

**Mpumalanga Department of Economic Development and Planning Budget Vote
2006/07 delivered by MEC S.W. Lubisi**

02 June 2006

Honourable Speaker, Mrs. Y.N. Phosa
The Premier, Mr. Thabang Makwetla
Colleagues in the Executive Council
Honourable Members of the Legislature
Mayors and Speakers of Municipalities
Traditional Leaders
Representatives of organised Labour and Business
Distinguished Guests
Ladies and Gentlemen

National Economic Growth Perspective

Political commentators around the globe called the change of government in South Africa, a miracle of modern day political landscape, notwithstanding the sacrifices that were made by our people, understandably so because such a peaceful transition was unprecedented in Africa and elsewhere where the people were subjected to such injustices. Everything pre-democracy pointed to bloody war before South Africa could have in place a legitimate government for its people. The rest, as they say, Madame Speaker is history, fantastic history, I might add, that proved all the Jeremiahs wrong. Not only has South Africa experienced this relatively peaceful transition, but it has also experienced a phenomenal 88 months of a virtually unprecedented economic upswing which has made the world stop and notice. Notwithstanding the fact that we inherited an economy which was on a negative growth path in 1994, we have had a 5% year on year growth for over five years and we have experienced low budget deficits and corresponding low inflation rates. This fabulous bullishness is a result of a booming performance in the commodities sector, buoyant real estate performance, high vehicle sales, foreign investment to mention but a few factors. Key to this success has been the good track record of the ANC Government in managing the economy. We celebrate with caution, Madame Speaker, for we are aware that the growth we have seen and continue to enjoy partly owes its being to "paper and cyber" investment in the Johannesburg Securities Exchange. We are aware how fickle such investment is. Overnight we could see a flight of the investment that could set back the economy quite severely. Stock Exchange investment, unlike, fixed investment does not result in job creation and labour absorbing fixed projects.

Madame Speaker, studies by research institutes show that South Africa is creating jobs but it would appear at a pace that does not satisfy the demand for work by new entrants into the job market. The queue for jobs is very long and we are producing potential entrants into the job market by the thousands per year. This phenomenon, among others, has prompted the President to make an observation that our country has two economies, the first and the second. The first is an advanced, sophisticated economy, based on skilled labour, which is becoming more globally competitive. The second is a mainly informal, marginalised, unskilled economy, populated by the unemployed and those unemployable in the formal sector. While the country's macro-economic strategy has performed wonders in enforcing orthodox prudent economic discourse which ensured fiscal and monetary stability it has not succeeded in bringing in the partners, we so much needed to invest in our programmes to ensure success, particularly in job creation. Realising this anomaly the national government has expanded social welfare initiatives through social grants for child support and old age/

disability pensions. These are relief measures, Madame Speaker and we need to search for lasting and more sustainable measures.

Upswing of the rand

The rand has been going strong in the past few years. The strength has been good for the import market because it gives buyers more buying power in comparison with a weaker currency; however, the strength of the rand has adversely affected the export market. The industries that enjoy large overseas market-share are earning less than they did when the exchange rate grossly favoured the US Dollar. This reversal has caused significant shedding of jobs in among other sectors, the mining, agriculture and clothing and textiles.

Barriers to growth of sectors

Import parity pricing

Madame Speaker, Mpumalanga province counts among its strong resource base a stainless steel belt which contributes significantly to the economy of this Province. However, there are huge barriers for downstream beneficiation and achievement of the broader ideals of government of increasing new entrants, particularly, from the sections of our economy who were barred by the laws of the past from any meaningful participation. It, simply, is not tenable for small firms to do downstream beneficiation due to prohibitively high prices caused in the main by Import Parity Pricing.

Government, however, is beginning to address this problem through the Competition Commission. Import Parity Pricing means that products manufactured in South Africa have to absorb price levels of other countries which include notional costs for transport, import duty and insurance costs. What this means is that when an emerging manufacturing firm in South Africa uses steel as input in the production of goods, they have to buy it at prices that are inclusive of shipment costs from the USA, import duty costs which is around 5% and insurance tariffs. Input costs for diversification and value addition become impossible to absorb particularly where the cost of production, such as labour, electricity, rental, etc are still to be considered.

This results in hampering of expansion programmes into job creation by small and medium firms. Similarly, the same Import Parity Pricing is the worm that is nibbling at other important sectors that make up the provincial economic structure. The chemical sector, plastics, forestry and timber and fertilisers are some of the commodities whose growth and downstream opportunities are squeezed by the Import Parity Pricing. This pricing system is, particular, damaging to South Africa because of the greater distances between us and our international markets, the shipment costs and insurance cover are increasing geometrically when compared with transactions that take place within a cluster of countries within Europe for instance.

Accelerated Shared Growth Initiative of South Africa

A new growth path is now being defined in South Africa, Madame Speaker; it comes via the Accelerated Shared Growth Initiative for South Africa (AsgiSA). As said earlier in my speech, the country has experienced strong commodity prices and capital inflow, especially from Platinum, Gold and Coal activities. Despite the huge growth, there are still imbalances

epitomised in high unemployment rates and generally unacceptable levels of underdevelopment and poverty. The strengthening of the Rand has undermined the country's export rate with devastating consequences to the manufacturing sector while it favours resource based export. One third of our people are not benefiting from the mercurial rise of the growth of the country's economy. AsgiSA is meant to create less dependence on social grants and pensions over time. In order for the country to level the imbalances, inequities and inequalities of the economic landscape we have to grow our economy by 6 to 8 percent (%) year on year. This initiative is a programme designed to increase spending in public works, particularly in infrastructure to help grow the economy to 6% per annum by 2010. It is a bold initiative which is aimed at boosting chances of halving unemployment and poverty levels by 2014. The tenets of ASGIA at a macro-economic level are amongst others:

