

Policy and Budget Speech by Mpumalanga MEC for Economic Development and Planning, Mr SW Lubisi, Mpumalanga Legislature

12 April 2005

Honourable Speaker, Mrs YN Phosa
The Premier, Mr Thabang Makwetla
Colleagues in the Executive Council
Members of the Legislature
Distinguished Guests
Ladies and Gentlemen

In June this year we will be celebrating 50 years of the Freedom Charter - a framework that the democratic government has used as a guide in all its activities to realise the future in which, inter alia, the national wealth of our country, the heritage of South Africans, shall be restored to the people.

The budget that we are presenting today is precisely aimed at translating the aspirations of the people of this country as enshrined in that historic document which was adopted at Kliptown in 1955.

Madam Speaker, allow me to quote the specific clauses of the Charter that capture the mandate of the Department of Economic Development and Planning precisely:

- * "The People Shall Share in the Countries Wealth"
- * "The land shall be shared among those who work it"
- * "There shall be work and security"

In a nutshell, our forebears were calling for the transformation of the South African economy to ensure that it benefited all the inhabitants of our country irrespective of their class in society.

In the wake of the democratic rule, the new government embarked on an array of policies aimed at, among other things, translating these aspirations into reality. The achievements of the first decade of the democratic breakthrough is, without doubt, an undisputable evidence that the path we have already traversed thus far, leads towards the realisation of those minimum demands of our people.

Today our country enjoys macroeconomic stability, a condition necessary for the acceleration of economic growth and development. Through the Microeconomic Reform Strategy that we have adopted recently, we expect to build on this foundation to further enhance such growth and development as we begin our second decade of the democratic breakthrough.

While we appreciate the positive strides that we made in the past ten years, we also acknowledge the enormity of the challenges that are still lying ahead. The reality is that 50 years after the adoption of the Freedom Charter the conditions that inhibit the quick realization of its goals are still prevalent. High rates of poverty and unemployment are still with us, including the exclusion of the majority of our people from the economic mainstream.

It is in this context that we align ourselves with the ANC's January 8 Statement, which calls for "the democratic state to take the lead in the transformation of our economy away from the fetters of the past, which constrain growth and development."

Among the mechanisms that the democratic government intends deploying to restore the national wealth of our country to the people involves growing the economy by:

- * Encouraging more investment in key economic sectors
- * Facilitating Broad-based Black Economic Empowerment which also benefits communities, particularly the Youth, Women and people with disabilities as well as workers and small businesses
- * Promoting learnerships
- * Enhancing skills development and
- * Encouraging the use of labour intensive methods in sectors of the economy

The question, Ladies and Gentlemen, is how will these strategic objectives be achieved?

Madam Speaker, before responding to this question, one believes that it would be more appropriate to look very briefly at the profile of both the national and provincial economy first.

Economic outlook

As one has already pointed out earlier on, we have managed to put in place the macroeconomic fundamentals that serve as a strong foundation from which we can stimulate robust economic growth and development.

Gross Domestic Product

In the ten-year period, the rate of economic growth has shown a steady growth of an average of 3.2 % per annum over the past four years - a percentage which was, however, below the expected target of 6% growth per annum - the rate that would have allowed us to make a positive impact on the ills of the past that are still persistent.

The restructuring of the economy has, on the one hand, created new opportunities for employment, while on the other hand, shed many jobs, especially in the primary sector.

Regional Gross Domestic Product

Like the GDP, the Mpumalanga Regional Gross Domestic Product, also performed very poorly, basically limiting the ability of the economy to deal with provincial challenges.

Population

According to Statistics South Africa, the province of Mpumalanga has the second smallest population compared to other provinces in South Africa, i.e. 3 244 306, excluding Bushbuckridge. Almost two thirds of the people and more than half of the households in the province are scattered across the rural areas of the province which lie in the areas situated in the former homelands of Kangwane, Kwa-Ndebele and Lebowa. Fifty nine percent (59%) of the people and 53.4% of households live in remote villages.

