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Policy Brief: Linking the 2019-2024 MTSF to the 2023/24 Budget
Priority 2: Economic Transformation and Job Creation
Outcome 3: Industrialisation, localisation and exports

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Ref. no. 21/1/3 (July 2023)

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Table of Contents

1. Purpose

The purpose of this brief is to provide Members of Parliament (MPs), specifically the Finance and Appropriations Committees, with an overview of the relevant national departments leading the implementation of the outcomes envisaged by the 2019-2024 Medium Term Strategic Framework (MTSF). The aim is to link the interventions identified for achieving the priorities of the 2019-2024 MTSF with budget programmes to determine:

- The financial provisions for the achievement of specific outcomes
- The performance indicators/outputs that contribute to the outcomes of the 2019-2024 MTSF

2. Introduction and Background

The 2019-2024 MTSF acknowledges that the NDP Vision 2030 is government's blueprint to unite all South Africans to address the triple challenges of unemployment, poverty, and inequality (UPI). Although the NDP is government's long-term plan, several medium-term interventions have been identified to reach the longer-term goals. One of the pressing problems facing South Africa is the absence of faster and sustained inclusive growth. South Africa needs to improve productive capacity, human capital, and state capability mainly through broad-based investments to address unemployment and livelihood insecurities facing citizens.

The 2019-2024 Medium-Term Strategic Framework (MTSF) is South Africa's second 5-year implementation plan for the NDP. The MTSF consists of 7 priorities, 81 outcomes, 337 interventions and 561 indicators. The 2019-2024 MTSF sets out the interventions per department or relevant government institution that will advance the seven priorities adopted by government:

- Priority 1: Building a capable, ethical and developmental state
- Priority 2: Economic transformation and job creation
- Priority 3: Education, skills and health
- Priority 4: Consolidating the social wage through reliable and quality basic services
- Priority 5: Spatial integration, human settlements and local government
- Priority 6: Social cohesion and safe communities
- Priority 7: A better Africa and World

It should be noted that the strategic stance of government to combine macroeconomic and socio-economic priorities requires integrated and cross cutting interventions to achieve the targets set for the outcomes, per priority.

This report focuses on investing for Industrialisation, localisation and exports, the third outcome of priority 2: Economic growth and job creation. This outcome (Industrialisation, localisation and exports) addresses matters that relates to the creation of a conducive environment that enables national priority sectors to support industrialisation and localisation, the support through government procurement, and the establishment of public private partnerships for the localisation of pharmaceutical production.

Although the 2019-2024 MTSF interventions are directly addressed by the National Treasury, and Department of Trade, Industry and Competition (DTIC), it is acknowledged that other indirect activities that could also contribute to the outcome, are transversal in the public and private sector. In terms of the implementation framework for industrialisation, localisation and exports, specific measures and targets have been identified by the lead departments to monitor the progress made with the implementation of the interventions that will contribute to the outcome required.

As part of the Parliamentary Budget Office's support of the oversight process, the Office provides analysis that specifically assists MPs to determine progress with the implementation of the 2019-2023 MTSF and to determine the how the budget programmes support the implementation of the National Development Plan (NDP), 2030.

The 2023 series of analyses is a continuation of the 2022 assessments on the progress made with the implementation of the 2019-2024 MTSF. This series concentrates on budget programmes per relevant department that contribute to the outcomes envisaged for the 5-year priorities.

Priority 2: Economic growth and job creation, aims to achieve 7 outcomes, which include:

- More decent jobs sustained and created, with youth, women and persons with disabilities prioritised
- Investing for accelerated inclusive growth
- Industrialisation, localisation and exports
- Improve competitiveness through ICT adoption, research and innovation
- Reduced concentration and monopolies and expanded the small business sector
- Quality and quantum of infrastructure investment to support growth and job creation improved
- Supply of energy

3. Methodology

Departmental budgets and Annual Performance Plans (APPs) are the main sources of data. These sources provide the purpose of the budget programmes and the proportions of departmental budgets spent on programmes that are related to the interventions contributing to implementing the outcomes of the 2019-2024 priorities of government. The APPs were examined to determine whether the specific indicators of the outcomes are included in the APP for monitoring the implementation of the priorities of the 2019-2024 MTSF. The identification of indicators assisted in identifying the budget programmes supporting the interventions.

