



# STATE OF PROCUREMENT SPENT IN NATIONAL AND PROVINCIAL DEPARTMENTS



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA







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This publication is available at [www.treasury.gov.za](http://www.treasury.gov.za)

**ISBN:** 978-0-621-46180-0 | **RP77/2018**



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## ■ Overview

Government Public procurement is big business - government spends in excess of R938 billion a year on goods, services and works. Apart from the direct impact the spent has on every South African in terms of quality of life or lack thereof, it also provides enormous opportunity to contribute to inclusive economic growth, advancement of government's social objectives and in general is at the heart of service delivery of government to the people of South Africa. Good public procurement is key to delivering sustainable value for money in relation to this very significant element of public expenditure – and good procurement needs good data.

The Constitution specifically address Procurement in section 217 stating that when government contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective. This is the cornerstone of South Africa's public procurement system. The Office of the Chief Procurement Officer (OCPO) has taken specific and bold steps to initiate reforms that would give rise to these principles. It is therefore justified that the National Development Plan-2030 emphasise that the state's ability to purchase what is required in the correct quantities, just-in-time, delivered at the correct location and bought at the right price, is central to its ability to deliver on its service delivery obligations and development priorities. There is general agreement that public procurement must be aligned to the developmental and transformation agenda of government. Deep changes in strategic leadership, architecture, competence and capability are needed to meet the aspirations of the NDP and to stop the cycles of failure, corruption, fraud and wrong doing in procurement.

South Africa has not been able to escape form the low growth trap in recent years. While economic growth forecasts have been adjusted downwards for successive years, the state of affairs have forced buyers, procurement specialists and policy makers to reflect on public sector procurement practices. This publication is a first of its kind attempting to provide an analysis of government's suppliers providing goods, services and works specifically to national and provincial government. In addition, an procurement spent analysis enhances the insights by identifying spent patterns cognisant of the size, nature and focus of the spent in national and provincial departments.

Modernisation of public procurement must result on managing cost and provide value-for-money. The procurement spent analysis provides recommendations and suggestions how spent agencies could optimise procurement activities with a view to result in reduced costs, increased value and long term return on investment;

Lastly, the reflection on the effect of implementing an eProcurement system with regards to reducing red tape, eliminates duplication of effort, cut costs and improve transparency and reporting capabilities in government, is highlighted.

*In this analysis, the following spend categories are considered to make up the bulk of SCM spend:*

- *Goods & Services*
- *Machinery & Equipment*
- *Building & other fixed structures*
- *Software & Intangible Assests*

The afore-mentioned trends point to public procurement reforms that would enable a high performing procurement system beneficial to all South Africans

#### KEY FACTS

| <b>Supplier and Procurement information for the whole of government</b>   |   |   |
|---|---|---|
| <b>R938 billion</b>   | <b>621,423 suppliers</b>  | <b>817 organs of state</b>  |
| were spent on goods, services and procurement related items in national-provincial and local government. (including public entities) in 2016/17 | that was registered on government's Central Supplier Database at 31 December 2017 | participate in procurement activities at national, provincial, and local government (including public entities) |
| <b>Supplier and Procurement information for national and provincial government</b>  |   |   |
| <b>R220 billion</b>   | <b>82 952 suppliers</b>   | <b>2,1 mil transactions</b>   |
| were spent on goods, services and works in national government in 2016/17   | received orders from national and provincial departments during 2016/17           | were performed by national and provincial departments to procure goods, services and works in 2016/17           |

**Table 1**

Breakdown of total 2016/17 Government procurement spend

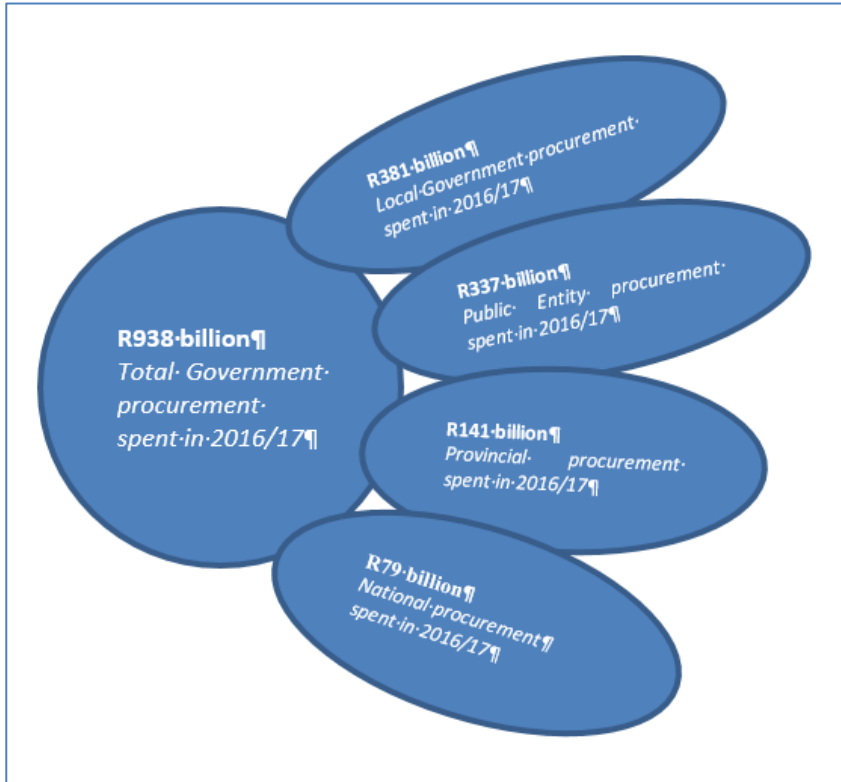


Figure 1

**National and Provincial spend overview**

**Top Ten National departments in 2016/17**

Government’s top 10 national departments make up 81 per cent of Goods & Services spend for national sphere of government. The majority of expenditure is with the South African Police Services (R17.9 billion or 23 per cent), Department of Defence and Military Veterans (R12.7 billion or 16 per cent) and Department of Correctional Services (R6.9 billion or 9 per cent).

