

On the Road to War

The Role of Illicit Financial Flows (IFFs) in Sudan

Illicit financial flows (IFFs) have long undermined the Sudanese economy, enabling those profiting from grand corruption—including ruling elites, corporate tycoons within the security establishment, and their business associates—to transfer their ill-gotten gains abroad. A 2020 report by Global Financial Integrity (GFI) estimated that Sudan lost \$5.7 billion to IFFs between 2012 and 2018, with the oil and gold sectors serving as primary channels for these economic losses. Since the outbreak of the latest conflict in Sudan on April 15, 2023, the rise of a war economy has introduced new patterns of IFFs. Originally written before the war and delayed in publication due to the urgency of addressing the crisis, this paper aims to provide an overview of the pre-war landscape, laying the groundwork for STPT's ongoing research that seeks to expose how IFFs are shifting in the aftermath of the conflict.

August 2024

Contents

1. Overview.....	3
2. The Extractive Sector as a Channel for IFFs.....	4
2.1 IFFs in the Gold Industry.....	5
2.1.1 Mismanagement of Gold Production and Export in Sudan: Peer Comparison	9
2.1.2 The Cost of Smuggled Gold Export Proceeds: Smuggling	10
2.1.3 The Cost of Smuggled Gold Export Proceeds: Smuggling Creates a Persistent Trade Deficit	10
2.1.3 The Role of IFFS in Gold and Currency Depreciation	11
2.2 IFFs & the Oil Sector.....	12
2.3 State-Owned Enterprises (SOEs) in the Oil Sector.....	13
2.3.1 Trade in Oil and Gold Under the Emerging War Economy	14
3. Ongoing Challenges in Combatting IFFs.....	17
3.1 Foreign Trade Issues	17
3.2 Foreign Exchange Issues	18
3.3 IFFs & Domestic Revenue Mobilization	18
3.3.1 Challenges Facing Sudan's Tax Administration	18
3.3.2 Challenges Facing Sudan's Customs Authority.....	20
4. Efforts to Combat Illicit Financial Flows (IFFs) in Sudan during the Transitional Period	22
4.1 Sudan's Legal & Regulatory Framework for Combatting IFFs, Money Laundering & Terrorism Financing	23
Conclusion and Recommendations.....	23
5.1 Immediate War Time Actions.....	24
5.2 General Reform Recommendations to the Sudanese Post-War Government.....	24
5.3 Economic Reform Measures:.....	25
5.4 Specific Trade & Institutional Reforms Recommendations	25
5.5 Sudan Customs Authority Recommendations	25
5.6 The Taxation Chamber Recommendations	26
5.7 Extractive Sector Recommendations	26
5.7 Gold Sector Recommendations	26
5.8 Crude Oil Sector Recommendations.....	27
5.9 African Union	27
5.10 International Institutions	27

1. Overview

According to the United Nations Conference on Trade and Development (UNCTAD), IFFs cost Africa \$88.6 billion annually,¹ turning the continent into a net creditor to the rest of the world. The channels through which these substantial amounts exit the continent encompass transnational criminal activities, money laundering, tax evasion, and corruption involving multinational entities. Proceeds from grand corruption are often transferred by public officials to offshore accounts. For the purposes of this report, we adopt the definition of IFF used in the African Union's High-Level Panel (AU HLP) on IFFs as involving “money illegally earned, transferred, or used.”²

Sudan is no exception to this pattern. Analysis from the think tank Global Financial Integrity (GFI) estimated that the government of Sudan lost 5.7 billion to value gaps, defined as the difference between what Sudan declared as the value of its exports to the import values declared by trading partners, in the period 2012-2018. The oil and gold sectors were among the leading channels for these losses. Since the start of the latest round of conflict in Sudan on April 15, 2023, the developing war economy in Sudan has created new patterns of IFFs. This paper intends to offer an overview of the status quo before the war, with a view to providing the background to efforts to understand how these are shifting in the aftermath of the war.

Historically, Sudan experienced significant volumes of IFFs through trade mis-invoicing, enabled by tax evasion, aggressive tax avoidance, criminal conduct, and money laundering. These illicit practices were rampant under the system of violent kleptocracy established during the three decades rule of Omer al-Bashir's (1989-2019).³ The ouster of Omer al-Bashir in April 2019 following months of pro-democracy peaceful protests led by youth and women groups did not end these practices. On the contrary, powerful security actors, namely the Sudan Armed Forces (SAF), General Intelligence Services (GIS), National Police, and the paramilitary Rapid Support Forces (RSF), continued to leverage their political and security influence during the short-lived transitional civilian-military partnership that followed Bashir's fall (2019-2021) to preserve their long-acquired dominance in entire sectors of the national economy. One year into the transition, then Prime Minister Abdalla Hamdok noted in an August 2020 public address that the civilian cabinet he led controlled only 18% of the public funds generated by the state's agencies, implying that the corporate holdings of the military and the RSF monopolized the remaining 82% of state resources.⁴

Macroeconomic reform policies initiated by the civilian-led cabinet to phase out the legal and regulatory loopholes that allowed such exorbitant levels of diversion of state resources,⁵ including through illicit financial flows, were instrumental in prompting the SAF and the RSF to jointly stage the 25 October 2021 coup d'état. Competition between these two parallel armies over the lucrative returns accruing to the dominant actor put the erstwhile allies on a collision course, leading to the eruption of a full-scale war between them on April 15, 2023.

¹ UNCTAD, “Tackling Illicit Financial Flows for Sustainable Development in Africa,” cited in Latif, Lyla A, “Study: Intensifying the fight against corruption and money laundering in Africa,” United Nations, Office of the Special Adviser on Africa, 2022, available at https://www.un.org/osaa/sites/www.un.org.osaa/files/intensifying_the_fight_against_corruption_and_money_laundering_0.pdf

² Illicit Financial Flows: Report of the High-Level Panel on Illicit Financial Flows from Africa, available at https://au.int/sites/default/files/documents/40545-doc-IFFs_REPORT.pdf

³ The Enough Project Sudan Team, “Sudan's Deep State: How Insiders Violently Privatized Sudan's Wealth, and How to Respond,” an Enough Project Report, April 2017, available at: https://enoughproject.org/wp-content/uploads/2017/05/SudansDeepState_Final_Enough.pdf

⁴ Arab News, “Sudan Military, Civilian Rulers Trade Blame for Economy,” August 25, 2020, available at: <https://www.arabnews.com/node/1724386/middle-east>

⁵ Suliman Baldo, “Sudan Struggles to Control its Parastatals,” A Report for The Sentry, May 2021, available at: <https://thesentry.org/wp-content/uploads/2021/05/SudanParastatals-TheSentry-May2021.pdf>

While state-owned enterprises controlled by security sector agencies and private companies controlled by the commanders of the RSF are among the leading perpetrators of IFFs, they are not the only ones. The AU high-level panel estimates that continentally, there are three main types of IFF with commercial activities contributing 65 percent, criminal activities accounting for 30 percent, and corruption making up approximately 5 percent.⁶ Precise percentages for each component in Sudan remain challenging to ascertain due to inadequate information and protection of corruption and criminal activities by government officials, but it is believed that corruption and criminal activity constitute the major sources of illicit financial flows.

Losses to IFFs have a devastating impact on Sudan's development. The AU High-Level Panel estimated that it would take Sudan until 2060 to achieve Millennium Development Goal 4 (on reducing child mortality) whereas this could be done by 2035 if IFFs were curtailed. There are, however, security as well as development consequences. Significant portions of these illicit flows have been brought under the control of the SAF and the RSF through their significant business interests, including in the gold sector. Although it is difficult to precisely monitor or report on the level and nature of IFFs amidst the fog of war, it seems likely that these are continuing and being used to fund ongoing war efforts. For example, it has been speculated that the RSF's gold mining operations were used in 2019 to purchase 1,000 dual-use Toyota minitrucks and Hilux vehicles and other war materiel.⁷

STPT's research examined primary factors facilitating IFFs prior to the war, encompassing global trade practices, porous borders, misuse of the reformed multi-exchange rate system, and inadequate regulatory frameworks in the extractive sector. We then discuss how these are likely to have shifted in the context of the war. Thus, the policy note aims to provide insights to inform interventions to combat IFFs in Sudan, in the short term in the context of the war, and in the longer term under the auspices of an eventual post-war government. Increasing a post-war government's capacity to effectively counter IFFs will be vital for effective domestic resource mobilization, even more necessary now that Sudan is facing not only daunting development challenges, but the quandary of rebuilding destroyed infrastructure and economic capacity. This analysis draws on the recommendations of the AU HLP to combat IFFs in Sudan, to propose ways of establishing a legal framework to address, and prevent future, IFFs. This effort would include anti-secrecy policies, corruption prevention, strengthening financial institutions, improving tax administration, and recovering national resources lost to IFFs. Where possible, it considers both actions that could be taken in wartime and longer-term reforms that could be adopted by a post-war government.

2. The Extractive Sector as a Channel for IFFs

Considerable evidence indicates a strong link between the extractive industries and illicit financial flows. In the case of Sudan, the gap between the value of reported exports on the Sudanese side and reported imports on the side of trading partners points to significant smuggling, deliberate underreporting, and tax evasion. The nation's abundant natural resources, including oil, gold, and various minerals, could potentially fuel development, but this is undermined when not only are these resources being smuggled, which not only deprives the government of resources that could be used

⁶ Illicit Financial Flows: Report of the High-Level Panel on Illicit Financial Flows from Africa, available at https://au.int/sites/default/files/documents/40545-doc-IFFs_REPORT.pdf

⁷ Alsanosi Adam, "Sudan is awash with weapons: how the two forces compare and what that means for the war," The Conversation, May 15, 2023, <https://theconversation.com/sudan-is-awash-with-weapons-how-the-two-forces-compare-and-what-that-means-for-the-war-205434>

for development but the resources are being actively channeled to weapons and war. With key other sectors of the Sudanese economy more devastated by war, extractive industries are likely to play an even bigger role during the war. Khartoum previously accounted for 25% of the national economy, but has been devastated by war. Agriculture, which employs 70% of the population, is also expected to contract due to lack of inputs. This will only increase pressure on extractive industries to provide government revenue. Both short-term mechanisms to minimize the utilization of these resources for war and longer-term mechanisms to comprehensively address smuggling activities and bolster governance and transparency mechanisms to ensure that the benefits of this trade can be captured and utilized for development are needed.

