



## COVID-19 BULK CENTRAL PROCUREMENT STRATEGY FOR GOVERNMENT INSTITUTIONS

### 1. PURPOSE

- 1.1 The purpose of this Circular is to advise municipalities and municipal entities disaster management central emergency procurement process for Personal Protective Equipment (PPE) that may be implemented by accounting officers.
- 1.2 This Circular must be read in conjunction with the Municipal Supply Chain Management Regulations, noting that MFMA Circular 100, is updated and replaced by this Circular.

### 2. BACKGROUND

- 2.1. On 15 March 2020 the COVID-19 pandemic was declared a national state of disaster in terms of section 27(1) of the Disaster Management Act (DMA), 2002 (Act No. 57 of 2002). Consequently, on 18 March 2020, the Minister of Cooperative Governance and Traditional Affairs made regulations under section 27(2) of the DMA, which were amended (DMA Regulations).
- 2.2 Regulations 2(3) and (4) of the DMA Regulations provide that institutions within national, provincial and local government must-
  - a) make resources, other than funding, available; and
  - b) make funding available and, as far as possible, without affecting service delivery in relation to the realisation of the rights contemplated in sections 26 to 29 of the Constitution, shift funding, within its budget,to implement regulations and directives in terms of section 27(2) of the DMA regarding the national state of disaster.
- 2.3 Regulations 2(5) of the DMA Regulations requires National Treasury to take the necessary steps in terms of applicable legislation to implement regulations or directions issued in terms of section 27(2) of the DMA, regarding the national state of disaster.
- 2.4 Regulation 9(a) of the DMA Regulations provides that emergency procurement for institutions are subject to amongst other, the MFMA and the applicable emergency provisions in the regulations made under the MFMA.



- 2.5 In light of the lockdown, emergencies may occur where normal procurement practices are impractical and, moreover, where there is high demand within a short time frame for goods or services required, and therefore the need to make special arrangements with service provider's with proven capability and capacity to assist thus mitigating against dangerous, perilous, or risky situation, misery or defect.
- 2.6 Government recognises the difficulty of sourcing critical and essential health products during the COVID-19 Emergency. Whilst some products are produced locally, many specialised products need to be imported. Current transversal contract suppliers are also finding it difficult to secure supplies and face extended lead times for delivery.
- 2.7 It is also acknowledged that all COVID-linked PPE products are experiencing unprecedented and global demand, resulting in massive price increases and global shortages. Whilst some of these products could be produced locally in South Africa, the Department of Trade, Industry and Competition (DTIC) is looking into the feasibility of such domestic production, which will take some time, and will possibly not be able to deliver most required products immediately, and certainly not within the lockdown stage where extreme measures to suppress the virus are being undertaken.
- 2.8 In trying to secure such imported PPE products like surgical and other masks, gloves, bodysuits, etc. many manufacturing countries have also imposed export bans, where the items are available, prices have risen sharply, made worse by the depreciation and volatility of the rand. Further, even where such products have been secured, immediate up-front payments are required, and suppliers face a huge challenge in arranging immediate delivery of such stock to SA. Hence the need to engage a central implementing agent to provide a system for the procuring, warehousing and distributing of such products.
- 2.9 As the pandemic impacts both the public and private sectors, it was imperative to collaborate and join forces to manage the national state of disaster. Thus, a decision for a public and private sector central procurement strategy was made at the National Joint Operational and Intelligence Structure (NATJOINTS). The NATJOINTS accepted voluntary support from Business South Africa (BSA) to provide the services of Imperial Health Sciences (IHS) as the Central Implementing Agent for the public and private sectors to utilise its logistical expertise and capabilities on a non-profit basis.
- 2.10 A procurement team has been established consisting of officials from the National Department of Health (NDOH) and National Treasury's Office Chief Procurement Office (NT-OCPO) to ensure that there is proper segregation of duties and no conflict of interest between government, IHS and service providers.
- 2.11 In the last two weeks, as the virus has substantially increased globally, many countries are competing with each other to secure the required commodities.

