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FOR STRATEGIC STUDIES

Session 3: Budgeting and Procurement Processes and Practices

Luka Kuol, PhD

Outline

- **Security Sector Budgeting and Procurement Process**
- **Procurement: Size and Susceptibility to Corruption**
- **Procurement: Challenges and Opportunities**
- **Key Takeaway**

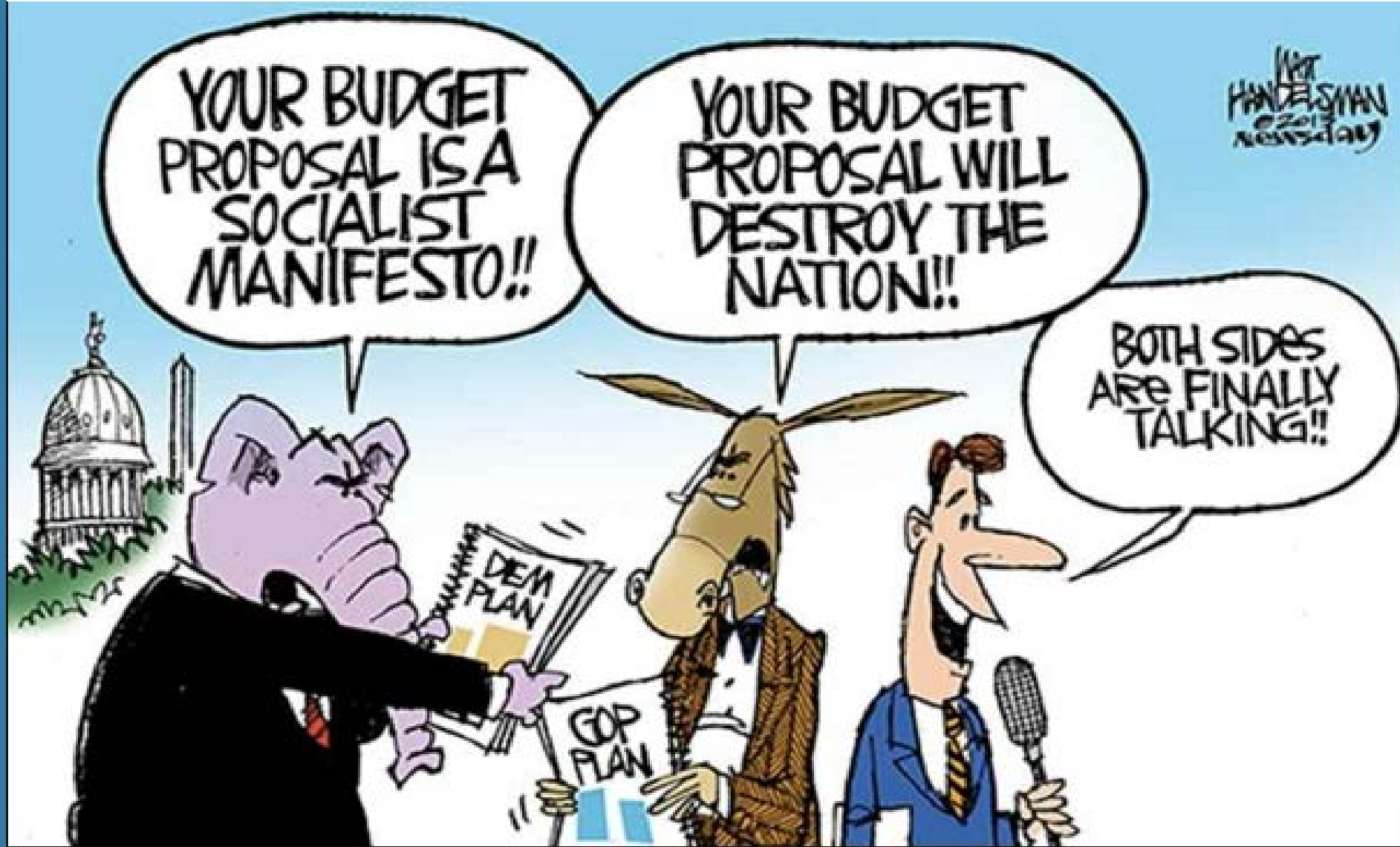
Illicit Financial Flows in Africa



Who is responsible? African or Non-African, politicians, Civil Servants, Security Staff, Civil Society, Private Sector or Citizens

