

# **KwaZulu -Natal Department of Economic Development**



## **Vote Four**

**Budget Policy Speech 2008/2009**

**Delivered by**

**Dr Zweli Mkhize, MPP  
MEC for Finance & Economic Development**

**22<sup>nd</sup> April 2008**

**Budget Policy Speech delivered by KwaZulu-Natal MEC for Finance and Economic Development, Dr Zweli Mkhize in the Provincial Legislature on 22<sup>nd</sup> April 2008**

**Honourable Speaker;**

**Our Premier, Manzankosi;**

**Fellow Members of the House;**

**Distinguished Guests;**

**Members of the Media present;**

**Friends, Ladies and Gentlemen.**

The Department's strategic objectives are closely aligned to the Millennium Development Goals of reducing poverty by half and increasing economic growth to 6% by 2014. The Industrial Development Strategy talks to the prioritized sectors which have been receiving dedicated attention by the Department over the past three years. There is now a need to review that in light of the substantial increased growth in the construction sector of 12% in 2005, followed by finance sector 5%, transport and communication at 5, 4% and wholesale and retail trade hotels and restaurants at 4, 9%. Aligned to this review is the need to look at the human capacity needed to meet the demands of the growth in these sectors. Year 2010 has provided the platform for growth and development and requires specific attention in the areas of accommodation and catering, tourism, services, transportation and logistics, security and facilities such as fan parks.

Government collectively should be aiming at a skills development programme, which is responsive to the economic forecast or future economic growth patterns and which is premised on the needs of industry in order that we become self-sustainable in the provision of skills and therefore impact directly on the strategic objectives of reducing poverty and halving unemployment.

The 2007/2008 financial year has seen major development initiatives in the economy of KwaZulu-Natal, beginning with the ground-breaking of the Dube Trade Port and King Shaka International Airport, an investment of R6, 8 billion, and the Soccer Stadium of R2, 6 billion – bringing in labour-intensive construction and a hive of economic activity to the province. This will certainly have an impact on the current unemployment levels of 29% (March 2007), a figure which has decreased from the levels of 33% in 2004/2005 (*Source: Stats SA*).

Such Investment by government also signals an improvement in investors' confidence in the province. The challenge is now to sustain such confidence in the light of the recent power shortages, rising fuel costs, interest hikes, turbulent world financial markets and skills shortages facing industry. What is of even more importance is the likely impact on the current poverty levels given the anticipated increased traveling costs and increase to basic food commodities on low income households.

### **Integrated Business Support:**

In one of his addresses, Clem Sunter, concluded by saying that the South African economy needs more foxes, i.e. small entrepreneurs to create employment and growth. I would also want to quote from his book titled *The Mind of a Fox* wherein he states :

*"The critical difference between a hedgehog and a fox is their attitude to strategy. Hedgehogs will stick to a strategy through thick and thin and never consider any deviations. Foxes will stick to a strategy but regularly check out the environment to see whether the strategy should be amended in any way."*

This is particularly true of our approach to the enterprise development strategies in terms of the need to continuously re-assess.

In the past three years we have injected R760 million into SMME and co-operative development initiatives, and approximately 1,948 co-operatives and 1,526 SMMEs have benefited from our efforts. We have undertaken a review of the programmes and have identified the key challenges as weaknesses in our systems of support, lack of skills development in areas of business and financial management and marketing; appropriateness of financial models, and the lack of mentorship and incubation to assist them through difficult times. Due to these difficulties there have been further challenges in establishing the secondary and tertiary level of co-operatives, which play a key role in institutional support. The current economic conditions are difficult enough for the large organisations and hence the small business sector is the first to suffer substantial financial loss. This has seen a serious decline in the recoverability of the loan book at Ithala Development Finance Corporation, with an average of 53% of the total ledger book of R1,075 billion being considered bad, i.e. outstanding for longer than 90 days.

Government has also not played its role in supporting these programmes, in that departments are not meeting the targets set for preferential procurement spend on SMMEs and Co-operatives.

