

**PROVINCE OF THE EASTERN CAPE**

**2009 BUDGET SPEECH AND POLICY STATEMENT**

**Honourable MEC Phumulo Masualle**

**27 February 2009**

Madame Speaker

Honourable Premier

Honourable Members of the House

Heads of Departments

Guests, comrades, friends, ladies and gentlemen

The great African revolutionary, Amilcar Cabral reminds us to:

*« Always bear in mind that people are not (just) fighting for ideas, for the things in anyone's head. They are fighting to win material benefits, to live better and in peace, to see their lives go forward, to guarantee the future of their children »*

I am tabling this budget in the midst of a global economic crisis unprecedented and unparalleled for at least the past eighty years. In this respect, this budget address should attempt to unpack how the global crisis is likely to impact on the South African and the Eastern Cape economy, and outline our strategy, as Government, to steward our economy and people through the difficult times ahead, so that they do win material benefits, live better and see their lives go forward. I am also tabling this budget less fifty four days before a general election that will usher in a new term of Government.

The budget I table here today should lay the foundation for the priorities of the next term of Government, and outline, in concrete terms, how our MTEF budget will give concrete expression to the Manifesto (without sounding arrogant Madam Speaker) of the political party we can all safely assume will be the ruling party for the next five year term!

### **The Global Economic Crisis**

Madam Speaker, I now turn to the global economic crisis. No country is immune to the deepening economic crisis that followed last year's credit crunch, which arose as a direct result of the ineffectual regulation of the global financial sector. Over the past two decades, developmental economic and social goals have increasingly become subordinated to the short-term profit interests of the financial sector, exposing deep and systemic weakness in the governance of globalization.

Economic growth forecasts across the globe continue to be downwardly revised as the extent to which the financial crisis impacts on the real economy becomes more apparent. At the end of 2008, the International Monetary Fund said the world economy would grow by only 2,2% in 2009, less than half the rate of 2007. Now the IMF has downwardly revised global growth forecasts to just 0,5%, the lowest in 60 years. Likewise in South Africa, our growth forecast for 2009 has been downwardly revised to 1,2% for 2009, and we can expect a similar growth forecast for the Province.

Levels of foreign direct investment across the globe have also fallen dramatically. According to the United Nations Conference on Trade and Development (UNCTAD), global FDI flows have fallen 21% in 2008. Jobs and employment levels have also been heavily affected. According to the International Labour Office (ILO), some 30 million jobs worldwide could be lost by the end of 2009.

As a country which is strongly integrated into the global economy, South Africa is also adversely affected by the fall in primary commodities and export products. Both the mining and automotive sectors have been hard hit. This will place pressure on

our safety nets in the province, with swelling numbers of retrenched mine-workers and auto workers exacerbating levels of vulnerability and insecurity among the poor.

### **Our Response to the Crisis**

Governments around the world have implemented deflation-fighting measures such as low interest rates, as well as financial bailouts and spending packages to boost demand and grow production capacity. Our approach as Government in South Africa and in the Province has been to work with our social partners in business and labour to implement measures to save jobs and mitigate the social impact. At the forefront of our approach is the implementation of counter-cyclical fiscal measures to stimulate the economy. Two weeks ago, Minister Manuel announced an infrastructure package of more than R700 billion for economic and social infrastructure over the next three years.

Other measures agreed to in the NEDLAC-facilitated processes include the establishment of a National Jobs Initiative, co-ordinated by the Presidency and funded to the tune of R10 billion over 3 years to finance industrial and special employment measures and increasing the Expanded Public Works Programme (EPWP) target to 2 million jobs by 2014. We will also endeavour to improve employment intake in the public sector by filling all vacant posts, targeting the health, education and criminal justice sectors. Government will also be implementing special social measures to protect the most poor and vulnerable, including a Food for All programme to ensure food security for all poor households and communities.

Madam Speaker, we must ensure that this global crisis will mark the dawn of a more ethical and just global economic system where full employment, equality and human development takes priority over obscene profit-making. In the meantime, though, as Government, business and labour, we will continue to muster our collective might to manage the crisis, and ensure that the economic shocks we are experiencing do not impact adversely on the poor and vulnerable.