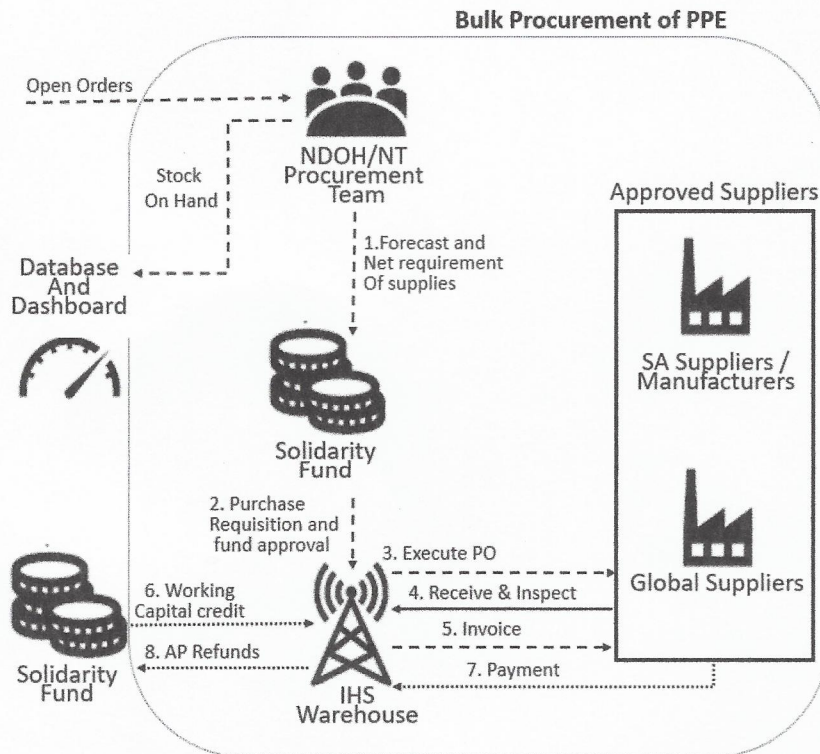


- 2.12 Given the above situation, it is clear that countries need to centralise their procurement for local and imported health products, not only to develop scale and prevent its regions or provinces from competing with each other for limited supplies, but to scale up their orders and also to arrange transport logistics to ensure quick air transport for products that are to be imported.
- 2.13 The decentralised system of procurement in South Africa, where organs of state and private sector business each place their individual orders, has seriously impaired the ability of any entity or company to successfully order and receive critical health products required to fight COVID-19, including PPE products.
- 2.14 Orders from individual government institutions are also too small to be successfully executed, hence the need for a country approach when ordering health products from local and global suppliers. More seriously, the small size of orders has crippled the process to place orders and procure products on the scale required to support mass testing and treatment initiatives, as recently pronounced by the President. This will in turn make it difficult for Government to make more informed decisions on the success of suppression and mitigation efforts like the lockdown, and how it can and should be extended, and rapidly targeting hotspots that may be identified.
- 2.15 It is also important that Government sets the maximum price per product it will pay. In the current disaster environment, which is more akin to a war situation with serious shortages and where rationing and price controls may be required.
- 2.16 In order to facilitate an efficient and effective delivery of goods and services to address COVID-19 requirements, whilst ensuring that the core values of fairness, transparency, competitiveness, cost-effectiveness and equitability, as enshrined in section 217 of the Constitution are adhered to, National Treasury has developed this circular to determine a procurement and provisioning framework for COVID-19 related PPE.

### 3. PRINCIPLES FOR COVID-19 PROCUREMENT

The following principles apply to COVID-19 linked PPE products.

#### A: BULK PROCUREMENT OF PPE FROM LOCAL AND INTERNATIONAL SUPPLIERS



**3.1 Principle One: All COVID-19 related PPE products to be centrally procured, warehoused and distributed for the public sector.** For this purpose, a structure was established to ensure proper segregation of duties.

