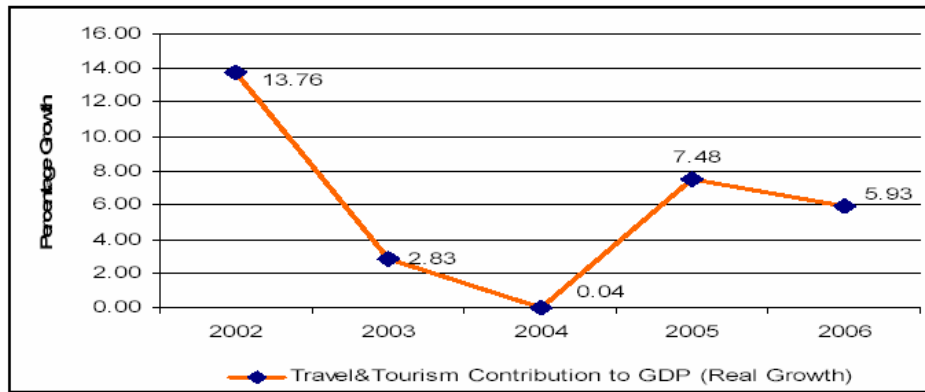


## SECTION 4 – Travel and Tourism: A South African Outlook

### 4.1. Travel and Tourism Contribution to South Africa's Gross Domestic Product (GDP)

The World Travel and Tourism Council (WTTC) estimates that the South African Travel and Tourism industry has been growing at an average rate of 6.01% per annum over the past 4 years (2002 to 2006.) The industry's contribution to GDP experienced a sharp decline from 2002 to 2004; from 13.76% to 2.83%. However, the contribution to the country's GDP increased dramatically between 2004 and 2005; from 0.04% to 7.48%. And between 2005 and 2006 it decreased from 7.48% to 5.93%. **Figure 3** below graphically illustrates the changes in industry's contribution from 2002 to 2006.

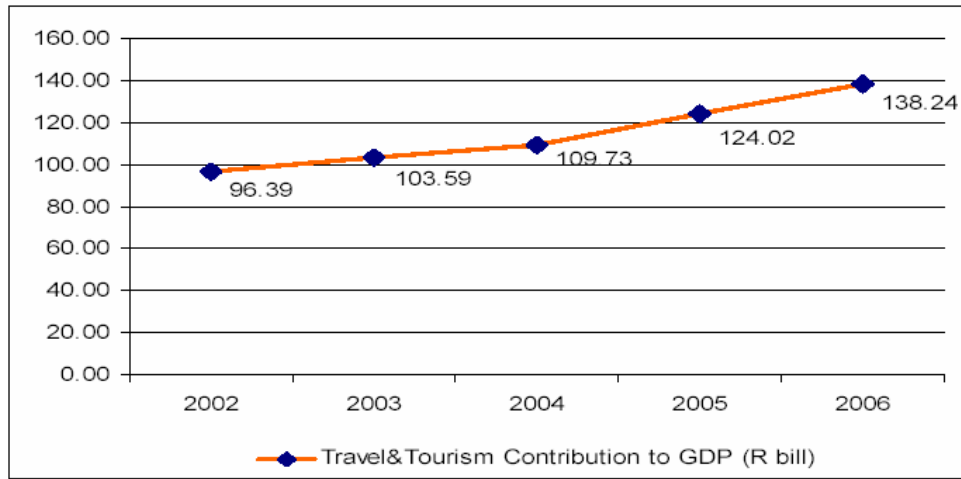
**Figure 3: Travel and Tourism Estimated Percentage Contribution to SA's GDP**



Source: WTTC-South Africa 2006 T&T Economic Research

Over the same period (2002-6) the travel and tourism industry's average contribution to the GDP is estimated at R 114.39 billion. In 2002 the estimated contribution to GDP by the Travel and Tourism industry was R 96.39 billion. This amount grew to R 109.73 billion in 2004 and is estimated that it will be R 138.24 billion by the end of 2006. **Figure 4** below provides information on the estimated travel and tourism contribution to the GDP (2002-2006).

