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Public Procurement: A Major Potential for Corruption

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Abstract

Public procurement is one of the government activities most vulnerable to corruption. Corruption in public procurement is widespread and particularly damaging to development objectives, as it undermines any state's duty to maximize the social and economic welfare of its citizens In addition to the volume of transactions and the financial interests at stake, corruption risks are exacerbated by the complexity of the process, the close interaction between public officials and businesses, and the multitude of stakeholders. Public Procurement are in the public and private sector, and the close relationship between the two public and private sectors makes the government transaction a key area of corruption. The study examines corruption in Public Procurement

Keywords: Corruption, public procurement, government, public sector

Introduction:

Today, governments, with a role in supplying goods and public services, buy a large portion of goods, services and general operations, from simple computer equipment to road construction from the private sector, and a high percentage of public resources after undergoing various processes Government transactions are consumed. In other words, the government deal is an important economic activity of governments, and it includes a significant percentage of gross domestic product production in the fiscal process, which is estimated at about 10-15% of the world's gross domestic product. (OECD, 2009) The process of studying and purchasing goods and services consists of sub-processes that must be carried out to supply goods and services. (OECD, 2009) Given the complexity of the state-owned transaction process among all government activities, it is the most vulnerable activity against corruption (OECD, 2007). This paper is under investigation Public Procurement, A Major Potential for Corruption.

Public procurement:

In the public finance literature, government is involved in four major economic activities: (a) providing the legal framework for all economic activities, (b) redistributing income through taxation and spending; (b) providing public goods and services freely available to the public such as national defense, public safety, education, and infrastructure (bridges and roads); and (c) purchasing goods, services.(Thai,2001)

The public sector purchases goods and services at all levels in various volumes and at different value of the supplier.

Procurement means buying, purchasing, renting, leasing or otherwise acquiring any goods, works, services by a procuring entity spending public funds on behalf of the ministry, department or regional administration of the Government or public body and includes all functions that pertain to the obtaining of any goods, works, or services including description of reguirements, selection and invitation of tenders, preparation and award of contracts (PPRA, 2004). Procurement is all about purchasing the right quality of material at the right time, in right quantity, from the right source and at the right price. Thus, public procurement means acquisition of goods, services and public works in a timely manner that results in the best value to the government and the people (Baily,1998).

Corruption:

The definition of corruption in the Oxford dictionary is the distortion of the right from bribery; and the diversion of anything from its original purity. The World Bank defines corruption as the misuse of power and authority of the state for personal gain (Sadeghi et al, 2008). According to the International Organization for Transparency International (1997), corruption has two dimensions: in the first dimension, the public authority obtains personal benefits in the provision of services or contracts, and in the second dimension, bribes are paid for services that are not provided by law. In both dimensions, corruption occurs at all levels of the public or private sector, and its range can spread from high-level corruption (affecting national / international policy) to different types of low-level (Rahnavard, 2010).Corruption means misuse of the situation "(UN, 2005).The definition of corruption as “abuse of entrusted power for personal gain” contrasts with the popular definition endorsed and used by the World Bank {i.e. corruption is “the abuse of public office for private gain” (McCusker, 2006).Corruption is commonly defined as “the misuse of entrusted power for private gain. (TI, 2006) Generally, corruption happens when the public and private sectors meet (Rose-Ackerman 1997) and “a private individual or organization bribes a state official with power over the distribution of public benefits or costs” (Rose-Ackerman 1996)

The effect of corruption on public procurement:

every government are supposed to meet the user’s requirements with the best value for money. As such, public procurement must serve citizens’ and taxpayers’ interests. .(Jourdain, R., Balgobin, N,2003). The sheer volume of public procurement makes it vulnerable to corruption. It is estimated that worldwide procurement spending averages between 10% and 15% of Gross Domestic Product (GDP) and even more in some countries (OECD, 2013).

