Labour Market Analysis and Business Process Services in South Africa: Poverty Reduction through Information and Digital Employment Initiative

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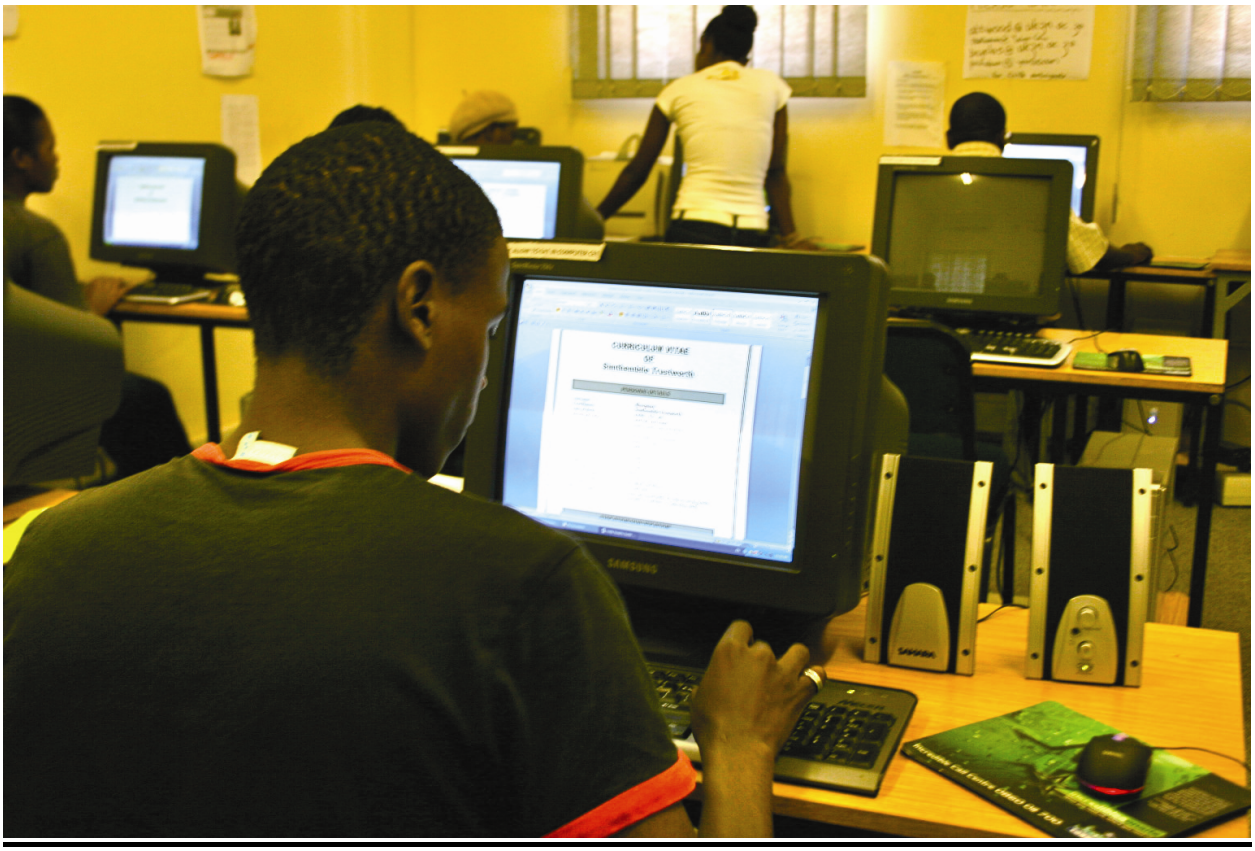

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Table of Contents

List of Tables

Appendix Tables

List of Figures

List of Boxes

Executive Summary

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 (OECD, 2010). 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). While employment did grow 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 that actually wanted work) meant that unemployment increased alongside job growth (Burger *et al.*, 2012). 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 have 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.

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 business process outsourcing centres to help service clients both domestically and internationally (Monitor, 2008). The overall BPO sector (also called the Business Process Services (BPS) sector in South Africa), 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 opportunity 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 (BPeSA Western Cape, 2012). 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 (captive and onshore) clients and attract young South African job seekers. The South African government's current incentives package for offshore 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.

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.

Key Terms

Labour market terms

Total population	The total population of South Africa includes individuals of all ages. The total population in 2010 is estimated to be **49.3 million** people.
Youth	Following the International Labour Organization definition, this study identifies youth from 15-24 years old. In 2010 there were **10.2 million** South Africans between the ages of 15 and 24.
Working age population	The working age population of South Africa is the total number of people between the ages of 15 and 64 (inclusive). This includes the sum of the employed, the unemployed and the economically inactive within the 15-64 age population. There are **31.4 million** South Africans in this age group.
Absorption rate	The absorption rate is the percentage of the total working age population (or the specified age group) that is employed.
Strict unemployment	The strictly (or also called narrowly or official) defined unemployed are working-age individuals who wanted work ***and*** looked for employment in the reference period specified in the Labour Force Surveys. Those who wanted work but did not take any steps to look for employment are classified as economically inactive according to this definition.
Broad unemployment	The category of broadly unemployed includes all of the narrow unemployed as well as those who wanted work but ***did not*** look for it during the specified recall period.
Labour force	The labour force includes all individuals who are economically active. This group includes all those who are employed (including both formal and informal work) and all those who are unemployed. It does not include those who are currently in school or have identified themselves as economically inactive. The total labour force in South Africa is **17.1 million** according to the strict definition and about **19 million** using the broad definition.
Labour force participation rate	The labour force participation rate is the percentage of the total working age population (or the specified age group) that is economically active (i.e. employed or unemployed).
Unemployment rate	The unemployment rate (either strict or broad) is the percentage of the labour force that is unemployed.

Economically inactive	This definition varies based on whether one takes a strict or broad definition of unemployment. According to the strict definition the economically inactive group includes all those who did not want work (e.g. students) as well as those who did want work but did not look for a job. Under the broad definition, the economically active are just those individuals who did not want work.
Informal work	Informal employment identifies persons who are in precarious employment situations irrespective of whether or not the entity for which they work is in the formal or informal sector. Persons in informal employment therefore consist of all persons in the informal sector; employees in the formal sector; and persons working in private households who are not entitled to basic benefits such as pension or medical aid contributions from their employer, and who do not have a written contract of employment.
Informal sector	The informal sector has the following two components: i) Employees working in establishments that employ less than five employees, who do not deduct income tax from their salaries/wages; and ii) Employers, own-account workers and persons helping unpaid in their household business who are not registered for either income tax or value-added tax.

BPO industry terms

Business Process Outsourcing and Offshoring	When a company relocates voice and non-voice business processes that it used to perform in-house: Outsourcing occurs when it uses the third-party providers to perform these activities/services, rather than directly by employees of the company that owns the business process and/or; Offshoring occurs when these activities/services are performed in a foreign location. These are usually managed by means of a contract or service level agreement.
Onshore	In the context of BPO&O, refers to business processes that are handled within their home jurisdiction.
Impact sourcing	An emerging sub-sector within BPO&O which refers to employing people who are most disadvantaged, with limited opportunity for employment, and will be the principle workers in business process outsourcing centres to help service clients both domestically and internationally.
Contact centres	E.g.: inbound customer service, inbound helpdesk, inbound sales, inbound technical support, outbound data cleaning and data capturing, outbound debt collections, outbound customer interview, research and surveys, outbound telemarketing/sales, web sales and marketing, advertising creative processes and marketing research services.
Back office processes	E.g.: administration, data entry/preparation, data entry – scanning and archiving, document management, translation and transcription services, forms and report generation.
Business process services	The term taken by the South African government to refer to BPO&O activities within their sector.
Captive	A contact or business process outsourcing centre that is owned and managed by the organisation for whom the services are being provided.
Inbound	Communications traffic that originates from customers and is received by agents in a contact centre; also refers to centres that handle such work. An example would be technical support calls.
Outbound	Communications traffic that originates from agents in a contact centre and that is received by customers; also refers to centres that handle such work. An example would be a direct sales call.

Acronyms

ASGISA	Accelerated Shared Growth Initiative
BPeSA	Business Process Enabling South Africa
BPO	Business Process Outsourcing
BPO&O	Business Process Outsourcing and Offshoring
BPS	Business Process Services
DoHET	Department of Higher Education & Training
DTI	Department of Trade and Industry
FTE	Full-time Equivalent
GAS	Government Assistance and Support
GHS	General Household Survey
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
IDZ	Industrial Development Zone
ILO	International Labour Organization
IPAP 2	Industrial Policy Action Plan
IS	Impact Sourcing
KZN	KwaZulu-Natal
LED	Local Economic Development
LFS	Labour Force Survey
NIDS	National Income Dynamics Study
NQF	National Qualifications Framework
NSF	National Skills Fund
OECD	Organisation for Economic Co-operation and Development
OHS	October Household Survey
PRIDE	Poverty Reduction through Information and Digital Employment (Rockefeller Foundation programme)
QLFS	Quarterly Labour Force Survey
Rb	Rand billions
Rm	Rand millions
SA	South Africa
SALDRU	Southern African Labour and Development Research Unit
SAQA	South African Qualifications Association

SETA	Sector Education and Training Authority
StatsSA	Statistics South Africa
UK	United Kingdom
USA	United States of America
USD	United States Dollars

1. Introduction

Despite positive economic growth in the early to mid-2000s, the level of unemployment in South Africa remains one of the highest in the world. One of the key frustrations for the post-apartheid (after 1994) government has been the increase in the size of the labour force in relation to the number of jobs actually being created (Altman, 2003; Banerjee *et al.*, 2008b; Burger & Woolard, 2005; Casale *et al.*, 2004; Gelb, 2005; Klasen & Woolard, 1999; Roberts, 2005). As a result of the inability of the economy to keep pace with the number of new job seekers entering the labour market, unemployment rates have risen for much of the 18 years of the post-apartheid period despite South Africa's positive economic growth (Banerjee *et al.*, 2008a; Branson & Wittenberg, 2007). For example, both strict and broad unemployment rates grew between 1994 and 2002 and peaked at 31.2% (according to the official or strict[1] unemployment rate and 42.5% using an expanded definition) of the total labour force (Altman, 2003; Bhorat & Oosthuizen, 2006; Burger & Woolard, 2005; Klasen & Woolard, 2008; Nattrass, 2003; Seekings, 2007).[1] Between 2003 and 2008, the unemployment rate decreased in line with stronger economic growth in the country, however, unemployment rates remained high compared to international standards, particularly for youth between the ages of 15 and 24 (Burger *et al.*, 2012). Then by 2010, following the global economic crisis, the official unemployment rate had increased again to its 2004 levels or to about 25% of the labour force (OECD, 2010).

The risk of unemployment is not spread evenly across the working age population in South Africa and the conventional wisdom is that there are key differences by age, race and gender. Young people (age 15-24, inclusive) in South Africa, as in many other parts of the world, face very high rates of unemployment and South Africa is somewhat of an outlier given that youth unemployment rates are far higher (nearly 50% in 2009) than those of other emerging economies (OECD, 2010). This age group makes up roughly a fifth of the total labour force in the country and has, by far, the highest levels of unemployment (Mlatsheni & Rospabé, 2002). While the number of new jobs actually grew by more than the increase in the size of the working age population between 1995 and 2007, the larger increase in the labour force (i.e. those that actually wanted work) meant that unemployment increased alongside this job growth (Burger *et al.*, 2012). Moreover, the bulk of this increase in labour force participation (and in unemployment) has been concentrated amongst the youth (Burger *et al.*, 2012).

Several stylised facts about the nature of youth unemployment in post-apartheid South Africa are well established in the academic literature. First, the difference in the risk of unemployment by population (i.e. race) group appears to be even higher amongst the youth. As part of the legacy of apartheid, there are still large differences in the employment prospects between the main population groups in South Africa. Young black South Africans face a far higher risk of unemployment compared with white, coloured and Indian South Africans.[2] The unemployment rate for young black South Africans is roughly 70% while, for white South Africans in the same cohort, the rate is only about 12%

1 The strictly (or narrowly) defined unemployed are working-age individuals who wanted work and looked for employment in the reference period specified in the LFSs, OHSs or the GHSs (e.g. over the past four weeks). The category of broadly unemployed then includes all of the narrow unemployed as well as those who wanted work but did not look for it during the specified recall period (see also Kingdon & Knight, 2006). These two categories of the unemployed are also often referred to as the 'searching' and 'non-searching' unemployed.

[2] The population group classifications used throughout the report are the same as those employed by Statistics South Africa in its household surveys and censuses and are generally well-accepted in South Africa. For example, 'African' is the term used to describe black South Africans, 'Coloured' refers to individuals of mixed-race origin, 'Indian' refers to people of Indian and Asian descent, and 'White' refers to those of European origin.

(Mlatsheni & Rospabé, 2002; OECD, 2010). Second, and as with the working age population as a whole, broad unemployment rates are considerably higher for young women (57%) than for young men (44%) (Mlatsheni & Rospabé, 2002). Moreover, 47% of women aged 18 to 24 are without employment and are not enrolled in any type of educational or training institution (compared with only 36% of men in this age group) (Cloete, 2009). Third, the youth cohort is far less likely to be self-employed than the working age population as a whole (Mlatsheni & Rospabé, 2002). This finding, in particular, has important implications for the role of youth entrepreneurship (as often prescribed by government and other stakeholders – see for example OECD, 2010) as a potential solution to the high levels of unemployment.

In explaining the high rates of youth unemployment, one of the common themes in the South African literature has been the poor quality of education and a general lack of preparation (i.e. low practical work skills) for the labour market (Lam *et al.*, 2008) coupled with the 'formal' economy's generally low demand for workers (Cloete, 2009). Recent research has further suggested that the government's education policy which prohibits 'over age' youth from continuing to be enrolled in conventional school system has 'pushed' a large number of young people into the labour market and, more often than not, into unemployment (Burger *et al.*, 2012). The result, according to this argument, is that young, unskilled people without a complete Grade 12 education are now entering the labour market at a rate which surpasses the growth in jobs (Burger *et al.*, 2012).

The purpose of this report is to produce a labour market analysis of South Africa which delivers the country contexts of employment in the country which can then help to inform labour issues surrounding initiatives around impact sourcing (IS). Impact sourcing is an emerging sub-sector within South Africa's Business Process Services which refers to employing people who are most disadvantaged, and who have limited opportunity for employment, and will be the principal workers in BPS centres to help service clients both domestically and internationally (Monitor, 2008). The worker profiles who are targeted for IS (i.e. youth and women) are highlighted in this labour report. This country report on the South African labour market environment with specific relation to BPS will concentrate its research on the worker's data on labour participation, employment, worker characteristics and wages. The remainder of the report is structured as follows. Section Two describes the data sources that are used for the labour market analysis as well as some of the key sources of information on the BPS sector in South Africa. Section Three presents an analysis of the youth labour market trends as well as key characteristics of the unemployed youth. Section Four then delivers a brief overview of the BPS sector in South Africa. Finally, Section Five on the labour market findings discusses the context of the existing needs of the BPS sector.

2. Data

2.1 Data sources

There are a number of data sources available in South Africa with which to analyse labour market trends and characteristics. Since 1993, Statistics South Africa (StatsSA) has been conducting nationally representative household surveys (known as the annual October Household Survey (OHS) from 1993 to 1999 and from 2002 onwards referred to as the annual General Household Survey (GHS)) that include a module on the labour market. In 2000, StatsSA also introduced a dedicated labour force survey as the main source of official information on employment and unemployment. The 2000-2007 bi-annual Labour Force Surveys (LFSs) captured comprehensive information on labour market activity and earnings as well as a number of modules on access to services and other household socio-economic and demographic characteristics. These were large-sample (roughly 30,000 households) nationally representative household surveys conducted in March and September of each year. This bi-annual LFS was eventually replaced with the Quarterly Labour Force Survey (QLFS) in 2008. The QLFS introduces a more focused questionnaire and does not capture comprehensive information on earnings or household characteristics (beyond basic demographic information about household members). The QLFS is therefore designed to analyse labour market changes while the annual GHS continues to capture a broader range of characteristics on the circumstances of South African households.[3]

Apart from these official (collected by StatsSA) sources of information on labour market activity, there is also a nationally representative panel survey of South African households available to researchers. The National Income Dynamics Study (NIDS) was commissioned by the Office of the President and is conducted by the Southern African Labour and Development Research Unit (SALDRU) at the University of Cape Town. The first wave of NIDS was conducted in 2008 and interviewed nearly 7,000 households. In 2010, the second wave was completed and there is now, for the first time, panel data available at the national level in South Africa. NIDS collects comprehensive information on health, demographic characteristics, education, labour market activity and earnings. One of the key attributes of NIDS is that, in contrast to the standard household survey approach, each household member was interviewed separately.

In order to analyse youth employment and unemployment in South Africa, this report makes use of these different data sources. Recent trends in youth labour force participation are identified by analysing the September 2004 and 2007 LFSs, and the 2010 QLFS (2nd quarter). These three surveys are largely compatible although there are some important differences between the bi-annual LFSs (2004 and 2007) and the more recent QLFS (2010). The QLFS asks different questions in the employment module and there are, therefore, some concerns about its ability to estimate trends in unemployment over time. There is evidence to suggest that estimates of strict unemployment are relatively stable across the LFSs and the QLFSs (Yu, 2009). The QLFS, however, appears to underestimate broad unemployment and comparisons over time using the LFSs and the QLFSs produce highly implausible results (Yu,

[3] While the QLFs are more focused on labour market activity (compared with the bi-annual LFSs), the more recent (from 2008 onwards) GHSs have now become less focused on collecting labour force information and it is no longer possible to derive estimates of both strict and broad unemployment from the GHSs.

2009).[4] Because broad unemployment trends cannot be compared over time, estimates of changes in unemployment over time (from 2004 to 2010) presented in the following section are made on the basis of the strict definition of unemployment. However, where characteristics of the unemployed are examined in detail, the broad definition of the unemployed is preferred since this category includes all individuals who wanted to work but were not working. This group, therefore, represents the total potential labour force that is not currently working.

Since NIDS collects a comprehensive range of information directly from respondents (as opposed to a household proxy), it is well suited for a more nuanced analysis of the labour market. In particular, NIDS captures more detailed information on education, skills, language ability and computer proficiency compared with the LFSs and the QLFSs. As such, NIDS can complement the official sources of labour market data and provide a more in-depth profile of both the employed and unemployed youth. Moreover, the labour force module from the NIDS questionnaire is largely comparable with the LFSs in that plausible estimates of both strict and broad unemployment can be generated.