Source: Independent, May 2017 and Honest Accounts Report, 2017

Budget Politics and Political Accountability

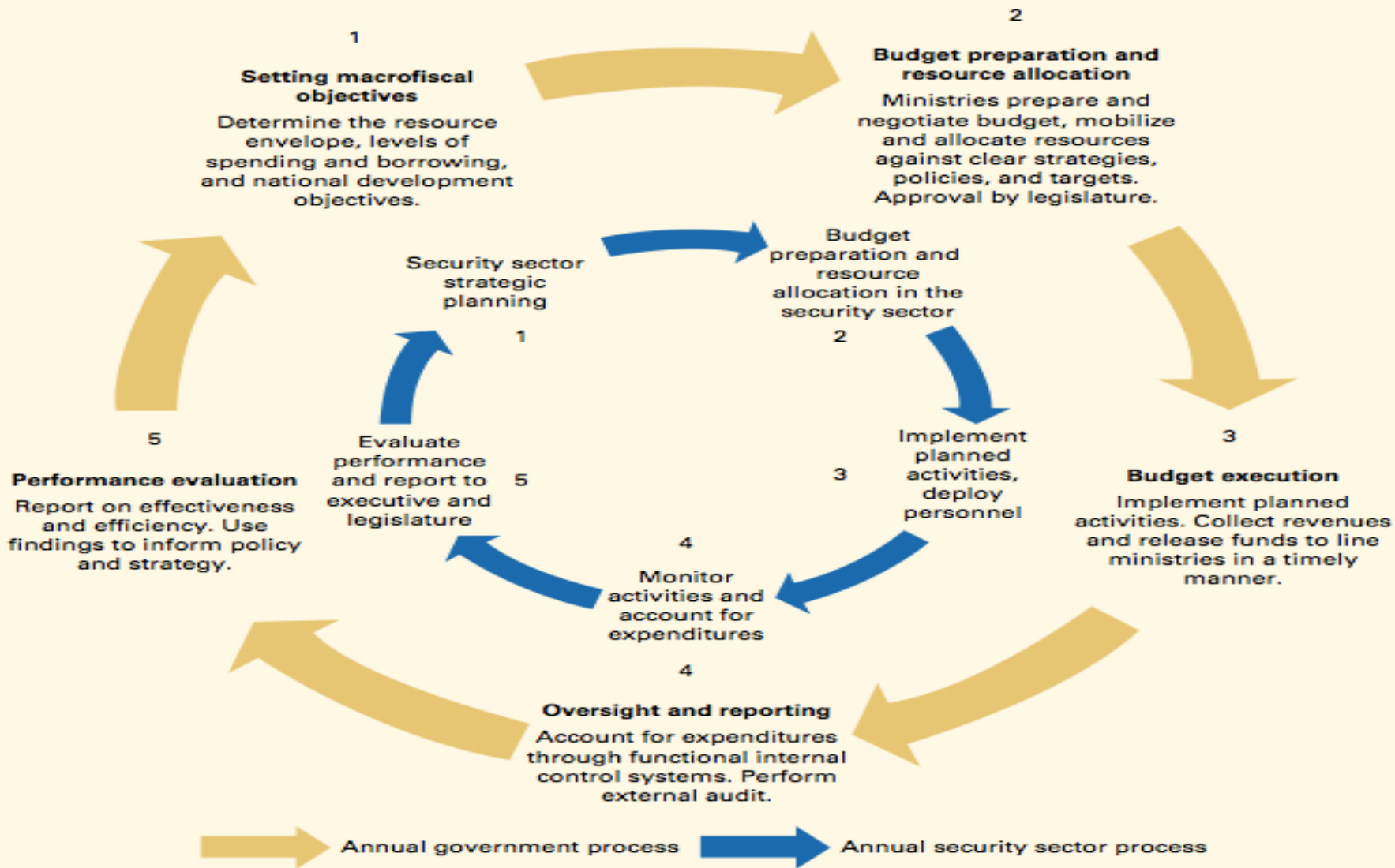


Political Systems, Political Parties and Corruption

	Federal	Unitary
Presidential	High corruption - 0.352 (- 0.603 to - 0.108)	Intermediate - 0.643 (- 1.088 to - 0.231)
Parliamentary	Intermediate - 0.647 (- 0.878 to - 0.435)	Low corruption - 0.938 (- 1.340 to - 0.550)

Source: Gerring and Thacher, 2004 and Magathy et al, 2009

Security Sector in the Budget Cycle



Source: Adapted from Ball and Holmes 2002.

