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

YOUR BUDGET PROPOSAL IS A SOCIALIST MANIFESTO!!

YOUR BUDGET PROPOSAL WILL DESTROY THE NATION!!

BOOTH SIDES ARE FINALLY TALKING!!
Political Systems, Political Parties and Corruption

<table>
<thead>
<tr>
<th>Presidential</th>
<th>Federal</th>
<th>Unitary</th>
</tr>
</thead>
<tbody>
<tr>
<td>High corruption</td>
<td>$-0.352$ ($-0.603$ to $-0.108$)</td>
<td>Intermediate</td>
</tr>
<tr>
<td>Parliamentary</td>
<td>Intermediate</td>
<td>$-0.647$ ($-0.878$ to $-0.435$)</td>
</tr>
</tbody>
</table>

Source: Gerring and Thacher, 2004 and Magathy et al, 2009
Security Sector in the Budget Cycle

1. Setting macrofiscal objectives
   Determine the resource envelope, levels of spending and borrowing, and national development objectives.

2. Budget preparation and resource allocation
   Ministries prepare and negotiate budget, mobilize and allocate resources against clear strategies, policies, and targets. Approval by legislature.

3. Budget execution
   Implement planned activities. Collect revenues and release funds to line ministries in a timely manner.

4. Monitor activities and account for expenditures
   Oversight and reporting
   Account for expenditures through functional internal control systems. Perform external audit.

5. Evaluate performance and report to executive and legislature
   Performance evaluation
   Report on effectiveness and efficiency. Use findings to inform policy and strategy.

Security sector strategic planning

Annual government process → Annual security sector process

Source: Adapted from Ball and Holmes 2002.
## Procurement Cycle and Best Practice

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

Changes in Security Budgeting and Procurement Process

<table>
<thead>
<tr>
<th>Overall CPIA ¹</th>
<th>Economic Management ²</th>
<th>Structural Policies ³</th>
<th>Policies for Social Inclusion/Equity ⁴</th>
<th>Public Sector Management and Institutions ⁵</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resilient</td>
<td>0.41</td>
<td>0.43</td>
<td>0.26</td>
<td>0.37</td>
</tr>
<tr>
<td>Fragile resource-rich</td>
<td>0.40</td>
<td>0.29</td>
<td>0.17</td>
<td>0.33</td>
</tr>
<tr>
<td>Improving</td>
<td>1.01</td>
<td>1.24</td>
<td>0.85</td>
<td>0.76</td>
</tr>
<tr>
<td>Other</td>
<td>-0.21</td>
<td>-0.42</td>
<td>-0.33</td>
<td>0.00</td>
</tr>
<tr>
<td>Fragile nonresource-rich</td>
<td>-0.33</td>
<td>-0.20</td>
<td>-0.28</td>
<td>0.12</td>
</tr>
</tbody>
</table>

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

Procurement: Size and Susceptibility to Corruption

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

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.

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”

Risk of Corruption in Defense and Security Sector

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

## Informal Institutions, Formal Institutions and Corruption

### Interaction between Informal and Formal Institutions

<table>
<thead>
<tr>
<th>Informal Institutions Goals</th>
<th>Formal Institutions Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compatible</strong></td>
<td><strong>Effective</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Complementary</strong></td>
</tr>
<tr>
<td><strong>Conflicting</strong></td>
<td><strong>Accommodating</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Competing</strong></td>
</tr>
</tbody>
</table>

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

South Sudan: Level of Budget Execution, 2010

**Under-spending**

-39.6%

-4.7%

-21.8%

-3.4%

-35.3%

-20.7%

-21.6%

**Over-spending**

3.4%

3%

10%

51.6%

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.

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