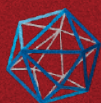
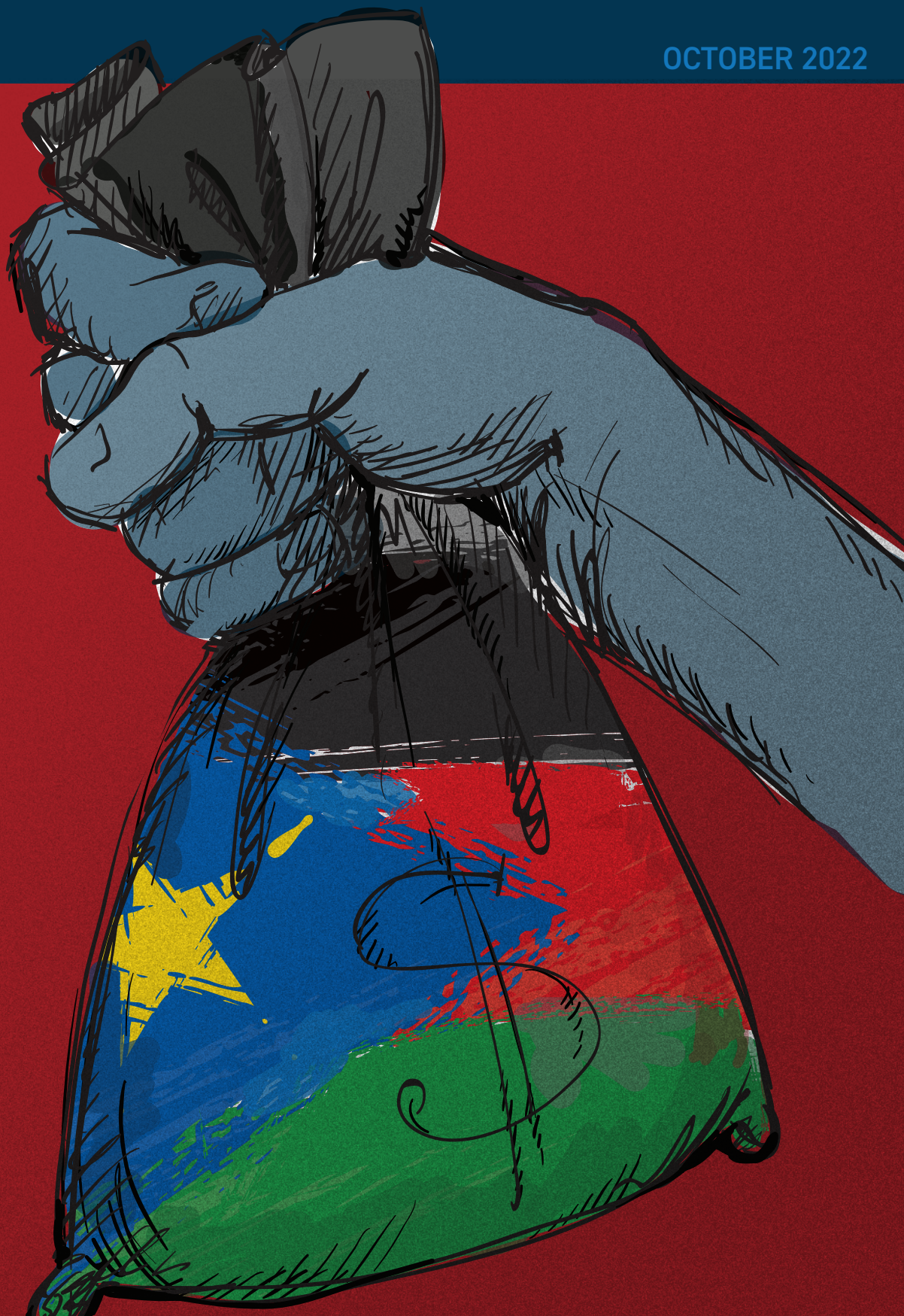


CASH GRAB

How a Billion-Dollar Credit Scam Robbed
South Sudan of Fuel, Food, and Medicine

OCTOBER 2022



THE SENTRY

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Executive Summary

Between 2012 and 2015, the government of South Sudan received a credit line of nearly one billion dollars from Qatar National Bank (QNB) and CFC Stanbic Bank in Kenya to support efforts to import much-needed food, fuel, and medicine to the war-torn and newly independent country. The credit line—issued in US dollars in the form of letters of credit (LCs)—was intended to help local traders pay for these imports, considering the extreme shortage of hard currency and the weakness of the new local pound.

The government was supposed to allocate the LCs to traders, who could exchange South Sudanese pounds (SSP) at the then-official exchange rate of 3.16 SSP per dollar.¹ Traders would then use the LCs—essentially a guarantee from the bank—to pay the exporter upon confirmation of delivery of the needed goods.

From the beginning, things went terribly wrong. The Sentry's three-year investigation into the LCs program found that multimillion-dollar contracts were awarded to foreign-run companies, companies that only existed on paper, and inexperienced middlemen. Businesses with connections to the ruling class—including President Salva Kiir's family, the then-governor of the central bank Kornelio Koriom, and multiple military officials—were among those that received contracts collectively worth tens of millions of dollars under the program, according to official documents reviewed in connection with this investigation. It appears that millions of dollars' worth of essential pharmaceuticals, fuel, and food were not delivered. The government failed to repay the borrowed money and entered arbitration proceedings initiated by QNB at the International Center for Settlement of Investment Disputes.² By July 2020, the matter remained unresolved, and the government reached a debt-restructuring agreement with QNB.³

The failure of the LCs program and the subsequent corruption scandal resulted in shortages that would affect the country for years to come. Almost \$1 billion effectively walked out of the country, and the human cost remains to be calculated. At the peak of the LCs program, when hundreds of millions of dollars in goods should have arrived in markets, more than two million people went without food, hospitals and clinics had to treat patients without medicine, and fuel shortages resulted in black market price gouging.^{4, 5, 6} In October 2015, just months after the last LC-backed contracts were awarded, the United Nations (UN) reported that 3.9 million South Sudanese faced severe hunger and tens of thousands were on the brink of famine.⁷ The country was saddled with unmanageable debts that continue to constrain the government's ability to devote funds to crucial services. Food, medicine, and fuel shortages persist to this day.^{8, 9, 10, 11}

A 2015 report by Stephen Wundu, the auditor general (AG) of South Sudan, was presented to parliament but was never made public. This report, as well as interviews with South Sudanese close to the LCs program, shows that the disbursement process developed into a confusing, disjointed system of documents and signatures that corrupt actors circumvented or subverted. The report, reviewed by The Sentry, provided a comprehensive overview of the timeline of events surrounding the LCs program, the parties involved, and the wrongdoing committed.¹² The report did not identify which individuals or companies benefited directly from the lucrative scheme or may have violated the law, but it clearly set forth the facts surrounding the failure of the program. In 2015, the AG's findings were presented to Kiir and to parliament, but no action was taken and no one was brought to justice or held accountable for the program's failures—legally or politically.^{13, 14} In August 2021, a copy of the AG's summary report was circulated on social media in South Sudan, and Wundu asked parliament to initiate an action leading to the prosecution of those government officials who siphoned



money out of South Sudan via the LCs program.^{15, 16} To date, there have been no prosecutions for corruption linked to the LCs program.

The mismanagement evident in the LCs program has had dire and long-lasting consequences for the people of South Sudan, and the program's failure is indicative of government corruption and ineffective rule of law. South Sudan's public officials and institutions have undermined the nation's ability to achieve economic progress, and the abuse of the LCs program is just one example. In 2021, for the second year in a row, South Sudan ranked as the most corrupt country in the world on Transparency International's Perceived Corruption Index.¹⁷ The UN reported in September 2021 that "more than \$73 million USD was diverted since 2018, including transactions worth almost \$39 million USD in a period of less than two months."¹⁸ The government's failure to properly carry out the LCs program and repay the loans led to a succession of damaging government policies, including the wasteful and opaque practice of borrowing hundreds of millions of dollars from oil companies. The full scope of the fraud might never be uncovered, but there are measures that can be taken to promote transparency and accountability in the allocation of public funds and to help ensure that the people of South Sudan are not cheated on this scale again.

Key recommendations

In the wake of its investigation, The Sentry recommends the following actions, which are described in full at the end of this report.

South Sudan. The government of South Sudan should focus on developing a public corporate register, and it should also identify firms that received LCs and continue to operate in South Sudan. Firms and individuals who failed to deliver goods should be subject to investigation and, if the findings warrant, sanction and/or closure.

United States. The US government should investigate illicit money flows. The US Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) and the US Department of Justice should investigate the ways in which the proceeds of the corruption apparent in the LCs program were laundered out of the country. The transactions identified in this report involve the use of US dollars. FinCEN and the Justice Department therefore have the authority to seek information from financial institutions and foreign counterparts whose jurisdictions may have been involved in laundering the proceeds of corruption. This information can form the basis for potential further action, including the review of transactions with regional correspondents, QNB, and CfC Stanbic to identify apparently illicit financial flows. FinCEN should initiate information sharing and reporting under Bank Secrecy Act section 314(b) for organizations and individuals listed in this report.

The US should also work to identify which companies and individuals listed in this report and connected to family members and close associates of the political elite remain operational. Consideration should be given to applying network sanctions to any groups of companies connected to family members of the political elite that are found to be used for nefarious means.

