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The Sudanese Military Corporations: A Case Study with Some Comparisons

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*Interviews were done both singly and sometimes jointly by Henry Bienen and Jonathan Moore. The writing of this paper has been the responsibility of Henry Bienen who is grateful to his collaborator not only for his help with interviews but for the broad administrative responsibilities he held in the Sudan for the entire work of the Princeton group. This paper was written under the auspices of the United States Agency for International Development Research Contract #650-0071-C-00-4038-00, but the opinions and analysis here are those of Henry Bienen.

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1. Introduction

The creation of the Military Economic Corporation in the Sudan in 1982 and the growing activities of specific military corporations under President Nimeiri before his overthrow in April, 1985 called forth a study of the impact of these corporations within the Sudan. Since the installation of a new regime in the Spring of 1985, the future of the military economic corporations remains uncertain. Some of the activities of the various corporations have been curtailed while others continue.

Armed forces' involvement in direct economic functions raise questions about costs and benefits for an economy. Are the armed forces comparatively well suited to carry out various economic activities? Furthermore, at a time when there are pressures within and without developing countries for curtailment of large public sectors, military corporations raise special problems for domestic economic reformers and international bilateral and multilateral donors because their undertakings, procedures, and accounts often are difficult to monitor. Thus, military economic corporations are interesting and important subjects for investigation within the realm of "privatization of the economy" or public-private sector relations. At the same time, the establishment and growth of the military's economic activities have an impact on the armed forces themselves.

Militaries are such important actors in developing countries' politics and economic life that an investigation of the armed forces economic corporations is important per se. It should be useful also for increasing our understanding of the role of armed forces in developing countries. However, empirical work on military economic corporations has not been easy to carry out for obvious reasons. Access to Sudan's

military corporations was made easier because the Sudanese had promised the leading bilateral and multilateral donors that they could have access to the military's economic records and economic decision-makers.¹ Nonetheless, any analysis of a military's economic activities is fraught with difficulties. Records seen are at best patchy and decisions are relatively closed to investigators. Still, it was possible to do many interviews in the Sudan while carrying out a case study of the Sudan's military economic corporations.²

In the process, perhaps I have been able to differentiate among different Sudanese military corporations; to throw some light on the Sudan's private-public sector relations; to tentatively assess certain effects of the corporations on the Sudan's armed forces; and to add information from the Sudan to our store of knowledge on armed forces' direct economic activities. At the same time, a comparative perspective may set a better stage for evaluating the Sudanese case. Thus I begin with experiences of other countries' military economic corporations.

2. Comparative Perspectives on Military Economic Corporations

The subject of the armed forces as direct economic actors in developing countries is an understudied one. Some attention has been

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- 1 The World Bank's representative did have access to certain records of the Sudan's Military Economic Corporation but the Bank did not consider its investigation a successful one.
 - 2 For the author, the personal help of William Brown, Director, United States Agency for International Development was crucial. I am also grateful to other USAID personnel, especially Ravi Aulekh. Needless to say, Sudanese military officers, within and without the military corporations, permitted and facilitated this study or it would not have occurred. I am also appreciative of the help of many Sudanese businessmen, lawyers, and bankers who spoke with me and with Jonathan Moore. I am also grateful for the help of present and former Sudanese officials who met with us. A number of Sudanese academics were most helpful. Princeton colleagues who collaborated

paid to the non-military use of armed forces -- that is, to civic action activities. Indeed, during the 1960s a literature proliferated on this subject. The idea was that militaries might win the hearts and minds of their peoples by reaching down to the grass roots as they engaged in road building, engineering and construction, health services or educational activities.³ Arguments were made that militaries could be modernizing forces in their societies because often they could better carry out non-military functions than could civilians. Military assistance programs were justified on the grounds of the civic action abilities of armed forces.⁴ Assertions aside, however, studies did not establish that the armed forces were the most cost effective agents of economic growth through civic action programs.⁵

Of course, analysts of militaries in developing countries have been aware that armed forces are large and important economic actors by virtue of the share of government budgets and gross domestic product that are spent on defense. Studies have examined the impact of defense spending on growth patterns and/or have examined the impact of military rule on

on a broader study of the Sudan facilitated my work, especially Mark Gersovitz and John Waterbury.

3 See, among others, Willard Barber and C. Neale Ronning, Internal Security and Military Power: Counterinsurgency and Civil Action in Latin America (Columbus: Ohio State University Press, 1966); Bernard Glick, Peaceful Conflict (Harrisburg: Stackpole, 1967); Hugh Hanning, The Peaceful Uses of Military Forces (New York: Praeger, 1967).

4 C. Windle and T. Vallance, "Optimizing Military Assistance Training," World Politics XV (October, 1962); Harold Hovey, United Military Assistance (New York, 1965).

5 I am not aware of systematic studies which have looked at armed forces' direct economic activities in comparative cost terms. Sketchy and often anecdotal evidence has been brought forward to show how high cost have been military road building activities in Nigeria and military rice growing in Mali, for example.

economic growth.⁶ Students of armed forces also have been aware that militaries have established defense industries in developing countries. Indeed, even where the private sector has been a major producer of arms, the state often is heavily engaged in defense industries in large developing countries. Both active duty armed forces personnel and retired or reserve officers have played a major role in those industries. This has occurred in the Republic of Korea and the Philippines. In India, the manufacture of arms is a state enterprise. In Egypt, Brazil and Argentina, the armed forces have at one time or another established enterprises which manufactured weapons of various degrees of sophistication. Many armed forces have set up corporations for procurement of uniforms or services to the military. This was true in the Sudan, among other places, even before the establishment of a Military Economic Board.

While observers of military-run defense industries have been aware of their importance, little systematic evidence has been gathered on the size of these industries or their impact on particular economies. During the most recent period of military rule in Argentina the armed forces ran up large debts through their corporations; featherbedding took place; and money flowed illegally abroad. But we do not have good data on the scope of these activities. Similarly, it is hard to know precisely how members of armed forces have benefitted either through access to state corporations generally or through the military's own enterprises, or through connections made by individual officers to private companies.

⁶ Jerry Weaver, "Assessing the Impact of Military Rule: Alternative Approaches," in Phillippe C. Schmitter, ed., Military Rule in Latin America (Beverly Hills: Sage Publications, 1979) pp. 55-116;

A good deal of anecdotal evidence abounds concerning public enterprises and specifically those of the armed forces. Analysts of state enterprises of the armed forces have accumulated material which illuminates institutional, class and ethnic relationships between officers and civilians mediated through business connections. At the institutional level, many officers have wanted a larger role for the state in the economy and some have wanted to intrude the armed forces specifically in the economy of their countries. Thus military officers often have pushed for expansion of the public sector and increasing centralization of decision making within the economy.

Brazil is an example. Despite the laissez-faire convictions of many of the military's civilian supporters, the major impact of the military's takeover was centralization of economic power. In Brazil, army officers have had administrative experience in public service; they have filled civic action roles; and they have managed industrial enterprises. The army provided top executives for the National Steel Company, for Rio Doce, a major ore producer and shipper, and for Petrobras, the oil monopoly. Air Force officers have been prominent in airlines and in factories as have naval officers.⁷ A greater role for state enterprises was consistent with the armed forces general strategy of increasing political and economic centralization.⁸ In Brazil, officers believed

R.D. McKinlay and A.S. Cohan, "A Comparative Analysis of Political and Economic Performance of Military Regimes," Comparative Politics, Vol. 8, No. 1 (October, 1975).

7 Bruce Drury, "Civil Military Relations and Military Rule: Brazil Since 1964," in George A. Kourvetaris and Betty A. Dobratz, eds., World Perspectives in the Sociology of the Military (New Brunswick: Transaction Books, 1977) p. 240.

8 See Peter Evans, Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil (Princeton:

that national security required a capacity to produce military equipment and required rapid industrialization. (This is a belief shared by officers in many developing countries.)

A number of military governments have carried out thorough and sweeping nationalizations. This was done under the Velasco regime in Peru in 1968⁹ and under Ne Win's Revolutionary Council in Burma in 1962.¹⁰ Of course, civilian regimes have also nationalized foreign enterprises, for example, in Cuba after the Revolution, and in Tanzania after 1967, among other places. In the Burmese case, by the end of the nationalization program in 1964, overall economic policy was directed by the Revolutionary Council's Socialist Economy Construction Committee made up of twenty-five officers and four civilians. Military management of the economy was comprehensive but military administrators were not effective in tasks of central management and planning. They lacked the specialized administrative skills to manage the economy and the individual enterprises that they tried to run.

The Burmese army had an explicitly modernizing ideology even before 1962 and it engaged in entrepreneurial activities prior to 1962. In 1950, it created the Defense Service Institute (DSI) as a nonprofit organization designed to supply through a department store consumer goods to soldiers. One year later it established a book store and subsequently

Princeton University Press, 1979) pp. 217-219.

9 For Peru see, Alfred Stepan, The State and Society: Peru in Comparative Perspective (Princeton: Princeton University Press, 1978); Abraham Lowenthal, ed., The Peruvian Experiment (Princeton: Princeton University Press, 1975); Cynthia McClintock and Abraham Lowenthal, eds., The Peruvian Experiment Reconsidered (Princeton: Princeton University Press, 1983).

10 For Burma see, J. Stephen Hoadley, Soldiers and Politics in South-east Asia (Cambridge: Schenkman Publishing, 1975) pp. 35-65.

set up the International Trading House to deal with government contracts and also established a Burmese Fisheries. By 1958 the DSI had become the largest and most powerful business organization in Burma.¹¹ Its subsidiary concerns dominated banking, shipping, construction and fishing. It became the largest importer in Burma. It entered the tourist industry. As a nonprofit organization, it was able to reinvest all profits. Most investment capital was provided by the DSI.¹² The DSI also received exemption from all duties, port fees and sales taxes. The government provided credit facilities and contracts for government business. The DSI engaged in partnership with foreign investors.¹³ In 1960, a new Government headed by U Nu modified the DSI and took over enterprises in the name of the Burmese Economic Development Corporation. Corporation members and chairmen were military. While control was shared with civilians who served ex officio on the board, the BEDC expanded and provided jobs for retired and active duty NCOs and officers.

