BPS Sector profile

the dti
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

towards full-scale industrialisation and inclusive growth

the dti Customer Contact Centre: 0861 843 384
Website: www.thedti.gov.za

The Business Process Services Unit of the Industrial Development Division
the dti Campus
77 Meintjies Street
Sunnyside
Pretoria
0002

the dti
Private Bag X84
Pretoria
0001

the dti Customer Contact Centre: 0861 843 384

the dti Website: www.thedti.gov.za

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1. Acronyms

BPS	Business Process Services
BPO	Business Process Outsourcing
DoC	Department of Communications
EDS	Electronic Data Systems
GDP	Growth Domestic Product
IP	Intellectual Property
IDC	Industrial Development Corporation
IPAP	Industrial Policy Action Plan
IPSF	Industrial Policy Support Fund
ITO	Information Technology Outsourcing
KZN	KwaZulu-Natal
LPO	Legal Process Outsourcing
OECD	Organisation for Economic Co-operation and Development
RBIDZ	Richards Bay Industrial Development Zone
SADC	Southern African Development Community
SETA	Sector Education and Training Authority
SSC	Shared Services Centre
the dti	The Department of Trade and Industry
WEF	World Economic Forum

2. Executive Summary

In this third edition of the Annual Business Process Services (BPS) sector profile, the BPS sector desk, with the assistance of the provinces, compiles, prepares, highlights and disseminates information specific to the development of the sector and the challenges experienced from both the domestic and global perspectives.

Firstly, the report examines the underlying economics of the outsourcing and offshoring of business services, including associated opportunities and risks, as a major global trend that has a significant positive impact on emerging economies with the required skills, cost advantage and infrastructure. This growth opportunity has been exploited by successful global players, such as India and the Philippines.

The industry, however, evolves quickly, with multinationals finding new areas to outsource and offshore to third parties. The global economic downturn of the past six years has had a lingering effect on the growth of the global Growth Domestic Product (GDP) and associated employment opportunities. Yet, global revenues in the BPS market have grown due to the emergence of alternative, credible and low-cost BPS offshore destinations, including the ever-expanding, innovative types of services outsourced to third parties. The focus of the global industry is increasingly shifting from the narrow, basic outsourcing advantages of cost and talent to higher, value-added services, innovation and transformation. Global sourcing is evolving from one that is simply tactical to being of strategic benefit to the parties of the transaction.

Secondly, the report examines the domestic labour dynamics of the sector and the overall economic picture of the country since the onset of the economic crisis, which continues to shape how global businesses respond to the increasing need to focus on maximising efficiency and hence the global outsourcing of non-core processes to emerging locations. In addition, the report focuses on how South Africa re-aligns and reinforces its standing as one of the leading offshoring locations, considering that the country's contact centre market is well-established and highly sophisticated in terms of technology adoption and services offered. South Africa's work-readiness programme and sector-specific incentive scheme have been commendable achievements as part of the country's value proposition. This section will also highlight the uneven growth and comparative advantages of regional economies as far as sector development is concerned.

Thirdly, the report analyses the global outsourcing and offshoring of business services, with particular focus on the growing public scrutiny. Much of the public debate has tended to focus on the negative aspects of the processes, particularly where outsourcing and offshoring results in job losses in developed economies. Ordinarily, employment is a key issue for any responsible government, and helping workers who lose their jobs is a priority. This includes increased business trends of automation and the use of cloud computing to minimise the costs of inefficiencies and labour. In summary, this speaks to the risks, advantages and disadvantages of the maturity and unintended consequences of globalisation and the interdependence of world economies. The public outcry from source markets concerns the perceived redundancy of acquired skills and knowledge of the workforce. Furthermore, trade theory economists and management analysts have challenged the previously assumed mutual benefits of offshoring business operations.

3. Introduction

The BPS sector has been identified in the Industrial Policy Action Plan (IPAP) as having the potential to contribute towards accelerated job creation and attract foreign direct investment (FDI), if the necessary support is provided. The South African Government provides support to the sector mainly from an offshoring perspective as it capitalises on the growing global market, which leads to demand for risk minimisation through location diversification by global multinationals.

In the 2014/15 financial year, the Department of Trade and Industry (**the dti**), in partnership with the Industrial Development Corporation (IDC) through the Industrial Policy Support Fund (IPSF), commissioned a detailed sector-specific study on two BPS sub-sectors with the potential for leveraging and enhancing the country's BPS sector, namely Legal Process Outsourcing (LPO) and Shared Services Centres (SSCs).

