

**PEOPLE'S BUDGET  
2006/2007**



**DR ZWELI MKHIZE, MPP  
MEC for Finance  
and Economic Development**

16 February 2006

ISBN No.: 0-869-372-6

To obtain further copies of this document, please contact:

Provincial Treasury  
9th Floor  
Treasury House (NBS Building)  
145 Commercial Road, 3201  
P O Box 3613  
Pietermaritzburg  
3200

Tel: +27 (0) 33 - 8974587  
Fax: +27 (0) 33 - 8974580

## PROVINCE OF KWAZULU-NATAL

### Budget Address by Dr Z. L. Mkhize on tabling of the Budget in the Provincial Legislature – 16 February 2006

**Mr Speaker**

**Honourable Premier and colleagues in the Executive**

**Deputy Speaker**

**Honourable Members**

**Distinguished guests and business leaders, ladies and gentlemen**

#### **INTRODUCTION OF THE PEOPLE'S BUDGET 2006**

In opening the National Parliament in 2005, President Mbeki said, "*our country, as a united nation, has never in its entire history enjoyed such a confluence of encouraging possibilities*".

This year during the State of the Nation Address, he said "*Clearly the masses of our people are convinced that our country has entered into its Age of Hope.*"

This hope has been a common message from our people whom we encountered during our people's budget campaign this year. In crafting the budget proposals, we went to great lengths to listen to the voices of the people across the province, particularly the poor, disempowered, jobless and homeless. We noted the universal cry for jobs, decent housing, and access to basic services such as water, health care, electricity, etc. Three consistent themes raised by the community emerged during the roadshows:

- Concern regarding the provision of basic services and the budgetary allocations for these services
- Poverty, unemployment and assistance for sustainable livelihoods
- Experiences of people who have been through our small business support programmes.

The plight of our people is captured better by Hernando de Soto a former Governor of the Central Bank of Peru. In his book the *Mystery of Capital*, he says:

*"Third World and former communist nations do not have a representational process. As a result, most of them are undercapitalised, in the same way that a firm is undercapitalised when it issues fewer securities than its income and assets would justify. The enterprises of the poor are very much like corporations that cannot issue shares or bonds to obtain new investments and finance. Without representations, their assets are dead capital. The poor inhabitants of these nations – the overwhelming majority do have things, but they lack the process to represent their property and create capital. They have houses but not titles; crops but not deeds; businesses but not statutes of incorporation. It is the unavailability of these essential representations that explains why people who have adapted every other Western invention, from the paper clip to the nuclear reactor, have not been able to produce sufficient capital to make their domestic capitalism work. This is the mystery of capital"*



We never pretended that this journey to prosperity was going to be a short one, to be achieved in just one or two years. But we were proud to announce that the journey had begun! This year the journey to prosperity for all in the province continues. There will be no change in direction or our end destination.

The people's budget campaign gave us an insight into the thinking of ordinary South Africans. Though their expectations are high, their acknowledgment of government's determination to deal with the complex challenges of our revolution has injected new energy and filled their spirits with hope. This made contributions from the people a rich variety of concerns, criticism, appeals for assistance balanced with words of praise and encouragement to the government they elected.

The concept of a true "peoples' budget" requires that we listen to diverse views and opinions across the province. It is the above concerns coupled with the government's determination to create a better life for all our people that made the President himself to set the following goals for government at a national level:

- by 2007, the "bucket toilets" system must be completely eradicated in established settlements;
- by 2010, all households will have access to clean running water and decent sanitation; and
- by 2012 every household will have access to electricity.

In the next five years the government will invest nationally more than R400 billion in infrastructure to create jobs and fight poverty. These investments and interventions will occur under the auspices of the Accelerated and Shared Growth Initiative of South Africa (ASGISA), the overall goal being to halve poverty and unemployment by 2014.

This province will not lag behind in achieving these national developmental goals. Thus in this year's budget there is an increase in funding for all votes, including that of basic services and infrastructure provision. This budget will also indicate the funding for the priorities of the provincial government as contained in the Premier's State of the Province address last week.

## **PROGRESS REPORT ON BUDGET AIMS AND ACHIEVEMENTS IN 2005/06**

As we reflect on the year gone and focus on the dawn of a new year, I am reminded of the words of Alfred Lord Tennyson in his drama entitled THE FORESTERS when he said:

*"I am only merry for an hour or two  
upon a birthday: if this life of ours  
be a good glad thing, why should we make us merry  
because a year of it is gone? But Hope  
smiles from the threshold of the year to come  
Whispering it will be happier; and old faces  
Press around us and warm hands close with warm hands,"*

In tabling the provincial budget for 2005/06 in March last year, we announced a comprehensive plan to transform the regional economy. This would be achieved through three main interventions:

- **Growing the economy, and increasing investment** – in partnership with the private sector
- **Poverty alleviation and empowerment** - through broadening participation in the economy and narrowing the gap between the first and second economy



- **Good governance and achieving value for money in managing provincial funds**

As we enter into a new MTEF budget cycle, it is appropriate to report on the government's performance and progress in respect of these three interventions.

***INTERVENTION ONE: Growing the economy and increasing investment***

The provincial government has achieved positive results in its efforts to grow the economy and to achieve sustainably higher growth rates, in partnership with the private sector. The broad objective of this strategy is to position KZN as the trade gateway into Africa. Programmes and projects grouped under this strategy include the following:

- **Provincial Growth Fund**

The Provincial Growth Fund (PGF) is an intervention to enhance growth and development in KZN, thereby contributing to ASGISA. Among its strategic objectives are to:

- Target productive infrastructure to crowd-in private sector investment into KZN;
- Enhance the existing comparative advantages of the province by focusing on:
  - ~ Tourism-based development projects
  - ~ Provision of bulk water supply
  - ~ Transportation and logistics for well defined economic and industrial zones
  - ~ Sector specific infrastructure projects

The institutional structure of the Growth Fund has been finalised accommodating the legal requirement of financial institutions. Also a Board to manage the KZN Growth Fund Managers (Pty) Ltd, has been appointed.

The provincial government has already committed some R500m to the Fund, and Standard Bank R375m. The target is to have R1,5 bn committed investment into the Fund by June 2006. Preliminary discussions with financial institutions confirm very strong support for investment in our Growth Fund. The Standard Bank has indicated a need to revise the governance arrangements, after which their funding to the Growth Fund will flow. Building from this positive step, other financial institutions will be approached. We are convinced that the Growth Fund will be fully operational as from May 2006.

Substantial progress on the proposed Growth Fund projects, which I mentioned in last year's Budget speech has been made. Let me refer to just two of these projects to give honourable members a sense of what this new loan finance facility is able to unlock:

- A major ship-building and related marine project called the "Bayhead Marine Industrial Park", has been approved and has received R24 million funding through the Growth Fund. The project's business plan anticipates that a total of 350 permanent jobs will be created.
- The first aquaculture project has been approved by the Growth Fund. The Amatikulu Prawn Farm, with a project value of R36 million, is in implementation phase, and will create 76 permanent jobs within the first year of operations and up to 350 jobs by phase 3.

Mr Speaker, these examples provide hard evidence that we can convert economic potential and project ideas into new businesses and jobs. In addition to these two projects, a number of other projects to the value of R3bn are currently being considered by the KZN Growth



Fund. It is estimated that over 5000 permanent and sustainable jobs, both directly and indirectly, will be created in the Province. These include:

- **Projects aimed at reviving rural towns and industries**
  - ~ New dam construction in the Amajuba District (tourism and agriculture business)
  - ~ Infrastructure for textile firm expansion in Mpofana municipality
  - ~ Port Shepstone Marina
  - ~ A Wine Cellar Project in Estcourt
  - ~ Manganese smelter in Newcastle region
- **Job creation and economic growth projects**
  - ~ Toyota Automotive Supplier Park in Prospecton
  - ~ A joint-venture three wheeler (Scooter) Manufacturing Plant in Msundusi
  - ~ Market and Trading complexes in Edendale, Osizweni and Paulpietersburg
  - ~ Mtunzini Shrimp Farm
  - ~ A Biodiesel Plant in northern parts of the Province
  - ~ Msuluzi game park
  - ~ An ethanol (fuel from sugar) plant at Nkwalini

We therefore invite private sector enterprises and project promoters to join us in creating real growth in the Province.

