

PROVINCE OF KWAZULU-NATAL

Budget address by Dr Z L Mkhize on tabling of the Provincial Budget in the Provincial Legislature – 3rd March 2005

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 2005

When the President opened Parliament on the 11th February this year he reminded us of the vision of the Freedom Charter that proclaims:

“South Africa belongs to all who live in it, black and white.”

The Freedom Charter was adopted by the Congress of the People and this year South Africa celebrates the fiftieth anniversary since its inception. The Charter continues to proclaim that

“the national wealth of our country, the heritage of South Africans, shall be restored to the people.”

This is the vision of all the peoples of this country. This vision challenges us to look at the instruments of the state including this budget and ensure that it is truly directed towards a better life for all of us.

Last week our country congratulated Hon Trevor Manuel for the most positive budget in the history of our country, outlining how the vision of President Mbeki and the national government will be fulfilled. This is the programme to give meaning to that vision espoused in the Freedom Charter.

Last week, again KwaZulu-Natal listened attentively to vision of this Province as espoused by His Majesty ISILO Samabandla during the opening of the Legislature. The role of ISILO as a symbol of unity has led to peace in the Province of KwaZulu-Natal, and has resulted in cooperation of the leaders of different parties in this Province.

I want to pay tribute to the leadership of our Premier who has formed a representative multiparty government to serve the people of KwaZulu-Natal. I am here to present a budget speech which will implement the instructions of the Premier of this Province,

Honourable Ndebele who again, outlined the direction this Province is taking when he presented the State of the Province Address this week. The work we present is representative of collective wisdom of Cabinet and different Ministers and Departments under the leadership of the Premier.

Piloting this year's budget has been one of the most heartening experiences in my life. In planning this journey that criss-crossed the length and breadth of this region of my birth, I sought to reach out to communities to bring the budget making process closer to the ordinary people of this province. Leading the People's Budget 2005 Campaign across the green hills and valleys of our country side, across the dusty narrow roads of informal settlements and small rural towns, to the wide and tarred streets in the plush suburbs of the large cities of our province of KwaZulu-Natal reminded me of the train journeys of my youth.

It was a journey of empowerment to demystify the instrument which this people's government uses to make a difference in their lives. All of us know the destination – to create the conditions for the people of KwaZulu-Natal to get a better life. Access to clean water, shelter, proper nutrition, health care, education and jobs for all our people is our immediate destination. The message to our people was clear, understand this instrument and partner with your government to achieve economic growth. Used properly, this journey by train will take our people and our province to the distant destination, which is the full attainment of our vision of a united non racial non sexist democratic and prosperous South Africa.

Our economy also reminds me of this train of the old days of my youth. The drivers have changed but the train has hardly changed. The old compartments remain. Behind the engine room are first class compartments. While the 'whites' only class has gone, the first class compartments still exist, the racist labels are gone but the occupants have not changed. These compartments are in the many senses a metaphor for what the President Thabo Mbeki called the first economy. Behind the first economy is the second economy that fills the second and the third class sections.

In the consultation process leading up to the budget we saw these compartments in Watersmeet in Ladysmith, Osizweni in Newcastle and Ixopo and Cator Manor in the revived uMkhumbane, when thousands of people came to listen and tell us their stories of suffering and hardship. Unlike the days of apartheid the stories are told with a sense of hope and optimism. Now that our people can vote, they are convinced that their government has it in its power to transform their suffering of today into a positive future. Mainly poor people, many dispossessed of their land, unemployed or at best eking out a living in the informal sector.

Honourable Members, I am pleased to announce that when we embarked on this People's Budget Campaign we also interacted with the future leaders of this country – the youth. We met them in schools, on sports fields, in town halls and in places of worship.

It was these young people who inspired us most – their quest for a better South Africa and their ambition to take up leadership to change the course of history. There was expectancy and hope that their lot will change. And this budget speaks predominantly to this section of our society. In its provision of infrastructure, education and other basic services the People's Budget 2005 seeks to assure those who populate the second economy that they will not be the second class citizens any more.

At the Pietermaritzburg and Durban Chambers of Commerce meetings, many of the captains of the first economy came. The People's Budget 2005 also speaks to their need for economic stability, assures them of the partnership with government in the creation of a climate conducive for investment and international competitiveness. In turn we appealed to them to play a role in the transformation of the economy.

There was a realization that the first and second compartments cannot be completely isolated from each other with an impenetrable firewall between them. But, at the same time, this is not the train of apartheid. In this new South Africa, both compartments need to interact to feed off each other. This implies a symbiotic relationship to create dynamism for growth and prosperity for all.

On this budget journey, we have stopped at stations and encouraged learners, the elderly, the underprivileged, the youth, the wealthy and the down-trodden to get on and help influence the direction of this journey towards prosperity.

These, the majority of our citizens are wallowing in the fathomless sea of poverty at the bottom of the pyramid of the South African economy. For them, there are no choices, change must come, and it must come now.

For KwaZulu Natal the journey has begun.

There is no stopping now. Nothing shall de-rail the process. After ten years of laying the tracks, the journey has at last accelerated. We cannot disappoint our people.

Forward to a prosperous KwaZulu Natal!

Forward to a prosperous South Africa!

CHARACTERISATION OF THE ECONOMY

The provincial economy, like the rest of the country, remains trapped within the confines of a "dual" economy. The first economy is highly technological, is backed by a sophisticated banking and communication system, and has high productive output. This

is the economy that has given rise to the concept of jobless growth, fuelled by relentless advances in labour-saving technologies. The second economy is survivalist in nature, highly unregulated, has a high labour absorptive capacity and owns assets that cannot be securitised in the current banking arrangements, and therefore renders the participants in this economy poor.