The Development Bank of Southern Africa (DBSA) further warns that the biggest challenge of the Province is that the majority of these settlements are scattered predominantly in

remote areas far from the economic hubs of the province which makes efforts of turning them into viable and self-reliant centres of livelihood very expensive.

Poverty

According to National Treasury the Social Statistics show that Poverty levels have been positive in that a steady decline, from 51.7% in 1999 to 48.6% in 2003 has been recorded. However, the Human Development Index (HDI) has remained largely unchanged over the past five years and has shown a trend similar to that of national.

Unemployment

Figures released by Statistics South Africa's reveal that the unemployment rate has fallen by 1.8% between 1996 and 2004.

Since 1996, growth in employment was experienced mainly from the informal sector. A continuous decline in formal employment opportunities resulted in workers resorting to self-employment or settling for very low paid jobs in the informal sector. The formal employment creating sectors in the province were, mainly, in the tertiary sector, i.e. wholesale and retail, real estate, business services, community, social and personal services.

The total formal employment statistics for the province over the period from March to September 2004, showed a marginal overall increase of 1.7% from 776 000 to 789 000.

Performance of sectors

A study by the DBSA reveals that Mpumalanga Province remains the fourth largest contributor towards national GDP. The tertiary sector's contribution to provincial GGP grew from 28.3% to 29.5% between 1996 and 2003. The secondary sector's contribution also grew from 44.2% to 45.4%, whilst the primary sector's contribution declined from 28.5% to 25.1%. Manufacturing, mining and quarrying, however, still remained the major contributors of the Provincial economy.

The study further reveals that, although Mpumalanga has shown some increase in other sectors, however, its contribution towards national GDP has declined from 7.1% in 1996 to 6.9% in 2003. Factors that have influenced this decline include the decrease in the contribution of the electricity, gas and water sectors due to low price increases and the relative low growth in the primary sector, which experienced an overall negative growth in the period 2000-2003.

Between 2000 and 2003, annual economic growth has remained positive in all sectors except in agriculture and mining. Between 1996 and 2000, the construction industry managed a turnaround from an average negative growth rate of -0.9 to a positive average growth rate of 2.7 from 2000 to 2003.

During the Growth and Development Summit held late in February this year, SASOL revealed that the coal-mining sector is set to benefit in the near future. It was pointed out that Eskom has commissioned three more power stations at Camden, Grootvlei and Komati of which will be operational very soon. This will boost coal production activities to supply these stations. This will involve a capital expenditure of approximately R12 billion over the

period from 2004-2010, the majority of which will be in the first five years. BEE companies also stand to benefit from these activities in that 50% BEE discretionary expenditure on procurement will be targeted to them.

Sasol's Project Turbo, which will also cost approx R12 billion, has also seen to date amounts to the tune of R87 million, R233 million and R632 million committed to BEE Services, BEE Procurement and BEE contracts respectively.

The upstream and downstream activities that will be generated from these and other proposed ventures have the potential to unlock the much needed business opportunities for the previously marginalized people from the mainstream economy. They will however need to be managed effectively by all role players in order for the government's vision to be realized.

Tourism

Statistics from South African Tourism (SATOUR) reveals that Mpumalanga received approximately R6,1 billion revenue from both domestic and international tourism activities in 2003. Direct spending by international tourists amounted to R4,5 billion with the main sources of visitors being UK, Germany, France and the Netherlands.

Mpumalanga registered a total of 2,5 million of South Africa's domestic trips and 1,1 million international tourists visiting the Province, Gauteng being the main source of domestic tourists (46.6%) followed by Limpopo (10.5%) and KwaZulu Natal at 4.2%.

This industry employs directly or indirectly approximately 353,431 people. The continuous development of new business centres, lodges and other tourism facilities were the main drivers for the creation of new formal employment opportunities in tourism related industries.

Trade

Exports as percentage (%) of GDP decreased from 11.1% in 2002 to 5.1% in 2003.

Regional Share of national exports decreased from 2.7% in 2002 to 1.5% in 2003.

* Europe, of which, is Mpumalanga's single largest export destination, is accounting for about 41% of total provincial export earnings over 1996-2002.

