The Strategic Commodities Fund (April 2020-January 2023)

What lessons for a new effort?

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SUDAN TRANSPARENCY AND POLICY TRACKER

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In times of great adversity, we must think smart, sharpen our resolve, and pursue effective solutions to pressing dilemmas. This was exemplified in the approach of the transitional government led by former Prime Minister Abdalla Hamdok (September 2019 - October 2021) to acquiring strategic commodities following the December Revolution, in the midst of severe economic issues and the absence of any foreign reserves in the national treasury and the Central Bank.

This research offers a technical and objective analysis of the experience of the Strategic Commodities Fund (SCF), which the transitional government established to address severe shortages in foreign currency for importing essential goods such as petroleum derivatives, wheat, medicines, and agricultural inputs. The paper traces the SCF's formation, examines its operations, assesses its outcomes, and distills key lessons for the information of the domestic public opinion, international policymakers, and Sudanese stakeholders and decision-makers. In particular, we explore features of the fund in the transitional period that suggest both a dimension of conflict of interest in the line-up of capital contributors and safeguards meant to combat corruption in the fund's operations. These insights aim to inform current efforts by Sudanese authorities to set up a similar mechanism in Port Sudan to overcome the economic challenges that the ongoing war has created, especially in light of the Central Bank of Sudan's recent announcement to form a new strategic commodities fund modeled on the SCF of the transitional period.

Starting from the present

On July 27, 2024, the Central Bank of Sudan announced the formation of a new fund, or portfolio, aimed at providing foreign exchange to import strategic goods without resorting to buying foreign exchange from the black market, in which the price of the pound against the dollar reached about 3000 Sudanese pounds for one US dollar before it retreated to 2700 pounds, and in a lengthy press release for the Central Bank and another for the Bank of Khartoum, they jointly announced the new fund with a capital of one billion US dollars, and the Central Bank pledged the following:

1. The provision of foreign exchange through a transparent mechanism.
2. To coordinate between the fund and regional and international financial institutions to increase foreign exchange resources to obtain other commodity loans to maintain the exchange rate.

3. To issue a circular explaining the fund to commercial banks, supporting the controls of the import process.[1]

On August 20, the Governor of the Central Bank of Sudan announced in a press statement that the fund would start its activities before the end of August 2024. The Bank of Khartoum announced through its Director General, Ms. Lamia Kamal Sati, that fund would be established jointly with the Central Bank with "initial" capital of one billion dollars and explained that the fund's working mechanism is based on buying gold from inside Sudan and exporting it to obtain foreign exchange and importing petroleum derivatives through a tender offered by the Ministry of Energy.[2]

The new fund's chances of success

There is no doubt that the circumstances of the current war in Sudan allow for exceptional methods of managing economic resources and necessitate the adoption of economic emergency mechanisms. This justifies the establishment of such specialized funds to achieve the stated goal of providing foreign exchange resources and controlling the exchange rate, which jumped from 430 pounds to the dollar on October 25, 2021 (the day of the coup), then continued to collapse with the start of the war on April 15, 2023 until it reached 3000 to the dollar in July 2024, and fell to about 2700 pounds per dollar in October 2024 (on the black market). An important positive factor that could help the success of the new fund is the large size of its capital, 1 billion US dollars, which is about 11 times the size of the old fund's capital of only 90 million dollars.

Through the use of leverage and deferred payment facilities, it is possible to deal in amounts up to three times the size of the fund's capital, i.e. $3 billion, for a period of time not exceeding three months (90 days) and then recycle the capital, which means that the potential volume of operations of the fund can exceed the country's import bill for all goods, which is slightly more than $9 billion.

Thus the facility could potentially extend $3 billion in credit every four months for a total of 12 billion USD per year. The limiting factor is the availability of sufficient quantities of gold to fund operations of this size. If the fund rotates its capital once a year, it would need about 15 tons of gold, which is available in Sudan currently. However, there is difficulty in obtaining gold, given that the war has caused a decline in gold production and intense competition between the two parties over the commodity, which is a primary source of financing for the purchase of weapons, ammunition, fuel, and other key war materiel. Further, the war has created conditions that encourage the increase in gold smuggling and off book exportation to its traditional markets, mainly in the United Arab Emirates, limiting the volume of gold available from official

[1] Almohagig, "After the Bank of Sudan announcement: Will the billion-dollar portfolio curb the dollar exchange rate against the Sudanese pound?," July 26, 2024, in Arabic, available at: https://shorturl.at/45HIe

[2] Nabd El Sudan, "Director of Bank of Khartoum talks about the billion-dollar portfolio," July 27, 2024, in Arabic, available at: https://nabdsudan.net/?p=131637

sources to use as collateral for the importation of strategic commodities.[3,4] Operating at this level is also complicated by the need to use US dollars, as will be explained below.

In addition, it is important that capital is jointly provided by the Central Bank of Sudan and the Bank of Khartoum (BOK), Sudan's largest commercial bank in which 42% of the shareholding is held by investors from the Gulf Cooperation Council countries, including the UAE's Islamic Banks in each of Dubai, Abu Dhabi, and Sharjah. BOK's website specifies that the rest of the shares are held by "leading regional royals and prominent Sudanese investors."[5] This shareholding in the new strategic commodities fund contrasts with the broad capital participation that the first strategic commodities fund enjoyed during the transition, with 27 commercial banks, 17 gold companies, and all insurance companies participating. The earlier larger coalition created the conditions for success in a sensitive and complex endeavor, which is to provide governance and eliminate the vested interest of a single entity in controlling the fund's mechanism and operations. There is unconfirmed talk that the Bank of Khartoum and its major owners may undermine the fund and that its fund might be transferred to the management of Omdurman National Bank, which is affiliated with the army and whose board of directors is chaired by Mr. Abdel Fattah al-Burhan, chairman of the Sovereignty Council and army commander, which practically exerts full control over the fund. It should be noted here that the decision to establish the fund is still waiting for approval by al-Burhan himself for more than three months.