- * improving budgeting and resource management in government
- * monitoring implementation of decisions to spend, especially on Capital Expenditure (CAPEX)

AsgiSA's key infrastructure elements include the following:

- * co-opting provincial flagship projects into national priorities
- * creating development opportunities that result in high employment, enterprise development and broad-based black economic empowerment

On sector development strategies:

- * focus on sectors with high potential for growth, employment and enterprise development,
- * focus on business process outsourcing,
- * a focus on tourism,
- * focus on agro-processing and chemicals including plastics,

On education and skills

- * Improvement of the quality of general education, with specific emphasis on initiatives, such as kidsup and dinaledi,
- * Strengthening of Further Education and Training (FET) systems (A budget of R1,9 billion has been put aside over the MTEF period)
- * Strengthening of the Adult Basic Education and Training (ABET) programme,
- * A focus on national skills development,
- * A focus on the Joint Initiative of Priority Skills Acquisition (JIPSA).

Second Economy intervention

- * The Expanded Public Works Programme (EPWP) focus bigger on road projects and maintenance thereof,
- * setting up of micro-finance,
- * women and youth empowerment in construction, Improving regulatory framework for Small Medium and Micro Enterprises(SMMEs) Taking stock of assets of the poor people (e.g. Land and title-deeds).

Mpumalanga economy as at end of may 2006

Demographics outlook

According to StatsSA in the Mid Year estimates (2005), the province of Mpumalanga has moved from being the eighth to the seventh in size by population in South Africa (3.2 million excluding Bushbuckridge). A major factor that will have a bearing on the overall socio-economic make-up of the province will be the incorporation of Bushbuckridge into the Province, and the transfer of part of the Sekhukhune district into the province of Limpopo. Bushbuckridge is an area that historically lacks economic infrastructure and will need strong attention in order to realise its potential, particularly in the tourism and agro processing sectors.

The spatial distribution of these rural settlements is in an area which is far from most of the areas of industry. GDP-R (Regional Gross Domestic Product) outlook Madame Speaker, a number of aspects relating to the economic outlook of the province has been highlighted in the budget speech by the MEC for the Provincial Treasury. One will make additions and updates for emphasis. According to RICON (March 2006) Mpumalanga Province is the fifth largest contributor towards the national Gross Domestic Product (GDP) with an estimated regional gross domestic product of R72.3 billion for 2005. The Adjusted figures show that Mpumalanga is projected to grow by 4.1% for the year 2005, compared to 4.2% in 2004. There is a sign of hope in that initial figures indicate that for the first time since 1997, all the broad sectors of the economy are expected to post a positive growth for the year 2005.

The construction industry, although down from its growth of 10% in the year 2004, leads the pack with an expected growth of 6.1%. The manufacturing and transport sectors show steady recovery growth for the past three years and the agriculture sector is expected to post a positive growth of 4.7% in contrast to the declines experienced in the preceding two years. The manufacturing sector is still the main contributor to the provincial economy at an estimated 25% for 2005. Mining and energy remain relatively unchanged within the province. According to South African Tourism (2005) the tourism industry contributed an estimated R5.5 billion towards the provincial GDP. Tourism has shown marginal decline in the first half of 2005 in comparison with the same period in 2004. There is evidence to suggest that the good positive growth of our neighbours in Mozambique is eroding the need for them to go across the border in search of items to purchase as these items become more readily available in their own country. There is therefore a need to develop innovative approaches to recapture this core market of our tourism industry.

We, however, Madame Speaker, have moved up from eighth to seventh position in the domestic tourism market and have retained our fourth position status in the international tourism market within South Africa. Social Statistics outlook According to the National Treasury, the Human Development Index (HDI) has remained largely unchanged over the past five years and has shown a trend similar to that of national. This has also been the case in the percentage of people living in poverty over the past four years and is indicative of an economy that is growing, the challenge, however, continues to be how we translate this growth to benefit but not targeting the growth towards the poorest within our communities. (56.1% in 2001 to 56.3% in 2004).

Tax

The abolition of transfer duties on properties that are less than R500 000 will present an opportunity for tax relief for middle income earners or first time buyers.

Inflation

According to Econometrix, (May 2006) the Year on Year (Y-o-y) growth in household debt has been following a sharp upward trend since 2004. This factor, coupled with low savings, is a source for concern. National CPIX inflation (i.e. headline inflation excluding mortgage rates) however, fell sharply to 3.8% in March (from 4.5% in February). The provincial CPIX was slightly higher at 4.3% fuelled by the relatively higher inflation rates experienced in our urban centres of Nelspruit and Witbank. These areas experienced an inflation rate of 4.6%. Despite the steep increases in oil and fuel prices, the rand has remained stable and gold as well as platinum have posted significant gains. The reserve bank has been warning on inflationary pressures being brought to bear on our economy and is fearful that a robust domestic economy, driven partly by high levels of borrowing will generate all sorts of strains on the human resource and infrastructural capacity of the economy. Inflation is however expected to remain within the target range of 3 to 6%.

Employment outlook

According to the StatsSA Labour Force Survey (September, 2005), Nationally, the share of employment created by the informal sector continues to grow but the formal sector is also beginning to create more jobs. The number of domestic workers however, is on the decline, and they account for 7% of the national workforce. This calls into focus the status of our women with regard to employment. Although the total unemployment rate for the Province (according to the official definition from statistics South Africa) was 26.9% in September 2005, unemployed women were at 33.9% as compared to unemployed men at 21.3%. We can take heart from the fact that there was a 1.8% increase in employment numbers between March and September 2005 but much more still needs to happen to accelerate this growth. Up to 12 000 people participated in government job creation programmes in the six months prior to September 2005. According to Statistics South Africa's September 2005 Labour force survey, wholesale and retail trade together with community, social and personal services accounted for 36.6% of the province's formal employment.

