



# Africa: The Next Frontier for Outsourcing

Can the African Lions Take on the Asian Tigers?

# African Lions

## Global Players in Outsourcing



### **Africa is, and will, remain one of the World's Fastest-Growing Regions**

According to The Economist, six of the world's ten fastest-growing economies from 2000-2010 were in sub-Saharan Africa, with Angola leading the way with an annual average GDP growth of 11.1%. The other five were Nigeria, Ethiopia, Chad, Mozambique and Rwanda, all with annual growth rates of between 7.6% and 8.9%.

When looking at the expected growth rate from 2011-2015, the IMF forecast puts Mozambique at 7.7%, Tanzania at 7.2%, Ghana at 7.0% and Nigeria at 6.8%. And over the next 20 years, Standard Chartered forecasts that Africa's economy will grow at an average annual rate of 7%, which is slightly faster than China's expected growth rate. Outsourcing is one of the industries which we believe will help drive these expectations of growth.

### **Growing Investment**

Countries in Africa are positioning themselves on the global outsourcing map and are increasingly becoming competitive destinations for both BPO and ITO services. Several multinationals have been investing and are expected to continue doing so, and their objectives are both to service the local and regional markets as well as leveraging it as a global delivery hub.

Northern Africa has already seen many Outsourcing successes coming out of Morocco and Egypt – Morocco, Tunisia and Algeria have mainly grown to serve French-language support requirements and Egypt has focused on ITO. Some sub-Saharan countries such as Ghana, Kenya and Mauritius are emerging as attractive locations for regional delivery – indeed Accenture has a well-established call centre and IT delivery centre business in Mauritius due to attractive tax and labour legislation. South Africa has global delivery capabilities, and service providers are trying to expand their service offering outside of CRM.

### **Improving Infrastructure**

Governments and the private sector have made important progress in improving broadband connectivity and reducing prices. The fibre optic SEACOM subsea cable went live in 2009, and since then we have seen a dramatic reduction in connectivity costs in some areas with price falls of over 80%. According to the International Telecommunication Union (ITU),

in 2010 nine of the top ten countries showing the sharpest decline in prices worldwide were African. In addition to the developments in connectivity, many technology parks have been developed (and are planned) to promote the growth of the Outsourcing industry in Africa.

# Elix-IRR's Location Assessment

## Identifies Four Regional Leaders

Multiple companies and BPO vendors have implemented or plan to implement a hub and spoke strategy in Africa, and the four regions North, West, East and South are often chosen as regional hubs serving the surrounding countries.

### Northern Africa

Northern Africa has already seen many BPO successes coming out of Morocco and Egypt – Morocco, Tunisia and Algeria have mainly grown to serve French-language support requirements. Egypt has established a strong outsourcing capability with government support over the last decade. However there are concerns over political stability following last year's upheavals.

### Eastern Africa

In 2007 BPO was named one of the six flagship clusters included in Kenya's Vision 2030 roadmap and Kenya is a regional leader in ICT based industries. The country is positioning itself to take advantage of the growth in local and regional Outsourcing deals.

Criteria/ Country	North Africa				West Africa			East Africa			South Africa	
	Algeria	Egypt	Morocco	Tunisia	Ghana	Burkina Faso	Nigeria	Tanzania	Uganda	Kenya	Mauritius	South Africa
Political and regulatory environment												
Talent Pool												
Economics (salaries, real estate, inflation, COLA etc.)												
Infrastructure												
Technology												
Conclusion												

### Western Africa

In Western Africa, Ghana has a sophisticated banking and finance environment, and it has strong public institutions and governance indicators with relatively high government efficiency, particularly by regional standards. Government support is strong and Nestlé’s decision to set up a shared service centre in Ghana (Accra) to support back office operations to 40 African countries speaks for itself.

### South Africa

South Africa is best positioned to leverage its language and skill strengths as well as MNC density to serve as a “regional hub” for Sub-Saharan Africa. As an international business support location, it has time zone and language strengths. We are seeing that service providers are trying to expand their service offering outside of CRM.

