

**Why Reduction of
Illicit Financial Flows
that Fuels South
Sudan's War Economy
is in Kenya and
Uganda's Interest**



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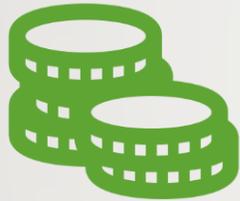




1. Introduction

- South Sudan is ranked as a fragile state and one of the most corrupt in the world.
- The policy brief by IEA traces institutional weaknesses that allow for illicit financial flows from South Sudan.
- Kenya and Uganda are key destinations and/or transit points of illicit financial flows from South Sudan.

2. Estimates of the Scale and Magnitude of IFF Outflows From South Sudan to Kenya and Uganda



i). Manipulation of the currency exchange control system: Most currency leaving South Sudan is in USD which has given rise to a black market system that manipulates the exchange rate to offer almost 400% of what is offered by the Bank of South Sudan.



ii). Theft of resources from extractive sector: Precious resources such oil, wood and metal ore are often shipped out of South Sudan illegally by the political class.



iii). Mismanagement of government procurement and payment systems: There is rampant abuse of procurement procedures thus creation loopholes for plunder of public resources.

3. Effects of Illicit Financial Flows From South Sudan



Illicit financial flows disorient public spending.



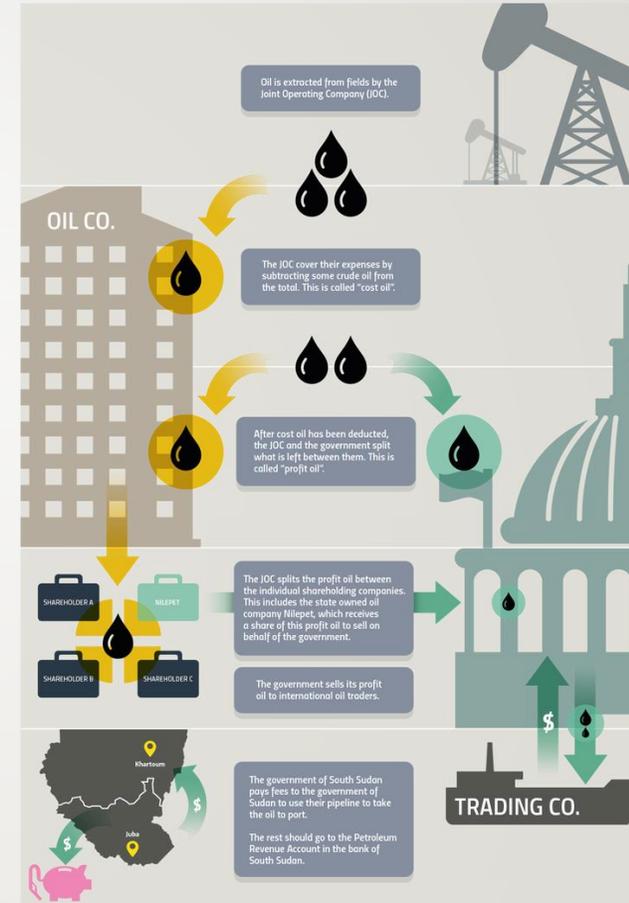
Illicit financial flows have increased South Sudan's public debt and taxes.



Illicit financial flows destabilize the economy.



Illicit financial flows facilitate state capture.





i). Risk of international down-grading due non-compliance with local and international AML laws. This may lead to downgrading in the FATF evaluation thus locking local banks from international financial infrastructure.



ii). Risks to status of Kenya as an International Financial Centre due to complicity of state organs on dealing with IFFs from South Sudan and protection of persons under watch list.



iii). Sectorial distortions mainly in the real property and foreign exchange services where most of the monies from IFF end up.

4. Risks Posed to Kenya and Uganda by IFFs from South Sudan

...risks continued

iv). Illicit financial flows weaken states and undermine effectiveness of regional bodies by compromising institutions charged with IFFs through bribery and corruption. They are also responsible for fueling corruption.

v). Undermining foreign policy goals, especially regional peace and security, and thus eroding their contribution to the peace process in South Sudan, where they have been key players.

vi). IFFs may delay admission into the Egmont Group, where both countries are candidate members and thereby justifying their classification as weak AML jurisdictions by FATF styled bodies.

5. What needs to be done? Policy Prescriptions to Combat Illicit Financial Flows from South Sudan

a). Kenya

i). Ministry of Foreign Affairs

- Comply with UNSC sanctions placed on individuals aiding or taking part in IFFs.

ii). Central Bank of Kenya (CBK)

- Ensure local banks comply with laws against IFFs.
- Enforce Kenyan laws against individuals or institutions taking part in IFFs.
- Enhance cooperation and coordination with other peer financial sector regulators in order to strengthen information sharing.
- Undertake risk assessments of illicit financial flows periodically and involve stakeholders in giving solutions.

iii). Parliament

- Oversight over institutions mandated to fight IFFs.
- make laws that ensure transparent ownership of legal entities such as companies, trusts, and partnerships.

b). Uganda

i). Bank of Uganda

- Ensure individuals sanctioned by the United Nations Security Council are restrained from use of Uganda's financial systems to transact illicit financial flows.
- Undertake risk assessments of illicit financial flows periodically and by sector.
- Strengthen information sharing pacts with other Central Banks in the region especially Bank of South Sudan and Central Bank of Kenya in order to be able to monitor financial flows from South Sudan.

Policy Prescriptions

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ii). Financial Intelligence Authority

- FIA should access additional information from reporting authorities to undertake its functions independently.

iii). Parliament of Uganda

- Expand the law to cover all categories as stipulated in the FATF glossary.
- Oversight role to hold accountable all institutions with the responsibility of eliminating IFFs.

Policy Prescriptions

iii). Kenya and Uganda Banks

- Enforce anti-money laundering laws.
- Comply with international supervisory standards.
- Be alert to transactions that involve politically exposed persons from South Sudan.

6. Conclusion

Legal instruments to prevent IFF in Kenya, Uganda and South Sudan are already in place. The following steps can be taken:

- Kenya and Uganda need to apply special vigilance to prevent use of their financial systems from taking part in the IFFs from South Sudan.
- Kenya and Uganda must take diplomatic initiatives to stop IFFs from South Sudan.
- Kenya and Uganda must work within the EAC to cut off financial infrastructure that benefits actors who contribute to the atrocities in South Sudan.

THANK YOU