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ADDRESS BY MR EBRAHIM PATEL, MINISTER OF ECONOMIC DEVELOPMENT, ON THE OCCASION OF THE DEBATE ON BUDGET VOTE 27: ECONOMIC DEVELOPMENT, IN AN EXTENDED PUBLIC COMMITTEE MEETING OF THE NATIONAL ASSEMBLY ON 23 MARCH 2010

Chairperson, Honourable Members, representatives of business and labour present today.

I recently visited Doringbaai, a small fishing village on the West Coast. For many generations, the main source of income for residents was a lobster-processing factory, which closed a few years ago. No new industrial activity has been set up since then.

Denise Classe was the joint breadwinner for a family of seven. She worked in the lobster factory for more than 20 years, as did her late husband and at different times, two of her brothers, her mother, father and grandmother. In a good week she earned *about* R900 and in a slack period R400 a week. When the factory closed, Denise says that "It wasn't only our mouths that went hungry, but also the mouths of our families and neighbours."

Denise and her husband found casual work on local farms picking potatoes and tomatoes but this ended in 2007. He then worked as a handyman for a contractor for a local mine in a neighbouring town but the contract and his job ended in 2009.

They eventually sustained themselves on three child grants totalling R720 a month for the family of seven. Her husband died in January this year. There are many days in which there is no food in the house. The family's hopes now lie on a R5 million grant from

government to start an abalone farm on the fish-processing factory premises that is planned to employ about 50 people.

Denise is one of 5,8 million South Africans without work, either because they are unemployed or they are too discouraged to seek work.

Honourable Members.

I present to you today the first Budget of the Economic Development Department. It is the first completely new department created in government in the last ten years.

The context of the Department's formation is clear: many South Africans lead a precarious existence. There are not enough jobs and too many working poor. Take Sbongile Mchunu, a factory worker in Mobeni, who leaves home at 5.15am every morning to go to work and returns home at 6.30pm. She earns R677 a week before deductions and with a child grant her daughter receives, they spend about R300 a week on food for a family of six.

The Department was created to address a gap in government's economic policy-making, planning and coordination machinery, so that working together with other parts of government, we can have better economic and employment outcomes.

The work of the Department in the year ahead must address the concerns of Denise Classe, Sbongile Mchunu and the many other South Africans who face the challenges of poverty, inequality and unemployment.

To provide the basis for the budget request we are making today, we prepared a Medium Term Strategic Plan covering the period

2010/11 to 2012/13 and a chapter for the *Estimates of National Expenditure*, published by the Minister of Finance on 17 February 2010.

This is based on the mandate of the Department set by President Zuma last year and the four programmes of the Department.

EDD's budget allocation is R418 million, which covers the work of the Department and certain entities that report to it. We propose the distribution of the Budget as follows:

- R18,2 million for policy development work
- R25,8 million for economic planning and coordination
- R11,2 million for economic development and dialogue
- R44,8 million for administration, the Ministry and capital expenditure
- R152 million for small business funding, through transfers to Khula and SAMAF
- R102 million for the competition authorities to strengthen their work and
- R64 million for trade administration, to ITAC.

Honourable Members will see that the larger part of the Budget, namely R318 million of the funding, will be transferred directly to agencies that will report to EDD.

Honourable Members, permit me to address the different areas of focus of the Department in the period ahead.

Policy development

Our **policy development work** will focus strongly on the elaboration of the developmental growth path.

We face a massive employment challenge: for the past few decades, the economy has not created enough jobs for those South Africans able and willing to work. This resulted in unemployment levels that were among the highest in the world. This has been compounded by the recession caused by the most serious economic crisis that the world has faced in 70 years.

What started as a financial crisis rapidly spread to the real economy and impacted on jobs. In South Africa, three consecutive quarters of GDP contraction followed. Real GDP fell by 1.8% in 2009. 870 000 people lost their jobs between the 4th quarters of 2008 and 2009 and 518 000 joined the ranks of discouraged work seekers.

Faced with these realities and the challenges of very high inequality and deep levels of poverty, we are working on ways to improve the employment performance of the economy and create many more decent work opportunities and better social outcomes. We call this the development of a new growth path.

The central ideas in the developmental growth path are to enhance the labour-absorbing capacity of the economy, to build a lower carbon-emission economy and to find ways to connect knowledge and innovation to the challenge of jobs and growth.

Through this work, we have identified a number of areas with the potential for new jobs.

They are infrastructure development; the green economy; the manufacturing sector; knowledge economy activities; the rural, agriculture and agro-processing sector; tourism and business process services; the social economy which includes cooperatives; public sector growth; and the continental and regional economy.

