

Assessing the Impacts of Procurement Crossroads on the Economic Development of Nigeria

by

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Abstract

For many decades in Nigeria, procurement has not been properly and professionally organized in a way that allows for the inculcation of some ethical practices in the process. This has posed several problems and challenges for procurement practitioners and even the government. This study assesses the state of procurement in Nigeria and as well discusses the challenges plaguing the process of both public and private procurement. It adopts a qualitative method with reliance on the secondary sources of data. It discovered that attempts to reform the public procurement process is always constrained by political interference a development which makes the entire process of public procurement very slow. It further uncovered the fact that the public procurement process is dominated by non-professionals who do not possess the requisite knowledge for sound procurement practice. The study recommends the need to avoid the politicization of the public procurement process if it must serve as a panacea to the dwindling Nigeria economy.

Key words: Procurements, Crossroads, Development, Nigerian economy, Ethical, Political

Introduction

Public procurement in Nigeria has undergone reforms including the due process policy, but a prominent landmark in public procurement reforms in Nigeria has been the introduction of the Public Procurement Act 2007 (PPA 2007). The PPA 2007 has 13 parts and 61 sections with the broad aim of dealing exhaustively with all issues related to transparency and integrity in public procurement. The PPA 2007 requires the establishment of a National Council on Public Procurement (NCPP) as an apex regulatory body with a Bureau of Public Procurement (BPP) as its administrative secretariat. The primary objectives of the BPP include: harmonization of procurement practices and policy; institution of due process in procurement; introduction of honesty, accountability and transparency in procurement; standardization of procurement procedures; procurement management; and performance evaluation. The key functions required of the BPP include: regulation of public procurement functions of procuring agencies and institutions; certification of procurement entities; monitoring of procured projects; coordination of training and capacity building; and general oversight and advisory functions. Collectively the NCPP and the BPP are to supervise and regulate all public procurement activities together with the participation of civil society. Despite the establishment of the BPP, it is reported that the NCPP is not fully functional (World Bank, 2013). According to Babatunde, Opawole and Ujadgbase (2010) most states have not enacted the PPA 2007 despite its promotion by the Federal government, donor agencies and civil society organizations.

Statement of Problem

Procurement is the action of obtaining or procuring something which may be goods or services. It is equally the action or occupation of acquiring military equipment or supplies. For many decades in Nigeria procurement has not been properly and professionally organized in a way that allows for the inculcation of some ethical practices in the process. This has been the case despite huge government expenditure in the procurement process of goods and services, the procurement process has remained mundane and undeveloped, riddled with bottlenecks, unethical practices as well as corruption. This has led to stunted development, poor economic performance, high rate of poverty and overall underdevelopment in the country. The APPA 2007 was design to address these lapses and despite its promulgation the procurement process in the country is still groping in the dark without purpose. It is these problems and the state of procurement in the country that has motivated and energize this assessment of the impact of procurement cross road and the economic development of Nigeria. It is against this backdrop that this study attempts to assess the effect of procurement bottleneck on human capital development in Nigeria and as well highlight the challenges of procurement in the country with a view to preferring some solutions.

Methodology

This study uses a qualitative approach to identify critical barriers or hindrances to sustainable procurement in the Nigerian economy. Secondary source of data such as text books, published journals and other periodicals were used from which conclusion and recommendations were made.

Conceptual Literature Review

Public procurement especially of high value items operates in market condition where competition is distorted. It is large buyer large supplier situation with barriers to entry thus, competition is not perfect. Long term contracts favour large and monopolistic suppliers. The role of political head is important in public procurement and public procurement strategy. There is direct and indirect role of politician in award of contract (Berry and Carthy, 2011). Any attempt to reform public procurement is always constrained by political interference. The last effort for drafting model tender document for civil works took more than 14 years (Field, 2009). The political masters are responsible for their democratic accountability. The bureaucrats therefore required to understand the difference between political interference and political mandate. However, the role of politician is taken in negative sense as serving their self-interest (Hair, Black Babin and Radu, 2010). There are empirical studies to prove the political connection and influence in decision making process of public procurement. The companies therefore try to have political connection (Greener, 2008).

