State of Khartoum – Regional Government	

Sources: Global Financial Integrity (2020);<sup>83</sup> James (2015); ECOS (2010).

\*SOE – State-Owned Enterprise

Blocks 21,22, 24 are listed as available for acquisition on the website of the Ministry of Petroleum and Gas.

While the researcher has made best efforts to ensure accuracy of the information contained here, the Sudanese Government does not publicly release information on exploration and licensing agreements for the petroleum sector and so some information may be missing/not up to date as a result.

82 *Sudan Tribune*, “Canadian firm resumes oil exploration in Sudan”, October 23, 2017 available at <https://www.sudantribune.com/spip.php?article63816>.

83 Open source research including government websites and reports, company filings, news reports, business intelligence databases, and foreign language content.



## V. Regulatory Assessment and Recommendations – Crude Oil Sector

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Given that there is no single toolkit that meets all the needs of the oil sector, the assessment criteria has been selected from across a variety of available international recommendations and includes in-house recommendations and criteria. This assessment prioritizes the most urgent areas for reform within Sudan's regulatory architecture. The following section provides a regulatory assessment and boutique recommendations for each part of the supply chain.

Broadly, GFI recommends Sudan seek membership of the Extractive Industries Transparency Initiative (EITI) and overhaul the regulatory framework around the oil sector to mitigate against the many longstanding IFF risks present within the sector.

### Legal Framework and Fiscal Regime Surrounding the Crude Oil Sector

The Petroleum Wealth Act, 1998 (PWA) is Sudan's legal framework around oil and gas and includes the Presidential Decree No. 32 of 2015, the Crude Oil Pipeline Agreement, the Crude Oil Transportation Agreement, Joint Operating Agreement, Joint Construction and Operating Agreement, Petroleum Services Contracts, and Refinery Agreements.<sup>84</sup> With the exception of the PWA, other processes and rules around licensing or terms of agreement are not publicly disclosed. The provisions of the PWA permit a direct negotiation of licenses.<sup>85</sup> However, news reports indicate examples of closed bidding processes having taken place for certain blocks, while in other instances concessions are awarded through an open bidding process.<sup>86</sup> This lack of clarity allows for abuse of the process and raises the incidence of IFF risks that include influence peddling, bribery and money laundering. The PWA requires entities awarded concessions or licenses adopt local content requirements to create greater ownership and involvement of Sudanese businesses. The Sudanization plan envisioned by the government requires all contractors to be Sudanese within two years of the effective date of the agreement and to account for 45 percent, 60 percent within five years, and 90 percent within ten years.<sup>87</sup> However, there are no provisions or seeming available rules or guidance from the Ministry of Petroleum and Gas<sup>88</sup> on qualifications and strategies to mitigate risks of politically-exposed persons and corruption.

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84 Muna A. Yassin, "The Legal and Regulatory Framework for Petroleum Industry In Sudan", UNCTAD, November 2015 available at <https://unctad.org/meetings/en/Presentation/17OILGASMINE%20Muna%20Ahmed%20Yasin%20S3.pdf>.

85 Article 7, Petroleum Wealth Act, 1998.

86 Closed Bids - Tom Wilson, "Sudan seeks to attract western oil groups as US relations thaw", November 11, 2018 available at <https://www.ft.com/content/7aa3c190-e27c-11e8-a6e5-792428919cee>.

87 Muna A. Yassin, "The Legal and Regulatory Framework for Petroleum Industry In Sudan", UNCTAD, November 2015 available at <https://unctad.org/meetings/en/Presentation/17OILGASMINE%20Muna%20Ahmed%20Yasin%20S3.pdf>.

88 It should be noted that the Ministry is also alternatively labelled as the Ministry of Energy and Mining and Ministry of Petroleum on both Arabic and English versions of Sudanese government websites.

A report by the group Sudan Democracy First<sup>89</sup> states that the Ministry of Petroleum and Gas publishes no data on available oil reserves. Independent verification shows negligible or no information on any of the listed recommendations on the government website. This lack of clarity on the oil reserves available within the country prevents independent oversight and management of its resources and raises the risk of non-competitive, discriminatory practices that present as clear IFF risks to the sector.

Similarly, there is no requirement within the PWA that public officials or government employees disclose their financial interests in entities involved in the oil sector, or more importantly restrict those individuals that are involved in the implementation of the Act from holding a financial interest in the sector. Article 17 of the PWA requires that members of the Petroleum Affairs Council disclose any direct/indirect involvement in a matter confidentially so that they may recuse themselves from a decision-making role.<sup>90</sup> Article 75 of the 2005 Constitution required that public officials were to submit a report of all their financial interests prior to assuming their responsibilities and were barred from engaging in any commercial activities while in government. Firstly, the requirement is not public, which reduces the effectiveness and accountability of the mechanism. Secondly, evidence from the ground raises serious concerns about the implementation, deterrent effect and enforcement of this provision.<sup>91</sup> Similarly, the Combating Illegal and Suspicious Wealth Act, 1989<sup>92</sup> requires senior government officials submit information on their financial interests. However, there is a preponderance of evidence to suggest there is very limited efficacy in practice.<sup>93</sup> The 2019 Constitutional Declaration which replaced the 2005 Constitution does not include any such provisions.

***“Yes, [Sudan should] open up its economy and engage with trading partners, near and far.”***

—CIVIL SOCIETY ACTIVIST

Another area of concern surrounding the legal framework of the sector is the division of responsibility between the Ministry of Petroleum and Gas (Article 20) and the Sudanese Petroleum Corporation (SPC) (Article 19).<sup>94</sup> Previous studies have rightly identified that the SPC, an incorporated legal entity, carries out both regulation and management of Sudan’s commercial enterprises. The provisions of the PWA also reinforce the blurring of responsibilities. In March of 2019, the Prime Minister of Sudan Mohamed Tahir Ayala dissolved the SPC and the corporation’s assets, documents and all its employees were transferred to the oil ministry, without any reason

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89 Sudan Democracy First, “Pursuing Transparency in Sudan’s Oil Sector”, 2016 available at <http://www.democracyfirstgroup.org/wp-content/uploads/2016/01/Pursuing-Transparency-in-Sudan-Oil-Industry.pdf>.

90 Article 17, Petroleum Wealth Act, 1998.

91 Laura James, “Fields of Control: Oil and (In)security in Sudan and South Sudan”, Small Arms Survey (2015) available at <http://www.smallarmssurvey.org/about-us/highlights/highlights-2015/highlight-hsba-wp40.html>.

92 Combating Illegal and Suspicious Wealth Act, 1989 available at <https://www.resourcedata.org/dataset/rgi-sudan-combating-illegal-and-suspicious-wealth-law/resource/80cdf7b-f460-4c5d-b050-a0d77736a729>.

93 Ibid.

94 Article 19,20 - Petroleum Wealth Act, 1998.

being given by the government.<sup>95</sup> With the Ministry of Petroleum and Gas taking over Sudapet – Sudan Petroleum Company Limited, there appears to be no recent amendments to the PWA detailing the division of responsibilities between the two entities. If anything, it appears that the commercial and regulatory roles of the government have entirely consolidated, further raising IFF risks within the sector.

Finally, there is no requirement within the PWA to publicly disclose information on any payments from extractive companies to the government, the value of taxes, royalties, etc. The Ministry of Finance also does not appear to require or disclose any such information. The emphasis throughout this analysis is on the public disclosure of this information. Public disclosures allow more sets of independent eyes to study the governance framework, foster greater accountability, expose conflicts of interest and serve as a check against IFF risks.

GFI recommends Sudan overhaul the Petroleum Wealth Act, 1998 (PWA) to be in line with best international standards:

- Amend the PWA to clearly demarcate the roles between the Ministry of Petroleum and Gas, and Sudapet, specifying the exact nature of the commercial and non-commercial roles of the two and specify robust provisions around supervision and oversight;
- Amend the PWA to introduce provisions on corporate governance mandating at a minimum – specific relevant educational qualifications, professional experience, restriction on those with criminal convictions and the inclusion of independent directors on the Board of all SOEs;
- Mandate that the licensing authority be independent from the commercial interests managed by the Ministry. This is especially relevant after the dissolution of the Sudanese Petroleum Corporation, which used to handle commercial as well as licensing tasks but has now been absorbed into the Ministry;
- Disclose reserves of petroleum on the Ministry's website and amend Sudan's laws to make that a binding obligation on the government;
- Amend Article 6 of the PWA to require that the applicant for a license shall demonstrate a history of ethical conduct, financial capacity and compliance with international best practices on anti-money laundering and anti-corruption;

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95 "Sudan dissolves state-owned Sudanese Petroleum Corporation", March 20, 2019 available at <https://www.reuters.com/article/us-sudan-oil/sudan-dissolves-state-owned-sudanese-petroleum-corporation-idUSKCN1R12I4>.

- Require in law that the bidding process be conducted as an open, transparent, competitive and non-discriminatory public tender;
- The requirement that a tender be open, public, transparent, competitive, and non-discriminatory should be mandated through all stages of the process – reconnaissance, exploration and production;
- Amend the PWA to introduce provisions on procurement for contracting out goods and services within the oil sector and before awarding any benefits through local content requirements;
- Disclose all ownership/affiliation of government officials and their family members in the oil sector;
- In line with best international practices, amend Article 28 of the PWA to specify at a minimum that accounting records be preserved for a specified number of years;
- Introduce penalties for false declarations on any record keeping/accounting requirements;
- Mandate that elected officials and government employees involved in the implementation of the provisions of the PWA and other applicable rules, regulations, and relevant provisions of law are not permitted to directly or indirectly hold ownership interest or economic interest in an entity involved in reconnaissance, exploration, production or providing any goods and services that is contracted out in the oil supply chain;
- Specify and publicly disclose the rules around the licensing process.

## Allocation of Licenses and Registry of Licenses

Following the loss of 75 percent of its oil fields, Sudan witnessed a dramatic increase in concession/exploration agreements awarded in the oil sector. In January 2012, the government announced bids for six blocks, and within six months of that announced five exploration and production agreements, and five study and evaluation agreements were signed as well.<sup>96</sup> The blocks were expected to start production in six months to five years and according to published information the Government of Sudan is due to receive 80 percent of the oil produced.<sup>97</sup> Since then however, there is little to no information from within the government on the status of these efforts. Even prior to South Sudan's

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<sup>96</sup> Gunnar M. Sørbo, Abdel Ghaffar M. Ahmed, "Sudan Divided: Continuing Conflict in a Contested State" (2013), Palgrave Macmillan US.

<sup>97</sup> *Sudan Tribune*, "Foreign firms, Sudan sign new oil exploration deals", July 5, 2012 available at <https://www.sudantribune.com/spip.php?article43148>.

independence, there was a fair amount of opacity surrounding the financial interests involved, including the exact terms of the concession agreements, information on reserves, and the absence of a license registry.

Much of the information compiled on the licenses in the table above was only available through a combination of newspaper reports, business intelligence reports, previous studies and joint-venture partners that disclosed such information on their websites. While some studies have indicated that Sudan's bidding process is adequate,<sup>98</sup> there continue to be worrying questions around the opacity of information surrounding the ownership of certain entities' investments in the oil sector of Sudan and possible undisclosed connections to the government, both of which raise the risks of money laundering and corruption. Furthermore, there is little to no information on the processes adopted at the sub-national level to cover transportation, production, storage and myriad other services that could all present opportunities for the exertion of undue influence and corruption.

***“We need every support we can get from the international community after 30 years of isolation and hostility towards other nations.”***

—OFFICIAL, SUDAN POPULAR LIBERATION ARMY/NORTH, SPLA-N

In 2019, the Government announced in a televised interview a new round of bidding to commence in the third quarter of 2019 for 16 blocks, but no further information is currently available on the status of the process.<sup>99</sup>

Regarding the allocation of licenses and the registry of licenses, GFI recommends the Government of Sudan:

- Require companies investing in the sector to disclose any conflicts of interest or politically-exposed person affiliations;
- Mandate that all companies bidding for a license disclose their beneficial owner and make that publicly available;
- Create a public registry for approved local content providers and set out the terms for bidding. Amend the Petroleum Wealth Act, 1998 to include provisions that would mandate the creation of this registry;

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<sup>98</sup> 'Sudan Country Profile', 2016 available at <https://resourcegovernanceindex.org/country-profiles/SDN/oil-gas>.

<sup>99</sup> Bidding for Oil Blocks to commence in 2019 says Sudan Oil Minister, available at <https://www.youtube.com/watch?v=NFLrjvH1EJk> <https://www.youtube.com/watch?v=NFLrjvH1EJk>.

- Create a registry of all active license holders and blocks currently under production that is publicly accessible – both in an online format but also for inspection in-person;
- Any such registry should at a minimum contain the following information: Name of company awarded concession, type of commodity, date license awarded, type of license, duration, location, area covered and title number in a machine-readable format.

## Contract Transparency

Contract transparency would allow interested stakeholders including international organizations, investors, civil society groups and citizens the resources to better understand the strength of the governance architecture around the oil sector. Public disclosure helps assess the risks and terms emanating from provisions within the contract and provides the government a learning resource in which they can invite input to design policy strategies that are more beneficial to the long-term growth of the sector.

Sudan's opacity around contract disclosure has seen it enter into disadvantageous oil-for-loan arrangements. It also leaves contract disputes, like the one between the Indian government's commercial arm, ONGC, and Sudan for unpaid debts estimated at US\$400 million, and unilateral revocation of exploration/production agreements, like in the case of Ansan Wikfs, shrouded in secrecy. Further, opacity in the past has allowed companies like the Lundin Group to aid and abet gross human rights violations in Sudan.

On the subject of contract transparency, GFI recommends the Government of Sudan:

- Amend the Petroleum Wealth Act, 1998 (PWA) to mandate that the entirety of any license, agreement, lease, title or permit through which the government of Sudan assigns, transfers, provides any legal entity or natural person rights under the PWA be disclosed publicly online in a machine readable format. This disclosure must necessarily cover any annexes, additions as well as amendments made.

## Beneficial Ownership

The only requirement on beneficial ownership that is applicable to the oil sector is contained within the provisions of Sudan's AML/CFT Law of 2009 and Circular No:8 of 2014 from the Central Bank.<sup>100</sup> Both these pieces of legislation only cover the declaration of beneficial ownership at the time of account opening with a financial institution. There does not appear to be any guidance available on how to identify beneficial ownership across different legal persons/arrangements. Nor is there any requirement on what type of information and document is collected to identify the beneficial owner.

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<sup>100</sup> Circular No (8/2014): Regulatory and Supervisory requirements for the Institutions under the Supervision of Central Bank of Sudan, September 9, 2014 available at <https://cbos.gov.sd/en/node/4557>; The Anti Money Laundering and the Financing of Terrorism Act 2010 available at <https://cbos.gov.sd/en/node/4033>.

Further, there are no requirements on verification of the information provided, and no apparent restriction on naming a legal representative or some other employee in a senior management position as a beneficial owner. Companies in the oil sector are notorious for using complex corporate holding structures and use a variety of different legal forms to mask identity but also to reduce tax burdens.<sup>101</sup> Such entities are often registered in offshore tax havens where such information is hard to access and the addresses of beneficial owner is often merely a mailing address with no operating business structure or residence.<sup>102</sup> Therefore, addressing the many weaknesses in the existing law, but also mandating new disclosure requirements for the oil and gas sector, is key to fostering accountability and transparency.

Regarding beneficial ownership, GFI recommends the Government of Sudan:

- Amend the PWA, such that all legal persons/legal arrangements subject to the provisions of the PWA disclose their beneficial owner;
- Firm up the existing definition of beneficial ownership to address both direct and indirect ownership;
- Create a public registry that holds in an open-data format the beneficial ownership information of all entities that directly or indirectly operate, have an ownership, economic, or other interest at all levels of the oil supply chain in Sudan;
- Provide guidance on how to identify beneficial owners not just for companies but also trusts, partnerships and any other type of legal/entity arrangement commonly used in the oil sector;
- Provide clear regulations on the documents and information necessary to accurately identify the beneficial owner;
- Mandate that any such beneficial ownership information provided be verified;
- Amend the law to state that all legal entities/legal arrangements providing beneficial ownership should update the government within 10 days of any change in beneficial ownership information;
- Any such law on beneficial ownership should not permit a legal representative or senior manager to be listed as the beneficial owner.

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<sup>101</sup> Sydney Freeburg, "How Africa's richest woman exploited family ties, shell companies and inside deals to build an empire", January 2020, ICIJ available at <https://www.icij.org/investigations/luanda-leaks/how-africas-richest-woman-exploited-family-ties-shell-companies-and-inside-deals-to-build-an-empire/>; "Tackling Hidden Company Ownership Through Myanmar's EITI Process", *Global Witness*, Sept. 1, 2016 available at <https://www.globalwitness.org/en/campaigns/oil-gas-and-mining/myanmar-oil-and-gas/tackling-hidden-company-ownership-through-myanmars-eiti-process/>; "Disclosing beneficial ownership information in the natural resource sector", NRGi, February 2016 available at [https://resourcegovernance.org/sites/default/files/documents/nrgi\\_disclosing-beneficial-ownership-information.pdf](https://resourcegovernance.org/sites/default/files/documents/nrgi_disclosing-beneficial-ownership-information.pdf).

<sup>102</sup> Ibid.



***“Genuine anti-corruption and anti-money laundering measures and strict punishment for illicit financial activities are necessary to improve Sudan’s investment environment.”***

—CIVIL SOCIETY EXPERT

### **State-Owned Enterprises (SOEs) – Sudapet and its subsidiaries**

The Sudanese oil sector has come under criticism from various studies due to the lack of clarity between the roles of the Ministry of Petroleum and Gas and its commercial partner the Sudanese Petroleum Corporation.<sup>103</sup> After the dissolution of the latter in 2019, Sudapet (Sudan Petroleum Company Limited), which was a subsidiary of the Petroleum corporation, presumably took over responsibility for the commercial operations along with eight subsidiaries under it. The reasons for the dissolution of the Petroleum Corporation have never been fully explained. But the Ministry of Petroleum and Gas absorbed all the corporation’s assets, documents and all its employees. What remains unclear and presents an IFF risk for the sector in Sudan is if with the dissolution of the Petroleum Corporation, Sudapet is responsible for commercial operations and the Ministry has the responsibility for oversight and regulation and, if so, how is separation maintained between the two with the Ministry controlling all aspects of the former Petroleum Corporation. Attempts to locate an amendment to the Petroleum Wealth Act, 1998 from 2019 detailing the new roles and responsibilities between Sudapet and the Ministry was unavailable at the time of writing this report.<sup>104</sup> The risks of co-mingling commercial and non-commercial activities within one institution is self-evident. Accountability is harder when the oversight institution’s interests are wedded to the commercial success of the operations. This presents an easy route for regulatory capture as Sudapet is a shareholder in all of Sudan’s hydrocarbon concessions.