Global and regional banks. QNB and CfC Stanbic and the Kenyan and Ugandan banks involved in the LCs program should initiate independent third-party audits to investigate the banks' roles in the LCs scandal. The regulators of the aforementioned banks should initiate independent third-party audits of transactions or business deals entered into with the government of South Sudan and the companies—both import and export—benefiting from the LCs scheme. The auditors should review whether the banks complied with their



respective anti-money laundering and countering the financing of terrorism (AML/CFT) and anti-bribery and corruption (ABC) policies and obligations and whether the activity complied with international commercial trade finance standards, including the International Chamber of Commerce's Uniform Customs and Practice for Documentary Credits.¹⁹ The results of these investigations and audits should be made public or, at a minimum, shared with the South Sudanese, Ugandan, and Kenyan governments.

Global and regional banks named in this report should sweep historical records to identify evidence of wrongdoing and fraud and report findings to local financial intelligence units (FIUs). They should also launch internal investigations into the circumstances that led to this grand-scale abuse and self-report to relevant regulators and—where evidence of criminality has been identified—to relevant law enforcement authorities. This could also include contracting a third party to trace stolen assets to repatriate funds.



Financial Fallout and Human Tragedy*

The equipment in the neonatal intensive care unit at Juba Teaching Hospital needs a 24-hour power supply. “For the day, someone would supply fuel for the generator. It would work for a few hours, but by 8 pm: darkness,” a South Sudanese doctor, who requested not to be named due to concerns about security, told The Sentry. Speaking about the situation in 2012 and 2013, the doctor stated, “The newborns, you’d have to manually ventilate them. It was horrible. For those who needed constant oxygen, we would just lose them.”^{20, 21}

Shortages became a part of daily life for doctors and patients at the hospital. Some surgeons resorted to performing operations without essential supplies such as sutures, gloves, and anesthetic. In January 2016, 10 patients died at Juba Teaching Hospital because there was no fuel to run the generators and doctors could not perform their operations.²² In April of that year, Médecins Sans Frontières (MSF) International President Joanne Liu noted, “Drug outages are now a reality around the country.”²³ Patients were often turned away unless they could provide the supplies needed for their care, including fuel. The family of one woman who needed a C-section delivery was told to bring a “jerry can” (approximately 20 liters) of fuel for her procedure.²⁴ At the time, one jerry can of fuel cost about 500 South Sudanese pounds (SSP), or \$12 dollars at the official rate, but the average person only made about \$23 per month.^{25, 26}

Major shortages in pharmaceuticals, fuel, and food were partly due to an oil production shutdown that took place in 2012, when the major export route through Sudan was blocked due to a dispute between Juba and Khartoum over oil transit fees.²⁷ Being a heavily oil-dependent country, South Sudan’s gross domestic product plunged by 50%,²⁸ and the country entered a long-term financial crisis. South Sudanese oil is traded in US dollars, so the lack of oil revenue severely decreased the amount of foreign currency reserves available at South Sudan’s central bank, making it almost impossible for local traders to access US dollars to pay for imports of essential goods such as drugs, food, and fuel.²⁹

In 2012, approximately 37% of South Sudanese were experiencing food insecurity, and in July 2015, the Global Hunger Index reported “many states in crisis phase and a smaller number already in a state of emergency.”^{30, 31} By 2016, in the aftermath of the first phase of a brutal civil war that began in December 2013, the country was still suffering severe shortages of key commodities. The situation was dire, with some four million South Sudanese in need of health services and nearly 20% of health facilities lacking the necessary resources to provide care.³² For a variety of reasons—from continued corruption and conflict to environmental conditions to the COVID-19 pandemic—nearly seven million people, about 60% of the population, still face food insecurity, and the country is on the brink of famine.^{33, 34, 35}

This tragedy was avoidable.

**Reports by The Sentry are based on interviews, documentary research, and, where relevant, financial forensic analysis. In some cases, sources speak to The Sentry on the condition that their names not be revealed, out of concern for their safety or other potential retaliatory action. The Sentry establishes the authoritativeness and credibility of information derived from those interviews through independent sources, such as expert commentary, financial data, original documentation, and press reports. The Sentry endeavors to contact the persons and entities discussed in its reports and afford them an opportunity to comment and provide further information.*



How the letters of credit program was supposed to work

Between 2012 and 2014, faced with dwindling hard currency and shortages in vital imports, the Bank of South Sudan—the country’s central bank—signed several credit facility arrangements with the Qatari government-owned Qatar National Bank (QNB) and CfC Stanbic, a subsidiary of South Africa’s Standard Bank Group.³⁶ The agreements allowed South Sudan to borrow \$993 million in lines of credit: \$793 million from QNB and \$200 million from CfC Stanbic.³⁷ The credit lines were supposed to be repaid through the oil production that the country was hoping to resume shortly.³⁸

The borrowed funds were intended to enable companies to import urgently needed commodities like fuel, food, and medical supplies to sell in the markets at affordable prices.³⁹ The goal was to provide South Sudanese traders with access to US dollars to import essential goods. The traders who applied and were chosen by the South Sudanese government for this program were supposed to deposit SSP with QNB and CfC Stanbic, the issuing banks, who would in turn provide the traders with US dollar-denominated letters of credit (LCs) at the then-official exchange rate of 3.16 SSP per dollar.⁴⁰ The currency exchange should not have included any cash payments to local traders, as the US dollars should have been transferred from QNB and CfC Stanbic to the commercial banks—the advising banks—of the foreign exporters. The LCs were supposed to act as a guarantee from the bank to pay the exporter once the goods were imported and the local importer presented proof of delivery.^{41, 42} The LCs were sight LCs, meaning that verification of delivery would be based on documents including invoices, bills of lading, and customs papers.⁴³

In reality, hundreds of millions of dollars were transferred into accounts in Kenya and Uganda linked to the same individuals who were allocated the LCs, or to their close associates, often with no proof of delivery.^{44, 45, 46} A former senior official told The Sentry that, in some cases, “applicants were sent by JTC [the joint technical committee] direct to the Bank of South Sudan which in turn released to them the funds in cash dollars. The cash went straight to the black market.”⁴⁷

What Is a Sight Letter of Credit?

A sight LC is a document that guarantees payment for goods or services and that is payable to the beneficiary when presented along with the specific required documents to the financial institution backing the letter.

A sight LC lists the precise conditions under which the funds can be released, which may include specific documentation requirements as well as an acceptable time frame for delivery. Required documents for payment are generally proof of shipment, invoices, bills of lading, and customs documents, which are presented to the issuing bank. Sight LCs give each party involved in the transaction some degree of protection and decrease some of the risk involved with business, especially when it comes to international dealings.⁴⁸

The process of allocating LCs to importers went through several periods, each with a different government body in charge. At the onset of the program in 2012, a ministerial committee headed by then-governor of the central bank Kornelio Koriom was responsible for allocations.⁴⁹ But in 2013, the central bank withdrew from the process in response to threats from influential individuals aiming to access funds via the LCs program.⁵⁰



A former government official told The Sentry that “after the first few months ... things changed because some influential elite got involved. They pushed their friends, relatives and cronies to be included in the list sent to BOSS [the Bank of South Sudan] and the commercial banks, alongside traders who actually had the capacity. Because these relatives, friends and cronies did not have the capacity to perform, they simply sold the approvals to the highest bidder third parties. Eventually, the value of goods imported turned out to be at the black or open market rates, thereby defeating the objective of providing goods to consumers at affordable rates.”⁵¹

Speaking about the LC allocation process during an appearance before members of the National Legislative Assembly in June 2015, Koriom said, “Even he who doesn’t know the A, B, C of the foreign trade will almost kill you if you say no.”⁵²

After the central bank withdrew, the allocation process was then taken up by the Sudan People’s Liberation Movement (SPLM) economic task force, chaired by then-Deputy Minister of Finance and Economic Planning Mary Jarvis Yak. By early 2014, the process was assigned to a joint technical committee (JTC) formed by the government.^{53, 54} This committee was then replaced by a decentralized process in which five ministries and 10 states handled the approval process determining who should or should not receive LCs.^{55, 56}

What Went Wrong in the LCs Program

Unqualified companies applied for, and in many cases received, LC-backed contracts. The criteria set up by the JTC for the allocation of LCs were frequently ignored, easily manipulated, and awarded based on pressure from political and military elites. This resulted in LCs being awarded to unvetted companies, companies owned by friends and family members of the ruling class, and “briefcase companies” with no ability to deliver goods.

For example, the requirement of a signed sales contract between the applicant (importer) and the beneficiary (exporter) was often ignored, and the consignee and consignor were the same person or entity. In many instances, documents required to apply for an LC were easily or falsely obtained and were not vetted. Fraudulent invoices and false customs documents were easily obtained and submitted as proof of delivery.

Additionally, the Bank of South Sudan did not effectively supervise the implementation of the LC program, while the issuing banks, QNB and CfC Stanbic, did not adequately implement the standard requirements for an LC.

The Bank of South Sudan and the JTC failed to require buyers or importers to deposit SSP into a special account—money that would have been refunded only when delivery or performance conditions were met and the “custom value certificate” indicating delivery of goods or services was presented.

Furthermore, the Bank of South Sudan and the Customs Service did not have the ability to trace and confirm delivery of goods. The Ministry of Trade, Industry and Investment and the Ministry of Petroleum did not effectively monitor or follow up on the LCs.