*The substantial purchasing power of national and provincial government amounted to R220 billion for the 2016/17 financial year.*

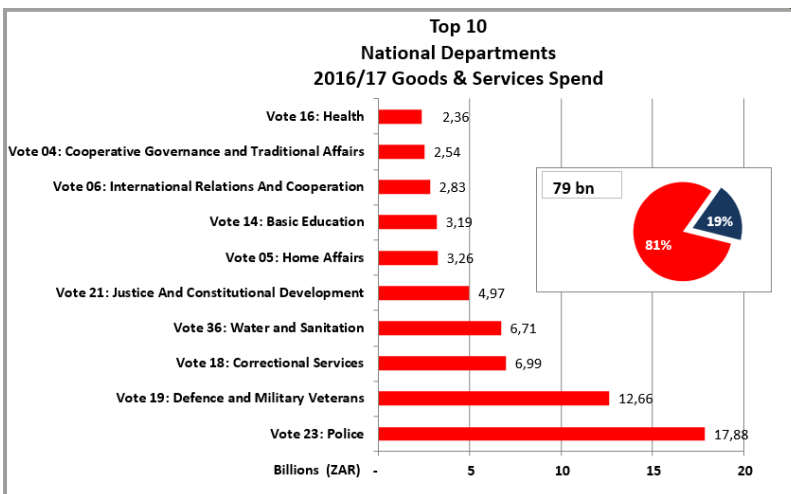


Figure 2

**Top Fifteen Provincial spend items in 2016/17**

At provincial level, the top 15 items contribute to 83 per cent of goods and services spending. Buildings and other fixed structures, dominates provincial spending at R27.3 billion or 19 per cent. Medicines and medical supplies combined, contributes R21.4 billion or 15 per cent towards provincial spend on goods and services. Provinces spend another R14.1 billion or 10 per cent of their goods and services budget on Contractors; and R12.7 billion (9 per cent) on property payments, which includes services such as municipal services, contracted maintenance, security, gardening, cleaning services, etc.

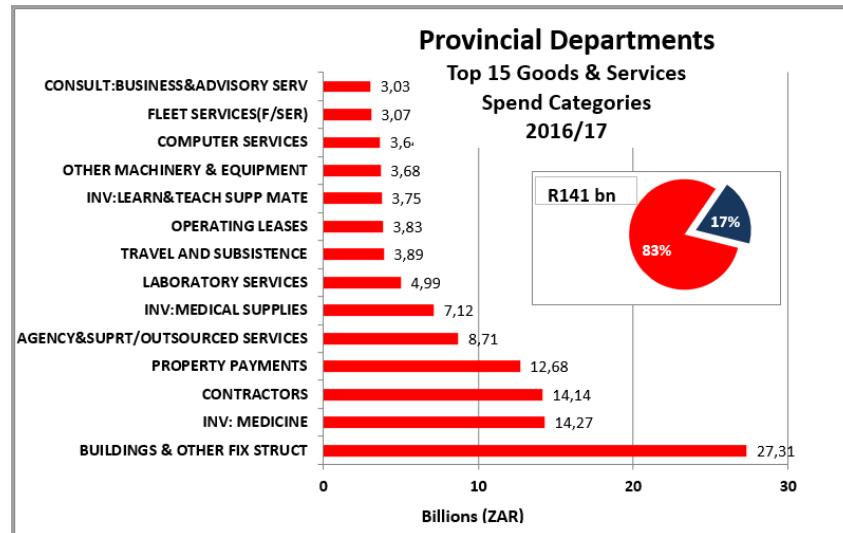


Figure 3

**Spend distribution across the nine provinces in 2016/17**

The diagram below illustrates that Gauteng and KwaZulu-Natal are the biggest spenders on goods and services. These two provinces contribute towards 44 per cent of the provincial goods and services spending.

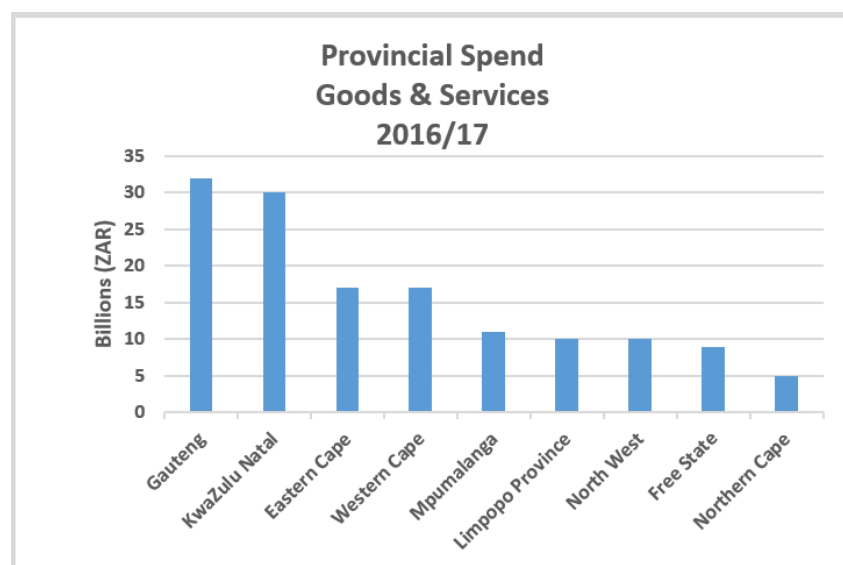


Figure 4



## 2016 -2018 Spend Analysis

### Methodology

In analysing the spend data, the OCPO followed established approaches used by procurement practitioners to create a “spend cube”, a procurement data model that provides a sufficiently comprehensive view of National and Provincial expenditure across various dimensions: spend per supplier, spend per government social objective, spend per supplier ownership profile, etc.

The spend data was collected from BAS (Basic Accounting System), , Department of Defence and Military Veterans, South African Police Service and Central Supplier Database (CSD). The data was not subject to extrapolation to generate estimates. The analysed data (R177 billion for FY 2016/17 and R95 billion for FY 2017/18 can be viewed as a large and statistically representative sample of government spend although it is not stratified across all public service institutions such as local government and state owned entities.. The OCPO believes this to be a fair, accurate and representative aggregate view of public service procurement expenditure.

The challenge in creating the multi-dimensional spend cube laid in the fact that different supplier numbers are used in the supply chain transactional systems, payment system and the CSD for the same supplier.

The spend data therefore had to be mapped to the CSD supplier profiles using the only common denominator between the two datasets namely the supplier bank account number. The analysis of the spend data is based on the following approach:

- Payment transactions for all National and Provincial Departments, for the 2016/17 financial year, as well as for the first nine months (April to December) of the 2017/18 financial year were extracted from BAS;
- Payments from departments (transfer payments such as SASSA grants, equitable share etc) to the following types of suppliers were excluded:
  - o Government Entities;
  - o State-owned Entities;
  - o State-owned Companies.

Based on the bank accounts used in the payment transactions, approximately 83% of total payment transactions could be matched to CSD suppliers, translating to a monetary value of R177bil for the FY16/17 financial year and R114bil for the first nine months of the FY17/18 financial year. BAS does not make it compulsory for users to record the Master Supplier number of CSD and therefore it is impossible to fully link payment data to suppliers to enable tracking of social and economic objectives of Government.

The CSD supplier profiles vary in terms of their completeness in terms of ownership, social objectives and BEE status information. As an example, R 118 billion from the R 177 billion could be analysed in terms of “Turnover” but only R 83 billion from the R 177 billion could be analysed for “PPPFA Black ownership” because the suppliers had not updated their profile information on CSD. As at the end of December 2017,

approximately 68% of CSD suppliers (299,490 of 441,342 registered suppliers) have provided ownership information per designated group; i.e.:

- Black people ownership;
- Black women ownership;
- Black youth ownership;
- Black people with disabilities ownership;
- Black military veteran ownership; and
- Black owners residing in rural areas or townships.