2.2 Age groups

As this is a labour market analysis, this study concentrates on the working age population between 15 to 64 years old. The study goes further to investigate the characteristics of youth employment. The International Labour Organization (ILO) defines the youth as those aged between 15 and 24 (inclusive). As a percentage of the total labour force, this age group is relatively small in South Africa compared with other African countries (about 20% in South Africa compared with an average of about 36% for Africa's youth as a whole) (Mlatsheni & Rospabé, 2002). This outcome is largely explained by the fact that there is a particularly high rate of school enrolment in South Africa and many young people attending school are not economically active and are thus not included in the labour force (Mlatsheni & Rospabé, 2002). Throughout the labour market analyses presented in this report, the broader category of 'youth' is therefore disaggregated into two youth groups (15-18 inclusive and 19-24 inclusive).

The reasons for analysing these two age groups separately are twofold. First, since the labour market profile of those of a school going age (15-18) is likely to be significantly different from the next cohort (19-24), combining these two groups would mask the important differences between them. Second, due to the high rate of school enrolment in South Africa and because young South Africans tend to extend both their secondary and tertiary studies to a later age, there will likely be important differences between South Africa, Ghana and Kenya in terms of the labour market profiles of these two youth age groups. Analysing the labour market characteristics of these two age groups separately therefore ensures a more appropriate comparison across the three African contexts.

[4] An additional problem in comparing unemployment estimates between the mid-2000s to the present is that the changeover to the QLFS coincided with the 2008 global financial crisis. It is therefore not possible to determine how much of the increase in the unemployment rate is 'due' to the crisis and how much is an artefact of the change in survey methodology. As a result, all estimates of recent trends in employment and unemployment should be treated with caution. This caveat notwithstanding, the report attempts to identify, as far as possible, key changes in employment and unemployment, by age group.

2.3 Information on the BPO sector

The Business Process Services (BPS) section of the report mainly consists of industry reports and recent academic articles which are available on the internet. The Business Process enabling South Africa (BPeSA) and BPeSA Western Cape (regional arm) are BPS industry marketing institutions which, in partnership with the Department of Trade and Industry (DTI) and the Business Trust, have been active in providing up-to-date statistics and data on the BPS sector in South Africa. One must note that most of the industry reports come from consultancy firms who are working closely with the sector (at national or provincial levels) such as Deloitte, NelsonHall, Everest Group and the Monitor Group and their databases or choice of methodologies may not be readily available to the public. The research reports on BPS have been limited to mainly the most recent research from 2006 onwards. The next section describes the South African labour market in which BPS operates.

3. The South African labour market

This section on the labour market describes South Africa's overall labour force, including statistics on employment by age group, gender, geographical location, and the types of industrial sectors where youth are employed and the conditions of work in which they participate.

3.1 Overall labour force size and recent trends

The data presented in Table 1 suggests that there were some notable changes in the South African labour market between 2004 and 2010. During the period from 2004 to 2007, the economy expanded at its highest rate in the post-apartheid period and the number of South Africans with employment grew from about 11.6 million to 13.3 million. However, in the wake of the 2008 global financial crisis, there were roughly 500,000 fewer South Africans with employment in 2010 (compared with 2007). This decrease in jobs was accompanied by a marginal decrease in the size of the total labour force (about 17 million people in 2010) and an overall increase in the number of working age South Africans who did not want work or did not search for job opportunities (14.3 million working age South Africans were not active in the labour market in 2010). The period between 2007 and 2010 was therefore characterised by zero growth in the absolute size of the labour force and within this group, an increase in the number of unemployed.

Table 1 Total employment, unemployment and labour force participation among the working age population (age 15-64 inclusive)

	2004	**2007**	**2010**
Employed	11,608,058 (100,701)	13,251,203 (195,523)	12,741,552 (100,787)
	Strict (official) definition		
Unemployed	4,134,059 (58,204)	3,901,911 (62,290)	4,311,992 (59,403)
Total labour force (employed + unemployed)	15,742,116 (112,495)	17,153,114 (201,657)	17,053,543 (111,437)
Inactive	13,318,155 (93,643)	12,966,424 (128,440)	14,345,731 (95,955)
	Broad definition		
Unemployed	8,079,107 (78,235)	7,336,859 (81,670)	6,219,453 (68,809)
Total labour force (employed + unemployed)	19,687,165 (120,642)	20,588,062 (205,389)	18,961,005 (114,293)
Inactive	9,373,106 (80,076)	9,531,476 (119,360)	12,438,270 (91,430)

Source: Own calculations from the 2004 and 2007 LFSs and the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets. The data is weighted.

After accounting for overall population growth and an increase in the size of the working age population (ages 15-64) over the period (2004-2010), the result of these changes is a clear decrease in both the absorption rate and a concurrent decrease in the labour force participation rate (Table 2).[5] The absorption rate (or the percentage of the total working age population that is employed) increased from about 40% to 44% between 2004 and 2007. In the wake of the 2008 global financial crisis, the number of jobs actually decreased and, with the increase in the size of the working age population, employment rates followed with a decrease. By 2010, the absorption rate had decreased by about 3.5 percentage points (compared to 2007). In other words, only 40.6% of the working age population had employment in 2010.

Similarly, the strict unemployment rate decreased from about 26% in 2004 to 22.4% in 2007. By 2010, however, this rate rose with a quarter of the labour force unable to find work. The percentage of the working age population that was either employed or was searching for a job also decreased from 2007 to 2010. As far as the strict measures of labour force participation from the 2007 LFS can be compared with those from the 2010 QLFS, the data would suggest that the decrease in economic growth resulted in job losses as well as a decrease in the number and percentage of the working age population that were actively searching for work.

Table 2 Total employment, unemployment and labour force participation rates of the working age population

	2004	**2007**	**2010**
Absorption rate	39.94 (0.27)	44.00 (0.44)	40.58 (0.26)
	Strict (official) definition		
Unemployment	25.97 (0.33)	22.40 (0.39)	25.07 (0.31)
Labour force participation rate	54.17 (0.27)	56.95 (0.40)	54.31 (0.26)
	Broad definition		
Unemployment	40.69 (0.33)	35.19 (0.43)	32.55 (0.32)
Labour force participation rate	67.75 (0.25)	68.35 (0.36)	60.39 (0.25)

Source: Own calculations from the 2004 and 2007 LFSs and the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets. The data is weighted.

[5] Estimates for both the strict and broad definitions of unemployment are presented in the table but, as outlined in the previous section, comparisons of the broad unemployment rate over time should be treated with caution.

3.2 Changes in employment status by age group[6]

Changes in the absolute size of the labour force and the number of economically inactive individuals

These changes in the labour market in terms of employment have not occurred evenly across the working age population. Of the total working age population of South Africa (31.4 million in 2010), there are around 4.2 million youth between the ages of 15 and 18 (or 13.4% of the working age population) and about 5.9 million aged 19-24 (or about 18.8% of the working age population). Youth between the ages of 15 and 24 therefore make up about 32.2% of the total working age population in 2010. However, when only looking at the labour force (strictly defined), there are only 2.7 million participating young people and the youth (15-24 year olds) then only make up about 16% of the total labour force.[7]

For the younger youth demographic (15-18), for example, the number of employed is, as highlighted in the literature, almost negligible (Table 3).

In 2004 and 2007, only about 117,000 individuals (out of a total of nearly 4 million 15-18 year olds) were employed. This number was more than halved (to about 55,000) by 2010 and the data suggests that this decrease was accompanied by a dramatic reduction in job searching (i.e. an increase in labour force ***in***activity) among this group.[8] As a result, the total labour force decreased by 38% among 15-18 year olds between 2007 and 2010. The defining labour market characteristics of this younger youth age group between 2004 and 2010 were, therefore, very low levels of labour force participation, declining employment (particularly between 2007 and 2010), and a steady increase in labour force inactivity (i.e. an increase in the number of young people who do not want work and/or are not searching for work).

As would be expected, the labour force characteristics of the next youth age cohort (19-24 inclusive) are very different (Table 3). This group is more likely to be finishing their Grade 12 education and entering the labour market for the first time. In 2004, 1.17 million South Africans in this group were employed (out of a total of just over 5.5 million) and this increased to about 1.4 million in 2007 (but then decreased to 1.27 million in 2010). Between 2007 and 2010, just over 200,000 jobs were 'lost' in this age group alone. The total number of unemployed in this group remained high (about 1.2 million in each year) but relatively stable over the entire 2004-2010 period. The number of economically inactive increased slightly (but not significantly) between 2004 and 2010, with the overall result of the size of the labour force not changing substantially. The key characteristics of this age group, therefore, are high but stable numbers of unemployed labour force participants and a modest increase in the number of economically inactive over the period.

[6] Trends in ***broad*** unemployment and labour force participation are not presented in this section because of the concerns with comparability between the LFSs and the QLFSs. Estimates of changes in the labour force according to the broad definition are, however, included in the appendices.

[7] This is considerably smaller than the 20% reported by Mlatsheni & Rospabé in 2002.

[8] These estimates of the number of employed and unemployed youth (ages 15-18) are so small, however, that caution should be exercised in their interpretation. The real conclusion here is that 15-18 year olds are very unlikely to either be working or looking for work.

Looking at the next demographic range, individuals in the 25-34 (inclusive) age group are far more likely to be employed (relative to the youth age group). The number of individuals with work in this cohort increased from 3.95 million in 2004 to 4.55 million in 2007 before decreasing again in 2010 to 4.25 million. However, in addition to higher levels of employment, the 25-34 year old group also has the largest absolute number of unemployed people (both strict and broad).

The numbers of unemployed in this cohort in 2010, for example, are 1.73 and 2.44 million respectively, versus 1.28 and 1.82 million respectively for 19-24 year olds. At the same time, and as a result of both overall population growth and the effects of the financial crisis, the number of both the unemployed and the economically inactive 25-34 year olds increased by about 100,000 over the 2004 to 2010 period. There is some evidence that this group in particular, felt the effects of the crisis. Between 2007 and 2010, the data suggests that this age group alone lost about 250,000 jobs. Therefore, while youth unemployment is an important issue, the greatest absolute number of unemployed people is between the ages of 25-34.

Finally, the data in Table 3 shows that the prime working age group of 35-50 year olds has far higher levels of employment relative to all other age cohorts. About 4.68 million individuals in this group were employed in 2004 and this increased to over 5 million in 2007 and 2010. This age group is also the only one that did not experience a decrease in the total number of workers between 2007 and 2010. The total labour force increased steadily at the same time but there was a concurrent rise in the number of unemployed and economically inactive individuals between these years.

Table 3 Total labour force (strict definition), by age group (2004-2010), weighted estimates from the 2004 and 2007 LFSs and the 2010 QLFS (2nd quarter)

	2004	**2007**	**2010**
	15-18 (Inclusive)		
Employed	117,412 (10,459)	117,077 (8,953)	55,221 (6,748)
Unemployed (strict)	142,647 (10,121)	154,072 (17,343)	113,264 (9,413)
Total labour force (employed + unemployed)	260,059 (14,544)	271,149 (19,505)	168,485 (11,575)
Inactive	3,649,223 (49,123)	3,714,995 (66,509)	4,061,317 (55,432)
	19-24 (Inclusive)		
Employed	1,171,042 (33,213)	1,406,358 (61,281)	1,269,848 (34,525)
Unemployed (strict)	1,240,101 (32,630)	1,190,100 (33,224)	1,284,005 (32,814)
Total labour force (employed + unemployed)	2,411,144 (46,275)	2,596,457 (69,372)	2,553,853 (47,234)
Inactive	3,137,904 (47,953)	3,060,870 (75,498)	3,376,884 (52,616)

	25-34 (Inclusive)		
Employed	3,948,004 (65,524)	4,552,144 (113,908)	4,251,371 (64,968)
Unemployed (strict)	1,672,737 (38,968)	1,561,032 (40,638)	1,726,418 (39,481)
Total labour force (employed + unemployed)	5,620,740 (75,443)	6,113,176 (120,117)	5,977,789 (74,901)
Inactive	2,259,510 (45,855)	2,082,297 (48,952)	2,353,421 (45,229)
	35-50 (Inclusive)		
Employed	4,689,732 (63,735)	5,190,018 (135,761)	5,205,159 (65,912)
Unemployed (strict)	909,584 (26,246)	851,063 (29,508)	996,524 (28,472)
Total labour force (employed + unemployed)	5,599,316 (68,362)	6,041,081 (138,486)	6,201,683 (70,960)
Inactive	2,184,904 (40,606)	1,969,259 (42,016)	2,231,709 (40,059)
	51-64 (Inclusive)		
Employed	1,681,867 (37,663)	1,985,607 (68,488)	1,959,953 (40,560)
Unemployed (strict)	168,990 (11,013)	145,644 (10,064)	191,781 (11,965)
Total labour force (employed + unemployed)	1,850,857 (39,174)	2,131,251 (69166)	2,151,734 (42,185)
Inactive	2,086,614 (39,733)	2,139,003 (63,695)	2,322,399 (39,825)

Source: Own calculations from the 2004 and 2007 LFSs and the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets. The data is weighted.

Absorption, unemployment and labour force participation rates, by age group

These key features of the changes in labour force characteristics across the respective age groups are perhaps more evident in the estimates of the absorption, unemployment and labour force participation rates (see Table 4). In 2004, only 3% of all 15-18 year olds were absorbed into employment out of the total younger youth age population and this decreased to 1.31% in 2010. The drop in employment was accompanied by a considerable increase in the unemployment rate. Between 2007 and 2010 the percentage of the 15-18 year old labour force that was unemployed increased from 56.8% to 67.2%. At the same time, the percentage of this age group that was economically active (both employed and unemployed) in the labour market (i.e. either employed or looking for employment) also decreased (from 6.8% to about 4% between 2007 and 2010).

Table 4 Employment, unemployment and labour force participation rates (strict definition), by age group (2004-2010)

	2004	2007	2010
	15-18 (Inclusive)		
Absorption rate	3.00 (0.26)	2.94 (0.22)	1.31 (0.16)
Unemployment (strict)	54.85 (2.82)	56.82 (3.34)	67.23 (3.26)
Labour force participation rate	6.65 (0.36)	6.80 (4.47)	3.98 (0.27)
	19-24 (Inclusive)		
Absorption rate	21.10 (0.53)	24.86 (0.90)	21.41 (0.51)
Unemployment (strict)	51.43 (0.97)	45.84 (1.29)	50.28 (0.94)
Labour force participation rate	43.45 (0.61)	45.90 (0.91)	43.06 (0.60)
	25-34 (Inclusive)		
Absorption rate	50.10 (0.57)	55.54 (0.76)	51.03 (0.54)
Unemployment (strict)	29.76 (0.60)	25.54 (0.69)	28.88 (0.57)
Labour force participation rate	71.33 (0.51)	74.59 (0.59)	71.75 (0.48)
	35-50 (Inclusive)		
Absorption rate	60.25 (0.50)	64.79 (0.73)	61.72 (0.48)
Unemployment (strict)	16.24 (0.44)	14.09 (0.53)	16.07 (0.43)
Labour force participation rate	71.93 (0.46)	75.42 (0.59)	73.54 (0.42)
	51-64 (Inclusive)		
Absorption rate	42.71 (0.71)	46.50 (1.12)	43.81 (0.66)
Unemployment (strict)	9.13 (0.57)	6.83 (0.49)	8.91 (0.54)
Labour force participation rate	47.01 (0.72)	49.91 (1.11)	48.09 (0.66)

Source: Own calculations from the 2004 and 2007 LFSs and the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets. The data is weighted.

The absorption and labour force participation rates increase dramatically for the next youth age group. In both 2004 and 2010 about 21% of all 19-24 year olds were absorbed into employment. Labour force participation rates were far higher than for this younger cohort but less than half of this age group were employed or looking for work. Moreover, the unemployment rate was still just over 50% in 2010 (up from 45.8% in 2007). Compared with the older age

groups, the 19-24 cohort is still considerably overrepresented in terms of unemployment and labour market inactivity. Labour market inactivity could be explained by delayed labour market entrance due to studying, skills development or other types of training. The fact that slightly more than half of the labour force in this age group is unemployed, however, denotes a serious problem.

On the whole, the data in the table suggests a fairly clear relationship between age and the risk of unemployment. Each respective age group has a considerably lower rate of unemployment. Unemployment, for example, is only 28.9% for the 25-34 age group. The labour market situation looks even better for the 35-50 year old group. In 2010, the absorption rate was 61.7% and labour force participation was relatively high at 73.5% among 35 to 50 year olds. Unemployment is only about 16.1% for this cohort and decreased even further (to 8.9%) for the oldest working age group (51-64 inclusive).

A very high rate of unemployment is, therefore, the dominant labour market characteristic of the youth in South Africa. Over the 2004 to 2010 period, the unemployment rate for the 19-24 year old cohort is more than three times higher than unemployment for the prime working age group (35-50). While it is difficult to make any strong claims about changes in labour market characteristics over time and by age group (due to recent changes in the way labour force data is collected in South Africa), it is clear that unemployment rates have been consistently and significantly higher for young people in South Africa. The findings presented in this section have also shown that young people of a school-going age are, by and large, not active in the labour market. The weighted estimates are, in fact, so small that it is not possible to make any confident claims about the number of 15-18 year olds with employment (after accounting for the margin of statistical error).

3.3 Youth employment, unemployment, labour force participation rates by urban/rural, gender and race

The extensive literature on employment and unemployment in South Africa suggests that labour market characteristics also vary considerably by location (urban vs. rural), gender and by population group. This section examines these three variables and compares employment, unemployment and labour force participation rates of the youth with the broader working age population (age 15-64 inclusive).

Labour force status in metropolitan and non-metropolitan areas

The September 2007 LFS was the last Labour Force Survey that included a variable that can be used as a proxy for urban and rural location. The survey identifies households that are within the municipal boundaries of one of the six major metropolitan areas as 'metropolitan' and all other households as 'non-metropolitan'.[9] About 22.7% of the total population of South Africa lives in one of the major metropolitan areas. Table 5 presents estimates of the absorption,

[9] The metropolitan areas include: Cape Town, Durban, the East Rand, Johannesburg, Port Elizabeth and Pretoria.

unemployment and labour force participation rates by metropolitan area and by age group. As expected, there is far more employment and labour force activity, more generally, in metropolitan areas (relative to non-metropolitan areas). Of the total working age population in the six metro areas, over half (53.0%) are employed and the vast majority (75.9%) of 15-64 year olds are economically active. Moreover, in non-metropolitan areas, the unemployment rate is about 7 percentage points higher and only 66.1% of the working age population is economically active.

Table 5 Employment, unemployment and labour force participation rates (broad definition), by area type (2007)

	Absorption rate	**Unemployment (broad)**	**Labour force participation rate**
	15-18 (Inclusive)		
Metropolitan areas	1.82 (0.65)	88.56 (4.11)	15.93 (2.55)
Non-metropolitan areas	3.15 (0.24)	69.58 (1.95)	10.35 (0.43)
	19-24 (Inclusive)		
Metropolitan areas	33.31 (3.11)	52.08 (3.30)	69.51 (3.39)
Non-metropolitan areas	22.28 (0.64)	64.22 (0.91)	62.26 (0.68)
	Total working age population		
Metropolitan areas	53.03 (1.37)	30.11 (1.18)	75.88 (1.14)
Non-metropolitan areas	41.27 (0.35)	37.55 (0.39)	66.09 (0.32)

Source: Own calculations from the 2007 LFS
Notes: Standard errors in brackets. The data is weighted.