In US there are political lobbying firms. The politics has become important integral part of decision making process in large value public procurement cases. At times even the basic framework and provisions of contract are challenged by politician. This makes the entire progress in public procurement very slow (Gildma and Bouma, 2015). The role of politicians become more critical when we consider huge amount of money involved and many times the entire process of procurement is longer than the tenure of the political master. Due to very high lead time of procurement, forecast of technological requirement becomes very difficult and it is subjected to political and organizational pressure. Such pressures become more vulnerable where there is lack of clarity on procurement specifications. Generally, it is seen that indenting

authority and contract enforcing authority are independent. They are interwoven but not integrated. Their perspective has distorting implications in the entire procurement process (Berry and Mccarthy, 2011).

Organization Culture

Culture is defined as collective, shared, believe and behavior and cultural environment play very important role in functioning of an organization and impacts its efficiency and effectiveness (Creswell, 2009). Efficiency of organization depends on a combination of organization cultural and market condition. Public procurement is constrained by bureaucratic cultural, hierarchal setup and uniform policy for different situation. This unique culture should be taken into account while dealing with public procurement. Some authors have been very critical for public procurement and have considered it as outright toxic.

Individual Transaction Perspective

Public procurement is subjected to scrutiny of various constitutional and extra constitutional authority such as Central Bureau of Investigation (CBI), Central Vigilance Commission (CVI), Comptroller and Auditor General of India (CAGI) and Right to Information (RTI). Each transaction is subject to scrutiny individually for an efficiency, efficacy and correctness rather than overall transaction. For example, one wrong decision out of hundred good decisions can create problems. The magnitude of hazard depends on attributes of transaction. Long term contracts have greater uncertainty and incompleteness therefore considered more hazards (Palgrave, macmillan and idoro, 2010).

Make and Buy Decision

Outsourcing in public services is increasing on the basis that private sector can deliver the same quality of service as their public sector counterpart at lower price. The effective public sector management is therefore becoming effective contract management (Belfitt, Sexton and Handcock, 2011). A facility and infrastructure created for in house production many time has to be closed down because the same quality products were available from market at cheaper rate. It is generally seen that if there is in house production then cartel formation tendency of private supplier is kept under check. This leads us to the need for drawing a fine balance between the make and buy spectrum.

Rule of Law Codes and Manual

Often the legal process of public procurement dominates the whole character. It consists of multi-layer bureaucracy which is risk averse. These regulations are seen as obstruction rather than facilitator (Construction Industry Development Board, 2015). Risk reward ratio in doing business with public enterprise is higher because of complexity of rules. Over regulation act as a barrier to entry in the government controlled businesses. These regulations also contribute to constraint in building up the relationship between buyer and seller. Over regulation, risk aversion and unpredictability of budget is one of the challenges of public procurement. Many times these over regulations contribute to delaying tactics for the bidders who are not able to win the bid. There has been tendency of representation and complaints by the losing bidder. This tendency frustrates the buyer (Faremi, John and Nwokeda 2017).

Procurement: An Empirical Discourse

Procurements processes entail various functions move far beyond traditional perception that procurement main role is acquiring works or services from outside sources for replenishing

organization needs. Eyo (2017), describe procurements as activity of assessing, buying of works, goods and service. According to Field (2009), Public procurement expenditure is the largest volume of expenditure in the annual development budget for Tanzania as about 75% of its budget during the particular financial year is spends in public procurements. The public procurement processes for Public organizations in Tanzania has undergone various reforms back as 1970's to earlier 2000's whereby Independent Procurement Supervisory Body, The Public Procurement Regulatory Authority (PPRA) was established. Tanzania was operating state owned enterprises referred as Parastatal organizations/Enterprises.

These organizations were established under Public Corporation Acts of 1970 whilst some of them were under the Companies Ordinance CAP 212. In this aspects Public Procurement in Parastatal organizations/ Enterprises before PPRA came into effect were regulated by specific laws established under Parent Ministries, furthermore each Parastatal/Enterprise organization use to disseminate its own procurement regulations. Hence procurement processes challenges and practices used to differ a lot from one organization to another based on operations and functions of concerned Enterprise. Vividly example of these complications was Central Tender Board as governing entity for procurement for central government and some Parastatal Enterprises whereby its functions was both operational as well as regulatory hence creating conflict of interest during discharging procurements related functions. Procurement management has become an important area of management particularly in the last few years. Although various studies have been conducted in this phenomenon but researchers still have a desire for exploring much in aspects of procurement processes in regards to Public organizations, this is due to the facts that poor performance has been observed in lieu to procurement practices, despite having good regulations in our country.