A review will be conducted to identify new ways of rehabilitating and strengthening the small businesses which have been affected. We have, furthermore, introduced an intensive revamped training programme, which addresses the identified skills gaps. This intensive three month training programme was developed in partnership with FET colleges, University of Zululand and expertise from Kenya on co-operatives development. Training began in earnest in January this year, seeing 200 co-operatives trained at the FET colleges and a further 500 is targeted for 2008/2009.

We have also expanded our operations to the districts – having acknowledged the need to spread our wings across the province to augment our service delivery in the respective localities. We have pooled our resources with other statutory organizations such as Small Enterprise Development Agency (SEDA) and Ithala – and have seven functional support centres which will provide entrepreneurs with much needed support and advice.

We acknowledge the experience of other countries in this field, and we have signed technical agreements with India to access their know-how in the small enterprise development field. This collaboration includes the purchase of machinery and equipment required to develop the Technical Demonstration *cum* Training Centres that will optimize co-operatives' business skills.

We are currently reviewing the funding models for small scale enterprises; the development of SMME and Co-operative Strategies; formulating their graduation model in line with the mentorship programme as well as conducting research on the impact of these business ventures on the province's economy. We further expect SMMEs to benefit from the revival of townships and village trading centres by providing appropriate facilities within which to do business.

The 2008/2009 financial year sees a further injection of R428 million into Ithala's funding and support programmes for both SMMEs and Co-operatives. An additional micro-financing facility, *Isilulu Sabahwebi*, is being established in partnership with Provincial Treasury which will allow absolute micro-lending to take place at affordable rates. Whilst *Isilulu* will focus on financial services co-operatives, which are geographically defined, it will remain flexible to assist provincial wide initiatives.

Despite the challenges we are facing, we are determined to continue with this campaign until the current skewed access to economic opportunities is reversed for the betterment of the majority of our people.

### Local Economic Development:

KwaZulu-Natal's LED programme, which houses the Gijima KZN Fund, provides funding for capacity at municipal levels as well as for specific projects to develop the local economies. The programme has been a tremendous success, having recently received accolades from First National Bank. Since its inception, the Gijima KZN programme has supported a total of 193 projects with a grant value of R141 million, backed by R85 million of funding leveraged from private financial institutions. All this has cumulatively translated into 457 permanent and 976 temporary jobs. The success of this programme is attributed to the strength of partnerships with private and public sector organizations as well as district municipalities.

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In the provincial budget speech in February, I reiterated our commitment to transform our economy for the benefit of the historically neglected communities. We have pledged R150 million over the MTEF for the revival of village and township economies through the promotion of strategically designated trade centres, in which local entrepreneurs will be able to ply their businesses - offering a wide range of products and services within the township areas. This amount will fund feasibility studies, and the acquisition of properties for the creation of village markets for local entrepreneurs to trade. This will be undertaken in partnership with Ithala to ensure sustainability. This initiative will impact directly on the poverty levels of communities as household incomes circulate and thereby revive the village and township economies.

### Black Economic Empowerment:

The Provincial Executive has approved the Provincial BBBEE strategy, enabling the Department to actively drive the co-ordination of all empowerment programmes in the province. The key themes of the strategy talk to Preferential Procurement; Access to finance and asset base; Skills Development and Dissemination of Information. We have provided for the role of the ombudsman, a critical role within the strategy, and we are due to fill the position in the first quarter of 2008/2009 financial year.

The provincial Cabinet has committed to a procurement spend of 10% for co-operatives and 40% for SMMEs, and this will be monitored closely and reported on a quarterly basis. It will be expected that Heads of Departments through their heads of Supply Chain Management Units will meet these targets and this should form part of the terms of their performance agreements for 2008/2009.

The strategy is a provincial product and will require the collective efforts of all provincial departments to ensure that we see tangible benefits being passed to the intended beneficiaries. I look forward to presenting the results this time next year. A study currently underway to analyse the status of BEE in the Province of KwaZulu-Natal is due to be completed by 31<sup>st</sup> July 2008, and this will form the benchmark of measuring the success of our strategic interventions.

