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transformation and job
creation in South Africa*

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Services-led growth in the context of de-industrialization: Opportunities for structural transformation and job creation in South Africa

Zaakhir Asmal¹ and Christopher Rooney²

Abstract

South Africa's persistent unemployment crisis, with the unemployment rate reaching 32.0 percent in 2024, has intensified debates about viable pathways for structural transformation, following the sustained decline of the manufacturing sector. This paper investigates whether services-led growth can replace the role of manufacturing and identifies which services subsectors hold the greatest potential for productivity enhancement and employment creation.

Employing a multi-criteria framework adopted from Whitehead et al. (2025) and Nayyar, Hallward-Driemeier & Davies (2021), the study analyses formal employment and labour productivity trends across ten services subsectors between 2010 and 2024. In addition, we apply the McMillan-Rodrik (2011) labour productivity decomposition and provide sector-level assessments across the dimensions of productivity, tradability, skills inclusivity and agglomeration potential.

The results reveal a bifurcated services economy in which modern, skills-intensive subsectors are expanding, while traditional labour-absorbing services have either stagnated or experienced a decline in productivity. While four services subsectors – transport services, information and communications (ICT), financial services and professional and business services – are identified as offering the greatest potential for growth and job creation, none are sufficient individually to resolve South Africa's structural unemployment challenge.

This paper contributes to the emerging literature on services-led development in middle-income countries by demonstrating that the potential of services subsectors are realised not through focusing on any individual sector but through enabling growth throughout the broader economy. The study concludes that accelerating cross-cutting institutional and infrastructure reforms, alongside targeted sectoral masterplans, are essential for translating services expansion into inclusive and sustainable employment gains.

Keywords: Structural transformation, services-led growth, deindustrialisation, labour productivity, South Africa.

JEL classification: O14; O55, J21, O47, L52

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Executive Summary

Context and Challenge

South Africa faces a structural employment crisis. Between 2010 and 2024, GDP grew at an average of only 1.3 percent per year while the unemployment rate climbed from 24.9 percent to 32.0 percent. Over the same period, formal employment rose from 14.0 million to 17.2 million, but these gains have been insufficient to absorb a rapidly expanding labour force.

Historically, manufacturing served as the primary engine of structural transformation in developing economies, moving workers from low-productivity to high-productivity activities in the formal sector. However, South Africa's manufacturing sector has significantly underperformed its peers since 2008 — recording the lowest employment growth rate among eleven comparable upper-middle income countries. This deterioration is compounded by broader global forces: automation, digitalisation, and rising trade protectionism are foreclosing the traditional manufacturing-led development pathway, particularly for late industrialisers.

Against this backdrop, the services sector has expanded rapidly. Services now comprise 63 percent of South Africa's GDP and account for most net new employment. This paper investigates whether services-led growth can take over the structural transformation role that manufacturing has been unable to sustain in the formal sector — and which specific subsectors hold the greatest potential to do so.

Key Results

Firstly, the analysis of formal employment and labour productivity trends across nine services subsectors from 2010 to 2024 revealed a deeply divided services economy:

- Modern, skill-intensive subsectors are expanding rapidly, information and communications (ICT) alone accounted for 32 percent of all new formal services jobs created over the period, growing at 4.4 percent per year.
- Traditional, labour-absorbing services such as wholesale and retail trade are stagnating or declining in productivity. Retail's employment share fell from 17.9 to 13.8 percent, with productivity declining in real terms.
- Aggregate labour productivity across the economy declined at 0.56 percentage points per year between 2010 and 2024, driven by weak within-sector performance across almost all sectors. Eight of nine sectors recorded negative within-sector productivity contributions.

Secondly, using a multi-criteria assessment framework, the paper evaluates services subsectors across five dimensions: direct productivity, enabling potential for the broader economy, tradability, skills inclusivity, and agglomeration and scale potential. The table below summarises the findings:

Services Subsector	Overall Potential (Score / 5)
Information and Communications (ICT)	4.4 - Highest potential overall
Financial Services	4.4 - Highest potential overall
Professional & Business Services	4.0 - High potential
Transport Services	3.8 - High potential
Education	3.0 - Moderate (important enabler)

Services Subsector	Overall Potential (Score / 5)
Wholesale & Retail Trade	3.0 - Moderate (low productivity)
Horticulture	2.8 - Limited by weak linkages
Accommodation & Food Services	2.6 - Limited potential
Health	2.6 - Limited direct potential
Other Personal Services	2.6 - Limited potential

Lastly, while the four leading subsectors — ICT, financial services, professional and business services, and transport services — offer the greatest potential, none can resolve South Africa's unemployment challenge independently. Several structural weaknesses apply across all four:

- Limited employment generated to date, particularly at low and semi-skilled levels.
- Poor direct within-sector productivity performance in recent years.
- A growing skills bias, meaning future expansion is likely to favour high-skilled workers, leaving large numbers of low and semi-skilled South Africans behind.

Constraints to Growth

A number of global risks and domestic bottlenecks are identified as inhibitors of the potential for growth and employment in services sectors:

Global Risks

- Rising global conflict, protectionism and trade tariffs introduce macroeconomic uncertainty and dampen export growth prospects.
- AI and automation pose medium-term risks to employment in lower-skilled services such as wholesale and retail (53–80% of jobs at high automation risk) and accommodation services (73% in the US), while posing low risk to the sector with the greatest potential in the short term.
- Global aid reductions as a result of the current global environment have already resulted in the retrenchment of approximately 8,000 healthcare workers in South Africa.

Domestic Bottlenecks

- Infrastructure deficits: Logistics inefficiencies cost the economy an estimated R1 billion per day. Load-shedding, though improved, remains a systemic risk to digital and services expansion.
- Governance and corruption: South Africa has only recently exited the Financial Action Task Force (FATF) grey list, and fewer than 20 percent of Zondo Commission cases have resulted in convictions.
- Regulatory burden: South Africa has the most restrictive business environment among all OECD-comparable countries, with reforms to business regulation potentially unlocking up to 9 percent of additional real output in the medium term.
- Skills mismatches: Firms consistently report difficulty sourcing required skills, and the majority of unemployed South Africans are low-skilled, in areas remote from economic opportunity.

Policy Recommendations

The paper proposes two complementary sets of interventions that must work in tandem to unlock the services sector's potential:

Cross-cutting Enabling Reforms

Reform Area	Priority Actions
Physical Infrastructure	Accelerate Operation Vulindlela reforms in rail, ports, and energy. Expand to include road infrastructure more explicitly.
Digital Infrastructure	Extend connectivity reach and reduce costs; use existing digital transformation reforms as a foundation for broader economy-wide digitalisation.
Governance	Expand governance reforms beyond local government to all spheres. Ensure Commission findings result in enforceable consequences.
Regulatory Reform	Implement the Competition Commission's review of regulatory barriers to competition and SME participation once recommendations are finalised.
Skills Development	Incorporate employer-identified skills needs into sectoral masterplans; reform education and SETA systems to make skills development demand-driven.
Labour Mobility	Continue housing, transport and digitalisation reforms; incentivise economic activity in areas where the unemployed are concentrated.

Targeted Sector-specific Strategies

The paper recommends developing comprehensive sectoral masterplans for services sectors, aligned with an overarching national services strategy. These plans should:

- Map each sector's full value chain and linkages to other parts of the economy.
- Identify specific opportunities for innovation, productivity upgrading, and inclusive job creation.
- Define skills requirements and gaps, with direct links to education and training providers.
- Be developed with meaningful input from private sector employers, workers, and industry bodies.

Sector-specific gaps in current policy include: a logistics masterplan beyond the existing rail focus; a dedicated ICT sector masterplan aligned to existing AI policy; a financial services plan focused on enabling SMEs and expanding access; and broader professional services strategies building on the existing Global Business Services Masterplan.

Central Conclusion

South Africa's services sector cannot be a substitute for manufacturing-led growth in its current form — but it can be something more nuanced and potentially more powerful with appropriate action: a networked engine of structural transformation that drives productivity across the entire economy. The central message is clear: no single sector will solve South Africa's unemployment problem. What is required is a dual strategy — accelerating the cross-cutting reforms already underway, while simultaneously developing a well-considered, diversified, and inclusive services sector strategy with subsector-level masterplans. This must be accompanied by sustained investment in human capital to ensure that the benefits of services-led growth



are accessible to the large numbers of low and semi-skilled South Africans currently excluded from the formal economy.

1 Introduction

Economic growth and job creation in South Africa has not been keeping pace with the growth in the labour force resulting in sustained high and increased levels of unemployment. Between 2010 and 2024, the economy grew at an annual average rate of 1.3 percent (World Bank, 2026) while the unemployment rate climbed from 24.9 percent to 32.0 percent (own calculations, Kerr, Lam & Wittenberg (2025)). Employment has grown in absolute terms, rising from 14.0 million to 17.2 million (own calculations, Kerr, Lam & Wittenberg (2025)), but these gains have been concentrated in financial, personal and transport services and have been insufficient to absorb a rapidly expanding labour force, let alone offset losses in agriculture, manufacturing and mining.

Central to this challenge is the decline in manufacturing, which has historically served as the primary engine of structural transformation, shifting workers from low-productivity to high-productivity activities and enabling broad-based wage growth (McMillan, Rodrik & Verduzo-Gallo, 2014). South Africa's manufacturing sector has underperformed its peers on employment, output and productivity, particularly since 2008. This deterioration coincides with a broader global reconfiguration of manufacturing driven by digitisation, automation, artificial intelligence, and rising trade protectionism – trends that are foreclosing the traditional manufacturing-led development pathway, especially for late industrialisers facing premature industrialisation (Cilliers & Ngundu, 2025; Rodrik & Sandhu, 2025).

As manufacturing has receded, the services sector has expanded, now comprising 63.0 percent of South Africa's GDP (World Bank, 2025) and accounting for the majority of net new employment creation. This mirrors a wider global trend in which services are increasingly seen as an alternative channel for structural transformation (Gill, 2021; Nayyar, Hallward-Driemeier & Davies, 2021). However, the literature cautions against assuming that services-led growth can straightforwardly replicate the development role historically played by manufacturing. Not all services are the same: some, like ICT, financial services, transport services, and professional and business services, are characterised by high productivity, tradability and agglomeration potential (Bhorat, Rooney & Steenkamp, 2018; Allen-Whitehead et al., 2025) while other subsectors, such as wholesale and retail or personal services are more likely to be low-productivity and domestically confined.

The paper considers whether services-led growth can fulfil the structural transformation role that manufacturing has been unable to sustain in South Africa, and, if so, which specific services subsectors hold the greatest potential. We make three distinct contributions to the literature. First, we document recent trends in employment and productivity across South Africa's services subsectors, revealing a bifurcated economy in which modern, skill-intensive services are expanding while traditional labour-absorbing services stagnate or decline in productivity. Second, drawing on frameworks adapted from Allen-Whitehead et al. (2025) and Nayyar, Hallward-Driemeier & Davies (2021), we identify four services subsectors – transport services, ICT, financial services and professional and business services – as offering the highest potential for growth and jobs based on productivity growth, tradability, skills inclusivity and agglomeration benefits. Finally, our findings suggest that no single services sector can offer a “silver bullet” in generating jobs, enhancing economy-wide productivity and solving South Africa's unemployment problem. Rather, the services sector's potential lies in contributing to a virtuous cycle of growth which requires two complementary sets of interventions: cross-cutting enabling reforms that improve the operating environment for all businesses and targeted sector-specific measures that unlock the potential of individual services sectors while building the skills and linkages necessary for inclusive participation of the South African labour force.

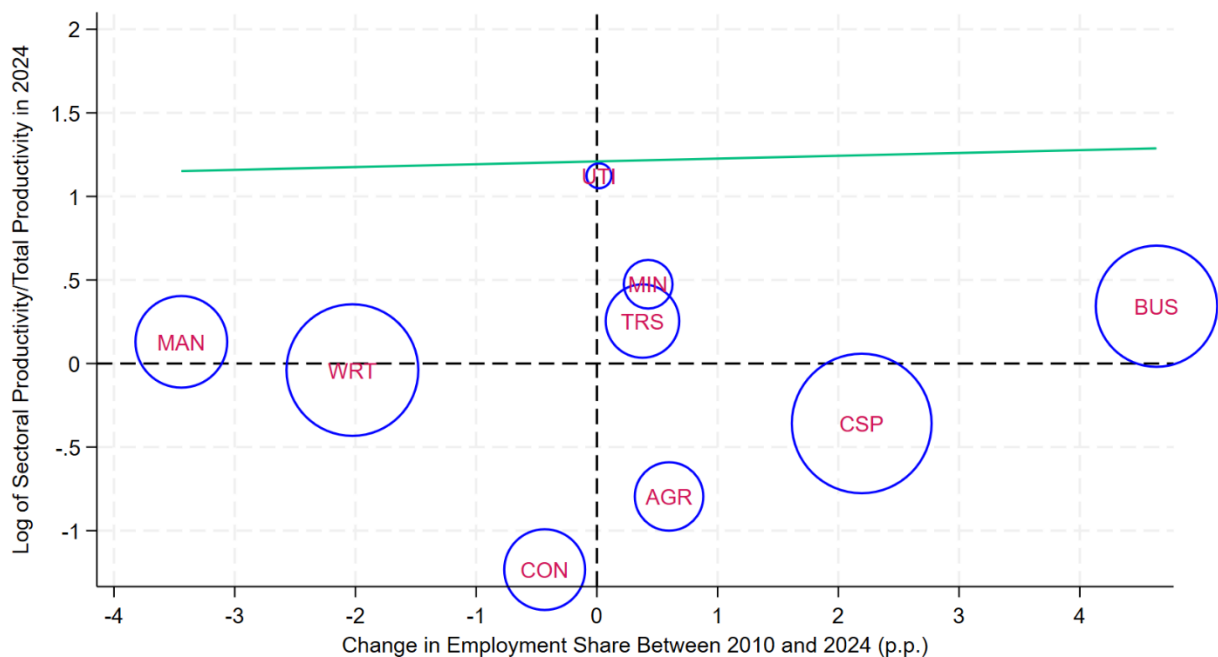
The paper is structured as follows. Section 2 provides background on structural transformation and the decline of manufacturing in South Africa and the global context of deindustrialisation. Section 3 analyses employment and productivity trends across services subsectors. Section 4 identifies services with the highest potential for growth and job creation using a multi-criteria framework. Section 5 highlights the growth and employment constraints to these identified services. Section 6 presents policy recommendations and concludes.

2 Background and Context: Manufacturing in Decline

The essence of structural transformation lies in the reallocation of resources away from low-productivity sectors and toward higher-productivity ones (McMillan et al. 2014). For many developed economies this process has involved moving away from traditional reliance on agriculture to industry (specifically mining and manufacturing), and a shift to services built upon the industrial base thereafter. In South Africa, this shift was too observed, but the economy has since diversified, with the services sector now serving as the primary source of employment and economic output. This represents a significant structural change, marking a transition toward an economy increasingly centred on skill- and knowledge-intensive activities; however this shift has occurred with stagnation in the manufacturing sector in South Africa.

Following an analytical technique adapted from McMillan et al. (2014), Figure 1 visualises sectoral shifts in the South African economy since 2010 by plotting relative sectoral productivity against changes in employment share across the period 2010–2024. The circles' size represents the sector's 2024 employment share, and the marginally positive slope of the regression suggests that the structural transformation was growth-inducing.

Figure 1: Sectoral and Employment Change in South Africa, 2010 — 2024



Source: Own calculations, Kerr, Lam & Wittenberg (2025).