For the period 1 April 2017 to 31 December 2017 an amount of R 142 billion spend on Goods and Services and related SCOA items could be analysed. The exclusion of transfer, travel and subsistence payments resulted in an amount of R 114.5 billion that could be analysed in terms of supplier spend demoFigureics.

Aggregated National and Provincial procurement expenditure data on “spend categories” or “standardized item” levels is not available due to the fact that there are no standardized or commonly used procurement classification and item codification systems adopted in government. The lowest standardized level of spend aggregation is therefore the SCOA “Item segment”.

**Key facts for 2016/17 and 2017/18 YTD Analysed Spend Data:**

- 2016/17 National and Provincial BAS Spend data for Goods and Services amounts to R 220 billion;
- R 177 billion out of the R 220 billion could be linked to CSD suppliers;
- The R 177 billion was linked to 82,952 suppliers registered on CSD;
- R 128 billion out of the R 177 billion could be analyzed for “Turnover” across 60,515 suppliers that completed their CSD “Turnover” information;
- R 94 billion could be analyzed for the following social objectives across 54,583 suppliers:
  - PPFA Black Owned
  - Rural or Township
  - Youth
  - Military Veterans
  - Disabled
  - Woman
- R 133 billion out of the R 177 billion could be analyzed for BEE spend across 63,283 CSD suppliers that leaves us with R 44 billion of spend across 18,517 suppliers that could not be analyzed for BEE spend and is indicated as unspecified;
- R 43 billion of Goods and Services spend data could not be linked to CSD suppliers and have not been included in the analysis.
- 2017/18 (1 April to 31 December 2017) National and Provincial BAS Spend data for Goods and Services amounts to R 142 billion;
- R 123 billion out of the R 142 billion could be linked to CSD suppliers;
- Of the R142 billion, R 28 billion was identified as transfer payments, Persal payments for employee re-embursments, etc;
- Therefore, R 114 billion was identified as spend towards suppliers of which R 95 billion could be linked to CSD suppliers and R 19 billion to non-CSD suppliers;

- The R 95 billion was linked to 70,169 suppliers registered on CSD;
- R 87 billion out of the R 95 billion could be analyzed for “Turnover” across 58,685 suppliers that completed their CSD “Turnover” information;
- R 55 billion could be analyzed for the following social objectives across 55,400 suppliers:
  - PPFA Black Owned
  - Rural or Township
  - Youth
  - Military Veterans
  - Disabled
  - Woman
- R 81 billion out of the R 95 billion could be analyzed for BEE spend across 59,210 CSD suppliers that leaves us with R 15 billion of spend across 10,959 suppliers that could not be analyzed for BEE spend and is indicated as unspecified; and
- R 19 billion of Goods and Services spend data could not be linked to CSD suppliers and have not been included in the analysis.

### Central Supplier Database

The Central Supplier Database (CSD) was established to improve efficiency and effectiveness in the government procurement environment, reduce red tape, break down barriers to entry and create economic opportunities for many South Africans to do business with government.

The following are some of the highlights to date since the compulsory implementation of the CSD on 1 April 2016:

- A single, easy to access database, was created for use by all organs of state to source suppliers for government business effective from 1 April 2016;
- More than 621,423 users registered on the database of which 441,342 successfully registered;
- The effort of more than 817 organs of state to establish compliance to tax, BEE requirements, company registration, banking details, restricted suppliers and tender defaulters and employee of the state verification has been reduced to a single compliance verification. It saves government an enormous amount of time and money to be able to rely on a single source of credible information;
- Enables the identification of supplier development programmes in consultation with relevant organs of state;
- Enables monitoring of award patterns by government to suppliers;
- Enables economic procurement spend analysis by government.
- Provides opportunities to identify fraud, corruption and wrong doing by government officials doing business with government – 22,243 officials were identified as directors/owners of companies doing business with government; and
- Provide searching capabilities that would enable government to implement the published Preferential Public Procurement Act Regulations, enabling the use of pre-qualification criteria when appointing suppliers.

### Participation of available supplier base

As at 31 December 2017, the CSD contained 441,342 fully-registered suppliers, each containing compliance information (tax, company registration, vat registration etc.) contact details, the nature of the supplier's business, a fully categorized list of goods and services, location, ownership information etc. These supplier profiles are electronically available to the supply chain practitioners of all Organs of State, ensuring a wide distribution of potentially suitable suppliers for sourcing purposes. Approximately 30,000 reports are generated from CSD on a daily basis.

82,981 CSD-registered suppliers received orders through quotes, tenders, transversal contracts or deviations during the 2016/17 financial year and for the period 2017/18 70,169 suppliers received purchase orders. It implies that only 21.23% of available suppliers conducted business with government from the available supplier database in 2016/17 while in 2017/18 16% of available suppliers conducted business with Government.

As at 31 December 2017, the CSD reflects the following:

|   |         |
|---|---------|
| Total number of users:                              | 621,423 |
| Total registered suppliers:                         | 441,342 |
| Exempted Micro Enterprise (EME) suppliers:          | 314,708 |
| Qualifying Small Enterprises (QSE) suppliers        | 18,958  |
| Large suppliers                                     | 5,237   |
| Suppliers who did not specify their annual turnover | 102,439 |

Table 2

### Small, Micro and Medium Enterprises (SMMEs)

National and Provincial government departments have not positioned itself as a "single customer" in order to make the most of its collective buying power and to maximise value from its suppliers. Many of government's suppliers work across different departments, municipalities and public entities, with suppliers dealing independently with a number of procuring entities.

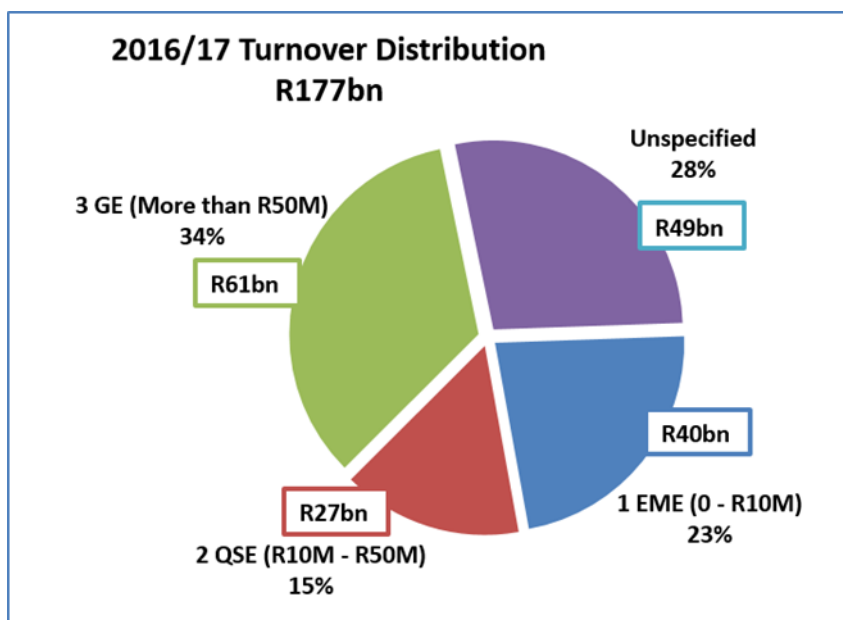
The establishment of a single procurement spent cube interfacing with the CSD enables the State to oversee relationships with suppliers who are providing goods and services to organs of state and in particular national and provincial departments. The establishment of the CSD provides government with an opportunity to have holistic oversight of its business with suppliers, which is in stark contrast to the way suppliers manage their own business with the public sector.

