



# **National Treasury SUPPLY CHAIN MANAGEMENT**

**“Zero Tolerance Against Fraud And  
Corruption Conference”  
25 – 26 September 2007**

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September 2007**



# Contents

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- Background
- Legislative Environment
- SCM Process
- Acquisition Process
- PPPFA and BBBEE Alignment
- Prevention and Combating of Corruption
- Success Factors



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## Background

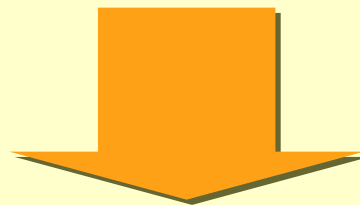
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The previous approach of acquiring goods and services in government was highly prescriptive and had, amongst others, the following deficiencies:

- inconsistency in policy application,
- lack of accountability,
- lack of supportive structures,
- fragmented processes, etc

Since 1995 Government has been involved in a number of initiatives to reform the procurement environment:

- Green paper on public procurement
  - Roger Webb Procurement analysis
  - CPAR (Country Procurement Assessment Report)-World Bank



**The above initiatives resulted in the introduction of the INTEGRATED SUPPLY CHAIN MANAGEMENT function in government.**



## The following was approved by Cabinet

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- A fifth pillar in respect of “equity” be included
- That the Minister of Finance issue general procurement guidelines, including the criteria of Black Economic Empowerment, capacity building, training and job creation
- The National & Provincial Tender Boards and the various offices be phased out.
- A Common Service Provider on a cost recovery basis be established.
- That a pilot programme of procurement reform be implemented in four National departments.
- That the need for a White Paper on procurement reform is superceded by these decisions



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## Joint CPAR 2001

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A range of issues that required resolution was identified.

### **Governance related issues**

- Insufficient Planning and linking to budget
- Lack of uniform bid and other procedures
- Conflict of interest due to composition of Tender Bodies
- Consultants not selected in systematic competitive manner
- Flaws (corruption) in award of tenders
- Insufficient training of staff
- Procurement Processes too rule driven

### **Issues with the Preferential Procurement Policy Framework Act (PPPFA) and its regulations.**

- PPPF Policies not formulated well due to lack of National targets
- Cost and outcomes not adequately assessed to evaluate merits of system
- Incorrect interpretation of Policy (set-asides)
- Not adequately evaluating who qualified as disadvantaged (verifying claims for preference points)
- Does not cater for capacity building for disadvantaged enterprises
- Lack of quantitative data on cost and outcome of preferential system
- No provision for graduation
- Conflicting policies

**The conclusions of the CPAR formed the basis for further work done in collaboration with provinces and other stakeholders.**



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# LEGISLATIVE ENVIRONMENT THAT SUPPORTED PROCUREMENT REFORM IN GOVERNMENT



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## LEGISLATIVE ENVIRONMENT

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**Section 217(I) of The Constitution provides the basis for procurement by determining that:**

*“When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective”.*

**Section 217(I) of The Constitution further confers:**

*an obligation for national legislation to prescribe a framework providing for preferential procurement to address the social and economic imbalances of the past.*

The Preferential Procurement Policy Framework Act (PPPFA) of 2000 and its accompanying Regulations were promulgated to achieve these goals.  
**(This Act incorporated the 80/20 and 90/10 preference point systems.)**



## LEGISLATIVE ENVIRONMENT

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Section 215-219 of The Constitution further require that:

- *The National Treasury introduce norms and standards within government to prescribe transparency and expenditure control measures, which should include best practices to regulate financial management in the national and provincial spheres of government.*

The Municipal Finance Management Act (MFMA) has also been promulgated:

- Extend the same principles to municipalities





## LEGISLATIVE ENVIRONMENT

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- Thus, it is the responsibility of the National Treasury to:
  - foster coherent financial management in all organs of State, across all spheres of government; at the same time,
  - ensure that considerable powers are devolved to accounting officers to enable them to manage their affairs within the parameters laid down by the prescribed norms and standards.
  