After the sweeping nationalization of 1962-63, the BEDC and its subsidiary companies were handed over to government departments. Although the companies were no longer BEDC ones, the government gave added responsibilities to proven managers within the military ranks and appointed junior officers as their subordinates.¹⁴ However, military managers did not prove efficient or experienced. The economy steadily declined from 1962-1974.

11 Ibid., p. 162.

12 Ibid.

13 Ibid., p. 180, fn. 82. Also see Louis Walinsky, Economic Development in Burma (New York: The Twentieth Century Fund, 1962).

14 Josef Silverstein, Burma: Military Rule and The Politics of Stagnation (Ithaca: Cornell University Press, 1977) p. 156.

The large role of the Burmese military in its economy and the negative consequences of military intervention have not convinced other armed forces, including Asian neighbors, of the dangers of military economic expansion, although they may have persuaded Asian military leaders of the need for changes in the form and appearance of military economic interventions.

In Indonesia, as Crouch has argued, the army leaders believed that military rule would ensure the maintenance of political stability needed for economic development. Economic development, in turn, was oriented towards the elite and the white-collar-middle class.¹⁵ Officers had been heavily involved in commercial and bureaucratic activities even during the Sukarno Guided Democracy period. They increasingly came to dominate economic life in association with foreign investors and Chinese businessmen after 1966¹⁶ and they used "unconventional financing" of the armed forces.

The Indonesian military gave the impression that defense and security spending were being restrained in the interests of economic development programs, but in the late 1960s the government's official budget allocations were covering less than half of actual expenditures. The state oil corporation, the national food trading agency, and the huge retail trading corporation were placed under the control of senior army officers.¹⁷ In the regions, many enterprises were formed to supplement the funds of particular military units. Foreign capital was involved in

15 Harold Crouch, The Army and Politics In Indonesia (Ithaca: Cornell University Press) p. 273.

16 Ibid., p. 274-275.

17 Ibid., pp. 274-275.

expanding the oil corporation, whose funds were then used for many noneconomic purposes.

Pertamina, the oil company, was headed by a military officer, Ibnu Sutowo, who was responsible only to the military leadership although it was a state owned corporation. When in 1976 it was revealed that Pertamina was unable to meet short-term debts of about \$1.5 billion and had piled up more than \$10 billion in debts, Sutowo was replaced by another army officer. The military used Pertamina's funds free from bureaucratic controls and public accountability to distribute rewards according to political requirements.¹⁸

Bulog, the National Logistics Board, was another organization which was used to raise funds for armed forces personnel. Its responsibility was the purchase of rice for civil servants and members of the armed forces. Bulog also was supposed to create buffer stocks to stabilize rice prices. Bulog raised funds at low interest from the Bank of Indonesia and then deposited funds in private banks or subsidiaries of army controlled state trading corporations. Because the officers who controlled Bulog benefitted from the interest spreads, they did not purchase rice when they should have, keeping their money on deposit in private banks. Operations such as Bulog's did raise funds for the military but at great costs to the economy and specifically to credit markets.

Because some sections of the Indonesian armed forces were better placed than others to benefit from economic activities, the logistics units especially, the military leadership in 1969 centralized

18 Ibid., p. 282.

fund-raising activities within the army to "more rationally" allocate resources. Registered private companies owned by the army and coordinated by an army enterprise, PT Tri Usaha Bhakti, were established. This company, as we shall see, bears resemblances to the one established in the Sudan under the Military Economic Board. The affiliated companies in Indonesia included an automobile assembling plant, a battery factory, shoe factories, rice mills, an airline, and forestry projects. They were joint ventures with foreign enterprises. The system still remained decentralized though as army units set up their own foundations. The Strategic Reserve Command had a foundation headed by a Brigadier General who was both Chief of Staff of Strategic Reserves and General Chairman of the Indonesian Chamber of Commerce.¹⁹

The Indonesian case provides examples of important consequences of military engagement in commercial activities for the armed forces themselves. The increasing commercial orientation of some officers led to more professional officers being disturbed by the damage done to the military's reputation. And, this occurred in a country where the tradition of officers obtaining benefits rather than salaries was well established. Moreover, as officers appointed to corporations also became involved with Chinese businessmen, some nationalist-minded soldiers objected to these associations and to those with foreigners. Reform-minded sections of the army attacked the widespread corruption. Thus, splits opened up in the military, as they have to lesser extent in the Sudan, over the issue of sections of the officer corps having access to unofficial revenues.

19 Ibid., p. 283.

In Indonesia, even after the official military budget trebled from 1969-1973, military men continued to use their positions to pursue personal business. Growing disaffection by students and other civilians surfaced. Indigenous entrepreneurs suffered from the army's alliances with foreign businessmen and with Chinese. Businessmen's discontent was expressed through Moslem Brotherhood groups who opposed the imports of foreign goods through military controlled corporations.²⁰ The Indonesian military also penetrated the public service. A survey in late 1979 found that 19 of the 63 director-generals of the civil service were military men and about half of the secretaries-general were from the armed forces.²¹

This penetration of the public service has also occurred in South Korea and Taiwan where the armed forces have allowed civilian technocrats much more leeway in developing and implementing economic plans than in Indonesia and Burma. In Korea and Taiwan the armed forces have been less directly involved in economic activities although not absent from them. The penetration has been a broad political one. In Korea, in 1969, six years after the military regime of General Park handed power to an elected government headed by himself, 40 out of 95 Cabinet members had professional military backgrounds; 10 out of 11 independent regulatory commissions and 33 out of 44 publicly financed enterprises were headed by

20 This kind of business discontent appeared in the Sudan too as many private traders felt squeezed by the Military Commercial Corporation which operated there. Whether this discontent was expressed through the Moslem Brotherhood organization in the Sudan would be interesting to know.

21 Ho Kwon Ping, "The Men on White Horses Now Ride A Tiger," Far Eastern Economic Review, April 11-17, 1980, p. 43.

former military officers.²² By the time of Park's death in 1979, 15 out of 33 government enterprises still were headed by men drawn from the military and 5 out of 24 cabinet members were former military men. But enterprises were not used as tools of the armed forces for budget purposes or to skim, although they did provide jobs for former soldiers. The highly centralized Economic Planning Board has always been civilian dominated.²³ And while the military's presence was felt in state owned and in private enterprises, it did not control the economic bureaucracy. Only one out of nine economic planning ministers from 1960-1979 was a former military officer.²⁴

In Korea, the movement of retired officers into both public service corporations and into the private sector has been striking. Almost three quarters of the manpower in Hyundai Construction Company had a military background.²⁵ But the assertion has been made that retired officers are used by the private sector more as lobbyists than as managers.²⁶

In Thailand, as in Indonesia, the military has engaged in activities that were illegal by stipulation of the criminal code although not necessarily by accepted norms, while it also engaged in legal activities.²⁷ Partnerships with Chinese businessmen have been common. Officers also have sat on boards of directors of government enterprises

22 Ibid, p. 36.

23 Ibid., p. 42.

24 Ibid.

25 C.I. Eugene Kim, "The Military and National Development in South Korea," in Armed Forces and National Development, The Proceedings of the 1st Wharangdae International Symposium, September 20-22, 1981, Seoul, Korea, p. 278.

26 Ping, op. cit., pp. 41-42.

27 Moshe Lissak, Military Roles In Modernization: Civil-Military Relations in Thailand and Burma (Beverly Hills: Sage Publications, 1976), p. 100.

controlled by various ministries. And economic enterprises have been owned directly by the Ministry of Defense or by individual military units.²⁸ Demobilized soldiers benefitted from these enterprises. The War Veterans Organization combined the roles of holding company, welfare organization, and finance company for old soldiers.²⁹ The Thai pattern has been one where the military's involvement in the economy is pervasive but informal and more subtle than in Indonesia. It extends patronage and protection to Sino-Thai entrepreneurs.³⁰ The Thai military in 1980 controlled formally the Thai Military Bank, but individual officers had ties to commercial banks.³¹ The Ministry of Defense was in charge of state enterprises in glass, textiles, batteries, food, which produced for military consumption. The airlines have been under airforce control. The informal military-business connections are octopus-like.

There is clearly a correlation between an armed force's political power and its economic expansion. Thus when the Philippine army became the pillar of the martial law regime, officers began to play greater economic roles. But even now the Philippine military has had a more circumscribed economic role than its Thai, Burmese, or Indonesian counterparts. However, increasingly, retired officers go into private business or public enterprises. This is a means of shoring up military support in the civilian sector.

In Turkey 1961, soon after the 1960 coup, the Army Mutual Aid Society (OYAK) was established. It originally aimed to create a pension

28 Ibid., p. 101.

29 Ibid.

30 Ping, op. cit., p. 44.

31 Ibid.

program to mitigate the economic insecurity officers had suffered during the rapid inflation of the 1950s. But military managers held retirement benefits well below the rate of inflation in order to plow back profits into investments. OYAK became the country's largest and most diversified industrial conglomerate.³² All regular commissioned and noncommissioned officers were required to contribute 10% of their salaries to the fund. More than 80,000 men were paying in. On retirement they got what they paid in plus 5% interest until 1970 when the interest rate was raised to 7% and then to 10%. But even then the interest rate did not approach the rate of inflation.

