

Policy and Budget Vote Speech for Mpumalanga Department of Economic Development and Planning by the Honourable MEC Craig Padayachee, MPL, Mpumalanga Legislature

20 June 2008

Honourable Speaker, Mrs YN Phosa
Honourable Premier, Mr. Thabang Makwetla
Colleagues in the Executive Council
Members of the Legislature
Mayors and Councillors
Chairpersons and members of Boards of our agencies
Acting Head of Department and CEOs of our agencies
Business Community
The Media
Distinguished guests
Ladies and Gentlemen

Madam speaker, when we started our journey as a free nation following the watershed year in our history, 1994, President Nelson Mandela called on all of us to “get down to work”. We recall this assertion because it is a clarion call which must remind all of us, that we are at the service of the people and that the people that we serve acceded their hope for a better life in us as the leadership and the public service at large and because they believe that we were listening to that call. We make this assertion again to recall all the determination and vigour of our people that saw our nation overcoming the legacy of apartheid and put us on course for a democratic society, to join forces again to fight poverty and unemployment. We reiterate again, like President Thabo Mbeki said in his State of the Nation Address, that we are “... committed to conduct our business in an unusual and more effective fashion...”

We must serve with humility because as the department and agencies responsible for economic development and growth we have a major responsibility to serve as the catalyst of economic development. Our understanding of this task is that we are expected to be at the forefront of shaping the economic path for sustainable development. It is for this reason that we are seriously looking at the issue of reconfiguring the department to become the centre of economic planning in the province.

NATIONAL AND PROVINCIAL ECONOMIC OUTLOOK

Madam speaker, few weeks ago, The Minister of Trade and Industry, Mandisi Mphahlela observed that our economy has been growing steadily since 1994 and that it underwent significant growth over the last decade. He said, “Most recently, the economy grew by 5.4 % in 2006 and at 5.1% in 2007. Fixed investment has grown dramatically from 15% in 2004 to 21% in 2007. Real income per capita (average income per person) rose at around 4% per person annually since 2004. The rate of unemployment fell from 31.2% in March 2003 to 23% in September 2007.” This, he said, translates into an increase of approximately 1.8 million employed people in SA, a significant development that shows that the economy has turned the corner on unemployment. We reiterate this observation because these statistics mirrors in many ways, the performance of our economy during the same period.

According to Statistics SA’s community survey for March 2007, the Mpumalanga population was 3.6 million, which puts our population at 7,5% of the overall South

African population.

The Human Development Index (HDI) which gives an indication of the population's standards of living has continued its steady rise over the past ten years and now stands at 0.56, up from 0.46 in 1997. The percentage of people living in formal dwellings has increased from 65.2% in 1996 to 76.5% in 2007, and the households with access to piped water has increased from 85.7 in 2001 to 91.3% in 2007.

Madam speaker, despite the rising trend in interest rates, the South African economy has managed to sustain growth rate above 4% per annum. Mpumalanga's economy grew by 4.3% in 2005 and then by 4.4% in 2006 respectively, and a percentage point lower than the national average which registered a 25 year high of 5.4% in 2006.

Although the growth in private consumption expenditure fuelled by consumer spending has declined in 2007 following the national trend due to interest rate hikes as well as the introduction of FICA, the overall GDP-R for Mpumalanga is expected to be driven by higher levels of fixed investment associated with large infrastructure investment programmes. The mining sector in particular, has witnessed higher level of infrastructural investment.

Most recently, we participated in the sod turning for Douglas-Middleburg Optimisation project. It has been estimated that 2000 contractors will be involved during the construction phase of the project. Of critical importance is that this initiative will translate into more jobs and that it will also assist with transfer of critical skills to our people.

Madam speaker, the worldwide economic growth has put extreme pressure on the demand for energy resources. Even the slowdown in the US economy, the traditional indicator on world global demand, has been offset by the huge energy appetite from the emerging world economic powerhouses.

The world oil dilemma has also fuelled further rise in coal prices as this is used as an alternative input to the manufacture of petroleum products. The resultant search for alternative non fossil fuel energy sources has contributed to the steep rise in agricultural staple food such as maize due to the fact that these are now traded as energy commodities competing with fossil fuels, instead of agricultural produce for food.

The above conditions, although not exhaustive, are strongly interlinked. The irony of a strongly growing world economy, including that of South Africa, coupled with unbalanced world trade, is directly impacting negatively on the poorest of our communities.

Mpumalanga's Consumer Price Index (CPI) for April 2008 stood at 11.8% year on year. This translates to an increase in the cost of living in April 2008 compared to the same period in April 2007.