We are now working on how to realise new jobs in each of these areas. It means looking at economic opportunities, mechanisms to maximise the number of jobs that can be created and the policy support required to realise this potential.

Contributions from different government departments are enriching the framework.

Policies are important to the achievement of the growth path but they are not sufficient – they are carried out through institutional arrangements. We are therefore looking at how to improve the performance and impact of public institutions that are vital to economic development. An example is the duplication in small business development institutions and the lack of coherence in their work.

The growth path work recognises the crucial role of the private sector in creating jobs. We want to use the potential of social dialogue with organised labour and business to contribute to economic development strengthen the technical capacity particularly of small business and organised labour.

Our policy work will consider both macro-economic and micro-economic policies. More than ten areas have been identified, ranging from industrial policy, competitiveness, skills development, and access to and the cost of capital for businesses.

Sam Khotle is a 27 year old man with a matric qualification, a certificate for computer services, a credit for a university degree and a dream to become an industrial psychologist. Yet since 2007 he has been working as a petrol attendant in Botshabelo, earning R530 a week because he cannot find better-paid work.

An important policy focus for EDD will be creation of sustainable livelihoods and addressing the challenges of enterprises in the second economy.

Joey Johnson is 47 years old and lives in Kwanoxolo in Port Elizabeth. Joey operates a mechanic business from his home. He specialises in Toyotas and Volkswagens. Some days he has work, and others not. He cannot afford to buy the parts and tools he needs to expand his business. He wants to build a proper workshop but he does not know how to get a loan, he does not have a bank account.

Our policies will seek to transform second economy activities such as Joey Johnson's into dynamic, competitive and better paid activities that are part of the economic mainstream and to use and not waste the skills base of the Sam Khotle's of our country.

It is about promoting decent work.

President Mandela put it well when said:

"The principles of decent work exemplify our common values, our shared respect for dialogue and our concerns about the plight of our impoverished fellow citizens.

"Decent work is based on the efforts of personal dignity, on democracies that deliver for people, and economic growth that expands opportunities for productive jobs and enterprise development. Decent work also underpins the principle that the purpose of creating work and wealth is to eradicate poverty."

Part of what we will do is conduct research and policy development. We will also convene discussions with MPs, Cabinet members, social partners and economists.

Last year we hosted several policy platforms, including on the global economic crisis, income inequality and rural economic development.

Discussions were also held with companies, industry associations and organised labour on matters such as the exchange rate, industrial policy, trade policy, localisation of supply chains, factory closures and coordination within government.

This evening we will be hosting the first in a new set of policy platforms on the Next Economy Dialogue Series, done in association with the *Cape Times*. I will be engaging with Mr Bobby Godsell and Zwelinzima Vavi at the first session.

For the year ahead we will host at least ten policy platforms to draw South Africans into conversations about policy issues.

We will establish a Ministerial Advisory Panel which will serve as an ideas forum. It will give an opportunity to test ideas and learn about new developments. We can then take some of these ideas to NEDLAC for discussion and dialogue.

I am pleased to announce that we have made good progress in establishing the Panel since my announcement of the idea some two weeks ago here in parliament.

Professor Joseph Stiglitz, Nobel Economics Laureate and previously Chief Economist of the World Bank has agreed to serve on the Panel. He will be joined by a number of South African experts such as Professor Haroon Borat of UCT, Dr Michael Power, a strategist from Investec Bank, Professor Chris Malikane from Wits University, Mr Goolam Ballim, Group Chief Economist of Standard Bank, Dr Olive Shisana, the CEO of the Human Sciences Research Council, Mr Geoffrey Qhena, CEO of the Industrial Development Corporation, Dr Simon Roberts, Chief Economist of the Competition Commission and

Dr Neva Makgetla, lead economist in the development planning division of the DBSA.

We will be adding more names to the Panel, and will also have active business-people and unionists who will be able to interact with the Panel economists.

By the end of this year we plan to have the core of the Economic Development Institute in place and by next March to have produced ten policy documents on growth and employment issues.

Chairperson, Honourable Members,

Economic planning and coordination

Our work on economic planning and coordination will contribute to 'connecting the dots' in government, since economic planning is a critical part of any overall national plan. EDD will therefore work closely with the National Planning Commission and Minister Manuel and will develop spatial and sector economic development action plans, including for distressed areas.

The Department is actively engaged with provinces: In the past year I met with my provincial counterparts through Minmec, including in a two-day Spatial Economic Development Symposium and addressed three provincial Jobs Summits. Deputy Minister Mahlangu-Nkabinde visited a number of provinces for detailed engagements.

In the year ahead, EDD will work with provincial economic development departments to ensure the coherence of spatial economic development plans between national and local, and with the new growth path.

Our work on sector policy aims among others, to support the Industrial Policy Action Plan announced last month, as well as rural economic development initiatives.