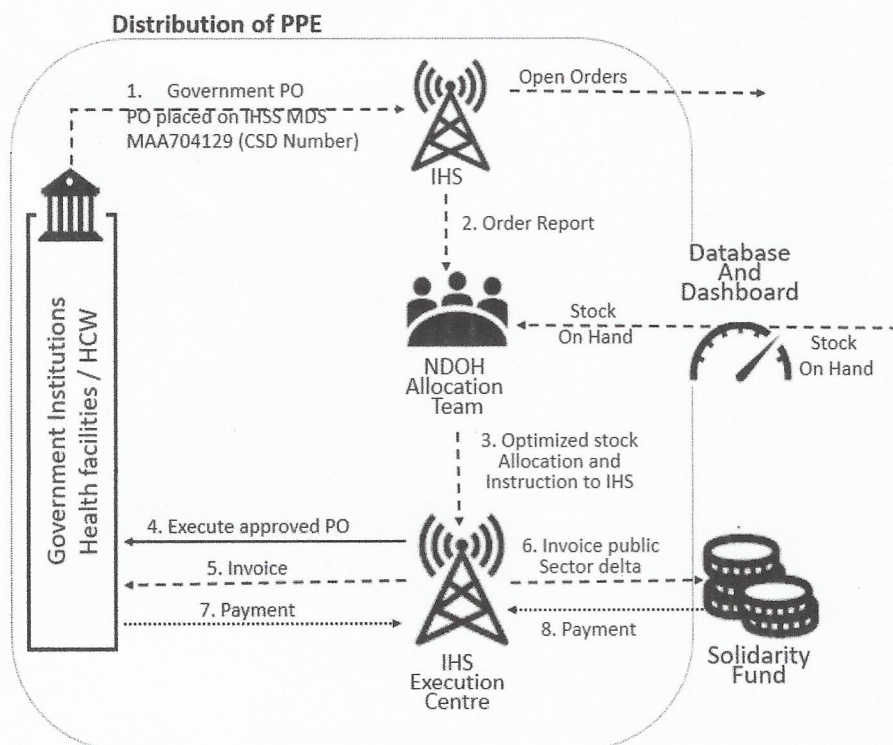
- (a) A Government Procurement Team made up of NDOH and NT will execute bulk procurement orders on behalf of the State from both local and global suppliers.
- (b) IHS, as the Central Implementing Agent, will only execute orders on instruction from the NDOH/NT Procurement Team. IHS merely acts as the executing agent and has no role in procurement decisions.

**3.2 Principle Two: All suppliers, locally and globally, are invited to offer their products.** All local suppliers have been invited through a National Treasury Media Statement, to provide their details and COVID-19 related health products, based on specifications provided by NDOH, to a central email address set up for this purpose ([covid19supplies@businessresponsecovid19.co.za](mailto:covid19supplies@businessresponsecovid19.co.za)). Local suppliers and manufacturers will receive preference. This will include already contracted service providers that are on transversal contracts or any other departmental contracts. IHS, on instruction from the Government Procurement Team, will place orders on suppliers, for products identified, that meet the standards determined by NDOH.



- 3.3 Principle Three: Up-front credit provided by the Solidarity Fund.** Based on forecasts and government demand IHS will approach the Solidarity Fund to request up-front credit to pay suppliers for the bulk orders. Solidarity Fund will consider all applications, approve and provide up-front credit to IHS. IHS to recover the cost (on a non-profit basis) from government institutions who had placed orders in order to pay back the Solidarity Fund for the credit advanced.
- 3.4 Principle Four: Inventory Management:** All incoming stock of PPE items are centrally warehoused at IHS and proper inventory management is maintained.
- 3.5 Principle Five: Quality Control.** The NDOH, together with SABS, NRCS and SAHPRA will undertake quality assurance checks as and when required.