Young people in non-metropolitan areas appear to be at a particularly high risk of unemployment. The unemployment rate is an astonishing 64.2% for 19-24 year olds in non-metropolitan areas (compared with 52.1% for the same group in the major metropolitan areas). Young people in this age group from metro areas are also far more likely to be employed (33.3%) or active in the labour market (69.5%). One unexpected finding, however, is that young people of a school-going age (15-18) appear to have more success in finding employment in ***non***-metropolitan areas. The youth in this group have a lower labour force participation rate (10.4%) than their metropolitan counterparts (15.9%) but have a higher absorption rate (3.2%) and a far lower unemployment rate (69.6%, compared with 88.9% in metro areas). One possibility that might explain this outcome (to be explored later in this report) is that some of these young people may be active in agricultural work (both formal and informal) while they are enrolled in school. Once again, however, the numbers of economically active 15-18 years olds is so small that any conclusions based on weighted estimates must be treated with caution.

Gender differences in employment, unemployment and labour force participation

In South Africa, women face a number of disadvantages in the labour market more generally (Casale, 2004; Casale & Posel, 2002) and the gender difference in access to employment seems to be even wider among the youth (see

Table 6). While all working age women are far less likely to be employed (34.5%) than men (47.3%), the gender gap in employment is greater in the 19-24 year old cohort (compared with the gender gap in the total working age population). The absorption rate, for example, is 44.1% higher (or 7 percentage points, in absolute terms) for men than for women in this age category (25.3% and 17.5% respectively). Moreover, the unemployment rate is 14.4% higher for women than for men among the youth (19-24) (63.2% and 55.3% respectively).

Table 6 Employment, unemployment and labour force participation rates (broad definition), by gender (2010)

	Absorption rate	**Unemployment (broad)**	**Labour force participation rate**
	15-18 (Inclusive)		
Men	1.81 (0.24)	70.70 (3.30)	6.19 (0.44)
Women	0.78 (0.21)	86.04 (3.34)	5.62 (0.47)
	19-24 (Inclusive)		
Men	25.27 (0.77)	55.29 (1.15)	56.51 (0.86)
Women	17.54 (0.67)	63.22 (1.21)	47.70 (0.85)
	Total working age population		
Men	47.28 (0.39)	29.70 (0.43)	67.25 (0.35)
Women	34.45 (0.34)	36.33 (0.47)	54.10 (0.36)

Source: Own calculations from the 2007 LFS
Notes: Standard errors in brackets. The data is weighted.

The lower rate of employment for young women (and working age women more generally) is also explained by the far lower rates of labour force participation. Just under half (47.7%) of women aged 19-24 are economically active and this percentage increases to only 54.1% among all working age women. Most working age men, on the other hand, participate in the labour market (56.5% of 19-24 year olds and 67.3% of all working age men). Among the school-going youth (15-18), however, the gender difference in labour force participation is much smaller. About 6.2% of men in this age group are economically active and the percentage is only marginally lower for women (5.6%). While there are still fairly large gender differences in employment and unemployment (i.e. men are far more likely to be working and far less likely to be unemployed), the data suggests that there is very little difference in the likelihood of being economically active between men and women in the youngest age cohort.

Racial differences in employment, unemployment and labour force participation

Given the legacy of apartheid, differences in employment and unemployment by population group are often of particular interest to an analysis of the labour market. Table 7 presents weighted estimates of absorption, broad unemployment and labour force participation rates by population group, gender and age group. First and foremost, the findings show that, in line with virtually all labour market studies in post-apartheid South Africa, unemployment is far (and significantly) higher for black South Africans and for black women. According to data from the 2010 QLFS, 42.4% of economically active black women were unemployed. This is the highest level of unemployment for any group and is more than five times higher than the unemployment rates for white men (7.9%) and women (7.7%).

Among 19-24 year olds, the unemployment rate is even higher with 60.1% of economically active black men and 71.2% of women without work. Labour force participation rates are also considerably (and significantly) lower for young black South Africans. Only about 54.3% of young (19-24) black men are economically active and less than half (44.8%) of young black women are available for work. White South Africans in this age group also have relatively low rates of labour force participation (compared with coloured and Indian South Africans) but, given the historical context in South Africa, this population group is far more likely than the other groups to delay their entrance to the labour market because they are extending their education (e.g. attending university). Young white South Africans who are active in the labour market are, moreover, far more likely to be employed than young black South Africans. The absorption rates for white South Africans aged 19-24 are 45.1% and 48.2% for men and women respectively. In contrast, the absorption rate for young black women is only 12.9%. Finally, the labour force participation rates for school-going age youth are low across all population groups. Coloured men and women in this group appear to be more active (19.5% and 11.5% for men and women respectively) in the labour market compared with the other race groups, but the numbers behind the weighted estimates are, again, very small.

Table 7 Employment, unemployment and labour force participation rates (broad definition), by gender, race and age group (2010)

	15-18 (Inclusive)		**19-24 (Inclusive)**		**Total working age population**	
	Men	**Women**	**Men**	**Women**	**Men**	**Women**
	Blacks					
Absorption rate	1.44 (0.24)	0.76 (0.23)	21.67 (0.80)	12.91 (0.62)	42.18 (0.44)	30.43 (0.37)
Unemployment (broad)	71.72 (3.98)	84.56 (4.24)	60.11 (1.27)	71.20 (1.24)	34.53 (0.52)	42.44 (0.54)
Labour force participation rate	5.11 (0.44)	4.95 (0.47)	54.31 (0.93)	44.84 (0.91)	64.43 (0.41)	52.87 (0.40)
	Coloureds					
Absorption rate	5.26 (1.27)	0.74 (0.39)	39.95 (2.60)	35.12 (2.42)	56.31 (1.08)	43.82 (1.00)
Unemployment (broad)	73.04 (5.94)	93.59 (3.36)	47.71 (3.02)	46.40 (3.09)	26.04 (1.11)	25.54 (1.13)
Labour force participation rate	19.53 (2.49)	11.54 (1.82)	76.41 (2.30)	65.51 (2.47)	76.14 (0.89)	58.85 (0.99)

	Indians					
Absorption rate	3.19 (2.35)	1.38 (1.38)	46.27 (7.02)	40.53 (7.67)	66.24 (2.33)	42.20 (2.38)
Unemployment (broad)	67.52 (19.72)	63.69 (32.71)	22.01 (5.68)	31.81 (8.84)	11.21 (1.63)	14.93 (2.44)
Labour force participation rate	9.81 (3.96)	3.80 (2.75)	59.33 (7.59)	59.44 (7.07)	74.60 (2.20)	49.61 (2.41)
	Whites					
Absorption rate	2.13 (1.21)	0.93 (0.67)	45.11 (4.01)	48.16 (4.07)	71.92 (1.30)	56.17 (1.38)
Unemployment (broad)	29.08 (18.98)	87.86 (9.28)	23.59 (4.63)	18.35 (4.09)	7.94 (0.90)	7.73 (0.91)
Labour force participation rate	3.00 (1.36)	7.63 (3.18)	59.04 (3.94)	58.98 (3.99)	78.12 (1.19)	60.88 (1.36)

Source: Own calculations from the 2010 QLFS (2nd quarter) *Notes:* Standard errors in brackets. The data is weighted.

3.4 Description of sectors, industries and occupations that are currently absorbing the youth

Employment sectors by gender and age group

Turning now to the youth who have some type of employment, the data offers a fairly clear picture of the type of employment categories and sectors which are absorbing young workers. Given the low levels of employment (and high rates of unemployment) among the youth, one of the key questions is whether many of these young people turn to informal work as a way to support themselves. Statistics South Africa employs a worker-based definition of informal work which includes both employees (working for unregistered enterprises or working for a formal business but without a written contract and benefits) and the self-employed/own-account workers (whose enterprises are small and not registered for income tax or value added tax (VAT)).

Table 8 presents estimates of the broad sector of employment among the employed, by gender and age group. There are four categories presented in the table. Formal and informal work includes, as outlined above, both employees and the self-employed. Agriculture and private households include both formal and informal types of work. It is possible to disaggregate both of these categories further (depending on, for example, whether domestic workers in private households have a written contract with their employer and receive basic benefits), however, the aim of this section is to identify the broad sector of work in which the youth are employed. As the table suggests, most workers of a school-going age (15-18) are employed in the formal sector. Roughly 45% of both men and women in this age group are found in some type of non-agricultural formal work (either as wage earners of self-employed).

Beyond the broad category of formal work, there are some important differences by gender in this age category. Non-agricultural informal work contributes much more to employment for women (38.4%) than for men (28%) of this age. Nearly a fifth of men between the ages of 15 and 18 with employment, on the other hand, are involved in agricultural work of some type (compared with only 1.8% of women). Given the traditional role of domestic work as a large employer of black women in South Africa, it is not surprising that many women of a school-going age (14.8%) are

found in this type of employment. Thus the somewhat higher absorption rate for youth of a school-going age in non-metropolitan areas (relative to metropolitan areas) could be due, in large part, to agricultural work (and possibly domestic work). The numbers of employed in this age category are, once again, too small to disaggregate further, but the findings from Table 8 are suggestive of the role of agriculture in employing young men in particular.

The next category of youth (19-24) exhibits a much higher take-up of work in the formal sector. The majority of this group with employment report non-agricultural formal work as their main type of employment (73.3% of men and 68.1% of women). In fact, the overall contribution of formal work to total employment (70.6%) is marginally higher than for the total workforce (69.4%). One difference for the 19-24 year old group, however, is that employed women in this cohort are much more likely to have formal work (68.1%) compared with employed women of all ages (only 63.6%). This difference is explained largely by the fact that younger women appear to be less likely to be employed by private households (only 8.4%) compared with the workforce as a whole (16.1%). On the other hand, the distribution of young men (aged 19-24) across these four employment categories is similar to the total workforce.

Table 8 Employment sector[10] by age group and gender (2010)

	Men	**Women**	**Total**
	15-18 (Inclusive)		
Formal work (excl. agriculture)	45.88 (6.64)	45.02 (12.67)	45.62 (6.00)
Informal work (excl. agriculture)	27.97 (6.19)	38.39 (14.24)	31.05 (6.25)
Agriculture	19.53 (5.00)	1.80 (1.83)	14.30 (3.72)
Private households	6.62 (4.08)	14.80 (7.10)	9.03 (3.50)
Total	**100.00**	**100.00**	**100.00**
	19-24 (Inclusive)		
Formal work (excl. agriculture)	73.28 (1.53)	68.13 (1.89)	70.64 (1.19)
Informal work (excl. agriculture)	18.52 (1.28)	17.30 (1.49)	18.02 (0.97)
Agriculture	5.41 (0.68)	6.20 (0.89)	5.74 (0.54)
Private households	3.68 (0.79)	8.37 (1.14)	5.60 (0.66)

[10] **Informal employment** identifies persons who are in precarious employment situations irrespective of whether or not the entity for which they work is in the formal or informal sector. Persons in informal employment therefore consist of all persons in the informal sector; employees in the formal sector; and persons working in private households who are not entitled to basic benefits such as pension or medical aid contributions from their employer, and who do not have a written contract of employment.

Informal sector: The informal sector has the following two components:
i) Employees working in establishments that employ less than five employees, who do not deduct income tax from their salaries/wages; and
ii) Employees, own-account workers and persons helping unpaid in their household business who are not registered for either income tax or value-added tax. (Statistics South Africa, 2010)

Total	**100.00**	**100.00**	**100.00**
	Total working age population		
	Total working age population		
Formal work (excl. agriculture)	74.08 (0.50)	63.57 (0.59)	69.42 (0.39)
Informal work (excl. agriculture)	16.78 (0.43)	16.53 (0.46)	16.67 (0.31)
Agriculture	5.69 (0.24)	3.79 (0.21)	4.85 (0.16)
Private households	3.45 (0.21)	16.12 (0.44)	9.06 (0.23)
Total	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets. The data is weighted.

Table 9 explores further the type of employment by considering the nature of employment by age group and gender. These four categories do not distinguish between formal and informal work, but they do identify, in greater detail, the type of employment in which the youth are engaged. The categories are relatively intuitive but several important distinctions should be made clear at the outset. A wage earner is classified as a worker that receives a wage from her or his employer. An employer works for her/himself and also employs other workers. An own-account worker also works for her/himself but does not employ any other workers. Finally, those helping *unpaid* in their own household are identified as a separate category of employment.

Table 9 Type of employment by age group and gender (2010)

	Men	Women	Total
	15-18 (Inclusive)		
Wage earner	82.86 (5.51)	62.72 (14.40)	76.91 (6.22)
Employer	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Own-account worker	3.71 (1.98)	4.02 (2.97)	3.80 (1.64)
Helping unpaid in the household	13.43 (5.32)	33.26 (14.83)	19.29 (6.24)
Total	**100.00**	**100.00**	**100.00**
	19-24 (Inclusive)		
Wage earner	91.16 (0.92)	90.47 (1.26)	90.88 (0.75)
Employer	1.74 (0.43)	0.17 (0.12)	1.10 (0.26)
Own-account worker	5.54 (0.76)	7.60 (1.18)	6.38 (0.66)
Helping unpaid in the household	1.56 (0.35)	1.76 (0.49)	1.64 (0.29)
Total	**100.00**	**100.00**	**100.00**
	Total working age population		
Wage earner	83.62 (0.45)	85.70 (0.44)	84.54 (0.32)
Employer	7.47 (0.33)	2.38 (0.20)	5.21 (0.21)
Own-account worker	8.32 (0.32)	10.66 (0.38)	9.36 (0.24)
Helping unpaid in the household	0.60 (0.09)	1.26 (0.16)	0.89 (0.09)
Total	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets. The data is weighted.

Not surprisingly, the vast majority (76.9%) of all school-going youth with employment are wage earners. There is a clear gender difference in this age group, however, since about a third of women report their main work as helping unpaid in the household (compared with only 13.4% of men). While there are no employers among the school-going group with employment, nearly 4% are classified as own-account workers and this does not differ significantly between men and women.

In the 19-24 youth category, there is a far higher contribution from employment from wage earning. The vast majority of this age group (90.8%) are employees and very few (only 6.4%) have created their own employment or employ others (only 1.1%). This age group depends, to a very large extent, on earning wages compared with the total workforce. Of the total workforce, 84.5% rely on wages while 5.2% are employers and just under 10% work for

themselves. Given the slow pace of job creation relative to the growth in the labour force in South Africa (and particularly for the youth) it is especially alarming that youth (both 15-18 year olds and the 19-24 age group) are unlikely to make their own work. Promoting entrepreneurship is one of the key strategies by government to address unemployment but the data suggests that there is much work to be done to encourage the youth to create their own employment.

Table 10 presents data on one final type of employment sector and highlights, in particular, gender differences in the type of work. The main sector which employs both groups of youth is private enterprises. About 88.4% of men and about 82% of women in both the 15-18 and 19-24 age groups are employed (including wage earners, employers, and own-account workers) based in private enterprises. Among the youngest age group, it is not surprising that there is very little employment in other types of businesses and that the second largest employer is the private household. Nearly 15% of women and 8.2% of men in the school-going age group are employed by private households.

Table 10 Type of business by age group and gender (2010)

	Men	**Women**	**Total**
	15-18 (Inclusive)		
Government	3.39 (2.39)	2.32 (2.35)	3.08 (1.83)
Government controlled	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Private enterprise	88.41 (4.79)	82.88 (7.54)	86.78 (3.99)
Non-profit organisation	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Private household	8.19 (4.31)	14.80 (7.10)	10.14 (3.46)
Total	**100.00**	**100.00**	**100.00**
	19-24 (Inclusive)		
Government	5.47 (0.82)	7.87 (1.03)	6.45 (0.64)
Government controlled	1.39 (0.40)	0.98 (0.38)	1.22 (0.28)
Private enterprise	88.44 (1.21)	81.36 (0.56)	85.54 (0.96)
Non-profit organisation	0.22 (0.11)	0.82 (0.26)	0.47 (0.13)
Private household	4.47 (0.87)	8.98 (1.18)	6.31 (0.70)
Total	**100.00**	**100.00**	**100.00**
	Total working age population		
Government	11.40 (0.33)	17.18 (0.45)	13.96 (0.27)
Government controlled	2.14 (0.17)	1.49 (0.16)	1.85 (0.12)

Private enterprise	81.19 (0.44)	63.50 (0.59)	73.35 (0.36)
Non-profit organisation	0.59 (0.10)	1.14 (0.12)	0.83 (0.08)
Private household	4.62 (0.25)	16.65 (0.45)	9.95 (0.25)
Total	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets. The data is weighted.

For the 19-24 year old group, there is almost no change in the contribution of private enterprises to youth employment, but there is a notable decrease in the take-up of work in private households combined with an increase in government employment. Compared with the total workforce, however, youth (19-24) with employment are far less likely to be in government and this is because they are largely employed in private enterprises (both formal and informal). For women in the 19-24 year old group, the biggest difference from the total workforce is that they are far less likely to work in either government or private households and are, instead, far more concentrated in private enterprises (81.4% of all employed women aged 19-24).

Some key differences between the two youth age groups and between men and women notwithstanding, youth (both 15-18 year olds and 19-24 year olds) with employment are largely concentrated in formal work, depend on wages from employers, and mostly work for private enterprises. Work based in private households, while still a strong characteristic of youth employment, appears to be somewhat less important than for the workforce as a whole. In particular, young women with employment in the 19-24 year old group are far less likely to work in private households (10%) compared with the female workforce as a whole (16.7% of all employed women work in private households). From a policy perspective, perhaps the most important conclusion from this section is that the youth are largely dependent on wage work (often in the formal sector) and are relatively unlikely to be entrepreneurs or self-employed (i.e. an employer or an own-account worker). This is not necessarily surprising (and is in line with much of the existing work on the labour market in South Africa) but it points to a crucial gap between policy and practice.

Key industries and occupations that absorb the youth

Based on Statistics South Africa's Standard Industrial Classification (SIC) for all economic activities, both the bi-annual LFSs and the QLFSs provide ten industry categories for the employed.

Table 11 presents a breakdown of these industry categories by the two youth groups (15-18 and 19-24) and Table 12, for the purposes of comparison, shows the same distribution for the total workforce. The data presented in both tables is from the most recent publicly available QLFS (2nd quarter of 2010).