By the end of the next financial year, we intend to have reviewed or produced 5 sector plans and 10 spatial plans.

Our work will only be successful if government operates as a coherent team. The Ministry is therefore participating in a number of Inter-Ministerial Committees, including on energy, poverty, broadband, the aerospace industry, the pebble-bed modular reactor, trade policy and National Health Insurance.

EDD's focus in these forums is how to improve job opportunities and support economic development. This same focus also informs our work on the Councils on which I serve, such as the BB Black Economic Empowerment Council, Human Resource Development Council and Electricity Stakeholders Council.

From 1 April, EDD will guide the work of three economic regulatory bodies, the Competition Commission, the Competition Tribunal and the International Trade Administration Commission (ITAC); and three development finance institutions namely Khula Enterprise Finance Limited, known as Khula; SAMAF, the South African Micro-Finance Apex Fund and the IDC.

As the reporting authority for the agencies, EDD will provide oversight, strategic direction, ongoing review and the development of policy frameworks. We will review international trends and lessons learnt and promote alignment between the policies and strategic plans of these entities and those of government.

We plan to finalise proposals for small business funding by November this year.

We have also set a target to generate R2 billion worth of financing for small businesses, targeted growth sectors and companies in distress.

DFIs and investment bodies control assets and investments worth hundreds of billions of rands. There is scope to improve the development and employment yield of DFIs, public and private sector investments, retirement funds and the Public Investment Corporation. The international experience shows that successful industrialising countries are ones which use their public and private investment institutions well.

This is not a new idea in South Africa. Business, labour, government and community organisations agreed at the 2003 Growth and Development Summit to target 5% of investible funds into developmental areas and activities. What has been lacking to date has been appropriate instruments to give effect to this commitment.

Various options are open to us that combine prudent investment policy with development goals, including the issue of a development bond.

As an example of this, the IDC has recently issued a R2 billion bond that has been taken up by the Unemployment Insurance Fund (UIF). The bond is priced at highly beneficial rates, and the funding that the IDC provides through the utilisation of the bond will fund businesses with labour-intensive operations that are creating and saving jobs.

The Competition authorities will be strongly supported in their efforts to combat price-fixing, collusion and tender-rigging. In the last 12 months, the Tribunal has issued fines of close to half a billion rands for anti-competitive conduct. In the past three months there have been no less than 30 admissions of wrongdoing by companies, mainly relating to price-fixing.

I have mentioned the importance of building a lower carbon-emission economy. The green economy has huge potential for employment creation in the energy, agriculture, manufacturing and services sectors, including eco-tourism.

Other countries are steaming ahead to build the green economy. For example, the green economy in China is reported to already employ more than 1,1 million workers and is growing by 100 000 new jobs a year.

We are now pursuing solar, wind and nuclear energy generation, solar heating geysers, biofuels and cogeneration, repairing environmental degradation, eco-tourism, smart manufacturing, waste management, regulation of energy efficiency of commercial buildings and the installation of more energy-efficient equipment.

We will allocate R2 million* for policy and coordination work on the green economy and green jobs and will mobilise additional resources for investment. The IDC is already investing in a number of green economy projects, ranging from solar power-generating plants to manufacturing activities in the green economy.

To promote employment and decent work opportunities we need to introduce measures to foster local procurement. We have now put funding aside to establish an Office on Local Procurement and budgeted R3,8m for the work in this area. We must promote the

demand for locally-produced goods and services on the one hand, and improve the supply of quality goods and services on the other. EDD intends to monitor local procurement within the state while supporting and promoting the work of the Proudly South African campaign.

Social dialogue

We have created a programme to promote social dialogue in order to foster economic development. Its role will be to help negotiate social pacts on our country's challenges as well as to undertake technical work to support such pacts.

Building on our successful national social dialogue, for the year ahead we plan to develop social dialogue on growth and social equity issues at sector and workplace level so that we build partnership at the heart of the wealth-creating machinery of the economy.

We will set up a series of knowledge networks by November this year so that we can bring together economic expertise across the state and we will host the first Annual Economic Development Conference before the end of the forthcoming financial year.

We have established a sub-programme to address the role of productivity, innovation and entrepreneurship in driving economic growth and development.

Alice Mpatuli is a South African entrepreneur. She was retrenched after 30 years in the textile industry. She established her own cut-make-trim business in rented premises with rented machines. Work is piecemeal and sporadic and because of this she can only employ

casual workers. Alice needs to learn basic management skills and needs to access financing to buy her own office equipment and machines, *but fears that "they will take my house if I take a loan"*. The policies and programmes we develop at EDD must provide an answer to the challenges that Alice Mpatuli faces.