- **Trade missions and inward investment initiatives**

An important aspect of the province's economic growth strategy involves a concerted campaign by the provincial government to attract private sector investment into the province. There were five trade missions that we were involved in, in 2005, namely visits to Germany, Italy, Korea, Japan and India. In addition to the benefits reported in the Premier's report, positive outcomes from these missions included:

- Agreement in principle by Piaggio, a leading Italian auto manufacturer, to establish a manufacturing plant in the province for the production of low-cost three-wheeler scooters;
- An investment in a Joint Venture Furniture Manufacturing project worth R230 million over two years. This Joint Venture between Thabo's Antiques and Fratelli Constantini, an Italian furniture manufacturer will provide employment to approximately 100 people in the Msundusi area; and
- Further impetus and support for the establishment of an automotive component supplier park at Prospecton in Durban.

Further announcements on the details of these and other projects resulting from these trade and investment initiatives can be expected in the next few months.

### ***INTERVENTION TWO: Poverty alleviation and empowerment***

*"Narrowing the gap between the first and second economies and broadening participation in the economy"*

I need hardly remind honourable members that the central theme of the "peoples' budget" tabled a year ago was the need to narrow the gap between the first and second economies



through targeted poverty alleviation, job creation and capacity building initiatives. I am very pleased to be able to report measurable progress in all these major programmes.

- **Poverty alleviation fund**

The R500m allocated to the Poverty Alleviation Fund in the 2005/06 budget has been put to good use and funds were allocated on Cabinet's approval to the critical areas of water and sanitation provision at schools (R100m); access roads and pedestrian bridges to schools and clinics (R82m); the integrated primary school nutrition programme (R55m), water quality enhancement in drought affected rural areas (R43m), and the co-operative incubator programme (R15m). A further R110m from the Fund was allocated to the cooperatives programme managed by Ithala. Funds in this programme have been fully committed, and details on the service delivery targets attached to these allocations can be found in the Budget Statements for the respective departments.

- **Cooperatives programme**

Mr Speaker, we are very excited about the progress recorded in establishing, financially supporting and capacitating cooperatives around the province. The President emphasised in his State of the Nation address two weeks ago that support for the small business sector and the development of cooperatives is a national priority and a key element of ASGISA. In this province, certainly, government regards the cooperative movement as the key to freeing the millions of our citizens trapped in the second economy from the despair and hopelessness brought about by grinding poverty and lack of economic opportunity.

The response to the cooperatives initiative launched a year ago has been phenomenal, clearly demonstrating the need for this financial injection into poor communities by government:

- 2024 Business Plans have been received to date by Ithala, of which 784 have been approved;
- The total value of approved business plans is R110m, of which R39m has already been paid out;
- To date 3820 cooperatives have completed training at FET Colleges – this includes 39 women cooperatives formed as a result of the National School Nutrition programme;
- The FET Colleges provide cooperatives training at 74 sites across the province and the number of sites continues to grow with the demand;
- The incubator programme started operating in 4 FET Colleges in September 2005. Currently there are 90 business entities that are participating in the program.
- 666 cooperatives are registered in the KZN database, with the majority registered in the agriculture (27%) and manufacturing (26%) sectors;
- Of the approved business plans to date, 328 involve female only cooperatives, 235 youth, 125 male and 96 mixed cooperatives. This is concrete proof of the special attention we pay to the promotion of opportunities for women and youth empowerment.

With regard to future plans, the first year of implementation focused on the credit aspect of co-operatives. The second phase, which will commence this year, will focus at ensuring that cooperatives prosper and become self sustaining, through the provision of training in business management and technical skills.



- **SMME Fund**

During the past financial year the Provincial Government provided an amount of R200m to Ithala to drive the SMME programme for the province pending the finalisation of a structured SMME Fund. Ithala in turn has augmented this allocation with its own funding. Great interest has been generated in this small business support programme in the Province.

As at the end of December 2005, Ithala had approved 405 SMME business plans worth R433 million. Of this amount over R179 million has already been disbursed. The deal flow that is currently under consideration by Ithala is standing at R1.5bn. It is safe to suggest that between R500m to R1bn of those deals would be worthy of funding. This pressure on Ithala is a reflection that in SMME finance for the disadvantaged, Ithala is the institution of choice. Many people in the izimbizo reported delays in getting approval – this is simply due to the large volumes of applications.

Both Ithala and the Provincial Government concede that this demand for finance cannot be met by Ithala alone. In the coming year therefore, we are going to be implementing a new programme to support SMMEs – the details of which I will reveal shortly.

- **Empowerment initiatives**

In the March budget address a year ago it was emphasized that government intended to use its procurement spend on goods and services, amounting to approximately R6bn in 2005/06, to stimulate growth in the SMME sector and to advance black economic empowerment generally.

A provincial supply chain management (SCM) framework policy has been compiled to provide provincial departments with guidelines on how to procure goods and services, including from cooperatives, in such a way that government's BEE policy and objectives are met. I expect in the coming year to be able to report actual expenditure figures per department on procurement from BEE companies, SMMEs and cooperatives. We must realise that we are dooming the cooperatives and SMMEs we are establishing to failure from the outset unless we follow through by facilitating access to government procurement on a sustainable basis.

As importantly, the payment process to SMMEs by Government Departments leaves much to be desired. It is often heard that lengthy delays occur in paying the SMMEs for services rendered and/or supplies provided. Such practices have to become far more efficient, ensuring that administrative delays do not place unbearable cashflow burden on the SMMEs. In this regard, I have tasked the Treasury with establishing a small unit to focus on fast-tracking of payments to cooperatives and SMMEs, with a toll free number to assist with queries. This will be set up by April this year.

### ***INTERVENTION THREE: Value for money and good governance initiatives***

Mr Speaker, in last year's address I alluded to the fact that we will not attain our objectives in these economic growth and poverty alleviation programmes unless at the same time we focus as a government on improving efficiencies and achieving better value for the vast sums of money we spend on these programmes. We remain determined therefore to fulfil our obligations to the tax-paying citizens of this country by maintaining and indeed improving our high standards in the field of *financial management and good governance*. In this regard I am also pleased to report very satisfactory progress over the last year:





- The reforms in our asset and supply chain management systems and policies are proceeding on track and are set to greatly improve efficiencies in the way we procure and account for goods and services and physical assets.
- These reforms include the implementation of an inventory management tool linked to the Supply Chain Management concept, and an electronic system to perform the acquisition stage of SCM, namely the sourcing of Quotations and Tenders – this project will both improve efficiencies and turn-around times as well as help to eliminate fraud and corruption.
- In respect of Performance Budgeting System (PBS), the roll-out of the system in departments is proceeding on schedule, and demonstration data bases have been installed in Provincial Treasury, Health and Transport.
- In the area of governance and risk management, quarterly summary reports on the risk profile of departments are now being submitted to Cabinet. This is a significant development, as henceforth governance and risk management issues cutting across all departments will be highlighted at an executive level.

Progress was also made in enforcing our policy of zero tolerance for fraud and corruption. Six high profile investigations into fraud, corruption, theft, mismanagement, maladministration and other irregularities, amounting to the loss of tens of millions of rands in various departments, public entities and municipalities were conducted and completed during the course of the year. Some of the cases are before the courts of law and misconduct enquiries are also being handled by respective departments. A further 5 high profile cases of fraud and corruption involving syndicates are under investigation, and we have joined forces with the Directorate of Special Operations (Scorpions) and Asset Forfeiture Unit in order to secure successful prosecutions.