By 1973, OYAK had assets of over \$300 million and it owned shares in a wide range of industrial corporations, including 7% of Goodyear's Turkish subsidiary, 42% of a Renault factory, and it controlled an International Harvester distributionship. The rate of return reported for OYAK's investments was high, averaging 17% between 1960-1972. It also sells goods at discount to army personnel, through Army Bazaari. It has been run as a corporation by civilian managers and technocrats although it is attached to the Ministry of Defense.³³

Even a cursory look at experiences in a number of Asian and Latin American countries shows that armed forces frequently establish not only defense industries or service industries for military personnel but also get involved deeply in commercial and manufacturing enterprises both directly and via alliances with civilians. These activities often prove

32 Robert Bianchi, Interest Groups and Political Development in Turkey (Princeton: Princeton University Press, 1984) pp. 70-71.

33 Feroz Ahmad, The Turkish Experiment in Democracy, 1950-1975 (London: C. Hurst & Co., 1977), pp. 280-281.

costly in terms of budget allocations and the piling up of debt. It is hard to control military enterprises and to make them account for expenditure patterns. Involvement by officers in the economy is not random and disaffection within the military occurs over uneven access to commercial rewards and over the issue of unprofessional behavior by some officers. Civilian groups become disaffected too.

Large scale military-run commercial enterprises have been less common in Africa than in Asia or Latin America, although civic action activities have been numerous and some defense enterprises have been created in Nigeria. Most African armed forces have not been large or elaborate enough to be able to aspire to establish and run commercial-activities of a large-scale. Egypt and Sudan have been exceptions and we turn to the latter's experience now. Since African armies are growing in size and complexity, the Sudanese case may be more of a harbinger of the future than an anomaly. If so, it is especially interesting to learn from it.

3. The Creation of the MEB

The Military Economic Corporation (MEC) was established by the Law of the Military Economic Corporation of 1982. Prior to this time, the Sudanese military had some cooperative corporations which provided soldiers with certain goods and also was engaged in road building, relief work and some transport work in the civilian sector. What was new as of April, 1982 was the determination that the armed forces would work on a commercial basis in the economy. The elaboration of the justification for the MEC (later titled the Military Economic Board or MEB), which was the directorate for the bevy of military corporations

that came into being, was made by President Nimeiri who was also Defense Minister in 1982 and Commander in Chief of the Armed Forces.

The President claimed that the Sudanese armed forces had surplus resources which should be utilized for commercial purposes. This claim was not substantiated nor was it self-evident. The Sudan's armed forces as of 1982 were about 60,000. Along with being a participant in the struggle against Israel, albeit a passive one, the Sudan faced situations of conflict on all its borders. The borders between Sudan and Libya and Sudan and Ethiopia were unstable and Sudan's relations with these countries were hostile. The border with Chad was also unstable given the Chad Civil War. Uganda and Zaire to the south were hardly bastions of stability. Thus Sudan had real security problems. Moreover, although the Civil War in the south of the Sudan had not broken out by spring of 1982, relations between north and south were uneasy and substantial numbers of troops were garrisoned in the south. If the Sudanese military had excess capacity it was perhaps because it could not perform all its security functions in any case rather than that those responsibilities did not exist. Few officers related MEB activities to security functions although one informant stated that the armed forces had to be in the Western Sudan so they might as well develop agricultural potential there.

The MEB was formed by a provisional act of the People's Assembly and individual corporations were formed by memoranda of association issued by the commander in chief of the army under the umbrella of this act. Seven corporations were formed: Trade, Transport, Industry, Agriculture, Banking and Insurance, Housing, and Services (medical and education).

The MEB was considered a fourth board of the armed forces along with operations, administration and supply.³⁴ The official aims of the MEB included providing for requirements of the armed forces and raising standards of living of armed forces personnel, and to bring down prices in the market by engaging in economic activities, as well as utilizing the aforementioned excess capacity. The idea was propounded that the military could build a strong economy, indeed, the economy could even flourish under the protection of the armed forces. At the same time, the armed forces required a healthy economy for their own well being.³⁵ Although the initial statement of goals of the military corporations did not state that an aim was to cover the expenses of the Ministry of Defense and relieve the state budget of some defense expenses, this was indeed an objective articulated over time by various MEB spokesmen, including the President.

The official view of the MEB, spelled out in the formal documents which established the military corporations, and in the press releases from official government organizations, including the corporations themselves, is not, of course, the only set of views on the establishment of the MEB. There is a view which is almost entirely negative about the military corporations. This includes seeing them as hostile to the private sector in origin, predatory in their nature, and used by the President and other officials for skimming. There are a number of views

34 The structure of and justifications for the MEB and its corporations can be found in the following: Salah Ali Fath El Rahman, Mohamed Mubarak Salih and others, "A Study on the Organizational Structure of the Military Economic Board," Management Development Centre, Young Executive Programme, Khartoum, June 1983. Various newspaper interviews with Zubeir Rajab, Head of the MCC.

35 Interview with Zubeir Rajab in Al Ayyam.

emanating from private business and state officials which are more mixed; a given individual might see some corporations as essentially harmful and corrupt, whatever the reasons for the origins of the endeavors, but other corporations as possibly useful. Military men themselves differed about the utility of the MEB enterprises, as did civil servants. Some people interviewed knew a great deal about the operations of a particular corporation but little about others. Disputes abounded as to facts concerning the size of enterprises and their activities, not to say the whys and wherefores of the corporations.

Some individuals embedded their views about the MEB within a wider analysis of the role of the private sector in the Sudan and/or a view about the utility of continued rule of General Nimeiri in the country. Others had a narrow focus on the efficiency or inefficiency of the military in running commercial companies.

It has been argued by some that President Nimeiri was committed to the MEB but in the context of a vibrant private sector. It is said that he established the MEB not because he was disappointed with the role of the private sector, nor because he had a philosophical or ideological predilection for it, but as a necessity. According to this line of argument, Sudan was going through a critical economic situation, foreign exchange was tight, there was an imbalance in the budget, but demands in the military were increasing in terms of numbers of employment, salaries, armaments. These coincided with the foreign threat from Libya and Ethiopia and internal problems in the south. There was an urgent need to meet the requirements of the armed forces and from other sources than from budgetary allocations or from foreign exchange allocations done by the Bank of Sudan. So the idea of generating extra income to the armed

forces came about. Moreover, according to this view, it made sense to use the abilities of the armed forces for civilian activities.³⁶

Individuals who were completely negative about the MEB said either that Nimeiri believed that the private sector was full of exploiters, blackmarketeers and opportunists while officers were not corruptible or that Nimeiri had little use for the private sector and while he did not not necessarily hold a greater belief in the military as an economic actor, he wanted to allow officers (and himself) to make profits. The "enriches vous" line has been set forth most pungently in Mansour Khalid's Nimeiri and the Revolution of Dismay. Khalid accuses Nimeiri of setting up the MEB and putting in charge one of his cronies, Zubeir Rajab, a former railway official, and even opening up the Army to grabs by making Rajab a general. Khalid goes so far as to see the establishment of the Military Economic Corporation as Nimeiri's tool to corrupt the Army. "As he had destroyed it professionally, it should now be destroyed morally."³⁷ Khalid argues that Nimeiri appealed to NCOs and enlisted men against their officers by accusing the latter of inefficiency and lack of regard for the former and that the MEB was designed to speak to the concern of NCOs and enlisted men for a better standard of living. Whatever the intention, the military corporations did little, as we shall see, for enlisted men and NCOs either by way of employment or improvement of their conditions.

36 Interview with Ahmed Salim Ahmed, at the Al Baraka Bank, Khartoum, January 1984. Mr. Ahmed was Minister of Commerce from 1979-1983. Prior to 1979 he served as Economic Counselor at the Embassy of Sudan in the United States.

37 Mansour Khalid, Nimeiri and the Revolution of Dismay (London: KPI Limited, 1985) p. 222.

At the time of the creation of the MEB, President of the Republic Nimeiri was also Defense Minister. He, like many in the military corporation structure, wore two or more hats since specialized personnel were scarce in the Sudanese army. Individuals retained their active duty military positions but split their time with the military corporation to which they were posted. The corporations did hire specialized personnel from the civilian sector. The number of military personnel engaged in the corporations was not large, however. All these give the lie to the excess capacity argument, and to the idea that the size and diversity of the armed forces gave it advantages as an economic actor. Additionally, despite the view that was widely held inside the Sudan, including in USAID/Sudan, a view promulgated by Zubeir Rajab, chairman of the Military Commercial Corporation,³⁸ that the MEB was operated by retired officers, no longer active duty officers were not present in large numbers in the military corporations.³⁹ At various times the manager of a particular corporation was junior to some of his directors of companies with respect to military rank; some chairmen of corporations were also managers but

38 It is indicative of the confusion surrounding the military corporations that Zubeir Rajab has been given different titles by Sudanese spokesmen themselves. Thus in a press conference held in June, 1985, after the fall of Nimeiri, the new Minister of Finance and Economic Planning referred to Rajab as Chairman of the Military Corporation (presumably MEB) as a whole. This was corrected to refer to Rajab as chairman of the Military Commercial Corporation (MCC). Development Business Digest, No. 2, July, 1985, p. 9. In January, 1984, the armed forces newspaper, Elquett Elmusahafa referred to Rajab as Director General of the MCC. The MCC was often confused with the overarching Military Economic Corporation (later Board) because it was so important in the total scheme of the corporative structure.

39 See Briefing Memorandum for the Administrator, "Sudan Recent Developments and the Military Economic Board (MEB)," no date, Khartoum, by W.R. Brown, Director.

this was not true of all chairmen.⁴⁰ Thus the structure of personnel management of the corporations was not clearly worked out in military terms.