2.1 IFFs in the Gold Industry

Gold holds significant economic value as a commodity, and was Sudan's top export and top source of foreign exchange at the time that the war broke out. Development of this sector had been promoted by the Bashir government in the wake of South Sudan's secession and the loss of significant oil resources, which had previously been the leading export and source of foreign exchange. However, the regime had trouble bringing gold exports under its control as they are by their nature easier to move and more diffuse in their production. Many of these were controlled directly by armed groups and help them to independently fund themselves, rather than operating through state patronage.⁸ The RSF reportedly shipped 30 million in gold to Dubai in just four weeks in 2018. Official exports of gold have ground to a virtual halt since the start of the war.⁹ Given the control of gold resources by warring parties, RSF is understood to control the Darfur gold production while SAF controls the same in the northern states,¹⁰ and the pervasiveness of smuggling prior to the war, it is likely that this decrease is a result of trade being diverted to illegal channels rather than a complete shutdown of production. Indeed, it is projected that about 57% of Sudan's gold production will be smuggled in 2023.¹¹

Indeed, there is substantial evidence that gold smuggling was pervasive prior to the war. Based on the data provided in the chart below, the Central Bank of Sudan (CBoS) officially recorded exports of 352 tons of gold over a span of twelve years, ranging from 2011 to 2022. Intriguingly, within this same time frame, the total gold production reported was 962 tons, indicating a significant gap of 610 tons. This disparity in volume, which equates to 173 percent of the officially declared exports by CBoS, is quite striking.

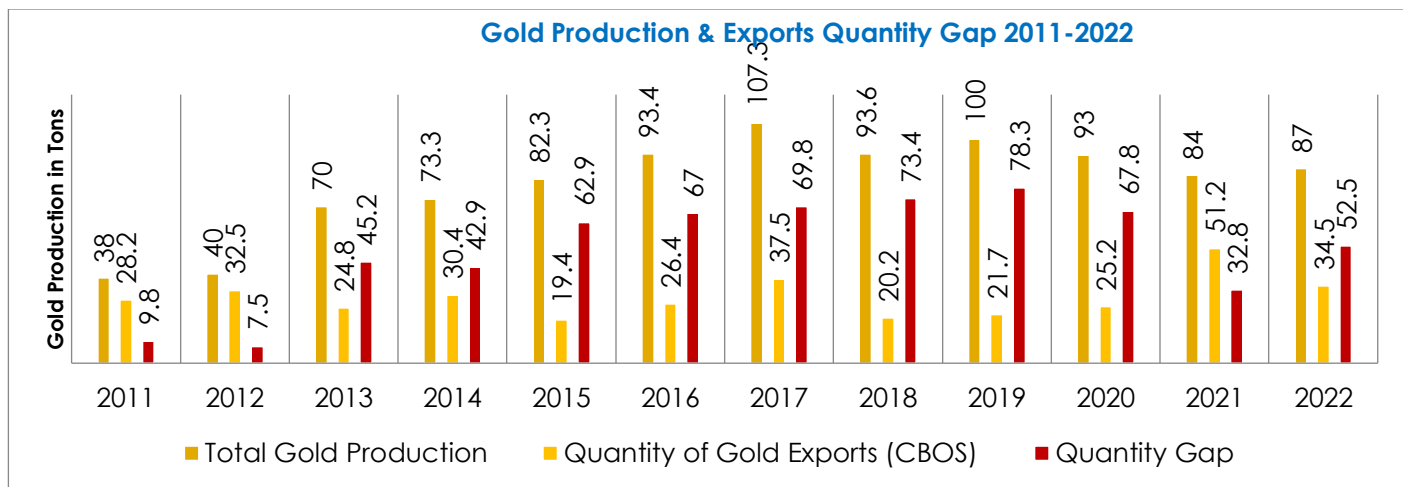
⁸ Anette Hoffmann and Guido Lanfranchi, "Kleptocracy vs. Democracy: How security-business networks hold hostage Sudan's private sector and the democratic transition," October 2023, https://www.clingendael.org/sites/default/files/2023-11/Kleptocracy_versus_Democracy.pdf

⁹ "Sudan's economy in limbo, warns IMF," AfricaNews, October 12, 2023, <https://www.africanews.com/2023/10/12/sudans-economy-in-limbo-warns-imf/>

¹⁰ Timothy Liptrot, "The Sinews of Sudan's Latest War," African Arguments, October 25, 2023.

¹¹ Ensuring Macroeconomic Stabilization and Establishing an Environment for Reform, presentation December 7, 2023, on file with the author.

Gold Production & Export Volume Gap During (2011-2022)



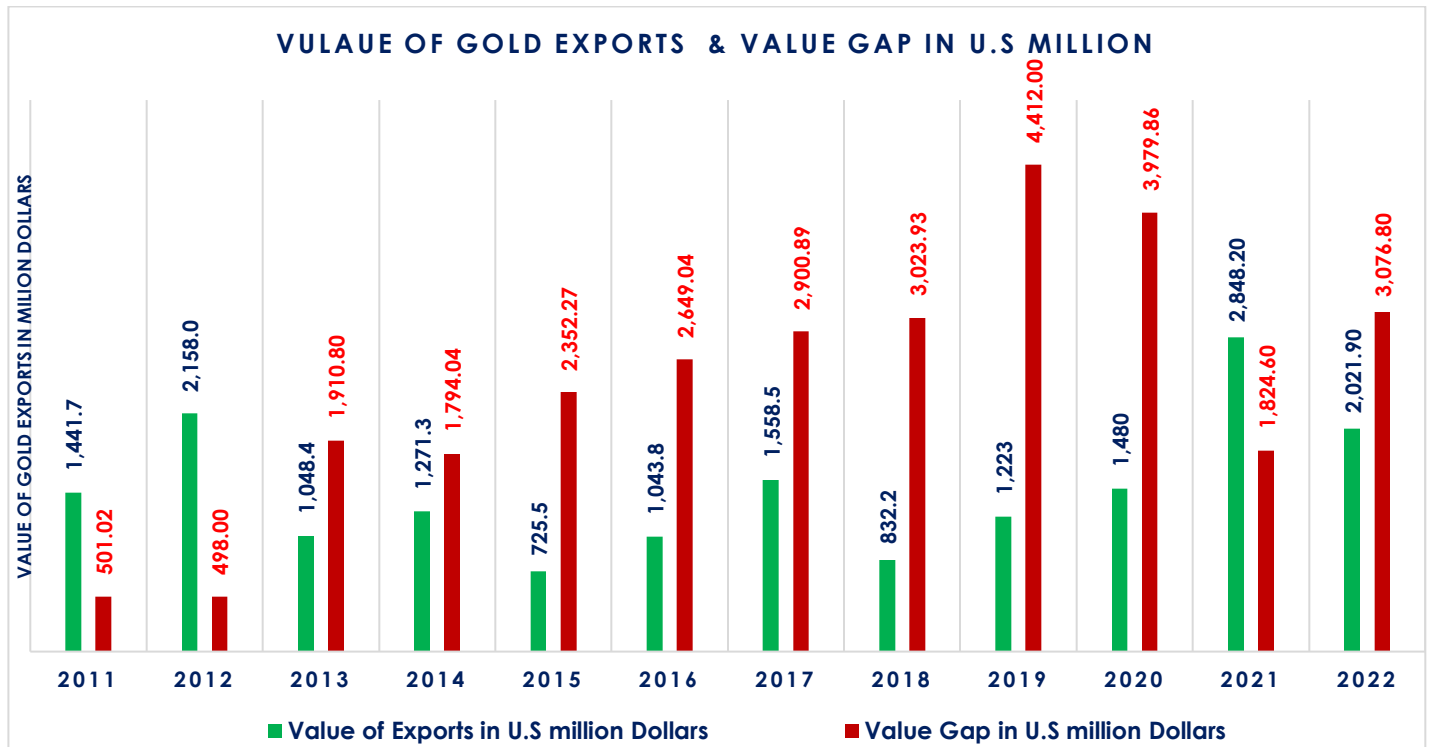
Source: Foreign Trade Statistical Digest, Central Bank of Sudan (CBOS); annual Reports of the Ministry of Minerals, Sudan Mineral Resources Company (SMRC)

The chart below shows this discrepancy in terms of its value, totaling US\$28.9 billion over this period. This represents the difference between documented gold export revenues reported by CBoS (US\$17.6 billion), and the estimated value of exporting the total value of gold production (\$46.5 billion).¹²

These figures indicate that a significant quantity and value of gold is smuggled out of the country. This is a result of weaknesses in Sudan's regulatory framework for managing natural resources and entrenched interests of powerful elites in exploiting these resources. These regulatory shortcomings include restrictions imposed by regulatory bodies, such as the exclusive role of Gold Council members and jewelry traders as sole purchasers from miners, the absence of an organized and transparent gold trading market, and the absence of fair pricing for artisanal miners by the Central Bank of Sudan (CBoS).

¹² Source: Foreign Trade Statistical Digest, Central Bank of Sudan (CBOS); Annual Reports of the Ministry of Minerals, Sudan Mineral Resources Company (SMRC)

Value of Gold Exports & Value Gap in U.S Million During (2011- 2022)



Source: Foreign Trade Statistical Digest, Central Bank of Sudan (CBOS); annual Reports of the Ministry of Minerals, Sudan Mineral Resources Company (SMRC)

It is noteworthy that prior to the implementation of new regulations in January 2020, the Ministry of Finance allowed the private sector to purchase and export gold. However, the CBoS acquired gold at under the global market rate, which drove miners to seek alternative markets, which encouraged the use of unauthorized export channels for approximately 70% of the gold produced.