During the year we invested R80 million in the social welfare grants investigation which has yielded tremendous value to the province. 25,956 fraudulent grants were identified in this investigation and the anticipated savings are as follows: R9,4m savings per month; R113m savings per annum and R338m savings over a 3 year period. Furthermore a number of government officials and members of civil society were identified as suspects: 70 at Social Welfare; 23 at Home Affairs; 3,979 in other departments; and 15 medical doctors and agents were implicated. Criminal investigations, which will eventually lead to prosecution, are being conducted by the Special Investigation Unit, a division of the National Prosecuting Authority. Treasury took an unprecedented move to engage lawyers to oppose court applications against the Department of Social Welfare, and that saved millions of rands while it uncovered a scam which was draining funds destined for the poor.

## ECONOMIC SNAPSHOT

When President Mbeki said: "*Clearly the masses of our people are convinced that our country has entered into its age of Hope*", I am certain that we in KwaZulu-Natal will say **SIYAVUMA**. But some of you might legitimately ask whether all these government interventions have had a measurable effect on improving the economic performance of the province.

I can say with some confidence that the programmes and economic sectors being prioritised by government, with one or two exceptions, appear to be yielding positive results in terms of performance and trends over the last two years.



In terms of overall economic growth, according to Stats SA KwaZulu-Natal recorded a growth rate of 4,9% in 2004, second only to the Western Cape at 5,3% and above the national growth rate of 4,5% - this compares to a growth rate for KZN in 2003 of just 2,8%. In 2005 KZN's economic growth rate is projected to be in the region of 5,2%, once again well above the national average, and close to the ASGI-SA target of 6%.

Sectors in the province which experienced particularly strong growth in 2004 were construction, which grew at a staggering 28,8%, and finance, real estate and business services, which grew at 7,9%. The manufacturing sector grew at a healthy rate of 4,5%.

In terms of employment, according to the Stats SA Labour Force Survey, in 2004 993,000 people in the province were unemployed - this declined to 987,000 in 2005, improving the unemployment rate from 33.1% in 2004 to 31.8% in 2005. This decrease in unemployment was in fact faster than the national average, which declined from 27.9% to 26.5% over the same period.

Just to what extent these impressive growth and employment figures are due to government programmes and expenditure is difficult to quantify at this stage. It is surely no coincidence, however, that growth in the construction sector is surging, given the provincial government's increased expenditure on infrastructure totalling R7,42 bn over the last two years. The improvement in employment figures over the last year, moreover, is certainly partially attributable to the cooperatives initiative, which is already estimated to have attracted close to 35 000 individuals, based on an average of 9 people per cooperative - many of these have already found employment through their cooperatives or are likely to do so in the near future.

## **POLICY PRIORITIES FOR THE 2006/07 MTEF**

May I remind you again of the words of Alfred lord Tennyson who said:

*"But hope smiles from the threshold of the year to come - Whispering it will be happier;"*

Against this background, what are the government's expenditure priorities for the new MTEF budget cycle commencing in six weeks?

I have already indicated that I believe it is important that there should be long term consistency in the budget policy framework and direction to achieve maximum impact over time. Although we have indeed made progress in addressing the central challenges of poverty, unemployment and service backlogs in the past year, much remains to be done in the short, medium and long term. The provincial budget will accordingly continue to play a key role as policy instrument to address the socio-economic challenges confronting us.

It should come as no surprise therefore, that the budget expenditure proposals for 2006/07 recommended by Cabinet can be categorized into three broad areas which are consistent with the themes which underpinned last year's budget, namely:

- stimulating economic growth through coordinated infrastructure investment,
- creating jobs and alleviating poverty through targeted interventions in the second economy, and
- expansion of existing programmes and capacity building initiatives aimed at improving service delivery.

I will deal with each of these three policy priority areas in turn.



## ***Stimulating economic growth through coordinated infrastructure investment and strategic programmes***

In reviewing its policy priorities for the new MTEF period, the Government of KwaZulu-Natal has made the goal of placing the province on a sustainably higher growth path a central part of its economic development strategy – this strategy in turn is aligned to the national Accelerated and Shared Growth Initiative. The rationale behind this approach is simple: if economic growth can be stepped up to average 4,5% over the next five years, and 6% from 2009 to 2014, then:

- income per capita will rise by 50% in the next ten years, and
- the rate of unemployment will be halved.

It is unrealistic however, to expect that the provincial economy will launch itself onto a higher growth path on its own accord. A structural growth acceleration of this magnitude will require, *inter alia*, a coordinated and efficiently implemented infrastructural investment programme, in which both government and the private sector will have major roles to play. In this regard, government has identified several key projects and programmes as priorities for the forthcoming MTEF. These can be summarised as follows:

- **Dube TradePort**

The flagship Dube TradePort (DTP) project incorporating a state of the art Airport in King Shaka International has made solid progress and we are on track to achieve our deadline for the project to be operational by 2009.

We have secured a legally binding MoU with ACSA and the National Minister of Transport providing for:

- ACSA to acquire a ten year management contract from the province with the right to take up a concession within or after the 10 year term;
- The relocation of Durban International Airport when King Shaka International is operational in 2009; and
- The land at La Mercy to be sold to the province.

As the DTP will no longer be established as a PPP, the R100m allocated to the project in this year's budget will be routed via Ithala to facilitate site preparation work – including site acquisition, perimeter fencing, backbone infrastructure outlay and the development of the N2 interchange. The tenders for this initial site preparation and technical work have already closed and are currently being adjudicated. Site preparation and installation of backbone infrastructure is expected to commence by the end of the calendar year.

Mr Speaker, Honourable Members, I must stress that if the deadline for the project to be operational by 2009 is to be met – and failure to meet the deadline is not an option – then all role-players will have to play their part, including this Legislature.

A Request for Qualification was issued last week to the Market for a Design, Construct, Fixed Price Turnkey contract. The purpose of this procurement is to enable the DTP to select at least 2, but no more than 3 pre-qualified bidders that are technically, financially and legally qualified and meet the empowerment criteria, and that have sufficient experience and resources to be able to execute the project within the specified timeframes. I appeal to all interested consortiums and companies which have a potential interest in participating in this mega project to seize the



opportunity and respond to the RFQ by the deadline early in March – if you miss the first Request for Qualification, you will not be able to come on board at a later stage.

In April 2006 a detailed Request for Proposals will be issued to selected bidders to prepare more detailed bids. By September 2006 a bidder will be selected and detailed negotiations will commence, which we hope to conclude by December 2006. Award of the contract will follow and it is expected that main construction will commence in March 2007, with facilities to be completed and operational by October 2009.

The Dube TradePort Section 21 Company will have to be converted into a statutory public entity under the PFMA that is empowered to establish King Shaka International Airport Special Purpose Vehicle, which will then enter into contractual agreements with ACSA to manage and operate the airport and with the selected bidder from the private sector to design and construct the facility. The Dube TradePort as a statutory public entity will be mandated to drive the trade zone development, the cyberport, the agricultural zone and other associated commercial developments. Draft legislation establishing the DTP has been prepared and will be submitted to this Legislature in March. I appeal to Honourable Members to ensure that this Bill is dealt with within the strict timeframes we have set ourselves.

Discussions are also in progress on the financing model for the Trade Port. The total investment required for the airport, which is part of the Trade Port, is about R2.5 billion over the next four to five years. Our proposal is to set aside R20 million, R200 million and R1,5 billion over the 2006/07 MTEF years for this project – this is over and above the R100m already in this year's budget for the Trade Port. The balance of funds required will have to come from debt financing. The Development Bank has already agreed in principle to provide debt funding secured against revenue streams of the project up to R500m.

- **2010 World Cup stadium development**

The second major infrastructure-related programme being advanced by the provincial government relates to financial support for the development of soccer stadiums in the province in preparation for the 2010 World Cup. We are proposing to allocate R31m, R89m and R139,5m over the MTEF period as a contribution to the building of soccer stadium infrastructure in the province. This funding will be allocated to the Department of Local Government and Traditional Affairs, which will together with the Department of Sport and Recreation play a coordinating role in assisting the District Municipalities of Amajuba, Ugu, uMgungundlovu and uThungulu to build the infrastructure and facilities required for training and base camps. We are also of the view however that we need not just to build soccer stadium infrastructure, but also the sport itself in the province. In the MTEF period, therefore, funding allocations of R50, R55m and R60m have been set aside for the development of soccer at all levels in the province in collaboration with SAFA – the Office of the Premier will be responsible for coordinating the soccer development programme across the departments involved.