The data suggests that there are some important differences both by gender and by age group. In the youngest age group, for example, the agricultural and construction industries are important employers for young men (19.5% each). The single largest industry for this age group overall, however, is wholesale and retail and this industry employs

38.6% of all employed youth of a school-going age. In particular, the industry employs the majority of women in this age group (60.7%, as well as 29.3% of men). Once again, private households employ a larger percentage of young women (15-18 years of age) compared with young men (14.8% and 6.6% respectively). Financial services (including business services) are a relatively large employer of women in this age group (10.6%) compared with men (only 3.7% of men work in financial and business services).

Turning to the next group (19-24) there are some important changes in the distribution of the employed. The single largest employer of young women in this group is still wholesale and retail but the employment contribution of this industry decreases to about a third of all employed women in this age group. Women in this age cohort tend to shift away from domestic work in private households and move, in particular, towards financial and business services (16.9%), community, social and personal services (19.1%) and manufacturing (10.6%). For men, there is a similar move away from agriculture and construction (relative to employed men aged 15-18) and towards financial and business services (17%) and manufacturing (14.8%).

Table 11 Industry category among the youth, by gender (2010)

	Men	Women	Total
	15-18 (Inclusive)		
Agriculture, forestry and fishing	19.53 (5.00)	1.80 (1.83)	14.30 (3.72)
Mining	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Manufacturing	6.30 (2.65)	2.20 (2.23)	5.09 (2.00)
Electricity, gas and water	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Construction	19.46 (4.89)	0.00 (0.00)	13.71 (3.59)
Wholesale and retail	29.28 (6.60)	60.72 (11.56)	38.57 (6.42)
Transport, storage and communication	7.27 (3.40)	0.00 (0.00)	5.13 (2.43)
Financial services (incl. business services)	3.68 (2.12)	10.57 (6.29)	5.71 (2.37)
Community, social and personal services	7.86 (3.23)	9.90 (5.29)	8.47 (2.75)
Private households	6.62 (4.08)	14.80 (7.10)	9.03 (3.50)
Total	**100.00**	**100.00**	**100.00**
	19-24 (Inclusive)		
Agriculture, forestry and fishing	5.41 (0.68)	6.20 (0.89)	5.74 (0.54)
Mining	1.74 (0.36)	0.68 (0.28)	1.31 (0.24)
Manufacturing	14.78 (1.26)	10.62 (1.33)	13.08 (0.92)
Electricity, gas and water	1.15 (0.46)	0.13 (0.10)	0.73 (0.27)
Construction	14.19 (1.26)	1.66 (0.50)	9.07 (0.79)
Wholesale and retail	26.24 (1.56)	33.07 (1.97)	29.04 (1.22)
Transport, storage and communication	6.94 (0.85)	3.29 (0.67)	5.45 (0.57)
Financial services (incl. business services)	17.00 (1.45)	16.90 (1.89)	16.96 (1.15)
Community, social and personal services	8.77 (0.95)	19.07 (1.58)	12.98 (0.87)
Private households	3.68 (0.79)	8.37 (1.14)	5.60 (0.66)
Total	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets. The data is weighted.

Compared with the total workforce (Table 12), the youth are, therefore, somewhat overrepresented in wholesale and retail, agriculture (for men aged 15-19), financial services, and construction (for men). The industry data also shows that young women (19-24) are, once again, less likely to work for private households compared with the overall workforce. Instead, women in this group are largely concentrated in wholesale and retail, financial and business services and community and personal services.[11]

Table 12 Industry category among the working age population, by gender (2010)

	Men	**Women**	**Total**
	Total working age population		
Agriculture, forestry and fishing	5.69 (0.24)	3.79 (0.21)	4.85 (0.16)
Mining	3.81 (0.26)	0.61 (0.08)	2.39 (0.15)
Manufacturing	15.40 (0.43)	9.98 (0.37)	12.99 (0.29)
Electricity, gas and water	1.06 (0.12)	0.32 (0.08)	0.73 (0.08)
Construction	12.61 (0.40)	1.99 (0.18)	7.90 (0.24)
Wholesale and retail	20.15 (0.47)	24.96 (0.54)	22.28 (0.36)
Transport, storage and communication	8.36 (0.35)	2.49 (0.19)	5.76 (0.21)
Financial services (incl. business services)	13.99 (0.44)	12.00 (0.44)	13.11 (0.31)
Community, social and personal services	15.48 (0.40)	27.64 (0.54)	20.87 (0.33)
Private households	3.45 (0.21)	16.12 (0.44)	9.06 (0.23)
Total	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets.The data is weighted.

Beyond the broad industry sectors, it is also possible to provide a more nuanced analysis of the types of work that the youth are actually doing. The QLFS identifies ten broad occupational categories based on the International Standard Classification of Occupations (ISCO). Table 13 gives a breakdown of these occupational categories, once again, by age group and gender. While the categories are fairly broad, they do give some indication of the level of skills and remuneration associated with each respective age cohort.

As with the industry categories, there are some important differences in the type of work that men and women do. The most common occupational category for the youngest category of male workers is, by far, elementary

[11] The South African economy has been through a structural transformation with a large proportionate increase in the services sector. It is therefore hardly surprising that proportionately younger people are concentrated in services.

occupations (53.4%). This category includes a large number of occupations but is generally characterised by low skilled and poorly paid work. The remainder of the 15-18 year old male workforce is comprised largely of craft and related tradesmen (14.3%) and service workers (21.1%). Women in the youngest age group, on the other hand, are concentrated largely in services (42.8%) and elementary occupations (28.6%) but with a considerable number also employed in domestic work (11.8%) and as clerks (12.4%).

Table 13 Occupational category among the youth, by age group and gender (2010)

	Men	**Women**	**Total**
	15-18 (Inclusive)		
Legislators, senior officials and managers	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Professionals	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Technical and associate professionals	3.39 (1.98)	4.41 (4.37)	3.69 (1.90)
Clerks	5.48 (3.33)	12.40 (6.42)	7.53 (2.98)
Service workers, shop and market sales	21.11 (6.22)	42.80 (13.26)	27.52 (6.40)
Skilled agriculture and fishery	1.14 (0.82)	0.00 (0.00)	0.80 (0.58)
Craft and related trades	14.26 (4.14)	0.00 (0.00)	10.05 (3.00)
Plant and machine operators	1.23 (1.23)	0.00 (0.00)	0.87 (0.87)
Elementary occupations	53.39 (6.71)	28.62 (10.76)	46.08 (6.01)
Domestic workers	0.00 (0.00)	11.77 (6.40)	3.47 (1.87)
Total	**100.00**	**100.00**	**100.00**
	19-24 (Inclusive)		
Legislators, senior officials and managers	3.53 (0.85)	1.54 (0.49)	2.72 (0.54)
Professionals	3.36 (0.66)	4.27 (0.90)	3.73 (0.53)
Technical and associate professionals	8.31 (1.00)	9.55 (1.21)	8.82 (0.77)
Clerks	8.92 (0.99)	24.70 (1.90)	15.37 (1.00)
Service workers, shop and market sales	16.85 (1.34)	25.08 (1.94)	20.21 (1.13)
Skilled agriculture and fishery	0.48 (0.23)	0.19 (0.13)	0.36 (0.15)
Craft and related trades	18.91 (1.35)	2.29 (0.58)	12.11 (0.86)
Plant and machine operators	7.91 (0.92)	2.73 (0.59)	5.79 (0.60)

Elementary occupations	31.39 (0.67)	22.60 (1.70)	27.79 (1.22)
Domestic workers	0.36 (0.17)	7.06 (0.98)	3.10 (0.42)
Total	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets. The data is weighted.

Some of the notable differences between this youngest age group and the 19-24 year old cohort include: an overall decrease in the contribution of elementary occupations to employment, an increase in employment in management, professional and technical occupations, a move away from services, and, for women, a decrease in domestic work. In comparison with the total workforce (see Table 14), however, the 19-24 year old group is still clearly overrepresented in low paid occupational categories such as clerks, services (which includes shop workers and sales), and elementary occupations (particularly for men).

Table 14 Occupational category among the working age population, by gender (2010)

	Men	**Women**	**Total**
	Total working age population		
Legislators, senior officials and managers	9.94 (0.38)	4.82 (0.28)	7.67 (0.25)
Professionals	5.71 (0.31)	5.83 (0.32)	5.77 (0.22)
Technical and associate professionals	8.56 (0.32)	14.18 (0.43)	11.05 (0.26)
Clerks	6.28 (0.29)	17.42 (0.49)	11.22 (0.27)
Service workers, shop and market sales	14.05 (0.41)	14.81 (0.44)	14.39 (0.30)
Skilled agriculture and fishery	1.07 (0.12)	0.64 (0.11)	0.88 (0.08)
Craft and related trades	19.18 (0.47)	3.08 (0.20)	12.04 (0.29)
Plant and machine operators	12.58 (0.38)	2.61 (0.19)	8.16 (0.23)
Elementary occupations	22.11 (0.49)	21.24 (0.49)	21.73 (0.35)
Domestic workers	0.50 (0.07)	15.35 (0.43)	7.08 (0.20)
Total	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets.
The data is weighted.

On the whole, the youth with employment (both 15-18 and 19-24 year old groups) are therefore mostly concentrated into sectors which require few skills and pay relatively poorly. While there are some differences between the

youngest cohort and the 19-24 year old group, the main comparison with the overall workforce suggests the youth, together with the disadvantage of much higher rates of unemployment, are absorbed mostly by elementary occupations, low paying jobs in the retail and wholesale sector and, particularly for young men, by the craft and related trades sector.

3.5 Job security/working conditions of the youth (with employment)

In terms of the nature of employment for youth in South Africa, it would appear their job security is slightly more tenuous than the workforce as a whole.

Table 15 documents the percentage of wage workers (by age group and gender) that have a written contract, paid leave, medical aid provided by their employer and pension contribution.

Table 15 Employment security among employees and wage workers by age group and gender (2010)

	Men	**Women**	**Total**
	15-18 (Inclusive)		
Written contract	42.50 (7.14)	32.06 (11.13)	39.99 (6.12)
Paid leave	16.95 (5.25)	19.91 (9.44)	17.67 (4.58)
Medical aid	2.63 (1.99)	0.00 (0.00)	2.00 (1.51)
Pension contribution	4.68 (2.72)	8.05 (5.62)	5.49 (2.47)
	19-24 (Inclusive)		
Written contract	70.00 (1.73)	73.36 (1.98)	71.37 (1.30)
Paid leave	41.32 (1.86)	44.59 (2.26)	42.66 (1.44)
Medical aid	13.15 (1.31)	15.66 (1.83)	14.17 (1.08)
Pension contribution	23.56 (1.56)	25.00 (1.89)	24.15 (1.20)
	Total working age population		
Written contract	79.82 (0.52)	76.07 (0.57)	78.14 (0.38)
Paid leave	62.00 (0.63)	58.67 (0.65)	60.51 (0.45)
Medical aid	32.00 (0.61)	30.22 (0.62)	31.20 (0.44)
Pension contribution	47.79 (0.65)	42.38 (0.66)	45.36 (0.46)

Source: Own calculations from the 2010 QLFS (2nd quarter) *Notes:* Standard errors in brackets. The data is weighted.

Not surprisingly, less than half (40%) of school-going age employed youth have a written contract. About 17.7% are entitled to paid leave from their employer and very few receive medical aid coverage or a pension contribution (2.0% and 5.5% respectively). Working conditions for the 19-24 year old group are much more stable and most employees (71.4%) are employed on the basis of a written contract. Among this group, 42.7% receive paid leave and a much larger percentage (relative to the younger age group) has medical aid or a pension contribution (14.2% and 24.2%, respectively).

On the whole, these two groups of youth are far less likely to have the security of a written contract or receive benefits from their employers compared with other age groups. Across the total workforce that works for a wage, 78.1% has a written contract and most employees (60.5%) are entitled to paid leave. Access to a medical aid package or a pension contribution is less common (31.2% and 45.4%), but most workers are still far more likely to receive these benefits than wage workers between the ages of 15 and 24.

Table 16 gives an indication of the level of formality reported by the self-employed, own-account workers and employers. Since the numbers of 15-18 year olds that are self-employed are so small, it is not possible to make any claims about this particular group (e.g. the standard errors in the first two rows of the table are, in most cases, larger than their accompanying percentages). The weighted estimates for the 19-24 year old group are also fairly small, but it is still possible to identify some of the key characteristics. As would be expected, the self-employed and own-account workers in this group are unlikely to be registered either for VAT (7.9%) or tax (14.5%). Registration for VAT or income tax overall is relatively low (less than a third of all self-employed or employers) but it is still considerably higher than for the youth.

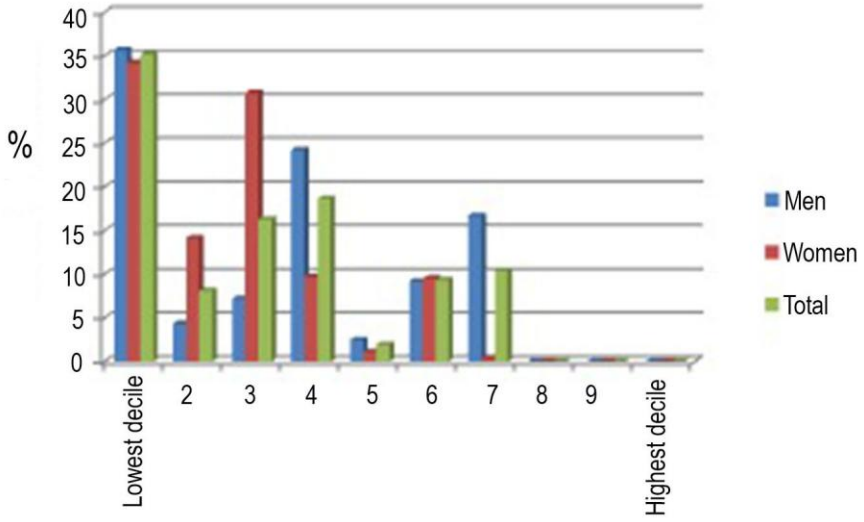
Table 16 Enterprise registration among own-account workers and employers by age group and gender (2010)

	Men	**Women**	**Total**
	15-18 (Inclusive)		
Registered for VAT	7.20 (7.15)	0.00 (0.00)	3.77 (3.83)
Registered for tax	7.20 (7.15)	10.78 (11.30)	8.91 (6.47)
	19-24 (Inclusive)		
Registered for VAT	6.54 (2.24)	9.64 (4.88)	7.87 (2.47)
Registered for tax	11.94 (3.27)	17.87 (7.11)	14.48 (3.64)
	Total working age population		
Registered for VAT	31.37 (1.43)	14.35 (1.21)	24.39 (1.00)
Registered for tax	37.38 (1.47)	19.07 (1.37)	29.88 (1.05)

Source: Own calculations from the 2010 QLFS (2nd quarter) *Notes:* Standard errors in brackets. The data is weighted.

Given the considerably lower levels of job security, benefits and formality amongst youth that earn wages or are self-employed, it is not surprising that youth earnings are far lower than for the workforce as a whole. Much of the difference in earnings would, of course, be explained by less work experience and possibly by lower levels of education (particularly for the 15-18 year old group). Unfortunately, the recent QLFSs do not capture any data on wages, but NIDS does capture comprehensive information on income and earnings from a number of different sources. Figure 1 presents an earnings decile distribution among all youth (15-18) with employment who reported at least some level of earnings.[12] The main finding is that workers in this age group are quite clearly concentrated in the lower earnings groups. For example, 35% of these young workers are in the bottom 10% of all earners in South Africa. Moreover, the vast majority (80%) of all 15-18 year olds with employment are in the bottom half of the earnings distribution. While 20% are in the top half, none of these workers are in the top 30% of earners (i.e. there are no 15-18 year olds in the three highest earnings deciles).

Figure 1 Earnings distribution among youth (15-18) by gender (2008)

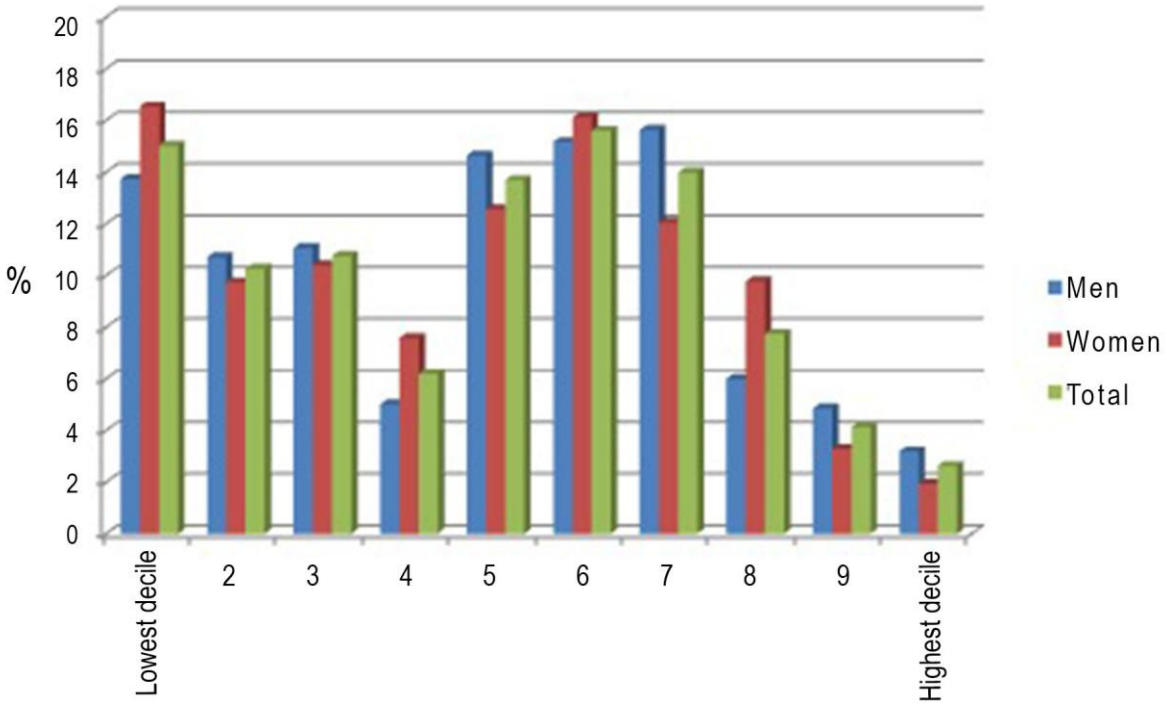


Source: Own calculations from the 2008 National Income Dynamics Study (wave 1)
Notes: The data is weighted.

Earnings are far more evenly distributed for the 19-24 year old group with employment, but these workers are still overrepresented in the bottom half of the distribution (Figure 2). About 14% of men and 16.5% of employed women are in the lowest earning decile and 56% of all workers in this age group are in the bottom half (i.e. the lowest earning half) of the earnings distribution. One key difference for this age group is that, while they are also largely concentrated in the lower earnings groups, they are much more likely to be in the sixth and seventh earnings deciles compared with the youngest cohort.