A central overview of the government's suppliers allows for an understanding of the government's dependence on particular suppliers, and comparative analysis of prices, incentives and performance. It also has the potential to improve supplier performance more generally.

Further Procurement spent data from all National and Provincial departments in 2016/17 suggests that progress has been made in providing access to SMMEs to government business.

- Spent towards SMMEs were 38% in 2016/17
  - 23% of the monetary value of payments were made towards 54,165 Exempted Micro Enterprise (EME) suppliers with an annual turnover of less than R10m (R40 bn);
  - 15% of the monetary value of payments were made towards 4,638 Qualifying Small Enterprises (QSE) suppliers with an annual turnover of between R10m and R50m (R27bn);
  - 34% of the monetary value of payments were made to 1,712 suppliers with an annual turnover of more than R50m (R61bn);
    - Awards of R49 bn (28%) could not be classified as the suppliers who were paid could not be confirmed as either EMEs, QSEs or GEs. For accuracy purposes, this number is excluded from projections and may lead to even higher percentage of spent directed towards SMMEs than the conservative 38% indicated above

*Distribution of spend towards SMMEs (2016/17)*



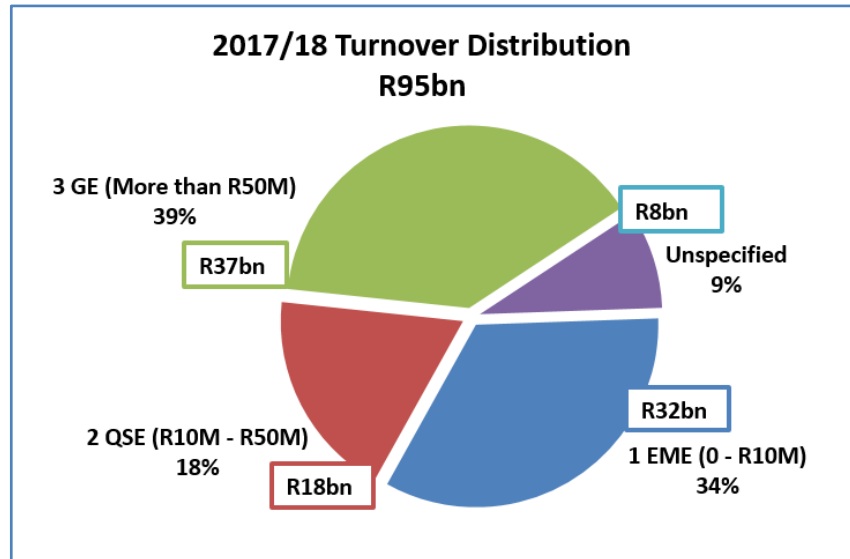
*Figure 5*

Procurement spent data for the period 1 April to 31 December 2017 reflects a similar trend noted in the 2016/17 financial year. The status is as follows:

- Percentage of procurement spent towards SMMEs for the first nine months of the FY17/18 is 52%:
  - 33,65% of the monetary value of payments are made towards 52685 EME suppliers with an annual turnover of less than R10m;
  - 18,57% of the monetary value of payments are made towards 4330 QSE suppliers with an annual turnover of between R10m and R50m;
  - 39,07% of the monetary value of payments are made to 1670 suppliers with an annual turnover of more than R50m;
  - R13,2 bil of payments are made towards 19160 black women-owned suppliers;

- R6,5 bil of payments are made towards 16807 black youth-owned suppliers;
- R154,6 mil of payments are made towards 358 suppliers owned by black disabled people; and
- R306,6 mil of payments are made towards 413 black military veteran owned suppliers.

*Distribution of spend towards SMMEs (2017/18)*



*Figure 6*

The following conclusions can be made from the fore-mentioned turnover based spend information:

- Ensuring a level playing field for potential suppliers to gain access to government purchase orders (quotations or contracts) remains a major hurdle, especially for SMMEs.
- Despite the fact that SMMEs represent a substantial percentage on government's CSD (75,6% of registered suppliers on CSD are SMMEs), only 52,8% (R50, 8 Bil) were awarded to SMMEs and therefore represent a much lower share of government contracts.
- Specific measures will have to be introduced to support SMMEs to become more competitive, more productive and improve quality of their value proposition. The following measures are to be introduced when the Chief Procurement Officer presents the Public Procurement Bill and Procurement Regulations and Instructions for promulgation:
  - Focused training and workshops for SMMEs on government procurement;
  - Publishing documentation or guidance focused on SMMEs (both print and online);
  - Simplified administrative procedures for SMMEs to participate in procurement procedures;
  - Specific legislative provisions or policies (e.g. set-asides) to encourage participation from SMMEs in procurement. The OECD reports that such preference is given, for example, in Australia, France, Korea and the United States.
  - Supplier development programs in targeted procurement categories and commodities;

- Establishment of a prequalification system for SMMEs in line with the provisions of the PPPFA Regulations 2017 for identified categories and commodities;
- Designate labor intensive procurement categories and commodities for SMME preference;
- Establish SMME specific framework contracts/panels with simplified administrative procedures;
- Developed a system of strategic supplier performance management for SMMEs, collating performance information from departments, agreeing overall supplier performance ratings and introducing new policies such as formally designating poor performers as 'high risk'.

### **Government's progress in transformation of public sector procurement**

The national development plan articulates a vision of a vibrant, successful nation addressing several cross cutting dimensions directing South Africans to a common future – a future of prosperity and social values contributing to the greater good of all people of this great land.

The sub text in the NDP suggests that poverty can only be meaningfully addressed if jobs – sustainable jobs – are created on the back of continuous economic growth. It would be fair to deduct that access to opportunities to do business with government could leverage substantial contribution to the vision of creating jobs for South Africans.

This chapter reports on progress the state made in ensuring that black businesses benefit from public sector procurement opportunities.

Several policy initiatives have been launched to support and accelerate inclusive growth and transformation. Some of these initiatives are:

- BBEEE Act
- BEE Regulations
- BEEE codes of good practice
- PPPFA Act
- PPPFA Regulations

Information from CSD suggests that the policy intent of the BBEEE Act, PPPFA Act and PPPFA Regulations had a positive impact on supplier representation of government.