- **Richards Bay Industrial Development Zone**

An important part of government's infrastructure-related strategic investment programme for the medium term is the Richards Bay Industrial Development Zone. This IDZ was proclaimed by the Minister of Trade and Industry in 2002. Since then, however, there has not been any significant progress in terms of infrastructure outlays required to make the IDZ work. We propose to set aside R90 million and R100 million in 2007/08 and 2008/09 respectively for development of the IDZ, allowing time in the first year of the MTEF for the stakeholders to finalise the business case, funding model and ownership arrangements.



- **Corridor development**

Other infrastructure-related strategic projects we propose to fund over the 2006/07 MTEF period are the two road corridors leading to Richards Bay, namely the Lubombo SDI corridor and the P700 linking to Ulundi and ultimately Vryheid. This investment will stimulate economic development along these nodes and open up the areas in question to tourism and related services – this will have a positive impact on the revival of Ulundi as a regional centre. We propose to allocate R10m, R20m and R130m to these corridor developments over the MTEF.

- **Coordinated infrastructure provision and procurement**

The challenge facing government in implementing these and other infrastructure projects is not only to ensure that delivery and expenditure takes place within planned timeframes, but that BEE-owned companies and emerging contractors enjoy maximum benefit from the contracts put out to tender. Treasury has accordingly developed a standardised infrastructure procurement policy for emerging contractors aimed at promoting and supporting affirmable business and equity in the civil and building contractor sector. It comprises a six-staged advancement programme with contract value limits determined by experience, training and capacity. It will apply to both civil engineering works such as airports, runways, bridges, roads etc, as well as general building works.

### ***Creating jobs and alleviating poverty through targeted interventions in the second economy***

Our quest to narrow the gap between the first and second economies will continue to be a central feature of our economic development strategy in the next three years – we are of the unshakeable view that only by uplifting the masses struggling to survive in the second economy will we be able to achieve sustainably higher growth rates over the longer term, and hence our end-goal of prosperity for all.

To this end, we aim to build on the second economy initiatives and programmes we implemented last year. In the forthcoming MTEF, ring-fenced funding will be allocated to departments which have a key role to play in the second economy interventions aimed at job creation, poverty relief and black economic empowerment. These programmes are the following:

#### **Establishment of secondary co-operatives**

I have alluded to the successes already attained in establishing primary cooperatives around the province in the last year. This year we intend to move the cooperatives programme into the second phase of development by establishing secondary and tertiary cooperatives. Eleven secondary co-ops will be set-up in each of the district municipalities and metro, with the main functions of providing support to primary cooperatives, which are by design production units. The intention is to ensure that primary cooperatives get support from secondary and tertiary cooperatives, including the provision and loan of capital equipment, on a day to day basis and are not dependant on government support permanently. Support will be given to secondary coops to empower them so as to be capable of running viable commercial enterprises. This means that secondary coops will need to possess skills in financial management, marketing and general business management. For technical skills secondary coops should be the single point of entry by government departments with the required expertise and for private sector wishing to do business with this sector.



A tertiary cooperative will provide support to cooperatives through apex level institutions. It will also advocate and engage organs of state, the private sector and the stakeholders on behalf of its members. The intention is that the tertiary cooperative should manage the entire value chain, inter alia through the bargaining muscle it will acquire over the control of resources and markets through the sheer scale of its operations, with benefits flowing to members of the cooperatives.

The growth of cooperatives requires a major shift in our strategy. Coops are a community movement. For sustainability we need to institutionalise the cooperatives movement. A special training unit has been created in collaboration with the University of Zululand to train managers and members of coops and to develop careers in the field. This unit will be headed by Dr MA Setsabi and Dr AD Braimoh, both specialists in the field. The intention is to provide a bridging programme, a one year certificate, a two year diploma and a three year degree in cooperatives and business management practice. The University of KwaZulu-Natal will also be approached on a similar basis.

Funding in the amount of R50m, R55m and R60,5m has been allocated to the Department of Economic Development for the establishment of secondary and tertiary cooperatives in the MTEF period. This does not mean that we will be neglecting the need for continued support for primary cooperatives. The initial allocation of R110m to Ithala in the current financial year for financing business applications from primary cooperatives will be augmented by allocations of R100m, R187m and R217m over the 2006/07 MTEF – these funds will be managed by the Department of Economic Development.

### **Continued support for small business development**

In respect of SMME support, during the trade mission to India in December 2005 led by the Premier, contact was established with the National Small Industries Corporation Ltd (NSIC) in India, which has more than fifty years experience in promoting the growth of small scale industries and business enterprises. We are exploring two areas of cooperation with the NSIC: the import of equipment and plant to produce a variety of products such as barbed wire, ceramic tiles, agri-food products, building materials, paper products etc; and the commissioning of a study by a team of NSIC experts to review the current mechanisms, legislation and policies in the province designed to support SMMEs in the province. A contract is being concluded with the NSIC team of consultants, who will be based in the province for 10 weeks, and who will work with a team from Treasury and Economic Development. The equipment and professional expertise provided by the NSIC will be used to support the growth and development of small medium and micro enterprises in the province, including cooperatives at both the primary and secondary level.

The overwhelming success in the promotion of cooperatives and SMMEs means that our resources must be directed to support both cooperatives and SMMEs at district level. The consequence of this is the need to expand the Department of Economic Development, with more staff employed to provide support centres in all districts in collaboration with municipal initiatives and to strengthen Local Economic Development. The focus will be on dissemination of information and giving guidance to women, youth and the disabled. We have undertaken to cooperate with and assist the South African Women Entrepreneurs (SAWEN) in collaboration with the Department of Trade and Industry.

We have welcomed the launch of Small Enterprise Development Agency (SEDA) as a brand of DTI to support SMMEs and coops. The SEDA's will work in collaboration with Ithala and the Department of Economic Development to provide support services at district level to mitigate the usual high mortality rate for first time businesses. The coordination will ensure that there are value adds and no duplication.



Before the end of June the Department of Economic Development will convene a conference involving representatives of all municipalities to discuss common and coordinated approach to Local Economic Development.

### **Co-financing strategy**

As I mentioned, this year we will also be instituting a new co-financing model to support the growth of the small business sector in the province.

Given the huge deal flow which the initial SMME fund managed by Ithala has already generated, the Head of Treasury was tasked to develop a scheme that will bring banks and other financial institutions to participate in the funding of SMMEs in the Province, thereby relieving the pressure on Ithala.

Following the interest shown by the banks and other financial institutions, the Provincial Treasury is in the process of establishing an innovative small-business-financing framework, to be called the KZN SMME FUND. The Fund is designed to enable the KZN Provincial Government, in partnership with participating financial institutions, to introduce a proactive programme to help establish small, micro and medium enterprises within the province so as to generate jobs, enhance economic growth and development, and promote Black Economic Empowerment.

ABSA has already indicated a willingness to commit R25m to funding small and micro enterprises needing loan finance of less than R3 million. We are also at advanced stages of discussions with Standard Bank and First National. Standard Bank has indicated that subject to agreement on governance arrangements, they will make available R250m for the financing of SMMEs applying for finance between R3m and R30m. Discussions with FNB have not been finalised. Together with a provincial government contribution of R200m which we will make available, the intention is to leverage total funding of over R1,5 bn for the SMME Fund by June 2006.

The business partners and financial institutions who participate in the Fund will by agreement access the existing SMME deal flow generated by Ithala. Applicants who have applied to Ithala for loans should not be surprised therefore if their deals end up being financed by another financial institution – the important thing is that all SMME business loan applications will be attended to within the coming year.

The Fund is designed as a central component of a small enterprise lending framework, which seeks **not** to compete with other commercial SMME lenders in the market, nor “crowd out” emerging loan capital, but to complement the existing offerings and provide loan options for those entrepreneurs and small businesses who are presently unable to access affordable loan finance due to a range of factors.

