

KwaZulu–Natal Department of Economic Development



Vote Four

Budget Policy Speech 2007/2008

Delivered by

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MEC for Finance & Economic Development

19th April 2007

Budget Policy Speech delivered by KwaZulu-Natal MEC for Finance and Economic Development, Dr Zweli Mkhize in the Provincial Legislature on 19th April 2007

***Honourable Speaker;
Our Premier, Manzankosi;
Fellow Members of the House;
Distinguished Guests;
Members of the Media present;
Friends, Ladies and Gentlemen.***

Since 1994 we have seen steady progress in the transformation of the KwaZulu-Natal economy and the improvement in the lives of our people. The province continues to be a strong and dynamic economy under our management. It is the second largest contributor to the national GDP at 17, 5% and in the past five years our GDP growth was 3, 11% compared to the national average of 3, 24%. With our ports in Durban and Richards Bay rated amongst the busiest in Africa and with relatively strong performances by industry and service sectors, KZN contributes significantly to global trade – with more than 18% of the country's exports coming from this province.

Nevertheless poverty and unemployment remain a key challenge for us. With the population of 6 million working age individuals, the unemployment rate is estimated at 31, 7% according to 2005 statistics. About half our population still live in poverty. Our central objective is to scale down this figure and to create more job opportunities for our people.

In the Premier's State of the Province address and my presentation of the Provincial Budget, the concept of the 'Developmental State' was emphasized, with government playing an active role in mobilising the resources required to drive socio-economic transformation in partnership with the people and the private sector. Our campaign of interacting with the masses of our people to seek their views and opinions on how best we could contribute towards the transformation of their lives has become a strong foundation to engage all and sundry in 'Building the Economy Through Partnership'. As our people helped to shape the allocation of the provincial budget, we would also rely on their wisdom to effectively implement economic programmes.

We have already developed and are implementing strategies aimed at energizing economic sectors with potential to combat poverty and unemployment whilst stimulating an entrepreneurial

culture within the provincial citizenry. These include the Provincial Growth and Development Strategy, Industrial Development Strategy and indeed the recently crafted Provincial Spatial Economic Development Strategy – all are aligned with national economic policy and strategy. In implementing these strategies, we have increased fixed investment in the province's economic infrastructure through some high profile projects like the Dube Trade Port, the 2010 soccer stadium in Durban, expansion of John Ross Highway at uMhlatuze on the north coast and P700 road.

Over the years this Department has had a very small budget allocation despite high expectations for it to be at the fore-front in the province's socio-economic development. This year it has been allocated R1, 3 billion – a huge increase on previous years. This is inclusive of funds allocated for the Growth Fund, SMME Fund, Co-operative Fund and the Dube Trade Port. The increase of funds, together with national directives on the rationalization of the programme structure for the economic portfolio, means that this would be a particularly busy year for the Department.

Within this broad context, Mr Speaker and Honourable Members let me appraise you on the progress made in the different programmes of the Department – the outlook for the forthcoming year and the proposed budget for the Department.

1. LOCAL ECONOMIC DEVELOPMENT PROGRAMME:

Having acknowledged the role of municipalities in the socio-economic transformation of our communities, the provincial government has broadened its co-operation with this tier of government as well as local stakeholders. In November 2006, we hosted a successful Local Economic Development Conference, attended by representatives from all sectors of our communities. The event followed soon after the National LED Conference and was aimed at aligning our own LED strategic framework with the national policy. One of the outcomes of the conference was the subsequent roll-out of the growth and development summits in the districts. These district summits, most of which have now been already held successfully, are important in cementing local development partnerships around a common economic development strategy.

In partnership with the European Union, we have made significant progress in terms of facilitating the implementation of projects that are aimed at activating the local economies across the

province. Over 400 applications for grant funding relating to phases three to five of the Local Competitiveness Fund and Business Enabling Fund were received. Currently, there are just over 90 projects on our books with a grant value of just less than R50 million and a total project value (*i.e. leveraged contributions*) of over R 100 million. The majority of these projects have been contracted and are in the implementation stage with some of them shortly due for completion.

Another success of the provincial LED initiative has been the interest shown by some of the country's leading financial institutions. We have signed Memoranda of Understanding with Standard Bank and ABSA Bank who have committed themselves to the co-financing of projects. These partnerships are going to be critical in the longer-term financial sustainability of LED in the province. Besides the important grant funding mechanisms, there have also been a range of capacity building interventions piloted in 2006/2007 ranging from piloting new training manuals through to study tours with government officials and business persons.

