Khartoum's Economic Achilles' Heel

The intersection of war, profit, and greed

By Suliman Baldo

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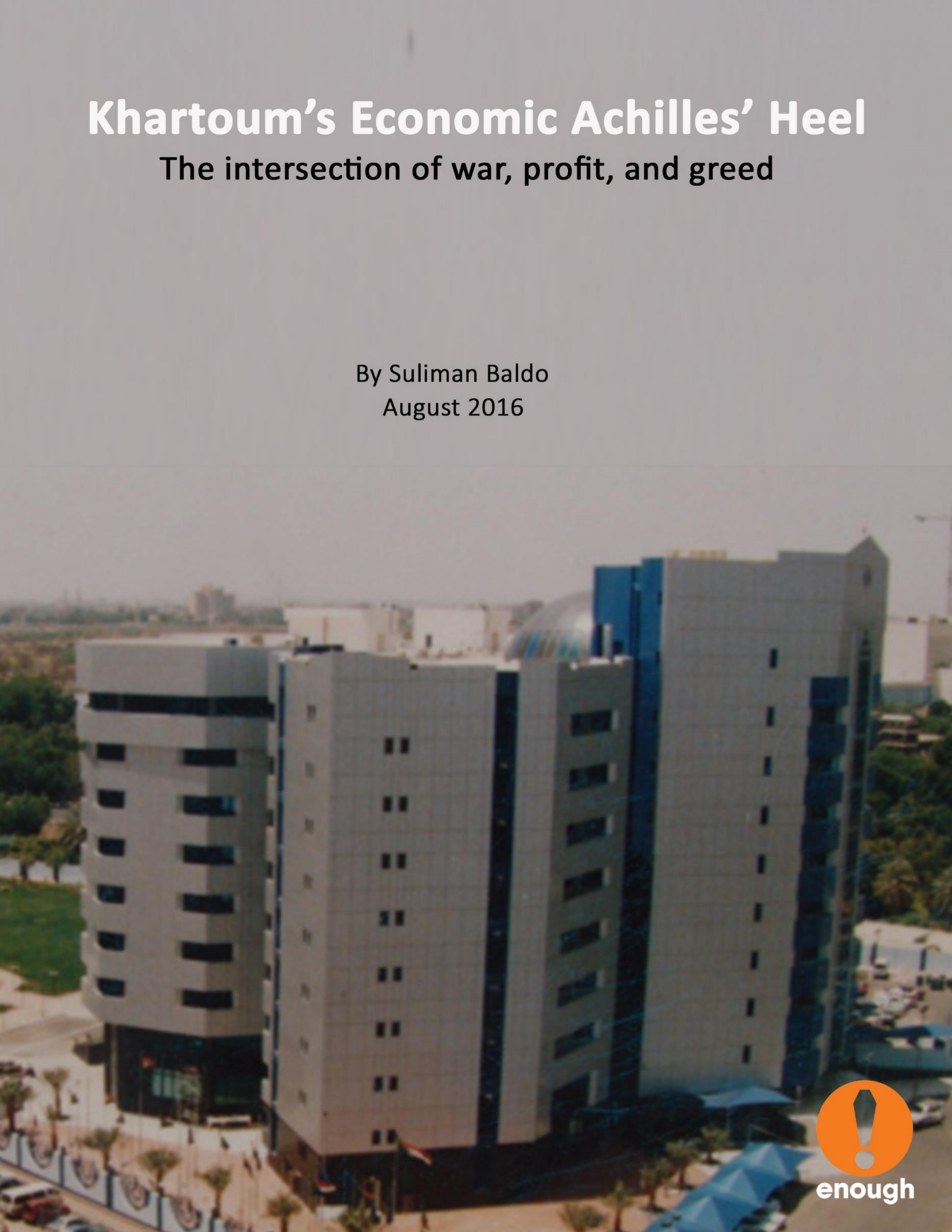

Cover image: The Central Bank of Sudan, its headquarters in the capital Khartoum. As documented in this report, the bank plays a significant role in much of the government's current economic mismanagement. Photo: Mussapedia/Wikimedia Commons

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Executive Summary

Sudan's increasingly urgent economic crisis, which has recently grown more acute because of financial isolation related in part to tighter sanctions enforcement for Iran, has become the Sudanese regime's greatest vulnerability. This economic vulnerability has caused sanctions relief to replace debt relief as the regime's primary preoccupation, giving the U.S. government powerful leverage to support an inclusive peace deal in Sudan that leads to a transition to democracy. In a situation where grand corruption and mismanagement of mineral resources are among the key drivers of deadly conflicts in Sudan, understanding the Sudanese regime's economic vulnerabilities in greater detail can equip policymakers to better tailor their financial pressure measures to target top Sudanese leaders and their enablers, who orchestrate large-scale atrocity crimes and theft in Sudan.

When the Omar al-Bashir regime seized power in 1989, the regime and its supporters quickly came to dominate the economy in obvious and subtle ways. The country's profitable parastatal groups and private sector corporations were undercut. The regime and its supporters began to dominate and extract wealth for themselves from the economy's key strategic and high-value sectors, including the oil, transportation, communications, and construction industries. The regime privatized state corporations, giving over the control of these corporations to regime-affiliated businesses and charities—on a non-competitive basis and for low prices. The regime-affiliated economic networks of hundreds of commercial companies, which dominate what might otherwise be a productive and independent private sector, constitute what many Sudanese people call a "gray economy." This gray economy thrives in the shadows of the "deep state," the latter being a term Sudanese people use to refer to the networks that have managed through their control of the gray economy to hijack the national economy and exploit that power to generate benefits for themselves. Some government institutions figure prominently among the key operators in this gray

economy. These government institutions operate alongside companies controlled by regime cronies which hold monopolies over entire sectors of the national economy and are well protected. These government institutions include, among others, the economic outshoots of the ministries of Defense and Interior, and the National Intelligence and Security Services (NISS) which all have dozens of companies operating in the commercial arena. Senior ruling National Congress Party (NCP) officials and members of their immediate and extended families also own protected companies. These groups all receive privileged treatment in the allocation of government contracts and in countless waivers of government dues for customs, taxation, and other business transactions.

This economic duality makes the Sudanese government highly vulnerable, inside and out. State-enshrined grand corruption, combined with economic mismanagement and short-sighted, opportunistic over-spending of finite public money on unproductive pursuits, have left the regime heavily indebted. Tighter enforcement of sanctions on Iran has prompted global financial institutions to de-risk and stop doing business with risky clients, including Sudan. This isolation has created a cash crunch with fewer sources of outside revenue and foreign currency flowing into state coffers. Regime officials and their supporters have relied on this cash to maintain high-cost lifestyles and fund patronage networks. Recent banking restrictions now affect individual transactions and directly hamper access to cash by some key operators in the gray economy. These restrictions have helped prompt a concerted Sudanese government-led lobbying effort to have sanctions—particularly U.S. sanctions—lifted as quickly as possible.

The Sudanese government's financial vulnerabilities and urgent desire to have sanctions lifted create significant new leverage for U.S. leaders and the international community.

The Sudanese government's financial vulnerabilities and urgent desire to have sanctions lifted create significant new leverage at an opportune moment for U.S. leaders and the international community. In particular, the financial pressure that Sudanese leaders feel now can be tightened and eased by U.S. policymakers in strategic ways as part of a system of coercion and incentives that is one part of a broader enhanced comprehensive U.S. strategy with Sudan. This broader U.S. approach with Sudan should include expanded diplomatic resources and more concerted engagement in support of a single unified inclusive national process and a transition to democracy.

The Sudanese government claims that U.S. sanctions have created the hardships that Sudanese people experience. Regime officials minimize the role they themselves have played in mismanaging the economy, in wasting and abusing resources and in diverting the Sudanese public's money away from the productive and human development sectors—particularly agriculture, health, industry, and education—toward private accounts or to fund war against Sudanese citizens in peripheral regions. In addition to devoting a disproportionate share of the national budget to the military and security sector, the regime is also believed to run a covert budget which is not subject to oversight by government agencies. This covert budget is said to benefit interest groups close to the inner circles of power, and to equip the regime's military, security, and police forces to better repress dissent and challenges to its authority.

Inside and outside of Sudan, the Sudanese regime has skillfully disseminated propaganda and deployed a number of diversionary tactics to advance its narrative and attempt to persuade diverse audiences to support its positions in various international forums—including at the United Nations in New York and Geneva, at the African Union, at the Arab League, with European partners, and in the legislative and executive branches of the U.S. government. The Sudanese government's campaign has left significant multilateral actors without the leverage or political will that the United States is now in a unique position to deploy.

Recommendations

To the **Government of Sudan,** the Enough Project recommends the following:

1. **End conflict.** Facilitate a genuinely comprehensive and inclusive solution to end Sudan's civil wars, and steer the country to a democratic transition.
2. **Increase accountability.** Fight official corruption, and introduce transparency measures. Give Sudan's independent Auditor's Chamber prosecutorial powers. Empower other accountability institutions, such as Sudan's Chamber of Public Grievances (ombudsman chamber), according to well-established international standards. Reform the mandate, composition, and powers of the recently-formed National Anti-Corruption Commission in accordance with international standards and best practice.
3. **Protect the independence of the judiciary and the media.**
4. **Support the tracing and return of stolen public funds.**

To the Sudanese opposition, civil society, academics, and institutional reform experts, the Enough Project recommends:

5. **Plan for integration and reform.** Work for better coordination and integration of ongoing initiatives for the development of alternative policies for the reform of the economic sector and other sectors vital for the stability of the state in the event of transition to democracy.
6. **Research and document all stolen public funds and assets.** Prepare plans for the recovery of these assets and for holding accountable those responsible for their diversion.