Another factor that reduces the chances of success of the new fund is the breakdown of the SWIFT system and the paralysis of the Sudanese banking system, which hinders liquidity and transfers between individuals, companies, and banks and thus hinders the management of the fund. This could lead to the inability to fulfill internal and external obligations to the Banks of Sudan and Khartoum or any other parties from companies and others, a situation that could be exacerbated by the tightening of the international banking boycott of Sudan as a war zone.

In short, because the fund has not yet been activated, its chances of success are very low, and it would be more appropriate for it to be a commercial instrument affiliated with the Bank of Khartoum rather than a fund in the mold of that which operated in the transitional period. On the other hand, some experts believe that the announcement of the new fund with such large capital backing was just a public relations ploy by the *de facto* authorities to distract from the collapse of the Sudanese pound.

Commercial practices, especially in the field of petroleum derivatives, are currently marred by many legal violations, most notably non-compliance with the technical specifications of the derivatives and tax evasion by importers, which costs the state hundreds of millions of dollars, especially since the total fees on petroleum derivatives range from 24 to 31% of the total import

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[3] Sudan Transparency and Policy Tracker, "Fueling Sudan's War How Gold Exports and Smuggling Are Prolonging Sudan's War," October 2024, available at: https://sudantransparency.org/wp-content/uploads/2024/10/GoldSectorEN.pdf

[4] Sudan Times, "Corruption: The details are in the contradictions. Gold and the Bank of Sudan: Who draws the gold export policies?," July 1, 2024, in Arabic, available at: https://sudantimes.net/2024/07/01/invist1/

[5] Bank of Khartoum, "About Us,", BOK website, available at: https://bankofkhartoum.com/sudan/about-us/#:~:text=42%25%20of%20bank's%20shareholding%20comes,royals%20and%20prominent%20Sudanese%20investors.

value (see further details below).[6] A serious conflict arose between petroleum companies and the Director General of Taxation due to their refusal to settle huge debts in outstanding tax arrears to the Taxation Chamber. This dispute ultimately led to the director's dismissal, further underscoring the conflict over resources.[7] Most petroleum-importing companies see their interests as linked to the *de facto* authorities.

This environment of grand corruption is not conducive to the success of the fund.

The Origins, Objectives and Formation of the Initial Strategic Commodities Fund (June 20, 2020 – January 2022)

Following the success of the December Revolution on April 11, 2019, and the formation of the transitional civilian government in August 2019, the country witnessed a wave of inflation and the devaluation of its currency in a phase of the economic crisis inherited from the Bashir regime. The civilian government inherited heavy burdens of the crisis, most notably the dilemma between providing strategic goods (petroleum derivatives, wheat, medicine, fertilizer and others) and basic goods (sugar, some types of grains, and production inputs) with limited funds. Due to the complete bankruptcy of the state, the transitional government also inherited an empty treasury, as the country's foreign exchange reserves did not exceed a few hundred thousand dollars when the transitional government took office in the last quarter of 2019.

During the three decades of Bashir's rule, the regime ceded control of the state's revenues and the returns from natural resources, such as petroleum and gold, to ruling party insiders, their business associates, family members, and security agencies, namely the Sudan Armed Forces (SAF), the National Intelligence and Security Services (NISS), and the paramilitary Rapid Support Forces (RSF).[8] Following Bashir's fall, constitutional arrangements established a power-sharing agreement between an executive led by civilian leaders of the pro-democracy Forces of Freedom and Change coalition and leaders of the military and security establishment, who retained sovereignty powers within a joint civilian-military Sovereignty Council. This arrangement was intended to last 39 months, culminating in elections. However, since the military faction retained significant economic control during the transition, it was able to influence the cabinet's economic policies and conducted its own foreign policy independently from the executive. Nonetheless, when the transitional government's macroeconomic reforms, including subsidy cuts and exchange rate unification, began to erode the security sector's economic monopolies, the military overthrew the civilian government in October 2021, ending

[6] Sudan Platform, "Due to the dismissal of the Director General of the Tax Chamber Will the Sudanese Minister of Finance submit his resignation to Lieutenant General Al-Burhan?," September 9, 2023, in Arabic, available at: https://sudaplatform.com/103150

[7] Sudan Akhbar, "The Sudanese Council of Ministers in Port Sudan announces the vacancy of a high-ranking position that caused a crisis between Burhan and Jibril," October 27, 2024, in Arabic, available at: https://www.sudanakhbar.com/1585565

[8] The Enough Project, "Sudan's Deep State: How Insiders Violently Privatized Sudan's Wealth, and How to Respond," April 2017, available here: https://enoughproject.org/wp-content/uploads/2017/05/SudansDeepState_Final_Enough.pdf

the transition process. Competition between the SAF and the RSF over the control of power and wealth is the leading trigger of the current war.[9]

Confronted with catastrophic economic conditions and nearly depleted foreign currency reserves, the transitional government established the Supreme Committee for Economic Emergencies in April 2020. This committee was chaired by Lieutenant General Mohamed Hamdan Daglo, Vice President of the Sovereignty Council, with Prime Minister Dr. Abdullah Hamdok as deputy chair. It included a broad coalition of ministers, government officials, and private sector experts.[10] The committee's composition reflected both the structure of the transitional institutions and the relative economic influence of the transitional partners.

The committee deliberated in repeated meetings on all aspects of the Sudanese economy, especially the need to address the suffocating crises related to the provision of strategic commodities, especially petroleum, medicine, and wheat. The committee also took important decisions, especially in relation to the gold sector, the central bank, medicine, the import and export trade, commodity support, the port, the liberalization of the Sudanese pound, and others.

In the face of a lack of medicine and suffocating crises in the field of import and distribution of petroleum derivatives, the committee made a historic decision to form a strategic commodities fund, according to Decision No. 274 issued on April 25, 2020, regarding the formation of the Supreme Committee for the Strategic Commodities. Through it, local resources are mobilized to solve the crisis and provide strategic commodities amid major challenges, most notably:

1. The bankruptcy of the Sudanese state and the lack of needed cash balances.
2. The escalating deficit in the trade balance, which reached 6 billion dollars in 2019-2020.
3. Shrinking exports, of which the value which did not exceed 3 billion dollars as compared with an import bill of nine billion dollars.
4. Obstacles to international trade by Sudanese and private banks, significant public debt, and the closure of international transfer lines to Sudanese banks and the Central Bank of Sudan.
5. The maintenance of large commodity subsidies for petroleum, wheat, medicine, electricity, and others, financed without real resources through internal and external borrowing and currency printing, leading to inflation and devaluation of the currency.
6. Full control of the black market "parallel currency market" and the evasion of traders and government companies from supplying export earnings to the country, which is a form of "legalized smuggling."
7. The almost complete diversion of gold to smuggling, which at the time amounted to more than 100 tons worth between 5-6 billion dollars (equivalent to the entirety of the trade balance deficit).

