

the dti



THE ENTERPRISE ORGANISATION
SOUTH AFRICA

PROGRAMME GUIDELINES

BPO&O INVESTMENT INCENTIVES: Training Support Grant

Programme Manager: BPO&O Incentives

The Enterprise Organisation
Department of Trade and Industry
Private Bag X86; Pretoria, 0001

Website: www.thedti.gov.za

Call Centre: 0861 843 384

The DTI Campus; 77 Meintjies street,
Sunnyside; Pretoria, 0002
South Africa

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Appendix A: Glossary of terms and definitions

Disclaimer:

This guidelines document provides the criteria to assess proposals from potential BPO&O projects and the process of applying for the incentive. The guidelines are approved and issued by the Department of Trade and Industry in collaboration with The Department of Labour for purposes of ensuring clarity on the aim and requirements of the incentives programme. The issuing departments reserve the right to amend the guidelines as it deems appropriate.

1. Overview by Minister of Trade and Industry

- 1.1 The South African government has identified the Business Process Outsourcing and Off-shoring (BPO&O) sector as one of the top three priority sectors to stimulate growth within its Accelerated Shared Growth Initiative (ASGI-SA). The sector is identified for its potential to attract investment and create employment opportunities in the economy.
- 1.2 A vision has been stated that by 2014, South Africa will be recognised as a Tier 2 player in the international market for Business Process Outsourcing and Off-shoring Services.
- 1.3 To realise this vision, the Department of Trade and Industry (**the dti**) has introduced an incentive programme to attract investment in the sector. The incentive is offered to local and foreign investors establishing projects that aim primarily to serve offshore clients, and comprises a grant towards approved qualifying expenditure for start-ups and expanding BPO&O operations.
- 1.4 The incentive programme is one of the elements of a holistic value proposition to position South Africa as a preferred location for BPO&O operations, alongside the sector skills development initiatives, a dedicated investor-friendly set up process, and a programme to improve industry service standards.
- 1.5 I hereby extend an invitation to potential investors to apply for the incentives on offer, to invest and support the South African government in realising its goals of growth and employment.

Mandisi Mpahlwa, MP
Minister of Trade and Industry

Date: / /

2. Description of the BPO&O Investment Incentive

- 2.1 The BPO&O Investment Incentive comprises an Investment Grant ranging between R37,000 and R60,000 per seat and a Training Support Grant towards costs of company-specific training up to a maximum of R12,000 per. The incentive is offered to local and foreign investors establishing projects that aim primarily to serve offshore clients.
- 2.2 The objective of the incentive is to attract BPO&O investment that creates employment opportunities.
- 2.3 The Training and Skills Support Grant is provided directly to approved projects towards costs of providing company specific training (as opposed to industry wide training) up to a maximum of R12,000 per agent. The incentive grant is over and above the financial assistance obtained through the Sector Education and Training Authorities (SETAs) and is a complement to the BPO&O Investment Grant¹.
- 2.4 The BPO&O Training and Skills Support Grant will be implemented from 2006 to 2011.

¹ Note that there is a separate programme guideline document for the BPO&O Capital Expenditure Grant.

3. Eligibility criteria

The applicant must:

- 3.1 Be a registered legal entity in South Africa in terms of Companies Act, 1973 (as amended); Close Corporations, 1984 (as amended), Co-operative 1981 (as amended) or as Sole Proprietorship, or Partnership entity.
- 3.2 Be a taxpayer in good standing and must, in this regard, provide a valid tax clearance certificate.
- 3.3 Have accepted or approved the investment project to go ahead, and in this regard, must submit a formal undertaking from the investor and/or its parent company² and an assessment to indicate viability of the envisaged project supported by sound financial evaluations.

3.4 The dti will determine whether an applying project is eligible to benefit from the BPO&O investment incentives on the following basis:

- 3.4.1 A project may involve starting a new operation or expanding an existing operation in order to perform business process outsourcing and off-shoring activities.
- 3.4.2 The investment project must, by the end of its first year in operation:
 - ⇒ Be adding to the South African productive capacity for BPO&O to an extent that it will establish an operation of at least 100 seats, and
 - ⇒ Be creating at least 200 additional jobs, defined as full-time equivalents of 'agents' directly working on the project.
- 3.4.3 The investment project must commence its commercial operations within one year from the envisaged date of BPO Incentive grant approval.
- 3.4.4 The investment project can be a cost centre of an existing operation, a branch of an existing entity, and a joint venture between entities. In a joint venture arrangement at least one of the parties must be registered in South Africa as a legal entity.

² A formal undertaking from a parent company may be in the form of an approval from the Board, or a regulatory filing approved by the Board, or a Board Resolution or letters from Chair or Secretaries Certificate.

3.4.5 The investment project must operate activities classifiable as that of business process outsourcing and off-shoring and must generate at least 90% of its revenue from activities that service offshore clients. An exception to this requirement is however applicable to operations that have been in existence and operating in South Africa before 01 April 2006, wherein a minimum threshold of 70% offshoring activities can be accepted.