- Section 76(4)(c) of the Public Finance Management Act (PFMA) provides that :
  - The National Treasury may issue a procurement framework for national and provincial departments;
  
- A similar provision is also contained in chapter 11 of the Municipal Finance Management Act (MFMA) that is applicable to municipalities.

**This framework is to ensure the optimal achievement of government's broader strategic objectives.**



## Major shifts from the Webb Report

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Establish parameters for the Supply Chain Management Office in the National Treasury to:

- Monitor adherence to minimum norms and standards as well as policy outcomes.
- Facilitate the arrangement of transversally used term contracts.



## Supply Chain Management

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The concept of an integrated supply chain management policy system was proposed

- *Supply Chain Management could be described as a function that ensures that goods and services are delivered to the right place, in the right quantity, with the right quality, at the right cost and at the right time.*

This process is aimed at :

- Introducing international best practices as part of government's drive towards improved financial management.
- Replacing the outdated procurement and provisioning processes.
- Introducing uniformity in supply chain management policies and standards in all spheres of government.



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- On 10 September 2003, Cabinet approved the adoption of a Policy Document, titled “*Policy to Guide Uniformity in Procurement Reform Processes in Government*”
  - This policy strategy is intended to guide the uniform implementation of Government’s procurement reform initiatives and the issuing of Regulations of the Framework for Supply Chain Management.
  - The Minister of Finance approved the promulgation of the Regulatory Framework for supply Chain Management on 05 December 2003.
  - Accounting officers / authorities are required to establish and implement a supply chain management function that promotes sound financial management and uniformity in all spheres of government.



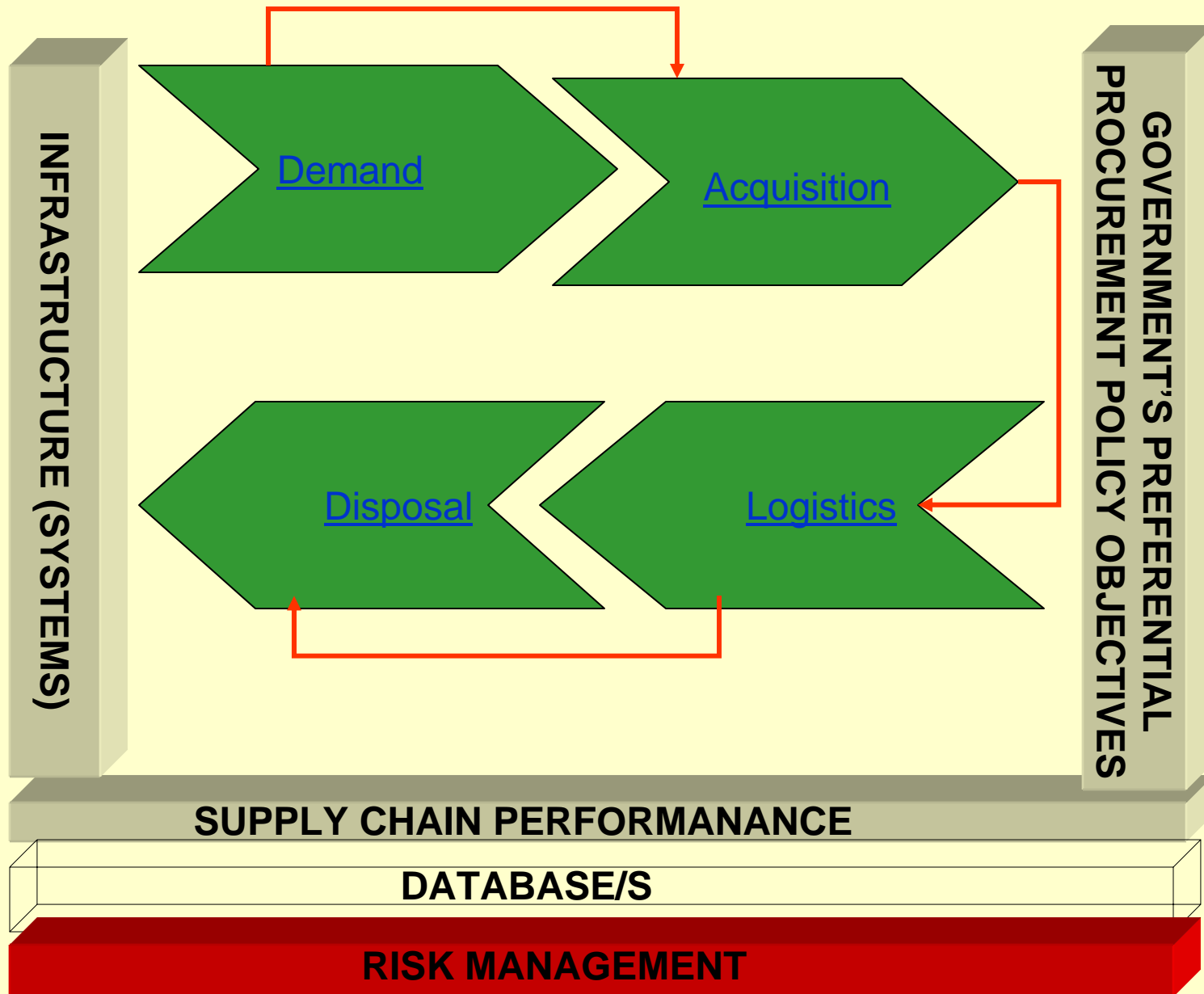
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# SUPPLY CHAIN MANAGEMENT PROCESS



