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EMPOWERDEX PTY
LTD

**A REVIEW OF GOVERNMENT SPENDING THROUGH PROCUREMENT
AND THE IMPACT THEREOF ON BEE**

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EXECUTIVE SUMMARY

Given that the government has a large capacity to influence the economy through spending; Preferential Procurement is viewed as one of the key drivers of broad-based black economic empowerment (BB-BEE). Preferential procurement thus places government in an incredibly powerful position to help drive BEE within the economy.

Since 1998, different parts of legislation have been developed in order to regulate BB-BEE. The

Preferential Procurement Policy Framework Act that was promulgated in 2000 can be viewed as the most important legislature that guides public sector spending.

This said, the BEE implementation guidelines applicable to the study are as follows:

- Preferential Procurement Policy Framework Act of 2000. (in the context of the Public Finance Management Act)
- DTI Codes of Good Practice
- Tourism BEE Charter

The difference in measurement of BEE in the legislation and BEE guidelines has resulted in challenges in public sector accounting of BEE procurement.

■ Key Findings

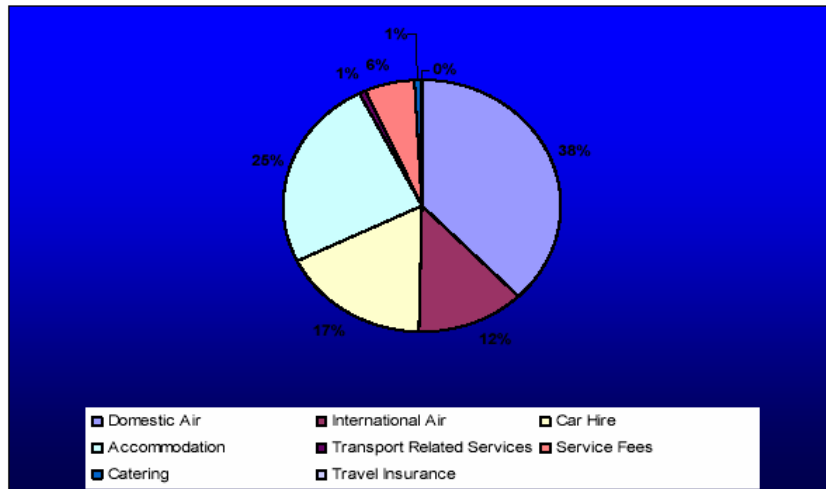
Expenditure on Travel and Tourism

Using the departmental budgets, we were able to estimate that for the 2005/6 financial year, national government spent an estimated R 2.65 billion on travel and tourism. Our analysis of national government procurement showed that national department spent an average of 10.02% of revenues allocated to travel and tourism related goods and services, over the period under review. All the national departments allocated funds for expenditure on travel and tourism related activities. Based on the result of our survey, we were able to establish that most of travel and

Expenditure Item	Percentage Spent	Estimated Expenditure (R 000)
Domestic Air	37.65%	1,000,061.14
International Air	12.42%	329,936.49
Car Hire	17.32%	459,920.32
Accommodation	24.59%	653,009.06
Transport Related Services	0.90%	23,851.15
Service Fees	5.80%	153,930.72
Catering	0.67%	17,796.49
Travel Insurance	0.09%	248,873.00

tourism related spend went towards domestic travel – 38%. Accommodation related expenditure accounted for second largest expenditure, approximately 25% of all travel and tourism related expenditure. Catering and travel insurance accounted for the least amount spend on tourism related expenditure.

Figure 1: National Government Estimated Travel and Tourism Expenditure – 2005/6



Tourism Procurement Trends

Most of the public sector procured goods and services from established suppliers who were able to offer special rates for big contracts. For accommodation, the public sector procured mostly from Southern Sun and other big hotel groups. As corporate travelers, public sector clients required the following from their accommodation:

- Accessibility;
- Availability of suppliers;
- Facilities; and
- National representation of properties.

Based on projections made in this study, expenditure on travel and tourism is estimated to grow to R 3.7 billion by 2016.

■ Other Expenditure Items

As can be expected the types of goods and services bought by national departments differ from one department to the next. However there are certain goods and services that appeared in all the national department budgets; these are:

- Communication
- Information Technology
- Professional Services
- Inventory ; and,
- Office equipment.

On average national departments spent the majority of their spend on inventory (18.52% of total procurement) and followed by procurement on professional services (13.27%). The procurement figures quoted by national department exclude that expenditure on capital assets.

■ Project Scope

The following entities were invited to participate in the survey:

- 27 National departments
- 171 organs of state
- 6 Tourism Public Entities
- 11 Provincial Tourism Authorities
- 4 Travel Agencies

However very few of the entities invited to participate in the survey responded to our requests. Those which responded expressed the view that the questionnaire was too detailed and they did not have the requested information. However we were able to establish travel and tourism expenditure for the following entities:

- 25 National departments;
- 5 Provincial departments;
- 1 metropolitan municipality;
- 5 State Owned Entities.

