



Sudan Banking Sector Reforms and Asset Recovery

By Oliver Windridge

Since the ousting of former ruler Omar al-Bashir in 2019, Sudan has taken steps toward the Sudanese transitional government's stated aim of achieving a "modern, democratic nation-state."¹ Progress has been slow, however, and pervasive economic corruption and strategic challenges, including hardships resulting from the COVID-19 pandemic, continue to create hurdles in delivering demonstrable economic progress for the average person in Sudan. This failure can be traced, in part, to the country's inability to transparently address issues in the banking and financial sectors inherited from decades of mismanagement under the former regime.

In order to build the confidence of the Sudanese people and the international community and encourage foreign investment, Sudan must engage in transparent, democratic, and innovative economic rebuilding. As the country looks toward a more stable future that will provide opportunity to all Sudanese people, it must prioritize banking reform—including improving banking supervision and implementing stronger, more effective real-world anti-money laundering and anti-corruption measures—and the collaborative international recovery of assets that Bashir and his ruling clique stashed abroad. Until Sudan reforms the banking sector and roots out corrupt actors, real risks remain.

Overview

In December 2020, the United States officially lifted the State Sponsor of Terrorism (SST) designation on Sudan, facilitating international investment that can help the country rebuild its economy. However, after decades of corruption, the opacity of Sudan's economic system remains a hindrance to investment. International banks, private investors, and companies struggle to conduct customer due diligence on Sudanese clients and are unable to adequately assess risks. These factors reduce confidence in the Sudanese economy and stymie outside investment.

Sudan has already taken important first steps to improve its basic anti-money laundering and countering the financing of terrorism (AML/CFT) regime, at least from a technical standpoint. It has established AML/CFT laws, a financial intelligence unit (FIU) tasked with tracking and investigating illicit finance, and judicial powers to prosecute such cases. In 2010, Sudan was placed on the Financial Action Task Force's (FATF) list of jurisdictions with significant deficiencies in their AML/CFT regime, the so-called "gray list." In 2015, Sudan was removed from the list after the FATF found that the government had met basic AML/CFT technical requirements.² A year later, in 2016, the Middle East and North Africa Financial Action Task Force (MENAFATF), the regional FATF-style body, found that the government had addressed most



corruption-related shortcomings identified in an earlier review in terms of technical output. It did so, however, without measuring actual implementation of new guidelines on politically exposed persons (PEPs).³ The next planned review, to be conducted by MENAFATF, will take place in 2022 and will measure the effectiveness of Sudan's AML/CFT regime. Ahead of the review, Prime Minister Abdalla Hamdok announced a new law aimed at strengthening the Central Bank and improving AML/CFT measures at financial institutions.⁴

While Sudan has laws on the books intended to curb illicit finance, implementation remains uneven and ineffective, and banking supervision remains weak. Communication and collaboration need to improve across the sector. The Central Bank's capacity to crack down on corruption is largely untested, but Central Bank leaders have repeatedly promised improvements in banking supervision.⁵ In September 2020, Central Bank Governor Mohamed al-Fatih Zainelabidine vowed to increase anti-money laundering efforts to improve the integrity of Sudan's banking system.⁶ He stated that the government was focused on much-needed reforms to address the economic crisis, including "exchange rate chaos," smuggling, and the illicit gold trade.⁷ He reportedly told a World Bank delegation in May 2021 about planned AML/CFT reforms and efforts to restore correspondent bank relationships.⁸ In February 2021, Zainelabidine announced the launch of a dual system allowing both Islamic and non-Islamic borrowing.⁹ However, the Central Bank has been slow to roll out the accompanying regulations and guidelines or provide staff with the required training to put these systems into practice.

