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Bank of South Sudan's Governance, Nature, Development, and Economic Impact of the Banking Sector

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Abstract- The Central bank of South Sudan was established in 2011 following the country's independence from Sudan. The central bank is responsible for making and implementing monetary policy, issuing currency, and regulating the financial system. Since its inception, the Bank of South Sudan has faced numerous challenges, including a weak banking system, limited financial infrastructure, and a volatile economic environment. Despite these challenges, the bank has taken steps to strengthen the financial sector and promote economic growth.
The central bank's primary objectives is maintain price stability, which it seeks to achieve through monetary policy tools such as regulating the money supply and setting interest rates. The bank also has a critical role of promoting financial inclusion by working to help the undeserved communities have access to financial services. To address the challenges facing the financial sector, the Bank of South Sudan has implemented several reforms aimed at strengthening the banking system and improving financial infrastructure. These include the introduction of new regulations, the establishment of a credit reference bureau, and the development of a national payment system. Despite these efforts, the Bank of South Sudan continues to face significant challenges, including a high rate of inflation, limited foreign exchange reserves, and a lack of confidence in the banking system. To address these challenges, the bank has focused on implementing sound monetary policies, increasing foreign exchange reserves, and working to restore public confidence in the financial sector. In conclusion, the Bank of South Sudan has a crucial role in promoting economic development and growth in the South Sudan. Despite facing numerous challenges, the bank has taken significant steps to strengthen the financial sector and promote financial inclusion. Going forward, the bank must continue to implement sound monetary policies and work to address the remaining challenges facing the financial sector to promote sustainable economic growth in South Sudan

I. INTRODUCTION

South Sudan is a young nation located in the north eastern part of Africa. It gained independence from Sudan in July 2011, becoming the world's newest country. Despite its vast potential for economic growth, South Sudan has been plagued by conflict, poverty, and underdevelopment.

South Sudan's economy is largely agricultural, with over 80% of the population engaged in farming, fishing, or livestock raising. The country's fertile land and ample water resources could support a thriving agricultural sector, but decades of war, displacement, and neglect have left the sector severely underdeveloped. Most farmers use traditional methods of farming, with little access to modern tools, fertilizers, or irrigation systems. As a result, crop yields are low, and food insecurity is widespread.

Oil is another significant sector in South Sudan's economy, accounting for 90% and above of South Sudan's export revenue. South Sudan has some of the largest oil reserves in Africa, and production peaked at around 350,000 barrels per day in 2011. However, production has since declined due to conflict and disputes with Sudan over oil transit fees. The recent peace agreement between the two countries is expected to increase oil production and revenue in the coming years.

Despite the potential for agricultural and oil exports, South Sudan's economy remains heavily dependent on imports for basic goods and services. The country has limited infrastructure, and most of its roads, bridges, and buildings were destroyed during decades of war.

The lack of reliable transportation and communication networks has hindered trade and investment, further perpetuating the country's economic challenges.

South Sudan's economic challenges are further compounded by political instability and conflict. The country has been embroiled in civil war since 2013, causing widespread displacement, loss of life, and destruction of infrastructure. The conflict has also disrupted agricultural production and trade, causing food shortages and skyrocketing prices.

In conclusion, South Sudan's economy is still in its early stages, and faces significant challenges to achieve sustainable growth and development. The country's agricultural and oil sectors have great potential, but they require significant investment and modernization. Addressing political instability and conflict is crucial for building a stable and thriving economy, and restoring essential infrastructure and services is necessary for improving the lives of South Sudan's citizens.

II. A SUCCINCT REVIEW OF THE LITERATURE ON THE GOVERNANCE STRUCTURE OF CENTRAL BANKS

The governance structure of the Central Bank is built on transparency, independence and accountability. (Amtenbrink, 2004). In order to ensure that the central bank can perform its role effectively, it is widely agreed that it should have a high degree of independence and minimal influence from the government or other external bodies.

There are several reasons why central bank independence is crucial. Firstly, political interference can cause the central bank to prioritize objectives other than important primary policy goals. Secondly, the central banks fiscal policy dominance can cause it to steer away from meeting its goals (Neil and Wallace, 1981). Thirdly, institutions that are not well regulated, are easily captured by interest groups, which leads to predatory actions (Stigler, 1971). Fourthly, a central bank that is independent can protect its monetary policy from abuse, manipulation and pursuit of short-term benefits by political leaders. These are some reasons that provide strong justifications why many central bank governances should be independent.