Also, the relationship of the Military Commercial Corporation to other corporations and to the MEB was not clear in the minds of many Sudanese. This was in part because the role of the MCC chairman, Zubeir Rajab, as a close personal confidant of President Nimeiri, was not constrained by organizational boundary lines.

The MEB, as a functioning board with control and directing responsibilities came after the military corporations were themselves actually in place. Zubeir Rajab sat on the Board of the MEB as Chairman of the Military Commercial Corporation but was criticized for speaking for all the MEB and became identified with the MEB itself, which was not exercising tight control over the military companies.

The Board of the MEB was composed of twenty two members. It appeared that Zubeir Rajab did function as a kind of chairman of the board, at least for a time. The board was composed of chairmen of the military corporations and President Nimeiri. All but Rajab were military men. Four chairmen of corporations were major or lieutenant generals while the managers of the corporations were mostly brigadiers or colonels. But again, the Military Commercial Corporation was anomalous because the managing director of Cooptrade was Sayeed Mirghani Mohammed Salih and the managing director of Khartoum Trade and Shipping Company was Sayeed Idris Metwali -- both civilians. Coptrade and Khartoum Trade were companies within the MCC.

40 Salih, et. al., op. cit.

As we shall see, the managers did tend to be military specialists in their field. There are about thirty managers in all the corporations and the number of officers in the corporations has been put at between fifty and one hundred with noncommissioned officers at three hundred but the figures vary depending on with whom one speaks.

For the first two years of the MEB, President Nimeiri functioned as Chairman of the Board in his capacity of Defense Minister. He kept an office at the MEB, although as one high ranking officer said, "He keeps an office everywhere." In 1984, President Nimeiri ceased to function as chairman of the board and ceased to play an active, open role, even before he gave up the Defense Ministry in early 1985 to the present head of State General Swar el-Dahab.

One high level officer insisted that President Nimeiri refused to intercede with ministers for the military corporations. This officer said that President Nimeiri was able to split himself into different roles. When he was chairman of the MEB he wore one hat and when he was President he thought of the nation as a whole. "He put on his Presidential hat and took off his MEB hat." When I asked if he could think of a decision where the President contradicted himself or changed his mind this officer said that in the minor case of a retirement of a manager President Nimeiri had countermanded MEB head Nimeiri.

The senior officer at the MEB as director General was Lt. General Mustapha Khalifallah who came to the MEB towards the end of 1984. General Mustapha Khalifallah was an experienced military officer. He has been Commander of the Western Command, Fifth Division and before that Director of Logistics and Administration. He had been Commander of

Armour Corp for five years and prior to that he had been Military Attache in Egypt.

One aim in having a respected General direct the MEB was to provide oversight over the MCC and to diminish the visibility of the chairman, Zubeir Rajab. However, the salience and visibility of the MCC was not just a function of the personality of its chairman and of his ties to President Nimeiri. It was also the case that the MCC was supposed to carry out financing activities vis-a-vis other corporations and it was supposed to be a lynch-pin among corporations in trade. Thus while the relationships remained highly personalized and blurry among the corporations, and the MCC was the only corporation headed by a civilian who was then given military rank, it was also true that certain of its functions gave the MCC power.

After President Nimeiri was replaced in April, 1985, Zubeir Rajab was arrested and the MCC was accused both of corruption and of being part of the National Security apparatus. Other heads and managers of military corporations were not arrested. While it is true that the MCC was the most controversial of the military corporations, it is also true that because the MCC was headed by a civilian, he and it were more vulnerable to the attacks in the post-Nimeiri period.

One interesting line propounded by the Development Business Digest was that military heads of corporations were preoccupied by military duties and thus did not pay attention to the affairs of their corporations. This is simply not true for many officers who spent a great deal of time at corporate headquarters. It was also asserted that being a civilian, Rajab had greater access to the President of the MEB

(Nimeiri) this is another curious line of attack which whitewashes military officers.⁴¹

When the corporations were set up, it was stated that the MCC would undertake trading and marketing activities on behalf of sister corporations. And, corporations would supply each other with goods. This turned out to be the case infrequently since many of the corporations had not got very far off the ground by 1984-85. However, there were important exchanges between the corporations with respect to financing and rents and other expenses that remained fuzzy and unaccounted for so that it was extremely difficult to make sense out of profit and loss accounts of individual corporations.

It was through financial control and auditing procedures that discipline was to be exerted upon individual corporations by the MEB. However, financial accounting procedures were delayed. The Auditor General of the MEB is Major General Beshir who is also Deputy for Financial Affairs Administration in the Armed Forces. The Public Relations officer and Secretary for the MEB was Brigadier Haggar was a trained accountant also involved in auditing procedures but busy with public relations.⁴² There is also a Deputy Auditor, who worked with Brigadier Haggar, and presumably with Major General Behsir, doing internal audits. He is Colonel Salah. Their staff was only three, two of whom were accountants, for the seven military corporations and they had no budget for recruiting.⁴³

41 See Development Business Digest, No. 2, July, 1985.

42 Brigadier Haggar worked fourteen years as an accountant, dealing with cooperative corporations within the armed forces.

43 The staff consisted of two captains and a lieutenant, all active duty officers.

4. The Military Commercial Corporation

The Commercial Corporation (MCC)⁴⁴ has been the most controversial of the military corporations. The objections to the MCC have been many: that it was given monopolies; that it was a way of simply getting quick profits through commissions on deals brokered by the state; that if the military did, in fact, have managerial skills, these were not required in the trading sector where private traders had been functioning well for decades. The objections to the MCC came from public sector officials as well as private businessmen.

Most of the criticisms from the private sector were aimed at the MCC rather than at the other corporations. This was because the MCC was involved in trade competition with the private sector, because it was large, and because it had both monopolies and access to foreign exchange. Also, some of the other military corporations were barely functioning.⁴⁵

In general, the military corporations loomed large only for a few private businessmen in their complaints against the Government of the Sudan. For most businessmen, skilled labor and material shortages, transport bottlenecks, high cost of foreign exchange, unpredictability of

44 The MCC is sometimes referred to as the Military Trade Corporation.

45 I would prefer not to ascribe specific points to individuals. In the course of three research trips to the Sudan, interviews were held with the following people: Ahmed Ibrahim Talab, of Talab Industries; Osman Haimora, Assistant General Manager of Mamoun Elbereir Company, Ltd.; Osman D. Latif, one of the owners of Sudanese Tractor; President, Sayres and Colley; Mr. Abdel Karim Abbas, former chairman of the State Trading Corporation and the Gezira Corporation; Dr. Kambal, of Kambal International Agencies; Ahmed Alwafi, Director of Administration, The Arab African Institute for Development of Agriculture; his assistant, Mr. Bileil; Mamoun El Sayeed, Deputy Director Chairman of Kenana Sugar and former Minister of Industries; Mr. Sakran, Director, Bank of Khartoum. Interviews were also held with military officers and with civilians in the military corporations.

government's actions, licensing, smuggling, usually were more important concerns. Indeed, some businessmen had adjusted to the reality of military corporations and had business dealings with them.⁴⁶ They were able to deal with MEB officials through personal ties and thus indirectly get licenses they formerly had been frozen out from by civilian public sector officials.

Some businessmen noted that Coptrade, as a nationalized corporation, prior to becoming part of the MEB, had needed the private sector for distribution and continued to need this sector. For businessmen who now had dealings with Coptrade, they were "just another importer." Those who were doing business with the MCC companies asserted that these companies had no special treatment or preferential access to foreign exchange and acted like other public corporations or even private companies and were in fact complementary to the private sector, offering services that private companies would not undertake. Examples given were transport to high risk areas and investments in agriculture. Indeed, some businessmen who dealt with MCC importers let them import foreign goods and then purchased the goods in Sudanese pounds, thus minimizing their foreign exchange risks. Such businessmen did admit that Coptrade and other MEB companies had performance problems, especially with the United States grain trade.⁴⁷ Public corporation officials also noted the performance

46 SUNA reported on March 8, 1984 that Khider Esh'Sharaf, a Sudanese businessman, offered to contribute to the activities of the MEB companies. Sudanow, Maharrum 1405/October, 1984, p. 22 noted that Fath el Rahman el Beshir (an earlier critic) of Sharaf International; Ibrahim Talab, and Samir Gasim were now collaborating with the MEB.

47 Against the advice of USAID, and the U.S. Embassy, the Ministry of Commerce Cooperation and Supply contracted with the MEB for handling and transportation of Title I wheat. The arrangement was covered by

problems of the MEB and echoed many of the complaints of those private sector businessmen who were negative about the preferential treatment for the MEB companies. In addition, public officials had "turf" conflicts with the MEB. Interestingly, public sector officials who dealt with the MEB were the most sceptical about MEB technical expertise. One said: "They are a most unprofessional body. They don't know how to do feasibility studies. They don't know how to structure a project."

In various ways, the MCC was the lineal descendant of the old British trading company Mitchell Cotts. The MCC, along with the MEB staff headquarters, and the Military Industrial Corporation, inhabited the site and offices of the Mitchell Cotts building in downtown Khartoum. The Managing Director of the MCC, Mr. Osman Abd al-Halim, had been an employee of Mitchell Cotts since 1943. He was salesmanager of the company before nationalization. After nationalization, he stayed on, working his way up the administrative hierarchy. When Mitchell Cotts was dissolved into three companies, Halim became managing director of Kordofan Trading Company. This company, and another unit, Khartoum Corporation, were under the aegis of the Ministry of Commerce after nationalization. They had been registered or incorporated as private companies under the company law of 1925 but became public corporations 90% owned by the government and 10% by a commercial bank. Another unit in the MCC was Coptrade which had been once a private corporation and then a public sector corporation associated with cooperatives and subsequently taken over by the MCC.

public advertising and tendering but the military corporation proved unable to move the wheat from Port Sudan to Khartoum. It moved only 6,000 out of 160,000 tons. Nonetheless, the Ministry of Commerce

Officials in the Ministry of Commerce were unhappy about the movement of companies from them to the MCC which was a change not in the legal status of the companies, but in the share shift which now went to the military. Most of the staff stayed on including Halim. A brigadier general, Abdullahi Hassan, who was an engineer, became the deputy managing director to Halim. The aforementioned Zubeir Rajab became head of the MCC, the only non-military person to head a military corporation. But while private sector people and Nimeiri's enemies, like Mansour Khalid, tended to see Rajab merely as a Nimeiri crony who had been put in charge of the MCC, he had been general manager of Coptrade and thus in a sense was part of the Ministry of Commerce staff that moved to the MCC, although Rajab had not been an old Mitchell Cotts official.