Global demand for steel is growing at a rate of 6% per annum and this means greater activity for the province's steel industry. Substantial expansion of stainless steel manufacturing capacity is expected in the near future. Per capita GDP-R for Mpumalanga (constant 2000 prices), has increased from R20 352* in 2003, to R21 296* in 2005 as a result of higher growth rates.

A massive 42.8% increase in Gross Fixed Capital Formation within the South Africa's mining sector as well as 9.3% in the manufacturing and 13.5% in the agriculture sectors, are good signs that these industries will be on a better infrastructural base heading into the future. These three, are the main drivers to Mpumalanga's economy.

Spending by private business enterprises on capital formation in South Africa grew from R144bn in 2005 to R164bn in 2006. Government also increased spending in economic infrastructure from R12.8bn to R14.2bn in 2005 and 2006 respectively.

Madam speaker, the growing economy has come with a need for massive spending on government's infrastructural investment programme. This has resulted in a sharp rise in imports. Project Bravo is a case in point in that the cost of a new power station amounts to approximately R84bn. Out of this amount, approximately 60% of the value of the power station has to be imported. This has given rise to the national current account deficit. It is however seen as a necessary evil for the province and country as a whole, to build up its capital infrastructure in order to enhance its ability to generate exports in the future.

The labour force statistics indicate a reduction of 5.1% in number of unemployed people from 352 000 (28%) in September 2006 to the lower of 292 000 (22.9%) in September 2007. During the same period, number of workers increased from 906 000 to 983 000, showing an increase of 77 000 people getting work during that time.

Madam speaker, this is a significant milestone in that the figures indicate that we have begun to turn the tide from that of reducing the growth of unemployment to that of actually reducing unemployment. It is important that this momentum be maintained. Indeed jobs are being created. What we need to be consciously aware of is that the number of new entrants to the job market each year is increasing and this puts added pressure on our economy to create more jobs, a factor that could prove decisive in addressing the unemployment question.

Our economy is moving in a direction that requires higher level of skills and knowledge intensity in the services arena. This shift in skills demand is also a national as well as a global trend. The lack of relevant skills becomes more acute due to the inadequate number of learners who take mathematics and physical science at school level, which means even fewer people study in the key field such as medicine, engineering, IT, accounting etc.

This scenario is further compounded by the global competition for skilled personnel as other economies also struggle to fill their quotas for skills needed. It is therefore important that our education and training system produce the correct skills for our economy. It is equally important that we must devise ways of retaining critical skills within the Province.

Madam speaker, the above scenario informs us that we are going through a tough period in our economy but we need not panic. We are intertwined with the national and world economy, which is going through a rough cycle. Our economic fundamentals are in place.

Allow me to take you through some of our programmes for which we commend our budget.

INTEGRATED ECONOMIC DEVELOPMENT

Madam speaker, we have finalized the process of identifying 10 products in our quest to ensure that the SMMEs access the opportunities within government. This process was done in collaboration with the National Department of Trade and Industry and the Provincial Treasury. We will during the course of this year monitor this process closely.

Our expansion strategy for the rollout of Small Enterprise Development Agency across the province is *bearing good fruits*. We are glad to report that we have finalized the roll out of the Small Enterprise Development Agency in the Province, and for the 2008/09 the Department will continue to monitor the products and services of SEDA to ensure that the centres are responsive to the needs of our communities, especially the willing entrepreneurs and emerging businesses in the province.

During the past financial year, among others, we facilitated the establishment of ABSA Enterprise Support Centre in Mbombela, Ehlanzeni District. We hope that this successful partnership we have with the bank will result in the establishment of similar centres in the other 2 Districts of our Province. The centre will assist SMMEs to access information, training and mentoring which will make it easy for SMME's to access finance from the bank.

Madam speaker, we have completed the review of the SMME strategy and we are ready to put "all hands on deck" to implement it. We will however need the collective resolve of all departments and stakeholders to implement the strategy in order to ensure that we achieve the objectives of the strategy.

The Department has finalized the Provincial Co-operative strategy and for the financial year 2008/09 we will focus on the implementation thereof. The strategy guides us and the entire province to build a robust, vibrant and sustainable cooperatives movement. We are already embarking on a process of popularizing this form of enterprise among our people.

Through partnership with Umsobomvu Youth Fund, we have established Umsobomvu Youth Fund offices in the three (3) Districts of our Province where the youth can access all the products and services of the Youth Fund.

The Department will continue to engage other development and financial institutions to increase their presence in our Province.

