



## Sudan Struggles to Control Its Parastatals

By Suliman Baldo

As members of the Friends of Sudan donor group, international financial institutions, and corporations weighing investments in Sudan meet in Paris this week at the invitation of the French government to discuss debt relief, investment opportunities, and economic support to strengthen Sudan's civilian-led democratic transition, the latest economic reform made by the transitional government risks receiving little attention.<sup>1</sup> On April 5, with very little fanfare, the Ministry of Finance published a "preliminary list" of the public companies and corporations owned by various state institutions.<sup>2</sup> The publication of this list was a concession to both domestic and international pressures, but transparency and anti-corruption campaigners in civil society, the media at home and abroad, and Sudan's international partners must seize this opportunity to press for more comprehensive transparency, robust reforms, and oversight controls of all parastatals, particularly security sector companies.

In Sudan, vigilant and highly mobilized political and civil society movements that spearheaded the popular protests responsible for Bashir's ouster are demanding that the transitional government reform the economy and deliver dividends for the people, including by eradicating the former government's corrupt institutional structures. The public continues to endure tremendous pressure from hyperinflation and severe shortages in essential commodities and services, and the purchasing power of median households and businesses is melting away by the day.<sup>3</sup> Without more decisive action to eliminate the legacy of kleptocracy responsible for much of Sudan's economic woes, the government will risk losing broad popular support and inviting a storm of national protests like those that overthrew President Omar al-Bashir.

Meanwhile, the international donor and financial community has made their promises of economic and development support contingent upon the government regaining control of state-owned enterprises (SOEs) and their funds. Struggling to cope with disastrous floods and a ruthless pandemic, the government has nonetheless pushed through significant structural economic reforms to meet conditions set by the International Monetary Fund's (IMF) Staff-Monitored Program (SMP) for Sudan to be considered for debt relief under its Highly Indebted Poor Countries (HIPC) initiative. These reforms included significant cuts of costly fuel and electricity subsidies in late 2020, the elimination of multiple exchange rates practices in early 2021, and now the partial publication of SOEs.<sup>4, 5, 6, 7</sup>

The enactment in January 2021 of the US Sudan Democratic Transition, Accountability, and Fiscal Transparency Act reinforced international pressures for reform.<sup>8</sup> The Act's provisions—requiring the establishment of civilian control over the defense and security sector and its corporate holdings and the transfer of shares held by the sector in public and private



enterprises—appear to have factored into the military’s decision to divest from its companies engaged in non-defense related activities.<sup>9</sup>

The government’s publication of a preliminary list of parastatals was slow in coming—almost eighteen months since the civilian-led cabinet took office in September 2019. The delay was caused by the internal resistance of the most cash-rich parastatals, which continue to oppose the government’s efforts to bring them under its control. In particular, parastatals registered to the Sudan Armed Forces (SAF), the General Intelligence Services (GIS), and the national police have registered the strongest opposition to what they consider a challenge to the financial autonomy of their institutions.

Such resistance was to be expected. Bashir’s regime made parastatals a cornerstone of an elaborate kleptocratic system designed to economically empower regime insiders and to fund the ruling party and the radical Islamist movement for which the party fronted—all to the detriment of the national economy.<sup>10</sup> Following the fall of Bashir, the civilian and military partners in the transition set up the Empowerment Elimination, Anti-Corruption, and Funds Recovery Committee in November 2019.<sup>11,12</sup> By its first anniversary, the anti-corruption body reported recovering 20 million square meters of residential land, more than a million acres of agricultural lands, 50 companies, 60 organizations, and sizable cash seizures for the Ministry of Finance and other government bodies.<sup>13</sup>

While some elements directly linked to the Bashir regime are being dismantled, others continue to thrive in the transition, namely powerful security sector and civilian parastatals. Parastatals are one of the main reasons that Sudan’s government controls only 18% of the resources generated by government agencies and their economic activities, as Prime Minister Hamdok suggested in an August 2020 national address.<sup>14</sup> The government can change this by showing more resolve in enforcing existing laws for the protection of public money and by sanctioning those who abuse it. In particular, the government should institute a Treasury Single Account, thoroughly reform the Commercial Registry, and uphold the oversight of the Ministry of Finance and the National Audit Chamber over public funds. Parastatals should open their books to the Ministry of Finance and submit to its control all revenue from services and business transactions. Sudan’s international partners should continue supporting the Sudanese authorities’ efforts to ensure the compliance of all parastatals with fiscal transparency requirements.