Gold Production, Exports & Value Gap from 2011-2022

Year	Total Production	Gold Quantity of Gold Exports (CBOS)	Value of Exports U.S Dollars	Quantity of Gold in Gap	Value Gap in U.S million Dollars	Value of Production (No Value Gap)	Total (No Value Gap)
2011	38	28.2	1,441.7	9.8	501.02	1,942.72	
2012	40	32.5	2,158.0	7.5	498.00	2,656.00	
2013	70	24.8	1,048.4	45.2	1,910.80	2,959.20	
2014	73.3	30.4	1,271.3	42.9	1,794.04	3,065.34	
2015	82.3	19.4	725.5	62.9	2,352.27	3,077.77	
2016	93.4	26.4	1,043.8	67	2,649.04	3,692.84	
2017	107.3	37.5	1,558.5	69.8	2,900.89	4,459.39	
2018	93.6	20.2	832.2	73.4	3,023.93	3,856.13	
2019	100	21.7	1,223	78.3	4,412.00	5,634.80	
2020	93	25.2	1,480	67.8	3,979.86	5,459.86	
2021	84	51.2	2,848.20	32.8	1,824.60	4,672.80	
2022	87	34.5	2,021.90	52.5	3,076.80	5,098.70	
Total	961.9	352	17,652.3		28,923.25	46,575.55	

Source: Foreign Trade Statistical Digest, Central Bank of Sudan (CBOS); annual Reports of the Ministry of Minerals, Sudan Mineral Resources Company (SMRC)

The figures above illustrate how Sudan's illicit financial flows (IFFs) have an impact on its gold export proceeds. The smuggling of gold not only deprives Sudan of legitimate export revenues but also distorts trade balances, erodes investor confidence, and highlights potential governance issues. Ultimately, this emphasizes the reality that an enduring trade deficit can be exacerbated by illicit activities, impeding a country's economic growth and stability.

Prior to the current war, the connection between conflict and gold was already clear. Gold-producing areas within Sudan tended to experience greater conflict than non-producing regions.¹³ Although data on exports post-war is difficult to obtain, initial actions in the war showed a focus on the control of gold-producing areas, including efforts by RSF to secure control of mines in Jebel Amr and Kutum and the Sudan Gold Refinery early in the war.¹⁴ This indicates as well that RSF's business operations are likely less impacted by the war than those of the SAF, both because they continue to control gold-producing areas and also because of their continuing positive relationships with the United Arab Emirates (UAE). Emirati companies like Kaloti and Rozella have reportedly purchased gold from RSF companies like Al Junaid, which are under US and UK sanctions. UAE has poor controls on illicit money laundering, which facilitates the continuation of these transactions.¹⁵

¹³ See broader discussion at Mohamed Salah Abdelrahman, "Sudan's Other War: The Place of Gold," Sudan Transparency and Policy Tracker, July 2023, <https://sudantransparency.org/wp-content/uploads/2023/07/GoldandWarFINAL.pdf>

¹⁴ Ibid.

¹⁵ Anette Hoffmann and Guido Lanfranchi, "Kleptocracy vs. Democracy: How security-business networks hold hostage Sudan's private sector and the democratic transition," October 2023, https://www.clingendael.org/sites/default/files/2023-11/Kleptocracy_versus_Democracy.pdf

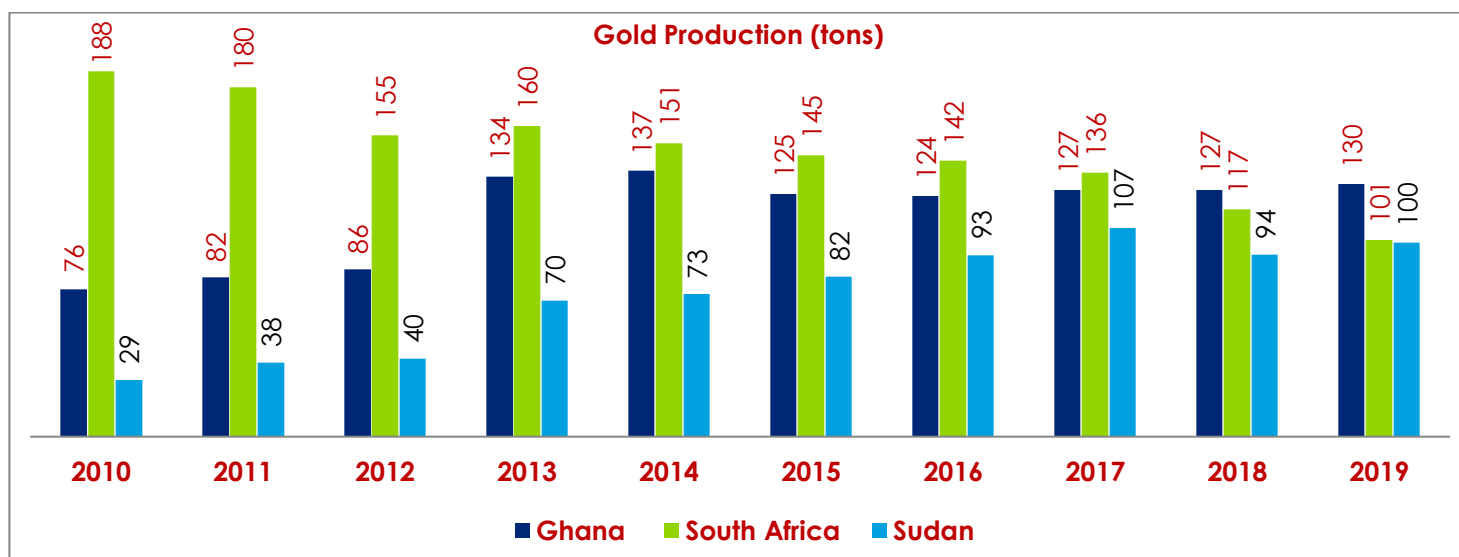
Similarly, it was reported that SAF harassed artisanal miners in areas under their control in northern Sudan accusing them of collaborating with Russian dealers to sell gold for the benefit of the RSF, showing that they too viewed control of the resource as critical.¹⁶

The ongoing war appears to have reduced the production of gold. From mid-April to the end of August 2023, the public Sudan Mineral Resources Company (SMRC) reported a total production of two tons by tailings treatment companies operating in the sector compared to more than 18 tons produced by the same category of producers the previous year.¹⁷ Official exports from the SAF-held Port Sudan also fell sharply since the eruption of the war. Officials reported the export of 68 tons by the state-owned Ariab company in May, and 266 kilos by Alliance, the tailings processing subsidiary of the Russian-Emirati Kush Company for Exploration and Production (Kush E & P).¹⁸

2.1.1 Mismanagement of Gold Production and Export in Sudan: Peer Comparison

Sudan was the 3rd largest producer of gold in Africa in 2010-2019; but exports volumes were less than expected as a result of smuggling.

Gold Production (Tons) by Ghana, South Africa & Sudan During (2010-2019)



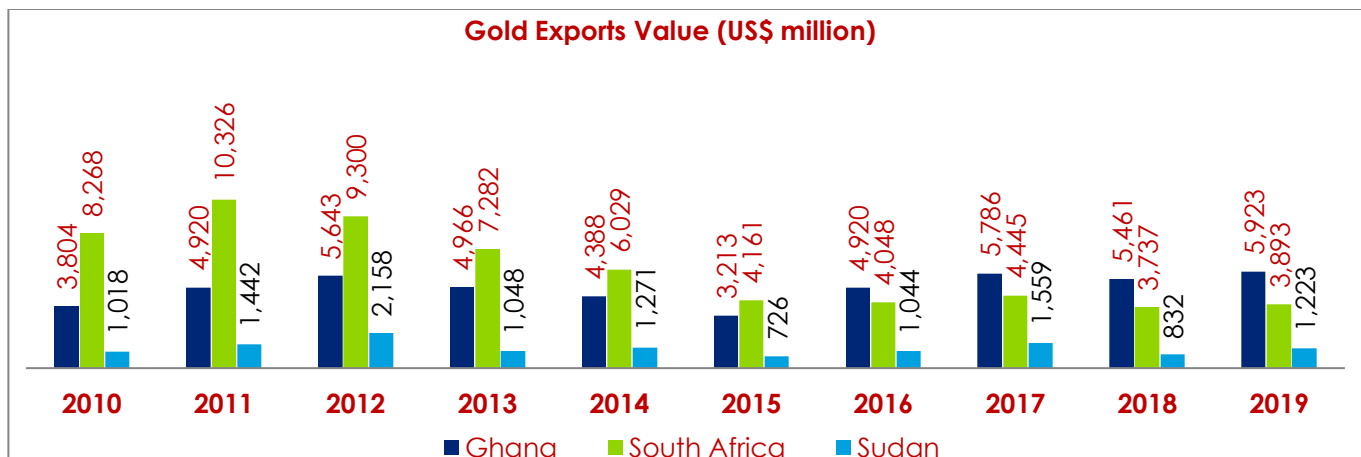
Source: Global Gold Council, Annual Reports

Gold Export Value (US\$ Million) by Ghana, South Africa & Sudan During (2010-2019)

¹⁶ Philip Obaji Jr., "As Sudan's latest conflict intensifies, artisanal gold miners are caught in the crosshairs," Equal Times, May 24, 2023, <https://www.equaltimes.org/as-sudan-s-latest-conflict?lang=en>

¹⁷ Madameek, "War economic losses total more than 100 billion dollars, Red Sea state exports 266 kilos of gold," July 24, 2023, in Arabic, available at: <https://www.madameek.com/?p=126312>

¹⁸ Alarabi, "Sudan's gold production faces hurdles, Sudan relies on gold for foreign currency supply," September 16, 2023, in Arabic, available at: <https://shorturl.at/fstE4>



Source: Global Gold Council, Annual Reports

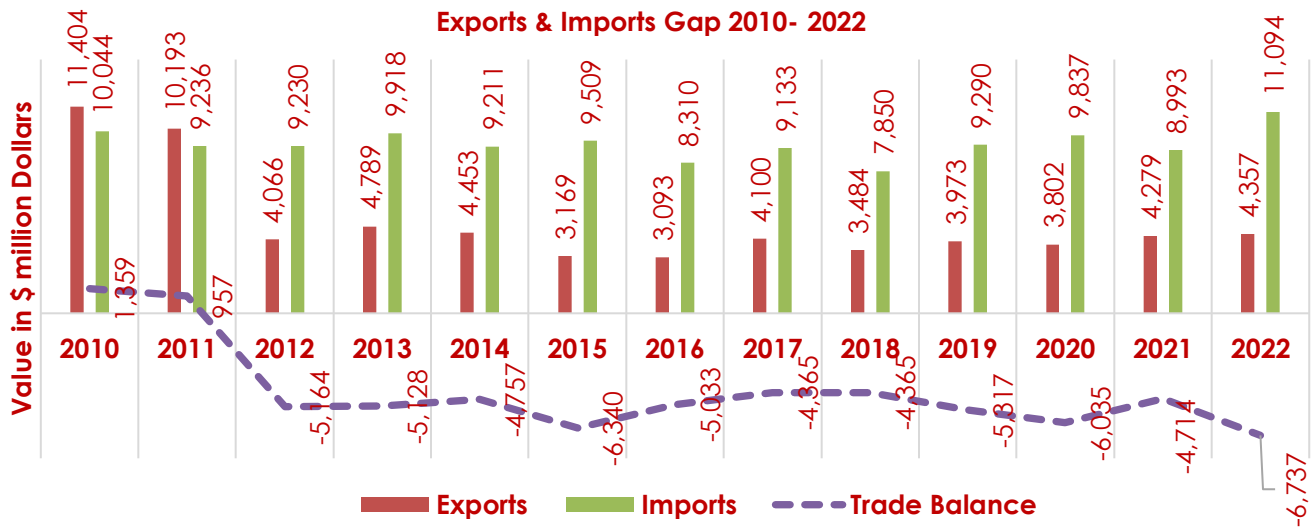
2.1.2 The Cost of Smuggled Gold Export Proceeds: Smuggling