The purpose of the study was to formulate a business case and strategy for the support of the identified sub-sectors so as to further stimulate economic growth and employment creation. It further analyses regional industrial development for the sector in order to identify each region's competitive and comparative advantage. The object is to enable the provinces to have unique value propositions that complement and is within the context of the unique South African Value Proposition. A review of the BPS sector strategy is under way in the 2014/15 financial year.

4. An economic imperative for BPS sub-sectors

A firm is considered to be the strategic locus within which organised human capital manufactures new products and business processes, thereby advancing the productivity of nations. In turn, industries and sectors form the basic economic units of a nation's competitiveness in the international trade. Various critical factors influence the nature and patterns of international trade, for instance, the impact of capital flows and involvement of transnational corporations. The practice of global multinationals outsourcing and offshoring production and services has become common in a wide range of industries. This represents a significant change from the past prevalent practice of vertical integration in the organisation of production, which occurred throughout most of the 20th century. Innovation in business processes is the result of the implementation of best practices as well as the search for “next practices” to push an organisation and its services to the next level. According to estimates, the value of outsourcing contracts has surpassed $100 billion per year since 2004 (Everest Group, 2014).

It is imperative to continuously examine the barriers to meaningful economic participation as well as the variables that influence the potential growth of the BPS sector. In-depth analysis of the identified sub-sectors, LPO and SSCs, will enable informed participation by the industry and allow for exploitation of the economic potential of the sector to attract investment and create employment opportunities. This necessitates an analysis of the potential economic value-add that can be derived from these sub-sectors, i.e. the contribution to GDP, potential job creation, and additional and indirect job creation potential, which could emanate from the value chains.

4.1. Economics that underpins Offshoring and Outsourcing

In the main, offshoring and outsourcing entails the organisational and technological ability to relocate specific tasks and co-ordinate a geographically dispersed network of activities. It decouples the linkages between economic value creation and geographic location. The result is the creation of global commodity markets for particular skills and a shift in the balance of market power among firms, workers and countries. Traditionally, offshoring is defined as the relocation of business processes, including production, distribution and business services as well as core activities such as research and development, to lower-cost locations outside national borders. The economic rationale is to reduce the cost implications of managing non-core functions, yet the transfer of information creates a certain level of risk. To mitigate the inherent risks, a considerable degree of two-way information exchange, co-ordination and trust is essential. Conventionally, the outsourcing business is characterised by expertise that is not present in the core of the client organisation.

The theoretical foundation of the economics of outsourcing was first established by Ronald Coase in1937 when he asked the question, “What establishes the boundaries of a firm?” A comparison of the costs of the internal supply of a particular task or service with the external market costs of the same task or service helps to determine the efficiency of internal or external production. By establishing transaction cost calculation, Coase laid the foundation of modern transaction cost economics.

The concept of outsourcing, particularly in the Information Technology sector, was popularised by Ross Perot when he founded Electronic Data Systems (EDS) in 1962. He is famed to have told a prospective client that “You are familiar with designing, manufacturing and selling furniture, but we’re familiar with managing information technology. We can sell you the information technology you need, and you pay us monthly for the service with a minimum commitment of two to 10 years.”

5. Risks of Offshoring and Outsourcing

There are a number of challenges and risks associated with offshoring and outsourcing. Many potential and existing offshore destinations are associated with certain location-specific risks that multinational investors balance against expected cost savings. Investors use business intelligence and strict evaluations of country value propositions as well as medium- to long-term marketing strategies of competing countries when making decisions around geographic location.

Cost savings that make a particular location attractive at one point in time are sometimes significantly reduced by new tax regimes, exchange-rate volatility and rapid increases in local wage rates. As a result, multinationals opt for vendor diversification and alternative offshoring destinations. Accordingly, multinationals attempt to balance high potential returns against higher country-specific risks that depend on potentially shifting political, regulatory and economic conditions. This results in intense competition between emerging alternative offshore destinations in terms of concessions and incentives offered, which often causes the deterioration of respective domestic labour laws, in turn leading to highly confrontational industrial relations and public outcry from civil society and domestic market participants. Similarly, the equation of corporate profits and national wealth is misplaced on economic grounds and ideological in its universalisation of corporate interests.

The offshoring of services provides recipient countries with substantial employment opportunities. However, workers in these industries and occupations increasingly require higher skills competencies and higher incomes than workers in the manufacturing and other non-tradable service activities. As a result there is contention that offshoring is not necessarily about mutual trade benefit, with some economists and management scholars arguing that reducing wages through offshoring leads to wealth creation for shareholders, but not necessarily for countries and employees, and that many displaced workers have difficulty “trading up” to higher skilled jobs. Research conducted by Jensen and Kletzer (2006) prior to the global recession showed that tradable industries experienced a higher rate of job loss than non-tradable industries, with the greatest difference outside of manufacturing. In addition, a discomforting level of job insecurity is associated with employment in tradable activities, including services.