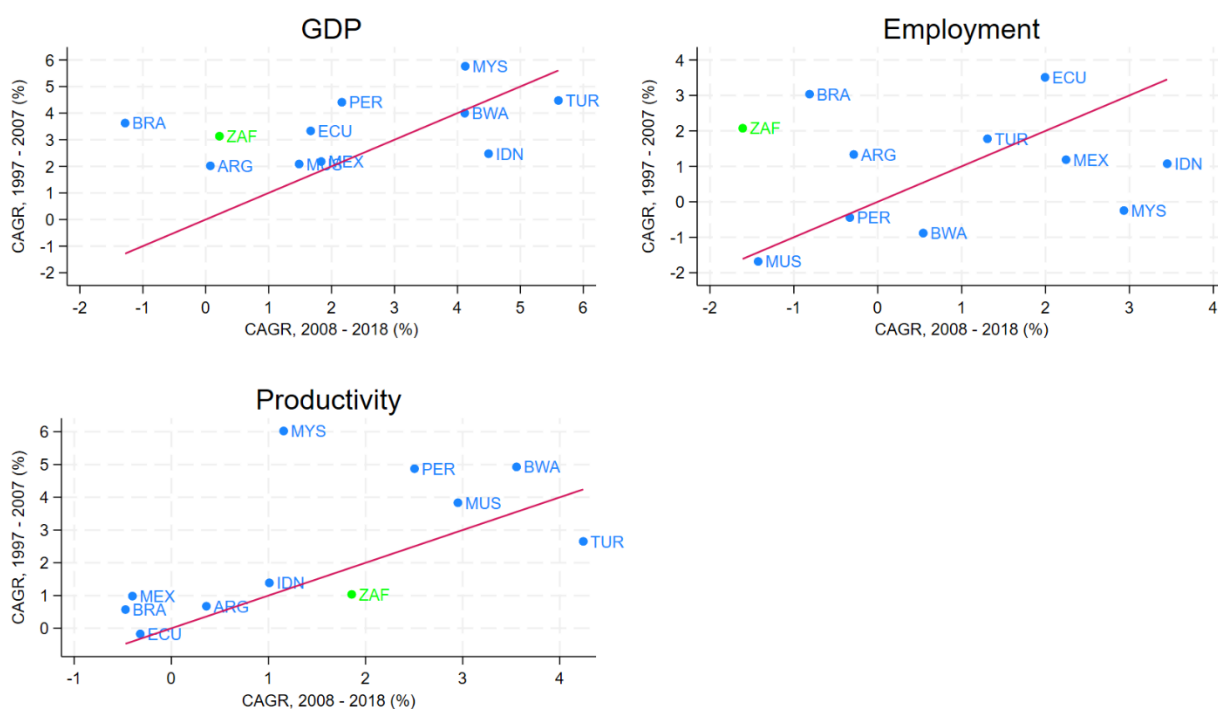
Note: Size of circle represents the employment share in 2024. AGR = Agriculture; MIN = Mining; MAN = Manufacturing; UTI = Utilities; CON = Construction; WRT = Wholesale and Retail Trade; TRS = Transport Services; BUS = Business Services; CSP = Community, Social and Personal Services.



The optimal scenario for economic development is characterised by a shift of employment: shares in low-productivity industries should decrease, while shares in high-productivity industries should rise (Bhorat et al. 2018). However, South Africa's experience deviates from this ideal (see Figure 1). While some low-productivity sectors like agriculture, wholesale/retail trade and construction have shown the desirable decrease in employment share, high-productivity sectors—including manufacturing and utilities—have *also* seen their employment shares fall or remain stagnant. However, more positively, high-productivity sectors such as mining and transport services experienced marginal employment growth. Business services – the third most productive sector after utilities and mining – experienced the largest employment growth of 4.6 percentage points.

The poor performance of manufacturing warrants further investigation, given its historical role as an engine of growth for many economies, and its sustained role within economies even where there is a later shift to services. In Figure 2 below, we compare the performance of South Africa's manufacturing sector to 10 other upper-middle income countries between 1997 and 2018³ along three key metrics: employment, GDP and productivity. Furthermore, we divide the growth rates of each metric into two time periods – 1997 – 2007 and 2008 – 2018 – to illustrate South Africa's particular poor performance in the latter period.

Figure 2: CAGR in Manufacturing Employment, GDP and Productivity, 1997 – 2007 vs. 2008 – 2018



Source: Own calculations, Kruse et al. (2022).

Note: ARG = Argentina; BRA = Brazil; BWA = Botswana; ECU = Ecuador; IDN = Indonesia; MEX = Mexico; MUS = Mauritius; MYS = Malaysia; PER = Peru; TUR = Turkey; ZAF = South Africa.

Beginning with employment (top-left panel), we observe that in the 1997 – 2007 period, South Africa's Compound Average Growth Rate (CAGR) was third out of the comparator countries, however, this performance deteriorated substantially in the 2008 – 2018 period, with no other country experiencing a lower growth rate than South Africa.

³ The dataset only includes data up to 2018.

Similarly, in terms of GDP (top-right panel), South Africa's performance was substantially better in the 1997 – 2007 period than the 2008 – 2018 period. In the former period, South Africa achieved a CAGR of just below 3.1 percent, ranking 7th. In the latter period, South Africa was ranked 9th with a CAGR of 0.2 percent, only growing faster than Brazil and Argentina.

In contrast to both manufacturing employment and GDP, manufacturing productivity growth remained similar across the two periods in South Africa. However, South Africa improved its ranking from 7th in the earlier period to 5th in the latter period. However, despite South Africa's middling performance in productivity, the deteriorating performance in both employment and GDP suggests that the manufacturing sector alone cannot be the driving source of sustainable job creation in the numbers required in the future in its current state.

The global manufacturing sector faces a fundamental reconfiguration driven by digitisation, automation and artificial intelligence, with investment in industrial AI projected to grow from \$43.6 billion in 2024 to \$153.9 billion in 2030 (IoT Analytics, 2025). This technological absorption, however, favours capital and skills-intensive production over labour absorption, while rising protectionism and trade tensions – with over 2500 new restrictions imposed in the first ten months of 2025 alone – are fragmenting global supply chains and increasing costs (Kose & Mulabdic, 2025; Ruzicka, 2024). In addition, China's massive manufacturing capacity has put downward pressure on prices. The confluence of these three trends suggests that the traditional manufacturing-led development pathway has becoming increasingly constrained, particularly for late industrialisers facing premature deindustrialisation at much lower income levels than historical precedents (Cilliers & Ngundu, 2025).

As manufacturing has receded in importance to the global economy, the services sector has grown, offering an alternative channel for structural transformation (Gill, 2021). Digital technologies enable services to achieve scale through remote delivery and franchising, while servicification – the bundling of goods with services – is enhancing competitiveness (Gill, 2021). South Africa has followed the global trend, with services now comprising 63.0 percent of GDP in 2024 (World Bank, 2025). However, it has shown limited capacity to absorb workers with low skills (African Development Bank, 2024) and thus the challenge lies in identifying specific services subsectors that can generate quality employment while building the human capital and institutional capabilities required for sustained services-led development.

Furthermore, Rodrik & Sandhu (2025) also argue that manufacturing can no longer drive economic growth in developing countries as it once did. Modern manufacturing has become too skill and capital-intensive to absorb large numbers of low-skilled workers, meaning urban jobs are increasingly in informal, low-productivity services rather than factories. They suggest that in order to raise productivity in labour-absorbing services, developing countries should adopt four key strategies to achieve this: partnering with large firms to expand employment, supporting smaller firms through public inputs like management training, providing technological tools that complement low-skill workers and vocational training with additional services, such as South Africa's Harambee programme, which offers job matching, skills assessments and career counselling.

3 The Potential Role of Services in Economic Growth and Employment Creation in South Africa: Current Trends

To further assess whether the services sector offers a viable alternative pathway for structural transformation in South Africa specifically given the manufacturing sector's evident decline, we examine

formal employment trends across nine major services subsectors between 2010 and 2024. The granular decomposition allows us to move beyond aggregate service sector statistics and identify which specific subsectors are driving employment expansion and consider whether particular services can substitute for manufacturing's traditional role in economic development. Our focus is specifically on the formal sector (that is, we exclude informal sector employment from the analysis) as this is where services must be able to take the role traditionally provided by the manufacturing sector within a country's structural transformation.

The formal services sector added 2.3 million jobs between 2010 and 2024, expanding from 5.6 million jobs to 7.9 million – a 40.4 percent increase, representing an average annual growth rate of 2.5 percent. This substantial expansion underscores the sector's role as the primary engine of employment growth in South Africa. However, beneath this aggregate growth lies a profound structural transformation characterised by a clear bifurcation between high-skill, technology-intensive subsectors experiencing explosive growth and traditional labour-absorbing services showing relative decline.

The sectoral composition of services employment has shifted dramatically. The Information and Communication Technology (ICT) sector's share has surged from 15.6 percent to 20.3 percent, with the sector nearly doubling its workforce from 878 000 to 1.6 million. The 4.4 percent average annual growth rate is more than double any other subsector and accounts for 31.9 percent of all net new formal sector service jobs created during this period. This growth is expected to continue in the near future, with both Microsoft and Google announcing large cloud infrastructure investments in South Africa (Dludla, 2025; Staff Writer, 2025) which they will use as a continental launchpad for technology services.

Professional and business services also demonstrated robust growth, with the sector adding a total of 113 000 jobs, at an annual average growth rate of 2.8 percent and maintaining its employment share of approximately 4.5 percent. This category typically includes accounting, legal services, consulting and other knowledge-intensive industries which are characterised by high wages and good working conditions.

Compared to the other modern services sector, the stagnation in financial services is striking. Despite adding 61 000 jobs, the sector's employment share contracted from 7.3 percent to 6.9 percent and contributing only 2.7 percent of new employment opportunities. A possible explanation lies in the structural changes occurring in the financial services sector: 76.0 percent of African banks ranked digital transformation as one of their top three priorities (African Banker, 2024). As a result, banks are digitising operations, implementing AI-enabled credit assessments and deploying cloud-based core banking systems that reduce headcount even though the service offerings are expanding.

Table 1: Formal Private Employment in Services Sectors, 2010 – 2024

	2010	2024	Employment Share (%)		Absolute	Share of	Average
	('000)	('000)	2010	2024	('000)	Change (%)	Annual Growth (%)
Agriculture-related services (horticulture)							
<i>Horticulture</i>	761	1 116	13,5	14,1	355	15,6	2,8
Wholesale and Retail Trade; Catering and Accommodation							
<i>Wholesale and Retail Trade</i>	1 005	1 093	17,9	13,8	88	3,9	0,6
<i>Catering and Accommodation Services</i>	319	407	5,7	5,2	88	3,9	1,8
Transport, Storage and Communication							
<i>Transport Services</i>	400	504	7,1	6,4	104	4,6	1,7
<i>Information and Communication Technology</i>	878	1 602	15,6	20,3	724	31,9	4,4
Finance and Business Services							
<i>Financial Services</i>	410	471	7,3	6,0	61	2,7	1,0
<i>Professional and Other Business Services</i>	242	355	4,3	4,5	113	5,0	2,8

	2010	2024	Employment Share (%)		Absolute	Share of	Average
	('000)	('000)	2010	2024	('000)	Change (%)	Annual Growth (%)
Personal Services							
<i>Education</i>	812	944	14,4	12,0	132	5,8	1,1
<i>Health</i>	594	822	10,6	10,4	228	10,0	2,3
<i>Other</i>	204	582	3,6	7,4	378	16,7	7,8
Total	5 625	7 896	100,0	100,0	2 271	100,0	2,5

Source: Own calculations, Kerr, Lam & Wittenberg (2025).

In contrast to the modern services sectors described above, the wholesale and retail sector exemplifies the challenge facing the traditional services sector. Despite adding 88 000 jobs, its employment share declined from 17.9 percent to 13.8 percent, contributing only 3.9 percent of new employment opportunities – far below its initial workforce share. The 0.6 percent average annual growth rate signals a sector in structural decline as a source of quality employment. Catering and accommodation services also added 88 000 jobs, representing a 1.8 percent average annual growth rate while maintaining its employment share of just above 5.0 percent. This modest performance reflects both recovery from tourism downturns and the sector’s vulnerability to economic cycles. However, employment in this sector tends to be in lower-wage positions with limited benefits and high turnover.

Compared to the previous four ‘traditional services’ industries, horticulture was an outlier, adding 355 000 jobs and increasing its employment share from 13.5 percent to 14.1 percent, representing a 2.8 percent average annual growth rate and 15.6 percent of new service employment opportunities – a surprisingly strong performance from agriculture-related service. However, jobs in this sector are typically manual labour with limited advancement opportunities and lower wages than other services subsectors.

In both education and health, there was moderate employment expansion but underperformance relative to sector averages. Education added 132 000 jobs (5.8 percent of total new services jobs), representing 1.1 percent average annual growth rate, while health added 228 000 jobs (10.0 of total new services jobs) with a marginally higher 2.3 percent average annual growth rate. Both sectors grew slower than the overall services sector. In education, its employment share declined from 14.4 percent to 12.0 percent and from 10.6 percent to 10.4 percent for health. These results indicate that these labour-intensive services are not expanding proportionally to overall services growth.

Having examined employment trends in the services subsectors, we now turn our attention to labour productivity. However, unlike with employment, we are limited to considering service sectors at the one-digit level because sectoral GDP provided by the SA Reserve Bank is provided at the one-digit level. To calculate labour productivity, we divide the sectoral GDP by the number of individuals employed in that sector to obtain the average productivity per worker (in Rand terms).

Table 2: Labour Productivity Level for Services Subsectors, 2010 - 2024

Sector	2010	2024	Absolute Change	Average Annual Growth
Wholesale and Retail Trade	157 154	150 371	-6 783	-0,3
Transport, Storage and ICT	283 924	348 998	65 073	1,5
Financial and Business Services	386 714	381 361	-5 353	-0,1
Personal Services	210 233	338 003	127 769	3,4
Average	259 506	304 683	45 177	1,2

Source: Own calculations, Kerr, Lam & Wittenberg (2025), SA Reserve Bank (2025).

** Horticulture not included because disaggregated data is not available

Examining Table 2, we observe that the service sector demonstrates modest aggregate productivity growth, with output per worker increasing from R259 506 in 2010 to R304 683 in 2024 – an absolute gain of R45 177, representing an average annual growth rate of 1.2 percent. This growth rate is low, falling well short of the productivity gains needed to drive substantial wage increases or economic growth. This poor productivity performance helps to explain why despite the services sector adding 2.3 million jobs, there has not been a noticeable improvement in living standards or economic dynamism in the South African economy.

BOX 1: A note on informality and productivity measures

We are unable to separate formal and informal sector GDP and thus provide labour productivity levels across the sector as a whole and not just for the formal sector, which is where productivity enhancing structural change is expected to be observed. Table 3 thus shows the share of employment in each of sectors that is formal and informal, so we can assess the extent to which the labour productivity numbers above are representative of the formal sector which we are interested in for the purpose of structural transformation within the economy.

Sector	2010		2024	
	Formal (%)	Informal (%)	Formal (%)	Informal (%)
Agriculture	57,7	42,3	68,3	31,7
Mining	97,7	2,3	96,6	3,4
Manufacturing	80,3	19,7	78,6	21,4
Utilities	96,2	3,8	89,6	10,4
Construction	49,8	50,2	45,9	54,1
Wholesale and Retail Trade	55,5	44,5	58,1	41,9
Transport, Storage and Communication Services	63,1	36,9	55,3	44,7
Financial and Business Services	86,4	13,6	85,3	14,7
Community, Social and Personal Services	86,5	13,5	83,0	17,0

Source: Own calculations, Kerr, Lam & Wittenberg (2025).

The data reveals a clear structural divide in terms of the level of informality. Mining, utilities, business and community, social and personal services are overwhelmingly formal, with shares well above 80.0 percent in both periods. This reflects both the capital-intensive nature of these sectors and the regulatory frameworks which govern them. Manufacturing similarly skews towards the formal sector, suggesting that productivity-orientated analysis of these sectors can largely draw on formal sector data with a high degree of confidence.

On the other hand, construction is the only sector in which the proportion of informal workers exceeds that of formal workers, with over half operating as informal workers across both periods. Transport, storage and communication services and wholesale and retail also have significant shares of informal workers, with both exceeding 40.0 percent in 2024. Although agriculture has experienced a decrease in the proportion of informal workers, it remains high at just over 30.0 percent. For a productivity analysis, these high shares of informality matter a great deal: these sectors likely suffer from measurement challenges, since informal economic activity is difficult to measure, and if we are interested in productivity in the formal sector to enable structural transformation in the economy, overall measures of productivity which include informal employment are likely to underestimate levels of productivity in the formal sector alone, which we are ultimately interested in in making our assessment of levels of sectoral productivity for services sectors.