## B: ORDER PLACING AND DISTRIBUTION OF PPE TO GOVERNMENT INSTITUTIONS



- 3.6 Principle Six: Order Placement and Allocation.** Government institutions to place orders on IHS (CSD No. MAA0704129) system, where after orders are daily consolidated, checked and prioritised by the NDOH Allocation Team. The NDOH Allocation Team will instruct IHS to execute the orders. This may mean that some orders will not be fulfilled 100% (e.g. the institution may have orders 100 masks but will only be allocated 50 masks based on the allocation algorithm). In this case, the “back-order” system will keep track of orders not completed. Government institutions will only be invoiced for products delivered.



- 3.7 Principle Seven: Prices paid by government institutions.** NDOH/NT Procurement Team determines the prices that government will pay for the products (Annexure A). Products are made available to the public sector at the determined prices. In the event that items are procured at prices below the prices on Annexure A, the public sector will receive the benefit of this positive margin. In the event that the products are procured above the prices on Annexure A, the Solidarity Fund will absorb the negative margin.
- 3.8 Principle Eight: Delivery and receipt of orders.** Ordering government Institutions will receive goods at specified delivery addresses, check goods against the order and sign the "Proof of Delivery" note.
- 3.9 Principle Nine: Payment.** Ordering government institutions to pay IHS within 10 days (preferably shorter periods) according to the determined prices, in order for IHS to recover the cost advanced by the Solidarity Fund and pay back the Solidarity Fund

## **4. PROCESS FOR PLACING ORDERS, RECEIVING AND PAYMENT BY GOVERNMENT INSTITUTIONS**

### **4.1 Requisitions and order placing**

- 4.1.1 If an institution decides to implement this disaster management central emergency procurement process for PPE, it must create IHS (CSD No. MAA0704129) as a supplier on its ordering system and the items listed in its ordering system with the prices indicated on **Annexure A**.
- 4.1.2 Institutions must first generate their requisitions and order using their own order books (face value books) or system-generated purchase orders if on an ERP system. Thereafter the information must be transferred onto the template order provided as **Annexure A**. This process will ensure that there are no questions when it comes to payment of these orders as they would have generated a commitment on the institution's system.
- 4.1.3 Internal approval to be done as per the institution's delegation of authority.
- 4.1.4 Once requisitions are approved, the purchase order must be generated and approved. Once approved, the order to be emailed to: [covid19requests@businessresponsecovid19.co.za](mailto:covid19requests@businessresponsecovid19.co.za) on the Order Template provided as **Annexure A**. The institution to attach a copy of the internal approved order form to the template order form.
- 4.1.5 When placing the first order, the institution must fill in the Customer Master Information template (**Annexure B**) and email it together with the first order.
- 4.1.6 Institutions are requested to rather place smaller orders for the immediate need for two weeks ahead. Big orders will result in many "back orders" to be managed.

4.1.7 The Order Template must clearly indicate the delivery address, the official responsible for receiving the order at delivery the point and that official's contact details.

4.1.8 An institution must put proper governance structure in place to carefully manage and sign-off on purchase orders. Proper record must be kept of all orders placed.

#### **4.2 Order consolidation and allocation prioritisation**

4.2.1 Orders will be consolidated by the NDOH Allocation Team daily at 18h00.

4.2.2 The orders will be subjected to an allocation algorithm managed by the NDOH Allocation Team. The algorithm assumptions will be based on epidemiological data and current government priorities as to where the need is the greatest.

4.2.3 The NDOH Allocation Team will submit an approved/partially approved order form to the IHS system with instructions to execute the order.

4.2.4 The institution will be notified of the status of its order and when delivery will take place.

#### **4.3 Execution and distribution of orders**

4.3.1 An order will be packed as per the instructions on the order.

4.3.2 A delivery note will be generated.

4.3.3 Distribution will be done of all processed orders.

4.3.4 Upon receipt of the order, institutions must check the order and sign the Proof of Delivery.

4.3.5 The Proof of Delivery will be retained in the IHS system.

#### **4.4 Invoicing and payment of orders**

4.4.1 The IHS system will generate an invoice, based on the executed order.

4.4.2 Invoices will be sent to the institutions.

4.4.3 Invoices to be settled by the ordering institution within 10 working days.



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## 5. PROCUREMENT OF COVID-19 RELATED ITEMS AND SERVICES NOT COVERED BY THIS INSTRUCTION