4. Contributions and findings per Department

The target set for outcome 3: Industrialisation, localisation and exports is to grow exports by 4 per cent over the 2019-2024 MTSF.

According to the World Bank[1] the average value for exports of goods and services as a percentage of GDP in South Africa was 24.7 per cent between 1960 and 2021. The numbers recorded were 27.3 per cent in 2019 and 27.6 per cent in 2020. The latest value for 2021 is 31.2 per cent and the target is to reach 31.3 per cent in 2024. For comparison purposes, the world average in 2021, based on 160 countries, was 42.1 per cent.

4.1. Requirement from government

To be able to reach the target of 4 per cent growth in exports, government is required to:

- Create a conducive environment that enables national priority sectors to support industrialisation and localisation, leading to increased exports, employment, and youth- and women-owned SMMEs and Co-operatives participation
- Support localisation and industrialisation through government procurement
- Establish Public Private Partnerships for the localisation of pharmaceutical production, including through the state-owned pharmaceutical company

[1] The GlobalEconomy.com

- Although all national departments and provinces are required to support the national priority sectors, the following national departments have committed to contribute to the interventions that support industrialisation, localisation and exports, specifically to contribute to activities to grow exports in national priority sectors (agriculture & agro-processing, steel and metal fabrication, tourism, ICT, defence, health, mining, renewables, green economy, oceans economy, creative industries, the digital economy, SMMEs and Cooperatives). Below are the lead departments for the interventions over the 2019-2024 MTSF interventions.

4.1.1. Department of Trade, Industry and Competition (DTIC)

The DTIC is the lead depart for creating a conducive environment that enables national priority sectors to support industrialisation and localisation, leading to increased exports and youth and women-owned SMMEs and cooperatives participation. The DTIC committed to achieving the following MTSF targets by 2024:

- Develop all master plans by the end of 2021
- Increase exports for national priority sectors by 4 per cent by 2024
- Revitalise 26 industrial parks by 2024
- 100% compliance of government spend on designated products and services

The main purpose of the DTIC is to:

- Lead economic development policy formulation and planning
- Facilitate access to sustainable economic activity and employment for all South Africans through an understanding of the economy, knowledge of economic opportunities and potential, and anticipation of future economic trends
- Catalyse economic transformation and development, and provide a predictable, competitive, equitable and socially responsible environment for investment, enterprise and trade for economic citizens
- Contribute to achieving government's vision of an adaptive and restructured economy characterised by accelerated economic growth, employment creation and greater equity

Table 1 shows the budget programme structure of the Department of Trade, Industry and Competition (DTIC) with the actual and estimated expenditure from 2019/20 (the start of the 2019-2024 MTSF) and over the 2023 MTEF. The aim is to identify the programmes that will support the achievement of the targets set for industrialisation, localisation and exports.

Table 1: DTIC Expenditure trends and estimates by programme

Programme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate			Average growth rate (%)	Average: Expen-diture/ Total (%)
R million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2022/23 - 2025/26	
1. Administration	889.2	814.1	721.3	864.0	840.3	877.8	961.8	3.6%	8.1%
2. Trade	235.8	199.2	217.8	235.8	244.2	248.5	256.9	2.9%	2.3%
3. Investment and Spatial Industrial Development	155.7	143.9	127.5	181.2	168.6	173.5	194.5	2.4%	1.7%
4. Sectors	2 076.6	1 626.3	1 638.1	1 749.5	1 722.4	1 789.5	1 865.1	2.2%	16.4%
5. Regulation	329.9	288.5	323.4	343.8	359.6	373.2	386.8	4.0%	3.4%
6. Incentives	5 902.9	4 898.5	6 465.9	5 317.0	5 391.4	5 652.1	5 848.9	3.2%	51.1%
7. Export	505.7	377.8	399.0	365.8	407.6	428.4	458.8	7.8%	3.8%
8. Transformation and Competition	748.1	658.6	1 683.2	1 805.8	1 728.1	980.4	1 021.9	-17.3%	12.7%
9. Research	32.1	32.9	38.0	50.5	60.4	65.4	67.3	10.0%	0.6%
Total	**10 876.0**	**9 039.7**	**11 614.1**	**10 913.6**	**10 922.5**	**10 588.7**	**11 062.0**	**0.5%**	**100.0%**

Source: National Treasury

The DTIC consists of nine budget programmes of which six contribute to the estimated 4 per cent growth in exports.