Specifically, we expect that the level of informality in a sector reflects the level at which overall sector productivity is representative of formal productivity for that sector i.e. sectors in which the shares of informal workers are higher are likely to have formal sector productivity that is more severely underestimated by the overall measure: Based on the 2024 informal employment shares, we expect the overall productivity measures to be most similar to formal productivity for mining (3% informality), financial and business services (15% informality) and community, social and personal services (17% informality). All other sectors can be expected to have formal sector productivity considerably higher than the overall measure, with construction (54% informality), transport services (45% informality) and trade (42% informality) formal productivity most likely to be considerably higher than for the overall sector level of productivity.

The financial and business services sector stands as the clear productivity leader, despite output per worker actually declining marginally from R386 714 in 2010 to R381 361 in 2024. While the growth rate was negative, labour productivity remains highest in this services sector with the sector generating approximately 25.0 percent more output per worker than the sector average in 2024. The absolute labour productivity level in 2024 is 2.5 times higher than for trade and 13.0 percent higher than for transport, storage and ICT services. With a relatively low level of informal employment, this sector's overall labour productivity is likely to be reflective of formal financial and business services.

Transport, storage and communication services demonstrated solid productivity growth, increasing from R283 924 in 2010 to R348 998 in 2024, representing overall growth of 22.9 percent. The productivity gains likely stem from a combination of logistics optimisation, fleet modernisation, route planning software as well as broader improvements in digitisation and connectivity across the economy. However, the logistics sector faces significant infrastructure challenges: according to Havenga (2025), Transnet costs the South African economy R1 billion a day due to inefficiencies - whether it is the ports or rail. This structural constraint suggests that productivity gains are occurring despite, not because of, enabling infrastructure – raising questions about future growth potential. With a relatively high, and increasing, level of informal employment, the level of labour productivity in formal transport, storage and communication services is likely underestimated by the overall labour productivity measure which includes informal employment.

Personal services achieved the strongest labour productivity growth, increasing from R210 233 in 2010 to R338 003 in 2024 – equating to an absolute gain of R127 769 and 3.4 average annual growth – nearly triple the sectoral average. With a relatively low level of informal employment, this sector's overall labour productivity is likely to be reflective of formal personal services. This increase is possibly due to a number of factors. Firstly, it could be due to improved human capital through better-trained teachers and nurses, for example. Secondly, technological adoption in education (e.g. digital learning platforms) and health (electronic medical records diagnostic equipment) (as well as other personal services) could have enhanced productivity per worker. We also cannot distinguish between private and public sector employees within the personal services data. Public sector workers may be obtaining wage increases which are not necessarily related to efficiency gains and this may explain the high value added per worker we observe here. This may explain the observed increase, at least partially, for health and education services specifically.

Personal services also consist of a number of activities, which are not necessarily in the public sector, but which may be exhibiting high labour productivity numbers due to the nature of these activities. Stats SA (2025), in its own targeted survey of the personal services sector, notes that the largest contributor to value added within the sector in 2023 was recreation, culture & sport (contributing 37 percent), followed by health

and social work (35 percent) and education services (21 percent).⁴ No other service within this sector contributes more than 5 percent to the output of the sector. The large and increasing share of recreation, culture and sport (the sub-sector has increased its share of personal services output from 19 percent to 36 percent in just five years between 2018 and 2023) may be reflective of major gains in online gambling and other online recreational activities which could also partially explain the high value added per worker observed for the personal services sector as a whole if this increase is happening without major employment gains. This is supported by the fact that Stats SA's survey of personal services also notes that despite now accounting for the largest share of personal services income (37 percent), recreational, cultural and sporting activities only accounts for 14 percent of employment in personal services.⁵ The expansion in personal services and seemingly, productivity within personal services, therefore should be viewed within the broader context of a high proportion of public sector employment within the sector (education and health) which is dependent on the fiscal capacity of the government, as well as the major gains in online recreational activities which are not employment intensive accounting for much of the recent growth in personal services.

Wholesale and retail trade performed the worst, with productivity declining from R157 154 in 2010 to R150 371 in 2024, representing an absolute decrease of R6 783. With a relatively high level of informal employment, however, the level of labour productivity in trade is likely underestimated by the overall labour productivity measure which includes informal employment. The share of informal employment has however declined slightly from 2010 to 2024. These figures suggest that, overall, retail workers are producing less output in 2024 than in 2010. The combination of employment stagnation and productivity decline creates a dire picture: wholesale and retail is neither absorbing a sufficient quantum of workers nor enhancing their productivity. While productivity is likely higher in the formal trade sector, overall, the sector seems trapped in a stagnant and relatively low productivity equilibrium characterised by low margins (as a result of intense competition between retailers), slow adoption of productivity-enhancing technologies relative to other countries and low skills. The productivity stagnation is particularly concerning given retail's role as a traditional entry point for lower-skilled workers to enter into formal employment. A sector that cannot enhance worker productivity cannot sustainably raise wages, creating a trap where workers remain employed but poor.

Increasing aggregate labour productivity is generally thought of as being positive, but this may not necessarily be the case in a high unemployment economy like South Africa. Higher aggregate levels of labour productivity may be because workers are becoming more productive or may be due to a reallocation of employment away from low productivity sectors. McMillan & Rodrik (2011) provide a useful conceptual framework in understanding these shifts, decomposing the change in economy-wide labour productivity into two distinct components: the within component, which captures productivity gains that occur within each sector. For example, a factory might buy a new machine that helps it make things more efficiently, or a service-based company might find ways to streamline its processes. The second part looks at how jobs are being reallocated from industries that aren't very productive, like farming, to ones that are more productive, like modern services. Even if nothing changes within those more productive industries, the overall productivity still goes up. This can be represented mathematically as:

$$\Delta Y_t = \sum_{i=n} \theta_{i,t-k} \Delta y_{i,t} + \sum_{i=n} y_{i,t} \Delta \theta_{i,t}$$

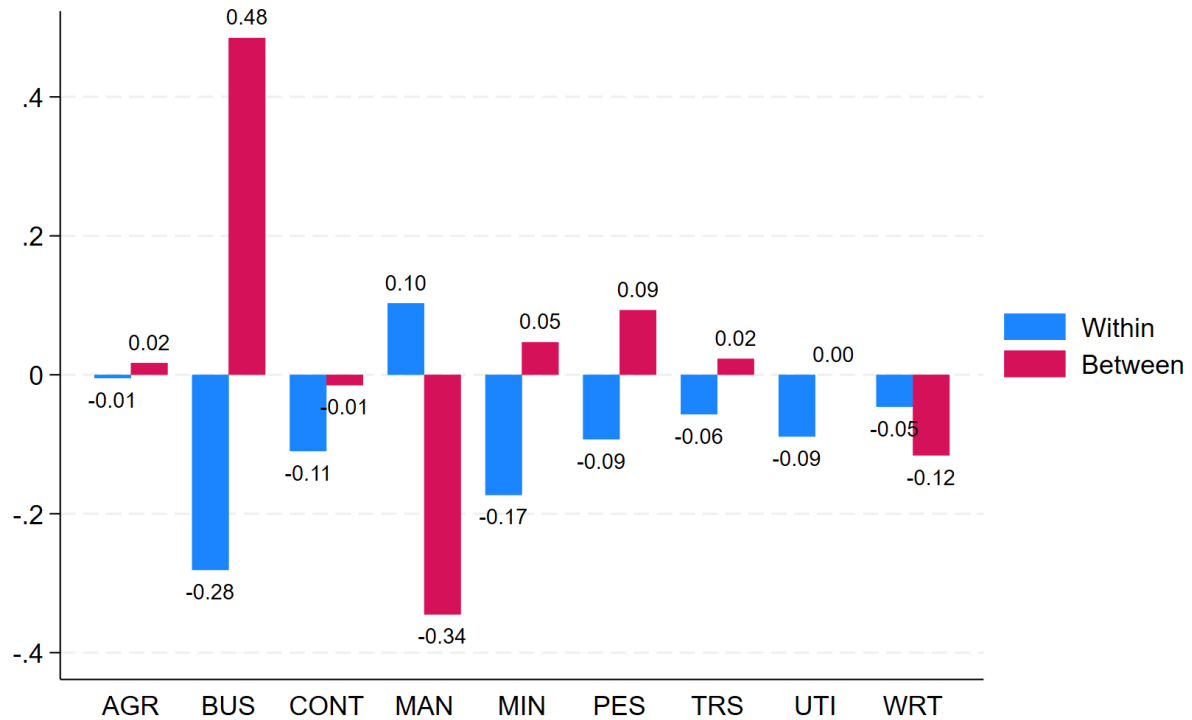
⁴ See [https://www.statssa.gov.za/publications/Report-90-01-01/Personal%20services%202023%20\(Media%20presentation\).pdf](https://www.statssa.gov.za/publications/Report-90-01-01/Personal%20services%202023%20(Media%20presentation).pdf)

⁵ See [https://www.statssa.gov.za/publications/Report-90-01-01/Personal%20services%202023%20\(Media%20presentation\).pdf](https://www.statssa.gov.za/publications/Report-90-01-01/Personal%20services%202023%20(Media%20presentation).pdf), page 7.



Where Y_t represents economy-wide productivity, $y_{i,t}$ is the labour productivity of sector i at time t and $\theta_{i,t}$ is the share of total employment in sector i . The first term, which represents the within component, weight each sector's productivity ($\Delta y_{i,t}$) by its employment share at the beginning of the period ($\theta_{i,t-k}$), reflecting how much that sector contributed to overall productivity based on how large it was at the start of the period. The second term, which represents the structural component, weights the change in each sector's employment share ($\Delta \theta_{i,t}$) by the productivity level at the end of the period ($y_{i,t}$), capturing whether labour moved towards sectors that are relatively more productive. When this second term is positive, workers are moving from less productive activities to more productive activities and structural change is growth-enhancing. However, when it is negative, labour is flowing towards lower-productivity sectors, and structural change is lowering overall productivity. In the results that follow, both components are expressed as annualised percentage point contributions to the economy-wide labour productivity growth rate, which allows sectoral contributions to be compared directly in a common unit. The results of the decomposition are present in Figure 3.

Figure 3: Decomposition of labour productivity, 2010 – 2024



Source: Own calculations, Kerr, Lam & Wittenberg (2025).

Notes: Includes both formal and informal workers.

AGR = Agriculture; MIN = Mining; MAN = Manufacturing; UTI = Utilities; CONT = Construction; WRT = Wholesale and Retail Trade; TRS = Transport Services; BUS = Business Services; PES = Personal Services.

Overall, South Africa's economy-wide labour productivity declined at an annual rate of 0.56 percentage points over the 2010 – 2024 period. This is a poor outcome and places South Africa firmly within the category of countries experiencing productivity stagnation, which is consistent with the evidence documented by McMillan & Rodrik (2011) for the broader Sub-Saharan Africa region. The decomposition reveals that the deterioration was driven almost entirely by weak within-sector performance (-0.75 percentage points/year), which was only partially offset by a modest positive structural change contribution (0.19 percentage points/year). In other words, South Africa's labour reallocation across sectors was mildly growth-enhancing, but not nearly enough to compensate for the broad-based productivity collapse occurring within individual sectors.

Eight of the nine sectors recorded negative within-sector contributions. The sectors with the largest decline include business services (-0.28 percentage points/year), mining (-0.17 percentage points/year) and personal services (-0.09 percentage points/year). The scale and breadth of this within-sector deterioration is striking because it suggests that across most of the economy, South Africa failed to accumulate capital, adopt technology or improve efficiency at a pace sufficient to raise output per worker. The sole exception is manufacturing, which was the only sector to record positive within-sector productivity growth over the period.

In terms of structural change, the story is more nuanced. The dominant positive contributor is business services (0.49 percentage points/year), reflecting the large increase in the sector's employment share over the period. Agriculture and transport services also make small, positive structural change contributions. However, this component is heavily undermined by manufacturing (-0.35 percentage points/year) and wholesale and retail trade (-0.12 percentage points/year). The movement of labour away from manufacturing is particularly damaging as it was the only sector with positive within-sector productivity growth, yet labour moved away from it.

In terms of individual services sub-sectors, business services is the clear positive story in terms of the structural change component, driven by a large inflow of labour into a sector with a relatively high productivity level. However, this must be considered alongside the within-sector result for business services, which is the most negative of all sectors (-0.28 percentage points/year). The within-sector productivity decrease can be attributed to two factors: the rapid absorption of workers diluting average output per worker and employment growth in business services being concentrated in lower-value segments such as call centres and informal financial services. Despite the poor within-sector performance, overall labour productivity growth was positive (0.2 percentage points/year) but considerably smaller than the structural change figure alone would suggest.

Wholesale and retail trade was the only sector, besides construction, in which contributions to both dimensions were negative. This evidence suggests that productivity declined both within the sector and labour also moved away from it, making wholesale and retail an unambiguous constraint on overall productivity performance.

The personal services sector presents an interesting case whereby the within (-0.09 percentage points/year) and between (0.09 percentage points/year) components cancel each other out, producing a net contribution of zero. This implies that while labour flowed into personal services, the influx depressed within-sector productivity. In other words, while personal services effectively absorbed labour, there was no productivity enhancement. Effectively, it has acted as a low-productivity buffer sector.

Overall, South Africa's productivity performance over the 2010 – 2024 period reflects two overlapping failures. Firstly, there has been a broad collapse of within-sector productivity across almost the entire economy, suggesting insufficient capital investment at the firm and sector level. The second failure is that of deindustrialisation, with labour moving out of manufacturing and into services, which is consistent with the growth-reducing structural transformation McMillan & Rodrik (2011) identify as a characteristic of underperforming developing economies. The positive structural change contribution from business services provides only partial relief, and is itself undermined by falling within-sector productivity. Overall, the analysis has shown that while services has become the dominant employment channel in South Africa, the expansion failed to generate the productivity gains necessary for successful structural transformation. Changing this trajectory will require substantial reforms to raise within-sector productivity, especially those in the services sector, which accounts for the majority of South African employment.

4 Identification of Services with Potential for Growth and Job Creation

The trends highlighted above suggest that, on its current services growth trajectory, at least, service will not generate the numbers and types of jobs required in South Africa. However, this does not mean that services do not have the potential to do so should they expand in ways that are conducive to both productivity and employment gains, either directly within their sectors, or as enablers for the broader economy.

Allen-Whitehead et al. (2025), as part of a recent Brookings Institution project⁶ on the potential of services sectors to drive structural transformation in Africa considered a number of key characteristics that services should have to take the structural transformation role that has traditionally been fulfilled by manufacturing in developing economies. They note that these “industries without smokestacks” (in contrast to traditional smokestack industries that produce large items or inputs into other industries) should share the following characteristics with manufacturing in particular:

- They are tradable;
- Have relatively high value added per worker;
- Exhibit the capacity for technological change and productivity growth;
- Show some evidence of scale and or agglomeration economies; and
- Have the potential to take on low to medium skilled labour.

Nayyar, Hallward-Driemeier & Davies (2021) also provide a typology of services which can be used to identify services with a high propensity for positive structural change in an economy. Their typology focuses on the following six dimensions:

- The share of value which is exported
- Share of offshorable jobs
- Research and development intensity, which is measured by the proportion of business expenditure spent on research and development.
- Capital stock per worker (constant 2015 US\$, thousands)
- Share of sales to other sectors
- Share of low-skilled employment in each sector

Using these dimensions (particularly dimensions 1 and 6, as they find greater similarity across services for the other dimensions), they then identify four key groups of services:

1. **Global Innovator Services:** These are services sub-sectors which are characterised by skilled workers, are highly tradeable across borders and have strong linkages with other sectors. Examples of such sector include ICT services, financial services and professional, scientific and technical services.
2. **Low-Skill Tradable Services:** These services sub-sectors – transportation, wholesale and accommodation and food services – are characterised by a high-proportion of low-skill workers. In addition, both transportation and wholesale and retail are highly tradable industries as they enable the import and export of good and services. Unlike the other two sectors, the tradability of accommodation and food services stems from the fact that tourists consume these services while abroad.