Procurement Cycle and Best Practice

ACTIVITY		STEPS	
#	DESCRIPTION	Inputs	Procedural milestone (control point)
1	Establish what is to be procured	1. Prepare broad scope of work for procurement	
		2. Estimate financial value of proposed procurement	
2	Decide on procurement strategies	1. Establish applicable preferential procurement policy	
		2. Establish contract and pricing strategy	
		3. Establish targeting strategy	
		4. Establish procurement procedure	
3	Solicit tender offers*	1. Prepare procurement documents	3. Obtain permission to start with the procurement process
		4. Invite contractors to submit tender offers or expressions of interest#	5. Obtain approval for procurement strategies that are to be adopted
		5. Receive tender offers or expressions of interest#	
		6. Evaluate expressions of interests #	
		7. Prepare evaluation report on shortlisting process#	
			8. Confirm shortlist #
		9. Invite tender offers from shortlist#	
4	Evaluate tender offers*	1. Open and record tender offers received	
		2. Determine whether or not tenders offers are complete	
		3. Determine whether or not tender offers are responsive	
		4. Evaluate tender submissions	
		5. Perform a risk analysis.	
		6. Prepare a tender evaluation report	
5	Award contract*	1. Notify successful tenderer and unsuccessful tenderers of outcome	7. Confirm recommendation contained in the tender evaluation report.
		2. Compile contract document	
		4. Capture contract award data	3. Formally accept tender offer
6	Administer contracts and confirm compliance with requirements	1. Administer contract in accordance with the terms and provisions of the contract	
		2. Ensure compliance with requirements	3. Capture contract completion / termination data

Source: CIDB, 2007. "Best Practice Guide: The Procurement Cycle"

Changes in Security Budgeting and Procurement Process

CPIA Scores: 2011-2013, 1991-2001

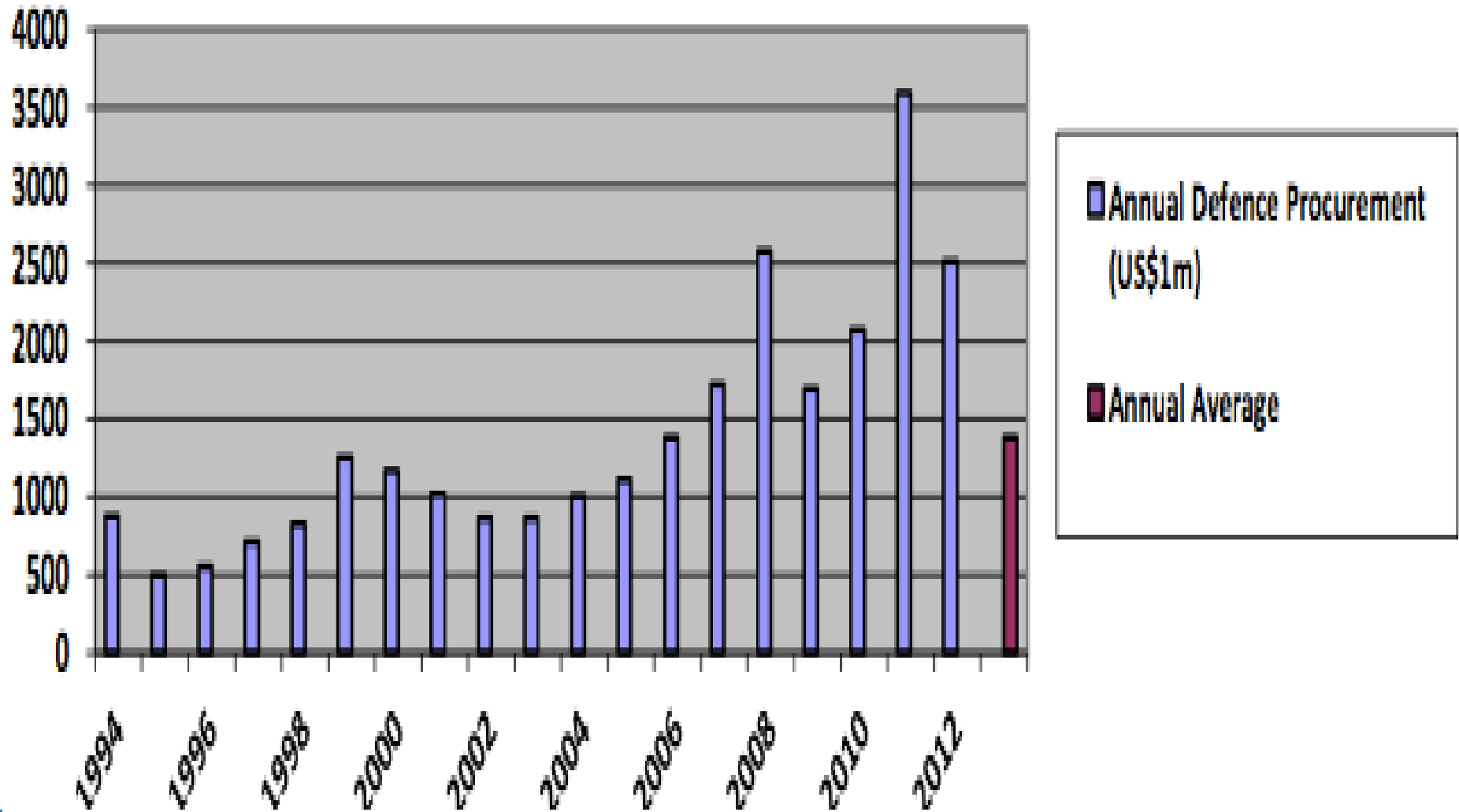
	Overall CPIA ¹	Economic Management ²	Structural Policies ³	Policies for Social Inclusion/Equity ⁴	Public Sector Management and Institutions ⁵
	<i>(Units)</i>				
Resilient	0.41	0.43	0.26	0.37	0.23
Fragile resource-rich	0.40	0.29	0.17	0.33	0.31
Improving	1.01	1.24	0.85	0.76	0.71
Other	-0.21	-0.42	-0.33	0.00	0.01
Fragile nonresource-rich	-0.33	-0.20	-0.28	0.12	0.00