### **Trade & Sector Development:**

#### **Arts and Crafts**

Following the creation of the arts and crafts cluster the focus of our Department this year will be the creation of the Arts and Crafts Emporium in partnership with eThekweni and DTI to improve on the sales and marketing of arts and crafts. The Emporium will be based in Smith Street in eThekweni and the Department is injecting R1,5 million this year into the facility which includes retail space, a Design Centre, a show room and training facility. Significant investment is to be made in capacity building to ensure that high-quality goods are produced.

The Music Recording Studio for the production and promotion of indigenous music is nearing finality. An operator has been identified, namely Combined Artists and details will be announced as soon as the agreement has been signed.

#### **Furniture and Wood Products**

This House will recall that a furniture cluster was developed in 2005. Since then steady progress has been made in the growth of this sector in the province.

In this financial year our energy will be focused on supporting community forest growers, supporting existing SMMEs and co-operatives – and organizing communities to assist them to participate in this industry. We have budgeted funds to help with training and governance in order to introduce meaningful black economic empowerment in this industry in partnership with DWAF and the Land Claims Commission. This work will culminate in the Provincial Forestry Strategy.

#### **Bee Foundation**

As has been reported to the Portfolio Committee on Finance and Economic Development, the Bee Foundation project began with the intention of empowering communities through the generation of sufficient income to earn a decent living to support their families.

Unfortunately the non-delivery by the service provider resulted in the cancellation of the contract and the subsequent legal action to recover monies due to the Department. Parallel to this process we have embarked on a fresh review of the feasibility of the project, given the time which has elapsed. An appropriate strategy to resurrect the project in a form which is sustainable is also being developed, given that training did take place and bee hives are available for honey production. The feasibility study and strategy are due to be completed by the end of this month.

### **Agri-Business**

The Department will continue in conjunction with the Department of Agriculture and Environmental Affairs, to focus on moving local agricultural production from subsistence farming to commercial farming with export opportunities. This strategy encompasses the philosophy of one-product-one-village based on each area's agricultural advantage. Particular focus has been placed on poultry farming in response to supplying the hospitals by co-operatives and small growers and therefore will result in participation at each stage of the value-chain.

Another area of focus is on goat farming, where a lot of work has been done to ensure the promotion of the emerging goat farmers. A provincial goat summit will be convened in partnership with the Department of Agriculture & Environmental Affairs to strategise on meeting the local traditional demand and the emerging commercial interest in the sale of chevon (goat meat). Chevon is highly recommended of late, because of its low content in fat and cholesterol; 40% lower than beef, rabbit or chicken with the skin removed, yet with a higher protein content.

An agricultural forum with the respective role-players has been established for the development and implementation of a Master Plan to address the opportunities presented by Dube Trade Port. This will ensure that not only the immediate areas surrounding the Dube Trade Port benefit from export opportunities, but that there are logistical freight villages that open the opportunity throughout the province.

### **ICTe and Business Processing & Outsourcing**

The transformation of the world into a global village through technological advancements hasn't left this province behind. However, the challenge we have is the lack of necessary skills and facilities to participate in the global information highway, as ICTe is a major creator of employment. Guided by our Provincial Industrial Development Strategy we have looked for innovative ways to breach the ICTe chasm. We are pursuing several projects aimed at developing KwaZulu-Natal as an ICTe hub.

In response to the global growth of the Call Centre industry, we have developed a BPO pilot project resulting in the training of call centre agents that have benefited 400 people. A BPO centre in Ixopo supported through the DTi initiative is almost complete whilst two other centres are being established in Newcastle and uMhlatuze. An additional batch of 600 call centre agents will be trained this year. In the long-term this industry will provide tens of thousands of jobs. Following our participation in the highly successful Africa-India Conclave last month, we are currently pursuing an agreement for skills development in ICT in partnership with the Confederation of Indian Industries and the National Institute of Information and Technology of India which will result in thousands of people being trained.