⁶ See <https://www.brookings.edu/books/new-pathways-to-job-creation-and-development-in-africa/>

3. **Skills-Intensive Social Services:** This group comprises only two services industries – education and health. Both these industries typically require a form of post-school education to be considered for roles, hence the low proportion of low-skilled workers. Both these sectors typically exhibit low levels of tradability, although there are possible scenarios where such services can be exported (such as foreign students at higher education institutions or foreigners having medical operations locally).
4. **Low-Skilled Domestic Services:** This group includes sectors such personal services, arts, entertainment and recreation, retail trade and administrative and support. As the name suggests, these sectors have a large proportion of low-skilled workers but also have few links to other industries, and are generally not tradable (except for arts, entertainment and recreation).

Combining these indicators, we propose a modified version of the criteria laid out by Brookings to consider the potential of services in South Africa to support positive productivity growth and job creation in South Africa. We introduce a second component of productivity potential which relates not just to the services sector itself but how it relates to other sectors in the economy and how it can serve as an enabler of productivity gains across the broader economy. Our criteria to identify services with the potential to play significant roles in growing the economy and generating employment in the short to medium term are thus:

- The sector is high productivity AND/OR has the potential to enable productivity in the broader economy
- The sector is highly tradable (has potential for substantial export expansion)
- The sector either currently has or has the future potential to provide employment across the skills spectrum (i.e. it is able to absorb not just high-skilled workers, but also medium-skilled and low-skilled workers aligned to the profile of the South African labour force)
- Activities undertaken within the sector have a high propensity for agglomeration and/or scale benefits

Specifically, we consider whether these services have such potential in the private formal sector (while noting that our data sources often cannot differentiate between public and private employment) with the ultimate aim of identifying what policy measures can enable private businesses within these sectors. We consider each of these criteria for services in South Africa in sections 4.1.1 to 4.1.4 below, and then make an assessment across all of these criteria

4.1 Identification of high-productivity services

In Table 3, we summarise the productivity estimates of services-based industries at the one-digit level based on our discussion above. Unfortunately, we are unable to provide estimates at a lower level of disaggregation, and thus, cannot identify trends in productivity in horticultural services and in sub-service sectors within the 1-digit industry categories.

Table 3: Labour Productivity in one-digit services based industries according to different measures of productivity

	Wholesale and Retail Trade	Transport, Storage and ICT	Financial and Business Services	Personal Services
Labour productivity (2010 – 2024) (value added per worker)	Low and stagnant	High and increasing	High but stagnant	High and increasing
Within-sector labour productivity trend (2010 – 2024)	Negative	Negative	Negative	Negative
Between-sector labour productivity trend (2010 – 2024)	Negative	Positive	Positive	Positive

Note: Productivity for horticultural related services, or sub-service components cannot be estimated due to data only being available at the 1-digit industry level.

Source: Own compilation from own estimates, Fourie and Steenkamp (2026)

Wholesale and retail trade is low-productivity and relatively stagnant in terms of productivity growth. Trends in both within-sector labour productivity and between-sector labour productivity have been negative for wholesale and retail trade.

The broad transport, storage and ICT industry has seen high and increasing labour productivity, but when decomposed this overall increase is revealed to be a combination of a negative within sector effect and a positive labour reallocation effect. Likewise, the broad financial and business services industry has seen stagnant labour productivity but a combination of a negative within sector effect and a positive labour reallocation effect when this overall change is decomposed. It can be said that labour has flowed to these two relatively high productivity industry sectors, but as this labour has flowed to them, overall labour productivity within these sectors has declined. In other words, these industry sectors are seemingly absorbing lower productivity labour over time.

Personal services ranks highly on the basis of value added per worker, but as we have noted earlier, this is due to a combination of increases in public healthcare and education, and expansion in non-employment creating activities in the recreation, culture and sport sub-activities of the sector. On the basis of these estimates, and our previous discussion on trends in productivity in services, high-productivity service sectors with employment creating potential are most likely to be found in the transport, storage and ICT, and financial and business services broad industries.

However, even in these industries, overall productivity has been relatively stagnant, or declining. However, the potential of a service activity to drive positive productivity changes within an economy is not only due to its direct productivity but is also related to how that service is related to other economic activities within an economy (through value chains and other linkages). A service may thus also be an enabler of productivity in other economic activities, and this too should be considered in considering the role of services in structural transformation within an economy.

Indirect productivity potential: Services as an enabler

While direct productivity in the services sectors has been relatively poor, services may have a broader role as enablers in the broader economy through their linkages with other sectors. In what follows, we provide a high-level overview of how particular services sectors may have the potential for this even if their direct productivity has not been particularly high and trends in sectoral productivity in the past have been disappointing.

Logistics serves as a critical enabler of economic growth in South Africa by facilitating trade efficiency, reducing operational costs, and enhancing productivity across sectors. Chakamera and Pisa (2021) examine 32 African countries between 2007 and 2018 and show that improvements in logistics performance indicators yield positive economic growth effects, with the “competence and quality” indicator having the highest impact, with each percentage point increase in this indicator leading to an increase of 0.029 percentage points in economic growth. Their findings reveal better logistics infrastructure leads to enhanced efficiency, reliability and service quality, which in turn reduces costs, shorten transit times and boost competitiveness. However, despite the study showing that South Africa had the best logistics performance out of the countries considered, it still faces significant challenges, including high transportation costs which amounted to 11.3 percent of GDP (Havenga et al., 2016), largely due to the shift from rail to road transport. Recent evidence suggests that this is being addressed, with the Transport’s Ministry’s request for private engagement in rail and port freight logistics indicating that the government recognises that a well-performing

logistics sector is fundamental to unlocking economic growth potential (Schutters, 2025). If these reforms are implemented properly, South Africa can leverage its logistics improvements as a catalyst for sustained economic development and regional competitiveness.

The **ICT** sector serves as a crucial enabler of economic growth and transformation with evidence suggesting multiple channels through which digital technologies drive development. An exhaustive literature review by Veraga-Cobos & Malasquez (2023), which covered 112 studies across different countries found a significant positive impact on economic growth associated with ICT adoption. In developing countries, the impact is particularly strong in terms of mobile technology: a 10.0 percent increase in adoption boosts GDP by 0.5-1.2 percent and, further, the effects of connectivity strengthen significantly with an upgrade from 2G to 3G, and subsequently, 4G mobile networks. Moreover, the effects of technology goes beyond macro indicators to labour markets, by increasing the probability of employment by between 6.9 and 13.2 percent. This demonstrates that the ICT sector can act as an enabler in achieving broader structural transformation across the economy as a whole.

Financial services play an influential role in helping countries grow, and in South Africa, this is done in several key ways (Chirlele, 2012). First, they help collect savings from many people and use them to make investments. They also help manage risks by spreading them out and making sure people have access to money when they need it. Another important role they play is to help borrowers and lenders have the same information. Finally, they make it easier and cheaper for people to do business with each other, which helps companies specialise. Other businesses, like professional services, also contribute to growth in their own way. According to Turok & Visagie (2020), these firms help make institutions in the country stronger, teach new skills, and increase the capabilities of workers, leading to a stronger economy overall.

Finally, within the personal services sectors, **education and healthcare related services** have key enabling roles to play in the broader economy despite within-sector trends which do not reflect high levels of productivity.

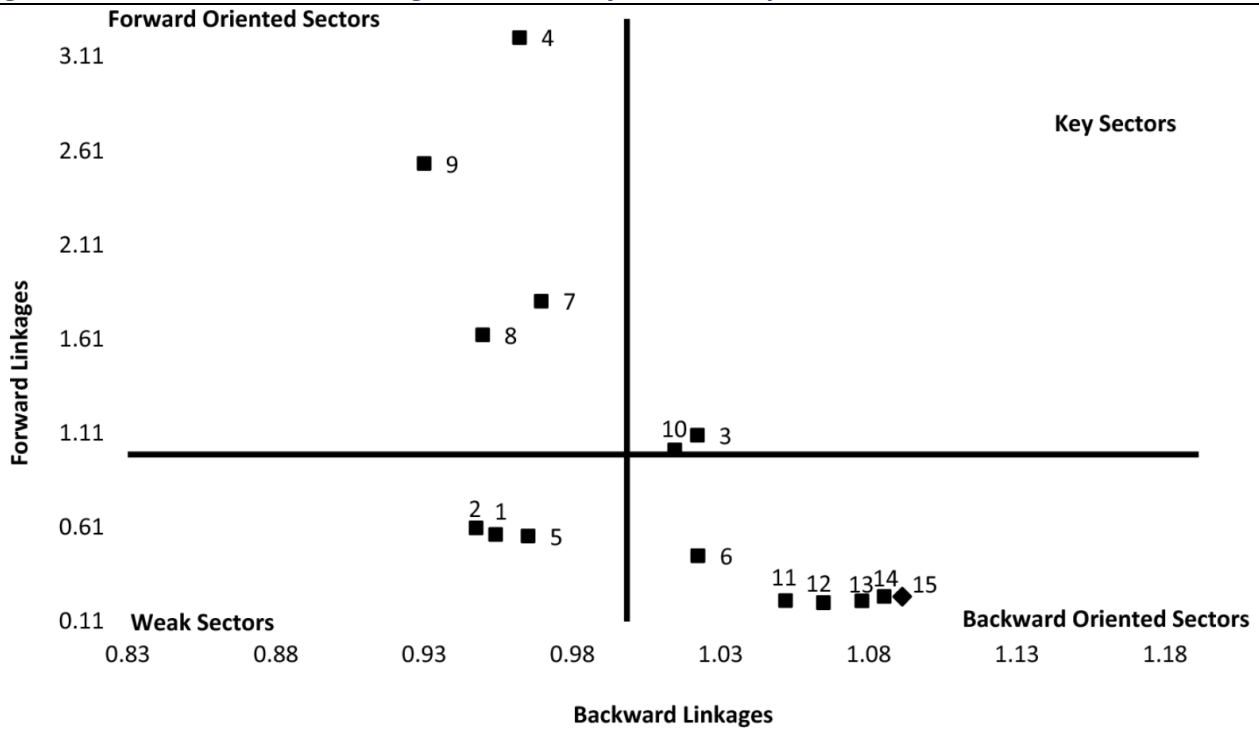
In South Africa, education has been regarded as a driving force for economic development with higher-education institutions being responsible for developing human capital as well as enhancing innovations and enterprise (Mashwama & Thwala, 2025). Mashwama & Thwala (2025) emphasise that through education, knowledge, skills and critical thinking can be acquired, thus allowing them to participate fully in the economy. However, when examining the linkage between education and economic growth, a discrepancy between education types arises within South Africa. According to Borhat, Cassim & Tseng (2016), degree-holders have a large impact on the economy with an employment elasticity equal to 0.104, making them the most productive labour cohort. On the other hand, FET certificate-holders are shown to have a negative or insignificant impact on growth and unemployment rates of these groups is almost as high as that of people with only a Grade 12 education.

The healthcare industry plays an equally crucial role in the stimulation of economic development within South Africa because it contributes to the transformation of wellbeing of the people into productivity and stability. The issue becomes particularly important for South Africa in that it needs to fight not only communicable diseases like HIV/AIDS, but also non-communicable ones like cancer and diabetes in order to secure itself of a constant pool of labour. Furthermore, Fumagalli, Pintor & Suhrcke (2024) state that the results of improved health during childhood include improved education. In other words, a proper diet and medical treatment during early ages would lead to a highly skilled workforce and contribute to the transition of South Africa into the economy based on the knowledge industry.

While the above provides theoretical considerations about how services can act as enablers, precise data on this, particularly for South Africa specifically, is more difficult to provide. One way to consider which services

have strong enabling potential is through the use of supply-use tables which provide a measure of how much of a good or service is used in the production of other goods and services in the economy and which enable us to evaluate linkages between different sectors in the economy.

Figure 4: Backward and Forward Linkages in the South African Economy, 2015



Source: Mbanda & Bonga-Bonga (2024)

Notes: Key: 1 = Agriculture, 2 = Mining, 3 = Food and Beverage, 4 = Manufacturing, 5 = Electricity and water, 6 = Construction, 7 = Trade, Catering and Accommodation, 8 = Transport, Storage and Communication 9 = Financial and Business Services, 10 = Other Services, 11 = Government Administration, 12 = Government Education, 13 = Government Health, 14 = Government Social Services, 15 = Government Economic Services

Using 2015 supply and use data, Mbanda & Bonga-Bonga (2024) show which sectors in the South African economy have the strongest and weakest links to other sectors. Backward-oriented sectors (or sectors with strong backward linkages) are those that depend heavily on purchasing inputs from suppliers, while forward-oriented sectors (or those with strong forward linkages) are characterised by selling their output to other sectors as intermediate inputs. In the figure above, from Mbanda & Bonga-Bonga (2024), the vertical and horizontal lines represent a value of 1. Backward-oriented sectors have a backward linkage index greater than 1, representing a sector with higher backward linkages than the average for the economy and lie on the right-hand side of the vertical line, while forward oriented sectors have a forward linkage index greater than 1, representing a sector with higher forward linkages than the average for the economy and lie above the horizontal line. Key sectors have both backward and forward linkage indices greater than 1 and are in the top right quadrant while weak sectors have both backward and forward linkage indices less than 1 and lie in the bottom left quadrant.

Food and beverages and other services have both above average forward and backward linkages; however, these are only slightly above average in both cases. Manufacturing has the strongest forward linkages, with financial and business services being the sector with the next highest forward linkages, followed by trade and transport, communications and storage. The public sectors have the strongest backward linkages – meaning that they depend heavily on consumption of inputs from other sectors, and have relatively weak forward linkages. Construction is also a backward oriented sector. Agriculture, mining and utilities have both below average forward and backward linkages, and thus are not likely to result in strong impacts across the broader economy along with their own development. Regarding potential for linking to the broader economy, based

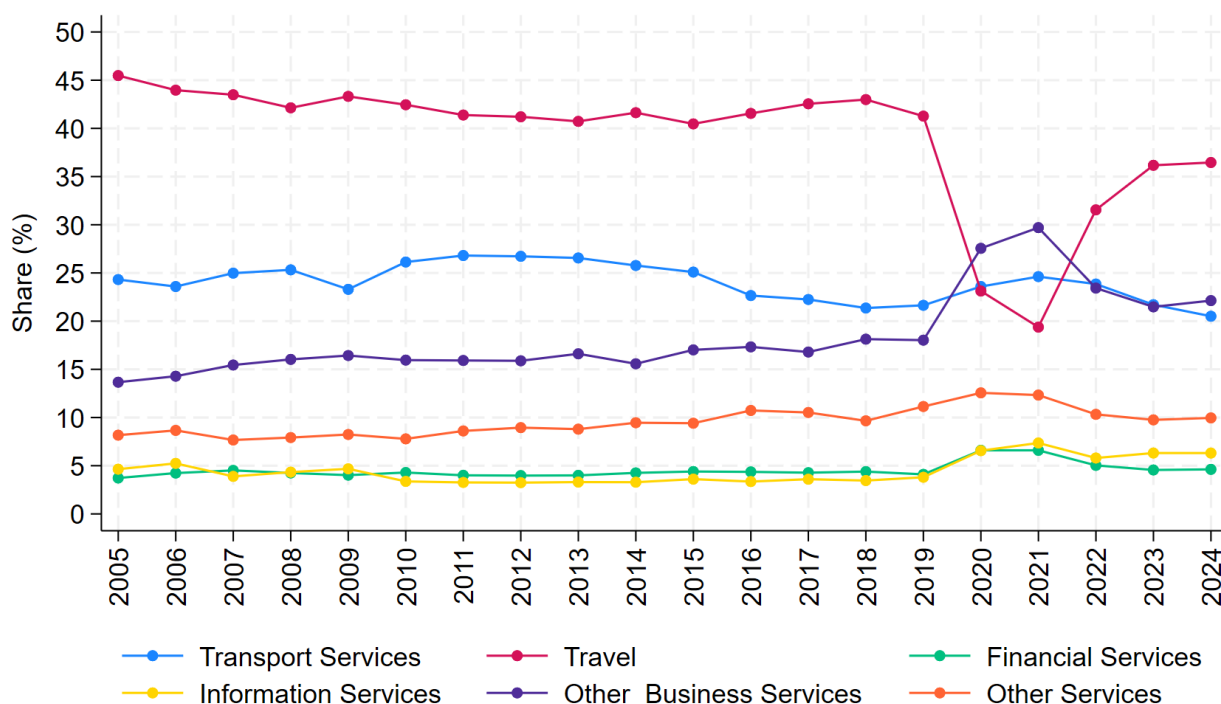
on this data, financial and business services exhibits a linkages profile most similar to manufacturing, suggesting that it could fulfil a similar role to manufacturing with respect to linking sectors within the broader economy. Among other services sectors, transport, storage and communication, and trade also exhibit strong forward linkages, while other services has both slightly stronger than average forward and backward linkages. It is these services sectors that have the greatest potential for enabling the broader economy.

