

Africa Rising – Outsourcing Juggernaut set Sails

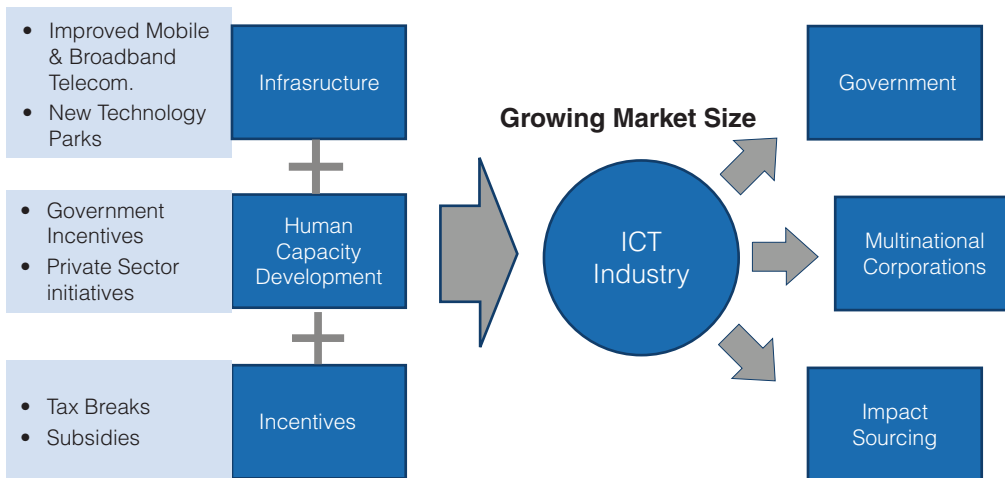


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Over the past few years countries in Africa have been trying to position themselves on the global sourcing map as competitive destinations for service delivery. The efforts and initiatives of countries in the region are paying off with several multinational companies making investments in the last few quarters, to both service the regional market and also to use the geography as a global service delivery hub!

African nations have realized the potential of the IT/BPO sector as an integral pillar to foster economic growth in an inclusive fashion. Their competence in terms of demographics and language skills has been well established. Their advantage in terms of time zone compatibility with the European nations and shared business culture has also been acknowledged by many clients and service providers. To harness these capabilities some of the African nations have taken a stride ahead and progress in this domain can be clearly seen. There has been significant improvement in the infrastructure, noticeably



subscribers, making the continent the fastestgrowing ICT market in the world.

The public and private sector has also made

in the telecommunication & technology parks and human capital development. These improvements have resulted in a constantly growing IT/BPO market.

INFRASTRUCTURE IMPROVEMENTS: KEY TO SUSTAINED GROWTH

Infrastructure development projects are on an upswing in many locations within Africa with increased participation from both public and private sector. A huge improvement can be seen especially in the communication sector and the commercial real estate with multiple IT parks becoming operational.

Large Telecom operators like Bharti Airtel are looking to harness this large untapped market as well as contribute to the infrastructure development thereby making it a more conducive outsourcing location. Airtel has already invested \$ 11 Billion in Africa which has led to almost a 50% reduction in mobile telecom tariffs. During the past five years, Africa's cellular market has grown 5000% to over 400 million

considerable progress in improving fiber connectivity. Since the fiber optic SEACOM subsea cable went live in 2009 and the dramatic reduction in Internet costs that followed (prices in some parts of East Africa fell from \$4,000 to under \$500 per megabit), broadband consumption has jumped in some cases almost 10 fold within the first year of commercial service. In the 2010 ITU report, out of the top ten countries showing the steepest decline in prices worldwide, nine of them were African countries.

Along with the development in the telecom landscape many technology parks have been developed to promote the growth of the IT/BPO industry in Africa. Parks like Smart Village in Egypt, Innovation hub & Softline Technology Park in South Africa, Casablanca Technopark in Morocco provide state of the art facilities and incubation centers to the IT/BPO industry. Tunisia, for instance, has recently announced an ambitious plan to build 10 technopolis to disseminate digital culture and new technologies within the next ten

years. Kenya also has outlined an ambitious plan of developing a 5,000 acre East African technopolis. These developments and plans pave the road ahead for a sustainable growth in the ICT sector of Africa

GOVERNMENT INCENTIVES: FOSTERING GROWTH

Governments in most African nations have been actively engaged in developing the IT/BPO industry and from time to time have released attractive incentive plans. These incentives by the government have enabled an increasing inflow of Foreign Direct Investment since 2000 and is expected to touch the 2008 marks again by 2013 (Depicted in the Chart 1 - There was a reduction in FDI in 2009 and 2009 due to global recession) and attracting service © Copyright 2011 - All Rights Reserved, Avasant LLC Page 3 of 5 providers to set up delivery centers and MNCs to set up shared service centers. Recent incentives by the South African government aim to reduce the operating cost of BPOs by an additional 20%. Similar incentive schemes have been rolled out by most African countries and have acted as a key factor in developing the IT/BPO industry. Strong data and IP protection laws have also been tabled by governments indicating a positive directional movement to create a conducive business environment.

HUMAN CAPITAL DEVELOPMENT

There have been considerable efforts, in the past few years, to improve the

education levels in Africa to fulfill the requirements of growing ICT industries. Apart from the government initiatives in improving the education system and providing training grants to corporations, a lot of initiative has been taken up by private companies. Some of the recent initiatives such as the Microsoft's South African Innovation Centers to promote the job enablement program have started yielding results. The AfDB has invested in information and technology skills at two regional Centers of Excellence in ICT in Tunisia and Rwanda and in a High Tech Centre in ICT in Mali. MTN & Cisco have also invested in skills development in South Africa. ITIDA (Egypt) has also launched European language programs in partnerships with leading cultural institutes in Egypt to enhance availability of talent for technical support with proficiency in French, Spanish, German and Italian. These initiatives by both the government and the private sector have increased the employable population in the African continent resulting in an improved IT/BPO market.