To the **African Union** and the **United Nations Economic Commission for Africa (ECA),** the Enough Project recommends:

7. **Support illicit finance investigations.** Provide technical assistance to civil society efforts to enable them to identify, investigate, and document illicit financial flows from Sudan, in particular from the diversion of oil revenue. Then, enhance accountability by supporting efforts to recover such funds.

Introduction

Sudan's "National Salvation Regime" has undergone profound changes over time since the June 1989 coup d'état that brought it to power. Initially motivated and ideologically driven by radical Islamism, it has metamorphosed into a kleptocratic regime in which the material interests of those in the inner circles of power have become the main cement of regime loyalty and cohesion. The regime has managed to neutralize any semblance of dominance that the Sudanese Islamist movement once had in directing the affairs of the state. Instead, Sudan's Islamist movement is today a shadow of itself, much like its political incarnation, the NCP. Today, President Omar al-Bashir relies on a trusted inner circle of senior army and security commanders to ensure the regime's survival, while the Sudanese Islamist movement and the NCP conveniently serve as reservoirs of cadres and technocrats that keep the wheels of the state functioning.

Sudan's security context is marked by protracted insurgencies and intercommunal violence. Seven of Sudan's 18 federal states, including parts of eastern Sudan, are in crisis today. The Sudanese government and its allied forces continue violent attacks against civilians in Darfur, where the armed insurgency that started in late 2002 continues to simmer. Civilians in the Nuba Mountains areas of South Kordofan and in Blue Nile state (the "Two Areas") also face air and ground attacks by government forces. The armed opposition groups in these areas are exhausted and unable to militarily prevail decisively or to conclude their peace talks with a lasting deal, largely due to their continuous internal disputes and the intransigence of Khartoum.

Despite its displays of dominance, the Sudanese regime faces serious political and security vulnerabilities on the inside and on the outside.

It would appear that the containment of the conflict in the peripheries is serving the interest of this kleptocratic regime in several ways. For one, the open-ended state of emergency serves as a cover for widespread corruption linked to military procurement and to spending on militias and the command corps of the army. Since 1989, President al-Bashir's government has consistently spent a disproportionate share of public money on the Sudan Armed Forces (SAF), the NISS, the national police, and other uniformed forces and auxiliary militias.[1]

The result is a paradox of a national army with far superior firepower compared to all of the armed movements that it fights combined, but with an impoverished and weakened infantry. Most of the resources allocated to the SAF are spent on officer corps benefits and the army's economic corporation and military industries. The regime, as a result, has come to rely almost entirely on tribal militias that serve as auxiliary forces for the SAF and the NISS and fight ground battles in Darfur and the Two Areas. This reliance on militias in turn exacerbates the ethnic polarization within Sudan and threatens the country with further dismemberment.

Despite its displays of dominance, the Sudanese regime faces serious political and security vulnerabilities on the inside and on the outside. Failure to negotiate a comprehensive and just peace with the political and armed opposition allied under the banner of Sudan Call Forces means that the country continues struggling in the quagmire of protracted violent conflict and political acrimony. Divisions within the erstwhile Sudanese Islamist movement have led to the emergence of a vocal dissident Islamist opposition that is also boycotting the official "national dialogue," thus accelerating the erosion of the regime's religious and political claims of legitimacy.

Economic mismanagement and decades of officially organized and protected corruption have aggravated these political weaknesses. The Sudanese regime has also managed its relations with other countries, including Saudi Arabia, in short-sighted and opportunistic ways that are now complicating Sudan's economic situation and financial isolation. Sudan had in the past sought to benefit from Saudi investments and aid flows while maintaining an intense covert strategic military and security cooperation with Iran.[2] In March 2015, however, Sudan made an abrupt 180-degree reversal of its regional alliances by siding with Saudi Arabia, including by sending two battalions of Sudanese soldiers to join the Saudi-led ground offensive in Yemen against the Shia Houthi movement. A key factor in Sudan's shift of alliances is its desperate need for continued injections of hard currency (which have come in the past from Saudi Arabia and allied Persian Gulf[3] countries[4]) to ease its money supply challenges.

The regime readily attributes to external pressures the livelihood hardships the government's policies are inflicting on the Sudanese people. Sudanese leaders routinely denounce in particular the economic sanctions that the United States has imposed on Sudan since the mid-1990s because of the regime's links to international terrorism and its attacks on Sudanese citizens. However, there is no salvation from these problems without a genuine change of behavior that would promote lasting peace and governance reforms that eradicate institutional corruption and allow for the recovery of stolen assets. Accountability for gross rights violations and atrocity crimes in conflict areas, as well as for the diversion of public assets for private gains should be part and parcel of the required changes, without which Sudan may continue its descent into state failure. The international community should leverage the regime's multiple internal and external economic vulnerabilities to press the Sudanese government into agreeing to negotiated solutions rather than continuing in its current destructive path of military subjugation and political repression of its opponents.

Such are the paradoxes of the situation in Sudan. The regime appears to keep a tenuous grip on the political and security situation, but it is constantly undermined by its own short-term opportunistic moves, mismanagement of the economy, and its enabling and protection of grand corruption as a way to maintain its power, as laid out in the following sections.

This paper will analyze in greater detail the structural weaknesses and economic vulnerabilities of the Sudanese regime and illustrate aspects of such weaknesses by analyzing the revenue and expenditure patterns as reflected in Sudan's national budgets over the past few years.

Structural deformities of Sudan's economy

The foundational pillars on which the al-Bashir regime was firmly built became increasingly discernible soon after the regime took power in 1989. The Sudanese Islamist movement had plotted to seize power for decades and did so finally through the 1989 coup d'état. It then set up a broad political body, the NCP, to give some semblance of a broad-based government. The NCP became the de facto ruling party, acting in many instances above the authority of the executive. In 1995, Eltigani Abdel-Gadir, a founding member of Sudan's Islamist movement, who at the time occupied one of the highest ideological positions in the state, documented in a series of scathing articles a strategic shift in the structure of the regime that had led to the replacement of the original trilogy—of the Movement, the Party, and the Government—by a new one. The new power trilogy consisted of an unholy alliance among Sudanese Islamist businessmen, members of the tribal clans and families of top leaders, and a security apparatus with its own growing economic powers—and hence the incentives and the blind loyalty to protect the interests of both the regime's inner circle and its own members.[5]

Undermining the national economy through "tamkeen" ("consolidation")

The shift in the political and economic orientation of the regime came as a consequence of a strategy known as "tamkeen," an Arabic word meaning "consolidation" or "empowerment." Tamkeen served to operationalize the al-Bashir regime's cross-cutting political, economic, and security objectives by consolidating sources of support and strengthening ties with loyalists across these sectors. In its early years of rule, the Sudanese regime had aggressively consolidated power by simply taking over the security and economic sectors at the federal level and at the level of state institutions. Politically, the strategy consisted of decapitating political parties and Sudan's vibrant trade unions and civil society movements.[6] This practice involves brutally violent suppression of many Sudanese individuals and groups that do not support the regime or are simply independent. When first consolidating power, to replace those purged from the civil service and uniformed forces, the regime appointed the cadres and members of the Sudanese Islamist movement. Ideological loyalty thus replaced expertise and technical competence across the board.

At the economic level, the strategy of tamkeen consisted of the regime exerting control over the various economic sectors throughout the country, particularly through the Sudanese Islamist movement's predominant strength in Islamic banking and investment, creating the "gray economy" (described further below).

Alsir Sidahmed, a leading Sudanese economist and oil industry analyst, documented in a 2013 publication the mass dismissal of 76,640 public sector employees in the first three years of the regime (1989 to 1992)[7] under the dubious claim that this mass dismissal was dictated by "public good" imperatives.[8] The number of people dismissed in those three years alone was more than double the number of people who retired from public service in the 85 years preceding the 1989 coup d'état. The collapse of the Sudanese civil service that resulted from this sweeping onslaught is a key factor in the subsequent mismanagement of the national economy.[9] The regime has ultimately maintained this system for decades through its continued violent repression of opposing or independent voices and through its ruthless use of large-scale atrocity crimes against Sudanese people who seek a more equitable and proportional share of the national resources.

The resulting gray economy

With the "Salvation" regime's rise to power, Sudanese Islamist businesses gradually displaced leading private sector corporations and profitable and accountable parastatals, or forced them into sharing the market they dominated (a trend that continues today[10]). A gray economy gradually established itself and came to dominate entire strategic and high-value sectors of the economy, such as the oil, transport, communications, and construction industries. A major mechanism for growing the gray economy was the privatization of state corporations to regime-affiliated businesses and charities without competition and at low give-away values in what a leading economist labeled a "garage sale."[11] The gray economy is also dominated by key covert official operators: the ministries of Defense and Interior and the NISS, and companies incorporated and capitalized with public funds under the umbrellas of the three.

A 2012 report by Sudan's official Enumeration of Government Companies and Investments Commission found a total of 603 parastatal companies in the country. Of these 603 companies, 240 were government-owned, and another 45 companies were owned by the ministries of Defense and Interior and the NISS, showing the extent of the security sector's role as a key operator in the national economy. The commission determined that only 50 of these companies were strategically important enough to be retained.[12]

By definition, Sudan's gray economy thrives in the shadows of the "deep state," a term Sudanese people use to refer to the networks that have managed through their control of the gray economy to hijack the national economy and exploit that power to generate benefits for themselves. The deep state is today displaying signs of growing economic vulnerability, much of which is self-inflicted but also aggravated by external factors. These vulnerabilities provide leverage and openings for both domestic and international efforts to move the country out of crisis and toward peace, democracy, and greater respect for the human rights of Sudanese citizens.

> Sudan's gray economy thrives in the shadows of the "deep state."