This year we will launch a Science and Technology Institute as a collaborative effort involving the Department of Education, Department of Science and Technology and the National Research Foundation, with a specific focus on mathematics, science and technology. This facility will become a centre of excellence for the production of ICTe skills. It will be housed in eThekweni FET college, and will grow to have an impact on the entire province. Private sector players in the ICTe cluster will also be involved in this initiative. The first intake for 2008/2009 is anticipated to be 200 students given that this is the first year of operation and a number of institutional arrangements need to be made, including the securing of partnerships.

#### **Consumer Education**

The Department plays a role in the promotion of commercial rights of consumers to protect them from unscrupulous traders whilst acknowledging honest entrepreneurs who value their integrity and rights of their clients. The Department therefore embarked on consumer education and investigated over 1,500 cases with 72% success rates of all complaints resolved. About R1 453 300 has been recovered on behalf of consumers.

Utilisation of electronic and print media reached an estimated 7,5 million consumers – focusing on responsible borrowing and avoiding debt traps. This was done in partnership with the National Credit Regulator - offering debt counseling services and information about the National Credit Act. We have introduced the *Crown Awards* to recognize commercial institutions that demonstrate passion in supporting our cause.

#### **Liquor Administration:**

The Liquor Bill is undergoing major revision which will result in it being withdrawn from the Legislature for re-tableting later. It is our intention that we finalize this Bill within the next few

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months in order to create the Provincial Liquor Authority, which will replace the Provincial Liquor Board. One of the major challenges which the Bill aims to respond to is the escalation of illegal traders whose activities currently fall outside the scope of the Department.

Approximately 3, 980 applications for trade permits were received and the Board adjudicated on 3, 339 applications. Out of 8, 051 currently active licenses, about 2, 019 were conditionally granted. Grapevine has it that illegal liquor outlets are just as many. Thirteen awareness workshops were conducted to caution people about the fatalities related to carelessly indulging in alcohol and potential traders were informed of the processes required before permits were issued to deserving applicants.

### **The Collaborative Efforts of the Public Entities to Support Sustainable Economic Growth:**

The Department and the entities have a mandate to help the province grow the economy to 8% by 2014. This collective effort has been well financed and will see the following strategies being introduced:

#### ***Trade and Investment KwaZulu-Natal***

We have embarked on a robust promotion of KwaZulu-Natal as the preferred investment destination. This will be coupled with tourism promotion linked to the 2010 World Cup where we aim to not only attract tourists but potential investors to the region. The image of KZN domestically and abroad is growing as a result of our interaction with strategic partners and potential investors both locally, nationally and internationally.

The hosting in October 2007 of the much talked about first South African International Trade and Investment Conference and Exhibition contributed greatly towards profiling KZN as an investment and trade partner. The conference attracted over 800 delegates from many targeted countries including Germany, Switzerland, USA, China, Nigeria, Mozambique, India and Portugal to mention a few. We have begun a process of packaging investment opportunities which will lead to the inclusion of local black promoters of such key projects.

We have developed the appropriate tool to market the province through an electronic investment map which provides detailed information on the province, the economic advantages of each district as well as the associated packaged investment opportunities. This integration allows us to promote investment opportunities and possibilities of creating base camps and training venues for 2010 on one platform. R970 million worth of investment commitments were

finalised during the year. The strategic review of existing trade agreements with South Africa and a scientific study which indicates growth areas, as well as the priorities of DTI, resulted in the focus on the Middle and Far East e.g. United Arab Emirates, China, India and Japan.

Linked to promoting trade in the province we in partnership with eThekweni Municipality, Durban Chamber of Commerce & Industry and Trade & Investment KZN, established the *Trade Point Durban* in February this year which aims to help local enterprises access foreign markets and interface with their global counterparts. This is the first trade point in the country to satisfy all the basic conditions to become a member of a global network of trade points, the World Trade Point Federation.

### ***Dube Trade Port***

Linked to the promotion of the province is the opportunity which Dube Trade Port (DTP) presents in terms of unlocking and changing the movement of carriers around the world. There is an aggressive marketing strategy underway to attract the appropriate airline services which will link the very countries being targeted by TIK as referred to above. To date, negotiations have been initiated with the likes of Emirates and Jet Airways – ensuring that we sign up major global carriers well before the airport is commissioned in 2010. The discussions with Emirates are in their final stages and they have been granted a license to fly to Durban this year thereby allowing for a build up of passengers ahead of 2010.