Majority of government suppliers conformed to the State's directives as demonstrated by CSD statistics as at 31 December 2017. Suppliers registered on CSD per BEEE levels:

| Level            | Number of suppliers | Percentage of suppliers on CSD |
|------------------|---------------------|--------------------------------|
| Level 1          | 294,532 suppliers   | 66,74%                         |
| Level 2          | 11,491 suppliers    | 2,60%                          |
| Level 3          | 20,005 suppliers    | 4,53%                          |
| Level 4          | 29,288 suppliers    | 6,64%                          |
| Level 5          | 937 suppliers       | 0,21%                          |
| Level 6          | 867 suppliers       | 0,20%                          |
| Level 7          | 483 suppliers       | 0,11%                          |
| Level 8          | 1239 suppliers      | 0,28%                          |
| Non contributors | 1412 suppliers      | 0,32%                          |
| Unspecified      | 81,088 suppliers    | 18,37%                         |

Table 3

As on 31 December 2017:

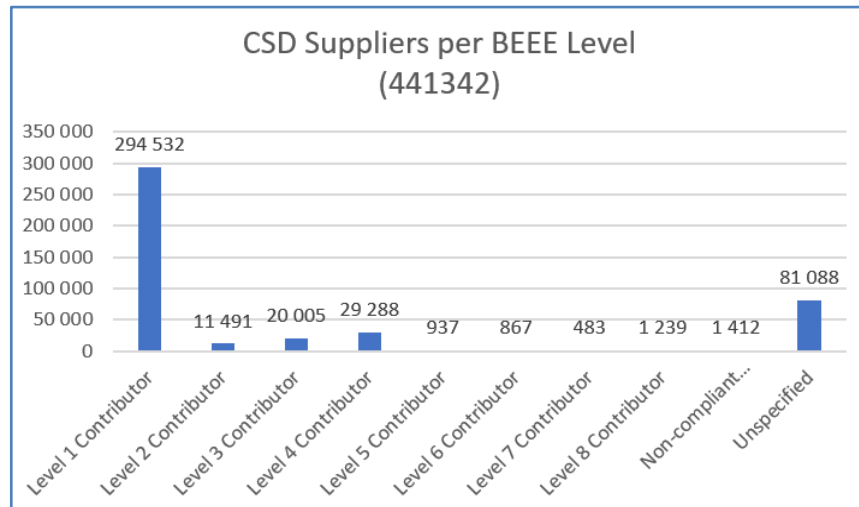


Figure 7

It is clear from available statistics that apart from Broad Based Black Economic Empowerment, specific objectives focused on inclusive growth have also improved over the last year. Ownership information is defined by the PPPFA Regulations 2017 and specifically provides for the following targeted groups as follows:

- Black-owned suppliers are suppliers with at least 51% black ownership;
- Women-owned suppliers are suppliers with at least 51% black women ownership;
- Youth-owned suppliers are suppliers with at least 51% ownership of black people 35 years of age and younger;



- Disabled-owned suppliers are suppliers with at least 51% ownership of black disabled people;
- Military veteran owned suppliers are suppliers with at least 51% black military veteran ownership; and
- Rural area or township area owned suppliers are suppliers with at least 51% ownership of black people living in rural areas or townships.

It is currently not compulsory for BAS users to record master CSD supplier number on payments contributing to a portion of unmatched, unspecified and unverified information in respect of the spent analysis for national and provincial departments. The results of the analysis still provide valuable insights into public sector procurement spend, and could be used as a baseline to evaluate and assess the effectiveness of public sector policies. As an example, the analysis of spend data across the various designated groups, could be used as an indicator in determining whether the PPPFA Regulations 2017 encourages the policy outcomes required to transform and grow the South African economy and foster inclusive and social transformation.

Representation of the targeted groups mentioned on government's CSD reveals the following representation as at 31 December 2017:

| <b>Category</b>                                   | <b>Number of suppliers</b> | <b>Percentage of supplier base</b> |
|---|----------------------------|------------------------------------|
| Black people ownership                            | 230,371 suppliers          | 54,04%                             |
| Black women ownership                             | 87,879 suppliers           | 20,61%                             |
| Black youth ownership                             | 91,511 suppliers           | 21,46%                             |
| Black people with disabilities ownership          | 1,933 suppliers            | 0,45%                              |
| Black military veteran ownership                  | 2,104 suppliers            | 0,49%                              |
| Black owners residing in rural areas or townships | 74,501 suppliers           | 17,47%                             |

*Table 4*

Although representation on CSD is an important indicator of the inclusivity of the South African public service's supplier base, it is imperative to measure how much of the annual procurement spent is awarded to BEEE levels and targeted ownership groups.

Analysis from payments made through governments payment system for national and provincial departments, indicate the following spent patterns for suppliers that were awarded purchase orders in 2016/17 as well as the year to date figures for 2017/18 (April – December 2017):

| Level            | 2016/17 |              | 1April – 31 Dec 2017 |              |
|------------------|---------|--------------|----------------------|--------------|
| Level 1          | R54 bil | 30% of spent | R 34 bil             | 36% of spent |
| Level 2          | R30 bil | 17% of spent | R 16 bil             | 17% of spent |
| Level 3          | R13 bil | 8% of spent  | R 9 bil              | 9% of spent  |
| Level 4          | R20 bil | 11% of spent | R 13 bil             | 13% of spent |
| Level 5          | R 4 bil | 2% of spent  | R 2 bil              | 2% of spent  |
| Level 6          | R 3 bil | 2% of spent  | R 2 bil              | 2% of spent  |
| Level 7          | R 2 bil | 1% of spent  | R0,6 bil             | 1% of spent  |
| Level 8          | R 5 bil | 3% of spent  | R3,3 bil             | 3% of spent  |
| Non contributors | R 2 bil | 1% of spent  | R 2 bil              | 2% of spent  |
| Unspecified      | R44 bil | 25% of spent | R 15 bil             | 15% of spent |

Table 5

More important to note, is the amount of money contracted to different companies during 2016/17 and for the period 1 April to 31 December 2017:

2017/18 Spend in terms of BEEE levels:

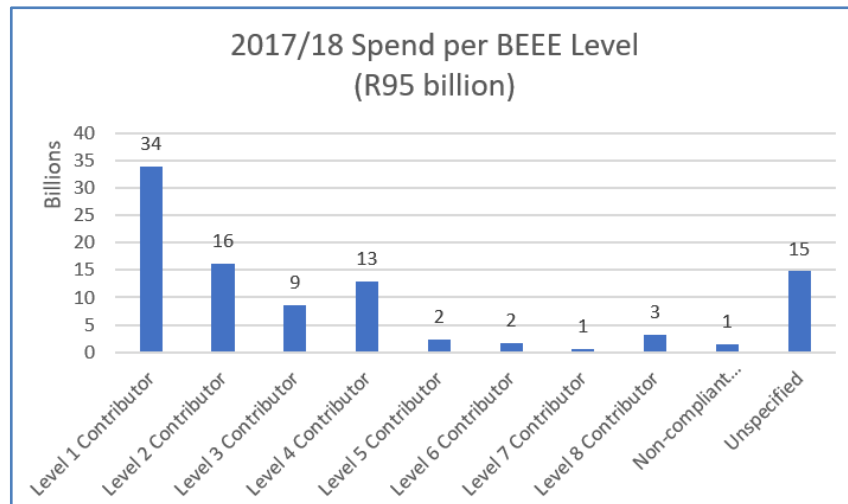


Figure 8

2016/17 Spend percentage per BEE Level:

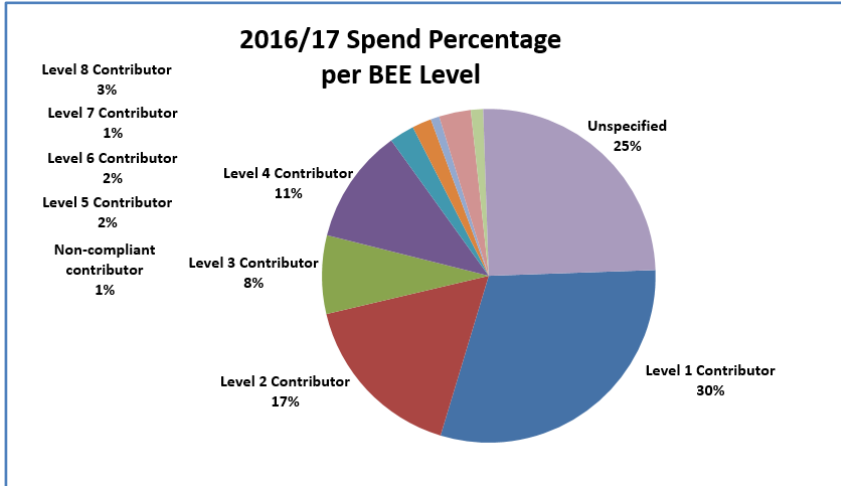


Figure 9

The state of economic transformation in terms of businesses owned by targeted black businesses further provide insights into the state of affairs as at 31 December 2017.

| Category  | 2016/17             |                                | April – Dec 2017    |                                |
|---|---------------------|--------------------------------|---------------------|--------------------------------|
|   | Number of suppliers | Rand value of contracted spend | Number of suppliers | Rand value of contracted spend |
| Black people ownership                            | 43936               | R66,5 bil                      | 46485               | R38,4 bil                      |
| Black women ownership                             | 19160               | R21,9 bil                      | 19160               | R13,2 bil                      |
| Black youth ownership                             | 13337               | R9,1 bil                       | 16807               | R6,5 bil                       |
| Black people with disabilities ownership          | 329                 | R320,1 mil                     | 358                 | R154,6 mil                     |
| Black military veteran ownership                  | 425                 | R539,8 mil                     | 413                 | R306,6 mil                     |
| Black owners residing in rural areas or townships | 15173               | R5,3 bil                       | 15309               | R8,6 bil                       |

Table 6

Although the data still includes a portion of unmatched, unspecified and unverified information (47,3% for 2016/17 and 42,6% for 2017/18, respectively), it still provides valuable insights into public sector procurement spend, and could be used as a baseline to evaluate and

assess the effectiveness of public sector policies. As an example, the analysis of spend data across the various designated groups, could be used as an indicator to determine whether the PPPFA Regulations 2017 encourages the desired outcomes required to transform and grow the South African economy.

**Sourcing and categories management opportunities**

The implementation of an unified master data management system across categories and suppliers for shared visibility across government departments are of critical importance. National Treasury embarked on a process to formulate data and codification norms and standards.

Analysing spend by category is the basis of the widely adopted “category management” approach to procurement. A categorisation taxonomy must be adopted across all spheres of government to enable the analysis of spend data on a commodity and category level. Currently suppliers are registered or indexed on the CSD according to the Standard Industry Classification (SIC) and are allowed to link the services and products they can deliver to government against the United Nations Standard Products and Services Code (UNSPSC) which is a taxonomy of products and services for use in eCommerce.

There is no commonality between the SIC and the UNSPSC and suppliers are allowed to link their products and services on a consolidated level which make the analysis of spend data on a commodity level impossible. The only categorisation taxonomy we can currently use to provide government with a standardised spend view is the Standard Chart of Accounts (SCOA), specifically the Item segment.

The following spend per commodity analysis is therefore a financial perspective on the procurement data and depicts the top spend commodities for the 2017/18 Financial Year (April to December 2017):

*Spend against SCOA structure*

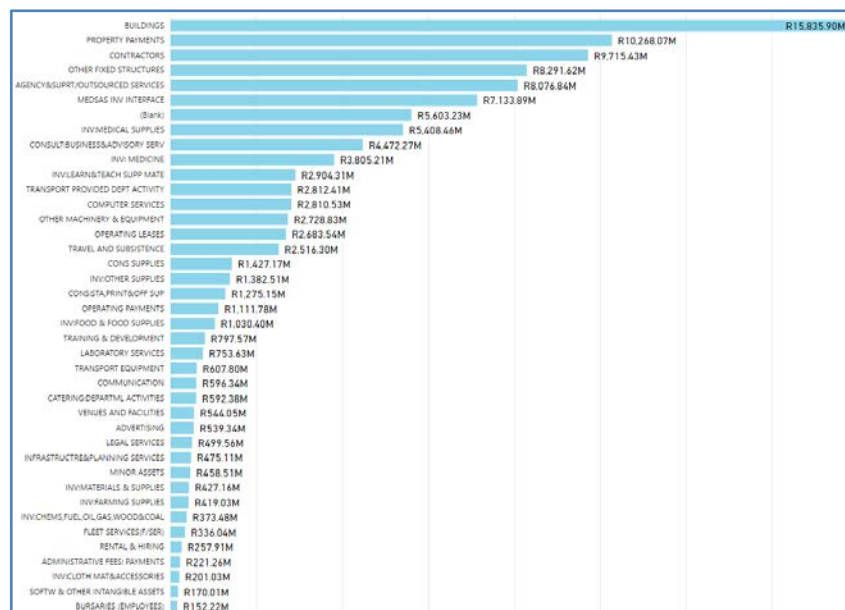


Figure 10

Top 25 spend commodities broken down in terms of company turnover:

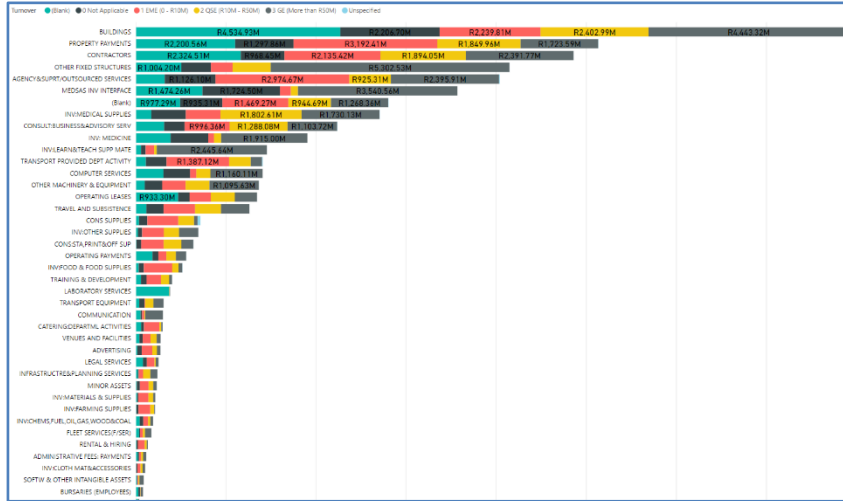


Figure 11

A sectoral spend distribution based on the suppliers' associated Standard Industry Classification (SIC) reveals the following:

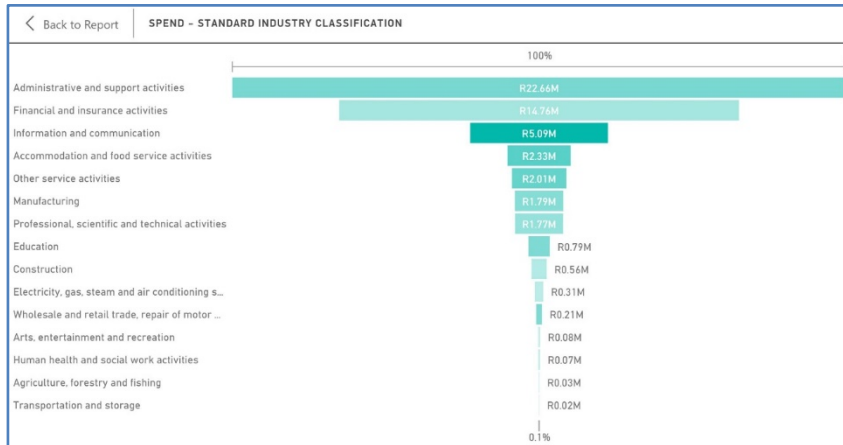


Figure 12

The following is a breakdown of the sectoral spend distribution in terms of company turnover:

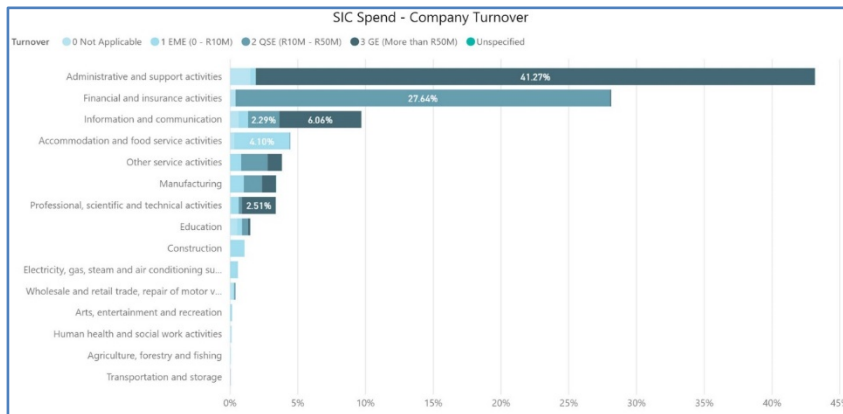


Figure 13

### Spend per Top 400 Suppliers

As depicted in Figure 1 below, an analysis of the Top 400 suppliers across all National and Provincial Departments, indicates that 80% of the monetary value of spend are towards these suppliers, with 38% of spend towards the Top 60 suppliers. Suppliers in the health industry feature prominently amongst the top suppliers.

35% of spend are towards suppliers with BEE levels 1 and 2, compared to more than 60% when all suppliers are considered.

Noteworthy as well, is the fact that of the Top 400 suppliers:

- 29% have not specified their BEE status on the CSD;
- 43% have not specified their annual turnover on the CSD; and
- 70% have not specified their ownership, including ownership per designated group. This is significantly higher than the 55% of suppliers that have not specified their ownership yet, measured across all suppliers.

The Top 400 suppliers requires dedicated management and initiatives to ensure that their ownership and BEE information are updated on the CSD, which will enable further and more accurate spend analysis and more importantly, negotiation strategies.

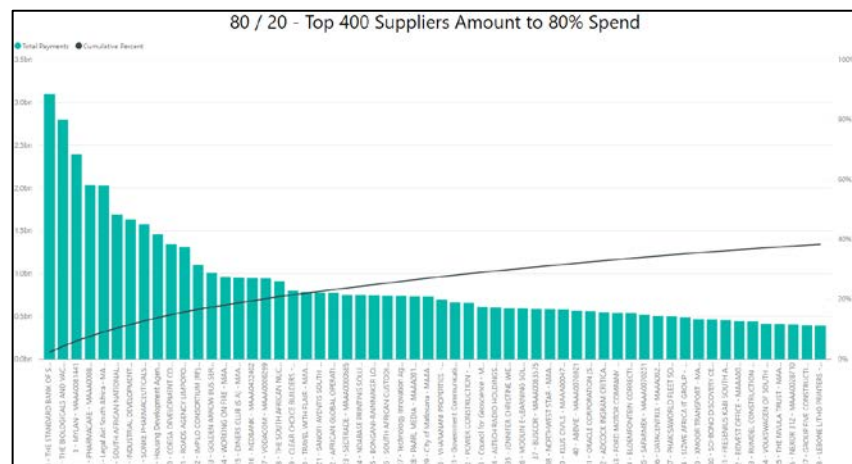


Figure 14

| LegalName   | Total Payments | Ranking |
|---|----------------|---------|
| THE STANDARD BANK OF SOUTH AFRICA                         | 3100203855     | 1       |
| THE BIOLOGICALS AND VACCINES INSTITUTE OF SOUTHERN AFRICA | 2802394358     | 2       |
| MYLAN PHARMACARE  | 2396787289     | 3       |
| Legal Aid South Africa                                    | 2037535353     | 4       |
| SOUTH AFRICAN NATIONAL BLOOD SERVICE                      | 2032729442     | 5       |
| INDUSTRIAL DEVELOPMENT CORPORATION OF SOUTH AFRICA        | 1691200543     | 6       |
| SONKE PHARMACEUTICALS                                     | 1632831074     | 7       |
| Housing Development Agency                                | 1575344420     | 8       |
| COEGA DEVELOPMENT CORPORATION                             | 1463825607     | 9       |
| ROADS AGENCY LIMPOPO                                      | 1345309438     | 10      |
| IMPILO CONSORTIUM (RF)                                    | 1310934997     | 11      |
| GOLDEN ARROW BUS SERVICES                                 | 1102002492     | 12      |
| WORKING ON FIRE   | 1008288450     | 13      |
|   | 962598350      | 14      |

Table 7

## Nature of procurement transactions

Although the strategic nature of procurement has changed completely in recent years, its core goals have changed very little. Procurement in the public sector is all about obtaining high-quality goods and services for the lowest possible total cost of ownership. But achieving that goal can be very difficult due to a number of challenges.