# Supply Chain Management Process





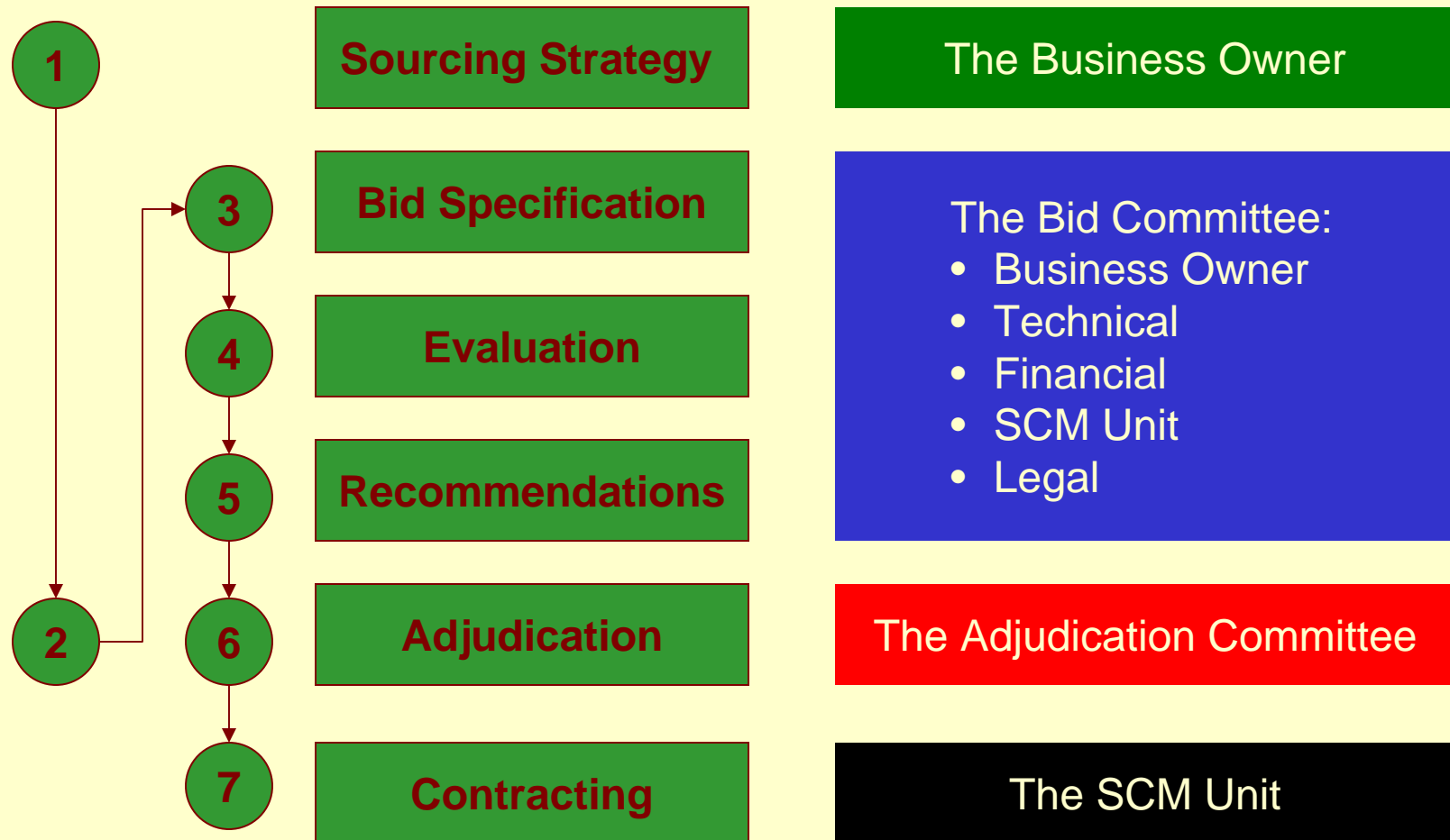
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# ACQUISITION PROCESS



