

South Sudan



COUNTRY BRIEF

THE SENTRY

Dismantling the Financing of Africa's Deadliest Conflicts

Country Briefs: South Sudan. July 2015.

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Photo Credit: AP Photo/Jason Patinkin
During an independence celebration in Juba, South Sudan, soldiers march in a military parade. South Sudan marked four years of independence on July 9th, 2015.

Executive Summary.

The prize that comes from political power in modern South Sudan is controlling and benefiting from resources and revenue streams.

South Sudan's current conflict is a competition among the nation's elite for power and profits. Instead of leveraging the country's vast natural resource endowments to advance a historic opportunity for growth and development, South Sudan's military and political elites are widely reported to have constructed a kleptocratic regime that has captured and controlled nearly all profit-generating sectors of the economy. The prize that comes from political power in modern South Sudan is controlling and benefiting from resources and revenue streams. Even in today's near-collapsed economy, significant amounts of money still pass through the country's capital, Juba. Many of the conflict's players are currently maneuvering for better negotiating positions in the event that peace materializes, the oil wealth resumes, and elites resume their former roles. As the conflict in South Sudan currently stands, there remains much to be learned about the revenue generating or profit skimming networks that finance regime elites and sustain the conflict.

This brief begins to address this subject by categorizing the economic systems that enable conflict and violent kleptocracy in South Sudan. The typologies in this brief are derived from and reflect real-life examples in South Sudan and are supported by disparate open sources, including global public records, media reporting, government documentation, and independent investigation. These typologies are not meant to be seen as exhaustive or definitive, but rather as representative of broader trends of corruption and illicit activity. Throughout the entirety of this report, an illicit activity is defined as an activity that could be perceived as contrary to international norms and standards, but is not necessarily illegal. As such, no illegality is implied by the content herein unless explicitly stated.

We identify seven key trends that contribute to illicit activity in South Sudan:

- I. Extractives and Resource Trafficking
- II. Convergence of Licit and Illicit Systems
- III. Corruption and Illicit Financial Flows
- IV. Elite Financing and Offshored Assets
- V. Security Sector Procurement and Abuse
- VI. Disguised Beneficial Ownership
- VII. Regulatory and Sanctions Evasions

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Shaping South Sudan's current civil war towards a peaceful outcome will require tackling the close nexus between corruption and conflict. Direct perpetrators of violence, and those acting on their behalf, have benefited from the plunder of South Sudan's public wealth, while others are fighting for their place in the now seemingly entrenched and institutionalized kleptocratic system. Effective strategies must target the key beneficiaries of this system, none of whom operate in a vacuum. Instead, many perpetrators of violence rely on a wide network of facilitators who are not directly connected to the violence but who, knowingly or unknowingly, provide the means to access and then launder funds towards their personal use. These facilitators include many government officials, military officers, businessmen, investors, and other actors who are more connected to international systems of finance, trade, and investment. These points of convergence, where illicit schemes rely on legitimate global financial infrastructure, at times represent the most profitable and vulnerable links in the conflict value chain, and are where policy, enforcement, and regulatory efforts should be focused.

Context.

As a result of this ongoing armed conflict, military priorities and military-run economic networks dominate spending priorities. In South Sudan, corruption has become the lifeblood of the country's politics, providing the means to co-opt and buy off armed actors, to fund personal patronage networks, and to accumulate wealth. In 2014, the government of South Sudan is estimated to have officially spent US\$1.08 billion on its military, close to 63% of the US\$1.72 billion in oil revenue from the same year. As such, South Sudan's military spending is among the highest of the region, despite having an economy that is relatively small when compared to its neighboring countries, according to World Bank data. Even beyond military spending, very little has been allocated to development priorities, which have instead been left almost entirely to donors. In 2012, donors financed 75% of healthcare spending. This level of dependence on outside donors is likely to increase in coming years with the slow resumption of oil production. Healthcare is not the only sector heavily reliant on outside capital; South Sudan's education sector only received half of its earmarked budget, and remains dependent on donor funding.

A very large amount of South Sudan's public money has been lost to corruption since the signing of the Comprehensive Peace Agreement (CPA) in 2005. A letter issued by President Salva Kiir in 2012 claimed US\$4 billion in stolen funds, although the figure is difficult to verify. The projected oil revenue for the government of South Sudan in the 2014-2015 budget was SSP 12.78 billion or US\$4.26 billion, nearly equal to the funds that were allegedly stolen in 2012. Most agree that the scale of waste, mismanagement, and outright theft has been extraordinary, and has diverted very significant funds away from chronic humanitarian and development needs.