[9] Alex de Waal, "Sudan's future is being shaped by guns and money – like its past," August 25, 2023, available at: https://fletcher.tufts.edu/news-events/news/sudans-future-being-shaped-guns-and-money-its-past

[10] Anadul, "Sudan creates a portfolio to import basic commodities: The portfolio will include banks and the private sector, guaranteed by the state, and aims to finance imports of strategic commodities," June 26, 2020, in Arabic, available at: https://shorturl.at/7tlG0

8. Continued obstructive action by counter-revolutionary forces, members and merchants of the National Congress Party and the Islamic Movement using the state apparatus and economic levers to act against the economic reform policies of the transitional government to undermine the transition to democracy and the December Revolution.
9. The maintenance of military companies and their privileged commercial activity in the fields of gold smuggling, illegal trading in currency, petroleum derivatives, wheat, meat, and other commodities, along with their hostile role to the Supreme Economic Emergency Committee itself, especially after the latter took major decisions to review 650 state companies, including 200 military companies, and the formation of investigation committees regarding export earnings during the previous years.[11]
10. The almost complete loss of confidence of commercial banks, the Sudanese private sector, foreign banks and oil production companies in the government's ability to fulfill its obligations. There is also an ongoing war between drug import companies, the Central Bank and the Ministry of Health and Finance.
11. The sharp political division between the forces of the December Revolution in how to deal with the economy. One faction, led by the Prime Minister, the Minister of Finance, and the majority of the committee members, sought to liberalize the economy, including by removing subsidies on fuel and wheat, and gradually liberalizing the Sudanese pound, The other faction resisted liberalization and called for the continuation of subsidies, control over the exchange rate and tightening the grip of the state on the joints of the economy. The latter faction was represented by the economic committee of the Forces of Freedom and Change itself, including the communist and Baathist parties.
12. Extensive corruption in the Ministry of Energy, some major grain mill companies, and the Sudanese Agricultural Bank affected the supply of agricultural inputs, especially fertilizer and packaging materials, and the accumulation of large debts from the bank in to foreign banks and the Central Bank of Sudan itself, and this situation applies to the accumulated debts of the state to grain mill companies, and the creditors deal in ways that involve apparent extortion of the state represented by the Agricultural Bank, the Ministries of Finance and Energy and the Esther Stockpile Administration.
13. The damage caused by the corona virus pandemic and associated public health restrictions on the world and Sudan economies starting from April 2020, the same date when the Economic Emergency Committee was formed.

[11] Suliman Baldo, "Sudan Struggles to Control Its Parastatals," May 2021, a Briefing for The Sentry, available at: https://thesentry.org/wp-content/uploads/2021/05/SudanParastatals-TheSentry-May2021.pdf

The Idea and Academics of the Fund

A number of banks coming together to establish a special-purpose fund, for example to finance cotton, gum Arabic or any other commodity is a well-known banking mechanism. Sudanese banks have established several previous funds, the most recent of which is the Liquidity Fund. The Strategic Commodities Fund (SCF) was initially proposed by a group of bankers. In April 2020, after the establishment of the Economic Emergency Committee, the Resource Mobilization Committee was tasked with overseeing the establishment of a commercial fund for strategic commodities. Dozens of meetings and meetings were held, including all Sudanese and foreign commercial banks operating in Sudan, under the supervision of the Central Bank of Sudan, insurance companies, the Chamber of Commerce, the Sudanese Employers' Federation, relevant government ministries and departments, most importantly the Ministry of Finance, Energy, Health and the Presidency of the Council of Ministers, in addition to public meetings with members of a governmental ministerial committee that was then called the Strategic Commodities Committee, and lengthy and intensive meetings with gold producers in the conventional mining sector, the gold tailings processing sector and the Union of Gold Traders and Exporters.

These meticulous deliberations led to the creation of an unconventional fund hat can be academically described as a Balanced Trading Hedge Fund (BTHF). This is a unique product, the first of its kind in Sudan. Its core equation has two sides with four variables: gold and the Sudanese pound on one side, and commodities and foreign currency on the other, enhanced by financial leverage through domestic and international deferred payment facilities.

The portfolio's brilliance lies in its ability to generate high demand for the Sudanese pound, countering the previous harmful practice of creating increased demand for the U.S. dollar. Importers had been buying dollars from the parallel market, which contributed to the local currency's devaluation.

Moreover, the portfolio secured foreign banking facilities against the portfolio's own capital guarantees and established a revolving escrow account to handle all foreign transactions. This setup enabled efficient turnover of the portfolio's capital in relatively short periods, allowing it to meet its financial obligations to Sudan's strategic goods suppliers, thus gaining rare financial and banking credibility.

The Sudanese pound was the portfolio's golden key and secret. The portfolio required importers to pay in Sudanese pounds only, refusing any payments in U.S. dollars to avoid dependency on the parallel market. In cases where importers couldn't deposit the required amounts in Sudanese pounds, the portfolio's banks, led by Al Baraka Bank, provided them with credit facilities in Sudanese pounds. For the first time in a long while, the issue of foreign currency supply was addressed from the supply side, while demand for the Sudanese pound was bolstered. This innovative approach distinguished the portfolio, though it went unrecognized by both its supporters and critics.