The full details of the exact nature, purpose and governance framework for the Fund will be set out in the Information Memorandum for the KZN SMME Fund. This document will form the basis for the participation of any other financial institution in the Fund.

The initial contribution of R200m from government in the first year of the MTEF will be followed by allocations of R220m and R242m in the outer two years. Note that the funds will be held against the Vote of the Provincial Treasury pending disbursement to the SMME Fund.



Business Partners in collaboration with Khula, will work with Ithala to open access to Ithala applicants to the R150m start up capital for SMME and BEE funding.

Our message is:

SMALL BUSINESS ARISE!!!

### **Agrarian revolution**

PHEZUKOMKHONO!

Another key second economy intervention is that of the agrarian revolution, whose main aim is to ensure household food security and to move subsistence farmers upwards towards the first economy. The objective is to develop the province's enormous potential in agriculture into a competitive advantage by utilising all of its 590 bio-resource regions to produce vegetables, fruit and meat products for export to Europe, the USA, the Middle East and Asia. Another objective is to reduce the reliance on the importation of basic foodstuffs and to bring down food prices through a comprehensive support programme for emerging farmers which will facilitate:

- Access to markets
- A dramatic reduction in farming input costs
- Access to support for land reform beneficiaries, and
- Access to research and technical support for better production processes.

The focus of agrarian revolution projects and interventions will be on boosting the capacity of secondary agricultural cooperatives at the district level to address the whole agricultural value chain, including marketing, transport, processing, packaging and branding, the provision of technical advice, and support to emerging farmers through the loan of tractors, implements and equipment. This will be achieved through using economies of scale and the bargaining muscle which comes with concentrating capital and resources at a regional level. In this way the agrarian revolution interventions will complement and build on existing agricultural support programmes such as the "empowerment for food security", Comprehensive Agriculture Support Programme (CASP) and "Siyavuna" programmes, which are aimed at boosting production at the level of primary cooperatives.

It must be emphasised that the agrarian revolution concept is not only about agriculture. It embraces the whole spectrum of development of our rural areas, and requires a high degree of coordination and cooperation between various provincial departments and district municipalities. The Department of Transport's "African Renaissance Road Upgrading Programme", which provides access to markets and lowers transport and hence production costs, plays a key role in agrarian revolution projects and interventions, as does the corridor development concept being coordinated by the Department of Local Government and Traditional Affairs. Other key role-players include the Departments of Economic Development, Housing, Arts, Culture and Tourism and the regional offices of the Department of Land Affairs and Land Claims Commission. The ultimate aim is in fact to use the agrarian revolution concept to facilitate the development of comprehensive and coordinated district development plans.

Treasury has engaged the Department of Agriculture on an appropriate model for the planning, coordination, and approval of the agrarian revolution projects. It has been agreed that the





Economic Technical Cluster of Cabinet will be used as the forum to engage other affected departments in the project planning and approval stages of the programme. A list of prioritised agrarian revolution projects over the three years of the MTEF, with appropriate targets in terms of job creation and socio-economic impact, will be prepared and costed in advance for approval in principle by the Technical Cluster and then forwarded to Cabinet.

The economic and social benefits which will result from fully exploiting the province's natural and comparative advantages in agriculture through the agrarian revolution concept are such that government has earmarked no less than R110m, R180m and R216,7m for the programme over the MTEF.

### **Establishment of accelerated economic development unit within Ithala**

There is a growing need for government to intervene in the second economy through our instrument for economic empowerment, Ithala. While much has been achieved in the last year in terms of the number of new entrepreneurs entering the market, there is a need to create better focus within Ithala in order to accelerate delivery in this all important empowerment initiative. Ithala is therefore in the process of establishing a new business unit called "Accelerated Economic Development Unit", which will facilitate delivery in the following areas:

- Ensuring the viability of the land restitution process, through the facilitation of viable programmes for such areas
- Investing in revival of township economies
- Promotion of commercial, as well as viable subsistence farming in previously disadvantaged communities
- Tourism programmes, including black-owned game parks
- Property and infrastructure development
- Facilitation of new investment and increased trade within the Province

The unit will create capacity to deliver on the above areas and thus realising government objectives of reducing poverty and unemployment.

In particular, the unit will work closely with the Department of Economic Development, the Regional Offices of the Land Claims Commission and Land Affairs, and other provincial departments with a view to ensuring the sustainability of the 20 major land restitution projects around the province. A Task Team coordinated by the Economic Technical Cluster of Cabinet has already been established with the mandate to ensure that the commercial enterprises earmarked for the major land restitution projects such as game farming and eco-tourism, cane and timber production become viable and sustainable in as short a time as possible. Without exception, the lack of loan financing for the initial capitalisation of the projects is the single most important impediment to viability and sustainability, and this aspect will be a major focus area of Ithala's Accelerated Economic Development Unit and the other role-players mentioned.

An amount of R40m will be allocated to the Department of Economic Development in the 2006/07 financial year as government's contribution to the start up costs of the new unit.



### ***Expansion of existing programmes and capacity building initiatives aimed at improving service delivery***

The third area which government is prioritising in this budget relates to expanding and improving the quality of existing programmes and projects. Of note are the following allocations:

- R58 million to develop communal agricultural infrastructure;
- R280 million for the maintenance of the provincial road infrastructure;
- R290 million for Adult Basic Education & Training (ABET);
- R110 million to strengthen the FET colleges; and
- R279 million to improve maintenance of hospitals.

Note that the amounts per project are the total sum over the three years of the 2006/07 MTEF period. It should also be noted that EPWP and BBBEE principles will apply to all additional funding allocated to infrastructure and maintenance-related projects.

We are also recommending additional allocations in order to help departments increase their internal capacity and improve service delivery. Proposed additional allocations to the Office of the Premier (R72.5 million) will strengthen the secretarial services to the Executive Council, and other provincial committees. This allocation will also support the regulatory activities of the Gambling Board. A request from the Department of Housing for additional capacity has also been recommended to support various initiatives such as training of housing beneficiaries.

Mr Speaker, we remain committed for example to continue waging a relentless campaign to combat the ravaging effects of the HIV and AIDS syndrome on our society. To this end provincial departments will be collectively spending no less than R3bn over the forthcoming MTEF on combating HIV and AIDS, including the further expansion and roll-out of the PMTCT, anti-retroviral and home-based care programmes – this is the total expenditure across the Departments of Health, Social Welfare and Education. The respective departments will be providing further details on these and other poverty alleviation programmes in their respective budget documentation.

*"but Hope smiles at the threshold of the year to come whispering, it will be happier"*  
(Tennyson)

### **The 2006/07 Provincial budget process**

Mr Speaker, I have dealt at length with the major policy priorities and therefore I wish to briefly explain the division of revenue and MTEF framework which underpins this provincial budget.

### ***Division of revenue framework and revised provincial allocations over the MTEF***

#### **Total resource envelope**

In his medium term budget policy statement, the Minister of Finance tabled the division of revenue between the three government spheres. The expenditure framework provides for R31 billion in additional equitable share allocation to the provinces over the MTEF. This represents a substantial step up of the provincial equitable share, especially in the outer year of the MTEF (R18 billion in additional resources).



### KZN's share of additional funding

Table 1 in the printed speech presents the amount of additional funding available to the province for further allocation, taking into account projected provincial own revenue and two national policy directives; the provision for government employees medical scheme to cover those civil servants not covered by medical aid, and the phasing in of the food relief and the HIV and AIDS conditional grants into the equitable share. For 2006/07, R397 million is available for discretionary spending, rising to R3.2 billion in 2008/09.

