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**An analysis of the public sector expenditure in
the tourism value chain: Identifying socio-
economic opportunities for black-owned
enterprises in South Africa**

University of Venda

Final Report

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LIST OF ACRONYMS

B-BBEE	Broad-Based Black Economic Empowerment
dti	Department of Trade and Industry
EMEs	exempted micro enterprises
ESD	enterprise and supplier development
ESE&ID	Economic Sectors, Employment and Infrastructure Development
FOSAD	Forum of South African Directors-General
G&A	Governance and Administration
GDP	gross domestic product
ICTS	International Cooperation, Trade and Security
ISIC	International Standard Industrial Classification of All Economic Activities
JCPS	Justice, Crime Prevention, Peace and Security
LEs	large enterprises
MICE	meetings, incentives, conferences and events
MIS	management information system
NT	National Treasury
QSEs	qualifying small enterprises
SMMEs	small, medium and micro enterprises
SPCHD	Social Protection, Community and Human Development
StatsSA	Statistics South Africa
TB-BEESC	Tourism Broad-Based Economic Empowerment Sector Code
TSA	Tourism Satellite Account



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ABSTRACT

In South Africa, the contribution of the public sector to economic growth cannot be understated. The contribution can take place through several channels, including via the tourism sector. The chained-tourism activities that result from direct government expenditures are characterised in this report as consisting of the public sector-generated tourism value chain. The chained-tourism activities are triggered when a meeting, conference or event requires government personnel to be away from their usual environment for at least 24 hours. Such absence requires that transport and accommodation, as well as food and beverages, be both organised and paid for. Certain suppliers benefit from the government expenditures incurred by providing transport, accommodation, food and beverages, or other services to the travelling government personnel within the value chain. The amended Tourism B-BBEE Sector Code gazetted by the Department of Trade and Industry in November 2015 seeks to ensure that the economic benefits of the booming tourism sector accrue to previously disadvantaged races as well as to the more traditionally privileged. Using government expenditures on tourism-related activities between 2013/14 and 2017/18, and the suppliers registered with the National Treasury, the study examines the value chain of the tourism sector generated from the public expenditures, and it attempts to determine the type of enterprises that benefit from within the value chain. The findings of the study are earmarked to produce policy recommendations that will aid the promotion of economic transformation that are set to enable the participation of previously disadvantaged races in the tourism value chain, particularly in terms of improving access to the procurement channels involved.

Key words: public sector; tourism value chain; B-BBEE



1. Introduction and Background

Tourism has maintained its role as a significant sector in the South African economy. The 2018 statistics from World Travel and Tourism Council show that the direct contribution of Travel and Tourism to Gross Domestic Product (GDP) at the time was 2.8 percent.¹ Including the indirect contribution made by tourism would take the percentage contribution of tourism to be three times more than its direct contribution to the GDP, which is substantial. In terms of employment, tourism directly supported 4.5 percent of all jobs in 2017 in South Africa, translating to 1 in 23 employed individuals belonging to the tourism sector (StatsSA 2019). As of 2018, more people worked in tourism, on a national scale, than did in mining and utilities, combined.

A value chain describes the full range of activities through which goods or services pass from their conception to their distribution, and beyond (Kaplinsky and Morris 2001), including several such activities as design, production, marketing, distribution and support to the final consumer (Mete & Acuner 2014;). All the activities combined constitute the 'chain' that links producers to consumers, with each activity serving to add value to the final product (Spencer, Safari & Dakora 2014).

In tourism, the value chain describes the full range of activities that are supplied and accessed by various stakeholders to facilitate the most memorable visitor experiences that a destination can offer, from conception to actualisation, and beyond (Daly and Gary 2017)The tourism value chain is made up of three subsectors, namely accommodation, hospitality and related services, and travel and related services. However, tourism is a multidimensional sector that is difficult to measure, because it is not a clearly defined industry in terms of the International Standard Industrial Classification of All Economic Activities (ISIC), but, rather, it is an amalgamation of such subsectors as accommodation services, restaurants, passenger transport services, travel agencies and related services, attractions, events, cultural services, sports and recreational services. Consequently, the tourist experience consists of a series of individual experiences that are provided by multiple different entities from air carriers and hotels to restaurants and tours. Owing to the long and complex nature of the tourism value chain, many opportunities exist for different subsectors to become involved in the tourism sector.

The amended Tourism B-BBEE Sector codes gazetted by the Department of Trade and Industry (dti) in November 2015 seek to ensure that the economic benefits within the tourism value chain accrue to

¹ <https://www.gov.za/about-sa/tourism>.



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previously disadvantaged races as well as to the more traditionally privileged. The codes also provide a basis for the monitoring of economic transformation in the tourism sector across the three subsectors, namely accommodation, travel and hospitality, and the five elements of the B-BBEE Scorecard (Ownership, Management Control, Skills Development, Enterprise and Supplier Development and Socio-Economic Development), including large enterprises (LEs), qualifying small enterprises (QSEs) and exempted micro enterprises (EMEs). Among others, the codes prioritise enterprise and supplier development (ESD) as being the main driver of transformation, through encouraging the preferential usage of black-owned suppliers and the upliftment of black-owned businesses within supply chains, partnerships and mentorships.

A related study commissioned by the Department of Tourism, which was conducted in 2016/17 on opportunities for small, medium and micro enterprises (SMMEs) in the travel-related subsector, found that most LEs do not comply with the targets set out in the Tourism Broad-Based Black Economic Empowerment Sector Code (TB-BEESC). The study showed zero expenditure on black majority-owned enterprises, as well as minimal expenditure on enterprises owned by black women. Therefore, the findings of the study prompted the need to assess whether economic transformation has, in fact, become a reality within the tourism value chain.

The current study assesses public sector expenditure in the tourism value chain, with a view to determining the enterprises benefitting from public expenditure, as well as any socio-economic opportunities that were being made available to black-owned SMMEs at the time of the research. Of the two reasons for the study being delimited to public sector expenditure, the first was that the tourism value chain is huge, multidimensional and complex. Attempting to assess the operations of the entire chain within the confines of time allocated to the study would have been such a mammoth task that it might have been impossible to achieve. As a result, delimiting the value chain to the public sector sphere made the study manageable. The second reason for the delimitation was that the tourism value chain has expenditures generated from the public sector (i.e. the state) and from such non-state agencies as for-profit businesses, not-for-profit businesses and individual tourists. The study refers to the latter as the private sector, and it posits that the sector might not necessarily be pursuing the empowerment of previously discriminated against and disadvantaged groups within the tourism value chain, although the State might be pursuing such a policy. Accordingly, it became apparent that the public sector



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expenditures should be isolated and assessed to ascertain whether the expenditures involved were addressing, and are continuing to address, the economic transformation agenda envisaged by the State.

1.1. The Rationale of the Study

The gains and expenditures brought about in tourism are clearly recorded and provided for in the Tourism Satellite Account (TSA) for South Africa. Including the tourism expenditure by-products, the products typically form the subsectors of tourism, which are accommodation, restaurants, passenger transport services, travel agents, cultural services and sports and recreational services. The tourism expenditures are further broken down into inbound and outbound tourism expenditures, as well as domestic tourism expenditures. Within each category, the TSA tracks the products (sectors) that receive most value from tourism expenditure. The employment statistics, which are also included in the TSA, are clearly broken down into the number of persons employed within each tourism subsector.

The statistics that are noticeably missing not only from the TSA, but also from various tourism-related reports and documents, are those of the tourism enterprises in general, and of black-owned tourism enterprises in particular. However, the statistics are important for the Department of Tourism in the context of the TB-BEESC gazetted in 2009. The Code expresses the commitment by all stakeholders to make the tourism sector more accessible and beneficial to all South Africans, resulting in inclusive growth and shared economic benefits for all the nation's citizenry. In particular, the Code stresses the preferential procurement of goods and services from suppliers with strong Broad-Based Black Economic Empowerment (B-BBEE) compliant levels.

In the absence of statistics that track the number of entrepreneurs and their ownership composition benefitting from tourism, it is difficult to assess the amount of economic transformation that has already taken place, or whether the opportunities and gains from the tourism sector are shared, especially in relation to the emerging black-owned tourism enterprises.

1.2. Purpose of the Study

The study described here was aimed at examining and analysing how tourism subsectors benefit from public sector expenditures, with a view to determining potential socio-economic opportunities for black-owned SMMEs within the tourism value chain.



1.3. Objectives of the Study

The specific objectives of the study were to:

- examine the value chain of the tourism sector generated from public expenditures
- determine which enterprises benefit from public expenditures within the tourism value chain
- assess the socio-economic opportunities within the value chain for black entrepreneurs

2. A Review of Relevant Concepts and Case Studies

This section reviews the literature concerned with how the concept of the value chain first emerged, and how it is currently applied within the business world. Following a discussion of the present state of the tourism sector, the review and discussion are merged into an exploration of the tourism value chain, as it stands at the moment. After discussing the idea of economic empowerment, various cases of the tourism value chain, as it is found in Africa and Europe, are presented.

2.1. Value Chain

The term 'value chain' first emerged in the 1960s, when it was used by planners to analyse mining export economies, and how they might be improved (Girvan 1987). Mostly, the term was used in the context of a consumer's overall assessment of the utility of a product, based on their perceptions (Zeithaml 1988). The above means that value is the amount that a consumer is willing to pay for a product provided by a firm. Each time the willingness to pay for a product results in a purchase by the consumer, it is as though the person concerned were registering a vote in favour of the continuing production of that product. A rise in demand for the product could translate into an increase in its price, and, resultantly, in its value.

Porter (1985) describes the value chain slightly differently. In positioning the value chain as the activities that an organisation performs, he links them to the organisation's competitive position, as is shown in Figure 1 below.

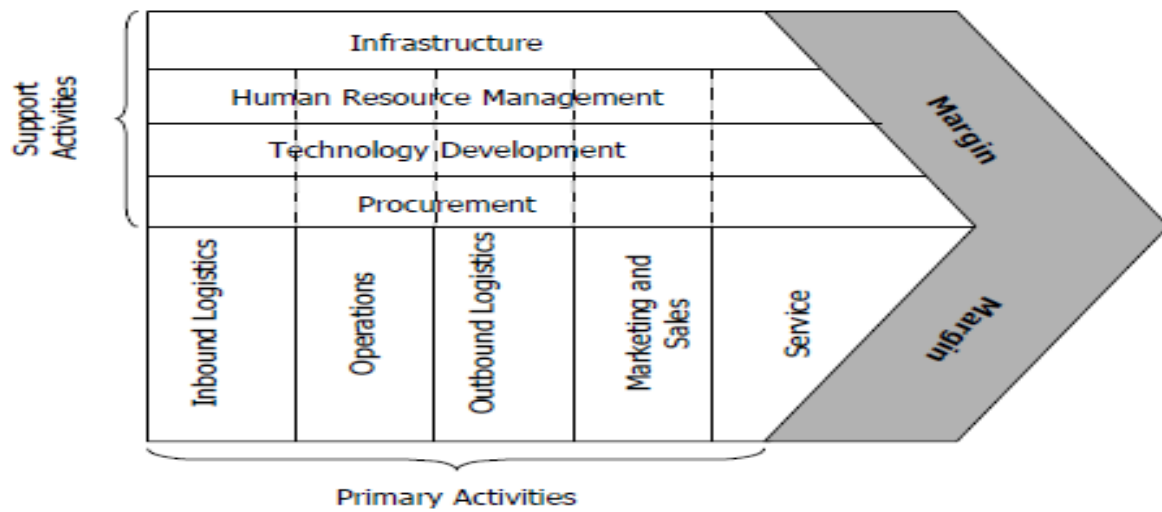


Figure 1: The Basic Model of Porter's Value

Source: Porter (1985).

As can be seen in Figure 1, the value chain is basically a systematic method that analyses the improvement of a firm's competitive advantage. First, the concept of chain demonstrates that the larger streams of activity must be integrated into each other (Mete & Acuner 2014). Porter (1985) groups the streams into primary activities and support activities, with primary activities involving the physical development of the product from conception to sales, and from distribution to the buyer (see Table 1 below). The activities concerned are all linked to help improve their efficiency.

