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**House Foreign Affairs Committee
Subcommittee on Africa, Global Health, Global Human Rights, and International
Organizations**

April 27, 2016

“South Sudan’s Prospects for Peace and Security”

Chairman Smith, Ranking Member Bass, and Members of the Subcommittee, I am grateful for the opportunity to testify and for your efforts to shine a spotlight on what is one of the most acute humanitarian and human rights crises in the world.

South Sudan is a country that has effectively been kidnapped for ransom by its leaders. This was never so evident than during my last visit to the country earlier this year. A government at its most basic level is supposed to deliver social services, provide security, and safeguard the rule of law. In South Sudan, however, it has been transformed into a predatory criminal enterprise that serves only the interests of those at the top of the power pyramid. Competing factions of the ruling party have hijacked the state itself and are using its institutions—along with deadly force—to finance and fortify networks aimed at self-enrichment and maintaining or acquiring power.

Unchecked greed is the main conflict driver in South Sudan, although politicians have mobilized armed elements on the basis of ethnicity, leading to horrific war crimes which make peace and reconciliation all the more difficult. And it turns out that, despite its central importance in the war, unchecked greed is the one factor that has not been addressed within the context of international peace efforts.

Although its people are some of the economically poorest on earth, South Sudan is a country fabulously rich in natural resources. It is no coincidence, then, that for South Sudanese leaders, holding political power provides the primary means for self-enrichment. Just a year after the country achieved independence in 2013, revelations emerged that billions of dollars had already been looted from state coffers. And the looting has only escalated since. Investigations conducted by the Enough Project’s new initiative The Sentry¹ have identified numerous cases of large scale embezzlement through procurement fraud, outright looting of the country’s natural resources, and countless examples of unexplained wealth. Funds are routinely—and sometimes blatantly—misappropriated and diverted away from South Sudan’s central bank. In other cases, contracts are awarded to well-connected insiders, money is transferred, but the services are never delivered.

¹ The Sentry (www.thesentry.org), which I co-founded last year with George Clooney, is a partnership between the Enough Project, the Center for Advanced Defense Studies, and Not On Our Watch aimed at investigating violent kleptocratic networks in East and Central Africa and their international facilitators.

The factions vying for power in Juba truly believe that they can loot state coffers and commit atrocities with impunity. In the short term, an elite pact between the Juba government and the rebel SPLA-IO may be the quickest path out of the immediate violence, but sustainable peace in South Sudan will remain illusory if fundamental changes to end impunity and establish accountability are not made. A return to deadly conflict is likely unless the economic and atrocity crimes at the root of the country's violent kleptocratic system are addressed. To address root causes, effective, accountable institutions in South Sudan have to be built and a safe space has to be ensured for civil society and the media to perform their critical functions. But this won't happen unless there is a dramatic increase in the positive influence that the international community can wield. **Addressing root causes will need to involve leverage, which until now has been a cripplingly and puzzlingly insufficient part of international efforts to support peace and human rights in South Sudan.**

I say "puzzlingly" in the previous sentence for this reason: when the United States wants to counter terrorism, reign in nuclear ambitions, undermine drug trafficking or other organized crime, and secure other top policy priorities, a basic element of the strategy to achieve objectives is to build leverage through the use of the tools of financial statecraft. **Sanctions, anti-money laundering measures, prosecutions, asset seizure and forfeiture, and other economic tools of 21st century foreign policy are key instruments in securing foreign policy goals. How strange and disappointing is it that these tools are not effectively utilized for promoting peace and human rights in countries like South Sudan?** Going forward, these tools of financial coercion should be essential components of our efforts to secure peace, prevent mass atrocities, and promote accountability in South Sudan and other African conflicts which must matter enough to deploy the "first team" of policy options.

In response to South Sudan's deadly looting frenzy, the United States must lead the international community in building the leverage necessary to alter the calculations of the country's leaders away from war and towards peace, from kleptocracy to good governance, from impunity to the rule of law.

The surest way to build this leverage is by hitting the leaders of rival kleptocratic factions in South Sudan where it hurts the most: their wallets. This requires a hard target transnational search for dirty money and corrupt deals made by government officials, rebel leaders, arms traffickers, complicit bankers, and mining and oil company representatives. The United States should lead in the development of a coordinated strategy for South Sudan that leverages substantially increased and rapidly deployed financial pressure as a means to secure action by the parties to fully implement the peace agreement and dismantle the violent kleptocracy responsible for this destructive war.