The official justification for the establishment of the MCC was that the Corporation had been formed in 1982 out of three decaying companies from the public sector. Furthermore, it was asserted that the MCC competed as simply another corporation in the marketplace, and that it did not have preferential access to scarce foreign exchange. It was also claimed that the MCC provided the armed forces with goods, and financed other military corporations.⁴⁸ It was also asserted that the MCC through its connections with companies based in the Gulf was able to establish new companies with capital of \$74 million that would operate right away,

awarded another contract for movement of Title III wheat to the MEB companies.

48 Interview of the Chairman of the Board of the MCC and General Manager of the MCC, Zubeir Rajab with Al Ayyam, mimeo, nd.

including the African Drilling Company⁴⁹ and Al Dhabi Drilling company. Many of these claims were dubious ones.

According to the former Minister of Commerce, Ahmed Salim Ahmed, it was not fair to say that Kordofan had done badly under the Ministry of Commerce. It has been a weak private company but was improving as a public corporation. Profits in Khartoum company had been good. The former Minister was unsympathetic to the switch to the military. The idea of military corporations certainly did not come from either Commerce or Finance.⁵⁰

The military might be all right for road building construction but not for trade. Both private and public sector actors felt that by taking over trade companies, the MEB, through the MCC, had immediate access to capital and access to finance and foreign exchange through Rajab's own ties to the President whom he could reach with a phone call.

The reputation of the MCC was further called in question when it established companies whose functional responsibilities might be thought to lie elsewhere on the MEB organizational chart. Other companies established under the MCC, along with the original three base companies (Khartoum, Coptrade and Kordofan) taken from the Ministry of Commerce, were: The Food Security Company; which became a large bakery producer, producing more than 700,00 loaves daily; the African Drilling Company; the Modern Plastic and Pottery Company; the National Production and Marketing of Cattle and Meat Company; Wafra Chemicals; Modern Electronics

49 African Drilling Company for a time had American equity in it through Blocker Corporation of Houston.

50 Interview with former Minister of Commerce Ahmed Salim Ahmed, Khartoum, January, 1985.

Company; Red Sea Navigation and Services. Africa Drilling Company, for example, was set up as a joint venture under MCC when it might have gone to the Military Housing or Military Industrial Corporation. It appears that the capital sources, as well as access to foreign capital, and political power led to this joint venture being placed under the MCC.

MCC officials claimed that they tended offers like any other company with no advantage given to them. Its National Company for the Production and Marketing of Livestock and Meat received the bid for supplying the Egyptian market. It was given sole import rights for textiles and pharmaceuticals from Egypt. The MCC set up commercial relations offices in Egypt, United Kingdom, Morocco, Switzerland, United States and intended to do so in South East Asia. In London, a Sudanese purchasing office was closed and then reopened under MEB auspices.

Egypt looms large in the story of the MCC and more generally of the military corporations. Egypt was close at hand geographically and ties between the two countries and their militaries were and are close. The origins of Egypt's own parastatal sector lie in the munitions industry developed during World War II. There has been for many years a Ministry for Military Production closely tied to the Ministry of Defense which owned (as of 1981) fifteen companies and employed 46,000 people, mostly civilians. There is also the Arab Industrial Organization which was originally created to manufacture under license a range of military equipment for the Arab world. (This became an Egyptian affair after Camp David.) And, there is the Armed Forces Agency for National Products

created in Sadat's last years which is involved with construction, farming, and equipment for the civilian sector.⁵¹

The MEB was not constructed from Egyptian models, although officers were aware of Egyptian experience. Indeed, one officer said explicitly that Egypt used its military corporations to "receive" military men but the Sudan did not. There does not seem to have been a systematic inquiry into the experience of Egypt's military as an economic actor. Some military men did go to the Yemen Arab Republic to study the role of the equivalent of the MEB, but they did not bring back a model for the Sudan. Sudanese soldiers were aware of the civic action activities of armed forces in Latin America and Southeast Asia. But they did not think these activities had been necessarily commercial ones. That is, officers who were aware of military economic activities in other countries contrasted civic action efforts with the idea of military commercial corporations acting to make profits.

Egypt, however, did come into the picture in the operations of the MCC at its inception. The MCC took over Khartoum Company which then executed trade protocols between Egypt and the Sudan and supervised trade through an office in Cairo. The MCC also became very directly involved in what had been private sector trade with Egypt. In the name of breaking a private monopoly, the MCC itself took a monopoly on this trade.⁵² There was an outcry in the private sector and the MCC monopoly

51 I am grateful to my colleague, John Waterbury, for this information.

52 It has been asserted that the Egyptians did not want to deal with the nine families that controlled the watermelon seed trade. Now there are 13 families in the trade, and 4 are families of retired officers. The Egyptians, for their part, had a public sector company trading with the Sudan and were not, apparently, happy about dealing with the MCC on trade. The MCC insisted that Egypt had

was reversed. The MCC, however, was to try to create monopoly positions in trade on other occasions. Government banned the importation of Benson and Hedges cigarettes on grounds that B&H was invoicing incorrectly and also on grounds of the tar content in the cigarettes. The idea was that the MCC brand of imported cigarettes, Silkcuts, would expand their market. It turned out that consumers boycotted Silkcut and local manufacturers increased their market share.⁵³

The MCC claimed that its trade margins were low, even when it dealt with military corporations, because it bid low. The MCC did about 80% of its trade with the private sector; 10% with the military and 10% with public corporations. The MCC wanted to establish its own producing companies; it was not content merely to trade. One of its leading companies was Wafra Chemical and Techno-Medical Services Company, Ltd. It had a civilian manager, Mr. Moo El Gaaly who graduated in political science from Khartoum University and who also had a background in business.⁵⁴ Army officers sat on the board of this company and they tended to be technocrats. Mr. El Gaaly was committed to the idea of using military discipline in civilian organizations, especially in the public sector. He believed that less bureacuratic, more efficient and dynamic organizations were needed in the Sudan. He essentially put together Wafra from scattered divisions within

dictated prices on watermelon seed trade prior to the MCC involvement and the MCC made it possible to negotiate better terms with the Egyptians.

53 Interview with Anise Haggar, Head of Haggar Enterprises (a large tobacco manufacturer), Khartoum, January, 1985.

54 Moo El Gaaly had been in business working for a chemical firm in Nigeria. His father-in-law was Honorary Counsel in Nigeria and through visits and connections he made contact with Sudanese military people.

different public corporations. The idea was first to provide for the army but then to branch out to the commercial sector which it started to do. Wafra planned a drug factory, and has lines in connection with the Military Service Corporation which deals in medicines. It imports via American Cynamid and Sandoz. Wafra buys foreign exchange on the free market; drugs are freely licensed so Wafra can import without licensing restriction. It is a member of the pharmaceutical union of businesses.

When the Ministry of Commerce cut pharmaceutical margins down from 15% to 10% Wafra suffered like other firms and it was difficult for them to continue. Wafra had to contract their size from 140 employees. Wafra took this up with the Ministry of Commerce and they replaced the lost 5% margin for all pharmaceuticals, not just for Wafra. Here was an example where a military corporation claimed that it acted in the interest of private sector firms as well as out of self-interest. Whatever the merit of this claim, Wafra has so far basically imported medical lines, not produced them domestically.

5. Private and Public Sector Complaints About the MEB Corporations

We have already noted private sector complaints, aimed largely at the MCC, over trade monopolies and performance abilities.

One criticism of the MEB companies heard over and over again from the private sector was that they entered the market for foreign exchange and thus pushed up the price for that good.⁵⁵ But this criticism is not specific to military companies which, unless they have preferential access to foreign exchange, act like other bidders in a market which was,

⁵⁵ One businessmen said that the MEB purchases reached five million Sudanese pounds a week in foreign exchange in 1984.

from time to time, open for foreign exchange purchases. Accusations were made, however, that the MEB companies were given foreign exchange at lower than black or free market rates. Heads of military companies answered that they had to apply like everyone else for foreign exchange when they sought it through official channels at official prices. Indeed, it was even said that the word came out from the Presidential Palace at one point when the black market price of foreign exchange was rising rapidly that the military companies should desist from bidding for foreign exchange for a time to lessen the pressures on price. It was claimed by some officers that the MEB companies suffered in this fashion and were disadvantaged in competition. On balance, this seems unlikely to have been the case.

Commercial banks, which were mostly government banks, preferred to deal with the Ministry of Commerce rather than the MEB. They seemed to have some uneasiness in dealing with the military. But bankers in interviews did not admit that MEB companies received preferential access to foreign exchange.

Private and public sector officials complained that the military companies offered comparatively good terms of employment. It was argued that they were high cost employers and also overstaffed. They could afford to do this because they did not have to account in profit and loss terms. They had no bottom line and received subventions from each other and from the treasury. There appears truth to these accusations. Funds were channeled from company to company. Auditing controls have been weak. Furthermore, while military corporation officials asserted that they did cost out the employment services of enlisted men on their roles, this was not the case always. Sometimes military transport was used

which was not fully costed. When fuel was scarce, military corporations had access for their vehicles. Free maintenance for transport was provided at military bases.