EDD will promote workplace productivity agreements and foster entrepreneurial endeavours in the economy, particularly those of black entrepreneurs.

In the month it was established, EDD assumed responsibility for coordinating government's work on the *Framework for South Africa's Response to the International Economic Crisis*.

The Dialogue Programme will now focus on better implementation of the actions under the Framework response to the recession.

Working closely with our social partners, we have already launched about 20 actions to address the crisis, from efforts to respond to communities in distress, vulnerable workers and troubled enterprises and sectors. I wish to illustrate with a few examples.

We set up a "training layoff" scheme supported by funding of R2.9 billion to provide companies with an alternative to retrenchment by providing funding for training.

Richard Matsomela, has worked at BMW at Rosslyn since 1999. Orders in the auto industry worldwide declined markedly as a result of the economic recession and BMW was no exception. For Richard, who supports his family of 5 and his younger sister, the impact of the recession has been hard:

Richard says "The recession affected us a lot. It frustrated us. I didn't know where to go, where to start. The (possibility of a) shut down troubled me. I'm paying bills – schools fees, transport, the bond. "

As part of a strategy to avoid retrenchment, BMW and Richard's trade union, NUMSA, accessed the Training Layoff. They signed an agreement through the CCMA and accessed funding from the Training Layoff Fund and their industry SETA. Through this effort BMW placed over 1 100 workers on the layoff and trained workers in a variety of skills accredited with the MERSETA. They also paid social security contributions and workers received 50% of their wages.

A few days ago we visited the factory and Richard said:

"I'd like to thank government for giving us the training because we lack skills. These are skills that we can use in our work".

After a pilot phase, the programme will now be rolled out more actively. Last week a company that employs 1500 workers applied to use the training layoff facility.

Chairperson, Honourable Members,

We launched a fund for enterprises in distress, and the IDC allocated R6.1 billion fund to support companies hard hit by the economic crisis. Applications to the value of R1,1 billion have been approved.

We worked with the CCMA to strengthen efforts to avoid retrenchments in the economy.

More than 15 000 jobs have been saved through these three interventions.

To address the challenge of food prices, we asked the Competition authorities to speed up their investigations of price-fixing and cartels in the food supply chain. We are now looking at ten parts of this industry and a number of companies have been prosecuted.

Government has increased the age for child grants to ensure that the limited lifeline to many families is not withdrawn during the recession. An additional 750 000 children will now be covered by the child grant.

In the year ahead, we will expand the number of actions that are successfully carried out under the Framework. We will hold at least 10 social dialogue and capacity building engagements, and conclude a number of economic development agreements with social partners at national, sectoral and workplace levels.

Administration

We have established a programme on Administration to build an effective, dynamic Department.

Over the past nine months, we undertook the legal work to establish the new department, developed a budget for the establishment phase and for the three-year period to 2013, recruited a core of staff on contract to commence work on policy and coordination, secured and furnished new offices, wrote a strategic plan for the department, developed a staff structure for a staff complement of 264 persons and undertook the first job evaluations in the Department.

We received more than 1000 applications for the first 13 posts we advertised recently and expect to make the first permanent appointments by June this year.

Chairperson, Honourable Members,

We have set an ambitious programme of work because our times require ambition and purpose. We will implement it in a phased manner. In the upcoming financial year we will focus on establishing a basic capacity and doing work within each of the programmes.

In closing I would like to thank my colleague Minister Rob Davies and his Department who have supported EDD in our establishment and Minister Pravin Gordhan for the support of National Treasury with the finalisation of the Budget.

EDD has established itself on the dti campus and we enjoy a warm collegial relationship with the dti family.

I would like to acknowledge Deputy Minister Mahlangu-Nkabinde and the small, dedicated team in the Ministry and Department for their role in bringing our work to this point, as well as the social partners for their commitment to implementing the Framework. I look forward to working with them in the coming months in promoting economic development and decent work opportunities for all our people.

In closing Chairperson, Honourable Members

I spoke earlier of the challenges of the recession and the opportunities that we are identifying with the new growth path. We are confident we can repair the damage of the recession and build an inclusive economy.

I conclude and recall the words of United States President Franklin Roosevelt's in his inaugural address in 1937, in the middle of the Great Depression, when he said:

"Our progress out of the depression is obvious. But that is not all that you and I mean by the new order of things. Our pledge was not merely to do a patchwork job with second-hand materials. By using the new materials of social justice we have undertaken to erect on the old foundations a more enduring structure for the better use of future generations.

"In that purpose we have been helped by achievements of mind and spirit. Old truths have been relearned; untruths have been unlearned. We have always known that heedless self-interest was bad morals; we know now that it is bad economics. "

These words are as apt today as they were 73 years ago.

I thank you.