

# The labour market and digital jobs in Africa: South Africa's workforce potential in Impact Sourcing

Research Brief

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This research brief intends to draw the attention of development studies and information & communication technology (ICT) scholars and practitioners who wish to better understand the labour market and in particular the potential of digital work within the ICT and services sub-sector. In particular, the brief examines Business Process Outsourcing (BPO) and whether this industry can have a lasting change on digital employment for youth and other marginalised groups in South Africa. The BPO sector is known as the Business Process Services (BPS) sector in South Africa and this sector provides enormous economic and market potential to the services industry. BPS strategies are playing a major role in the government's current industrial strategy and can contribute significantly to the transition into digital work in South Africa where many young people are found to be unemployed.

The research brief is based on a study, Rogan, M., Diga, K., and Valodia, I (2013). *Labour Market Analysis and Business Process Services for South Africa: Poverty Reduction through Information and Digital Employment Initiative*. The study uses national labour force statistics to show that South Africa's youth continue to experience extraordinary levels of unemployment despite a high level of secondary school completion. In 2010, approximately 90% of the employed youth between 19-24 years old were wage earners and around 85% of the same group were working in private enterprise.<sup>1</sup> One third of the employed 19-24 year olds were concentrated within the whole-

sale and retail sectors yet one notes the second major employer for youth was in community, social and personal services. Business Process Services in South Africa may have a role in digital employment in the services sector. Government-funded programmes such as Monyetla youth training initiative is growing after seeing the first round of BPS-trained graduates become absorbed into the sector. Yet the small number of BPS companies (both local and international) will need to expand in the country alongside relevant training programmes in order to complement the growth of ICT usage and high school graduates. Such complementary elements would need to work together in order to meet the required talent pool for South Africa's success in tackling youth employment.

## Employment and youth in South Africa

Despite positive economic growth in the early to mid-2000s, the overall level of unemployment (roughly 25%) in post-apartheid South Africa remains one of the highest in the world. Young people (age 15-24, inclusive), as in many other countries, face particularly high rates of unemployment but South Africa is something of an outlier with youth unemployment rates far higher than those in other emerging economies.<sup>2</sup> This youth age group makes up roughly a fifth of the South African labour force and has, by far, the highest levels of unemployment (nearly 50% in 2009).<sup>1</sup> While employment did grow

1. Statistics South Africa (2010) 2010 Quarterly Labour Force Survey (2nd quarter).

2. OECD. (2010). OECD Economic Surveys: South Africa OECD *Economic Surveys*.

between 1995 and 2007 it was outpaced by the increase in the working age population. The larger increase in the labour force (i.e. those who actually wanted work) meant that unemployment increased alongside job growth.<sup>3</sup> Many of the youth, who make up the bulk of the increase in labour force, are new entrants with little to no work experience. However, nearly 85% of unemployed youth aged 19-24 have completed or some secondary school education and unemployed youth, on average, have higher computer literacy rates than the overall unemployed population in South Africa. While many youth are unemployed, those who are employed tend to find jobs in formal wage earning positions, predominantly within lower paying sectors such as wholesale and retail.

## BPS in South Africa

Against this backdrop of high and persistent youth unemployment, this report explores the potential of an emerging sector, Business Process Outsourcing (BPO) to absorb some of these young people into decent work. In particular, this report explores the possibility of Impact Sourcing as an emerging sub-sector within BPO which refers to employing people who are most disadvantaged, with limited opportunity for employment, and will be the principal workers in centres to help service clients both domestically and internationally.<sup>4</sup> The overall BPO sector is currently expanding and is generating new digital and service jobs in the country. The recent global economic downturn has pushed many international companies to seek ways to reduce business costs. This includes the chance to contract certain non-core business services to suppliers in countries such as South Africa. The most recent industry report for South Africa estimates that there are now 200,000 jobs in total for both in-house domestic operations as well as offshore work.<sup>5</sup> The majority of BPS work is currently located in major urban areas

such as Johannesburg, Cape Town and Durban where experienced labour is more accessible. However, many smaller municipalities are now targeting BPS activities as part of their growth and development frameworks. Most jobs in South African BPS are of domestic clients (captive and onshore) and attract young South African job seekers. The South African government's current incentives package for off-shore business process activities, alongside its Monyetla or BPS youth training initiative, is a clear indicator that BPS forms an important part of its industrial strategy to attract foreign investment and to grow the sector.

## Implications of BPS and youth labour

One factor which can play an important role in shifting overseas BPS to South Africa is whether local suppliers of BPS have the capacity to deliver; especially with respect to human resources capabilities. While statistics show some secondary school education, strong English competence and computer literacy among young people, there are still some questions about whether young unemployed South Africans have the requisite skills to be successful BPS employees should the sector expand. In terms of absorbing unemployed youth, the data does suggest some interesting possibilities. There is evidence which demonstrates, for example, that unemployed young people have some skills which may make them more attractive to BPS firms than the broader unemployed population as a whole. Nevertheless, new younger workers who tend to have far less work experience than the older cohorts of the unemployed may compete with older labour participants with work experience for jobs in the BPS sector. Therefore, strategies to promote BPS and Impact Sourcing have to carefully consider how best to ensure the targeted population is given opportunities for decent work.

3 Burger, R., van der Berg, S., & von Fintel, D. (2012). The unintended consequences of education policies on South African participation and unemployment *Stellenbosch Economic Working Paper No. 289*. Stellenbosch: University of Stellenbosch.

4. Monitor. (2011). Job Creation Through Building the Field of Impact Sourcing: Monitor Inclusive Markets.

5. BPeSA Western Cape. (2012). 2011/12 Key Indicator Report.

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