In addition to banking sector reforms, Sudan has passed legislation and created units specifically aimed at recovering Bashir-era assets.¹⁰ One such law establishes a committee tasked with dismantling the Bashir regime, including by dissolving the former ruling National Congress Party (NCP), confiscating its property and assets, and recovering looted resources.¹¹ This anti-corruption committee has allowed the government to seize many of the now dissolved NCP's assets, including its affiliated companies, office buildings, vehicles, and bank accounts.¹² Four private television channels and newspapers are reportedly among these holdings,¹³ along with the religious charity organization Al-Quran al-Kareem Society's resources.¹⁴ All of these assets are said to come from within Sudan. In addition, the committee dissolved the boards of the Khartoum International Airport Company and the Sudan Airports Holding Company over corruption claims.¹⁵ The committee has been identifying and seizing other Bashir-related assets, including those of alleged Bashir accomplice Abdelbasit Hamza and his companies.^{16, 17}

Priority Steps

The COVID-19 pandemic and actions to mitigate its effects, endemic economic challenges, a shaky transition to civilian rule, security concerns, and the drastic impact of climate change shape an uncertain future for the country.¹⁸ Today, Sudan still ranks as one of the most corrupt countries in the world.^{19, 20} Until Sudan reforms the banking sector and roots out corrupt actors, real risks remain. The Sudanese government and banking sector need to demonstrate greater transparency, enforce and comply with Sudan's existing anti-money laundering laws and policies, and improve banking supervision policies and practices. Prioritizing economic recovery and growth, as well as asset return, will help set Sudan on a path to recovery.

Transparency

An international body such as the World Bank or International Monetary Fund (IMF) should conduct forensic audits of the Central Bank and other regulatory bodies alongside a domestic partner. General audits of other government ministries should be conducted to ensure accountability and reveal corruption, fraud, and waste. Government websites should publish all audit reports.²¹ In addition, the joint legislative session of the cabinet and Sovereign Council



should examine 2019 and 2020 audit reports, address cases of documented corruption using the legal mechanisms already in place, and make the findings public.

The government of Sudan should identify and ensure the removal of security force elements from private firms. For decades, companies owned in whole or in part by government security services, including the Sudanese Armed Forces (SAF) and top commanders of the Rapid Support Forces (RSF), have operated with little scrutiny in the most profitable sectors of the economy. They have awarded themselves government contracts, using national assets for self-enrichment. The government of Sudan must step up efforts to transform these companies into publicly owned entities. In the meantime, the companies should be subject to the oversight of the Ministry of Finance and should be required to produce audits to the National Audit Chamber. The government should also take necessary steps to ensure law enforcement and judiciary bodies are appropriately staffed and empowered to bring those corrupt actors to justice.²²

The government of Sudan should prioritize FIU reform. The Sudanese FIU, while functional, has suffered from years of neglect. The government should ensure that the unit is fully independent and has all appropriate support to carry out its mission; is staffed with appropriately paid, qualified professionals free from conflicts of interest; receives staff training on anti-corruption efforts, along with local and regional emerging threats, such as contracting fraud or cryptocurrencies; and has the equipment and software its staff needs to conduct investigations thoroughly and prepare cases for prosecution.

The government of Sudan should strengthen the judiciary. The judiciary should receive the appropriate support to remain independent from possible outside influence while carrying out its mission. In addition, the government should ensure that the judiciary staff receives appropriate training or technical support on topics relevant to complex money laundering cases, including illicit finance and corruption.

The United States (US), the United Kingdom (UK), and other governments should implement tailored responsible investment reporting requirements, such as necessitating that banks and other private sector actors involved in high-risk sectors conduct enhanced due diligence when beginning a new business relationship in Sudan and publish the results of these initiatives. Such a system could promote broader transparency overall from both the public and private sectors. The US, the UK, and other governments with leading international banks should thus facilitate formal and transparent dialogue and information sharing between the financial institutions within their jurisdiction and Sudanese banks.

Banking supervision

Sudan's Central Bank must play an independent and transparent role in banking supervision. Efforts should include reviewing and improving current AML/CFT legislation; confirming the sale of all the Central Bank's shares in commercial banks; issuing specific guidance on illicit financial activities affecting Sudan, such as corruption, terror financing, and PEPs; and adopting a risk-based approach to prioritize high-risk banks and entities that threaten economic stability. The Central Bank would also benefit from an independent, third-party review of its organizational structure, along with an assessment of staffing needs and qualifications.