Programme 2: Trade, is responsible to build an equitable global trading system that facilitates development by strengthening trade and investment links with key economies and fostering African development, including regional and continental integration and development cooperation in line with the African Union Agenda 2063.

The budget for the trade programme is R244.2 million in 2023/24. This amount is approximately 2.2 per cent of the total budget of the department. The main cost drivers of programme 2 are compensation of employees (35% in 2023/24) and transfers to departmental agencies and accounts (48.5% in 2023/24), which are mainly transferred to the International Trade Administration Commission.

Programme 2 reports on the value of exports in manufacturing sectors and the value of exports in manufacturing sectors to Africa, which are estimated to amount to R249 billion and R19 billion respectively in 2023/24. These values are facilitated under rebates, non-proliferation export permits and the Automotive Production and Development Program (APDP).

Programme 3: Investment and Spatial Industrial Development, supports foreign direct investment flows and promote domestic investment by providing a one-stop shop for investment promotion, investor facilitation and aftercare support for investors, and increase participation in industrialisation.

One of the objectives of programme 3 is to facilitate the transformation of the economy to promote industrial development, investment, competitiveness and employment creation by implementing a strategy for special economic zones and the revitalisation of 16 industrial parks by March 2026.

The budget for the investment and spatial industrial development programme is R168.6 million in 2023/24. This amount is approximately 1.5 per cent of the total budget of the department. The main cost drivers of programme 3 are compensation of employees (45.4% in 2023/24) and transfers to public corporations and private enterprises (47.5% in 2023/24), which is mainly allocated for current expenditure on various institutions in Industrial development zones, the Council for Scientific and Industrial Research, the Industrial Development Corporation for Regional industrial development, various institutions for one-stop shops and the National Productivity Institute.

Programme 3 reports on the value of manufacturing exports facilitated through investments, which are estimated to amount to R15 billion in 2023/24.

Programme 3 reports on the number of New SEZ designated and support work with provinces related to industrial parks and estimates to facilitate the process for the designation of two SEZs in 2023/24. This is a new output in the APP of the DTIC with no audited actual performance for periods 2019/20; 2020/21; 2021/22 and 2022/23. Reporting on progress on the 2019-2024 MTSF of revitalising 26 industrial parks by 2024 is therefore not possible.

Programme 4: Sectors, design and implement policies, strategies and programmes to strengthen the ability of manufacturing and other sectors of the economy to create decent jobs and increase value addition and competitiveness in both domestic and export markets.

The budget for the sector programme is R1 722.4 million in 2023/24. This amount is approximately 15.8 per cent of the total budget of the department in 2023/24. The main cost driver of programme 4 is transfers and subsidies, which amounts to R 1 593.7 million or 92.5 per cent of the 2023/24 budget. The biggest amount of R564.1 million is allocated to the Industrial Development Corporation for Sector programmes.

Programme 4 reports on the value (R410 million) of manufacturing exports contributed by sectors through manufacturing exports (in addition to the impact of incentives and Value of exports in manufacturing sectors to Africa and the value of (R93 million) contributed by sectors through manufacturing exports to the rest of Africa (in addition to the impact of incentives). Programme 4 is also responsible for the monitoring and evaluation of the implementation of 7 approved Master Plans, which means that the target of the 2019-2024 MTSF to develop master plans has been achieved. Additional master plans (for example, the Medical Devices Master Plan) will be developed over the next 5-year period.

Programme 6: Incentives, is responsible for stimulating and facilitating the development of sustainable and competitive enterprises, through the efficient provision of effective and accessible incentive measures, that support national priorities.

Masterplans continue to be key instruments for igniting economic growth. As at the end of 2021/22, 8 masterplans have been approved. Implementation has commenced and progress reports are estimated to be produced biannually from 2022/23.

The budget for the incentive programme is R5 391.4 million in 2023/24. This amount is approximately 50 per cent of the total budget of the department. The main cost driver of programme 6 is transfers to public corporations and private enterprises (97.1%), which are mainly allocated for development incentives, capital expenditure in industrial parks and special economic zones, export market and investment assistance, and support programmes for industrial innovation.