# Acquisition Process







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Preferential Procurement Policy Framework  
Act (PPPFA)  
and  
Broad-Based Black Economic  
Empowerment Act  
(BBBEEA)



## PPPFA and BBBEE Alignment

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- Ambiguities between PPPFA and BBBEEA were identified thus the need for the alignment of the two legislations.
- Some of these ambiguities were
  - inconsistency in the policy application
  - The definition of HDI was too broad leading to huge fronting
  - BBBEE and PPPFA were out of sync
- Cabinet instructed that the two legislations be aligned



## PPPFA and BBBEE Alignment cont.

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- A work group was established between National Treasury and the BEE unit of the Department of Trade and Industry to deal with the alignment
- Draft amendment of the Preferential Procurement Policy Framework Act is currently with the state law advisors for legal refinement.
- The legislative process shall start soon.



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# Prevention and Combating of Corruption



# Prevention and Combating of Corruption

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## Combat abuse of SCM system

- Accounting officers should take all reasonable steps to prevent abuse of the scm system.
- Accounting officers must reject a bid from any bidder who:
  - has abused the scm system or who has committed any improper conduct;
  - has been convicted for fraud or corruption during the past five (5) years;
  - has willfully neglected or failed to comply with any public sector contract during the past five (5) years;
  - has been listed in the Register for Tender Defaulters in terms of section 29 of the Prevention and Corrupt Activities Act (No 12 of 2004).



## Prevention and Combating of Corruption

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### Combat abuse of SCM system (cont.)

- Accounting officers must cancel a contract awarded to a person if:
  - the person committed any corrupt or any fraudulent act during the bidding process or execution of the contract;
  - an official or other role player committed any corrupt or fraudulent act during the bidding process or execution of the contract that benefited that person.



# Prevention and Combating of Corruption

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## REGISTER FOR TENDER DEFAULTERS

Prevention and Combating of Corrupt Activities Act, Act No. 12 of 2004

### Background

- Section 29 of the Act provides for the Establishment, Maintenance and Management of a Register for Tender Defaulters.
- Register to contain particulars of persons or enterprises convicted by a court for corrupt activities relating to tenders, contracts and procurement (sections 12 and 13)



## Prevention and Combating of Corruption

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### National Treasury's Role in the Implementation of the Act

- Minister of Finance approved that the Registrar should be from the National Treasury.
- On 9 March 2005, a Registrar was appointed.
- The Regulations Regarding the Register for Tender Defaulters was approved for promulgation by the Minister of Finance in consultation with Justice. Promulgated on 11 March 2005 in Government Gazette 27365.
- Department of Justice to furnish the National Treasury with details of all convictions relating to sections 12 and 13 of the Act.
- A copy of the Register has been placed and will be maintained on the web-page of National Treasury. [www.treasury.gov.za](http://www.treasury.gov.za)
- Accounting Officers need to put in place a mechanism to deal with grievances relating to the SCM process.
- National Treasury is currently looking at establishing a National Compliance monitoring unit to deal with deviations from SCM