## A Work In Progress

A measure of the difficulty of the task at hand is conveyed by the Ministry of Finance’s cover note introducing its preliminary inventory of state-owned enterprises (SOEs) as still underway:<sup>15</sup>

“Today, the Ministry of Finance and Economic Planning published on its website a preliminary list of data of public entities and companies owned by the various state institutions and registered with the Commercial Registrar. The Ministry will work to complete the process of inventorying and updating these data periodically and continuously, in cooperation with the Commercial Registrar.

It is worth noting that the Ministry of Finance had in the previous period embarked on carrying out structural reforms to solve the distortions and problems that the Sudanese economy suffers from. Monitoring and publishing government company lists comes within the framework of reforming the government companies’ sector and the necessity of the Ministry of Finance’s mandate over public money.”

While not entirely comprehensive, the published list offers for the first time an enumeration of the many corporations controlled by the Ministries of Defense and Interior, as well as those operated by technical and income-generating ministries such as the ministries of Energy, Mining, Industry, Investments, and Agriculture.



The published inventory is clearly work in progress. For instance, the list barely reflects the common practice of security sector and other public companies cross-shareholding public and private sector commercial entities. Additionally, the list of government and hybrid commercial banks in which the government or one of its public corporations is a shareholder is incomplete, and only a handful of the banks listed have the number and percentage of shares held by the government or its public entities listed.<sup>16</sup>

When the Ministry of Finance was conducting its inventory, former Minister Hiba Mohamed Ali stated that the number of public companies and corporations was somewhere “between 500 and 600,” inclusive of holding companies and subsidiaries. When pressed for specific details on security sector companies, the minister explained that they totaled 50, of which 34 belonged to the SAF, 15 to the GIS, and the rest—one company—to the Ministry of Interior.<sup>17</sup> This breakdown was inaccurate. The Ministry’s published inventory lists 10 holding companies controlled by the Ministry of Interior and the national police, with 26 subsidiaries that operate in a wide range of economic sectors.<sup>18</sup> The industrial giant Giad, just one of the 34 holding companies listed under the Ministry of Defense, boasts 24 subsidiaries itself.<sup>19</sup>

In addition, the companies of the GIS are noticeably absent from the preliminary list. In August 2020, the director of the GIS was quoted defending the agency’s subsidiaries, saying that they were set up to strengthen the agency’s capacities and serve its agents, and adding that their returns would not have a significant impact on public income.<sup>20, 21</sup> However, the fact that several of the agency’s companies, including some of its largest and most lucrative, were incorporated in the names of individuals may have played a role in the omission.<sup>22</sup> Indicative of the prevalence of this practice is the fact that, in 2019, the government recovered and liquidated several media enterprises that were state-funded while registered to individual members of Bashir’s inner circle or to agents of the National Intelligence and Security Services (NISS), which preceded the GIS.<sup>23</sup> The Sentry has since learned that the Ministry of Finance asked the GIS to transfer any remaining agency companies currently registered to individuals back the GIS so that they may be included in the next edition of the list.<sup>24</sup>

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Sudan’s parastatals are rife with internal governance irregularities, and they lack fiscal transparency and accountability for the public funds in their custody.

In March 2020, former Finance Minister Ibrahim al-Badawi stated that the ministry had reached an agreement with the Ministries of Defense and Mining and the GIS to transfer GIS companies to the Finance Ministry, starting with Al-Sabika al-Zahabia (The Gold Bullion).<sup>25</sup> However, industry sources told The Sentry that the GIS continued to control Sabika.<sup>26, 27</sup> The company was set up under the former government to purchase and export gold on behalf of the Central Bank of Sudan and was considered a main source of income for the NISS and the regime it protected.<sup>28</sup>

Sudan’s parastatals are rife with internal governance irregularities, and they lack fiscal transparency and accountability for the public funds in their custody. Many are operating unlawfully. Of 431 active parastatals identified by an earlier government technical committee formed shortly after the fall of Bashir, only 12 delivered their revenue and business profits to the Ministry of Finance, and 400 did not regularly submit to the audits of the National Audit Chamber.<sup>29, 30</sup> A retired former general who served in the Economic Directorate of the NISS admitted in a media interview that the intelligence agency’s companies were not subjected to audits by the National Audit Chamber but were content with their own internal audits.<sup>31</sup> According to the Deputy Auditor General in 2019, 80% of parastatals were in breach of Sudanese laws regulating government contracting and procurement, and 105 were not properly registered in the Commercial Registry, as their paperwork lacked information on items such as “scope of work” and “corporate headquarters.”<sup>32</sup> Husham A. Kahen, the



advisor to the minister of finance for governance, said in a January 2021 press conference that some of these companies lack transparency, as their boards are often chaired by ministers of the agencies charged with overseeing them.<sup>33</sup>