As regards Sudapet’s subsidiaries, the descriptions concerning the ownership of each subsidiary found on Sudapet’s website can be quite cryptic. Sudapet’s website clearly states that Blue Nile, Processing and Geophysical Companies are joint ventures between the governments of Sudan and China, and that Centroid Technical Solution and National Upstream Solutions are wholly owned subsidiaries of Sudapet.<sup>105</sup> Things are less clear with the remaining four; Asawer on its company website describes itself as a national contractor,<sup>106</sup> and the Bajrawia factory is operated by another entity that also undertakes projects from private clients.<sup>107</sup>

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103 Sudan Country Profile’, 2016 available at <https://resourcegovernanceindex.org/country-profiles/SDN/oil-gas>; Laura James, Fields of Control: Oil and (In)security in Sudan and South Sudan, Small Arms Survey (2015) available at <http://www.smallarmssurvey.org/about-us/highlights/highlights-2015/highlight-hsba-wp40.html>; Pursuing Transparency in Sudan’s Oil Sector, Sudan Democracy First, 2016 available at <http://www.democracyfirstgroup.org/wp-content/uploads/2016/01/Pursuing-Transparency-in-Sudan-Oil-Industry.pdf>.

104 Sudan’s Ministry of Justice website does not report any amendments in 2019 to the Petroleum Wealth Act, 1998.

105 “Subsidiaries - Sudapet.” 2012. Sudapet.Sd. 2012. <http://sudapet.sd/index.php/subs>.

106 “Asawer Oil & Gas Company.” 2020. Asaweroil.Com. 2020. <http://www.asaweroil.com/index.php/en/pages/details/61/1>.

107 “Casting Chairs – Bajrawia.” 2017. Bajrawiafab.Com. 2017. <https://bajrawiafab.com/portfolio/casting-chairs/>.

**Table 14. Sudapet's Subsidiaries and Ownership**

No	Subsidiary	Year	Function	Ownership
1	Blue Nile Processing Company Ltd	1999	2D & 3D seismic data acquisition and gravity data acquisition	Joint Venture between Sudapet and the Bureau of Geophysical Prospecting (BGP) of China
2	Blue Nile Geophysical Company	2003	2D and 3D processing services for clients in and outside Sudan	Joint Venture between Sudapet and the Bureau of Geophysical Prospecting (BGP) of China
3	Centroid Technical Services Ltd.	2004	Project management & consultancy services. 100 Percent market share in the oil and gas space in Sudan	Fully owned subsidiary of Sudapet
4	Petroleum Technical Center	2005	Provides high standard training in the oil and gas industry.	Established by Sudapet
5	Asawer oil and Gas	2009	National engineering, procurement, and construction contractor	EPC National Contractor with Sudapet as its parent company
6	Creative Solutions Co. Ltd.	2011	Provides engineering services to the oil & gas, infrastructure, water, and energy sector	Subsidiary of Sudapet
7	National Upstream Solutions Co. Ltd	2013	Provides drilling and other upstream services in oil fields	Fully owned subsidiary of Sudapet
8	Bajrawia Factory	2015	Fabrication of equipment for the oil & gas sector	Owned by Sudapet. Operated by Bajrawia Manufacturing Company Limited <sup>108</sup>

The silence on the exact ownership structure of some of these subsidiaries is critical because it provides hidden opportunities for public officials to obtain financial holdings within vital State interests. Article 27 of the PWA permits such ownership structures and therefore disclosure of shareholders of all SOEs and their subsidiaries should be a requirement under Article 27.<sup>109</sup> This immediately calls into question the independence of the oversight institutions and hampers the decision-making authority for any goods or services that may be tendered through them.

Outside of this, the website of the Ministry and the PWA appears to have no provisions on corporate governance, and no apparent requirements on who is eligible to sit on the board. The absence of norms around this can encourage cronyism and political patronage, which affects the financial stability and sustained growth of the sector.<sup>110</sup>

On the subject of SOEs, GFI recommends the Government of Sudan:

- Mandate that all SOEs in the oil sector publish annual reports detailing financial operations and holdings, revenue transfers to government;

108 Al Bajrawia Manufacturing Company Limited available at <https://bajrawiafab.com/overview/>; <https://www.linkedin.com/company/al-bajrawia-manufacturing-company/about/>.

109 Article 27, Petroleum Wealth Act, 1998.

110 OECD Guidelines on Corporate Governance of State-Owned Enterprises available at <https://bajrawiafab.com/portfolio/casting-chairs/>.

- Amend Article 27 of the PWA to mandate that the ownership structure of all SOEs in the oil and gas sectors and its subsidiaries be publicly disclosed;
- At present, there are no published corporate governance norms for Sudapet. Frame guidelines to help professionalize the boards;
- The Ministry should provide an updated geological map of concession blocks within the sector. The most recent map is from 2015.

## Exports, Customs and Trade Misinvoicing

As noted elsewhere in this report, accurate reporting of exports volumes is critical to understanding the size, scale, and potential revenues from the sector. GFI's trade gap analysis showed an 80.1 percent gap in volumes reported by Sudan and its trading partners (see Table 12). Sudan has historically faced issues with its reporting, and questions have been raised about the discrepancies between Sudanese data and Chinese government data.<sup>111</sup> A 2009 report published by Global Witness stated that there were discrepancies in Sudan's oil figures in six of seven productive blocks.<sup>112</sup> Under-reporting of oil data has also been an issue when Sudan has utilized its oil production to pay the Chinese government in an oil-for-loan arrangement.<sup>113</sup> Poor reporting can make tracking revenues difficult and raises questions about the integrity of the supply chain.

With this history of inaccurate government reporting and ongoing reports of fuel theft,<sup>114</sup> one might expect the Sudanese customs authority to prioritize resources to monitor and impose penalties for incidences of trade misinvoicing or smuggling within the sector. But the problems with accurate data reporting and public reporting of enforcement action by the customs authority make it incredibly difficult to assess the scale of the problem. A policy prescriptive measure for Sudan would be to identify – its key trading partners for oil, companies involved within the supply chain of commodity sales, and ensure that the companies are in good financial standing, that beneficial ownership is available, and mandate AML requirements for intermediaries within the supply chain. In more general terms, Sudan's customs department, though long established, has suffered from institutional corruption. While not easy to address, active efforts should be undertaken to understand the character of corruption practices within the Sudan Customs Authority.

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111 Sudan Democracy First, "Pursuing Transparency in Sudan's Oil Sector", 2016 available at <http://www.democracyfirstgroup.org/wp-content/uploads/2016/01/Pursuing-Transparency-in-Sudan-Oil-Industry.pdf> at p.15.

112 Ibid at p.16.

113 Ibid at p.10.

114 Sudanese government asking citizens not to buy fuel from the black market. <https://twitter.com/MinElbadawi/status/1245051189705805827>.

Regarding exports, customs and trade misinvoicing, GFI recommends the Government of Sudan:

- Improve enforcement of the provisions Articles 198 and 199 of Customs Act, 1986 against trade misinvoicing violations in the oil sector;
- Amend Articles 198 and 199 of the Customs Act, 1986 to specifically reference the manipulation of commodity type, volume, value, and origin as customs fraud;
- Undertake internal processes to bolster accurate reporting of exports;
- The Ministry of Petroleum should begin to publish public, easily accessible, timely production and export statistics, that include at a minimum data on i) total production – by both volume and value and ii) total exports disaggregated (i.e. by petroleum product) – by both volume and value, as well as by country trade partner;
- To mitigate against IFF risks in the sector and ensure supply chain integrity, rules should be drafted on criteria for buyers that purchase Sudan’s oil production and disclose their names.<sup>115</sup>

***“Several Sudanese banks are reportedly de facto bankrupt, due mainly to bad loans extended to politically connected entities over three decades. There is a real need to subject all 37 banks in Sudan to independent stress tests to determine their viability. [We also] need to review and phase out the participation of government entities in the shareholding of several public and private commercial banks.”***

—CIVIL SOCIETY EXPERT

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<sup>115</sup> Assessment framework - Natural Resource Governance Index (2017) available at <https://www.resourcegovernanceindex.org/data/both/issue?region=global>.

## VI. Overview of the Gold Sector

The Sudanese economy plunged into an economic crisis after the loss of oil revenues following South Sudan's independence and plummeting global oil prices. Years of US sanctions have also significantly curtailed the economy. In an effort to compensate for the loss in oil revenue, the Sudanese government rapidly opened the gold mining sector and became one of Africa's top three gold producing countries, behind South Africa and Ghana, both of which have traditionally led gold production on the continent. In the first quarter of 2012, right after secession, gold sales accounted for 68 percent of all exports.<sup>116</sup> In 2014 they accounted for 2.6 percent of all exports though reports released around the period cite wildly different numbers of 70 percent<sup>117</sup> and 29 percent using Central Bank data.<sup>118</sup> They currently account for 37 percent of Sudan's exports.<sup>119</sup> Petroleum exports, on the other hand, decreased from a high of US\$9.69 billion in 2010<sup>120</sup> to US\$271 million in 2016 and US\$321 million in 2018.<sup>121</sup> To put this into hard numbers, in 2007, Sudan produced under



Photo by Trum Ronnarong via Shutterstock

116 World Bank, "Reducing Trade Costs to Increase Competitiveness and Resilience" "Republic of the Sudan, Diagnostic Trade Integration Study - Update, October 2014 at p.7 available at <http://documents.worldbank.org/curated/en/260641468188681749/text/97404-REPLACEMENT.txt>.

117 Observatory for Economic Complexity – Sudan's exports for 2014 available at [https://oec.world/en/visualize/tree\\_map/hs92/export/sdn/all/show/2014/](https://oec.world/en/visualize/tree_map/hs92/export/sdn/all/show/2014/); Crisis Group, "Out for Gold and Blood in Sudan." 2014, May 1, 2014. <https://www.crisisgroup.org/africa/horn-africa/sudan/out-gold-and-blood-sudan>.

118 *The Sentry*, "Sudan, Country Brief: Dismantling the Financing of Africa's Deadliest Conflicts", (July 2015) at p.6 available at [https://thesentry.org/wp-content/uploads/2015/07/19103555/Country-Brief\\_Sudan.pdf](https://thesentry.org/wp-content/uploads/2015/07/19103555/Country-Brief_Sudan.pdf).

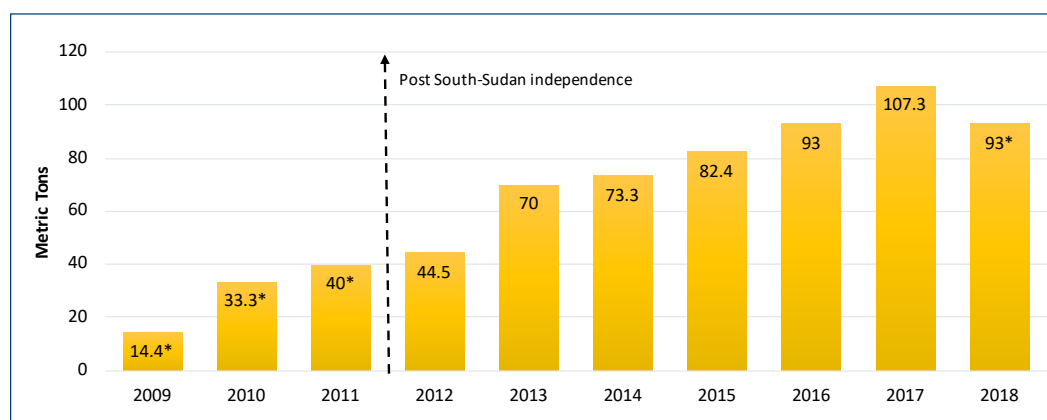
119 This number represents exports from between 2017-2019 – *Sudan Tribune*, "Sudan Plans to End Central Bank Intervention in Gold Market – *Sudan Tribune*: Plural News and Views on Sudan." n.d. [www.sudantribune.com](http://www.sudantribune.com/spip.php?article68705). Accessed March 30, 2020. <https://www.sudantribune.com/spip.php?article68705>.

120 Raphaëlle Chevrillon-Guibert, "The Gold Boom in Sudan: Challenges and Opportunities for National Players, Graduate Institute of Geneva", <https://journals.openedition.org/poldev/2258#authors>.

121 Sudan 2012-2017 data: Central Bank of Sudan's Annual Reports 2013-2017, [https://cbos.gov.sd/en/periodicals-publications?field\\_publication\\_type\\_tid\\_i18n=43](https://cbos.gov.sd/en/periodicals-publications?field_publication_type_tid_i18n=43).

five metric tons (2.7 tons estimated) of gold,<sup>122</sup> versus 93 tons of gold as per 2018 data,<sup>123</sup> showing a staggering jump in production volumes and suggesting just how seductive the promise of gold might be in helping to rescue the country's struggling economy.<sup>124</sup>

**Figure 5. Sudanese Gold Production: 2009-2018 (metric tons)**<sup>125</sup>



Sources: Geological Research Authority of Sudan (2009 – 2011) \* Central Bank of Sudan (2012-2017) Ministry of Minerals Press Release (2018)\*\*<sup>126</sup>

\* The 2009 – 2011 data is taken from a presentation done by Dr. M. Abu Fatima, Director General, Geological Research Authority of Sudan and are therefore estimates.

\*\* Similarly, the 2018 data is taken from a press release issued by the Ministry of Minerals in February 2018 and reported in *The Sudan Tribune*

122 US Geological Survey, "Minerals Yearbook, Africa and the Middle East, Area Reports; 2009", (2011) p.383; Dr. M. Abu Fatima, "The Next Major Gold Mining Destination in Africa, Geological Authority of Sudan", The Republic of Sudan Ministry of Minerals (2017) <http://www.cgs.gov.cn/ddzt/kydh/2017kydh/kjcx/201709/P020170921524008422172.pdf>.

123 According to a quote from Energy and Mining Minister Adil Ibrahim Sudan in 2018 produced an estimated 93 tons of gold. Mirghani, Ali. 2020. "Sudan Opens up Gold Market in Bid to Raise Revenue." U.S. *Reuters*. January 9, 2020 available at <https://www.reuters.com/article/us-sudan-gold/sudan-opens-up-gold-market-in-bid-to-raise-revenue-idUSKBN1Z81M2>.

124 *Sudan Tribune*, "Sudan Produces over 500 tonnes of Gold within 9 Years: Official - *Sudan Tribune*: Plural News and Views on Sudan." Available at <https://www.sudantribune.com/spip.php?article61510>; "Gold Production by Country | Gold Production | Goldhub." 2018. World Gold Council, April 4, 2018. <https://www.gold.org/goldhub/data/historical-mine-production>.

125 The table was built using three different sources and therefore some numbers as indicated by an asterisk mark are estimates and not exact figures.

"Sudanese Environment Expert Warns for the Use of Cyanide in Gold Mining." n.d. Radio Dabanga. Accessed March 30, 2020. <https://www.dabangasudan.org/en/all-news/article/sudanese-environment-expert-warns-for-the-use-of-cyanide-in-gold-mining>; Raheem, Mohamed Abd al-. 2020. "Sudan: Smuggling, A Serious Drawback to the Economy." AllAfrica.Com. January 27, 2020. <https://allafrica.com/stories/202001270433.html>; "Arrests for Defamation after South Kordofan Governor Accused of Gold Smuggling." n.d. Radio Dabanga. Accessed March 30, 2020. <https://www.dabangasudan.org/en/all-news/article/arrests-for-defamation-after-south-kordofan-governor-accused-of-gold-smuggling>; Gertel, Richard Rottenburg, Sandra Calkin, *Disrupting Territories: Land, Commodification & Conflict in Sudan*, New York, Boydell & Burry Ltd. (2014), p.66; Calkins, Sandra and Enrico Ille, "Territories of Gold Mining: International Investments and Artisanal Extraction in Sudan", In Jorg Gertel, Richard Rottenburg and Sandra Calkins, eds., *Disrupting Territories. Land, Commodification and Conflict in Sudan*, James Currey, 2014, pp. 51-76.

126 Dr. M. Abu Fatima, "The Next Major Gold Mining Destination in Africa", Geological Authority of Sudan, The Republic of Sudan Ministry of Minerals (2017) <http://www.cgs.gov.cn/ddzt/kydh/2017kydh/kjcx/201709/P020170921524008422172.pdf>; Sudan 2012-2017 data: "Central Bank of Sudan's Annual Reports 2013-2017", [https://cbos.gov.sd/en/periodicals-publications?field\\_publication\\_type\\_tid\\_i18n=43](https://cbos.gov.sd/en/periodicals-publications?field_publication_type_tid_i18n=43); Sudan produces 93 tons of gold in 2018: Ministry <https://www.sudantribune.com/spip.php?article67083>.



***“The emerging prominence of gold and the mineral sector triggered high expectations by the government and the public alike that the new resource will likely more than compensate for the loss of the oil resources.”***

—ECONOMIST

### **A New Way Forward or an Old Conflict in a New Bottle?**

In 2012, as Sudan's government looked for new sources of gold in order to maximize production, very large deposits were found in the periphery regions of Darfur and South Kordofan.<sup>127</sup> According to Dr. El Jeili Hamouda Saleh, Professor of Environmental Law at the Bahri University in Khartoum and legal advisor to the National Committee for Environmental Protection, in 2017 there were more than 40,000 gold mining sites in Sudan. Approximately 60 gold processing companies are operating in 13 states, with 15 sites in South Kordofan.<sup>128</sup> With the discovery of gold, thousands rushed to make their fortune in shallow mines using rudimentary equipment. Yet this rush to extract exposed the weaknesses, opacity and limits of the regulatory architecture in Sudan.<sup>129</sup>

Sudan's richest gold deposits are often found in the Red Sea Hills in the northeast, the Bayuda desert in the center, the Ingessana Hills in the State of the Blue Nile in the south-east, the Nuba Mountains in South Kordofan and in the Jebel Amir mines in North Darfur. Among them, they include some of Sudan's greatest areas of conflict. The Jebel Amir mines in North Darfur reportedly generated millions of dollars for its owners, so much so that the region was nicknamed “Switzerland.”<sup>130</sup> According to Dr. Mohamed Abu Fatima, Director General of the Geological Research Authority of Sudan, the country has produced over 500 tons of gold since 2008, with reserves under assessment of 1,117 tons.<sup>131</sup>

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127 Tubiana, Jérôme. 2019. “Out for Gold and Blood in Sudan.” [www.Foreignaffairs.Com](https://www.foreignaffairs.com/articles/sudan/2014-05-01/out-gold-and-blood-sudan). September 3, 2019. <https://www.foreignaffairs.com/articles/sudan/2014-05-01/out-gold-and-blood-sudan>.

128 “Sudanese Environment Expert Warns for the Use of Cyanide in Gold Mining.” n.d. Radio Dabanga. Accessed March 30, 2020. <https://www.dabangasudan.org/en/all-news/article/sudanese-environment-expert-warns-for-the-use-of-cyanide-in-gold-mining>; Raheem, Mohamed Abd al-. 2020. “Sudan: Smuggling, A Serious Drawback to the Economy.” AllAfrica.Com. January 27, 2020. <https://allafrica.com/stories/202001270433.html>; “Arrests for Defamation after South Kordofan Governor Accused of Gold Smuggling.” n.d. Radio Dabanga. Accessed March 30, 2020. <https://www.dabangasudan.org/en/all-news/article/arrests-for-defamation-after-south-kordofan-governor-accused-of-gold-smuggling>; Gertel, Richard Rottenburg, Sandra Calkin, *Disrupting Territories: Land, Commodification & Conflict in Sudan*, New York, Boydell & Burry Ltd. (2014), p.66; Calkins, Sandra and Enrico Ille, “Territories of Gold Mining: International Investments and Artisanal Extraction in Sudan”, In Jorg Gertel, Richard Rottenburg and Sandra Calkins, eds., *Disrupting Territories. Land, Commodification and Conflict in Sudan*, James Currey, 2014, p. 51-76.