The key to the success of the fund was the Sudanese pound, as it required importers to supply the value of the goods in Sudanese pounds only and refused to accept payment in US dollars for fear these would be bought on the black market. This strengthened demand for the Sudanese pound, and where importers were not able to provide the required amount of Sudanese pounds, the fund banks, led by the Al Baraka Bank - worked to provide facilities for them to deposit the required amount for imports in Sudanese pounds, to provide them with the required amounts for imports in US dollars. For the first time in a long time, the dilemma of providing foreign exchange was solved through a supply-side solution that strengthened demand for the Sudanese pound. This was a blessing and a privilege for the fund that supporters and enemies of the fund alike could not understand.

The Governance of the Fund

The fund was subjected to rigorous governance processes to create a transparent institutional practice consistent with the economic and political objectives of the transitional period and to negate the corrupt practices of the defunct Bashir regime. The key elements of this governance framework were:

1. Accurately defining the objectives of the fund, which was to provide the necessary foreign exchange for the import of strategic goods through the banking system and proper use of proceeds from gold exports purchased in Sudanese pounds, opening letters of credit for imports in foreign currency through the fund's external account based on an agreement to provide additional facilities in forward payment equivalent to twice the fund's deposited capital for at least 45 days.
2. The fund extended letters of credit to importers through a transparent bidding process issued by the Ministry of Energy and the General Petroleum Corporation's joint bidding committee, which included representatives of the government, the fund, its leading bank, and others. In the case of medicine financing, a mechanism was adopted based on companies selected by the Supreme Council for Medicines and Poisons and the Ministry of Health through a committee composed of all stakeholders and representatives of the commodities fund, closing the door to the notorious corrupt practices that occurred under Islamist rule.
3. The fund's regulations included the decisions of the Supreme Economic Emergency Committee and the Central Bank of Sudan to prevent the fund from trading "importing resources for its own benefit" and limiting its role to providing foreign exchange by buying and exporting gold and other commodities in Sudanese pounds. "The fund's profits are realized from exports and not through imports, and in the same direction, the fund was automatically prevented from monopolizing the few or the many for any of the fund's commodities, most importantly 'oil, medicine and others'."
4. The regulation stipulates the organizational structure of the fund, which consists of the following organs:
    a. General Assembly,
    b. Board of Directors,
    c. Executive Committee,
    d. Advisory Board,
    e. Tender Committee, and

f. The Lead Bank.[12]

The fund held its first meeting at Friendship Hall in Khartoum on June 22, 2020, in the presence of representatives of 37 commercial banks, the Central Bank, the concerned ministries, by 17 representatives of 60 gold companies, most notably Al-Junaid Company, the largest shareholder in the fund, insurance companies, and representatives of other entities. The board of directors was elected, the bylaws were approved, and the fund was launched. The Board of Directors formed the Executive Committee and appointed the committees "see details in the attached list".

The Role of the State and the Private Sector in Formation and Capitalization of the Fund

We referred earlier to the crucial role played by the state and the Economic Emergency Committee in the formation of the fund, which is basically a smart partnership between the private and public sectors to solve an intractable crisis in the country. Here, we must highlight the great role played by the Central Bank of Sudan, which for months carefully nurtured the establishment of the fund, to which 26 commercial banks contributed, and provided the following necessary facilities for the fund's operation:

a. Encouraged commercial banks to contribute capital by allowing contributions to be deducted from the reserves they were required to hold under the law.
b. Excluded the import operations of the fund from the banks' transaction ceilings, especially the customer and the value ceilings, according to the pre-determined ratios. The reason for this is that the amounts of financing for import operations were very large due to the high prices of oil, wheat, etc. against the weak capital of Sudanese banks and its erosion over time due to the collapse of the Sudanese currency, inflation, and the generally weak capital base of the banks.
c. Requiring the fund to open its main accounts at the Central Bank to tighten control over its operations and allow the fund to open an account with the Khartoum Gold Refinery and to provide the necessary procedural support for its operations.
d. Requiring the fund to submit periodic reports.
e. Issued a detailed circular to commercial banks regarding the fund's operating guidelines.
f. Initially pledged to provide capital guarantees to the participating banks and then reneged on this pledge without risking the fund's capital which insured all its operations through local insurance companies and pledged good performance to shareholders as a basic guarantee for capital.
g. The bank worked diligently with the fund to implement the decision of the Economic Emergency Committee to allocate gold export proceeds to finance strategic commodities.

On the other hand, the Ministries of Finance, Energy, Health and the Presidency of the Council of Ministers, played a positive role in facilitating the fund's activity, and it is not surprising that

[12] See "Regulations for the organization of the business of the portfolio," in Arabic, copy posted on STPT website for reference at this link: https://sudantransparency.org/wp-content/uploads/2024/11/img0165-1.pdf

they are the biggest beneficiaries of the fund's operations. There are two important decisions that contributed strongly to facilitating the fund's activity and minimizing its operational risks:

a. The government's decision to lift subsidies on petroleum derivatives.
b. The decision to liberalize the exchange rate. The impact of this move on banking and commercial activity across the country cannot be underestimated.
c. The decision to form a central ministerial committee for strategic commodities, headed by the Minister of Presidential Affairs, to follow up on the daily details of strategic commodities, including electricity and others, preparing and setting prices, etc.

As for the private sector, it played a vital role in the formation and success of the fund's operations. Private sector engagement included 27 private sector banks, insurance companies, 10 companies, 60 gold processing companies (including Al Junaid Company).

Companies of the Business Owners Federation and Chambers of Commerce refrained from contributing to the fund, which they saw as a “competitor” despite the Fund Steering Committee’s great efforts to get them to contribute. The reservations of the Chamber of Commerce companies indicate the lack of confidence in the innovative financing mechanism introduced by the SCF, and possibly their concern about the role of the state in the SCF.

Capital Contributions to the Fund

Since the decision to form the fund was taken in June 2020, strenuous efforts began to collect the capital, which according to initial estimates amounted to $400 million, but for many reasons, only $90 million was collected.

The government backed away from providing capital by returning to the initial model of the fund, which included the participation of the Bank of Sudan and the Ministry of Finance in raising capital alongside the private sector. The Minister of Finance apologized for the state's lack of participation, arguing that this would contradict announced liberalization policies and because capital participation in commercial business places would create a conflict of interest with the private sector. The Central Bank refused to contribute capital for the same reasons. Thus, the fund turned into a smart partnership between the public and private sectors.