## **Provincial Socio-economic Outlook**

Any efforts to change the development path of the province must confront the socio-economic realities that have resulted from our colonial and apartheid history. These challenges speak to deep-rooted poverty, unmet basic needs, economic and social infrastructure backlogs, as well as the deliberate economic marginalization of the majority of the province's citizens.

The key driver for transformation and development in the Eastern Cape is the PGDP (2004-2014), which provides a shared ten year vision for growth and development, aligned to the MDGs. The broad strategic thrust of the PGDP is to:

- address underdevelopment in the east of the Province through agrarian transformation, agro-industrial development, and infrastructure provisioning;
- create jobs and diversify the economy from over-reliance on the auto-sector, through development of the IDZs and targeted promotion of sectors such as forestry and timber processing, agro-processing, construction and tourism;
- provide social protection and quality social services to the poor and vulnerable;
- enable active participation of the poor and historically disadvantaged in the economy through BBBEE, skills development, co-operatives development, and strategic use of state procurement

Madame Speaker, the assessment of the Provincial Growth and Development Plan indicates that the Eastern Cape contributes 7,8% to national GDP, making it the fourth largest provincial economy. The provincial economy has grown steadily over the past five years from 1.7% in 2002 to just under 5% in 2007, falling just under the national average growth.

The unemployment rate during the term has dropped from 27% to 23%. Poverty levels have dropped and per capita income has grown steadily over the past 5 years (at 5% per annum), making the Eastern Cape the second best performing province after Limpopo. However, the seismic impact of the global economic crisis has rapidly reached the province in the form of about 2500 job losses in the manufacturing sector since late 2007. There is a real danger of these gains being reversed.

The structure of the Eastern Cape economy is such that the largest contributor to provincial growth is the financial sector, followed closely by government and the manufacturing sector. The importance of the public sector as a potentially strategic driver of growth in the province is a matter that needs much more attention among government and its social partners, especially as the other sectors shrink in response to the economic crisis.

The *kind* of growth that the province has seen and the response of the provincial government and other role-players in driving pro-poor growth and structural transformation should change. Going forward, government will play a more interventionist role to facilitate pro-poor growth and structural transformation. This lies at the heart of the model of the developmental state we are busy assembling.

Madame Speaker, against the background of retrenchments, slower growth and a less than robust private sector, government needs a dual strategy of, on the one hand, casting its safety net wider and on the other hand, improving its efforts to stimulate employment growth. Government, together with its social partners, will continue to drive the reconstruction and development of our economy towards a more sustainable, equitable and labour-absorptive growth path.

### *Expanding the Social Safety Net*

To expand the social safety net we have increased the budget of the Department of Social Development by three percent to R1.4 billion in the 2009/10 financial year. The budget grows to R4.9 billion, over the MTEF. Of this, R1.6 billion will be directed towards the implementation of anti-poverty measures such as women's cooperatives, sustainable livelihoods programs and expanding care and support to vulnerable families.

### *Education and Skills Development*

The Department of Education is tasked with enhancing the skills base for agrarian transformation, manufacturing diversification and tourism in order to address the human resource needs of the provincial economy. In view of the importance of

growing the provincial skills base, this budget commits R217 million across all departments for skills development over the MTEF period.

The Department of Education will align the programmes of the FET colleges (R1,5 billion over the MTEF) to the needs of the provincial economy, provide institutional support and guidance to the FET colleges and make more extensive use of learnerships as a vehicle in bridging the gap between education and employment. It is important to mention though, that the department cannot do this by itself – it is supported through the provincial JIPSA where all relevant stakeholders work together to achieve these objectives.

However Madame Speaker, an appropriate provincial skills development strategy, and a skills *retention* strategy are critical to ensure that the appropriate skills are built in the province and that skilled people are retained in the Province.

### *Health*

A major factor influencing the skills base is HIV and AIDS. By the end of 2007, estimates revealed that more than 600 000 people were living with HIV and AIDS in the province. HIV prevalence is rife among the 15-54 years age group – largely our economically active population.