The manufacturing sector accounted for 13.6% followed by agriculture at 11.5% of the province's formal employment. Employment within agriculture grew by close to 1% between March 2004 and March 2005 and we hope that this reversal in the trend of shedding jobs in this industry will continue. It is estimated that the tourism industry accounted for up to 50 000 employment opportunities in the province. It can be seen that the manufacturing sector is a leading sector in terms of both contribution to the provincial GDP as well as employment. According to RICON (March 2006) we also have a comparative advantage in relation to the country in this sector as our location quotient is positive at 1.5 in 2004. What is of concern is the fact that our Province has the second highest HIV prevalence rate in the country, second only to KwaZulu Natal. This will have a negative impact on the future of our labour force and ultimately on our economy.

Trade outlook

Madame Speaker, RICON (March 2006) also states that imports rose by 30% from R1.4 billion in 2003 to R1.8 billion in 2004. The share of exports as a percentage of provincial GDP also grew from 5% to 5.6%. The total international trade as a percentage of provincial GDP rose a percentage point from 6.7% to 7.7%.

Regional Share of national imports and exports as well as total international trade share has remained largely unchanged from 2003 to 2004. The Province still contributes less than 2% of the national total percentage in both these categories. However, we must be mindful of the fact that although actual physical trade might take place from within the province, the

transactions for such trade activities are recorded at the organisation's head offices, which might not be in Mpumalanga The European Union (EU), Mpumalanga's single largest trading partner accounted for about 43% of total provincial export earnings and 41% of imports in the year 2004. Imports from Southern African Development Community (SADC) countries grew by 8% from R48billion in 2003 to R52billion in 2004 whilst exports grew by a massive 54% over the same period.

Departmental perspective

Madame Speaker, our Department has been undergoing heavy transformation in the last year. It all started during the inaugural State of the Province Address when the Honourable Premier expanded the mandate of the Department to include the planning function and was also heightened when the Premier announced the desire to merge certain of our parastatals. This started a year-long journey of repositioning the Department and its public enterprises. Madame Speaker, we had to think long and hard about the approach to the momentous task that the Premier had given to our Department. Finally we settled for a simple strategy of starting from the outside to the core. Like the rings of the onion, we peeled the outer layers which are symbolized in the form of Mpumalanga Economic Empowerment Corporation (MEEC) Mpumalanga Investment Initiative (MII) on the one hand and the Mpumalanga Tourism Authority (MTA) and Mpumalanga Parks Board (MPB) on the other.

Our approach, Madame Speaker was based on the obvious fact that we did not know enough of the dynamics that were going to emerge through the merging processes, ladies and gentlemen we did not know how those processes were going to affect the central core, which is the Department. In fact ladies and gentlemen, we were not even sure, until late in the process, that MTPA would be accountable to my Department or the Department of Agriculture and Land Administration (DALA). The merger process made us walk stealthily on appointment of staff, the organizational structure development and other associated matters within the Department. We chose to err on the side of caution than to be blasé and go forward as if we knew what the final product and the implications of the restructuring process would be. by and large, Madame Speaker, we were operating on half mast as a Department. At some point we had 39% of our staff complement which later improved to the current 53%. We are at 53% due to the fact that the current organogram has a plethora of low positions at salary levels 4 and 5 that increase the volume of vacant positions, when in fact even if they were filled, they would not address the current demands of skills and competencies within the Department.

Madame Speaker, I have peeled the rings of the onions, now I am getting to the core, which is the central Department because I believe we need a responsive Department to make our agencies perform optimally. Within the next 3 months, I will personally, together with my Head of Department, finalise and implement an organizational structure that is in line with the new mandate of the Department and one that has capacities to co-ordinate all our parastatals and the new agencies. Over and above, we intend to create a bank of expertise and capacities that would interact with strategic apex leaders of both government and big industry. The calculated delays in finalizing our structure, has put us in a position of strength, because now we have all the variables of the equation on the table and as we recruit, we do so with the comfort of knowing that we are creating a knowledge repository that will be responding to the new mandate of the Department and that of the Province at large.

Madame Speaker, I am happy that I have been proven right in my resolve not to concretise our personnel complement and the organizational structure, because it would have been

very difficult now to respond to the changes that have emerged. Madame Speaker I want to thank my colleagues at the Executive Council (EXCO), the Heads of Department and all senior managers that have made a contribution towards the shaping of our department and its substructures through Makgotla and other forums that were held over the past year. My Department is in the process of signing up shareholders compact with all our parastatals and Mr. Premier, we have listened to the contributions that were made through Makgotla of consolidating all the small projects we have been engaged with in the past and work towards coming up with mega and flagship projects. To this end, Madame Speaker, my Department will focus on legislation, policy making and regulatory frameworks, with a view to set realistic targets, monitoring and evaluation of impact of the implementation strategies of our implementing agencies.

My Department would be focusing on research and development projects that seek to link vertically and horizontally with the national and local government priorities. Economic Development and Planning as a Department will no longer be all over the place trying to implement a myriad of minor projects which have no impact in the upliftment of the larger majority of our people.