Table 1: Primary Activities in Porter's Value Chain

ACTIVITY	DESCRIPTION
Inbound Logistics	The receiving, storing and distributing of raw materials used in the production process
Operations	The stage at which the raw materials are turned into the final product
Outbound Logistics	The distribution of the final product to consumers
Marketing and Sales	Advertising, promotions, sales force organisation, distribution channels and pricing and managing the final product, so as to ensure that it is correctly targeted at the appropriate consumer groups



Services	Activities required to maintain the product's performance post production, including such aspects as installation, training, maintenance, repair, warranty and after-sales services
-----------------	---

Source: Harrison (2017)

The support activities, including procurement, technology development, human resource management and infrastructure, as shown in Table 2 below, are also all linked to help maximise their efficiency.

The term 'margin' in Figure 1 implies that the firm's profit margins depend on its ability to manage linkages within primary and support activities, respectively, as well as across primary and support activities.

Table 2: Activities in Porter's Value Chain

ACTIVITIES	DESCRIPTION
Procurement	How the raw materials for the product are obtained
Technology Development	How new products are developed and designed during the research and development stage, and in process automation
Human Resources Management	Activities involved in hiring and retaining the proper employees to help design, build and market a product
Firm Infrastructure	An organisation's structure and its management, planning, accounting, finance, and quality control mechanisms

Source: Harrison (2017).

Kaplinsky (2010) provides three key elements of a value chain. In relation to the first, being the barrier to entry and rent, Kaplinsky argues that economic rent arises in the case of the differentiated productivity of factors, and barriers to entry arise due to scarcity. However, as an increasing number of firms develop technical and other capabilities in terms of manufacturing, barriers to entry are reduced and the extent of competition is heightened.

The second key element of a value chain is the governance factor, which helps to determine how, and on what terms, different actors participate in various subsectors forming the chain (Kaplinsky 2010).



Therefore, coming to understand the concept of governance, and the distinction between different types of chains, should make a major contribution to the body of knowledge regarding value chains.

Gereffi (1994) breaks down the components of governance within value chains into three, as is shown in Table 3 below. As can be seen in the table concerned, the legislative governance mechanisms involved prescribe the setting of the rules that define the conditions for participation in the chain. To meet the rules, effective executive governance is needed. Executive judgement, according to Gereffi (1994), provides a form of proactive control that assists value chain participants in meeting the set operating rules. Auditing performance, and checking for compliance in the value chain, is seen by Gereffi (1994) as comprising judicial governance.

Discussing governance within the value chain is important for South African tourism, because, at each stage of the chain, it could be imperative to legislate any rules of engagement that may be linked to the practice of B-BBEE. This framework is, therefore, relevant for the purposes of this study and it will, at a later stage in the study, be used to identify the opportunities concerned, in the form of the value that could be available for black-owned tourism enterprises.

Table 3: Legislative, Judicial and Executive Chain Governance

Components of Governance	Exercised by Parties Internal to Chain	Exercised by Parties External to Chain
Legislative governance	Setting of standards for suppliers in relation to on-time deliveries and the frequency and quality of deliveries	Environmental standards
Judicial governance	Monitoring of the performance of suppliers in meeting the set standards.	Monitoring of the labour standards involved
Executive governance	Assisting of suppliers by supply chain management to meet the set standards	Specialised service operation
	Assisting of members by producer associations to meet the set standards	Government support of industrial policy

Source: Gereffi (1994).

The third key element of the value chain is systemic efficiency, which shifts the focus of attention from 'point' to 'systemic' effectiveness. Maintaining such efficiency, according to Kaplinsky (2010), involves there being relatively close cooperation between links in the chain, just-in-time deliveries between own warehouses and those of key suppliers, and system integration, in terms of establishing human trust



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between different links in the chain. In the above context, the efficiency must be universal and it cannot be striven for only within subsectors, but it should be striven for in all the subsectors forming the value chain.

2.2. The Tourism Sectors

In South Africa, tourism is classified as a sector that consists of a wide variety of industries (StatsSA 2019) or subsectors, including accommodation, adventure and recreation, attractions, events and conferences, food and beverages, tourism services, transportation and travel trade (Canadian Tourism Human Resources Council 2015). Each subsector is explained by the Canadian Tourism Human Resources Council in the terms detailed below.

Accommodation

Those who travel usually seek a place to sleep, either at their destination or during their journey. Hotels, which typically cater for business and pleasure travellers, offer a wide range of accommodation types. Deluxe, airport and convention hotels are mostly located in urban centres, or near airports. Such hotels tend to be large buildings, with many rooms on offer, and with a wide range of facilities, like conference rooms, restaurants and fitness centres, being made available. Many deluxe-type hotels are members of a relatively large company, or they might have sister properties in other areas.

Other types of accommodation include lodges, which are usually located in, or near, recreational sites, and which offer guests a wide range of activities, like golf, horse riding or water sports. They may also offer entertainment and have convention facilities. Related to lodges are inns, motels and smaller, privately owned hotels that offer lodging, and which can also provide a café and a beverage room. Other accommodations include bed and breakfasts, farm vacation sites, cabins, cottages, campgrounds and hostels. The wide range of accommodation establishments appeal to different type of travellers, with varying income and travel motives.



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Adventure and Recreation

The Canadian Tourism Human Resources Council (2015) notes that travellers increasingly request active recreational experiences and/or travel adventure, during which they can learn about nature, culture and other aspects of life different from their own. The adventure and recreation subsector consists of both urban and rural tourism, with the major areas including outdoor adventure and ecotourism, parks, heritage sites, golf holidays and marine facilities. As recreation can also overlap with other subsectors of tourism, it exemplifies the interdependence of the different subsectors within tourism.

Attractions

A tourist attraction is a place of interest that tourists visit. Attractions include, but are not limited to, historic sites, beaches, museums, art galleries, botanic gardens, zoos, casinos and cultural facilities. Some of the attractions are seasonal, drawing waves of different tourists, based on the seasons. Also, many tourists tend to visit an attraction while on vacation primarily for other reasons. Tourist attractions can contribute to government revenue, provide employment opportunities, stimulate infrastructural investment, contribute to the local economy and provide additional foreign exchange earnings (Pike & Page 2014).

Events and Conferences

When travellers spend money on an event or conference, spillover spending usually occurs on many other items, like accommodation, souvenirs, beverages and/or tips. Events and conferences are also frequently accompanied by the holding of both formal and informal meetings. Space may, therefore, need to be rented, and local transportation is likely to be required.

Hosting large national and international events, like a football World Cup, tends to employ hundreds of people, with many of them being offered job opportunities years prior to the event. In some cases, certain people may become specialists in organising and running mega-events. In contrast, businesspeople frequently meet to share ideas, research and information, as well as to solve problems, at conferences, meetings, trade shows and conventions. Due to such gatherings tending to offer much business to the local communities concerned, most cities and regions have visitor and convention bureaus, with huge marketing departments.



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Food and Beverages

The food and beverage subsector has become increasingly sophisticated, due to the changes that have occurred in consumer preferences and due to competition in the sector. To establish themselves competitively, food and beverage concerns have reached out to bookstores, casinos and departmental stores. The food and beverages subsector encompasses all types of establishments supplying their wares, from family dining restaurants to institutional food outlets and catering firms, and from beer halls to nightclubs. Restaurants and other food chains are continuously diversifying and launching their own product lines to attract clients, including tourists.

Tourism Services

The tourism sector consists of government agencies, associations, organisations and companies that specialise in serving the needs of tourism as a whole, rather than the needs of travellers specifically. The government agencies' role, in their regard, is to encourage businesses by providing a workable environment, information and public services, ranging from building a road to levying a hotel. Industry associations typically focus on marketing, education, training and professional development, either for the entire tourism sector, or for specific subsectors. Many organisations specialise in marketing within the tourism sector, because much information is available, and consumers have a large variety of products and services from which to choose. The retail companies that benefit from tourism revenue also form part of the tourism services sector.

Transportation

The transport sector involves any area that supports the movement of people and goods from one place to another. Of its four categories, the first is air transport, which, apart from being the safest mode of travel, is convenient for travelling long distances and across oceans. As the numbers of travellers has increased, many airports have undergone major renovations, with them expanding their retail operations and marketing efforts. The second category is rail transport, which provides a relaxed, scenic way of travel, which can be a popular form of vacation on its own, rather than just being a means of reaching a vacation destination. Road travel, as the third category, appeals to many tourists, as it offers substantial sightseeing opportunities. The fourth category, water transport, allows travellers to take cruises as part of their vacation, rather than focusing their attention on their holiday destinations, as such.



Travel Trade

The travel trade subsector is responsible for the bookings and sales in all the foregoing sectors. The two subcategories existing in this subsector are the retail travel agencies and the wholesale tour operators. The former sells individual travel components, such as air tickets and hotel reservations, directly to business and pleasure travellers, while the latter develops and packages tours to sell to the travel agencies. The tours are usually all-inclusive, including travel, accommodation, meals, recreation and entertainment.

2.3. The Tourism Value Chain

The present section of the current report combines the separate foregoing discussions on the value chains and the tourism sector, so as to make a case for the tourism value chain. The existing literature is used to demonstrate the characteristics of value chains in terms of tourism. The conceptualisation of most value chains in tourism can be traced to Porter (1985), with consideration of the pure manufacturing- or production-based value chains having been adapted to develop an understanding of the tourism value chain, as such. The tourism value chain, as it is presently conceived, is substantially different from that involving the typical firm, as projected by Porter (1985). In distinguishing between firm-based primary and support activities, Porter notes that the former concern the creation, or the delivery, of a product or service, with the activities involved being grouped into inbound logistics, operations, outbound logistics, marketing and sales. Each such activity is linked to what Porter calls 'support activities', including procurement, technology development, human resource management and infrastructure. In the case of tourism, the outlook is slightly different (Metz & Acuner 2014), as a single tourism-related firm cannot exist in isolation. The tourism sector, as has already been indicated, tends to mix activities, services and industries that deliver 'the travel experience'. Therefore, Porter's value chain requires adaptation, incorporating a variety of changes in approach, if it is to portray the tourism value chain accurately.

The single best example of a tourism value chain provided by Christian (2010) is shown in Figure 2 below, in terms of which two components of the primary activities identified by Porter (1985), namely inbound and outbound country activities, are used to build the chain. Distribution and international transport fall under the outbound country activities, with both being present under the inbound country ones. Rather than being one of the last stages, as indicated by Porter (1985), distribution is the first segment under Christian's (2010) approach, due to the first activity of tourists being their decision-taking regarding how



they intend to purchase their tourism products. Travel agents and tour operators typically fall within the chain of the distribution segment, as they package the tourism product, before selling it to the tourists. However, tourists can buy the tourism product directly, rather than via travel agencies or tour operators.

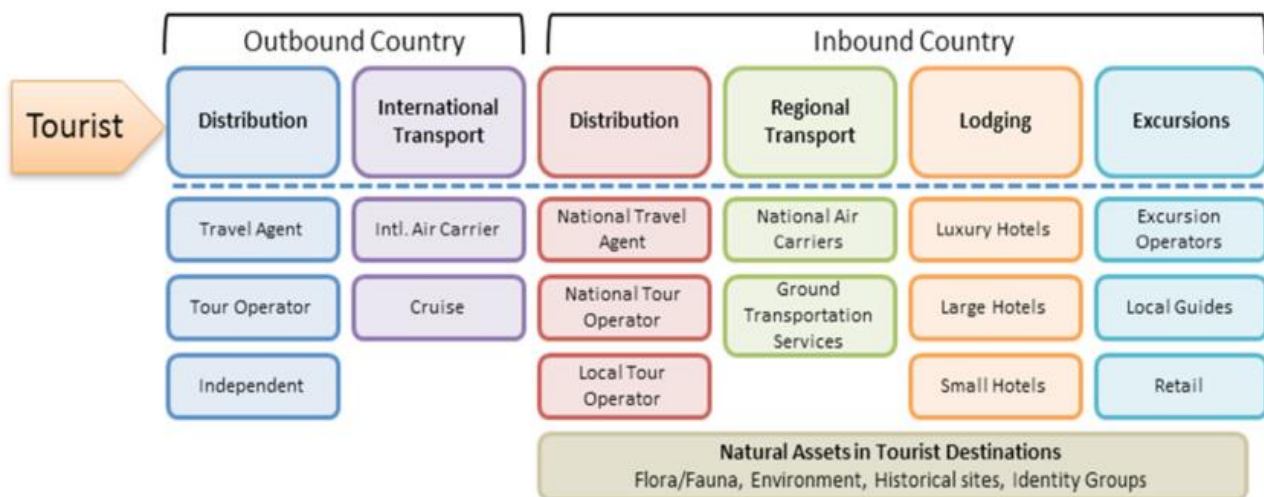


Figure 2: Tourism Value Chain

Source: Christian (2010).

