

Sudan



COUNTRY BRIEF

THE SENTRY

Dismantling the Financing of Africa's Deadliest Conflicts

Country Brief: Sudan. July 2015.

The Sentry is an initiative of the Enough Project, with its supporting partners C4ADS and Not On Our Watch (NOOW).

Photo Credit: AP Photo/Abd Rouf
Sudanese soldiers cheer during a visit by
Vice President Ali Osman Mohammed Taha in the Blue Nile state, Sudan.

Executive Summary.

Despite nearly two decades of sanctions and several International Criminal Court arrest warrants, the Bashir regime remains solvent and relatively self-sustaining. It maintains the ability to fund and wage multiple violent counterinsurgency campaigns in the country's periphery, as well as the means to silence popular dissent in the interior. It does so in large part through a large network of entities and interests spread across the economy that are constantly adapting to work around current sanctions and regulatory frameworks. There is a significant lack of publicly available information on these networks that generate revenue on behalf of the regime and help manage the regime's finances.

This brief begins to address this information gap by outlining the Bashir regime's economy. The typologies in this brief are derived from and reflect real-life examples and are supported by disparate open sources that include global public records, media reporting, government documentation, and independent investigation. These typologies are not meant to be seen as exhaustive or definitive, but rather as representative of broader trends of corruption and illicit activity. Throughout the entirety of this report, an illicit activity is defined as an activity that could be perceived as contrary to international norms and standards, but is not necessarily illegal. As such, no illegality is implied by the content herein unless explicitly stated.

We identify seven key trends that represent regime support networks in Sudan:

- I. Convergence of Licit and Illicit Financial Systems
- II. Disguised Beneficial Ownership
- III. Regulatory and Sanctions Evasion
- IV. Elite Financing and Offshored Assets
- V. Security Sector Procurement and Abuse
- VI. Corruption and Political Nepotism
- VII. Extractives and Resource Trafficking

Mapping and disrupting the regime's financial empire is critical to affecting the levers by which Bashir's Sudan maintains its iron grip on the economy and the country. Targeting the regime's financial assets is likely to be a critical source of leverage over a regime that today is still indifferent to international pressure, and remains committed to a violent military-centric strategy towards Darfur, and other conflict areas, with casualties resurging to levels unseen in almost a decade. Effective strategies must target the key beneficiaries of this system, none of whom operate in a vacuum. Instead, many perpetrators of violence rely on a wide network of facilitators who are not directly connected to the violence, but who, knowingly or unknowingly, provide the means to access and then launder funds towards their personal use. Further, these regime economic interests have shown themselves to be extremely damaging to Sudan's economy itself, crowding out civilian entrepreneurship in favor of regime-linked entities and institutions that profit even as the broader economy suffers. These economic networks are also the most vulnerable to international action. While international peacekeepers and others struggle to contain perpetrators of mass atrocities in the field, their institutional enablers necessarily rely on international systems of finance, trade, and transportation to sustain their activities. These points of convergence, where illicit schemes rely on legitimate global financial and transport infrastructure, at times represent the most profitable and vulnerable links in the conflict value chain. This point of convergence is where international policy, enforcement, and regulatory efforts are best suited to have the most enduring impact.

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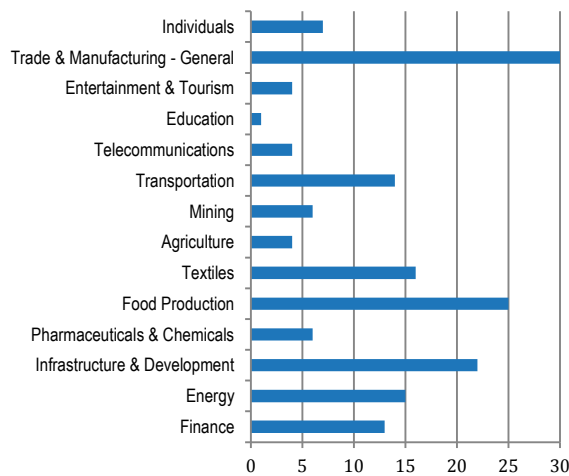
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Context.