Most of our citizens remain trapped in this second economy. The situation the new government has inherited has led to the realisation that if we are to succeed in breaking the province out of the straightjacket of low economic growth and high unemployment and poverty levels, we cannot proceed on the basis of "business as usual." This aspect was brought sharply to the fore by a student from Bonela High School in Durban who asked us to explain what value is a good economic growth rate if the jobs continue to be unavailable. Therefore, if we are to honour our contract to the people of this province to *create work and fight poverty*, we are going to have to do things differently. We need to open ourselves to new ideas and creative solutions to the challenge, articulated by the President himself in his State of the Nation address, of "eradicating poverty and underdevelopment, within the context of a thriving and growing First Economy and the successful transformation of the Second Economy." KwaZulu-Natal is a developmental province with an obligation to intervene to ensure a more distributive economy.

The broad objectives of our intervention will be to:

- Increase investment
- Increase the competitiveness of the regional economy
- Broaden participation in the economy
- Develop skills

All this will be done with a view to reducing, and eventually eliminating the gap between the two economies. In addition, in implementing government's development strategy, we will be seeking to do three things, namely:

- to create a partnership with the private sector;
- to integrate the provincial government's investment programmes and projects within a given spatial area, from small food security projects right up to major projects in the first economy;
- and to align service and infrastructure delivery between the local and provincial spheres within the framework of the Provincial Growth and Development Strategy.

Our programmatic response gives meaning to the developmental challenges outlined by Premier Ndebele in this House and in the public. The developmental challenges the Premier referred to are among the freedoms that the congress of the people vowed to fight for until we have won liberty for all our people.

Against the background of the social contract that requires us to create work and fight poverty, we are presenting today a programmatic response to that part of our contract. Our response is aimed simultaneously at *growing the economy, creating employment and fighting poverty* on the one hand, and *promoting empowerment, improving efficiencies and value for money* on the other. I will provide honourable members with an overview of the most significant initiatives and interventions we will be undertaking in the forthcoming MTEF, grouped into these two main themes.

Mr Speaker, while many people in KwaZulu-Natal are poor, their poverty has been worsened by the failure to recognise their inherent assets. Many development approaches, furthermore, tend to be done **for** the people and not **with** people. This vision is captured better by CK Prahalad in his book entitled "The Fortune at the Bottom of the Pyramid", as follows:

"If we stop thinking of the poor as victims or as burdens and start recognising them as resilient and creative entrepreneurs and value conscious consumers, a whole new world of opportunity will open up."

We therefore need to see this opportunity and open ourselves up to basic and practical approaches that unleash the potential of the poor. A prerequisite is to work with what they have and build from that.

During this second decade of our freedom, we commence with a train journey. In this journey we move in a stepwise rise from food security to economic prosperity. As Prahalad says, in this journey we will unleash the entrepreneurship spirit of our people with a view to improving food availability at the local level and also to improve individual and household incomes.

This characterisation of our economy and the interventions by government were clearly enunciated by Minister Manuel during his budget speech.

ECONOMIC GROWTH AND POVERTY ALLEVIATION INITIATIVES

Creation of centralised provincial funds

One of the prime reasons that past provincial budgets have been so ineffective as policy instruments in delivering the visible and measurable results that government requires, is that the provincial government has traditionally practiced incremental budgeting, with departmental baselines left intact, and only a relatively small pool of additional funding becoming available each year for allocation to new projects over and above the existing baseline funding.

Another weakness has been the failure to leverage private sector, off budget funding for development projects in the province through the many financing mechanisms and sources available in the market – the province, indeed, did not have an integrated financing strategy to harness both government and private sector funding within the framework of a coherent development strategy.

These constraints led to the decision to establish three centralized funds, namely the *Poverty Alleviation Fund*, the *SMME Fund* and *Provincial Growth Fund*. The broad intention behind the establishment of these funds is to give the government the means, through direct and integrated intervention mechanisms, to deliver measurable and visible results in terms of employment creation and poverty alleviation.

All three funds will be operated within the framework of an integrated financial strategy, aimed at stimulating economic development and growth of different segments of the economy including large, medium and small companies, existing and emergent businesses, informal enterprises and poor individuals and communities.

Provincial Growth Fund

This government intends to support and further stimulate the first economy – it is in fact this part of the economy which contributes significantly to economic growth in the region. The *Provincial Growth Fund* provides the provincial government with the means to kick-start significant economic growth, and hence employment creation, by providing seed capital for further private sector investment.

The Government and Standard Bank have agreed to work jointly on the establishment of a structured Provincial Growth Fund incorporating Infrastructure Finance with an initial target of R1.1 billion in deployable capital. The Fund will focus on making commercially attractive investments in mezzanine instruments in infrastructure projects in KZN. The structure and the governance of the Fund will reflect the priorities of the Government and extract the maximum of the credit enhancement provided by the province in the form of R440 million. Standard Bank will also provide a pre-feasibility opinion on the viability of potential infrastructure projects.

It is envisaged that the Growth Fund will provide seed capital for approved public-private partnership infrastructure projects that stimulate the growth of selected sectors, as defined in our industrial development strategy. The Growth Fund will be targeted at big infrastructure projects (R50m and above) that have a broad economic impact and yield a direct long-term financial return for government.

Projects which have provisionally been identified through Trade and Investment KwaZulu-Natal for funding from the Growth Fund include:

- A joint venture manganese smelter project at Newcastle aimed at supplying ferromanganese to Taiwan and China: provincial government contribution will be R90 million rand, mainly for supporting infrastructure;
- The revitalisation of the ship repair industry in the Durban port: provincial government contribution will be R30 million rand, aimed at skills development and training;
- A joint venture fish farming project with the Department of Agriculture, with possible pilot sites identified in Nongoma, and Sisonke and Umkhanyakude District municipalities: provincial government contribution – R30 million rand;
- A major textile factory in Mooi River by the Tai Yuen Group; provincial government contribution – R36 million rand, mainly for road and transport infrastructure;
- The development of African craft and village markets across the province: provincial government contribution – R40 million rand;
- Dube Trade Port public/private joint venture: estimated government contribution in 2005/06 - R100 million. In respect of the Dube Trade Port, a consortium of planners has been appointed to develop a master plan for the project. The plan will be submitted to the National Treasury for the first Treasury Approval.
- An amount of R50 million is set aside for the support of risk capital in respect to Black Economic Empowerment in the first economy.