Procurement Challenges and Underdevelopment in Nigeria

Nations are using their position as volume buyers to influence the thrust of their procurement policies to encompass social and environmental dimensions (Babatunde,Opawole and ujadgbase,2010). Existing studies confirm that the construction industry plays a vital role in the adoption of sustainable procurement practices towards attaining the sustainable development goals. However, there is paucity of empirical research on how the construction sector is addressing sustainable procurement issues (environmental, social and economic) in their whole supply chain, most especially in a developing nation's context. Studies in Nigeria have attempted to give an insight into how the public sector and the construction industry, in particular, fairs as regards sustainable procurement (Faremi et al. 2017). These studies conclude that sustainability adoption is low. Furthermore Babatunde, Opawole and Ujadgbease (2010) contends empirically that there are inadequate policy mechanisms to embed sustainability in public procurements in Nigeria. It is therefore pertinent to unravel the causes of low uptake or lack of implementation of sustainable procurement in the construction industry seeing that the government is committed to the sustainable development agenda.

Public Procurement and the Nigerian Economy

There is a general perception that public procurements are generally inefficient. High value contract specially are generally incomplete and require post contract modifications (Geldema and Bouma,2015). Incomplete and poorly made contracts create procedural difficulties and risk. In a study conducted in the United States of America it is found that the regulations and over

regulations prohibit the realization of best value for money and proper collaboration. chukwudi and Tobechukwu (2014) highlight that the key challenges are to get right partner and realize the best value for money, achieving balanced outsourcing and neutralizing the adverse implication. In-adequacies in public procurement are asymmetry of information, lack of trust, budget uncertainties and risk aversion by purchase professionals. The other challenges are lack of commercial incentives, lack of performance measure systems and process complexity. It is generally seen that public procurement professionals are de-motivated and demoralized due to high work load, red tape and lack of appreciation.

Different situations, different type of items requires different procurement solutions. However, in government it is generally seen that there is no single uniform policy prescription. One size does not fit all and this creates systemic problems (Bryman, 2012). Instead of system approach there is fragmented approach. Different departments can issue policy directives on a subject which are not coherent with each other. Suppliers are generally not consulted in the process of decision making. Several organizations share the vision with the supplier. Because of fragmented approach despite best of intentions the government procurement may end up with poor results.

Multiple Stakeholders

In public procurement there are multiple stakeholder including society at large with conflicting interest. Achieving the cooperation between the stakeholders is a key challenge. Incongruity of goals leading to complexity and inefficiency has also been highlighted (Palgrave, Macmillan and Idoro,2010). There are policy directives to prefer indigenously manufactured product even if it gives us less value for money and poor technology (Eyo,2017).

Value for Money

In high value purchases both the cost of purchase and cost on purchase are major issues. Developed countries make use of experts to assess the cost of acquisition. In India inaccurate cost estimation is a major problem in large value public infrastructure project (Ministry of Statistics and Programme Implementation, 2011). Cost estimation helps as negotiating tools to realize the value for money (Sage and Hillbrand, 2000). The public procurement is budget driven and the risk of uncertainty of budget is charged as risk premium by the supplier.

Decision Making

The public procurement is handled by bureaucrats in layers of hierarchical setup. The bureaucratic in setup runs the public administration in a country like India (Mises, 1944). A study on bureaucracy role in policy making (Prentice, Ringle, and Sarsted, 2013) highlights that core values such as inclusiveness, transparency, fairness are compromised in policy making. Layers of hierarchical setup adversely impact the efficiency in public procurement (Sage and Hilebrand, 2000). In one of the research it is found that the risk avoidance tendency is one of the prime inefficiency. Quick decision making has positive impact in strategic decision making and is better as more efficient information processing and transmission is available. External interest group often tries to the derail decision.

Human Resource Issues

The positions in public procurement organizations are considered sensitive. As a policy measure dealing purchase professionals are subjected to periodical transfer. This affects institutional integrity and knowledge management. Sometime this discontinuity can create serious financial repercussion. Senior management support is most important factor in public procurement

(Greener, 2008). Work load, red tape and lack of appreciation demoralize and de-motivate the procurement officials. There is a gap between the future requirement and present status of skill and leadership in public sector. Strengthening leadership will have positive impact (Field, 2009). Client department involve purchase department in its decision if they trust ability and benevolent intention of the purchasing department otherwise they find ways to bypass them.