## Prevention and Combating of Corruption

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### Database of Restricted Persons

- Treasury Regulation 16.A9 (c) prescribes that prior to awarding any contract the National Treasury's database of persons prohibited from doing business must be checked.
- This database contains details of persons restricted from doing business with government for having obtained preference fraudulently or have failed to attain specified goals during the performance of the contract.
- These restrictions have been imposed by the former tender boards or accounting officers and not by a court of law. The database is therefore not accessible to the public.
- Supply Chain Management Practice Note Number 5 of 2006 issued on 09 October 2006 empowers accounting officers to restrict suppliers from doing business with government.
- The General Conditions of Contract has been augmented accordingly to give effect to these powers.



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# SUCCESS FACTORS



## Success Factors

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- Supply Chain has found its rightful place in government
- SCM has been implemented in all spheres of government
- Strategic Sourcing



**EVERY ATTEMPT SHOULD BE MADE TO DEAL WITH  
THE ACQUIRING OF GOODS AND SERVICES IN THE  
SPIRIT OF SECTION 217 OF THE CONSTITUTION OF  
THE REPUBLIC OF SOUTH AFRICA**

**THANK YOU**

**For further details:  
National Treasury Supply  
Chain Management Policy  
(012) 315 5502**



### Demand Management

- Understanding future needs
- Identifying critical delivery dates
- The frequency of need
- Linking the requirement to the budget
- Doing an expenditure analysis
- Determining the specifications
- Doing a commodity analysis
- Doing an industry analysis



# Logistics Management

- For stock or inventory items the following functions will amongst others be performed:
  - Coding of items
  - Setting of inventory levels
  - Placing of orders
  - Receiving and distribution of material
  - Stores/Warehouse management
  - Expediting management
  - Transport management; and
  - Vendor performance, etc
- For fixed capital items (construction and road projects, immovable property) a similar process, mutates mutandis has to be adopted, i.e. appropriate classification, additions to asset and property register, valuation, main use, etc. From this process the financial system is activated to generate payments.



### Disposal Management

- At this stage:
  - Obsolescence planning or depreciation rates per item required to be calculated;
  - A data base of all redundant material is kept;
  - Material inspected for all potential re-use;
  - A strategy is determined of how the items are going to be disposed of; and
  - Executing the physical disposal process
- Again a similar set of procedures is applicable to fixed capital stock, I.e. depreciation, maintenance and replacement planning and costing, etc.



# Acquisition Management

- Preferential procurement policy objectives are identified that could be met through the specific contract
- The strategy of how the market is to be approached is determined
- Applicable depreciation rates are determined
- The total cost of ownership (TCO) principle is being applied e.g.
  - Life cycle cost
  - Inventory carrying cost
- The bid document would be compiled, attaching all necessary required documents and giving conditions etc
- The bid evaluation criteria is determined
- Bids would be evaluated and recommendations tabled
- Contract documents would be compiled and signed
- Contract administration is done; and
- Contract information is used to kick-start the logistics ,management process

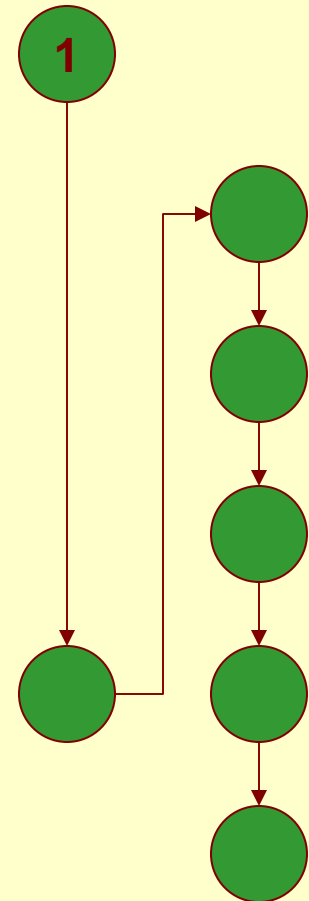




# 1. Sourcing Strategy – Establishing the need for Bid and Adjudication Committees

[BACK](#)

- What needs to be sourced and why (the business case)?
- What will the impact be on the internal and external environment?
- Who are the stakeholders and how will they respond?
- What are the affordability levels?
- Are there any legal issues?
- What are the sourcing issues and options?
- What are market place characteristics?
- Evaluate and select the most appropriate sourcing strategy.
- Confirm the need for and composition of Bid & Adjudication Committees.