However, there are also counterarguments against an independent central bank. Some argue that the central bank places a few un-elected officials in charge of some monetary. Others point out the difficulties in separating fiscal and monetary policies, as well as the unbalanced relationship between the two. Finally, an independent central bank can cause institutional rigidness (Taylor, 2002).

Despite these opposing views, it is important to prioritize competing objectives of the central bank as any wrong decision may have long-lasting impacts. While there are some weaknesses in having an independent central bank, lack of it is not a better substitute. Having a Balanced, independent and coordinated division between fiscal and monetary policy is vital for a more successful economic management.

Independence of the central bank can take different forms such as Setting policy goals for the central bank, for instance, targeted inflation, and selecting financial instruments to achieve its objectives. It designs its operational processes and has self-governance on its finances or operations (Central Bank of Nigeria, 2012), with low influence from other government agencies. Over the past 30 years, countries that have adopted policies that allow for an independent central bank have managed to achieve macroeconomic stability and low inflation rates (Lastra, 2010; Abor et al., 2010).

Transparency is crucial in ensuring that the public understands the central bank's objectives and the rationale behind its policy decisions. Data related to monetary policy and operational processes have to be made accessible to the public in a more timely and comprehensive manner. Having Transparency ensures that the public can evaluate and make judgment on the performance of the central bank. Some of the things that can be done by policymakers in the shadows of secrecy cannot be done by those who work in public (Fischer, 2001).

Accountability on the other hand ensures that transparent oversight mechanisms are created to account for monetary policy implementation and formulation. The Maastricht Treaty in Europe made it mandatory for a central bank to be independent as a prerequisite to becoming a member of the European

Monetary Union. Efforts should be made to ensure that the regulatory and governance frameworks for the banking sector in East Africa Communities (EAC) are aligned with these principles (Adam, Data, and Haas, 2016).

III. THE STUDY OBJECTIVES

The objective of this study is to evaluate the performance and effectiveness of the Bank of South Sudan in achieving its key mandate of promoting monetary stability, ensuring a sound and efficient financial system, and fostering economic development in the country. The study aims to identify the strengths and weaknesses of the Bank's policies and operations, including its regulatory and supervisory framework, monetary policy tools, and financial market development initiatives. Additionally, the study seeks to provide recommendations for enhancing the Bank's effectiveness in achieving its mandate and contributing to sustainable economic growth in South Sudan.

IV. RESEARCH METHODOLOGY

The purpose of this research is to investigate the governance, nature, development, and economic impact of the banking sector in the Bank of South Sudan. This research will provide a comprehensive understanding of south Sudan's banking sector and its role in the economic development of South Sudan. The findings of the research will be useful to stakeholders, regulators, and policy makers in the banking sector, in making informed decisions that promote the economic development of South Sudan.

This research will adopt a mixed-method approach, which involves both quantitative and qualitative data both obtained from secondary sources of data. The secondary data will involve the use of data obtained from the Bank of South Sudan, world bank, International Monetary Fund (IMF), and other relevant sources. The data collected from the secondary data sources will be analyzed through charts and descriptive methods as well as content analysis.

This research is how ever subject to some limitations, including the availability of data and the potential biases in the data collected from the secondary sources.

V. SOUTH SUDANESE BANK: GOVERNANCE'S EXPERIENCES

Most central banks follow to the three pillars of governance, which are transparency, accountability, and independence, as recommended by the CBN in 2012. However, it is unclear if the Bank of South Sudan (BSS) conforms to this best practice. The BSS board is the chaired by the governor, unlike in Kenya where an independent chairman leads the board. This small difference is crucial to the regulation and functioning of the financial sector.

Central bank management plays a vital role in formulation of policies, execution of the bank's mandate and oversight. Although structures of governance might vary from one central bank to another, the features and roles are usually the same. In Kenya, the board is responsible for oversight and policy formulation while the management executes the policies and mandates of the bank. The board and executive management are separate entities.

In contrast, Uganda and South Sudan place the governor in charge of the executive management and board of the bank, weakening the accountability mechanism. An independent board can protect monetary policy from fiscal policy dominance, as the governor frequently interacts with fiscal policy managers. Therefore, an independent person, rather than the governor, should chair the board to promote accountability, as in Kenya.