Out of the larger budget for improving social services, R 1.7 billion is dedicated to the challenge of HIV and AIDS over the MTEF period to improve access to HIV/AIDS treatment, upscale facilities and to expand the roll-out of anti-retrovirals. This will support the department to craft and refine effective interventions and programmes and to strengthen partnerships that will impact on the HIV and AIDS epidemic.

To enhance service delivery and increase accessibility to health care services the Department will spend an additional R120 million on recruiting health care professionals, R15.5 million on XDR and MDR TB, and R62 million to reducing child and infant mortality. Over and above this, the Department of Health will focus on improving the functionality of health institutions, allocating doctors to out-patients and casualty departments and improving the system for drug supply and stock management.

### *Agrarian Transformation and Rural Development*

Rural development is one of the high priority areas for the next five year term of Government. This has grown from the understanding that poverty, unemployment and service backlogs have not abated with scale and impact. Large numbers of rural dwellers cannot participate effectively and productively in the economy due to lack of access to financial, physical and human assets.

At the centre of Government's approach to rural development will be measures to build productive capacity in the rural economy. Currently, Government services and trade provide the backbone of the rural economy, which is not a basis for sustained growth and job creation. This underlies the need for state interventions to unlock growth in new sectors, particularly agriculture and agro-processing.

Other priority areas for rural development include promoting food security through expanded smallholder production, expanding the asset base of the poor through accelerated land reform, and increasing the use of land for commercial agriculture, especially in the former bantustan areas.

Madame Speaker, in this MTEF period the Department of Agriculture gets a significant increase, and is allocated R4.2 billion to improve rural livelihoods and food security and to stimulate agro-processing initiatives. In addition, ASGISA-EC is funded at R250 million to support its catalytic role in building a sustainable, modern, rural economy, especially in the poorer parts of the Province.

### *Infrastructure Development*

Madam Speaker, there has been an improvement in the delivery of infrastructure in the province to improve access to Health and Education facilities, transportation, and basic services. At the same time, we will not achieve our goals of rural development and job creation unless we scale up our infrastructure programmes. Drinking water, sanitation, sewage disposal, electricity, rural roads and urban transport directly influence human development outcomes. We therefore cannot allow infrastructure services and facilities to fail the poor.

Madame Speaker, government has identified investment in infrastructure as a major determinant in growing the economy and creating jobs. The amount allocated to infrastructure totals R16.8 billion over the MTEF period. This will be spent largely on building and improving roads and logistics infrastructure, health facilities, education and social infrastructure. This spend will create significant business opportunities and jobs in the construction sector. It is also important to note, Madame Speaker, that a healthy component of this budget will be implemented through the Expanded Public Works Programme. We will set aside five percent of the infrastructure spend towards cooperatives, growing over the MTEF period.

Increasing the infrastructure budgetary allocation will be supported by a continued improvement in the infrastructure management processes for the utilization of infrastructure funds. This is being facilitated through the continued provincial effort of strengthening infrastructure planning and monitoring, eliminating historical blockages and inefficiencies, and improving project management skills in the province. We are working tirelessly to rapidly improve capacities in our key infrastructure departments, such as Public Works, as well as building absorptive and delivery capacity among our local contractors.

Over and above the R16, 8 billion we will spend on infrastructure over the next three years, an amount of R 5, 2 billion is allocated to housing development in the Province over the same period. Increasing the availability of housing for those most vulnerable in the Eastern Cape communities is a key element of government's focus on protecting the poor. This includes the development of a broad range of integrated housing and support strategies and continuing to direct existing and new resources to those who are most vulnerable. This allocation will assist the department to sustain the recovery in the delivery of houses to deliver 20 000 units in the next financial year, to rectify 9000 identified defective houses, to unblock all blocked housing projects and to implement emergency housing programmes.