The second segment under outbound country activities is that of international transport. The international air carriers obtain value at this stage, while the national carriers, in the form of local cruise, train and road services, can also benefit the tourist-receiving countries. Transportation, which is also present in the inbound country, is shown in Figure 2 under national air carriers and ground transportation services. Accommodation is the sector that benefits in terms of lodging, while the local guides and excursion operators form part of the excursion chain.

According to Christian et al (2011), tourism demands a sophisticated level of coordination and marketing to reach the tourists based in numerous countries and regions. As a result, firms that have coordination capabilities and marketing prowess carry the most value in the chain. International distribution actors, and hotels that are based in destinations that are managed by foreign brands, typically perform such functions. The above finding is important in the context of securing opportunities for B-BBEE, which forms the central focus of the next section.



2.4. The Tourism Value Chain and Economic Empowerment

The second segment under the outbound country activities consists of international transport. The international air carriers obtain value at this stage, while the national carrier, in the form of local cruise, train and road services, can also benefit the tourist-receiving countries. Transportation, which is also present in the inbound country, is shown in Figure 2 under national air carriers and ground transportation services. Accommodation is the sector that benefits in terms of lodging, while the local guides and excursion operators form part of the excursion chain.

Tourism value chain analysis can be used to identify the stakeholders that are situated along a chain to which value is added. Thus, recognising the value chain in tourism encourages investigating the distribution of the value among the various actors involved, with it assisting to identify the different subsectors in the tourism industry that can create comparative advantage (Humphrey and Schmitz 2002).

Destination New South Wales' (2012) tourism business toolkit posits that tourism is the concern of all, with Figure 3 below demonstrating the situation as it stands.

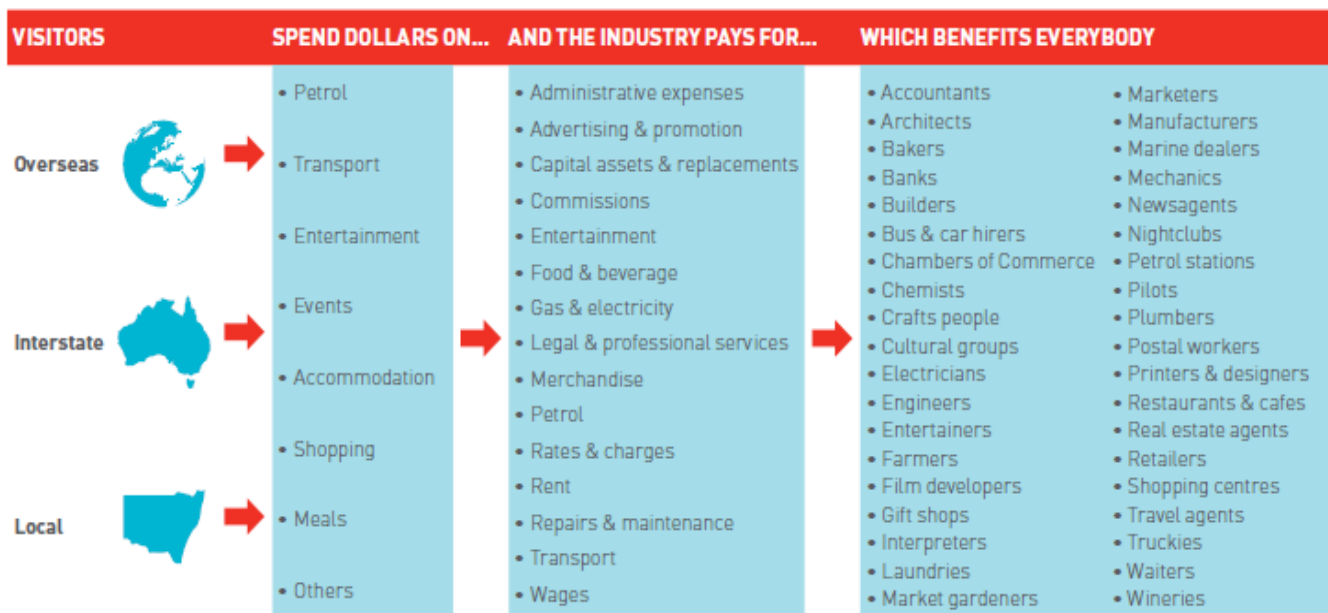


Figure 3: Tourism is Everyone's Business

Source: Destination New South Wales (2011).



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The approach taken by Destination New South Wales is relevant for the purposes of this proposal, because, if tourism business is for everyone, then, somehow, even the poor could find their niche in the tourism value chain. In the present instance, the participation of the poor could involve more than just their employment, which usually will result only in increased income, but it could also be in terms of the running of small and medium enterprises, which often pose only relatively low entry barriers for the financially disadvantaged (Mitchell & Ashley 2007).

The participation of the poor, and their marginalisation in terms of the tourism value chain, should serve to complement the efforts of the government to transform the economic situation of the poor, especially members of the black African race, to a position where they are sufficiently economically empowered to be able to own and run a tourism-related business (Kruger 2011). The related study undertaken by the University of Johannesburg in 2016/2017 contains a detailed description of how travel agencies and inbound tour operators were providing economic opportunities to black-owned microenterprises at the time (UJ/DT 2017). The study also describes the existing business linkage opportunities available, as well as the constraints imposed, across the value chain, within the travel and related services subsector of travel agents and inbound tour operators.

2.5. Case Studies of Tourism Value Chains in Selected Countries

Tanzania Tourism Value Chain Study

The Tourism Confederation of Tanzania (2009) conducted a study of the tourism value chain in Tanzania, with the objectives of identifying the key public and private sector players and their roles at different points in the value chain, as well as specific opportunities and priority constraints within the tourism value chain. Given that the objectives are similar to those of the current research study, the approach of the study can be seen as relevant and potentially useful for replication.

The research method used by the Tourism Confederation of Tanzania included conducting a desktop review, coupled with key informant interviews. Three specific value chains were analysed to identify the opportunities that might be available in the tourism sector. Within each value chain, the study mapped the economic agents and the service providers involved in the tourism experience. The results of one chain showed that the international and domestic tour operators took up 12 per cent of the value of



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tourism, the airlines – both international and regional – took up 32 per cent, and hotel accommodation took up 38 per cent. The remaining 18 per cent was distributed among such frontier services as airport tax, security tax, fuel surcharge and visa fees, to mention just a few.

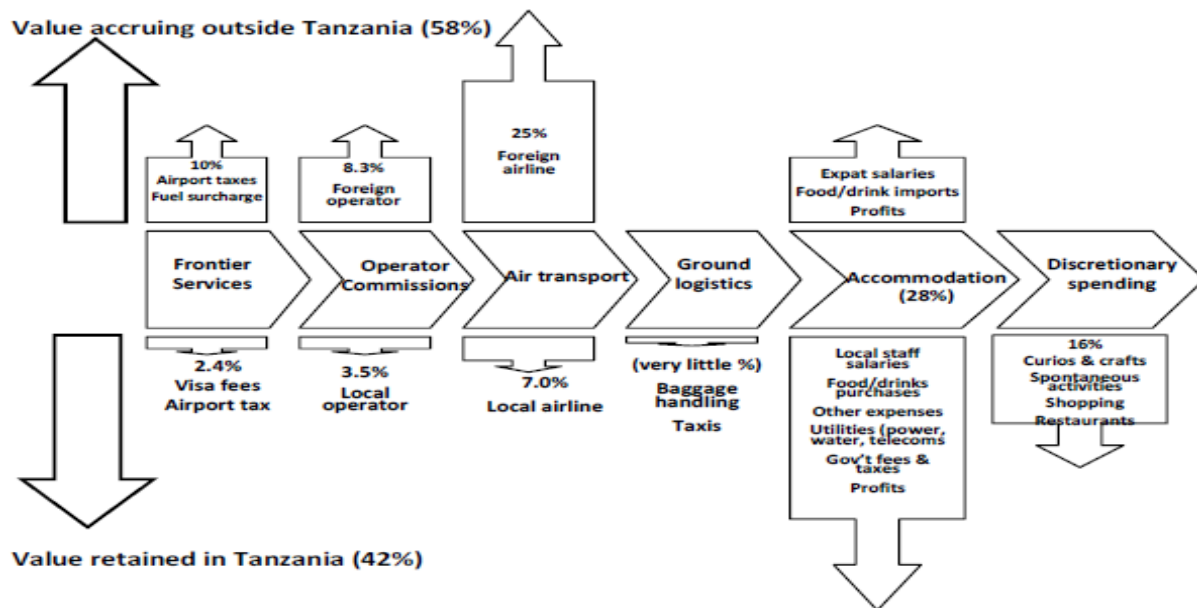


Figure 4: Zanzibar Tourism Value Chain

Source: Tourism Confederation of Tanzania (2009).

The value that accrued outside Tanzania for a tourism value chain was almost 60 per cent, as is shown in Figure 4 above, which means that, out of every US\$100 spent on inbound tourism in Tanzania within the Zanzibar value chain, only about US\$40 remains in Tanzania. The economic agent that is critical within the value chain is the 'wholesaler', or the international tour operator, who deals directly with a wide range of travel agents who are scattered throughout the world. The study notes that such operators have developed customised tours that include the air ticket, accommodation and ground-based transport.

Mozambique Value Chain Analysis

The main aims of the International Finance Corporation (2006) analysis of the tourism value chain in Mozambique were to determine the different features of the various value chains present in Mozambique's tourism sector, and to identify the opportunities and threats present within the value chain.



The study concerned also relates to the current study, so that understanding how it was conducted was also found to be of importance to the present research.

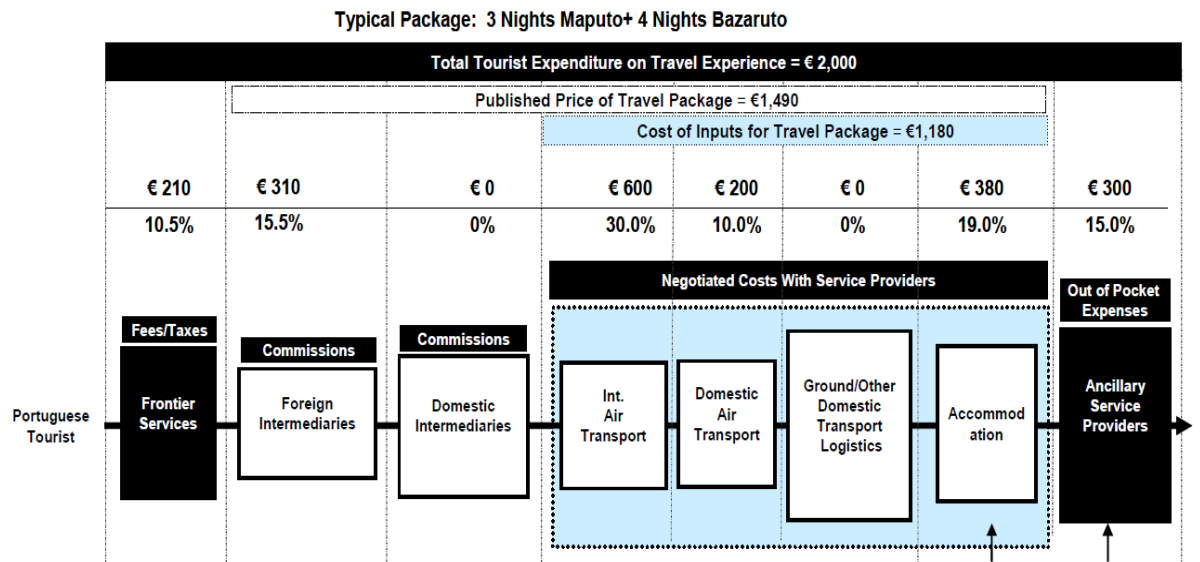


Figure 5: Value Chain Map for the Lisbon-Bazaruto Package in Mozambique

Source: International Finance Corporation (2006).