Government departments procure through a range of procuring and sourcing methods:

- Quotations for purchases less than R500 000;
- Competitive bids (tenders) for procurements above R500 000;
- Purchases from transversal contracts;
- ICT procurement through SITA or from SITA established contracts;
- Deviation from competitive procurement processes;
- Variations/extensions of existing contracts; and
- Emergency procurement

As mentioned before, 82 952 suppliers were awarded purchase orders by 169 national and provincial departments to the value of R177 bil. in the 2016/17 financial year.

| Type    | Number of transactions | Number of suppliers | Value of transactions |
|---------|------------------------|---------------------|-----------------------|
| >500k   | 42599 pmts             | 5893 suppliers      | R107,271,614,924      |
| <= 500k | 2047004 pmts           | 77982 suppliers     | R 70,107,979,154      |

Table 8

Data relating to R 177 bil but the split was made based on the 500K threshold. Therefore, many transactions that falls in the <500K category can be Tender related payments. We cannot currently track Transversal contract spend seen that transversal contract numbers are not linked to procurement transactions in downstream supply chain systems.

## Future improvements

**Future improvement and quality-assurance actions include:**

- Establishing a classification and codification standard for government in the government procurement space is paramount;
- The inclusion of spend data for other Organs of State, including Local Government Authorities and State Entities;
- Refine and expand the data analysis approach used, by cross-referencing to additional data sources for validation purposes;
- Initiatives to ensure a higher level of utilization of CSD-registered suppliers in the transactional activities at all Organs of State;

- Initiatives to encourage suppliers to update ownership and BEE information on the CSD;
- Initiatives to ensure more verification of supplier ownership and BEE information, as provided by the CSD;
- Awareness through media campaigns;
- Collaboration with strategic departments (DSBD, DPME, BEE Commissioner, and DPSA); and
- Scrutiny of the data, the data analysis approach used, by stakeholders, decision-makers and other interested parties with a view to improve quality, completeness and accuracy thereof.

### **Open data and open contracting standards**

Adopting the Open Contracting Data Standard (OCDS) will significantly contribute to the standardization of procurement. The Open Contracting Data Standard (OCDS) is an open data standard for publication of structured information on all stages of a contracting process from planning to implementation. Using unique identifiers, the OCDS links procurement information together in one open data file. This makes it easier for users to understand the procurement process for individual procurements including the planning, tender, award, contract, and implementation phases.

The Open Contracting Data Standard (OCDS) enables disclosure of data and documents at all stages of the contracting process by defining a common data model. It will assist the OCPO to increase contracting transparency and allow deeper analysis of contracting data resulting in the following:

- Value for money in procurement
  - Analyse trends in prices and tender performances
  - Needs-structured classification of item or service procured, unique identifiers for entities, standardised formats for prices
- Detecting fraud and corruption
  - Identify “red flags” such as patterns of overpricing, collusive bidding
  - Needs structured information on key dates, identifiers for entities (including bidders), cost estimates, award data
- Encouraging competition for public contracts
  - Identify opportunities and understand market trends
  - Needs to be able to search and filter by sector, item or service to be procured, key dates, bidding documents and location
- Monitoring service delivery
  - Ensure that public contracting is delivering value to citizens in terms of quality of goods, works, and services.
  - Needs contractor and subcontractor identity, location for delivery, technical specifications



## Classification and Codification Standard

SCOA Provides a National standard for the uniform recording and classification of budget and financial information at a transactional level for National and Provincial departments. The SCOA is therefore a listing of all accounts used in the general ledger of a department and used by the accounting software to aggregate information into a department's financial statements.

On a lower transactional level however, there is currently no centralized visibility of aggregated Government spend on goods and services and also no centralized visibility on inventories across the different spheres of Government due to the absence of both a common codification and a common classification standard across all Government entities

The various supply chain management systems in government such as LOGIS, Walker, SAP, Oracle, etc. are currently using different naming conventions or cataloguing standards for item codification. This absence of a common standard between systems causes disparity in the centralised expenditure view relating to goods and services in Government on a granular level.

Different commodity categorization taxonomies such as NATO, UNSPSC and in-house developed naming conventions, are also used by the different systems for commodity classification.

Extraction of consolidated procurement spend information on various levels is currently either impossible or highly subjective seen that it is a manual process that is very time consuming and open to interpretation in terms of the data elements that are included or excluded during the extraction process.

## Conclusions

Good public procurement is key to delivering sustainable value for money for the taxpayer and to open up the formal economy to previously marginalised groups and individuals. The initiatives from the OCPO to mine and normalize unstructured procurement data is still at an early stage but offers a significant opportunity to deliver better value for money, consistent implementation of policy, reduced risk for the State and improved data provision. From the analysis the following were concluded:

1. Government's intention to direct at least 30% of the procurement spent to SMMEs have been exceeded as 38% was spent on SMMEs in 2016/17 (23% EME and 15% QSE) and 52% was spent on SMMEs in 2017/18 Q3 (34% EME and 19% QSE). Collaboration with DSBD to focus on job intensive industries is to be initiated to further expand the impact on the unemployment and transformation of ownership in public sector goods and services spent has been initiated.
2. Government has achieved a major shift in spending patterns towards suppliers with a BEE level 1,2,3 and 4 – 67% of the spent is awarded to suppliers with these statuses. Differentiation

pertaining to actual ownership, add further insight into the structure of public sector spent.

|   |                                 |
|---|---------------------------------|
| Total spent to black owned firms:                               | 34% of total spent (R59.5 bil)  |
| Black Women   | 10% of total spent (R18.2 bil)  |
| Black Youth   | 5% of total spent (R8.3 bil)    |
| Black rural/township businesses                                 | 3% of total spent (R5.3 bil)    |
| Black Military veterans   | 0.28% of total spent (R496 mil) |
| Black disabled  | 0.14% of total spent (R244 mil) |
| 53% of total spent could not confirm black ownership (93.9 bil) |                                 |

3. Consolidation of the supplier database of Government has been successful in simplifying registration, reducing duplication and red tape. 621,423 suppliers registered on CSD as at 31 December 2017 of which 441,342 suppliers were successfully on-boarded. 82, 952 of these suppliers received orders from Government in 2016/17.

The centralisation of suppliers provides opportunities to track social, economic and transformational objectives of government in public sector. More important, it provides opportunity to identify supplier development opportunities, developing procurement and sourcing strategies for job intensive areas, innovation, local content to name but a few.





**STATE OF  
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SPENT IN NATIONAL  
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