U.S., U.N., and other diplomats often bemoan the lack of leverage at their disposal to actually influence South Sudan's leaders to alter the disastrous trajectory they have set for their country. Frankly, this state of affairs can be swiftly altered. Resignation to this

perceived state of insufficient leverage results from a lack of both political will and policy imagination. The rest of my testimony provides concrete proposals (**throughout the text in bold below**) that could rapidly build leverage for the United States and the broader international community, leverage that could and should then be utilized to help dismantle the violent kleptocracy in Juba and end the cycles of war that have torn the world's newest country to pieces.

The Impacts of Violent Kleptocracy

In South Sudan, grand corruption is inextricably linked to the violence that has plagued the country over the past two years. A 2015 report by the African Union Commission of Inquiry on South Sudan, which uses the word "corruption" no fewer than 34 times, emphasizes the centrality of corruption in the current crisis:

"It was clear from the various consultations of the Commission that the absence of equitable resource allocation and consequent marginalization of the various groups in South Sudan was a simmering source of resentment and disappointment underlying the conflagration that ensued, albeit the implosion of the conflict was brought about by the political struggle by the two main players. The struggle for political power and control of natural resources revenue, corruption and nepotism appear to be the key factors underlining the break out of the crisis that ravaged the entire country."

For South Sudan's citizens, the results of this war have been unequivocally disastrous. It is impossible to truly know the total number of casualties of South Sudan's civil war. According to USAID, nearly 2.5 million South Sudanese have been displaced internally or as refugees as a result of the conflict since December 2013. The country is currently experiencing an undeclared famine, particularly in war-torn areas. The Food and Agriculture Organization of the United Nations recently warned of "[a]larming reports of starvation, acute malnutrition and catastrophe levels of food insecurity."

Violent conflict also has a disproportionate impact on women and girls. In South Sudan, the underreporting of sexual and gender-based violence exacerbates this already serious problem. "Sexual violence remains largely invisible. It is significantly underreported because of cultural taboos, a lack of awareness and a lack of assistance," according to Aurore Brossault, a mental health and psychosocial support specialist with the International Committee of the Red Cross.

Since the war began, the United States and other donors have poured in billions of dollars in humanitarian, peacekeeping and other assistance. Yet the suffering continues, and South Sudan's civil war has taken a devastating toll on the country's economy. Research undertaken by our investigative initiative The Sentry has documented that, through it all, corrupt officials on both sides of the conflict have found ways to profit from the country's instability—whether through illicit currency speculation schemes or through opaque transactions with a host of international war profiteers. Worse, while many South Sudanese citizens are suffering from famine conditions and clinging to their lives, members of the country's ruling elite can afford luxurious properties in neighboring countries and

around the world and can send their kids to prestigious private schools overseas. The war that erupted between ruling party factions in 2013 has been hell for South Sudan's people, but very lucrative for the country's leaders and their international collaborators.

Looting and Killing with Impunity

The rival factions vying for control in Juba each have demonstrated a willingness to use lethal force on a large scale, stoke ethnic tensions for political gain, and commit mass atrocities in order to remain in power. There have been numerous credible reports of security forces targeting civilians. Dozens of humanitarian workers have been killed and their offices looted. In late February of this year, armed men attacked a Protection of Civilians (PoC) site in Malakal, South Sudan, killing over a dozen people, including several health workers. "The attack in the Malakal protection of civilians site (PoC) on 17 and 18 February is another horrifying instance of brutality in a two year conflict marked by utter and unacceptable lack of respect for the lives and dignity of South Sudanese civilians," Medicines Sans Frontieres said in a statement about the attack. "These callous acts of reprehensible violence occurred against a backdrop of two years in which civilians have been subject to indiscriminate levels of violence leading to death, irreparable wounds and the devastation of already extremely vulnerable communities in South Sudan."