Certainly, the province has set the tone for the advancement of our economy at local government level and we believe that we are setting the benchmark nationally. This year the attention will be placed on project implementation. Although the response to project generation process has been phenomenal, we now have to harness this energy when implementing LED projects. We will also be turning our attention to planning the future of the LED programme in the province.

2. TRADE & SECTOR DEVELOPMENT:

Mr Speaker, the economy of KwaZulu-Natal constitutes diverse sectors that are being given attention to ensure a balanced economic growth. In partnership with the industry, we are working on the promotion of those sectors and economic clusters that have significant potential of contributing to job creation to eliminate poverty.

Trade and Logistics:

Together with eThekweni Municipality, Durban Chamber of Commerce and Trade and Investment KZN we have established the Trade Point Durban that would create an avenue for emerging enterprises, in particular, to expose their products and services to both local and global markets.

One of the key functions of the Trade Point Durban would be to ensure that small-scale enterprises improve their competitiveness to be able to benefit from the liberalisation of the world market. The Department has contributed R2 million towards the creation of the point and we are determined to make this facility a real conduit for emerging businesses to access international markets. Further, the successful hosting of the provincial Trade and Investment Fair early last year has led to Namibia requesting the province to assist them organise their similar event later this year.

Economic Information Management Unit:

The Economic Information Management Unit continued with the review of the province's competitiveness in different sectors and also a Labour Market and an Investment Study. An electronic portal between DED, DIPA and TIKZN has also been established.

- *Film Commission:*

This unit's main focus was to help strengthen the province's campaign to attract more film producers using KwaZulu-Natal as an ideal location for feature film and television commercials. It costs between 30 and 40% less to make a film in this country compared to other parts in Europe and the Americas.

Working with the Durban Film Office, the Department had funded the KwaMashu and Durban International Film Festivals and the compilation of a comprehensive Film Location Database. But efforts are underway for the establishment of the KwaZulu-Natal Film Commission and the Bill for the creation of the commission had been drafted. An agreement has been reached for the composition of the Board.

With this wave of interest in using our province as a ground for film productions, the province is considering designing incentives that would help enhance KwaZulu-Natal in the minds of film producers. However, until the KZN Film Commission is established, the full nature of incentives is still the preserve of the Department of Trade and Industry.

Sector Development:

- *Agri-business:*

The Department, jointly with the Department of Agriculture and Environmental Affairs and other stakeholders have been able to identify and package opportunities relating mainly to pecan nuts, cut-flower, essential oils, aloe and marula products and as well as value-add to livestock products. In partnership with the Agribusiness Forum and other participating organisations, we would be also working on the development of an integrated Agribusiness Strategy for the province that would help set productivity standards in this sector.

- *Furniture Cluster:*

Since its launch, the Furniture Cluster has helped in positioning KwaZulu-Natal as a serious furniture producer – and assisted SMMEs to develop appropriate technical and marketing skills to benefit from the international market for producing high quality items.

Through the SMME and BEE incubation programme, thirteen emerging furniture manufacturers have been afforded skills training through Furntech and another group is scheduled for this year.

A further partnership was facilitated with an Italian furniture manufacturer who was matched with the local producer, Thabo Designs and the Durban Point Waterfront. The Industrial Development Corporation had committed R30 million towards the activation of this business venture, which is worth R60 million in total investment and would be creating 50 employment opportunities once it starts operating in the uMgungundlovu district. Meanwhile, a women owned furniture co-operative, with technical and business training that was sponsored by the Department, had began negotiating for the purchase of shares in this company.

- *Information & Communication Technology & Electronics:*

In response to the global transformation into the information age, the Department has established the KwaZulu-Natal ICTe Cluster that helps co-ordinate the activities of industries in this sector. Moreover, the Department has completed the Provincial Broadband Strategy and Action Plan, and finalised business plans for IT, Electronic Parks and the uMsunduze ICTe Hub.

The growing business processing outsourcing service in the country, in line with global trends has resulted in us contributing R20, 8 million towards the establishment of three Call Centres in the

province. There are at least 210 youth owned companies that had received different business support from the Department, including financial advice and market access. Out of these enterprises, 15 are involved in IT business and the Department would like to see this number expanding to respond to new dimensions of our economy.

- *Performing Arts:*

With regard to performing arts and to ensure proper co-ordination of this sector, a provincial Arts and Craft Trade Directory that enables producers to access the market was developed and disseminated.

