

SERVICES

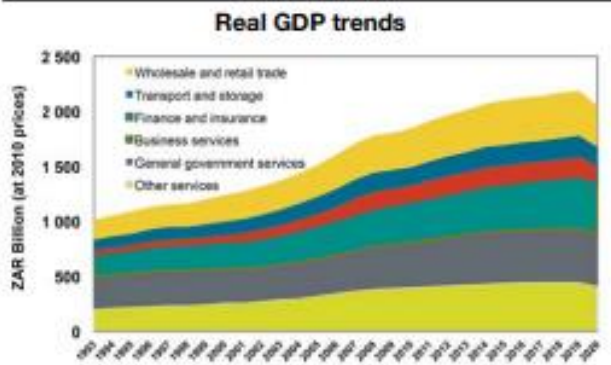


Sectoral outline

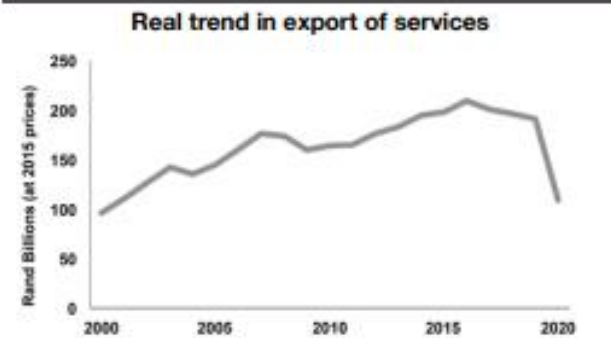
- Economic importance**
- Structure**
- Extensive sectoral linkages**

- South Africa's well-developed services sector plays a crucial role in the economy. It is also the largest broad sector of the economy, accounting for 76% of total GDP in 2020 and employing 9.3 million (79.4% of total formal employment).
- The degree of concentration varies widely across its various sub-sectors. The banking industry, for example, is dominated by five large banks, while the business services sub-sector is quite fragmented. Retail and wholesale trade is dominated by large companies operating alongside SMEs.
- The services sector is central to the functioning of the economy. It has extensive backward, forward and lateral linkages with a multitude of input suppliers and producers, as well as end-use consumer markets.

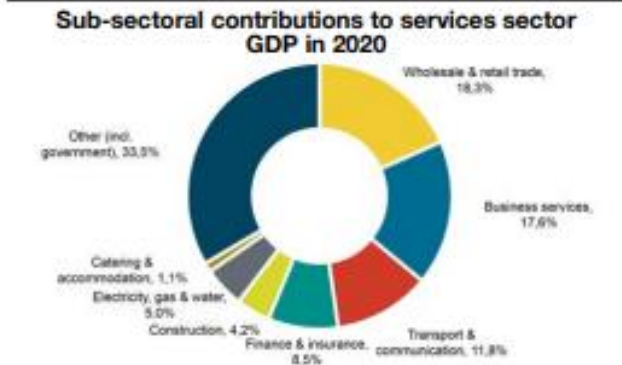
Robust growth across basically all services sub-sectors over the years ...



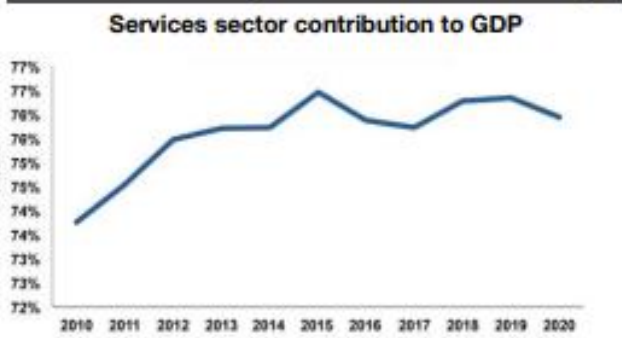
Strong export performance pre-Covid-19, with a robust recovery anticipated ...