Honourable members, we are mindful of the fact that the programmes that we implement must benefit many. It is therefore imperative that we must broaden participation of all our people in the economy in order to realize the clarion call of the heroes and the heroines of our struggle who on, 26 June 1955, declared that "The People Shall Share in the Country's Wealth."

In this regard, we would like to report that we are making great strides in implementing the resolutions of the conference on Black Economic Empowerment which was held last year. As a follow up to this conference, the Department conducted workshops in two of the Districts where the recommendations of the conference were taken forward. We will next week visit the last district to share information and create awareness about BBBEE legislation and related codes.

Madam speaker, as part of ongoing implementation of the resolutions of the conference referred to above, we shall establish the Provincial BEE Advisory committee as well as Forum which will assist with the implementation and monitoring of BEE in the province. We also intend to establish a Public Sector BEE Procurement Forum to strengthen BEE procurement from the Public Sector in the near future.

Honourable members, the department will be in the forefront of assisting municipalities to develop local economic development strategies. A memorandum of agreement that we signed with the Department of Provincial and Local Government provides for this

function to be co-ordinated by the Department. We have since established a Directorate for Local Economic Development and we are currently in the process of filling posts so that we are able to respond to immediate needs of the municipalities with regard to local economic development strategies.

Mpumalanga Economic Growth Agency

During the past financial year, Mpumalanga Economic Growth Agency (MEGA) approved loans to the value of R11.7 million to 37 small businesses. These loans resulted in the creation of 623 employment opportunities. The agency also facilitated 6 new investments projects to the value of R140 million and 222 new direct jobs were created. 69 new exporters were registered and 128 exporters were exposed to new markets through participation in trade exhibitions in China, Angola, Mozambique, Durban, Johannesburg and Nelspruit. The total value of exports for that year is R51 million.

Honourable members, MEGA will during the 2008/9 financial year implement the Mpumalanga Local Enterprise Fund (MLEF) to the value of 12 million in partnership with Khula, SEDA and the Department. The agency will also provide 50 loans to the value of R20 million and the number of jobs expected to be created will be 700. We are also looking at finalising the investment on the Mpumalanga International Convention Centre. MEGA will also look at the property portfolio to ensure that they improve the revenue collection and ensure an effective and efficient management of its properties. MEGA will be a on stop shop for all investors.

We plan to host an international investors' conference in October 2008 where we will share information with international and local investors about investment and trade opportunities in Mpumalanga.

Honourable members, MEGA will take plans on investment to all district municipalities in order to struck cooperation where there will be a joint afford to deliver on those projects. More work will be done to take the Zithabiseni/Loskop Dam Project forward in this financial year.

We also hope that the commissioning of scoping studies in priority sectors and industries to stimulate interest in specific project in tourism, agro-processing, stainless and chemicals will assist us to plan a better future for the people of Mpumalanga.

Madam speaker, the process of establishing the Mpumalanga Growth Fund has now commenced. The Mpumalanga Economic Growth Agency (MEGA) has been mandated to finalise the operational matters connected to the Mpumalanga Growth Fund during this financial year. The Growth Fund represents our firm commitment to support projects that are financially viable and which would have substantial impact on the economy. The government has committed R200 million as seed capital to the fund.

TRADE AND INDUSTRY DEVELOPMENT

Maputo Development Corridor project is one of the flagships that we believe will enhance our efforts to grow the economy. For our part, we have appointed a programme manager for this flagship and soon we shall finalise the institutional arrangement thereof when we appoint a Programme Management Unit (PMU) to assist us to take advantage of the opportunities this flagship provides us as the people of Mpumalanga. One of the critical tasks of the PMU will be to develop a comprehensive

implementation plan for Maputo Development Corridor and start the process of aligning the local economic development strategies of the municipalities along the corridor to the implementation plan. We welcome the signing of the MOU between our Premier and the governor of Maputo because it has given new life to this project.

Honourable members, we are currently finalizing an investment plan together with local municipalities along the corridor in order to attract potential investors.

We are also fast tracking implementation of the lead sectors that have been targeted on the basis of the studies and consultation with stakeholders. In this regard, we are placing more attention on chemicals, forestry, pulp and paper and furniture sectors.

The roll out of the Business Process Outsourcing (BPO) incentive scheme is already showing success. The provincial government is pursuing this project vigorously because of positive spin-off that the BPO will bring to the province.

During this financial year, the Department will work closely with the White River Furniture Technology Centre to assist the unemployed to access manufacturing skills in the furniture industry. Already 8 learners have graduated from Furntech in level two furniture manufacturing skills. We will also increase the number of learners who will be trained by Furntech.