Sector development strategies and programmes

In response to the Accelerated and Shared Growth Initiative for South Africa, my Department has embarked on a very ambitious programme of developing Mpumalanga-specific economic sector strategies. We have identified, for starters, key economic contributors among the sectors Tourism, stainless steel, petro-chemicals, agro-processing, manufacturing, energy, construction and mining and quarrying. Madame Speaker, after the Growth and Development Summit in Badplaas, the Department has been penetrating the private sector through constant sector meetings, workshops, seminars and conferences to establish entrenched networks aimed at achieving cooperative governance. The esprit d'corps existing between my Department and major private sector and labour organisations is a platform from which we are launching the involved sector analysis programme. Among other issues that we would be investigating in the formulation of the sector studies are the following:

1. An in-depth analysis of all big firms spend – we aim to find out how much each of the big firms spend on procurement through their supply chain systems. We want to know where they source their input material, goods and services. In short ladies and gentlemen we would be seeking to understand where big companies in Mpumalanga spend their budget. It only make sense for us as a government to expect companies that do business in the Province to spend a large share of their budget within the province. However, if we have not probed the supply and demand within these large firms we will not be in a position to harvest on the economic energies that they generate.
2. Madame Speaker, the sector strategies programme, also aims to investigate and analyse the sources of labour from which these big companies recruit. We aim to create a profile of the skills that these companies require. It is only after we have such knowledge that we can design strategies and accelerated programmes to equip our people with the requisite skills needed by these big sector industries. In our engagement with the big industries, we are looking at establishing a Provincial Chapter of the Joint Initiative Programme on Skills Acquisition to help us raise the kind of skills that would make our own people be employable to the big industries that are doing business within our boundaries.
3. Madame Speaker, the Sector Development Strategies study is also designed to investigate future plans of industries as it relates to capital expenditure (CAPEX). Part of the problem of high unemployment rates is that the Province is not spending enough on capital projects which have a bias towards labour intensive approaches. As Government, through

the Sector Development Project, we plan to embrace the private sector and labour for future growth plans and partner with them in designing an economic and social environment that is beneficial to all parties. Ladies and Gentlemen, Provinces are the building blocks of the national economy. While we have a unitary state, provinces are competing for the same market-share. It is therefore imperative that we develop and attract high calibre skills, expertise and competencies. It is important that we harness resources that are in the command of Government, social partners and the private sector on a common purpose to advance the cause of the Province. It is equally important also to be competitive within the local, provincial, national and global playing fields.

Madame Speaker, the Sector Development Strategies and Programmes are an attempt at achieving these lofty ideals.

The programme also aims to investigate barriers to growth of each sector. I have already mentioned the effect of Import Parity Pricing as a serial killer to downstream beneficiation of the resources we are so well endowed with as a province. We plan to take each sector apart along the value chain matrices of the core businesses existing in the different industries, we want to see the potential for growth of each sector and be able to design specific strategies to unlock positive energies. Lastly, Madame Speaker, we plan to harvest high impact projects from the sector analyses programme.

Local economic development

This project is a joint venture between the Department of Local Government and Housing and Economic Development and Planning. It is funded by the Development Bank of Southern Africa (DBSA). We have appointed a service provider called Econologist, to assist in the development of a Local Economic Development strategy. A first draft of the local economic profile has been produced. The department has been participating in the National drive coordinated by the Presidency of streamlining all Municipal Integrated Development Planning (IDP). The participation has given the light on general flaws of the approaches that Municipalities have made in their IDP's and subsequently, their Local Economic Development (LED) strategies. Currently, the Department is working on processes with the GTZ to strengthen the capacity of the research work that the Econologist are carrying out on the LED Strategy. The department is linking up with all LED Units in all the Municipalities to re-establish the coordinating structure of the LED Strategy development. Many municipalities, however, do not have functional LED Units. The Provincial LED Strategy will be complete in the forth quarter of this financial year. Madame Speaker, for the Economic Policy and Planning programmes we have allocated R14million.

Mpumalanga Economic Growth Agency (MEGA)

The Mpumalanga Economic Growth Agency, born out of the merger between the former MEEC and MII, is designed to be a responsive, efficient organ of change. A very strong board under the Chairpersonship of Mr Phillip Dexter has been established. Its mandate is to drive economic transformation, stimulate trade and investment, ensure growth, development, equity and empowerment and promote prosperity. It has three main areas of competency:

- * property development and management
- * enterprise development, including finance and non finance support to enterprises
- * trade and Investment promotion.

MEGA commands a budget of R133million of which R56 million is a grant from my department and R77million comes from the Agency's own revenue. The MEGA is charged with the responsibility of establishing and managing the Mpumalanga Growth Fund. It has a target to raise enough funds to drive the flagship and strategic projects of the province. It is

an organ that should play a leading role in the provincial dream of creating a strong middle class in our communities and create more sustainable jobs.

It is the organ, Madame Speaker, which will drive the ideals of creating new firms and attracting investment from within and outside of the country. MEGA has, in the current financial year concluded transactions to the value of R50 million, including that of facilitating a 26% BEE shareholding in High-end Fruit Packers that will also create the opportunity for ten new Black farmers in the apple industry. MEGA has concluded partnership agreements with, among others the IDC, NAFSOC and CHAMSA and is finalizing agreements with SEDA and other Agencies. These will expand the Agency's capacity in all its key functional areas and improve the services it delivers to the people.