Sources: World Bank; and IMF staff calculations.

- **Despite improvement in the financial management, there is inadequate education and training in procurement.**
- **Legislative constraints related to procurement technology**
- **Lack of political support in procurement reforms**

Source: Gelbard *et al* 2015 and Dza *et al*, 2013. “Procurement Reforms in Africa”

Procurement: Size and Susceptibility to Corruption



Source: Justice Africa, 2014. "Defence Procurement, Corruption and Illicit Financial Flows"

Procurement: Size and Susceptibility to Corruption

- Public procurement accounts for 20% of government expenditure worldwide.
- In Africa, government procurement averages around 10% of GDP and about 16% of GDP in EU.
- Public procurement may account up to 70 percent of public expenditure

Source: Dza et al, 2013. "Procurement Reforms in Africa"

Procurement: Size and Susceptibility to Corruption

- 40%-50% of all corruption in global trade occurred in the defense sector
- 50% of bribe offers are for defense contracts
- US\$ 20 billion in defense spending per year is infected with corruption.

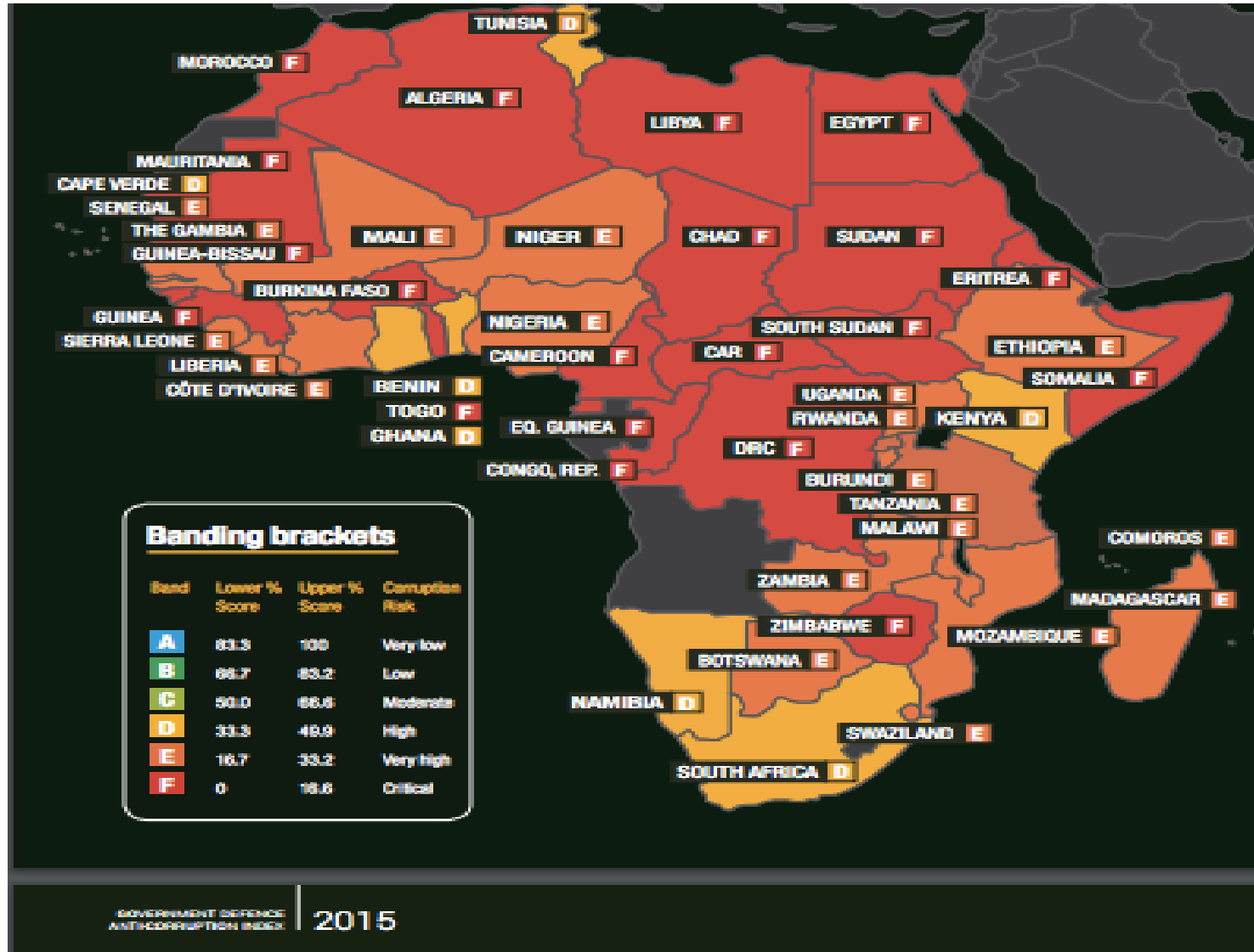
Source: Justice Africa, 2014. "Defence Procurement, Corruption and Illicit Financial Flows"

Procurement: Size and Susceptibility to Corruption

- The more spending on defense and procurement, the greater the risk of corruption (120 countries)
- Large procurement outlays are indicative of greater levels of corruption.
- 15% of money spent for weapons purchases may be “commissions”

Source: Justice Africa, 2014. “Defence Procurement, Corruption and Illicit Financial Flows

Risk of Corruption in Defense and Security Sector



Source: Transparency International, 2015. “Africa: Gov Defense Anti-Corruption Index”

Corrupt Procurement: The Core Drivers

- Secrecy: Confidentiality vs. Secrecy
- The Middle-men business.
- Technical Specificity (decisions by small group)
- Nature of Arms Trade (long and complex)
- Conflict environment
- Natural resources (mineral, oil and gas)
- Traditional and informal institutions

Source: Justice Africa, 2014. "Defence Procurement, Corruption and Illicit Financial Flows