The Dube Trade Port has experienced its most successful year in its short history. In May 2007 contract negotiations were concluded between the Airports Company of South Africa (ACSA), the DTP and the Ilembe Consortium to the value of R6.8 billion to Engineer, Procure and Construct (EPC) the new international airport and trade port at the La Mercy site.

In August, the project received a positive Record of Decision from the Department of Environmental Affairs and Tourism. Construction commenced in September 2007. To date, more than R1, 6 billion has been spent on the design, earthworks, piling and platforming, batching plants and building works. I wish to congratulate the DTP Board, CEO and the whole team for such significant progress.

I am also happy to announce that ACSA, DTP and Ilembe have concluded an acceleration agreement to bring the project back to its original hand over date of March 2010. This was necessary, in the light of the 77 days delay in receiving the Record of Decision. The amount agreed for the acceleration is approximately 6% of the total project value. Construction is now

well advanced and on track to meet our deadline in order that we are able to have an operational airport in time for our first visitors attending the 2010 Soccer World Cup.

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About 70% of the procurement spend within the EPC contract of R3, 2 billion is dedicated to BEE suppliers. I am therefore confident to assert that the Dube Trade Port is the first infrastructure project in the country that has set aggressive BBBEE targets in line with the Act, supported by active monitoring and reporting mechanisms measuring progress. The first reports in fact reflect an over-achievement of the targets set.

### ***KwaZulu-Natal Growth Fund***

Whilst we are confident on the outcome of our promotion strategies we need to ensure that we have the appropriate after-care systems in place to ensure that the very investors we attract to this province remain here. Furthermore the investment promotion we undertake will clearly demand the requirement for local empowerment partnerships. We are fortunate to have all the tools at our disposal in the Growth Fund as well as Ithala.

Both these institutions provide the funding support for empowerment deals to effectively be finalized in KwaZulu-Natal. Whilst we are therefore providing all the opportunities for empowerment we need to now look at how we assist in the provision of equity funding which currently is a hindrance to the finalization of empowerment deals. Ithala has been tasked with formulating the appropriate equity financing tool which will address this need. I am pleased to report however that in terms of newly funded large businesses owned by black entrepreneurs we have made progress. To cite one example, the first 100% black owned company that manufactures high-voltage power cables and house wire known as the International Power Cables has been funded through the Growth Fund.

The KZN Growth Fund has been set up as a fully operational R1, 5 billion infrastructure finance organisation – representing a partnership between government, development finance and private sector organisations. Through its approved mandate and investment policy, the KZN Growth Fund is well positioned to contribute towards development through the financing of infrastructure projects within key sectors such as tourism, bulk Infrastructure, power and energy, telecommunication, transport and logistics, amongst a few other sectors.

Key results to date have seen the KZN Growth Fund's Investment Committee approving a total of twelve projects, with an estimated value of R414 million - spread across key economic sectors such as manufacturing, transportation and logistics and agri-processing. Given the

province's population size and unemployment rate, the KZN Growth Fund's investment is set to contribute an estimated 858 new direct and indirect job opportunities based on each project's capacity needs during implementation and beyond.

Another project worthy to mention is KZN Portland Cement which is a medium sized cement manufacturing plant located in Richards Bay. The Fund's R43 million loan has created the first black-owned and controlled (89%) cement manufacturing facility in the country, contributing some way to meeting the demand for quality cement to feed the unprecedented infrastructure growth in KwaZulu-Natal and South Africa. Some 74 direct new jobs are being created.

By 31<sup>st</sup> March 2008, the Fund had developed a funding pipeline with an estimated project value of R2, 29 billion as potential funding applications covering key sectors – underpinning the province's economic growth and development agenda, such as transportation and logistics, tourism, energy, bulk water and telecommunications. In addition, a number of substantial empowerment projects at the first level of the economy are even more likely to come to fruition given the link to the Dube Trade Port and the opportunities which the facility presents.