This list is not exhaustive, and a range of projects aimed at reviving rural areas and decaying towns in outlying areas of the province are being considered. An important factor will be to ensure spatially even distribution of investment across the province. All the projects, furthermore, will be undertaken with a view to broadening participation in the economy, with the emphasis on BEE. These projects will be done in partnership with business and municipalities, and will aim to take advantage of the competitive advantage of the province in sectors such as agriculture, tourism etc.

Poverty Alleviation Fund

Important as these projects aimed at stimulating growth in the first economy are, our interventions in the second economy are even more crucial. Our approach to economic and people development is based on the concept of a stepwise rise from the local food security and household income improvements; to SMME support and development and then to large scale projects styled around the Provincial Growth Fund. Seen in the context of a pyramid, with the majority of our people stuck at the base level, the interventions at this second or base level become crucial if we are to succeed in the goal

of turning the pyramid upside down, with the majority of our citizens living in prosperity a decade from now, with only a small minority still trapped in poverty.

In this context, the express purpose of the Poverty Alleviation Fund is to have short to medium term impacts in improving the plight of those at the lowest level of the second economy who are poverty-stricken (i.e. earning less than R800 p.m. and without access to basic services).

The Poverty Alleviation Fund will be divided into two streams. The first stream has to do with the provision of Community Infrastructure and the second stream will cater for food security and economic empowerment at the subsistence business level. The latter projects will be organised along the lines of co-operatives, with priority given to income generating projects, particularly in the agricultural, agribusiness and tourism sectors, and economic and social infrastructure projects.

Mobilization of the Co-operative Movement

The intention is to mobilise communities to form co-operatives that will produce goods that are needed by communities in the areas in which they reside, thereby reducing food prices and reducing the dependency on the social safety nets provided by the state. The secondary benefit will be the absorption of the available local labour, thereby improving income to the households. This should lead to the production of surplus produce on the one hand and the availability of cash to procure other necessities. There is huge potential for the state itself to buy goods that are produced by the co-operatives through its procurement channels - a ready market exists for many of the agriculture products in the primary school nutrition programme; hospitals kitchen supplies and other government institutions such as correctional services.

The provincial government will announce a target of the procurement spend to be set aside for cooperatives in the next two months. Our preliminary spend analysis indicates that 80% of our procurement goes to 10% of the companies. We have asked departments to work with us to change that immediately.

Cabinet has agreed that direct cash transfers to communities be discouraged. The co-operatives will be linked to the sector of government departments that will provide the services. Government departments will enter into service contracts with the co-operatives, and may fund the infrastructure cost but the co-operatives have to approach Ithala to fund most of their needs. Again the message is simple, no hand outs, people will render the services, and government will pay for the services and provide a supportive environment for small businesses to flourish.

“The traditional approach to create the capacity to consume among the poor has been to provide the product or service free of charge. This has the feel of philanthropy. Charity might feel good, but is rarely solves the problem in a scalable and sustainable fashion.” (Prahalad)

An old lady of around 65 years uMama uMaSithebe from Ladysmith told us a moving story when our People’s Budget Roadshow was in that area. She said they are a group of ten, nine ladies and a gentleman who received R23 000.00 from the municipality to form a community garden. From that point they have produced enough food for themselves and they now sell to the villager as well as the street vendors of Ladysmith. Her request was to get additional land since they are unable to satisfy their market which has grown tremendously.

This is a very inspiring story of success which demonstrates what we have confirmed amongst our people. The message to us has been very clear: our people do not want handouts from government. What our people want is for government to open opportunities for them to use their potential. This People’s Budget is a response to the many men, women and youth who are calling for opportunities. The answer from this government is that we will create such opportunities and support for our people to stand on their own. Zimeleni!!

The co-operatives movement’s aim is thus to move people out of poverty by utilising the assets available to them such as land. For the initiative to succeed, however, it will have to be underpinned by various other interventions. These include: the development of community-focused savings and financing products and comprehensive capacity building and training initiatives.

In all this, the Ithala development and financing agency will play the central role.

In addition, the Department of Education has undertaken to introduce courses aimed at the training and development of co-operatives in the curricula of their FET colleges. It will be required that each co-operative must undergo a comprehensive capacity-building and training programme co-ordinated through the Department of Education’s FET programme and colleges before they can be eligible for funding. In this regard I am pleased to report that the first batch of 500 trainees started training at 9 FET colleges throughout the province last week.

Speaking of the FET colleges, there needs to be an increased focus on advancing IT literacy and skills throughout the province, especially in the poorer sectors of society who have been excluded from benefiting from the information age to date. The FET colleges in particular have an important role to play in this regard, and courses on various aspects

of computer literacy and IT should be an integral of the curricula. We have allocated funding for FETs to produce skills and expertise that match the demands of industry.

A detailed framework for the organisation and development of co-operatives in the Province is being finalised. It is envisaged that some additional departmental staff will be employed to run with the project.

It should be emphasised that although the Poverty Alleviation Programme will involve short term interventions aimed at improving individual and household incomes, they will be implemented in a sustainable manner which will address the province's longer term developmental objectives. The intention is that the Poverty Alleviation Fund projects should be the precursor to medium to long term development in a given spatial area, within the framework of the provincial Local Economic Development programme. Viable and sustainable projects emanating from the Poverty Alleviation Fund, and the co-operatives in particular, will qualify for further support with a view to establishing viable SMME scale businesses capable of being integrated into the first economy.

Another important aspect to mention is that there will at all times be an integrated approach to these development initiatives in a given spatial area or municipality. We cannot afford the disjointed, wasteful and uncoordinated approaches which have characterised poverty alleviation initiatives in the past. Thus although in each project there will be a lead department depending on the nature of the project, other departments, other service providers and the municipality itself will be involved in the planning and delivery of services and infrastructure essential to the success of the project, whether this is a community infrastructure project or co-operative venture. We intend to practise what we preach when we speak of integrated development planning.