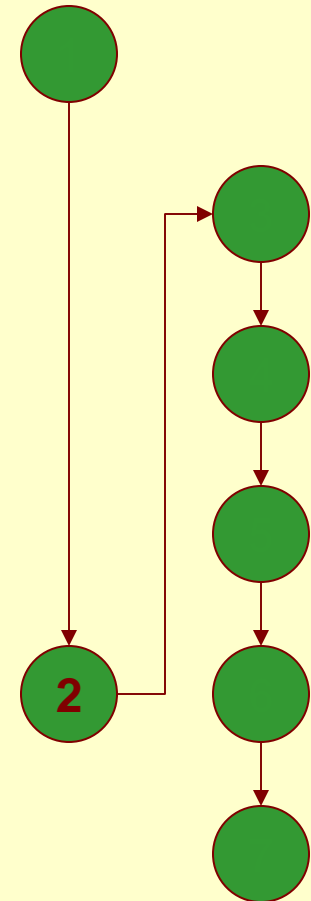




## 2. Begin with the end in mind - Consultation with the Adjudication Authority

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- A process of consultation with the Accounting Officer (also the adjudication authority)
- To review and confirm the Sourcing Strategy.
- To review and confirm the structure and composition of the Bid and Adjudication Committees.
- Identify and confirm specific individuals to be appointed.
- Confirm and arrange availability.
- Finalise the bidding process in terms of process, procedures, policies, roles and responsibilities and time line.
- Finalise, authorise and authenticate the Sourcing Strategy.

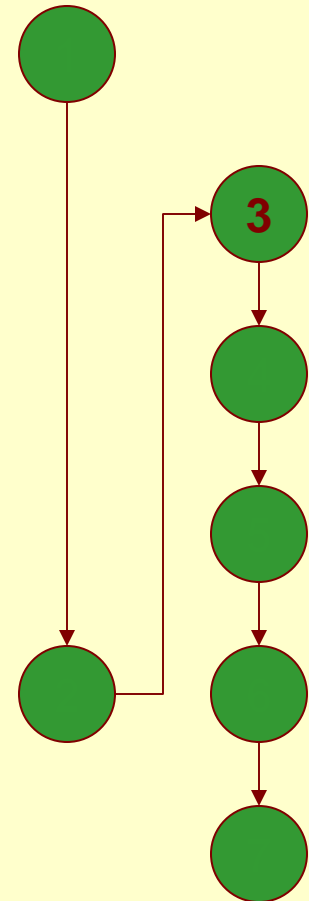




### 3. Bid Specifications – The primary responsibility of the Bid Committee

[BACK](#)

- With the authorised Sourcing Strategy as primary input.
- With input from and participation of the Bid Committee members or their assistants/representatives.
- Co-opted capacity and skills depending on the nature and extent of the work required.
- Establish and finalise evaluation criteria.
- Consider RDP, BEE, SMME, local/regional, IDP or other development goals.
- Consider technical standards (SABS, ISO and other industry/commodity specific standards).
- Consider legal and commercial issues, requirements and terms and conditions.
- Produce, authorise and publish the Bid Specifications