This system of horrific violence does not develop and grow in a vacuum; rather it feeds on the deep corruption and lack of accountability that defines the system of governance in South Sudan. Yet the pervasive and systemic corruption that enables this violence is not the result of the complete absence of laws or institutions in the country. In fact, South Sudan's institutional and legal framework for governing public expenditures and combatting corruption was developed with a massive amount of assistance from foreign donors—including the United States—and is considered to exceed international best practices. These laws may look great on paper, but corruption remains rampant because they are simply not enforced with any regularity. In fact, it appears that the country's leaders have proactively cultivated weak and under-developed institutions that allow for minimal or non-existent checks and balances on the excesses of government officials. Meanwhile, journalists and activists who are supposed to be protected by the country's constitution are routinely subject to violence, intimidation, and other forms of obstruction by those in power. And therein lies the crux of the problem: South Sudan's kleptocrats believe they can loot state assets, flout the country's laws, commit war crimes, and sideline or kill those who get in their way—all without fear of any consequence.

A key priority for building sustainable peace in South Sudan is supporting the development of robust accountability mechanisms within the country that can safeguard the state from would-be institutional hijackers. In the long term, **the U.S. and international donors should further support South Sudanese government institutions designed to hold those in power accountable, including the Anti-Corruption Commission (SSACC), the Fiscal, Financial Allocation and Monitoring Commission, and the National Audit Chamber (NAC). The United States and broader international community should also increase diplomatic and financial support to the Joint Monitoring and Evaluation**

Commission (JMEC), a body that was set up in late 2015 to monitor the implementation of the peace agreement.

Given the enormity of the corruption crisis and its links to deadly violence, **donors and international institutions engaged in South Sudan should also give serious consideration to establishing a dual-key financial management mechanism similar to the Governance and Economic Management Assistance Program (GEMAP) used in Liberia from 2006 to 2010.** Under this arrangement, international advisors embedded in key ministries and state-owned enterprises had co-signatory authority over the allocation of contracts, natural resource licenses, and all other major expenditures for a period of several years after the end of Liberia's deadly civil war. In addition to having a strong capacity-building component, GEMAP also helped ensure that state revenue in Liberia was directed to pay for essential basic services. GEMAP also included international audit provisions for donor-provided funds.

The Government of South Sudan has spectacularly failed to provide basic services for its citizens, namely public sector employee salaries, public health initiatives, educational programs, and basic infrastructure. For this reason, a GEMAP-like arrangement should be strongly considered to safeguard the country's financial integrity. Without such an arrangement, the United States and other international donors have no guarantees that aid dollars and capacity building support will go anywhere but to support the kleptocratic system in place.

Ultimately, South Sudanese civil society must be allowed to play its proper role in holding state actors accountable for their actions. The South Sudanese government should create and enforce greater legal protections for civil society organizations and media monitoring corruption and other government abuses, as these actors will provide the foundation for accountability in South Sudan moving forward.

However, given that the South Sudanese elites responsible for the current civil war are actually benefiting from the status quo, those in power in Juba are extremely unlikely to adopt these measures without external pressure to do so. Therefore, the international community must do much more to build the necessary leverage that could be used to press South Sudan's leaders to make the difficult decisions for peace, transparency, and accountability.

Imposing Smarter Sanctions and Ramping Up Enforcement

Targeted sanctions aimed at the networks most responsible for the violence and corruption represent one of the most promising means of applying financial pressure on South Sudan's kleptocrats. Ideally, the United Nations Security Council would enact targeted sanctions on senior South Sudanese officials responsible for the rampant looting of state assets, widespread violence, and human rights abuses. However, some members of the Security Council have signaled that they will block any further sanctions proposed against South Sudan's leaders. **Given the low prospects of U.N. action on this issue, the United States**

should build a coalition of countries prepared to impose targeted sanctions on key high-ranking officials on both sides of the conflict who are undermining peace, and then robustly enforce those sanctions.