129 “Sudan Tribune: Plural News and Views on Sudan.” n.d. [Www.Sudantribune.Com](http://www.sudantribune.com). Accessed March 30, 2020. <https://www.sudantribune.com/50-Gold-mining-contracts-signed-in>.

130 “Out for Gold and Blood in Sudan.” 2014. Crisis Group. May 1, 2014. <https://www.crisisgroup.org/africa/horn-africa/sudan/out-gold-and-blood-sudan>.

131 “Sudan Produces over 500 Tonnes of Gold within 9 Years: Official” *Sudan Tribune*, January 29, 2017 <https://www.sudantribune.com/spip.php?article61510>.



**Table 15. Top African Gold Producing Countries Since 2010**

Rank	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	Ghana
2	Ghana	Ghana	Ghana	Ghana	Ghana	Ghana	Ghana	Ghana	South Africa
3	Mali	Tanzania	Tanzania	Sudan	Sudan	Sudan	Sudan	Sudan	Sudan
4	Tanzania	Mali	Mali	Tanzania	Tanzania	Tanzania	Tanzania	Burkina Faso	Mali
5	Sudan	Burkina Faso	Burkina Faso	Mali	Mali	Mali	Mali	Mali	Burkina Faso

Source: World Gold Council

As per a 2017 presentation by the Sudanese Ministry of Minerals, Sudan has 361 active companies in the minerals sector.<sup>132</sup> It is unclear from available information what percentage of these companies are involved in gold mining. As of 2017, 160 blocks were available for investments.<sup>133</sup> Of these, 119 blocks contained mineral deposits, of which 55 percent contained gold.<sup>134</sup> According to most recent data from 2014 and 2015, it is estimated that 7.51 percent of Sudan's rural population is involved in the mining sector.<sup>135</sup> This amounts to 2 million individuals,<sup>136</sup> which according to World Bank population data<sup>137</sup> would indicate that over five percent of the country's total population was involved in artisanal and small scale mining.<sup>138</sup>

One of the more concerning issues is data inconsistency, which impedes discussion on reforming the regulatory framework and adversely impacts Sudan's long-term strategy of attracting investment into the sector. There is gross inconsistency in data provided by the government itself in different years, not to mention inconsistencies between Sudanese government numbers and those

132 Dr. M. Abu Fatima, "The Next Major Gold Mining Destination in Africa, Geological Authority of Sudan", The Republic of Sudan Ministry of Minerals (2017) <http://www.cgs.gov.cn/ddztt/kydh/2017kydh/kjcx/201709/P020170921524008422172.pdf>.

133 Infra.

134 Gold alone accounts for 54 percent. Gold and Silver combined blocks account for 1 percent. The remaining 45 percent includes Uranium – 14 percent, Gossan – 13 percent, Iron – 5 percent, Graphite – 2 percent, Chrome – 2 percent, Salt – 3 percent, Gypsum – 3 percent, Potassium – 1 percent, VMS – 2 percent. Dr. M. Abu Fatima, "The Next Major Gold Mining Destination in Africa, Geological Authority of Sudan", The Republic of Sudan Ministry of Minerals (2017) <http://www.cgs.gov.cn/ddztt/kydh/2017kydh/kjcx/201709/P020170921524008422172.pdf>.

135 UBC (2014) (J.Seccatore, M.Veiga, C.Origliasso, T.Marin, G.deTomi): An estimation of the artisanal small-scale production of gold in the world. Scitotenv. 496; <http://artisanalmining.org/Inventory/>; Change in Gold as a % of total exports: <https://www.crisisgroup.org/africa/horn-of-africa/sudan/out-gold-and-blood-sudan>.

136 Ibid.

137 World Bank data indicates that in 2015 Sudan's population was estimated at 38.65 million. <https://data.worldbank.org/indicator/SP.POP.TOTL>.

138 Ibid.

of reputable international sources, like the US Geological Survey. For instance, in 2015, Mohamed Suliman Ibrahim, a geologist in Sudan's Ministry of Minerals, in a presentation before the United Nations Conference on Trade and Development (UNCTAD),<sup>139</sup> presented numbers on Sudan's gold production that were markedly different from those presented by Dr. M. Abu Fatima, the Director General of the Geological Research Authority of Sudan in 2017<sup>140</sup> to attract investments into the mining sector. The presentations differ in the gold production numbers for the years 2011-2014, and between the two presentations, in individual years there is a ten metric ton difference in the gold produced. This staggering discrepancy is concerning, as a) it calls into question the technical expertise of the government, b) it presents a clear risk to illicit financial flows as inconsistent numbers raise questions about missing revenues and accountability and c) the lack of clarity and consistency hampers Sudan's efforts to open its economy to legitimate international investors.

***“White-collar crime, such as tax evasion, gold smuggling and the abuse of resources is rampant, and can only be fought by a strong judiciary and alert police eyes.”***

—OFFICIAL IN THE SUDAN POPULAR LIBERATION ARMY/NORTH, SPLA-N

Mapping out the participants in Sudan's gold sector is a critical tool for assessing IFF risks. It provides information a) on the size, scale and reputation of the businesses involved, b) the associated countries of origin with varying levels of IFF controls in place within their home jurisdictions and c) the ownership structures, including their proximity and affiliation to politically-exposed persons. The website of Sudan's Ministry of Minerals provides a map on concessions dating back to 2014, but does not provide the names of any of the entities involved. Due to the absence of public information on many of the mid-scale companies, this assessment has restricted itself to examining the large-scale companies operating in the sector. A full mapping of Sudan's gold sector is available below in Table 16.

139 UNCTAD 17th Africa, Oilgasmine. 2015. “Extractive Industries and Sustainable Job Creation Artisanal Mining in Sudan – Opportunities, Challenges and Impacts.” <https://unctad.org/meetings/en/Presentation/17OILGASMINE%20Mohamed%20Sulaiman%20Ibrahim%20S4.pdf>.

140 Dr. M. Abu Fatima, “The Next Major Gold Mining Destination in Africa, Geological Authority of Sudan”, The Republic of Sudan Ministry of Minerals (2017) <http://www.cgs.gov.cn/ddztt/kydh/2017kydh/kjcx/201709/P020170921524008422172.pdf>.

**Table 16. Gold Concession/Exploration Blocks in Sudan (Large-scale Companies)**

No	Block No./Name	Company	Foreign Affiliation	Shareholding and Ownership
<b>GOLD CONCESSION BLOCKS</b>				
1	Hassai Mines	Ariab Mining Company	Sudan (Franco-Sudanese Joint Venture)	Post 2015 full ownership by Government of Sudan
2	Abu Sara Gold Mine Block 17	Delgo Minerals Co.	Turkey	Private Company – subsidiary of Turkish TAHE International Mining Corporation
3	Not available	Golden United Group	Sudan	Private Consortium – Ridia Mining, Hasour Mining, Exseer Mining, Widyan Mining, Alhamdeen Mining, Abu Rugia Mining, Albrah Mining
4	Block 21 Bayuda	Hagagia (Poly Red Sea) Gold Mining Co. Ltd.	China	Private Joint Venture with Sudanese Government – 30 percent Sudan and 70 percent China-Africa Investment Development Fund (SOE)
5	Block 20	Huakan (Hamadi/Hamdi) Mining Co, of China	China	State-Owned Enterprise China Africa Huakan Investment Co. – 45 percent Sudan Government – 55 percent
6	Gabgaba Mines Blocks 9 and 15	Managem Group of Morocco	Morocco	Public Company
7	Not available	Omdurman Mining Co.	Sudan	Private Company
8	Assalam Proper Mine (Abidiya Area) Blue Nile State	Rida Mining Co.	Sudan	Private Company
9	Berber district in Nile River State	Sahari Company for Gold Mining	Not available	Not available
10	Not available	El Nawaty Company	Not available	Not available
11	Block 17 Abu Sara Mine	Tahe International Metal Mining Company	Turkey	BVI based
12	Not available	M – Invest	Russia	Private Company
13	Wadi Alsingair	Miro Gold	Russia	Private Company
14	South Kordofan	Azhab El Amin Gold Company	Saudi Arabia	Saudi Government

(Continued)

**Table 16. Gold Concession/Exploration Blocks in Sudan (Large-scale Companies)** (continued)

No	Block No./Name	Company	Foreign Affiliation	Shareholding and Ownership
<b>GOLD EXPLORATION BLOCKS</b>				
1	Block 30 Red Sea State	Alliance for Mining Co. Ltd.	Russia	Was created in 2014 between Kush for Exploration and Production Co. Ltd. of Russia and the Government
2	Exploring Blocks 9 and 24	MCM Sudan (subsidiary of Mangem Group)	Morocco	Private Company
3	Block 14 north eastern Sudan  Galat Sufar South and Wadi Doum  Exploring	Orca Gold Inc.	Canada	Public Company
4	Red Sea and River Nile States – 9 blocks	Siberian Mining Co. <sup>141</sup>	Russia	Private Company 99 percent – Vladimir Jakov 1 percent – unnamed Sudanese partner
5	Red Sea State	Jin Quiao Mining Co (Chinese name)	China	Private Company

Source: Global Financial Integrity (2020).<sup>142</sup>

Note: 350 small scale mining leases have also been granted, but are not included here. According to sources that report on Chinese SOE activity in the sector, there are ten primary gold mining companies in Sudan and 20 Chinese mining companies operating across all minerals in Sudan. The three main Chinese companies for gold are listed in the table. While best possible efforts have been made to identify all large-scale gold companies in operation, the absence of any public information limits the ability to carry out a full review.

## Government Apparatus Around Gold in Sudan

The gold trade in Sudan is overseen by the Ministry of Minerals.<sup>143</sup> As per Presidential Decree No:22 of 2010, the responsibilities of the ministry include the following: (i) promote and attract local and foreign investment in Sudan's mining sector (ii) sign contracts on behalf of the State with investors and grant licenses according to law (iii) supervise companies licensed for exploration and mining as per contracts and permits (iv) develop technical standards and environmental and safety protection requirements for mining activities in coordination with other relevant ministries and departments (v) supervise public companies as well as those in which the government has shares in the area of mining.

***“To become a success model, Sudan needs to exhibit features of good economic governance and responsible economic policies.”***

—ACTIVIST

<sup>141</sup> Golden Stone Vasilievsky Rudnik Mine Siberian For Mining Company LTD is the parent company based in Russia.

<sup>142</sup> Open source research including government websites and reports, company filings, news reports, business intelligence databases, and foreign language content.

<sup>143</sup> The Ministry of Minerals is also alternatively referred to as the Ministry of Energy and Mining in Arabic and English versions of Sudanese government websites.

According to government sources, the Sudanese Company for Mineral Resources was established in 2015 to provide technical, administrative and environmental supervision, as well as to ensure social responsibility and financial monitoring. It was established by the Ministry of Mining to handle and monitor the activities of over 400 companies and one million individuals in the mineral sector, with the goal of increasing productivity and production as well as strengthening production monitoring.

In addition to this institutional framework, there are a number of laws and policies that impact the gold industry. These include: The 1970 Unregistered Land Act, The 1972 Mines and Quarries Act, the 1973 Mines and Quarries Regulations, the 2010 Organization of Artisanal Mining Regulation (OAMRA) and the 2012 Regulation of Traditional Gold Mining Act. They also include the 2001 Environmental Protection Act (overseen by the High Council for Environment and Natural Resources), the 2009 Environmental Health Act, and the 2015 Minerals Wealth Development and Mining Act (MWDMA), which sets out licensing requirements, protects the environment, and supervises coordination of national and state governments in terms of trade, pricing and taxation. Notwithstanding the gaps in the MWDMA, the legislation has also suffered from poor enforcement.<sup>144</sup>

Moreover, the majority of the artisanal mining sector includes gold dealers and other middlemen who are not well regulated and do not fall under existing regulations. For example, the Ariab Mining Company is responsible for the commercial production of gold in the Hassai mines. In 2015, the Sudanese government took complete ownership of the company. It is unclear what processes are in place to manage the revenue from Ariab and how the Ministry of Minerals carries out supervision over the activities of the company. The Central Bank of Sudan also plays a critical role in managing and controlling the price of gold, its trade and export, along with facilitating access to credit.

## The Gold Supply Chain in Sudan

The gold supply chain acts as a “funnel consolidating flows as it moves downstream via multiple intermediaries”.<sup>145</sup> In Sudan, much like in the rest of Africa, supply chains are not simple, direct flows. Irrespective of the scale of mining, mineral supply chains are marked by the use of numerous intermediaries, consultants, traders and other brokers. In Sudan, as in other countries with informal and weakly regulated supply chains, mapping the value chain is incredibly complex, as many actors lie outside the purview of formal regulation. At a more micro level, it is possible to see individual traditional miners working on their ancestral lands, artisanal miners that include small scale enterprises, and miners that have migrated internally and are illegally mining within concession areas awarded to large-scale mining companies.<sup>146</sup>

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144 Reuters. 2018. “Interpol Rescues 85 Child Slaves from Sudan’s Streets and Gold Mines,” September 12, 2018. <https://www.reuters.com/article/us-sudan-trafficking/interpol-rescues-85-child-slaves-from-sudans-streets-and-gold-mines-idUSKCN1LS0K8>.

145 Hunter, Marcena. n.d. “Pulling at Golden Webs Combating Criminal Consortia in the African Artisanal and Small-Scale Gold Mining and Trade Sector Combating Criminal Consortia in the African Artisanal and Small-Scale Gold Mining and Trade Sector.” <https://globalinitiative.net/wp-content/uploads/2019/04/ENACT-Research-Paper-008-Gold-Mining-24Apr130-WEB.pdf>.

146 Chevrillon-Guibert, Raphaëlle. 2016. “The Gold Boom in Sudan. Challenges and Opportunities for National Players.” International Development Policy | Revue Internationale de Politique de Développement, no. 7.1 (February). <https://journals.openedition.org/poldev/2258>.

Additional factors that feed into the complexity of the supply chain include insecurity, conflict, and connections with the government. All three categories of mining operations rub up against conflicts between local communities and armed conflicts within the region. Therefore, Sudan's supply chain is dependent on a relationship with the security apparatus. Additionally, in Sudan's case, with over 700 companies<sup>147</sup> tied to the government, the proximity and risks in the value chain due to government involvement remain high. While it is clear there is political involvement at the national level of the supply chain in Sudan, it is unclear how deep the involvement is at the sub-national level, where political connections and interests are central aspects of intermediaries that provide transportation, equipment and other consultant services to navigate the high-risk climate in Sudan. Given the political economy of gold in Sudan, politically-exposed persons (PEPs) at the sub-national level present a very real and high-level risk of illicit financial flows (IFFs). Furthermore, the intrinsic nature of the sector with its high market entry costs and security risks can create unfair monopolies.

However, even with such monopolies, the largest mining companies in the world still outsource a majority of their activities along the supply chain.<sup>148</sup> These supply chains involve intermediaries such as equipment owners, pit owners, license holders, landowners, mine managers, local tribal leaders, State security interests, and armed groups – with some of these intermediaries engaging in rent-seeking behavior, a cost factored into the supply chain. In most African gold supply chains, the buyer is an intermediary that sits mid-tier in the upstream portion of the supply chain. These buyers are usually local and part of a larger regional operation.<sup>149</sup>

The choke point in most gold supply chains occurs when the minerals reach the refinery, as it is at this point the true origins of the gold may be masked.<sup>150</sup> However, according to a report from *Reuters* earlier this year, 75 to 80 percent of Sudanese gold continues to be smuggled out of the country.<sup>151</sup> Thus, the overwhelming majority of gold evades this supply chain choke point. The OECD recommendations and others like them from the World Bank<sup>152</sup> do not sufficiently account

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147 Verhoven, Harry, "Water, Civilization and Power in Sudan: The Political Economy of Military-Islamist State Building", New York, Cambridge University Press (2015) p.212.

148 Baatarogtokh, Tserenbaljir. 2009. "State of Outsourcing in the Mining Industry: An Overview." Library.Ubc.Ca. <https://doi.org/10.14288/1.0340026>.

149 Hunter, Marcena. n.d. "Pulling at Golden Webs Combating Criminal Consortia in the African Artisanal and Small-Scale Gold Mining and Trade Sector Combating Criminal Consortia in the African Artisanal and Small-Scale Gold Mining and Trade Sector." <https://globalinitiative.net/wp-content/uploads/2019/04/ENACT-Research-Paper-008-Gold-Mining-24Apr1130-WEB.pdf>.

150 Mark Peith, "Gold Laundering: The Dirty Secrets of the Gold Trade"; <https://www.oecd.org/sti/ind/steel-Tyler-Gillard.pdf>.

151 Mirghani, Ali. 2020. "Sudan Opens up Gold Market in Bid to Raise Revenue." *U.S. Reuters*. January 9, 2020. <https://www.reuters.com/article/us-sudan-gold/sudan-opens-up-gold-market-in-bid-to-raise-revenue-idUSKBN1Z81M2>.

152 "OECD Due Diligence Guidance for Responsible supply Chains of Minerals from Conflict-Affected and High-Risk Areas" (2012) available at <https://www.oecd.org/corporate/mne/GuidanceEdition2.pdf>; License to Drill: A Manual on Integrity Due Diligence for Licensing in Extractive Sectors available at <http://documents.worldbank.org/curated/en/514571530085582916/pdf/License-to-drill-a-manual-on-integrity-due-diligence-for-licensing-in-extractive-sectors.pdf>.

for the complexity and informality of these supply chains. Therefore, it is critical that the Sudanese government conduct a home-grown assessment of the sector's supply chains.

Previous reports of government seizures and other investigative reports have shown the common route for smuggling is via air or land,<sup>153</sup> “where middlemen fly the gold out directly or trade it across Africa’s porous borders, obscuring its origins before couriers carry it out of the continent, often in hand luggage”.<sup>154</sup> Even large-scale mining companies that have been awarded concessions in Sudan have been found to engage in gold smuggling by aircraft.<sup>155</sup> For the majority of artisanal miners, the supply chain does not continue past the refineries, unlike the large-scale mining companies that continue to deal with forwarding agents, customs officials and others. Corruption is a real risk in Sudan as covered by several international indices.<sup>156</sup> Moreover, bribery and trading on undue influence can also serve as critical roadblocks in the supply chain. It is difficult to know at what scale, however, as most contract information is not disclosed.