A neglected, if not overlooked, issue is the impact of financial harm experienced by offshore destinations in the form of profit shifting and base erosion relating to multinationals’ attempts to avoid what they perceive as burdensome company tax. Similarly, the recipient countries contribute to the problem by inadvertently signing away their tax revenue because of weak domestic policies and ill-conceived tax incentives to attract investment through offshore business operations. The accepted notion is that incentives drive investment choices without asking whether business can operate efficiently and sustainably without incentives in the long run.

5.1. Offshoring criticism

Global offshoring and sourcing might be perceived as an irreversible megatrend, but is politically controversial in source markets. The backlash, particularly against the offshoring of IT in countries such as the United States and Australia, is based on the notion that the practice results in job losses. Global discourse contends that offshoring signals a new structural development in the global political economy, one that raises concerns not only for the competitiveness of countries, but also for the welfare of large groups of workers.

The previous wave of material offshoring, predominantly in source markets such as the US and the United Kingdom, primarily affected low-skill intensive components of production and services. This time around, however, the picture is different with skilled labour increasingly producing business services. In many developed countries, the tradability raises concerns that while previously low-skilled labour was substituted by cheap imports of intermediates, it is now skilled labour that is likely to suffer a decline in demand. Most popular examples include software engineering and ICT-related business processes. This has resulted in a backlash from politicians, pressure groups and organised labour in the developed markets, which is likely to impact on opportunities for job creation in emerging offshore destinations.

6. Dynamics of South Africa’s labour market

Unemployment and the shortage of certain skill sets in the BPS sector, particularly at management and supervisory levels, are two of many challenges facing our country. South Africa continues to struggle with a structurally high unemployment rate, which is currently estimated at more than 20, 0% and registered 25, 2% in the first quarter of 2014. According to the HIS Country Risk report on South Africa, the country’s economy was only able to create about 460,000 jobs per year during the five-year period preceding the recession of 2009, which clouds prospects for employment creation in the current slow growth environment.

South Africa’s unemployment is deeply rooted in structural problems, including a lack of appropriate skills, which has kept unemployment high despite stronger economic growth in the pre-2009 global recession years. Labour absorption in some national sectors of the economy has been negligible when compared to the services sector. This is not surprising, given the dominance of the services sector not only in the domestic economy, but also globally. Statistics SA estimates that the labour force grows annually by between 500,000 and 700,000 job seekers. Meanwhile, the unemployment rate among the youth increased from 33% to 36% between 2008 and 2014. In addition, the youth accounted for approximately 64% of the working-age population, but are under-represented in employment, accounting for a mere 49%.

6.1. Impact of BPS Incentive Scheme and employment opportunities

The BPS sector is considered a key sector for attracting investment and job creation. The Business Process Outsourcing (BPO) Incentive Programme was first launched in July 2007 to assist in attracting vital investment and reduce the cost gap between the country and its competitors. The scheme has been a catalyst to the growth of the offshore BPS industry in South Africa. It underpins the country's value proposition by making South Africa increasingly attractive when compared to other countries competing for offshored business operations. Its existence has contributed to the creation of approximately 9,000 jobs, with a growth rate of 26% per annum from 2011 to 2014. According to the Everest Group report, 2014, the UK is South Africa's largest source market for offshored business operations and employs more than 18,000 people. A key recommendation of the report is that the incentive programme be continued beyond its current three-year duration (2011-2014) so as to drive long-term competitiveness and growth of the sector.