The study mapped the suppliers and the service providers involved in the tourism value chain in Mozambique. Three tourism experiences, which were mainly based on the travel packages concerned, were selected as case studies for the tourism value chain. One value chain that was mapped was that for the Lisbon–Bazaruto Travel Package, as is shown in Figure 5 above. Modelling the value of each tourist expenditure within the chain as amounting to 2000 Euros, the study tracked how the value was distributed among the different economic agents involved. The identified main economic agents were the airlines (both international and domestic), the hotels/resorts and the tour operators.

The study found that the biggest source of value, in terms of the value chain, for the local economy came from ancillary services and activities, which were mostly run by the local enterprises. Such enterprises included independent entrepreneurs who could not have survived in the absence of tourism, like dive tours and fishing.



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A Value Chain Analysis of the Turkish Tourism Sector

Mete and Acuner (2014) studied the tourism value chain of Turkey, with an aim to identify the different operations in the chain and their interconnections. Building on the concept of the value chain introduced by Porter (1985), the study followed a case study approach, in terms of which the operations of the Turkish tourism sector were determined by means of document review and key informant interviews.

In the value chain, the starting point was found to be the holiday planning that was done by the tourists themselves. Critical to the planning stage were the tour operators, the travel agencies and the online services involved. On enactment of the plan, the following sectors become critical: firstly, transportation, covering all ground and air transport used by the tourist; secondly, accommodation, which was also deemed to have value in the chain; thirdly, food and beverages, ranging from small, locally owned enterprises to large multinational corporations; fourthly, shopping and recreational facilities, including artistic activities and shopping festivals; and, fifthly, the visit experience, embracing a variety of tourism activities.

An element of interest in the study was the inclusion of such support institutions as the Provincial Culture Directorate, the Association of Turkish Travel Agencies and the Union of Tourist Guides, among others, which helped to determine the common challenges for their members within the value chain and to attempt to offer solutions as to how their members might best benefit from the value generated within the tourism sector. Besides the above, the primary activities within the value chain of tourism in Turkey integrated with the support services to produce the most value-added chain for the tourism sector.

3. The Conceptual Framework, Study Hypothesis and Limitations

Following on the literature review, in this section the study situates the overall structure of the research, and how the study was delimited to the public sector-generated tourism value chain. The siting and delimitation were found to be important, because the value chain originates in the private sector, and borrowing the concept not only in terms of the tourism context, but also in terms of the public sector, would require the establishment of a sound conceptual framework, such as is shown in Figure 6 below.

In Figure 6, the tourism value chain can be seen to be structured so as to integrate the suppliers (meaning the different enterprises), in the form of travel and accommodation and hospitality, along with their related services, as stipulated in the Amended Tourism B-BBEE Sector Code. The public and private sectors (as



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well as civil society, which is excluded here) are the spenders (being the demand side) within the chain, giving what the report refers to as the public sector-generated tourism value chain and the private sector tourism value chain, respectively. In the context of Porter's (1985) value analysis, the demand is channelled to those enterprises that integrate their activities in a way that produces a highly valued product. However, in the economic empowerment context, a valued product or service is that which is supplied by B-BBEE-compliant enterprises. Such falls mainly within the domain of public, and not private, sector spending, resulting in a nil finding under equity, in the case of the private sector.

If a government, such as is the case in South Africa, is set on encouraging the enablement of previously discriminated against and disadvantaged groups, then the element of economic empowerment is comparatively crucial, with it being earmarked ahead of Porter's value. A situation like the above, however, does not mean that the goal of economic empowerment is pursued at the expense of acquiring competitive products or services.

Gereffi's (2004) conceptualisation of legislative, judiciary and executive chain governance is informative in indicating that government policy may drive suppliers in a value chain to meet certain standards, with the study concerned contending that one such standard could be that of equity redress. The South African government introduced the Broad-Based Black Economic Empowerment Act, No. 53 of 2003 (hereto after referred to as the B-BBEE Act), as well as Codes of Good Practice and various sector charters issued in terms of the Act, to regulate public spending in ways that redress the equity challenge and that help economically empower the previously disadvantaged groups. Particularly, the primary objective of the B-BBEE Act is to promote economic transformation that enables the participation of black people in business, with the term 'black people' referring to African, Coloured and Indian people.

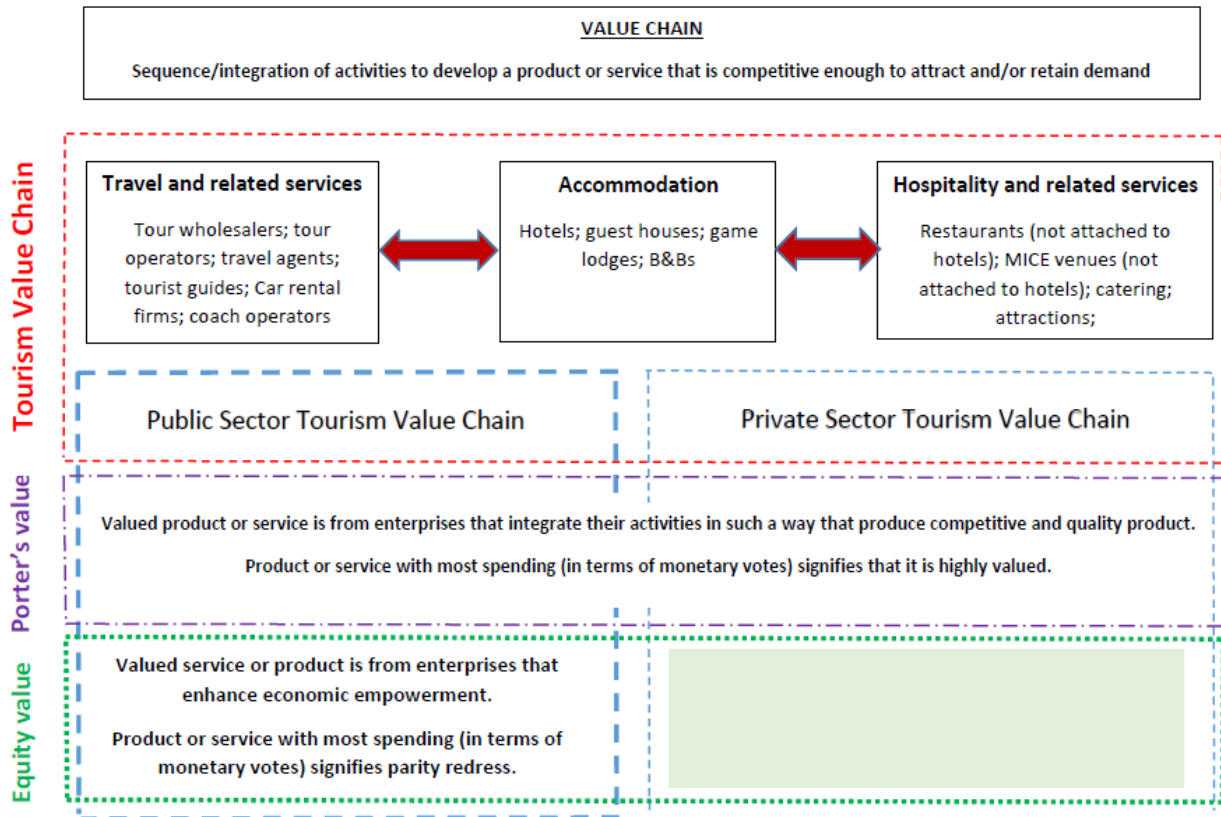


Figure 6: Conceptual Framework of the Public Sector Event Tourism Value Chain in South Africa

Source: Authors.

The B-BBEE Act is operationalised by means of calculating points on a specially designed B-BBEE Scorecard to give B-BBEE levels that determine the degree of preferential procurement and other issues that may be accorded to a supplier. Table 4 below shows the relationship between the B-BBEE level, the number of scorecard points and preferential procurement. If a bidding company is a B-BBEE level 5 contributor, and the procurement officer selects the company concerned, (s)he will realise only 80c for every R1 spent on the company. If a bidding company that is a B-BBEE level 3 contributor is selected by a procurement officer, for every R1 spent on the company, (s)he will realise R1.10 for every R1 spent on the company. The economic behavioural changes that are associated with preferential procurement treatment relate to the selection of companies with relatively high B-BBEE levels ensuring that the procurement officer receives the most recognition for his/her spend, while it also acts as an incentive for companies to pursue comparatively high B-BBEE levels, so as to be more competitive in terms of future tenders.



Table 4: B-BBEE Level and Preferential Procurement

B-BBEE Level	Scorecard Points	Procurement Recognition Percentages
1	100 or above	135
2	85 to 99.99	125
3	75 to 84.99	110
4	65 to 74.99	100
5	55 to 64.99	80
6	45 to 54.99	60
7	40 to 44.99	50
8	30 to 39.99	10
Non-Compliant	< 30	0

Source: Authors, based on the B-BBEE Act.

3.1. Study Hypothesis

The resulting hypothesis, based on the recognition of the existence of preferential procurement, is that, with time, government spending will be associated with increasing average B-BBEE levels, which is interpreted to mean progress towards economic empowerment. Essentially, using suppliers with relatively low B-BBEE levels hypothetically indicates that comparatively less economic empowerment is taking place, and using suppliers with relatively high B-BBEE levels indicates that more economic empowerment is taking place.

Table 5: B-BBEE Elements

B-BBEE Element	Explanation
Ownership	Ownership, voting rights and economic interests
Management Control	Effective control and management
Skills Development	Employee training and skilling
Enterprise and Supplier Development	Assistance of enterprises with both financial and nonfinancial support Assistance of suppliers with both financial and nonfinancial support Provision of enterprises with access to procurement



Socio-Economic Development	Access to both monetary and nonmonetary contributions to communities
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Source: Authors, based on the B-BBEE Act.

The foregoing hypothesis has one major implication with reference to the second objective of the study. Objective two aims to determine which enterprises benefit from public expenditure within the tourism value chain. Instead of determining such enterprises by their trading name, which might create problems with issues of anonymity, the enterprises are determined based on their B-BBEE level status. Higher B-BBEE level status will be associated with higher numbers of black-owned enterprises. While the assertion is noble, its main challenge is that it is possible to achieve an acceptable B-BBEE contributor level without having any black ownership in the business concerned. As seen in Table 5, other B-BBEE elements are considered when according points to suppliers, including skills, ESD, socio-economic development and management control. Nonetheless, each of the other components continues to address economic empowerment in various ways. For example, a company that scores well on ESD and skills development might actually be assisting those who are not financially well off to improve their financial standing marginally.

3.2. Study Limitations

The foregoing conceptualisation of the study was based on the research team being able to find the required data on the tourism-related spending, and on the B-BBEE levels of the enterprises concerned benefitting from the same spending. The data collection showed that obtaining the necessary information was relatively difficult, even when the point of entry to other government departments was the Department of Tourism. As such, it became imperative that the research team conduct the study without first procuring the aforementioned data. Instead, the available data on LEs, QSEs and EMEs was used.

Although the discussion on LEs, QSEs and EMEs is provided in the findings section, some reasons are given here to justify why they can act as proxy for the B-BBEE level status of companies that was initially needed. The B-BBEE classifies enterprises into LEs, QSEs and EMEs. Although the last two enterprises are not mandated to have B-BBEE certificates, they may produce an affidavit that confirms the presence or absence of black ownership. The assumption arising from the scenario is that the QSEs and the EMEs are considered to be small and/or emerging players within the value chains concerned. In the light of such a consideration, the study hypothesised that the QSEs and EMEs were not expected to dominate



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the value chain. In contrast, the LEs were expected to dominate the value chain, with them, further, being expected to have created linkages that monopolise space among themselves within the value chain.