Serious concerns arise, as well, from the involvement of politically exposed persons in and around Sudan's parastatals, for instance, through the ambiguous private business interests of several commanders of Sudan's paramilitary Rapid Support Forces (RSF). In explaining the absence from the most recent list of parastatals linked to the RSF, both the minister of finance and the adviser on governance explained that none were found during the ministry's canvassing for public companies and corporations.<sup>34</sup> However, the second in command of the RSF, Lt. Gen. Abdel-Rahim Dagalo, and RSF officer Maj. Algoney Dagalo, both brothers of RSF commander and Deputy Chair of the Sovereign Council Gen. Mohamed Hamdan Dagalo (Hemedti), have incorporated several private companies in Sudan and the United Arab Emirates. Several of their companies are known to have carried out projects for the RSF, according to international investigative reporting.<sup>35, 36, 37</sup>

Sudan planned to spend 22% of the 2021 budget on its bloated military and security sector, inclusive of the RSF.<sup>38</sup> This only partially reflects the actual expenditure on the sector, as salaries and benefits for the men in uniform are incorporated into the general public sector workers' wages budget allocations.<sup>39</sup> Private companies contracted by any of the regular forces, including the RSF, should be subject to the rigorous safeguards set forth by Sudanese law to ensure the integrity of all government contracts, procurement, privatization, and decommissioning transactions.<sup>40</sup>

## Future Plans

The government's plans for how to bring SOEs under its control can be extrapolated from the agreement made with the army's Defence Industry System (DIS) in March. Following a visit by Prime Minister Abdalla Hamdok to the Yarmouk Industrial Complex on March 17 at the invitation of the DIS,<sup>41</sup> the government announced that the DIS had submitted a proposal that would allow the DIS and the army to continue managing defense-related industries while its civilian operations are transformed into publicly owned entities controlled by the Ministry of Finance.<sup>42, 43</sup> The government's focus on streamlining its oversight and control of DIS corporations is justified by the controlling presence of several giant DIS entities in vital economic sectors and industries. For example, Giad, Al-Ateghat Al-Mutadedda, Zadna, and the Authority for the Development of Exports holding companies are dominant, respectively, in the industrial, meat processing, irrigation, and commodity trading sectors.

Sources told The Sentry that discussions between the government and army command had been going on for months prior to the visit, focused on the future of the DIS under a democratic government and closer domestic and international scrutiny.<sup>44</sup> Discussions outlined the need to broaden DIS governance to ensure oversight by the government, transparency of operations, and compliance with other requirements.<sup>45, 46</sup> As part of the process, DIS and the government agreed to establish a council for economic development chaired by the minister of industry and a council for finance and investment to be chaired by the minister of finance. The aim is to ensure the integration into Sudan's overall industrial development strategy of DIS entities engaged in heavy industries and the transformation of the civilian companies into publicly owned entities, giving the Ministry of Finance unprecedented oversight of the revenue and expenditures of DIS holdings.<sup>47, 48, 49, 50</sup>

The government has yet to inject an equal sense of urgency and purpose in bringing SOEs operated by technical ministries under the firm control of the Ministry of Finance. For instance, oil exports and imports and the distribution of fuel, power supply, and the gold industry are among Sudan's highest revenue generating activities, and several companies sitting on these revenue streams continue to be controlled by the Ministry of Energy and Mining, namely Sudapet, Su-



dan's Electricity Holding Company, Sudamin, and the Sudanese Mineral Resources Company. This controlling position notwithstanding, Sudan suffered significant trade value gaps in its declared exports of all commodities, particularly oil and gold, from 2012 to 2018, according to a study by Global Financial Integrity.<sup>51</sup> Based on the differences between what Sudan officially declared as the value of its exports in oil and gold and what importers declared paying for them, as reported in international trade statistics, Sudan lost \$8.2 billion on oil and gold exports, reflecting 85% and 48%, respectively, of Sudan's officially declared exports for the years from 2012 to 2018.<sup>52</sup> The Ministry of Energy and Mining and other technical ministries have in the past rejected what they see as the Finance Ministry's intrusion in their companies' affairs under the pretext that it didn't have the technical expertise to run them.<sup>53</sup>

Civilian parastatals, as well as more powerful security sector companies, have fought and prevailed over successive ministers of finance under Bashir and in the current transition who sought to disallow parastatals from keeping their revenues and expenditures off budget. The transitional government should end this distortion that is paralyzing its ability to reform the economy. There should be no more compromise on the Ministry of Finance's oversight of all revenue streams and expenses for companies capitalized by public monies and for which the Ministry continues to pay workers' salaries and subsidize operational costs from the national budget. Transitional authorities must translate their plans into action so that standards of fiscal transparency and accountability may be applied to all security companies and other government parastatals.