[12] Workers who reported employment but no earnings (e.g. unpaid family workers) were excluded from the earnings distribution.

Figure 2 Earnings distribution among youth (19-24) by gender (2008)



Source: Own calculations from the 2008 National Income Dynamics Study (wave 1)
Notes: The data is weighted.

The youth with employment are, on the whole, less likely to have secure employment (e.g. a written contract) and are considerably less likely to receive basic benefits from their employers. Among the very few youth who work for themselves or who are employers, most have not registered their enterprises for VAT or income tax and are therefore classified as informal enterprises. Not surprisingly, this rather tenuous link with employment or work is also associated with lower earnings. The earnings distributions showed that both groups of youth workers earn less than most other age groups with employment and that the youngest group, in particular, earns very low wages relative to the total workforce with employment.

3.6 Skills/capacity of the youth

The level of skills and capacity of the youth, and particularly those without employment, is currently one of the key concerns of government. In light of the recent claim that a third of all 15-24 year old South Africans were neither employed nor attending an educational institution (Cloete, 2009), government has increased its focus on the further education and training (FET) sector. This section considers both the work experience of the youth and the work-

related skills that they possess. Table 17 begins by profiling the work experience[13] of the broadly unemployed (all those who wanted work but did not have a job) by age group and gender.

It is not surprising that, given their age, the vast majority of 15-18 year olds who are unemployed (81.5%) are new entrants to the labour force and have no work experience at all. Nearly 10%, however, are job losers and have, therefore, had some type of work in the past. An additional 6.8% are re-entrants who have had some type of work in the past but whose main activity prior to searching for work was unpaid work in the home or attending school.

By the ages of 19-24, 69.9% of the unemployed have still never had any type of work. A slightly greater percentage of unemployed women fall into this category of no work experience while unemployed men are considerably more likely (19.7%) to be unemployed because they have lost a job. As with the youngest age group, the unemployed between the ages of 19 and 24 are very unlikely to have left a job (3.7%) for any reason. While an additional 9% of the broadly unemployed are re-entrants to the labour force, it is clear that the vast majority have never worked at all.

Given the generally high levels of unemployment in South Africa, there is also a large percentage of the unemployed among the total labour force that has never worked (44.9%) but the youth (15-24) are far more likely to have no work experience at all. Another worrying feature of the unemployed labour force as a whole is that nearly a quarter (23.2%) is unemployed because of a job loss and 14.4% have not worked at all over the past five years. Once again, however, the defining feature of unemployed youth (both the 15-18 and 19-24 year old groups) is a lack of any work experience at all. The vast majority of these young people who want work have never had a job and are considered new entrants to the labour market.

[13] **New entrants** into unemployment are people who were unemployed during the reference period and had never worked before;
Job losers are unemployed people who had been working during the five years prior to becoming unemployed and had lost their jobs; or they had been laid off; or the business in which they had previously worked had been sold or had closed down;
Job leavers are those among the unemployed who had been working during the five years prior to becoming unemployed and had stopped working for any one of a number of different reasons;
Unemployed re-entrants to the labour force are unemployed people who worked before and whose main activity before looking for work was either managing a home or going to school; and **Last worked more than five years prior to the interview** by StatsSA.

Table 17 Work experience of the broadly unemployed, by age group and gender (2010)

	Men	Women	Total
	15-18 (Inclusive)		
Job loser	8.66 (2.28)	9.77 (3.45)	9.23 (2.10)
Job leaver	2.38 (1.37)	1.62 (1.11)	1.99 (0.88)
New entrant	80.50 (3.41)	82.42 (3.83)	81.49 (2.47)
Re-entrant	7.38 (2.29)	6.19 (1.88)	6.77 (1.48)
Last worked > 5 years ago	1.08 (1.07)	0.00 (0.00)	0.52 (0.52)
Total	**100.00**	**100.00**	**100.00**
	19-24 (Inclusive)		
Job loser	19.74 (1.21)	12.90 (1.00)	16.39 (0.79)
Job leaver	2.64 (0.59)	4.88 (0.67)	3.74 (0.45)
New entrant	68.13 (1.40)	71.65 (1.37)	69.86 (0.98)
Re-entrant	8.97 (0.78)	9.01 (0.88)	8.99 (0.59)
Last worked > 5 years ago	0.52 (0.20)	1.56 (0.43)	1.03 (0.24)
Total	100.00	100.00	100.00
	Total working age population		
Job loser	28.87 (0.78)	17.94 (0.61)	23.21 (0.50)
Job leaver	3.75 (0.34)	5.37 (0.36)	4.59 (0.25)
New entrant	41.31 (0.83)	48.29 (0.79)	44.93 (0.57)
Re-entrant	12.72 (0.55)	12.95 (0.51)	12.84 (0.37)
Last worked > 5 years ago	13.35 (0.58)	15.45 (0.59)	14.44 (0.41)
Total	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets.
The data is weighted.

In terms of the educational attainment of the youth (both the employed and the unemployed), Table 18 illustrates the slightly lower levels of education of the unemployed. Among the unemployed between the ages of 19 and 24, for example, only 39.2% successfully completed their secondary education (compared with 43.5% of those with employment). This group of unemployed, to a large extent, started their secondary education but did not complete it. Nearly half (45.6%) of the unemployed in this age group has some level of secondary education but did not complete

their matriculation. However, this group of unemployed youth are far more likely to have completed their secondary education compared with the total labour force that is unemployed (only 30.2%). Due to the relatively high rates of school enrolment in South Africa, the percentage of the labour force (either employed or unemployed) with no schooling at all is very small. The remaining concern, however, is that many of the unemployed youth have not successfully finished their basic education. The fact that the completion rate for employed youth is not substantially higher than for the unemployed as a whole, however, suggests that finishing high school is not necessarily a strong predictor of finding work.

Table 18 Highest level of education by age group and employment/unemployment status (broad definition) (2010)

	15-18 (Inclusive)	**19-24 (Inclusive)**	**Total working age population**
	Employed		
No schooling	1.06 (1.06)	0.67 (0.19)	3.08 (0.13)
Some primary	7.74 (2.57)	3.70 (0.46)	8.59 (0.22)
Completed primary	17.12 (4.46)	3.40 (0.52)	5.05 (0.18)
Some secondary	45.53 (6.03)	37.75 (1.33)	33.11 (0.41)
Completed secondary	27.12 (6.07)	43.48 (1.36)	29.74 (0.40)
At least some tertiary	---	9.79 (0.80)	18.88 (0.35)
Total	**100.00**	**100.00**	**100.00**
	Unemployed (broad)		
No schooling	0.44 (0.31)	0.43 (0.13)	2.31 (0.16)
Some primary	17.24 (2.30)	5.87 (0.53)	10.13 (0.34)
Completed primary	8.09 (1.77)	3.97 (0.40)	5.50 (0.25)
Some secondary	42.27 (3.10)	45.56 (1.06)	46.30 (0.58)
Completed secondary	30.45 (2.81)	39.24 (1.03)	30.16 (0.54)
At least some tertiary	---	4.33 (0.44)	4.76 (0.24)
Total	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets.
The data is weighted.

Beyond the level of education of the youth, there are a number of other key skills that might be expected to be important in the labour market (and to the BPO sector, in particular). South Africa's national panel survey (NIDS) includes a number of self-reported assessments of skills that would likely increase the prospects of employment.

Table 19 profiles the level of computer literacy among the broadly unemployed by age group and gender. The findings are somewhat mixed but a general conclusion from the data is that the younger groups of the unemployed are more likely to be computer literate (i.e. the two youth groups are more likely to report high computer literacy or at least basic skills). About 15.4% of the 15-18 year old group, for example, classify themselves as highly literate (there is, however, a considerable difference between men and women in the group, with men far more likely to self-report high literacy). Among the 19-24 year old group about 10% of the unemployed are highly literate and this drops to 7.2% for the total labour force that is unemployed. At the other end of the spectrum, about 57.4% of the 15-18 year old group report having no computer skills at all. This increases to 67.5% and 75.0% among 19-24 year olds and the total unemployed labour force, respectively. In terms of internet usage, one 2007/08 survey (Gillwald *et al*., 2010) finds that 11.3% of women versus 20.4% of men are using the internet.

Table 19 Self-reported computer literacy among the (broadly) unemployed by age group and gender (2008)

	Men	**Women**	**Total**
	15-18 (Inclusive)		
Highly literate	23.77 (7.86)	8.73 (5.22)	15.35 (4.67)
Basic skills	14.11 (5.82)	37.64 (8.56)	27.28 (5.74)
Not computer literate	62.12 (8.40)	53.63 (8.58)	57.37 (6.10)
Total	**100.00**	**100.00**	**100.00**
	19-24 (Inclusive)		
Highly literate	8.06 (2.08)	10.96 (1.91)	10.10 (1.48)
Basic skills	25.23 (3.88)	21.24 (2.69)	22.42 (2.21)
Not computer literate	66.70 (4.13)	67.81 (2.95)	67.48 (2.41)
Total	100.00	100.00	100.00
	Total working age population		
Highly literate	6.70 (1.17)	7.36 (0.93)	7.15 (0.74)
Basic skills	17.51 (1.91)	18.05 (1.53)	17.88 (1.21)
Not computer literate	75.79 (2.11)	74.58 (1.65)	74.96 (1.31)
Total	100.00	100.00	100.00

Source: Own calculations from the 2008 National Income Dynamics Study (wave 1)
Notes: Standard errors in brackets.
The data is weighted.

Related to computer literacy, ownership of assets such as mobile phones and computers is another proxy for computer literacy (Table 20). Not surprisingly, cell phone ownership is fairly common among the unemployed. Slightly less than half (48.8%) of all unemployed youth report owning a cell phone. This increases to about 65% of both unemployed 19-24 year olds and the total unemployed workforce. This number is comparable to another nationally represented survey on mobile ownership (62% of all population had mobile phones or active SIM card in 2007/08) and with males paying more on monthly expenditure for mobile phones than women (Gillwald *et al.*, 2010).

The majority of the unemployed, on the other hand, do not own a computer. Only about 4% of the unemployed own a computer and 19-24 years are no more likely to own a computer than the unemployed population as a whole. The unemployed in the 15-18 year old group are more likely to own a computer and this is largely due to the fact that 14.2% of men own a computer. Computer ownership is far lower among women (3.3%) in this age group without employment.

Table 20 Cellphone and computer ownership among the (broadly) unemployed by age group and gender (2008)

	Men	**Women**	**Total**
	15-18 (Inclusive)		
Cellphone	48.57 (8.31)	49.00 (8.50)	48.81 (6.00)
Computer	14.24 (5.48)	3.25 (1.99)	8.08 (2.74)
	19-24 (Inclusive)		
Cellphone	55.08 (4.48)	69.08 (2.62)	64.92 (2.33)
Computer	2.17 (1.50)	4.96 (1.65)	4.13 (1.24)
	Total working age population (broadly unemployed)		
Cellphone	55.71 (2.39)	69.11 (1.51)	64.89 (1.29)
Computer	3.04 (0.80)	4.64 (0.91)	4.14 (0.67)

Source: Own calculations from the 2008 National Income Dynamics Study (wave 1)
Notes: Standard errors in brackets.
The data is weighted.

Given the fact that South Africa has 11 official languages but that English is the dominant language of business, government and education, both English and home language ability are important skills for the labour market more generally (as well as for the BPO sector). There is some work in South Africa, for example, which has shown that English language proficiency, over and above the effect of education, is related to higher earnings (Casale & Posel, 2011). Table 21 presents data on self-reported assessments of reading and writing in both English and the respondent's home language.

Among the broadly unemployed, the two youth groups (15-18 and 19-24) report higher levels of English proficiency compared with the total unemployed workforce. About 63% of 15-18 year olds who are unemployed report that they can read in English 'very well'. Moreover, 66% responded that they can write 'very well' in English. In the next age group, about 62% also report a high level of reading proficiency and 61% also report being able to write 'very well' in English.

This relatively high level of English proficiency among unemployed youth is in stark contrast to the greater unemployed population. Among all those who are broadly unemployed, less than half report a high level of proficiency in either reading or writing in English. Home language ability, on the other hand, is highest in the 19-24 year old group of unemployed (77.5% have the highest level of home language writing proficiency) and lowest in the 15-18 year old group (i.e. only 55.3% can write 'very well' in their home language). Among all unemployed, about 67% report a high level of proficiency for both reading and writing in their home language.

Unemployed youth are, therefore, different from the other groups of unemployed in terms of their level of education, computer proficiency and their language ability. While the youth generally have far less work experience and are mostly new entrants to the labour force, they do appear to have some key skills that may improve their work prospects. Unemployed youth, in particular, are more likely to be computer literate and to be proficient at reading and writing in English.

Table 21 Self-reported home and English language ability among the (broadly) unemployed by age group (2008)

	Reading in home language	**Writing in home language**	**Reading in English**	**Writing in English**
	15-18 (Inclusive)			
Very well	57.28 (5.99)	55.31 (6.02)	62.94 (5.45)	66.03 (5.22)
Fair	28.31 (5.54)	29.45 (5.66)	22.86 (4.81)	18.64 (4.37)
Not well	3.47 (1.54)	6.30 (2.20)	9.88 (2.61)	10.15 (2.72)
Not at all	10.67 (4.14)	8.95 (4.07)	4.33 (1.74)	5.18 (1.82)
Total	**100.00**	**100.00**	**100.00**	**100.00**
	19-24 (Inclusive)			
Very well	75.00 (2.23)	77.50 (2.13)	62.04 (2.44)	61.11 (2.45)
Fair	18.18 (2.02)	15.04 (1.85)	26.47 (2.29)	26.38 (2.30)
Not well	5.15 (1.09)	5.58 (1.14)	8.01 (1.14)	8.36 (1.17)
Not at all	1.68 (0.65)	1.89 (0.73)	3.43 (0.94)	4.09 (1.02)
Total	**100.00**	**100.00**	**100.00**	**100.00**
	Total working age population (broadly unemployed)			

Very well	67.25 (1.29)	67.90 (1.28)	49.68 (1.40)	48.58 (1.40)
Fair	20.70 (1.12)	19.51 (1.09)	26.01 (1.24)	25.91 (1.24)
Not well	7.08 (0.66)	7.66 (0.69)	13.93 (0.86)	14.40 (0.92)
Not at all	4.93 (0.58)	4.87 (0.58)	10.31 (0.76)	11.09 (0.79)
Total	**100.00**	**100.00**	**100.00**	**100.00**

Source: Own calculations from the 2008 National Income Dynamics Study (wave 1)
Notes: Standard errors in brackets.
The data is weighted.

4. The BPS sector and labour in South Africa

In post-apartheid South Africa, the country is experiencing an industrial growth of the services sector and the phenomenal take up of information & communication technologies (ICTs). One particular service sector, the Business Process Outsourcing and Offshoring sector (BPO&O, but we use the South African term Business Process Services (BPS) for short in this report) in South Africa is currently experiencing business growth (estimated at approximately 30% industry growth per annum) and is creating new digital service jobs in the country. The recent global economic downturn has pushed many international companies to find ways to remain competitive and as a result of this pressure, many have been inclined to find methods to reduce business costs. Some cost-reducing activities have included moving certain non-core business services to suppliers in countries such as South Africa. In particular, there has been a recent interest by firms engaged in BPS to expand their operations into Africa. The continent has become an emerging region for firms interested in outsourcing their business processes to offshore locations as well as for international BPO firms looking for a lucrative location to grow. One factor which plays an important role in shifting outsourced services to Africa is whether the supplier of BPO services has the capacity to deliver; especially with respect to human resources capabilities.

Against this backdrop, this section provides an overview of the existing BPS sector in South Africa with particular emphasis on human capital. Given the interests of stakeholders in the potential of South Africa in the BPS sector, a comprehensive understanding of whether the country currently has or can potentially produce skilled workers to service the various services sectors is of great importance. Moreover, from the supply side, in a period of exploration of possible investments for social upliftment (such as that of the Rockefeller Foundation PRIDE programme), a labour analysis of the BPS sector is helpful in understanding the feasibility around creating better or decent employment alternatives (such as through a digital services industry in which BPS services can offer work in underserved markets).

The Rockefeller Foundation has a particular interest in understanding a niche of BPO services which they have identified as 'impact sourcing' or IS. Impact sourcing is an emerging sub-sector within BP) which refers to employing people who are most disadvantaged, with limited opportunity for employment, and will be the principal workers in business process outsourcing centres to help service clients both domestically and internationally (Monitor, 2008). The area of impact sourcing is a possible market for developing country BPO suppliers to provide services while being located in underserved communities (or recruiting those most affected by unemployment such as youth and women). This section attempts to summarise the types of BPS services which currently operate in South Africa and to identify the complementary BPS skills and training services which may provide a better insight in meeting an IS target.

The BPS sector in South Africa provides an interesting possibility for outsourcing non-core business activities to urban as well as underserved communities. The following section aims to describe the potential match of industry and labour force requirements as well as to identify some of the government initiatives which are attempting to enhance the human capital in this sector. South Africa is committed to innovative solutions within the BPS markets which can help to alleviate high unemployment, particularly amongst youth.

4.1 Size of the sector, growth prospects/projections, and driving forces

The BPO sector falls under the larger category, Business Services in the South African economic indicators in trade and industrial development (see Table 22). Out of the greater business services sector, the sub-sector of Business Process Outsourcing & Offshoring is estimated to contribute R1.7 billion ($206 million USD) to South Africa's economy (Deloitte, 2012). South African government has identified the further potential growth of the sector and the Department of Trade and Industry (DTI) has shown strong interest in enhancing this sector by identifying BPO as one of its three key industrial sector strategies. To some extent, these efforts have already paid dividends and, according to a key indicator report, five of the top 10 BPO voice providers in the world have recently set up operations in South Africa (BPeSA Western Cape, 2012).

Table 22 Key Statistics for the overall Business Services Sector (includes BPO)

Business Services	SA
Gross value added (2010, Rb)	298.1
Formal employment ('000)	1,524.5
Employment growth (2000-2010)	10.0
Employment to GDP (jobs per Rm)	8.6
Employment to GDP growth (2000-2010)	5.3
Employment to capital (jobs per Rm)	3.5
Employment to capital change (2000-2010)	7.0
Remuneration as % of value add	29.7
Skills intensity (% semi or unskilled)	16.5

Source: Deloitte, 2012

The most recent industry report for South Africa estimates that there are 200,000 direct and indirect jobs in total for both in-house domestic operations as well as offshore work brought into South Africa (BPeSA Western Cape, 2012). This is clearly an increase from estimates cited in a previous report which suggested that, in 2008, there were 30,000 people (including agents, support staff and management) directly employed in the BPS sector in South Africa (Everest Group, 2008). In 2008, most of the BPOs supplied their services to local in-house South African clients with approximately 22,000 to 23,000 people employed within and between 7,000 to 8,000 people supplying services to foreign offshore work in the country.