It is also important to consider the role of financing as part of any discussion around the gold supply chain. Formalized financing occurs and is necessary through all stages of the upstream and downstream process. From an investment standpoint, creating adequate financing for the gold sector improves the stability of the supply chain, provides access to greater liquidity, strengthens overall accountability, and most importantly, reduces risks of illicit financial flows.<sup>157</sup>

In Sudan’s case, financing for the mining and energy sectors through Sudanese banks remains negligible, and in 2014 accounted for merely 0.9 percent of the banking sector’s total financing.<sup>158</sup> The sanctions by the US government against Sudan up to 2017 handicapped the Sudanese banking sector, limiting their ability to benefit from the increased gold trade. Investors have chosen to seek financing outside Sudan due to its continued designation as a ‘State Sponsor of Terrorism’. In this

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153 David Lewis , Ryan McNeill, Zandi Shabalala, “Gold worth billions smuggled out of Africa”, April 24,2019, available at <https://www.reuters.com/investigates/special-report/gold-africa-smuggling/>; “Sudan Seizes 241 Kg of Gold on Suspicion of Smuggling Operation”, *Sudan Tribune*, May 10, 2019 available at [https://www.sudantribune.com/spip.php?iframe&page=imprimable&id\\_article=67486](https://www.sudantribune.com/spip.php?iframe&page=imprimable&id_article=67486); “Gold smuggling networks thrive”, April 2019 available at <https://www.africaintelligence.com/ion/business-circles/2019/10/04/gold-smuggling-networks-thrive,108375656-art>; “Five Sudanese arrested with Rs. 2 Crores in dollars”, June 7, 2018 available at <https://timesofindia.indiatimes.com/city/mumbai/five-sudanese-arrested-with-rs-2crore-in-dollars/articleshow/64486838.cms>.

154 David Lewis, Ryan McNeill, Zandi Shabalala, “Gold worth billions smuggled out of Africa”, April 24,2019, available at <https://www.reuters.com/investigates/special-report/gold-africa-smuggling/>.

155 “Sudan Seizes 241 Kg of Gold on Suspicion of Smuggling Operation”, *Sudan Tribune* [https://www.sudantribune.com/spip.php?iframe&page=imprimable&id\\_article=67486](https://www.sudantribune.com/spip.php?iframe&page=imprimable&id_article=67486).

156 “Country Reports on Human Rights Practices for 2015.” 2015. State. Gov. 2015. <https://2009-2017.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper>; “Explore Economies.” n.d. World Bank. Accessed March 30, 2020. <https://www.enterprisesurveys.org/en/data/exploreeconomies/2014/sudan>; “Explore Economies.” n.d. World Bank. Accessed March 30, 2020. <https://www.doingbusiness.org/en/data/exploreeconomies/sudan#>.

157 “Unlocking Off-Balance Sheet Benefits for Buyers and Suppliers/ Understanding Supply Chain Finance.” 2017. <https://www.pwc.com.au/publications/pdf/supply-chain-finance-jul17.pdf>; “INCLUSION OF ARTISANAL AND SMALL-SCALE MINING IN THE FORMAL FINANCIAL SECTOR IS CRUCIAL TO TACKLE CURRENT MALPRACTICES IN THE GOLD INDUSTRY UNFAIR PERCEPTIONS OF ASGM SECTOR.” n.d. [https://www.solidaridadnetwork.org/sites/solidaridadnetwork.org/files/publications/ASGM%20barriers\\_DEF%20%281%29.pdf](https://www.solidaridadnetwork.org/sites/solidaridadnetwork.org/files/publications/ASGM%20barriers_DEF%20%281%29.pdf).

158 Unctad 17th Africa, Oilgasmine. 2015. “Extractive Industries and Sustainable Job Creation The Role of the Banking Sector in Enhancing Extractive Industries in Sudan.” <https://unctad.org/meetings/en/Presentation/17OILGASMINE%20Mustafa%20Mohamed%20Abdalla%20S5.pdf>.

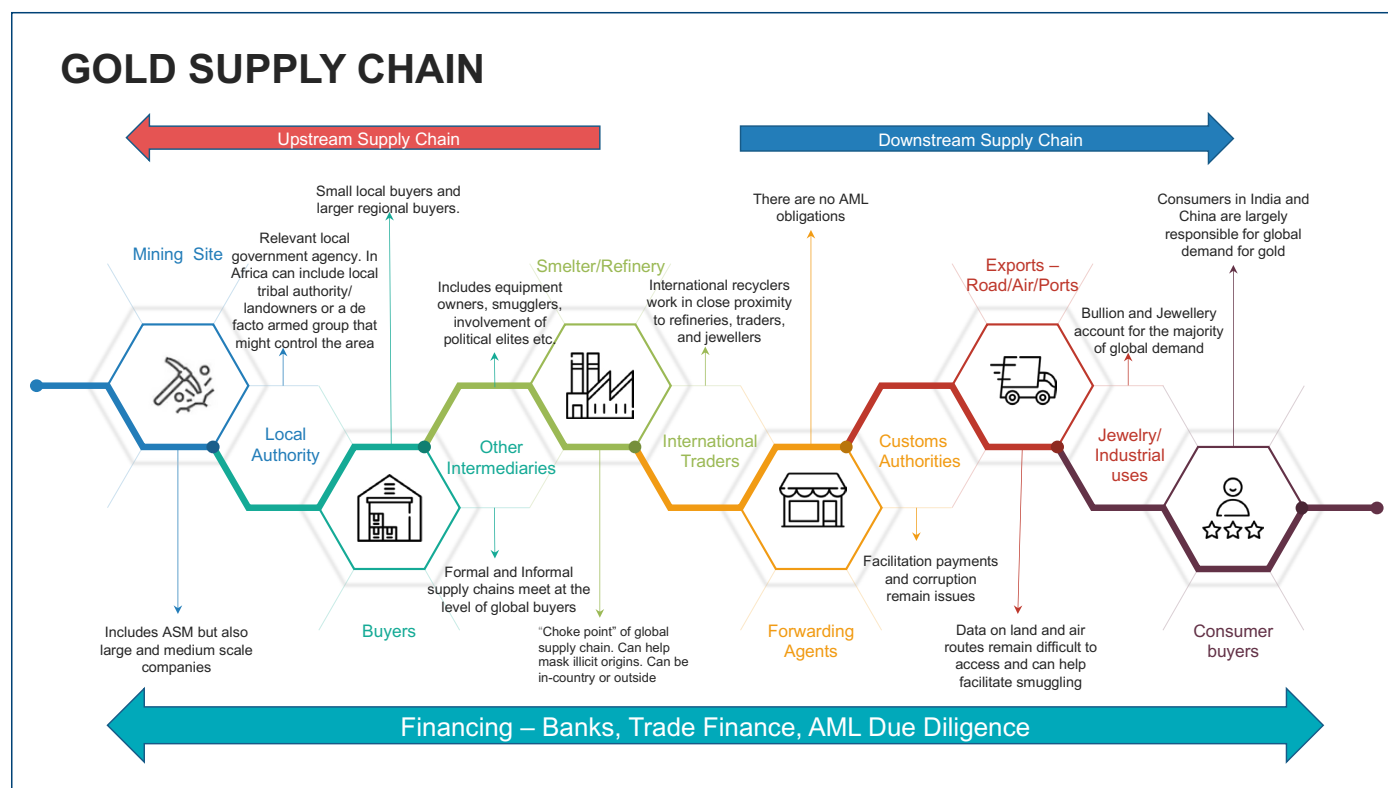


context, the domestic banking sector is restricted in its capacity to serve as a supervisory institution that vets risks from interested market participants. Moreover, the artisanal or small-scale mining (ASM) sector, which generally lacks collateral, struggles to access financing from the domestic banking sector. This exclusion from formalized financing means that market participants may rely on the black market, which automatically heightens the risks of both money laundering and corruption.<sup>159</sup> In 2018, the Sudanese government announced a US\$3 billion plan for private banks and small miners, providing financing to counter the appeal of the black-market economy.<sup>160</sup> However, there are no further reports indicating how these measures have impacted the ASM sector.

***“Sudan should look for cooperation with its neighbors more than influence or competition.”***

—FORMER GOVERNMENT OFFICIAL

**Figure 6. Gold Supply Chain**



Source: Global Financial Integrity, 2020.

159 "INCLUSION OF ARTISANAL AND SMALL-SCALE MINING IN THE FORMAL FINANCIAL SECTOR IS CRUCIAL TO TACKLE CURRENT MALPRACTICES IN THE GOLD INDUSTRY UNFAIR PERCEPTIONS OF ASGM SECTOR." n.d. Accessed March 30, 2020. [https://www.solidaridadnetwork.org/sites/solidaridadnetwork.org/files/publications/ASGM%20barriers\\_DEF%20%281%29.pdf](https://www.solidaridadnetwork.org/sites/solidaridadnetwork.org/files/publications/ASGM%20barriers_DEF%20%281%29.pdf).

160 "Sudan Seizes 241 Kg of Gold on Suspicion of Smuggling Operation - Sudan Tribune: Plural News and Views on Sudan." n.d. www.Sudantribune.Com. Accessed March 30, 2020. [https://www.sudantribune.com/spip.php?iframe&page=imprimable&id\\_article=67486](https://www.sudantribune.com/spip.php?iframe&page=imprimable&id_article=67486).

## VII. Gold Trade Analysis

Between 2012 and 2013, Sudan became a leading producer of gold worldwide. As has been discussed in the previous section, gold became a leading export commodity for Sudan in the previous seven years, as the Government of Sudan has pushed to diversify its economy beyond oil. In a span of just six years (2012-2017), gold production in Sudan increased by 141 percent. As of 2018, Sudan was the twelfth largest gold producer in the world and the third largest in Africa,<sup>161</sup> after Ghana and South Africa, with an estimated production level of 93 tons (Table 17).<sup>162</sup>

**Table 17. World Gold Production, 2012-2018**<sup>163</sup>

Country	Production Volume (metric tons)						
	2018	2017	2016	2015	2014	2013	2012
Australia	315	301	290	278	274	265	250
Brazil	85	80	85	81	80	71	65
Canada	183	164	165	153	152	124	104
China	401	426	453	450	450	430	403
Ghana	127	128	79	88	91	90	87
Indonesia	135	75	80	97	69	61	59
Mexico	117	126	111	135	118	98	97
Papua New Guinea	67	64	62	60	53	57	53
Peru	143	151	153	145	140	151	161
Russia	311	270	253	252	247	230	218
South Africa	117	137	145	145	152	160	160
Sudan	93*	107.3*	93	82.4	73.3	70	44.5
United States	226	237	222	214	210	230	235
Uzbekistan	104	104	102	102	100	98	93
<b>WORLD</b>	<b>3,300</b>	<b>3,231</b>	<b>3,109</b>	<b>3,097</b>	<b>2,994</b>	<b>2,800</b>	<b>2,690</b>

\* Estimated values from the Central Bank of Sudan's *Annual Reports 2013-2017*; Sudan 2018 data: Mirghani and Abdelaziz, "Sudan opens up gold market"; All other data 2012-2018: U.S. Geological Survey, *Mineral Commodities Summaries 2014-2020*.

As noted in the preceding sections on crude oil, data for Sudan's exports was obtained from the Central Bank of Sudan's Foreign Trade Statistical Digests, while data for imports of Sudanese goods was obtained from the Comtrade database. It is important to note that while adjusted data

161 U.S. Geological Survey, *Mineral Commodities Summary 2020* (Washington, DC: U.S. Department of the Interior, 2014), p71. <https://pubs.usgs.gov/periodicals/mcs2020/mcs2020.pdf>.

162 Ali Mirghani and Khalid Abdelaziz, "Sudan opens up gold market in bid to raise revenue", *Reuters*, January 9, 2020, <https://www.reuters.com/article/us-sudan-gold/sudan-opens-up-gold-market-in-bid-to-raise-revenue-idUSKBN1Z81M2>.

163 Sudan 2012-2017 data: Central Bank of Sudan's *Annual Reports 2013-2017*, [https://cbos.gov.sd/en/periodicals-publications?field\\_publication\\_type\\_tid\\_i18n=43](https://cbos.gov.sd/en/periodicals-publications?field_publication_type_tid_i18n=43); Sudan 2018 data: Mirghani and Abdelaziz, "Sudan opens up gold market"; All other data 2012-2018: U.S. Geological Survey, *Mineral Commodities Summaries 2014-2020*, <https://www.usgs.gov/centers/nmic/mineral-commodity-summaries>.

was used when conducting the crude oil trade gap analysis, provisional data was used for the gold analysis. This is due to the fact that the Central Bank of Sudan only publishes the provisional export value of commodities by country partner and does not provide updates for these values in the following year. However, over the seven-year period (2012-2018), there were only two years where the provisional value did not match the subsequent adjusted value.<sup>164</sup>

An examination of Sudanese gold exports over the seven-year period 2012-2018, shows that Sudan reported exports of gold totaling 205,446 kilograms valued at nearly US\$8.6 billion (Table 18). The year with the highest value and volume of gold exports was 2012, with 46,133 kilograms and nearly US\$2.2 billion. The fluctuations in the value of gold exported is largely related to the volume exported, rather than major changes in the world market price of gold. The Central Bank of Sudan's Foreign Trade Statistics Digests and Annual Reports did not provide any insight into why production or export volumes have fluctuated year to year.

**Table 18. Volume and Value of Sudan's Gold Exports to the World, 2012-2018 (in kg and millions of USD)**

Year	Volume (kg)	Value (USD)
2018	20,176	\$832.2
2017	37,517	\$1,519.7
2016	26,973	\$1,043.8
2015	19,389	\$725.7
2014	30,445	\$1,271.3
2013	24,813	\$1,048.4
2012	46,133	\$2,158.0
<b>TOTAL</b>	<b>205,446</b>	<b>\$8,599.2</b>

Source: Central Bank of Sudan, Foreign Trade Statistical Digests 2012 Q4-2018 Q4, [https://cbos.gov.sd/en/periodicals-publications?field\\_publication\\_type\\_tid\\_i18n=45](https://cbos.gov.sd/en/periodicals-publications?field_publication_type_tid_i18n=45)

Note: Totals may not match due to rounding.

During this same time period, Sudan's trading partners reported imports of 404,732 kilograms of gold from Sudan with an FOB value of US\$12.7 billion (Table 19). The highest export value occurred in 2012 with total exports valued at US\$3.1 billion, whereas the highest export by volume was in 2014, with a total export volume of 93,177 kilograms.

<sup>164</sup> These two variations occurred in 2014, which had a provisional value of US\$1,271,322,000 and an adjusted value of US\$977,256,000, and 2018, which had a provisional value of US\$832,230,000 and an adjusted value of US\$631,382,000.

**Table 19. Volume and Value of World Imports of Sudanese Gold, 2012-2018 (in kg and millions of USD)**

Year	Volume (kg)	Declared CIF Value (US\$)	Estimated FOB Value (USD)†
2018	26,764	\$1,034.2	\$961.8
2017	65,012	\$2,391.8	\$2,224.4
2016	62,776	\$1,780.4	\$1,655.8
2015	39,654	\$1,335.9	\$1,242.4
2014	93,177	\$1,906.7	\$1,773.3
2013	46,129	\$1,904.2	\$1,770.9
2012	71,220	\$3,295.3	\$3,064.6
<b>TOTAL</b>	<b>404,732</b>	<b>\$13,648.5</b>	<b>\$12,693.2</b>

Source: United Nations Comtrade database, accessed March 11, 2020, <https://comtrade.un.org/data/>

†Imports are traditionally reported in terms of “cost, insurance, and freight” (CIF), whereas exports are reported in terms of “free on board” (FOB, i.e. only the cost of the good). In order to convert the declared CIF value found in Comtrade to FOB, a conservative conversion rate of seven percent was used to remove the insurance and freight components in order to arrive at just the cost of the good.

Note: Totals may not match due to rounding.

The following paragraphs and tables analyze Sudan’s reported exports of gold against the reported imports of gold by its trading partners and the corresponding value gaps.

Between 2012-2018, the Central Bank of Sudan reported 205,446 kilograms of gold exports, whereas the country’s trading partners reported 404,732 kilograms of gold imports, creating a volume gap of 199,286 kilograms (200 tons) of gold (Table 20), equivalent to 97 percent of Sudan’s declared gold exports by volume. Correspondingly, there was a total value gap of nearly US\$4.1 billion, with Sudan reporting gold exports of US\$8.6 billion and its trading partners reporting gold imports from Sudan valued at US\$12.7 billion; the value gap is equal to 47.7 percent of Sudan’s reported gold exports by value.

**Table 20. Trade Gap Assessment Between Sudan and Its Trade Partners, by Year, 2012-2018 (in kg and millions of USD)**

Year	Volume (kg)			FOB Value (millions of USD)		
	Central Bank of Sudan	Trading Partners in Comtrade	Gap	Central Bank of Sudan	Trading Partners in Comtrade	Gap
2018	20,176	26,764	(6,588)	\$832.2	\$961.8	\$(129.6)
2017	37,517	65,012	(27,495)	\$1,519.7	\$2,224.4	\$(704.7)
2016	26,973	62,776	(35,803)	\$1,043.8	\$1,655.8	\$(611.9)
2015	19,389	39,654	(20,265)	\$725.7	\$1,242.4	\$(516.7)
2014	30,445	93,177	(62,732)	\$1,271.3	\$1,773.3	\$(501.9)
2013	24,813	46,129	(21,316)	\$1,048.4	\$1,770.9	\$(722.5)
2012	46,133	71,220	(25,087)	\$2,158.0	\$3,064.6	\$(906.6)
<b>TOTAL</b>	<b>205,446</b>	<b>404,732</b>	<b>(199,286)</b>	<b>\$8,599.2</b>	<b>\$12,693.2</b>	<b>\$(4,094.0)</b>

Note: Totals may not match due to rounding.

Using the provisional trade data issued by the Central Bank of Sudan, it is possible to complete a country-level value gap assessment for gold.<sup>165</sup> In total, between 2012-2018 there was a US\$4.1 billion value gap between Sudanese exports and trading partner imports, most likely due to the potential illegal export of Sudanese gold (Table 20). By far the largest importer of gold from Sudan is the United Arab Emirates (UAE), which imported 95 percent of Sudan's gold exports during the seven-year period, according to the Central Bank of Sudan (Table 21). The UAE also presents the largest corresponding value gap, reporting an additional US\$4.2 billion in gold imports that were not reported by the Central Bank of Sudan between 2012-2018.

**Table 21. Value Gap in Gold Trade Between Sudan and Its Partners, by Country, 2012-2018 (in millions of USD)**

Country	Central Bank of Sudan	Trade Partners in Comtrade	Gap
Burundi	\$0.423	—	\$0.423
Canada	\$298.4	\$245.5	\$52.9
Egypt	\$0.121	—	\$0.121
Germany	\$13.7	—	\$13.7
India	\$5.8	\$11.5	\$(5.7)
Indonesia	\$4.7	—	\$4.7
Italy	\$5.0	\$8.0	\$(3.1)
Morocco	\$10.4	\$8.9	\$1.6
Nigeria	\$0.051	—	\$0.051
Other Countries*	\$11.5	—	\$11.5
Other Western Hemisphere*	\$0.414	—	\$0.414
Saudi Arabia	\$23.6	\$1.2	\$22.5
Swaziland	\$7.7	—	\$7.7
Switzerland	—	\$11.4	\$ (11.4)
Turkey	\$19.9	\$16.8	\$3.1
United Arab Emirates	\$8,197.3	\$12,390.0	\$(4,192.6)
<b>TOTAL</b>	<b>\$8,599.2</b>	<b>\$12,693.2</b>	<b>\$ (4,094.0)</b>

\* Terms as used by the Central Bank of Sudan in its Foreign Trade Digests.