**TABLE 1: Provincial Fiscal Framework**

(in 000 Rands)	2006/07	2007/08	2008/09
<b>1. Baseline Allocation</b>	<b>49,992,669</b>	<b>54,466,082</b>	<b>56,947,211</b>
Transfer receipts from national	48,818,857	53,226,193	55,620,529
<i>Equitable share</i>	31,388,210	34,204,801	36,599,137
<i>Conditional grants</i>	17,430,647	19,021,392	19,021,392
<i>Social Assistance Grants</i>	13,832,438	14,847,112	14,847,112
<i>Other</i>	3,598,209	4,174,280	4,174,280
Provincial own receipts	1,173,812	1,239,889	1,326,682
<b>2. Increase/(Decrease) in allocation</b>	<b>(12,801,059)</b>	<b>(12,533,473)</b>	<b>(9,937,126)</b>
Transfer receipts from national	(12,801,059)	(12,533,473)	(9,937,126)
<i>Equitable share</i>	664,278	1,752,485	3,846,448
<i>of which: Government Employee Medical Scheme</i>	169,977	342,786	518,426
<i>Conditional grants</i>	(13,465,337)	(14,285,958)	(13,783,574)
<i>Social Assistance Grants</i>	(13,832,438)	(14,847,112)	(14,847,112)
<i>Other</i>	367,101	561,154	1,063,538
Provincial own receipts	-	-	-
<b>3. Revised allocation</b>	<b>37,191,610</b>	<b>41,932,609</b>	<b>47,010,085</b>
Transfer receipts from national	36,017,798	40,692,720	45,683,403
<i>Equitable share</i>	32,052,488	35,957,286	40,445,585
<i>of which: Government Employee Medical Scheme (GEMS)</i>	169,977	342,786	518,426
<i>Conditional grants</i>	3,965,310	4,735,434	5,237,818
<i>Social Assistance Grants</i>	-	-	-
<i>Other</i>	3,965,310	4,735,434	5,237,818
Provincial own receipts	1,173,812	1,239,889	1,326,682
<b>Additional funding from national available for distribution</b>			
<b>Equitable share</b>	<b>664,278</b>	<b>1,752,485</b>	<b>3,846,448</b>
Less:	267,525	444,666	620,306
<i>Provision for Government Employee Medical Scheme</i>	169,977	342,786	518,426
<i>Phasing-in of the Food Relief and HIV/AIDS conditional grants in the equitable share</i>	97,548	101,880	101,880
<b>Additional discretionary funding available for distribution</b>	<b>396,753</b>	<b>1,307,819</b>	<b>3,226,142</b>

### 2006/07 provincial budget process and policy priorities

Before I deal with the recommendations of how this additional funding should be allocated between departments, allow me to briefly explain to Honourable Members the process which was followed in arriving at the budget proposals which are tabled for the consideration of the House today.

The 2006/07 MTEF budget process commenced with the issue of the *Treasury Guidelines* which explained how departments should prepare the 2006/07 MTEF budget submissions.



The primary focus of the 2006/07 *Treasury Guidelines* was on the review and reprioritisation of departments' budgets, as well as on an analysis of their spatial spending and service delivery in each district municipality. The purpose of this 'spatial' exercise was to move towards attaining a comprehensive economic alignment strategy for the province, by trying to identify provincial departments' spending and service delivery gaps within a given spatial area. Ultimately, Treasury would like to compile a profile per district municipality on services provided by provincial departments (and any gaps in services), in accordance with their legislative mandates and any sector-specific norms and standards. However, the quality of information received from departments in their budget submissions in terms of their spatial spending and service delivery gaps was relatively incomplete and inadequate. It was made clear to departments that this will become a standard approach for future budget submissions. If nothing else, this approach has brought about a change in the mindset of departments and is a first step towards aligning service delivery provision between the local and provincial spheres of government.

### **Total funding request by departments**

For the 2006/07 MTEF, a total of R9,7 billion in additional funding was requested by various departments. This is against a total of R4,6 billion available in the provincial resource envelope. Given the limited resources, substantial reprioritization and trade-offs had to be made – this is of course the essence of what the budgeting process is all about.

## **REVENUE AND EXPENDITURE PROPOSALS: 2006/07**

Mr Speaker, I turn now to the detail of the provincial budget proposals for the 2006/07 MTEF.

### **Revenue**

For the 2006/07 financial year, the province is budgeting for total revenue of R37,191 billion. This represents a decrease of 18,4 per cent as compared to last year's main budget. Before Honourable Members become alarmed, however, I should explain that the decrease is entirely attributable to the removal of the social security conditional grant funding from the provincial budgets altogether – this funding has been transferred to the newly established Social Security Agency at a national level. Taking out the social security grant funding of some R13,8bn in 2006/07, the provincial budget actually grows by 13.4 per cent over last year's main budget, again excluding the social security grant funding. This is not an inconsiderable increase, and there is little doubt that the provincial government has adequate financial resources at its disposal in this budget to deliver on its mandate to the electorate.

The budgeted revenue for 2006/07 is made up as follows:

**TABLE 2: Budgeted revenue for 2006/07**

(in 000 Rands)	2006/07
National Transfers	36,017,798
<i>Equitable share</i>	32,052,488
<i>Conditional Grants</i>	3,965,310
Provincial own source revenue	1,173,812
<b>Total revenue</b>	<b>37,191,610</b>



### ***Expenditure proposals and departmental allocations***

I turn now to the expenditure proposals. In line with established practice and sound financial principles, the province is aiming at a balanced budget for the 2006/07 financial year and outer two years of the MTEF period. The full amount of revenue available to the province for the 2005/06 financial year, namely R37,192 billion, is allocated to the various provincial departments.

Mr Speaker, I want to emphasise that before the Cabinet decided on how the additional funding available for allocation should be apportioned among departments and programmes, we did a comprehensive costing and bench-marking exercise to ensure that all the national priorities in the fields of education, health care (including HIV and AIDS), social welfare services and EPWP programmes were adequately funded. This exercise revealed that indeed we are funding these national priorities more than adequately, and all the national priority programmes have been allocated healthy increases in their baseline budgets over the 2006/07 MTEF.

Over and above this, most departments will be receiving additional funding over the MTEF for specific purposes and projects, as indicated in Table 3 in the printed speech. Note that all funding in the Poverty Alleviation Fund has been allocated to specific departments, while specific allocations have also been made to various departments from the Provincial Growth Fund for strategic provincial projects such as the Dube Trade Port, Richards Bay IDZ and infrastructure for the 2010 Soccer World Cup.

In respect of the total budget allocations for the 2006/07 financial year:

- The **Office of the Premier** is allocated R 294,7 million, an increase of 35.1 per cent over the 2005/06 budget. This large increase is mainly attributable to an allocation of R50m for coordinating soccer development in the province in collaboration with SAFA, as well the additional allocations already referred to for extra capacity in the executive council secretarial services, the establishment of a training academy, and regulating the gambling industry. It should be noted that heritage activities contained in the Premier's speech reside in this vote and have been provided for.
- **Parliament** receives R139,2 million, an increase of 7.6 per cent over the previous year, including an additional allocation over baseline of R15,7 million for the carry-through costs of the 2005/06 adjustments estimate, new posts and IT support and systems.
- **Agriculture and Environmental Affairs** receives R1,299 billion, an increase of 24.2 per cent. This includes additional funding of R110m as mentioned for the agrarian revolution programme, R8,7 million for capacity building programmes, and R10m for agricultural infrastructure in support of emerging farmers. Also included in the baseline is funding for mechanisation, the Nguni project, alien weed control etc.
- **Economic Development** gets R390,1 million in 2006/07, a 177 per cent increase over last year. Before I am accused of nepotism, let me draw attention to the fact that R50m of this increased allocation is earmarked for the establishment of secondary coops, R100m for primary coops, R30m for the incubator programme, R40m for the Accelerated Development Unit in Ithala, and R20m for the Dube Trade Port. Previously these funds were kept in Treasury before they were transferred to Ithala.
- **Education** is allocated a budget of R16,209 billion. The 2006/07 budget represents an increase of 11.7 per cent over last year, demonstrating government's ongoing commitment to improving the quality and reach of education. The budget includes additional funding in



the amount of R135 million for EMIS, the National Curriculum Statement, ABET, FET Colleges and the introduction of the no fee schools policy.