Claims were made of outright corruption on the part of military officials who dealt with foreign partners. Claims also were made that the military bought up companies at higher offering prices than required and then split the profits with the seller. Some people interviewed thought that corrupt activities were much more important than inefficiency since the MEB companies had only been in existence two years or less and could not be expected to run efficiently.⁵⁶

6. Military Views of the MEB

The matter of corruption raises the issue of the armed forces' own views about the military corporations.⁵⁷ In other countries, the large scale military engagement in economic activity, both of a civic action variety, commercial activity by military enterprises, and hidden or open partnerships with domestic or foreign businessmen, have tended to split the armed forces by function, access to resources, views about

56 Mansour Khalid, *op. cit.*, pp. 382-383 makes many accusations about corruption under Nimeiri. He asserts that the MEB deposited \$600,000, presumably for the Silkcut deal, in a London bank for security purposes.

57 My views concerning the armed forces' attitudes toward the military corporations in the Sudan are based on interviews with Sudanese line officers, staff officers, and military personnel in the corporations. The last included both specialized personnel and general administrators. All told, I met with the military heads of almost all corporations, the Head of the MEB, Lt. General Mustafa; and a number of serving officers. Interviews were carried out in military barracks, MEB headquarters, and at company offices. I met with about 25 officers above the rank of Lt. Colonel, including retired officers. Interviews were also carried out with United States Embassy and USAID officials as well as with individuals in the international donor community and the Sudanese public and private sectors.

corruption, and degrees of professionalization, and ideas concerning the armed forces' missions. This is not invariably the case, however. In Thailand, widespread participation in and tolerance for corruption have in the past played a crucial role in maintaining military cohesion. Participation in corrupt activities cuts across factional and personal cleavages to produce common requirements for mutual protection. When no one is clean, no one can complain.⁵⁸

Thus, apriori, one might argue that there could be wide tolerance within the armed forces in Sudan for MEB activities, including corrupt ones. Indeed, accusations have been made that the Sudanese military has engaged in corrupt activities and these accusations have occurred prior to the establishment of the MEB. One analyst has asserted that military officers were able to acquire restricted public land for their own benefit or that of their relatives. It has been claimed also that Sudanese military personnel were involved in affecting allocation of import licenses for money.⁵⁹

In fact, some officers did articulate the view that corruption exists not only in the military but also in other public sector corporations and in the private sector and that corruption had to be related to general community values. Moreover, officers themselves said that even if the Sudan did not have military corporations the military was open to corruption through its economic activities. One officer

58 Henry Bienen and David Morell, "Transition From Military Rule: Thailand's Experience," in Katherine Kelleher, ed., Political-Military Systems: Comparative Perspectives (Beverly Hills: Sage Publications, 1974) p. 15.

59 Nichole Ball, "The Military in Politics: Who Benefits and How?" World Development, Vol 9, No. 6, 1982, p. 576.

argued that the military should be a professional body but that the ethics of the military must be understood within a country's context. "We have the ethics that pertain to each country, so you can be professional in one country but at the same time obey the values of a particular community." This officer said that a sense of cohesion and of belonging must be found in the armed forces, echoing the Thailand experience. But at the same time, this officer argued that the military must be more disciplined than others, must express national values. He reflected some of the tensions and contradictions that exist with respect to attitudes toward corruption.

I perhaps not surprisingly, the situation within the military in the Sudan with respect to attitudes about the MEB appears complex. Military personnel who were in line positions, or in staff positions but removed from MEB jobs, tended to be at least wary of the military corporations. Some did fear that the perception of corruption within the MEB would call into question the role of the armed forces as a special institution in the Sudan, whatever the reality of corruption. Indeed, this occurred. Furthermore, many people interviewed saw the military corporations as a place to keep officers quiet, even relatively young ones, and to employ retired officers. But the number of officers in the corporation has been few.⁶⁰ Most officers in the MEB corporations were from lt. colonel to brigadier ranks. Some officers feared that the MEB

60 It is very difficult to get numbers on the size of military corporation employment. Furthermore, some corporations, like the Military Agricultural Corporation, took farm workers and treated them as if they were enlisted men. The claim was made by one informant that 10-20% of the armed forces were engaged with MEB activities. This seems too high a figure.

would split officers by function -- those who worked within the companies and those who did not and that this would have negative consequences for military unity.

Some officers with a technical speciality like accounting which could be put to use inside corporations were in favor of the MEB. While undoubtedly a share of these specialists, as well as officers in supply and logistics, knew there was money to be made, they at least seemed to have a concern with utilizing their skills in an economically directly productive fashion. Moreover, some military personnel share a statist view with civilian and public sector officials and simply think that an institution of the state will be a better manager or rightfully should be involved in the economy. And, monopolies have been an old game in the Sudan, whether private or civilian public sector ones. Thus military monopolies do not outrage all officers by any means and this judgement includes people that can be called "technocrats." Privileged access is perceived also as a pattern endemic in Sudanese economic and political life. One brigadier said, "This is our way" with respect to informal networking and skimming from companies.

Military officers who were not in the MEB offered the view that money for military corporations has come from "surpluses in the military budget, only there are no surpluses" thus funds were being taken away from defense needs. There was a wait and see attitude among non-MEB officers in the armed forces. In part, this stemmed from the fact that the military corporations were new. Officers that went to the MEB remained under military command but also received special allowances and this may have caused some resentment.

7. The Military Corporations

The following sections explore the role of officers inside the military corporations. At the same time, information is provided on specific military corporations. However, the aim is not to provide detailed data on size of capital of individual companies or production figures for all the units within a corporation.⁶¹ Rather, these sections are concerned to explore the questions:

- 1) Who are the military officers involved; what are their backgrounds and are there many of them in a company?
- 2) "How civilianized" is the particular company?
- 3) Does the company try to make profits? Does it succeed?
- 4) How does it relate to other companies, foreign and domestic, military and civilian?

7a The Military Transport Company⁶²

The main work of the MTC is done by the National Road Transport Co. which provides bus service in Khartoum and nearby villages. The corporation has 600-700 buses of three types, 140 large Picasso buses of Spanish make; 450 Mercedes of which only 65 were functioning at time of interviews. These were taken over from Khartoum Transport which had been

61 A good deal of such information was collected and can be provided if needed.

62 Interviews were held with a number of officers, including Brigadier Bakri El Mak Musa, Chairman and General Manager of the National Road Transport Co. (and now military attache to the United States) at MEB headquarters. Companies operating under MTC include: Military Air Transport Company; Military Land Transport Company (or National Road Transport Co.); Military Naval and River Transport Company; Nile-Dalla for Crop Protection Ltd., which does spraying. There is Saudi 49% equity in the spraying corporation.

a public company. There are 30 Magirus buses of which half work.⁶³

While the MTC does the maintenance work itself, they have not been able to solve spare parts problems; much of the fleet remains out of service. The capital to buy new buses came from the Ministry of Finance as a loan and from loans made by the Spanish government. The loan was to be paid back to Finance by the MTC in local currency.

The MTC does not try to make profits. It sees itself as a service corporation for the public. Fares are set by the company with the approval of the Governor of Khartoum. Indeed the MTC inherited the Capital Transport Company which had been controlled by the Governor of Khartoum. A civilian company also exists for Khartoum bus service with fees set by the Governor. On cargo rates, officials insisted that they were competitive in the market. Moreover, they also insisted that they did not care if USAID used them for shipment of goods because they had more jobs at Port Sudan than they could handle. Another unit in the MTC, air Transport Company does not function like a regular company but provides services to the armed forces.

MTC officials claimed that when they shipped dura in Darfur and Kordofan, the Military Agriculture Corporation paid them. However, I was present at the headquarters of the MAC when officials from MTC arrived trying to get payment for bills due and MAC officials admitted that they received subventions from the MTC and had not paid all bills. MTC was, in any case, shipping on a cost basis. Officials insisted they did not have access to fuel on a special basis and rejected the assertion made by

63 Mansour Khalid claims that President Nimeiri's brother, Mustafa, was involved in corrupt activities in Magirus deals. Khalid, op. cit., p. 225.

some people in the private sector that military officials in MTC had sold off fuel in private transactions.

The chairman of the MTC was Lt. General Mohammed Mirghani Tahir. Brigadier El Mak Musa runs the Military Transport Corporation land operations; air transport is separate. He was commander of the transport corp and engineering corp before his present job. The MTC has a technical division for maintenance manned by military engineers. Military men head up the division for truck cargo and the Picasso buses but the Mercedes buses division is run by a civilian director. There are only a few (three or four) retired officers involved in control of work. Drivers are hired on civilian terms and some of these appear to have been military or former military personnel, especially NCOs. But 99% of those employed by MTC are said to be civilians out of a total staff of 2000.

7b Military Banking and Insurance Company (MBIC)⁶⁴

Officers interviewed insisted that they ran the corporation in a very independent way and legal norms were stressed. The MBIC is supposed to provide finances for other military corporations and these corporations in seeking finance should go through the MBIC. This clearly does not occur always as corporations deal directly with foreign companies in equity deals and also the MCC provided financing in the past. The objectives of the company are also to develop financial resources for the People's Armed Forces as well as for military

64 Interviews were held with Brigadier Hyder El Tigani and Major General Solih Mohammed Abdalla at one of the main military barracks where a small headquarters exists. Companies include Karrari Investment Co. Ltd., and Sheikan Insurance and Reinsurance Co. Ltd.

corporations and to handle the insurance needs of the military and of military corporations.