Mr Speaker, it is important to raise in this House our desire to streamline the role of KMMI to the role played by Trade and Investment KwaZulu-Natal (TIK). It is of concern to us that the province is marketed by two separate organisations. In the market where competition for investment is global, it is necessary to ensure that when marketing KwaZulu-Natal we literally sing from the same hymn book.

SMME Support and BEE

At the next tier up in the second economy is the all-important SMME sector. Government intends to spend major resources in the forthcoming MTEF on stimulating growth in the SMME sector. Being more flexible and less constrained by capital and technology-driven intensive factors of production, SMME's are able to increase output, and hence employment, at faster rates than the formal, capital intensive firms. A fast growing SMME sector accordingly has enormous potential to reduce unemployment, increase average household incomes, reduce the poverty gap, and increase the tax base of the

economy. A thriving SMME sector, in short, holds the key to the achievement of most if not all the long term goals of the Provincial Growth and Development Strategy.

It is for this reason that we aim to make the stimulation and expansion of the SMME business base, using Black Economic Empowerment and reformed government procurement processes as the vehicle to achieve this objective, the focal point of economic policy in both the medium and longer term.

In respect of funding, Ithala has committed itself to matching the provincial government's contribution to the SMME growth fund on a rand for rand basis. In this way it is envisaged that a portfolio of advances of R1,120 billion will be created over a 3 year period. Features of the SMME Fund will be that:

- Lending initiatives will be aligned with the Provincial Growth and Development strategy, focusing on growth sectors in the KZN economy and opportunities for beneficiation;
- Training and Skills Development programmes, that will help mitigate risk, will be developed in conjunction with the various SETA's and Ithala Business Centres and other appropriate training and mentorship programmes; and
- All funding will be directed to BEE deals only, with the focus on reviving township and village economies through the establishment of village markets, craft markets, franchising etc;
- Over the 3 year period of the forthcoming MTEF, based on current advances and portfolio mix, approximately 45 000 jobs will be created.

In addition the recent award of the provincial banking tender to Standard Bank has resulted in a specific initiative aimed at supporting the SMME sector through the creation of a portfolio for the financing of SMMEs. Standard Bank will create a portfolio within its books and make lending decisions to cover areas and businesses that are not yet provided for in their current structures. The Province will underwrite a certain portion of losses emanating from the business that would be ventured into per the request and approval of a joint Bank and Government Team. The agreement is to leverage the amount mutually agreed upon to be provided by the province as a credit enhancement. This would enable financing of emerging businesses at favourable interest rates and within the risk adversity parameters of the institution. To this end the province will rely on the EU funded LED programme to provide the first level of credit enhancement.

Ithala in transformation of the economy

It is envisaged that a repositioned Ithala Development Finance Corporation will play a key role in the development and transformation of the economy of the Province. This will range from supporting BEE in the first economy, using its footprint in the scaled up

intervention in the SMME sector and the support of the co-operatives initiative. Ithala will house a central database of all registered co-operatives - compliance is a requirement for all co-operatives who intend to access financial services.

The intention is to use Ithala as the primary vehicle for development and economic transformation in the province, to a much greater extent than in the past. Ithala has therefore been instructed to create a Co-operatives Banking Facility that will be launched in April, with initial capitalisation of R110 million as a government contribution. The approach with this facility is that each co-operative that satisfies the laid down criteria will be allowed to receive funding that comprises both a grant portion and a repayable loan portion. Steps have been taken to position Ithala as the agent of first choice in the Black Economic Empowerment, offering a variety of packages as a primary source and on an agency basis. Current discussions are aimed at ensuring that other funding vehicles are located in Ithala on an agency basis, such as

- Apex Fund;
- Micro Agricultural Finance Scheme of South Africa;
- Partnership relationship with uMsobomvu; and
- Information on other instruments for government intervention in the programme of economic transformation.

The idea is to provide a one stop shop for our urban and rural clients, wherein the choice of the funding source is an internal administrative matter of no consequence to the client apart from the terms of repayment.

An important element of the initiative will be the communication and information aspects, and it is planned to establish information centres on the co-operative programme and other government services at the 50 SEDA and Ithala centres, at the 60 FET points and at post offices throughout the province.

Ithala is in the process of establishing eleven Business Centres throughout KwaZulu-Natal, aimed specifically at supporting the establishment and growth of co-operatives and SMME's.

“What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win-win scenarios where the poor are actively engaged.” (Prahalad)

And so it shall be, the state will provide the social welfare services to the elderly, the disabled, and those children born under unfortunate circumstances needing such support.

We invite the rest of our people to join in the partnership to create work and fight poverty, utilising access to capital, and markets provided by the flexibility created in support of the poor.

VALUE FOR MONEY AND EMPOWERMENT INITIATIVES

Mr Speaker Sir, Honourable Members, the government is not only focussed on the issue of raising and accessing additional funding for economic growth and poverty alleviation projects. We remain equally focussed on improving efficiencies and achieving better value for the vast amounts of money that we are already spending as a provincial government each year. This of course also involves the prevention and elimination of wastage, fraud and corruption.

We will therefore be focusing on several specific initiatives in the forthcoming MTEF aimed at improving the returns we receive for the money that we spend. I will briefly summarise these initiatives and programmes.

Performance budgeting

We are proceeding with our plans to implement a comprehensive performance budgeting system throughout the provincial administration. The award of a tender to a service provider to pilot the system in selected departments has been finalised.

An integral part of the performance budgeting system will be the requirement to more effectively align the planning, budgeting and reporting functions of government entities across all three spheres of government in the province. A key objective will be to improve financial management capacity and fiscal discipline in departments, through targeted training of all senior financial and line managers.

One of the deliverables of the PBS system will be an in-built early warning monitoring and intervention mechanism to prevent the endemic problem of over-expenditure in certain departments, and the equally serious problem of under-expenditure in infrastructure budgets. The bottom line is we will not allow the practice of routine roll-overs for under spent infrastructure budgets to continue, particularly in respect of critically needed social infrastructure. A rapid intervention regime has been prepared to ensure that the expenditure pattern is actively managed.