The state’s non-participation in the fund’s capital, despite the theoretical justifications for this, is incongruent because in reality the Sudanese government has been providing strategic goods since independence. It was too early for a full transformation of the state into a regulatory state overnight after a popular revolution against a fundamentalist totalitarian regime. This is another topic, “especially in the presence of a nearly collapsed economy and conditions of intense chaos that followed the revolution and the fierce war waged by the forces of the counter-revolution, especially with their control over the joints of the economy and its institutions.

Although the state supported the fund and did not throw it into the sea completely, it would have been more appropriate for it to ride with it in the same boat considering the presence of these strong waves and unfavorable winds. Most importantly, the fund was not in itself a merchant and was prohibited from working in trade, but rather a special mechanism for providing foreign currency. The Al-Junaid Company, a well-known private company owned by the Dagalo family, made a capital contribution of 811 kilos of gold, worth about 5.8 billion and 800 million pounds "at that time - according to global gold prices multiplied by the exchange rate of the pound against the dollar", amounting to about 41% of the total 90-million-dollar capital of the fund. The contribution of Al-Junaid Company was the first, and gold was purchased at that time, and gained in value for the fund between June and September 2020, the date of the start of the fund's operational operations. Other capital contributions were provided by 26 banks, and the largest contributions were provided by Khartoum Bank, Faisal Islamic Bank of Sudan, Gulf Bank, and the Bank of Insurance Companies' Contributions Collection, amounting to ten companies, in addition to collecting the contributions of 17 gold waste processing companies.

Here, it is necessary to clarify the details of the capital contributions and the names of their owners, which are as follows:[13]

Banks' contribution	**Amount as of September 30, 2020 in Sudanese pounds**
1- Farmers Commercial Bank.	150,000,000
2- Solidarity Islamic Bank.	100,000,000
3- Real Estate Commercial Bank.	100,000,000
4- Financial Investment Bank.	50,000,000
5- Nilein Bank.	300,000,000
6- Omdurman National Bank.	800,000,000
7- Gulf Bank	1,189,967,863
8- Al-Balad Bank.	100,000,000
9- Al-Jazira Bank.	100,000,000
10- National Bank of Egypt.	30,000,000
11- Workers Bank.	100,000,000
12- Al-Salam Bank.	100,000,000
13- Blue Nile Bank.	200,000,000
14- Coast and Desert Bank.	40,000,000
15- Animal Wealth Bank.	50,000,000
16- Sudanese Egyptian Bank.	100,000,000
17- Nile Bank.	200,000,000
18- United Capital Bank.	100,000,000
19- Arab Bank	100,000,000

[13] Figures are drawn from the records of the SCF, copies of which were examined by the author.

20- Industrial Development Bank.	100,000,000
21- Al Baraka Bank of Sudan	400,000,000
22- Faisal Islamic Bank.	1,000,000,000
23- Family Bank	20,000,000
24- Export Development Bank	200,000,000
25- Saudi Sudanese Bank	100,000,000
26- Bank of Khartoum	1,500,000,000
Total	**7,249,967,863**

Insurance companies' contributions June 30, 2020 in Sudanese pounds

1- Al Baraka Insurance Company.	27,117,137
2- Cooperative Insurance Company.	15,612,011
3- Al Savanna Insurance Company.	6,186,566
4- Islamic Insurance Company.	93,821,156
5- Middle East Insurance Company.	6,819,907
6- Specialized Health Insurance Company.	6,584,589
7- Blue Nile Insurance Company.	7,846,368
8- Sudanese Insurance Company.	26,096,234
9- Shikan Insurance Company.	80,571,576
10- United Insurance Company.	16,270,600
Total	**286,926,155**

Corporate Contributions

1- Al-Junaid Company.	5,800,000,000
2- Abqarino Engineering Construction Company.	21,777,822
3- Wadiyan Mining Company.	21,777,822
4- Landmark Multi-Activities Company.	36,296,370
5- Axeer Mining Company.	22,047,795
6- Reda Engineering and Construction Company.	73,492,650
7- Ariab Mining Company.	138,843,257

8- Najir Engineering Works.	59,628,551
9- Dosa for Multi-Activities.	118,599,183
10- CN Mining Waste Treatment Company.	75,397,042
11- Al-Hamdeen Mining Company.	25,197,480
12- Al-Barah Limited Company.	25,197,480
13- Najir Engineering Works.	64,750,324
14- Al-Jakoub Mining Company.	16,348,365
15- Wedian Mining.	32,723,727
16- Abqariino Construction Engineering Company.	40,195,980
17- Al-Hassour Mining Company.	10,898,910
Total corporate contributions	**6,582,672,759**

Total fund contributions 14,119,566,778

*Banks' contribution to total capital = 51%.

*Insurance companies' contribution to total capital = 2%.

*Companies' contribution to total capital = 47%.

Operations and operational results of the fund

The fund was delayed for about three months from its general assembly to the start of its operations. The reasons for this are:

a. The fund initially adhered to the conditions stipulated in the regulations, which required payment of 110% of the value of the goods in Sudanese pounds, with the extra 10% to be settled after the completion of the importation process to avoid risks associated with the devaluation of the pound. However, companies were unable to fulfill this provision and the fund abandoned it in September 2020.

b. 13 companies were identified to import petroleum by the Ministry of Energy and the tender ships were allocated to them after the tender sorting process, but they were collectively unable to provide the value of a single shipment of gasoline worth about $16 million in Sudanese pounds. This capital deficit of the companies is due to the fact that they practiced the distribution of petroleum derivatives that were originally financed and subsidized by the state at a high rate. Such practices turned them into a mere “empty distribution pipeline” that does not have sufficient capital to finance the purchase of petroleum. We mentioned previously that the fund banks, headed by Al

Baraka Bank, worked to provide loans to these companies in Sudanese pounds.

c. The government's hesitation and delay in announcing the lifting of subsidies on petroleum derivatives as well as the liberalization of the exchange rate.

d. The financing the import of medicine began in November 2020, following the conclusion of a five-party agreement between the Ministry of Finance, the Central Bank, the Ministry of Health, the Supreme Council for Medicines and Poisons, medicine import companies, and the fund.