It should be noted however that these calculations are based on 2015 data and thus may not be fully reflective of linkages in the South African economy in 2026. It should also be noted that while these results indicate the extent of linkages across the economy, it does not automatically imply that these linkages are likely to result in productivity gains across the linked sectors – the linkages provide a channel through which such changes can occur within the economy but are not a guarantee of it. Understanding the exact potential of such linkages to foster productivity gains across the economy warrants further investigation; however, these numbers do provide some indication of potential for such gains to be achieved and it is sectors with these linkages that have the greatest potential to ignite productivity and economic growth across value chains. Trade, in particular, seems to have strong linkages to the rest of the economy due to its nature; however, we cannot necessarily say that these linkages are productivity enhancing given the relatively low productivity of trade as an economic activity. It is where high productivity sectors link to less productive sectors that productivity gains are more likely to occur.

4.2 Identification of services that are tradable

Frocrain & Giraud (2018: 88) define the tradables sector as one in which “produces goods and services that can be produced in one country and consumed in another ...”. This contrasts with the non-tradable sector, which produces goods and services solely for the domestic market (Frocrain & Giraud, 2018). To identify services sectors which can be considered to be tradeable, we use the WTO-OECD-BATIS dataset, which covers over 200 countries and 26 services sectors for the period 2005 – 2024. In Figure 5, we show the share of exports by services exports in South Africa for the period 2005 to 2024.

Figure 5: Share of South African Services Exports by Sector, 2005 - 2024



Source: Own calculations, OECD-WTO-BATIS (2025).

Note: 'Other Services' includes the following services sub-sectors: 1. Manufacturing services on physical inputs owned by others; 2. Maintenance and repair services n.i.e.; 3. Construction; 4. Insurance and Pension Services; 5. Charges for the use of intellectual property n.i.e.; 6. Personal, cultural, and recreational services; 7. Government goods and services n.i.e.

Travel services is the dominant services export in South Africa, accounting for around 40.0 percent of total services exports before the covid-19 pandemic. However, since reaching its nadir in 2021 at 20 percent, it has since recovered to 36.4 percent of services exports in 2024, although this is still below the 41.3 percent achieved in 2019.

Between 2005 and 2019, transport services accounted for the second-highest share of exports, accounting for between 21.4 percent (2018) to 26.8 percent (2011). However, in 2020 and 2021, 'other business services' - which include research, consulting, technical and trade-related services – surpassed transport services. Although transport services achieved a marginally higher share in 2022 and 2023, in 2024, other business services surpassed transport services again.

Other services – which include a myriad of small services exports sectors – have maintained a range of between 7.8 percent (2010) and 12.6 percent (2020). In other words, there has not been much growth in these sectors. A similar situation applies to both financial services and information services, which are largely flat in their share of services exports over the period. All services sectors thus have potential to be tradeable; however, the likelihood and propensity of tradeability differs across different types of services. Those related to movement of people and good (travel and transport) can be considered to be highly tradeable, whereas those related to personal services can be considered to be less tradeable (although export is possible through consumption of such personal services by foreign consumers). Business related services have been increasing their share of services exports over time and offer potential for further export growth. These services also showed resilience in the face of the shock posed to economies by the Covid-19 pandemic.

Nayyar, Hallward-Driemeier & Davies (2021), in their typology of services, consider ICT services, financial services and professional, scientific and technical services to be highly tradeable services. They also consider transportation, wholesale and accommodation and food services to be tradeable (the first two due to their importance to enabling trade, and the latter due to their potential for consumption by foreign consumers). In contrast, they suggest that what they term "skills-intensive social services" in health and education have low levels of tradability (although the possibility does exist for foreign consumption of education and healthcare). They also consider personal services, retail trade (as opposed to wholesale trade) and administrative support as being generally not tradeable. They note that arts, entertainment and recreation can however be considered to be tradeable.

4.3 Identification of services with a good mix of skills levels in its employment profile

In South Africa's high unemployment context, it is important that we consider the potential of services to absorb not only high-skilled labour, but also medium- and low-skilled labour in considering sectors with potential for both productivity gains and employment creation. Table 4 shows the evolution of skills across South Africa's workforce between 2010 and 2024.

Table 4: Share of Employment by Skill Level in South Africa, 2010 – 2024

Years	High-skill	Semi-skill	Low-skill
2010 – 2014 (avg.)	29,9	50,1	20,0
2015 – 2019 (avg.)	26,9	50,3	22,7
2020 – 2024 (avg.)	28,7	48,6	22,7

Source: Own calculations, Kerr, Lam & Wittenberg (2025).

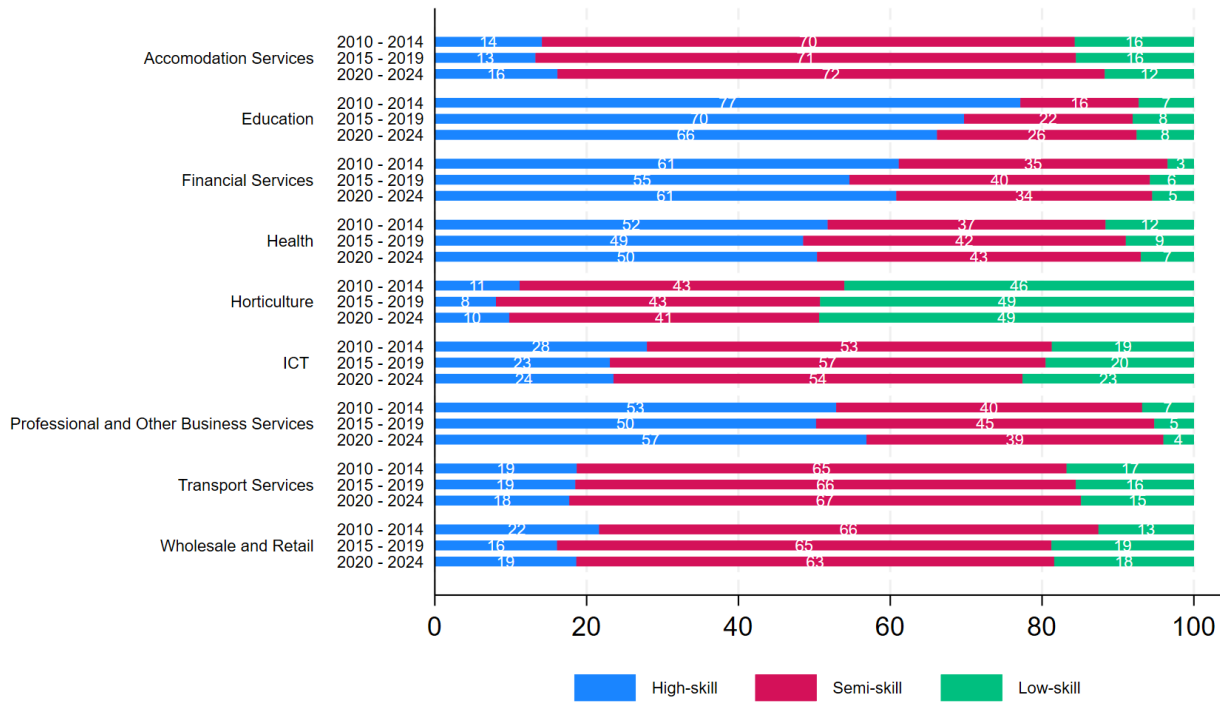
Note: Sample restricted to formal sector only.



The shares of employed within the skill categories has remained relatively stable over the period. Around 50 percent of South Africa’s workforce are semi-skilled, while just under one-third are high-skilled and just over one-fifth are low-skilled. Within the unemployed population, there is a lower proportion of high-skilled individuals, and a higher proportion of low-skilled individuals.

In Figure 6, we show the skills shares across services sub-sectors which we are able to consider at the 2-digit industry level within South African labour force survey data.

Figure 6: Share of Employment by Skill Level by Services Sub-Sector, 2010 - 2024



Source: Own calculations, Kerr, Lam & Wittenberg (2025).

Note: 1. Sample restricted to the formal sector only. 2. High-skilled are managers, skilled professionals and technicians and associate professionals; semi-skilled are clerical support workers, service and sales workers, skilled agriculture, forestry and fishery workers, craft and related trades workers, plant and machine operators, assembles. Low-skilled are those elementary occupations and domestic workers

The sectors with the highest shares of low-skilled workers in employment are horticulture (49 percent over 2020 – 2024), ICT (23 percent), and wholesale and retail (18 percent). No other services sectors have a share of more than 15 percent.

The sectors with the highest shares of semi-skilled workers are accommodation services (72 percent over 2020 – 2024), transport (67 percent), wholesale and retail (63 percent). Health, horticulture, and ICT have shares of over 40 percent as well.

The sectors which are most high-skills biased are education (66 percent over 2020 – 2024, although down from 77 percent over 2010 - 2014), financial services (61 percent), professional and other business services (57 percent) and health (50 percent).

The services sector as a whole exhibits a good mix across the skill's spectrum – although the demand for skills at the low-skilled level is considerably lower than the quantum of individuals with this skills labour within the labour market. There, however, seems to exist ample opportunities for individuals at the semi- and high-skilled level across the different services sub-sectors. A comprehensive services promotion strategy across different types of services sectors would serve to generate the mix of employment required by the South

African labour force; however it is not likely that one or even two services sub-sectors would be able to provide a good mix of employment opportunities as they grow. It is also likely that as sectors evolve, the already relatively skills-biased services sector will become more skills-intensive rather than less, suggesting that services cannot readily provide large numbers of low to semi-skilled employment – emphasising the importance of developing skills within the labour force along with economic growth promotion within services sector if the goal is employment creation along with economic growth.

Further, the future holds a number of opportunities and threats to employment which need to be taken into account when thinking about the potential of services to generate growth and employment opportunities. Employment in the different services sub-sectors have different propensities to benefit as well as be victims of a number of changes happening across global economies. These include the rise of artificial intelligence, global trade shifts and other tensions. Domestically, a number of factors are also likely to weigh differently on the ability of different services to expand and generate employment. These include governance concerns, public financing constraints, inadequate infrastructure and policy and regulatory burdens. While domestic challenges are more likely to be shared across different services sectors, the impact of these challenges may differ based on the nature of services activities within the different sub-sectors. We consider these in the next section which focuses on constraints to employment and growth.

4.4 Potential for scale and agglomeration benefits

Productivity is shaped not only by firms themselves, but also by their location (Turok & Visagie, 2023). Specifically, cities have shown to be the main drivers behind the economic performance of countries because where economic activity clusters geographically, firms benefit from external economies of scale and scope (Ahlfeldt & Pietrostefani, 2019). These spillovers are commonly referred to as agglomeration economies.

The most influential piece of writing on the notion of agglomeration economics is Duraton & Puga (2004), who argue there are three distinct characteristics of the mechanism: sharing, matching and learning. This tripartite framework provides a comprehensive lens through which to understand the various forces that drive firms and workers to cluster in urban areas, and which are explained in more detail below.

Sharing mechanisms is when advantages accrue because individuals and firms share access to common inputs, resources, and infrastructure. These include sharing of infrastructure such as ports or airports, sharing of inputs for which economies of scale can be generated serving multiple firms, and sharing of risk through diversification. Multiple firms located near one another can support specialised input suppliers and specialised services which cannot be supported by any single firm alone.

Matching mechanisms refers to the efficiency of labour markets and good matches between workers and jobs or workers and firms. Firms in an urban area get better access to workers with variety of skills, and workers get a wider range of employment options, which increases the quality of matches between the worker and employer, thus reducing search costs and increasing productivity.

Learning mechanisms refers to benefits resulting from knowledge spillovers and innovation by sharing access to knowledge and research with individuals and other firms. This usually occurs through face-to-face contact, leading to information sharing and increased innovation potential.

Apart from the mechanisms which give rise to agglomeration economies, another important component to consider is the type of externalities. Broadly speaking, there are two type of externalities – localisation and diversification.

Localisation externalities result from the concentration of firms within the *same* industry. The drivers include the creation of specialised labour pools, the provision of specialised intermediate inputs and suppliers (input



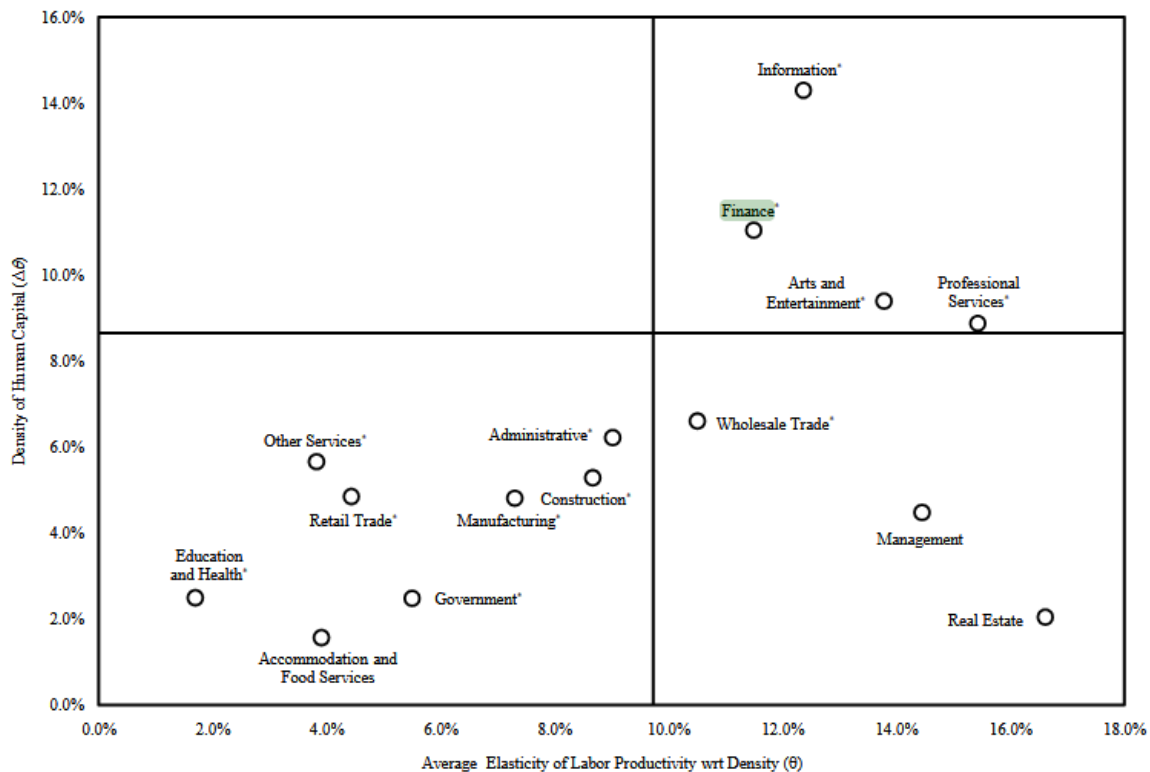
sharing), and, critically, industry-specific knowledge spillovers (Hudleson-Zipper, 2020). A notable example of this would be Silicon Valley, where software firms grow faster because they benefit from the concentrated knowledge and talent specific to their industry.