Therefore, to answer objective two, which attempts to determine which enterprises benefit from within the value chain, the study first separates the enterprises that are domineering, and which have created linkages within the value chain, from those that are small and/or emerging. The study then determines which of the two types of enterprises was benefitting most from the government expenditures concerned. Clearly, the small and/or emerging enterprises might be of interest in terms of economic empowerment.

Undeniably, conducting the study in the aforesaid way might not have given a precise answer as to whether the public expenditures were also trickling down to black-owned enterprises, because the QSEs and EMEs might also have been white-owned. However, in the absence of the required data, the proxy of dominance and linkages within the tourism value might indicate whether, at the time of the study, public expenditures were being channelled to address the issue of economic empowerment in general, especially in terms of black-owned enterprises.

4. Methods

The approach taken by the current researchers to coming up with the results discussed in the next section is discussed here. First, the discussion describes the pilot exercise that informed some of the approaches taken to source and analyse the data involved. After illustrating how the sampling was conducted, the chapter ends with a discussion on the estimation and empirical regression methods that were used to generate the findings on the dominance and linkages that seem to characterise the public sector-generated tourism value chain in South Africa.

4.1. Pilot Study

In 2018, one government department was used as the site of a pilot study to determine the possibility of carrying out the study, and to assess which functions in government departments could be crucial for data collection. The data on both public expenditure and the B-BBEE levels of the enterprises benefitting from public expenditure was collected for the period 2013 to 2017. Two critical results and messages emerged from the pilot study. First was that the transportation component of the public sector-generated tourism value chain received the highest percentage of government spending, which expenditure was channelled to both ground and air transportation. Air transportation attracted much more of the expenditure than did ground transport, although the two transportation systems were substantially linked.



To reach the airport, travelling personnel usually need ground transportation at their point of origin, as well as at their destination. As ground transportation requires a lower initial investment outlay than does air transportation, ground travel could be an area that presents opportunities for small and/or emerging enterprises, due to its relatively low entry barriers.

The other tourism subsectors that benefit from government expenditure are the accommodation subsector, the food and beverages subsector and incidental services. Although the latter two receive the smallest percentage of public expenditure, the fact that the subsectors receive only a small percentage of the public expenditure within the chain does not necessarily mean they are not lucrative. Rather, it means that the services that they provide are relatively low priced, and do not require high initial investment. As the QSEs and EMEs originate within the subsectors, they might be expected to grow into high initial outlay subsectors that generate relatively high profits in absolute terms.

During the study period, the Department's expenditures were committed to B-BBEE level establishments, which possibly permitted the economic empowerment of the black-owned enterprises concerned. The establishments (namely transportation, accommodation, food and beverages and incidental services) involved in all the subsectors in the tourism value chain in 2013/14 were, on average, on B-BBEE levels of about 2.5. Since 2013/14, the establishments used by the Department have had lower B-BBEE levels, averaging 1.5 in the period 2018/19. The above shows an improvement in terms of addressing the issue of economic empowerment, with the reason for such improvement possibly being that government expenditure is shifting towards those establishments with good scores in terms of their B-BBEE scorecards. The establishments concerned could also be reconfiguring their structures over time, so as to be able to score relatively highly in relation to B-BBEE. The two reasons mentioned might also be serving to reinforce each other, so that the sector will, ultimately, come to be dominated by establishments that better address economic empowerment than it did at the time of the study.

4.2. Data Sources and Sampling Design

The pilot study proved that data can be secured from the monthly management information system (MIS) reports that are submitted to the National Treasury (NT). The research team, with the assistance of the Department of Tourism, reached out to all the different government departments, requesting data for the purposes of the study. As the pilot case study showed that it was almost impossible to analyse all the data obtained from the government departments in South Africa within the study timeframe, stratified



multistage sampling was adopted to select the departments that would participate in the study. The chosen design combines the techniques of stratified sampling and multistage sampling, as can be seen in Figure 7 below.

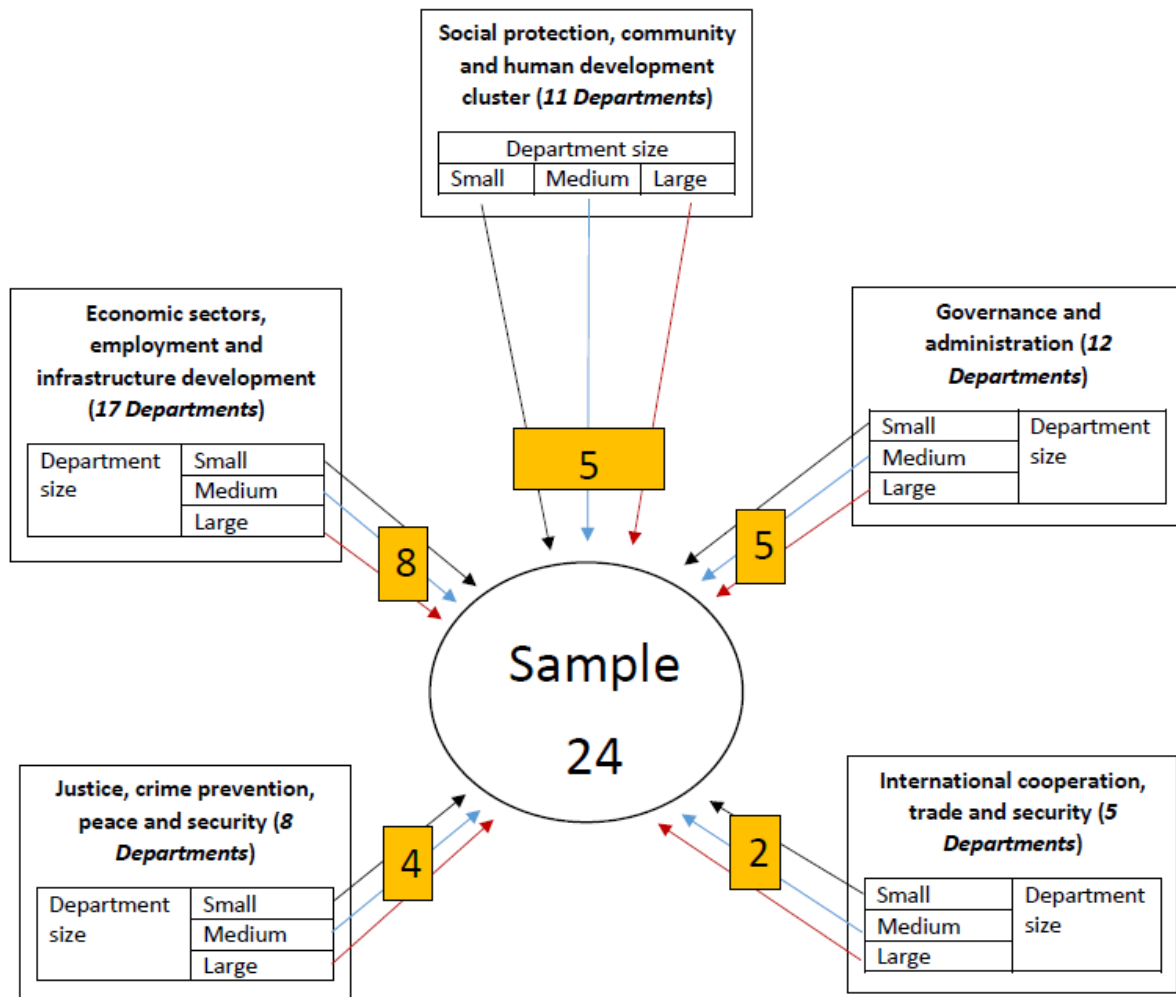


Figure 7: Stratified Multistage Sampling

Based on the Forum of South African Directors-General (FOSAD), the government departments that form the quorum for each cluster are classified under five separate categories. In no order of priority or importance, first comes the Social Protection, Community and Human Development (SPCHD) cluster, consisting of a total of 11 departments; second is the Economic Sectors, Employment and Infrastructure Development (ESE&ID) cluster, which also has 17 departments; third is the Governance and Administration (G&A) cluster, with its 12 departments; fourth is the Justice, Crime Prevention, Peace and



Security (JCPS) cluster, containing eight departments; and fifth is the International Cooperation, Trade and Security (ICTS) cluster, with only five departments.

The clustering of government departments provided a sound base for employing a stratified sampling procedure. However, further need existed to categorise the departments into small, medium and large entities, based on their geographic presence, or on their annual financial budgets relating to tourism activities. Geographic presence was taken to mean the following: firstly, that a department had national presence in Pretoria only, which was used in the study to mean that it was small in terms of its extent; secondly, a department with both national and provincial presence was taken to be medium-sized in terms of its extent; and thirdly, a department with a national, provincial and district presence was taken to be large in terms of its extent.

Where the annual financial expenditures of the sampled departments were used, the relevant data were sourced from the national department concerned. A department was considered small if its average five-year (from 2013/14 to 2017/18) expenditure on tourism-related activities was less than the mean for such activities for all the sampled government departments involved. A department was regarded as large if its average five-year expenditure on tourism-related events exceeded the mean for such activities for all the sampled government departments involved, and a department was regarded as being medium-sized if its average five-year spending on tourism-related events did not significantly differ from the mean for such activities for all the sampled government departments involved.

Thus, the government departments, after first being grouped into subpopulations called clusters, were then divided into strata within each cluster, based on the size of the departments concerned, as is shown in Figure 7. Following on the above, the government departments were selected from each stratum within a cluster, with all departments having an equal chance of selection, and with the selections being independent of one another. A few departments featured in more than one cluster. In the event of selecting the same department in two clusters, the subsequent selection of the same department involved became null and void.

A plan was then put in place, in case of receiving only a low response rate from the government departments surveyed. Was this to have been the case, the sample size of the government departments would have followed the same design as that given in Figure 7, as long as the response rate was at least 70 per cent, as directed by Sudman (1976). The above was to be the first scenario for a less than 100



per cent response rate, being the best sample scenario. The second sample scenario was that of a response rate between 40 and 70 per cent. In the context of the second sample scenario, the sampling design was to be reconfigured, only after becoming aware of which departments would have responded. The third and second-best sample scenario was that of a response rate between 10 and 40 per cent. At the identified point, all the responding government departments were to constitute the sample. The response rate mentioned would have reflected five government departments, or above. The worst-case sample scenario would have involved a less than 10 per cent response rate, which would have meant that four or fewer departments would have responded, which would have meant that the study would have a high risk of having insufficient data to be able to result in meaningful findings that could affect the direction of future policy.

The internet was used to identify the enterprises having groups and linkages within the tourism value chain. Mainly, the South African Hotels website² was used to check for all the hotels that had formed groups within the accommodation subsector. Furthermore, the data from the travel agencies was used to identify some hotels that had formed groups. In the transport subsector, the websites of all airlines and car hire enterprises used by government personnel were assessed to check what linkages they had, and whether the websites have been used as a source for data.

4.3. Estimation and Empirical Strategy

The study first estimated the public expenditures related to tourism (*PET*), as a function of the size of the government departments involved (*SDG*), as follows:

$$PET = f(SDG, Z) \quad (1)$$

where *Z* captured all other variables that also determined the level of *PET*. Given that the study neither had such variables, nor did it attempt to collect the data relating to the variables, *Z* should then be captured within the constant β , as well as with the error term ϵ_i when running the empirical regression consistent with the above estimation function (1). The empirical equation, hence, is given as follows:

$$PET_{ij} = \beta + \omega SDG_j + l_{km} + \epsilon_{ijkm} \quad (2)$$

where

² https://www.south-african-hotels.com/hotel-groups/?gclid=EAIaIQobChMI8ciW-YCL6AIVA57VCh0gJQ7OEAAAYASAAEgIFFvD_BwE



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PET_i is the public expenditures related to tourism for subsector i by government department j

SDG_j is the size of the government department j

l_{km} is the linkages that are found in the transport subsector between air transport k and ground transport m

β and ω are the parameters to be estimated

ϵ_{ijkm} is the error term employed

The linkages were included in the case of the transportation subsector to assess whether they could determine the public expenditure related to tourism activities.

The study then ran a logit regression model, in terms of which the dominance and linkages were assessed against PET , respectively. Whereas the dominance was assessed only in the accommodation subsector, using the hotel groups as its proxy, the linkages were assessed only in the transport subsector, using the partnerships between airlines and car hire services as its proxy.