Petroleum Derivatives and International Tender for Importing Petroleum

In July 2020, following the first meeting of the General Assembly of the Fund, which was attended by ministers of the relevant professional ministries, government officials, officials of the Central Bank, directors of banks, insurance companies and gold, the Joint Tender Committee "Fund + Government + Department of Economic Security (National Intelligence)" and others launched an international tender to import petroleum derivatives, with the guarantee of providing financing by the Strategic Commodities Fund. This was the first international tender for fuels since 1993, the year the economic embargo was announced on the country. Throughout the period from 1993 to 2020 (27 years), petroleum derivatives were imported through the corrupt practices of the Al Bashir Regime. The tender was characterized by complete transparency and was launched by the Ministry of Energy after its details were approved by the Joint Committee. The tender was a resounding success that was discussed by local and international circles, and news about it was published in the *Financial Times* as the first honest practice in the field of importing petroleum derivatives made available by post-revolution Sudan. The reasons for the success of the tender can be summarized as follows:

1. The neutrality of the tender committee and the inclusion of stakeholders.
2. The preparation, offering and sorting of the tender was completely transparent.
3. The commitment of the fund to finance importation was the most important factor for suppliers, as most of them had lost confidence in the Sudanese government due to continuous default in payment which resulted in growing debt accumulation.
4. The tender was addressed publicly in the presence of the internal and external media, and awarded to the winning companies in the presence of their representatives. The fund pledged again to pay in foreign currency and on time, and the flow of petroleum materials began smoothly into the country.

The most important results of the tender were:

1. Re-establishing international and regional confidence in the tenders of the Ministry of Energy.
2. An amount ranging from 30 to 35 million dollars was saved monthly from the value of the imported oil, and this amount used to go monthly into the pockets of the old oil brokers who were excluded by the tender and turned to be very aggressive enemies

to the fund, including senior government employees in the Ministries of Finance and Energy.

3. The successful negotiation of a contract with Aramco to provide petroleum derivatives at a 7% discount over global prices. This contract was canceled following the October 25th 2021 coup.
4. The flow of petroleum derivatives to the country began in September 2020 at a monthly rate of:
    a. 5 diesel tankers (40 thousand tons each)
    b. 2 gasoline tankers (40 thousand tons each)
    c. 4 cooking gas tankers (5 thousand each)
    d. 2 heating oil tankers (each tanker 40 thousand tons)

    These numbers represent the country's monthly fuel importation needs, which represent 70% of total consumption. This began to resolve the crisis and the phenomenon of citizens lining up at service stations disappeared, as adequate amounts of fuel were available.

5. The regularity of external imports not only made it possible to fill the large deficit, but also to maintain the Khartoum Refinery without causing an internal fuel crisis, as the refinery was providing about 40% of national consumption at its best, with at least a two-month stoppage for maintenance annually.
6. The black market for fuel was completely eliminated, and with it associated corruption, facilitated by the lifting of subsidies.
7. Increased availability of fuel had a significant positive impact on agricultural production in 2020 and 2021, increasing electricity production, and increasing access to transportation for individuals, goods and services.
8. The tender prevented the manipulation of the specifications on the imported fuel.
9. Channeling importation through the tender and fund banks allowed the state to collect 100% of taxes and fees related to the importation and distribution of petroleum derivatives and tax evasion was completely halted. A total of 24% of the value of petroleum derivatives was imposed as taxes, customs, and fees (17% value-added tax, 3% customs, 2% Ministry of Energy fees, 2% for other services), while 31% taxes and fees were imposed on gasoline (17% value-added, 10% customs, 2% Ministry of Energy fees, 2% other expenses). The fund and its tender therefore secured and enabled huge earnings for the state treasury.
10. The exchange rate began to decline with the start of the fund’s operations, which saved hundreds of millions of dollars through the mechanisms of purchasing and exporting gold and banking facilities, and the most important source of black market activity, which is the purchase of *dirhams*, *dollars* and *riyals* by oil importers was enormously reduced.
11. The state stopped financing oil by borrowing from the Bank of Sudan, commercial banks, or import companies. Foreign currency and gold began to gradually accumulate within the Bank of Sudan, which enabled it to conduct weekly auctions of foreign currency to importers of other basic commodities such as sugar, rice, and grains.
12. From September 2020 to January 2022, the fund financed no less than 120 shipments of petroleum derivatives, which decisively contributed to resolving the supply crisis that actually began in the early 1970s.

Medicine[14]

Sudan witnessed a deadly crisis in the medicine and pharmaceutical sector from 2011 to 2020. After the December revolution, supplies of many medicines, including emergency medicines and those for chronic diseases, dried up. This was the result of both state policies and criminal practices of businessmen associated with the Bashir regime. Drug import companies and a small group of influential pharmacists controlled the importation, distribution, and pricing of medicines. The government's Medical Supplies Corporation also experienced extended crises and a large deficit in providing medicines and medical supplies due to the accumulation of external debts. Under the Bashir regime, a drug *Mafia* emerged that controlled not only the drug market but also the 10% of the country's export proceeds that had been set aside for acquiring medicine. These proceeds, acquired in foreign currency were traded on the black market to generate additional profit. It also allocated part of its support to importing cosmetics, rather than emergency and life-saving medicines. At the request of the Prime Minister during the transitional period, the Executive Committee of the fund and the National Council for Medicines and Poisons were assigned to create a new and more effective mechanism for importing medicines and medical supplies. From August to November 2020, Dr. Manahil Abdel Halim, Secretary-General of the Council (Medicine), representatives of the fund, the relevant ministries, the Central Bank, and representatives of the pharmaceutical companies themselves made strenuous efforts to do this. A five-party agreement to address this was finally reached. Its most important elements were:

1. The parties to the agreement were the Ministry of Finance, the Ministry of Health, the National Council for Medicines and Poisons, the Central Bank of Sudan, pharmaceutical companies, and the Strategic Commodities Fund.
2. The Ministry of Finance and the National Council for Medicines identified companies qualified to import certain types and quantities of medicines and medical supplies, determine their prices and other technical conditions, and scrutinized and reviewed import invoices.
3. The fund received lists of companies, medicines, and prices prepared by the National Council for Medicines and Poisons, and then provides the necessary foreign currency for import and opens external letters of credit for pharmaceutical companies.