Lack of transparency with the budget has meant that the structure and main inner workings of the gray economy have remained shielded from the public eye and hidden from the scrutiny of even Sudan's General Auditor's Chamber. Still, official budgets projections and reports by the Central Bank of Sudan (CBOS) on the annual budgets' actual performance, year by year, reveal significant tax and customs exemptions granted to the gray companies. In a 2015 report published by the Sudanese policy research organization Sudan Democracy First Group, leading Sudanese economist Dr. Siddig Umbadda noted, "a recent report of the Tax and Customs Reform Commission (2014) showed that the weak tax revenue to GDP ratio is attributed to direct and indirect tax exemptions which amounted to 60% of [value-added tax] revenue, in addition to weak collection, as the average tax loss amounted to 30%."[13] The al-Bashir regime, by promoting preferential treatment and heavy tax exemptions for its loyalists, fails to amass the large share of the tax revenue that the state could collect. The regime is not generating nearly as much money for the state—much less the Sudanese public—as it might.

Sudan's profitable and expansive weapons manufacturing sector has equipped Sudanese armed forces and their allies in their attacks on civilians in Darfur, South Kordofan, Blue Nile, and elsewhere. The Sudanese military sector has also armed actors throughout the region in South Sudan, CAR, and elsewhere.[14] This sector in particular has benefited enormously from preferential commercial operating terms, which enabled the economic corporation of the SAF, namely the Military Industry Corporation (MIC), to grow.[15] The Sudanese government has claimed that Sudan is Africa's third largest manufacturer and exporter of weapons in Africa (behind South Africa and Egypt[16]), a claim that has also been repeated in some other reports.[17]

The Sudanese Ministry of Interior has had funds available to make huge investments in sectors with no obvious links to maintaining internal security, such as construction, higher education, and hospitals. The ministry has been able to do so by keeping much of the revenue collected from the public by the traffic police, the department of immigration, customs, and other cash-generating units of the ministry "off budget" so that the funds could be spent on such projects at the ministry's discretion. (See more on this below.)

A third covert large operator in the Sudanese economy is the NISS. Like the Ministry of Interior, the NISS has the funds and capability to engage in enterprises that go beyond its core mission. The NISS owns businesses in transportation, construction, private security, service stations, oil and petrochemicals, catering, and food companies. The NISS is also a large operator in Sudan's health sector, running its own hospitals and health centers for its personnel and their families. In a public relations gesture that speaks volumes about the well-resourced security sector and the severely under-resourced public health sector, the NISS had the means to donate expensive and highly specialized medical equipment to the People's Hospital, one of Sudan's largest public hospitals.[18] The NISS also has the funds to spend on sports clubs and to donate heavily subsidized food items to newspaper editors during the fasting month of Ramadan.

> A third covert large operator in the Sudanese economy is the National Intelligence and Security Services.

Despite its considerable income-generating capabilities, Sudan's security sector nonetheless remains the single largest consumer of state expenses, while it contributes little revenue in return, as critical analyses by the national economic expert Dr. El-Tigani Altayeb of the 2015 and 2016 projected national budgets have revealed. According to this former state minister of finance and former World Bank country director, the budget for the 2015 fiscal year anticipated total expenses of 13.7 billion SDG for the government's defense, security and police agencies. Of this 13.7 billion, 10.2 billion (74 percent) was earmarked for salaries and benefits. The cumulative total of government spending on the security sector represented 78 percent of the expenses of the national budget, compared to the meager 7 percent allocated to the agriculture, manufacturing, education, and health sectors combined. The 2015 national budget anticipated receiving 14.2 billion SDG in revenues from the security sector. Of this 14.2 billion, 13.3 billion was to come from the Department of Customs. Other security sector units—police, armed forces, and the NISS—were expected to contribute only 900 million SDG to the national budget that year.[19]

The 2016 budget dedicated 76 percent of government expenditure to the defense, police, and security sectors, while only 8 percent of projected expenditures were earmarked for the agriculture and manufacturing sectors and to the vital health and education sectors.[20]

Official corruption: Protections for "tagneeb" ("set-aside") government revenues

The regime's tamkeen approach of consolidating its political and economic resources would not have been possible without the deliberate diluting or liquidation of the institutional and legal instruments that were mandated in the past to protect public funds from embezzlement and diversion for purposes other than those defined in the national budgets. These watchdog institutions had also previously been empowered to refer for legal prosecution those who indulge in such practices, and these institutions could also press for the recovery of diverted public assets. The leaders who took power in 1989 systematically weakened such institutions and regulations—or ridded themselves altogether of these institutions. This strategy facilitated the diversion of public funds toward financing the regime's ideological grandiose project of a fast-track Islamization of Sudan, also known in the regime's propaganda as the "civilization project." However, as the vision dissipated and the pursuit of wealth and opulence replaced it, grand and petty corruption soon crept in and became the rule rather than the exception. Some of the first state institutions to be dismantled by the regime were the departments of Mechanical Transportation and Supply and Logistics. These units were mandated to control government expenditures in the import and/or local purchase and maintenance of vehicles, furniture, and office supplies, etc., respectively.

The Ministry of Interior is by no means the only government agency that indulged in a widespread practice of keeping "off-budget accounts," officially known by the sanitized term "tagneeb." The word is Arabic for "expatriation," or "setting aside" of government revenues, ostensibly for the public good but in practice for the exclusive control of the top officials of the concerned government agency. Tagneeb threw wide open the doors for grand and petty corruption throughout the institutions of the state.

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The Sudanese government has allowed the Auditor General's Chamber to function. The Auditor General's Chamber and the Chamber of Public Grievances (ombudsman chamber) together represent the surviving but toothless oversight institutions. The government has largely failed, however, to act on their findings, prosecute corrupt officials, build independent institutions, and recover the diverted public funds that they routinely reported to the head of state and Parliament. Parliament has proven itself to be wholly unable to curb official corruption. A few members in successive legislative sessions have loudly denounced corrupt practices without succeeding in getting the legislature to take strong action to end the blatant theft of public funds and assets.

A 2011 auditor general's report identified 15 government ministries and units that kept accounts that are beyond oversight of the Ministry of Finance and the Auditor General's Chamber. The report found that these accounts served, among other things, to pay incentives and rewards for the officials. The report named the ministries of Defense, Interior, Justice, and Agriculture and Animal Wealth among the seven ministries that declined to close such accounts.[21] The auditor general routinely documents these practices and names the ministries and agencies that decline to be audited, to no effect at all.

In addition to withholding a sizable percentage of government revenue, the "set aside" accounts also serve to hide the revenues from illicit and arbitrary fees from the probing eyes of the auditor general. Government agencies compete with one another to levy fees from the public—in total disregard of the laws, rules, and procedures that criminalize the extraction of such fees. The two pervasive practices of hiding both licit and illicit revenues have had the combined effect of threatening to seriously reduce the flow to the public budget of the revenues raised by many state agencies and to provoke public anger and protests. As such levies on the agricultural and industrial sectors have multiplied, and as levies on private regime-affiliated businesses have been reduced, the toll on the productive sectors that most benefit the public has grown, contributing to the loss of foreign and national capital from Sudan.

There is clearly a deficit of political will to end "tagneeb" and the collection of illicit fees by state agencies. Corruption is effectively protected. In a recent telling incident, the ombudsman chamber provided a report to Parliament in which several top officials in several government agencies—including the Ministry of Justice and the Agricultural Bank—were named and details of their involvement in corrupt practices were provided. The government heavily suppressed media reporting on the matter. The editors-in-chief of the Khartoum newspapers received direct instructions by telephone from the NISS to not cover or comment on the report.[22]

It was only under extreme duress, in having to deal with seriously depleted revenue flows, that Minister of Finance Badr El-Deen Mahmoud announced on July 1, 2015 the enforcement for the first time of the electronic collection of state revenues through "Electronic Form 15." This measure signified that the state revenues that had for most of the past 27 years gone to hidden accounts now had a better chance of being rechanneled to the control of the Ministry of Finance through electronic collection.[23]

The process of computerizing revenue has revealed that there were 36,000 types of fees imposed on the public.[24] There were also 17,000 revenue collectors about which the Ministry of Finance had no knowledge, according to the finance minister's own admission in the program "Radio Conference," broadcast on the national radio shortly after the introduction of Electronic Form 15.[25]

The introduction of electronic collection was evidently meant to significantly improve the efficiency of the collection of state revenues. However, the government has yet to enforce laws and regulations that hold administratively and criminally liable those who divert public funds to unauthorized use or those who extract illicit fees and dues from the public. The practice has been tolerated and protected at the highest levels—and has therefore spread out to all federal and state institutions. There are few to no prosecutions of officials who set aside government funds or who extract illicit fees from the public.

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Deformities of Sudan's economy: The regime's Achilles' heel

There is real concern that the regime's monopolization of strategic sectors of the economy would allow it to paralyze and bring to its knees any successor government that comes to power without its consent or participation. The ownership of some of the largest financial services firms, petroleum products distribution companies, and service stations by regime loyalists and the NISS reflect the regime's monopolistic hold. In the event of regime change, these gray economy operators could retaliate by creating shortages in strategic commodities with the intention of paralyzing any successor regime of which they do not approve. However, this survival tool also represents an Achilles' heel, as the regime's grand corruption and the breaks it grants to its affiliated corporations make it extremely difficult if not impossible for the Central Bank of Sudan (CBOS) and the Ministry of Finance to fix the fundamental problems of the economy and to respond to the population's legitimate demands for basic social services. Failure to deliver these services is becoming the leading trigger behind increasingly vociferous popular protests. Social unrest creates a source of pressure that the political opposition could use to mobilize the population in more politically focused protests. The privileges given to the regime-affiliated economic operators, and the rampant and unchecked grand corruption, are among the leading factors in the undermining of official policies meant to redress the economic crisis in Sudan.