On the other hand, diversification externalities result from the sheer size and diversity of economic activity across different industries within a dense urban area (Hudleson-Zipper, 2020). Essentially, a diverse metropolis (such as Cape Town or Johannesburg) experiences faster growth because a fashion designer, a robotics engineer, and a finance expert, all in proximity to each other, can exchange ideas that lead to entirely new products or processes.

Abel, Dey and Gabe (2011) using US data, estimate the effect of agglomeration on multiple industries. The horizontal axis measures how much productivity increases when economic activity becomes more concentrated, while the vertical axis measures the density of skills (human capital stock) within an area.

In the top-right quadrant, these industries benefit the most from density and skills and include information, finance, arts and entertainment and professional services. These sectors can be characterised as knowledge-intensive, innovative and with strong spillover effects.

Figure 7: Classification of Industry Sectors by Average Density of Human Capital and Change in Productivity Effects



Notes: The density of human capital ($\Delta\theta$) is expressed as the change in θ for a metropolitan area with a human capital stock one standard deviation above the mean compared to a metropolitan area with a human capital stock one standard deviation below the mean. * indicates that the estimated density of human capital effect ($\Delta\theta$) is statistically significant. Gridlines of 9.7% and 8.7% correspond to aggregate productivity estimates reported in Column (2) of Table 4. Industry sector results based on OLS estimates reported in Table 5.

Source: Abel, Dey & Gabe (2011).

In the lower-right quadrant, density remains an important determinant of productivity, however, skills concentration is less important. The impact of density is highest for real estate, possibly because of the

relationship between land values and urban density (Abel, Dey & Gabe, 2011). In the bottom left quadrant, the remaining sectors exhibit little productivity effects from density and the concentration of skills.

Overall, these results align with the idea that cities boost productivity through knowledge sharing. The industries showing the strongest benefits from skilled worker concentration are those where innovation and intellectual collaboration drive value creation. This indicates that much of the productivity improvement we document comes from face-to-face interactions, enabling better exchange of insights and expertise.

In considering which services have the potential for growth and employment at scale, agglomeration and scale effects are important to consider as services with the potential for these can be supported at relatively low costs to support relatively rapid expansion when investment in these sectors and support to these sectors supports the achievement of these effects. Abel, Dey & Gabe's (2011) results are for the US but provide an indication of which type of services in South Africa may benefit most from density effects. In particular, information, financial and professional services stand to benefit from "hubs" that brings such service providers in close proximity to each other. This already happens as we can see financial hubs have emerged in Johannesburg and Cape Town, and business process outsourcing hubs in Cape Town and Durban, for example. Further investment and support to such hubs can achieve sectoral expansion with relative ease in the short to medium term. A potential unintended consequence of such expansion however is to replicate inequalities with services growth and employment taking place predominantly in the most urbanised parts of the country from which such benefits are easier to achieve.

However, one way in which services agglomeration and scale effects can be amplified which are often not possible in non-services sectors such as manufacturing which also benefit from agglomeration effects, is through improved digital infrastructure and connectivity. Sharing, matching and learning do not necessarily need to take place in close physical proximity – digital proximity can enable such effects across physical distance. With many services activities now possible completely through digital channels, agglomeration and scale effects can be achieved even when businesses are not close to each other. While there are still substantial benefits to physical proximity which cannot be completely replicated digitally, digitalisation and improved connectivity offers a way to mitigate against services concentration in small geographical areas by allowing smaller centres of agglomeration in less urbanised areas which are also in dire need of employment opportunities. A dual strategy which promotes "core" services hubs for particular services in the largest urban areas in the countries along with "second-tier" services hubs located in smaller urban areas, and remote workers in more outlying areas of the country through the use of digital connectivity could enable expansion and employment creation beyond urban cores without sacrificing the efficiency gains typically associated with physical proximity. The core determinant of whether pursuing such a strategy will be possible will be a combination of how susceptible a service is to being digitalised (conducted virtually), and whether people who will be working in this services sector have access to reliable and adequate digital infrastructure and connectivity.



4.5 Services With Potential for Growth and Employment in the Formal Private Sector in South Africa

Having outlined the criteria for identifying services sectors with the potential to support economic growth and employment creation in the previous sections above, here we provide an assessment of which services meet the criteria using a 5 point scale for each of the dimensions considered. Table 5 lays out the assessment criteria for each dimension and the following table provides our assessment of the different services sub-sectors based on the discussion above.

Table 5: Criteria For Assessment of Services Potential

Dimension of potential:	1	2	3	4	5
Direct productivity	Lower than economy average productivity, low growth in productivity	Lower than economy average productivity, growth in productivity over time	Average productivity, productivity has not grown or has grown slightly over time	Higher than average productivity, productivity has not grown or has grown slightly over time	Higher than average productivity, productivity has grown substantially over time
Enabler of productivity	Weak linkages to rest of economy	Linkages to only one or two other sectors	Linkages to a considerable number of other sectors	Strong linkages to other sectors, linkages to a considerable number but not all sectors	Strong linkages to other sectors, linkages to almost all sectors of the economy
Tradability	Not tradable	Tradable within borders	Tradable both within and outside of borders but more likely to be traded within borders relative to other services	Tradable both within and outside of borders but less likely to be traded outside of borders relative to other services	No limits to tradability as a service
Skills mix of employment	Over 80% of employment is in one skills category, or more than half of employment is in one skills category with low potential for employment in other skills categories	Mix of semi-skilled and low-skilled employment with very low high-skilled employment, future employment growth likely to replicate current mix	Mix of semi-skilled and high-skilled employment but low share of low-skilled employment, future employment growth likely to replicate current mix	A good mix of employment across skills levels, however future employment growth is more likely to be in high skills	A good mix of employment across skills levels, potential for growth across all skills levels (not only high-skills biased)
Scale and agglomeration potential	No potential for physical or digital scale effects	Some potential for physical scale effects, digital scale effects unlikely as the service cannot be performed online	Some potential for physical scale effects, some digital scale effects possible as some components of the service can be performed online	High potential for physical scale effects, some digital scale effects possible as much of the service can be performed online	High potential for physical scale effects, digital scale effects possible as service can be performed (almost) completely online

Table 6: Assessment of Potential of Services to Generate Growth and Employment by Identified Criteria

SERVICES SUB-SECTOR	TRADABILITY	SKILLS MIX IN EMPLOYMENT POTENTIAL	DIRECT PRODUCTIVITY POTENTIAL	ENABLING PRODUCTIVITY POTENTIAL	SCALE AND AGGLOMERATION POTENTIAL	OVERALL POTENTIAL FOR GROWTH AND JOBS
AGRICULTURE RELATED SERVICES (HORTICULTURE)	3 Tradable both within and outside of borders but more likely to be traded within borders	4 Accounts for substantial change of employment over 2010-2024; Good mix of employment including low-skilled, but future employment growth likely to be in semi to high skilled categories	3 No data available at this level for horticultural services; agricultural productivity as a whole is suggested to have been positive by some measures of productivity, but stagnant by others	2 Low enabling productivity potential due to lack of widespread links to the broader economy	2 Some potential in very localised areas due to concentration of agricultural activity but no other scale and agglomeration potential beyond this	Average: 2.8 Poor enabler and scale potential means sector's potential is limited to its own sector rather than to the broader economy
WHOLESALE AND RETAIL	4 *Wholesale is fully tradable, retail is more likely to be traded within borders only	4 Good mix of skills across the spectrum	2 Low and stagnant or declining productivity. Formal sector productivity is likely higher than for the overall sector, however productivity even here is low relative to other formal services sectors.	2 Despite links to other sectors, low enabling productivity potential due to its own low level of productivity	3 Physical agglomeration benefits are more likely for wholesale than retail, digital scale effects are possible but limited due to physical nature of trade activities	Average: 3.0 Relatively poor productivity score means sector is not well suited to enabling positive structural change in economy
ACCOMMODATION AND FOOD SERVICES	3 Consumed within borders mostly, foreign consumption linked to tourism	3 Employment is 70% semi-skilled. Future growth is likely to replicate this pattern of employment.	2 No data available at 2 digit level; the 1-digit industry (wholesale and retail trade, catering and accommodation) which these activities form part of has relatively low productivity.	3 Medium enabling productivity potential with forward-oriented links to other sectors	2 Low potential for physical agglomeration; digital scale effects limited due to physical nature of activities	Average: 2.6 Relatively low productivity. Relatively strong forward linkages but poor scale potential means sector's potential is limited.



SERVICES SUB-SECTOR	TRADABILITY	SKILLS MIX IN EMPLOYMENT POTENTIAL	DIRECT PRODUCTIVITY POTENTIAL	ENABLING PRODUCTIVITY POTENTIAL	SCALE AND AGGLOMERATION POTENTIAL	OVERALL POTENTIAL FOR GROWTH AND JOBS
LOGISTICS: GOODS TRANSPORT AND PASSENGER TRANSPORT	4 While there is an international dimension of tradability due to export of goods and transport of tourists, for example, the nature of transport means that it is more likely to be provided within the country's borders rather than outside of it	3 Most employment is semi-skilled, considerable amount of high-skilled employment, relatively low share of low-skilled employment	4 High productivity which has grown over time. Productivity in the formal sector likely higher than the overall measure indicates due to share of informal sector in employment in the sector.	5 An enabler with high innovation potential in the longer term. Strong forward linkages to rest of economy.	3 Strong physical agglomeration effects, somewhat limited digitalisation scale effects due to nature of activities	Average: 3.8 Strong productivity scores with potential for efficiency gains from agglomeration and scaled operations
INFORMATION AND COMMUNICATIONS	5 With enhanced digitalisation and increased globalisation, ICT infrastructure and support services can be traded across borders; becoming a regional leader in ICT can provide a foundation for providing such services not just domestically but within the region and across the world	4 A good mix of employment across skills levels, however future employment growth is more likely to be in high skills	4 High productivity which has grown over time. Productivity in the formal sector likely higher than the overall measure indicates due to share of informal sector in employment in the sector.	5 An enabler with high innovation potential in the short-term. Strong forward linkages to rest of economy.	4 High potential for both physical agglomeration and digital scale effects	Average: 4.4 Strong scores across all dimensions
FINANCE SERVICES (INCLUDING INSURANCE AND REAL ESTATE)	5 With enhanced digitalisation and increased globalisation, finance services can be	3 Mix of semi-skilled and high-skilled employment but low share of low-skilled	4 No 2-digit level data available. For finance and professional services, productivity is	5 Widespread links to the broader economy, high innovation potential in the short to medium	5 Potential for digital scale effects is high. Clustering of financial services in urban	Average: 4.4 Strong scores across all dimensions apart from skills mix; however as an enabler has potential



SERVICES SUB-SECTOR	TRADABILITY	SKILLS MIX IN EMPLOYMENT POTENTIAL	DIRECT PRODUCTIVITY POTENTIAL	ENABLING PRODUCTIVITY POTENTIAL	SCALE AND AGGLOMERATION POTENTIAL	OVERALL POTENTIAL FOR GROWTH AND JOBS
	traded both within and across borders	employment, future employment growth likely to replicate current mix	considerably higher but has been stagnant	term. Strong forward linkages to rest of economy.	centres suggests benefits from physical agglomeration.	to enable job creation across skills spectrum
PROFESSIONAL AND OTHER BUSINESS SERVICES	5 With enhanced digitalisation and increased globalisation, professional services can be traded both within and across borders	3 Mix of semi-skilled and high-skilled employment but low share of low-skilled employment, future employment growth likely to replicate current mix	4 No 2-digit level data available. For finance and professional services, productivity is considerably higher but has been stagnant	4 Considerable links to the broader economy, high innovation potential in the medium term	4 Potential for digital scale effects is high. Physical agglomeration effects possible.	Average: 4.0 Strong scores across all dimensions apart from skills mix; however as an enabler has potential to enable job creation across skills spectrum
EDUCATION	3 Tradable both within and outside of borders but more likely to be traded within borders	2 Below average growth in employment. High-skills biased. Future employment likely to be high-skills biased.	3 No 2 digit disaggregation available. Education productivity likely higher than personal services as a whole due to high share of high skilled employment.	4 Important for meeting the skills requirements of the broader economy, but relatively low direct forward linkages to rest of economy.	3 Social services are required across the country and cannot be concentrated in the way other sectors may benefit from. Education may however benefit from digital scale effects.	Average: 3.0 Important as a sector to enable the broader economy but cannot directly structurally transform economy and produce large number of jobs at all skills levels.
HEALTH	3 Tradable both within and outside of borders but more likely to be traded within borders	2 Below average growth in employment. High-skills biased. Future employment likely to be high-skills biased.	3 No 2 digit disaggregation available. Education productivity likely higher than personal services as a whole due	3 Important for ensuring a healthy workforce in the broader economy, but relatively low direct forward linkages to rest of economy.	2 Social services are required across the country and cannot be concentrated in the way other sectors may benefit from.	Average: 2.6 Important as a sector to enable the broader economy but cannot directly structurally transform economy and produce large number of jobs at all skills levels.



SERVICES SUB-SECTOR	TRADABILITY	SKILLS MIX IN EMPLOYMENT POTENTIAL	DIRECT PRODUCTIVITY POTENTIAL	ENABLING PRODUCTIVITY POTENTIAL	SCALE AND AGGLOMERATION POTENTIAL	OVERALL POTENTIAL FOR GROWTH AND JOBS
			to high share of high skilled employment			
OTHER PERSONAL SERVICES (INCLUDING ARTS, RECREATION, SPORTS)	3 Tradable both within and outside of borders but more likely to be traded within borders	2 High employment growth over 2010-2024 period. However, employment is less likely to be high-skilled employment than education and health related personal services. Low potential for high-skilled employment but mix of low and semi-skilled employment. Fastest growing personal service in this sector is recreation, arts and sports which has a relatively low employment intensity.	2 No disaggregation available at 2 digit level. Within sector productivity trend has been negative (inclusive of health and education which are the personal services more likely to be high productivity – which suggests low and declining productivity for other services relative to health and education)	3 Has links to other sectors roughly on par with the economy average. Productivity effects in broader economy are however likely to be constrained by the relatively low productivity of some of the activities within this sector.	3 Personal services are unlikely to benefit greatly from physical agglomeration. However, some personal services are able to be performed and consumed online. Arts and recreation stand to benefit most from both agglomeration and digital scaling,	Average: 2.6 Poor productivity and limited agglomeration and scale potential means sector is not well suited for upgrading economy and generating decent jobs at a large scale despite large employment growth over the years.

High potential IDENTIFICATION CRITERIA: * No dimension is scored lower than 3, ** Overall average across all dimensions is greater than 3

The table above shows four sectors which meet the criteria we laid out best. These **are logistics, ICT, financial services, and professional and business services**. These sectors are tradeable with great export potential, each have either a good mix of employment (or can enable a good mix of employment in other sectors), have relatively high productivity (and potential for improvement in their own productivity or the productivity of the broader economy), and are most likely to achieve efficiency gains from agglomeration and/or digital scaling effects. These services sectors therefore offer the most potential for both structurally transforming the economy and generating employment opportunities that are inclusive and available to the large numbers of unemployed South Africans looking for work. It should however be noted that no one of these sectors alone will be a silver bullet in achieving this – it is through enabling all of these sectors and the broader economy that the potential of these sectors will be reached. In particular, a lot will need to be done innovatively to ensure that these sectors can be both employment generating and productivity inducing in the economy at the same time. The weakest points for all of these sectors to improve on are the limited employment that they have generated in the past, as well as their relatively poor productivity performance (particularly when we consider direct within-sector productivity and not allocative or indirect potential productivity effects). In the next sections, we consider the constraints to these sectors and what can be done to mitigate against these and to unlock their potential.

5 Identification of Capacity for Growth in Services in the Short to Medium Term: Diagnosis of Growth and Employment Constraints

In the previous section, we identified four key services sector that we think warrant attention to support growth and employment creation in South Africa. In this section, we first highlight some global and domestic factors that need to be taken into consideration in further considering whether these sectors will be able to fulfil their potential to generate growth – and more specifically, jobs. We then use the OECD’s Foundations for Growth and Competitiveness Framework to pin-point specific challenges that are most likely to be binding constraints to achieving these four services sectors’ potential in the short to medium-term.