Ultimately, many of the applicants or importers and their foreign beneficiary exporters used LCs for illicit transfers, capital flight, and parallel market dealings. The AG and The Sentry could not find proof of delivery for hundreds of millions of dollars in goods.⁵⁷



An LC is a standard financial instrument to mitigate risk in international trade and should have functioned in South Sudan almost the same way it does in other countries. Had the program operated as planned, markets would have been stocked with food and other essential goods. Instead, drug, food, and fuel shortages remained, and prices skyrocketed.⁵⁸

Documents reviewed by The Sentry, which include hundreds of corporate records and government documents, as well as dozens of interviews with former officials and banking experts with first-hand knowledge of the program, show that South Sudanese government officials and regional networks of traders gained access to the majority of the LC-backed contracts, obtaining more than \$500 million of the \$922 million allocated LCs without showing any proof of delivering the essential goods these millions were meant to buy.^{59, 60}



Hijacked Process

From the outset, the implementation of the LCs program was problematic. Companies that received LCs in South Sudan were supposed to be rigorously vetted, but the criteria by which a company would be deemed eligible to obtain LCs included nothing more than a few registration and licensing documents, which could be easily obtained without necessarily demonstrating capacity or expertise in importing goods.⁶¹ Additionally, documents reviewed by The Sentry showed that contracts intended for local South Sudanese traders were awarded to companies owned by inexperienced middlemen, foreign-owned companies, and companies that existed only on paper.^{62, 63}

Briefcase companies

A report by South Sudan's auditor general (AG) states that dozens of companies that received LC allocations to deliver goods, either directly or as contracted exporters, were "briefcase companies" formed on paper months—and sometimes even weeks or days—before receiving their LCs.⁶⁴ Furthermore, the AG's report indicates that these companies often lacked the background or infrastructure needed to complete business transactions, failed to register with tax revenue authorities, did not have licenses to export commodities, and sometimes did not even have a physical office.^{65, 66, 67, 68}

The Sentry identified several companies allocated contracts or contracted as the foreign exporter that exhibited these characteristics.⁶⁹ For example, Royal International Enterprises Ltd. was incorporated on March 10, 2015, and was 100% owned by family members of two politically exposed persons (PEPs).⁷⁰ Six weeks after its incorporation, the company received a \$1 million LC from the Ministry of Health.⁷¹ Royal International contracted with Shekun General Trading in Uganda to export pharmaceuticals.⁷² Shekun General Trading is not licensed by the Ugandan National Drug Authority to buy, sell, or export pharmaceuticals; has no physical address in Uganda;⁷³ was not registered with the Ugandan Revenue Authority;⁷⁴ and does not appear in Ugandan export data from 2013 to 2015.⁷⁵ The Sentry investigated 13 Ugandan companies that were contracted to export \$20 million in pharmaceuticals to South Sudan and found that none of them had physical locations or licenses issued by the National Drug Authority, which are required for pharmaceutical exporters under the Ugandan National Drug Regulations of 2014.^{76, 77, 78} A review of Ugandan export records from 2013 to 2015 also reveals no export records for any of the companies.⁷⁹

Petroleum products accounted for one third of the total LC allocations, amounting to at least \$300 million.⁸⁰ All of these petroleum contracts were awarded by Nilepet, the government-owned oil company, or the Ministry of Petroleum and Mining.⁸¹ The Sentry found that at least 65% of these LCs, worth \$200 million, went to companies that did not appear as consignees in relevant Kenyan or Ugandan trade data during the time when they were supposed to be exporting urgently needed gas, diesel, and other products to South Sudan.^{82, 83} Nilepet awarded about \$191 million in contracts to private companies paid via LCs, but the AG reported that, after his review of documentation and delivery reports, he "could not confirm delivery of fuel by private companies who received letters of credit from Nilepet."⁸⁴

In another example, Sharty for Trade and Investment Co., a South Sudan registered company, was allocated numerous LC-backed contracts. Three contracts awarded in 2014 totaled \$1.1 million, and for all three contracts, Sharty appeared to enter into contracts with the Uganda-based export firm Denkel General Trading Co. Ltd.⁸⁵ The Sentry contacted the owners of Sharty, who told The Sentry that the company received



contracts and sold them to Denkel for 180,000 SSP (roughly \$56,962 in 2014).^{86, 87} This would indicate that Sharty imported no products and walked away with \$56,962 dollars for doing nothing.

Denkel, the Ugandan company that purchased the contracts, was majority-owned by South Sudan-based Eritrean trader Ghebremeskel Tesfamariam Ghidey,^{88, 89} who had been mentioned in a 2011 UN Security Council report as being connected to and potentially laundering funds for the ruling Eritrean People's Front for Democracy and Justice (PFDJ).⁹⁰ Ugandan incorporation documents for Denkel, reviewed by The Sentry, show that the company was incorporated on June 11, 2014, just one day before the first LC was awarded to Sharty.⁹¹ Over the following year, Denkel was designated as the Ugandan exporter by other South Sudan registered companies on 52 LC-backed contracts valued at a total of \$41 million.⁹² Denkel does not appear in Ugandan national export data for the corresponding period and did not pay any business taxes in Uganda until between 2014 and 2015.^{93, 94}

In total, companies owned by Tesfamariam benefited from at least \$68 million in LC-backed contracts, some of which were awarded to his numerous South Sudan registered companies as importers, while others designated Denkel as the Ugandan exporter.⁹⁵ Nine LCs, valued at over \$13 million, were awarded to Tesfamariam-owned companies registered in South Sudan that then entered into contracts with Tesfamariam's newly registered company Denkel for delivery of goods,⁹⁶ making Tesfamariam both the consignee and consignor on these contracts.

The Sentry found that at least \$428 million in LCs—close to half of all the LCs allocated—were awarded to South Sudanese companies majority-owned by foreign traders.⁹⁷ More than 300 LC-backed contracts, valued at \$172 million, were awarded to foreign cross-border traders who also owned Ugandan companies used as suppliers.⁹⁸ For at least 50 of those contracts, the same foreign traders owned both the South Sudan import companies and the Ugandan export companies.^{99, 100} Related-party transactions in which funds are transferred between entities with the same ultimate beneficial owners are a red flag for possible money laundering.¹⁰¹ The Sentry's review of tax data found that many of the Eritrean-owned, Uganda-registered exporters did not pay taxes in Uganda during the years they were receiving these lucrative contracts, and a few were not even registered with the Uganda Revenue Authority when they received the LCs.^{102, 103, 104, 105, 106}

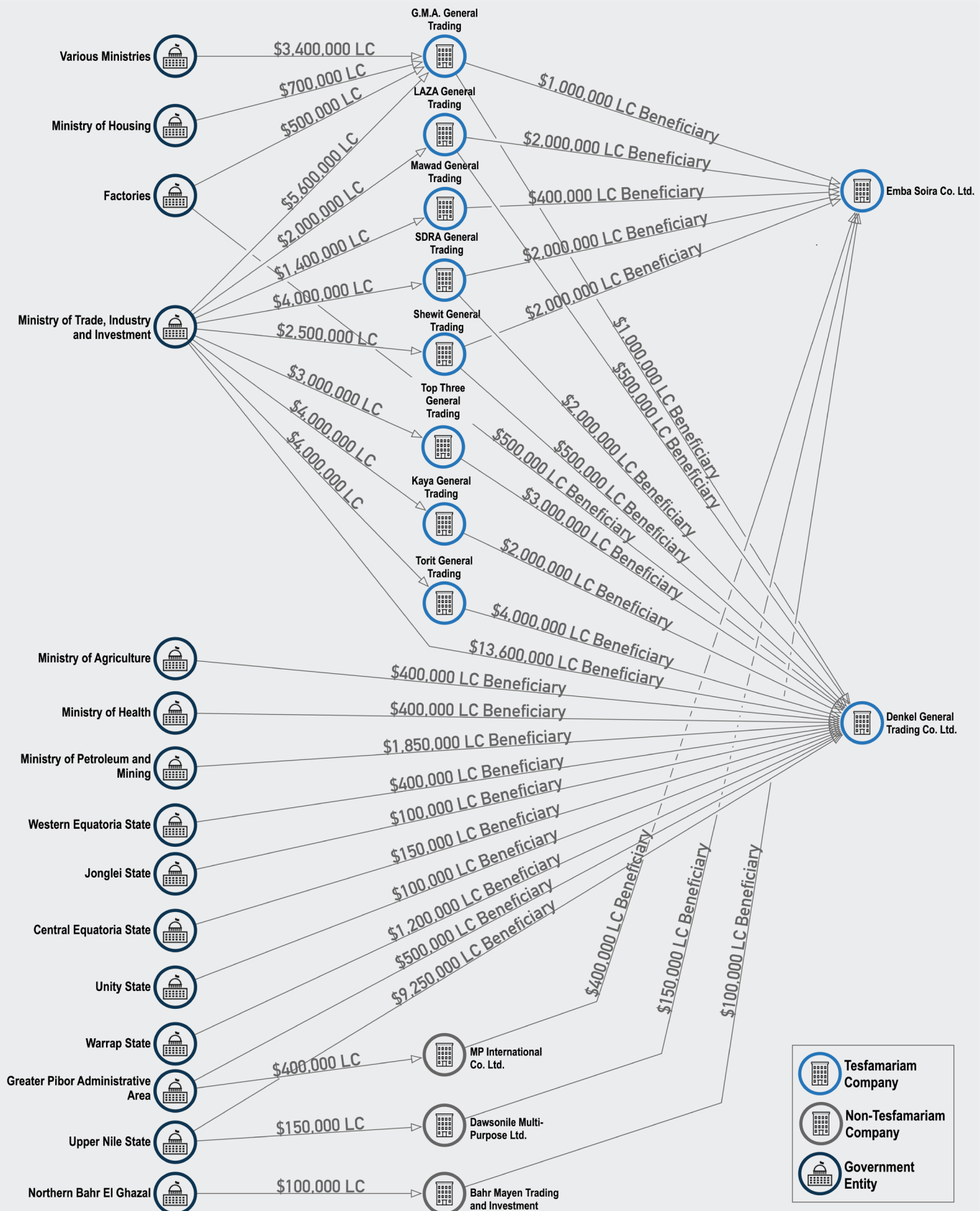
A 2016 UN report states that in some cases, when South Sudanese nationals appeared as shareholders on companies that benefited from the program, they were "brought on-board to front their foreign partners."¹⁰⁷ It continues: "The ability of so many foreign-run companies to exploit a government scheme is a testament to the extent to which their activities benefit top politicians and army generals."¹⁰⁸ The AG, as well, identified the ability of foreign-run companies to exploit a government scheme as a major problem that allowed well-connected officials to benefit from the program.¹⁰⁹