... wholesale & retail, business services, transport & communications, and financial services are the largest



... services sector's share of South Africa's GDP has risen over time, underscoring their dominant role in the economy



Why invest in South Africa's services sector

- Well developed and diverse sub-sectors provide attractive investment opportunities such as in financial services, logistics and distribution, business services, etc.
- Several strongly performing sub-sectors over the years.
- Various segments have strong linkages into regional and other global markets.
- South Africa is sub-Saharan Africa's largest exporter of commercial services.
- Generally competitive cost structures relative to global benchmarks.
- South Africa is a global hub for Business Process Outsourcing (BPO) services, with several multinational conglomerates having invested in the country to tap into its skilled and competitive labour force.
- Certain segments, such as BPO as well as film and television production, draw significant public sector support, including incentives.

SERVICES

Information and Communications Technology (ICT)

ICT sector income dynamics

- Telecommunication services recorded sturdy revenue generation throughout the Covid-19 pandemic. In 2020, revenue increased by 3.6% to ZAR 201.3 billion, driven by mobile services revenue (+7.8%).
- Broadcasting services revenue declined by 6.6% to ZAR 35.8 billion in 2020, affected mostly by declining subscription and sponsorship revenues despite the increase (+7.8%) in pay-TV subscriber numbers. The revenue of the postal services segment increased by 3.6% to ZAR 5.9 billion 2020, driven by improved efficiencies.

ICT sector development highlights in 2020

- The fixed-line segment of the telecommunications industry is dominated by Telkom, while the mobile segment is led by Vodacom and MTN (over 70% combined market share), with Cell C and newcomers Telkom Mobile and Rain as smaller competitors.
- Telecommunications investment fell by 6% in 2020, the first year of the pandemic, but remains elevated and largely directed at expanding network coverage, raising speed and improving quality for enhanced firm competitiveness in the market.
- National population coverage for 3G and 4G/LTE increased to 99.8% and 96.4% respectively in 2020, while 5G coverage stood at 0.7%. Broadband access continues to improve due to investments in submarine and terrestrial fibre-optic networks, which have increased capacity and coverage.
- Policy reform, particularly the imminent increase in high demand spectrum allocations, is expected to have a highly beneficial impact on future investment in the sector.



Enhanced value proposition of investment opportunities

Digital technology offerings

Conducive regulatory environment and strategic direction

Opportunities for expanding operations into the continent

- ICASA, the regulatory authority, is in the process of auctioning high demand spectrum following the policy directive from the Minister of Telecommunications and Digital Technologies and the temporary allocation which will expire in November 2021.
- Government has created a favourable environment for investment in internet infrastructure and continues to establish regulations (digital migration, Protection of Personal Information Act, Spectrum Auction, Cloud Policy Development) to support the sector's growth.
- The ICT and Digital Economy Masterplan sets out the key objectives, enablers and ambitious action plans to realise the numerous opportunities that South Africa could potentially realise in the digital age.
- South African companies and locally-based subsidiaries of international companies are supplying most of the new fixed and wireless telecommunications networks established across the continent in recent years.

Some of the investment opportunities

- Spectrum licensing is imminent, opening up investment opportunities in the digital and telecommunications industries.
- Investment in advanced telecommunication applications: Internet of Things applications such as telematics and smart devices; inter-device communications technology.
- Big data tools for reporting and analytics.
- Business franchising opportunities in Voice over Internet Protocol solutions.
- Data centres.
- Opportunities for consolidation or investment in fibre internet service providers.
- Connected living opportunities arising from the roll-out of fibre and cheaper data costs.
- Widespread internet adoption provides significant opportunities for e-commerce websites on mobile devices.
- e-services across industries (e.g. technology/applications for government and e-health).
- Development of security products.
- Cloud computing opportunities due to improved bandwidth availability, security and lowered cost of broadband, as well as additional internet providers competing in the market.
- Frontier ICT technology skills development.