Mpumalanga growth fund for CAPEX

Local investment begets foreign investment. Madame Speaker I have been studying the evolution of many places that have become the investment destinations of note. There is one common denominator to almost all of them and that is government investment into infrastructure and other capital projects. Ladies and gentlemen, our province is no different, the aesthetic and potential economic potentials will remain just that if our government does not knuckle down and dig deep into its pocket to kick start development by leading the way in investing in key infrastructural development projects from which other benefits can be leveraged. This cannot be done through the ordinary equitable share the province receives from the National Fund. This means that we have to find ingenious ways of raising our CAPEX capabilities. We are currently exploring opportunities of establishing a "GROWTH FUND" to cater for rapid deployment of capital projects and accelerate the outlay of economic and strategic social infrastructure.

Madame Speaker by our conservative estimation the Provincial Growth Fund should swell to a billion Rand in five years. The Fund will be administered by the Mpumalanga Economic Growth Agency (MEGA) and will deal with projects that cut across the line function departmental divide. A similar Fund has been established in KwaZulu-Natal and I am happy to announce that in our team that is looking into the establishment of the Fund we have drawn in some expertise that were used by the architects of the KZN Fund. Through the Provincial Growth Fund, we are planning to lead the path of increasing Capital Expenditure and we are seeking the cooperation of big industry in the alignment of our collective expenditure on capital projects from which we can leverage economic sector growth, sector competitiveness, and job creation, establishment of export clusters and equitable distribution of resources. Great ideas need matching funding astuteness to bring excellent results. The details of the Fund will be made public as soon as we are satisfied that it is ready to be launched and rolled out. The importance of this fund, however, cannot be over-emphasized, ladies and gentlemen, for it will be the ace up the province's sleeve to become competitive and be able to attract firms to operate from our shores. My department will, unashamedly, court firms and factories to come and settle in the province. The department will aggressively work towards the establishment of new firms and factories to create jobs and wealth for the people of this province.

Mpumalanga tourism and parks agency (MTPA)

The Mandate of the Mpumalanga Tourism and Parks Agency as contained in the Mpumalanga Tourism and Parks Agency Act, No 6 of 2005 is "to provide for the sustainable management and promotion of tourism and nature conservation in the Province and to ensure the sustainable utilisation of resources." The challenges on Tourism and Conservation in the past financial year, Madame Speaker, related largely to the

restructuring processes which included the Department, MTA and the Parks Board. The restructuring obviously had a bearing on future discourses of the sector and how it should be managed.

Madame Speaker, the heritage project that the Premier has just concluded has to be studied carefully because it has a bearing on how we will be packaging and branding our Tourism and heritage products from now henceforth. Within the next couple of weeks this process will be finalised and all functions would be streamlined and a shareholders compact between the Department and the new agency would be signed. This would apportion clear mandates, roles and responsibilities, targets, norms and standards to measure performance and impact of strategies each organ will be implementing. A very strong Board for the Mpumalanga Tourism and Parks Agency (MTPA), under the Chairpersonship of Mr Lassy Chiwayo, has been installed. The process of correct placement of staff and the recruitment of the Chief Executive Officer (CEO) is underway. Once all due processes have been concluded we will officially launch the new parastatal.

Madame Speaker, the new demarcation of the Municipal Boundaries is bringing new dimensions into our planning. Mpumalanga has always experienced a shortage of accommodation for tourists during bumper seasons, but now that the Bushbuckridge area brings with it an additional park called Manyeleti Game Reserve which should increase quite significantly the number of beds. This change necessitates that we put aside more resources in terms of human and material to incorporate this new area into our plans. Madam Speaker for this Agency we have a total of R131 million allocated to this agency during this financial.

Spatial development initiatives (SDIS)

Madam Speaker, our Department has been studying what constitutes barriers to our Spatial Development Initiatives, particularly the Maputo Development Corridor. We have found that one of the main barriers to the growth of the Corridor is the acute inadequacy in capacities to coordinate the strategies and activities of the corridor. This has barred the Corridor from playing its role as a vehicle for economic energy. This undesirable state of affairs has to be arrested sooner rather than later. Madame Speaker, I will present possible overarching structures to help the province galvanise the Maputo Corridor back to what it was meant to be, a corridor of not only hope but of real benefit to our people.

The Province and Spoornet a key cog in the whole machinery of creation of export routes - have no common statement of intent. The Province need to influence the plans of Spoornet, particularly on the parastatal's CAPEX to include infrastructure development, especially, on the freight and logistics sector along the Maputo

Development Corridor. Currently, the East – West cargo route has to be moved by road which exerts untold pressure on the provincial and national roads and related resources.

Quite recently Spoornet announced they were buying 110 electric locomotives to move 92 Mt of export coal per annum to Richards Bay. We have engaged extensively with big exporters in the province who decry the fact that they are limited to road infrastructure to move their export goods. They are also forced to continue the utilisation of Richards Bay rather than the more potentially cost effective Maputo Harbour. On the other hand the Rail network on

the side of Maputo is also not well laid out to support massive cargo conveyance. The other barriers is the logistical arrangements and capacities of the Lebombo Border Post to process to and for movement of cargo, particularly heavy trucks.

Creative industries

Madame Speaker, in order for the Province to grow significantly, we need to pay special attention to the creative industries. Mpumalanga can become the melting pot of heritage and cultural activities that could lead to massive job and small enterprise creation.