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Trends and Typologies.

The following typologies attempt to categorize the corruption and illicit activity that sustain and benefit elites. No illegality is implied unless explicitly stated; rather, the goal of this report is to illustrate the current economic landscape in South Sudan that is representative of broader trends. The seven identified typologies are as follows:

I. Extractives and Resource Trafficking

The main source of income for the South Sudanese government comes from the oil sector. South Sudan's Finance Minister reports the country has received US\$19 billion in oil revenues between 2006 and 2014, compared to US\$1 billion in non-oil revenues. According to South Sudan's Under Secretary of Planning, the share of government revenue contributed by oil was as high as 96% between 2008 and 2011, but as a result of the current fighting, productivity has fallen significantly to about 70% by 2014. Oil wealth is central to the conflict; the government needs these funds to sustain the war effort and the rebels recognize that choking oil supplies is their strongest point of leverage. As a result, conflict has centered on strategic oil sites, which has caused operations and profits to significantly decline. Some elites are alleged to maintain stakes in companies in the extractives sector where political allegiance leads to lucrative contracts. According to the 2007 audit report out of South Sudan, oil wealth is also the primary source of money within the financial system, and is paid by oil companies into various government bank accounts before being remitted to the

ministries for spending. Corruption and diversion happens at all levels of the economy. Reports indicate that lucrative extraction contracts of some elite-connected companies are the breeding grounds for funds to be siphoned off both before and after they reach ministry accounts. As reported by the 2007 audit report, US\$114 million in oil revenue was unaccounted for. Oil, though, is not the only exploitable resource. Minerals, land, and other forestry resources, including teak and mahogany, are areas of growing concern as the government seeks to diversify away from oil.

II. Convergence of Licit and Illicit Systems

There is a high degree of overlap between the licit and illicit economies in South Sudan. It can often be difficult to distinguish public from private, trade from trafficking, and legitimate payments from bribes in South Sudan, but it is in the currency market in which the nexus between the licit and illicit systems is most apparent in the country today. A significant spread between the official rate set by the Bank of South Sudan and black market exchange rates for US dollars has created a sizable vector for illicit currency speculation and money laundering. With the current official rate at three South Sudanese Pounds (SSP) for one US dollar (USD), and a parallel black market rate that is fluctuating between 9 to 15 SSP per one USD, the opportunity for high profit margins in the currency exchange sector invites arbitrage and creates a growing risk of money laundering. Differences in exchange rates make it possible to make up to a 400% profit on every transaction. Few individuals have easy access to both rates, but those who do include at least some well-connected government or business officials. Such currency manipulation can contribute to immense hardships for the average person by exacerbating an already chronic dollar shortage and fueling price inflation, including basic commodities such as food and fuel.

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III. Corruption and Illicit Financial Flows

Nearly all sectors of procurement have generated stories of chronic abuse, mismanagement, and waste. Many government purchases and contracts are allegedly awarded with single-source, non-competitively bid contracts at inflated prices, and with minimal documentation and oversight. These contracts are allegedly awarded to bidders with connections to elites, armed group commanders the government is seeking to placate at the time, or as favors for helping the SPLA during the liberation struggle.

IV. Elite Financing and Offshored Assets

Illicit proceeds in South Sudan can be generated from a wide range of sources, including elite stakes in major revenue generating projects for personal benefit. Many of these interests are incurred while ostensibly serving as public officials in ways that can represent conflicts of interest or an abuse of position. These illicit proceeds may be reinvested inside the country for the funding of armed patronage networks or offshored into neighboring and international jurisdictions, often as real estate investments. The size of these flows is uncertain, but a significant portion is believed to flow to regional countries, namely Kenya, Uganda, and Ethiopia. Overall there appears to be a divide between some political elites, who are believed to have property in Kenya and Ethiopia, and some military elites, who are believed to have property in Uganda. The values of these properties generally outstrip government salaries significantly, which, according to the 2013 to 2014 budget book, were set at roughly US\$1,600 per month for ministers, and US\$1,300 per month for First Lieutenant Generals, the highest pay grade in the military.

V. Security Sector Procurement and Abuse

The security budget is the largest and most important of Juba's expenditures and has continued to expand in spite of austerity in the civilian sector. Despite its importance, the security sector is a highly opaque section of the South Sudanese budget, with virtually no information provided on specific spending patterns. According to South Sudan's 2008 audit, only seven out of 40 SPLA divisions reported their payroll figures. Significant spending is also believed to occur "off-budget," through the use of funds outside the government budget and funds diverted from other civilian ministries. The issue of weapons procurement is a sensitive subject for South Sudanese because, without an arms embargo, the government is within its rights as a state actor to pursue state-to-state weapons transfers and the Government of South Sudan continues to import weapons and military equipment. Non-state armed groups also continue to receive military supplies from other countries in the region.