Informal Institutions, Formal Institutions and Corruption

Interaction between Informal and Formal Institutions

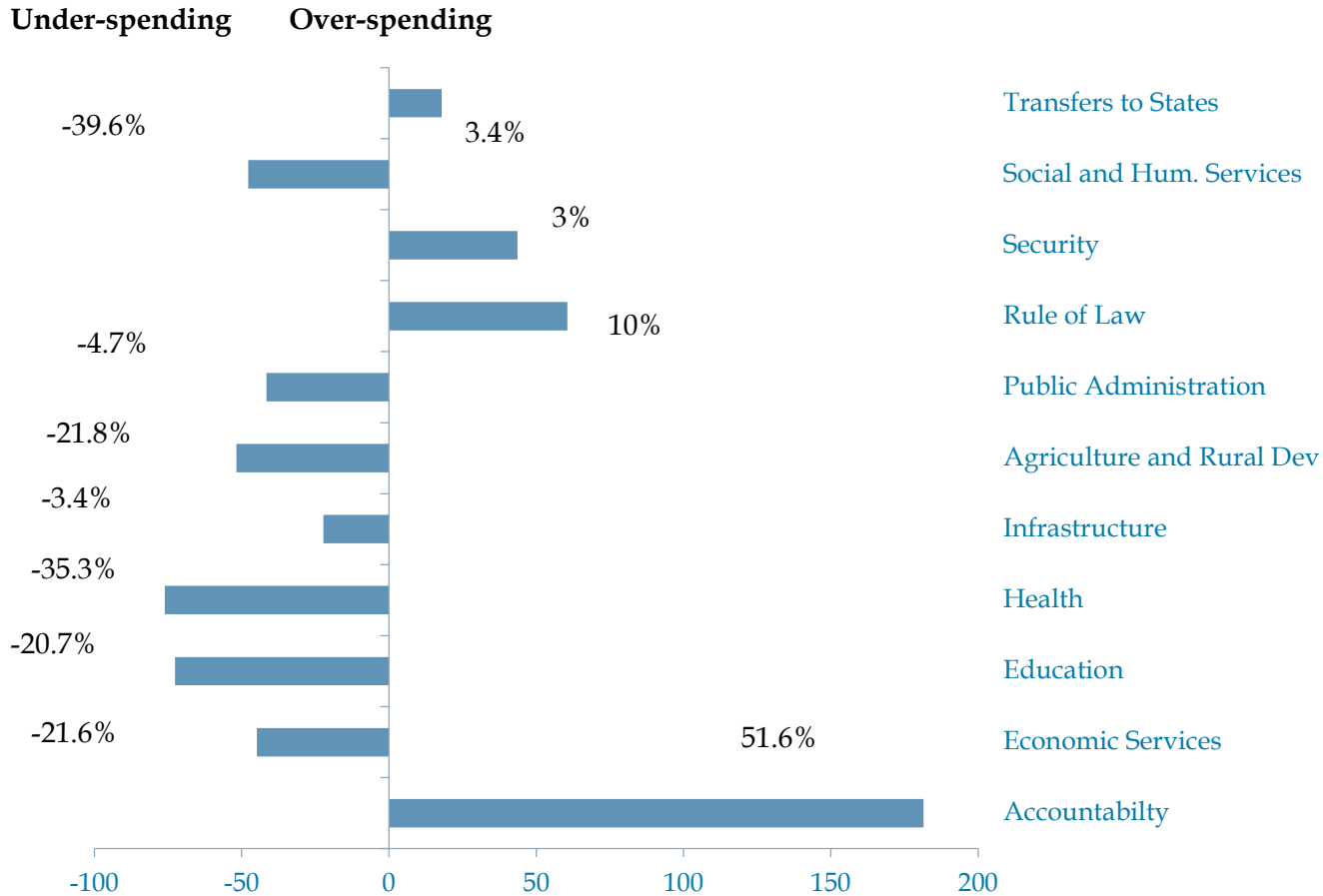
		Formal Institutions Effectiveness	
		Effective	Ineffective
Informal Institutions Goals	Compatible	Complementary	Substitutive
	Conflicting	Accommodating	Competing

Corrupt Procurement: Impacts and Consequences

- Waste of much-needed scarce resources for development
- Unjustifiable increased in defense spending, off-budget, overspending and offset budget.
- Perpetuated conflict, reduced human security, slowed economic growth and scared investment
- Tarnished military competence and legitimacy and trust of citizens
- Weakened democratic governance and rule of law

Source: Justice Africa, 2014. "Defence Procurement, Corruption and Illicit Financial Flows"

South Sudan: Level of Budget Execution, 2010



Source: Ministry of Finance, 2010

Corrupt Procurement: Yet, Some Progress

- Procurement reforms are underway including regulation and practices
- Administrative and Legal Framework for public procurement.
- Recognition of role of procurement in good governance, competitiveness, efficiency and transparency
- Procurement moved from administrative function to strategic responsibility and from a processing task to a management and knowledge-based activity.
- Training and education of procurement practitioners
- Increased demand by civil society for more accountability and transparency in defense spending.

Source: Dza et al, 2013. "Procurement Reforms in Africa"

Key Takeaway: What Next?

- Procurement to be integrated and aligned with strategic vision, objectives and national security strategy.
- Auditing and reviewing security sector expenditures and procurement systems
- Standardization of procurement systems and contracting guidelines based on best practices.
- Exposing corrupt practices: Informal institutions and sense of pride and dignity (Sentry Report), journalism and Civil Society.
- You Matter: Procurement decisions are largely informed and prepared by the civil servants in security sector



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