This corporation is staffed by technically trained personnel; the chairman is Major General Solih. He worked for the Ministry of Finance for twelve years, working in the army pay records of Finance. In 1970 he shifted to the Financial Administration of the Army, which was answerable to the Ministry of Defense, not to Finance. He was civil service until 1970. The Managing Director of the Corporation, General Hyder Tigani, is a military man with a Ph.D. in economics and finance. Brigadier Hyder worked for Shell Oil from 1965-68 and for El Nilen Bank from 1968-71, when he moved to the Finance Administration of the Army. His deputy has his masters in economics. The Karrari Investment Company, their main arm, has on its board Generals Hyder and Solih, and two other representatives from the MBIC, a brigadier who is a lawyer and a statistician from the military statistics division. The former functions as a legal advisor to the Board. The Deputy Director of the Sudan Development Corporation, Mamoun El Sayeed, is also on the Board. There are no retired military officers in the company although this might change.

Some officers in the MBIC feel that the priorities of the corporation should be the needs of the military;⁶⁵ others think the MBIC should emphasize activities in the commercial sector. They have invested in a shoe factory's preliminary promotion within the Military Industrial Corporation.

65 The MBIC has a Military Housing Fund which finances housing for military personnel. It used to be part of the state Bank for Housing Services. NOCS as well as officers have access to it. The

On the insurance side, they have established Sheikan Insurance Company. They are reinsured through a British firm and civilians run the insurance business. The insurance corporation is structured as a limited private company with the MBIC owning 55% equity, MCC 30% and MTC 15%. The Military Transport Company is not forced to insure through them and in fact engages others too, although they do auto and other insuring for MTC and also do outside auto insurance. Sheikan Insurance Company has a nominal capital of one million Sudanese pounds with 250,000 S pounds paid up, which is the minimum required by law. They are now the largest insurance company of the 13 in the Sudan. They have preliminary approval for a commercial bank and want to capitalize it at S pounds ten million and involve private investors. This bank would finance imports and exports like any other. A feasibility study was done for them by a French investment bank. The idea was that they could adopt an existing commercial bank but they decided not to and instead created their own bank. President Nimeiri was involved in this decision.

Discussions with these officers showed them to be open to allowing money traders to operate freely because it made more money available on the market.

7c The Military Industrial Corporation (MIC)⁶⁶

The Managing Director of the MIC is Colonel Yahya Zubair. His background is technical. He is a chemist with special interests in

MBIC was searching for Sudanese and Gulf capital for this Fund. They saw capital needs at over two million Sudanese pounds.

66 Interviews were held with officials of the MIC at its headquarters in the MEB building. Equipment in the offices was quite modern --

spectroscopy and he has a degree from Manchester. There is a technical director who is military and a finance director who is a civilian accountant. A Lt. General is Chairman of the Board.⁶⁷ Also on the Board is Colonel Zubair; the Chairman of the Sudan Development Corporation; the Managing Director of the MCC; the Quartermaster General and the Director of the National Research Industries. The General in Charge of Supply for the Army is also on the Board which is thus a mix of civilians and military.⁶⁸ Colonel Zubair noted that they had looked at the Egyptian system but thought they did better and that Yemen's MEB equivalent director had looked at the MIC operation.

In the MIC 20% of the officers involved are retired, which perhaps is not so surprising given that the MIC has companies in defense industries: a military printing press plant; ammunition factories; clothing for the military; truck and landrover assembly.⁶⁹ The MIC was either in the process of establishing or had already set up military

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- typewriters, word processors. The MIC headquarters was very different from the small barracks offices of the MBIC, MHC and MAC.
- 67 The former chairman of the MIC was Lt. General (retired) Yusuf Achmed Yusuf. He served for six months and became Director of Customs. Lt. General Yusuf was Chief of Administration for the Army when he served as chairman of the MIC. He gave a figure of less than 50 officers in the military corporations and believed that posting retired officers to military corporations was an excellent idea because retired officers were knowledgeable.
- 68 Rank seemed not to be important at MIC headquarters. Salutes were rarely taken and individuals were relaxed. The Managing Director did say, however, that there were some "language" problems in communication between military and civilians.
- 69 There are departments in Omdurman and Khartoum for ordinance and engineering -- factories in Khartoum, Khartoum North and Omdurman.

footwear⁷⁰ and military brick⁷¹ companies and pharmaceutical factories. But no boots were being provided to the army from their factory and general staff officers laughed about the inability of the MIC to provide clothing in a reliable fashion.

Colonel Zubair insisted that the MIC was short of liquidity and had no preferential access to foreign exchange. If anything, he expressed a feeling that the MIC was victimized in exchange dealings. But nonetheless, at the time of the interview, the MIC was going ahead with a clinkers plant that would produce 400,000 tons of cement at Port Sudan and would be financed from Spanish, Saudi and Swiss funds. Total capitalization would be at 25.7 million dollars and about one third foreign financed. (Sudan Development Corporation officials were sceptical about this enterprise.)

The MIC had to tread warily with respect to defense industries. While it had ammunition plants, some ordinance factories belonged directly to the Ministry of Defense and some dividing line had to be kept between the Quartermaster General and the commercial enterprises of the MIC.

The MIC did employ significant numbers of armed forces personnel, unlike some of the other military corporations. The Military Printing Press Company employed 214 NCOs and 30 officers. Civilians were only in

70 The MIC has a partner in the footwear business. It is the Italian firm Gardia Italia which has 20% equity and has received certain fees too. The Sudan Development Corporation is a 20% investor; Kararri Investment of the MBIC has 10% and a tannery public corporation has 9%.

71 The brick factory is at El Bagair and is supposed to have a capacity of 15 million bricks with 70 workers and a staff of eight.

clerical jobs. Maintenance people were military engineers.⁷² The Managing Director asserted that there was no pressure to take retired military people or redundant soldiers. But he admitted that they do not cost out all transport expenses some of which are picked up by the Ministry of Defense. He argued that the Ministry of Defense debited them for personnel costs.

7d The Military Housing and Construction Corporation (MHCC)

The MHCC was chaired by Major General Hassan Banaga who had a brigadier as his deputy. General Banaga is an engineer. Colonel Salah Ali was Manager of the company. He was an engineer by training and had been part of a managerial group that had studied the MEB and its corporations at its inception.⁷³

The MHCC has three units: contracting; roads and bridges; and housing, which is built by them only for the military sector. They tender to military units and ministries, but they also build in the commercial sector. If the Ministry of Defense wants something built, in theory it goes to Ministry of Works and MHCC submits its bids to Works. The Ministry of Works can (and has) given preference to MHCC as it looks at the market but it also can (and has) called for open tenders. MHCC itself has not built but rather subcontracted almost 100%. They prepare drawings and contracts and subcontractors do the labor.

72 The company used modern German presses, worked two eight hours shifts and was capitalized at 7-10 million dollars working capital. It was wholly owned by MIC. Their footwear company employed 32 army personnel.

73 Interviews were held at a barracks where the MHCC headquarters were.

Prior to setting up the MHCC, there was a unit for works in the Ministry of Defense and many of the people in the MHCC came from this unit. They have no retired officers. Both General Banaga and Colonel Saleh had civilian backgrounds. There were 12 officers in MHCC, all engineers. There were some NCOs. But they were withdrawn to Works and there are now only officers. Civilians occupy roles in accounts and supervision and there were about 50 of them.

The MHCC was not large in staff but its operations were significant. It was preparing a military village plan for 3,000 NCO houses, and was seeking finance for this. The idea was to get foreign loans. Some loans were to be secured through Sudanese banks. They work with the Ministry of Finance which contacts the Central Bank for them. They have not had bank loans yet but have had loans from the Ministry of Defense. They received advances for construction of a race course and for building shops. The advance they received was from Defense and would not have been given to private companies. This was a privilege which was admitted but an officer said it was the only one they had had.

Colonel Saleh commanded the roads and bridges unit. He noted that he was the only person in MHCC with the requisite experience for the contracts undertaken on behalf of the Ministry of Youth for S pounds 81,000. They also built a road of 14 km to the south which they did in fair time and which had been given to them by the Governor of Khartoum to create competition with civilian builders.⁷⁴ They received equipment from the Corp of Engineers. Of their 12 officers, three were from this Corp and the rest were from Works. The Corp cannot legally do work for

74 The contract was for S pounds 765,000.

the Ministry of Defense. Indeed, they felt that the military corporations would have done better to have rid themselves of the name military because there was an in-built hatred of the armed forces. They saw the MCC as acting in the Sudan in "the old ways" with trade monopolies and bemoaned the fact that its head was a civilian. They rejected the idea that the MCC be a "mother company." They thought it a mistake for the President to have been Chairman of the Board of the MEB and that the Minister of Defense should not be chairman ex officio. At the same time, these officers asserted that the MEB had been formed to break private sector monopolies and hoarding. They were negative about the private sector. They did not see any real effect that the MEB had on the army, using only 50 or so officers and these wore two hats. For professionals, the MEB made for work variety and gave scope to their activities. Thus they rejected the view that the focus of the military corporations should be to serve the military only.

7e The Military Agricultural Corporation (MAC)⁷⁷

The Managing Director of the MAC is Major General Mohamed El Rayah a marine engineer by training who is a naval commodore. His deputy is a brigadier general, G. Ali, who was an infantry officer with a speciality in logistics who had been to Pakistan and India. The deputy felt this posting was temporary, one that would help him gain experience, and the Managing Director believed that his own posting to the MAC was related to his experience in Yugoslavia where he had been for a number of years. It

⁷⁷ Interviews were held at the MAC headquarters, at a military barracks.

is common for Sudanese naval officers to study in Yugoslavia and there was also a feeling that there would be ties between the MAC and Yugoslavia.

The officers stressed that the MAC was highly disciplined and that such discipline was needed for agriculture. Unlike, perhaps, other corporations, the Auditor General had found the MAC books in order. Whereas, public corporations might be four to five years behind in their books.