The empirical equation used to execute the model was:

$$\text{Logit}(D) = \beta + \gamma(PET_i) + \omega SDG_j + e_i. \quad (3)$$

where

D is the hotel group used as a proxy of dominance in the accommodation subsector

PET_i is the public expenditures related to tourism for department i

β and γ are the parameters to be estimated

e_i are the error terms employed

5. Findings

The emerging findings relate to an analysis of the tourism-related public expenditure incurred during the 2013/14 to 2017/18 government reporting period. The findings are presented in four subsections: (1) the general data description; (2) the public expenditure-generated tourism value chain; (3) the indirect value within the value chain; and (4) a short discussion on the emerging enterprises and fronting.



5.1. Data Description

The data used in the current study was collected during the period 2019/20, from various sources, with the first source being the government departments that responded to the data request. The second source was the NT, which provided the supplier database for all (at least supposedly so) the enterprises that had conducted business with the government, as well as the public expenditures that were related to tourism during the period 2013/14 to 2017/18. The third source was the websites of airlines and car hire firms, as well as the websites of those hotels that had formed groups within South Africa.

The current section describes the data obtained, starting with the response rate, and how some of what was planned in the methodology section was reconfigured. The section provides the trends of the public expenditures related to tourism activities during the study period. Conclusions are then drawn in terms of the description of enterprises that were registered with the NT, giving an overview of their B-BBEE contributor levels and tax status.

5.1.1 Response Rate and Reconfiguration

The government departments that responded and provided usable data were distributed, as is shown in Table 6 below. Three of the departments were considered to be geographically small, because they were located only at the national level, while one had a geographic presence at national, provincial and district level. The other two departments that formed the sample, besides having a presence only at the national level, had reporting agencies and/or entities in various provinces. Consequently, the departments were treated as being of medium size, which was a reconfiguration that took place after the data was collected.

Table 6: Descriptive Information on the Responding Government Departments

Department Size	Geographical Presence	Cluster	Extras
Small	National	Although not belonging to a cluster, it is a proxy to the JCPS.	
Small	National	ESE&ID	
Small	National	G&A	
Medium	National	ESE&ID	With reporting agencies and/or entities
Medium	National	ESE&ID	
Large	National, Provincial & District	ICTS	

5.1.2 The Public Expenditure Trends in Terms of Tourism-Related Activities

The public expenditure trends in terms of travel agency, transportation, food and beverages, accommodation and incidental services are shown in Figure 8 below. The amount committed to each of



the tourism-related activities was consistent throughout the study period 2013/14 to 2017/18. Transport and accommodation received higher amounts from the public expenditures than did the travel agencies, food and beverages and incidental services. The above may be explained by the fact that the pricing of services in the two subsectors is high, so as to cover the huge initial outlays required to operate in the subsector. For instance, air transportation and accommodation establishments would require more financial investment than would a travel agency.

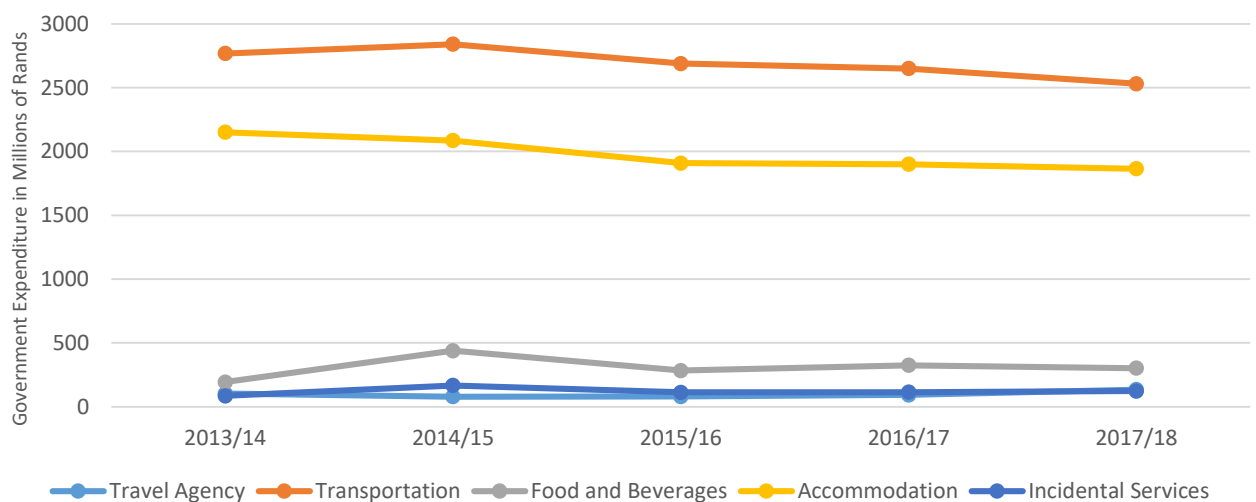


Figure 8: The Public Expenditure Trends on Tourism-Related Activities

5.1.3 Entrepreneurs Registered with the National Treasury

The NT has 889 012 enterprises registered with it. Based on the total of 600 713 of the enterprises supplied with data, 87 per cent were registered as B-BBEE level one contributors (see Table 7 below). Of the enterprises, 99 per cent qualified for procurement recognition of 100 per cent or more. In theory, the above means that there was a probability of less than one per cent of selecting an enterprise that had less chance of addressing the issue of economic transformation. The chance of selecting a non-compliant enterprise was, therefore, close to zero. The numbers, overall, do seem to have been superfluous and illusory.



Table 7: B-BBEE Level of Enterprises Registered with the National Treasury

B-BBEE Contributor	Frequency	Per Cent	Cumulative Per Cent
Level 1	525 235	87.44	87.44
Level 2	16 684	2.78	90.21
Level 3	13 836	2.30	92.52
Level 4	39 444	6.57	99.08
Level 5	939	0.16	99.24
Level 6	835	0.14	99.38
Level 7	557	0.09	99.47
Level 8	1474	0.25	99.72
R10m or Less Enterprise*	63	0.01	99.73
R10m< Enterprise <R45m*	2	0.00	99.73
Non-compliant	1646	0.27	100

*The enterprises concerned are not accorded any B-BBEE level statuses in the data. Their range of revenue does not follow the classification of the tourism EMEs, QSE and LEs.

Assuming that the 288 299 enterprises without information were all non-compliant, then the percentage of enterprises with B-BBEE level one contributors was 59 per cent and that of those with B-BBEE level contributors of four or less became 67 per cent. The above left 33 per cent for the enterprises that had less chance of addressing the issue of economic transformation.

Table 8 below shows the tax status of all the enterprises registered with the NT. As can be seen in the table, over half of these enterprises were either not tax-compliant, or were not registered for tax at all. Such figures left only about 48 per cent of the enterprises as being tax-compliant. In theory, the enterprises concerned should have been used by the government departments concerned. It became of interest to assess how many of the enterprises were B-BBEE level contributors of four, or fewer, enterprises, which is done in Table 9.

Table 8: Tax Status of Enterprises Registered with the National Treasury

Tax Status	Frequency	Per Cent	Cumulative Per Cent
Tax Non-Compliant	335 690	47.41	47.41
Tax-Compliant	337 955	47.73	95.14
Not Registered for Tax	16 888	2.38	97.52
Unable to determine tax compliance	17 509	2.47	99.99
Other	82	0.01	100

Of the 708 124 enterprises with data, 36 per cent of the tax-compliant enterprises were B-BBEE contributor level one. The percentage rose to 42 per cent when the enterprises that were B-BBEE contributor level four and lower were taken into consideration. The above means that over half of the



enterprises that were tax compliant were B-BBEE contributor level five or worse. Such a situation is not conducive to economic transformation.

Table 9: Tax Compliance and the B-BBEE Status of Enterprises Registered with the National Treasury

B-BBEE Contributor	Tax Non-Compliant	Tax-Compliant	Not Registered for Tax	Unable to Determine Tax Compliance	Other
Level 1	254 482	258 308	4007	8435	2
Level 2	6467	9455	228	534	0
Level 3	8738	4262	125	711	0
Level 4	14 244	22 613	591	1996	0
Level 5	212	658	10	56	0
Level 6	185	588	3	59	0
Level 7	101	416	1	38	1
Level 8	259	1132	10	73	0
R10m or Less Enterprise	0	0	0	0	63
R10m < Enterprise < R45m	0	0	0	0	2
Non-compliant	443	1072	29	102	0

The figures concerned changed drastically when the 180 888 enterprises without data were included in the analysis. Assuming the worst case scenarios, that is presuming that the enterprises were not tax-compliant, only 29 per cent of them would have been B-BBEE level contributor one. The percentage involved would also have decreased to 33 per cent in terms of the enterprises that were B-BBEE level contributor four or lower. Such percentages would have left over 65 per cent of enterprises as being tax-compliant and at a B-BBEE contributor level of five, or worse.

5.2. The Public Sector-Generated Tourism Value Chain

The framework presented in section 3 conceptualises the tourism value chain as being driven by the public and the private sectors. The scope of the current study was limited to the public sector-generated tourism value chain. In the subsections that follow, the findings are first presented as to how the public sector expenditures that were related to tourism were demarcated. The distribution of value along the demarcated subsectors of tourism are then discussed, before ending the section with a presentation of entrepreneurial dynamics within the chain that are focused on dominance and bottlenecks.



5.2.1 Demarcating the Boundaries of the Chain

The findings follow the demarcation of the subsectors of tourism, based on the tourism literature, the data availability and the sequencing logic concerned, given how the public sector operates. The six demarcations identified are chained together in section 5.1.2, showing how value is distributed along the chain.

Demarcation 1: The demarcation relates to the need to travel in terms of business tourism. The need can be taken as a 'chain trigger', which typically consists of the meetings, incentives, conferences and events (MICE) in which the government personnel have to participate, although there might be other triggers to the chain. For MICE to fall under business tourism, the travelling government personnel should stay outside their usual environment for at least 24 hours (UNWTO 1995). Debates are possible on whether public expenditure on training, which partly belongs to the MICE sector, and which, therefore, serves as a trigger, may be included in the value chain. For instance, if government personnel travels from their place of residence to another place for training for at least 24 hours, their activity can be considered as business tourism, with it, therefore, warranting consideration as tourism-related expenditures. In the current report, such expenditures are not used, because, in some cases, training costs are experienced when the government personnel concerned do not have to travel away from their place of residence for longer than 24 hours. Since the study was not in a position to separate those cases where government personnel had attended training for at least 24 hours, or where they had gone for training without leaving their place of residence, the training costs involved were considered as part of the public expenditures related to tourism.

Demarcation 2: Once attendance at MICE is approved, the supply chain management, or the procurement, sections of the government departments concerned start to make the necessary travel arrangements. As, usually, use is made of travel agencies in the private sector, travel agents were employed as the second demarcation point in the current study. During the data collection, some informal engagements were undertaken with certain government departments. The pattern was detected that only one in 10 government departments processed their travel arrangements for MICE on their own, and, even in the case of some that did, there were times they also used private travel agencies.

Demarcation 3: Only when the travel arrangements concerned were successful did the travelling personnel involved embark on business tourism, which began with their transportation to the venue where



the meeting, conference or events were taking place, with the personnel concerned being transported by either ground or air transport. In the latter case, shuttle services and related arrangements were also involved.

Demarcation 4: During travel and/or at the destination, the travelling personnel would need to consume food and beverages. In terms of air transport, provision might be made for such, whereas such was not usually the case where ground transport was used, but some consumption of food and beverages would, inevitably, occur. The food and beverages subsector was, therefore, a demarcation point identified in the study.

Demarcation 5: Accommodation is inevitable for government personnel who are away from their usual environment for longer than 24 hours. It is, therefore, one of the demarcating boundaries of the public sector-generated tourism value chain. A variety of accommodation types fall within such a demarcation, including, but not limited to, hotels, resorts, guest houses and lodges.