Internal audit

Performance budgeting of course implies the need for performance auditing which involves a shift of focus from auditing processes and inputs to auditing performance. Accordingly, the 2005/2006 financial year will see a shift from a process driven internal audit function to a service delivery and performance driven internal audit function. With the implementation of a functional performance budgeting system and balance score card concepts to manage performance of provincial departments, performance auditing will

receive increasing attention in the year ahead, as we begin to audit actual service delivery and performance of departments against their strategic objectives and allocated budget resources.

The message through this programme is ZERO TOLERANCE TO FRAUD AND CORRUPTION.

Supply Chain Management

Honourable members will no doubt know that we are in the process of implementing supply chain management (SCM) principles and systems in all government departments. This initiative is part of a major overhaul of government procurement at all levels of government.

Supply Chain Management represents a radical departure from the traditional procurement concept which has applied in the public sector to date. As such it addresses the **whole** cycle of procurement from *demand management, acquisition management, logistics management, disposal management, risk management* and regular *assessment of performance*. Each link in the SCM chain is given equal prominence, and value is added at each stage of the process. The new SCM framework will apply to the acquisition and disposal of all goods, services, construction and road works and moveable property of all institutions to which the PFMA and MFMA applies.

Preparations for the implementation of SCM are due to be completed by the end of this month (31 March 2005). On 1 April 2005, therefore, departments must be in a position to start implementing actual SCM processes and procedures. A key element of the reform of government's procurement framework will be to use government's procurement spend on goods and services – amounting to approximately R5,4 billion in 2004/05 alone - to stimulate growth in the SMME sector and to advance black economic empowerment generally. For those who wish to do business with government the message is clear – comply with government policy on BEE and promoting SMMEs and co-operatives, or government will not do business with you. We hope, however, that the private sector will voluntarily move to embrace the new procurement policy in a speedy and visible way.

Another important aspect in reforming procurement practices is the need to cut down on delays and the turn-around time in finalising major government procurement contracts, especially in the infrastructure sector. I am confident that the implementation of SCM principles and increased delegations to accounting officers will resolve this problem.

Government procurement and markets shall be opened to our people organised as small entrepreneurs and cooperatives.

THE PROVINCIAL BUDGET PROCESS

Mr Speaker, I have dealt at some length with government's overall strategy in the next three years to achieve its goals of growing the economy, creating work and fighting poverty, and improving service delivery.

At this juncture I deem it appropriate to provide Honourable Members with a brief overview of the provincial budget process which led to the 2005/05 MTEF budget proposals which are today before this House for consideration.

The budget process followed in concluding the 2005/06 MTEF proposals differed from previous years in one important respect. Unlike previous years, the 2005/06 MTEF budget process focused primarily on the analysis and reprioritisation of departments' baseline allocations. The objective was to break with the pattern of entrenched incremental budgeting which had become the norm, and to examine each department's baseline allocations with a view to establishing which departments were relatively over or under funded in terms of their fixed costs, national benchmarks and comparisons with other provinces.

The results of the baseline analysis exercise demonstrated that, given the current resource envelope, all departments are optimally funded with the exception of Education and Health, and to a lesser extent Transport. It was these departments, accordingly, which came into consideration in allocating the bulk of the additional funding which became available to the Province in the 2005/06 Division of Revenue proposals. This does not mean however that other deserving departments will not receive additional funding, as will become clear shortly when I discuss the detailed departmental allocations.

I must emphasise however that this year's budget process was not simply a technical exercise. In line with our commitment to make this truly a "people's budget", we placed a great deal of emphasis on consulting and listening to people before taking important decisions on their behalf which impact directly on their circumstances. In formulating the 2005/06 budget proposals, we have taken note of the overwhelming cry from the people around the province for service delivery.

THE MTEF FRAMEWORK AND DIVISION OF REVENUE PROPOSALS

The various new strategic programmes and interventions I dealt with in detail in the earlier part of my address of course would not be feasible without sufficient funding to facilitate immediate implementation on a scale big enough to make a measurable impact. In this respect the province gained from two significant developments in the lead up to the final Division of Revenue proposals at the end of October 2004. These were the

decision taken by the Budget Council to revise the Equitable Share (ES) formula used to determine the horizontal division of revenue among provinces, and the decision to excise the funding for social security grants from the provincial Equitable Share with effect from the 2005/06 financial year.

The concurrent decisions to review the ES formula and to remove the social welfare funding from the provincial ES altogether had the happy outcome of benefiting the province by a combined amount of R2.1 billion in unallocated ES funding in the 2005/06 financial year alone.

The nett result of these developments is that the province is approaching the new MTEF cycle in a relatively better fiscal position than in previous years, with a fiscal base capable of simultaneously stimulating economic growth and employment creation, and addressing poverty, vulnerability and inequality.

REVENUE AND EXPENDITURE PROPOSALS

Mr Speaker, I turn now to the provincial budget proposals for the 2005/06 MTEF.

Additional funding available for allocation

In aggregate, the additional equitable share revenue available to the province for allocation amounts to R2,441 billion, R3,655 billion and R5,093 billion over the three years of the 2005/06 MTEF respectively. Details of this additional funding appear in Table 1 in the printed speech:

Table 1: Unallocated funding available for distribution

R000	2005/06	2006/07	2007/08
Additional equitable share funding from national government	2,273,274	3,489,507	4,911,163
<i>Additional funding to baseline allocation (new funding)</i>	<i>958,588</i>	<i>1,823,580</i>	<i>3,161,940</i>
<i>Actual amount remaining in provincial budget as a result of the function shift</i>	<i>1,314,686</i>	<i>1,665,927</i>	<i>1,749,223</i>
Increase in provincial own revenue estimates	167,497	165,909	181,592
Total funding available for distribution	2,440,771	3,655,416	5,092,755

The R2,441 billion in additional equitable share funding available for allocation in 2005/06 represents a significant increase compared to 2003/04, when just R1,182 billion in additional equitable share funding was available. If increases in conditional grants over the existing baseline are added, the total amount of additional funding available to the province over the 2005/06 MTEF amounts to R3,699 billion, R4,430 billion and R6,625 billion respectively.