Programme 6 reports on the value of exports of Global Business Services, which is estimated to amount to R2.5 billion in 2023/24.

Programme 7: Exports, is responsible for increasing export capacity and support direct investment flows through targeted strategies and an effectively managed network of foreign trade offices.

The budget for the export programme is R407.6 million in 2023/24. This amount is approximately 4 per cent of the total budget of the department. The main cost drivers of programme 7 are compensation of employees (45.8% on average over the 2023 MTEF) and transfers to Public corporations and private enterprises (41.7%). A transfer of R172.8 million is allocated to the Export Credit Insurance Corporation of South Africa in 2023/24. This amount is 1.6 per cent of the total budget of the department and is 0.6 per cent less than the 2.2 per cent of total expenditure in 2019/20.

Programme 7 reports on the value of manufactured exports, including those supported through export councils and export promotion initiatives and the value of manufactured exports to other African countries, including those supported through export councils and export promotion initiatives which are estimated to amount to R445 billion and R281 billion respectively in 2023/24.

Programme 7 is also responsible for hosting business forums aimed at supporting increased Foreign Direct Investment (FDI), exports and outward investment and to resolve barriers affecting exports.

Programme 9: Research, undertakes economic research; contribute to the development of trade and industrial policies and guide policy, legislative and strategy processes to facilitate inclusive growth.

The budget for the research programme is R60.4 million in 2023/24. This amount is approximately 0.9 per cent of the total budget of the department. The main cost driver of programme 9 is compensation of employees (70.9% on average over the 2023 MTEF).

The responsibilities of this programme with regards to growing exports are to develop an export market strategy for Hemp, Cannabis and Furniture and to host 10 Business Forums aimed at supporting increased Foreign Direct Investment (FDI), exports and outward investment.

Performance reporting

The DTIC is not reporting on the 'Increase exports for national priority sectors by 4 per cent by 2024'.

The DTIC has set export targets (indicating that it is based on historical export trends while adjusting for changing economic conditions) of:

- R700 billion in manufacturing exports
- R300 billion in manufacturing exports to other African countries
- R2.5 billion in exports of Global Business Services (GBS)

The growth over the MTSF could however not have been determined due to the department's indication that these are new output indicators with no audited actual performance for periods 2019/20; 2020/21; 2021/22 and 2022/23. Progress on this 2019-2024 initiative will have to be monitored through the integrated reports, consolidated by the Department of Monitoring and Evaluation to Cabinet. This reason is also given for several other output indicators in the APP.

The Export Credit Insurance Corporation of South Africa

The Export Credit Insurance Corporation was established in terms of the Export Credit and Foreign Investments Insurance Act (1957), as amended, to provide political and commercial risk insurance on behalf of government for the facilitation of export trade and cross-border investments. By providing comprehensive export credit and investment insurance solutions to South African exporters doing business in risky sectors or countries, the corporation contributes to the expansion of exports, economic growth and the creation of jobs.

Over the medium term, the corporation will focus on attracting business from new and existing customers to facilitate more exports and cross-border investments. It expects to do this by absorbing political and commercial risks and protecting financial institutions and exporters through its insurance products. Accordingly, over the period ahead, the corporation plans to approve 12 projects worth a total of US$1.7 billion, and a targeted 21 export companies are set to benefit from the Export Passport training programme. The total expenditure budget for 2023/24 amounts to R952.9 million.

Table 2: Key performance measures for the Export Credit Insurance Corporation

Indicator	Programme/Objective/Activity	MTSF priority	Audited performance			Estimated performance	MTEF targets		
			2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Value of approved transactions per year	Contribute to trade facilitation	Priority 7: A better Africa and world	US$27.5m	US$894m	US$249.9m	US$550m	US$560m	US$570m	US$580m
Number of approved transactions per year	Contribute to trade facilitation		3	4	4	4	4	4	4
Value of approved transactions within expanded sectoral coverage per year	Contribute to trade facilitation		–[1]	–[1]	–[1]	US$60m	US$70m	US$80m	US$90m
Number of companies benefitting from the export passport programme per year	Contribute to trade facilitation		–[1]	–[1]	–[1]	5	6	7	8

1. No historical data available

Source: National Treasury

Industrialisation, localisation and exports are an outcome of priority 2: Economic transformation and job creation, while the outputs of the Export Credit Insurance Corporation, the public entity that provide export support on behalf of the DTIC link their outputs to Priority 7: A better Africa and World. Such mis-alignment could be as a result of a lack of communication between the department and the corporation. Proper understanding of the NDP and the 5-year implementation plans of government to address unemployment, poverty and inequality is however essential.