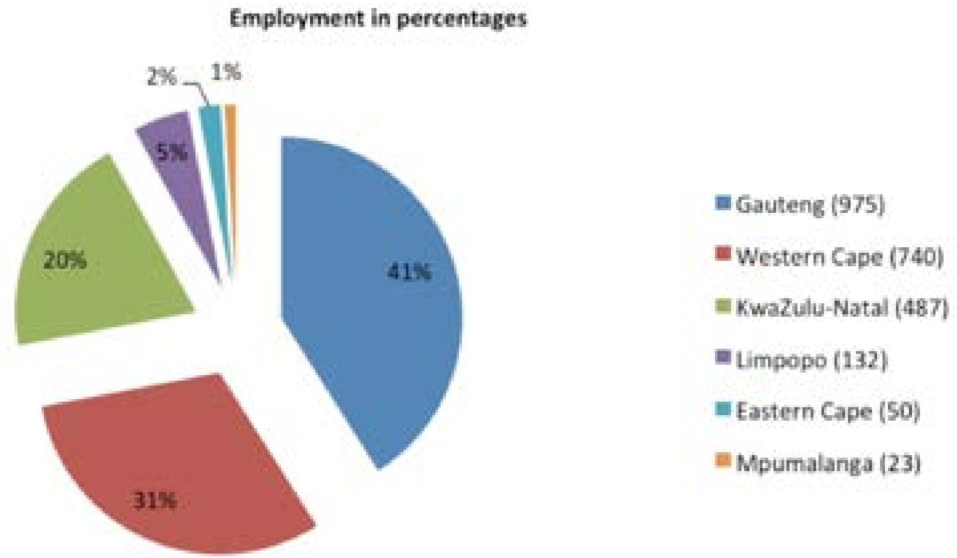
6.2. Monyetla Work-Readiness Programme

The Monyetla Work-Readiness Programme was designed to accelerate training for entry-level jobs within South Africa's growing BPS industry and established in response to the shortage of skills in the sector. The intent from outset was to provide extensive theoretical and practical training over the 16-week course, which includes 160 hours of call centre experience. Monyetla targets school leavers, unemployed graduates, women, disabled people and youth between the ages of 18 and 35 years. Since inception, the programme has benefitted 1,307 people in the pilot phase, 3,350 in the second phase and 3,000 in the third phase. The recently completed phase (2013-2014) trained more than 3,233 learners. The participation of key stakeholders ensures the programme creates a talent pool of skills required for efficient operations in their variable services offerings and line functions.

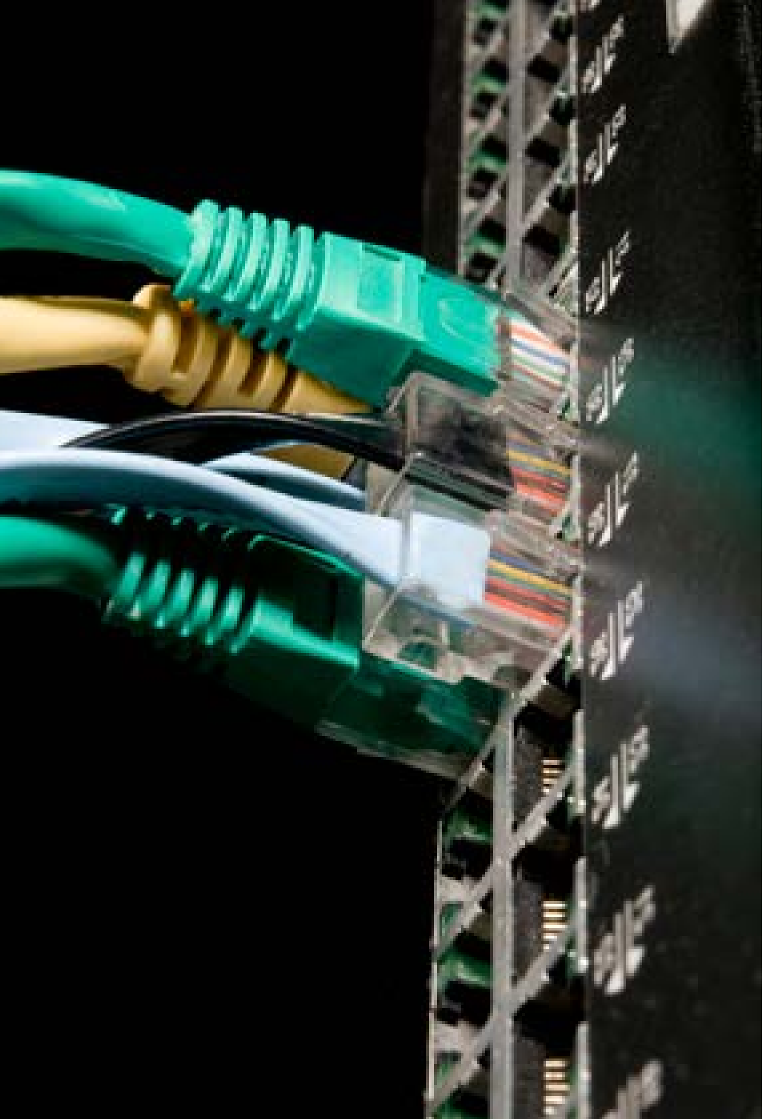
The programme curriculum is designed to align with the Sector Education and Training Authority (SETA) and covers the essential skills required to enter into the BPS sector. A minimum of 68 credits of the relevant skills programmes at NQF Level 3 and above is required, and the training providers, assessors and moderators must be registered with one of the following SETAs: INSETA, FASSET, BANKSeta, MICTS or Services SETA.

A total of 25 consortia participated in phase three, level four (2013-14) of the programme, with 3,220 learners undergoing training. About 2,760 learners were funded by the Government and an additional 460 learners trained by consortia at their own cost, of which a minimum of 70% of competent learners of the total allocated to each consortia were employed.