**Figure 4: Travel and Tourism Estimated Contribution to SA's GDP**

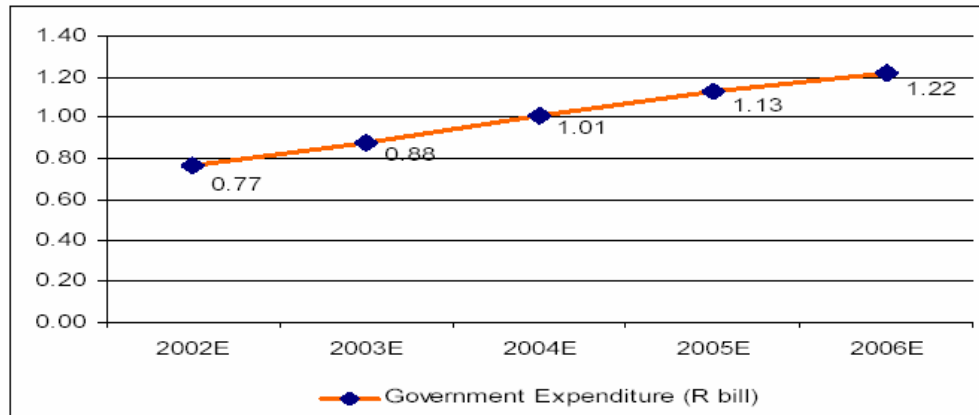


Source: WTTC-South Africa 2006 T&T Economic Research

#### **4.1.2 Government's Expenditure in Travel and Tourism**

The South African government is estimated to have spent an average of R 1 billion per annum in the Travel and Tourism sector in the period 2002 to 2006. In 2002 government spent an estimated R 0.77 billion on Travel and Tourism; the amount estimated to be R 1.22 billion by the end of 2006. We estimate that most government expenditure on travel and tourism is in the form of business travel. **Figure 5** below, illustrates the growth in government's expenditure for the period (2002-2006).

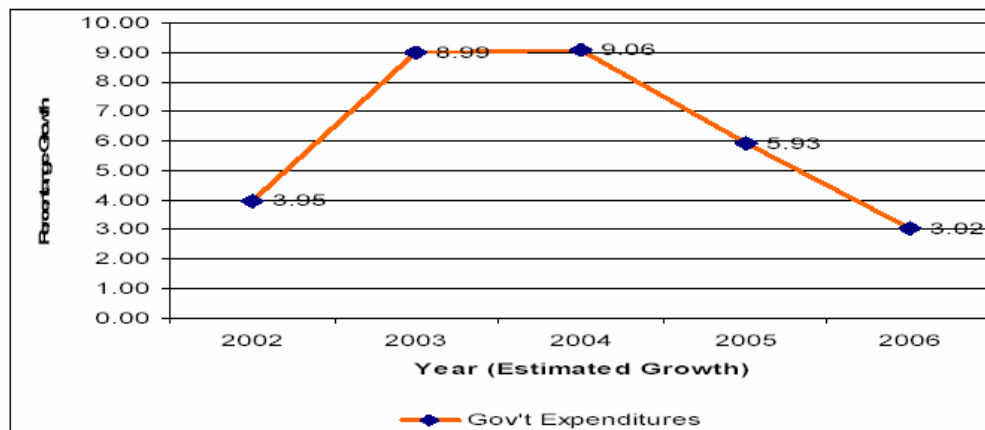
**Figure 5: Estimated South African Government's Expenditure on Travel and Tourism (2002-2006)**



Source: WTTC-South Africa 2006 T&T Economic Research

In the period 2002 to 2006, government expenditure on Travel and Tourism grew by an average of 6.19%. From 2002 to 2003 this amount grew by 8.99%; and, from 2003 to 2004 this amount grew by 9.06%. The growth rate declined from 9.06% in 2004 to 5.93% in 2005 and it is expected to decline even further to 3.02%. The figure below (Figure 6) illustrates the growth pattern of government expenditure in travel and tourism.