Revenue

For the 2005/06 financial year, the province is budgeting for total revenue of R45,573 billion. This represents an increase of R6,579 billion over the adjusted budget for 2004/05, or 16.9 per cent, and an increase of R7,766 billion over the original budget for 2004/05, or 20.9 per cent. Mr Speaker, I am sure you will agree that these are very considerable increases!

The budgeted revenue for 2004/05 is made up as follows:

Table 2: Budgeted revenue for 2005/06

Equitable share	28,398,760
Conditional grants	16,053,881
Provincial own source revenue	1,120,415
Total revenue	45,573,056

Expenditure proposals and departmental allocations

I turn now to the expenditure proposals. As is customary, the province is aiming at a balanced budget for the 2005/06 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 R45,573,056 billion, is allocated to the various provincial departments.

Included in the allocations are the amounts set aside for the Provincial Growth, SMME and Poverty Alleviation Funds, which will be held against Vote 6: Treasury. Note that in the case of the Growth Fund, the R200 million allocation already in the baseline is in addition to the R432 million to be rolled-over from the 2004/05 financial year.

It is important to emphasise that these three Funds will in no circumstances be used to redeem actual over-expenditure incurred in the 2004/05 financial year, which according to the most recent estimates is likely to total over R1 billion by year-end against the adjusted budget. I think Honourable Members would agree that to divert this funding to redeem past over-expenditure would be nothing short of disgraceful, and would render government's poverty alleviation and economic growth strategies, which form the crux of this budget, absolutely meaningless.

Nearly all departments will be receiving additional funding over the MTEF for specific purposes and projects. All departments moreover record significant increases in their 2005/06 budget allocations over last year's main budget:

- The **Department of the Premier** is allocated R218 million in 2005/06, an increase of 50.2 per cent over the 2004/05 budget! Included in the allocation is an amount of R67 million for the heritage function. The Hon Premier has identified

the need to focus on who we are as an important aspect of promoting our unity in diversity.

- **Parliament** receives R129 million, an increase of 36.2 per cent over the previous year, including an additional allocation over baseline of R28 million, mainly for statutory salary and personnel-related increases, and for improved building security.
- **Agriculture** receives R1,078 billion, an increase of 18.6 per cent. This includes additional funding of R75 million for the eradication of invasive alien species (R50 million), Nguni cattle and goat farming projects (R10 million) and the land care programme (R15 million) – these projects are an important part of government’s strategy to rejuvenate the rural areas of our province.
- **Economic Development** gets R140 million in 2005/06, a 6.5 per cent increase over last year.
- **Education** is allocated a budget of R14, 505 billion. The 2005/06 budget – once again the third largest for any department in the country - represents an increase of 11.3 per cent over last year. The budget includes additional funding in the amount of R677 million, inter alia for Further Education and Training (FET), reducing the educator: learner ratio, and providing for substitute educators.
- **The Provincial Treasury** receives R189 million, a 20.7 per cent increase, including additional funding of R20 million for additional functions and projects such as the implementation of the MFMA and Performance Based Budgeting System.
- **Health** is allocated a budget of R10, 379 billion in 2005/06, an increase of 18.3 per cent. This includes an extra R643 million to enable the department to maintain and even improve the standard of health services across the board, with the ARV roll-out programme, primary health care, EMS, provincial and central hospital services, health sciences and training, and facilities management all receiving substantial additional funding.
- **Housing** receives R969 million, an increase of 3.6 per cent over last year.
- The **Department of Community Safety & Liaison** receives R48 million this year, an increase of no less than 208 per cent over last year’s budget. This includes an extra R31,5 million, the bulk of which is intended for programmes aimed at improving the efficiency and effectiveness of the SAPS in the Province – an objective which I am sure this House will wholeheartedly support.

- The **Royal Household** receives R27 million in 2005/06, an increase of 29.4 per cent over last year.
- The **Department of Traditional and Local Government Affairs** gets R458 million, a 0.76% increase. Included in this allocation is R30 million rand for project Consolidate, aimed at building capacity in municipalities.
- **Transport's** budget of R2,197 billion in 2005/06 is an increase of 21.7 per cent over last year. This includes additional funding in the amount of nearly R90 million. The money will go to revenue enhancing projects and the construction and maintenance of highly critical community access roads to schools, health care facilities and agricultural areas – including roads and bridges damaged in the recent floods. The latter projects will impact positively on the high unemployment levels in the rural areas, given that the department will undertake the projects using a labour-intensive methodology, in compliance with the EPWP principle.
- The **Department of Social Welfare and Population's** budget of R13, 605 billion represents an increase of no less than 32.7 per cent over last year, demonstrating government's ongoing commitment to this critical social function targeted at our poor communities as emphasised by Minister Manuel in his budget speech. Apart from the announced social assistance grant increases, the budget includes an amount of R24,4 million to improve the salary dispensation for social workers, which in the past, has been neglected at the expense of rising social security grants expenditure.
- The **Department of Works** receives R426 million in 2005/06, an increase of 5.8 per cent over the 2004/05 budget.
- The newly established **Department of Arts, Culture and Tourism** receives a budget of R209,5 million, a 89 per cent increase over the 2004/05 budget. This substantial increase includes provision for the new functions assumed by the department.
- The new department of **Sport & Recreation** is allocated a budget of R88 million, a 194 per cent increase over last year. Included in this allocation is a substantial additional allocation of R51,5 million, inter alia for the cost of hosting of the SA Games and the construction of sport facilities in the rural areas. A substantial amount of R15 million is budgeted for as a contribution towards the 2010 World Cup preparations. Given the need to promote KwaZulu-Natal as an ideal venue for important World Cup matches, I venture to suggest that few if any Honourable Members in this House will quibble at this allocation.