The Involvement of Ghebremeskel Tesfamariam Ghidey

Companies owned by Ghebremeskel Tesfamariam Ghidey touched at least \$58 million in LCs. Denkel General Trading and Emba Soira are both part-owned by Tesfamariam.



The middlemen

The government of South Sudan set up a JTC to approve the allocation of the LCs and the companies that benefited from them, but the committee apparently failed to properly vet the companies or ensure that they had the business logistics and experience to import goods from abroad, according to the AG's report.¹¹⁰ The JTC was formed to ensure transparency. "Its mandate was to receive applications from companies, screen them based on guidelines, which were originally from the Bank of South Sudan, then make preliminary selections and forward the list to the Bank of South Sudan for approval," the AG's report said.¹¹¹

The JTC was also supposed to try to "cut off middle men," a senior South Sudanese official with firsthand knowledge of the LCs program told The Sentry.¹¹² Those middlemen, he said, did not have expertise in trading the needed goods, but they had connections. In the very scenario that the committee was set up to prevent, these middlemen may have obtained LCs and sold them at a higher exchange rate to third parties with the needed expertise, resulting in the items being delivered by the third-party traders, but "at exorbitantly increased cost," the official noted.¹¹³

Additionally, South Sudanese traders were originally "never to touch the dollars except in the forms of goods received," said the former official. Only upon documented proof of delivery were the funds to be transferred to the exporters' commercial banks in Kenya, Uganda, or elsewhere.¹¹⁴ However, according to the AG, LCs were often allocated based on "strong arm pressure, intimidation, threats and blackmail by powerful and influential individuals."¹¹⁵ In other cases, members of the JTC would call on friends and relatives with no expertise—essentially middlemen—to apply for the LCs, and their LCs would be approved and distributed by the central bank before they deposited the required equivalent amount in SPP into the designated accounts with QNB, CfC Stanbic, or the Bank of South Sudan, according to the former official, who asked for his identity to be protected.^{116, 117} Even worse, the central bank would disburse the funds to those companies directly, and once transferred to the Kenyan or Ugandan account, some of the funds would be withdrawn in cash and exchanged on the black market at a significantly higher rate.^{118, 119} Companies that received LC funds would "sell the dollars on the black market for as much as five times the official exchange rate," according to the UN Panel of Experts on South Sudan.¹²⁰

The very criteria meant to ensure that companies awarded LCs had the ability to deliver goods "were not strictly followed and complied with," according to the AG's report.¹²¹ "Everybody in the process managed to register a company and secure all of the required documents and apply for the letters of credit," the report said.¹²² What's more, the government of South Sudan and the banks issuing LCs—QNB and CfC Stanbic—failed to monitor the import of LC-financed goods,¹²³ and the Ministry of Trade, Industry and Investment acknowledged to the AG's office that there was no system in place to do so.¹²⁴ The AG's review of LCs allocated by the Ministry of Agriculture found that some importers used the LC allocations to buy items other than the urgently needed medical and food products.¹²⁵ "I am much reserved and professionally skeptical about the status of goods delivery to the country," the AG wrote in his report, noting that "numbers of the beneficiaries of the letters of credit defrauded and failed to deliver the required items to the market."¹²⁶ The Mail & Guardian reported that "officials along the entire value chain of the allocation process reportedly took bribes, be it to secure allocations, to provide fraudulent customs documents proving delivery, or to expedite transfers."¹²⁷

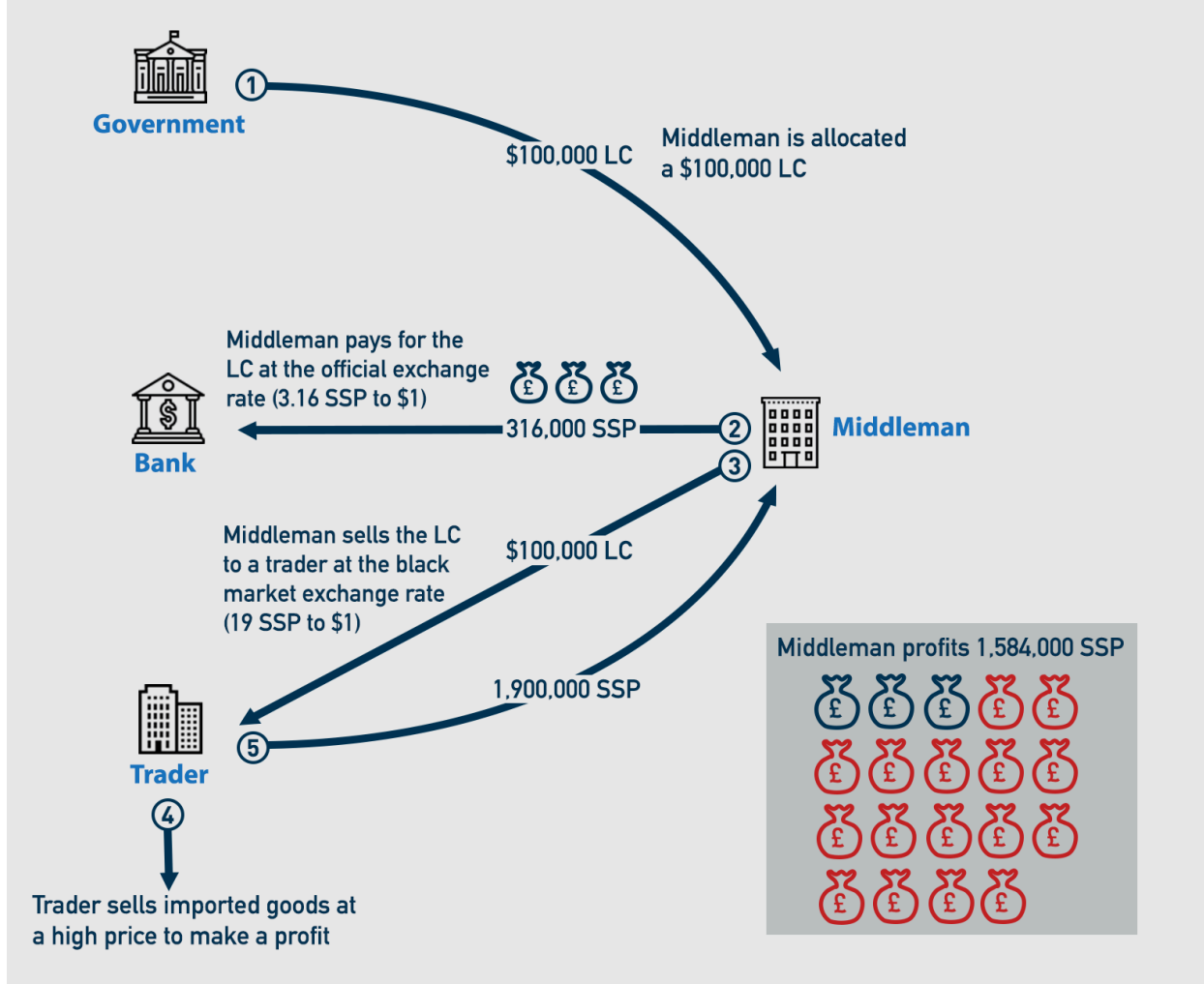


LCs Sold on the Black Market



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LCs were sold at a higher exchange rate to third-party traders, resulting in higher prices for goods sold in the markets. Some LC recipients simply changed their US dollars on the black market and never delivered any goods.



A National Legislative Assembly report on the management of the LCs found that some government employees who were working on the program admitted to investigators that they “do not know the purpose of the LCs.”¹²⁸ Presidential spokesman Ateny Wek Ateny acknowledged the program’s failures, too, telling reporters that the LCs were “being abused.”¹²⁹ International assessments concluded the same. UN experts determined that the way the process worked was “indicative of the opportunities for profiteering that have emerged in the course of the war.”¹³⁰



Captured LCs

The fragmented approval process, coupled with weak oversight measures, opened the door for PEPs to access the LCs program. The Sentry found that at least \$125 million of the \$993 million in contracts awarded from mid-2012 to mid-2015 were granted to companies owned—through complex networks—by powerful politicians and their relatives.^{131, 132}

Individuals entrusted with prominent public functions should be subject to increased scrutiny by financial institutions and obliged entities such as lawyers, notaries, and accountants to prevent corruption, according to the Financial Action Task Force's (FATF) guidance on PEPs.¹³³ As a result, banks dealing with LCs should have implemented risk management measures on companies owned or controlled by PEPs, as well as on all transactions related to prominent public individuals, their relatives, and known associates.¹³⁴ Yet neither the government nor the banks appear to have adhered to this guidance throughout the LCs program.