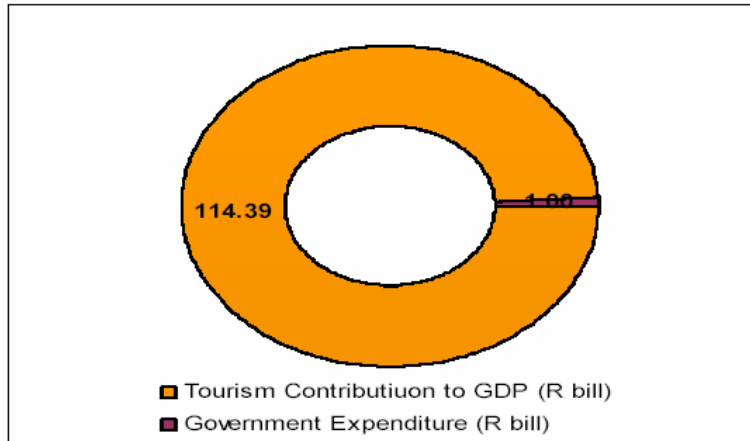
**Figure 6: Estimated Growth in Government Expenditure in Travel & Tourism**



Source: WTTC-South Africa 2006 T&T Economic Research

As stated earlier, government expenditure on Travel and Tourism over the period 2002 to 2006 is estimated at R 1 billion per annum, this was only 0,87% percent of the total travel and tourism market in SA. The figure (**Figure 7**) below illustrates government's contribution to the travel and tourism industry in SA.

**Figure 7: Government Expenditure in SA's Travel and Tourism Industry**



## 4.2 National Government Expenditure Patterns

### 4.2.1 Expenditure Framework

Government expenditure can be broadly divided into 5 main areas of expenditure. These are;

- State debt cost;
- Current payments;
- Transfers and subsidies;
- Payment on capital assets; and,
- Contingency reserves.

Most of national government purchases are budgeted in the current payments category. Current payments include both employee salaries and allocation for purchases of goods and services<sup>1</sup>. The average allocated amount spend on goods and services has been 17.33% over the period 2003-2005. Most of the government expenditure has gone towards transfers and subsidies. Transfers and subsidies are mostly for municipalities and state owned entities (SOEs). Government's investment in capital assets is proportionally lower than other types of government expenditure. **Figures 8 to 10** below provides information on the allocation of government revenue for the three years under review (2004-2006).

Figure 8: 2003/4 Government Expenditure

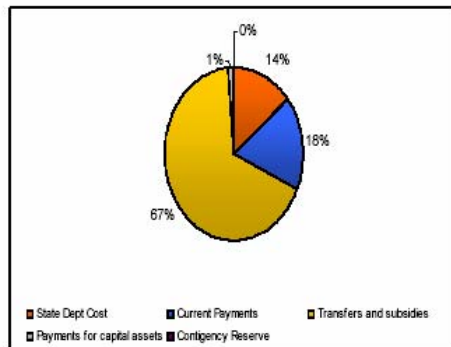


Figure 9: 2004/5 Government Expenditure

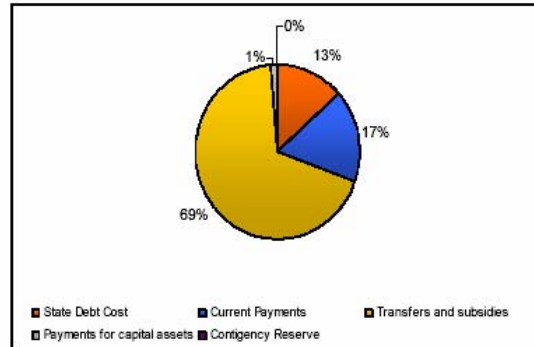
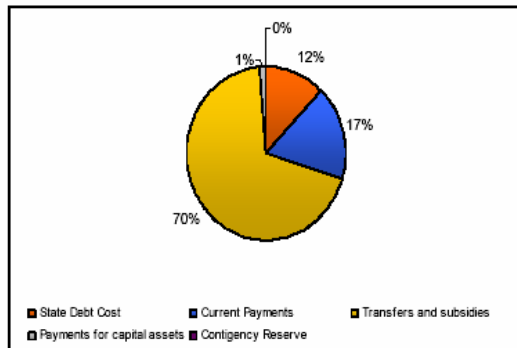


Figure 10: 2005/6 Government Expenditure

<sup>1</sup> Items listed under goods and services exclude purchases of capital assets. Goods that are purchased for resale are also classified as goods and services.



Source: National Treasury – 2006/7 National Budget

Most government revenue is allocated for transfers and subsidies, on average this is 68.7% of total revenue. Table 7 below provides information on the amounts allocated for the different types of government expenditure.