* Other dominant markets include North America (19.4%) and Asia (18%).

* Mpumalanga's exports to Africa are low, with the province contributing only 0.8% of South Africa's total value of exports to the continent.

* Provincial exports mirrored at trade block level with European Union (EU), Asia-Pacific Economic Corporation (APEC) and North American Free Trade Area (NAFTA) accounting for almost 94% of total value of Mpumalanga exports (1998-2002)

* Exports from Mpumalanga mainly commodity based goods (such as ferro-alloys and coal)

* Imports were dominated by machinery and equipment and motor vehicle industry

On HIV and AIDS

What is of concern is the fact that Mpumalanga 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.

Madam Speaker, it is these conditions which dictate our approach towards growing our economy to respond to the challenges of, among others, poverty, unemployment and inequality.

The basis has already been laid through a variety of activities, such as the Tourism Indaba in August 2004, Industrial Development Summit in September 2004 and the Mining Summit in January 2005, which culminated to the Provincial Growth and Development Summit held in March 2005.

We further saw major stakeholders involved in the provincial economy recommitting themselves to the principle of partnership, basically confirming the need to work together in ensuring that those sectors in which they are involved respond to the challenges facing the Province.

The Department has also recently adopted strategic goals which have been carefully crafted to position the Province to take advantage of the opportunities highlighted in the socio-economic status of our Province above, while it aggressively eliminate the negative socio-economic conditions confronting our province:

Priorities for 2005/06 Financial Year

Having said that Madam Speaker, allow me to highlight the priorities that the Department will be focusing on during the course of 2005/06 financial year:

Stimulate sustainable economic growth and development

The Department intends to establish a stable, long term cost-competitive and fiscally sustainable environment in which businesses feel welcomed, appreciated, and recognised as the principal generators of employment and wealth necessary to maintain and enhance the quality of life for Mpumalanga residents.

Strategies that will be employed include promotion of trade and investment. We intend attracting investment, both foreign and domestic, to the value of R520 million and increasing the value of exports by R400 million, especially given that the strength of the rand has put some pressure on this sector.

While appreciating the 50 basis point reduction in lending rates announced by the Governor of the Reserve Bank Mr Tito Mboweni last week which saw the softening of the Rand against major currencies, which is music to the ears of for exporters.

We, however, agree with the Minister of Trade and Industry, Mr Mandisi Mphahlele when he said, last week in his Budget Address to the National Assembly that "the strengthening of the Rand emphasizes that we can no longer rely on a weak currency to drive exports."

It is for this reason that we will continue to pursue the sectoral approach strategy as espoused in the Provincial Industrial Development Strategy to increase our competitiveness and to grow our Province's economy.

During the 2005/06 financial year, we intend to enhance the incubation strategy to ensure that we realise its benefits of value addition and beneficiation, including downstream opportunities for the previously disadvantaged, particularly the SMME sector.

We will therefore focus on consolidating and expanding the Stainless Steel Cluster. Opportunities revealed by the recent study that we have conducted will be implemented for the betterment of our economy and within the context of implementing the broad-based Black Economic Empowerment.

Petro-chemical Cluster

While we acknowledge the progress that is being made on the Petro-chemical Cluster, there is a need for us to look beyond the preferential procurement of non-core services and goods for SMMEs. If we are serious about economic transformation we also need to focus on areas such as the transfer of skills with a view to tilt the scales, of ownership and participation in the mainstream industry, towards the previously disadvantaged. This is the area that we will be focusing on in this financial year.

Agro-food and non-food Sectors

We will also be investigating the obstacles which block the Wool and Agro-food Clusters from taking off with a view to ensure that these Clusters take their rightful place in the economic development initiatives of the Province. Value addition and beneficiation is also crucial in the agricultural sector. In partnership with other role players in this sector, we will to continue to search for innovative ways to ensure that we increase our competitive edge in this area of work.