The governance structure of the board of the Central Bank of Kenya comprises competent and independent representatives of various groups of interests in the economy, inhibiting leaning of political interests from controlling monetary policy. The appointment of the board members is done through a competitive process recommended by the Minister of Finance and aligned with groups of interest such as the private sector, academia and women, as stated by the Act of the Central Bank of Kenya. This approach can enhance competency and diversity of interests on the board. In South Sudan and Uganda, the appointment of non-executive board members and governors of the central bank is done differently. The President is in charge of appointing governors in South Sudan and Uganda, while the Minister of Finance is in charge of appointing non-executive board members in South

Sudan and Uganda, the President appoints board members based on recommendations from the Minister of Finance. However, such an approach has some limitations. First, the recommendation powers can lead to fiscal policy dominance over monetary policy. Second, without a competitive recruitment process, there may be concerns about the competence of those recruited to the board. Hand-picked officers with political connections may not be representative of critical sectors of the economy, such as civil societies and private sector.

Therefore, the structure of governance and recruitment process of the central bank are critical to insulate monetary policy from political interference. Recruitment ,termination procedures and compensation, for management and workers of the central bank are also essential to consider for effective management. A competitive recruitment process ensures that the country attracts the best talents, reduces arbitrary appointments, and builds trust in the governor and the bank. The Monetary Policy Committee is responsible for monetary policy formulation in Kenya. In South Sudan, a board chaired by the governor is in charge of policy formulation.

The central bank must provide information to the public in order to be transparent to allow criticism from the public. The Central Banks of Uganda and Kenya provide information on their websites for board member profiles, macroeconomic reports and audited financial statements. This enables critique from the public and enable the public to form macroeconomic expectations. However, the Bank of South Sudan has no operational website and provides very little information about its performance and data. This demonstrates reluctance on its part to be transparent, and secrecy can lead to issues, as Stieglitz noted. Despite the Bank of South Sudan Act 2011, which requires the management to provide information to the public, the bank has done little to meet this legal expectation and best practice. Public economic policy discourse depends entirely on information made available to the public, and such discussions have the potential to improve policy formulation.

According to the Bank of South Sudan Act of 2011, if the governor deems it necessary to remove a board member, they will draft a recommendation letter to the Minister of Finance. Similarly, if the issue involves the governor, the recommendation for removal will come from the most senior deputy governor. However, the president has the authority to decide either to remove the affected member or not. Unfortunately, this provision does not protect the board members from political machinations, leaving them vulnerable to unwarranted removal. Additionally, this provision grants the President a significant amount of discretionary power, which can be abused for political purposes.

Financial and operational independence are important indicators of a central bank that operates independently, they cannot work in isolation. Their effectiveness is derived from the governance structure put in place. The law must grant management the appropriate powers to control the bank's resources and operations.

The central Bank of South Sudan is required to report and be accountable under the law, but their website is currently down and there are no public documents available on their performance. This raises concerns about the bank’s transparency and accountability. Despite a legal provision that restricts deficit financing to the government, the bank provided significant financing beyond the allowed limit after December 2013.

VI. THE NATURE AND DEVELOPMENT OF THE BANKING SECTOR.

Since gaining independence from Britain in 1956, South Sudan has been in a prolonged conflict with Sudan, which has hindered the development of its social, political, and economic institutions. In 2005, North and South Sudan signed a Comprehensive Peace Agreement (CPA), putting an end to the over two-decade-long war. The referendum enshrined in the CPA paved the way for the separation of South Sudan and North Sudan in July 2011, resulting in the emergence of South Sudan as a new state.

In the beginning of 2005, only four banks were operating in South Sudan. However, after the signing of the peace agreement, the number of banks grew rapidly. As of the end of 2013, there were 28 banks in operation, providing access to banking services to 3% of South Sudan’s population. This figure was significantly lower than the 42% in Kenya and 20% in Uganda, as reported in a conference in 2013. The growth of banks in South Sudan has been remarkable, as evidenced by Figure 1, which compares the evolution of banks in Uganda, South Sudan and Kenya. Additionally, as of the end of November 2013, 70 applicants had applied for bank licenses, further indicating the potential for growth in the banking sector.