- The **Provincial Treasury** receives R1,069 billion, a nominal decrease of 1.8 per cent over last year's main budget. The main reason for the decrease is that Treasury will no longer have the centralised Poverty Alleviation Fund held against its budget, while even the balance of the Provincial Growth Fund (R420m in 2006/07) and SMME Fund (R200m) will only be housed in Treasury's budget on a temporary basis, pending approval of projects and consequent transfer of funds to the Ithala subsidiary, KZN Growth Fund Managers Pty Ltd. The 2006/07 allocation also includes provision for the Government Employee Medical Scheme, in an amount of R169m. In Treasury's own operational budget, additional funding totalling R79,1m is allocated for the carry-through costs of the budget communication strategy, Performance Budgeting System and SITA costs which were not included in the original 2005/06 baseline.
- **Health** is allocated a budget of R11,737 billion, an increase of 13.1 per cent. This relatively large percentage increase reflects the high priority which government, both national and provincial, continues to accord to the delivery of social services, and includes an additional allocation of R24,6 million for improving maintenance in hospitals.
- The **Housing** budget records a substantial leap to R1,252 billion, an increase of no less than 29.1 per cent over last year. This includes additional funding as mentioned for increasing capacity in the department, in the amount of R18,9 million, as well as R4m for the carry-through costs of the 2005/06 adjustments estimate.
- The **Department of Community Safety & Liaison** receives R50,8 million this year, an increase of 5.5 per cent. As the department received a substantial additional allocation last year, there are no additional funds allocated in this year's budget.
- The **Royal Household** receives R31,4 million in 2006/07, an increase of 13.8 per cent over last year.
- The **Department of Local Government and Traditional Affairs** gets R595,6 million, a 29.9 per cent increase. Included in this allocation is additional funding in the amount of R31m for coordinating the provision of soccer stadia infrastructure in District Municipalities and the Metro, R29m for the Community Development Workers programme, R24,1 million for Project Consolidate, Disaster Management Centres and the Rural Connectivity Programme, R10m for corridor development, and a R15,8m allocation to meet the costs of the incorporation of Umzimkhulu into KwaZulu-Natal.
- **Transport's** budget of R2,416 billion in 2006/07 is an increase of 9.9 per cent over last year. This includes additional funding in the amount of R70 million for maintenance, new road works and access bridges, and anti-fraud and corruption measures aimed at streamlining the drivers and learners licence system. Note that the department receives very substantial increases in this budget in the outer two years of the MTEF.
- The Department of **Social Welfare and Population's** budget decreases from R13,605 bn last year to R895m – a decrease of no less than 93.4 per cent. As explained this decrease is attributable to the removal of the social assistance grant funding from its budget. The department nevertheless receives additional funding totalling R97,5m as a result of the phasing in of the Food Relief and HIV and AIDS grants. Although not in our budget the conditional grant for social assistance grants shows an increase to R13,832 bn in 2006/07 compared to R12,771 bn in the current year. The number of beneficiaries in year 2000/01 was 621,494 compared to 1,836,975 in year 2004/05.



TABLE 3: Summary of proposed additional allocations, 2006/07 MTEF

	2006/07	2007/08	2008/09	2006/07	2007/08	2008/09
	R000			Percentage share		
<b>VOTE 1: Office of The Premier</b>	<b>63,950</b>	<b>81,262</b>	<b>81,262</b>	<b>3.5</b>	<b>2.5</b>	<b>1.7</b>
Secretarial services to Executive Council & key provincial committees	2,600	2,800	3,000	0.1	0.1	0.1
Soccer development (in & out-of school) in collaboration with SAFA	50,000	55,000	60,000	2.8	1.7	1.1
Capacitated employees – Provincial Learning Academy	5,000	10,000	15,000	0.3	0.3	0.3
Gambling – Regulated Gambling Industry	6,350	13,462	14,269	0.4	0.4	0.3
<b>VOTE 2: Parliament</b>	<b>15,651</b>	<b>13,745</b>	<b>14,403</b>	<b>0.9</b>	<b>0.4</b>	<b>0.3</b>
Carry-through costs of 2005/06 Adjustments Estimate	5,500	5,592	5,872	0.3	0.2	0.1
Proposed new posts	5,461	7,553	7,931	0.3	0.2	0.1
Document Management System	2,790	300	300	0.2	0.0	0.0
IT Support and Systems	1,900	300	300	0.1	0.0	0.0
<b>VOTE 3: Agriculture and Environmental Affairs</b>	<b>128,700</b>	<b>214,700</b>	<b>255,050</b>	<b>7.1</b>	<b>6.5</b>	<b>4.6</b>
Provision of support and capacity building for agricultural purposes	8,700	10,200	15,000	0.5	0.3	0.3
Agrarian revolution	110,000	180,000	216,750	6.1	5.4	3.9
Provision of agricultural infrastructure	10,000	24,500	23,300	0.6	0.7	0.4
<b>VOTE 4: Economic Development</b>	<b>240,000</b>	<b>565,142</b>	<b>1,913,372</b>	<b>13.2</b>	<b>17.1</b>	<b>34.7</b>
Establishment of secondary co-ops	50,000	55,000	60,500	2.8	1.7	1.1
Primary co-ops	100,000	187,142	216,572	5.5	5.7	3.9
Incubator programme	30,000	33,000	36,300	1.7	1.0	0.7
Dube Trade Port	20,000	200,000	1,500,000	1.1	6.1	27.2
Establishment of accelerated economic development unit in Ithala IDZ	40,000	-	-	2.2	-	-
	-	90,000	100,000	-	2.7	1.8
<b>VOTE 5: Education</b>	<b>134,954</b>	<b>410,900</b>	<b>538,183</b>	<b>7.4</b>	<b>12.4</b>	<b>9.8</b>
Information and Communication Technology	-	40,000	80,000	-	1.2	1.5
EMIS	26,727	27,062	28,108	1.5	0.8	0.5
National Curriculum Statement	13,227	14,838	16,625	0.7	0.4	0.3
ABET	25,000	100,000	165,000	1.4	3.0	3.0
FET – Colleges	20,000	40,000	50,000	1.1	1.2	0.9
No Fee Schools –10% of the poorest learners in 2006/07 & 40% thereafter	50,000	189,000	198,450	2.8	5.7	3.6
<b>VOTE 6: Provincial Treasury</b>	<b>869,025</b>	<b>1,300,200</b>	<b>1,497,958</b>	<b>47.9</b>	<b>39.3</b>	<b>27.2</b>
Carry-through costs of 2005/06 Adjustments Estimate, of which	79,048	77,414	77,532	4.4	2.3	1.4
Communication	25,000	27,000	29,000	1.4	0.8	0.5
Performance Based Budgeting	37,000	32,000	31,000	2.0	1.0	0.6
Sita Computer Services	17,048	18,414	17,532	0.9	0.6	0.3
SMME Fund	200,000	220,000	242,000	11.0	6.7	4.4
Growth Fund	420,000	660,000	660,000	23.1	20.0	12.0
Provision for Government Employee Medical Scheme	169,977	342,786	518,426	9.4	10.4	9.4
<b>VOTE 7: Health – Improved maintenance in hospital budgets</b>	<b>24,600</b>	<b>90,200</b>	<b>164,000</b>	<b>1.4</b>	<b>2.7</b>	<b>3.0</b>
<b>VOTE 8: Housing</b>	<b>22,908</b>	<b>20,404</b>	<b>18,019</b>	<b>1.3</b>	<b>0.6</b>	<b>0.3</b>
Carry-through costs of 2005/06 Adjustments Estimate	4,000	4,200	4,494	0.2	0.1	0.1
Budget shortages/Structure change	10,000	10,500	11,025	0.6	0.3	0.2
Housing Development Plans	2,500	2,500	2,500	0.1	0.1	0.0
No. of Housing Consumers trained	6,408	3,204	-	0.4	0.1	-
<b>VOTE 10: The Royal Household – carry through of 2005/06 Adjustments Estimate</b>	<b>2,205</b>	<b>2,315</b>	<b>2,477</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
<b>VOTE 11: LGTA</b>	<b>109,826</b>	<b>204,137</b>	<b>358,499</b>	<b>6.1</b>	<b>6.2</b>	<b>6.5</b>
Ensure equitable sustainable basic service delivery (Project Consolidate)	9,650	5,100	2,900	0.5	0.2	0.1
Infrastructure provision for soccer stadia	31,000	89,000	139,500	1.7	2.7	2.5
Disaster management centres	7,000	2,000	-	0.4	0.1	-
Rural Connectivity Programme	7,400	33,505	16,805	0.4	1.0	0.3
Community Development Workers	29,000	38,358	49,553	1.6	1.2	0.9
Corridor development	10,000	20,000	130,000	0.6	0.6	2.4
Incorporation of Umzimkhulu in KwaZulu-Natal Province	15,776	16,174	19,741	0.9	0.5	0.4
<b>VOTE 12: Transport</b>	<b>70,000</b>	<b>250,000</b>	<b>500,000</b>	<b>3.9</b>	<b>7.6</b>	<b>9.1</b>
Renewal of roads	-	150,000	200,000	-	4.5	3.6
Maintenance of roads	30,000	50,000	200,000	1.7	1.5	3.6
Access roads & Bridges – new works	30,000	50,000	100,000	1.7	1.5	1.8
Anti-corruption & Fraud prevention	10,000	-	-	0.6	-	-
<b>VOTE 13: Social Welfare &amp; Population Development</b>	<b>97,548</b>	<b>101,880</b>	<b>101,880</b>	<b>5.4</b>	<b>3.1</b>	<b>1.8</b>
Phasing-in of conditional grants in the equitable share, of which:						
Food Relief	72,276	75,890	75,890	4.0	2.3	1.4
HIV and AIDS	25,272	25,990	25,990	1.4	0.8	0.5
<b>VOTE 15: Arts &amp; Culture</b>	<b>34,911</b>	<b>33,140</b>	<b>33,533</b>	<b>1.9</b>	<b>1.0</b>	<b>0.6</b>
Carry-through costs of 2005/06 Adjustments Estimate	18,690	19,624	20,998	1.0	0.6	0.4
Cultural Affairs	9,521	7,516	6,235	0.5	0.2	0.1
Office administrative costs	6,700	6,000	6,300	0.4	0.2	0.1
<b>VOTE 16: Sport &amp; Recreation – Provision at sports &amp; recreation facilities</b>	<b>-</b>	<b>16,960</b>	<b>17,980</b>	<b>-</b>	<b>0.5</b>	<b>0.3</b>
<b>TOTAL</b>	<b>1,814,278</b>	<b>3,304,985</b>	<b>5,507,623</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Less – Vote 6: Provincial Treasury</b>						
Poverty Alleviation Fund	800,000	1,000,000	1,070,000			
Provincial Growth Fund	350,000	552,500	591,175			
<b>Total additional funding allocated</b>	<b>664,278</b>	<b>1,752,485</b>	<b>3,846,448</b>			