Film commission

Madame Speaker, creative industries are the most undermined, uncoordinated and understated sources of empowerment, wealth creation, skills development and growth. Quite recently my Department and that of Culture, Sport and Recreation have joined forces in creation of a vibrant Film Industry in the province. The Departments have held a joint provincial Film and Video Workshop wherein there was a strong presence of delegates from Swaziland and Mozambique and all Film and Video structures and practitioners from the districts of the province. The workshop took a sub-regional view of the Film Industry development. In April the Province sent a strong film delegation to the AFCI Locations Expo in Los Angeles (LA), USA. My colleague, MEC Mtsweni and I are delighted to announce that the delegation that went to LA assisted the country to win the coveted Grand Prize of the international locations show. South Africa put out a compelling case to the 3500 delegates from virtually all countries around the globe as a destination for major film shoots. We are already getting good returns, ladies and gentlemen. Negotiations will be opening within the next two weeks between our province and an international film production company to shoot a high budget film in Barberton. The budget of the Cockney Liz movie is around R120 million. The challenges that we have in the province is that we do not as yet have a Film Commission or Office to coordinate the industry's affairs. However, plans are afoot to correct that. The Commission will manage the industry's provincial strategy for growth, and coordinate all logistical arrangements for film shoots.

Tourism

Madame Speaker, the past year has been one of the periods in which our tourism marketing initiatives reached their highest momentum. These efforts were further recognised at the recent Tourism Indaba in Durban, where our stand was awarded silver and gold medals by the SA Tourism and the National

Department of Environmental Affairs and Tourism.

Statistics from the South African Tourism (SA TOURISM) also reveal that Mpumalanga's Tourism revenue, increased from R6.1 billion to R7.4 billion from both domestic and international tourism activities. It did not come as a surprise, Madame Speaker, that the latest SA Tourism rankings places Mpumalanga Province in an improved position within the domestic tourism stakes within a period of one year. We believe that our Province deserves even a better ranking than this latest achievement and I have no doubt that when we gather in this Chamber again next year, we shall be celebrating, yet another upward movement. During the year under review, we also launched the Tourism Fun Train. This initiative is aimed at attracting domestic visitors to the Province by utilising the most affordable transportation modes such as trains and buses. Hot on its heels, we also launched an initiative called "Discover Mpumalanga" where we invited small tour operators from around the country to showcase some of our province's tourism attractions. Before the end of the past financial year, we also hosted tour operators from Germany in a project called the

Detour, where they were exposed to the tourism attractions of the Province with a view to encourage them to arrange tours to our Province. Madame Speaker, as stated in my previous Policy and Budget Speech that we had prioritised reviewing the Tourism Growth

Plan, I am pleased to announce that we have finalised that process. The final draft was tabled to all tourism stakeholders for input. The Department will be implementing the Plan to enhance the transformation of this sector. During this financial year, Madame Speaker, the Province will be hosting very significant national and international events, which include:

- * the World Tourism Day in August the Province was privileged to be selected to host the national event of this annual activity.

- * Africycle Tour in October this project is an international cycle competition which is ranked among the world events such as the Tour de France. The tour will be centred on the Gert Sibande and Ehlanzeni Districts.

- * the tourism train this project is aimed at attracting domestic tourists to our shores by showcasing the province's products. These events, among others, will give impetus to our goal of achieving our target of attracting 3 million domestic and international tourists to the Province.

Madame Speaker, in the build up to the 2010 soccer world cup our Department will be working very closely with all municipalities and Mbombela Municipality in particular, to assist emerging accommodation establishments to be graded to ensure that only accredited and graded facilities are used during the event. The Department is also busy with feasibility studies to determine the hotels that will be required in the Province for the 2010 World Cup. We have allocated R12 million to the Tourism Directorate towards for the facilitation of the growth and transformation of the tourism industry.

Trade and industry development

Ladies and Gentlemen, part of the sector analysis studies will be focusing on establishment of community export clusters. In collaboration with the Department of Culture Sports and Recreation we have been piloting a strategy to help crafters access international markets. We are, however, experiencing problems where we get big orders, particularly after international exhibitions. Our crafters are subsistent in nature and at times cannot handle big orders because their businesses are not designed to produce en masse.

The Department mobilised, formalised and financially assisted a group of small crafters who have keen interest in exporting into an Export Resource Network (ERN). 35 emerging exporters participated in national and international exhibitions. Capacity building programmes were conducted through export awareness campaigns, basic commercial skills, international commercial terms, and quality assurance. Wood cluster We have experienced major job losses within the forestry sector in the last financial year due to changes in the procurement systems of major suppliers of timber to our manufacturers. This has had not only a negative effect on the workers employed by saw millers, but it also had a rippling effect along the value chain matrix, particularly the downstream activities of timber in the manufacturing sector. Despite this negative occurrence, the Furniture Technology Centre, which was launched last year to assist SMME's in the Province, is well on course. The Department will be intensifying our discussion with major players in the forestry sector to assist SMME's to take advantage of the centre to diversify products in the forestry sector. The centre will assist the Province to increase the number of SMME's in the furniture cluster.

Mining

As stated earlier in my speech Madame Speaker, my Department will be studying the trends of mining expenditure. We want to know how much the mining houses spend through their procurement systems per year and where they procure their goods and services. We want to know where they recruit their personnel and what kind of skills, expertise and

competencies they need most. This knowledge will assist us as a Province to assist local entrepreneurs to position themselves as chief suppliers to the entire mining industry within the Province. It will also assist us Madame Speaker to design educational and training programmes that are responding to the personnel needs of the mining sector. It will also assist us as Government to compare notes on CAPEX for future strategic deployment of relevant economic and social infrastructure from which we can leverage massive economic and social benefits. The Department with the Department of Minerals and Energy Affairs has been instrumental in formalising groups of informal miners for their safety and also to assist them to participate meaningfully in the industry. The Mpumalanga Mining and Energy Preferential Procurement Initiative is due for its Launch and with the initial roll out of the rest of the Mining Charter Elements in the first quarter of this year. Two influential information sessions for the mining companies and their suppliers were held in the Highveld and Lowveld in the past financial year. MMEPPI intends opening up procurement opportunities for the PDI in the mining industry. A strategy to revitalise the dying Mining towns has also been commissioned. The identified towns include Pilgrims Rest, Rietspruit, and Piet Retief. The strategy report is expected to reveal the current economic activities, with a view of identifying development projects to stimulate and regenerate the local economies of those areas. The Department has commissioned three studies two of which are Geological surveys of Gold in Steynsdorp and Coal in the Belfast areas. A feasibility study for granite beneficiation in the Ehlanzeni area is one of the many studies, the Department is undertaking for this financial year.