In Table 3 of the printed speech, details are indicated of the proposed allocations of additional equitable share funding to departments over the MTEF:

Table 3: Summary of additional allocations, 2005/06 MTEF

	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08
	R000			Percentage share		
Vote 1: Office of The Premier - Heritage	50,000	52,500	55,125	2.0	1.4	1.1
Vote 2: Parliament	28,496	16,333	17,080	1.2	0.4	0.3
<i>Carry through of 2004/05 Adjustments Estimate</i>	6,908	7,253	7,616	0.3	0.2	0.1
<i>Statutory funding - carry-thru cost of 2004/05 increase in MPs salary</i>	1,710	1,710	1,710	0.1	0.0	0.0
<i>Bursaries</i>	300	315	331	0.0	0.0	0.0
<i>Employment of additional staff</i>	5,100	5,355	5,623	0.2	0.1	0.1
<i>Performance Management System</i>	500	-	-	0.0	-	-
<i>Office of The Speaker</i>	600	-	-	0.0	-	-
<i>Equipment (office furniture and computer)</i>	2,000	200	250	0.1	0.0	0.0
<i>Hansard</i>	1,378	1,000	1,000	0.1	0.0	0.0
<i>Building security</i>	10,000	500	550	0.4	0.0	0.0
Vote 3: Agriculture and environmental Affairs	75,000	101,250	127,562	3.1	2.8	2.5
<i>Eradication of Invasive Alien Species</i>	50,000	75,000	100,000	2.0	2.1	2.0
<i>Nguni cattle and goat farming projects</i>	10,000	10,500	11,025	0.4	0.3	0.2
<i>Land care</i>	15,000	15,750	16,537	0.6	0.4	0.3
Vote 5: Education	676,680	1,134,336	1,782,348	27.7	31.0	35.0
<i>Carry through of 2004/05 Adjustments Estimate</i>	140,462	147,485	154,859	5.8	4.0	3.0
<i>Pay progression for teachers</i>	-	136,800	273,600	-	3.7	5.4
<i>Research, strategy and EMIS</i>	7,000	7,350	7,718	0.3	0.2	0.2
<i>FET recapitalisation</i>	36,000	-	-	1.5	-	-
<i>FET colleges - non-personnel related expenditure</i>	30,000	31,500	33,075	1.2	0.9	0.6
<i>Reducing learner:educator ratio</i>	129,606	341,508	695,318	5.3	9.3	13.7
<i>Providing for substitute educators</i>	223,612	234,193	246,503	9.2	6.4	4.8
<i>1% pay progression for educators</i>	110,000	235,500	371,275	4.5	6.4	7.3
Vote 6: Provincial Treasury - restructuring arising partly from the roll-out of the MFM	20,000	21,000	22,050	0.8	0.6	0.4
Vote 7: Health	642,892	950,008	1,247,070	26.3	26.0	24.5
<i>Carry through of 2004/05 Adjustments Estimate</i>	85,644	89,927	94,423	3.5	2.5	1.9
<i>Primary Health Care function shift</i>	58,000	87,000	116,000	2.4	2.4	2.3
<i>Roll-out of ARV to 20,000 patients annually</i>	105,452	215,848	323,530	4.3	5.9	6.4
<i>Administrative support</i>	11,600	17,600	24,000	0.5	0.5	0.5
<i>Primary Health Care</i>	158,400	199,100	257,700	6.5	5.4	5.1
<i>Emergency Medical Services</i>	19,000	28,200	38,800	0.8	0.8	0.8
<i>Provincial hospital services</i>	70,000	80,000	90,000	2.9	2.2	1.8
<i>Central Hospitals</i>	53,000	77,000	106,000	2.2	2.1	2.1
<i>Health Sciences and Training</i>	19,000	28,200	38,800	0.8	0.8	0.8
<i>Facilities management</i>	62,796	127,133	157,817	2.6	3.5	3.1
Vote 9: Community Safety & Liaison	31,500	33,075	34,729	1.3	0.9	0.7
<i>Carry through of 2004/05 Adjustments Estimate</i>	1,500	1,575	1,654	0.1	0.0	0.0
<i>Improving the effectiveness & efficiency of SAPS in KZN</i>	30,000	31,500	33,075	1.2	0.9	0.6
Vote 10: The Royal Household - carry through of 2004/05 Adjustments Estimate	5,000	5,250	5,512	0.2	0.1	0.1
Vote 11: TLGA	35,000	36,750	38,588	1.4	1.0	0.8
<i>Carry through of 2004/05 Adjustments Estimate</i>	5,000	5,250	5,513	0.2	0.1	0.1
<i>Project consolidate</i>	30,000	31,500	33,075	1.2	0.9	0.6
Vote 12: Transport	89,760	119,500	173,976	3.7	3.3	3.4
<i>Carry through of 2004/05 Adjustments Estimate</i>	5,000	5,250	5,513	0.2	0.1	0.1
<i>Rehabilitation of flood damaged roads</i>	35,000	-	-	1.4	-	-
<i>Establishment of a testing station at the Durban harbour (revenue enhancement)</i>	20,000	10,500	11,025	0.8	0.3	0.2
<i>Improvements in motor licencing revenue collection</i>	6,760	5,250	5,513	0.3	0.1	0.1
<i>Provision of access roads to schools, health care facilities & agricultural areas</i>	20,000	93,500	141,925	0.8	2.6	2.8
<i>Zimbabwe contractors to maintain the roads constructed</i>	3,000	5,000	10,000	0.1	0.1	0.2
Vote 13: Social Welfare - Improving salary dispensation for social workers	25,397	27,028	28,659	1.0	0.7	0.6
Vote 15: Arts & Culture - carry through of 2004/05 Adjustments Estimate	9,560	10,038	10,540	0.4	0.3	0.2
Vote 16: Sport & Recreation	51,486	48,348	49,516	2.1	1.3	1.0
<i>Carry through of 2004/05 Adjustments Estimate</i>	12,236	12,848	13,491	0.5	0.4	0.3
<i>Preparation of SA Games</i>	9,750	3,675	3,859	0.4	0.1	0.1
<i>Construction of sport facilities in rural areas</i>	6,500	6,825	7,166	0.3	0.2	0.1
<i>Mobilisation of mass participation programmes</i>	4,000	5,000	5,000	0.2	0.1	0.1
<i>Training of coaches and administrators</i>	4,000	5,000	5,000	0.2	0.1	0.1
<i>2010 World Cup preparation</i>	15,000	15,000	15,000	0.6	0.4	0.3
Provincial Growth Fund	-	300,000	500,000	-	8.2	9.8
SMME Fund	200,000	-	-	8.2	-	-
Poverty Alleviation Fund	500,000	800,000	1,000,000	20.5	21.9	19.6
Total	2,440,771	3,655,416	5,092,755	100.0	100.0	100.0