Figure 1: Provincial employment figures



Source: Monyetla Work Readiness Programme; Close-Out Report; August 2014



7. Potential for investment attraction

In this unpredictable global economic environment, trade and investment opportunities to drive economic growth are hindered by the triple challenge of poverty, inequality and unemployment, which is not unique to South Africa's socio-economic circumstances. A country needs to have credible dynamic skills sets, feasible business incubation, training and development programmes, appropriate investor support and functional mentoring processes for emerging enterprises in the concerned sector if it plans to increase its chances of attracting investment opportunities for meaningful development.

The proposed relaxation of a number of cross-border financial regulations and tax requirements on companies within the Southern African Development Community (SADC) will make it easier for banks, financial institutions and foreign companies to invest in regional countries neighbouring South Africa and will reinforce South Africa's position as a gateway to the continent, in spite of it losing the tag of being the largest economy in Africa to Nigeria.

8. Telecommunication: A key infrastructural factor in destination's competitiveness

Voice, data and broadband services and product prices are critical to the growth of the BPS sector. South Africa has achieved significant policy milestones to transform the regulatory regime to create a cost-competitive telecommunications sector. This includes undersea cables, availability of broadband connectivity and the much-delayed digital migration process.

The Department of Communications released the national broadband policy in December 2013. The policy intent is to address the lack of access to high-speed and good-quality bandwidth not only to business, but also to public institutions and the broader society. For instance, the City of Johannesburg has taken over from the private entity the commercial operations of the broadband network for the city to speed up the roll out and availability of the network. In addition, the Gauteng and Western Cape provincial governments plan to invest R1.2 billion and R3 billion respectively over the next three to five years in rolling out broadband connectivity across provinces.

Telecommunication costs are critical in terms of infrastructural affordability and availability. For instance, the Philippines had early deregulation of the telecoms sector, which markedly pushed down its bandwidth costs by approximately 40%. According to research conducted by the World Economic

Forum (WEF), good broadband internet access contributes between 0, 25% and 1, 4% to a country's economic growth. This demonstrates how a proactive government can quickly change the offshore cost equation. Prior to the political turbulence in Egypt, the cost of power, telecommunications and internet were among the lowest; lower than in some European and Asian countries. For South Africa, the gap has narrowed considerably over the last five years and is anticipated to be reduced by approximately 20% over the next coming three years.

9. Beyond outsourcing to robotic automation

Global sourcing standardisation and rigorous application support have been the focus in application outsourcing over the past decade. A closer look at IT applications portfolios shows that many businesses aspire for greater agility and reduced management costs. The economic motive is to consistently seek out efficient ways to drive down costs and improve productivity. The concern is that the traditional value drivers for application services are unable to effectively generate incremental value. Furthermore, recent advances in information and communication technologies have gained economy-wide importance, raising concerns that neither services nor high-skilled labour might be sheltered from international competition, but increasingly susceptible to offshoring.

A new era of intelligence is propelling businesses to go beyond business process offshoring by leveraging automation and analytics to advance their profits, in a manner similar to the creative destruction that is occurring in the IT field. Creative destruction refers to the incessant product and process innovation mechanism by which new production units replace out-dated ones. An adoption of next-generation technologies and automation is enabling enterprises to achieve effective application rationalisation, cutting across the entire IT function. This enables enterprises to free up a significant chunk of their IT budget, the majority of which is currently dedicated to core operations, maintenance and support systems.

The efficiency of decisions around the use of robotic automation not only depends on managerial talent, but also on the existence of sound institutions that provide a proper transactional framework. At the microeconomic level, restructuring is characterised by countless decisions to create and recreate production arrangements. These decisions are often complex, involving multiple parties as well as strategic and technological considerations. Robots are at the centre of today's business process automation revolution, where they take the form of software programs used to automate business activities such as accounts payable and receivable, transaction processing and order management. The robotic process automation is relatively new and there is few bona fide case studies to showcase a completely convincing necessity. Yet, increasingly providers are starting to experiment with the concept.

9.1. Cloud computing

Cloud, or a hosted and managed server solution, is considered a significant leveller in business efficiency and growth within the IT domain. It is believed to allow even small and medium-sized enterprises (SMEs) to access hardware and the latest software platforms that were previously the preserve of big corporate business. It implies low initial cost as there is no major upfront investment in hardware and software. Accordingly, companies benefit from better cash flow and are able to allocate their IT staff to more strategic projects. The upgrades are managed seamlessly, allowing users to enjoy the new features almost absolutely free.