IT/BPO MARKET: THE GROWTH STORY

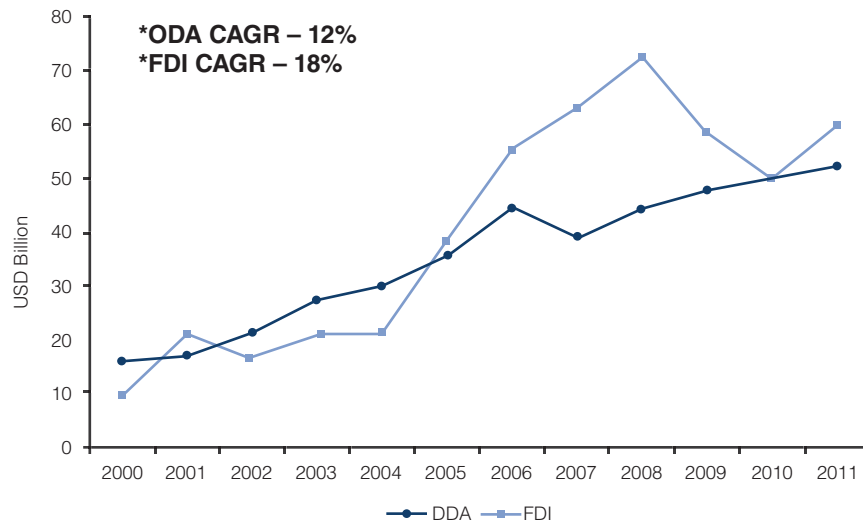
In the past couple of years there has been a significant development in the IT/BPO space with many third party providers entering the African Landscape. This market has seen an increase in not just third party service providers but also captives of major MNCs. In order to tap the potential

at the bottom of the pyramid, Impact Sourcing as a method of outsourcing has become a leading phenomenon taking cues from the rural sourcing initiatives in countries like India.

Ranking of countries like Egypt has

improved significantly from a 13 in 2007 to 4 in 2011 on the AT Kearney Global Service Location index and the Government is projecting revenue of \$ 2 Billion from the IT/BPO industry by 2013. Faced with intense competition and eroding margins due to inflation in India, Spanco a technology firm expanded in Africa and now earns nearly half its profit from the African region in 2 years employing nearly 2500 people here. In Kenya, for instance the number of IT/BPO companies has grown from just 1 in 2005 to over 25 in 2010. Tele Tech entered the Ghana BPO space in October 2010 with the acquisition of Vodafone's call center and now has a 600 seat center in Ghana, making it one of the bigger third party players in the African market. Over 200,000 South Africans are already employed in the BPO sector, with five of the world's top 10 BPO firms

Chart 1 - FDI and ODA flows to Africa



Source: DECD/DAC for ODA, UNCAD for FDI 2000-2010.
Projections for 2011: FDI: IMF; ODA: Simple forecast

setting up © Copyright 2011 - All Rights Reserved, Avasant LLC Page 4 of 5 shop in the country in the last two years. Genpact Ltd, Aegis Communications Group Inc. and IBM have started operations, while Mahindra Satyam is planning to open a center of its own. Entry of these large IT/BPO companies in the African market is a testimonial of the traction the industry has gained over the last couple of years.

Shared Service Centers of Multinationals have forayed into the African market not just to create value through outsourcing services to a low cost destination but to enter into the huge untapped African Market. Nestle, for instance, has strengthened its presence in Africa by setting up a shared service center in Accra (Ghana) to support back office operations to 40 African nations and is expected to employ 150 people by 2012. Entry of large multinationals

into the African market has served them the dual purpose of establishing a foothold in this geography as well as to exploit the benefits of a low cost destination.

Government projects and collaboration with private players are encouraging the development of the IT/BPO landscape through various e-Governance and digitization projects. The Governments in countries like Ghana and Kenya are not just promoting this industry through aids and infrastructure development but also have become the users of these services, creating an anchor demand essential for the growth of this industry.

ACHIEVING INCLUSIVE GROWTH: IMPACT SOURCING

Impact sourcing, a new phenomenon in the sourcing world revolves around the premise of a social impact through BPO. It involves employment generation within the poorer sections of the society and has seen a huge potential in Africa. A constantly increasing ODA (Official Development Assistance) as seen in chart-1, demonstrates an active participation of various organizations and governments in developmental projects in Africa. Initiatives from groups like Rockefeller Foundation strengthen the viability of this newly established mode of outsourcing. Various models have been identified to create employment in the underprivileged sections of the society through BPOs. In

Ghana, for instance, out of the 2500 odd seats in the BPO sector, almost 30% can be classified as Impact Sourcing seats. Right skilling of work and identifying trainable skills have enabled development of specific skill based training to increase the employable population in these countries. Corporations around the world and governments in Africa are beginning to realize the huge potential this segment of the outsourcing market offers and have started to make investments.

CONCLUSION

Africa has always been perceived as geography with huge potential but in the recent years, significant progress in realizing the potential has been observed. Infrastructure improvements and reduction in ICT costs have fostered the growth of the IT/BPO industry. Significant inflow of FDI and foray of service provider companies have demonstrated the fact that the African IT/BPO industry is set to compete globally with the established geographies in this sphere. It has become difficult to ignore this huge market both in terms of a low cost location with a young population as well as a regional market with sizable demand for goods and services. Further capacity building activities already initiated by the African nations will enhance the pace of growth and pave the road ahead for further expanding the IT/BPO industry in the region. **GS**