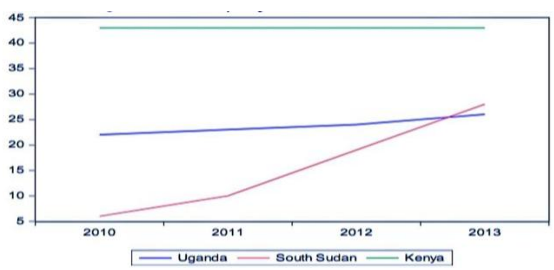


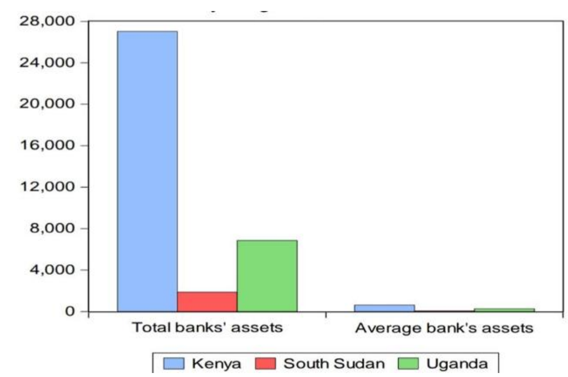
Figure 1: -Banks in Kenya, Uganda and South Sudan, 2010 – 2013.

Source: Bank of South Sudan 2014

The Banks have been established to offer financial services to governments, corporate entities and individuals. As per Smith's theory of rationality (1976), banks, like other firms, operate with the aim of maximizing their profits and act in their self-interest. Banks generate revenue from three primary sources, namely interest income from loans extended to investors, fees charged on transactional services, and income from foreign currency trading. It is the revenues generated from these sources that fuel the expansion of banks.

As of 2005, only four banks were operating in South Sudan. However, since gaining independence, the number of banks has increased significantly to a total of 28. These banks offer transfers and remittance services, basic deposit accounts and foreign exchange services. As stated in the Conference of 2013. According to Figure 2, the total asset value for banks in South Sudan is $1.9 trillion, whereas Kenya's banks have an asset value of $27 trillion, and Uganda's banks have an asset value of $6 trillion. These values were estimated in December 2013, after converting the banking sector balance sheets into dollars. On average, a bank in Kenya has an asset value of $629 million, a bank in Uganda has an asset value of $263 million, and a bank in South Sudan has an asset value of $67 million. However, the liberalization of the pound in December 2015 has led to further deterioration in the asset value of South Sudan's banks.

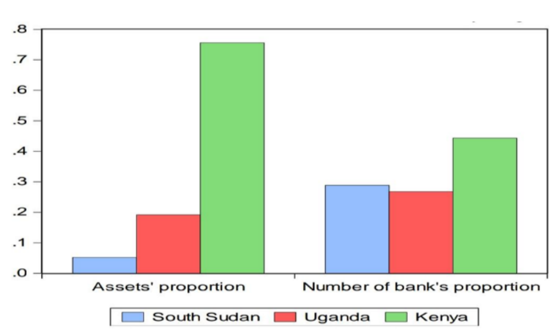
According to Figure 2, the assets of banks located in South Sudan, Kenya and Uganda were recorded in December 2013."



Source: the central Bank of South Sudan, Kenya and Uganda, 2014

The amount of banks in South Sudan has enhanced at a rate which is not consistent with the trends observed in neighboring countries such as Uganda and kenya. This is despite the fact that as a new country, there would be an expected demand for banking products which would drive the growth of banks. However, it is evident from Figure 2 that the growth of banks in South Sudan has not been accompanied by a strong asset base. Furthermore, Figure 3 illustrates the number and asset of banks as a proportion of the total amount banks and assets in the three countries, indicating that South Sudan has the lowest proportion of assets.

According to the information provided in figure 3, the assets and number of banks in South Sudan, kenya and Uganda were recorded in December 2013.



The Bank of South Sudan reported in (2014), while both the Central Bank of Uganda and Kenya released reports in (2013).

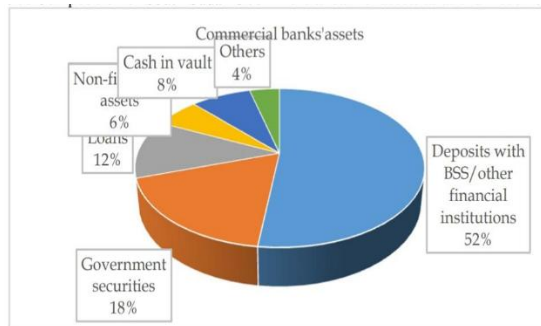
In essence, banks exist to provide financial services demanded by the financial market. Owners or investors establish banks for profit, as there is an opportunity to be exploited through foreign currency trading fees , transactional services and loan interest income . The theory of competitive markets suggests that firms enter a market with abnormal profits until these profits are normalized. Thus, it raises the question of whether there was abnormal profit in banking sector of south sudan that drove the enchance in the amountof banks.