Offshore supply increased to 10,000 South African jobs by 2010, which has contributed to $245 million USD in exports (an increase of 85% between 2007 and 2010) and is expected to grow by 30% year on year (BPeSA Western Cape, 2012). According to BPeSA, the industry is on target to create another 30,000 offshore jobs by 2015 (BPeSA Western Cape, 2012). There may also be indirect jobs which have been created through the new BPO suppliers (such as security or cleaning services) but are not included in this figure.

Growth prospects for the sector in South Africa

Overall, the future growth prospects of BPS are likely to be influenced, in large part, by the Department of Trade and Industry's (DTI) incentives schemes which aim to create 100,000 new (25,000 direct and 75,000 indirect) jobs over the next four years (The BPO Partnership). In the South Africa BPS market, there is room for IS to participate actively given the substantial effort and contributions that the industry and government have now invested in this sector to date; particularly in attempting to address unemployment amongst the youth. Impact sourcing could include a diverse portfolio in mixing both offshore suppliers as well as using the Monyetla programme (discussed further in Section 4.4) in order to use funding for the training of local in-house companies. Currently, the majority of BPS remain in the urban or metropolitan setting yet there is local economic development support which aims to bring IS to less urban settings. For example, several local municipalities such as Port Elizabeth and Pietermaritzburg have invested heavily in BPS parks to attract local or international investors.

In South Africa, there currently seems to be a concentration of effort being placed around the strategic niche market of the financial services BPS sector; particularly in the global offshore area (Everest Group, 2008). Of all service provision, the financial and accounting services share constitutes around one-third of all BPS jobs in South Africa. This concentration in the financial services sector in South Africa has much to do with its history of a regulatory and legal framework and well developed banking system which strongly complements the handling of financial services to offshore companies. Given that the South African government and industry are marketing the country to deliver such services (both as contact centre and back-office services), impact sourcing supporters may need to strategise their position within this financial services BPS drive. Very little has been written about the improvement of digital literacy and cognitive processing and the IS human capital requirement in order to participate in these more complex processes. The IS industry may also choose to be part of the low-end processing work or not use this financial services sector strategy as their niche at all. Nevertheless, should IS firms be committed to either more complex processes or low-end processes, they may want to be open to specific funding for overseas staff to provide the extra training for its offshore operations for South African staff to understand the business process needs and context of its foreign companies.

A key question, therefore, is whether South Africa can pick up on the various independent BPS activities offered and consolidate such services into a fully integrated and streamlined process (or a "one-stop shop" (Frost & Sullivan, 2012)) for business opportunities. Some larger offshore BPS are starting to partner with or consolidate local BPS suppliers to create one of their African operational arms. There is, therefore, the potential for impact sourcing firms to complement existing BPS operations in such a way. There are also call centre investments by South Africa's public sector in in-house contact centre type activities such as the Presidency's hotline[14] which increases the trained labour pool in the BPS sector. Impact sourcing may play a role in ensuring equity of work provision when recruiting unemployed youth for such public sector work by providing its expertise in how to outsource such activities particularly to target groups within underserved communities in South Africa.

[14] http://www.thepresidency.gov.za/pebble.asp?relid=3750

The complementary and competitive IT services ecosystems which are growing in South Africa may also be of interest to BPO suppliers. Innovation hubs or incubators are currently helping to drive a growth of the IT and local enterprise sector. Such hubs may be helpful in supporting an entrepreneurial cohort of aspiring technologists who are seeking to develop and market their digital products or services which help to service the developmental challenges of Africa (iHub, 2012). As such, these developments are helping to nurture a technology community which may foster the human resource development needed for the BPO sector.

Location

The DTI has identified 22 municipalities that are prepared to host call centres (Deloitte, 2012). Currently, the majority of BPO suppliers are located in the country's major metropolitan areas, particularly in the city of Johannesburg (where 44% of BPO employees were hosted in 2008), Cape Town and Durban. The urban-based BPOs have been most visible in promoting their industry within their cities and benefit from the larger urban population to draw on for their labour pool. The growth of BPO suppliers in urban areas may be part of the solution by relieving some of the urban unemployment.

The urban BPS continues to grow, particularly by attracting the foreign offshore investments, as is seen recently from the new location launches as well as the news of consolidation between several foreign and local companies.

Box 1: Durban BPO operates towards sector growth

On 14 August 2012, the British company Assured Capital Holdings opened a new BPO 300-seater call centre facility named Coracall, in Durban (Naicker, 2012). According to an article on the BPS launch, Coracall would begin operation with a team of 93, hope to grow to 300 workers in three months and host 1,700 workers in 18 months' time (Naicker, 2012). Besides Coracall, the country's largest BPS provider, Aegis (in South Africa, it is a wholly-owned subsidiary), partnered with LexisNexis UK to also start operations in Durban. Aegis also recently partnered with a Cape Town local company, SA Commercial, to build on enterprise development. Most of Aegis' BPS work in South Africa is with contact centre services to a utility and a telecom company both located in the United Kingdom (NelsonHall, 2011). Since starting in 2008, Aegis had 350 customer service agents in South Africa. In 2011, the Dube Trade Port also unveiled the KZN BPO Park which hopes to have 4,000 seats (Royeppen, 2011). These new operations add to the already growing 61 call centres currently located in Durban (Deloitte, 2012). In other provinces, Cape Town saw the consolidation between the local BPO, the Full Circle and its acquiring UK outsourcing company, Capita, in July 2012 (BPeSA Western Cape (b), 2012).

Outside of these three major metropolitan regions of South Africa, there have been smaller initiatives to open up BPS into peri-urban and rural areas, particularly with the investments being made by municipalities through their local economic development (LED) plans. One of South Africa's growing secondary cities, Port Elizabeth, in the Eastern Cape province, hosts the Coega Industrial Development Zone (IDZ) where the Discovery Health Service Centre was recently launched (2011). This in-house domestic company started with the employment of 165 people in the contact centre and estimates an increase to 400 workers by 2013 (COEGA, 2011). According to the website, nearly 130,000 Discovery Health claims are processed every day and "90% of claims are electronically submitted and resolved

without human intervention" (COEGA, 2011). The whole complex itself has prepared 1,500 seats (and 16,600m^2) within its new BPO park.

Other BPO peri-urban locations include areas like Klerksdorp, Polokwane, Limpopo (which hosts a 450-seater call centre), Kimberly in the Northern Cape, and Worcester, in the Western Cape. Other municipalities have included BPOs as part of their industrial strategy within their local economic development plans. While local economic development incentives from such municipalities try to attract BPOs to locate in economically disadvantaged or rural areas of South Africa, such locations can find difficulties in identifying enough trained staff (both agents and management), retain those staff members once they are trained, as well as the ability to host consistent electricity provision and telecommunication speeds.

4.2 Types of BPS services offered in South Africa

According to the NelsonHall report (2011: pg 3), Business Process Outsourcing and Offshoring service delivery is identified for three services:

1. international contact centre services;
2. voice and non-voice support for the domestic South African market; and
3. international non-voice services (some industries like the financial sector dominate).

Contact centres – International and domestic

This section outlines the first two services in BPS: international contact centre services and voice and non-voice support for the domestic South African market. In terms of actual numbers, the best national BPS estimates come from the call centre industry in South Africa: in 1997 there was a total of 185 call centres, increasing to 535 by 2002 and to 653 call centre operations by 2004 (Pandy & Rogerson, 2012). A national audit in 2007/2008 suggested that there were a total of 1,342 confirmed call centres across South Africa (C3 Africa Research 2008; cited in Pandy and Rogerson, 2012). Today, industry stakeholders estimate approximately 1,500 call centres are in operation in South Africa (Pandy & Rogerson, 2012).

The BPS sector of South Africa predominantly offers contact and call centre services with approximately 70% of international BPO service delivery in South Africa dedicated to contact centres (Altman, 2006; Anderson, 2007; Benner, 2006; Bhagattjee & Hofmeyer, 2009; McIvor, 2011). South Africa can identify many of its call centres (which was formally only voice calls) as contact centres given that they are offering various transactional services now beyond inbound and outbound phone voice call services.

Table 23 Services delivered from South African contact centres by sector

Sector	Profile of Services Supported
Telecoms/ISPs/high-tech	Inbound customer service including billing support (50%) Technical support (1st and 2nd level) (30%) Outbound sales and cross-selling (20%)
Online retailing/home shopping	Inbound customer service including delivery support and credit card processing in support of online orders
Insurance	Inbound customer service (70%) Customer Retentions and renewals (20%) Cross-selling and up-selling (10%)
Banking and other financial services	Debt collection services (both pre-90 days and subsequent debt recovery
Media	Customer support including payment queries and processing and subscription handling

Source: NelsonHall, 2011 pg 6

Within the call centre group, the majority are specialists in one particular function such as the financial sector – front-office services (Everest, 2008). South Africa's contact centres serve a wide array of different sectors with the greatest proportion of its operations linked to local domestic banking, insurance, other financial services, the health sector, travel and hospitality, and telecommunications (Benner *et al.*, 2007). The NelsonHall 2011 report identified a trend of growth in the financial services and online retail space as shown through recent case study reports commissioned by the DTI (Everest Group, 2008).

South African call centres have a few distinct characteristics. Firstly, two-thirds of all call centres are found through in-house local operations (NelsonHall, 2011). Secondly, South Africa's call centres vary markedly in size from small suppliers to large operations with over 1,000 agents. The majority of call centres are small in size with fewer than 20 seats. One national survey in 2006 reported that almost two-thirds of call centres had less than 50 seats and 48% of the call centres have less than 20 seats (Benner *et al.*, 2007; Pandy, 2012).

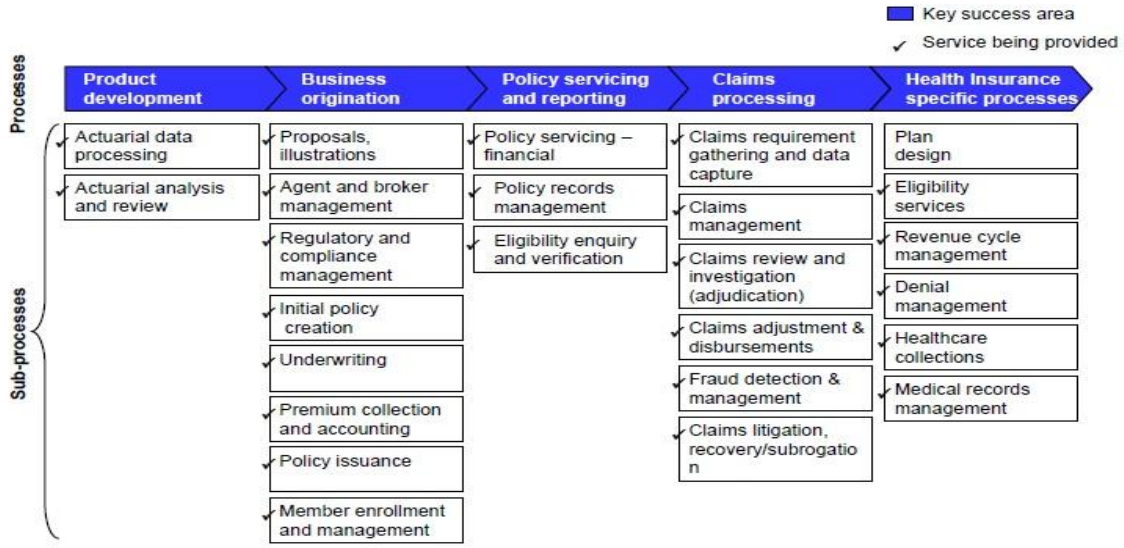
International non-voice

The financial sector will be one of the targeted industries for BPS suppliers in South Africa in international industry-specific and back-office work. In 2008, the Everest Group estimated that 11,000 people (both front office and back-office work) were employed under the financial services BPS sector and that the sector is serving around 240 financial service clients (Everest Group, 2008).

Beyond contact centres, South Africa has been delivering industry-specific and back-office services within the sectors of energy, wealth services (investment business support, data management, money collection) and life insurance (administrating policy, claims processing, actuary modelling, etc). The South African BPS industry along with the

Department of Trade and Industry are trying to market the country for its ability to offer more complex judgement-based, non-voice services. This marketing plan is supported by South Africa's mature sector background in insurance and banking, its strong reputation in financial services skills such as the training of actuaries (Everest Group, 2008) and high industry standards in auditing and reporting standard practice in the country; all such aspects support the growth of BPS in the financial sector in South Africa.

Figure 3 Insurance-specific back-office processes supported by service providers in South Africa



Source: Everest Group, 2008

South Africa's financial services background is reflected through companies such as Old Mutual and Discovery who are using South Africa as the base to grow their global financial services through contact centres which provide a variety of their operational tasks (such as payroll, accounting, etc) (NelsonHall, 2011: pg 8). Some also reflect expansion as one example, CapQuest UK was able to first support its UK debt collection operations in South Africa and now it has capitalised in conducting their debt collection services within the local South African market (NelsonHall, 2011: pg 27). South Africa is marketing itself as the 'onshore equivalent' of customer experiences for banking and insurance, whereby the service which one expects to find in the UK will also be found in South Africa but at a lower cost.

The role of government is to nurture BPS growth through expansion beyond its dominant local BPS market. One way to encourage this sector growth is to implement policy incentives which attract international BPO clients as well as international BPS suppliers. The local and mature in-house expertise could complement the labour needed by new offshore BPS suppliers – in other words, labour who are trained within this local or international sector can move from one local BPS supplier to a BPS offshore supplier and vice versa, ensuring a supply of continuously trained staff.

Most of the international clients are servicing customers from the UK and the USA. The BPS suppliers are also helping international firms service their customers in the rest of Africa (Everest Group, 2008). Some of the international client firms investing in South African BPS suppliers include: Shell, Amazon, Lufthansa, Barclays, Microsoft, British Gas, JP Morgan & Virgin Mobile (BPeSA (a), 2010). In terms of clients, the majority of international firms are from the United Kingdom (56%) and the United States (17%) (BPeSA (a), 2010). Many of the domestic companies provide services which range from medical services (e.g. Discovery) to support for large financial firms such as Old Mutual. On top of the available training institutes now offering courses around BPS training, the domestic companies in South Africa through practical work experience have contributed to developing the number of trained front office and back office staff especially skilled for the work.

4.3 Human capital considerations and the BPS sector

Work in the BPS sector requires the necessary physical skills and cognitive processes, the utilisation of tools and technology, the relationships formed with other people – customers, co-workers, colleagues from other firms, suppliers – and their ability to engage in the process of performing all those activities effectively. The quality of work itself is related in part to the level of education required to perform the work with these processes given, the complexity of the cognitive and relational skills involved, and the economic value of the information and knowledge required to perform that work (Benner *et al.*, 2007) .

There is a substantial pool of talent in South Africa, and this human capital can help to service the BPS industry. This talent pool covers many of the various staffing needs of a BPS: from those at the entry level (new high school graduate), to those with specialised skills (i.e. accounting or actuary sciences) to BPS management (BPeSA Western Cape, 2012). Within the current industry staffing, the majority of BPS staff members are under the age of 35 and have at least their Grade 12 graduation certificate or National Qualifications Framework (NQF) equivalent. In the Western Cape, none of the agents reported having a diploma or degree. The majority of workers are in full-time permanent positions particularly in the local in-house positions. Those working for the local in-house or captive firms are those of the 'older youth' from 26-30, while the outsourcing firms often employ 18 to 25 year olds. In the Western Cape, the BPO 2012 indicator report pointed out that the majority of outsourcing companies were hiring staff from one of the nearby townships and nearly all agents need to travel via public transportation to their BPS place of work (BPeSA Western Cape, 2012).

In call centres, in particular, black South Africans are still highly under-represented in the industry (particularly at higher levels) in relation to the country's population. About 79% of the country's population is of African descent, but in looking specifically at the occupations in contact or call centres, only 27% of agents, 18% of team leaders, and 7% of managers were of African descent. The white population, which comprises only 10% of the total South African population, make up 26% of call agents, 37% of team leaders, and 61% of managers (Benner *et al.*, 2007). However, recent information suggests that the racial employment profile of call centres is changing with an increase in the recruitment of black South Africans as call agents (52% of the total in surveyed firms) and team leaders/supervisors, particularly in those call centres which service the government (Pandy, 2012). Overall, the percentage of the

workforce that is female is consistent across all three occupational categories, with 57% of core agents, 57% of team leaders, and 59% of managers being female. These figures are somewhat below global averages in the industry, which tends to employ more women than men (Benner *et al.*, 2007).

Language skills

Another human capital consideration for BPS suppliers in South Africa is whether there is a pool of workers with the appropriate English-speaking abilities. The majority (85%) of South Africa's contact centres are operating in English-language work (NelsonHall, 2011: pg 7). There is, however, also potential for working in other European languages such as Dutch, German and Flemish due to the close linkages of the widely spoken Afrikaans language. In some cases, such as Lufthansa and Amazon, companies are already operating in the German language in South Africa (NelsonHall, 2011: pg 7). To date, the financial industry-specific and back-office services appear to support non-English European languages (NelsonHall, 2011: pg 9). Interestingly, in the Western Cape, the 2012 key indicator report found that of those agents working within one of the non-English languages at the BPS, a small percentage of the workers are South African citizens. Cultural similarities with the United Kingdom and Australia are also seen as an advantage for South Africa (Everest, 2008: pg 121)[15] as is South Africa's time zone which is convenient for companies with customers in Europe and the rest of Africa. Furthermore, the South African accent has strong acceptability in the UK, Australia and the USA (NelsonHall, 2011: pg 14) and thus the majority of South African contact centres do not need to engage in further accent training.

Labour costs/supplier wages

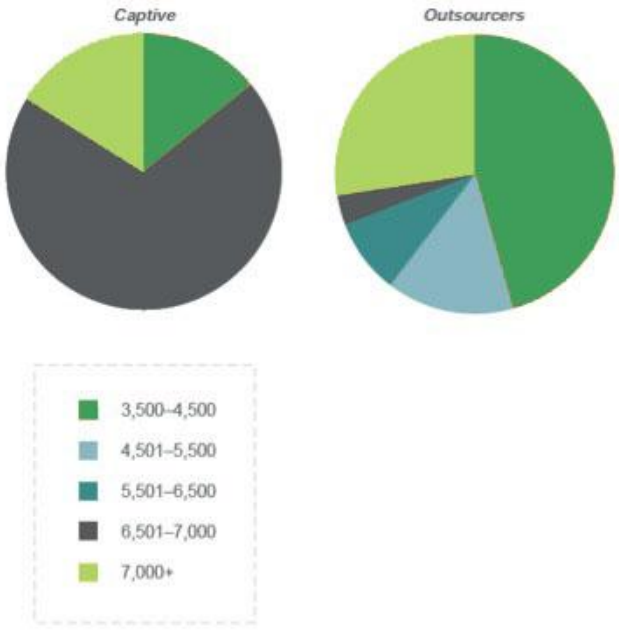
The salaries and benefits of BPS payroll costs usually take up the majority of direct operational expenses of the local or international suppliers and various sectors have a range of salary and full remuneration packages offered to staff from agents to managers. South Africa is marketing itself as a relatively cheap supplier of BPS services with one estimate suggesting that services are around 50% less than competitors in the onshore market of the UK, Australia, and the European Union (NelsonHall, 2001: pg 3). Costs are, however, still higher in South Africa when compared to countries such as India and Kenya. While not offering the lowest cost for offshoring, South Africa advertises itself for its higher quality customer service, especially in the execution of complex non-voice services as well as resolving customer issues within the first contact call (NelsonHall, 2011: pg 6).