■ **Intermediaries**

All of the state entities that the researchers engaged with through face to face interviews and telephonic interview indicated that they made use of a travel agent for purchasing travel and tourism goods. Only two out of ten entities indicated that BB-BEE was a consideration when awarding contracts to travel agencies. There was more than one travel agency which provided travel management solutions to more than just one state entity. Of the travel agencies which were interviewed, only one indicated that BB-BEE was a consideration when they purchased travel and tourism goods on behalf of state entities.

■ **Regulatory Environment**

All organs of state are required by law to subscribe to the PPPFA (Act of 2000) when awarding tenders and contracts. The PPPFA currently requires public entities to only look at historically disadvantaged Individual (HDI) ownership and management control. This further limited to contracts that are worth R 200 000.00 or more. This is at odds with both the Tourism Charter and The Code of Good Practices on BB-BEE as both the Codes and the Tourism Charter evaluate BB-BEE using seven elements.

■ **BEE Considerations**

All of the entities interviewed or who submitted data reported that BEE was a consideration when they are awarding tenders and contracts. The key considerations as one would expect were in line with the requirements of the PPPFA which are:

- Ownership
- Women Ownership
- Management

These requirements have not changed since the writing of the 2003 report. However we did observe a number of public entities who had developed creative solutions to integrating BB-BEE in their procurement process. These were mostly contractual conditions for suppliers.

All of the entities who responded use travel agencies and reported that they require their suppliers to procure goods and services from their BEE compliant candidates. However the travel agencies were of the view that there were limited BEE suppliers in the market.

Detailed findings and our analysis are contained in the report that follows.

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SECTION 1: BACKGROUND AND OBJECTIVES

The tourism sector has been identified as one of South Africa's growth sectors. The sector was identified as one of the targeted growth sectors to drive the Accelerated and Shared Growth Initiative of South Africa (ASGISA).

The tourism sector is one of the keys sectors in which Broad Based Black Economic Empowerment (BB-BEE) can be driven to have a wider impact on the economy. Through BEE, significant skills transfers, economic resources and income will be retained in the South African economy.

The Department of Environmental Affairs is one of the forerunners in black economic empowerment and has proactively promulgated a strategy to transform the tourism sector. Following the *Transformation Strategy for the South African Tourism Sector*, the Department further intensified its efforts to drive BEE within the sector by formulating the Tourism BEE Charter and Scorecard in 2004 and establishing a Tourism BEE Charter Council which was launched in May 2005. The Tourism BEE Charter and Scorecard quantifies the BEE milestones to be achieved within the sector, through specific targets. This is a clear indication of the extent of commitment to BEE within the Tourism Sector.

Preferential Procurement is one of the key elements of BEE. Given that the government has a large capacity to influence the economy through spending, government is in a position to help drive BEE within the economy. The Preferential Procurement Policy Framework Act, promulgated in 2004, was intended as a guideline for the Public Sector to use in their procurement decisions.

In 2001, the Department of Environmental Affairs and Tourism (DEAT) commissioned Empowerdex to conduct a study to:

- identify the impact of the DEAT transformation strategy;
- determine the impact of national government procurement on transformation in the tourism sector, and
- ascertain the degree to which national government departments had promoted affirmative procurement.

Five years later, after the development of the Tourism BEE Scorecard, the establishment of the Tourism BEE Charter Council and with the BEE Codes of Good Practice well on the way

to being promulgated; the need to update the study arose. To this end, the Tourism BEE Charter Council commissioned Empowerdex to conduct a study of Public Sector Procurement with the intention to determine the level of preferential procurement within the public sector. More importantly, the study focused on the level of Public Sector Preferential Procurement with regards to the tourism sector.

Empowerdex embarked on a study that encompassed the following:

- An assessment of government consumption for the 2004/5 and/or 2005/6 financial years and the percentage of such consumption allocated to tourism goods and services, focussing on the preferential procurement of tourism goods and services;
- An assessment of government legislation, procurement policy and strategy on BEE;
- An assessment and analysis of key problems and obstacles identified by the public sector entities in implementing the transformation strategy;
- A review of the implementation of government procurement policies by selected public sector entities.

In order to identify the impact of legislation and transformation strategies, as well as highlight the impact that Public Sector procurement can have on the transformation in the tourism sector, the Empowerdex research team conducted a survey and interviews with procurement officers of various National departments, tourism entities, SOEs and Metropolitan Municipalities. The results of the survey indicate the progress achieved by the public sector in promoting preferential procurement and highlight some of the obstacles and challenges faced by government in initiating BEE in the tourism sector.