According to the competitive market's theory, it is plausible that abnormal profit led to the creation of more banks in South Sudan between 2005 and October 2013, when the number of banks increased from four to 28. Figure 4 indicates a low loan-deposit ratio, suggesting that the growth of banks was not driven primarily by the demand for loans. Instead, this paper proposes that an arbitrage opportunity resulting from the fixed exchange rate regime in place was a key factor in the growth of banks in South Sudan. Section V will provide a comprehensive analysis of this subject matter.

the banking sector in South Sudan's growth is characterized by several issues. Firstly, the newly established banks were severely under-capitalized. Secondly, the amount of loans provided to the economy was minimal, resulting in little contribution to investment creation. Thirdly, access to banking services was limited, with only 3% of the population having access to such services in South Sudan as of October 2013. Compared to relative proportions in Kenya and Uganda, the banks in South Sudan provided little information to the people.

In December 2013, 52% of bank deposits in South Sudan were held by the other financial institution and Bank of South Sudan , while in government securities was 18%. In total, this meant that 70% of banks' assets in South Sudan were under the control of the Bank of South Sudan and, by extension, the government (Bank of South Sudan 2014). The growth of banks that provide no loans resulted in a large holding of cash, reflected in the high liquidity in the banking sector shown in Figure 4.

"According to the data reported at the end of December 2013, the assets held by commercial banks in South Sudan were composed as illustrated in Figure 4."



The information in this text was obtained from The Bank of South Sudan's Annual Banking Supervision report of 2013.

The banking sector in South Sudan is currently facing a liquidity crisis, which is likely due to the Bank of South Sudan's failure to release the 70% of banks' assets that were under government control as of December 2013. In contrast to other countries like Kenya and Uganda, where banks typically loan out a substantial portion of their deposits to promote economic growth (as illustrated in Figure 4), South Sudanese banks have deviated significantly from this practice. Loans are a vital means by which the banking sector can facilitate economic development.

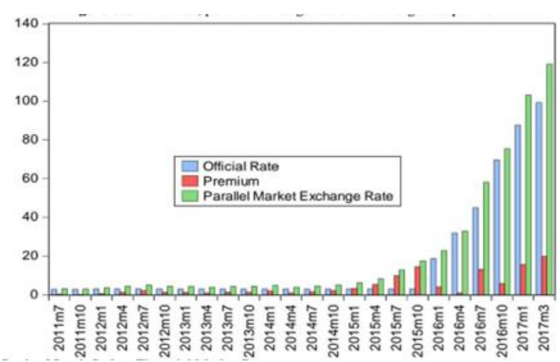
VII. AN EXTRACTIVE BANKING INDUSTRY

The number of banks in South Sudan has grown significantly in comparison to Kenya and Uganda during the periods under review. However, Section IV reveals unique characteristics of the South Sudanese banking sector that indicate this growth may not be significant in a normal banking sector sense. For instance, these banks have a shallow capital base when compared to their counterparts in Kenya and Uganda. Moreover, loans, which typically drive economic growth, are scarce in South Sudan, and financial services access has not improved for the population despite the substantial growth in the number of banks.

The evidence presented in Section IV challenges the traditional justifications for growth in the banking sector. Instead, it suggests that the growth in the number of banks in South Sudan is due to arbitrage opportunities created by a fixed exchange rate regime established by the Bank of South Sudan since the country's independence in July 2011.In November 2013, the Bank of South Sudan made an effort to reduce the value of the South Sudanese Pound (SSP) from 3.16 SSP to 4.5 SSP, but the decision was declined by the Parliament. As a result, the Bank of South Sudan had to revert back to a fixed rate regime.

Overall, while the increase in the number of banks in South Sudan is noteworthy, it may not necessarily indicate a healthy banking sector, given the unique characteristics and challenges faced by the sector in South Sudan.

Displayed in Figure 5 are the Official Rate, Parallel Exchange Rate, and Exchange Rate Premium.

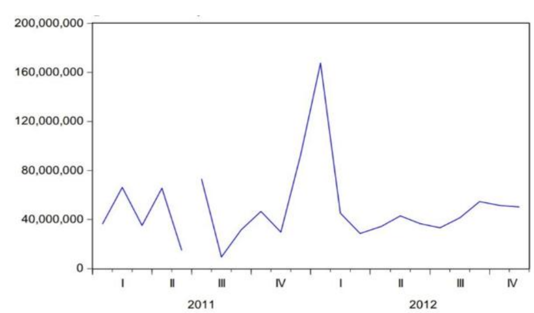


Source: The Bank of South Sudan's Financial Market Department.

