

THE ARMS DEAL: AN ACCOUNTING OFFICER'S PERSPECTIVE

Introduction

Acquiring new arms and equipment for the Defence Force is a formal, administrative process. It is characterised by a set of mandatory sequential steps, enabling the defence establishment to state their requirements both in operational and budgetary terms.

The scope and cost of the Arms Deal is unprecedented in the history of the armed forces of South Africa. It is normally sound practice to smooth the acquisition programme of new equipment or the update of existing equipment, over a comparatively long period. Due to the arms embargo placed on South Africa prior to April 1994, most of its equipment became obsolete or rapidly approached their useful shelf life.

Early in 1994, it was acknowledged that the ordinary defence budget would never be able to fund the expansive requirements stated by the military at that time. Ultimately, the Arms Deal would be the largest foreign acquisition ever undertaken by the South African government.

The Defence White Paper and the Defence Review

The Defence White Paper provided an opportunity for the government to consider the roles and functions of the newly established South African National Defence Force. Wide consultations were conducted in attempt to synchronize the conflicting demands of defence with that of the government's GEAR programme for development. The force design served as a preliminary blue print for a national defence of the future. The Defence White Paper was completed and presented to Parliament in 1996.

Next followed the Defence Review (June 1997), which reflected what the defence force had in its inventory and to what extent it, could meet its future obligations. The shortfalls with regard to the necessary arms and equipment were substantial. It was evident that a special once-off acquisition programme was necessary to correct the deficits. The obvious question was could South Africa afford it in view of its other socio-economic obligations?

Hawks and Doves

The Minister of Defence at that time, Mr Joe Modise, argued that the lull in South Africa's military conflicts gave the country the space to "right size" the military according to a "core force" concept. According to core-force design, the military would cut staff but modernise its weaponry, so that it could more efficiently fulfill its duties as a regional peacekeeper. It argued that there was an urgent need to purchase new *material* for the Navy and the Air Force, and submitted a wish-list of purchases that included 4 corvettes, 4 submarines, 4 maritime helicopters, 28 fighter aircraft, 40 utility helicopter and 54 battle tanks.

Ministers Modise and Kasrils lobbied the Cabinet but met strong resistance from the Finance Minister, Mr Trevor Manuel. However, the hawks prevailed when Cabinet approved the first phase of the Defence Review on 18 June 1997, Parliament added their stamp of approval in that same year. The seductive carrot of counter-trade boosted the argument for the hawks. According to Kasrils "an arms package (would) bring enormous benefits to our GEAR Strategy"¹. The Arms Deal programme commenced.

The normative process

The buying of arms should take place according to a prescribed process, governed by Armscor's own practices regarding arms acquisitions.² Various committees, both from the Executive and Legislature, and committees formed by military and civilian officials from the Department of Defence and Armscor, would be involved in a sequential process of refining operational requirements and gaining political approval, with multi-year budgetary provisions for implementation. Initial estimates for the programme were between R12 and R15bn, but by November 1998, it increased substantially to R30bn.

According to the prescripts, the Arms of Service should first complete their respective staff targets (broad exposition of military needs with rough budgetary estimates) followed by more detailed staff requirements (in which the military needs are refined into very specific operational and technical requirements with more accurate budgetary estimates). It is only at this stage where the Armscor would invite tenders based on the staff requirements.

The various tenders are then assessed according to a pre-determined set of weighted criteria. Operational parameters are considered together with the technical, logistic and cost factors, producing a short-list of possible contenders. The Secretary for Defence administratively manages the process. For this purpose, he chairs the Arms Acquisition Committee, a body staffed by senior representatives of the four Arms of Service, the Secretariat for Defence and senior officials from Armscor. Their recommendations are tabled with the Arms Acquisition Council, chaired by the Minister of Defence and attended by the Deputy Minister of Defence, the Chairman of Armscor, the Chief of the SANDF, and the Secretary for Defence. The Minister of Defence submits their final choice to Cabinet for approval. However, the normative process was never followed.

The seeds of corruption

A number of events sowed the seeds of corruption. The formal process of drafting staff targets and staff requirements and responsible budgetary planning was completely subordinated to the political initiatives of the Minister of Defence. On his instructions, the Armscor invited international tenders based on broadly stated operational

¹ Address by the Deputy Minister of Defence, Mr Kasrils: The Defence Review Debate, National Assembly, 20 August 1997.

² Armscor is a South African government-owned company, charged with the responsibility to acquire arms for the South African National Defence Force.

requirements. The respondents were requested to indicate what offset programmes they would offer to “balance” the costs of acquisition.

It soon became apparent to the Secretary for Defence that the formal acquisition process prescribed by Defence Regulations was deliberately flouted. The Minister pushed the “winners” in most of the different arms categories out of contention because he gave instructions to ignore the cost factor. This flagrant disrespect for tender rules and open competition for lucrative contracts shocked the senior officials of the Defence Force and the Secretariat – except for Mr Chippy Shaik, Manager Acquisition of the Secretary for Defence, who acted as a close confidant of the Minister.

In July 1998 the Secretary for Defence tried to block the Cabinet from receiving the “non-costed” options as a basis on which to make decisions, since choosing weapons without considering costs is considered unethical. This was to no avail, because in August 1998 at a “Cabinet briefing session” the non-costed options were presented to the Deputy President, Mr Mbeki, sugared with the inflated offset proposals of the preferred tenderers. The Secretary for Defence subsequently resigned in protest. He argued that the process followed by government was completely flawed because of a complete lack of an open and democratic process. Moreover, there was no way that the Departmental Accounting Officer (Secretary for Defence) would have been able to declare the process fair and just. The seeds of corruption were sown.

Public scrutiny was disallowed in terms of “commercial confidential clause”, which violated Section 217 of the Constitution. Government, making it hard to put together a complete picture of the process, had provided conflicting information. By 2003, the estimate for the Arms Deal had grown in cost to R53.3bn, excluding financial costs³.

Investigations into the Arms Deal

Investigations into the Arms Deal begin even before the final contracts were signed. In November 1998, the Deputy Auditor-General, Shauket Fakie, identified the Arms Deal as a high-risk proposition from an audit point-of-view⁴.

On 15 August 2000 Shauket Fakie, now Auditor-General, released the first official report into the Arms Deal and argued for the need for further investigation after finding evidence that acquisition procedures had not been followed to the letter. Mr. Pierre Steyn, Secretary for Defense appeared before the Auditor-General’s investigation committee.

On 30 October 2000, Scopa released its “14th Report” into the Arms Deal, which argued for a super-investigating team to be formed to investigate the Arms Deal. The report specifically requested that the Heath Unit be included in the investigation.

³ Highs and lows of the Arms Deal...in rands and sense, Business Report, 25 July 2004.

⁴ “Deputy President tried to keep arms investigation away from Heath’s unit”, *Cape Times*, 27 August 2003.

On 12 January 2001, four government ministers hosted a conference in which they claim that Scopa and the Auditor-General did not properly understand the Arms Deal. By 12 June 2001 Scopa announced that it is “too busy” to investigate the Arms Deal any further.

In August 2001, Andrew Feinstein resigned from Parliament in reaction to the way Scopa’s investigation into the Arms Deal had been sidelined by the ANC government.

In 2003 Richard Young won a court case against the Auditor-General forcing the AG to provide all the documents used in the drafting of the Joint Investigation Report to Young. The documents showed that the report was heavily edited to clear the government of any wrongdoing.

PIERRE STEYN

Secretary for Defence: 1994 to 1998