Procurement crossroads and the Nigerian Economy: An Assessment

Procurement leaders wear multiple hats and manage an array of responsibilities—from needs identification to vendor management and payment processing. A day in the procurement department is never slow. Eyo (2017) noted that this makes a procurement manager’s job riddled with challenges and difficulties. It also means that identifying and overcoming procurement challenges is time, money, and effort well spent since procurement has a direct impact on an organization’s bottom line. While procurement challenges can vary based on an organization’s size, line of business, etc., here are six common procurement challenges that haunt procurement of all sizes. Procurement crossroads dwindled human capital development in Nigeria and the attitudes of the politicians fueled/aggravated the gravity of the pseudo human capital development within the Nigerian economy.

Risk of Mitigation

Supply risk is always a major challenge in the procurement process. Market risks, potential frauds, cost, quality, and delivery risks constitute the most common type of risks. Additionally, compliance risks like anti-corruption, policy adherence, and more keep your procurement leaders up all night.

Dark Purchasing

Purchases that are made outside the defined procurement process fall under dark purchasing. Such uncontrolled spending can ultimately be expensive for businesses. When items purchased cannot be justified using capital outlay or material inventory, the resulting loss of revenue and control is a significant challenge for organizations of all sizes to tackle. A great way to reduce maverick or rogue spending is to bring your spending under management. We have put together a free guide on the 5 steps to follow to achieve that.

Lack of Transparency

Spreadsheets were a terrific place to start when it came to organizing data, but when you need a lot more out of them, they start to fall apart. The first issue you may encounter is data access. It can be tough to locate information and track it across several spreadsheets. The speed with which you can access information diminishes as the volume of data grows. You must also deal with security risks and avoid disclosing too much information to too many people. Small mistakes and omissions can result in incorrect data, costing you deals, clients, and vendor relationships. Automating your procurement process is the best way to improve transparency. It has a whole lot of other benefits too.

Inaccurate Data

In order to make sound procurement decisions, organizations need accurate and reliable data. Making purchases based on inaccurate procurement data can lead to inventory shortages, excess inventory, and other additional procurement challenges that have the potential to impact an organization’s bottom line directly.

Failure to adopt Technology

Managing your procurement processes manually may appear simple at first, but as processes become more complex, they become the largest roadblocks to success. This is why one of the procurement challenges is to see technology as a helpful hand, a partner who helps a company create value. To achieve future goals, becoming an expert in how digital procurement solutions can decrease costs and foster innovation is critical.

Supplier-Related Issues

One of the greatest challenges in procurement is supplier management. From identifying the right supplier to keeping track of vendor performance and ensuring a stable supply of quality products, the whole process is filled with complications. Especially with the covid-19 pandemic, the importance of having a steady supplier base has increased multifold.

The Relationship between Procurement Challenges and human capital Development in Nigeria

Despite the advantages for the adoption of sustainable procurement at the organizational level, the following factors by Bryman (2012) were considered critical barriers to its uptake. First is 'inertia' within the company. Inertia develops from the institutionalization of a routine within an organization. As firms try to maintain a sense of reliability, processes become routine. Thus, the implementation of changes become more difficult, as it will be an upheaval to the existing routine. Another is the conflict of incentives. The procurement staff could feel pressured to make decisions that do not align with sustainable procurement strategy. Even though many companies are documenting sustainable procurement strategies in their annual reports, it would be interesting to find out to what extent these policies influence the procurement decisions within a company. Another possible barrier is that those who are going to benefit from sustainable procurement adoption on construction projects are not the persons bearing the cost.

When the cost of maintenance is considered it may seem a bit farfetched from the contractor that builds the facility, except when build-operate-transfer or build-operate own-transfer models are used. Likewise, some argue against the appropriateness of making the initial occupants of a building pay for end of life costs that are many years away from the initial occupants (Belfitt et al., 2011). According to the Sustainable Development Commission (2004), the commonly cited hindrances to sustainable procurement are: perception that it increases cost, and lack of awareness of the need of the people.

Findings

The study revealed that any attempt to reform public procurement is always constrained by political interference. This makes the entire progress in public procurement very slow. Due to very high lead time of procurement, forecast of technological requirement becomes very difficult and it is subjected to political and organizational pressure. Over regulation, risk aversion and unpredictability of budget has been a challenge of public procurement. It is generally seen that public procurement professionals are de-motivated and demoralized due to high work load, red tape and lack of appreciation.

Recommendations

Government and policy makers are to take note of the essence of the negative relationship between procurement challenges and underdevelopment in Nigeria. Policy makers are advised that procurement crossroads affect human capital development in Nigeria and politicization of

the public procurement is to be avoided, since it served as panacea to the dwindled Nigeria economy.

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