The Central Bank, with the assistance of international partners, should encourage Sudan's banking sector to file suspicious activity reports (SARs), particularly related to corruption and terrorism finance. To create a truly effective system, the Central Bank should issue guidance that not only encourages the filing of SARs but also clearly sets out best practice models that encourage the filing of effective and timely SARs in order to maximize impact and assist the Sudanese FIU. The FIU should also engage in a continuous dialogue with the financial sector and share illicit financing typologies, trends, and red flags that banks can use to improve their AML/CFT compliance programs and further enrich



the quality of SARs. Sudan's FIU should then use the SARs to open investigations that lead to prosecutions. International partners like the US Department of the Treasury and the United Nations Office on Drugs and Crime (UNODC) should work with the Central Bank and the FIU to urge and support their engagement to elicit more and better quality SARs.

Global correspondent banks should engage with and, as needed, pressure Sudanese banks to improve their AML/CFT compliance programs, including customer due diligence (CDD) practices. In particular, global correspondent banks should emphasize enhanced due diligence (EDD) on PEPs, entities formally or informally associated with PEPs, and high-risk transactions. To mitigate against possible de-risking, Sudanese banks should ensure that their correspondent banks are aware of all the steps they are taking to improve compliance with AML/CFT obligations, in particular by implementing robust CDD and EDD.

Technical assistance

The international community should continue their assistance programs to support Sudan's new government. Specific technical assistance options should focus on anti-corruption and AML/CFT efforts, something the World Bank, IMF, US Treasury Department, US Department of State, European Union/European External Action Service (EU/EEAS), UNODC, and other groups have expertise in implementing.

MENAFATF should help develop an AML/CFT action plan for Sudan's government, leveraging its regional network of banking professionals and finance experts. Areas of particular vulnerability should receive priority, such as gold sector AML concerns, assistance for the banking sector to comply with international guidelines, and guidance for the FIU on the increased use of SARs by banks.

Asset recovery

Sudan and its allies should form an international partnership to identify, seize, and return ill-gotten Bashir-era gains stashed overseas. An effective international asset recovery program would bolster Sudan's transition to a modern, democratic state. Such a move would send a strong message to the Sudanese people that the international community supports the transition to democratic rule and will no longer act as a safe harbor for ill-gotten gains, as occurred under Bashir. While the precise amount of state funds stolen during Bashir's 30-year rule may never be known, billions of dollars are likely involved, given the scope of domestic seizures and the length of time he was in power. The recovered assets would serve as a boon to a struggling Sudanese economy.

The international partnership should comply with established international standards on transparency and asset recovery. Such an initiative should include an online presence that is easy to access and provides a clear and transparent platform for the return of Bashir-era assets, signaling the international community's commitment to resolving this issue. It would also facilitate intelligence sharing, provide a single centralized communication strategy on progress, and allow civil society and other actors to share information on potential targeted assets on a single platform. The guidelines set out by the World Bank and the UNODC-backed Stolen Asset Recovery Initiative (StAR) should form the basis of this effort.^{23, 24}

The international partnership should be housed within the International Anti-Corruption Coordination Centre. The program would ideally be housed at the London-based International Anti-Corruption Coordination Centre (IACCC), which includes law enforcement officers from multiple agencies around the world, in order to maximize the international cooperative and intelligence-sharing opportunities; alternatively, it could be housed within an existing Troika law en-



forcement unit.²⁵ This same initiative should also feature a capacity-building and experience-sharing element that allows Sudanese law enforcement officials to learn from those involved in international efforts to improve technical knowhow in Sudan.

The international partnership must engage now on how to return assets. At an early stage of any such program's inception, actors should address the modalities of the channel by which the assets should be returned. In line with domestic examples, recovered assets could be transferred directly to the Finance Ministry or a program it runs. However, serious consideration should also be given to bilateral agreements that ensure funds are allocated to long-term projects with the greatest benefit for Sudan. A dedicated sub-section of the World Bank-administered Sudan Family Support Project (SFSP) for economic aid could also serve this purpose.^{26, 27} Such an internationally recognized and approved conduit would enable the safe return of assets to the Sudanese people while also serving as a positive example for other nations rising from the ashes of fallen regimes.