Industry analysts contend that contact centres are not just moving to the cloud to take advantage of its breakthrough in technology and reliability, but also because it is a smart choice for the future of enterprises. They argue that the key to moving contact centre operations to the cloud lies in a vision of future plans for overall business. Additionally, it is about having realistic expectations for growth and operational diversity. A comparative analysis of the functionality of cloud technology and conventional premise-based solutions for technology management in contact centres shows that cloud computing is gaining significant preference over the latter. As business and customer requirements have become more complex, the on-premise technology still used in many contact centres has become equally more complex.

For example, a Kenyan tech firm, **Uhasibu**, focuses on developing cloud-based accounting systems that focus on local market systems, and is capitalising with its latest application *MiniERP*.

MiniERP is a cloud-based ERP solution, targeted specifically at retail-based SMEs in East Africa. It addresses the “operational” side of a business by providing a way to record financial accounting information without requiring employees of SMEs to have the financial training or knowledge of how to use a full accounting system. In cases of internet connection failures, the package is still accessible due to its offline capability.

The demand to manage this kind of communication technology is much greater, as are the demands to ensure stability, reliability and resiliency. The proponents of cloud computing argue that, from a strategic perspective, a cloud-based solution offers an intelligent monitoring, dedicated support resource, on-going management, and formalised security architecture and processes. They further contend that cloud assures business continuity and disaster recovery capabilities for contact centres operations. Although enterprises are aware of and increasingly adopting new delivery models such as *Saas* and cloud, they continue to be challenged by effectively leveraging these models to derive meaningful business value and are looking to service providers to help them achieve these goals, driving up inclusion of consulting in Application Outsourcing contracts. In sum, cloud computing is an ideal way forward for firms that have ageing infrastructure to avoid and minimise costs associated with infrastructural overhaul.

10. Alternative Offshore destinations: Global outlook

Emerging economies have made significant traction in terms of penetrating markets and making their presence known as possible offshore destinations. This is largely due to emerging sourcing destinations making significant efforts to differentiate themselves from others. The industry has matured and so have the considerations and factors that influence decisions on location moved beyond low-cost outsourcing concerns. For example, Egypt is promoting itself as a low-cost destination for call centres that specialise in European languages and offers a large pool of university graduates to Western companies through special industry-university partnerships. Dubai and Singapore present their IT security and legal systems to the outsourcing of high-security and business-continuity services. The Philippines stresses its excellent English skills to attract English-speaking call centres. Morocco is trying to attract French-speaking European clients to set up call centres, while Central and South American Spanish-speaking countries hope to establish call centres to provide services to the Hispanic market in the US.

India continues to dominate and maintain leadership in Information Technology Outsourcing (ITO) and BPO services. Many large multinational companies hold the view that India is a centre of excellence for ITO and BPO, and not merely a low-cost destination. The US and European multinationals continue to engage Indian suppliers for technical services such as programming and platform upgrades. However, as this relationship matures, they are gradually assigning Indian companies with more challenging work, such as development and support tasks for critical business applications. Another advantage enjoyed by India is its management skills, which most emerging sourcing destinations are unable to offer.

Accordingly, South Africa cannot expect multinational companies to invest in the country as part of their social responsibility demands. Multinationals have a “wish list” of requirements to operate successfully in any country, including stable electricity supply and a well-educated workforce. To maintain the momentum and remain on the global radar, South Africa needs to work intelligently and be strategically organised to realise the gains and achievements of the last couple of years and focus on continuous relevant improvements to remain globally competitive and offset the superfluous costs of the geographic location.

10.1. The best offshore location: Key indicators

The split between onshore and offshore

outsourcing is difficult to determine with any degree of precision. However, a feasible and convenient way to approach this phenomenon is to look at it from the supply side. India is known to be the principal offshore vendor of IT services, claiming at least 80% of the world's business. India's software and IT-enabled services export industry achieved annual growth of about 62,3% between 2002 and 2006 before being interrupted by the global recession in 2007.

Conventionally, six key indicators are considered to be key assessment criteria that influence the decisions of multinationals around choice of geographic location. The assessment criterion is not listed in order of any particular importance as companies have different strategic and operational objectives:

10.2. Costs

- Labour costs: Average wages for skilled workers and managers.
- Infrastructure costs: Unit costs for telecom networks, internet access, power and office rent.
- Corporate taxes: Tax breaks and regulations, and other incentives for local investment.

10.3. Skills

- Skill pool: The size of the labour pool with required skills. This may entail skills such as technical and business knowledge, management skills, languages and the ability to learn new concepts and innovate. In addition, the scalability of labour resources in the long term, that is, the ability to supply sufficient labour resources to handle growing demand, is a major issue that is considered when choosing an offshore destination. An indication of the scalability of labour resources in a country is the growth in the number of graduates with desired skills. Countries that offer scalability of labour resources are also more likely to keep wages relatively low due to the constant supply of new graduates.