The disparity between exchange rates in the parallel and official markets presented an opportunity for arbitrage, which was exploited by well-connected individuals, banks, and bureaus, resulting in significant profits. The profit was calculated as the difference between the black-market exchange rate and the official exchange rate, which is the rate at which banks purchase dollars from the Bank of South Sudan. This premium is illustrated in figure 5. It was rational for investors and regulators to restrict the growth of banks with such unusual characteristics. However, the motivation behind the expansion of banks was primarily the profit from the exchange rate premium. By the end of 2013, there were 28 licensed banks and 70 applications for bank licenses, and there was no conventional justification for such rapid growth.

The theory of supply and demand suggests that an equilibrium price can only be achieved when the supply and demand for a commodity are equalized. If the price at which a dollar is sold is fixed, such as in the case of the Bank of South Sudan's rate of 3.16 SSP, the Bank must determine the amount of dollars demanded by the foreign exchange market. The Bank must ensure that the supply of dollars matches the demand to stabilize the exchange rate at a fixed rate. The Bank of South Sudan supplied dollars to the foreign exchange market inconsistently, which contradicts the theoretical postulation mentioned earlier the supply of dollars increased or decreased in an unpredictable pattern, as illustrated in figure 7. It appears that the Bank of South Sudan did not have a consistent policy for determining the amount of dollars to be supplied to the foreign exchange market to meet the demand. The amount of dollars supplied seemed to be based solely on their availability. This unsystematic management of foreign currency, coupled with the fixed rate regime, was unsustainable, and the deterioration in the pound confirmed this problem.

According to the data depicted in Figure 6, the financial sector received monthly allocations in US dollars.



Source: World economic forum.

According to Figure 6, the financial sector has experienced fluctuations in the supply of dollars, which can be attributed to the substantial allocation of dollars to individuals and bureaus, as depicted in Figure 8. While the allocation of dollars to the government, banks, and other entities remained consistent, the allocation to individuals and bureaus was inconsistent and significant. It is unclear how such a massive amount of dollars was allocated to individuals, but it is possible that restrictions on such allocations spurred the licensing and application of 70 banks for licenses by October 2013. Individuals who benefited, including bureau owners, were likely well-connected to the management of the Bank of South Sudan or their agents, although there is insufficient evidence to prove this claim. The allocation of dollars to individuals and bureaus may have served as conduits for transferring funds from public coffers to the pockets of select individuals through arbitrage opportunities.

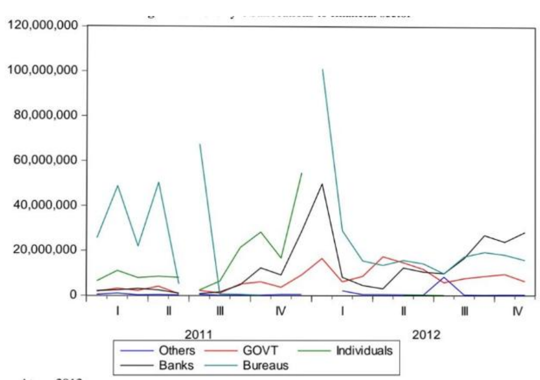


Figure 7: shows the monthly allocations of U.S to financial sector

Source: World Economic Forum

In December 2015, South Sudan underwent a liberalization of its exchange rate regime, and the Bank of South Sudan conducted its inaugural dollar allocation auction. Despite the liberalization, the Bank sold dollars at a fixed rate, which may indicate an internal struggle to maintain the arbitrage opportunity for banks. According to figure 7, a substantial amount of dollars was allocated after the liberalization to national banks with small customer bases, with the exception of CfC-Stanbic Bank, a large bank with a significant customer base that received a notable allocation. Interestingly, major regional banks such as Kenya Commercial Bank, Equity Bank, and Coop Bank, which hold significant market share in South Sudan's financial market, did not benefit substantially from these allocations. One could infer from the allocations in figure 9 that certain banks possessed extractive lobbying power. Based on the author's understanding of the banking sector in South Sudan, the largest banks in terms of customer base are Kenya Commercial Bank, Equity Bank, CfC-Stanbic Bank, and Cooperative Bank, in that order. Although there is no data available to substantiate this claim, the author has attempted to minimize plagiarism.