Note: Totals may not match due to rounding.

“—” indicates that no trade was reported to/by the country.

<sup>165</sup> The Central Bank of Sudan only provides partner country data by export value; it does not provide the volume exported to each country.

There were 12 countries with a positive value gap for Sudan, that is, where the value of Sudan's exports was greater than the value of corresponding imports; equaling more than US\$118 million. Just four countries – India, Italy, Switzerland, and the UAE – reported imports of Sudanese gold at higher levels than Sudan's reported exports, at US\$4.2 billion.

It is worthwhile to note that the Central Bank of Sudan was the only entity in Sudan legally allowed to buy and export gold until January 2020, when the market was opened to private mining companies.<sup>166</sup> The value gap of US\$4.1 billion is potentially representative of the amount of gold that is illegally exported from Sudan, meaning the value of gold that was smuggled out of the country and was not exported by (and therefore not sold to) the Central Bank of Sudan. This presents evidence of a significant financial loss to the Government of Sudan.

***“Corruption is a major barrier to economic development as it erodes and eats up the very limited resources that exist.”***

— RECENT UNIVERSITY GRADUATE

It is estimated that artisanal mining is responsible for approximately 85 percent of total gold mining production in Sudan, with the remaining 15 percent produced by large- and small-scale mining and tailings processing companies.<sup>167</sup> Artisanal miners pay a 10 percent annual royalty on their gold sales,<sup>168</sup> whereas formal mining operations pay a seven percent royalty payment and 30 percent income tax rate.<sup>169</sup> With a value gap of US\$4.1 billion, and assuming that the division of production between artisanal and formal mining is also the same for gold exports, this could equal potential revenue losses of US\$575.2 million for the Government of Sudan over the period 2012-2018, which could cover the cost of thousands of additional teachers in a country where the average person receives only eight years of education.<sup>170</sup>

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166 Mirghani and Abdelaziz, “Sudan opens up gold market”.

167 Abu Bakr El Siddig Ahmed El Tohami, “Smart Artisanal Gold Mining from a Sudanese Perspective,” *Biomedical Journal of Scientific & Technical Research*, Vol. 5, Issue 4, 2018, p4 of 7, [https://www.researchgate.net/publication/329776730\\_Smart\\_Artisanal\\_Gold\\_Mining\\_from\\_a\\_Sudanese\\_Perspective](https://www.researchgate.net/publication/329776730_Smart_Artisanal_Gold_Mining_from_a_Sudanese_Perspective).

168 Mohamed Suliman Ibrahim, “Artisanal Mining in Sudan – Opportunities, Challenges and Impacts” (Presentation at the UN Convention on Trade and Development’s (UNCTAD) 17th Africa OILGASMINE Conference, Khartoum, November 23-26, 2015), <https://unctad.org/meetings/en/Presentation/17OILGASMINE%20Mohamed%20Sulaiman%20Ibrahim%20S4.pdf>.

169 Ibrahim Elbadawi and Kabbashi Madani Suliman, “The Macroeconomics of the Gold Economy in Sudan,” May 2019, DOI: 10.13140/RG.2.2.22975.15528, [https://www.researchgate.net/publication/333380952\\_The\\_Macroeconomics\\_of\\_the\\_Gold\\_Economy\\_in\\_Sudan/](https://www.researchgate.net/publication/333380952_The_Macroeconomics_of_the_Gold_Economy_in_Sudan/).

170 “Human Development Reports.” | Human Development Reports. United Nations Development Programme. Accessed May 13, 2020. <http://hdr.undp.org/en/indicators/69706>.

## VIII. Regulatory Analysis & Recommendations – Gold Sector

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Given the preceding trade analysis, GFI recommends the Government of Sudan undertake a series of reforms to strengthen the trade integrity of the gold sector. These recommendations are outlined broadly below, and throughout the rest of the section with regulatory analysis and boutique recommendations for each stage of the supply chain.

Broadly, GFI recommends the Government of Sudan:

- Commit Sudan to reform its extractive industry standards in line with Extractive Industries Transparency Initiative and the Africa Mining Vision;
- Require all legal entities and legal arrangements doing business in the gold sector to disclose beneficial ownership information at a minimum in line with FATF standards;
- Require greater disclosure of information on contracts, bidding and procurement processes, as well as regarding the stake of the Sudanese government in concession agreements;
- Adopt a whole-of-government approach towards regulating the extractives sector, with participation from all relevant ministries to flag risks of illicit financial flows and formulate policy accordingly;
- Carry out a risk assessment of the extractives sector to identify the threats, vulnerabilities and criminal activities observed and design a risk-based policy mechanism that will enhance the regulatory approach;
- Involve multi-stakeholder groups, including civil society, in assessing and re-formulating the legislative framework around extractives.



## Prior to Extraction

### KEY RISKS

- Process is discretionary or politicized without proper oversight
- Absence of participation and consultation of local communities
- Absence of robust land registry records and ownership information
- Absence of clearly delineated roles between the Ministry of Minerals, state owned enterprises and regulatory authority
- Control of resource or value chain by politically-exposed persons (PEPs)
- Vulnerability of rural populations due to poverty and resource dependence
- Inadequate enforcement of land tenure rights
- Absent or inadequate Environmental Impact Assessment and Social Impact Assessment procedures

This section analyzes the risks that are present in Sudan's gold sector, beginning with the country context and some of the factors that make it vulnerable to illicit financial flows (IFFs).

To start with, it is helpful to consider some of the country conditions as the context in which gold extraction occurs. Sudan's gold sector is profoundly tied to livelihood dependence, with over five percent of the population involved in the sector. Artisanal miners produce 80 percent of all Sudanese gold annually.<sup>171</sup> Yet, 70 to 80 percent of this gold is directly smuggled out of the country through neighboring Libya and Chad and is believed to ultimately make its way to the United Arab Emirates.<sup>172</sup> This is primarily because Sudanese regulations require artisanal miners to sell gold directly to the Central Bank of Sudan at discounted rates, which reduces profit margins by close to 50 percent for the ASM sector.<sup>173</sup> The black market rate was found to be 88 Sudanese pounds to the dollar, whereas the Central Bank of Sudan was paying 45 Sudanese pounds to the dollar.<sup>174</sup> Instead of rescuing the economy, these measures have exacerbated a precarious situation with reports indicating Sudan is buying back the smuggled gold at above market prices, which in turn the government uses to purchase and finance basic commodities.<sup>175</sup> In January 2020, new government regulations finally allowed private traders to export 70 percent, but the remaining 30 percent were still required to be sold directly to the Central Bank of Sudan at discounted rates.<sup>176</sup>

171 "Sudan, China keen on sound mining cooperation", January 4, 2017 available at [http://www.xinhuanet.com/english/2017-01/04/c\\_135955026.htm](http://www.xinhuanet.com/english/2017-01/04/c_135955026.htm).

172 Gethin Chamberlain, "The deadly African gold rush fueled by people smugglers' promises", January 17, 2018 available at <https://www.theguardian.com/global-development/2018/jan/17/deadly-african-gold-rush-people-smugglers-northern-chad-mines>; <https://www.reuters.com/investigates/special-report/gold-africa-smuggling/>; '75% of Sudan's gold production is smuggled: official', June 10, 2014 available at <https://www.sudantribune.com/spip.php?article51288>.

173 The central bank pays 50 percent less than what is available to miners on the black market.

174 Ali Mirghani, Khalid Abdelaziz, "Sudan opens up gold market in bid to raise revenue", *Reuters*, January 9, 2020 available at <https://www.reuters.com/article/us-sudan-gold/sudan-opens-up-gold-market-in-bid-to-raise-revenue-idUSKBN1Z81M2>.

175 "Sudan plans to end central bank intervention in gold market", December 16, 2019, available at <https://www.sudantribune.com/spip.php?article68705>. There are no official statistics on gold revenues and its contribution to covering the importation of Sudan's basic commodities.

176 David Lewis, Ryan McNeill, Zandi Shabalala, "Gold worth billions smuggled out of Africa", April 24, 2019, available at <https://www.reuters.com/investigates/special-report/gold-africa-smuggling/>.

The sector remains weakly regulated with no clear procedures on how tribal land can be used for natural resource extraction. In some areas, ownership is defined through statutes created by the British colonial administration but, largely, tribes and community leaders follow centuries old customary procedures.<sup>177</sup> Sudan's mining law,<sup>178</sup> while vesting in the State the rights to all natural resources,<sup>179</sup> is silent on long standing customary rights. This vacuum in law, regulation and enforcement allows the government to grant concession and exploration rights to large mining companies, often in contravention of local sentiment and customary tradition on land rights and ownership. Some figures estimate that up to 90 percent of informal gold mining sites lie within concession areas of large gold companies.<sup>180</sup>

Furthermore, gold extraction occurs within a country context of conflict and large scale migration, which generates additional IFF vulnerabilities. Conflicts surrounding gold and land use have affected migration, with people forced to flee from their homes in Sudan. Reports show Darfurians and other Sudanese fleeing to Chad and mining gold in the Miski area of Chad.<sup>181</sup> Movement of nomadic tribes into resource rich areas in Darfur has displaced tens of thousands people, escalating tensions between tribes like the Rizeigat and Beni Hussein over access to Jebel Amer mines in Darfur, which in turn has significantly reduced the government's ability to optimize revenues from resources extraction.<sup>182</sup> There are also reported instances of children being trafficked to work in these illegal mines, even though the law expressly prohibits the employment of minors in the industry.<sup>183</sup>

The gold mine death toll is more than double the number of all people killed by fighting between the army, rebels and rival tribes in Darfur in 2012, according to UN Secretary General Ban Ki-moon's quarterly reports to the Security Council.<sup>184</sup>

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177 Mohyeldeen E. Taha, "Land Use, Ownership and Allocation in Sudan: The challenge of corruption and lack of transparency", Sudan Democracy First (2016) available at <http://www.democracyfirstgroup.org/wp-content/uploads/2016/10/Land-Use-Ownership-and-Allocation-in-Sudan.pdf>.

178 The Mineral Wealth and Mining Resources Development Act, 2015 available at <https://www.a-mla.org/masteract/1314>.

179 Art. 8, The Mineral Wealth and Mining Resources Development Act, 2015 available at <https://www.a-mla.org/masteract/1314>.

180 Calkins, Sandra and Enrico Ille, "Territories of Gold Mining: International Investments and Artisanal Extraction in Sudan", In Jorg Gertel, Richard Rottenburg and Sandra Calkins, eds., "Disrupting Territories. Land, Commodification and Conflict in Sudan", James Currey, 2014, p. 51-76.

181 Jérôme Tubiana, Claudio Gramizzi, Tubu, "Trouble: State and Statelessness in the Chad–Sudan–Libya Triangle", Small Arms Survey (2017) available at <http://www.smallarmssurveysudan.org/fileadmin/docs/working-papers/SAS-CAR-WP43-Chad-Sudan-Libya.pdf> at p.78.

182 Internally displaced persons in Sudan's Darfur Jebel Amir gold mining area and returning Chadian migrant workers receive aid (2013), available at <https://www.iom.int/news/internally-displaced-persons-sudans-darfur-jebel-amir-gold-mining-area-and-returning-chadian>; Nellie Peyton, "Interpol rescues 85 child slaves from Sudan's streets and gold mines", September 12, 2018 available at <https://www.reuters.com/article/us-sudan-trafficking/interpol-rescues-85-child-slaves-from-sudans-streets-and-gold-mines-idUSKCN1LS0K8>; "Sudan crisis: The ruthless mercenaries who run the country for gold", BBC, July 20, 2019 available at <https://www.bbc.com/news/world-africa-48987901>.

183 Nellie Peyton, "Interpol rescues 85 child slaves from Sudan's streets and gold mines", September 12, 2018 available at <https://www.reuters.com/article/us-sudan-trafficking/interpol-rescues-85-child-slaves-from-sudans-streets-and-gold-mines-idUSKCN1LS0K8>.

184 Ulf Laessing, "Special Report: The Darfur conflict's deadly gold rush", October 8 2013, available at <https://www.reuters.com/article/us-sudan-darfur-gold/special-report-the-darfur-conflicts-deadly-gold-rush-idUSBRE99707G20131008>.

Moreover, gold extraction occurs within a context of armed conflict, which raises risks of IFFs. Sudan has the unfortunate distinction of holding the global record for the longest running civil war. The decades-long conflict coupled with US sanctions has crippled the economy, making any investment into Sudan a risky proposition for outside investors who typically look for strong rule of law and well-regulated investment regimes. While the Investment Protection Act of 2013 aims to provide comfort, there is well-founded concern that this risky climate will attract investments from more questionable quarters in an environment where the government is greatly in need of foreign capital infusion. For example, concerns have been raised on the process of how certain Russian mining companies were awarded mining contracts.<sup>185</sup>

Inadequate assessments present another important risk in the pre-extraction phase. Moreover, handing those assessments entirely over to outside investors puts the Sudanese government at a disadvantage in negotiating concession contracts. For example, the Siberian mining company that was awarded a concession contract with the Red Sea and River Nile States declared in 2015 that the, “company discovered 46,000 tons of gold reserves in these two sites with a combined market value of US\$1.70 trillion”. This development prompted Mohamed Ahmed Saboon, a Sudanese consultant working for Sudan’s Ministry of Minerals out of Moscow, to resign as he described the company as “unknown” and the US\$1.70 trillion figure as “science fiction”.<sup>186</sup> Ibrahim Mahmoud Hamid, at the time vice-chairman of the ruling party and presidential assistant, later admitted that the figures declared by the Siberian mining were likely exaggerated.<sup>187</sup>

***Sudan should take steps to improve its reputation globally...  
“by promoting democracy, freedom of speech, women’s rights,  
religious freedom and free trade.”***

—PRIVATE SECTOR CONSULTANT

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185 Simon Shuster, “It’s Business as Usual for Russians in Sudan, Despite Bashir’s Fall”, April 12, 2019 available at <https://time.com/5569355/sudan-bashir-russia-mining/>; Tim Lister, Sebastian Shukla & Nima Elbagir, “Sudan: CNN investigation alleges Russian company M-Invest drew up plan for deposed government to violently suppress demonstrations”, May 2, 2019 available at <https://www.business-humanrights.org/en/sudan-cnn-investigation-alleges-russian-company-m-invest-drew-up-plan-for-deposed-government-to-violently-suppress-demonstrations>; Tim Lister, Sebastian Shukla and Nima Elbagir, “Fake news and public executions: Documents show a Russian company’s plan for quelling protests in Sudan”, April 25, 2019 available at <https://www.cnn.com/2019/04/25/africa/russia-sudan-minvest-plan-to-quell-protests-intl/index.html>; “Sudanese official admits figures by Russian company on gold deposits ‘may not be 100 percent accurate’”, August 12, 2015 available at <https://www.sudantribune.com/spip.php?article56019>; Samuel Ramani, “Moscow’s Hand in Sudan’s Future”, July 11 2019 available at <https://carnegieendowment.org/sada/79488>.

186 Infra.

187 Sudanese official admits figures by Russian company on gold deposits ‘may not be 100 percent accurate’, August 12, 2015 available at <https://www.sudantribune.com/spip.php?article56019>.

Weak environmental protections constitute another pre-extraction risk with regards to Sudan's gold sector. There is an intrinsic connection between mitigating IFF risks, enhancing extractive governance and ensuring environmental protection. Illegal or poorly regulated mining has the immediate effect of lost revenues to the government, but also creates longer-term effects that constitute serious public health and environmental risks to the country. The Mining Act of 2015 established regulations around both ASM and Environmental Impact Assessments. However, these measures are not robust enough, nor are they implemented in many mining areas across Sudan. Deteriorating public health conditions caused by the use of mercury<sup>188</sup> and cyanide in the mining process include reported higher incidences of cancer, miscarriages, death in livestock, and contamination of groundwater.<sup>189</sup> Protests against the use of cyanide in gold production have erupted in South and North Kordofan, Darfur and the Northern State. The Health Minister of South Kordofan led a team to estimate the number of miscarriages, birth defects and cases of kidney failure in El Tadamon.<sup>190</sup> Broad-based accurate numbers on the impacts from using mercury and cyanide in Sudan are not publicly available. However, there is a plethora of reporting on the subject as well as broader international consensus on the long-term dangers of permitting the use of cyanide and mercury in the mining process.<sup>191</sup> As late as May 2017, the federal Minister of Minerals, Mohamed Ahmed El Karori, said that all 361 registered mining companies in Sudan used cyanide during the mining process.<sup>192</sup> In October of 2019, the government finally issued directives banning the use of mercury and cyanide in mining operations in Sudan and further ordered the amendment of all agreements with companies involved in mining.<sup>193</sup> At the time of this report, it is unclear to what degree these directives have been implemented.

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188 International and domestic scrutiny galvanized the Sudanese government to ratify the Minamata convention in April 2014. <http://www.mercuryconvention.org/Countries/Parties/tabid/3428/language/en-US/Default.aspx>.

189 <https://www.dabangasudan.org/en/all-news/article/miners-blocked-from-working-in-s-kordofan-gold-area>.

190 "Most mining companies in Sudan violate environmental law: expert", Radio Dabang, December 5, 2016 available at <https://www.dabangasudan.org/en/all-news/article/most-mining-companies-in-sudan-violate-environmental-law-expert>.

191 Ibid; "Miners blocked from working in S. Kordofan gold area", Radio Dabang, September 11, 2018 available at <https://www.dabangasudan.org/en/all-news/article/miners-blocked-from-working-in-s-kordofan-gold-area>; "Toxic mining waste to be removed from residential areas in Sudan", January 22, 2020 available at <https://www.dabangasudan.org/en/all-news/article/toxic-mining-waste-to-be-removed-from-residential-areas-in-sudan>; "South Kordofan protests against toxins, militia presence continue", October 21, 2019 available at <https://www.dabangasudan.org/en/all-news/article/south-kordofan-protests-against-toxins-militia-presence-continue>; "Toxic mining linked to birth deformities in Sudan", August 1, 2019 available at <https://www.dabangasudan.org/en/all-news/article/toxic-mining-linked-to-birth-deformities-in-sudan>; "Livestock, birds die after mining resumes in southern Sudan", July 28, 2019 available at <https://www.dabangasudan.org/en/all-news/article/livestock-birds-die-after-mining-resumes-in-southern-sudan>; "Sudan: Government bans use of mercury and cyanide in mining operations due to health and environmental impacts", October 11, 2019 available at <https://www.business-humanrights.org/en/sudan-government-bans-use-of-mercury-and-cyanide-in-mining-operations-due-to-health-and-environmental-impacts>; "Sudanese miners risk health for gold", December 28, 2016 available at <https://www.aljazeera.com/news/2016/12/sudan-miners-gold-161228055137894.html>; "Mercury Rising: Gold Mining's Toxic Side Effect", September 27, 2017 available at <https://www.hrw.org/news/2017/09/27/mercury-rising-gold-minings-toxic-side-effect>.

192 "Minister seeks legislation on mining chemicals in Sudan", May 2, 2017 available at <https://www.dabangasudan.org/en/all-news/article/minister-seeks-legislation-on-mining-chemicals-in-sudan>.