The comparative figures of Sudanese vs. Ghanaian and South African revenues highlight the extent of Sudan's losses as a result of smuggling. For example, in 2019, Sudan's gold revenue was only 31% of South Africa's despite the fact that gold production was 99% of South Africa's. Sudan's official gold exports must first be refined to a high degree of purity, making official exports comparable in quality to gold exported by other countries and so there is no significant gap between the values of Sudanese and South African gold that could explain this discrepancy. Domestic consumption is similarly comparatively insignificant.

As a result, this phenomenon can be attributed to the prevalence of smuggling, fed by Sudan's deficient governance and institutional framework, including shortcomings in customs enforcement, corruption, and insufficient regulatory mechanisms.

2.1.3 The Cost of Smuggled Gold Export Proceeds: Smuggling Creates a Persistent Trade Deficit

Gold is a valuable commodity, and the loss of its export value due to smuggling causes significant distortions in the value of Sudan's exports are not reflected in official statistics, contributing to the trade deficit, by removing significant export value from the calculation. The Trade deficit, undermining Sudan's place in the global marketplace. This contributes to a persistent trade deficit and lack of legitimate exports, which are instrumental in forging international trade relationships that can catalyze foreign investment and the transfer of technological expertise.

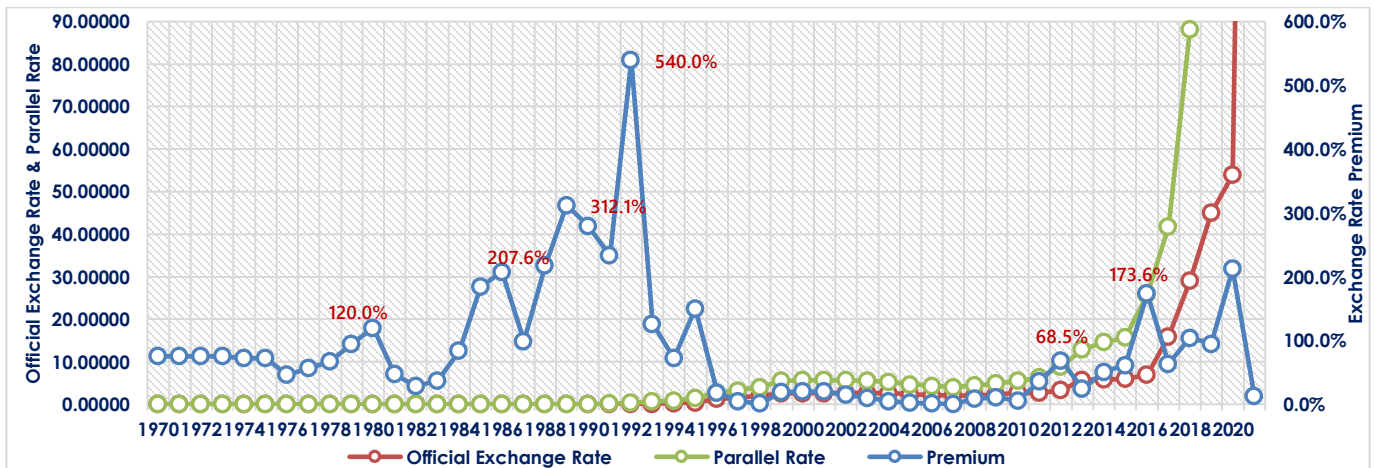


Source: Foreign Trade Statistical Digest, Central Bank of Sudan (CBOS)

2.1.3 The Role of IFFS in Gold and Currency Depreciation

Persistent trade deficits can put pressure on a country's currency. When a country consistently imports more than it exports, it requires more foreign currency to pay for these imports than it generates. This can lead to depreciation of the currency, making imports more expensive and potentially fueling inflation. Mismanagement of gold in Sudan played a key role in sustaining the huge informal parallel foreign exchange market from 2012 to the integration of the exchange rate. The extent of this differential currency rate is shown in the chart below.

Official Exchange Rate & Parallel Exchange Rate (1970-2021)



Source: Research, Policies, and Statistics Department, CBOS

2.2 IFFs & the Oil Sector

The oil sector has traditionally played a crucial role in Sudan's politics and economy, but Sudan lost 75 percent of crude oil production after the secession of South Sudan in 2012. Nonetheless, the trade remains significant and an important source of revenue and exchange representing between 11 and 64 percent of overall exports between 2012 and 2018.¹⁹

Sudan's oil sector has long been plagued with a lack of transparency. A number of factors contribute to this lack of transparency and set the stage for abuse, including:

- Lack of clarity about which government agency has ultimate responsibility for the sector.
- Poor customs enforcement.
- Absence of corporate governance and guidelines for state-owned oil enterprises that are dominant in the sector.
- Lack of 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.
- Lack of clarity in the ownership structure of the state-owned enterprises, specifically Sudapet's subsidiaries, remain unclear, raising legitimate concerns about private ownership with politically exposed persons (PEPs) affiliations.
- Lack of transparency and clarity in awarding oil licenses process and concessions.
- Failure to accurately report export values, leading trade mis-invoicing and hence loss of revenues.
- the size, scale and reputation of the businesses involved, and
- the ownership structures reveal the proximity and affiliation to politically exposed persons.

One mechanism for IFFs in the oil sector has been the manipulation of exchange rates. Before the introduction of reform packages by the 2019-2021 transitional government, multiple exchange rates were used by oil companies. For example, domestic refineries used the rate of SDG 18/US\$ to calculate the cost of crude oil and processing fees that were used to measure the cost of domestic production (US\$6.99 per barrel in 2018 and 2019 and US\$4.42 in 2016 and 2017), and SDG 45/USD for the import of other materials. Government paid foreign partners for their crude oil in domestic currency at the rate of SDG 26/USD and purchased foreign exchange from the Central Bank at the exchange rate of SDG 18/USD, while the Central Bank's cost of obtaining foreign exchange from domestic gold miners is at parallel market exchange rate (about SDG 85/USD in December 2019).²⁰

The oil trade gap, that is the difference between what importers and exporters report as bilateral trade, between 2012 and 2018 was substantial. Over this period Sudan reported exporting 62.3 million barrels of crude oil, trade partners reported importing 112.2 million barrels (see table below). This disparity equates to a staggering 50 million barrels, worth \$4.1 billion, accounting for 85.4 percent of declared export value. The volume gap of 50 million barrels, as shown in the table, were off-book exports by state-owned enterprises controlled by the army and national security agency, indicating significant revenue loss for the government even under the regime of Omer al-Bashir that designed this system to economically empower the ruling party and security sector agencies that ensured the regime's survival.

¹⁹ Sudan and Trade Integrity Global Financial Integrity, https://www.wita.org/wp-content/uploads/2020/06/Sudan-Report-2020_FINAL.pdf

²⁰ Global Financial Integrity, "Sudan and Trade Integrity," May 31, 2020, <https://gfintegrity.org/report/sudan-and-trade-integrity/#:~:text=In%20terms%20of%20value%2C%20Sudan,Sudan's%20declared%20exports%20by%20value.>

The Position of the Crude Oil Trade Value Gap During (2011-2018)

Year	Volume in Barrels (Millions)			FOB Values USD (Millions)		
	Central Bank of Sudan	Trader Partners	Gap	Central Bank of Sudan	Trader Partners	Gap
2012	7.2	17.9	(10.7)	\$698.8	\$1,913.7	\$(1,124.9)
2013	15.8	24.0	(8.2)	\$1,614.1	\$2,476.9	\$(862.8)
2014	9.8	19.9	(10.1)	\$1,014.3	\$1,894.3	\$(880.0)
2015	12.1	14.0	(1.9)	\$573.9	\$718.9	\$(144.9)
2016	6.9	8.1	(1.2)	\$271.1	\$336.4	\$(65.3)
2017	5.9	12.8	(6.9)	\$321.5	\$618.6	\$(297.1)
2018	4.6	15.5	(11.0)	\$320.9	\$972.8	\$(651.8)
Total	62.3	112.2	(49.9)	\$4,814.7	\$8,931.6	\$(4,116.9)

Sources: Foreign Trade Statistical Digests, Central Bank of Sudan (CBOS), GFI Calculations²¹

2.3 State-Owned Enterprises (SOEs) in the Oil Sector

The Sudanese oil sector has come under criticism from various parties and studies due to the lack of clarity between the roles of the Ministry of Petroleum and Gas and the Sudanese Petroleum Corporation. After the dissolution of the latter in 2019, Sudapet (Sudan Petroleum Company Limited), which was a subsidiary of the Sudanese Petroleum Corporation, took over responsibility for its commercial operations. The Ministry of Petroleum and Gas absorbed all the corporation's assets, documents, and employees.

The risk of IFF was increased by the lack of a clear separation of roles of Sudapet for commercial operations and the Ministry's overall responsibility for oversight and regulation. The Petroleum Wealth Act of 1998 needs to be updated to detail the new roles and differentiate between responsibilities between Sudapet and the Ministry. The risks of co-mingling commercial and non-commercial activities within one institution are self-evident. Accountability is harder when the oversight institution's interests are tied 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.