- 5.1. If an item or service is not covered in this Circular, and is considered to be a specific requirement for the Institution to combat COVID-19, the Emergency procurement prescripts may be followed:
- i. Accounting officers may deviate from inviting competitive bids in cases of emergency in terms of regulation 36 of the Municipal Supply Chain Management Regulations read with the Municipal Supply Chain Management policies. This does not require National Treasury's approval.
  - ii. MFMA Circular 62 allows accounting officers to expand contracts for goods up to 15%. For expansions in excess, municipalities and municipal entities must follow the process outlined in section 116(3) of the Municipal Finance Management Act, and in order to expedite matters, as may be delegated.

## 6. GENERAL COMPLIANCE MEASURES

- 6.1 Where a municipality or municipal entity already have a contract(s) in place and/or placed orders in terms of MFMA Circular 100 for the same items listed in this Circular, it must honour the contract and/or orders.
- 6.2 In the event that the supplier cannot fulfil its obligation due to the high demand, it must notify the municipality or municipal entity in writing. The municipality or municipal entity may, only then, cancel the order. Institutions should act with caution when agreeing to lead and delivery times with suppliers, thus making it difficult for suppliers to deliver on the orders placed.
- 6.3 Where items are included in existing Facilities Management Contracts, municipalities or municipal entities may negotiate with the Facilities Management Service Provider to provide these items. Contracts may be expanded or varied (refer paragraph 5.1(ii)), but only for items that will aid the prevention of the spread of the virus. Institutions must not pay prices in excess of the prices provided for in **Annexure A**.
- 6.4 Municipalities or municipal entities may approach any other supplier to obtain quotes and may procure from such suppliers on condition that-
- i. the items are to the specifications as determined by the NDOH;
  - ii. the prices are equal or lower than the prices in **Annexure A**; and
  - iii. the supplier is registered in the Central Supplier Database.
- 6.5 Where municipalities or municipal entities already procured items, prior to the issue of this Circular, under the Emergency Procurement procedures in terms of MFMA Circular 100, such procurement must be reported within 10 days to the relevant treasury.



## **7. REPORTING**

- 7.1 For audit purposes, institutions are required to keep record of:
- i. ALL orders placed with IHS through this mechanism;
  - ii. Proof of delivery notes;
  - iii. Invoices paid to IHS;
  - iv. All orders placed under paragraph 6.4 above; and
  - v. Consolidated record of the above.

## **8. APPLICABILITY**

This Circular and its annexures are applicable to all municipalities and municipal entities.

## **9. EFFECTIVE DATE**

This Circular takes effect on date of signature.

## **10. REPLACEMENT OF MFMA CIRCULAR 100**

MFMA Circular 100 dealing with the Emergency Procurement Response to National State of Disaster is replaced through this Circular.

## **11. DISSEMINATION OF INFORMATION CONTAINED IN THIS INSTRUCTION**

Accounting officers are requested to bring the contents of this Circular to the attention of all staff and procurement officials within municipalities and municipal entities.

## **12. CONTACT INFORMATION**

- 12.1 Accounting officers may submit formal enquires in terms of this Circular to:

**The Director-General  
National Treasury  
Private Bag X115  
PRETORIA  
0001**

**For attention: The Chief Procurement Officer**

12.2 Queries related to this Circular may also be submitted by email to:  
[mfma@treasury.gov.za](mailto:mfma@treasury.gov.za)



**DONDO MOGAJANE**  
**DIRECTOR-GENERAL: NATIONAL TREASURY**  
Date: 15-04-2020

**ATTACHMENTS**

**ANNEXURE A: PRICE LIST AND ORDER FORM**  
**ANNEXURE B: CUSTOMER MASTER INFORMATION**  
**ANNEXURE C: GOVERNMENT BULK CENTRAL PROCUREMENT OF PPE  
PROCESS FLOW**