Some of the powerful elites who were awarded LCs were from the political and security establishments and used "intimidation" against the allocating committee in order to obtain LCs, according to the AG's report.¹³⁵ In an appearance before the National Assembly in 2015, Koriom confirmed receiving such threats.¹³⁶ A UN Panel of Experts report also confirmed these allegations, concluding that powerful individuals in the SPLM "intimidate[d] government committees to secure allocations to companies aligned to them."¹³⁷

Almost half of the LCs awarded to companies connected to elites—worth at least \$60 million—were for the import of petroleum products.¹³⁸ Of these, The Sentry found that LCs worth at least \$30 million were awarded to South Sudanese companies that did not appear as consignees, or importers, in Kenyan and Ugandan export data between 2013 and 2015.^{139, 140}

Kiir's involvement

President Kiir's children, nieces, and nephews have held shares in at least five companies that received around \$14.5 million in LC-backed contracts, The Sentry found.^{141, 142, 143, 144, 145}

In 2014, the Ministry of Trade, Industry and Investment allocated two LCs worth more than half a million dollars to Yiekarot General Trade Co. Ltd., a company at the time partially owned (46% total) by Kiir's son Mayar and daughter Anok, to import building materials and food from Uganda.^{146, 147} Neither of the two Ugandan export companies that Yiekarot entered into contract with appear in Ugandan export data reviewed by The Sentry for the period from 2013 to 2015.¹⁴⁸

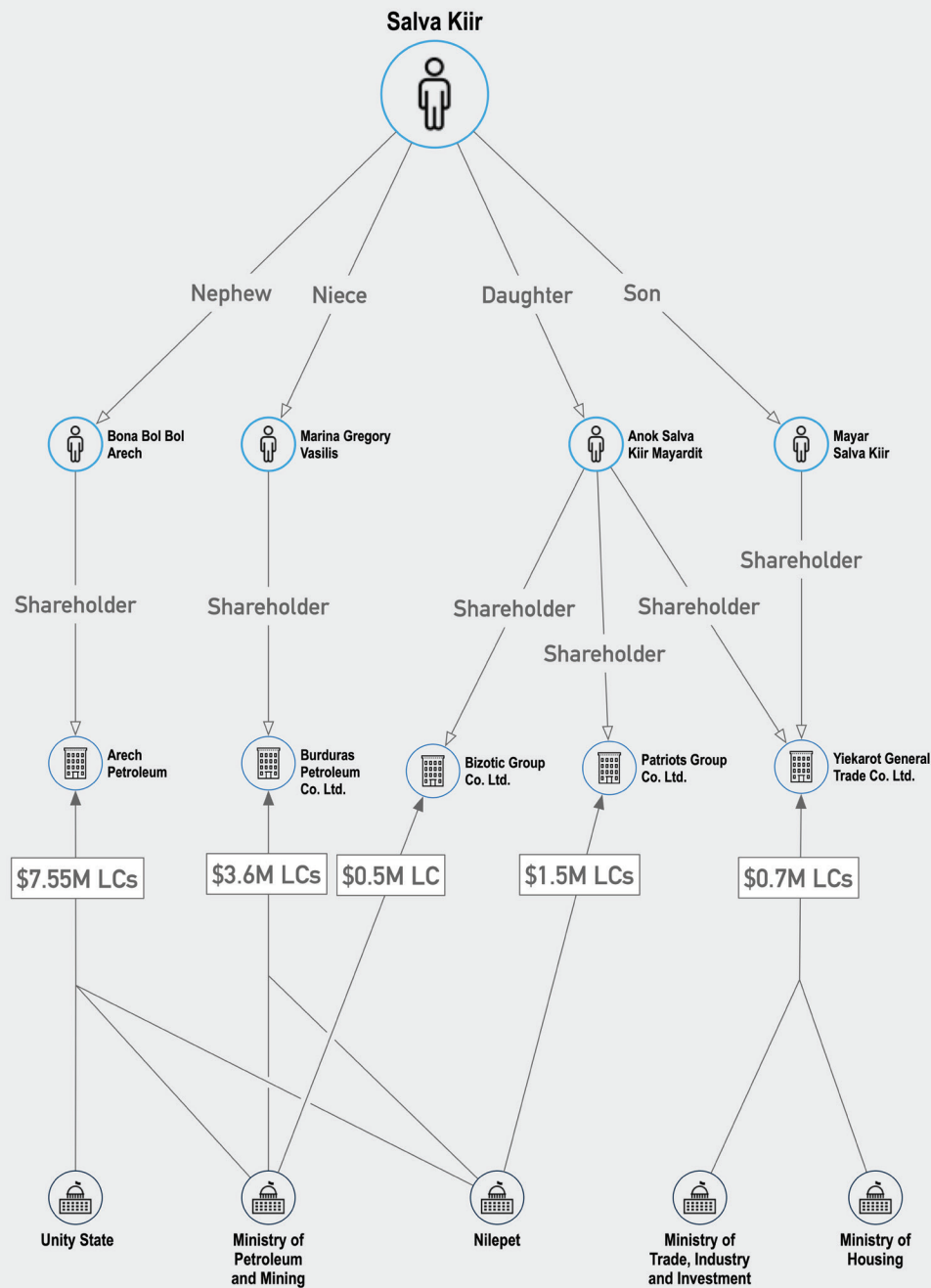
Mayar and Anok later transferred their shares to their business partner, Eritrean trader Yosef Simon Okubamicael.¹⁴⁹ Okubamicael's other companies—Lamek General Trading, Simon Trading, and Eifel Tower Construction and General Trading—received four additional LCs valued at a total of more than \$2 million.^{150, 151, 152, 153} Collectively, Lamek General Trading, Simon Trading, and Eifel Tower Construction were contracted to import goods valued at \$2.3 million. A review of Ugandan export data from 2013 to 2015 found only one import record for Lamek General Trading for \$25,658 of wheat/meslin flour. There was no other proof of delivery.¹⁵⁴

Anok was also a shareholder in two other companies that received LCs: Patriots Group Co. Ltd., which obtained \$1.5 million in LCs in June 2013, and Bizotic Group Co. Ltd., which received a \$500,000 LC in June 2014.^{155, 156, 157, 158}



Kiir Family Connections

Companies in which President Salva Kiir's family members have held shares received approximately \$14.5 million in LC-backed contracts.



At the time, Anok was a shareholder in Bizotic Group with her cousin, Rina Gregory Vasili Yalouris, the daughter of Kiir's brother-in-law, General Gregory Vasili,¹⁵⁹ a high-level military official who was placed under sanctions by the US in 2018 for "actions that have undermined peace, stability, and security in South Sudan."¹⁶⁰ The Sentry reviewed Kenyan and Ugandan trade data from 2013 to 2015 and found no record of imports for Bizotic Group.^{161, 162} Oil export data reviewed by The Sentry could only account for approximately \$375,000 of the \$1.5 million in petroleum products that should have been imported by Patriots Group.¹⁶³

Another of Kiir's nieces, Marina Vasili, held a 31% share in a company called Burduras Petroleum Co. Ltd.¹⁶⁴ Between October 2013 and February 2014, Burduras received six LCs worth more than \$3.6 million,¹⁶⁵ but a review of Kenyan trade data and oil export data shows no evidence that Burduras imported more than \$1.27 million in petroleum products.¹⁶⁶

Between June 2014 and January 2015, Arech Petroleum, in which Kiir's nephew Bona Bol Bol Arech held a 50% share, received more than \$7 million in LCs.^{167, 168, 169} Arech Petroleum is a functioning company and does appear in Kenyan export data from 2014 to 2015.¹⁷⁰

Interstate Airlines, a company partially owned by First Lady Mary Ayen Mayardit, was awarded a \$1 million LC on March 25, 2013. According to the AG's report, the contract to Interstate Airlines was canceled.¹⁷¹

The involvement of the central bank

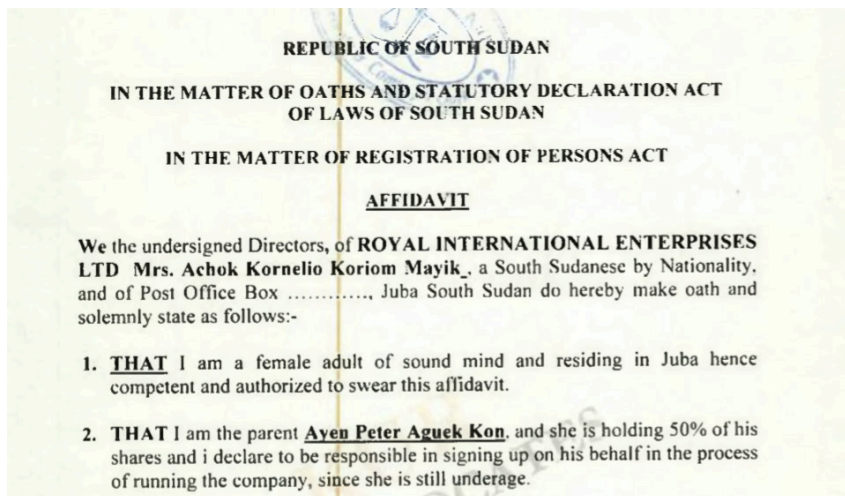
Relatives of the governor of the central bank, which oversaw the LCs program, also appear to have benefited. The Sentry found that between June 2012 and May 2015, companies owned in whole or in part by Koriom's family members received around \$12 million in LCs.^{172, 173, 174, 175, 176, 177, 178}