### *Manufacturing Diversification*

As I mentioned earlier Madame Speaker, at the core of the PGDP's strategic intent is to combat the uneven development between eastern and western regions of the province. Growth over the past four years has continued to be concentrated in urban

areas, particularly the Buffalo City and Nelson Mandela Metro regions, with lower levels of growth recorded in the district economies of OR Tambo, Alfred Nzo, Chris Hani and Ukhahlamba. We highly appreciate the contribution the automotive and transport equipment sub-sector has made to the provincial economy, and as Government will continue to support the sector and deepen its linkages and impact in the province through the automotive production and development programme. As announced by Minister Manuel, this programme will receive country-wide funding of R870 million over the next three years.

At the same time, the provincial manufacturing sector is over-reliant on the automotive sector, with the auto sector contributing 30% of manufacturing employment, and 32% of manufacturing gross value-added. In light of the current global economic crisis which has adversely affected global demand for vehicles and automotive components, as Government we will be more assertive in driving an active industrial strategy aimed at diversifying our provincial economy.

Our approach is to target sectors in which we have competitive advantage, and which are labour absorptive, have lower barriers to entry for SMMEs and co-operatives, and have more even geographical spread and impact. Sectors we will target include agro-processing and food production, the timber industries, tourism, construction, chemicals, energy, and mariculture.

We are currently gearing up our economic services departments and entities, including the IDZs, to assist with the implementation of this industrial strategy. In line with this intent, we have significantly increased funding to the Department of Economic Development and Environmental Affairs (from R878 million in 2008/09 to R1,1 billion for the coming year). This includes more than R267 million to the IDZs, R333 million to ECDC, and R50 million for co-operatives development.

We will also be consulting and engaging more robustly with our social partners in business, labour and the higher education sector to see how we can better co-ordinate our efforts to grow the economy and create decent work.

## ***Fiscal Review***

Over the years, Provincial Treasury has intensified the budget implementation and expenditure control mechanisms to ensure that departments not only remain within their budget allocations but also fully comply with the relevant legislation and regulations. Madame Speaker, we need to guard against swings between over and under expenditure. The province must be able to plan, realistically cost its programmes and manage its budget so that there is a close correlation between spending outcomes and the budget; between planned and real expenditure.

The provincial government has initiated various programmes over the past year, including the Provincial Service Delivery Acceleration Plan to improve the service delivery landscape in the province and Provincial Treasury's baseline study to improve financial management. We are striving to mature into a provincial administration that has predictability and certainty in our fiscal planning with the ultimate aim being to improve the services we deliver.

Madame Speaker, over and above *fiscal* planning, we must also seriously invest in improving planning capability within the provincial administration, improving coordination within government and improving the ability of government to monitor its programmes. The strategic and regulatory departments within the provincial government – the Office of the Premier, Provincial Treasury, the Department of Local Government, the Department of Economic Development and Environment, supported by ECSECC, should be at the centre of this drive.

## ***Improving the Efficiency of Government Spend***

Madam Speaker the difficult environment facing us today requires a much tighter focus on improving efficiency and value for money combined with a ruthless commitment to reducing wastage and ineffective spending. Budget allocation is about choices. The needs always exceed the resources at our disposal. Every attempt must be made to protect spending on frontline services especially as they relate to government's key priorities. These difficult economic circumstances dictate that the public service *has* to put greater emphasis on improving the efficacy of

public spending - we need allocative efficiency, that is, **'doing the right things'** and **'doing things right'**.

This calls upon all of us to ensure that we optimize the performance of all the departments. It is our collective responsibility to continue to support programmes providing quality services to the poor. To support this, Treasury will continue to drive the baseline study which I announced in my speech in the adjustment budget.

Madam Speaker it goes without saying that we need to also continuously strive for accountability, stability and good governance within government. Our mission is to improve the performance of the government and to ensure its accountability to the people of the Eastern Cape. We owe it to the people of this province to ensure that, through this budget, we demonstrate our commitment to liberate our people from poverty, improve their welfare and ensure a better life for all.

## **Revenue**

The total revenue for the 2009/10 financial year is R42 billion, representing an increase of R 475.6 million (1.1 per cent) from the indicative budget. Own revenue decreases by R300 million (30.1 per cent), while conditional grants increase by 14.9 per cent. The main reason for the downward revision of own revenue is due to a low interest revenue forecast as surplus cash has been utilized to fund the budget deficit in the 2008/09 financial year.