Stainless steel

The stainless steel industry is hard-hit by the impact of Import Parity Pricing and we cannot wait for the ruling of the Competitions Commission in a case brought jointly by the DTI and Harmony Goldmines against 20 steel giant called Mittal. The result of this case will determine whether the Province is able to expand into aggressive manufacturing, diversification and other downstream high-value-add activities. Madame Speaker, we will be approaching Columbus Steel to determine how they can assist the Province to position itself so that it can capture a majority market share of their annual spend. We will be looking at their requirements for labour and their future plans for CAPEX so that we assist our people to harvest in the huge opportunities presented by this industry.

Other projects that we would be investigating during this financial year, within the stainless steel sector are the following:

- _ *Pall Ring manufacturing in the Middelburg Stainless Steel Incubator (MSI),
- * Transportable refillable gas cylinders manufacturing,
- * Three series stainless steel plate needed in mining,
- * Three series stainless steel for jewellery, kitchen cookery and medals,
- * Manufacture of retractable canopies for bakkies,
- * Steel for Floor grating, roofing and tubing in the mines,
- * Preliminary processing of catalytic converters by manufacturing the blank steel components at the Middelburg Incubator,
- * Steel toilet innovative concept
- * the production of a safe "vesto stove" Petro-chemical sector

The same strategy of finding out the spend of big industries within this sector, such as SASOL, skill requirements and capital projects, will be employed within this sector with the desire for Government to respond to the needs by making its people ready to tap into the opportunities created within the sector. Ladies and Gentlemen, allow me to thank SASOL's management for their willingness to work and cooperate with Government in this project. Projects that we will be looking into within this sector for the year 2006/07 include the following:

- * Manufacture of corrugated poly-propylene sheets as substitutes for cardboard,
- * Blow-modeling of 2litre bottle containers,
- * Manufacture of pallets for tower packaging using poly-styrene,
- * Manufacture of poly-styrene film for flower pockets,
- * Thermo-therming for disposable cups through the process of extrusion,
- * Production of paint and other solvents, such as, tar for sealing leaks,
- * Production of synthetic textiles, such as, hair locks,
- * Establishment of a water treatment chlor-alkali facility with a potential for downstream process in production of sodium hydroxide, hydrochloric acid, sodium hypochloride and poly-alluminium chloride.

Agro-food and non-food sectors

The Department will be working very closely with the Provincial Department of Agriculture and Land Administration to pursue opportunities for beneficiation of the agricultural produce for export. In partnership with the Development Bank of South Africa the Department is busy with the feasibility study for the establishment of the Food Technology centre for the Province to ensure greater participation of the Previously Disadvantaged Individuals in the agricultural sector.

Identified projects for high-value-add and downstream beneficiation for export markets include: (It must be stressed, ladies and gentlemen that these projects will be thoroughly investigated and cost benefit analyses will be conducted before implementation)

- * Bio-diesel from Soya beans (MADC),
- * Bio-diesel from Jethropha,
- * Beekeeping and honey production within the Forestry for Export,
- * Nkomazi Poultry Production,
- * Value add in Maize Milling,
- * Vegetable packing storage and transportation,
- * Citrus value add, juice making, dried and processed fruit,
- * Essential oils,
- * Gladioli flower products,
- * Abattoir for poultry processing,
- * Skills development for emerging farmers in financial and business management,
- * Processing of spice,
- * Glycol produce from sugar cane (Dti, IDC and TSB) Study completed,
- * Ethanol production from maize and sugar.

Madam Speaker, we have allocated R8 million to the Directorate Trade and Industry Development towards the attainment of the above-mentioned goals.

The SMME sector

Madame Speaker, while Government has made considerable efforts to give business to Previously Disadvantaged people through our procurement systems, it is at times disheartening to see that PDI companies do not have long and sustainable plans of growing. We have, amongst our people, entrepreneurs who are running, what I call, "hit and run companies". A company gets awarded one tender and it goes out and do an unsatisfactory job and disappear. Many of the emerging entrepreneurs do not invest in their companies. They want to remain perpetual emerging companies and this is a killer to the ideals of building thriving small enterprises in our communities. Statistics, according to the DTI, show that 80% of own initiative SMMEs collapse within the first two years of their establishment, while on the other hand it shows that 80% of franchise businesses are success stories.

Madame Speaker, we are in negotiations with Kagiso Exhibitions and the Franchise Association of South Africa to look into the franchising system for ordinary local business ideas. In due course we will be announcing a programme that is aimed at galvanising local business ideas into national and international franchises. This project would be looking into issues of patent laws, copyright laws and intellectual property laws. Ladies and Gentlemen as you would know, Mpumalanga is well endowed with world-class crafters, but their craftworks are not patented, which means anybody from any country can buy a giraffe crafted in Mpumalanga and mass-produce it as an own idea. The review of the Provincial SMME Development Strategy is on course.