193 "Sudan: Government bans use of mercury and cyanide in mining operations due to health and environmental impacts", October 11, 2019 available at <https://www.business-humanrights.org/en/sudan-government-bans-use-of-mercury-and-cyanide-in-mining-operations-due-to-health-and-environmental-impacts>.

To address risks that occur prior to extraction, GFI recommends the Government of Sudan:

- Amend the Mining Act of 2015 and related legislation around customary and formal land ownership to address ongoing conflict between land ownership, traditional extractions rights and external concessions;
- Convene an inter-ministerial level committee to determine how to balance individuals' right to a livelihood versus the occupation and conflicts in ongoing resource rich areas;
- Amend the Mining Act and regulation to transparently state processes for community involvement, increasing local content in the gold mining sector;
- Conduct more technical surveys or obtain donor assistance to better understand the gold resources available, or institute checks and policies to vet reports of external private actors (do not immediately transition an exploration agreement to a concession agreement);
- Ensure that the process is less discretionary, with more publicly disclosed information on the terms of an agreement, shareholding of the government, revenue split and entities, countries and individuals involved;
- Conduct a risk mapping of the relevant institutions identifying weaknesses that facilitate IFFs. In this case, the Ministries dealing with Land, Investment, Minerals and Energy, Environment and the Directorate of Customs, the Central Bank and the Gold Dealers and Jewelry Union;
- Improve technical capacity to carry out more detailed surveys on available mineral resources;
- Implement existing environmental standards and modify approach to conducting Environmental Impact Assessment and Social Impact Assessment in resource rich areas;
- Build community capacity to monitor gold extraction projects, thereby enhancing job creation and value to the economy.

## Awarding Mining Rights and Financing

### KEY RISKS

- Non-transparent negotiations, bidding process and awarding of contracts
- Inadequate legislative, regulatory and governance framework of the licensing process
- Lack of technical, human and financial resources to manage contract negotiation
- Political interference and collusion between bidders and government
- Opacity in the process of reallocation of a license or contract to a third party
- Opacity and discretion in bidding processes
- Absence of an open and competitive bidding process
- Opaque and complex financial and commercial arrangements
- High market entry costs lead to monopolies and collusion and entry of politically-exposed persons (PEPs)
- Failure to include appropriate norms on benefit sharing with local communities

The website of the Sudanese Ministry of Minerals provides links to the new Mineral Wealth and Mining Resources Development Act, 2015 and the Investor Protection Law of 2013, along with a brief outline of the requirements for obtaining a license, as well as regulations for obtaining franchised squares through competition.<sup>194</sup> This is commendable, as the first step towards transparency is having law, regulations and procedures available in an easily accessible public format. However, links to applicable regulations related to the 2015 mining law, as well as other applicable acts and regulations on artisanal mining, traditional mining, the bidding process and other related procedures on awarding licenses and contracts are not fully disclosed on the Ministry's website. Further, there is no information available on the number or names of companies that have been awarded blocks for exploration or production, nor any details of the shareholding split, royalties and other tax related payments. Furthermore, even though hundreds of exploration licenses have been awarded, only 20 firms were actually producing gold, calling into question how licenses are awarded and performance measured.<sup>195</sup> The numbers and details that have been collected and included in this report have been gathered from outside sources, but these are by no means exhaustive, nor as comprehensive as would be required under the best available international standards.

A 2014 report cited by US Department of Justice indicated that 164 companies in Sudan were owned by officials at the highest levels of government and were involved in bidding for government

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<sup>194</sup> Sudan Ministry of Minerals available at <http://www.gras.gov.sd/index.php/en>.

<sup>195</sup> "Special Report: The Darfur conflict's deadly gold rush", October 8 2013, available at <https://www.reuters.com/article/us-sudan-darfur-gold/special-report-the-darfur-conflicts-deadly-gold-rush-idUSBRE99707G20131008>.

contracts.<sup>196</sup> The Financial Action Task Force (FATF), Organization for Economic Co-operation and Development (OECD), the World Bank, and the Extractive Industries Transparency Initiative (EITI) and others have identified the ownership of companies by politically-exposed persons (PEPs) who are involved in bidding on government contracts as a high risk for illicit financial flows (IFFs). The rationale being that the involvement of politically connected persons complicates the independence of the awarding process and may result in political capture, as favorable contractual terms limit the ability of companies without high-level connections to legitimately enter this space. It is unclear what the PEP risks are at the sub-national level as the gold supply chain requires many actors and companies involved in transportation and equipment that are usually outsourced to sub-contractors by large mining companies.

***“Major local resources should be in the hand of the government or regulated and supervised well.”***

—CIVIL SOCIETY ACTIVIST

Further, while Sudan has laws on public procurement, there is little evidence of their application in the gold sector, with the government favoring the approach of granting rights on a first-come first-served basis. This approach is not unique to Sudan, but is indeed common across the continent. The reasons for this are that “Mining exploration often takes place across vast areas where the chance of finding commercially exploitable mineral deposits may be quite small. For this reason, it may be difficult to attract enough bidders at one time to offer exploration rights by auction. But where a commercial-sized mineral deposit is already known to exist, bidding is appropriate”.<sup>197</sup> In Sudan’s case, questions have been raised regarding the implementation of the procurement process on several concession and exploration contracts issued by the government in the last couple of years.<sup>198</sup>

There is very little information even within the 2015 mining law on what the basic structure of any concession agreement or contract awarded would look like. Indeed, in contrast to widely accepted international standards, the provisions on licensing within the legislation make no distinction between specific terms for small scale, large scale, artisanal, and reconnaissance licenses. While some portion of this has been delegated to regulation or other circulars/decrees issued by the government, their absence in a codified piece of legislation makes such provisions easier to change and alter. Despite these amendments, these large regulatory gaps even within the newly revised legislation have serious negative consequences for the Sudanese mining sector.

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196 “Freedom in the world” (2014) available at [https://www.justice.gov/sites/default/files/eoir/legacy/2014/09/26/Sudan\\_0.pdf](https://www.justice.gov/sites/default/files/eoir/legacy/2014/09/26/Sudan_0.pdf).

197 “Rigged? The Scramble for Africa’s Oil, Gas and Minerals”, *Global Witness*, London, January 2012, available at <https://www.globalwitness.org/en/reports/rigged/>.

198 Siberian mining company, MS-Invest, Miro Gold.



For instance, in 2018, the Sudanese government signed a mining agreement with a Saudi Arabian company, Azhab El Yamin, to explore gold and other minerals in the South Kordofan region of Sudan. At the time of signing, the company was represented by Mohamed Bin Suleiman Bin Sulbi, according to reports by Sudan's official news agency. Following the signing of the agreement, conflict broke out between the local community and the company over the use of the land.<sup>199</sup> Such conflict is unfortunately an often repeated story, where communities that suffered from the 2017 famine, or have lost their agricultural incomes and no longer have arable land, find that their only recourse is to exploit mineral wealth.

Poor enforcement of environmental standards has meant that local communities contend not only with damage to their surrounding environments and community health, but as the government has historically favored large scale mining over traditional mining rights, many local communities turn to gold smuggling in order to make ends meet. In the Sudanese context, this inexorable link between IFF risks and conflict can only be addressed if the government addresses the problems of community involvement, resource revenue sharing and increased transparency around the process of awarding contracts.

A review of various Sudanese government ministries shows the relevant authorities provide scanty information regarding contract agreements, only listing the names of companies, investors, and numbers of concessions awarded. The location of where the concessions operate or the percentage split with the government is hidden and only disclosed if the company chooses to do so.<sup>200</sup> The lack of public disclosure of the terms of contract also presents an automatic red flag for risk of IFFs. Transparency is crucial to fostering accountability amongst governments, as making information public puts many sets of eyes on the operations and functioning of key personnel within the government, thereby creating a greater measure of accountability. For example, an announcement from the Sudanese government in October 2011, right after South Sudan gained independence, stating that they signed 50 concession/exploration agreements for gold and other minerals in one day alone raises serious questions about the level of due diligence being employed within the ministry and the technical capacity to do so for such large numbers at a time.<sup>201</sup>

Simply handing out contracts to large mining companies without addressing the underlying risks not only raises the investment costs of any business venture in Sudan, but investing companies have to account for security threats to their businesses as well. This environment consequently attracts

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199 "Gold mining to increase in Sudan's South Kordofan", January 1, 2018 available at <https://www.dabangasudan.org/en/all-news/article/gold-mining-to-increase-in-sudan-s-south-kordofan>.

200 Enrico Ille, "International Joint Ventures in Industrial Gold Mining, Corporate Social Responsibility, and Harm-Production in Sudan", March 25, 2019 available at <https://journals.sagepub.com/doi/full/10.1177/000203971805300302>.

201 "Gold mining contracts signed in Sudan", October 31, 2011 available at <https://www.sudantribune.com/50-Gold-mining-contracts-signed-in,40579>.

certain types of entities to the gold sector, and has been shown to increase revenue leakages and smuggling out of the Sudanese economy.

Beneficial ownership is the touchstone on which the rest of the IFF risk matrix is built. Knowledge of ownership reduces corporate opacity and circumvents avenues for corruption and money laundering. The Sudanese anti-money laundering and countering the financing of terrorists AML/CFT Law of 2014 and the Circular No: 8/2014 both mandate the identification of the ultimate beneficial owner of companies in Sudan engaged in certain practices. Sudanese law identifies anyone owning directly or indirectly more than ten percent of the legal person to be considered a beneficial owner, which is far more stringent than the 25 percent threshold suggested by the Financial Action Task Force.<sup>202</sup> However, this standard only applies to entities that open an account with a financial institution in Sudan, but not to all entities registered or incorporated in the country.<sup>203</sup> US economic sanctions on Sudan have crippled the banking industry, leading many companies to secure financing through banks located outside of the country, especially in the United Arab Emirates, which also has a reputation as a hub for illicit finance.<sup>204</sup> Furthermore, the law does not account for the complex nature of mining operations which include structures where those seeking to hide their identity may nest ownership in legal entities that do not hold bank accounts and are incorporated outside the country in tax havens.<sup>205</sup>

***“Because of the income disparity and the huge segment of the inhabitants who live below the poverty line in Sudan, the government has to have a strong presence in certain service and welfare sectors , i.e. housing, health services and education.”***

—ACADEMIC

Sudan has still not made efforts to implement the phased goals of the Africa Mining Vision (AMV),<sup>206</sup> which is unique in being the only document to provide a governance framework curated to the experience of the African continent. One comment from the AMV in particular is applicable to the Sudanese context: “Most African mineral regimes tend to have attractive nationally applicable minerals tax

systems in order to attract investors into the exploration of high-risk unknown terrains, no matter the relative prospectivity”.<sup>207</sup> However, such a mining regime allows companies to automatically convert an exploration license into a mining license, leaving the government little control over the

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202 Circular No (8/2014): Regulatory and Supervisory requirements for the Institutions under the Supervision of Central Bank of Sudan available at <https://cbos.gov.sd/en/node/4557>.

203 Ibid.

204 David Lewis , Ryan McNeill, Zandi Shabalala, “Gold worth billions smuggled out of Africa”, April 24,2019, available at <https://www.reuters.com/investigates/special-report/gold-africa-smuggling/>.

205 “Corruption in the Extractive Value Chain”, OECD, (2006) available at <http://www.oecd.org/dev/Corruption-in-the-extractive-value-chain.pdf>.

206 “Africa Mining Vision”, African Union, (2009) available at [http://www.africaminingvision.org/amv\\_resources/AMV/Africa\\_Mining\\_Vision\\_English.pdf](http://www.africaminingvision.org/amv_resources/AMV/Africa_Mining_Vision_English.pdf).

207 Ibid.

mining tax regime, despite the profitability of the deposit.<sup>208</sup> Instead, it would be in the Sudanese government's best interest to afford competitive auctioning, with a pre-established minimum bid, to allow the government to receive the best value for the country's resources. Competitive auctioning is especially important, as more often than not, private investors have a more accurate sense of the value of a block than the government may have itself, due to increased resources and technical capacity. Therefore, it is critical for the Government of Sudan to invest in geo-data technology itself.

To address risks that occur during awarding mining rights and financing, GFI recommends the Government of Sudan:

- Mandate that information concerning to the ownership, governance, operations and financial situation of the commercial arm of the Ministry of Minerals is publicly disclosed and any entity that it enters into a contract with should be publicly disclosed;
- Require that all companies competing for bids disclose their beneficial owners to the Sudanese government when submitting their technical information packet;
- Require that the beneficial ownership details of any company awarded a concession be publicly disclosed;
- Amend the Investment Promotion Act of 2013 to limit or bar entities that have been involved in gross human rights abuses, grand corruption cases from investing in Sudan's industries of national import;
- Amend the Mining Law of 2015 and applicable regulations to insert provisions that require contracts, annexes and licenses with details of all rights associated with the license, location of extraction be available in an open electronic format and that the contracts and all its terms are translated into the local language and made available to communities affected by any such extraction operation;
- Amend the Mining Law of 2015 to require companies carrying out exploration or concession operations to demonstrate a proven track record, technical skills, resources, capacity and adequate programs to mitigate against corruption, money laundering and IFF risks;
- Amend the Mining Law of 2015 to set aside appropriate and separate requirements for different types of mining licenses;

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208 Id; Global Witness (2012), "Rigged? The Scramble for Africa's Oil, Gas and Minerals", London, January, <https://www.globalwitness.org/en/reports/rigged/>.

- Secure provisions and procedures within the Mining Law of 2015 to allow for greater community participation, as well as civil society consultation;
- Amend the Mining Law of 2015 to enforce and create stringent penalties against violations of environmental norms;
- Amend the Mining Law of 2015 and concession agreements to include appropriate benefits on sharing resource wealth with local communities;
- Amend the Mining Law of 2015 to include stringent provisions to make information related to all stages of bidding processes publicly available. Such information may include timelines for submitting bids, selection and evaluation criteria and contract award decisions, as well as other critical information such as geological potential, cost recovery and length of operations.

## Extraction Operations and Regulation

### KEY RISKS

- Lack of competition
- Ill-designed local content requirements
- Lack of independence, technical and resource capacity of regulators
- Poor enforcement at national and sub-national levels
- Insufficient control and metering capacity across the value chain – transportation, storage and production
- Insufficient due diligence on intermediaries and consultants
- Poor record keeping
- Poorly defined commercial and non-commercial roles for state owned enterprises

Once a contract for exploration is awarded, the due diligence and responsibility to mitigate against risks for IFFs does not end. The operations process as highlighted earlier in this report involve numerous intermediaries and consultants, with the responsibility for oversight shouldered between several ministries and departments including: the Sudanese police force, tribal law enforcement, the Ministry of Justice, the security apparatus, the Central Bank of Sudan and the Ministry for Environment. The Central Bank of Sudan in remarks before the United Nations Conference on Trade and Development (UNCTAD) has admitted that “Although Sudan concurrently enacted two ordinances and six acts to protect the environment, the enforcing institutions are weak and fall under different ministries, further reducing co-ordination efforts”.<sup>209</sup> Sudan prosecuted its first

209 Dr Mustafa Mohamed Abdalla, “The role of the banking sector in enhancing extractive industries in Sudan”, UNCTAD (2015) available at <https://unctad.org/meetings/en/Presentation/17OILGASMINE%20Mustafa%20Mohamed%20Abdalla%20S5.pdf>.

money laundering case in 2017,<sup>210</sup> even though its financial intelligence unit (FIU) was created in 2010, as was its evaluation by MENA-FATF. This prosecutorial delay evidences that the anti-money laundering (AML) regime in the country is in many ways still in its infancy.

The Central Bank of Sudan designates the Jewelers and Gold Dealers Union as the nodal authority to supervise AML implementation in the gold sector. All reported evidence from Sudan indicates that whatever measures are currently underway are woefully inadequate. This inadequacy is a recurring problem throughout the gold regulating apparatus.<sup>211</sup> With 90 percent of the country's gold coming from the artisanal sector, and 75 to 80 percent of it being smuggled out of the country, it is clear there is little to no enforcement against smuggling and revenue losses. In 2019, Energy and Mining Minister Adel Ali Ibrahim stated in remarks to the press that "successive ministers failed to ensure concessions were awarded fairly and transparently, leading to corruption".<sup>212</sup> The admitted problems at the national level mean that in the absence of verifiable information to the contrary, it can only be expected that the problems with transparency and accountability extend to all phases of the supply chain that are contracted out or outsourced, as well as any obligations under local content requirements. This creates opportunities for choosing procurement or equipment suppliers based on non-market grounds, or for reasons that can include political capture. In the case of artisanal and small-scale mining (ASM), the high smuggling rates provide conclusive proof that there are very little controls in any stage of the process or value chain. There is also evidence of trade-based money laundering schemes in operation. In one particular case, gold smuggled out of Sudan was used to purchase stolen vehicles in Chad which were then smuggled back into Sudan. Thus, money re-enters the Sudanese economy, but its stored value is masked and difficult to detect.<sup>213</sup> It is unclear given the majority of the most valuable mining located in the conflict zones of Sudan, how effective regulation is even feasible, and that any future regulation must resolve ongoing tribal conflicts before any licensing regime can be considered effective.

Additionally, the organizing structure for supervision lacks clarity. The Sudanese Company for Mineral Resources is the designated authority to "monitor modern and conventional mining sectors".<sup>214</sup> The Sudan Ministry of Minerals is also a nodal authority for supervision along with exploration, entering into contracts on behalf of the government and the awarding of mining licenses. The activities of both the Ministry and the Company appear duplicative and it is unclear how the responsibility for commercial and non-commercial aspects of the mineral sector are

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210 "Strengthening Financial Integrity in Sudan", IMF (2017) available at [https://www.imf.org/external/np/ins/english/capacity\\_countries\\_if\\_sudan.htm](https://www.imf.org/external/np/ins/english/capacity_countries_if_sudan.htm).

211 Peter Schwartzstein, Leyland Cecco, "Sudan's new gold rush: miners risk their lives in search of riches", December 27, 2015 available at <https://www.theguardian.com/world/2015/dec/27/sudan-gold-rush-artisanal-miners>.

212 Khalid Abdelaziz, Michael Georgy, Maha El Dahan, "Exclusive: Sudan militia leader grew rich by selling gold", November 26, 2019 available at <https://www.reuters.com/article/us-sudan-gold-exclusive/exclusive-sudan-militia-leader-grew-rich-by-selling-gold-idUSKBN1Y01DQ>.

213 "Sudan crisis: The ruthless mercenaries who run the country for gold", BBC, July 20, 2013 available at <https://www.bbc.com/news/world-africa-48987901>.

214 Sudan Ministry of Minerals states this information.

distributed between them. Perhaps more worrying is that the Sudanese Company for Mineral Resources, though incorporated as a company, is the supervisory authority and not the entity responsible for entering contracts and the commercial operations of the government in the minerals sector. The blurring of commercial and non-commercial operations presents a significant red flag indicator for illicit activity.

Finally, given the importance of the gold sector to the Sudanese economy, it would be expected that the transitional constitution would more explicitly highlight the value and need for appropriate governance of Sudan's natural resources. The constitution highlights the need to address ownership of tribal lands,<sup>215</sup> reform the economy<sup>216</sup> and address the root problems of the ongoing political crisis,<sup>217</sup> but without a more explicit mandate on the subject, it is unclear to what degree reform in the sector will be implemented.