The Ministry of Energy (MOE) is heavily involved in the oil business. It regulates the oil sector and also manages the financial operations of state-owned enterprises (SOEs) in the retail market, and pays taxes to the government. Since many financial transactions are charged by MOE internally, the SOE's financial situation is not transparent to the public, and there is a potential conflict of interest between the government and SOEs. As a regulator, the MOE is responsible for establishing the sector's development strategy, cooperating with foreign investors, and administering domestic fuel markets.

²¹ Global Financial Integrity, "Sudan and Trade Integrity," May 31, 2020, <https://gfintegrity.org/report/sudan-and-trade-integrity/#:~:text=In%20terms%20of%20value%2C%20Sudan,Sudan's%20declared%20exports%20by%20value>; Sudan and Trade Integrity Global Financial Integrity, https://www.wita.org/wp-content/uploads/2020/06/Sudan-Report-2020_FINAL.pdf

2.3.1 Trade in Oil and Gold Under the Emerging War Economy

The ongoing war has further weakened the flimsy pre-existing regulatory and legal frameworks governing the oil and gold sectors. Eight months of fierce fighting left the country divided into two territories, with a burgeoning war economy thriving in both. The SAF controls the Northern and River Nile states in the north, the three central Gezira, White Nile, and Sennar states, the three eastern region's Kassala, Gedaref, and Red Sea states, in addition to the disputed Blue Nile state. The RSF is in the process of consolidating control over the five states of Darfur region, the three of Greater Kordofan, and the capital Khartoum.

Perhaps the most egregious and crude form of IFFs occurring during Sudan's war is the massive looting of valuables, including four-wheel vehicles by RSF fighters. As was the case in the 2013 military campaign driven by hired Sudanese and Chadian militias that helped place the rebel Seleka movement in power in Central Africa Republic (the CAR), the RSF offensive to conquer power in Khartoum has turned into a massive campaign of looting of vehicles and other valuables. Stolen vehicles have reportedly found their way to Chad and countries of the Sahel region, generating an illicit trade sustained by the decimation of the savings of Sudan's middle class.²²

The economy has shown remarkable resilience during the war. After the devastating destruction of much of Sudan's commercial and industrial base concentrated in Khartoum by aerial bombardment and artillery shelling, trade activities began adapting by August. Several larger private sector companies relocated their undestroyed production lines and stores of raw materials for food items and other consumer goods to Wad Medani, the capital of the Gezira, and other states less affected by the war.

Imports picked up briskly, leading to a rapid depreciation of the Sudanese pound against the dollar in the parallel market.²³ Goods imported from South Sudan and Libya helped alleviate some of the severe supply shortages in local markets in Darfur and Kordofan states. However, the Western states receive little of the growing volume of imported goods through Port Sudan and over land from Egypt, disadvantaging populations living in RSF-held areas.

Businessmen who moved goods and machinery from Khartoum to Gezira and other stable states told us that they were able to do so only after making large payments to the RSF zonal commanders for safe passage of the cargo and personnel.²⁴ Similarly, shortly after the outbreak of war, the RSF laid siege to El-Obeid, the capital of Northern Kordofan, and engaged the SAF garrison there in frequent skirmishes meant to soften the defenses of the strategically located and economically important city before an eventual final offensive to control it. However, residents told us that fuel, consumer goods, and medicine continued to flow to El-Obeid both from areas controlled by the SAF to the east and by the RSF. The RSF set up illegal toll gates in the rural areas around El-Obeid to levy payments from commercial and passenger vehicles traveling to the city. Petroleum products imported from Libya reached El-Fasher and El-Obeid as well.²⁵

The investigative Atar newsletter tracked export and import shipments leaving from and arriving in Port Sudan in the first half of October. The publication concluded from the pattern of shipments that most of the fuel imports come from

²² Sudan War Monitor, "Where did the cars looted from Khartoum arrive?," originally published by Darfur 24 in Arabic, August 30, 2023, available at:

<https://sudanwarmonitor.com/p/where-did-the-cars-looted-from-khartoum>

²³ Radio Dabanga, "Sudanese Pound 'collapses' against hard currencies as CBoS limits bank transfers," September 27, 2023, available at:

<https://www.dabangasudan.org/en/all-news/article/sudanese-pound-collapses-against-hard-currencies-as-cbos-limits-bank-transfers>

²⁴ STPT telephone and in-person interviews, September and October 2023.

²⁵ See STPT, "Field dispatch from El-Fasher," 12 November 2023, available at: <https://sudantransparency.org/field-dispatch-from-el-fasher/>

the United Arab Emirates, while other goods come from Egypt, Turkey, India and Oman. Shipments of Sudan's traditional agricultural and animal products resumed, with several livestock shipments departing from the smaller port of Othman Digna in Suakin to the port of Jeddah in Saudi Arabia.²⁶

The Oil Sector

The war rendered Sudan and South Sudan's oil sectors extremely vulnerable to major damage at any moment. Sudan's belligerents split control of key parts of the infrastructure for the production and refining of Sudan's limited domestic production and the export of South Sudan's production. Days into the war, the RSF occupied the Khartoum Refinery of al-Jaili located 70 kilometers north of the capital, which is a Sudanese-Chinese joint venture that produces 60% of Sudan's domestic needs of gasoline and diesel.²⁷ Al-Jaili refinery is linked to the 1,610-kilometer export pipeline and to the marine terminal of Bashayer on the Red Sea which remains in SAF hands. By mid-July, the refinery stopped functioning, triggering a rush to import refined petroleum products from abroad and significantly increasing the prices of fuel at pumping stations across the parts of the country that remain under SAF control.

Stark reminders of the vulnerability of the oil sector in both Sudan and South Sudan to the vagaries of the war appear regularly. For example, a large fire destroyed fuel tanks in al-Jaili refinery in early November.²⁸ SAF and RSF traded accusations of responsibility for the incident. The RSF occupied the oil field and airport of Balila on October 30 after expelling the SAF, only to evacuate the station days later and return it to the workers when a local militia keen on keeping the field functioning forced them to do so. The facility has been run since 1995 by Sudan's Petro-Energy, a joint venture between Sudan's national oil company Sudapet and the China National Petroleum Corporation (CNPC), underscoring the global geopolitical dimensions of the war.²⁹ Continuous Sudan and South Sudan crude oil's flow to exportation is important for China to recover its investment loans to the two countries for the development of the oil fields and the building of the pipelines to the export terminal on the Red Sea.³⁰

The flow of oil exports from South Sudan via Sudan doesn't seem to have slowed since the beginning of the war, standing at 174,000 barrels per day in July. Both belligerents have vested interests in ensuring that this remains the case. The government of the day under the SAF authority benefits from royalties and fees for the transit of southern oil. The RSF also receive fees from the operator of al-Jaili refinery, which remains one of the main sources of fuel for its forces.³¹ There are also allegations that both the Juba government and Chinese companies may be paying the RSF not to damage the oil facilities and to secure the export of southern oil.

According to sporadic media reporting and businessmen who spoke to STPT on condition of anonymity, a small number of private sector businessmen working in partnership with the state-owned and security sector companies that dominate the oil sector were granted privileged access to licenses to import and distribute oil following the October 2021 coup

²⁶ Atar Weekly, "Sudan Foreign Trade: the Day After War," Vol. 1, Issue 2, October 19, 2023, on file with author.

²⁷ Argus, "Sudan's paramilitary claims control of sole refinery," 26 April 2023, available at: <https://www.argusmedia.com/en/news/2443068-sudans-paramilitary-claims-control-of-sole-refinery>

²⁸ Sudan Tribune, "Sudanese army, RSF trade accusations over Khartoum refinery fire," November 7, 2023, available at: <https://sudantribune.com/article279136/>

²⁹ Sudan Tribune, "Baleila oil producing field in West Kordofan," 2 November 2023, available at: <https://sudantribune.com/article278996/>

³⁰ S & Poor Global Commodity Insights, "Sudan fighting prompts fears oil supply could be affected," 17 April 2023, available at: <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/041723-sudan-fighting-prompts-fears-oil-supply-could-be-affected#:~:text=Sudan%20and%20South%20Sudan%27s%20export,in%20China%2C%20India%20and%20Malaysia>.

³¹ S & Poor Global Commodity Insights, "FEATURE: Sudan crude flows stable after 100 days of civil war," 27 July 2023, available at: <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/072723-feature-sudan-crude-flows-stable-after-100-days-of-civil-war>

d'état. Since the war began, companies owned by these businessmen reportedly continued to dominate oil imports and distribution in SAF-held areas.³² A leaked video dated January 2023 showed a group of six businessmen often named as part of that inner circle, swearing on the Holy Quran not to sell their imported gasoline and diesel below the prices they had fixed among themselves.³³ The bizarre ritual earned the businessmen the name of the "oil mafia" in local media. For the award of oil contracts, the privileged businessmen allegedly share percentages of their large margins of profit with predetermined entities, including SAF and GIS-controlled companies operating in the oil sector, the Ministry of Energy, etc.³⁴

Imports of oil and consumer goods from Libya are presumably controlled by the RSF and its private-sector business partners. Due to the post-war collapse of all government services across Sudan, we believe that the significant trading activities occurring in RSF-controlled areas do not generate customs, tax, zakat, and other government fees and levies on trade for the state.

The Gold Sector

The precipitous drop in official figures of gold production and gold exports cited above should not be taken at face value. Control over gold is a key prize sought by the SAF and RSF as both desperately need the revenues to finance their war effort. The scarcity of fuel and chemicals needed for the processing of tailings, in addition to rampant insecurity and criminality along transport routes, are factors that are likely to have contributed to a general slowing down of gold production in all areas. However, the uptick in imports of fuel and chemicals as of mid-July is likely to have eased these pressures.