4.1.2. National Treasury (NT)

To support the growth in exports in national priority sectors the National Treasury is the lead department in supporting localisation and industrialisation through government procurement. To be able to monitor the progress made over the 2019-2024 MTSF, the National Treasury measures the compliance of government spend on designated products and services.

The purpose of the NT is to support economic growth and development, good governance, social progress and rising living standards through the accountable, economical, efficient, equitable and sustainable management of public finances, the maintenance of macroeconomic and financial sector stability, and the effective financial regulation of the economy. The purpose is supported by nine (9) budget programmes of which programme 5: Financial Accounting and Supply Chain Management Systems could be specifically linked to, priority 2 (2019-2024 MTSF): Economic transformation and job creation, outcome 3: Industrialisation, localisation and exports.

Table 3 shows the budget programme structure of the National Treasury (NT) with the actual and estimated expenditure from 2019/20 (the start of the 2019-2024 MTSF) and over the 2023 MTEF. Of the nine programmes, the purpose of programme 5: Financial Accounting and Supply Chain Management Systems has been found to be the most relevant programme supporting localisation and industrialisation through government procurement, the intervention supporting the MTSF priority 2. The target is that government spending should be 100 per cent compliant with the designated products and services.

Table 3: NT Expenditure trends and estimates by programme between 2019/20 and the 2023 MTEF

Programme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate			Average growth rate (%)	Average: Expen-diture/ Total (%)
R million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2022/23 -	2025/26
1. Administration	453.6	496.3	455.1	541.6	706.1	570.9	596.2	3.3%	0.1%
2. Economic Policy, Tax, Financial Regulation and Research	124.9	124.7	125.3	158.2	172.5	172.4	180.8	4.6%	0.0%
3. Public Finance and Budget Management	2 936.1	2 697.2	4 200.8	4 425.2	4 305.6	3 411.3	3 565.7	-6.9%	0.4%
4. Asset and Liability Management	96.7	3 022.6	26 663.2	6 024.4	1 135.4	135.0	139.5	-71.5%	0.2%
5. Financial Accounting and Supply Chain Management Systems	733.9	696.6	761.7	946.1	1 237.3	1 179.8	1 232.4	9.2%	0.1%
6. International Financial Relations	5 458.8	6 640.5	7 826.5	2 806.8	2 591.3	2 876.1	3 004.9	2.3%	0.3%
7. Civil and Military Pensions, Contributions to Funds and Other Benefits	5 487.1	5 188.8	6 042.8	7 012.1	7 039.0	7 355.1	7 684.6	3.1%	0.7%
8. Revenue Administration	9 529.0	10 271.9	11 295.2	11 527.8	12 157.6	11 636.2	12 135.1	1.7%	1.2%
9. Financial Intelligence and State Security	4 951.1	4 942.9	4 999.5	5 395.5	5 544.5	5 804.0	6 085.8	4.1%	0.6%
Subtotal	**29 771.2**	**34 081.5**	**62 369.9**	**38 837.7**	**34 889.4**	**33 140.8**	**34 625.2**	**-3.8%**	**3.6%**
Direct charge against the National Revenue Fund	**724 021.2**	**768 072.3**	**829 837.3**	**894 379.1**	**923 595.1**	**966 594.8**	**1 028 328.3**	**4.8%**	**96.4%**
Total	**753 792.5**	**802 153.8**	**892 207.2**	**933 216.8**	**958 484.5**	**999 735.6**	**1 062 953.5**	**4.4%**	**100.0%**

Source: National Treasury

The purpose of programme 5: Is to facilitate governance and accountability by promoting and enforcing the transparent, economic and effective management of revenue, expenditure, assets, liabilities and supply chain processes in the public sector. It should be noted that the 2023/24 Annual Performance Plan of the National Treasury mainly links pro-gramme 5 to the MTSF priority 1, which is to ensure a capable, ethical and developmental state. This link could be in terms of a more indirect effect, but to support localisation and industrialisation through government procurement, a link to MTSF priority 2 might be more relevant in terms of performance management and reporting.