A major driver of the protracted economic crisis in Sudan is the government's failure to adapt its national economic policies to the severe economic impact of the secession of South Sudan in 2011. Sudan ran on an annual budget of less than a billion dollars during the first decade of the al-Bashir regime's rule (1989 to 1999). The oil boom that followed the commercialization of Sudan's oil after that time then multiplied government foreign earnings tenfold. The independence of South Sudan in 2011 meant the loss of income from southern oil, which had accounted for 55 percent of government revenues and more than 60 percent of foreign currency resources.[26] An immediate result was a dramatic increase in the prices of food and other essential commodities as economic growth slowed significantly.

The World Bank notes, "Sudan did not use the oil windfalls to invest in human development, diversify its economy, or promote private sector growth. Political instability, corruption and economic uncertainty compromise the enabling environment for business development, growth, and employment (2010 Investment Climate Assessment). Other constraints include inadequate infrastructure services (e.g., transport and electricity), access to finance and taxation policies."[27]

In fact, large infrastructural projects that were built during this period were largely financed by new loans from China and Arab sovereign funds, increasing the country's foreign debt burden, and leaving many Sudanese people wondering where the $60 to $80 billion in oil revenues generated during the boom decade had gone.

Following the economic shock of South Sudan's secession, old habits continued. There were staggering deformities in the allocation of resources from revenues, with the lion's share going to the state bureaucracy and its security sector as compared to meager spending on the traditional production sectors and essential social services. Signs of the collapse of the public health system in Sudan are accelerating, and the education system has deteriorated significantly. There is little to no response to complaints by educators, health sector professionals, economists, academics, activists, and the public at large of severe funding shortages on sectors that boost human development and better distribution of the national wealth.

A closer look at the national budget projections and actual performances over recent years shows the degree to which Sudan's economic crises is self-inflicted, with external factors, such as the foreign debt, sanctions, and poor relations with the donor community adding to the harshness of its impact.

A 2016 budget that is oblivious to hard economic realities

One prominent Sudanese economist has described the projections of the 2016 national budget as akin to "playing music on imaginary strings,"[28] and another economist compared the budget's projections to an obstacle race of "jumping over the bitter realities."[29] The 2016 budget reflects the distortions, inconsistencies, deceptions, and short-term opportunism that generally characterize the Sudanese regime's approach to resource management and the economic crisis gripping the country.

The 2016 budget projected total revenue of 67.5 billion SDG.[30] Sudan's 2016 budget anticipates total expenditures of 66.9 billion SDG,[31] with a gap of 600 million SDG. Revenue is thus equal to $11.25 billion at the official exchange rate of 6 Sudanese pounds to the dollar, and expenditure is projected to total $11.3 billion—a deficit equal to $100 million, or 1.6 percent of GDP.

The minister of finance pledged in December 2015 that the budget would not introduce price increases for household goods. Despite this pledge, however, within weeks of the budget's adoption, the Ministry of Finance instructed the Taxation Chamber to increase its targeted collection by 20 percent. The minister of oil explained to the Parliament that Sudan had a deficit in the production of cooking gas and would have to import this vital product. He also revealed that Sudan was importing other oil products at a rate that was $16 higher than the international market price per barrel because it had to borrow the costs of the imports. He said Sudan already owed creditor oil companies $2.5 billion.[32]

By late January 2016, Sudan had liberalized the price of jet fuel, furnace gas, and cooking gas,[33] which led to a 200 percent increase in the price of cooking gas.[34] The government invited the private sector to import these products[35] and appeared to be moving toward a general privatization of oil products, a move widely expected to dramatically raise prices, as demonstrated by the cooking gas precedent.

Revenue (domestically-generated tax and non-tax)

Sudan has projected total national revenues in 2016 of 67.5 billion SDG, with 2 or 2.5 billion SDG coming from foreign grants and loans. For the remaining 65 billion SDG of national revenue, 74 percent of the internally-generated national revenue comes from taxes.[36] Only six percent of this tax revenue is levied from direct taxes on business profits, salaries, and wages. The remaining tax revenue is generated from indirect taxes on consumer goods, a policy which disproportionately affects the country's poor.

Sudan receives revenue from other sources beyond taxes. It receives 11 percent of its revenue from the oil transit fees and transitional payments by the government of South Sudan under a 2012 agreement. The government of Sudan also receives 3 percent of its revenue from dividends of shares of companies in which the government participates or has investments.[37]

That the government receives such a miniscule share of its internally-generated revenue from profitable private sector enterprise while it receives such an overwhelming share from consumer goods purchased for subsistence exposes a crippling imbalance. A narrow wealthy social base benefits from tax breaks, while the impoverished majority of Sudanese consumers are heavily taxed on the essential goods they need and then do not benefit from the way public money in Sudan is spent.

Low non-tax revenue: Sudan's financial isolation and limited, imperiled sources of hard currency

Despite being increasingly financially isolated, due to the tighter enforcement of financial sanctions on Iran that have prompted many international financial institutions to "de-risk" and avoid business with risky clients (including Sudan), Sudan still has some sources of revenues in U.S. dollars and other foreign currencies. These sources, however are few, limited in value, imperiled, and themselves sources of further economic vulnerability for the Sudanese regime, especially given the broader financial isolation that Sudan faces. Sudan imports a much larger share of goods and services than it produces domestically as a result of many years of misguided economic policies that neglected the historically successful industrial and agricultural production sectors, particularly in the rush to develop the oil sector.[38]

The limited sources of revenue and foreign currency in Sudan include:

- Revenue from official gold sales by the Central Bank of Sudan (CBOS);
- Revenue from oil produced in Sudan;
- Oil transit fees and interim compensation payments to Sudan from South Sudan;
- Revenue from traditional exports (including livestock and agricultural products);
- Remittances from Sudanese expatriates and migrants;
- Loans, grants, and foreign investment.

1. Revenue from official gold sales by the Central Bank of Sudan

Gold production in Sudan has increased in recent years,[39] and Sudan could soon become Africa's second-highest producer of gold (after South Africa).[40] By some estimates, gold production in Sudan could reach an all-time high of 100 tons in 2016.[41] With higher gold production levels and the rising global price of gold,[42] the precious metal has come to rival oil as a main source of income and foreign currency. The Sudanese government, however, faces serious limitations and risks in the heaviness of its dependence on revenue from gold. As referenced above and detailed by numerous scholars elsewhere, the Sudanese government has no prior history of savvy governance and responsible financial stewardship of revenues from natural resources—as its mismanagement and abuse of the country's oil revenues during the boom years between 1999 and 2011 reflect.

Sudan could soon become Africa's second-highest producer of gold.

Sudan's gold production is largely controlled by private artisanal miners[43] and local communities in the areas with larger deposits of gold, such as Jebel Amer in North Darfur and Jebel al-Zaraf in North Kordofan. The Ministry of Mining reported that Sudan's total production of gold in 2015 was 82.3 tons, of which 67.5 tons were produced by artisanal miners, while the remaining 14.8 tons were mined industrially by Sudanese and foreign companies. Similarly, of the reported 73.4 tons of gold mined in 2014, only 9.7 tons, or 13.2 percent, were produced by the industrial mining.[44]

Artisanal gold producers sell what they find to gold traders, and the Central Bank of Sudan claims that it is just one buyer of many in the gold market. To beat out other competing buyers and prevent Sudanese gold from being smuggled to regional markets in Egypt, Dubai, and elsewhere, the CBOS must offer these gold producers the best price. This transaction is made costlier for the CBOS because of the widening gap between the official exchange rate (6.1 Sudanese pounds to the dollar[45]) and the black market exchange rate (which at this writing reportedly reached as high as 16.2 pounds to the dollar[46]).

While purchasing gold at the parallel market rate, the CBOS sells it to the Ministry of Finance at the official rate. In effect, to outbid the would-be gold smugglers and buy up gold at such a high price when it is otherwise cash-strapped generally—and particularly when it comes to foreign currency—the Sudanese government must print even more money than it already must print in order to finance the budget and offset the deficit between revenue and spending. Printing more money to buy gold and finance the deficit, however, exacerbates the deteriorating economic situation by causing the value of the Sudanese pound (which is already low because of the scarcity and high value of foreign currency in Sudan) to fall further, driving up inflation. An active black market with arbitrage and price gouging in Sudan for not only gold but also basic household goods and services such as cooking oil and transportation[47] further increases the pressure. Consumers generally see prices rise on all goods and services; the buyers of goods and services that are smuggled or traded on the black market face especially high and ever-rising prices. The national currency that is stretched thin comes under increased pressure.

The regime has not yet managed to fully dominate this gold market, and it has a number of competitors who are ready to challenge its efforts with violence.

The Sudanese government faces economic vulnerabilities in this situation on multiple fronts. It stands to lose a great deal of the money on which it heavily depends if an increasing volume of increasingly valuable gold is smuggled out of country. The Sudanese government must pay a heavy financial price to beat out market competition and buy the gold that is produced within Sudan and prevent its being smuggled out. The Sudanese government therefore has a direct and strong incentive to control as much gold production as possible and to undermine competition created by other purchasers in the gold marketplace. The regime has not yet managed to fully dominate this gold market, and it has a number of competitors who are ready to challenge its efforts with violence. The regime is therefore economically vulnerable in the extensiveness of its dependence on revenues from an expensive and competitive marketplace full of challengers.