The RSF's military ascendancy in western Sudan placed all the artisanal gold mining zones in the greater Darfur and Kordofan regions under its control, while Sudan's largest gold producing states, namely the Northern, River Nile, and Red Sea states, remained in the hands of the SAF. Underscoring the importance of gold as a conflict financing source, the RSF occupied the Sudan Gold Refinery, which filters crude gold for both public and private sectors in preparation for export. STPT revealed in a publication about the place of gold in the emerging war economy that the refinery had at its capture by the RSF 1.6 tons of gold owned by the private sector, of which half was already refined. The RSF also gained possession of another 1.3 tons of unrefined gold owned by the Central Bank of Sudan as well as four tons of tailings that have high percentage of silver. At the time these assets were seized, they were valued at approximately \$150.5 Million.³⁵ Seeking to make up for the loss of the Sudan Gold Refinery, the Undersecretary of the Ministry of Minerals spoke in July about the de facto government's plans to open a new gold refinery in Port Sudan.³⁶

The decline in gold production prompted the Ministry of Finance and Economic Planning in September to lower the business taxes on franchise companies from 30% to 15%. The reduction was meant to encourage the resumption of

³² Alzool online newspaper, "The fuel mafia threatens the oil sector with collapse," 25 January 2023, in Arabic, available at: <https://alzool.news/4177>

³³ You Tube, "Those monopolizing the importation and sale of petroleum products," 3 March 2023, in Arabic, available at: https://m.facebook.com/story.php?story_fbid=934122271103902&id=100061826800691&mibextid=v7YzmG.

³⁴ STPT telephone and in-person interviews, September and October 2023.

³⁵ See Sudan Transparency and Policy Tracker, "Sudan's Other War: The Place of Gold, The Economic Impact of the War in Sudan No. 2," July 2023, pp. 6-7, available at: <https://sudantransparency.org/wp-content/uploads/2023/07/GoldandWarFINAL.pdf>

³⁶ Madameek, "More than 100 Billion dollars of economic losses - the Red Sea state exports 266 kilos of gold," July 24, 2023, in Arabic, available at: <https://www.medameek.com/?p=126312>

production activities by companies, which are easier to tax than artisanal miners, and thus improve the de facto government's tax revenue.³⁷

Given the record of both the SAF and the RSF as longtime offenders in using their security clearances and political influence to export gold off the books, it is likely that such practices would have intensified under the conditions created by the war. Business sources told us that intermediary companies that assist security companies in delivering gold to Egypt off the books use the Egyptian pounds they are paid to purchase consumer goods for sale to the public in the SAF held areas of the country.

3. Ongoing Challenges in Combatting IFFs

In Sudan, corruption and IFFs were pervasive across all sectors and levels of the economy prior to the war. In the context of war, it is hard to gather detailed information, but it is likely that IFFs are increasing due to the breakdown of state institutions and the minimal controls that they might previously have imposed. In this context, creative approaches are needed for combatting IFFs that are likely to be funding the war economy at the moment and also for creating structures and policies that can be adopted by an eventual post war government to combat IFFs in the longer term. This will include substantial reforms in various areas, such as the financial sector, taxation, customs, and security. It will also require increasing transparency in the gold and oil sectors which had previously been depleting foreign exchange reserves, diminishing domestic resources and trade, contributing to macroeconomic instability, and exacerbating poverty and inequality.

3.1 Foreign Trade Issues

Trade mis-invoicing is a key driver of IFFs, both internationally and within Sudan, key industries for trade include livestock and agricultural products. Indeed, it has been argued that increasingly intensive livestock production, driven by increasing demand in the gulf, has been increasing conflict.³⁸ Trade mis-invoicing involves deliberately manipulating the prices, quality, or quantities of goods on invoices to evade taxes, escape capital controls, and conceal funds abroad. In Sudan, trade mis-invoicing affects not only foreign trade but also domestic trade, undermining government revenue collection. Trade mis-invoicing falls into four main categories:

- A) import over-invoicing: overstating import costs to move money abroad, reduce tax liability, or avoid duties.
- B) import under-invoicing: understating import values to bypass import limits or evade taxes.
- C) export under-invoicing: understating export values to move money abroad, lower taxable income, or evade export taxes.
- D) Export over-invoicing: overstating export values to exploit subsidies or rebates.

Sudan's trade mis-invoicing is assessed by comparing values declared abroad through the IMF Direction of Trade Statistics (DOTS) with domestically reported CBoS data. Value gaps reveal mis-invoicing.

³⁷ Altaghyeer, "Decision to lower business profit taxes for concession companies," September 7, 2023, in Arabic, available at: <https://shorturl.at/dml27>

³⁸ Mark Duffield and Nicholas Stockton, "Capitalism, war and plunder in the Horn of Africa," *Review of African Political Economy*, November 23, 2023.

3.2 Foreign Exchange Issues

Sudan has suffered from a persistent lack of foreign exchange. In February 2021, Sudan's transitional government unified the exchange rate, aligning the official rate of SDG 55 to USD 1 with the parallel market's rate of SDG 375 to USD 1. The divergence was driven by the lack of foreign currency, and it also encouraged IFFs, as the main source of black-market currency is trade mis-invoicing. Thus, the unification of the exchange rate plays an important role in combatting IFFs, although additional measures were needed to increase the effectiveness of the measure.

Since the start of the war, the value of the Sudanese pound has only deflated further, as exports have decreased, and imports have increased. In addition, the perceived absence of state authorities and their incapacity to project a capacity to safeguard the currency has further undermined public confidence.³⁹ This has led to the pound to fall to an estimated 950 SDG per US dollar,⁴⁰ compared to 800 in September, 700 in August⁴¹ and about 600 on April 15, 2023.⁴² The discrepancy between official and unofficial rates has also been widening, increasing to about 27% of the official value in September 2023.⁴³

Some of the depreciation can be attributed to the gradual resumption of economic activities and increase in imports in states that are less affected by the conflict. To shore up the pound against further depreciation, the CBoS introduced policies to limit the supply of Sudanese pounds by limiting daily transfers through bank applications to SDG 6 m for regular accounts and SDG 10 m per day for privileged accounts.⁴⁴

In early October, the Minister of Finance, Gibril Ibrahim, attributed the rapid depreciation of the Sudanese pound against the dollar to several factors, all linked to the war and IFFs. These include capital flight as people seek to shelter their wealth in safe financial havens; the RSF's laundering of large amounts of stolen pounds, mostly from the government's currency printing house, by converting them into dollars; and the increase in demand for the dollar created by rising import activities, particularly of refined petroleum products. Gibril noted that the demand to finance the war effort was also a factor in the depreciation of the national currency.⁴⁵

3.3 IFFs & Domestic Revenue Mobilization

3.3.1 Challenges Facing Sudan's Tax Administration

Sudan's economy is in freefall. The International Monetary Fund has predicted that the Sudanese economy will contract by 18% in 2023 as a result of the war,⁴⁶ damage to significant infrastructure and huge costs. This damage is occurring to an economy that was already in trouble. The economy had never fully adjusted to the secession of South Sudan in July 2011, which resulted in a sharp decline in its oil exports and fiscal revenues. Sudan lost 75 percent of oil production, 66 percent of exports, and 50 percent of revenues. The country experienced rampant inflation, massive currency

³⁹ Radio Dabanga, "Sudanese Pound hits new all-time low," October 18, 2023, <https://www.dabangasudan.org/en/all-news/article/sudanese-pound-hits-new-all-time-low>

⁴⁰ Ibid.

⁴¹ WFP, "WFP Market Monitor – Sudan: September 2023," October 18, 2023, <https://reliefweb.int/report/sudan/wfp-market-monitor-sudan-september-2023>

⁴² Google Finance historical rates, <https://www.google.com/finance/quote/SDG-USD?sa=X&sqi=2&ved=2ahUKEwilzObTol-CAxWkF1kFHxVJDsoQmY0JegQIDBAR>

⁴³ WFP, "WFP Market Monitor – Sudan: September 2023," October 18, 2023, <https://reliefweb.int/report/sudan/wfp-market-monitor-sudan-september-2023>

⁴⁴ Radio Dabanga, "Sudanese Pound 'collapses' against hard currencies as CBoS limits bank transfers," 27 September 2023, available at:

<https://www.dabangasudan.org/en/all-news/article/sudanese-pound-collapses-against-hard-currencies-as-cbos-limits-bank-transfers>

⁴⁵ Sudan Tribune, "Finance minister links Sudanese pound's decline to rising demand for dollars in oil imports," 7 October 2023, available at:

<https://sudantribune.com/article278107/#>

⁴⁶ "Sudan's economy in limbo, warns IMF," AfricaNews, October 12, 2023, <https://www.africanews.com/2023/10/12/sudans-economy-in-limbo-warns-imf/>

devaluation, and rapidly increasing arrears on international debt. The fiscal deficit deteriorated (10.8 percent of GDP in 2019 because of ballooning fuel subsidies⁴⁷ (which accounted for 79 percent of total subsidies)⁴⁸ and weak revenue mobilization (Sudan had one of the lowest tax revenue to GDP ratios in the world and COVID-19 reduced revenues by 40 percent).⁴⁹

The government of Sudan had made some progress in improving the tax collection system over the last two decades. Tax revenue increased from around 6 percent of the GDP in 2011 to 7.4 percent in 2018, driven by taxes on goods and services, notably Value Added Tax (VAT), which expanded from 3.7 percent of GDP between 2010 and 2013 to 5.5 percent in 2018. However, the tax revenues dropped to below 6 percent of GDP in 2020, largely as a result of the COVID-19 pandemic. Throughout, however, Sudan's performance was, significantly lower than the 16.5 percent average in other African nations.⁵⁰

Several challenges have impeded Sudan's achievement of its revenue mobilization goals. These include substantial revenue losses due to widespread tax exemptions and tax breaks on VAT, customs, and corporate taxes. Weaknesses in the customs and tax administration have also contributed. Corruption in the management of tax exemptions, especially for specific imports and exports, has further hindered Sudan's tax collection capability. The Tax Chamber has faced criticism for inconsistent and non-transparent enforcement of tax regulations, allowing politically connected companies to evade taxes.