Wood Cluster

Madam Speaker, it is our intention that the Furniture Technology Centre, which will be completed before the end of this year, serves as one the stimulus to promote the Wood Cluster. We expect to see the SMMEs taking advantage of this centre, ensuring that they establish sustainable businesses in the furniture industry. The biggest challenge will, however, be the establishment of a furniture-manufacturing factory, which must absorb the graduates from the Centre. I wish to extend an invitation to potential investors to take advantage of this opportunity.

Mining

Madam Speaker, the mining industry is also important not only in terms of generating economic growth and job creation but also as a sector that could bring the previously disadvantaged to the main fold of the economic mainstream. The implementation of the Mining Charter becomes central in realizing this strategic objective.

We have already initiated a process of establishing a provincial forum that will facilitate the involvement of SMMEs and broad-based BEE companies in the mining industries. This forum, called the Mpumalanga Mining Preferential Procurement Initiative, will be focusing on procurement opportunities in the mining industries.

In addition, we will be commissioning geological survey in the mining industries as an attempt to establish the mineral resource base of the Province and the possible areas for those who aspire to explore green-fields mining areas.

The involvement of SMMEs in this sector still remains a serious challenge. In the same way, as the Petro-chemical Cluster, we will be engaging the stakeholders in the mining industry

to explore opportunities for the involvement of the previously disadvantaged in the mining industry itself, particularly as it relates to ownership.

Tourism

The importance of the tourism industry in our economy cannot be overemphasized. Many commentators have said many a times that the people of Mpumalanga are sitting on a gold-mine which they have not realized its potential.

Recently, the Department has taken a decision to review the Tourism Growth Plan. This will involve, inter alia, conducting an impact analysis of this plan, especially on issues involving transformation and development. The institutional arrangements are already under scrutiny. For instance, the process of merging MTA and MPB has been set in motion and is progressing well.

Increasing our market share in the tourism industry is extremely important given the economic spin-offs that could be derived from this industry. We are planning to increase our international arrivals and domestic tourists to 1,2 million and 2,7 million respectively. The tourism train project, which is currently targeting the Gauteng market and Flympummalanga.com are part of the many strategies that we are employing to realize our set targets of tourist arrivals. Underpinning these strategies is the element of sustainability, a principle which we are closely observing.

Another challenge that is facing the tourism industry in the province is the lack of co-ordination between regional tourism institutions municipalities. This is an area that will be receiving our undivided attention during this financial year.

The SMME sector

With regard to SMME development, we will be reviewing our Provincial SMME Development Strategy in line with similar processes nationally. What must also be pointed out is that the challenges facing this sector are still enormous. These involve, inter alia, access to funding, lack of skills and ineffective institutional support for other developmental related activities.

During 2005/06 financial year, we will be developing a comprehensive funding strategy, which in all probabilities will be sector focused. The collaboration with other national funding initiatives will be enhanced. Coupled to funding, we will also be looking at issues of non-financial support. Already we have set in motion the process of establishing the newly formed institution - the Sector Enterprise Development Agency (SEDA) within the Province. We are initially targeting four of these institutions, a provincial SEDA and one in each district municipality.

The development of cooperatives is also high on our list of priorities. For the up coming financial year, we will be focusing mainly on the development of a comprehensive Provincial cooperatives Strategy, as most of you are aware that the Cooperatives Bill is already before national parliament for consideration.

Local Economic Development

The issue of local economic development is extremely important. The current fragmented approach to this issue has yielded little, if no results at all, to our communities. The LED

model that is being piloted at Nkomazi, commonly known as NKEDU, by the Department in collaboration with the Italian government and the Department of Trade and Industry, has not delivered on its expectations. The national Department of Provincial and Local Government is also engaged with LED, including the Provincial Department of Local Government and Housing, not mentioning both the District and local municipalities. In the light of this situation, without doubt, we need a Provincial LED strategy that will ensure that all of us march in the same direction.

Drive and monitor integrated planning in the province

Coordination of the implementation of the Provincial Growth and Development Strategy (PGDS) is also crucial considering that our mandate also involves development planning. High on our priority list for the up coming financial year is the alignment and synergizing among the government institutions, private sector and other relevant community organization to ensure efficient utilization of our limited resources.