Requirements for a letter of no objection and controls for importing through the fund:

1. Online submission.
2. Presentation of the initial invoice for the import value.
3. Presenting the drug analysis certificate approved by the factory and the regulatory authorities in the export country.
4. Presentation of the initial shipping order to Sudan.

[14] Procedural steps and figures included in this section are drawn from the records of the SCF, and reviewed by the author for the purpose of this report.

After accepting the application, paper copies are submitted through the unified portal of the National Council for Medicines and Poisons including:

1. Submission of the initial invoice identical to the final invoice.
2. Submission of the necessary analysis certificates.
3. Issuance of a SWIFT within one week of issuance of the letter of no objection.
4. Delivering a copy of the shipping documents within a maximum period of 30 days from the date of issuing (SWIFT).
5. Submission of the analysis certificate issued by the reference laboratory.

This agreement dealt a fatal blow to the drug *Mafia* and large quantities of drugs more than 2,000 types worth nearly 120 million US dollars poured into the country. These medicines met the country's needs for a long time and importation continued at this fair rate for the state, the consumer, and eventually 184 importing companies. After the October 25 coup and the April 15 war, the drug crisis re-emerged and the same old practices and even worse ones returned. Experts say that 30% of the drugs circulating in the country are smuggled and unregistered and 15% of the total drugs are counterfeit and produced by illegal factories in India and are smuggled through South Sudan. The use of these drugs has killed a number of patients.

Gold

Due to the size and complexity of the Sudanese gold file, we will limit our comments to it relation to the Supreme Committee for Economic Emergencies and the Strategic Goods Fund. As previously mentioned, the committee issued a series of decisions on gold, the most important of which was ending the monopoly in its export and trade and taking many measures to control the proceeds of its exports and prevent smuggling. The decision to allocate the proceeds of gold exports to finance strategic and basic commodities remains one of the committee's most important decisions. The committee allowed the fund to use gold export proceeds to directly finance the import of strategic commodities through its revolving escrow account. This allowed the fund to fulfill its external obligations in foreign currency, but it restricted it to using only its own proceeds of its exports and not external proceeds. Despite this challenge, the fund was able, especially in 2021, to become the largest domestic market maker in gold and was able to do the following:

1. Provide the opportunity for gold producers in the local mining sector and processing companies to provide the fund's capital and provide them with fair representation on the board of directors and the executive committee.
2. Offer fair pricing for producers based on the global gold price at the time of purchase, which was facilitated by the decisions of the Economic Emergency Committee as well as the liberalization of the exchange rate. This prompted artisanal mining companies and individuals to sell significant quantities of their gold to the strategic commodities fund through their accounts at the Khartoum Gold Refinery and the National Organization for Standardization and Metrology. Gold pricing was based on the following formula:

a. The price of the global bullion exchanges at noon Sudan time for a 24 karat gram.

b. Converting that price to a Sudanese price for a 21-karat gram using the formula customary in the Sudanese market by dividing by the 24-karat rate by 0.875 to obtain the price of a 21-karat gram.

c. Deducting one US dollar for shipping, processing and the discount percentage when selling to the international buyer. Using the free market price exchange rate to Sudanese pounds.

According to this fair pricing policy, the fund was able to attract large quantities of locally mined gold, more than five tons in the last quarter of 2020 (about 5,007,456 grams of 24 karat, equivalent to 5,722,806 grams of 21 karat) at an estimated 275 million US dollars in value.

The fund purchased and exported an estimated 30 tons of gold, worth nearly $1.8 billion dollars, allowing it to cover the importation of oil and medicine. Unfortunately, this is an estimate due to the impossibility of obtaining accurate numbers, as records of the operations of the fund were kept at the headquarters of Al Baraka Bank in Khartoum, which is now inaccessible as a result of the war. The Central Bank of Sudan prevented the fund from purchasing gold from concession companies, while the Ministry of Finance seized the government's share in gold produced, which was collected and managed on its behalf by the Sudanese Minerals Company (SMC), which refrained from selling gold to the fund. Throughout the life of the fund (September 2020 to January 2022), the SMC did not provide any significant amount of gold to the fund. The gold purchased by the fund came exclusively from the local artisan (traditional) mining sector and waste treatment companies. This is a commendable and economic achievement for the portfolio, as these quantities were either smuggled out of Sudan or exported and the proceeds of their exports were sold on the black market for currencies. During the war, chaos returned to the gold sector. Out of 55 concession companies operating in the sector, only five returned to production. These companies are forced to pay royalties to officials amounting to 28% of the value of their production. The loser is the state when these officials seize the state's share of the companies' production. On the other hand, exports were monopolized by seven companies that are closely linked to internationally sanctioned military and security companies, who use these businesses to circumvent the sanctions and use them to buy oil, wheat, and weapons. In exchange, companies receive agreed-upon percentages and commissions. The import process is carried out through a series of corrupt operations that violate import regulations and do not pay any fees or taxes to the state. These weapons and strategic goods are then sold on to the state at very amplified prices. These corrupt practices have led to the complete collapse of the currency, rampant inflation and other dire economic consequences.[15]

Financial results and operational risks[16]

The fund achieved excellent operational and financial results that exceeded expectations, as reflected in the report of the external auditor, Mr. Mubarak Al-Awad and his partners, issued

[15] Figured drawn from the records of the SCF, reviewed by the author.