5.1 Opportunities for and risks to employment in a changing world

Artificial Intelligence (AI) and Automation

Technological advances hold promise for unlocking productivity in services sectors, but they also present risks to employment where these advances serve to replace rather than augment and enable existing labour.

The wholesale and retail sector is at high-risk of automation. A report by Chang, Rynhart & Huynh (2016) which focused on five Association of Southeast Asian Nations (ASEAN) - Cambodia, Indonesia, Philippines, Thailand and Vietnam - showed that between 70 – 80 percent of jobs in the retail sector were at high risk of automation. In the USA, the corresponding figure was 53.0 percent – while this is significantly lower than the estimate for the south-east Asian nations, it was still the fifth highest out of the 19 sectors considered (McKinsey, 2017). Accommodation services (which includes hotels and restaurants) is even more exposed to automation, with McKinsey (2017) finding that 73.0 percent of jobs are at high-risk in the US, while across the 5 ASEAN nations, jobs at high-risk in the hotel industry

ranged from 40.0 percent (Cambodia) to 70.0 percent (Philippines) (Chang, Rynhart & Huynh (2016)). In South Africa, the jobs under threat in these sectors due to automation are likely to be lower to mid-level in terms of skills requirements, which as noted above account for a bulk of jobs in these sectors. It is unlikely that such developments will pose a high risk to employment in the short-term, but businesses operating in these sectors will be aware of trends in these sectors should they see potential to expand their operations and thus may limit employment at these levels of skills even if these services sectors see expansion.

Research also suggests that the transport sector is marginally more vulnerable to automation than the average sector. Lassébie and Quintini (2022) covered 27 OECD countries and revealed that 13.0 percent of jobs in the transport sector are at high-risk of automation, compared to 10.0 percent overall. However, there was great heterogeneity across countries, with the share of jobs in the transport sector at high-risk of automation of 5 countries (Austria, Belgium, France, Latvia and Lithuania) exceeding 15.0 percent, while in Finland, Sweden and Switzerland, the equivalent share was below 10.0 percent. This suggests that employment opportunities in this sector may be limited in the very long term – however, in the short to medium term it is unlikely that jobs are at high risk of being eliminated in this sector in South Africa.

For the ICT sector, Nedelkoska and Quintini (2018) examine 21 OECD countries and find that approximately only 5.0 percent of ‘Information and Communications technicians’ are at high-risk of automation. Likewise for finance and professional services workers, who mostly fall under ‘business and administration professionals’ and ‘business and administration associate professionals’ occupational categories, the risk of their jobs being automated is low, at between 5 – 10.0 percent. It is therefore likely that the services sectors that are high skills-biased in their employment profile will be at low risk of employment losses in the short to medium term, at least.

Ultimately, in the short term, it is unlikely that existing jobs will be lost at large scale due to advances in AI and automation in South Africa in particular. However, in the medium-term, the threat is likely to increase as uptake of new technologies start taking hold and South African businesses attempt to remain competitive in line with global industry changes. The more concerning threat with respect to job creation in services sectors with larger shares of semi- to low-skilled employment is not necessarily that jobs will be lost at a large scale, but that new jobs will fail to materialise at these skills levels as sector digitise and modernise. Within this context, particularly in the longer term, it may make more sense to view expansion in services as productivity enabling rather than as expansion in productive jobs themselves.

Global Shifts

The ability of services sectors to maintain sustainable growth is also influenced by global factors, which can in turn affect the overall South Africa economy. Below, we provide a brief overview of a number of global shifts currently taking place that have the potential to affect employment across services sectors.

1. Rising Protectionism and Tariffs

Since Donald Trump returned to the White House, one of his key economic policies has been to introduce tariffs on all countries. In the case of South Africa, the average tariff rate is around 10.0 percent, even after excluding certain critical minerals and bullion (OECD, 2025a). While South Africa only sends around 7.6 percent of its total exports to the US (OECD, 2025a) – thereby limiting the

impact on GDP – the broader uncertainty from escalating trade measures poses significant risks, potentially dampening commodity prices and export receipts that South Africa depends upon (IMF, 2025). The current climate also may lead to other countries increasingly viewing such measures as tools to stimulate or protect their own local economies in a context of volatility and uncertainty.

2. Commodity Price Volatility

While strong commodity prices are supporting export receipts in the near term (IMF, 2025), the combination of a global recession and trade disruption threatens this critical revenue source for South Africa, which has abundant mineral wealth. Tshetlhanyane (2025) highlights the economic impact of the mining industry, including that it accounts for between 26 – 30 percent of merchandise exports and is a significant source of foreign currency. The industry has also significant linkages to services sectors, such as professional services (engineering) and logistics (Tshetlhanyane, 2025).

3. Declining Global Aid Receipts

The OECD (2025b) noted that global aid spending fell by 9.0 percent in 2024, with a projected drop of a 9 – 17.0 percent in 2025. In 2024, projects in Sub-Saharan Africa declined by between 16 – 28.0 percent, forcing African economies towards greater self-reliance and domestic resource mobilisation during a challenging economic time. Although South Africa is less reliant on foreign aid than other African countries, the foreign aid cuts still had a negative impact on the South African health sector, particular on addressing the HIV pandemic. Makusha, Archary & Zaroni (2025) estimate that 8 000 healthcare workers were retrenched, and a similar number were temporarily re-trained so that could apply for other jobs. Other professional services were also affected by these shifts in global funding.

We have not gone into much detail on how we think these changes will affect specific services sectors here. What we do emphasise, however, is that such sudden changes highlight the importance of building resilient services sectors which are not overly concentrated in specific activities and reliant on relationships with small numbers of funders or business partners. In supporting services to grow and generate jobs in South Africa, it will be critical to ensure that the types of activities supported are either sustainable domestically, or limits risk of sudden shifts by engaging with diverse and trusted stakeholders so that no one change results in major declines in business which limit expansion potential, or worse, even results in industry decline.

Domestic Constraints

In this volatile global context, domestic stability and internal support for industry is particularly important to enable economic growth and generate employments. The environment in which businesses operate must enable them and not hold them back from achieving their potential. In this regard, a number of domestic constraints remain relevant in the South African operating environment. We highlight some key constraints at a high level here.

1. Corruption

Corruption and crime remain a major challenge, with high-profile cases and ongoing incidents undermining public trust, deterring local and foreign investment, and constraining socioeconomic development (IMF, 2025). The Zondo Commission highlighted a substantial number of governance failures across a several state institutions, however, fewer than 20.0 percent of cases have resulted in

convictions (OECD, 2025a). This lack of action acts as a deterrent to investment as investors worry that they might have to engage in criminal acts in order to operate in the country.

2. Elevated Public Debt Levels

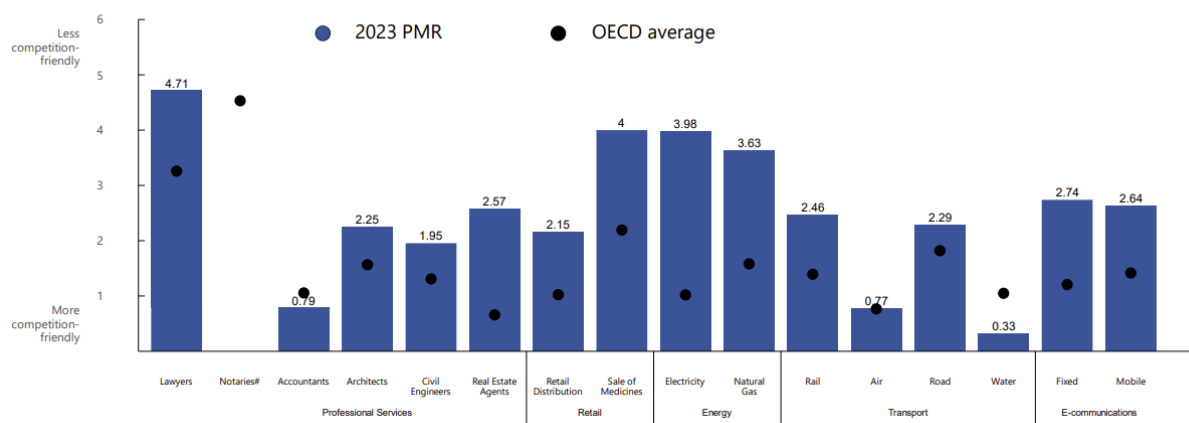
The South African government has faced increasing spending pressures recently, including the R500 billion bailout to Eskom and social spending, which now amounts to an annual expenditure of R431bn (Swanepoel, 2025). This has led to increased debt, with 22c of every Rand in revenue going towards paying off debt in 2025, compared to 12c in 2013 (Swanepoel, 2025). The debt-to-GDP ratio has also increased rapidly, from 67.6 percent in 2021/22 to 76.1 percent in 2024/25. Although the actual level of the debt-to-GDP ratio is not problematic, it is more the case that the current South African growth trajectory cannot support the increase in debt levels (Swanepoel, 2025). The greater the share of revenue that must be allocated to debt repayments means that there is less money to invest in growth-enabling infrastructure.

3. Regulatory Burden and Inconsistencies

Effective market oversight is the cornerstone of a healthy economy, ensuring competitive equity and consumer safety. However, the "regulatory burden" is a real threat; poorly calibrated rules can paralyse innovation and place an unfair financial weight on smaller firms. To drive sustainable growth, policymakers must prioritise a lean, balanced framework that protects the public without stifling entrepreneurial spirit. According to the OECD (2025a), South Africa has the most restrictive business environment across all OECD countries. Medici et al. (2025) estimates that if suitable business regulation reforms were adopted, real output could increase by up to 9.0 percent in the medium term.

With specific reference to services, the OECD (2024) notes the following Product Market Regulation (PMR) indicators for services sectors in South Africa. The OECD emphasises that there is room for competition-enhancing reforms in the energy, rail, and communications sectors in particular. Professional services also face high constraints relative to the OECD average.

Figure 8: Product Market Regulation indicators for services sectors in South Africa, 2023



Source: OECD (2024), "OECD Product Market Regulation (PMR) Indicators: How does South Africa compare?", OECD Product Market Regulation Country Notes. https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/product-market-regulation/South%20Africa_PMR%20country%20note.pdf

4. Infrastructure

Although South Africa has experienced persistent electricity supply shortages in the past 15 years, in the past two years, it has improved substantially, with 69 days of load-shedding in 2024 and only 26 hours in total in 2025 (OECD 2025a; Jha, 2026). This large decrease in load-shedding represents progress, however, in the next few years, Eskom will be forced to decommission some coal power plants, which will represent a loss of generating capacity. In addition, if South Africa experiences higher economic growth in the short or medium term, this will increase electricity demand and likely lead to concerns about the ability of Eskom to electricity supply constraints returning (OECD, 2025a).

Another infrastructure bottleneck is related to the inefficiencies in the port and railways sectors. According to the Southern African Association of Freight Forwarders, logistics constraints cost South Africa R1bn a day (Marx, 2025). Indeed, the total value (imports and exports) in 2024 declined to R3.87 trillion from R4.02 trillion in 2023, representing a decline of 3.9 percent. The poor performance from these two key logistics sub-sectors risks trade moving permanently away from South Africa to neighbouring countries such as Namibia and Mozambique who have more efficient ports (Marx, 2025).

5.2 Identifying economy-wide and sector-specific constraints: The OECD’s Foundations for Growth & Competitiveness Framework

While the above highlights some of the broad factors to consider in thinking about the potential of the four services sectors for growth and employment, the OECD’s Foundations for Growth and Competitiveness framework provides a more focused lens to think about identifying bottlenecks to growth and potential of particular sectors to drive growth and employment creation in a world that is changing in many ways. The approach has a strong focus on: (i) country-specific priorities, (ii) monitoring of reforms, (iii) policy complementarities, and (iv) political economy considerations.

Specifically, it considers the threats and opportunities for economies in the following areas:



Enabling factors

- Macroeconomic stability and financial markets
- Governance and institutions
- Physical infrastructure
- Digital infrastructure
- Education, skills and human capital
- Market incentives and allocative efficiency: tax system efficiency, openness to trade, housing, labour mobility and participation

Targeted and sectoral policies

- Innovation
- Energy, environment and natural capital
- Market incentives and allocative efficiency: sector-specific regulation, barriers to entry for workers and firms, concentration within sector etc.

Note: The OECD framework consists of three key pillars: enabling factors, targeted and sectoral policies, and market incentives and allocative efficiency. In line with the approach we take which considers an interplay of economy-wide and sector-specific reforms to unlock the potential of both individual sectors and the broader economy, we have reduced the OECD’s framework to two core components: enabling factors and targeted policies, while incorporating the third pillar



(market incentives and allocative efficiency within these two components) as individual elements. For example, incentives that must be aligned at the country level are considered to be an enabling factor, while sector-specific incentives are considered to be a targeted policy issue, rather than incorporating such considerations within a stand-alone market incentives component of the framework.

We use these factors to consider what bottlenecks the four identified sectors face in reaching their potential in the table below.

Table 7: Growth and Employment Constraints in South African Services Sector

	Constraint	Policy and/or implementation reforms in place?
Cross-cutting (enabling factors)	<ul style="list-style-type: none"> • Macroeconomic stability and financial markets: • Significant investment is required to upgrade infrastructure; market stability is important to finance this. Concerns about government’s fiscal sustainability may threaten ability to finance required investment. • Macroeconomic stability is essential to the financial services sector. While SA financial markets are relatively stable, global shifts and volatility present challenges to markets that need to be proactively dealt with. • A stable macroeconomic environment is important for businesses to be able to plan and manage their activities, especially where business with foreign countries and foreign exchange is involved. Risks related to the macroeconomic and financial environment must be managed. Smaller firms may lack capacity to do this effectively. 	<ul style="list-style-type: none"> • South Africa has recently been removed from the Financial Action Task Force (FATF) grey list in October 2025, after addressing deficiencies related to anti-money laundering and terrorism financing. • National Treasury has noted that debt has stabilised and is expected to fall⁷
	<p>Governance and institutions:</p> <ul style="list-style-type: none"> • Poor governance and corruption has resulted in government departments at multiple levels and state owned enterprises not operating optimally. • Policies perceived to not be business friendly may limit foreign investment and trade • Government support can enable sectors but where government is not operating as it should, such support often does not exist where it should • Small businesses in particular are not able to operate where government does not fulfil its functions optimally • Even where relationships between the private sector and government exist, small businesses often do not benefit from these 	<p>The following reforms have been completed as part of the Presidency’s Operation Vulindlela⁸ reform programme:</p> <ul style="list-style-type: none"> • Review the institutional structure of the local government system • Review the local government fiscal framework, including the use of conditional grants <p>The following reforms are in progress:</p> <ul style="list-style-type: none"> • Shift to a utility model for water and electricity services to ensure financial and operational sustainability • Standardise and professionalise the appointment of senior officials in local government <p>Similar measures for other spheres of government are not currently areas of focus under the reform programme.</p> <p>Other reforms however which may have implications for all levels of government include commissions of enquiry and other proceedings related to</p>

⁷ <https://www.sanews.gov.za/south-africa/budget-restores-sas-credibility>

⁸ See https://www.gov.za/sites/default/files/gcis_document/202601/operation-vulindlela-q3-report-2026.pdf



Constraint

Policy and/or implementation reforms in place?

misgovernance in public institutions, and (gradually) consequences for offending parties identified through these. These are ongoing.

The Competition Commission has recently launched a “review of regulations that may act as barriers to competition and the entry or expansion of firms, particularly small and medium enterprises (SMEs), across all markets in South Africa”⁹. Specifically, it is calling for submissions related to identifying and assessing regulations (including sector policies and licensing frameworks) that may restrict firm entry or expansion and consider whether they are overly restrictive. The review will also consider whether “current frameworks adequately address market concentration, the effects of vertical integration on non-integrated firms, potential exclusionary practices, and meaningful participation by historically disadvantaged persons”.

Findings from the review will inform recommendations for regulatory reforms – however, these are still some way off as the review has only begun with a call for submissions in April 2026.