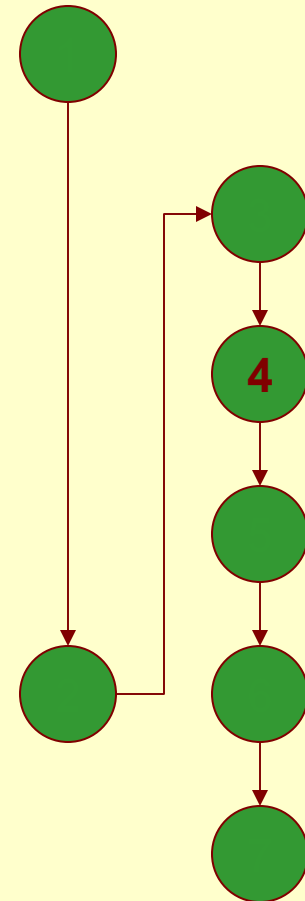




## 4. Evaluation – By the Bid Committee against the agreed Bid Specification

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- Receive competitive bid documentation.
- Establish an effective and secure working environment.
- Establish confidentiality agreements, policies and procedures.
- Establish appropriate communication protocols.
- Finalise the evaluation approach and procedure consistent with the approved evaluation criteria.
- Evaluate and score competitive bids.
- Request clarification from bidders through appropriate communications.
- Develop findings and conclusions based on the evaluation results.

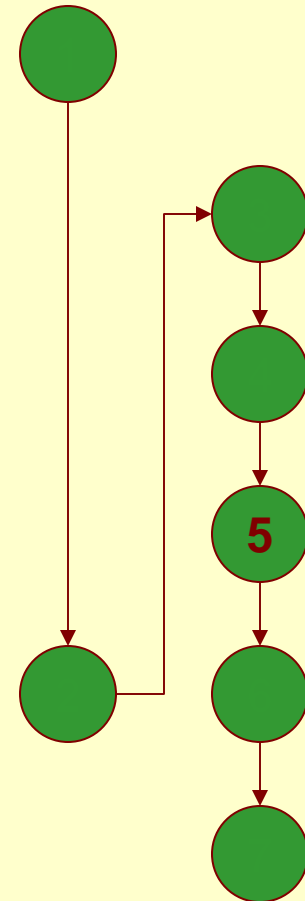




## 5. Recommendation – By the Bid Committee for the Adjudication Committee

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- Develop a full report for consideration by the Adjudication Committee.
- Include full details of the process followed by the Bid Committee.
- Summarise evaluation results, findings and conclusions.
- Recommend a preferred bidder and a full justification.
- Highlight issues for consideration and resolution during negotiation and contracting stages.
- Confirm the business case, affordability levels and risk profile.
- Confirm the impact on the internal and external environment and all the stakeholders.

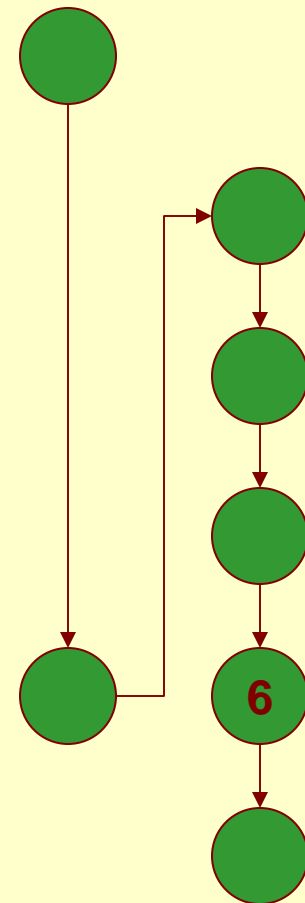




## 6. Adjudication – the Accounting Authority supported by the Adjudication Committee

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- The report and recommendations of the Bid Committee can now be reviewed and considered by the Accounting Authority supported by the Adjudication Committee.
- The Accounting Authority should now be in a position to approve, reject or override the recommendations of the Bid Committee.
- Full clarification should be documented for auditing purposes should the Accounting Authority and/or Adjudication Committee decide to reject or override the Bid Committee.
- Independent specialists may be co-opted to assist the Accounting Authority and/or Adjudication Committee.
- The final decision can now be communicated and published, and instructions given to the SCM Unit to conclude contract negotiations and closure.





## 7. Contracting – The final step in the bidding process.

[BACK](#)

- The final step in the process.
- The responsibility of the SCM Unit.
- May require the assistance of the Bid and Adjudication Committees to ensure that the recommendations and final decisions are contractually implemented consistent with the original Sourcing Strategy and Bid Specification.