We are also in the process of implementing the Advanced Manufacturing Technology Strategy (AMTS) and Programme for Industrial Manufacturing Excellence (PRIME) with the assistance of Council for Scientific and Industrial Research (CSIR). The programme will target the final year students and graduates in the engineering field with a view of placing them in the manufacturing industries, a step that will be of value to us because critical skills will be transferred to the young people in the province.

The Department will continue to support SMMEs to participate in the export market through various development programme that have been put in place such as a exporter awareness campaigns.

Mpumalanga Tourism and Parks Agency

Madam speaker, while the number of tourists visiting South Africa grew by 188% since 1994, from 3 million to 8.4 million in 2006, the local tourism sector experienced number of challenges during the past few years. Many challenges that were experienced at the Mpumalanga Tourism and Parks Agency (MTPA) are now being eroded by a sweeping new wave of performance that will take the industry to better levels in the country.

We have recently returned from the 2008 Tourism Indaba. Like in the past years, we are proud to report that the province left inedible mark to those attending and we have maintained our position as a winning province.

- Mpumalanga Tourism and Parks Agency (MTPA) won Indaba Platinum Award in the category: Sponsorship Wellness Centre
- Cycad Lodge and Chalets took top honour in the category: Accommodation: Self catering

Few months ago, we established a Tourism Forum to bring together all industry players to share ideas on issues of common interest. The Forum will assist us to ensure that the issue of transformation, among others, remains high on our agenda for the tourism development.

In pursuant of our objective to grow the tourism industry and ensure our competitive edge, we began a long process of developing the tourism development strategy that will guide tourism initiatives and developments in the province. The process is at an advanced stage.

Madam speaker, we have identified the need for increased investment as one of the key focus areas this year. The MTPA and MEGA have now created adequate capacity to kick start a major tourism investment drive, especially for the major provincial parks like Songimvelo, Manyeleti and Zithabiseni under its management.

In order to enhance the work of MTPA, a process is underway to establish research and information management capacity to ensure that agency has all the necessary information to enhance the quality of our destination management planning. Though the destination management system we hope to kick start new way of doing business by ensuring that our marketing strategies are informed by meaningful research. R 4 million has been set aside for this system.

Our drive to be competitive will be enhanced by strategic partnerships that we establish. It is for this reason that MTPA has entered into a Joint Marketing Agreement with Thompsons Holidays. The agreement will help us to engage in aggressive marketing of the Province and to take advantage of Thompsons' access to the markets. The agency plans to roll-out this project through road shows in each district municipality from next month. The road shows will be followed by the Mpumalanga University Project, where about 50 travel agencies and media from across the country will be exposed to the various product offerings in the Province. We expect that MTPA sign other strategic partnerships with the likes of FEDHASA, TEP (Tourism Enterprise Partnership), Dream Big and other provinces to enhance our capacity to grow the tourism industry in Mpumalanga.

Madam speaker, we now know that 2010 FIFA World Cup will bring opportunities and leave a legacy that many of our grandchildren will come to be proud of long after the final whistle is blown. As a province we know that we need to increase beds capacity to be able to accommodate huge number of leisure tourists, especially the soccer fans, who will visit our beautiful Mpumalanga. The Province currently has 6,433 beds and the required number is about 19,900, which means that we have a short fall of 13,467 beds for us to meet the expected demand for accommodation.

Additional, 3 296 beds have been identified in neighbouring Swaziland and in Mozambique to make up for the shortfall but most important to ensure that this is truly an African World Cup. We are also engaging the private sector to build hotels and home owners to register with MATCH so that they are among the preferred service providers come 2010 FIFA World Cup.

Honourable members, one of the national departments has adopted a payoff line – at your service - to highlight the importance of customer service. If we are to be ready to welcome the world in 2010, then isn't time that we work together to entrench a welcoming experience at our shops, offices, service stations, restaurants for tourists and local people alike? I think that we need a service revolution in the public and private sector. We need a campaign that will be owned by private and public sector to promote the values of good services in the province. The world must find us ready in 2010 and the country must find us prepared to welcome domestic tourists tomorrow.

BUSINESS REGULATION AND GOVERNANCE

In order to deal with the aftermath of the recent fuel price and escalating interest rates which resulted in consumers becoming over-indebted, more frustrated by judgments against them and in some cases denied access to credit for useful purposes, we have

- together with the National Credit Regulator embarked on a drive to train and register more Debt Counsellors within the Province to deal with the cases of over-indebted consumers;
- established the Office for the Investigation of Unfair Business Practices and Clerk of the Consumer Court to help ensure that our people enjoy their socio-economic rights, and additionally,
- We will appoint Consumer Court members to preside over cases of unfair business practices that have not been resolved at mediation level.