In 2017, the Tax Chamber initiated an ambitious project to fully automate tax collection processes, including VAT. This project, which according to a former tax official was to raise tax revenue to 16 percent within three years, was halted due to opposition from corrupt individuals and influential groups within the Bashir government and has yet to be restarted.⁵¹ In addition to evading government-imposed taxes and fees, cross-border traders may attempt to bypass administrative procedures in sectors like health, agriculture, security, and immigration. These processes are often perceived as expensive, intricate, and time-consuming.⁵² Cross-border trading might involve goods that are legal in on one side of the border, but illicit on the other. It can also encompass trade in legitimately produced goods and services that escape taxation and regulatory frameworks, leading to underreporting of official national trade statistics.⁵³

Selected Public Finance Indicators During (2015-2020)

	2015	2016	2017	2018	2019	2020
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⁴⁷ Heritage Foundation, "Sudan," 2021, https://www.heritage.org/index/pdf/2021/countries/2021_IndexofEconomicFreedom-Sudan.pdf

⁴⁸ International Monetary Fund, "First Review under the Staff-Monitored Program – Press Release," April 2021,

<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwibpoiDyl-CAXXek4kEHeh2CnwQFnoECBAQAQ&url=https%3A%2F%2Fwww.imf.org%2F-%2Fmedia%2Ffiles%2Fpublications%2FCR%2F2021%2FEnglish%2F1SDNEA2021002.ashx&usg=AOvVaw2ZBNqDvp0eHqNRRyp76Ug-&opi=89978449>

⁴⁹ International Monetary Fund, "First Review under the Staff-Monitored Program – Press Release," April 2021,

<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwibpoiDyl-CAXXek4kEHeh2CnwQFnoECBAQAQ&url=https%3A%2F%2Fwww.imf.org%2F-%2Fmedia%2Ffiles%2Fpublications%2FCR%2F2021%2FEnglish%2F1SDNEA2021002.ashx&usg=AOvVaw2ZBNqDvp0eHqNRRyp76Ug-&opi=89978449>

⁵⁰ Cristina Enache: OECD Report: Tax Revenue in African Countries <https://taxfoundation.org/africa-tax-revenue-oecd-report-2020/>

⁵¹ STPT interview with a former tax official, June 2022.

⁵² 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>

⁵³ 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/BIACRP10-How_Might_EAC_Reduce_Negative_Implications.pdf

⁵⁰ Cristina Enache: OECD Report: Tax Revenue in African Countries <https://taxfoundation.org/africa-tax-revenue-oecd-report-2020/>

⁵¹ STPT interview with a former tax official, June 2022.

⁵² 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>

⁵³ 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/BIACRP10-How_Might_EAC_Reduce_Negative_Implications.pdf

⁵³ 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/BIACRP10-How_Might_EAC_Reduce_Negative_Implications.pdf

⁵³ 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/BIACRP10-How_Might_EAC_Reduce_Negative_Implications.pdf

⁵³ 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/BIACRP10-How_Might_EAC_Reduce_Negative_Implications.pdf

⁵³ 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/BIACRP10-How_Might_EAC_Reduce_Negative_Implications.pdf

Total government revenue	12.0	8.3	7.2	8.9	7.8	6.4
o/w Tax revenue	6.6	6.8	5.5	6.7	5.4	4.9
o/w grants	0.7	0.2	0.2	0.2	0.5	4.6
Government expenditure net lending	13.3	10.3	13.7	16.7	18.7	19.1
Current Expenditure	10.5	9.3	13.0	16.2	18.5	17.4
o/w Wage and Salaries	3.5	3.5	3.7	2.4	2.9	3.9
o/w Interest		0.5	0.5	0.2	0.2	0.3
Capital Expenditure	1.2	1.0	0.6	0.5	0.1	1.7
Net Lending						
Primary fiscal balance, incl. grants	-1.1	-1.1	-6.0	-7.6	-10.6	-14.7
Overall Fiscal balance, incl. grants	-1.2	-1.6	-6.5	-7.9	-10.8	-15.0

Source: State's general Budget, MOFEP

3.3.2 Challenges Facing Sudan's Customs Authority

Sudan's customs authority faced significant challenges in its operations prior to the war and these have likely been exacerbated by the chaos of the current situation. The authority's inefficiencies and lax enforcement have led to poor rankings in international indices, such as the World Bank's Doing Business and Trade Across Borders rankings.⁵⁴ These shortcomings have contributed to high trade-related transaction costs, incentivizing formal sector traders to engage in smuggling and informal cross-border trade, resulting in substantial illicit financial flows and revenue losses.

Such inefficiency and transaction costs include the following:

- Formal sector traders having to work through corrupt custom brokers at the borders and checkpoints requiring illegal payments.
- Pre-shipment inspections can be time-consuming and often involve corruption.
- There are multiple documentation requirements for a single transaction.
- Expensive trade-related fees and charges for export and import relative to the services received and a lack of transparency on how such fees are determined.

⁵⁴ 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>; World Bank's Logistics Performance Index (LPI) <https://lpi.worldbank.org/international/scorecard/column/64/C/SDN/2018>

- Complex procedures, including sanitary and phytosanitary barriers to trade, for the release of goods from customs.
- The high costs associated with the length of time required to export and import.

A study done by Sudan Customs in May 2015 identified the main reasons for SCA inefficiency as follows:

- Existence of repetitive and unproductive processes in the clearance system.
- Documentary checks based on transactions rather than risk management.
- Overcontrol of transactions resulting in checking and rechecking of the same information by several different sections (valuation, assessment, etc.).
- Poor quality of some declarations logged 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.⁵⁵

An eventual post-war government will need to prioritize reform of these systems to increase trade-related revenues, which will be vital for reconstruction. Some steps have already been taken to address these issues, including acquiring new scanning equipment (although it is unclear how much of this will survive the war), using the ASYCUDA system by the United Nations Conference on Trade and Development (UNCTAD) to streamline procedures, and collaborating with the EU's Customs Risk Management Framework. Sudan also amended its Customs Act in 2010 to align with international standards and established a National Committee on Trade Facilitation based on WTO recommendations.⁵⁶

There have been discussions about creating a centralized system with a single window connecting all government units involved in imports and exports as a trade facilitation system that controls the import and export processes and connecting all government units involved in those activities. This system would allow exchange of information electronically between all government units and curb the corruption and falsification of information, fighting mis-invoicing and custom avoidance. The Customs Authority, a part of the police force under the Ministry of the Interior, cooperates with other police services for intelligence in economic affairs. In the post-war period, such measures should be pursued to improve revenue collection and finance recovery.

Past government subsidies for fuel, wheat, sugar, and medicine that were applied during the Bashir regime, along with weak border controls, created incentive for smuggling of these goods across borders, evade customs duties to take

⁵⁵ World Bank, "Doing Business 2016: Measuring Regulatory Quality and Efficiency," The World Bank, October 27, 2015, available at: <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, available at: https://unctad.org/en/PublicationsLibrary/dtl_ttf_2016_TFRoadMap_Sudan_en.pdf

⁵⁶ 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

advantage of artificially low prices. Removal of most of the subsidies by the civilian-led government, in power between September 2019 and October 2021, significantly curbed this incentive, but caused economic pain on the Sudanese people. Alongside the removal of subsidies, more effective customs enforcement could also reduce the incentives for tax and customs evasion by importers and exporters.

Overall improving customs performance, curbing illegal trade and smuggling, can boost trade-related revenues for Sudan, which will be vital for reconstruction in the post-war period.

4. Efforts to Combat Illicit Financial Flows (IFFs) in Sudan during the Transitional Period

Massive protests swept Sudan in 2018/19, resulting in the ousting of President Omar al-Bashir in April 2019. This led to a civilian-led transitional government led by Prime Minister Abdalla Hamdok being appointed in September of the same year. A core demand of protesters was to eradicate entrenched official corruption in the country, pushing the transitional government to take steps in this direction, in addition to enhancing human rights, reforming oppressive laws, forging peace agreements with armed groups, and initiating market reforms. Although these reforms created economic difficulties for most Sudanese in the short term (for example, the removal of subsidies on gasoline and diesel led to a near doubling of prices overnight⁵⁷), but were intended to ultimately stabilize the economy and drive growth in the long term. Challenging reforms included restructuring fuel and electricity subsidies and adjusting the Sudanese pound's value in line with the parallel market rate.

These changes were influential in the U.S. government's decision to remove Sudan from its list of State Sponsors of Terrorism in December 2020. Strict trade and financial embargoes had already been lifted in 2017. This shift in international status enabled Sudan to reconnect with global financial systems and the world economy. Clearance of Sudan's arrears through a US bridge loan to the World Bank in March 2021 allowed for renewed financial assistance and facilitated Sudan's eligibility for debt relief under the IMF's Highly Indebted Poor Countries initiative.

Despite these positive shifts, Sudan's transitional government grappled with a nearly empty treasury and one of the world's highest inflation rates, stemming from decades of mismanagement, extensive official corruption, and ineffective measures against IFFs. Among the economic challenges, ongoing IFFs posed a significant concern, with the country losing an estimated \$5.4 billion annually due to trade mis-invoicing.⁵⁸ These financial outflows undermined the government's efforts to address mismanagement and corruption, hindering economic stability and service provision for citizens. In essence, these IFFs jeopardized economic recovery, political stability, security, institutional integrity, sustainable development, and the rule of law during the transition.

The October 21, 2021 coup halted this progress in curbing the progress in combating illicit financial flows. The situation since the start of the war is difficult to track, but it is clear that there has been significant disruption to formal trade. It is

⁵⁷ "Sudan ends subsidies for gasoline and diesel, raises prices," Reuters, June 8, 2021, <https://www.reuters.com/article/us-sudan-economy-idUSKCN2DK2OY>

⁵⁸ "Sudan annually loses about \$5.4 billion in illicit financial flows," Sudan Tribune, July 7, 2021, <https://sudantribune.com/article67874/>

likely that illicit trade and smuggling is also experiencing disruptions, although perhaps to a lesser extent. This might mean lower IFFs but that they represent a higher percentage of GDP.

4.1 Sudan's Legal & Regulatory Framework for Combatting IFFs, Money Laundering & Terrorism Financing

Sudan has a clear legal and regulatory framework for combatting IFFs and other financial crimes overseen by a number of agencies, including but not limited to: the Ministries of Justice, Finance and Interior, the Central Bank of Sudan, the National Committee for Combatting Money Laundering and Terrorism Financing, the Financial Intelligence Unit (FIU), the National Audit Chamber, the Sudan Customs Authority, the Taxation Chamber, the Directorate of the Commercial Registry, Khartoum Stock Exchange, the Insurance Control Public Corporation, the Economic Directorate of the General Intelligence Services (GIS), Counter Terrorism Department in the GIS, the Criminal Investigations Department of the National Police, the Attorney General's Chamber, and the Judiciary.

Each of these regulatory, supervisory and enforcement agencies is governed by its own law. A National Committee was first established under a 2010 Act that was later superseded by the 2014 Act for Combatting Money Laundering and Terrorism Financing. The committee is chaired by the Under-Secretary of the Ministry of Justice and tasked with coordinating various agencies' efforts. Operating under the oversight of the National AML/CTF Committee is Sudan's independent Financial Intelligence Unit (FIU), which is mandated by law to receive suspicious activity reports from banks and financial institutions and to report them to the AG for investigation when warranted.