The growth in national revenue arises from adjustments for salary increases that were higher than anticipated, provision for increased funding in sector policy priorities and inflation related adjustments as outlined in the 2008 Medium Term Budget Policy Statement, personnel related adjustments, including adjustment for cost pressures on the implementation of Occupation Specific Dispensation for health professionals. However, the provincial equitable share for 2009/10 has been reduced by R272.4 million as a result of data changes in the equitable share formula and by a further R311.4 million due to less than expected economic outlook for the country as a result of the global economic meltdown.

## **Allocations**

Madam Speaker, I now wish to announce the allocations to departments for the financial year 2009/2010. These allocations introduce five new grants, namely, Ilima/Letsema Projects Grant, Agriculture Disaster Management Grant, Overload Control Grant, Expanded Public Works Incentive Grant and Public Transport Operations Grant.

The appropriation of a budget of R42 billion for the 2009/2010 financial year (R138 billion over the MTEF) is distributed amongst the fourteen departments of the provincial administration as follows:

### **Vote 1: Office of the Premier**

The Office of Premier is allocated an additional amount of R3.3 million, bringing the department's budget for the 2009/2010 financial year to R400 million. The additional amount is provided to speed up the provision of integrated transversal training and to fill the vacant posts. This is in line with the commitment to strengthen the centre of provincial government for improved planning and monitoring of implementation.

### **Vote 2: Provincial Legislature**

Madam Speaker, the allocation to the Legislature for the 2009/2010 financial year is increased by R47.6 million or 15.3%, bringing the total allocation to R250.122 million. Included in the additional allocation of R47.6 million is R13 million for initiatives to enhance oversight capacity.

### **Vote 3: Health**

The Department of Health allocation increases by R1.3 billion, bringing the total allocation to R11.3 billion in 2009/10. Over the MTEF period the total investment in Health in the Province amounts to R36.5 billion. Of this, R4.9 billion is allocated for improvements in district health services – for establishing more community health clinics in Alfred Nzo, Ukhahlamba, Amathole and Nelson Mandela metro districts,

extra mobile clinics, increasing the number of clinics as centers of excellence and rolling out two new immunization vaccines.

#### **Vote 4: Social Development**

The budget of the Department of Social Development will increase by R21.1 million in the next financial year, bringing the department's allocation for financial year 2009/2010 to R1.4 billion. The total allocation to the department over the MTEF period amounts to R4.9 billion, to contribute to the war against poverty campaign and to assist the department in improving and expanding the social welfare services it provides to the most vulnerable amongst us.

#### **Vote 5: Public Works**

Madam Speaker, we propose an increase of R58.9 million in the budget of the Department of Public Works. This brings the allocation to the department for the 2009/2010 financial year to R1 billion to fund important initiatives including the Expanded Public Works Programme, the roll-out of the Infrastructure Development Improvement Programme and to consolidate government's immovable asset register.

#### **Vote 6: Education**

The budget for the Department of Education has been increased to R19.4 billion in the 2009/2010 financial year. Madam Speaker the total allocation towards education in the Province over the MTEF period amounts to R65.1 billion.

The increase in the budget of the department will be used to intensify the drive towards improving the quality of schooling, expanding the number of no-fee schools in the province, Grade R, and scholar transport; providing learner and teacher support materials, improving the school nutrition program and concentrating efforts to improve the Grade 12 pass rate. These efforts are absolutely essential if we are to grow a provincial skills base.

### **Vote 7: Local Government and Traditional Affairs**

For the financial year 2009/2010, the Department of Local Government and Traditional Affairs will receive a total allocation of R659 million. This will be used to strengthen the capacity of municipalities to deliver services through, for example, initiatives targeted at infrastructure development, local economic development and spatial planning. An amount of R234 million is allocated to transform the Traditional Leadership Institutions and R30 million towards improving provincial Disaster Management, particularly for drought stricken areas and the strengthening of disaster management plans.