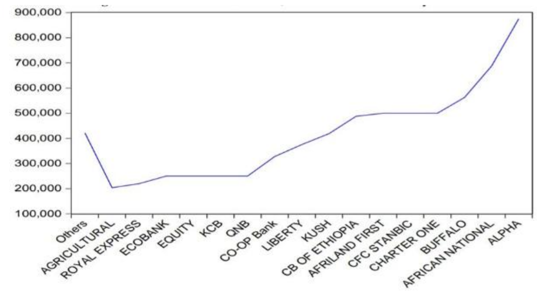


Figure 8: Provision of funds in US dollars to banks between December 2015 and January 2016.

source; Computed by author from Mayai and reng , 2016

In 2012, the Bank of South Sudan initiated a plan to ensure dollars available to people in order to ensure the accessibility of essential goods and services to the public at reasonable amount . This plan, known as the "letter of credit" in South Sudan's banking sector, involved setting up a credit facility with Qatar central Bank and later with CfC-Stanbic bank. Specific amounts of dollars were distributed to government agencies, which in turn distributed them to firms that intended to import essential goods to the country. Figure 10 and 11 provide information on the amounts awarded to states and government agencies, as well as the number of firms that benefited from these allocations. In 2015, the Assembly allocated $725 million.

However, according to the investigation report by the national assembly, it was first challenging to determine the total number of dollars disbursed from the letter of credit's distribution . The report's details were extracted from information provided by various agencies to the parliament committee, and some of these agencies did not keep records of the allocations referred to in the report (Assembly, 2015). As a result, the report's comprehensiveness is uncertain. Simona Foltyn, an investigative journalist, conducted a separate inquiry and determined that the sum allocated through the letter of credit between 2012 and 2015 was approximately $993 million (Foltyn, 2017).

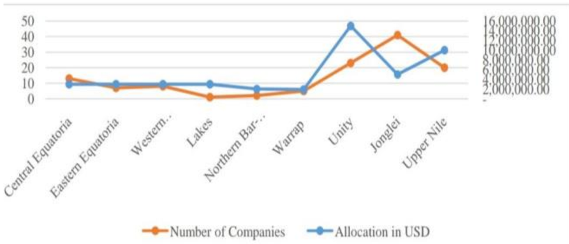


Figure 9: The United States distributed funds to state and territorial governments, with multiple businesses receiving financial assistance from the distribution.

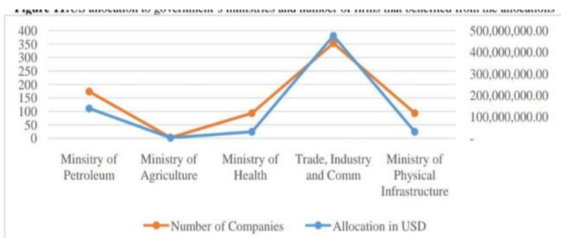


Figure 10: Allocation of funds by the US government to ministries and the number of companies that received such funds.

Both sources were computed by an author from assembly in south sudan in the year 2015

What was problematic with this letter of credit? Essentially, a letter of credit is a financial instrument used to mitigate the risks associated with international trade. It can protect importers who are afraid of paying for goods that may not be delivered, or it can protect exporters who may deliver goods but not receive payment. The letter of credit involves banks to guarantee payment for the exporter once they have delivered the goods. The bank's role is to ensure payment or pay once one party has met its obligations.

However, in the case of the Bank of South Sudan's letter of credit, there were several issues. The process was not properly documented, and there was no adequate oversight mechanism in place. Additionally, there was no validation process for goods purchased with the letter of credit's allocations. Government agencies responsible for managing the letter of credit acknowledged that it did not achieve its intended objectives.

The criteria used to award the letter of credit should have included the amount of corporate tax paid in previous periods, the number of employees a firm has, personal income taxes paid in prior periods, and performance in previous allocations. However, these criteria were ignored in the design of the letter of credit.

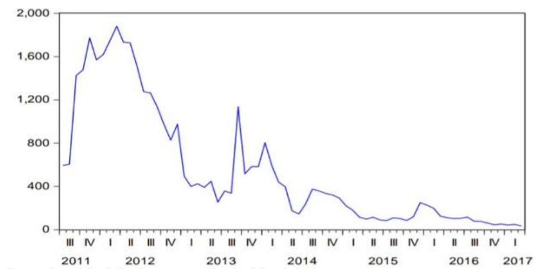


Figure 11: The Evolution of State Reserves in South Sudan

Source: The Department of Research and Statistics at the Bank of South Sudan

In a nation such as South Sudan, which relies heavily on imports, there exists a strong positive relationship between the exchange rate and inflation rate. This means that when the country's official reserves are depleted, the central bank's capacity to maintain a fixed exchange rate decreases. In theory, as reserves dwindle, the exchange rate in the parallel market is expected to deviate from the official exchange rate, as illustrated in Figure 12.