However, the pervasive official corruption that characterized the former Bashir government has seriously weakened the efficacy of the legal and regulatory regime in stemming the tide of IFFs from the country and in reducing Sudan's high exposure to the risks of money laundering and terrorism financing. An assessment conducted in 2012 by the regional chapter of the Financial Action Task Force (FATF) for the Middle East and North Africa Region (MENAFATF) noted strategic deficiencies in Sudan's AML/CFT regime. The peer review mechanism cited a lack of provisions for the identification and freezing of assets linked to terrorism and the lack, at the time, of a fully functioning and effective FIU. The harsh listing prompted some progress, leading to Sudan's removal from the FATF list.

The laws, however, have not been fully implemented, and at times have been ignored, since 2015. For instance, the former civilian-led government introduced reform measures in 2015 including the launch of a treasury single account (TSA) and the improvement of the enforcement of digital collection of government revenue and monitoring of its expenditure through electronic form 15 (E-15) projects. However, the purposes of this anti-graft measure, which has proven effective in Nigeria, were defeated in Sudan when the Bashir government exempted security sector entities and other public enterprises from these controls.

5. Conclusion and Recommendations

Drawing on the recommendations of the landmark 2015 AU/ECA Mbeki report as well as anti-IFF measures that have been applied in other conflict contexts, our recommendations aim at contributing to the fight against grand corruption and IFFs and strengthening both in the immediate future and the longer term under an eventual post war government.

5.1 Immediate War Time Actions

During the war, efforts to combat illicit financial flows are likely to focus on blocking access by spoilers in the country to international markets and support, especially as national mechanisms, already weak prior to the war and further weakened by the chaos of war. These mechanisms include sanctions, an initial raft of which are already in place in the Sudan situation. Sanctions can be effective in moving resources away from warring parties and the illicit businesses through which they have built their assets. For example, already the US has sanctioned Al Junaid for Multi Activities, which since 2017 has been the sole processor of gold tailings in the Songo area of South Darfur, which appears to be a key resource for the RSF, not least because the mine's proximity to the Central African border facilitates smuggling.⁵⁹ However, these measures are vulnerable to targets moving resources to unsanctioned entities. Such moves are facilitated where sanctions are applied unilaterally. Imposition of sanctions by a wider range of international actors could be useful in closing some of the loopholes now available to STPT has already published initial reflections on the initial performance of the sanctions and intends to continue to monitor the effectiveness of these mechanisms.⁶⁰

Another mechanism for blocking access to international markets has been the imposition of due diligence, which requires companies to put in place internal review mechanisms to audit their own supply chains and put in place measures to ensure that materials that they use are ethically sourced. Some of these are voluntarily adopted by affected companies (often in response to public concern) while others have been imposed by legal regimes such as the Dodd-Frank Act in the US or the EU's conflict minerals regime imposed by Regulation 2017/821. Similar measures could be considered in Sudan, particularly targeting the gold and oil sectors, although reference should be made to the lessons learned from places like the Democratic Republic of Congo where similar measures have been imposed.⁶¹

5.2 General Reform Recommendations to the Sudanese Post-War Government

Sudan was plagued by weak governance, corruption, and economic challenges even before the war, and it seems likely that whatever minimal controls might have been in place prior to the war have further eroded. However, reforms are vital for the future and must be pursued when the context allows. Reforms must be gradual to prevent failure or reversal. A comprehensive approach to governance, institutional capacity, and human capital is needed to combat corruption. Timely and transparent data, accountability, and civil society engagement are crucial.

Legal reforms must prioritize rule of law and creation of effective criminal justice frameworks. Transparency, anti-corruption measures, and the creation of an Independent Anti-Corruption Commission are essential. Fiscal transparency, beneficial ownership disclosure, and public data availability require improvement. International cooperation, elimination of secrecy, support for civil society, whistleblowers, and research are vital.

⁵⁹ Conflict Dynamics in South Darfur, STPT, December 2023, <https://sudantransparency.org/wp-content/uploads/2023/12/SouthDarfurEN.pdf>

⁶⁰ Suliman Baldo, "Sanctions Hit Sudan's War Chest but More is Needed to End the Bloody Conflict," International Centre for Dialogue Initiatives, July 18, 2023,

⁶¹ See, for example, Divin-Luc Bikubanya, Hadassah Arian, Sara Geenen and Sara Katz-Levine, "Due Diligence in Mineral Supply Chains from the Democratic Republic of Congo," E-International Relations, January 26, 2023, https://www.e-ir.info/2023/01/26/due-diligence-in-mineral-supply-chains-from-the-democratic-republic-of-congo/#google_vignette

Capacity-building measures are also crucial. Strengthening existing, and establishing new agencies, training investigators, and ensuring regular audits can effectively counter IFFs. Additionally, establishing a unified body and implementing transfer pricing units are crucial for coordinated efforts against these illicit activities.

5.3 Economic Reform Measures:

These measures aim to reduce smuggling, improve governance, enhance financial inclusiveness, and curb corruption:

- *Rationalizing Subsidies:* Shift subsidies to more effectively target needy individuals and production, curbing smuggling and unsustainable spending.
- *Sustaining Exchange Rate Unification:* Further actions are needed to sustain the progress of the February 2021 rate unification.
- *Government Procurement Policy:* Revise procurement regulations to align with international best practices.
- *Financial Sector Restructuring:* Restructure the financial sector using global best practices, addressing isolation and low inclusiveness.
- *Preventing PEP Involvement:* Enhance customer knowledge, suspicious transaction detection, and reporting for PEPs. Improve customer due diligence, reporting practices, and asset declaration transparency.

5.4 Specific Trade & Institutional Reforms Recommendations

Improving Trade Integrity in Sudan: Sudan needs a robust legal framework for transparent international trade to counter IFFs. Enhancing the Sudan Customs Authority (SCA), establishing multi-agency efforts, and creating risk-assessment groups in the extractive sector are essential.

- *Single-Window Trade Platform:* Develop an integrated electronic platform for trade and customs management across agencies.
- *Strengthen Multi-Agency Collaboration:* Collaborate among customs, financial intelligence, and revenue agencies to combat financial crimes.
- *Enhance Public Beneficial Ownership Registry:* Establish a public registry with detailed ownership information, retroactively covering existing businesses, and linking it to customs and taxation acts.

5.5 Sudan Customs Authority Recommendations

Sudan Customs Authority should focus on combating trade mis-invoicing and smuggling, addressing corruption, monitoring invoices, amending customs law, enhancing oversight of free trade zones, and adopting a risk assessment system for real-time monitoring of trade mis-invoicing. These measures aim to enhance transparency, prevent revenue loss, and improve customs operations.

5.6 The Taxation Chamber Recommendations

The Taxation Chamber suggests rationalizing tax exemptions, improving customs and tax administration, simplifying the taxation system, enhancing information-sharing between countries, and using country-by-country reporting data to combat corruption, increase transparency, and improve tax collection in Sudan.

5.7 Extractive Sector Recommendations

The recommendations below prioritize the most urgent areas for reform within the country regulatory and legal framework for extractive sector. Sudan should:

- Join the Extractive Industries Transparency Initiative (EITI) and revamp its regulatory framework.
- Align extractive industry standards with EITI and the Africa Mining Vision.
- Adopt a comprehensive governance approach to regulate the sector, involving relevant ministries.
- Enhance ministries' capacity to manage concessions, agreements, and data transparency.
- Establish a public registry for concession/exploration licenses.
- Conduct a risk assessment for the sector and design risk-based policies.
- Engage trading and banking partners for transparency in the value chain.
- Strengthen government units for natural resources revenue management.

5.7 Gold Sector Recommendations

- End preferential treatment for politically connected and security sector companies.
- Adopt the Code of Risk-mitigation for artisanal and small-scale mining engaging in Formal Trade, the standard for improving conditions in artisanal mining in accordance with international due diligence standards.
- Strengthen the Ministry of Mining's oversight and technical capacity.
- Reform and harmonize national and state mining laws and regulations.
- Introduce policy changes to formalize artisanal mining, including by protecting areas of significant mining activities; encourage artisanal miners to form production and services cooperatives; lower gold taxes and mining cooperatives' registration costs.
- Safeguard rural communities, artisanal miners, and the environment from toxic materials.
- Recognize land rights of mining communities and fair resource sharing.

5.8 Crude Oil Sector Recommendations

The government should also reform oil sector governance. This includes reforming SOEs to allow them to operate on a commercial basis so that they would be incentivized to have long-term development targets and investment strategies; streamlining the function of the MOE and making it genuinely in charge of regulating this sector and able to provide strategic views on the development of energy sector in Sudan; establishing clear lines of responsibility between MOFEP and MOE with regard to regulation of the energy sector; and finally improving transparency and auditing in the oil sector to allow more public analysis and scrutiny.

- Amend the Petroleum Wealth Act to clarify roles and obligations of Sudapet and the Ministry.
- Create a binding obligation to disclose petroleum reserves publicly.
- Prohibit government officials from holding interests in oil-related companies.
- Strengthen oversight systems for exploration and production agreements.
- Ensure transparency in bidding processes and ownership disclosure.
- Mandate annual reports from state-owned enterprises (SOEs) in the oil sector.
- Establish an independent licensing authority separate from commercial interests.
- Ensure transparency in oil sector contracts for stakeholders' understanding.

5.9 African Union

- Offer capacity building and technical expertise to support Sudan's efforts to combat IFFs.
- Provide assistance in policy reform, institutional capacity building, and risk assessments.
- Support civil society organizations and promote digital transformation for transparency.

5.10 International Institutions

- Enforce anti-money laundering measures and compliance with international standards.
- In particular, apply pressure on the UAE government to close the regulatory and enforcement loopholes that allow for trade in conflict and high-risk gold from Sudan and other African countries, in line with London Bullion Market Association and Financial Action Task Force (FATF) recommendations.
- Urge offshore financial centers to counter illicit financial outflows.
- Enhance information sharing, asset recovery, and collaboration among agencies.
- Address countries and firms profiting from illegal behaviors.
- Aid Sudan's Financial Intelligence Unit and encourage whistleblower protection.