To address risks that occur during extraction, GFI recommends the Government of Sudan:

- Have the Ministry of Minerals map out the supply and value chains for the gold sector in Sudan, identifying critical roadblocks, choke points for both ASM and large-scale mining and identify points where likelihood of smuggling increases;
- Clearly demarcate the regulatory, supervisory, commercial and non-commercial roles of the Ministry and Sudanese Company for Mineral Resources within the Mining Law of 2015;
- Amend the Mining Law of 2015 to include appropriate norms for corporate governance with relevant norms for qualified individuals, independent directors and requirements on disqualification;
- Identify strategies to flag the involvement of politically-exposed persons (PEPs) in the extractive sector at both the national and sub-national level;
- Create more robust local content requirements within the Mining Law of 2015 and regulations that limit the discretionary participation of PEPs and PEP related entities;
- Mandate that the Ministry of Mining carry out an appropriate mapping of all mining titles awarded, transferred and sold, and make the information available within a public registry preferably in an online format;

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215 Art. 68 (g), Sudan Constitutional Declaration, August 2019.

216 Art. 7(3), Sudan Constitutional Declaration, August 2019.

217 Art. 7(1), Sudan Constitutional Declaration, August 2019.

- Clearly define within the Mining Law of 2015 or the Companies Law appropriate rules on privatization, shareholding and selling of shares like the Ariab Mine Company that is now private and completely owned by Sudan;
- Require government officials to disclose assets, including any ownership interests in extractive companies and require public disclosure of beneficial ownership information from corporate entities;
- Amend the Mining Law of 2015 to include provisions on the standardization of tax incentives, tax holidays and concessions in the legislation rather than changing the provisions in specific contracts and licenses to allow for independent oversight.

***Sudan should... “Improve infrastructure, maintain economic and political stability, revise investment regulations and resolve land ownership issues.”***

—ACADEMIC

## Export Processes and Financing

### KEY RISKS

- Inadequate or improper enforcement of customs clearance processes can enhance incidence of trade misinvoicing
- Weak technical capacity to undertake trade-based money laundering supervision and oversight within banking system
- Weaknesses in risk-based monitoring of politically-exposed persons, and other high-risk transactions
- Poor or absent anti-money laundering obligations on entities involved in the export process
- Inadequate financing within the formal financial sector
- Weak cross-border exchange of information
- Poor record keeping, with mismatches on production, export and import data
- Weak accounting practices

In terms of trade, the Government of Sudan should ensure the provisions of the Sudanese Customs Act are more publicly available, and the Act should be amended to include provisions on beneficial ownership, in order to ensure it is part of the customs clearance process. Any such definition of beneficial ownership introduced should be consistent with other beneficial ownership definitions introduced in Sudan. In analyzing the Sudanese gold sector, there is clear evidence of both trade misinvoicing, smuggling and repatriating gold profits through alternate channels. Examples abound of



large-scale mining companies under-invoicing customs declaration forms, moving gold through Chad, or secretly smuggling it to the United Arab Emirates and India. Such instances call for a revision of customs procedures in Sudan.<sup>218</sup> Additionally, both the Sudan Customs Authority and the Ministry of Minerals need to work in tandem to identify weak points in the supply chain that allow for smuggling operations in the ASM sector, map those accurately and then develop regulation strategies. While this report indicates that a significant amount of gold revenue is lost through air and land routes, it is unclear what proportion of lost revenue is attributable to each route.

Absent financing for the ASM sector presents a continued risk for IFFs and opens more black-market options. An annual study by the Central Bank of Sudan indicates that only 0.9 percent of financing accounted for mineral and energy financing in 2014.<sup>219</sup> In 2017, this number rose to 3.07 percent.<sup>220</sup> In remarks by the Canadian mining company Orca, this difficulty around financing is one of the reasons even large-scale companies seek financing from banks outside Sudan. Some of this is understandable, as the economic sanctions imposed by the United States on Sudan make money transfers difficult. As US-Sudanese relations improve though, Sudanese banks can expect to have greater participation, allowing them to directly conduct due diligence on the transactions and the viability of entities. In the interim, the Government should develop robust information sharing

***“Without reforms, the current economic situation appears unsustainable. Loose fiscal and monetary policies are likely to fuel high and rising inflation. Moreover, delaying reform is likely to be costly: without corrective measures, macro imbalances are likely to increase over time.”***

—ECONOMIST

arrangements and conduct its own due diligence on external financial institutions that large-scale companies rely on for financing investment in the Sudanese gold sector.

There appears to be no regulation, directives or guidance on trade-based money laundering (TBML) from within the banking sector, as well as at the level of the Sudan Customs Authority. The Government should determine to what

degree gold operations are dependent on trade finance. While there is a clear correlation in the case of large-scale mining operations, with the majority of gold coming through the ASM sector, the role of trade finance should be explored more thoroughly, and necessary guidance should be enacted. Similarly, the Sudan Customs Authority should be made aware of TBML risks; how the use of banking

218 David Lewis, Ryan McNeill, Zandi Shabalala, “Gold worth billions smuggled out of Africa”, April 24, 2019, available at <https://www.reuters.com/investigates/special-report/gold-africa-smuggling/>; Sudan seizes 241 kg of gold on suspicion of smuggling operation, May 10, 2019 available at <https://www.sudantribune.com/spip.php?article67486>; “Gold smuggling networks thrive”, April 2019 available at <https://www.africaintelligence.com/ion/business-circles/2019/10/04/gold-smuggling-networks-thrive.108375656-art>; “Five Sudanese arrested with Rs. 2 Crores in dollars”, June 7, 2018 available at <https://timesofindia.indiatimes.com/city/mumbai/five-sudanese-arrested-with-rs-2crore-in-dollars/articleshow/64486838.cms>.

219 Dr Mustafa Mohamed Abdalla, “The role of the banking sector in enhancing extractive industries in Sudan”, UNCTAD (2015) available at <https://unctad.org/meetings/en/Presentation/17OILGASMINE%20Mustafa%20Mohamed%20Abdalla%20S5.pdf>.

220 Central Bank of Sudan Annual Reports available at: <https://cbos.gov.sd/sites/default/files/2017%20english%20annual.pdf> at p.225.

and ownership information can mitigate against TBML risks; and how to design typologies around the most common methods of smuggling, TBML and trade misinvoicing in the Sudanese gold sector.

To address risks that occur during export and trade financing, GFI recommends the Government of Sudan:

- Undertake a risk assessment of the existing free trade zones of Sudan and any planned free trade zones on the money laundering weaknesses within each zone, paying attention to the enforcement range of customs authorities, reports of smuggling and the use of free zones to move extractives;
- Identify what proportion of the smuggling of gold occurs through air versus land and optimize inspection and supervision around it;
- Facilitate better access to finance for the ASM sector;
- Make forwarding agents, dealers, traders and other intermediaries along the export chain subject to anti-money laundering requirements;
- Amend the Customs Act to ensure that beneficial ownership information is available during the customs clearance process;
- Identify the risks to trade-based money laundering (TBML) through both trade and the formal financial sector;
- Identify to what degree the gold sector is dependent on trade finance and ensure that the Central Bank of Sudan creates appropriate guidance around TBML to reflect that;
- Create information sharing protocols with customs agencies in countries like the United Arab Emirates, India and Chad, or others that are identified where most of the illicit activity around Sudanese gold occurs.

***“Sudan needs to create a stable political environment that rests on peaceful and democratic transition of power, peace, inclusiveness and equality. It also needs the country to be credible in the eyes of the international community by genuinely fighting corruption and building its human capital.”***

—CIVIL SOCIETY ACTIVIST







# ANNEX

## Outline:

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## A-1. Survey Analysis Overview

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### Explanation of the Survey Design

The surveys for this report were conducted by phone with 20 respondents in Arabic by a Sudanese contractor who is well-versed in the politics and economy of the country. The answers were transcribed and then translated into English. The survey consisted of 15 questions, to which respondents answered in free-form. The respondents' names and employers have been withheld to encourage frank responses. The following is a synopsis of the responses for each question.

### QUESTION 1:

*Are you optimistic or pessimistic about prospects for the economy of Sudan and why?*

Out of 20 respondents, ten (50 percent) stated that they are optimistic about the future of the economy in Sudan. Six respondents (30 percent) expressed conditional optimism, but were hesitant to endorse optimism without qualifying their answers. Four respondents (25 percent) said frankly that they are pessimistic. This group included a communist politician, an activist, an NGO specialist and the CEO of a conglomerate telecom giant. The diversity of backgrounds in these respondents indicates a widespread view of this assessment across the professional spectrum.

It was evident that all respondents stated more or less the same reasons for their optimism and/or pessimism. The respondents cited the difficulties in securing the required development funds and the need to implement sweeping structural reforms as major hurdles to Sudan's recovery and transition. Also, the seemingly slow pace of the decision-making process and lack of economic leadership were cited as contributing factors to the nonexistent strategic planning. The US sanctions and delisting from the State Sponsor of Terrorism list were also mentioned by two respondents.

The response of one recent university graduate is worth quoting at length: *"I'm highly optimistic, but nonetheless realistic as I am aware that change doesn't happen overnight, neither does development. However, I believe we have great leaders at the moment working at breakneck speed trying to devise effective solutions to the different challenges facing our economy. Our current leaders will also ensure the optimal allocation of resources, which in turn will address most of the economic problems at stake. Nevertheless, they will lead the country to the best of their ability in the right direction."*

## QUESTION 2:

*Which sectors of the economy do you feel have the greatest potential and why?*

On which sector of the economy has the greatest potential, there was a clear consensus among respondents on the importance of agriculture as the backbone of Sudan's economy. All 20 respondents (100 percent) ranked the agriculture sector as the sector with the greatest potential. This was followed by livestock, which appeared in 70 percent of the answers, followed by minerals, which received mentions 55 percent of the time. Oil was the fourth most-mentioned sector, scoring 30 percent, whereas gas and gold each scored 10 percent. One respondent mentioned expatriate remittances from neighboring countries as a source of income to the government and another mentioned food security as a potential source of income.

In regards to the second part of Question 2, almost all respondents gave identical answers, citing the vastness of Sudan and its high levels of water resources from both the Nile River and the heavy rainy season. The respondents also mentioned the large deposits of many precious minerals, such as gold and chrome, in Sudan, as well as the country's oil reserves.

## QUESTION 3:

*What should be done to stimulate the agriculture sector?*

The respondents gave varying answers on how best to stimulate the agricultural sector. Forty percent of the respondents supported the use of technology transfer, whereas 30 percent supported the adoption of mechanization and the building of large farms. The respondents, some of whom do not work directly in the agricultural field, gave very detailed answers. For example, below are two selected responses, from people who are both leaders in civil society, revealing the depth of the involvement and the degree of importance that Sudanese NGO organizations assign to agricultural and farmers' issues.

*"First, fix the irrigation system in the irrigated schemes. Second, stimulate an increase in production and productivity by product price incentive, subsidies of agricultural inputs such as pesticides, improved seeds, herbicides, fertilizers, extension services, etc. Third, improve marketing channels and opportunities for small farmers' produce and fourth, build the urgently needed infrastructure in production areas such as roads to transport produce to consumption centers, refrigeration facilities for seasonal produce, local manufacturing for products for export and local consumption."*

*"Stabilize the supply and proxies of inputs, improve financing for subsistence farmers, introduce processing of primary agricultural and livestock products to put an end to their export as raw materials, improve research and introduce more productive varieties of agricultural products, both plant and animal, and improve expansion services to small farmers."*

Some respondents also mentioned the importance of research and development (R&D), vocational training, infrastructure development, providing incentives to foreign investors, reducing taxes and tariffs, to name a few. Another mentioned the “especially serious challenge” climate change poses to Sudan’s agricultural sector, saying, *“Also, it is imperative for farmers to change traditional farming methods and adopt climate-smart practices (e.g., stress tolerant seed varieties) for sustainable agriculture and to ensure food security.”*

#### **QUESTION 4:**

***What should be done to stimulate the manufacturing sector?***

Eleven respondents in total (55 percent), suggested increasing foreign investment and joint ventures as a vital issue, while half of the respondents ranked technology and technological capacity as the other important factors needed to stimulate the industrial sector.

Six respondents suggested a capital infusion from both domestic and foreign sources, along with increased economic planning and policy incentives. Tax and tariffs reduction, adequate power supply and enhancement of electricity infrastructure were suggested by 15 percent of the respondents.

Two respondents maintained that their answers to Question 3 were also applicable here. Only one respondent expressed his unhappiness with the current state of the manufacturing sector. The respondent, an economist at a prominent Sudanese bank, asserted that, *“We have seen many imitations in this respect. But no real impact on the ground.”*

#### **QUESTION 5:**

***What should be done stimulate the resource sector?***

The majority of respondents understood the question about resource development to mean human resources. As such, many answered the question focusing on issues such as training, expansion of polytechnic education, economic planning and best business practices techniques. Six of the respondents (30 percent) of the total sample, suggested investment-fusion, vocational training and best business practices as their number one choice.



Meanwhile, economic policies, enhancement of the investment environment and access to information technology were mentioned by a fewer number of respondents, 15 percent each.

#### QUESTION 6:

***What should be done to expand trade on both imports and exports?***

The respondents gave almost equally varying numbers of responses to this question. Five respondents indicated that a reformed exchange rate is rather imperative to have to engage in lucrative trade deals, while another group of five called for an overall reform of trade policies and particularly mentioned a review of tariffs and customs. There was a consensus among the respondents on the urgency to expand access to local markets and improving infrastructure by investing in a modern transport system as a requisite to tap into neighboring markets. Two respondents reported building free trade zones at the border with Sudan's neighbors to help expand trade. One respondent noted that joining the World Trade Organization would be beneficial, which speaks to the isolationism Sudan has endured for the last thirty years under the recently toppled dictator, Omar El-Bashir.

#### QUESTION 7:

***What should be done to expand financial and banking services?***

This question received a wide range of answers, covering many aspects of financial and banking services. The answers ranged from noting the necessity to introduce some basic concepts, such as formal banking and financing cultures, to the more sophisticated issues, such as the need to subject all Sudanese banks to stress tests to maintain transparency. Generally, respondents weighed heavily on the importance of having international corresponding banks, launching wide-scale reform efforts, leveraging technology and fighting corruption. One respondent, a senior official affiliated with a top Sudanese bank, furnished a brief, but rather detailed status report when he asserted the following, *"At the end of 2019, the financial system comprised of 37 banks, 36 non-bank financial institutions and more than 30 microfinance institutions. Banking is the dominant segment, accounting for more than 90 percent of total financial system assets."*

#### QUESTION 8:

***Is increased foreign investment desirable? If so, what should be done to make Sudan more attractive to foreign investment?***

In answering the first part of the question, (Is increased foreign investment desirable?), 15 respondents (75 percent) answered yes. One respondent, however, despite his agreement, explained that it should come with conditional strings attached – *“Yes, only if it charges a reasonable interest rate (fees) and comes with favorable conditions. Sudan is strangled by the foreign debt (and loan service charges), which is now approaching US\$60 billion. No repeat of this!”*. Another respondent also gave a qualified response: *“Yes, but [it] must be governed by a transparent disclosure system of bidding and contract awarding processes to avoid the corruption and sweet-deals acquisition by foreign investors.”*

With the exception of one respondent, all remaining 19 respondents (95 percent) of the sample were in favor of taking the necessary steps to attract foreign investments. They offered detailed suggestions to attract foreign investments that included reforming existing laws, doing more to attract investors, allow the transfer of profits and ownership assets including the transfer of land, as well as a review of tax and tariff structure.

A particularly noteworthy response came from a respondent who expressed concern with increasing foreign investment: *“Genuine anti-corruption and anti-money laundering measures and strict punishment for illicit financial activities are necessary to improve Sudan’s investment environment. Right now, Sudan remains unworthy of the trust of international investors because of the pervasiveness of grand corruption.”*

#### QUESTION 9:

***Should the government take a stronger hand in the economy, or adopt a more modest position in the economy?***

It is imperative to remember three facts as we review respondents’ answers to this question and why they favored the strong government. First, Sudan has a steep history of toying with socialism, central planning and encompassing the role of government and offering public services. This left-leaning socio-political orientation has produced a very strong trade union culture in the country. Secondly, as a result of its colonial past and being a socialist-influenced state at one point, a free market economy is a relatively new concept in Sudan, which has only a small group of advocates and continues to be resisted and fought by many organizations and political parties. Thirdly, the influence of trade unions, especially those of doctors, engineers and other highly educated professionals, has led to political change in Sudan and mobilized the masses to topple three of Africa’s long-serving dictatorships.

Given the above explanation, it was not surprising to see that only one respondent, working in the private sector, voiced frank support for a free market economy. The tally of those in favor of the strong government (6 in total), compared with those supporting a modest governmental intervention in the economy (7 respondents) indicates a growing new trend in favor of embracing a smaller role for the government in the economy. The answers of the remaining 7 respondents exhibited a readiness for change. Notably one respondent, an official with a government ministry, supported both positions: *“Both! The central government needs to author firm investment laws that are applicable to individual states. Also, the government should minimize its regulations and loosen its grip in favor of a ‘free economy.’”* Another respondent from the private sector also voiced support for both positions: *“Strong involvement at the beginning then total liberation of all sectors.”*

#### QUESTION 10:

***What can and should be done to curtail inflation?***

The respondents voiced support for varying fiscal and monetary policies to curb inflation. Most respondents pointed to the need to stabilize the Sudanese currency and establish floating exchange rates, while also abolishing the black-market exchange rate. Two respondents called for the enactment of *“strong”* or *“rigid”* monetary policies. A few unique responses included a call to introduce a virtual currency and a suggestion that the Central Bank of Sudan start buying informal gold.

One respondent, a former government official, gave a comprehensive reply: *“Balance the general budget (where earnings equal government expenditure) then slowly move to gradually achieve a surplus in the internal current account to finance development projects using available resources as opposed to making overdraft, deficit, borrowings. Then, kick start the productive sector to increase supply and decrease the demand for the surplus.”*

#### QUESTION 11:

***Is corruption a problem? If so, who should fight corruption – the government, civil society, religious leaders?***

When asked if corruption is a problem, all 20 respondents (100 percent) answered “yes.” Eight respondents (40 percent) said the government should lead the charge in fighting corruption, while 12 respondents (60 percent) said that all stakeholders had a role to play in combating corruption. A few respondents indicated that a cultural change, or even a *“cultural revolution”*, is needed to combat corruption, indicating the perceived depth of corruption in Sudanese society.

#### QUESTION 12:

***Is crime affecting the economy? If so, which parts of Government and society are most effective in fighting crime?***

Seventeen respondents (85 percent) responded that yes, crime is affecting the economy, while three respondents (15 percent) said no, crime is not affecting the economy. In regards to the second question, five respondents (20 percent) said that efforts from all corners of society are needed to combat crime, while others explicitly identified local government, the judiciary and the broader government as the most effective in fighting crime. Two respondents independently commented on the severe impact white collar crime has on Sudan's economy, while another suggested calling for more prisons to be built.