As the volume of gold production increases within Sudan, and the value of gold on the world market rises, one under-appreciated economic vulnerability of the regime is the growing proportion of potential gold revenue that is being lost to the government by being sold outside official channels. In 2014, Sudan produced 73.4 tons of gold, worth $3.1 billion. Sudan only managed to export 30.4 tons of gold (41 percent) of what it produced. Sudan generated $1.3 billion that year in gold revenue. But by failing to export almost 60 percent of its gold through official channels, the Sudanese government missed out on $1.8 billion in revenues. The following year the percentage of what Sudan lost in potential gold revenue increased. In 2015, Sudan produced 82.3 tons of gold, worth $3.1 billion. That year, however, Sudan only managed to export 19.4 tons (24 percent of what it produced) through official channels. Sudan generated $725 million in gold revenues in 2015. But by failing to export 76 percent of the gold it produced through official channels, the Sudanese government missed out on $2.4 billion in revenues it could have generated on top of what it did make. Sudan may be producing more gold that is worth more, but it is also losing a higher and higher share of the revenue it could be generating for itself.[48]

Even if the regime comes to dominate the gold market within Sudan, it could also face greater difficulties with buying and selling gold on the world market, if international pressure on gold regulators increases and financial isolation by banking institutions continues. A U.N. Panel of Experts has looked into the relationship between gold trafficking and armed groups in Sudan.[49] The Enough Project has argued that a sizable portion of the gold from Sudan is and should be treated internationally by gold dealers as conflict-affected and high-risk for its role in destabilization in Darfur, Blue Nile, and South Kordofan.[50] With these links between Sudan's gold and violent conflict, there are proposals and efforts underway to bring sanctions and restrictions on the buying and selling of gold from Sudan.[51] If these initiatives gain momentum, the Sudanese regime's financial vulnerabilities related to its dependence on gold revenues will further increase.

2. Revenue from oil produced in Sudan

In the past, Sudan has depended heavily on revenue and hard currency from another natural resource—oil—though the regime failed to leverage the full economic benefits of this revenue source for the Sudanese people during the heaviest oil production years from 1999 to 2011.[52] Sudan then lost most of the oil fields and 75 percent of the oil exports with South Sudan's independence in July 2011. Sudan nevertheless currently produces a certain amount of crude oil,[53] and this oil provides another of the few sources of revenue and hard currency that Sudan is able to currently maintain. The relatively low and uncertain global price of oil,[54] however, means significant reduction or stagnation of earnings from Sudan's current oil production.

A sizable portion of the gold from Sudan is and should be treated internationally by gold dealers as conflict-affected.

Based on its analysis of the Economic and Financial Statistical Review of the CBOS on the actual performance of the fourth quarter of 2015 budget, the Economist Intelligence Unit reported that Sudan had earned $573.9 million from 12.1 million crude oil barrels exported in 2015. The volume of oil exports had risen 24 percent from the previous year. It had gone from 9.8 million barrels in 2014 to 12.1 million barrels in 2015. But the revenue had dropped by half, from $1.2 billion in 2014 to $574 million in 2015.[55] The Sudanese government was getting less revenue per barrel because of the lower value of oil on global market. Despite the marked increase in the volume of the exports, lower global oil prices wiped out much of the financial benefit.[56]

3. Oil transit fees and interim compensation payments to Sudan from South Sudan

The government of South Sudan currently pays the government of Sudan a fixed fee of $26 per barrel—$11 in oil processing and transportation fees and $15 for a transitional financial arrangement—as part of an agreement signed in 2012.[57] This money provides the Sudanese regime with a stream of hard currency, but this stream of cash is limited and imperiled. South Sudan, which had once pumped 340,000 barrels per day at an average price of $90 per barrel, is currently pumping well below half that amount,[58] and it pumps at a loss—with the fees it pays per barrel to export this low-quality oil exceeding the revenue under today's much lower oil price on the global market. The government of South Sudan, facing its own violent conflict, catastrophic economic situation, and shortage of hard currency,[59] has lower incentives to produce oil under these circumstances. The South Sudanese government itself also has imperiled access to hard currency for providing payments to Sudan. The Sudanese and South Sudanese governments are considering renegotiating the terms of the oil transit fees and transitional financial arrangements, but no decisions have been finalized.[60]

4. Revenue from traditional exports (including livestock and agricultural products)

During the oil boom that lasted from 1999 to 2011, Sudan's Gross Domestic Product (GDP) grew steadily while its structure changed significantly. The government's neglect of the traditional agricultural sector, including livestock, which provides the main livelihood for two-thirds of the population, led to the shrinking of the share of this vital sector in the GDP from 45 percent (during the period from 1992 to 1999) to 30 percent of the GDP by 2013.[61] Nevertheless, agriculture and livestock remain essential for the revival of the Sudanese economy, and could contribute much more to the national wealth if they benefited from greater investment and better governance than has been the case to date.

Despite the neglect to the sector, the combined revenue from agricultural and livestock[62] exports are today the main sources of Sudan's foreign trade as reflected in the export earnings of 2014 and 2015. Sudan earned $804.3 million from livestock exports in 2015, which was significantly higher than the $544 million of 2014. Earnings from the export of agricultural products and byproducts totaled $722.5 million in 2015, higher than the $684.3 million in 2014.[63] Sudan's most important trade partners for imports and exports are China, India, Egypt, and Arab Persian Gulf countries (Saudi Arabia particularly, also Qatar, Kuwait, and the United Arab Emirates).[64]

Agriculture and livestock remain essential for the revival of the Sudanese economy, and could contribute much more to the national wealth.

The Sudanese regime has been trying to stimulate production and trade in agriculture[65]—without addressing the structural problems it has helped create with the sector and despite its sustained ground and air assaults targeting the people who are among the continent's most resilient producers of agricultural products and who live in the parts of the country that have the greatest agricultural potential.[66] The regime's focus on generating revenue by increasing agricultural productivity persists, despite crippling water shortages in several parts of Sudan that directly threaten the lives and productivity of both people and livestock.[67] Sudan's own farming communities and agriculture producers are themselves experiencing great food insecurity as the regime seeks to export greater quantities of agricultural products.[68]

Sudan continues to seek external investment in agriculture as well. Decades of abuse, mismanagement, and neglect in these sectors, however, have taken a heavy toll on the land, labor, and capital. The challenging business climate (especially with corruption and lack of infrastructure) in Sudan also deters many potential investors.[69] Investors, national and foreign, routinely complain about the excessive delays and in some instances the outright failure of the government to implement its commitments to provide essential services, such as the extension of secondary power lines or the provision of sufficient quotas of diesel, to the site of their investments. Too many known and hidden government levies on economic activities and essential services also represent major hindrances. The instability of economic policies, and uncertainties about domestic and regional political stability, are also often cited as impediments to foreign investment in Sudan's agriculture sector.[70] The government's allocating lands to investors before having resolved all community and private claims to the ownership or entitlements to these lands has led to repeated popular protests and legal challenges, casting shadows on the legality of the government's land seizures and allocations to investors.[71] Due to these multiple factors, the World Bank has ranked Sudan as offering one of the most difficult environments in the world to do business.[72] Sudan also now struggles in its banking and transactions with export partners, including Saudi Arabia and other food-insecure Arab Persian Gulf countries. The de-risking by global financial institutions in the wake of tighter sanctions on Iran[73] could increasingly complicate the Sudanese regime's ability to do business, including in the agricultural sector, and bring in revenue and hard currency from outside.

5. Remittances from Sudanese expatriates and migrants

Hundreds of thousands of Sudanese expatriates—many of them professional skilled workers but many laborers as well—work in Persian Gulf countries as well as in North America, Europe, and Australia and send remittances back to Sudan.[74] The aggressive application of the tamkeen consolidation strategy outlined above has prompted the flight of thousands of professionals, technicians, and experienced workers from public service. Many Sudanese workers now live and work in the Arab Persian Gulf region and other areas where their competencies and expertise are more readily employed and better compensated, compared to Sudan. Workers also continue to leave Sudan in large numbers because of other systemic issues. Working conditions in many sectors are dismal; disproportionately low budget allocations limit the pay available, and salaries cannot cover the cost of living for the workers or their families. Today, Sudan is one of the countries that has seen the most significant outflow of educated workers, especially health professionals. The United Kingdom, Ireland, Saudi Arabia, and other Arab Persian Gulf states have benefited from this outmigration. But Sudan has lost valuable resources. The country pays to develop qualified health workers, but these workers leave because the system cannot support them, and their departure contributes to the further deterioration in the quality of health services available for the Sudanese population that remains.[75]

Countries to which many Sudanese workers migrate offer better economic opportunities and allow these workers to support their families back in Sudan who have fewer options and more difficult living conditions.[76] The remittances sent by Sudanese workers from outside of Sudan provide another important source of hard currency within Sudan.[77] But a large percentage of the remittances and hard currency go through the parallel market and not through the official channels.

6. Loans, grants, and foreign investment

In its efforts to address the budget deficit, stabilize the currency exchange rates, and finance infrastructure projects, Sudan has also relied on donations, loans, and deposits from friendly Arab Persian Gulf states.[78] The government of Sudan has pursued investment projects—including those in natural resource extraction—with other partners, including Saudi Arabia,[79] as well as China, India, and Russia.[80] The Sudanese government has benefited financially—though credible estimates of exactly by how much are not readily available—from leasing and selling large amounts of land in Sudan to domestic supporters and foreign investors.[81] As global oil prices fall and the economic growth rates slow in these countries, Sudan's access to streams of finance from these partners could become imperiled. If de-risking in the wake of tighter enforcement of sanctions against Iran continues to affect Sudan, these trends could also adversely affect financial transactions that bring revenue and hard currency into Sudan.

High expenditure: Heavy (over)spending on poor investments despite cash crunch

The 2016 budget projections reflect a consistent pattern in the overall structure of spending in Sudan, which is seriously flawed and unbalanced—and has been this way for several years. In 2016, the Sudanese government was projected to spend approximately 66.9 billion SDG on current operational government expenses (salaries and wages, financial transfers to federal states, government purchasing of goods and services, and subsidies for commodities such as wheat flour and refined oil products). By contrast, the government was projected to spend only 10.1 billion SDG on investment in national development projects (including agricultural and industrial sectors—infrastructure, roads, bridges, transportation, electricity, dams, agricultural machinery—and also health and education). In 2015, 60 billion SDG were spent on the government's operational costs, and 6.2 billion SDG went to national development.