Koriom's family owned Walda Pharmaceutical, one of the companies that received multiple LCs to import pharmaceutical products totaling more than \$6 million.¹⁷⁹ Two of Koriom's children, Mayik and Achok, and Achok's son Biar were shareholders in the company from the time of incorporation in August 2011 and during the allocations of these contracts from 2012 to 2015, according to South Sudanese corporate records.¹⁸⁰ For two LC-backed pharmaceutical contracts valued at \$4.8 million, Walda designated as the supplier Shekun General Trading in Uganda.¹⁸¹ The Sentry found that Shekun was not registered with the Ugandan National Drug Authority and was not licensed to buy, sell, or export pharmaceuticals.¹⁸² Shekun did not appear in the Ugandan export data reviewed by the Sentry.¹⁸³ The Sentry could find no proof of delivery on millions of dollars' worth of LCs allocated to Walda by the Ministry of Health. The National Legislative Assembly report noted that the Ministry of Health "admitted they do not keep records and they do not know who delivered and who did not."¹⁸⁴ Additionally, the AG's report on the LCs program stated that Walda failed to deliver \$100,000 worth of products to Abyei State pursuant to an LC allocated by that state.^{185, 186, 187}

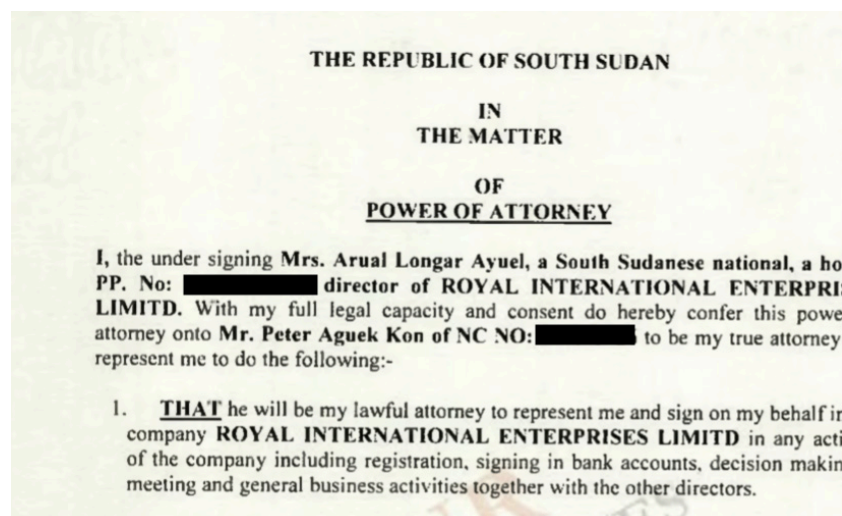
Koriom's daughter Achok also held a 50% share in Royal International Enterprises, a company that received a \$1 million LC to import pharmaceutical products.^{188, 189} Royal International was incorporated on March 10, 2015, and was awarded the contract just six weeks later on April 22, 2015.^{190, 191} On the day the company was incorporated, the shareholders were listed as Achok Koriom (50%) and nine-month-old baby Ayen Peter Aguek Kon (50%).¹⁹² Records reviewed by The Sentry show that one month later, baby Ayen's shares were transferred to her mother, Arual Longar Ayuel, who the records further reveal then gave power of attorney to her husband, Peter Aguek Kon Baak,¹⁹³ the head of the South Sudan Drug and Food Control Authority—the same agency responsible for overseeing the pharmaceutical sector in the country.^{194, 195}



Like Walda Pharmaceutical, Royal International also contracted with the unlicensed Shekun General Trading in Uganda for export of pharmaceutical products.^{196, 197, 198} In total, Shekun General Trading was contracted to export almost \$16 million in goods through 19 LC-backed contracts.¹⁹⁹ There is no evidence in the public record that Shekun exported any goods from Uganda,²⁰⁰ and the Ugandan National Drug Authority informed The Sentry that it could find no physical location for Shekun General Trading.²⁰¹



Aruel Longar Ayuel gave power of attorney to her husband, Peter Aguek Kon Baak, the director of the South Sudan Drug and Food Control Authority. Source: The Sentry.



The Koriom family owned shares in three other companies that received LCs. Jur River Construction and General Trading Co. Ltd. was incorporated in South Sudan in February 2011 and was owned entirely by Koriom's children and grandchildren.²⁰² This company received four LCs worth a total of \$3 million to import petroleum products to South Sudan.²⁰³ Pangol Enterprise and Development received four LCs from Nilepet and the Ministry of Petroleum and Mining, according to the AG's report.²⁰⁴ Three of Koriom's children incorporated the company in 2008, but the shareholders changed to suspected relatives of the children by the



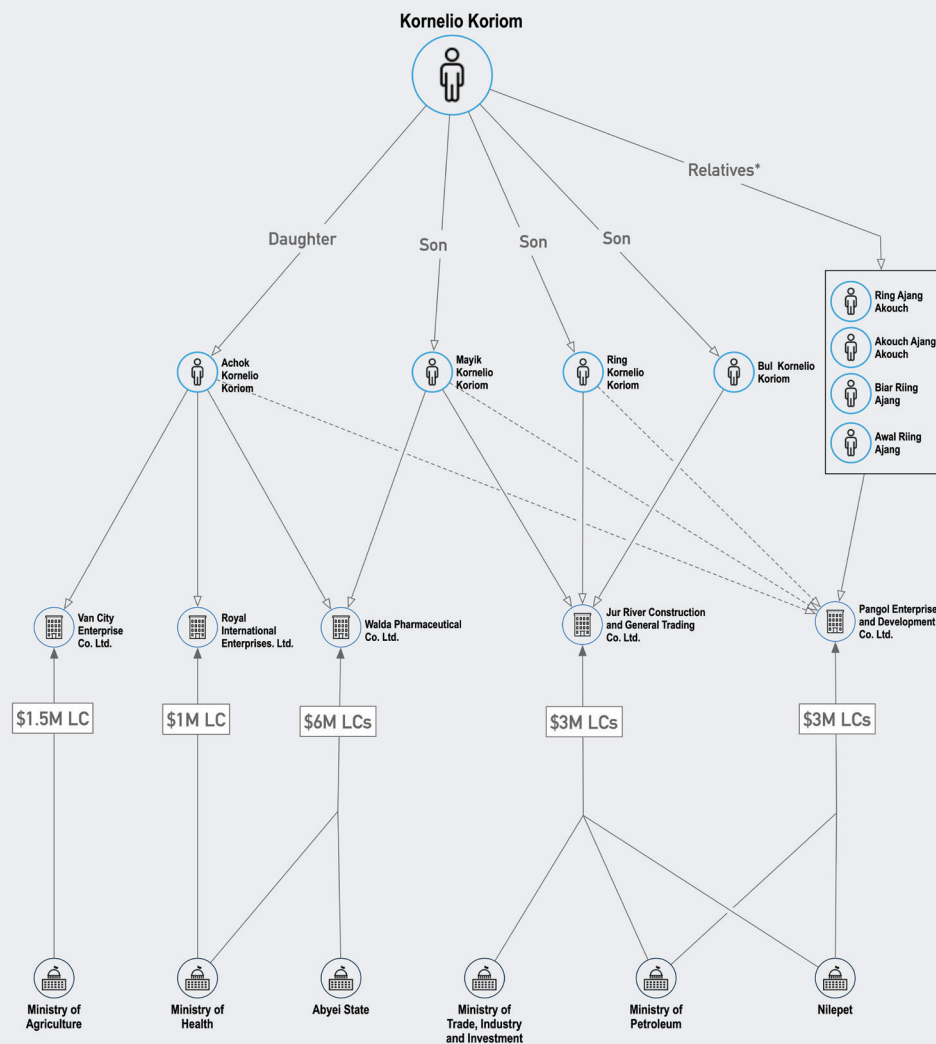
time the LCs were issued.^{205, 206, 207} Van City Enterprise Co. Ltd. was incorporated on December 12, 2014, and, just five months later, it was awarded a \$1.5 million LC to import agricultural supplies.^{208, 209} The only shareholders were Achok Kornelio Koriom and her spouse.^{210, 211}

Koriom Family Connections



THE SENTRY

Kornelio Koriom was the governor of the Central Bank of South Sudan at the time of the LCs program. Companies in which members of Koriom's family have held shares received approximately \$12 million in LC-backed contracts.