**Table 7: Government Expenditure (2003/4 to 2006/7)**

Expenditure Classification	2003/04 (R 000)	2004/5 (R 000)	2005/6 (R 000)	2006/7 (R 000)
State Debt Cost	46,313	48,851	51,160	52,049
Current Payments	57,854	63,450	72,809	82,481
Transfers and subsidies	220,104	250,826	289,353	329,319
Payments for capital assets	4,439	5,414	5,653	6,376
Contingency Reserve	-	-	-	2,500

Source: National Treasury – 2006/7 National Budget

#### 4.2.2 Government Expenditure on Goods and Services

The State procures a wide variety of goods and services. Goods and services procured by government vary from communication solutions to protective clothing and uniforms. It is however important to note that different national government departments procure different goods and services. There are however cost items that appear in most if not all of the national departments accounts. Almost all of the departments have allocated expenditure for the following goods and services:

- Communication;

- Information Technology;
- Professional services(also referred to as expenditure on consultants, contractors and special services);
- Inventory<sup>2</sup>;
- Office equipment (operational leases); and,
- Travel and tourism.

Expenditure on most of the goods and services procured by the different national departments has remained relatively constant over the period under review, especially on the line items that appear on most if not all of the government departments' accounts. For example, planned expenditure on communication has been around 5% of total procurement spend by government.

There are certain goods and services that only appear on specific department's accounts; a few examples of these are:

- Minerals and mineral beneficiation – the presidency;
- Health and Medical Services – department of correctional services;
- Textiles(uniforms and protective clothing) – department of correctional services; and,
- Witness and related fees – department of justice and constitutional development.

**Table 8**, below provides information on the different types of goods and services procured by the different national government departments and their relative values.

**Table 8: National Department Expenditure patterns (2003-2006)**

	2003/4 (R 000)	2003/4 Percentage Spend	2004/5 (R 000)	2004/5 Percentage Spend	2005/6 (R 000)	Percentage Spend	2006 (R 000)
Communication	1,082,400	5.57%	1,171,982	5.41%	1,262,642	5.02%	1,353,370
Information Technology	1,710,115	8.80%	2,282,991	10.55%	2,246,554	8.93%	2,169,879
Professional Services	2,514,726	12.94%	2,697,867	12.46%	3,630,016	4.43%	4,361,962
Inventory	3,204,680	16.49%	5,088,604	23.51%	3,916,012	5.57%	4,359,409

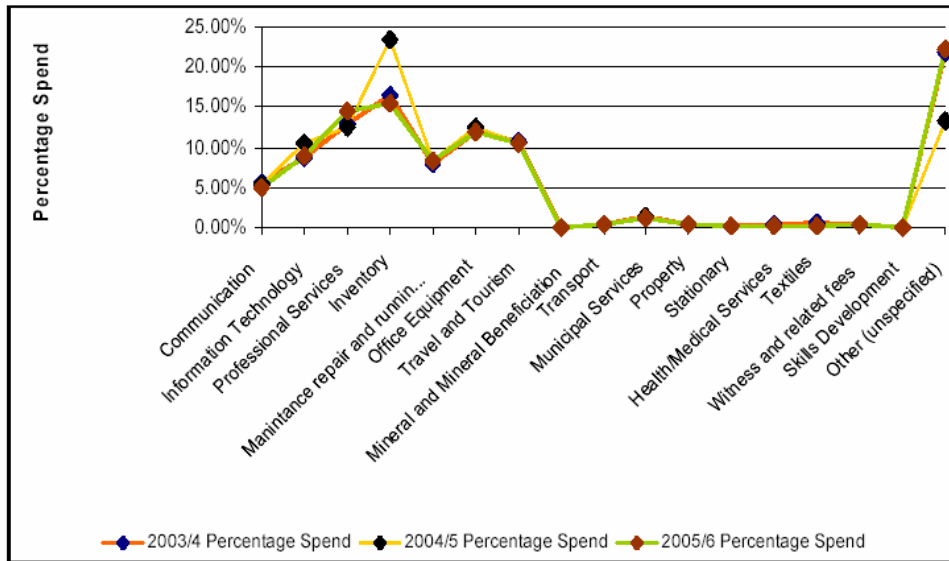
<sup>2</sup> None of the national departments specified what constituted expenditure on inventory.