Corruption can take many forms in public procurement and can occur at any time throughout the lengthy procurement process. Most corruption experts agree that the following factors magnify opportunities for corruption: monopoly of power; wide discretion; weak accountability; and lack of transparency.(Glenn T. Ware, 2011). Corruption results in serious social concern. It erodes the rule of law; hampers economic growth. Various studies suggest that hundreds of billions of dollars are lost worldwide to corruption in public procurement every year. Due to figures that governments around the world spend about USD 4 trillion each year on the procurement of goods and services, it is estimated that approximately USD 400 billion per year is lost due to bribery (Eigen, 2002).

Corruption has a major impact in all countries of the world. Itundermines democratic accountability, diverts resources away from the publicgood and into private pockets, and ‘redistribut[es] wealth and power to theundeserving’.(Klitgaard, R, 2000).

Corruption = (Monopoly) + (Discretion) – (Accountability)

In general, there are two views on the influence of corruption on economic performance. On the one hand, corruption may be a means to decrease transaction costs in the countries with heavy and rigid regulation, especially at the firm level. On the other hand, corruption is said to be negatively correlated with investment levels and economic growth at the country level (Wei,2000).

The direct costs of corruption include loss of public funds through misallocations or higher expenses and lower quality of goods, services and works (OECD, 2015a) The potential for corruption in public procurement exists in all economies and no sector is free from risks of corruption. However, some sectors were recognised as being particularly exposed to corruption in public procurement, due to the complex nature of the works and the vast amounts of the contracts that are involved (e.g. construction of major bridges, dams, or tunnels). Participants noted that international public procurement, that often involves large contracts, can be an especially lucrative target for would-be wrongdoers. Many opportunities for corruption were also identified in the delivery of development assistance, and corruption was considered by many to be the most important challenge to aid-funded public procurement. The public procurement process can be abused through collusion and corruption for the purposes of political party financing, as well.(OECD,2005)

Corruption can occur at various stages of the public procurement process (OECD, 2009; Transparency International, 2006). Corruption usually results in price increases and the quality of goods and services required by the government, and it affects the economy of the country. .Corruption in public procurement can have many detrimental effects. For example, corruption often increases the cost and lowers the quality of goods or services being acquired while reducing the likelihood that the goods or services purchased will meet the public's needs. corruption in public procurement may adversely shape a country's economy as corrupt officials allocate budgets based on the bribes they can solicit rather than the needs of the country. Corruption in the public procurement induces the risk of inefficient spending, reduced benefit of public competitions (best value for money, efficient distribution of national resources), price inflation and inefficient work. Corruption is widely spread across the world and is believed to affect economic growth negatively. It is most persistent in the developing countries

Corruption in supplying government goods and services, and in imposing costs, dulls the dignity of governments that demand legitimacy, and weaken the government's capacity to create institutions that support markets.The Guide has mapped out corruption risks that are common to the public procurement process vis-à-vis the mitigation responses that could be employed. These are proactive measures to counteract corruption risks that a manifested during the entire public procurement cycle - pre-tendering phase, tendering phase, and the post-contract award phase. Corruption risks do vary along the different stages of the procurement cycle hence the appropriate mitigation responses by Customs have been discussed (Heggstad, K. 2010).Three clusters of anti-corruption tools: (1) preventive measures: choice of tender method, publication of tender data, record keeping, and contract management; (2) enforcement mechanisms: compliance checks, audits, and review systems; and (3) scope and limitation of sanctions.A checklist of corruption red flags can be a useful tool to prevent, detect and investigate malpractices in the public procurement process. Red flags are symptoms or common indicators of possible corruption, bid rigging, collusive bidding and fraud in the public procurement process

Conclusion:

Public procurement refers to the acquisition of goods and services by a government. Because of the conflict between public and private interests, state-owned transactions create a risk zone for corruption. Corruption is a misuse of the situation for personal gain, due to the distrust of citizens towards governments .Corruption in public procurement can be profoundly harmful to a country's economy and usually results in price increases and the quality of goods and services required by the government, and it affects the economy of the country.Corruption in supplying government goods and services, and in imposing costs, dulls the dignity of governments that demand legitimacy, and weaken the government's capacity to create institutions that support markets.A checklist of corruption red flags can be a useful tool to prevent, detect and investigate malpractices in the public procurement .

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