In addition, researching and collating planning data will be of paramount importance. Establishing or upgrading the provincial GIS will be given our undivided attention as well as the formulation of the Province's Spatial Development Plan.

Reduce unemployment, poverty and inequality

Relating to the strategic objective of reducing poverty, unemployment and inequalities, attention will be more on the implementation of the Broad-based Black Economic Empowerment Act. This will involve, inter alia, the finalization of the establishment of the Mpumalanga Mining Preferential Procurement Initiative, basically attempting to get all big businesses in Mpumalanga to subscribe to this forum.

Coupled to this exercise, we will be developing a comprehensive implementation programme of this Act, however, guided by national processes.

In addition, we will be paying special attention to the transformation agenda involving the tourism industry. We will ensure the implementation of the tourism BBBEE score-card, with emphasis on skills development for, among others, tourist guides.

Contribute towards the reduction of the spread of HIV and AIDS

Madam Speaker, may I use this opportunity to welcome the announcement by the MEC for Health and Social Services, Mr Pogisho Pasha, to increase the number of sites that provide anti-retroviral therapy. We will support all initiatives aimed at combating the spread of HIV and AIDS and as the Department we aim to ensure that our programmes and activities emphasise on awareness and prevention of new infections.

Facilitate human resource development with relevant skills and entrepreneurial culture

Skills development is still one of the critical challenges that are still confronting us, not only as a Province but also the country as a whole. The provincial processes unfolding towards addressing this matter are still on track, however, they need to be fast-tracked. Already there is a Provincial Skills Development Strategy which was subjected to review not very long due to national review processes.

The department is currently having programmes to enhance skills in different sectors. Incubation, of which, is one of the pillars of the Provincial Industrial Strategy, is one of the mechanism employed for skills development. These include the Stainless Steel incubator in Middelburg, Jewellery school in Barberton, Tourism Academy near KaNyamazane Township and the Furniture Technology Centre in White River, of which, is still under construction.

The Department is also engaged with learnership and internship programmes which are aimed at assisting graduates and students to gain experience on their field of study. Currently, we have seventeen interns and thirty-five learners, including five employees on ABET.

The linkage between ourselves and institutions of Further Education and Training, including institutions of higher learning is still weak. We are looking at possibilities of strengthening these linkages in that they are important for finding each other regarding this important challenge.

It is also important that as a Department we enhance our internal capacity to direct the departmental mandate effectively and also to be in a position to create an environment conducive for the development of entrepreneurs, especially after the new mandate assigned to the Department.

That is why we welcome the skills audit project currently co-ordinated by the Office of the Premier, because we believe that it will reveal skills gaps that must be closed.

To implement policies and legislation that contributes towards the creation of an environment conducive to business development and fair trade.

The Department aims to develop and implement business regulatory policies and legislation that ensures compliance with applicable legislation. In this financial year, we intend to introduce a horse racing legislation which will transfer the management of horse racing activities to the Province, which until recently is done on agency basis by Gauteng Province.

In addition we will also be introducing the Province's Liquor legislation.

The issue of consumer rights is also fundamental. The Awareness Campaign will be enhanced in this regard. We are quite aware that most of our people are still taken for a ride by a number of unscrupulous business people, particularly Micro-lenders. Therefore, more attention will also be paid to this area of work.

In conclusion, Madam Speaker, I wish to thank the Premier and fellow Members of the Executive Council for their continued support; Members of the Portfolio Committee on Agriculture, Land Administration and Economic Development and Planning for their continued guidance; my predecessor, Cde JI Mabena for laying the basis from which our team will launch our Province to greater heights; the Management and the entire staff of the Department and parastatals, including the Boards of directors of the different parastatals for dedicating their time and energy towards the realisation of our vision. I also wish to extend our gratitude to all our social partners for their continued support towards our common goal of creating a better life for our people.

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

Programme 1: Administration - R34 393 000

Programme 2: Economic Development (including parastatals)- R142 599 000

Programme 3: Economic Policy, Integrated Development Planning and Strategic Initiatives -
R13 500 000

TOTAL - R190 492 000

I thank you.

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Provincial Government

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