- Vendor landscape: The size of the local sector providing IT services and other business functions. It is imperative to evaluate the landscape in terms of the general skills set (capabilities and competencies).

10.4. Environment

- Governance support: Policy on foreign investment, labour laws, bureaucratic and regulatory burden, level of corruption.
- Business environment: Compatibility with prevailing business culture and ethics.
- Living environment: Overall quality of life, health standard and health-related prevalence of infections, and serious crime per capita.
- Accessibility: Travel time, flight frequency and time difference.

10.5. Quality of infrastructure

- Telecommunications and IT: Network downtime, speed of service restoration and connectivity.
- Real estate: Availability and the quality, including rental costs.
- Transportation: Scale and quality of road and rail networks.
- Energy: Reliability of power supply.

10.6. Risk profile

- Security issues: Risks to personal security and property-related issues such as fraud, crime and terrorism.
- Disruptive events: Risk of a labour uprising, political unrest and natural disasters.
- Regulatory risks: Stability, fairness and efficiency of the legal framework.

- Macroeconomic risks: Cost of inflation, currency fluctuation and capital freedom.
- Intellectual property (IP) risk: Strength of the data and IP protection regime.

10.7. Market potential

- Attractiveness of the local market: Current GDP and its growth rate.
- Access to nearby markets, both in the host country and the adjacent region.

11. Overview of SA's economic profile

South Africa is one of the most stable economies on the African continent. It is a middle-income country with a fully developed basic infrastructure. The country exhibits several indicators of a developing economy, such as well-grown primary, secondary and tertiary sectors and non-dependency on agriculture. The manufacturing, mining and service sectors are the largest contributors to the country's GDP.

According to The Global Competitiveness Report (2013-2014), South Africa continues to be considered one of the preferred offshore destinations in Africa, even though it has not yet returned to its pre-crisis growth rates. In market efficiency, it fares relatively well and is ranked in the top 20 in financial market development, with Mauritius and Kenya. The country's technological uptake continues to show positive signs of upward mobility and featured in the top half of the overall GCI rankings.

11.1. Country's progress in BPS

Population (millions)	50.6
GDP (US$ billions)	384.3
GDP per capita (US$)	7,507
GDP (PPP) as share (%) of world total	0.70

11.2. Global Competitiveness Index

	Rank (Out of 148)	**Score** (1–7)
GCI 2013–2014	**53**	**4.4**
GCI 2012–2013 (out of 144)	52	4.4
GCI 2011–2012 (out of 142)	50	4.3
Basic requirements (40, 0%)	**95**	**4.2**
Institutions	41	4.5
Infrastructure	66	4.1
Macroeconomic environment	95	4.4
Health and primary education	135	3.9
Efficiency enhancers 50.0%)	**34**	**4.5**
Higher education and training	89	3.9
Goods market efficiency	28	4.8
Labour market efficiency	116	3.9
Financial market development	3	5.8
Technological readiness	62	3.9
Market size	25	4.9
Innovation and sophistication factors (10.0%)	**37**	**4.1**
Business sophistication	35	4.5
Innovation	39	3.6

According to the Organisation for Economic Co-operation and Development (OECD) survey report (2013), South Africa is advancing, but failing to fully achieve its considerable potential. It noted that per capita incomes are growing, public services are expanding, health indicators are improving, crime rates are falling and demographic trends are favourable. It further observes that the public finances are in better shape than those of many OECD countries, the financial system is healthy and core inflation is stable and within the central bank’s target zone. However, a significant socio-economic challenge is that an extremely high proportion of the population is still out of work, as has been the case for most of the past three decades. According to conservative estimates, official unemployment is nearly 25% of the workforce. South Africa’s economic policy is firmly focused on controlling inflation. The country, however, has had significant budget deficits that restrict its ability to deal with pressing economic problems.

12. Provincial economic indicators

BPS growth and maturity and the preference of global investors is still largely concentrated in the three country’s metropolitan cities, namely Cape Town (Western Cape), Johannesburg (Gauteng) and Durban (KwaZulu-Natal). However, Port Elizabeth (Eastern Cape) is increasingly emerging as a preferred metropolitan city, with new offerings in its value proposition, including infrastructural improvements, as well as the commitment of the provincial government and support of national Government. The Western Cape has a significant number of operators servicing the offshore market, with Gauteng second. Kwazulu-Natal has the largest number of agents servicing the offshore market.

12.1. Western Cape

The Western Cape BPS industry continues to enjoy the support of government at all levels, with companies accessing the support of the Department of Trade and Industry’s (**the dti**) BPS incentive scheme as well as the Monyetla programme. The outsourcing sector constitutes 50% of the market, a 6% increase from 2013, with the captive market also contributing 50%. The sector added 1,537 offshore servicing jobs and grew in total by 8% to 41,000 jobs over the 2013/14 financial year.