Sudanese and international banks and other financial Institutions must commit to cooperating fully with the international partnership. Full cooperation between the public and private sectors will be key. Banks and financial institutions must commit to fully complying in a timely and accurate manner with requests for information and intelligence linked to Bashir-related assets. Banks and financial institutions should therefore be engaged at an early stage and provide transparent public commitments to assist in the initiative. In particular, banks that have previously operated in or had exposure to Sudan prior to the overthrow of the former regime should carry out reviews and identify any assets that could be the proceeds of corruption.



Endnotes

- 1 Sudan, Sudan's Constitution of 2019, 2021, p. 5, available at: https://www.constituteproject.org/constitution/Sudan_2019.pdf?lang=en
- 2 The Financial Action Task Force outlined an action plan for Sudan with the following elements: "(1) adequately criminalising money laundering and terrorist financing; (2) implementing adequate procedures for identifying and freezing terrorist assets; (3) ensuring a fully operational and effectively functioning Financial Intelligence Unit; (4) ensuring an effective supervisory programme for AML/CFT compliance; (5) improving customer due diligence measures; (6) ensuring that financial institutions are aware of and comply with their obligations to file suspicious transaction reports in relation to money laundering and terrorist financing; and (7) ensuring that appropriate laws and procedures are in place with regard to international cooperation and mutual legal assistance." See:

Financial Action Task Force, "Improving Global AML/CFT Compliance: On-Going Process," June 21, 2013, available at: <http://www.fatf-gafi.org/publications/fatfgeneral/documents/compliance-june-2013.html#sudan>
- 3 The 2003 FATF recommendation for PEPs was recommendation 6. The 2012 MENAFATF report found Sudan to be noncompliant with this recommendation, noting that financial institutions in Sudan did not comply with the FATF recommendation on PEPs and instead treated them as regular customers. In the new FATF Recommendations, recommendation 12 addresses PEPs. MENAFATF published a third follow-up report for Sudan in April 2016 in which it noted that most of the deficiencies related to this recommendation have since been addressed by the government. See:

Financial Action Task Force, "The Forty Recommendations," June 20, 2003, available at: <https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf>

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Financial Action Task Force, "The FATF Recommendations," June 2021, available at: <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>

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- 4 Asharq Al-Awsat, "Hamdok Appoints a New Governor of the Central Bank of Sudan," March 20, 2020, available at: <https://tinyurl.com/3wymw8d7>
- 5 Abdul Hamid Awad, "The Sudanese Central Bank Wishes to Terminate Its Contributions to Banks to Strengthen Its Supervisory Role," Al-Araby Al-Jadid (The New Arab), September 28, 2020, available at: <https://tinyurl.com/8chc4wa3>
- 6 SUNA, "The Governor of the Bank of Sudan Discusses Economic Reforms With the Delegation of the World Bank," May 24, 2021, available at: <https://suna-sd.net/read?id=713062>
- 7 Abdul Hamid Awad, "Sudanese Measures to Monitor Banks and Support 500,000 Citizens," Al-Araby Al-Jadid (The New Arab), September 16, 2020, available at: <https://tinyurl.com/yf6uvqfy>
- 8 See note 6
- 9 Reuters, "Sudan Will Have Dual System for Islamic and Non-Islamic Banking -CBank Governor," February 21, 2021, available at: <https://www.reuters.com/article/sudan-economy-currency-banks/sudan-will-have-dual-system-for-islamic-and-non-islamic-banking-cbank-governor-idUSC6N2FD02F>
- 10 The need to recover stolen funds is specifically mentioned in the Preamble to the Sudanese Constitutional Declaration of 2019. See note 1.
- 11 This measure is called the Law for Dismantling Ingaz (Salvation) Regime and Removing Empowerment. The Bashir regime used the term "empowerment" to grant major privileges to supporters, such as government posts and the ability to launch various companies. See:



- United Nations Human Rights Council, "Report of the Independent Expert on the Situation of Human Rights in the Sudan," A/HRC/45/53, July 30, 2020, p. 10, available at: <https://undocs.org/en/A/HRC/45/53>
- 12 The committee's full name translates to Anti-Corruption Committee for Dismantling the Ingaz (Salvation) Regime of 1989, Elimination of Empowerment, and for the Recovery of Stolen Funds. See:
- United Nations Human Rights Council, "Report of the Independent Expert on the Situation of Human Rights in the Sudan," A/HRC/45/53, July 30, 2020, pp. 10-11, available at: <https://undocs.org/en/A/HRC/45/53>
- Reuters, "Sudan Seizes Assets of Bashir's Former Ruling Party," January 8, 2020, available at: <https://www.reuters.com/article/us-sudan-politics-idUSKBN1Z72LH>
- 13 Middle East Eye, "Sudan Authorities Seize Assets of Bashir's Family and Ex-Minister," May 8, 2020, available at: <https://www.middleeasteye.net/news/sudan-bashir-corruption-committee-confiscate-family-property>
- 14 Ibid.
- 15 Ibid.
- 16 Zdravko Ljubas, "Sudan's Anti-Graft Body to Seize Property of the Bashir Family," Organized Crime and Corruption Reporting Project, May 8, 2020, available at: <https://www.occrp.org/en/daily/12304-sudan-s-anti-graft-body-to-seize-property-of-the-bashir-family>
- 17 The New Arab, "Sudan Seizes Over One Billion in Assets from Businessman Linked to Ousted Dictator Bashir," April 24, 2020, available at: <https://english.alaraby.co.uk/english/news/2020/4/24/sudan-seizes-one-billion-in-assets-from-bashir-crony>
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- 19 In 2020, Sudan was ranked 174 out of 198 countries, indicating a very high level of perceived corruption. See:
- Transparency International, "Corruption Perceptions Index," 2020, available at: <https://www.transparency.org/en/cpi#> (last accessed May 2021).
- 20 The Sudanese Transparency Organization points to "the failure of governments to overcome the accumulated and newly developed anti-corruption challenges... the absence of a national strategy to combat corruption, the failure to establish the Anti-Corruption Commission and replacing it with bodies that are far from the anti-corruption standards, non-commitment to the rule of law, encroachment the executive on the independence of the legislative body (parliament) and its running through the mechanical partisan majority, and its absence in the present time, the absence of the Constitutional Court." See:
- Sudan News Agency, "Sudanese Transparency Organization Reviews Requirements to Combat Corruption," October 19, 2020, available at: <https://suna-sd.net/read?id=695460>
- 21 Sudan National Audit Chamber, available at: www.audit.gov.sd (last accessed June 2021).
- 22 Suliman Baldo, "Sudan Struggles to Control Its Parastatals," The Sentry, May 2021, available at: <https://cdn.thesentry.org/wp-content/uploads/2021/05/SudanParastatals-TheSentry-May2021.pdf>
- 23 Stolen Asset Recovery Initiative, available at: <https://star.worldbank.org> (last accessed June 2021).
- 24 Jean-Pierre Brun, Larissa Gray, Clive Scott, Anastasia Sotiropoulou, and Kevin M. Stephenson, "Asset Recovery Handbook: A Guide for Practitioners, Second Edition," The World Bank, the United Nations Office on Drugs and Crime, and the Stolen Asset Recovery Initiative, December 2020, available at: <https://star.worldbank.org/resources/asset-recovery-handbook-guide-practitioners-second-edition>
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- 27 United Kingdom Foreign, Commonwealth and Development Office, "Foreign Secretary Sets Out UK's Unique Offer to East African Nations on Visit to Region," Press Release, January 23, 2021, available at: <https://www.gov.uk/government/news/foreign-secretary-sets-out-uks-unique-offer-to-east-african-nations-on-visit-to-region--2>