Despite limited revenues from taxes and hard currency inflows that are limited, imperiled, and themselves sources of further economic vulnerability, the government continues to overspend and mismanage money. Some of the Sudanese government's heaviest spending goes to its military—at the cost of undermining productive economic activity in Sudan that could generate wealth for the Sudanese people. Other spending by the Sudanese government goes toward investments for select regions and classes of society and ultimately fail to benefit even these narrow contingents without a broader, more inclusive approach to development. A great deal of economically unproductive spending on high-end infrastructure and luxury goods benefits only elites and urban populations in the short-term while exacerbating economic inequalities that increase the regime's overall vulnerability.

Costly wars and the price of destruction

The government of Sudan has consistently allocated less than 4 percent of the national budget to health care and education together,[82] even though investment in these sectors could do the most to support the development of Sudan's human capital. Meanwhile, the regime spent 64 percent of its revenue on the "chapters 1 and 2" (staff and procurement of goods and services) sections of its budget in 2011. The regime spent more than 60 percent of its revenue in 2012 on the security sector[83]—including the army, the police, the NISS, and auxiliary forces under the command of regular forces. The 2016 budget projects an increase of current, non-developmental expenditures from about 60 billion SDG in 2015 to 70 SDG billion in 2016. According to the calculations of Dr. El-Tigani Altayeb,[84] the 70 billion SDG represent 87 percent of the 2016 total expenditures of 77 billion SDG that includes expenditures on development activities. Dr. Altayeb compared the 76 percent earmarked to the security sector in the 2016 budget to the 8 percent earmarked for the vital agriculture, livestock, industry, health, and education sectors *combined*. Dr. Altayeb expressed regret for the government's choice in allocating public resources away from sectors that could generate employment and assist in the improvement of the livelihood of a majority of the people who need it most.

Because there is no independent oversight and auditing for it, Sudan's military spending is likely to be even higher than what the government is willing to acknowledge officially. Estimates on these costs range widely. Public statements, such as President Omar al-Bashir saying, "[I]f 100% of the state's budget was allocated to the army to secure the country then that is still not enough,"[85] also provide important signals about the Sudanese leadership's spending priorities.

Despite the government's high allotment of funding for the security sector, the current minister of defense and his predecessor had routinely complained to Parliament that the low pay of foot soldiers is causing many soldiers to leave the army and join the hundreds of thousands of artisanal gold miners. Such complaints led the Parliament to vote for significant increases in the salaries of soldiers, but apparently this decision did not resolve the challenge. According to the independent *Altareeq* online newspaper, the minister of defense reported to Parliament on May 16, 2016 that the lack of funding and salaries had prevented the rotation of troops that had spent more than three years in operational areas.[86]

Because of the high costs of keeping the army on standby or engaged actively in operations, the government has an incentive to keep the SAF auxiliary forces and allied militias leading attacks. These auxiliary and militia fighters target civilian settlements and infrastructure—including markets, schools, and hospitals—in conflict areas. These forces are backed up by the SAF's air force and mechanized divisions on the ground. These attacks have brought about more violent deaths, displacement, and misery as demonstrated again during the fighting in Darfur, the Nuba Mountains, and Blue Nile in 2016.

> "[I]f 100% of the state's budget was allocated to the army to secure the country then that is still not enough."
>
> *President Omar al-Bashir*

The folly of grandeur: The Hamdi Triangle and the price of poor investments

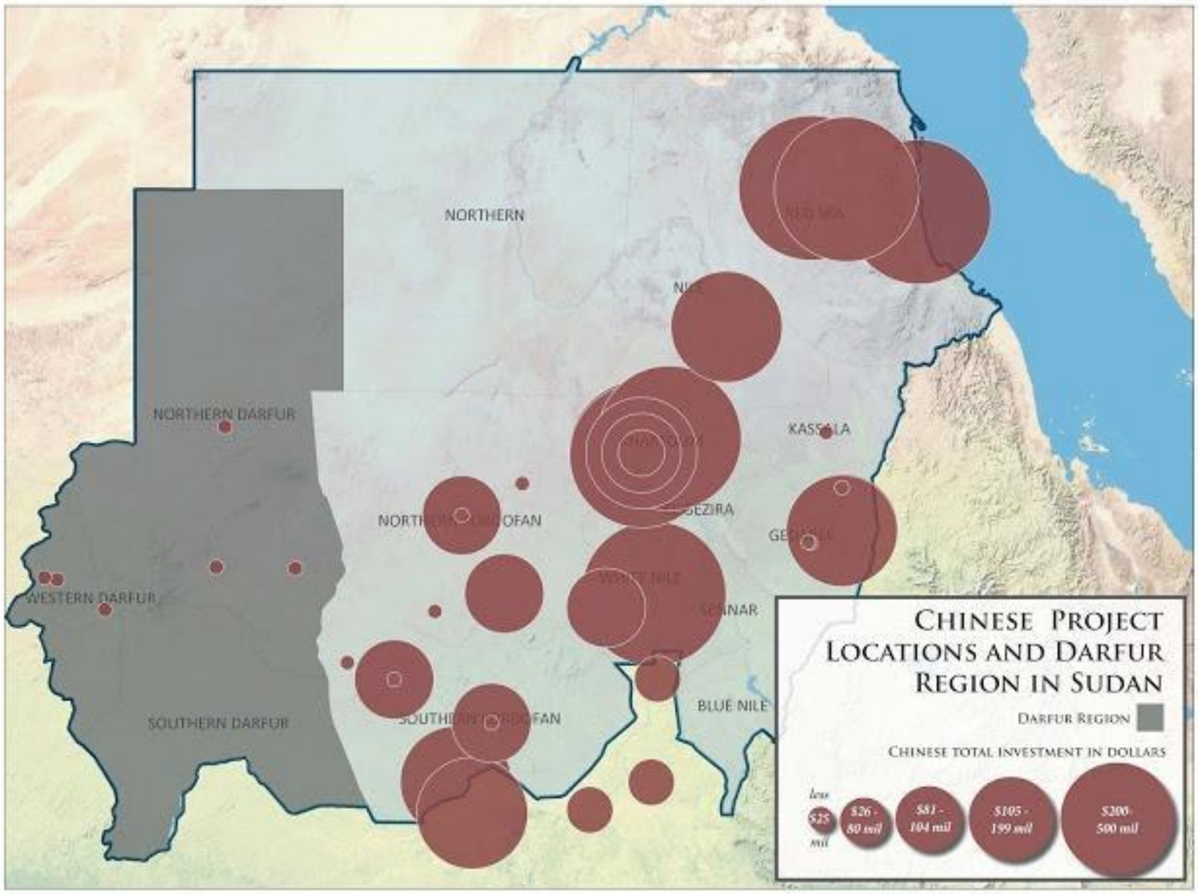
Beyond investing a large percentage of its spending on its military, the government of Sudan also engages in disproportionate spending on selectively—not broadly—beneficial infrastructural and development projects. The spending on these projects reflects ideological priorities rather than economic imperatives. Sudan effectively squanders foreign investment and incurs additional huge debts in projects that reflect the ideological agenda and the narrow power interests of the regime rather than the strategic interests of a large majority of the Sudanese people.

The Sudanese power structure has, in fact, formally adopted and now implements a conceptual framework for this narrow approach to national development. The framework was developed by former Finance Minister Abdel-Rahim Hamdi, who at a 2005 NCP convention called for concentrating public funding on "the axis of Dongola, Sinnar, and Kordofan," later labeled by critics as the "Hamdi Triangle." This area is the traditional homeland of the ruling elites from north-central Sudan. Many in the regime's inner circles come from the northern tip of the triangle specifically.

Calls for investment targeting the Hamdi Triangle grew as it became increasingly evident that southern Sudan would secede following the signing of the 2005 Comprehensive Peace Agreement. The Sudanese regime anticipated that other regions of Sudan—Darfur, eastern Sudan, South Kordofan, and Blue Nile—and non-Arab groups that constitute the majority in these regions would continue pressing for a fair share of national power and wealth and the acknowledgement of their rights to diversity in Sudan. Amid the rising tide of demands from diverse groups, the Sudanese regime sought to strengthen its economic position, heeding Hamdi's call to keep the Islamist and Arab part of the country's identity predominant.

Hamdi states in his paper, “What is required at the present relates to how to keep the identity of the nation [Islam and Arabism] rather than to how to keep the structure of the state.[87]

A map (reproduced below) developed by Sudan scholar Dr. Philip Roessler and AidData,[88] depicts Chinese finance and development investments in Sudan between 2000 and 2011—a time coinciding with the peak both of the oil boom and of the implementation of development in the Hamdi Triangle area. The map visually reflects the consolidation of economic power by ruling elites through the narrow targeting of development investments to their home constituencies.[89]



Source: AidData and Dr. Philip Roessler

The map indicates that a disproportionate percentage of the more than $5 billion in non-oil official development investments that China made in Sudan went to power generation and road projects. The largest of these projects, the Merowe hydroelectric dam and the Khartoum-Port Sudan railway, are in the heart of the Hamdi Triangle, and the costly infrastructure-building spree targeting this area began during the time that high revenues from oil exports were flowing into Sudan. The spending, however, exceeded the inflows of revenue. Sudan took out a loan of $519 million from the Export-Import Bank of China for a part of the construction of the Merowe Dam[90] (the overall project cost $2.4 billion)[91] in Sudan’s Northern state. Sudan also used export credits to finance a $1.15 billion contract to build a railway between Khartoum and Port Sudan.[92] These costly infrastructure projects consolidated economic activity in the areas that most benefited the elites. Smaller investments in infrastructure were made in Darfur and South Kordofan, but the projects in these areas, in contrast with those in the Hamdi Triangle, mostly focused on roads that could extend the power and economic reach of elites based in the center.