## What Needs to Happen Next

Sudan's civilian-led cabinet has a long way to go to achieve control of the country's parastatals, a legacy of three decades of kleptocracy. While headlines may scream "Hamdok takes over the army's business assets," what has really been achieved to-date is the diffusion of extreme tensions and the development of what could be a viable roadmap for success.<sup>54</sup> To translate that roadmap into measurable achievements, The Sentry offers the following recommendations:

### The government of Sudan

- Introduce reforms targeting the leveling of investment and commercial activities to promote fair competition between SOEs and the private sector.
- Immediately remove all exemptions from taxes and customs, as well as other subsidies and monopolies granted to security sector and other public companies and corporations.
- Enforce the closure of all off-budget accounts held by parastatals, national funds, and government corporations, and bring off-budget accounts under a national Treasury Single Account.
- Thoroughly reform the Commercial Registry to ensure comprehensive identification of the beneficial ownership of all companies to match similar reforms happening around the world.
- Engage with the Extractives Industry Transparency Initiative (EITI), Open Government Partnership (OGP), and other similar international groups to access expertise and capacity building and to ensure the government's own efforts are in line with best practices.
- Strengthen the human and financial resources of the Ministry of Finance's Directorate of Public Enterprises and Corporations and empower it to enforce the Ministry's control of the finances of all public sector enterprises and corporations.
- Subject all SOEs to random and periodic audits by the National Audit Chamber or another auditor appointed by the civilian government.



- Require that all SOEs submit a comprehensive yearly report, including financials, to the prime minister's office.
- Commission reputable international and domestic business and financial consulting companies to conduct thorough studies of the capital, assets, equities, and liabilities of public entities targeted for privatization or continuation as government entities.
- Task the consulting company or companies with recommending, based on findings, the appropriate structure and business strategies for running the targeted companies under strict financial transparency and compliance requirements for a limited time, after which the decision about privatization, continuation, or liquidation can be made.
- Have the Ministry of Finance oversee the activities and budgets of all parastatals, including those linked to the security and defense sector, until such steps are taken.
- Expedite the establishment of the permanent Anti-Corruption Commission under the recently adopted act mandating its institution.
- Pursue accountability, whether through the courts or otherwise, for officials responsible for corrupt activities.
- Redouble asset recovery investigations to ensure that the government can show tangible results and potentially aid in delivering development and essential services to the population.
- Unify the Sudanese regular forces, paramilitary groups, and units of JPA signatory armed movements, per the Security Sector Reforms mandated by the recently signed Juba Peace Agreement (JPA), to reduce the disproportionate budgetary burden of expenditure on the defense and security sector and free up resources for the improvement of basic public services.
- Subject the private companies of RSF commanders to the same scrutiny that SAF, GIS, and Ministry of Interior companies will eventually be subjected to, as the RSF is in receipt of substantial national budgetary allocations.

### **International partners and financial institutions**

- Encourage Sudanese authorities to ensure the compliance of all parastatals with Sudanese fiscal transparency requirements by opening their books to the Ministry of Finance and submitting to its control all revenues from services to the public and business transactions.
- The US, UK, and EU should be prepared to designate for sanctions any spoilers undermining these processes.
- Extend capacity building interventions to assist the government bodies that are steering the privatization of viable publicly owned companies and corporations and the liquidation of others, in particular the National Audit Chamber, the Directorate of Companies and Corporations at the Finance Ministry, and the Financial Intelligence Unit.
- Flag the international transactions of all public enterprises that resist the oversight of the Ministry of Finance and the National Audit Chamber as susceptible to money laundering and terrorism financing and as possible conduits for illicit financial flows to and from Sudan.
- Designate private companies owned by RSF commanders as entities linked to politically exposed persons and subject their international transactions to heightened scrutiny to ensure their compliance with all Sudanese laws and international know your client banking standards.



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