**Achok Kornelio Koriom, Ring Kornelio Koriom, and Mayik Kornelio Koriom were all shareholders in Pangol Enterprise and Development until February 2013, when they transferred their shares to fellow shareholder Ring Ajang Akouch. Achok Kornelio Koriom signed an affidavit dated August 16, 2011, stating that she is "the mother and guardian of Biar Ring Akuoc." This affidavit indicates a familiar relationship between the Koriom family and the Akouch family.*



The military and the LCs

The Sentry also found that high-ranking military generals and security officials were tied to companies accessing LCs. In April 2012, Eagle Pharmaceuticals Co. Ltd. was incorporated.²¹² Twelve weeks later, on July 11, 2012, the Ministry of Health awarded Eagle Pharmaceuticals an LC worth over \$5 million.²¹³ The company was partially owned by Gum Reuben Riak, a family member of senior military official Malek Reuben Riak.²¹⁴ Malek Reuben Riak was placed under sanctions in 2017 by the US Treasury Department for having engaged in actions or policies between 2013 and 2016 that “threaten the peace, security, and stability of South Sudan and expand or extend the conflict in South Sudan or obstructing reconciliation or peace talks or processes.”²¹⁵

In August 2014, a local company called 4 Seasons Restaurant received a \$200,000 LC to import essential commodities.²¹⁶ Former military chief of staff Gabriel Jok Riak held a 25% share in the company at its incorporation and was a senior Sudan People’s Liberation Army commander when the LC was allocated.²¹⁷ Later, in 2015, Riak was designated for sanctions by both the US and the UN due to his involvement in “violence and breaching ceasefire agreements” in 2014 and 2015.^{218, 219, 220, 221}

A company owned by General Manasa Machar Bol, now the director of security and coordination in the Ministry of Petroleum,^{222, 223} and members of his family received LCs valued at almost \$8.6 million to import petroleum products via Aromku Ltd,²²⁴ a company for which Bol and two of his minor sons held 100% of the shares.^{225, 226} In July 2013, Bol transferred his 80% share in the company to Abok Chol Atar Deng, with the remaining shares still held by his minor children.²²⁷ The Sentry reached out to Bol, who provided information related to Aromku’s delivery of petroleum products.²²⁸

The Sentry also found that LCs were awarded to companies owned in part by other military and security officials or their family members. These officials included Oyay Deng Ajak, a former military chief of staff and former minister of national security in the office of the president; Major General Ramadan Chadar, the spokesman for the National Security Service; and Major General Dau Aleer Abit, the director general of the Military Economic Corporation at the Ministry of Defense.²²⁹

For example, Quality Pharmaceutical Ltd. received multiple LCs amounting to almost \$1 million but failed to import the needed drugs, according to the AG’s report.²³⁰ The incorporation documents for Quality Pharmaceutical list Oyay Deng Ajak’s daughter and sister-in-law as shareholders.^{231, 232, 233, 234, 235, 236, 237} For at least one of the LCs, Quality Pharmaceutical contracted with the Ugandan company Zemha Karibu General Trading to import pharmaceuticals.²³⁸ Zemha Karibu General Trading was not licensed with the Ugandan National Drug Authority and does not appear in Ugandan export data from 2013 to 2015.^{239, 240, 241, 242} In an interview with The Sentry, Ajak denied that he failed to deliver the products, stating that his sister-in-law told him that she imported them and that South Sudan’s military owed the company payment for supplying medicine to its forces.²⁴³ His daughter, he said, was in school abroad at the time of the LCs program.²⁴⁴



No Accountability

In December 2015, the AG presented Kiir and members of parliament with a report documenting the performance and management of the LCs program.²⁴⁵ This report has never been made public. It exposes the systemic institutional failures that allowed the program to be manipulated for the benefit of powerful people and their allies. The AG found that “letters of credit were allocated to ineligible companies with no credible financial capabilities” and to briefcase companies.²⁴⁶ He added that his investigation suggests that most of the LC money was siphoned out of the country and that, in many cases, “no goods were delivered in the country.”²⁴⁷ The report identifies the companies allocated LC-backed contracts and, in many cases, lists the foreign exporter, the beneficiary bank that received payment, and the lack of proof of delivery of goods and services.²⁴⁸ The report concludes that officials in positions of authority and “fake traders” used the LCs program for their own personal financial gain at “the expense of the poor South Sudanese.”²⁴⁹

Despite the AG’s conclusions, The Sentry could find no record of anyone prosecuted for theft, embezzlement, fraud, or any other criminal conduct associated with the LCs program. The institutions most likely to be responsible for ensuring accountability for this scandal—the Ministry of Justice, the Public Prosecutor, and the Anti-Corruption Commission—all answer to Kiir, whose own family and associates appeared to benefit from the LCs program. The Directorate of Public Prosecutions (DPP), which supervises investigations, sits within the Ministry of Justice and Constitutional Affairs,²⁵⁰ and its director is appointed and can be removed by the office of the president.²⁵¹ The South Sudan Anti-Corruption Commission (SSACC) has no authority to prosecute because the constitution did not repeal or amend previous laws vesting prosecutorial powers in the Ministry of Justice.²⁵² Chapter IV of the 2018 peace agreement mandates transparency and accountability for government officials, but this has not happened.²⁵³

The role of the central bank, QNB, and CfC Stanbic requires additional scrutiny. The AG wrote, “It’s unreasonable for the issuing banks in South Sudan (QNB and CfC Stanbic) not to be quite aware about the obvious public facts in the country that letters of credit were being misused and that as issuing banks they should have taken due reasonable care to detect any impeding discrepancies ... [and] take necessary remedial actions or at least stop payment to those would be fraudulent beneficiaries.”²⁵⁴

The Sentry’s investigation shows how the issuing banks’ insufficient due diligence—coupled with the government of South Sudan’s lack of transparency and capacity to properly oversee a monumental economic initiative like the LCs program—failed the people of South Sudan. Many of the goods the LCs program was designed to import never arrived, and food and pharmaceutical shortages surged during the years of the LCs program, contrary to its stated aim.^{255, 256} Many of the leaders responsible for overseeing the program mismanaged and may have undermined the process, which was made worse by the fact that those handing out the contracts were officials across ministries and state governments with no background in evaluating companies for government procurement. As a result, South Sudan is in major debt to foreign banks with little to show for it.

Nearly a billion dollars left South Sudan with very little benefit to the people it was intended to serve. The mismanagement of the LCs program highlights how South Sudan’s public officials and institutions undermined economic progress in the country by enabling and possibly benefiting from abuse of the financial system. And the LCs program is not the only example. The Sentry has extensively reported on how procurement and construction contracts continue to be routinely awarded to companies owned by those close to well-connect-



ed political and military officials.²⁵⁷ Yasmin Sooka, the chair of the UN Commission on Human Rights, said that the commission has uncovered brazen embezzlement by senior politicians and the government, stating in September 2020 that government officials and senior politicians had misappropriated a staggering \$36 million since 2016.²⁵⁸

Until South Sudan's kleptocratic systems are dismantled and transparency and accountability are enforced, public officials and institutions will continue to undermine the country's ability to achieve economic progress, and the people of South Sudan will continue to face starvation, illness, violence, and lack of opportunity.

NATIONAL AUDIT CHAMBER

15. Concluding remarks

Instead of giving an opportunity to the people of South Sudan to reap the benefit of the government's effort in availing credit facilities (Letters of Credit) to the commercial and investment community to provide essential commodities and services to them at affordable prices, some few officials and fake 'traders' with apparently, assistance and collaborations from officials in authority turned this noble international trade payment facility (LCs) to a mere mean for personal benefit that draw for them quick foreign exchange earnings at the expense of the poor South Sudanese who is languishing and crying to secure his daily bread, supposedly, the Credit facilities were intended to secure. Hence, I believed that the performance and management of the Letters of Credit under my current audit, have caused the Country huge financial losses most of which have ended up to enrich very few individual companies and, probably some individuals at the expense of the majority of the populace in the country.

As a credible and integral Government Supreme Audit Institution (SAI) respecting its constitutional and legal mandates and responsibilities, I strongly recommend scraping and replacing the current Letters of Credit arrangements in order to end the practice of impunity and allow whoever is implicated in this to face justice.

The auditor general found that the letters of credit program benefited government officials and "fake traders" and resulted in financial damage to South Sudan at the expense of the citizens. Source: The Sentry.



Recommendations

When former First Vice President Taban Deng addressed US policymakers and reporters in Washington in 2018, he expressed confidence that the government of South Sudan had learned from previous mistakes, claiming that the LC allocations were “learning examples” for how to better manage economic resources.²⁵⁹ But little seems to have changed in the three years since, and the country continues to face massive shortages of essential goods. In order to prevent the continued plunder of South Sudan’s economy, the government must commit to a higher level of transparency and apolitical oversight of South Sudan’s finances, as laid out in the 2018 peace agreement. It must also strengthen the effectiveness of its anti-money laundering and countering the financing of terrorism (AML/CFT) regime in line with the FATF’s 40 Recommendations in order to prevent a repeat of the economic mismanagement that has plagued the country.

South Sudan

Conduct a rigorous investigation into the allocation of LC-backed contracts and those companies that did not deliver products, in line with the auditor general’s recommendation, and initiate asset recovery. The Ministry of Justice or another relevant authority, in collaboration with international authorities, should investigate the transactions described in this report.²⁶⁰ The findings should be published, and the owners and companies that did not supply products and potentially falsified trade documents should be charged and prosecuted. In addition, the government of South Sudan should request assistance from the Stolen Asset Recovery Initiative (StAR), a partnership between the World Bank Group and the United Nations Office on Drugs and Crime (UNODC), to provide technical assistance and facilitate international cooperation for the return of stolen state resources, including the hundreds of millions paid to foreign traders with no proof of delivery.

Strengthen the AML/CFT regime. The government of South Sudan should fulfill its June 2021 political commitment to work with the FATF to strengthen the effectiveness of its AML/CFT regime.²⁶¹

Implement Chapter IV of the Revitalised Agreement on the Resolution of the Conflict in the Republic of South Sudan (R-ARCSS) to address the crippling cycle of debt, economic mismanagement, and corruption undermining economic prosperity and fueling conflict.²⁶² In accordance with Chapter IV, the government of South Sudan must reorient its priorities to make sustainable development, sound fiscal management, transparency, accountability, and the wellbeing of its citizens central pillars of economic policy.