Last year about 120 crafters were assisted to expose their products to both local and international market. [The existence of opportunities in this sector are demonstrated by the following examples:](#) Mr Elliot Mkhize of KwaMashu landed a R20 000 deal for supplying copper-wire baskets to the US and Mr Vusi Gumede got an order from New York where he sold his wooden products such as traditional spoons and trays. Likewise with indigenous music, our objective is to ensure that our artists remain in the province by providing technical capacity and marketing of the local music. A feasibility study and business plan for the establishment of an Indigenous Music Hub in Ladysmith, has been completed and will be implemented this year.

In collaboration with the Department of Arts, Culture and Tourism, we are investing R10 million towards the establishment of non-profit making agency – tasked with the promotion of local music through recording studios to help our talented artists realise their dreams within the borders of our lovely province. As reported in the Provincial Budget Speech, this will ensure that the industry generates more revenue to be re-invested in the nurturing of more talent.

- *Textiles & Clothing:*

In recent years we had witnessed the clothing and textile industry struggling to cope with the influx of imports, which had resulted in many jobs being shed in this sector. Together with the private sector, we have intervened by establishing a Clothing and Textiles Cluster to help revive the sector through the introduction of more competitive strategies that will ensure our competitiveness in the

global market. Another challenge to effectively halt the consequences of relying on unskilled labour, is to invest more resources in the development of a pool of appropriately skilled personnel.

Business Regulation:

- *Consumer Education & Protection:*

This Department, Mr Speaker is mandated to promote a harmonious interface between business and their customers to ensure stability in the economy. The growing economy implies more work in terms of handling consumer complaints and hence the Department had dealt with 20 639 telephonic consumer queries. About 1364 written complaints were received while 1688 consumers personally visited the offices to report errant traders. A total of 1318 written complaints were resolved – with a 76 % success rate and an amount of R2 268 725 was saved on behalf of consumers.

Meanwhile, a computerised consumer management system is being developed with the help of the State Information Technology Agency and we hope this will help improve efficiencies in terms of turnaround time and accurate capturing and tracking of filed information relating to abusive traders. [We are convinced that the decentralisation of consumer protection services to district level will be more effective in servicing our people.](#)

- *Liquor Administration & Regulation:*

The liquor industry contributes significantly to the country's economy and has proved to be a viable business option for some emerging traders from disadvantaged backgrounds. We therefore believe that, like in other sectors, the laws and procedures guiding this industry should be designed to incorporate the concept of black economic empowerment.

Despite challenges experienced in the process of regulating liquor business in the province, the Provincial Liquor Board processed 2168 licence applications of which 1911 were adjudicated by the board. This resulted in a total of 1399 liquor permits being issued to deserving applicants. As we try to improve efficiencies in the processing and management of liquor licences, a computerised Liquor Management System has been developed and went live on 1st April.

Mr Speaker, the year ahead requires that we finalise the Provincial Liquor Bill and begin implementing it to ensure we close the gaps that are often exploited by illegal traders. I am confident about the prospect of this legislation and through support from this house and the rest of our communities, we should be able to finalize this legislative framework.

3. INTEGRATED BUSINESS & ECONOMIC EMPOWERMENT:

Integrated Business Support:

The Integrated Business Support unit had established four Service Delivery Networks in the form of One-Stop-Shops that provide information and business support to emerging entrepreneurs. These facilities are located in Newcastle, Ladysmith, Richards Bay and Kokstad. This year will see the completion of the roll-out process of these facilities in the remaining seven districts.

In partnership with the India based National Small Industry Corporation Limited, an SMME Feasibility Study recommended the establishment of the Technology Demonstration Cum Training Centres. Nine TDTC's and two Business Incubation Centres will be established to broaden the skills base and economic participation in the province. This will also include the training of 370 emerging entrepreneurs and assistance of 100 to access market – a move that is expected to generate 1250 jobs.

Co-operatives Development:

Our resolve to scale down the difference between the first and second economies has over the past two years led to a wave of interest in the communities to enter various kinds of businesses in the form of co-operatives. We responded to the call. The initial R110 million fund for the establishment of co-operatives in 2005/06, attracted a wave of applications. About 3 248 co-operatives have received training from FET's to develop skills required to draw business plans.

This year, the co-operatives movement would see the creation of seven Financial Services Co-operatives. About 2 200 Primary Co-operatives and 33 sector-specific Secondary Co-operatives are also to be established – leading to the generation of around 2 000 jobs.