3.5 An application is not a 'qualifying investment project' if it is:

3.5.1 Expected to displace existing jobs within South Africa, for example by way of relocating an existing BPO&O facility, in full or part, within South Africa; and/or transferring the capacity from a client, a competitor, or an associated operation in South Africa.

3.5.2 Entitled to concurrent industrial incentives benefits under the Small Medium Enterprise Development Programme (SMEDP).

4. Qualifying expenditure

The qualifying training and skills development expenditure are for "company/client specific skills" requirements in the following areas³:

4.1 Costs for in-house and/or outsourced company specific training, i.e. product training, language training, and systems training

4.2 Costs (salaries and wages) of in-house trainer development/ skills development facilitators/ in-house assessor training

4.3 Costs for development of learning materials/programmes

4.4 Costs for trainer secondment into South Africa: cost of an economy-class air ticket to-and-from South Africa as well as cost of accommodation limited to R700 per day. These costs are considered once-off and are only afforded the official(s) delivering the training.

4.5 Costs of purchasing and installing training equipment and facilities.

5. Non-eligible expenditure and exclusions

5.1 Costs of generic training requirements such as the following items are not eligible: IT skills, financial, communication (verbal and written), customer

³ "Company/client specific" skills requirements refer to the training needed for skills unique to the firm or client being serviced. For example, to suit certain types of hardware or software; to suit certain types of niche customers; or proprietary processes no other BPO firm uses.

service, entrepreneurship, business acumen, and other costs that the Adjudication Committee may deem appropriate for exclusion

- 5.2 A condition regarding qualifying expenditure is that the calculation of qualifying expenditure will exclude items acquired from connected parties
- 5.3 The training and skills development activities are only applicable to South African citizens in line with indicator 2.6 of the National Skills Development Strategy
- 5.4 The applicant must give specific attention to the equity indicators, i.e. 85% black, 54% women and 4% people with disabilities (as per the principles of the National Skills Development Strategy)

6. Grant calculation

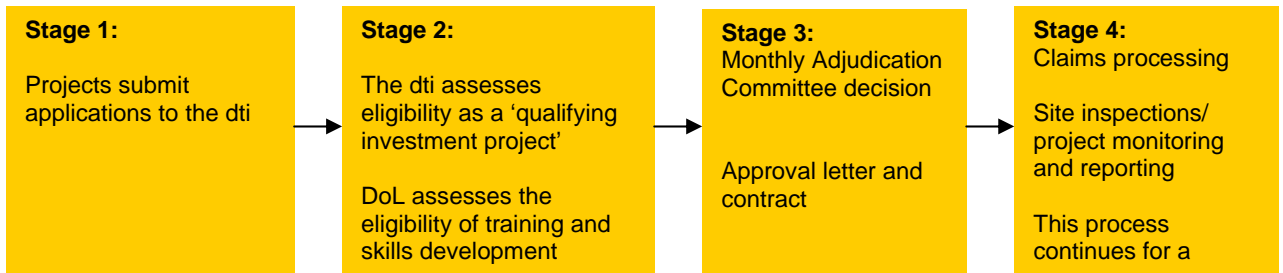
- 6.1 The grant is to be calculated as 50% of qualifying training and skills development expenditure, and is capped at a maximum of R12,000 per agent.
- 6.2 The grant calculation is done at the approval stage and reflected in the contract on the basis of projected figures provided in the application.
- 6.4 The grant approval is subject to availability of funds.

7. Grant disbursement

- 7.1 The approved grant is disbursable after the approved training and skills development activities have been carried out, in which case the approved project must produce proof.
- 7.2 An applicant can claim its approved grant until it is exhausted, taking note that the training must happen within the two years from the date of grant approval.
- 7.3 Grant disbursement will be effected only upon satisfactory verification of qualifying expenditure items and the physical inspection on-site by **the dti** and DoL.
- 7.4 Grant disbursement is limited to the approved grant amount. The entire unclaimed amount after 6 months following the end of the contract period shall be forfeited.
- 7.5 The grant offered in terms of the BPO incentive is exempt from tax for specific qualifying activities.

8. Application procedure

8.1 The following diagram presents an application process:



8.2 The following information is required with the application form:

8.2.1 Information about the applying company

- Contact details of parent company
- Details of registration in South Africa
- Tax clearance conditions

8.2.2 Details about the planned project:

- Panned date of commencing operations
- BPO activities/services to be rendered
- Expected revenue streams and markets to be served
- Employment opportunities to be created by the project
- Internal company feasibility evaluation of the planned project

8.2.3 Capital expenditure and expansion plans

8.2.4 Training and skills development requirements

8.2.5 Projected financial statements.

8.3 The applications must be submitted to the following address:

Programme Manager: BPO&O

Incentives

Postal address:

The Enterprise Organisation

Private Bag X86

Pretoria, 0001

Physical Address:

The DTI Campus

77 Meintjies street

Sunnyside

Pretoria, 0002

Website: www.thedti.gov.za

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9. Monitoring

- 9.1 All approved projects will be monitored in order to assess how the BPO incentives contribute to stated development outcomes.
- 9.2 The Department of Labour will conduct site inspections on all the approved projects at each claim stage with regard to claims for the training support grant.
- 9.3 Approved projects are also required to submit a final close-out monitoring report at the end of the financial year after their final claim.