Create a public register disclosing shareholders and beneficial owners. Key company ownership information remains inaccessible to the public. This veil of secrecy has facilitated significant acts of corruption over the past decade, including those described in this report. A public online register—free to access and updated in real time—would serve as a vital tool to anti-corruption advocates, civil society, and political parties in demanding accountability from their leaders. Moreover, it would demonstrate the government’s commitment to building a more transparent system, a key step in inviting legitimate investors to do business in South Sudan.

Improve the public record-keeping and archiving system. The LCs program revealed the extent of missing data and documentation from the government, banks, and businesses in South Sudan. The AG pointed to a “weak archiving system to maintain the Letters of Credit applications files and other relevant documents”



as one reason for the program's failure.²⁶³ At the Ministry of Agriculture, for instance, some of the files were missing.²⁶⁴

Create a centralized e-transparency system that allows access to government financial data in order to create government accountability and fair contracting. This online database—which should also be available on mobile devices—should include government officials' asset declarations;^{265, 266} national and local budgets; procurement deals; mining, mineral, and oil concessions and other significant government contracts; and current oil production and sales data.

Empower and resource oversight institutions. South Sudan has already developed much of the institutional infrastructure essential for accountability and good governance. However, a lack of independence and human and financial resources hamstrings key oversight institutions such as the Anti-Corruption Commission and the National Audit Chamber. The government should take steps to ensure the proper disbursement of funds promised to the Anti-Corruption Commission and other oversight institutions. The government should also pass laws penalizing officials who fail to comply with their obligation to declare their wealth under the Asset Declaration Management System. The government should implement measures to give the Anti-Corruption Commission the right to prosecute transgressors. Lastly, South Sudanese leaders must take steps to ensure the various government agencies comply with the AG's investigations, making cooperation mandatory, since a refusal to cooperate has long hampered probes.

Implement an external third-party audit and investigation. The investigation revealed that the president's family may have benefited from the LCs program, constituting a conflict of interest that just scratches the surface of the widespread overlap between government and private business in South Sudan.²⁶⁷ Without full knowledge of where the LC funds ended up, there is no prospect for true accountability. To determine whether and to what extent PEPs unfairly profited from the LC's program, the AG should appoint an external, third-party auditor from one of the recognized, international professional accountancy bodies to build on his report. The results of the audit should be made public. The government should also allow a full third-party investigation into asset tracing and recovery to enable the identification and repatriation of funds.

United States

Investigate illicit money flows. The US government should investigate illicit money flows. FinCEN and the Department of Justice should investigate the ways in which the proceeds of the corruption apparent in the LCs program were laundered out of the country. The transactions identified in this report involve the use of US dollars. FinCEN and the Justice Department therefore have the authority to seek information from financial institutions and foreign counterparts whose jurisdictions may have been involved in laundering the proceeds of corruption. This information can form the basis for potential further action, including the review of transactions with regional correspondents, QNB, and CfC Stanbic to identify potential illicit financial flows. FinCEN should initiate information sharing and reporting under Bank Secrecy Act section 314(b) for organizations and individuals listed in this report. The US should also work to identify which companies and individuals listed in this report and connected to family members and close associates of the political elite remain operational. Consideration should be given to applying network sanctions to any groups of companies connected to family members of the political elite that are found to be used for nefarious means.



Kenya and Uganda

Investigate illicit money flows. Authorities in Kenya and Uganda should investigate the transactions identified in this report in which money sent to bank accounts in the two countries raised red flags for possible trade-based money laundering, particularly as the investigation uncovered that LCs were awarded to companies that did not appear as consignees in relevant Kenyan or Ugandan trade data. Financial intelligence units (FIUs) should investigate the movement of LC transfers to and through Kenyan and Ugandan banks. Revenue authorities should determine if taxes were paid on the funds deposited in relevant corporate accounts, and customs authorities should determine if goods were exported to South Sudan. Law enforcement should investigate illicit flows to determine if funds were stolen.

Investigate potential nonpayment of taxes and duties. The respective Kenyan and Ugandan customs and revenue authorities should investigate the Uganda and Kenya registered companies mentioned in this report for potential nonpayment of taxes and associated tax evasion as predicate offenses for money laundering.

Issue warnings on the money laundering risks associated with South Sudanese corruption. Financial regulators, including the central bank and FIUs in Kenya and Uganda, should issue circulars to the country's financial institutions warning of the risks of dealing with South Sudanese entities, especially those with connections to political elites as identified in this report. South Sudanese corruption-related money flows have often found a home in or flowed through Kenya and Uganda, creating risks of money laundering. The illicit flows will continue to be a threat to the integrity of financial systems and need to be urgently disrupted. These steps are particularly pertinent given Kenya's impending Eastern and Southern Africa Anti-Money Laundering Group mutual evaluation of its AML/CFT framework and Uganda's ongoing efforts to end the country's "grey listing" for shortcomings in its AML/CFT rules and regulations. This will also allow domestic banks to identify suspicious transactions and report these to their local FIUs.

Banks

Conduct enhanced due diligence, enhanced ongoing monitoring, screening, and transaction reviews. South Sudan is on the FATF's "grey list," meaning that obliged businesses are likely legally required by national regulations to carry out enhanced due diligence on all businesses and transactions incorporated in, beneficially owned by, or controlled by persons in South Sudan. Global and regional financial institutions should take measures to identify accounts held or beneficially owned by those with business dealings with South Sudanese PEPs, carry out a comprehensive assessment to identify their broader international networks, and determine measures needed to mitigate the risks involved in such accounts and customer relationships. Financial institutions should also undertake increased screening and enhanced ongoing monitoring and transaction reviews to identify, investigate, and report potentially suspicious financial activity related to South Sudan, especially with respect to international networks profiting from such activity. Additionally, financial institutions should carry out enhanced due diligence on LCs and similar instruments issued to companies beneficially owned or controlled by South Sudanese PEPs, influential public officials, military officers, their families, and their business associates, including on all parties to a transaction. This should include ongoing monitoring of the transaction through to completion.

Engage partner banks. The Kenyan and Ugandan banks involved in disbursing US dollars pursuant to the LCs have correspondent banking relationships with global banks. Global banks should work with their



banking partners in Kenya and Uganda to ensure that their systems and controls are reasonably designed to identify and mitigate the risks from transfers involving illicit funds with connections to South Sudan. International financial institutions should also work with their branches and respondent banks in the region to provide facilities and financial services to legitimate South Sudanese businesses and transactions. The banks can proceed in line with their risk appetite and policies while protecting the integrity of the global financial system against illicit finance.

Banks involved in the LCs program

QNB and CfC Stanbic and the Kenyan and Ugandan banks involved in the LCs program should initiate independent, third-party audits to investigate the banks' roles in the LCs scandal. The boards of directors of the aforementioned banks should initiate independent third-party audits of transactions or business deals entered into with the government of South Sudan and the companies—both import and export—benefiting from the LCs scheme. The auditors should review whether the banks complied with their respective AML/CFT and ABC policies and obligations and whether the activity complied with international commercial trade finance standards, including the International Chamber of Commerce's Uniform Customs and Practice for Documentary Credits.²⁶⁸ The results of these investigations and audits should be made public or, at a minimum, shared with the South Sudanese, Ugandan, and Kenyan governments.

Global and regional banks named in this report should sweep historical records to identify evidence of wrongdoing and fraud and report findings to local FIUs. At the same time, banks mentioned in this report should launch internal investigations into the circumstances that led to this grand-scale abuse and self-report to relevant regulators and, where evidence of criminality has been identified, to relevant law enforcement authorities. This could also include contracting a third party to trace stolen assets to repatriate funds.

Ensure compliance with AML/CFT, ABC, and international trade finance standards and best practices. The audits should be followed by steps to ensure that the banks have the necessary control frameworks, independent testing and audit functions, and training programs in place to ensure compliance with the aforementioned standards and best practices. In particular, banks should carry out enhanced diligence and oversight in high-risk trade finance transactions.

World Bank and the International Monetary Fund

Assess government institutions and corruption risks. The International Monetary Fund (IMF) should work with South Sudan to realize a dramatic improvement in governance, including strengthening institutions and accountability mechanisms. In addition, the IMF should utilize its suite of fiscal governance assessment tools—for instance, the Public Investment Management Assessment (PIMA) and Fiscal Transparency Evaluation (FTE)—to evaluate progress in improving accountability and governance shortcomings in South Sudan. These steps should be a critical component for accessing external financial support from development partners. The World Bank and the IMF should also condition future technical and financial assistance on a credible reform of the country's institutions of accountability.



Endnotes

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- 266 The Transitional Constitution of 2011 requires that senior public officials make confidential declarations of their income.
- 267 The legal, administrative, and institutional infrastructure of South Sudan’s banks and economy are well-crafted but



mostly unimplemented. For example, the Banking Act of 2012 outlines the registration and beneficial ownership guidelines for commercial banks, the South Sudan Anti-Corruption Commission (SSACC) is designed as an impartial body setup to investigate corruption, and the Anti-Money Laundering and Counter Terrorist Financing Act of 2012 requires financial institutions to report suspicious transactions to an FIU. See:

South Sudan, Banking Act, 2012

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