The United States should also strengthen the current sanctions regime that is in place by amending Executive Order 13664, which authorizes sanctions on the perpetrators of certain abuses in South Sudan, to include more robust criteria for designation. New provisions could include additional criteria that would allow the administration to place sanctions on South Sudanese officials engaging in public corruption or actions that stifle free speech or democracy through repression of civil society and media. An executive order issued just last week on Libya targets for sanctions those whose actions “may lead to or result in the misappropriation of state assets.” This innovative criterion would surely make sense for South Sudan. **The administration should consider enacting secondary sanctions that would target foreign financial institutions engaged in facilitation of public corruption in South Sudan. Additionally, sectoral sanctions could be deployed to limit certain types of financing available for future (rather than current) petroleum projects.**

To be frank, sanctions in many countries are ineffective and at times counter-productive. The main problems with sanctions in South Sudan and elsewhere are that they are often targeted at non-decision makers and are not sufficiently enforced. To counter that, **targeted sanctions in South Sudan should be imposed on much higher-level officials and should be the subject of strict enforcement efforts to demonstrate seriousness on the part of the United States and broader international community.**

Congress should work to ensure that the government agencies responsible for administering and enforcing targeted sanctions, in particular the Department of Treasury’s Office of Foreign Assets Control (OFAC), have sufficient resources and staff directed to pursue these cases.

Another step that the Congress could take on its own to put a dent in the culture of impunity that characterizes violent kleptocracies like South Sudan would be passing the Global Magnitsky Act. This bill, thanks to the tireless efforts of its original House sponsor Chairman Smith and co-sponsors such as Representative Cicilline, would provide the U.S. government with the authority to place sanctions on corrupt public officials who misappropriate state assets as well as anyone who attacks journalists and human rights defenders.

To reiterate, in order for the sanctions to be effective, they must be adequately enforced. Investigations by The Sentry and revelations in the recent U.N. Panel of Experts reports show blatant lapses in enforcement of U.N. sanctions placed on the perpetrators of abuses in South Sudan. We see not only violations of travel bans but also banks in Kenya that have maintained accounts for individuals under sanctions. Specifically, Major General Marial Chanuong Yol Mangok and Lieutenant General Gabriel Jok Riak continued to maintain accounts at Kenya Commercial Bank. Our information indicates that these were U.S. dollar-denominated accounts. **This means that the Department of Treasury’s Financial**

Crimes Enforcement Network (FinCEN) and other agencies should be able to follow up on transactions from these accounts and investigate further who else, in addition to the bank itself, was committing sanctions violations by conducting business with these individuals. Furthermore, we see some evidence that officials from countries neighboring South Sudan may have played a role in facilitating or helping to conceal the offshoring of their assets. The U.S. government must send a direct message to these countries and their financial institutions, starting with Kenya, that compliance with sanctions is not optional and facilitation of the wholesale looting of South Sudanese state assets will not be tolerated, or else there will be further consequences directed at their banking sectors. Finally, in conjunction with any future designations, the U.S. government should be proactive in ensuring that these countries and their financial institutions provide cooperative information and take appropriate enforcement action.

Tracing and Seizing Kleptocrats' Ill-Gotten Gains

Kleptocratic networks cannot operate in a vacuum. They require access to financial institutions, the ability to move or launder their ill-gotten gains, and safe places to stash their illicit proceeds. In the case of South Sudan, numerous international banks have facilitated the illicit transfer of funds out of the country. Several countries around the world, including regional neighbors, have also proven to be a safe place for South Sudanese leaders to park their assets.

Given the dominant role of the dollar in international transactions and the primacy of the U.S. financial system, the U.S. government has the power to obtain bank records from countries where these illicit assets are stashed. **FinCEN can and should send out a request to U.S. financial institutions inquiring about senior South Sudanese officials suspected of grand corruption. FinCEN could also issue an advisory to all U.S. financial institutions regarding the risk of possible money laundering activity related to the laundering of the proceeds of corruption from South Sudan. This, in turn, would trigger U.S. banking and financial institutions to provide information about possible indicators of money laundering to the Treasury Department.**

The administration should also begin direct and coordinated senior-level diplomatic outreach to key banks engaged in moving corrupt South Sudanese assets asking them to cooperate with these efforts by providing information, or face future, direct action that could limit access to U.S. or European financial systems. U.S. authorities should warn banks that are now engaged in moving corrupt South Sudanese assets that they could face significant penalties, including being cut off from U.S. or European financial systems.