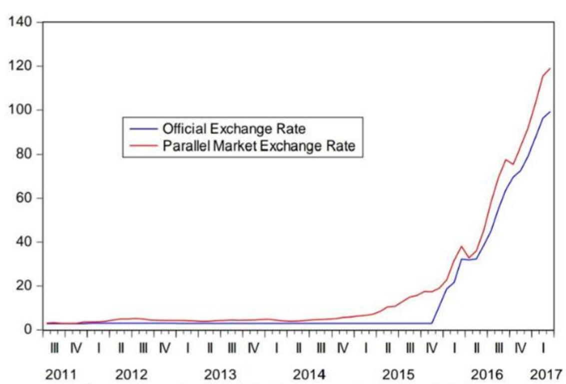


Figure 12: Fluctuations of official and parallel market exchange rates in South Sudan.

Source: the central Bank of South Sudan

As the amount of dollars decreases in market, businesses struggle to obtain them at the official exchange rate. Consequently, they are compelled to buy dollars at the parallel market's rate, leading to an increase in the cost of imports and causing inflation. South Sudan's consumer price index [cpi] has been on the rise since its independence in 2011 until March

2017, with a correlation to reserves and exchange rates, as depicted in Figure 14. The war that erupted in July 2016 between forces loyal SPLM I.O and the Government of South Sudan under H.E President Kiir Mayardit resulted in a significant jump in CPI that same month. This is likely due to the disruption of transportation routes, business activities, and negative impact on people's expectations. The previous section illustrates how South Sudan's economy has suffered from a currency crisis. The economy experienced an unexpected downturn due to the December 2017 war, a significant decrease in oil prices globally, and deficit financing of public expenditures. These factors led to An increased depreciation of the South Sudan pound, which spoil savings for households firms , distorted macroeconomic fundamentals, and caused economic instability for the people of South Sudan (Ariic and Mayai, 2016).

To effectively implement a managed or fixed exchange rate, the central bank must give all the foreign currency wanted by the foreign exchange market. However, non-market rules that determine which transactions occur at the official rate and which participants are entitled to trade at that rate create inequity and rent-seeking behavior (Adam and Crawfurd 2012). In response to the fixed exchange regime, the banking sector in South Sudan grew, creating arbitrage opportunities that allowed banks to extract public resources. Unfortunately, government agencies involved in foreign currency management did little to mitigate the misuse of reserves, and no penalties were imposed on individuals or institutions that abused or failed to keep records, such as the letter of credit. The inability to design proper policies deprived the public of significant amounts of money. Furthermore, the lack of accountability encouraged and accelerated the rate at which public resources were looted, indicating that regulators may have been captured (Stigler 1971).

VIII. RECOMMENDATION AND CONCLUSION.

The way which the bank of south Sudan is managed falls short of the necessary standards of independence, transparency, and accountability. To address this issue, we suggest that the chair of the board should be an independent board member rather than the governor, to separate policy formulation and oversight functions. Additionally, we recommend instituting transparent recruitment procedures for the MPC members and the board. The direction of the Bank of South Sudan should be made more accountable and transparent, after the macroeconomic data was published the audited financials were reviewed by management to the public. This will facilitate public oversight and accountability.

The banking sector in South Sudan requires significant reform. It is importance to recapitalize the banks to meet international capitalization requirements, with undercapitalized the banks either consolidating or being liquidated. Policies aimed at improving financial access, deepening, and loan provision to the economy should be prioritized and increased . We propose a review of the banking act of 2012 to ensure its sufficiency in addressing new issues in the banking sector, allowing banks to give to economic boom and macroeconomic stability.

While a fixed exchange rate is importance for macroeconomic stability, can be susceptible to rent seeking and corruption if poorly controlled . A controlled float, combined with a robust national payment system and an efficient inter bank market , will streamline foreign exchange operations. However, for the Bank of South Sudan to fulfil its aims , it is crucial to end the ongoing war. This will enable the bank to build reserves and stabilize macroeconomic fundamentals.

This article highlights the significant regulatory differences between Kenya, Uganda, and South Sudan, despite their close trade and financial service relationships and EAC membership. We recommend the central banks in east African countries have implemented a peer review mechanism to proper functioning and minimize exposure to monetary policies within the association .

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