Table 4 in the printed speech provides details of the proposed departmental allocations for the 2005/06 MTEF:

Table 4: 2005/06 MTEF Budgets

R000	2004/05	2005/06				2006/07	2007/08	
	Adjusted Budget	Baseline allocation	Additional funding		Function shift	Revised Budget	MTEF Budget	MTEF Budget
			Equit. Share	Cond. Grant				
1. Premier	201,884	150,777	50,000	-	17,399	218,176	230,790	242,337
2. Provincial Parliament	130,792	100,958	28,496	-	-	129,454	123,584	129,694
3. Agriculture and Environmental Affairs	963,846	1,003,342	75,000	-	-	1,078,342	1,172,031	1,261,706
4. Economic Development	146,897	140,590	-	-	-	140,590	150,052	157,555
5. Education	13,068,714	13,933,162	676,680	188	(104,098)	14,505,932	15,984,124	17,457,227
6. Provincial Treasury	262,021	169,581	20,000	-	-	189,581	200,755	210,793
<i>Provincial Growth Fund</i>	432,000	200,000	-	-	-	200,000	350,000	552,500
<i>SMME Fund</i>	-	-	200,000	-	-	200,000	-	-
<i>Poverty Alleviation Fund</i>	-	-	500,000	-	-	500,000	800,000	1,000,000
7. Health	8,875,985	9,792,811	642,892	(56,501)	-	10,379,202	11,466,566	12,347,152
8. Housing	975,915	973,907	-	(4,027)	-	969,880	1,115,306	1,332,044
9. Community Safety and Liasion	17,127	16,654	31,500	-	-	48,154	50,818	53,359
10. The Royal Household	25,212	22,598	5,000	-	-	27,598	29,204	30,664
11. Traditional and Local Government Affairs	487,186	432,493	35,000	(8,900)	-	458,593	485,759	510,047
12. Transport	1,809,647	2,107,772	89,760	-	-	2,197,532	2,345,983	2,594,370
13. Social Welfare and Population Development	10,950,554	12,252,438	(9,954,606)	11,307,790	-	13,605,622	14,727,248	15,786,395
14. Works	402,004	426,578	-	-	(608)	425,970	451,523	474,088
15. Arts, Culture and Tourism	200,608	116,137	9,560	-	83,806	209,503	219,815	230,804
16. Sports and Recreation	43,652	33,940	51,486	-	3,501	88,927	89,111	95,347
Total	38,994,044	41,873,738	(7,539,232)	11,238,550	-	45,573,056	49,992,669	54,466,082

CONCLUSION

Mr Speaker, I wish at this stage to acknowledge the contributions and the solid foundations made by my predecessors Mr Peter Miller and Mr Mike Mabuyakhulu. Not only have they laid a solid foundation for the finances of the Province, but their efforts have enabled us to have enough room to be more creative in the management of the provincial fiscus.

Mr Speaker, I believe the budget we table today for the consideration of this House is the most positive and balanced budget this province has had for some years. I do not make this assertion lightly. I believe this budget places the provincial government for the first time in the new dispensation in a position where it is able to move the budget process away from merely reactive funding of expenditure pressures, to proactive funding of its strategic long term policy objectives within a coherent developmental framework. This is not to say that the daunting challenges of poverty, inequality, unemployment, underdevelopment and HIV/Aids and associated diseases will be overcome within the short term. But I believe that this budget provides a starting point for a concerted assault on these challenges, to the extent that I have no doubt that the province's 2014 development targets as set out in the Growth and Development Strategy can be realistically met.

“New and creative opportunities are needed to convert poverty into an opportunity for all concerned. That is the challenge” according to author of “Fortune at the bottom of the Pyramid”, CK Prahalad.

Having listened to the views and ideas of our people, we are confident that we must challenge the concept of a socio-economic pyramid by creating an environment that offers equal opportunities to all our people. This is because we know we have the human potential in all sectors of our people. This is because we know we have the human potential in all sectors of our socio-economic milieu. From the rubbles of poverty at the bottom of the pyramid we must create the fortune and harness it to create more sustainable wealth and prosperity.

Unlike the train of apartheid times, our economy will create space for the poor to contribute in the process of their upliftment and in partnership with government, change our province for the better. The journey for KwaZulu Natal has begun.

After implementing the interventions that we have proposed in this budget, we truly believe that we will be able to create a Province that belongs to all who live in it and indeed a South Africa that belongs to all who live in it.

Mr Speaker I wish to extend my sincere gratitude to the Premier Hon JS Ndebele for his leadership and support, to my Cabinet Colleagues for their untiring support, to Minister Trevor Manuel and the Team Finance for support and guidance. I also wish to extend our appreciation to the Chairperson of the Finance and Economic Affairs Portfolio Committee Mr Cyril Xaba and the members of that Committee for always keeping us in check and on our toes.

Our thanks also goes to the Chairperson of Ithala Ms Precious Lugayeni and CEO of Ithala Mr Siphon Nyembezi, Mrs Manana Nhlanhla and Dr Naledi Moyo Ndwandwe of Trade and Investment KwaZulu-Natal for their valuable inputs in the proposals we have put forward today.

Mr Speaker I 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 Siphon Shabalala and his officials in Treasury, to Mel Clark and his officials in Economic Development, and to my team in the Ministry.

It is now my pleasure and honour to formally table the Appropriation Bill, 2005 for the province of KwaZulu-Natal for the consideration of this House, together with the Budget Statements.

I thank you.