Black Economic Empowerment:

One of the Department's mandates is to lead the process of promoting black economic empowerment in the province. I am pleased to report that a comprehensive provincial Broad Based Black Economic Empowerment Strategy had recently been exposed to extensive review and updating to ensure its compliance with the salient parts of the legislation relating to empowerment, and in particular the release of the Final Codes of Good practice in December.

To ensure that we have communities developing an interest in the BEE debate, we have initiated the establishment of district BEE Forums. We will focus on small towns and rural districts in order to increase the awareness and understanding about the significance of BEE, which will cut across the urban and rural divide. While on BEE, I wish to report that once again, the Department successfully hosted the annual uMyezane Business Awards to recognise companies and individuals that have contributed to the advancement of black economic empowerment.

Before moving to the public entities, Mr Speaker I would like to report that we have wound up the operations of the Provincial Rehabilitation Trust Fund. The initiative was established by the provincial government in 1999 with a budget of R10 million to provide some financial assistance to businesses that were destroyed during the height of political violence that gripped our province in the 1980s and 1990s. About 550 businesses had received credit guarantees with the total value of R15, 5 million and were able to revive their enterprises that included butcheries, supermarkets, bottle stores, restaurants and construction.

4. PUBLIC ENTITIES:

The three entities under the statutory control of this Department continue to play a cardinal role in the campaign to fast-track economic growth in this province.

Lthala Development Finance Corporation:

Our development and financing institution, Lthala serves as a vital partner in the acceleration of job creation in the province and had provided loans worth R191 million to 203 SMME's resulting in the generation of 1536 employment opportunities. This has been coupled with the organization's

participation in the promotion of co-operatives in which R89 million was made available to 541 co-operative enterprises scattered across the province.

Through Ithala's project management services in the implementation of the expanded public works programme, 184 contracts worth R307 million were awarded. Skills remain the biggest challenge amongst small scale businesses and therefore Ithala had made it possible for about 2438 emerging entrepreneurs to be exposed to mentorship and entrepreneurial skills training to ensure they ran profitable and sustainable business operations.

Ithala provided R228 million in the form of home loans for 4466 applicants. At the same time 143 238 new saving accounts were created, which resulted in the total of R1, 285 billion worth of deposits compared to R1, 271 billion the previous year. This was a R14 million increase.

While we are confident of Ithala's abilities, we are also mindful of some challenges, especially the shortage of skills to meet high expectations to deliver on critical areas such as the SMME's and co-operatives. Inadequate internal business processes could adversely affect the organization's operations – hindering desperately needed service delivery to the poor communities.

However, Ithala intends improving the functionality of the customer interaction centre that was recently established to effectively handle and manage all business finance loan applications and client interaction services. Amongst other things, the centre is expected to provide an atmosphere in which customers feel welcome and cared for while acknowledging the accessibility of all Ithala services. Meanwhile, a structured mentorship and skills development programme has been introduced to combat skills deficiencies in this institution.

The Growth Fund:

Chairperson an amount of R500m has been allocated for the Growth Fund for the financial year 2007/08. This amount comes from the allocation that Treasury has moved from its vote to the Economic Development vote.

It is important for me to acknowledge at the outset that there have been structural and management inadequacies in the management of the Fund. A lot of reliance was placed on the role of Advisors rather than increasing the capacity of management. For their part advisors have been thin on the ground and also placed in the main outside of the Province. These factors together have contributed to the slow processing of projects in the Fund. We have faced these challenges in two ways. The first has been to do an overall restructuring of the Fund management company. As a consequence, we are to advertise leadership positions in the Growth Fund Management during this month.

There is a firm relationship with the partners (who are co-investors) in the Fund namely, Sanlam, Standard Bank, INCA and the Development Bank of Southern Africa (DBSA). In order to ensure that the Fund is brought back on track, the DBSA has agreed to provide technical assistance to the Fund Management. This assistance has already seen the finalization of contract and Trust documentation between the partners. With these documents now ready for signature, we are assured that the Growth Fund will pick up its momentum this financial year. Furthermore the DBSA has a long standing capacity in the area of technical evaluation of projects using a development focus rather than a pure commercial banking approach (an issue that generated intense debate amongst participants in the Fund). This is the expertise that is now brought into the Growth Fund and will see an acceleration of projects approval and implementation.