Demarcation 6: The last demarcation that was used in the present study was that of incidental expenses. The minor expenditures that tend to be associated with business travel constitute an immaterial part of the souvenirs and entertainment costs that the government personnel can incur, with such costs including telephone costs, room service tips, laundry and handicraft shops. As, outside business tourism, such costs would not be incurred, they constitute a demarcation point in the current study.³

5.2.2 Distribution of Value along the Chain

During the study, the distribution of the government expenditures, in terms of the distinct demarcations identified in the foregoing section, were approximately the same, as is shown in Figure 9, which compares well to Figure 8. However, Figure 9 shows how the public expenditures related to tourism activities are concentrated in a similar fashion, revealing that the standard deviation of the expenditures was found to be low. Thus, the researchers concerned were able to use the expenditure average of the five-year period involved for developing the value attributed to each subsector within the chain.

The study used the six demarcations identified in the foregoing section to map the value chain generated in terms of the public expenditure. In Figure 10 below, each of the demarcations, except for that of MICE,

³ The definition of incidentals as used by the government in this instance was not established. As such, the description used is that relating to an average tourist.



was used as a subsector containing value, but it was somehow chained to the other subsectors in the public sector-generated tourism value chain. The formulation slightly deviated from the three subsectors of tourism that were identified in the conceptual framework given in Figure 6, as a result of the practical realities that were found after data collection, but which did not necessarily distort the conceptualisation of the study.

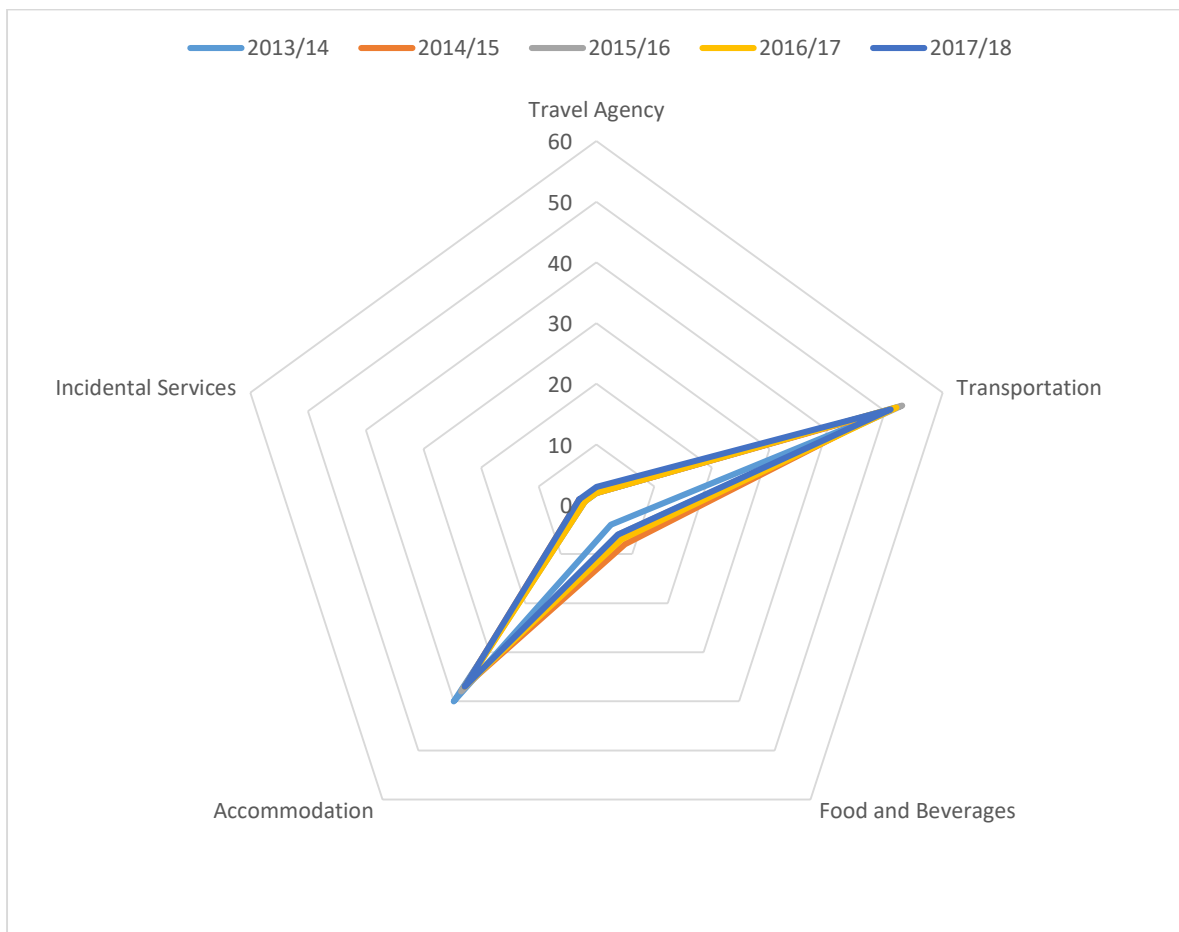


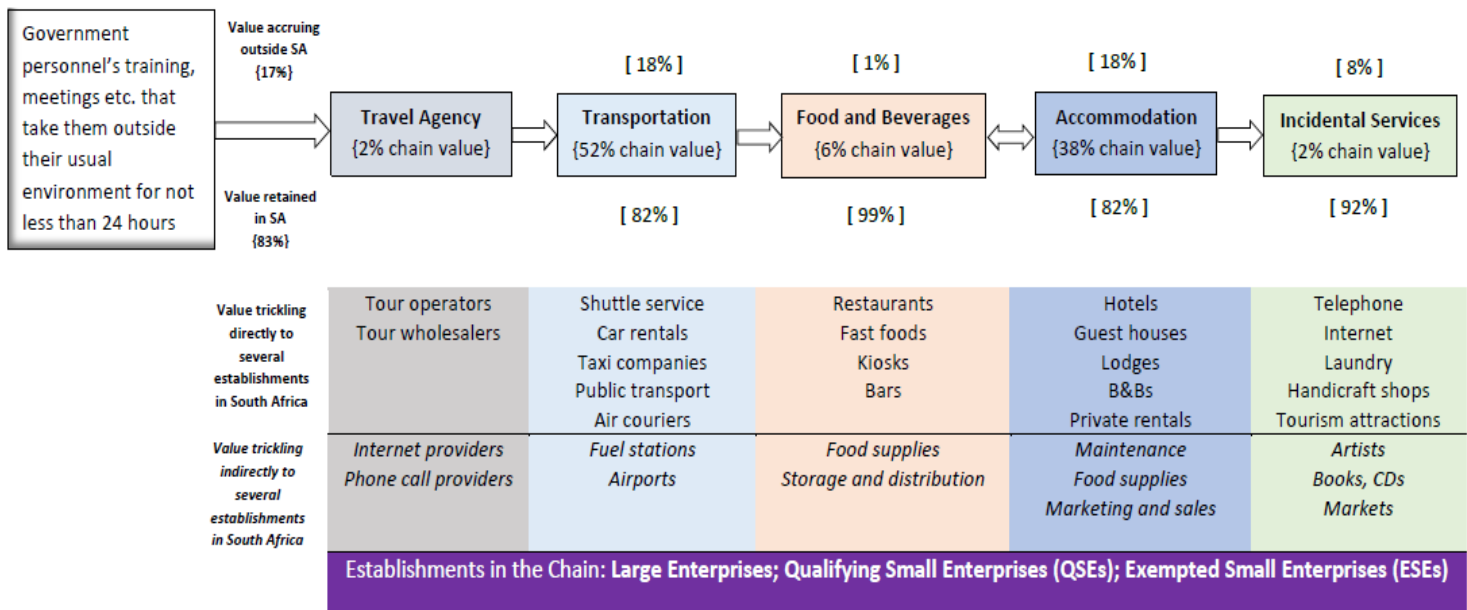
Figure 9: Concentration of Public Expenditure Related to Tourism from 2013 to 2018

MICE is an important component of the public sector-generated tourism value chain, because it kick-starts the activities in the chain. As already stated, value might be constituted in the MICE, in the form of, for instance, training costs. However, such value was not mapped in the case of the current study for two reasons. Firstly, a meeting or training does not always constitute business tourism, because many meeting and training costs are experienced without any need for the government personnel concerned to be away from their usual environment for longer than 24 hours. Secondly, should there be a meeting,



conference or event that takes government personnel outside their usual milieu for 24 hours, most of the expenditure incurred will be reflected in the five subsectors identified, as included in Figure 7.

Enabling Government Departments: Department of Home Affairs & Customs Office



Enabling Government Departments: Department of Tourism & Department of Trade and Industry

Figure 10: Public Sector-Generated Tourism Value Chain

Source: Authors, based on public revenues in the tourism-related subsectors.

Figure 10 illustrates a simplified public sector-generated tourism value chain in South Africa, with the chain running from the attendance at an approved MICE to the incidental services offered at a destination. The chain builds on the demarcation already explained in the previous subsection. Travel agencies were found to receive two per cent of the value of the whole chain, receiving the least value therefrom, whereas transportation was found to receive the most value therefrom, with it receiving 52 per cent of the total value in the chain. Accommodation, which received almost two-fifths of the total value within the chain, represented another subsector that attracted much public expenditure.

Above the chain, the figure illustrates that value that accrues outside South Africa, as a direct result of the activities taking place in the inbound country (that is, the business tourists' destination country). Below



the chain, the figure illustrates the value retained in South Africa as a direct result of the domestic MICE that causes government personnel to be outside their usual milieu for longer than 24 hours.

A total of 17 per cent of the value from the public expenditures recorded in the chain was found to leak outside the country. In other words, this was the value going outside South Africa, as a direct result of the government personnel concerned engaging in business tourism outside the country. Accommodation and transport were found to be the subsectors that generated more expenditure in terms of the value accruing outside South Africa. The percentage was followed, first by the incidental expenses, and then by food and beverages. A possible reason for the aforesaid pattern is that the travelling government personnel have no option than to spend on transport and accommodation, but they can choose what they spend on food and beverages. In most cases, as well, meals are provided as part of the package in accommodation establishments, which also holds true during meetings. Incidental expenses tend, on average, to be higher in terms of the spending that occurs outside South Africa.

A total of 89 per cent of the value from the public spending that occurred in the value chain was found to be retained in South Africa. The food and beverages subsector was found to retain almost all the value from the public expenditure taking place in the country. Such value was found to trickle down directly to several establishments within the subsector, as is shown in Figure 10. Such was also true for all the other subsectors, which had several establishments that benefitted directly from the value chain. Accordingly, value accrues indirectly to other establishments, due to the multiplier effects involved. For instance, as is shown in Figure 10, the establishments that directly benefit from the transport subsector include shuttle services and car rentals. Once they obtain business within the tourism chain, they require fuel, which then benefits the fuel stations. The second level of benefits is what is referred to as indirect value.

The establishments that operate within the value chain are typically classified as LEs, QSEs and EMEs. The LEs were found to have a total annual revenue of over R45 million. To do business in the public sector–tourism value chain, LEs are required to produce a B-BBEE certificate.

The QSEs were found to have a value higher than R5 million, but less than R45 million. Although they might submit a B-BBEE level certificate, as do the LEs, such enterprises can submit an affidavit that confirms their annual revenue, their level of black ownership and how they empower other suppliers. EMEs that have a total annual revenue of less than R5 million are exempt from producing a B-BBEE certificate, but they are only required to provide an affidavit to confirm that their total revenue is less than



R5 million, and their level of percentage of black ownership. The affidavit serves as proof of B-BBEE compliance, and, if such an enterprise has 100% black ownership, a level 1 compliance will be accorded to it, or, otherwise, it automatically qualifies for level 4 B-BBEE status.

The government institutions that might play a role in the value chain are mainly the Department of Tourism, the dti, the Department of Home Affairs and the Customs Office. Whereas the last two institutions particularly facilitate inbound tourism, the first two support enterprises operating within the tourism chain. Given South Africa's transformation agenda, the first two departments have been pursuing the B-BBEE drive to improve the participation of black-owned enterprises in the value chain.

5.2.3 Dominance and Linkages

This section shows the results of running the regressions given by equations (2) and (3). In column (1) of Table 10 below, hotel expenditures are regressed against the geographical presence of the government departments to assess whether government size was a significant determinant (see equation (2)). Those government departments with reporting agencies and/or entities (i.e. of medium size) and those with national, provincial and district presence (i.e. large) were found to be more likely to spend on hotel accommodation than were the government departments with national presence (i.e. small) only. The result was not surprising, with it reflecting the need for business travel between medium to large government departments and to and from the departments' headquarters.