Governments must invest in large-scale infrastructure projects like the Merowe dam and the Khartoum-Port Sudan railway to build strong national economies. The Sudanese government's investment projects in the Hamdi Triangle, however, given their narrow geographic scope but also the mindset about concentrating the development projects in an area that would primarily benefit the political elites, ultimately benefited very few people—including the regime.

Money was diverted or mismanaged for the projects. The construction of the Merowe Dam itself came under heavy criticism for having provoked violent protests among the communities affected by flooding, which ultimately created irreparable damage to the area.[93] The much-touted "accompanying projects" to the Merowe dam that were meant to benefit the local community and generate further economic activity failed to do so. The modern Merowe international airport that was built has little air traffic because of the low population density in the area and its remoteness from large population centers. The new Merowe hospital also proved to be a fiasco despite the millions of dollars spent on its construction. The staff of the older more dilapidated public hospital refused to take over the new hospital, citing construction errors in the latter and the exorbitant cost of keeping it powered.

The "nouveau riche" and the price of luxury spending by elites

Most of Sudan's resources are spent on the country's most destructive activities: Sudan's wars against its people in the periphery, which have been particularly pronounced under the al-Bashir regime. Some of the hard currency is spent on payments, at fluctuating market rates, for leasing the loyalties of regime supporters who otherwise have fluid alliances and include contingents of people who engage in freelance violence for power and take their payment in plunder and theft by the barrel of the gun. In addition to the costs of the war and securing the regime, much of Sudan's limited foreign currency earnings is being spent by the ministries of Defense and Interior and the NISS on prestige projects, such as new high-rise buildings for their offices and the residential needs of primarily their officers corps. As the appetite for these perks and high-end accommodations takes hold within Sudan's elite class and regime loyalists, the competition for increasingly scarce hard currency increases. Pressure on the black market currency exchange rates grows, which in turn increases inflation and the price of household goods for most of Sudan's population—which is already deeply impoverished.

The lopsided priorities of public spending are reflected in the fact that the main expenditure chapters—namely (1) staff remuneration; (2) procurement of goods and services; (3) subsidies of strategic commodities; (4) transfers of funds to states—represented 84 percent of the estimated current expenditure projections and 73 percent of the grand total of all expenditure chapters for 2016. The equivalent shares for the four sectors in 2014 was 83 percent of total current expenditures, raising questions about how the government would address unforeseen emergencies, such as the outbreak of an epidemic or serious food shortages.[94]

President al-Bashir's latest inauguration, in-mid 2015, involved swearing in a team of 74 new ministers and state ministers in the federal cabinet, along with 18 governors and seven presidential advisors, assistants and vice presidents. Other constitutional position holders include the speakers of Parliament and state legislatures, their deputies and heads of parliamentary commissions at federal and state levels, in addition to federal ministers and commissioners of localities. Citing an article published in *al-Intabah* newspaper on June 9, 2012, Saeed Abu-Kambal, a prolific specialized commentator on the Sudanese economy, wrote that the number of holders of constitutional positions at the level of federal minister and state minister was 178 in the national government and the holders of the equivalent positions at federal state level was 650, resulting in a total of 828 ministers and state ministers in mid-2012.[95] By Abu-Kambal's calculations, the salary of a state minister equaled that of 57 doctors, who, like teachers, laborers, and other public sector workers, could work for months without seeing their salaries.[96]

The Sudanese government provides its highest ranking officials with exorbitant salaries and benefits, which drain the budget's limited resources and leave little for development projects. According to a now famous short article by Professor Altayeb Zainalabdin, the salaries and benefits of holders of the top four categories of constitutional positions consist of the following: "basic salary; allowances for the cost of living, clothing and academic references (equal to six months of pay for each allowance), housing (when a functional housing arrangement could not otherwise be found), annual and semi-annual allowances, and occasional allowances for illness or for vacations. Constitutional position-holders receive generous benefits, including a furnished residence; multiple cars; health care coverage for the official and his or her family in-country and abroad; coverage of educational expenses for the children of officials in public and private schools; fully paid annual vacation, including allowances to cover the cost of family travel, including airfare for international travel for up to three family members. These benefits continue for two years after leaving office."[97]

The Sudanese government provides its highest ranking officials with exorbitant salaries and benefits, which drain the budget's limited resources and leave little for development projects.

Another category of privileged workers in the public sector is that of "contractuals," or contractors in the national and state governments. These contractors are Sudanese professionals who are recruited from abroad through covert noncompetitive procedures. They are offered salaries and benefits equal to what they receive abroad as incentives to join the public sector in Sudan. A mid-June 2012 investigative report by *al-Sudani* newspaper estimated there were 8,300 such contractors in Sudan.[98]

Other beneficiaries of government largesse include NCP party officials and leaders as well as the operatives of both the NCP and Sudanese Islamist movement that organize and lead mass organizations and events for students, youth, women, farmers, and workers. Despite government denials that it spends public money from the national budget on its political and mass organizations, dissident Islamists and former officials have publicly testified to the contrary after falling out with the regime.[99] The government has shown no political will to reduce its own expenditures on top constitutional position holders and preferred contractual workers. Instead the Sudanese government has further raised indirect taxes on the salaried workers in order to sustain the privileges of the bloated ranks of its top officials and party operatives.

Another constant source of hemorrhaging of resources away from the productive sector is the unbridled spending on prestigious buildings in Khartoum and in some capitals of federal states. In 2014, the local media attributed to Salah Gosh—the former director of the NISS, who became a member of Parliament after his removal—statements on rampant, uncontrolled spending on official buildings. He cited a ministry that had spent $2 billion on its new headquarters.[100]

The expensive tastes of the political and security leadership is mirrored in the growing consumer appetite in parts of Sudan for luxury goods and services that primarily benefit Sudan's class of "nouveaux riches."[101] As Sudan's former middle class struggles with greater poverty, two types of heavy spenders have emerged: (1) those who have disposable income from the state and the regime's business connections; and (2) those who freely spend generous remittances sent by family members living outside Sudan.[102]

Sudan's imports reflect this priority of economic planners seeking to satisfy the consumer habits of the population's smaller segments who are politically relevant to the regime, namely government officials and urban dwellers. This practice neglects the needs of the production sector and of the majority of the population engaged in it, such as farmers and nomads who, as the figures indicate, produce the lion's share of the country's exports. Professor Ibrahim A. Onour, of the School of Management of Khartoum University, calculated in a recent interview that blocking the imports of only 10 luxury items that he did not name could have saved the government some $980 million, and reduced the foreign trade deficit by that much, while helping to curb the demand for U.S. dollars in the parallel market. Onour concluded that without serious measures for reducing current government expenses and uncontrolled military spending, there is little chance of stabilizing the exchange rate of the Sudanese pound to the U.S. dollar and of controlling the country's economic crisis.[103]

In 2015, Sudan exported goods worth $3.2 billion, but imported goods worth $9.5 billion.

With South Sudan's independence and the loss of oil revenues in 2011, and as a result of the regime's failure to adjust the national budget to reflect a new, harsher economic reality, Sudan's foreign trade deficit has remained significant. The trade deficits for the 2012, 2013, and 2014 fiscal years were $5.2 billion, $5.1 billion, and $4.9 billion respectively. As a consequence of this spending behavior, Sudan's import costs again exceeded its export revenues by a large and sobering margin, maintaining an enormous trade deficit in 2015. Sudan exported goods worth $3.2 billion in 2015, but Sudan imported goods worth $9.5 billion, creating a trade deficit of $6.3 billion for the year. The actual performance of the 2016 budget during the first quarter was confirmed to be on track for a similar large trade deficit for the year. Sudan's export earnings in the first quarter of 2016 totaled $676 million, while the country imported goods worth almost $1.7 billion, incurring a deficit of a billion dollars.[104]

The ballooning trade deficit, created by great imbalances in spending and production, both reflects and compounds the regime's overall overspending on economic unproductive or economically destructive initiatives. This overspending and economic mismanagement has occurred as limited amounts of revenue and hard currency are flowing into the country. The incongruous calculations, rhetoric, and actions surrounding the 2016 budget reflected these collective pressures.

Critical failures in the provision of vital public services

While regime insiders and loyalists live comfortably, and even in opulence, and while shiny, official high-rise buildings dot the skyline of Khartoum and its waterfront, the collapse of public and environmental health is obvious for all to see as well.

The Sudanese capital, home to no less than 8 million inhabitants, has, for one example, gone for many years without an effective system for garbage collection and treatment. The municipal collection capacity for the three towns constituting the capital (Khartoum, Khartoum North and Omdurman) is said to be 65 percent of what is needed. Piles of garbage line the streets for days and weeks at a time. The obvious risks to the health and wellbeing of communities in these areas has prompted youth groups to organize recurrent drives of garbage collection and disposal activities, indirectly exposing the failures of the municipal services tasked with this essential service.[105]

Another telling example of this failure to provide for the most basic needs of the population played out when Khartoum State Minister of Environment and Urban Development Hassan A. Hilal reported to Parliament shortly after the adoption of the 2016 budget that the drinking water in the capital was contaminated by sewage water—a fact known to the public for decades.[106]

The main sources of drinking water in the tripartite capital of Sudan are wells located in residential areas that draw from the aquifer of the Nubian Sandstone Formation. Because of a severe deficit in modern sewage treatment facilities, with only 10 percent of Khartoum city covered, 7 percent in Omdurman and none in Khartoum North, as the minister reminded parliamentarians and the media, the population is forced to rely for human waste disposal on traditional pit latrines and a system of individual siphon septic tanks that drain in the upper levels of the alluvial deposits. This renders the waters of the wells susceptible to contamination as they replenish themselves from the Nile waters through undercurrents. Khartoum Water Authority officials and the capital's ministries of health and environment have repeatedly warned of the link between this disastrous contamination and the rising rates of many types of diseases and public health hazards. Sounding the most recent of such alarms, Minister Hilal complained that the Ministry of Finance had ignored his repeated requests to disburse the funds that were approved in 2013 for addressing this serious problem. The minister's alarming statement has generated unconvincing denials from Khartoum's Water Authority officials, and Khartoum's Consumer Protection Association has demanded a full disclosure from the minister about the areas affected by such contaminations that other state officials have warned about for years.[107]