9.4 The following records must be presented for purposes of grant claiming and verification:

- 9.4.1 Comprehensive training records, including programme schedules and attendance registers should be available for verification (the applicable sections in the application form could be used as a format).
- 9.4.2 Records of outsourced training, including the relevant invoices.
- 9.4.3 Evidence of all learning programme development and related activities, including the invoices.
- 9.4.4 An inventory of capital and other training related equipment including the invoices.
- 9.4.5 Records of other financial support towards training and skills development received or due to be received from the South African government or its agencies.

9.5 The following information must be certified by an accredited person to effect grant payments:

- 9.5.1 A statement confirming the actual salaries and wages of trained employees for which the claim was submitted.
- 9.5.2 A statement confirming the actual salaries and wages of staff involved in providing in-house (on-the-job) training for which the claim was submitted.
- 9.5.3 A statement confirming the invoices of equipment procured under the Capital Grant for which the claim was submitted.

Appendix A: Glossary of terms and definitions

Outsourcing and Offshoring	<p>When a company relocates business processes that it used to perform in-house:</p> <ul style="list-style-type: none"> • Outsourcing occurs when it uses third party providers to perform these activities/ services, and/or • Off-shoring occurs when these activities/services are performed in a foreign location.
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Types of business processes that can be outsourced or offshored include, but are not limited to, the following categories:

- **Finance and Accounting Services** (e.g. Accounting services, Accounting preparation and reconciliation, Asset management, Corporate claims processing, Loan application processing, Portfolio analysis & management, Financial reporting, Treasury & financial management, Tax consulting & compiling, Tax management, Auditing)
- **Human Resource Functions** (E.g. Compensation & payroll administration, Recruiting and termination, Education, Training & Development)
- **Contact centers** (E.g. Inbound customer service, Inbound helpdesk, Inbound sales, Inbound technical support, Outbound data cleaning & Data capturing, Outbound debt collections, Outbound customer interview, Research & surveys, Outbound telemarketing/sales, Web sales & marketing, Advertising-Creative processes, Marketing research services)
- **Back Office Processes** (E.g. Administration, data entry/preparation, Data entry – scanning & archiving, Document management, Translation & Transcription service, Forms and report generation)
- **IT and Technical Services** (eg. Network management & maintenance, Software development & maintenance, Web site design & development, Network maintenance, Data Conversion, -Entry, -Scanning, -Administration and -Maintenance),
- **Other Specialist Services** (E.g.: Engineering & Design, Asset Management, Infrastructure management, Logistics and fulfillment, procurement, transportation services, travel & Tourism booking & reservations, Translation and Transcription Services, Insurance Industry Functions).

Offshore client	A client located outside South Africa, contracted to have its activities/services performed/rendered by a BPO/O operation located within SA.
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Date of commencing operations	Date on which the entity/project starts performing or rendering the offshored/outsourced service(s), e.g. handling calls. The entity must have the facility and agents on site, to be able to perform transactable services for the applying project.
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Financial year end	The last month of the financial year of the entity. This month will correspond with the last month of the Audited Financial Statements.
Commencement date of claims	Entity has the following options/choice regarding commencement date of claims: <ul style="list-style-type: none"> • On the first day of a calendar month, where this date is the same as the commencement date of operation OR • the first day of the month immediately after the commencement date of operations if the production did not commence on the 1st of a month, OR • O the first day of the first full financial year after the commencement date of operations.
Claims period/ incentive period	<ul style="list-style-type: none"> • The entity may qualify for incentives for a maximum period of 3 years. The claim period commences on the commencement date of claims and ends on the last day of the third financial year-end thereafter as indicated in the contract.
Agents	<p>Refers to 'full-time equivalents' employees occupying the seats/operating facility, handling calls or rendering services regarding the outsourced/offshored service. Full-Time Equivalents refers to agents working an equivalent 45 hours per week, considering the provisions for 'compressed working week' and 'averaging of working hours' detailed in the Basic Conditions of Employment Act (BCEA) 1997 as amended, as amended (i.e. Hours worked by part time work or contract work 'Agents' will be calculated to constitute full time equivalents applicable for the claims period.</p> <ul style="list-style-type: none"> • For purposes of this programme, number of agents will be calculated as average number applicable for a claims period
Seats	<p>Refers to operating facility/ desk used by an agent. Seats are used as an equivalent measure for a capacity size of a BPO/O operation. For a 24-hour operation, it is possible to have 'hot seats' i.e. where one seat is used/ occupied by 3 agents, each working an 8-hour shift.</p> <ul style="list-style-type: none"> • For purposes of this programme, seats are calculated as average number of seats i.e. the active seats for each month divided by the number of months applicable for a claims period.
Employees	<p>Refers to the total staff complement employed by an applying project and engaged in the operations. This will include agents, management and support staff.</p> <ul style="list-style-type: none"> • For purposes of this programme, this is calculated as average number applicable for a claims period.