#### QUESTION 13:

***What do you think are the one or two most important things to do to maximize the economy of Sudan?***

The answers to this question varied greatly. Five respondents (20 percent) identified foreign direct investment as one of the most important things to do to maximize Sudan's economy, while three respondents (15 percent) commented that fighting corruption will be crucial to this task. Others identified the need to invest in human capital, by creating more jobs, supporting civilian leadership, raising public awareness and the minimum wage, and improving worker skills in technology.

One respondent, a recent university graduate, commented at length on the need to achieve political stability, something the other respondents appeared to take for granted. This respondent elaborated: *"Conflict prevention is usually seen as a purely political matter, but empirically the major determinants of the risk of war are often economic"*, and identified a conflict-development *"trap"*:

*"The relationship between conflict and development works in both directions. As well as conflict being detrimental to development, development reduces the risk of conflict. This interdependence creates a trap. Time is needed for development, but in each time period there is a risk of conflict. If a country starts from poverty, slow growth and primary commodity dependence, it is likely to lapse into conflict before it has had the time to develop its economy. In turn, the conflict can sufficiently slow development so that, even when the country returns to peace, it is likely to fall back into conflict before having had sufficient time to develop."*

#### QUESTION 14:

***Should Sudan simultaneously seek to maximize its economic influence in the region?***

Out of the twenty respondents, a solid majority of 16 respondents (80 percent) said they would rather see Sudan more focused on internal affairs.

Only four respondents (20 percent) were open to the idea of Sudan maximizing its economic influence in the region. One such respondent answered: *“Yes. Sudan has major comparative advantages over many neighbors in the region. With a sound economic plan that has that angle in consideration, Sudan could be very influential economically.”* In contrast, another respondent commented, *“No, Sudan should look for cooperation with its neighbors more than influence or competition.”*

#### QUESTION 15:

***Should Sudan take steps to maximize its stature and reputation globally? If so, what steps are most important?***

In contrast to answers to the previous question, a majority of 16 respondents (80 percent) voiced support for Sudan to maximize its stature and reputation globally, while four (20 percent) did not support this view. However, two of those four (10 percent) did qualify their responses by saying that Sudan should seek to do this later, or in the future. Two respondents (10 percent) identified the need for Sudan to be removed from the US State Department State Sponsor of Terrorism List as key to rehabilitating Sudan's reputation globally. One of the respondents, a young female activist, answered that Sudan *“should seek cooperation and assistance from the international community without getting involved in military or non-peaceful regional alliances.”*

It is interesting to note the flipped results between the answers for Questions 14 and 15. This suggests that respondents think it is too soon for Sudan to capitalize on its economic influence regionally, but the respondents are ready to see Sudan's stature rise globally. Certainly, Sudan has much to be proud of following the Sudanese protests from 2018-2019 that toppled the decades-long dictatorship of Omar al-Bashir.

## A-2. Sudan Surveys Spreadsheet

### Synopsis of Surveys Conducted with 20 Respondents

INTERVIEW NUMBER	NAME	PROFESSION	Q1	Q2	Q3	Q4	Q5	Q6
			Optimistic or pessimistic about Sudan's economy?	Sectors with most potential	How to stimulate agriculture?	How to stimulate manufacturing?	How to stimulate resource sector?	How to expand imports/ exports?
1	Abdulgadir Turkawi	Ministry of agriculture	Optimistic	Livestock, agriculture, oil	Investestablish in technology and modern farming equipment	Skilled labor and foreign direct investment	Funding for polytechnic education	Join WTO and boost production of competitive goods
2	Siddgi Kablo	Economist Sudan Communist Party	Pessimistic	Agriculture, industry, livestock	Employee people in intensive (infrastructure?) projects	Use agricultural products as basis for massive manufacturing revolution to eradicate hunger	Vocational training and technical colleges	Diversify agriculture production and focus on those that can bring most foreign currency
3	Tigani Eltayeb	Foreign Minister of Finance	Optimistic	Agriculture, oil, minerals	Capital investments, reduce tax and tariffs, exchange rate near black market rate	Capital investments, reduce tax and tariffs, exchange rate near black market rate	Capital investments, reduce tax and tariffs, exchange rate near black market rate	Lower tariffs, make foreign currency available in banks, make exchange rate competitive
4	Enass Muzamil	Social activist	Pessimistic	Agriculture, livestock, minerals, oil	Invest in foodstuffs	Capital investment and technical expertise	Foreign direct investment and capital investment	Increase value-add on products, create free trade zones, invest in transport infrastructure
5	Mubarak Ardol	Sudan Minerals	Optimistic	Agriculture, livestock, minerals, natural gas	Seek foreign direct investment and technology transfer in irrigation and farm operations	Partnerships and joint ventures, technology transfer, more capital investment	Adopt best practices, capital infusion	Sign bilateral trade agreements, support farmers
6	Mohamed Hashim	Ministry of Oil	Optimistic	Agriculture, livestock, oil, minerals	Capital and technology infusion	Capital and technology infusion	Capital and technology infusion	Reduce tariffs
7	Faith Keer	Entrepreneur	Both!	Mining, agriculture, livestock	R&D, foreign direct investment, mechanization	Boost investment and training	Boost capital investment	Join WTO
8	N/A	Office of Irrigatin and Water	Optimistic	Agriculture, minerals, livestock	Capital and technology infusion	Foreign direct investment and technology transfer	Investment and management improvements	Create free trade zones, negotiate bi-lateral trade agreements

## Synopsis of Surveys Conducted with 20 Respondents (continued)

Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15
How to expand financial services?	Increase Foreign Direct Investment?	Government control of economy	How to curb inflation?	Corruption a problem?	Crime a problem?	How to spur economy?	Should Sudan maximize economic influence in region?	Should Sudan maximize its global influence?
Delist Sudan from State Sponsor of Terrorism list, pay debt, establish relationships with corresponding banks	Yes. Especially in agriculture sector	Moderate	Fix prices and abolish black market	Yes. Government	Yes. All of society	Enact reforms, foreign direct investment	No	No
Reform financial regulations and make banks part of development efforts. Consider community banks to help labor force	Yes	Yes	Equal distribution of resources and end exploitative policies	Yes. Government	Yes. All sectors must help	Put people to work, create strategic development plan	No	No
Establish relationships w/ correspondent banks	Yes. Reduce inflation and floating exchange rate	Moderate	Balance budget	Yes. All stakeholders should help	Yes. Create jobs	Capital investment	No	Yes. Remove SST designation
Increase regional trading and establish correspondent bank relationships, reduce regulations	Yes	Moderate	Control prices and reasonable exchange rates	Yes. Government	Yes. Government	Civilian leadership, huge capital investments	No	Foreign aid and non-military regional alliance
Create investment opportunities and increase awareness of savings plans	Yes. Increase marketing/advertising	Moderate including price controls	Control money supply	Yes. Government	Yes. All of society.	Raise public awareness	Yes	Not yet
Create more banks and increase lending	Yes. Allow profits to leave country, reduce taxes	Light	Stabilize currency and reduce foreign aid	Yes. All stakeholders should help	Yes. Government	National plan to revive economy, set economic targets	No	Yes
Increase banking awareness, encourage agriculture and small business	Yes.	Strong at first then moderate	Implement strong fiscal and monetary policy	Yes. All stakeholders should help	Yes. All of society. Build more prisons	Better planning	No	Yes
Hire best and brightest	Yes. Reduce regulations and allow firms to shift profit abroad	Moderate hand	Control money supply	Yes. Government	Yes. Government	Foreign direct investment and tech transfers	No	Yes



## Synopsis of Surveys Conducted with 20 Respondents (continued)

INTERVIEW NUMBER	NAME	PROFESSION	Q1	Q2	Q3	Q4	Q5	Q6
			Optimistic or pessimistic about Sudan's economy?	Sectors with most potential	How to stimulate agriculture?	How to stimulate manufacturing?	How to stimulate resource sector?	How to expand imports/ exports?
9	Hawaa Jadeed	Woman empowerment activist	Optimistic	Livestock, agriculture, mining	Capital and technology infusion	Technology transfer, training, funding	Capital and technology infusion	Increase production, develop banking system and open new markets
10	Yassir Aman	Sudan Popular Lib Army	Optimistic	Oil, agriculture, livestock	Foreign direct investment, technology transfer, vocational training	Foreign direct investment, technology transfer, vocational training	Strategic plan and joint ventures needed	Joint ventures and lower tariffs
11	Adil Ali Salih	Sudan Congress Party	Pessimistic	Agriculture, minerals, livestock	Capital investment, industrialization and big scale farms	Joint Ventures, foreign direct investment and technology transfer	Capital and technology infusion	Invest in infrastructure and enhance transport system
12	Ahmed Ghattan	Former PM Off. Director	Optimistic	Agriculture, minerals, livestock	Invest in technology and modern farming equipment	Technology transfer, training, investment	Vocational training and technical colleges	Joint ventures and induce demand for goods to create jobs
13	Amir Hamid	Telecom Consultant	Optimistic	Agriculture and mining	Decrease production costs and improve irrigation	Improve infrastructure, invest in technology, provide incentives	Increase investment in downstream industries	Improve logistics and transportation
14	Anwar El-Haj	Ex. Dir. Sudan Democracy First	Optimistic	Agriculture and livestock	Improve marketing channels for agriculture	Enact flexible import substitution policy for some imports, reduce taxes and regulation	Did not answer	Increase agriculture production, reduce regulations, more lending to spur business
15	Dr. Ali Askori	Min. of National Economy and Finance	Optimistic	Gold/minerals, agriculture and livestock	Technology and capital infusion	Technology and capital infusion	Training and new technologies	Lower regulations and tariffs
16	Suliman Baldo	CivSoc Expert	Pessimistic	Agriculture, livestock	Improve financing for subsistence farmers, improve research to improve agriculture and livestock sectors	Regular and affordable electricity, reduce taxes	Remove government companies from mining sector	Cut the middleman!

## Synopsis of Surveys Conducted with 20 Respondents (continued)

Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15
How to expand financial services?	Increase Foreign Direct Investment?	Government control of economy	How to curb inflation?	Corruption a problem?	Crime a problem?	How to spur economy?	Should Sudan maximize economic influence in region?	Should Sudan maximize its global influence?
Partner with large foreign banks	Yes. Incentives needed	Moderate hand	Stabilize currency with floating exchange rate	Yes. All stakeholders should help	Yes. Policy and judiciary are key	Reform structural imbalances and encourage agriculture, foreign direct investment	No	Yes
Reform bank sector, foreign direct investment, reduce regulations	Yes. Seek foreign direct investment and allow profits to leave country	Light	Reform financial and fiscal policy	Yes. All stakeholders should help	Yes. Judiciary and police are key	FDI	No	Yes
Open the market, ease borrowing guidelines, devise credit rating system	Yes	Strong	Abolish black market exchange rate and create a floating exchange rate	Yes. All stakeholders should help	Yes. Security and judiciary should play key role	Sound management, government fiscal discipline	No	Yes
Capital infusion in banking system and encourage borrowing	Yes. Reduce taxes and allow profits to leave country	Moderate (follow WTO)	Stabilize currency and establish floating exchange rate	Yes. All stakeholders should help	Yes. All of society	Foreign direct investment, lower tariffs, reduce interest rates to encourage borrowing	No	Later
Political stability, investment laws, reduce corruption	Yes. Political stability	Weak hand (free market)	Higher interest rates, control money supply, higher income tax	Yes. All stakeholders should help	Yes. Anti corruption body needed	Decrease government spending and contain inflation	Yes	Yes
Micro financing, fight corruption	Yes. Strengthen Central Bank independence	Moderate hand	Adjust interest rates and introduce floating exchange rate	Yes. All stakeholders should help	No	Reduce corruption and establish a sound economic plan	Yes	Yes
Create network of foreign correspondent banks	Yes. Reduce regulations	Strong hand	Enact rigid monetary policies	Yes - all groups	Yes - government. Judiciary has key role.	Attract investment and follow 10-year plan	No	Yes
Implement stress tests for banks (some are failing) and phase out government entities as bank shareholders	Not now. "Genuine anticorruption and anti-moneylaundering measures and strict punishment for illicit financial activities are necessary to improve Sudan's investment environment."	Strong	Reduce public expenditure and increase value add on exports	Yes. All stakeholders should help	Yes. White collar crime is a problem	Address issues previously mentioned	No	Yes. Fight corruption in the economy

## Synopsis of Surveys Conducted with 20 Respondents (continued)

INTERVIEW NUMBER	NAME	PROFESSION	Q1 Optimistic or pessimistic about Sudan's economy?	Q2 Sectors with most potential	Q3 How to stimulate agriculture?	Q4 How to stimulate manufacturing?	Q5 How to stimulate resource sector?	Q6 How to expand imports/ exports?
17	Farouck El-Nour Hussien	Sudan Bank	Pessimistic	Mining, agriculture, livestock	Did not answer	Did not answer	Fight smuggling	Supply side reform, exchange rate
18	El-Fatih Erwa	CEO Zain Telecom	Pessimistic	Agriculture, technology such as power generation	Technology in production, waive taxes, local financing	Investment in production	Foreign direct investment	Promote exports
19	Ismail Abbo	UMST - Econ	Optimistic	Agriculture	Invest in infrastructure	Review taxes, improve electric supply, technology and vocational training	Improve domestic investment climate	Realistic exchange rate, control inflation
20	Faye Omar	Economist	Optimistic	All sectors are of equal importance	Address climate change	Reduce red tape and incentivize production	Encourage innovative technologies	Increase number of agriculture products being exported and create value added products

## Synopsis of Surveys Conducted with 20 Respondents (continued)

Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15
How to expand financial services?	Increase Foreign Direct Investment?	Government control of economy	How to curb inflation?	Corruption a problem?	Crime a problem?	How to spur economy?	Should Sudan maximize economic influence in region?	Should Sudan maximize its global influence?
Did not answer	Yes	Moderate	More lending, Central Bank should buy informal gold	Yes. Government	Yes. "Money laundering [and] illicit flows both... have a severe impact on government and society"	Fight corruption	No	Yes. Off SST
Complete liberation, tighten borrowing to counter corruption	Yes. Infrastructure	Moderate	Liberalization of currency	Yes. All stakeholders should help	No	Lift subsidies and raise minimum wage	Yes	Yes
Promote banking and finance culture	Yes. Revise investment regulations and resolve land ownership issues	Moderate	Balance budget, firm monetary policy, realistic exchange rate	Yes. Government	No	Improve skills (tech training) and investment environment	No	Yes
Improve financial inclusion and improve regulations	Yes. Create good legal framework to prevent expropriation	Strong hand	Introduce a virtual currency and don't print money to cover expenses	Definitely - Government	Definitely - Local governments	Political stability and conflict prevention	No	Yes



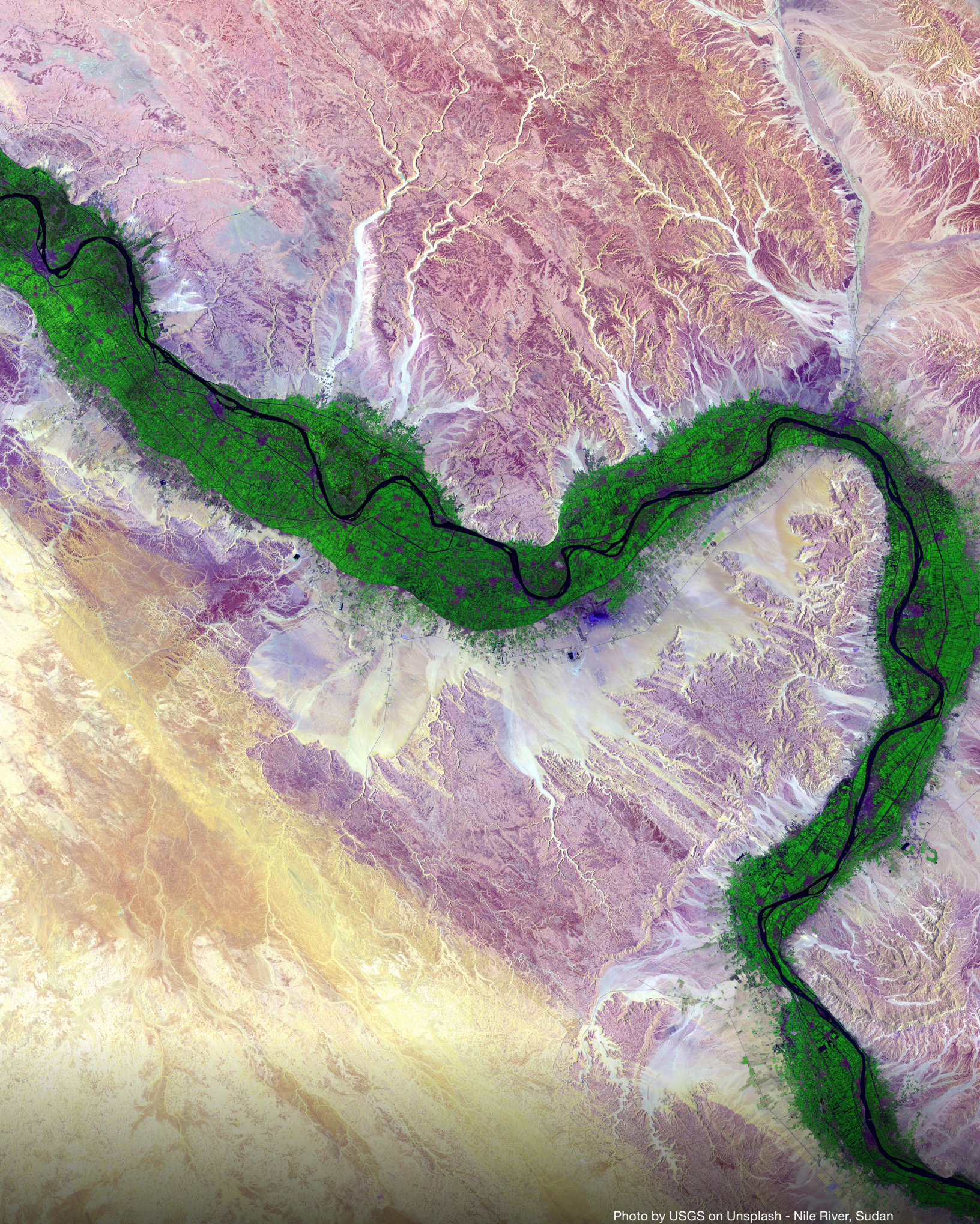


Photo by USGS on Unsplash - Nile River, Sudan



## About

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Global Financial Integrity (GFI) is a Washington, DC-based think tank, focused on producing high-caliber analyses of trade-related illicit financial flows, advising governments on effective policy solutions and promoting pragmatic transparency measures in the international financial system as a means to global development and security.

Every year, trade misinvoicing (i.e. trade fraud) creates a value gap of hundreds of billions of dollars in emerging market and developing economy countries, resulting in massive losses of related duties and value-added taxes. This has a corrosive impact on growing economies and the ability of the international community to achieve the UN Sustainable Development Goals by the 2030 deadline. GFI is committed to constructively engaging with policymakers, civil society, the press and other relevant stakeholders to develop effective, pragmatic policy solutions in pursuit of curbing illicit financial flows.



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