- The **Department of Works** receives R451,5 million this year, an increase of 6.0 per cent over the 2005/06 budget.
- The **Department of Arts, Culture and Tourism** receives a budget of R254,7 million, a 21.6 per cent increase over last year. This includes an additional allocation of R18,7 million for the carry-through costs of the Adjustments Estimate allocations last year, and R9,5m and R6,7m for catering for cultural affairs and office administrative costs respectively.
- The **Department of Sport & Recreation** is allocated a budget of R106,1 million, a 19.3 per cent increase over last year. Note the additional allocations made in the two outer years of the MTEF for the establishment of sporting and recreation facilities.

Table 4 in the printed speech provides details of the proposed departmental allocations for the 2006/07 MTEF:

**TABLE 4: 2006/07 MTEF Budgets**

R000	2005/06	2006/07	% Increase Percentage share year-on-year	2007/08	2008/09
	Main Budget	Revised Budget		MTEF Budget	MTEF Budget
1. Premier	218,176	294,740	35.1	323,599	351,570
2. Provincial Parliament	129,454	139,235	7.6	143,439	153,176
3. Agriculture and Environmental Affairs	1,078,342	1,298,906	20.5	1,474,668	1,601,557
4. Economic Development	140,590	390,052	177.4	722,697	2,081,956
5. Education	14,505,932	16,209,078	11.7	17,983,127	19,384,640
6. Provincial Treasury	1,089,581	1,069,780	(1.8)	1,510,993	1,723,507
<i>Operational Budget</i>	189,581	279,803	47.6	288,207	303,081
<i>Growth Fund</i>	200,000	420,000	110.0	660,000	660,000
<i>SMME Fund</i>	200,000	200,000	-	220,000	242,000
<i>Poverty Alleviation Fund</i>	500,000	-	(100.0)	-	-
<i>Provision for Government Employee Medical Scheme</i>	-	169,977	-	342,786	518,426
7. Health	10,379,202	11,736,761	13.1	12,795,794	13,840,988
8. Housing	969,880	1,252,133	29.1	1,520,850	1,661,102
9. Community Safety and Liaison	48,154	50,818	5.5	53,359	57,094
10. The Royal Household	27,598	31,409	13.8	32,979	35,287
11. Traditional and Local Government Affairs	458,593	595,585	29.9	714,184	904,249
12. Transport	2,197,532	2,415,983	9.9	2,844,370	3,275,420
13. Social Welfare and Population Development*	834,491	894,810	7.2	939,283	997,901
14. Works	425,970	451,523	6.0	474,088	507,274
15. Arts, Culture and Tourism	209,503	254,726	21.6	263,944	280,493
16. Sports and Recreation	88,927	106,071	19.3	135,235	153,871
<b>TOTAL</b>	<b>32,801,925</b>	<b>37,191,610</b>	<b>13.4</b>	<b>41,932,609</b>	<b>47,010,085</b>

\*For consistency and comparative reasons, the amount for Programme 2: Social Assistance Grants has been removed from the department's 2005/06 main budget





## CONCLUSION

Mr Speaker, compiling these budget proposals has been both a pleasurable and demanding task. Pleasurable, in that there has been tremendously positive input and advice received from communities and interest groups across the province – we are left with the firm impression that this is truly a budget **for** the people **by** the people of the province. And demanding, because putting budgets together, which involves making informed choices and matching limited resources against competing needs and demands, is never an easy process. I am confident however that we have succeeded in formulating budget proposals which truly reflect the provincial policy priorities as approved by the provincial executive, and will go a long way towards satisfying the aspirations of popular expectations.

The budget proposals will simultaneously lead to sustainable economic growth and investment, job creation, poverty alleviation, and broader participation in the economy – all cornerstones of the province's growth and development strategy. The social services are once again prioritised in terms of the growth rates in their MTEF allocations, while service delivery issues and capacity constraints are also addressed in the budget proposals. In short, I believe that this budget provides us with all the necessary resources to proceed, on schedule, along our journey to prosperity for all.

There are many people who contributed to the budget proposals which we table today. The support provided by the Premier Hon JS Ndebele and my Cabinet Colleagues is most sincerely appreciated. Once again Minister Trevor Manuel and the Team Finance have provided invaluable advice and guidance on the technical issues and national budget framework which underpin this budget. I also wish to extend my thanks to the Chairperson of the Finance and Economic Affairs Portfolio Committee, Mr Cyril Xaba and his Committee, who have once again have played a most constructive role in engaging with Treasury on budgetary and financial management issues.

I also wish to thank the officials in my departments who have assisted me in the task of finalising the budget documentation we table today. My thanks go to Siphoshe Shabalala and his officials in Treasury, and to Ms Fikiswa Pupuma and her officials in Economic Development, and to my team in the Ministry, now under the leadership of Ms Sibongile Shezi. Lastly, to my wife May and family for their support and understanding.

I will again close with the words of Alfred Lord Tennyson:

*"... but Hope smiles from the threshold of the year to come whispering: it will be happier ..."*

*Indeed Mr Speaker and Honourable Members, IT WILL BE BETTER.*

It is now my honour to formally table the Appropriation Bill, 2006 for the province of KwaZulu-Natal for the consideration of this House, together with the Budget Statements.

I thank you.