Spending on programme 5 amounts to approximately 3.56 per cent of the expenditure of the department excluding direct charges to the national revenue funds. In 2023/24 the department estimates to spend R1 237.3 million on Financial Accounting and Supply Chain Management Systems of which R76.6 million (0.24% of programme 5) will be spent on Sub-programme 2: The Office of the Chief Procurement Officer (OCPO). This sub-programme aims to modernise the state procurement system to be fair, equitable, transparent, competitive and cost effective; enable the efficient, economic, effective and transparent use of financial and other resources, including state assets, for improved service delivery; and promote, support and enforce the transparent and effective management of state procurement and the sound stewardship of government assets and resources.

The Preferential Procurement Regulations, 2022 (PPR, 2022) would be implemented from January 2023 prior to the expiry of the suspension of the period of invalidity that was confirmed by the Constitutional Court. In the 2023/24 financial year, the OCPO will support the implementation of the Preferential Procurement Regulations by all applicable organs of state. These preferential procurement initiatives contribute towards achieving the Priority 2, outcome 3 intervention, specifically to support localisation and industrialisation through government procurement.

In terms of the requirements of the MTSF priority 2 towards industrialisation, localisation and exports, the indicator to monitor the 'percentage compliance of government spending on designated products and services' is not included in the APP of the NT. The department, however, does produce quarterly compliance reports. To ensure monitoring of compliance to government spending on designated products and services, these reports should form part of regular reporting to oversight bodies.

4.1.3. Departments of Science and Innovation and Health

The 2019-2024 MTSF requires the two departments to establish Public Private Partnerships for the localisation of pharmaceutical production including through the state-owned pharmaceutical company Ketla Phela. No reporting on this intervention could be found.

5. What government should also consider to grow exports

Research by Gonzalo Salinas[2] shows that economy-wide policies such as governance and education help foster diverse exports more than narrowly targeted industrial policies. This finding could be considered to guide South Africa's efforts to expand international trade.

Salina's research shows a clear link between the non-commodity exports that aid diversification and governance, education, infrastructure, and open trade. Improving those areas helps to diversify by creating conditions that make it possible to boost complex or higher-value-added exports.

The approach, explaining diversification, underscores the need to effectively shorten geographic distance by enhancing connectivity between nations and better transportation logistics. Other helpful policies include easing trade policy barriers, enhancing trade facilitation, fostering the spread of technology through educational exchange programs, and investing in communication technologies such as broadband that support the digital economy.

To be sure, that doesn't deny the potential effectiveness of more targeted support for individual sectors. Industrial policy levers, though, may be less effective or even harmful.

6. Conclusion

It should be acknowledged that to achieve the multi-facetted outcomes identified by government for the 2019-2024 MTSF requires integrated and cross cutting interventions by all sectors of government. In many instances, such as outcome 3: Industrialisation, localisation and exports, government has set only one target, namely, to grow exports by 4 per cent, which forces responsible departments to align their interventions to the multi-facetted outcome. Some of these interventions might not even contribute to the growth in exports.

The analysis to determine the availability of funding for the interventions showed that the two lead departments, namely: the Department of Trade, Industry and Competition and the National Treasury have the resources to implement the interventions.

Reporting on the specific output targets identified for determining progress on the implementation of the 2019-2024 MTSF remains a concern for monitoring purposes.

Priority 2: Economic growth and job creation includes several outcomes, suggested by Salina to support exports. However, government should consider including specific interventions in the next 5-year NDP implementation plan, on governance, education, infrastructure, and open trade, specifically to increase exports.

2 Gonzalo Salinas, March 5, 2021. Proximity and Horizontal Policies: The Backbone of Export Diversification. https://www.imf.org/en/Publications/WP/Issues/2021/03/05/Proximity-and-Horizontal-Policies-The-Backbone-of-Export-Diversification-50141