[15] https://research.everestgrp.com/Downloads/Business%20Trust%20-%20Everest%20South%20Africa%20BPO.pdf

Salary costs

Within the sub-sector of call or contact centres, most employees are agents who are working in mid-sized call centres that employ between 75 and 300 people. There is also a range of wages cited by several studies on wage costs. In 2006, Benner *et al.,* (2007) found that wages for agents in call centres vary from R33,000 to R50,000 a year (R2,750 – R4,167 a month) or approximately $4,000 – $6,000 USD a year ($330 – $500 USD a month). In a survey of BPOs in the Western Cape in 2011, a closer inspection of wages found that the majority (86%) of in-house or captive staff were paid between R6,500 – R7,000 ($790 – $850 USD) per month whereas about 46% of outsourcing suppliers surveyed would pay between R3,500 – R6,500 ($425 – $790 USD) (BPeSA Western Cape, 2012). In both captive and outsourcers, around a quarter of staff members were paid more than R7 000 ($850 USD) per month.

Figure 4 Western Cape staff salaries in rands (captive/outsourcer)



Source: BPeSA Western Cape, 2012, page 24

Total operating costs

One study (NelsonHall, 2011) estimates that a contact centre agent in Cape Town costs about R8,000 to R9,000 a month (full salary package including benefits), while others are up to R12 000. In comparison to wage rates of other urban formal sector workers which are around R2,050 ($250 USD), the BPO wage rates are relatively high in South Africa (Benner *et al.*, 2007). All staff members are also offered some form of bonus on top of their salaries.

In the overall BPO sector, the salary packages are much lower than salaries for comparable positions in the UK and the USA. For example, today the front office annual salaries for South Africa are between $10,000 – $12,000 USD (full package), compared to the UK or the USA Tier 2 salaries at $50,000 – $60,000 USD. Team leader costs are substantially lower in South Africa ranging from $17,000 to $22,000 USD per annum compared to the UK and USA Tier 2 at $80,000 to $95,000 USD per annum.

The average operating cost to outsource to Cape Town, South Africa is approximately $23,000 USD per full time equivalent (FTE) per year (NelsonHall, 2011). Eligible BPO suppliers can also apply for the recent government's 2011 South Africa Business Process Services incentives, where use of the grant will see the average operating cost drop to $17,800 USD full-time equivalent (FTE) per year, making South Africa a more competitive location compared to other offshoring destinations (BPeSA (b), 2010). Compared with UK onshore service delivery, South Africa would offer a 55% savings and puts the country within a 5% – 10% margin of prices found in the Philippines (NelsonHall, 2011).

Attrition rates

One factor which has been identified as an important consideration when selecting BPO supplier services is turnover rate. In South Africa, attrition or turnover rates are noted to be relatively low (NelsonHall, 2011: pg 6). However, when taking a closer look at the Western Cape, in-house (captive) suppliers appear to have a significantly lower attrition rate at 4.5% than those from outsourcing companies at 30.0% (BPeSA Western Cape, 2012: pg 26).

Figure 5 Attrition rates in Western Cape (captive/outsourcer)

Source: BPeSA Western Cape, 2012: pg 26

The relatively lower attrition rates in South Africa translate into savings in resources used for new recruitment and re-training of new staff. In a closer sectoral view of attrition, we find the following statistics:

1. financial services industry-specific processes (graduates): 4% to 13% per annum;
2. finance and accounting services (graduates): 15% per annum;
3. debt recovery services: 19% per annum;
4. contact centre services (matric level): ranging from 15% to 40% per annum.

Besides attrition, it is noted that absentee rates (taking time off while still employed) with in-house agents are higher (14%) than outsourcing agents (4%). As for benefits, the Western Cape found that within the 2012 key indicator report, the firms varied across its benefit offerings from medical aid to retirement fund, transport contributions to parking facilities. When reviewing the remunerations to attrition, clearly the remuneration and benefits mix do affect the rate of attrition as seen above.

Through the Employment Conditions Act and a strong union movement, South Africa has strong enforcement of a standard pay rate compared to other lower income countries where such laws are not well implemented. The BPS sector may also help to absorb the unemployed who may also be working in the informal economy, where work is intermittent or under work insecurity without social protection.

Skills requirements/training

Since the success of the BPO sector depends on the expertise of and knowledge of high quality staff members ranging from call centre agents to team leaders to management, there have been measures adopted to enhance and retain the expertise of individuals in this sector. In the Western Cape, the surveyed firms are shown to provide general training to their staff ranging from 13.1 days a year for their agents to 19.0 days a year for their team leaders (BPeSA Western Cape, 2012).

As for the labour pool for new BPO recruitment in South Africa, new graduates are a potential source of labour for the BPO industry with approximately 470,000 graduating (inclusive of high school, diplomas and university) annually (Everest Group, 2008: pg 118). As for skilled labour specifically in the financial and insurance sector, the country has approximately 26,000 chartered accountants, 800 CFA charter holders and 770 qualified actuaries – four times more trained actuaries than India who could fill the complex back office BPO positions (Everest Group, 2008; NelsonHall, 2011: pg 20). Several options of BPS training have come both from the private and public sector. The Maharishi Institute in Johannesburg hosts the Impact Sourcing Academy which allows their students who are attending courses to be provided with outsourcing work experience (Bulloch & Long, 2012). The Maharishi Institute also has an intermediary arm which helps to facilitate between the training and providing larger BPS clients with trained personnel. The public sector through various government departments try to deliver training under the BPO Partnership.

According to the BPO Partnership (2009), the government also offers various initiatives for the BPS sector including:

- the Monyetla Work Readiness Programme for new graduates;
- the Sector Education and Training Authority (SETA) levy grant and tax incentive system for those with emerging skills to be team leaders or supervisors;
- the National Skills Development Strategy which ensures the ongoing building of a globally competitive talent pool by encouraging lifelong learning and training. (making young people more employable and up skilling people who are already working);
- skills training and recognition of prior learning initiatives.

4.4 Policy and government investment in BPS skills and training – Monyetla Work Readiness Programme

The Monyetla Work Readiness Programme is an ongoing sector-specific initiative which builds a talent pool for the BPO sector out of the currently unemployed, low-skilled youth in selected regions in South Africa. As one of the components to the broader BPS Sector Development Strategy Scheme offered by the DTI, partnered with the Department of Higher Education and Training, and Department of Labour through the National Skills Fund (NSF), the hope for the programme is to "contribute to accelerated job creation, economic growth and equity" (The BPO Partnership, 2009). Initially starting under the Accelerated Shared Growth Initiative in 2006, this Talent Development

Programme reflected the first governmental plans to train 30,000 learners (along with 5,000 middle and senior management) in the specific skills most needed in the BPO sector and absorb them through new employment in South Africa.

Monyetla is a Sotho word meaning 'opportunity' (The BPO Partnership, 2009). The Monyetla Work Readiness Programme is an initiative designed and developed by the Business Trust along with the partnership of several stakeholders including the DTI, Business Processing enabling South Africa (BPeSA) and the NSF. "The Monyetla Work Readiness Programme was designed to accelerate training for entry level jobs within South Africa's growing Business Process Outsourcing industry" (The BPO Partnership, 2009). Three components make up the programme: 1) theory; 2) on-the-job training; and 3) a minimum six months of work. The programme curriculum was designed with the help of Services *Sector Education and Training Authority* (or SETA). The BPO material within the curriculum incorporates generic administration and customer service skills training as well as life skills, communication, maths and technical skills (Paladin Consulting 2012). The Monyetla model requires learners to complete theory which are given as credit towards a certificate (67 credits toward Call Centre National Qualification Framework – NQF Level 2).

Figure 6 Call Centre National Qualification Framework – NQF Level 2 Programme

Unit Standard Title	Levels	Credits
Identify and respond to customer needs in a contact centre	2	12
Meet performance standards within a contact centre	2	6
Instil in myself a personal contact centre culture	4	4
Work as a member of a contact centre team	4	5
Access and use information from texts	2	5
Apply basic knowledge of statistics and probability to inference the use of data and procedures in order to investigate life related problems	2	3
Demonstrate understanding of rational and irrational numbers and number systems	2	3
Maintain and adapt oral/signed communication	2	5
Use language and communication and occupational learning programmes	2	5
Use mathematics to investigate and monitor the financial aspects of personal and community life	2	2
Work with a range of patterns and functions and solve problems	2	5
Input data received onto appropriate computer packages within a contact centre	2	12
Total number of credits		**67**

Source: Paladin Consulting, May 2012

After the course work is complete, the learners do the second component of on-the-job practical training (160 hours during an 80-day period). Lastly, the candidates who complete the credited course as well as the practical training are then able to take up BPO employment for at least six months (Paladin Consulting, 2012). In this regard, the programme was an employer-led and government-funded initiative. The learner, once successful, could go on with the same employer to be employed or if motivated, complete the full NQF Level 2 (128 credit qualification) as a learnership agreement or bursary.

The initial pilot in 2008/09 trained 1,117 unemployed young South Africans (through 17 employer teams or 'consortia'), followed by a second round roll-out in 2010/11 of 3,350 participants (Infusion Knowledge Hub, 2011). There was an agreement between the employer, trainers and the recruitment specialist as a 'consortia' to work together in identifying, training and then employing Monyetla learners. Since 2011, there have been a total of 46 consortia that have engaged with the Monyetla programme. Participating firms come from diverse backgrounds such as: the public and private sector, local and international suppliers, from start-up to mature BPS businesses in four South African provinces. The consortia had to demonstrate learner completion of the three components of the Monyetla programme, with at least 70% of the candidates receiving a minimum six month employment contract. At that point, the team received a grant of R15,000 per learner 2008/09, and R18 150 per learner 2010/11. Within these grants, learners were to receive a daily stipend of R50,00. With every six learners, there also needed to be a team leader who was also eligible for grants to cover training costs (in the last round, 236 supervisors were trained).

This Monyetla model was very effective in producing workers who were suited for BPO jobs as the programme was designed to be flexible in order to meet the employer's needs. The programme was also successful in making unemployed people ready for entry level jobs in the BPS sector of South Africa. According to the BPO Partnership (2009), the programme participants were mostly unemployed youth who did not have prior steady work arrangements. From these candidates of the Monyetla programme, 86% were employed after the six-month programme. Also, the 'consortia' were able to train 21% more team leaders than they were required to do.

To date, the Monyetla programme is now in its third phase with Paladin Consulting (2012) who are assisting with the current Request for Proposals. This phase aims to develop another 3,000 newly trained young South Africans. To date, 47 out of 63 consortia proposals have met the requirements, and the first six consortia have now signed contracts to start Monyetla Phase III.

SETA Levy Grant

Besides the Monyetla Programme, the Skills Development Act 1998 was used to establish the National Skills Authority, Sector Education and Training Authorities, and other government bodies in the Department of Labour and Department of Higher Education and Training to promote development and training. In addition, a Training and Skills Support Grant is provided directly to approved projects towards the costs of providing company specific training (Skills Development Act 1998). BPS suppliers are eligible to apply for this funding to build up their own learnership or internship programmes16 or BPS private training centres can apply for specific grants to train BPS learners under all NQF qualifications (including management and supervisory).

Further private/public sector training

Beyond Monyetla and the SETA grant, the private sector also provides on-the-job training programmes which are an imperative for most organisations. Without extra support, some BPS companies in South Africa offer "induction programmes" providing the basics in contact centre skills. Some of the BPS have gone further and have allowed for

[16] http://www.bpesawesterncape.co.za/wp-content/uploads/2011/11/SETA-Call-for-Applications2.pdf

educational integration into the BPS through becoming a registered training provider – SETA-accredited training programmes (i.e. Fusion: http://www.fusionoutsourcing.co.za/people).

As mentioned earlier, the South African Qualifications Association (SAQA) has also included a National Certificate (NQF 2) for Contact Centre Support. There is further programming for BPSs to seek standards and qualified training centres must uphold the National Qualification or NQF standards for them to issue the following national certificates or diplomas:

- Level 2: Contact Centre Support – National Certificate
- Level 3: Contact Centre and Business Process Outsourcing Support – National Certificate
- Level 4: Contact Centre Operations: Further Education and Training Certificate
- Level 5/6: Contact Centre Management – National Diploma
- Level 7: Contact Centre Management – Bachelor of Technology (B.Tech)
- Level 8 upwards: Contact Centre Management – Masters or Doctoral degree

Other complementary BPS-driven programmes include the University of Cape Town's Advanced Programme in Call Centre Leadership within the Graduate School of Business and other once-off educational seminars. As for the private sector, BPS suppliers may also consider recruiting their BPS experts from overseas offshore operations or management staff from the actual companies who require offshore processes to help train local South African staff in the corporate culture.

As the sub-sector impact sourcing targets low-skilled unemployed youth in disadvantaged areas, those IS institutions interested in working in South Africa may better succeed by utilising the existing South African BPS programmes. The Monyetla programme as well as the SETA grants and course standards may be a good starting point in supporting the skills and training needed for this niche area in South Africa. Also, the quality of training in meeting the needs of the industry could be of concern in how best to ensure high standards of training are provided given the specific demographic targeted. The competent and trained skill set in management will be needed to manage IS entry level staff who will likely be for entry level agent services as well as lucrative incentives to retain the middle management in IS.

Government incentives – labour supply

The South African government is playing a leading role in attracting BPS firms through their latest Business Process Services Scheme. Towards the end of 2005, the South African government through the Department of Trade and Industry, identified the BPS sector as a possible key to economic growth, specifically for job creation and attracting foreign direct investment (The BPO Partnership, 2009). While the Monyetla programme is their lead programme to alleviate youth unemployment, the government has also incentivised BPS with two programmes, the previous Government Assistance and Support Programme and the current Business Process Services Scheme.

In 2006, the Government Assistance and Support (GAS) Programme was implemented in order to attract BPS firms with incentives which would significantly lower their operating costs. This GAS programme hosted its first incentive programmes from July 2007 to March 2010 with the reported results of 6,000 new jobs and R303 million in direct investments (Department of Trade and Industry, 2010).

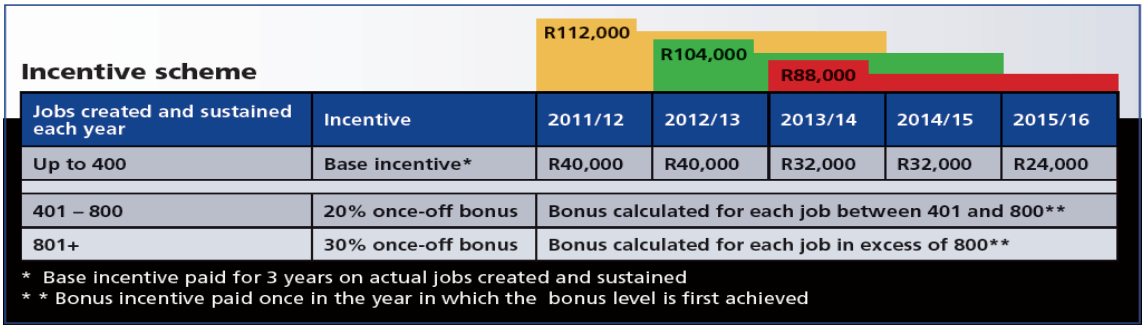
After 2010, the GAS programme was noted as a success in its pilot phase and the BPS sector was then identified as a strategic key sector within the DTI's Industrial Policy Action Plan (IPAP 2) – 2012/13 – 2014/15. The sector classified as "Cluster 2 – scaled-up and broadened interventions in existing IPAP sectors," enhances the GAS programme, renamed Business Process Services (BPS) along with sectors such as automotive and components and cultural industries and tourism. Today the BPS sector is supported through industrial development financial assistance by using grant scheme benefits (see below) which support foreign investment and employment creation and in particular a component in training and skill support (BPeSA Western Cape, 2012; Department of Trade and Industry, 2010). The DTI launched a R1 billion incentive scheme over the next five years to increase South Africa's competitiveness in the international market.

BPS benefits[17]

As described directly from the DTI website and Programme Guidelines (Department of Trade and Industry, 2010):

- "A base incentive as a tax exempt grant paid over three years for each offshore job created and maintained.
- A graduated bonus incentive paid as follows:
- 20% bonus for more than 400 but less than 800 offshore jobs paid once off in a year in which the bonus is reached;
- 30% bonus for more than 800 offshore jobs paid once off in the year in the year in which the bonus level is reached."

Figure 7 DTI Incentive Scheme: Offshore BPS in South Africa



Source: BPeSA 2012, pg 4; DTI, 2010

[17] http://www.dti.gov.za/DownloadFileAction?id=565&filename=BPS_Incentive_Guidelines.pdf

In the latest round of funding (September 2011), the DTI approved R157.76 million in grants for ten projects over the next three years (Rosool, 2011). Central to the initiative is also a tax-free subsidy of R112 000 for every full-time job created by companies (minimum of 50 offshore job opportunities) over the next three years. Such an initiative makes South African BPS services 70% cheaper than that of the UK (Prinsloo, 2011) and comparable to the Philippines.

Unions and labour brokering

South Africa has a strong history of union movements and working towards decent wages for all. There are some potentially significant changes in the labour relations system in the near future. The proposed changes aim to deal with labour brokering and temporary employment. It is not clear how this will affect the BPS sector in South Africa but certainly this will be an issue to be considered by the sector. Furthermore, there is also ongoing discussion on a youth wage subsidy for employers but the debates have shown little indication as to how and when this concept will be introduced. The Labour Relations Amendment Bill, currently a draft document under discussion will have implications to the creation of new digital employment through BPOs. The bill seeks to better regulate job placement of temporary workers. The new laws will require these employees to be offered permanent positions (Speckman, 2011). The BPS sector in South Africa, and particularly the offshore companies, depends on the ability to offer flexible wages, as well as the labour brokers' or employment agencies' ability to help identify and provide BPOs with qualified personnel. The BPS industry will need to closely monitor the forthcoming labour law proceedings which in some BPS cases, would possibly affect their operations.