The MAC is engaged in different types of activities. They own Belgravia Dairy which was started in 1913 by the British Army to supply officers and British officials with milk. It continued to supply Sudanese officers with milk until 1982, selling door to door. It was losing money and began to sell off assets and then the MAC was formed. It purchased Belgravia for 5 pounds one million. They purchased 700 cows and kept the management staff of the dairy. MAC now sells milk to the same customers, selling at 10-20% reduced prices to military personnel. An officer from MTC is in charge of Belgravia.⁷⁸

In general, the MAC employs few retired officers. Their headquarters' staff includes ten officers. They employ 130 men and NCOs in Belgravia Dairy. The MAC has a number of agricultural schemes, including mechanized farming at Gedaref with a sesame area of 15,000 feddans and various fruit, vegetable and animal feed plots of small acreage in Begair East and West. They employ military men as tractor and lorry drivers on these schemes, using manual labor from local areas. The

78 It was claimed that the MAC could sell Belgravia now for 2 million Sudanese pounds. It was admitted that Belgravia was still losing money, although its dairy stock is increasing.

area in Gedaref had not been under acreage but was cleared and farmed and the claim is that the MAC goes where private investors will not. (The officers also noted that the prison system farms all over the Sudan.)

The MAC directors insisted that no working capital was involved in the formation of the MAC. They depreciated equipment and they received a loan from the MTC and had not yet paid it off. They went to the Agricultural Bank this year for a loan but didn't get it because the Ministry of Finance would not guarantee it. They have paid off about S pounds 700,000 to the Agricultural Bank for an earlier loan for implements and the disk operator they had. After Islamic lending laws were implemented they switched to payment of administrative fees.

The claim was that their first season of producing dura was not good because they started late and they did not cultivate more than 6-7000 acres. In the second season they had bad weather and sent all their corp to Darfur for refugee consumption. The crop was transported by railway but some of it was also sold to officers and other ranks and their families at about a third of the market price. They were directed by President Nimeiri to sell at a subsidized price. They made no profits but covered costs. Then the price of dura rose steadily. Meanwhile the MTC did their transport for them and distributed grain and wrote off costs at no charge. This season they are harvesting simsim in part because they needed funds to pay off Agricultural Bank.

The MAC officers stated that the MAC was really not profit motivated although it tried to be efficient and the officers were extremely knowledgeable. They sold some products like, simsim, at commercial rates but had sold dura at below market rates. They are in rainfed agriculture and use fully mechanized systems.

The MAC is looking to expand and acquire virgin land and then populate it rather than take over existing holdings. They were thinking of 15,000 feddans plus. Their parcels are in the 10-15,000 zone. They would like to be involved in the south but cannot take the risks now.

Apparently, in some of the MAC schemes, workers get converted to military status or at least get put on military pay scales if they so wish. If they wish to retain civilian working statuses, this is possible. Apparently, salaries paid through the Ministry of Defense were costed out in this corporation.

The MAC officers felt that the MAC and other corporations got tarred with the MCC brush. The MCC had access to licenses and funds from Ministry of Defense and thus could float other corporations but it also gave military corporations a bad name. People do not want the military involved in import and export and people fear them but this is not the case with other corporations, it is asserted. Indeed, the MIC, like themselves, have problems in having access to capital. Officers seemed to be positive about being posted to the MAC.

8. Conclusions

We have seen that the Sudan's experiment in creating military corporations is not unique. Indeed, an examination of the Sudan's recent experience with military corporations shows many resemblances to the patterns in other countries.

1) Whatever the official justifications for the establishment of these corporations, the actual goals are many, complex, and often contradictory. In the Sudanese case, the military corporations did not actually defray defense costs but they did allow for some skimming and personal profiteering. There was little real excess capacity of skilled

personnel but some officers clearly liked the opportunity for profits and the more technical officers welcomed new career opportunities. In the Sudan, military corporations were not dumping places for large numbers of retired military personnel, although some did go into them. While profits were a stated motive for the corporations, few profits were made according to strict cost accounting; moreover, some service and civic action functions were performed and were meant to be performed.

2) Actual control of military corporations by a central military body has been hard to impose in many developing countries. This has been true in the Sudan too. Individual corporations have a great deal of autonomy. Accounting procedures are weak. The MEB did not closely control individual military corporations. When personal ties to top leadership are strong, as they were between the MCC and the President, control is especially hard to maintain.

3) Military corporations can and do lead to tensions between professional combat soldiers and those who seek to benefit from the commercial activities of the corporations. They can also lead to tensions when large foreign equity shares exist or when "non-indigenous" locals are involved. In the Sudan, while some tensions have occurred, it would be wrong to exaggerate this. Moreover, while foreign capital has come into the military corporations, this has not provoked anti-foreign feelings on the part of nationalist officers so far.

4) It is difficult to be precise about the size, scope, and impact of military corporations on any economy. In the Sudan, some of the companies loomed large in trade (MCC) or insurance. Undoubtedly, as the military corporations made an impact on the price of foreign exchange. There was some squeezing out of private business through protected

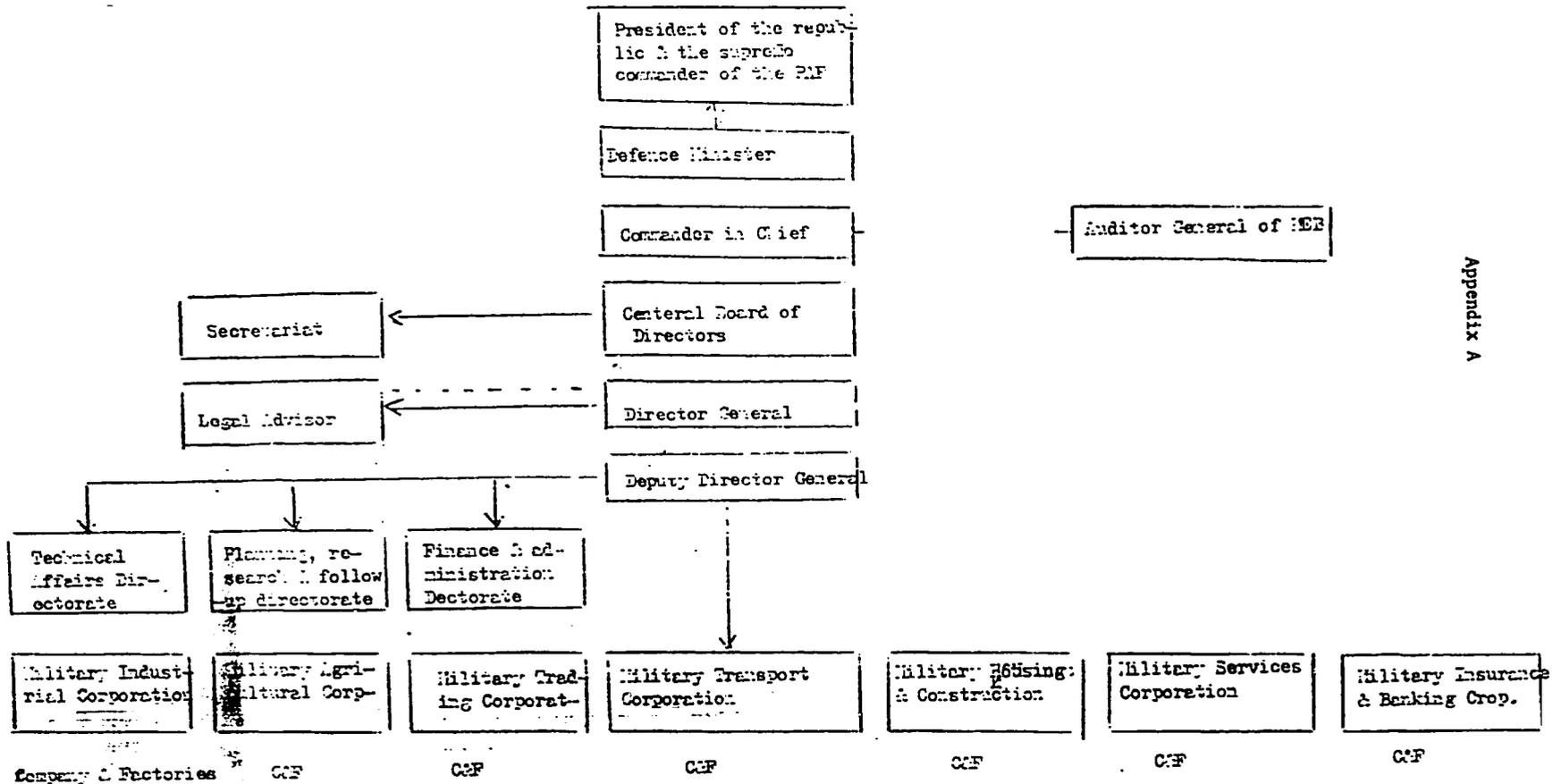
licenses, access to foreign capital, monopolies. The establishment of the military corporations was contradictory to the stated goal of President Nimeiri to emphasize the private sector. But his own commitment to the private sector had gone up and down over the years.

5) The military corporations were not efficient organizations and were not so viewed by many military officers outside them or by those in the civilian public sector or by many private businessmen. But some military corporations were more professional and efficient than others or at least tried to be. Inter-company financial transfers hurt the most efficient corporations.

6) The military corporations acted according to the pattern well established in the Sudan of looking for trade margins, looking for protection, and using personal connections for tenders and generally to make their way. Of course, they were in a privileged position in so doing. In the case of the MCC, many abuses occurred and this corporation tarred the image of all the MEB companies. One cannot say that the military corporations had unlimited power, however. They often did not get their way with the Ministry of Finance or other ministries. They were important economic and political actors.

Appendix (A)

Existing org. structure (not approved)



Appendix A

From Salih report.