	2003/4 (R 000)	2003/4 Percentage Spend	2004/5 (R 000)	2004/5 Percentage Spend	2005/6 (R 000)	Percentage Spend	2006 /7 (R 000)
Maintenance repair and running cost	1,543,406	7.94%	1,800,228	8.32%	2,107,034	8.38%	2,482,623
Office Equipment	2,301,200	11.84%	2,713,123	12.53%	2,975,922	1.83%	3,274,468
Travel and Tourism	2,064,234	10.62%	2,289,913	10.58%	2,655,827	0.56%	2,887,683
Mineral and Mineral Beneficiation	3,554	0.02%	3,524	0.02%	3,141	0.01%	3,298
Transport	86,633	0.45%	90,039	0.42%	97,606	0.39%	112,783
Municipal Services	268,740	1.38%	281,980	1.30%	309,289	23%	360,751
Property	75,379	0.39%	79,133	0.37%	85,406	0.34%	100,063
Stationary	41,077	0.21%	36,208	0.17%	46,360	0.18%	8,081
Health/Medical Services	67,393	0.35%	64,406	0.30%	71,143	0.28%	76,700
Textiles	123,830	0.64%	60,314	0.28%	60,603	0.24%	50,691
Witness and related fees	83,407	0.43%	87,217	0.40%	91,295	0.36%	102,144
Skills Development	4,124	0.02%	2,896	0.01%	4,662	0.02%	4,918
Other (unspecified)	4,260,215	21.92%	2,898,403	13.39%	5,591,136	22.23%	6,907,241
<b>Total</b>	<b>19,435,113</b>	<b>100.00%</b>	<b>21,648,828</b>	<b>100.00%</b>	<b>25,154,648</b>	<b>100.00%</b>	<b>28,616,064</b>

Source: National Treasury- 2006/7 National Budget

As can be seen from the graph (Figure 11) below that national government departments do not specify where a large portion of their expenditure is directed. An average of 19.18% was planned expenditure on unspecified goods and services. The second largest expenditure was allocated to the purchase of inventory. Again, very few, if any of the national government departments specified what constituted inventory. Over the 3 year period 2003 to 2006, an average of 18.55% of government funds allocated for goods and services were spent on inventory.

Figure 11: National Government Percentage Spend on different goods and services.



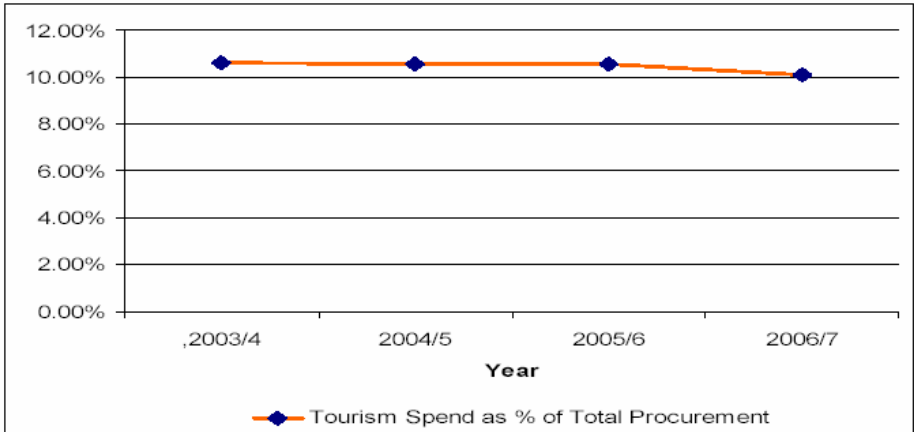
Source: National Treasury- 2006/7 National Budget

### 4.2.3 Government Procurement on Travel and Tourism

All of the national departments (and SOE's) whose budget is allocated directly from the National Treasury, allocated specific fund to travel and tourism. The allocated expenditure in travel and tourism is often termed as travel and subsistence. The total travel and tourism spend as a percentage of total goods and services bought by national government departments over the 3 year period - 2003-2006 was 10.58%.

Figure 12 below provides information on the national government's procurement spend on travel and tourism for the 3 years under review – 2003-2006. It is interesting to note that the tourism spend as a percentage of total government spend has been consistent over the 3 year period under review; the percentage spend in the 3 years has been around 10.02%.

Figure 12: Tourism spend as a percentage of total procurement spend



Source: National Treasury – 2006/7 National Budget

Over the period under review, national government allocated an average R 2.34 billion to travel and tourism. This is almost twice as much as the figures that were quoted by the WTTC of R 1 billion. This suggests that national government has over the 3 year period under-spent on the allocated amounts for travel and tourism.