In columns (2) to (4) of Table 10, equation (3) can be seen to have been used to assess dominance within the accommodation subsector. The assessment was done in a stepwise fashion, starting in column (2), with the geographic spread of government departments being the only variable that might determine whether hotel groups (that proxy dominance) are used or not. Large departments (government departments with national, provincial and district presence) were found to be less likely to use a hotel with a group than was a small government department (i.e. a government department with a geographic presence at national level only). In column (3), public expenditures on tourism-related activities can be seen to have been added to the government size variable. The results show, first, that the large departments were still less likely to spend on hotel accommodation in groups than were the small departments, although the finding was not statistically significant. Second, the higher the public expenditures were, the less likely were the chances that the available funds for accommodation would be used on hotels that were parts of a larger group.



Table 10: Dominance in the Accommodation Subsector

VARIABLES	(1) Hotel Expenditure	(2) Hotel Group (Yes = 1; No =0)	(3) Hotel Group (Yes = 1; No =0)	(4) Hotel Group (Yes = 1; No =0)
National, with Agencies	97,128*** (1705)			
Geographic Spread: National, Provincial & District	13,231*** (466.3)			
Geographic Spread: National, with Agencies		-0.148 (0.373)	0.614 (0.431)	
Geographic Spread: National, Provincial & District Expenditure		-0.209** (0.101)	-0.0950 (0.104)	
Below-Mean Expenditure			-8.69e-06*** (1.32e-06)	-0.148 (0.373)
Above-Mean Expenditure				-0.209** (0.101)
Constant	2,228*** (47.64)	0.553*** (0.0106)	0.572*** (0.0110)	0.553*** (0.0106)
Observations	38,828	38,898	38,828	38,898
R-Squared	0.094			
Pseudo R-Squared		0.0001	0.0011	0.0001

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The findings in column (3) prompted the assessment of the effect of the size of a government department, based on whether their spending was above, at or below the mean public expenditures on dominance (meaning on whether or not they used hotels forming part of a larger group). Column (4) shows the results of the assessment. Large departments, being those whose expenditure on tourism-related activities was above the mean, were found to be less likely to spend on accommodation in hotels that formed part of groups. To a certain extent, the above finding provides a triangulation of the results presented in columns (2) and (3).

Table 11 below shows the results of first regressing transport expenditures against linkages between air and ground travel (see column (1)), second against the geographical presence of the government department (see column (2)), and third against both the linkages and the geographical presence of the government departments concerned.



Table 11: Determinants of Transport Expenditures

VARIABLES	(1) Transport Expenditure	(2) Transport Expenditure	(3) Transport Expenditure
Car rental linked to airline (=1)	-1,642 (1,084)		-1,769* (1,035)
Geographic Spread: National, Provincial & District		285,993*** (3,941)	286,004*** (3,941)
Constant	3,977*** (1,080)	2,219*** (82.61)	3,977*** (1,032)
Observations	54,629	54,629	54,629
R-squared	0.000	0.088	0.088

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The results show that, when regressed alone, enterprises with linkages in the transport subsector did not monopolise transport expenditures differently to how enterprises without linkages did. When regressed alone, the government size, based on its geographic presence, was found to determine transport expenditures. Large government departments spent more on transport than did small government departments. When both linkages and government size were used as repressors, the results show that both became significant determinants of transport expenditure. In other words, linked enterprises were less likely to influence higher transport expenditures than were enterprises that were not linked. Large government departments were found to retain their significance in terms of influencing higher transport expenditures more than did small government departments.

Bicausality might possibly turn out to be experienced between transport expenditure and linkages within the tourism value chain, although preliminary analysis and assessment of the data did not show this to be the case in the present study. Therefore, higher transportation expenditures do not cause significant linkages within the tourism value chain.

5.3. Indirect Values in the Public Sector-Generated Value Chain

The bookings of catering functions and training are mostly done by the departments themselves and not via the agencies, unlike with the bookings for accommodation and transport, which are usually managed by the agents concerned, on behalf of the departments. No data-based evidence suggests a significant difference between the bookings made by the departments themselves and those that were made by the travel agencies involved, in terms of using enterprises that might have brought about economic



transformation. However, if the government departments were to use enterprises, which, in turn, subcontracted, or used, other enterprises to render a service, then a situation of first- and second-round business procurement would be created. In the first round, the government might, in terms of such a situation, offer business to an enterprise so well-ranked in terms of B-BBEE status that it could be said to address the issue of economic empowerment. According to the records, the above would show that the government was using enterprises of B-BBEE recognition status of 4 or lower. However, if the enterprise subcontracted the work to the third party, with a worse B-BBEE recognition status, any efforts aimed at economic transformation would be neutralised.

The foregoing assessment was especially true in the use of travel agencies. On average, only 2 per cent of public funds spent remained with the travel agent, with the rest then being passed on to the suppliers of accommodation or transport. If the travel agency were to be rated B-BBEE 1, and the accommodation- or transport-supplying enterprise were to be rated B-BBEE level 9, the first level of monitoring would indicate that the public funds addressed economic transformation 100 per cent, yet the second round of business procurement indicates that it addressed economic transformation in terms of only 2 per cent of the funds.

The foregoing discussion shows the importance of assessing the values that trickle down indirectly to other enterprises in the value chain. In the case discussed, more value was found to trickle indirectly to other enterprises than trickled directly to the travel agents. In other cases, it could be that the backward linkages might also have influenced the value to trickle down further indirectly to the enterprises that were not measured. As Table 5 shows, the B-BBEE elements cover this phenomenon through an aspect of enterprise development. Enterprises that procure their suppliers from other B-BBEE enterprises that improve economic empowerment are key to the value chain in the above respect.

5.4. Emerging Enterprises and Fronting

The issue of sworn affidavits is, without doubt, of benefit especially to emerging enterprises. However, if such affidavits are not well monitored, it might be a source of failure to track any progress made in terms of addressing economic empowerment. Most likely, those without a B-BBEE certificate, and that use sworn affidavits, are mostly emerging black-owned enterprises, although such an assumption cannot be made. The potential for fronting is well-known and well-debated.



The B-BBEE Act describes fronting as “a transaction, arrangement or other act or conduct that directly or indirectly undermines or frustrates the achievement of the objectives of the B-BBEE Act or the implementation of any of the provisions of the Act”. Due diligence, on the part of the measured entities and the government departments alike, is required to identify, and to root out, fronting.

6. Conclusions and Policy Recommendations

The current report has reviewed the literature on the value chain, tracing its origin in the private production sector, and discussing how it has been customised in the tourism sector. Several value chains in different countries were reviewed, with the view of learning from them. In the West, Turkey was used as an example. In Africa, Mozambique and Tanzania were used in the private sector context. None of the existing research work concentrates on the tourism value chain in the context of the public sector, making the present report novel in its outlook.

The literature also demonstrates that it is critical that legislative governance, being the rules that define the conditions governing participation in the chain, be set. For the players in the value chain to meet such rules, the literature demonstrates that executive governance is required. Such governance was understood to provide proactive control.

The study then conceptualised the public sector-generated value of tourism in the context of economic empowerment. The private sector was argued not to be pursuing economic empowerment, in terms of seeking value within tourism services. As such, only the public sector might have such an interest at heart, and, therefore, it makes sense to limit the tourism value chain to expenditures by the public sector.

The findings show that over half of the B-BBEE enterprises that could be instrumental in leading the economic transformation of the country were not tax-compliant, thus bringing about a dilemma in terms of policy. Whether the enterprises concerned should be used to address economic transformation at the expense of compliance, or whether tax-compliant enterprises should be pursued at the expense of economic transformation is debatable. A third of the enterprises both transforming economically and being tax-compliant could be used, if they were to meet the demand from the public sector.

Which Enterprises are Benefitting from the Public Sector-Generated Value Chain

The share of value seems to have been distributed according to the initial outlay that was required to operate in each subsector within and/or along the chain. For instance, the transport (specifically air) and



accommodation subsectors required a relatively huge initial outlay, with this being reflected by the value that the two subsectors claimed from the public expenditures within the chain, which was 90 per cent. The remaining 10 per cent was distributed among the subsectors that did not require a huge initial outlay. Consequently, most value within the public sector-generated tourism chain was found to go to the LEs. The above presupposes that the value involved rarely trickles through to the emerging enterprises, which are mostly composed of members of the previously disadvantaged groups.

What Economic Opportunities Exist for Emerging Enterprises in the Value Chain

Based on the foregoing paragraph, it can, therefore, be concluded that the value chain shapes access to the subsectors. As such, it is easy for the emerging black enterprises to find opportunities that they might exploit in the subsectors that require low initial outlay as a starting point. Within the value chain, such opportunities are found in the tourism subsectors of ground transportation, food and beverages, travel agencies and incidental services. The above means that the low-hanging fruits within the value chain for the previously disadvantaged groups include car hire, restaurants, bars, handicraft shops and laundries. Although some of the existing opportunities might, perhaps, already have black ownership, more rigorous penetration into the chain might be needed in future than has been achieved in the past.

Recommendation One: Legislative and Executive Governance to Assist Transition from Low-Initial Outlay to High-Initial Outlay Enterprises

Huge initial outlay is a barrier that makes it difficult for emerging black-owned enterprises to gain market access. However, with time, the legislative and judicial governance systems implemented by the government might permit the emerging black enterprises to grow into subsectors demanding huge initial outlay. The recommendation, based on the above finding, is that the guidelines and/or the legislation within the chain should aim to form linkages between the emerging and established enterprises, and they should serve to discourage linkages between the different established enterprises themselves. The former linkages might be promoted by attaching them as part of the B-BBEE element, which should lead to attracting an incentive score to bring about such behaviour in the value chain. Alternatively, executive governance might be used by prohibiting linkages between the LEs.

Noteworthy, a small percentage of profit on a tourism service that is expensive could mean more in absolute terms than does a higher profit on a tourism service that is inexpensive. Thus, having a smaller share of a bigger pie could be much more positive than having a bigger share of a smaller pie.



Consequently, it makes sense for economic empowerment to not only push for emerging black enterprises to find opportunities in the value chain, but also to shift them, with time, to high-value tourism subsectors. Resultantly, relatively large enterprises tend to be the main beneficiaries from the public expenditures within the value chain. The situation is not exacerbated by the linkages created among the LEs and by their dominance of the market, with the public funds not being found to respond to such characteristics. However, the behaviour involved might create barriers that make it difficult for the emerging black enterprises to succeed in their endeavours.

Recommendation Two: Upgrade the Capabilities of EMEs through Information Sharing

To upgrade the emerging enterprises, most policy responses in Africa provide business services and training to the emerging enterprises, as a favoured approach for improving their capabilities. In other countries, economic zones have been created to aid local economic development, as well as local emerging enterprises. Such moves are welcomed. However, coupling the approach with the transferring of knowledge about the value chain from the buyer to the producer is critical for the upgrading of the products and processes of emerging black enterprises. Thus, the upgrading opportunities for the emerging local black enterprises would differ, depending on the type of value chain to which they belong. Tailoring information for EMEs specific to their subsector about the extent of value involved might, therefore, prove to be helpful.

Recommendation Three: Promote Government Personnel as Drivers of Change

Conducting the current study entailed interviewing the procurement officers of the different government departments informally, over and above engaging with the data itself. Doing so particularly informed the recommendation that government personnel should be projected as drivers of change for economic empowerment. The deduction is key for three reasons. First, almost all of the procurement officers stated that the government personnel were not keen to use the services offered by the emerging black-owned enterprises. Second, the monetary cap in place concerning which type of accommodation to use and which air and ground travel to use, depending on the rank of the personnel involved, might neutralise the use of expensive hotels and cars that typically create 'groups'. The above could explain why dominance and linkages are not significant in determining the destination of money, within the public sector-generated value chain. Three, all enterprises, at least in theory, tend to listen to their customers. In the public sector, the customers are, essentially, the government personnel that use tourism-related facilities.



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Using such a customer base as the agents of change could engage the emerging black enterprises more productively than they are engaged at present.

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