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VI. Disguised Beneficial Ownership

In South Sudan, it is difficult, if not impossible, to definitively prove the registered or beneficial owner of a company and the assets it holds in the country. Powerful institutions such as the SPLM, a political party with strong ties to President Salva Kiir, are said to control a large number of companies invested across the economy, but the lack of transparency makes it difficult to evaluate these claims. Transparency International ranks the country 171 out of 175 on the Corruption Perceptions Index of 2014. The business registry and other ostensibly public documents are not easily accessible and even then may use proxies, instead of the actual owners, as registrants and beneficiaries on paperwork. Many companies, especially those involved in larger scale projects, are registered in a "secrecy jurisdiction"—those where purposely lax disclosure and reporting standards provide relief from tax and financial regulations, corporate governance rules, and even criminal laws. It is alleged by multiple independent sources that generals and other high-ranking officials hold stakes of "25 percent" in many companies. This allegation is often impossible to validate with documentary evidence.

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VII. Regulatory and Sanctions Evasion

Regulatory, sanctions, and enforcement actions directed at the conflict in South Sudan have, thus far, only targeted ground commanders and have proven insufficient to deter or disrupt the conflict, or its economic enablers. On April 3, 2014, under Executive Order 13664, the United States Department of the Treasury's Office of Foreign Assets Control began implementing sanctions on South Sudan. These OFAC sanctions were followed by United Nations Security Council Resolution 2206 in 2015. Until recently, only four individuals were reportedly listed by the US, but these sanctions were updated July 1, 2015, to include two additional individuals. The UN listed the same six individuals concurrently on July 1, 2015. The travel bans and asset freezes against the six armed commanders accused of grave human rights abuses and numerous ceasefire violations are intended to limit their ability to cross borders, access financial accounts, and gain support for their activities in the region. The effect, though, has been minimal. Peter Gadet, for example,

perhaps the most well-known of the six sanctioned individuals, is a military commander that spends nearly all his time within South Sudan where the sanctions have little impact. As it currently stands, the scope of the current sanctions designations has been insufficient to change the calculations of the warring parties.

Conclusion.

The ongoing conflict in South Sudan is a means to an end – to renegotiate the country's political power balance and the economic profits that it ensures. Pursuing an end to an increasingly violent civil war requires acknowledging the close nexus between the systemic corruption that permeates the South Sudanese governance structure and the incentives that have brought about the current conflict. Currently, both the direct perpetrators and their facilitators further up the conflict value chain are enabled by a kleptocratic system that has captured and controls all available revenue streams in the country. Within this system, some elites who are both directly and indirectly connected to the violence continue to benefit, while others who have been ejected from the system are fighting to negotiate their return.

A more sustainable path to peace in South Sudan is possible but it requires acknowledging the structural causes that have driven the country's rapid decline into violence. An elite pact privatized the economy and institutionalized a kleptocracy, and in the process poisoned the country's politics. Today, an elite bargain appears the most likely path to halt this vicious spiral of violence. To reverse this process, it is thus essential to unpack the predatory nature of the South Sudanese state and the perverse incentives that an influx of money channeled through a narrow set of elites has created. Only by reforming and forcing the South Sudanese state to actually serve its people, instead of its leaders, can the country actually move towards a more sustainable peace. Effectively addressing the conflict in South Sudan requires looking beyond the spasms of horrific violence and focusing on the underlying drivers, namely the various trends that collectively constitute South Sudan's violent kleptocratic system.

Pressuring the key beneficiaries of South Sudan's kleptocratic system and choking their illicit financial flows is likely a key source of leverage in impacting the cost-benefit analysis of armed conflict in South Sudan. It is also appears the most appropriate of the range of enforcement measures available to the international community. Direct perpetrators of violence are often field commanders and other localized actors who are relatively immune from international pressure. Their facilitators and enablers, however, include government officials, military officers, businessmen, investors, and others who are necessarily more connected to international systems of finance, trade, and investment. These points of convergence, where illicit financing schemes rely on legitimate global financial infrastructure, at times represent the most profitable and vulnerable links in the conflict value chain, and are also where policy, enforcement, and regulatory efforts should be focused.

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