As with sanctions, U.S. efforts to curb the offshoring of South Sudanese assets will be significantly more potent if done in concert with a range of international partners, especially the countries in the region where South Sudan's leaders often choose to park their illicit assets. **The administration should take advantage of mutual legal assistance treaties with several key countries in the region and send requests to**

Kenya, Uganda, and Ethiopia asking for bank records associated with South Sudanese elites suspected of grand corruption. If these countries are not cooperative, the administration can work with its allies to raise concerns in a coordinated manner about their possible non-compliance with anti-money laundering best practices in several international fora, including meetings of the Financial Action Task Force (FATF) as well as the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), where membership for these countries is discussed.

Once the offshored assets of South Sudan's kleptocrats are identified, U.S. authorities, as well as their counterparts overseas, should open investigations that could lead to the forfeiture of the assets and to the prosecution of those involved in money laundering. The Department of Justice's U.S. Kleptocracy Asset Recovery Initiative—an investigative unit comprised of personnel from the D.O.J., Federal Bureau of Investigation, and Department of Homeland Security—should lead the way for these investigations.

Holding War Profiteers to Account

It is not only South Sudan's kleptocrats that are making a fortune from the country's brutal civil war. A host of mercenaries and war profiteers have turned up in South Sudan, eager to make profit from the country's misery.

Take Erik Prince, the founder of Blackwater, for example. When Prince's firm, Frontier Services Group (FSG), began operating in South Sudan, he was explicit about one thing: FSG was dealing solely with the Ministry of Petroleum and Mining, not the military. Prince and FSG indeed have significant business interests in South Sudan's oil sector, including a contract to build and operate a diesel refinery and a \$23.3 million contract "to transport supplies and perform maintenance on production facilities at the oil fields." However, providing services to South Sudan's security forces would require a special license from the State Department in order to comply with the U.S. Arms Export Control Act and the International Traffic in Arms Regulations (ITAR). In fact, Prince's Blackwater company had been fined for operating without such licenses several times, including once in 2006 for offering its services to southern Sudanese rebels prior to independence.

Although Prince's associates stressed that they were not doing business with South Sudan's military, an investigation by the online investigative news site *The Intercept* found that Prince's company had attempted to provide attack aircraft to the Government of South Sudan in addition to other defense-related services. When crafting another pitch to South Sudan's government for an operation that, according to the report, would entail "oil field security training, security intervention and protection support services to the government" for a cost of some \$300 million, *The Intercept* found that Prince and his associates "explicitly plotted a business structure for the contract that would expose no traceable connection to them" which they believed "would enable them to hide violations of U.S. and international defense regulations." Documents obtained by The Sentry appear to confirm some key findings of this investigation. Records obtained through our investigation indicate that Frontier Logistics Consultancy DMCC, a subsidiary of FSG, also signed a \$5.6

million contract to provide “logistical support” to the Sudanese People’s Liberation Army. **The U.S. Department of State and Department of Justice should thoroughly examine whether or not Prince and his associates have violated U.S. laws and trade restrictions.**

Unfortunately, FSG is just one of many international companies that appear to have profited from South Sudan’s conflict. Many of these entities are based in places outside the United States, including well-known hubs for illicit weapons flows such as Ukraine. **However, most sanctions programs, including the one in place for South Sudan, contain provisions that allow the administration to place sanctions on anyone who provides financial, material, or logistical support to entities under sanctions or those committing sanctionable offenses. The administration could use these provisions to hold the international enablers and facilitators of violence and looting in South Sudan to account.**

Ending Impunity in South Sudan

South Sudan has been kidnapped for ransom, and the hostage takers so far have faced no consequences. But the United States and broader international community now have an opportunity to help South Sudan change course—and the U.S. Congress has a role to play. The United States has tools at its disposal to foster significant change and help to end the suffering on the ground in South Sudan, and Congress can urge the administration to deploy the tools of financial pressure accordingly and work to ensure that the agencies responsible for administering sanctions and such tools have sufficient resources and staff to fulfill this mission. Furthermore, passing the Global Magnitsky Act would help ensure that these agencies have a robust mandate to use their power to counter kleptocracy and disrupt the networks of those who commit mass atrocities while also protecting the journalists and human rights defenders who put their lives on the line while attempting to expose abuses.

Chairman Smith, Ranking Member Bass, and Members of the Subcommittee, thank you again for the opportunity to speak today about South Sudan.