While we recognise the importance of attracting new businesses to settle here, we must not overlook the need to retain existing businesses and encourage them to expand and further contribute to local economic growth. A joint initiative between the KZN Growth Coalition and the KZN Economic Cluster has established a working group comprising senior government officials from the various ministries within the Provincial Government structure to fast tract blockages that prevent or delay the commitment of investment projects. The private sector is also a participant within this working group. We believe our agency is on the right track and will continue to put KZN on the world stage of compelling investment destinations.

#### ***Ithala Development Finance Corporation***

Ithala remains one of KwaZulu-Natal's unique facilities to assist in the transformation of province's economy, address issues of wealth distribution and create wealth at the bottom of the pyramid. Ithala has attempted to take the lead in driving the new developmental programmes of poverty alleviation and the development of the SMME sector. Given that this developmental programme, has not taken place in this form anywhere in South Africa, one could expect to experience difficulties in the initial phases.

Members are aware of the challenges currently facing Ithala due to organizational and systematic issues. Whilst the financial status remains healthy for Ithala as a group, the bad book of loans for SMMEs and Co-operatives is high as stated earlier. Specifically the co-operatives loan book of R150 million has a bad book of 91%; the micro-finance loan book of R87,9 million stands at 72% and Micro and Small of R131 million is at 78%.

We have put into place a progressive strategy to turn the organisation around to ensure that its mandate as contained in the Act is in fact achieved. The strategy commenced with the appointment of a new leadership of the organization, with the appointment of the majority of new Board members and new Chairperson, Ms Manana Nhlanhla, as well as the appointment of Ike Nxedlane as the new CEO with effect 1<sup>st</sup> April 2008.

We will also be focusing on assessing the economic impact of the SMME and Co-operative programme and reviewing the financial models which will enhance the sustainability of the individual businesses while preserving the loan book of Ithala. The CEO is in the process of procuring the best banking models from the likes of Grameen Bank based in Bangladesh whose financing models have seen a recoverability of 95% of co-operative loans. He will also be sourcing the support of DBSA to assist in capacity building and concretizing the partnership to improve our funding mechanisms going forward.

We will be finalizing the reviews of the remuneration and governance issues resulting from investigations requested by the Portfolio Committee. Given the strategic importance of the role of Ithala in changing the lives of the people in the province we will be giving this matter absolute priority and expect to see positive changes within the next three to six months.

***Budget for the Department:***

The significance of the mandate of the Department and its entities is reflected in the financial allocation as reflected in the budget and the substantial increase from R143,4 million in 2005/2006 to R2,6 billion in 2008/2009. The increase can be linked to the new programmes in Ithala, the Growth Fund and the substantial investment into Dube Trade Port. In fact the substantive portion of the increase of this past year can be attributed to just that. Other minor increases relate to the provision for an increased organisational structure of some 133 new staff members joining the Department and the anticipated establishment of the Liquor Authority and Film Commission.

May I take this opportunity to thank the members of the Portfolio Committee headed by Ms Belinda Scott; Head of Department Ms Carol Coetzee, her management and staff; Boards, Chief Executive Officers and staff of Trade & Investment KZN, Ithala, Dube Trade Port, Growth Fund as well as the Ministry staff for all their support.

I now wish to move the Budget for Vote 4 of **R2, 646,518, 000**, which is the Department of Economic Development for the year 2008/2009 according to the following programmes:

<b>PROGRAMME</b>	<b>REVISED BUDGET 2007/2008 (R000)</b>	<b>BUDGET ALLOCATION 2008/2009 (R000)</b>	<b>% INCREASE</b>
Administration	52 486	66 825	27,3 %
Integrated Economic Development Services	834 610	878 468	5,25 %
Trade and Industry Development	572 093	1 631 730	185,2 %
Business Regulation and Governance	10 998	58 165	428,8 %
Economic Planning	8 254	11 330	37,3 %
<b>TOTAL BUDGET</b>	<b>1 478 441</b>	<b>2 646 518</b>	<b>79 %</b>

I thank you.

**Dr Zweli Mkhize, MPP**  
**KZN MEC for Finance and Economic Development**  
 22/04/2008