The other main source of water supply to the Sudanese capital is the Nile River and its tributaries, the White Nile and Blue Nile. This river system is equally exposed to dangerous levels of pollution. In a revealing incident, the NISS confiscated the print runs of two newspapers in mid-September 2015 that reported the findings of an investigative report revealing the contamination of the White Nile waters in the southern parts of the capital by contaminants reportedly coming from El Yarmouk military factory, including lead and chromium. The report documented through testing validated by the capital's Ministry of Health the link between the pollution and widespread diseases among an estimated 2 million people living in the southern part of the city and villages in the area, including skin, gastrointestinal and respiratory diseases. To stifle other newspapers and prevent them from following suit, the NISS agents summoned and interrogated Ms. Hiba Abdelazim, the author of the report.[108]

Shortages of medicines

A third example illustrating the combination of extreme inequality, economic distortion, and neglect by the Sudanese regime—to the immediate detriment of the Sudanese population—concerns recent developments in the supply of pharmaceuticals and life-saving medicines. The recurrent crisis in the national supply of prescription drugs in Sudan deteriorated significantly in late 2015 and in the first quarter of 2016.[109]

Sudan's ability to manufacture pharmaceuticals domestically is limited for a number of reasons, and most medicines are imported from abroad,[110] requiring payment in foreign currency—which is scarce in Sudan. Payments for any imports, including most of the medicines, are subject to the widening gap between the official and the black market currency exchange rate. This gap and the question of who in the medicine supply chain has access to both the official and black-market currency rates directly affects the price of the medicine being imported by the trader and purchased by the healthcare providers and patients in need. The Central Bank of Sudan (CBOS) currently lacks the hard currency it would need to provide the companies importing drugs with the usual 10 percent of the dollar revenue from non-oil exports at the official rate of exchange, a commitment which would stabilize the prices of imported medicine if consistently honored. Even in better economic times, when the CBOS was able to provide drug importers with this hard currency to ease the price for consumers, the arrangement provides only about half of the $680 million annually needed by the public and private sector importers and manufacturers of drugs.

Now, as the hard currency shortage has become particularly severe in Sudan, importers of medicines are buying almost half the dollars they need to pay for the imports from the black market. These importers are paying twice the rate for these dollars that they would at the official exchange rate. This development has in turn driven up by as much as 70 percent the price of the available drugs.[111] At the same time this situation has also created a severe shortage of life-saving prescription drugs, such as for the treatment of children's cancer and asthma, and high blood pressure in adults. Whether because of price or availability many critical medicines are now largely inaccessible to those most in need in Sudan.[112]

The Sudanese government makes few references to these dynamics or to the role it has played in instituting policies that have resulted in the hard currency shortage and economic distortion that afflict the market in Sudan for healthcare supplies. The government says little about its meager allocations of public funding for healthcare relative to its military spending. Yet the Sudanese government has claimed that U.S. sanctions are responsible for hardships like those in the medical sector that Sudanese people experience. The Enough Project has analyzed this claim in depth, accounting for a variety of perspectives,[113] and Enough has recommended several specific, immediately actionable measures the U.S. government should take to quickly alleviate some of the unintended negative effects of U.S. sanctions on the Sudanese healthcare market.[114] As described above, however, the Sudanese regime's short-sighted, self-centered, opportunistic, distortionary economic policies play the largest role in the problem.

Conclusion

Sudan's chronic economic crisis is the direct result of its government's ill-advised economic policies and wasteful spending on security and military sectors and in wars against its own citizens. Further aggravating the economic crisis is the regime's protection of massive grand corruption to fuel its patronage system and fund its political supporters. The primary responsibility for the collapse of the health, agriculture, manufacturing, education, and other public service sectors lies squarely on the shoulders of Sudan's regime and the government it runs. National budgets of the government of Sudan have consistently starved the traditional agriculture and livestock production sectors and prevented local industry from accessing the resources they needed to contribute to a productive and self-sustaining economy.

Sudan's defiant harboring in plain sight of international terrorism on its soil in the 1990s, its use of mass atrocities in the context of multiple wars on the country's periphery, and its continued covert support to extremist groups in the region have resulted in the imposition of severely restrictive economic sanctions. The regime's continued involvement in well-documented, massive human rights violations and the widespread violations of international humanitarian law in its many war zones have made the lifting of these sanctions difficult. The recent tightening of the enforcement of sanctions on financial transactions due to U.S. policy toward Iran appears to have serendipitously created severe impacts on the Sudan regime's kleptocratic abilities to do business internationally, because similar tactics were being utilized for evading both Iran and Sudan sanctions. The Khartoum regime's failure in resolving its long-standing disputes with the international community has come to haunt it at a time of extreme economic hardship.

The African Union and the U.N. Economic Commission for Africa (ECA) have documented the large volumes of illicit financial outflows from the continent and elevated these critical issues along with the need to recover stolen public assets. A groundbreaking report from 2015, jointly commissioned by the two bodies found that Africa had lost to official grand corruption a staggering $1 trillion in the last 50 years, and that the continent continued to lose an average of $50 billion annually to graft.[115] Estimates have since been revised upward, to $80 billion lost to the continent each year through graft.[116]

According to the 2015 joint report, Sudan is one of the top 10 African countries that had the highest cumulative illicit financial flows between 1970 and 2008.[117] The report also notes, "Nearly three-fourths of the total IFFs in oil from Africa during 2000–2010 are from Nigeria (34.5 per cent), Algeria (20.1 per cent) and Sudan (12.0 per cent; ECA 2012)."[118] The 2000 to 2010 time frame referenced corresponds to the years of Sudan's oil boom. The report notes further, "Of African countries where cumulative IFFs are the highest over 2000–2010, 93.2 per cent of total IFFs occur in the oil sector in Sudan…"[119]

The AU should help with the tracing of such funds and put in place mechanisms to ensure their recovery to benefit the national economy in Sudan.

The international community, and in particular the United States, should seek to alleviate the suffering of the Sudanese people by mitigating wherever possible the unintended consequences of the sanctions on Sudan that have harmed the medical, humanitarian, people-to-people, and academic sectors in Sudan. However, these sanctions provide a valuable form of leverage that can also help focus the strategic calculations of those in power in Khartoum. Sanctions give Sudanese leaders stronger incentives to put the interests of their people ahead of the imperatives that have driven their exercise of power to date, that of regime survival even if that meant the dismemberment of the country and the suffering of millions of Sudanese people.

Given the high stakes of the situation for many actors, the United States, the African Union, and the broader international community should proactively engage with all stakeholders in Sudan, and not only the regime, to ensure that this powerful leverage is used to push the regime toward serious peace efforts that include vital economic policy reforms among other desperately-needed policy actions.

The Sudanese opposition and civil society groups are engaged in constructive efforts to develop alternative policies on many urgent issues. These groups seek reforms for all state functions that are vital to support political stability and social and economic justice. These opposition proposals are being readied for a genuine democratic transition, or, short of such, regime change through a combination of armed struggle and popular uprising.

Progress in developing this reform plan, however, is slow. The opposition will need to work more concertedly to produce this blueprint and to chart a path to comprehensive, institutional policy reform in Sudan. The opposition will also need to share these plans with the public and solicit input in order to build a broad-based consensus and generate public buy-in around the plans. Sharing power with the current regime or succeeding it without clarity on how to reform the fundamental problems of the national economy would further weaken the state in Sudan. The structural deformities in Sudan's national economic policies must be addressed, and concurrent reforms—in the legal, educational, public health, agricultural, industrial, and land sectors—must be pursued. Refocusing the security sector on its core functions of national defense, policing, protection of the people, and separating this sector from the commercial market would also serve as an essential corrective measure to a deformed economic system.

In the final analysis, Sudan will be able to overcome its economic difficulties only when its government makes the welfare and development of its people its top priority. For that to happen, the regime has to be seriously and proactively engaged in diplomatic efforts for finding a just and lasting peace for the country with the participation and direct involvement of the opposition, civil society groups, communities affected by Sudan's many conflicts, and all other stakeholders and actors with influence.[120]

The following are recommendations directed at the Sudanese government for addressing the crisis that is to a large degree its own making:

1. **End conflict.** Facilitate a genuinely comprehensive and inclusive solution to end Sudan's civil wars, and steer the country to a democratic transition.
2. **Increase accountability**. Fight official corruption, and introduce transparency measures. Give Sudan's independent Auditor's Chamber prosecutorial powers. Empower other accountability institutions, such as Sudan's Chamber of Public Grievances (ombudsman chamber), according to well-established international standards. Reform the mandate, composition, and powers of the recently-formed National Anti-Corruption Commission in accordance with international standards and best practice.
3. **Protect the independence of the judiciary and the media.**
4. **Support the tracing and return of stolen public funds.**

Recommendations to the Sudanese opposition, civil society, academics and institutional reform experts:

5. **Plan for integration and reform.** Work for better coordination and integration of ongoing initiatives for the development of alternative policies for the reform of the economic sector and other sectors vital for the stability of the state in the event of transition to democracy.
6. **Research and document all stolen public funds and assets.** Prepare plans for the recovery of these assets and for holding accountable those responsible for their diversion.

Recommendation to the **African Union** and the **United Nations Economic Commission for Africa (ECA)**:

7. **Support illicit finance investigations.** Provide technical assistance to civil society efforts to enable them to identify, investigate, and document illicit financial flows from Sudan, in particular from the diversion of oil revenue. Then, enhance accountability by supporting efforts to recover such funds.

Endnotes

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