### **Vote 8: Agriculture**

Madame Speaker I mentioned earlier that the province needs to intensify its efforts to stimulate the agricultural sector. The Department of Agriculture has been allocated an additional R171, 577 million for the 2009/2010 financial year, representing an increase of 13.3% to the department. This increase brings the total allocation to the department for 2009/2010 financial year to R1.4 billion. More than R179 million will be allocated towards agricultural infrastructure, and there is an additional allocation of R30 million for support interventions in the Magwa & Majola projects.

### **Vote 9: Economic Affairs, Environment and Tourism**

The budget of the Department of Economic Development and Environment Affairs will increase by 27% to R1.1 billion in response to the need to renew efforts to stimulate growth and jobs in the province in the midst of a global crisis. Included in the additional allocation is an amount of R50 million to support the implementation of the Industrial Strategy initiatives and co-operatives development, R140 million for Coega Uitenhage Automotive Supplier Park and R127 million for the East London IDZ.

### **Vote 10: Roads and Transport**

The Department of Roads and Transport will receive an additional allocation of R241 million in the 2009/2010 financial year. This means that in the next financial year, the department will receive a total allocation of R3 billion. Madam Speaker, this money will be used to intensify road construction and maintenance and improve public transport.

### **Vote 11: Housing**

Madam Speaker, since April 2008 financial year, Housing became a fully-fledged department. The Department of Housing is allocated R1.4 billion for the 2009/10 financial year to accelerate housing delivery, upscale rural housing programmes and to implement vulnerable group programmes, over and above the priorities and targets mentioned earlier.

### **Vote 12: Provincial Treasury**

The revised allocation to Provincial Treasury is R259.9 million for the 2009/2010 financial year. Madam Speaker, this represents a decrease of 10% to last year's allocation. The total amount allocated over the MTEF is R827.5 million which will be used towards ensuring improved quality of spend in the province and general improved financial management. This will be achieved through closer monitoring, increased collaboration with the departments, and an intensification of the CFO support programme and a more active coordinating role with the Office of the Premier to ensure budgets follow priorities and performance.

In this vote there is an issue of centralized electronic suppliers database that is yet to be finalised.

### **Vote 14: Sports, Recreation, Arts and Culture**

The allocation to the Department of Sports, Recreation, Arts and Culture is increased to R781 million for the 2009/2010 financial year. Included in this increase are allocations to create an enabling environment for the successful hosting of the 2010 FIFA World Cup. We will also spend R120 million to contribute to the construction of the KSD stadium.

Madam Speaker the department is allocated a total amount of R1.9 billion over the next three years to identify and develop emerging athletes and artists and to conserve and promote the culture and rich history of the Province.

### **Vote 15: Safety and Liaison**

Madam Speaker, the Department of Safety and Liaison receives an increased allocation this year, bringing its budget to R47.5 million for the 2009/2010 financial year. The increase in the department's allocation is mainly to fund the improvement of conditions of service adjustments, to fill critical vacant posts in the department, to improve community safety and to improve tourism safety in preparation for the 2010 FIFA World Cup.

## Conclusion

Our task in the province Madame Speaker is to use all instruments at our disposal, the budget being one of many, in a coordinated and concerted effort to save jobs, create jobs and offer protection to the poorest amongst us. For basic services in education and health, and infrastructure to work for the poor, the government has to intensify its involvement, coordinate its efforts and improve its efficiencies. We have, through this budget, attempted to assist this intensification drive.

As I've mentioned earlier, we need to focus on the quality of spend, increasing accountability and improving bang for the buck. At the heart of this lies the need for strong leadership and accountability to our citizens and ensuring that we attract the best among us to the public service. These are the prerequisites for an equitable, sustainable and inclusive growth path. These are the prerequisites, Madam Speaker and members of the House, for our people to *'...win material benefits, to live better and in peace, to see their lives go forward, to guarantee the future of their children'*.

Madame Speaker I hereby table the Budget Statement 1, Budget Statement 2, The Appropriation Bill and my speech.

I trust that my colleagues in the House will support this budget as we know that 'working together we can do more'!

I wish to thank my cabinet colleagues, led by the Premier, members of the legislature and provincial departments.

I also want to thank the provincial treasury team and ECSECC for their efforts in putting together this budget.

I thank you