The Province has entered into a Memorandum of Agreement with the Industrial Development Corporation to address the burden of access to finance by SMME's in the Province. The Province has successfully launched the South African Micro Enterprise Apex Fund to assist the most vulnerable especially women in rural areas to access finance. We also opened an office of Micro Enterprise Finance in Nelspruit, Witbank and Secunda, in partnership with Umsobomvu Youth Fund to ensure that Young people participate in the mainstream of the economy. The Department is in discussion with Umsobomvu Youth Fund to transform all the 3 Micro Enterprise Finance offices in the Province to be fully fledged Umsobomvu Youth Fund branches to offer all the products that are offered by Umsobomvu.

The Province has successfully launched the Provincial Small Enterprise Development Agency (SEDA) office. For 2006/7 the Department will be accelerating the establishment of SEDA Branches in all the Districts together with the SEDA information centres in most of our local municipalities. The process of finalising the Provincial Co-operative Strategy is on course. Discussions with the Development Bank of South Africa are at an advanced stage to assist the Department to finalise the strategy. The National Department of Trade and Industry is also helping in ensuring a uniform approach for co-operatives in the country. During this financial year, the Department has allocated R12 million towards the programmes of the Enterprise Development Directorate.

Business regulation and consumer services

Madame Speaker, once more, we are going to keep the Legislature busy this year. Expect no less than three Bills to be tabled for your consideration. Ladies and Gentlemen I want to thank the Legislature and all its substructures for the diligence exhibited during the processes of passing the Mpumalanga Economic Growth Act, No 4 of 2005 and the MTPA Act, No 5 of 2005. The Honourable Members showed that they can lead by example when they assembled in December during recess to help the Province pass the two laws. Gambling We are off to a good start this year. Not only have we appointed a new Board of Directors under the Chairpersonship of Mr Jerry Vilakazi, but we have already brought, for consideration by this Legislature, the amendments to the Mpumalanga Gaming Act, soon to be known as the Mpumalanga Gambling Act. The proposed amendments include provisions that align, the Act to lawfulness required by the Constitution. Further to that, the Bill is also amended to include provisions that comply with the National Gambling Act, with regard certain definitions and meanings of Gambling operations.

Lastly the Amendment Act will also include legislation that will regulate the operations of limited payout machines and revenue matters connected thereto. Liquor Applications and Provincial Legislation. Our Provincial Liquor Board is still considered by many of its Liquor licensees as the best and most efficient operational Liquor Board in the country. The Department published the Mpumalanga Liquor Licensing Bill for general comment on the 24th March 2006. The closing date for comments was on the 24th April 2006. The

Department is presently addressing public comments with the State Law Advisers and we envisage the passing of this Bill during the last quarter of the financial year. Our Provincial Liquor Act will address many shortfalls currently experienced in the Liquor Industry including major shifts within the paradigm of licenses to Previously Disadvantaged Individuals. We also foresee a simpler process in applications for Liquor Licenses and a better regulated framework to enhance community development and resolve social imbalances and abuse of substances.

Horse Racing Regulation

The Department terminated the Agency Agreement with the Gauteng Gambling Board and on the 1st April 2006 has transferred the operations and functions of the Transvaal Ordinance 24 of 1978 to the Mpumalanga Gambling Board. The regulation and control of Horse Racing is now within the ambit of the Mpumalanga Gambling Board the Department has signed a binding Agency Agreement with the MGB to regulate the operations of the Industry in terms of the Ordinance. The Department has drafted a Provincial Horse Racing Bill and it is envisaged that this Bill will become Legislation next year. On the promulgation of the new Horse Racing Legislation the Ordinance 24 of 1978 will be revoked and repealed Consumers Matters

The Department will shortly be appointing the Consumer Protector to the Consumer Court. The Consumer Protector will be challenged with the establishment of the office for Unfair Business Practices. This Office will primarily address consumer prejudices with regard to unfair business practices. The Department will be oversee the process of the establishment of the Office and earnestly believes that consumer protection across the province will be enhanced and respected. The Department will also address Consumer Education especially in line the promulgation of the National Credit Act, which will be brought into operation on the 30th June 2006. The Department will ensure that provincial legislative support is determined to enhance support to the operations of the National credit Act, which would clearly define all the ambits on consumer rights and obligations. To date the Department has opened 714 files on Consumer cases and closed 479 of the said cases. Monies claimed on behalf of consumers during the financial year amounted to R2, 9 million. We also implemented various consumer awareness programmes in the form of Consumer Education Workshops, radio talk shows and advertisements and distribution of consumer education material throughout the Province. Other projects to be explored in this sector are:

Feasibility of establishing a fully fledged horse racing track, associated infrastructure, amenities and

Facilities matters

- * The possibility of rolling out the fourth and last Casino license.
- * Expanded roll out of the Limited Payout Machines (LPM)
- * Roll out of Bingo (lottery game with numbered cards)

Madame Speaker, towards the Programmes of the Business regulation and Consumer services, we have allocated a budget of R11, 196 million. Before I present the total budget, Madame Speaker, allow me to state that effective and efficient execution of all the Programmes I have mentioned in the speech will result in the creation of a strong middleclass in our communities and the equitable distribution of wealth in the province. In conclusion, I would like to thank the Hon. Premier and colleagues in the Executive Council for their support and guidance. Members of the Legislature, in particular the Portfolio Committee on Agriculture, Land Administration and Economic Development and Planning, the HOD and all the staff in the Department, Board members and staff in our parastatals.

Lastly, I would like to thank my family for the unwavering support even when I have to spend many hours and days away from home.

Madame Speaker I ask this House to approve the budget for the Department of Economic Development and Planning spread as follows:

Programme 1 administration R 45 362 000

Programme 2 economic development R 140 625 000

Programme 3 economic policy and planning R 14 270 000

Total R 200 257 000

I thank you.

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2 June 2006