South Africa's BPS labour in relation to impact sourcing

Impact sourcing has the potential to address the unemployment niche of low-income communities near cities and rural towns with alternative access to employment (Monitor, 2011). The private sector may need to be aware of these niches which could meet both their business and corporate social responsibility objectives. South Africa, with its high rates of rural unemployment and poverty can be a possible place to address this impact sourcing niche, as the country has been identified as the "second wave of global outsourcing locations" (Monitor, 2011: page 5), and other attributes such as an increase in broadband infrastructure, and high levels of ICT penetration make it attractive. According to Monitor's 2011 study, South Africa and Kenya are identified as major players in being suppliers or otherwise known as 'impact sourcing service providers.'

The community benefits of impact sourcing can be substantial, providing non-urban residents with work to generate an income which will contribute to their local economy. Such IS employment would provide income to improve the livelihoods of low-income households. In targeting those who are generally excluded from such opportunities: i.e. those with less formal education, IS provides another form of employment which is of interest to the youth and provides the digital skills development necessary for them to join the knowledge economy.

External challenges to the industry

South African-based BPS suppliers do face some potential obstacles in achieving comparative cost advantages for international calls. South Africa's landline telecommunications infrastructure is still primarily run by Telkom, a partially privatised former government para-statal. The lack of competition in the landline telecommunications market tends to increase telecommunications charges in comparison to other locations, but prices have dropped dramatically in the last few years for broadband. The Western Cape through the regional arm of the organisation, BPeSA, complements the DTI's grant by offering to subsidise some of the broadband telecommunication infrastructure.[18] South Africa also has a strong road and electricity infrastructure and urban areas, on the whole, experience stable electricity supply. In the past, however, power cuts have been intermittent and thus for business continuity, business would need to make provision for back-up power and other telecom infrastructure in order to handle workload.

Stakeholders

Besides government and the existing BPSs, there are a number of committed stakeholders in the business processing sector in South Africa ranging from trainers of BPS staff to trade promotion quasi para-statals. In some regions, there are active promotion organisations for BPS such as BPeSA – Business Process enabling South Africa, the national association for companies operating in the BPS market. There are also many BPS consultants who help to support the field with their international expertise through assisting with conferences, awards events, and seminars

[18] http://www.bpesawesterncape.co.za/wp-content/uploads/2011/06/BPeSA_Telecoms-Incentive-Application_Form.pdf

to remain up to date in the industry. Various consultancies helping to support the sector include the Independent Contact Centre Consultants Association, providing expertise in the country. Labour brokers do offer many services to BPS in recruiting new staff members (Bernstein, 2012).

4.5 Conclusion

In conclusion, the following labour findings are revealed about the BPS sector in South Africa:

- most jobs in South African BPS are of domestic (captive and onshore) clients and attract young South Africans to work, however this may change dramatically in the future due to South Africa's attractive incentives for offshore business process activities especially within the financial services sector;
- the majority of BPS work is located in urban areas such as Johannesburg, Cape Town and Durban where labour is more accessible. However, local economic plans by municipalities are encouraging signs of attracting BPSs to smaller towns;
- the government is investing nearly R1 billion on offshore incentives which allows for competitive wages for workers comparable to other developing countries such as India and Philippines and we are already seeing some major developments of new overseas BPS working in South Africa;
- training programmes are readily standardised and available for the BPS sector thanks to their Monyetla programme which has helped to train unemployed low-income youth;
- the industry is promoting high-quality English language front office and complex back-office work; and
- South Africa hopes to be the possible destination to expand to the rest of sub-Saharan Africa.

Within South Africa's industrial sector, the services sector has been a major growth and strategic area in the country. Given the close links of the BPS sector to services more generally, the current structural path set out by South Africa will see services continue to grow proportionately faster than the rate of the overall economy. In remaining competitive within an economically depressed period, companies may be better off strategising on their core business activities while following through with outsourcing of the non-core business processes. At present, the BPS market in South Africa gains much of its activities from the local private sector and is based in the major metropolitan areas because of the better access to skilled labour. At the same time, certain niches of impact sourcing may help to address high unemployment and poverty in rural areas in South Africa by providing a more equal distribution of opportunities available to underserved communities compared to say informal sector work. Certain secondary cities and towns are already attempting to ignite new job creation through the use of the BPS sector, yet it is hard to say whether the promotion for regional or international players is being done in a coordinated manner. There is certainly room for further institutional support for BPS to be located in these economically depressed areas. There is more involvement in promoting regional areas which are not well-known as well as building the human capacity for the management of BPO centres not just at the call centre agent level. While the DTI does provide incentives for growth of BPO regardless of regions, the funding itself will not fully address the substantial need for extra training to ensure

rural youth (where many more are unemployed and with less education) have the same BPS skills as those of the urban settings.

Certainly firms that wish to participate strategically in the IS sector would need to consider coordination of increased investments beyond the private sector in rural training or BPS retention mechanisms which attract young people to remain in the rural areas. The BPS sector can also spur new behaviour such as increasing the demand for enabling online basic services amongst rural communities as computer usage rates change. The growth of impact sourcing will only be possible if it is adaptable and grows with the available capabilities of the local rural or urban town. Therefore, if these regions are identified with resource constraints both of human and infrastructural nature, those would need to be supported in order to complement a successful IS initiative.

5. Discussion

An analysis of recent trends in the South African labour market combined with a brief overview of the BPS sector in South Africa has highlighted a number of issues which may impact on the potential of promoting impact sourcing initiatives as a way to create employment for young people and to serve marginalised communities. The main discussion points are organised into four sections and are identified as: the composition of the available work force; the skills match-up between South African youth and the BPS sector; wage comparisons; and the possibility of expanding the BPS sector beyond the major metropolitan areas in South Africa.

5.1 Number of unemployed relative to size of BPS workforce

South Africa has a substantial number of unemployed youth aged 15-24 (over 1.3 million in 2010), yet there are even more unemployed individuals in the age group 25-34 (1.7 million). While the IS sector often targets unemployed youth, the sector could also consider a broader age category (i.e. ages 15-34). The data from the Labour Force Surveys highlighted the far higher risk of unemployment for young black South Africans and for young black women (especially for those in the 19-24 age group), in particular. This latter group has, by far, the highest rate of unemployment among all demographics in South Africa and could be one of the disadvantaged groups to target for IS since the proportion of the BPS workforce that is female in South Africa is currently below the international BPO average. As for the youth who are already employed, their employment profile appears to be a close match with the BPS sector since they are largely in formal employment as wage earners in private enterprises.

On the whole, the profile of the available labour force that wants to work but has been unable to find employment (i.e. the unemployed) is similar, in some respects, to the demographics of the BPS work force in South Africa. BPS workers are younger than the average employed South African and the sector absorbs more women (proportionately) than the work force as a whole. If unemployed South Africans are to be viewed as a potential work force, then the demographic profile of the unemployed is a relatively close match to the existing BPS work force in South Africa.

5.2 Skills match up with South African youth

The key question, however, is whether young unemployed South Africans have the appropriate skill set or work experience to be successful BPS employees (the data suggests that the majority would likely be employed as 'agents') should the sector expand in South Africa. It is difficult to answer this question without knowing which types of BPS services would be more likely to recruit workers and what types of workers are required (e.g. entry level workers or managers). In addition, nationally representative surveys only paint a very broad picture of the types of work-related skills and experience of the youth.

Currently, the sectors which absorb the greatest number and percentage of young workers are wholesale and retail and financial services. It might be expected that some of the uptake in the BPS sector might come from these two

sectors as well since there is likely to be some overlap in skill requirements, particularly since the South African BPS sector has a large financial services component. Given the slightly higher wages paid to BPS workers (based on industry data) relative to aggregate wages in South Africa as a whole, it is plausible that the expansion of the BPS would also attract a large number of workers from lower paying sectors such as retail and wholesale.

In terms of absorbing unemployed youth, the data suggests some interesting possibilities. There is evidence to suggest, for example, that unemployed young people do have skills which may make them more attractive to BPS firms than the broader unemployed population. While younger unemployed individuals (i.e. both the 15-18 years olds and the 19-24 year olds) tend to have far less work experience than the older cohorts of the unemployed (since they are largely new entrants to the labour market), they do have skills which may be valuable to the BPS sector. Both of the youth cohorts of the unemployed, for example, report far higher levels of English proficiency compared with the broadly unemployed among the total working age population. Similarly, young unemployed people are also far more likely to have advanced or basic computer skills and are considerably less likely to be computer illiterate than the unemployed population as a whole.

5.3 Are wages in line with the sectors that employ the youth?

Wages in the BPS sector are, according to industry reports, considerably higher than average earnings in the sectors (i.e. wholesale and retail, manufacturing, construction and private households) which currently absorb the youth in South Africa. One caveat to this finding, however, is that it is not clear how BPS wage bands are estimated and whether or not they account for different job categories (i.e. agents vs. management). In the absence of detailed wage information for the BPS sector in South Africa, earnings comparisons must rely on the publicly available information which suggests that wages are relatively high in the sector.

As outlined in the previous section, this gives the South African BPS sector a comparative advantage compared with UK, European and American-based BPO firms. Given the overall context of labour in South Africa, however, it is clear that the local BPS sector cannot engage in a 'race to the bottom' in order to compete with wages in countries such as India or the Philippines. Rather, South Africa's comparative advantage in the sector lies in the quality of services, relatively cheap operating costs and its existing link with private domestic firms.

The fact that wages in the BPS appear to be slightly higher than in other sectors that require similar qualifications and experience suggests some interesting possibilities. One such possibility could well be the movement of workers out of low-paying sectors such as retail. Young and inexperienced workers are typically employed in retail and earnings are generally very low in these jobs. The expansion of BPO services in urban areas, in particular, would be likely to attract workers from the wholesale and retail sector.

5.4 Implications for urban/rural absorption into the sector

The implications for expanding the BPS sector to rural and other underserved communities is also an important consideration in the South African context. Unemployment levels are far higher in non-metropolitan areas and basic IT infrastructure is also considerably worse than in the major metropolitan areas. The quality of education in rural schools is also a major concern in South Africa so it might be expected that both language and IT skills are relatively under-developed in these areas.

The extent to which BPS expansion to underserved areas with high levels of unemployment can be successful will probably be determined, to a large extent, by access to initiatives such as the Monyetla programme and other training and skills development programmes. The fact that the existing BPS sector is currently expanding to some of the country's secondary towns and cities, however, is encouraging in this regard. On the whole, substantial support from all stakeholders (government to private sector to citizen) would need to be fully involved in order to see BPS incentivised to be located in non-metropolitan areas and provide employment to the higher rates of unemployment in disadvantaged areas.

6. Conclusion

The strong growth of the BPS sector in South Africa, commitment from both national and local government, and the promotion of specific skills development and trainings programme all suggest that BPS represent a promising sector for job growth. In addition, South Africa's existing service industry base and its proximity to other African countries as well as the European market bode well for the sector as a whole. For the impact sourcing niche, the choice of targeting unemployed youth is fitting to the demographic profile of the South African labour force. As seen in the data, unemployed youth amongst the age group of 15-18 and 19-24 are proficient in the English language and above average in comparison to the total working age population of the unemployed.

As BPS require some digital competencies, unemployed youth may have a low percentage of reporting being 'highly computer literate' yet this percentage is still higher than the self-report of the total working age population. Clearly efforts will be required in digital training within the BPS South Africa market.

Those unemployed youth who join the BPS sector would be joining the majority of contract workers for private enterprises if aged 19-24 and add to the group of young men and women who are already working in the service industry, particularly women. It may be interesting to note whether new jobs in the BPS sector would see workers switch occupations say from elementary occupations to service workers within the business services sector. Also there could be the likely chance that informal non-agricultural workers or women within private household work are absorbed by the formal work offered by BPS/IS. Given the relatively higher wages in the BPS sector in South Africa, such work could allow those in the informal sector improved job security.

As mentioned, very few employed youth 15-18 or 19-24 have identified themselves as self-employed (i.e. either employers or own-account workers). While they may possess fewer skills in entrepreneurship, it may also be the case of needing some form of income or skills development to emerge before being able to operate such. If impact sourcing is able to target unemployed young black South African women, in particular, it would certainly help to alleviate the very high rates of unemployment within this sub-group (which currently has unemployment levels far above the average for the working age population as a whole).

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Appendix

Table A: General Human Development Index Statistics

	Ghana 2011	**Kenya 2011**	**South Africa 2011**
Population total (in millions)	25	41.6	50.5
HDI rank	135	143	123
HDI value	0.541	0.509	0.619
HDI group	Medium	Low	Medium
Life expectancy at birth (years)	64.2	57.1	52.8
Median age (years) – 2010	20.5	18.5	24.9
% of total population (15-34) – 2009[a]	36	37	–
Urban (% of total)	52.2	22.5	62.2
Dependency ratio (%)	73.3	82.1	53
HIV prevalence in youth (%) (15-24)			
Female	1.3	4.1	13.6
Male	0.5	1.8	4.5
Gender inequality			
Rank	122	130	94
Value	0.598	0.627	0.49

Source: Human Development Report, 2011
[a] World Development Report, 2011

Table B: Education Statistics from HDI Report

	Ghana 2011	Kenya 2011	South Africa 2011
Mean years of schooling (years)	7.1	7	8.5
Inequality – adjusted education index			
Value	0.339	0.403	0.558
Loss (%)	40.9	30.7	20.8
Population with at least secondary education (%) (25+)			
Female	33.9	20.1	66.3
Male	83.1	38.6	68
Adult literacy rate (15+)	66.6	87	88.7

Source: Human Development Report, 2011

Table C: Poverty Statistics from HDI Report

	Ghana 2011	Kenya 2011	South Africa 2011
Population vulnerable to poverty (%)	21.6	27.4	22.2
National poverty line (%)	28.5	45.9	23.0
PPP $1.25 a day (%)	30.0	19.7	17.4

Source: Human Development Report, 2011

Table D: Economic Statistics from HDI Report

	Ghana 2011	**Kenya 2011**	**South Africa 2011**
GDP – 2009[a]	15,619	30,200	285,983
Average annual % growth – 2000-2009[a]	5.6	4.4	4.1
Value added as % of GDP – 2009[a]			
Agriculture	33.0	28.0	3.0
Industry	25.0	20.0	31.0
Services	42.0	52.0	66.0
GDP Per Capita (PPP $) – 2009	1,552	1,573	10,278
Labour force participation rate (%)			
Female	73.8	76.4	47.0
Male	75.2	88.1	63.4
Income Gini Coefficient	42.8	47.7	57.8

Source: Human Development Report, 2011
World Development Report, 2011

Table E Total labour force (broad definition), by age group (2004-2010), weighted estimates from the 2004 and 2007 LFSs and the 2010 QLFS (2nd quarter)

	2004	2007	2010
	15-18 (Inclusive)		
Employed	117,412 (10,459)	117,077 (8,953)	55,221 (67,48)
Unemployed (broad)	379,208 (16,920)	330,885 (21,267)	194,639 (12,136)
Inactive	3,412,662 (47,364)	3,538,182 (65,488)	3,979,942 (54,967)
Total labour force	496,620 (19,871)	447,962 (23,051)	249,860 (13,877)
	19-24 (Inclusive)		
Employed	1,171,042 (33,213)	1,406,358 (61,281)	1,269,848 (34,525)
Unemployed (broad)	2,392,800 (43,378)	2,211,925 (45,208)	1,820,743 (38,168)
Inactive	1,985,205 (38,707)	2,039,045 (69,168)	2,840,146 (49,068)
Total labour force	3,563,842 (54,164)	3,618,283 (75,579)	3,090,591 (50,945)
	25-34 (Inclusive)		
Employed	3,948,004 (65,524)	4,552,144 (113,908)	4,251,371 (64,968)
Unemployed (broad)	3,115,874 (52,649)	2,757,420 (51,432)	2,436,457 (45,916)
Inactive	816,373 (28754)	885,909 (37,147)	1,643,382 (38,663)
Total labour force	7,063,878 (82,713)	7,309,563 (123,572)	6,687,828 (78,038)
	35-50 (Inclusive)		
Employed	4,689,732 (63,735)	5,190,018 (135,761)	5,205,159 (65,912)
Unemployed (broad)	1,808,325 (36,609)	1,660,421(41,898)	1,445,879 (33,205)
Inactive	1,286,163 (31,680)	1,159,902 (29,793)	1,782,354 (36,344)
Total labour force	6,498,057 (72,444)	6,850,438 (141,230)	6,651,038 (72,617)
	51-64 (Inclusive)		
Employed	1,681,867 (37,663)	1,985,607 (68,488)	1,959,953 (40,560)
Unemployed (broad)	382,900 (16,183)	376,208 (17,561)	321,735 (15,289)
Inactive	1,872,703 (38,010)	1,908,439 (62,139)	2,192,446 (38,749)
Total labour force	2,064,768 (40,849)	2,361,815 (70,556)	2,281,688 (43,177)

Source: Own calculations from the 2004 and 2007 LFSs and the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets.
The data is weighted.

Table F Employment, unemployment and labour force participation rates (broad definition), by age group (2004-2010)

	2004	2007	2010
	15-18 (Inclusive)		
Absorption rate	3.00 (0.26)	2.94 (0.22)	1.31 (0.16)
Unemployment (broad)	76.36 (1.80)	73.86 (1.93)	77.90 (2.36)
Labour force participation rate	12.70 (0.47)	11.24 (0.55)	5.91 (0.32)
	19-24 (Inclusive)		
Absorption rate	21.10 (0.53)	24.86 (0.90)	21.41 (0.51)
Unemployment (broad)	67.14 (0.75)	61.13 (1.15)	58.91 (0.84)
Labour force participation rate	64.22 (0.58)	63.96 (0.93)	52.11 (0.61)
	25-34 (Inclusive)		
Absorption rate	50.10 (0.57)	55.54 (0.76)	51.03 (0.54)
Unemployment (broad)	44.11 (0.59)	37.72 (0.74)	36.43 (0.57)
Labour force participation rate	89.64 (0.35)	89.19 (0.44)	80.27 (0.42)
	35-50 (Inclusive)		
Absorption rate	60.25 (0.50)	64.79 (0.73)	61.72 (0.48)
Unemployment (broad)	27.83 (0.50)	24.24 (0.67)	21.74 (0.45)
Labour force participation rate	83.48 (0.38)	85.52 (0.41)	78.87 (0.39)
	51-64 (Inclusive)		
Absorption rate	42.71 (0.71)	46.50 (1.12)	43.81 (0.66)
Unemployment (broad)	18.54 (0.73)	15.93 (0.78)	14.10 (0.63)
Labour force participation rate	52.44 (0.71)	55.31 (1.10)	51.00 (0.66)

Source: Own calculations from the 2004 and 2007 LFSs and the 2010 QLFS (2nd quarter)
Notes: Standard errors in brackets.
The data is weighted.

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