Chairpersons, at the inception of the Growth Fund in 2005 a number of projects were announced. A number of these projects have been withdrawn by their sponsors or project promoters for a variety of reasons. The withdrawn projects include:

- new dam at Amajuba
- the electricity infrastructure for the textile manufacturing in Mpofana
- the manganese plant; and
- the biodiesel refinery in Newcastle.

Delays in the finalization of Business planning processes are the reason for slow progress in the following projects:

- the Port Shepstone marina;

- the wine cellar in Escourt;
- the Edendale IT Hub but we are confident that these projects will soon be presented for funding.

Despite some delays, I am pleased to report that some projects have received support from the fund and are operational. These include:

- the establishment of the ship-building yard at Bayhead Marine Industrial Park and
- the Amatikulu Prawn Farm.

Currently, two project applications, with an average loan value of R75 million (ranging from R30 million and R150 million) are being assessed each month. This target is well in line with the private sector trends on funds of this size.

The projects that are in the final stages of approval in the next two months include:

- funding for a five star hotel in Durban
- a beverage equipment manufacturing company
- a cement manufacturing plant

We are on track to ensure that the R500 million allocated by Treasury will be committed in various investments this financial year and the Development Bank of Southern Africa is currently providing technical support to project assessment.

Trade and Investment KwaZulu-Natal:

Over the past year, the province had attracted substantial investments to the province and benefited from export opportunities that had been created through TIKZN initiatives. During the year ending on 31st March 2007, TIKZN had scored some exciting achievements that included the assistance rendered to 519 people to be able to compete effectively in the export market. **Eighteen new markets were created for the province's products that resulted in 59 products being promoted in these markets and four BEE companies accessing them – creating more new jobs.**

By December 2006, TIKZN had clinched R609 million worth of investments and this was expected to reach R709 target by March this year – and 2 800 employment opportunities were created – with the prospect of more in the current financial year, especially given that we have around 22 investment projects being lined-up with a value of R5, 2 billion. In the meantime, the agency has packaged six projects for promotion to potential investors and these are Woodstock Resort, Yellow Phosphorus, Mariannhill Industrial Park, Ilembe Food Processing, Newcastle Dry Port, and Shipbuilding Cluster.

The organization is aware that its strategies had never been benchmarked before and we are confident that TIKZN will continue being an effective representative of the province by ensuring that we get a bigger slice of foreign investment destined for this country.

Dube Trade Port:

Honourable Members, as we get closer to the first ever Soccer World Cup to be held on the African soil, we are expected to move swiftly in providing world-class infrastructure required for a successful tournament. In addition to the stadiums and other allied facilities, KwaZulu-Natal is working towards the establishment of the Dube Trade Port at La Mercy on the north of Durban.

Negotiations are at an advanced stage with the preferred bidder, Ilembe Consortium, and it is anticipated that a contract will be signed this month. The EIA process is also at an advanced stage and we anticipate that the final report will be submitted to the Department of Environmental Affairs this month. We expect to have a positive Record of Decision by the end of May for construction to start soon in June.

We are grateful to the support we have received from the national government and ACSA – that led to the conclusion of the Co-operation Agreement in December 2006. This support is an indication that Dube Trade Port is in line with the national vision of growing the country's economy by 6%. It also fits well with the objectives of ASGISA and we are determined to make this initiative a reality as it would help elevate our province into a prominent position in the world market over the

next decade. Before the activities of the World Cup tournament are declared officially opened, the new generation jumbo jets would have begun gracing our eastern sea-board skies.

6. CONCLUSION:

In conclusion, Mr Speaker and Honourable Members, for the Department to achieve all the above objectives, a significant degree of restructuring will be necessary. The budget allocation we have for this year, will go a long way in addressing the challenges faced by our people. With the support from various stakeholders, including the industry, other government entities and community structures, we are optimistic that 2007/2008 will be the year of visible delivery that is shown in the improved quality of life amongst the citizens of this province. Together, we can build a winning province.

Now I wish to move the Budget for Vote 4, which is the Department of Economic Development for the year 2007/2008 according to the following programmes:

PROGRAMME	BUDGET ALLOCATION (R000)
Administration	45 575
Integrated Economic Development Services	1 008 299
Trade and Industry Development	321 418
Business Regulation and Governance	10 232
Economic Planning	8 917
TOTAL BUDGET	1 394 441

I now move the budget of R1 394 441, 000 for the 2007/2008 financial year. I so move...

I thank you.

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KZN MEC for Finance and Economic Development