The Bashir regime has defied most expectations by remaining in power for a quarter century. It has weathered international and regional isolation, International Criminal Court arrest warrants, and multi-national sanctions against 161 different entities across every sector as seen in figure 1.1. Despite a concerted effort by the international community, the Bashir regime remains functional. Its sizable military and irregular forces continue to wage multiple military campaigns, its internal security and intelligence agencies retain a vice grip on any dissent, and its large loyalist networks remain enmeshed in the regime's vast patronage system.

Our analysis of the Bashir regime reveals that across all sectors, the regime has an iron grip on the economy that allows it to generate revenue, including financial flows not represented in official statistics. Within this regime-controlled economic system, different institutions and elites maintain their own vast financial and corporate networks. These include members in the regime, the National Intelligence and Security Service

Figure 1.1: Existing Sanctions by Sector



(NISS), and the military, acting on behalf of themselves and their institutions. Additionally, the state itself is represented through the ruling National Congress Party (NCP), which maintains large holdings, including government owned and affiliated linked parastatals that dominate and monopolize key revenue-generating sectors in the economy. Complementing this, and maintaining an interface with the outside financial system, the regime also maintains significant influence within the banking sector, including within some banks that fall outside the current sanctions framework and claim banking access to the global financial system. The depth of regime control on the economy has severely disadvantaged and sidelined the average Sudanese citizen and businessman, most of whom were already suffering under the bleak economic environment.

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Trends and Typologies.

The following typologies attempt to categorize and provide over-arching examples of how the Bashir regime sustains itself in Sudan. No illegality is implied unless explicitly stated; rather, the goal of this report is to frame the current political and regime economy in Sudan to reflect the endemic corruption that sustains Bashir. The seven identified typologies are as follows:

I. Convergence of Licit and Illicit Financial Systems.

Regime-linked entities maintain a commanding presence in most strategic economic sectors. A good example is the banking system. Roughly a quarter of the Sudanese banking system is sanctioned by the United States Department of the Treasury and has been placed on the Specially Designated Nationals (SDN) list. These blacklisted banks have become relatively isolated as many large Western banks have, according to press reports, severed financial ties with at-risk banking jurisdictions that contain sanctioned banks. Beyond these sanctioned banks, though, other banks are also either majority owned by the government or are cumulatively owned by sanctioned and regime-linked entities. The Military and the NISS, as exemplified by management and investment structures, have entrenched themselves in a number of Sudanese banks. Further, there is a high degree of connectivity between sanctioned banks and regime-linked banks within Sudan through self-claimed correspondent relationships. These correspondent relationships extend into the global financial system, providing potential conduits through which regime and illicit money could be placed and layered through the international financial system.

II. Disguised Beneficial Ownership.

Regime elites have disproportionately benefited from an endemic system of political nepotism where those closely linked to Bashir or strongly supportive of the NCP become the beneficiaries or beneficial owners of some of the country's largest companies. While the cumulative wealth extracted from the Sudanese economy by regime elites remains unknown, there is reason to believe that they have benefited greatly from their manipulation of the economy. In this regard, there have been multiple, publicly distributed reports that claim to link large real estate and property holdings outside Sudan to regime elites.

III. Regulatory and Sanctions Evasion.

While 161 companies have been named in the Department of the Treasury's SDN list as being sanctioned, the current Sudan-related sanctions mandates were only last updated in 2006 through Executive Order 13412, with the most recent addition to the list in 2007. Since the sanctions framework was last reviewed, many companies have set up additional subsidiaries, changed their operating titles, or drastically reduced their public presence. In particular, these changes have occurred in key revenue generating sectors, such as banking and extractives. Estimates vary depending on the source, but there is reason to believe that hundreds of additional companies operating inside Sudan, both government-controlled and private entities, are closely controlled by, or act on behalf, of the regime, but are not explicitly listed in enforcement guidance.

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IV. Elite Financing and Offshored Assets.