[16] Figured drawn from the records of the SCF, reviewed by the author.

on February 5, 2022, which covered the period from June 2020 to September 30, 2021. The fund was able to maintain its capital and distribute profits that reached up to 100% and constituted a good source of profit for companies, especially participating insurance companies and banks. These results are due to the high efficiency with which the fund's operations were managed and the rotation of its capital more than 18 times, with a high rate of turnover in gold trading operations and adequate external credit facilities. The rise in global gold prices during 2021 helped achieve these profits, as purchase and export of gold constituted the only source of profits for the fund (not oil trading as some think, in which it is forbidden to engage). Despite this success, the fund faced very high operational and other risks, which we summarize as follows:

1. *Capital risks*: The fund began with insufficient capital (USD 90 million against the required USD 400 million) but partially overcame this with the speed and efficiency of its capital turnover as well as its management of currency risks by managing capital contributions, for example converting Al-Junaid's contribution to 811 kilos of gold, while the other contributions were in Sudanese pounds.
2. *Exchange rate fluctuation risks* are the largest that the fund faced especially in the period before the liberalization of the exchange rate. The exchange rate stabilized after the liberalization and was positively impacted by the fund itself.
3. *Operational risks* related to achieving appropriate timing of the start and end of gold purchase and export operations and issuance of open letters of credit and the decisive impact of this on the fund's operations, especially after the October 25 coup (as discussed further below).

The fate of fund after the coup of October 25, 2021

The fund faced its serious challenges after the coup, as:

1. The Board of Directors undermined the institutional structure of the SCF in January 2022, when it, in a non-regulatory step, dissolved the Executive Committee, headed by Mr. Abdul Latif Osman. The Executive Committee represents the heart of the fund's work, linking its organizational components and providing daily supervision of the fund's operations. The Executive Committee also played a critical role in the operations of the leading bank, the tender committee, oil and pharmaceutical companies, and other tasks stipulated in the regulations.
2. Al-Junaid Company withdrew its capital from the fund, amounting to approximately 43 million US dollars, in January 2023, before the formal liquidation of the fund, burdening it with financial obligations. This had a catastrophic impact, leaving the fund with a 512 million Emirati dirham deficit and unable to continue its operational activities.

   It is clear that Al-Junaid's withdrawal of its capital constituted part of the proactive steps taken by the Rapid Support Forces in preparation for the possibility of a clash or war between them and the army, as the relationship between the two parties witnessed severe tension, especially in the beginning of year 2023, and the tension escalated into an armed conflict and start of war in the morning of April 15, 2023. Since that date until now, the fund's operations have completely stopped and it has entered into a large capital deficit and a total collapse of operations.

3. The Minister of Finance failed to repay its debts of $43 million to the fund from September 2021 through 2022, contributing to the default of the fund to meet its liabilities. The debt was the value of imported two shipments of heating oil from the fund for the government's electricity generation purposes. This put the fund in a large financial deficit of nearly half of its capital.

4. Also in 2022, SAF Defense Industries System's Zadna Company, in alliance with the National Bank of Omdurman, tried to create a new fund but failed for unknown reasons to buy gold in order to cover its external obligations.

In short, the fund has ceased operations as of this writing, and its future remains uncertain. The CEO of Al-Baraka Bank, which led the initiative, explained that "the reasons for the suspension of the portfolio were linked to the outbreak of war and the resulting security issues, which have made purchasing and exporting gold and other goods difficult. Additionally, external transactions of banks and the Central Bank have been disrupted due to their lack of access to the SWIFT services."[17]

Further, it appears that the recommendations of a committee formed by the Sovereignty Council member Lt. Gen. Yasser Al-Atta to address a deficit amounting to 512 million Emirati Dirhams by recapitalization did not find their way to implementation. This paralysis of the earlier SCF paved the way for the creation of a new fund announced in July 2024.

The impact of the fund on the economy and recommendations for politicization

As previously mentioned, the fund achieved the following impact:

1. Providing practical solutions for import operations by using financial leverage and timely revolving liquidity through the fund's management style.
2. Providing foreign currency without dealing with the black market and positively impacting the stability of the exchange rate.
3. Exporting a large amount of gold through Central Bank accounts ensuring government revenue and reducing the deficit in the country's trade balance and providing a model in for reducing corruption and abuse of resources.

[17] Khabta News, "Interview with Al Baraka Bank General Manager Rashid Abdul Rahman, the owner of the idea of the Commodities Portfolio: The Strategic Commodities Portfolio did not monopolize exports, and these are the reasons for the cessation of its operations," January 6, 2024, in Arabic.

4. Embracing smart public/private partnerships and demonstrating how they can provide practical solutions to many national economic problems.
5. Ensuring fair pricing of national products within the country (for example, buying gold at global market prices) and in this way preventing smuggling and corruption and ensuring national benefit from the country's resources. Learning from this, the establishment of a gold exchange and advanced gold refinery with the provision of the international gold seal (999.9) would be useful measures to spare the country the loss of 15% of the value of exported gold as is currently happening.
6. Governments should contribute to addressing gaps in strategic commodities not only through policy but also through investment and the provision of capital to expand the capital base necessary to provide basic and strategic goods and not simply be satisfied with the role of the organizer, especially during periods of political, constitutional and economic transition. This is particularly necessary because the business class in Sudan and its culture are characterized by fragmentation and narrow individual interests.
7. The capital base of Sudanese commercial banks must be expanded through procedures to increase capital, including mergers and acquisitions.
8. Investments in the energy, oil, gas, medicine, grain and basic commodities sectors must be increased, and the import substitution policy must be revived, as Sudan has sufficient national resources to make such a policy successful.
9. Economic emergency solutions, such as forming a strategic commodity fund, should be considered temporary solutions, and focus must be maintained on forming longer term solutions, including through forming commodity councils, commercial councils, funds and commercial companies, expanding capital accumulation policies through public offerings of shares, and developing commodity markets and exchanges for gold, minerals, and other resources.
10. There is a strategic need for the country to establish a sovereign investment, commercial and development catalyst fund to develop the country's resources and to lead the process of capitalizing and investing Sudan, leveraging this fund for growth, and not to control the economy as a whole.
11. Military and security companies must be removed from commercial investment practices and replaced by other public or private civil companies or state-owned companies under the supervision of the Ministry of Finance.
12. Commitment to building institutions and following best practices in import and export is an important factor in gaining the confidence of the outside world, especially companies and banks, which will reduce import costs and maximize export revenues. An example is the fund's success in reducing the cost of importing oil by between 30 and 35 million dollars per month, which is equivalent to 360 to 420 million dollars annually.