Physical and digital infrastructure:

- Rail and road infrastructure is ageing, not well maintained in some cases and inadequate
- Energy security needs to be secured through configuration of appropriate energy infrastructure
- Lack of high speed affordable connectivity constrains digitalisation within the economy

The following reforms in respect of transport infrastructure have been completed as part of the Presidency’s Operation Vulindlela reform programme:

- Enable open access to the freight rail network
- Introduce private sector participation in ports and rail

The following reforms are in progress:

- Establish the Transport Economic Regulator
- Finalise the National Rail Bill to establish a legal framework for a competitive rail sector
- Complete the restructuring of Transnet and establish an independent National Ports Authority and Rail Infrastructure Manager

The following reforms in respect of energy are expected to be implemented as part of the Operation Vulindlela reform programme:

⁹ See <https://www.compcom.co.za/wp-content/uploads/2026/04/Media-Statement-Commission-launches-review-of-regulatory-barriers-to-competition-and-SME-participation-22-April-2026.pdf>



Constraint	Policy and/or implementation reforms in place?
	<ul style="list-style-type: none"> • Complete the restructuring of Eskom • Establish a competitive wholesale market for electricity generation • Streamline the regulatory framework to accelerate energy projects • Reform the electricity distribution industry to establish financially and operationally sustainable distribution companies • Strengthen and expand the national transmission network <p>The following reforms in respect of digital transformation have been achieved as part of the Presidency's Operation Vulindlela programme:</p> <ul style="list-style-type: none"> • Develop and implement a Digital Transformation Roadmap for South Africa • Implement a digital identity system for secure and remote access to services • Introduce digital payments for cost-effective and dignified transactions • Create trusted digital channels for accessing information and services • Establish a data exchange for evidence-based policymaking and service delivery
<p>Education, skills and human capital:</p> <ul style="list-style-type: none"> • Firms often say they are unable to source the skills they require • Increased digitalisation and innovation in the economy requires a higher level of digital skills across the population • Future expansion in many sectors will require higher skills than currently employed within sectors, while the majority of the labour force remains relatively low-skilled 	<p>The following reforms have been completed as part of the Presidency's Operation Vulindlela reform programme:</p> <ul style="list-style-type: none"> • Reform the work visa system to attract skills and investment <p>No specific new reforms related to skills development of the local population form part of the Operation Vulindlela reforms. These are expected to be developed through the current education and SETA systems, and no major reforms have been made in regard of these to respond to the skills concerns noted as far as we are aware.</p>
<p>Labour mobility and participation:</p> <ul style="list-style-type: none"> • High numbers of unemployed who are mostly low-skilled in areas with low economic activity limits expansion potential of sectors • The rail and road network is still not optimal where many South Africans live, making it difficult for them to travel to economic opportunities that remain concentrated in economic hubs • Small businesses in particular can face challenges in sourcing labour at the required level where they are located. 	<p>The following reforms have been completed as part of the Presidency's Operation Vulindlela reform programme:</p> <ul style="list-style-type: none"> • Review land use, building and other regulations to enable low-cost property developments • Restore passenger rail services <p>The following reforms are in progress:</p> <ul style="list-style-type: none"> • Strengthen demand-side housing policy to support densification



	Constraint	Policy and/or implementation reforms in place?
		<ul style="list-style-type: none"> • Release public land and buildings for affordable housing and other development <p>The following reform is noted to be facing substantial difficulties:</p> <ul style="list-style-type: none"> • Clear the backlog of title deeds and make the titling system more accessible and affordable
Logistics	<ul style="list-style-type: none"> • State of infrastructure crucial to the operating of the sector is not optimal to support growth and expansion. • Sector is dominated by a few large players. Operating environment is relatively less friendly to competition in comparison to OECD countries in road and rail (OECD, 2024) • The HSRC found in its 2019-21 Business Innovation Survey (2024) of businesses in transport, storage and communications sector that the most important barrier to innovation for firms operating in this industry was high innovation costs, with 26.2% of businesses indicating this as a highly important barrier. • Other barriers mentioned by many firms were limited access to international markets and market domination by established enterprises. • Energy security and climate stability is essential to the optimal functioning of the sector. Infrastructure is not currently resilient to such risks. 	<p>The following reforms have been completed as part of the Presidency's Operation Vulindlela reform programme:</p> <ul style="list-style-type: none"> • Enable open access to the freight rail network • Introduce private sector participation in ports and rail <p>The following reforms are in progress:</p> <ul style="list-style-type: none"> • Establish the Transport Economic Regulator • Finalise the National Rail Bill to establish a legal framework for a competitive rail sector • Complete the restructuring of Transnet and establish an independent National Ports Authority and Rail Infrastructure Manager • The Economic Regulation of Transport Act of 2024 (Act) was promulgated into law. The key objective of the Act is to establish a single Transport Economic Regulator (Regulator), which will be the only regulator regulating economic aspects of the different modes of transport in South Africa, namely road, rail, sea and air. The Regulator is expected to be operationalized within this year. • A draft National Rail Masterplan has been released for public comment in April 2026.
ICT	<ul style="list-style-type: none"> • Infrastructure to support the sector has improved over time but is still not optimal to support growth and expansion, particularly in respect of connectivity reach throughout the country and the cost of connectivity. • Operating environment is relatively less friendly to competition in comparison to OECD countries in road and rail (OECD, 2024) • The HSRC found in its 2019-21 Business Innovation Survey (2024) that ICT related business were relatively innovative in comparison to other sectors in South Africa. However, around a third of computer related businesses 	<p>The following reforms in respect of digital transformation have been achieved as part of the Presidency's Operation Vulindlela programme:</p> <ul style="list-style-type: none"> • Develop and implement a Digital Transformation Roadmap for South Africa • Implement a digital identity system for secure and remote access to services • Introduce digital payments for cost-effective and dignified transactions • Create trusted digital channels for accessing information and services



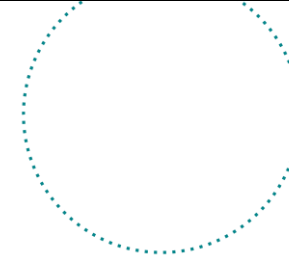
	Constraint	Policy and/or implementation reforms in place?
	<p>they surveyed noted costs being too high, domination of established enterprises and human resource challenges (lack of technicians) were important barriers to innovation for them.</p> <ul style="list-style-type: none"> Energy security is crucial for increased digitization. Advances in the sector will require a secure energy supply, which South Africa has previously, and continues to, experienced challenges with. 	<ul style="list-style-type: none"> Establish a data exchange for evidence-based policymaking and service delivery A draft National Artificial Intelligence Policy has been gazetted for public comment.
Financial services	<ul style="list-style-type: none"> Sub-optimal digital infrastructure can limit expansion of financial services across the country and out of the country. The sector is highly concentrated with many large players dominating. It is relatively difficult for smaller businesses to participate in this sector without a link to a larger business. The sector is relatively innovative compared to other South African sectors. HSRC (2024) found that low proportions of businesses surveyed experienced barriers to innovation at high levels. The most cited barriers were high innovation costs and lack of funds, but only 13% of businesses indicated this. 	<p>Many reforms are taking place within the sector (see Business Leadership SA's reform tracker¹⁰ which notes positive progress in reforms related to safety nets and stability, retirement reforms and innovation and market infrastructure, as well as stalled progress on the establishment of one National Financial Ombud Scheme). These reforms however are largely focused on retaining stability of the sector and enabling the players who are currently operating within the sector. This is essential to maintaining and enhancing activity within the sector however does not seem to have any direct links to expanding access to and employment in the sector to enable expansion. The BLSA tracker notes that "SME-focused reforms linked to payments and credit also look slower because they rely on adoption and pricing decisions by banks, payment service providers and platforms. The infrastructure and licensing reforms are progressing, but measurable changes in SME access, cost of acceptance and product diversity will lag until commercial models adjust." It is here where there is scope for expansion through sector-specific but currently there seems to be a lag in this regard.</p>
Professional and business services	<ul style="list-style-type: none"> Operating environment is relatively less friendly to competition for many professionals in comparison to OECD countries in road and rail (OECD, 2024) Poor physical and digital infrastructure can hamper operation and expansion of these businesses. Smaller businesses can find it difficult to compete with larger businesses and manage the regulatory field in comparison to larger businesses and businesses aligned to an industry body. 	<ul style="list-style-type: none"> A Global Business Services (GBS) Masterplan has been approved and is in place As far as we are aware, no other specific professional and business services have been part of any targeted interventions or reforms

¹⁰ See <https://blsa.org.za/wp-content/uploads/2026/04/BLSA-Tracker-Quarterly-Review-F.pdf>



Constraint	Policy and/or implementation reforms in place?
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- Fragmentation in the sector (many smaller businesses) can limit its capacity to benefit from government support.
- These businesses have high potential for innovation due to the high-skilled nature of employment in the sector. However, organised business and large companies are more likely to innovate, resulting in innovation and ultimately productivity gaps across the sector.
- Businesses in the sector face energy security challenges as all other businesses in the country. Improved productivity and performance in these businesses are reliant on strong electricity supply and connectivity.



6 Conclusions and Policy Recommendations: Opportunities for Growth, Job Creation and Reform

The above analysis highlights a number of key findings related to the potential of services to drive employment creation while enabling structural transformation in the economy:

1. While the South African economy has shifted towards services, it has shifted that services that are either (i) high-productivity, but low employment generating and/or employment generating only at the higher end of the skills spectrum (i.e. these services are high skills biased and not conducive to generating employment at a high scale) or (ii) low-productivity and thus not ideal for introducing economic dynamism into the economy and structurally upgrading the economy.
2. High-productivity services that are themselves not employment generating directly may have the potential to generate employment opportunities across the skills spectrum and the broader economy. For example, technology as a service can be an enabler of the broader economy even if technological advances typically generate direct employment at higher skills levels. In this regard, what matters here is a sector's links to the broader economy as well as its propensity for innovation. When thinking about innovation in sectors, it is therefore important to not just think about productivity upgrading within the sector itself but also about innovation that can (a) link other existing sectors in a manner that upgrades these sectors as well, (b) generate employment in a way that is not concentrated to one region, one sector, or one group, and (c) the innovation does not displace labour but complements the human capital stock of the country
3. Based on our consideration of sectors with potential for both positive productivity and employment effects, we have identified services sectors that we think have the greatest potential to deliver productivity and employment gains with innovative and appropriate support in the short to medium term. These are: logistics, ICT, financial services, and professional and business services. However, this does not suggest that other services sectors should not also be considered to have potential to drive economic and employment gains in the medium to longer term. They too should be given consideration as part of a diversified strategy to promote innovation, improve productivity and generate employment across the broader services sector as a whole.
4. Building on this point, it should be noted that many of the constraints faced across specific services sectors in reaching their potential are faced across the sectors and are not necessarily sector-specific even if they manifest in different ways. There are a number of core challenges, which if resolved at a higher country-wide level, can immediately start improving productivity and employment outcomes within specific sectors.
5. In an era of uncertainty, flexibility, adaptability and resilience should be key considerations in measures to support development of services sectors.

Within this context, we make two sets of recommendations that must interact with each other to produce the best outcomes for both individual sectors and the broader economy:

- Cross-cutting measures that affect all sectors and improve the productivity and/or labour absorption of the economy as a whole

- Sector-specific measures as part of a targeted, yet diversified, broad services sector support strategy that unlocks the potential of specific services sub-sectors through articulating value chains within specific services sub-sectors, linkages between different sectors and how these can contribute to unlocking opportunities to promote virtuous cycles of productivity, growth and employment. These measures should be developed with input from stakeholders in the specific sectors.

These recommendations, following on from the table of constraints in the previous section, are summarised in the table below:

Table 8: Recommendations and gaps in current reforms to enable services sectors

Cross-cutting recommendations:	Broad recommendation	Do current reforms address the recommendation? If not, what are the gaps?
Physical infrastructure	Boost investment in core infrastructure in electricity, water, road and rail	Continue current OV reforms. Expand current reforms to include road infrastructure more explicitly.
Digital infrastructure	Boost connectivity reach and reduce connectivity costs through a combination of public investment and collaboration with relevant partners	Continue current reforms related to digital transformation. Use as a foundation to facilitate digitalisation in the economy.
Governance and institutions	Identify bottlenecks at all spheres of government and inter-governmental relations	Current reforms focus on local government. Expand to include provincial and national government and institutions, as well as the interplay between different spheres of government.
	Strengthen prosecution and enforce sanctions for corruption offences	Continue judicial reforms and ensure they result in action against offenders. Expand judicial reforms and actions to other public institutions.
	Review regulations which may be stifling small and medium sized businesses in particular in the economy and implement reforms in line with evidence based findings in this regard	Continue the Competition Commission's review of regulatory barriers to competition and small and medium business participation; implement reforms once recommendations are made.
Skills	Attract and retain critical skills	Implement OV visa reforms
	Incorporate skills needs identification in sectoral masterplans for services with the incorporation of employers input into such plans and ensure these skills needs filter into the appropriate skills development systems (whether at a basic or higher education level, or within on-job learning)	Reform education and skills development systems to facilitate efficient demand driven skills development
Labour mobility and access	Address the mismatch between where jobs are located and where the unemployed live: <ul style="list-style-type: none"> • Incentivise development of economic hubs in areas where large numbers of unemployed South Africans live • Develop affordable housing close to where economic opportunities are 	Continue OV reforms related to housing, transport and digitalisation but consider also finding ways to incentivise economic activity in areas that are not hubs of economic activity.

Cross-cutting recommendations:	Broad recommendation	Do current reforms address the recommendation? If not, what are the gaps?
	<ul style="list-style-type: none"> Enhance affordable transport options so workers can access economic opportunities through revival of rail and better road transport Develop affordable housing close to where economic opportunities are 	
Sector targeted recommendations:	<p>Develop and implement service sector specific sectoral masterplans with the input of employers and other relevant stakeholders in each service sector. These plans should be part of a broader strategy for enabling the potential of service sectors and identify, for each service sector, the sector's value chain, opportunities for linkages to other sectors, opportunities for innovation for productivity upgrading and job creation, and skills requirements and needs for the sector.</p>	
Logistics		<p>A Masterplan for rail exists. A broader Masterplan for logistics should be developed which is aligned to the Masterplan for rail but which also includes consideration of road, port and air transport modes.</p>
ICT		<p>Digital transformation and AI policy documents exist. A specific Masterplan for the ICT services sector should be developed aligned to existing policy documents and processes.</p>
Financial services		<p>The Financial Services sector is relatively well-developed in comparison to other services sectors. A Masterplan should be developed that focuses on linkages to other sectors and how the sector can enable smaller businesses specifically rather than on development of the sector itself.</p>
Professional and business services		<p>A Masterplan for Global Business Services exists, as well as an industry body for the Business Process Outsourcing, BPESA. These should be used as a model for a broader professional and business services sector Masterplan so that success in job creation in that specific activity can be replicated</p>
<i>Other services sectors</i>		<p>Develop plans for other services sectors which may have less potential than the four we have identified as having the most potential as part of a diversified services structural transformation and employment generation strategy. None</p>

Cross-cutting
recommendations:

Broad recommendation

Do current reforms address the
recommendation? If not, what are the
gaps?

of the services sectors alone will bridge the required gap to employment and productivity gains; while those with greatest potential can be given some priority to achieve gains more immediately, other services sectors should also be considered for support and integration into existing and new value chains taking into account shifts in the global geopolitical and technological environment

Overall, many of the constraints and concerns we have identified are currently being addressed through reforms currently underway. This is particularly true for the cross-cutting reforms that are required to boost the South African economy as a whole. In respect of specific sectors, at this stage, we make one main recommendation: that a broad strategy for the services sector as a whole be developed and well-considered Masterplans be developed for individual services sectors (aligned with this strategy) which should then be implemented to achieve both jobs and productivity gains. These plans should involve employers, workers and other stakeholders of those sectors and aim to map out each sector's value chain, linkages to other sectors, scope for innovation, opportunities for job creation and productivity gains, and skills requirements and gaps in the services sector. These plans would be similar to industrial plans which had previously been developed for manufacturing, as well as Masterplans that have been developed through the Department of Trade, Industry and Competition for a number of other sectors, which have included non-manufacturing sectors recently and would signal a commitment by government to take services sectors seriously as potential creators of jobs and sectors through which structural transformation of the economy can be achieved.

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