We remain steadfast in our resolve to ensure that the process of establishing the Mpumalanga Liquor Authority is completed and that it becomes operational before the end of 2008/09 financial year.

Mpumalanga Gambling Board

Madam speaker, the Mpumalanga Gambling Board will as part of its growth strategy invite applications for site operator licences to a maximum of 20 limited payout machines and independent site operator licences for up to 40 limited payout machines. The Board will also finalise the referral for Proposals that will lead to the issuing of the Fourth Casino licence.

The casino industry remains the main contributor with a market share of about 74%; followed by the limited payout machine industry with a market share of about 14%; and the horse-racing and betting industry with about 12%.

Madam speaker we will in the coming months table the amended Mpumalanga Gambling Act to the legislature. The amendments are necessary to assist MGB to regulate among others horse-racing and betting in the Province.

ECONOMIC POLICY AND PLANNING

Madam speaker, we will continue to focus on providing strategic direction on economic development through development of economic strategies and plans, economic research, provision of economic information services as well as monitoring and evaluation of project and programme impact. In particular, we will during this financial year enhance the socio-economic database by adding data on the Moloto Rail Development Corridor in the province. Also, working with the agencies, we shall be looking at compiling secondary planning data on tourism, SMME as well as BBEE.

We have begun a process upgrading our GIS software and have expanded the functionality thereof. We also plan to include on our GIS the web functionality and link these to the three districts, and also share our services with agencies. The economic information services will also be expanded so that it becomes available via the regional and satellite offices of the department.

Madam speaker, for few months we have been in the process of developing a provincial economic strategy. The process is nearing its end and this will give us an

opportunity to begin a new chapter in our quest to provide guidance on economic planning and development in the province.

The Provincial Economic Development Strategy will serve as a point of reference for development of initiatives to grow the economy. The strategy emphasizes that we must position ourselves to grow and compete within a knowledge based economy whilst at the same time intervene to bridge the divide between the first and second economies. The strategy will need to assist us to arrest in the quickest time possible the twin challenges of poverty and unemployment.

Honourable members, we have commissioned a service provider to do the economic scoping of the opportunities that the Moloto Development Corridor will bring to the people of Province and Nkangala District in particular. We believe that this flagship will increase economic activity along the corridor and enhance efforts to fight poverty, unemployment and underdevelopment in those areas.

ADMINISTRATION

Madam speaker, in the previous financial year the capacity of the department for personnel was at 39% but I am happy to report that we have filled most of the budgeted posts and the capacity of the department is at 82%.

BUDGET ALLOCATION

Allow me to table the budget for the Department of Economic Development and Planning as follows:

- Programme one: Administration = R86, 369, 000
- Programme two: Integrated Economic Development Services = R93, 825,000. Included in this total budget is the allocation to Mpumalanga Economic growth Agency which is R63, 950,000
- Programme three: Trade and Investment = R203, 713,000. Included in this total budget is the allocation to Mpumalanga Tourism and Parks Agency which is R168, 916,000 and Zithabiseni is given R11, 000, 000
- Programme four: Business Regulation and Governance = R43, 129, 000. Included therein is an allocation of 25 506 000 to Mpumalanga Gambling Board.
- Programme five: Economic Policy and Planning is R15, 618, 000

The total budget for the department is R 442,654,000

Madam speaker, we are entering interesting times in our economy, the times when more than anytime before our collective resolve is needed to overcome the common challenges that we face as society and the nations of the world. We know that it is during the times of struggle that we formed a united front to defeat apartheid and we won.

We should therefore face the future with optimism because there are good stories that remind us that we can overcome challenges.

It is a fact that

- Mpumalanga is host to the only commercially proven oil-from-coal operation in the world;
- In 2006, SA tourism grew at three times the global average,
- South Africa has the 27th biggest economy in the world, with a Gross Domestic Product of US\$254 billion (World Bank) etc

Madam speaker, I would like to take this opportunity to thank the Premier, colleagues in the executive council, members of the portfolio committee, members of the provincial legislature, the staff of the department of economic development and planning led by the Acting head of department, Lemmy Mdluli, members of boards on MTPA, MEGA and MBG and staff in those agencies, members of the forums that we formed to advise us on key policy and programme, the former chairperson of MTPA, my wife and family for their support.

I thank you.

**Issued by the Department of Economic Development and Planning, Mpumalanga
Provincial Government**