Bashir, members of his family, and regime loyalists are widely reported to be key beneficiaries of regime-controlled revenue streams. They have apparently accumulated the wealth to own large estates in Sudan in towns such as Kafouri and Shendi. For instance, Kafouri today is where President Bashir maintains a large compound and estate. On a state visit to Khartoum in 2007, then-Chinese President Hu Jintao announced a 100 million yuan, or roughly US\$16 million, interest-free loan to finance a new presidential palace for al-Bashir. Inaugurated on January 27, 2015, the building covers over 25,000 square meters. As reported by multiple independent sources, it appears that regime elites have also acquired property abroad, including in the UAE, Ethiopia, Malaysia, China, and Turkey, as well some in Western jurisdictions such as Europe, the U.K., and the U.S. It has also been widely reported that some in the regime's inner circle have amassed enormous wealth, even though to date there have been no asset freezes or major corruption investigations related to senior regime officials.

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V. Security Sector Procurement and Abuse

It has been estimated that almost 70% of government spending is allocated towards the security sector, a claim supported by the regime's ability to maintain its capacity to wage multiple military campaigns and to fund a robust security sector. The military today appears almost entirely self-sufficient in servicing its basic wartime needs, and by several accounts, the newest wave of militia mobilization in the Rapid Security Force (RSF) has been far better equipped and supplied than its Janjaweed predecessor. Further, a United Nations report indicates that the intelligence services, and the NISS in particular, maintain an Economic Section. It has also been reported that some senior military and intelligence officials staff prominent companies in strategic sectors, such as banking and telecommunications that continue to have close association with the security services.

VI. Corruption and Political Nepotism.

In Sudan, political connections to Bashir and the NCP can provide a significant advantage for business competition, often trumping merit. Government ministers and high-ranking NCP officials regularly receive large government contracts. In today's current environment of economic hardship, this political nepotism is particularly damaging and appears to be crowding out the mainstream economy and stifling entrepreneurship. As identified by Sudan's 2010 Auditor General's audit report, many companies have enormous budgetary discrepancies as hundreds of millions of dollars have disappeared. Further, in the absence of willing contributors to regime support, the Bashir regime can simply rely on coercion or arbitrary taxation to raise funds in times of need.

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VII. Extractives and Resource Trafficking.

Exerting control over the gold sector is perhaps the greatest economic priority for the regime today. With significant losses in the oil sector, gold's contribution to the economy has increased substantially. In January 2015, Sudan's Minister of Minerals reported 73.3 tons of gold production in 2014, according to local media. While the percentage of gold exported is unclear, figures reported in the latest statistical digest of the Central Bank of Sudan from January 2014 to December 2014 suggest growth in the country's gold sector. In this digest, gold was reported to now constitute 29% of exports, valued at US\$1.2 billion, as compared to oil's share of 25%, valued at US\$1.09 billion. As a result of the increased importance of gold, the government has taken extraordinary measures to control as much of the gold industry as possible, attempting to control all nodes of the gold value chain from the mines to the refinery. Despite losses in the oil sector since the independence of South Sudan, the Bashir regime is tightening its grip on ancillary revenue generators in the sector. As South Sudan lacks the infrastructure and stability to maintain refining capabilities, South Sudan's crude oil must be sent northwards to Sudan, accompanied by heavy transportation and compensation fees paid to the Sudanese government.

Conclusion.

The Bashir regime sustains itself and its activities through its control of the economy. While pressure from sanctions and arrest warrants has severed most direct economic links with the West, the regime has maintained economic relationships with much of the Gulf, allowing Sudan to preserve its economic footholds. Its financial holdings encompass major industrialized segments of the economy that are necessarily well connected to international systems of finance, trade, and transportation. These financial holdings, which encompass networks of companies, contracts, and other financial interests, directly and indirectly support the regime's vast national security apparatus and keep core elites and factions bought into the system.

These networks also, however, represent a key source of vulnerability for the regime in that they explicitly rely on legitimate global financial infrastructure, where international policy, enforcement and regulatory efforts are likely to have the most enduring impact. Sudan's economy features elaborate and endemic systems of corruption and sanctions evasion that, there is reason to believe, extend beyond its own borders. While placing pressure on individual actors in Sudan might be difficult and will certainly lack effectiveness, exerting pressure on the international and domestic networks of revenue generation that are linked to the regime has the potential to raise the price of conflict to an untenable level. The individual perpetrators of conflict might be relatively sequestered from international pressure, but their economic networks that indirectly fund conflict are not.

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