The financial services sector accounts for the highest proportion of agents in the industry at 41, 7%, a 0, and 5% increase from 2013, with retail at 14, 9%, a decrease of 10%, and telecommunications at 12, 5%, a 2, 7% increase from 2013. There is a growing focus on the delivery of higher value, more complex BPS work from the region, such as legal process outsourcing and shared services. This will complement the already strong presence of voice-based services and allow outsourcers to offer a wider range of solutions to their clients from the Western Cape.

The province's competencies and comparative advantages are underpinned by the following sub-sectors:

- Financial services – large financial domestic captives headquartered and operating from Cape Town, complemented by a number of large financial outsourcers;
- Retail – the presence of international organisations and powerful brands such as Amazon, Asda and Shop Direct has contributed to growth in the retail sub-sector; and
- Telecommunication – Major telecoms brands from the UK and Europe are using the province as a customer service base for their international clients.

Additionally, there is notable BPS activity in Financial Services (41,7%), Retail (14,9%), Telecoms (12,5%), Legal (7,2%), IT (6,0%), Public Sector (4,4%), Transport, (4,2%), Energy (3,7%), Marketing (2,0%), Media (0,7%), Education (0,7%), Security (0,6%), Healthcare (0,4%) and Other (1,0%).

There is growing capacity in the provision of back-office fund administration from both

South African companies such as Maitland and international players like State Street. This is well-aligned to the large insurance and asset management sub-sectors that operate in the region. The provincial strategy to support the BPS sector will increasingly enable the provision of these higher-value services. The Western Cape government has shifted its focus to address the challenges around the skills pipeline for the sector and intends to pilot a BPS skills development project in the near future.

12.2. KwaZulu-Natal

The provincial economy continues to be dominated by three industries, namely manufacturing; finance and business services; and wholesale and retail trade, including hotels and accommodation industries. The largest industries in the manufacturing sector are automobile; wood, pulp and paper; chemicals and petrochemicals; and food and beverages. The Richards Bay Industrial Development Zone (RBIDZ) now trades as a Special Economic Zone. The hotel and tourism industries still influence the economic landscape of the province, which continues to be one of the alternative locations for outbound sales campaigns servicing markets in the UK and Australia. As a result, KwaZulu-Natal considers itself to be the “Sales Hub” of the country and has a strong and unique sales ethic.

In terms of location, most investments in the province are concentrated largely in eThekwini region, covering Durban Central Business District (“CBD”), Mount Edgecombe and

Umhlanga, followed by the UMgungundlovu (Pietermaritzburg) and iLembe (Stanger) districts.

ICT and broadband distribution, including undersea cables, forms the backbone of most businesses in the province, given its geographic location of the Indian Ocean, and training on product-specific and basic customer service such as Career Box, Harambes and ISA (Impact Sourcing Academy) has emerged as the new sub-sector.

Segmentation of the BPS industry by activity includes activities such as agricultural and retail services, banking and financial services, government/municipalities services, insurance, leisure and online gambling, telecommunications, and textile and retail services.

12.3. Gauteng

Gauteng is the commercial capital of South Africa and a microcosm of the country's economic structure. The provincial economy was originally driven by the mining sector, which provided a platform for growth in manufacturing, followed by tertiary sectors including trade and finance. It is both a commercial and industrial hub that encompasses the principal cities of Johannesburg and Pretoria. Pretoria is the administrative capital of South Africa and Johannesburg is the capital of Gauteng as well as the country's largest metropolis and financial heart of the southern African subcontinent. Between the two cities is

Midrand, a prime growth point destined to become a city in its own right. Gauteng government's New Growth Path is aligned to the National Growth Path and has the following pillars:

- Strategic Economic Infrastructure Development – industry and sector development
- Tourism Development
- Knowledge and Green Economies
- SMME and Co-operatives Support and Local Economic Development

13. Summation

South Africa continues to be on the global radar and remains a competitive alternative offshore destination. It is positioning itself as a preferred destination of high-value services for offshoring purposes, as demonstrated by the global awards as the location for offshored business operations (UK and European awards). The UK remains the largest offshore source market for South Africa. It accounts for approximately 62% of offshore operations, with Australia another potential source of offshored business functions. The South African market provides services for global customers, banking, financial and insurance services as well as online retailing, telecoms and media services.

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the dti Campus
77 Meintjies Street
Sunnyside
Pretoria
0002

the dti
Private Bag X84
Pretoria
0001

the dti Customer Contact Centre: 0861 843 384

Website: www.thedti.gov.za