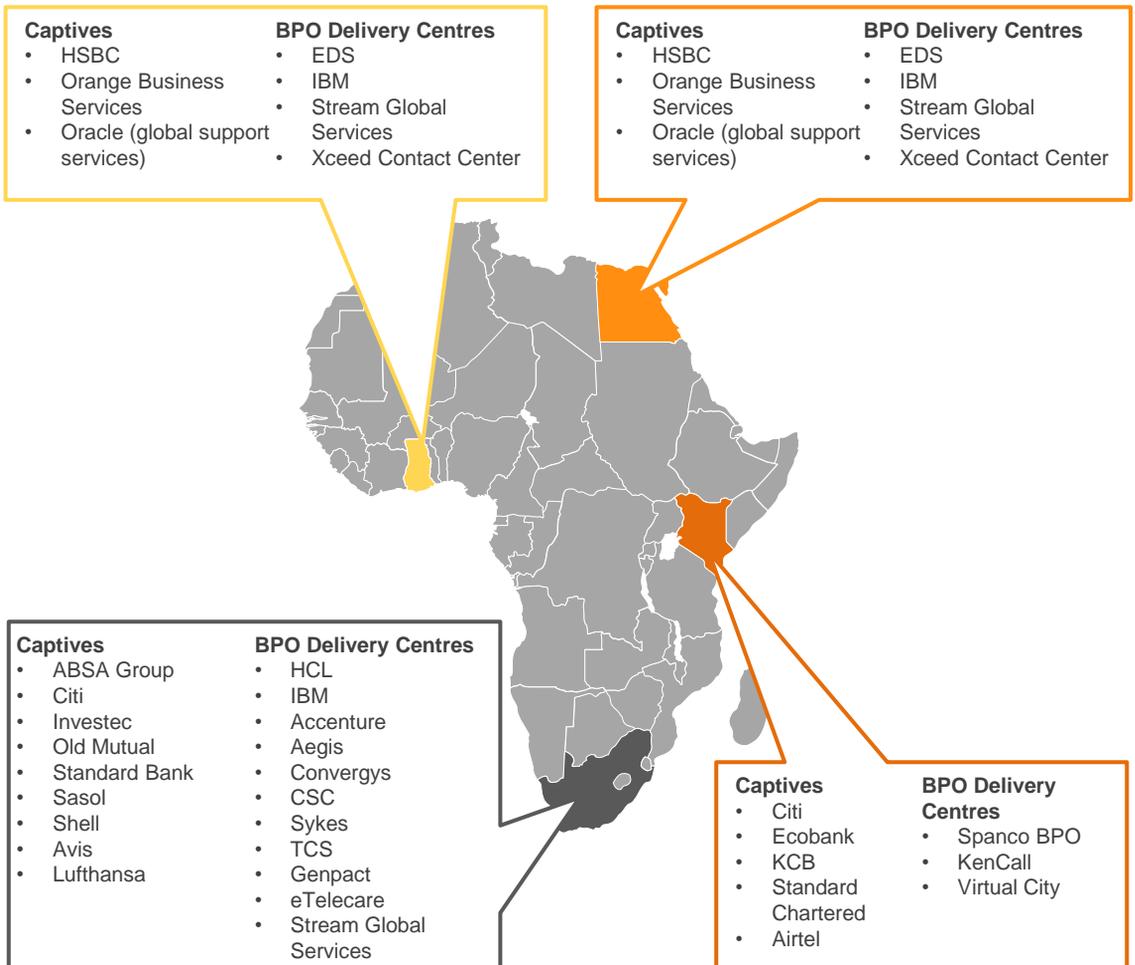


Figure 1: African BPO & Captive Shared Service Centre Hubs

# Leading the Pack

## Egypt, Ghana, Kenya and South Africa

Country	Strengths	Challenges
<b>Egypt</b> 	<ul style="list-style-type: none"> <li>• Strong government support and incentives have been in place</li> <li>• Competitive costs of operation - fully loaded cost per FTE is claimed to be on a par with India (higher salary but lower real estate)</li> <li>• Good location for Europe – 1-2 hours time difference and multi-lingual labour pool</li> <li>• Improved IP protection – piracy rate below global median</li> </ul>	<ul style="list-style-type: none"> <li>• Political/ social stability risk – the Arab Spring has left its mark</li> <li>• Limited experience in 'higher level' BPO processes – mainly basic contact centre activities; many of these activities are already offshored elsewhere</li> <li>• Currency is currently artificially pegged to USD – could be a disadvantage in the event of a US recovery</li> </ul>
<b>Ghana</b> 	<ul style="list-style-type: none"> <li>• Strong government support and incentives are in place</li> <li>• Low employment rigidity</li> <li>• Favourable labour relations</li> <li>• English as a first language</li> <li>• Good time zone for Europe – 0-2 hour time difference</li> <li>• BPO free zone area outside Accra – zero taxes for 10 years and 8% tax after the 10-year period</li> </ul>	<ul style="list-style-type: none"> <li>• On-going infrastructure concerns – power outages, both black and brown-outs keep causing problems</li> <li>• Relatively high perception of country/business risk</li> <li>• High rental costs for suburban offices</li> <li>• High wage rates for professionals, skilled and technical workers</li> </ul>
<b>Kenya</b> 	<ul style="list-style-type: none"> <li>• Regional leader in ICT based industries</li> <li>• Fast growing service sector</li> <li>• English as a first language</li> <li>• Good time zone for Europe – 0-2 hour time difference</li> <li>• Some large MNCs present</li> <li>• A 7,500-seat BPO Park is expected to be completed in 2015</li> </ul>	<ul style="list-style-type: none"> <li>• High levels of corruption – ranked 154 out of 178 in 2010 rankings</li> <li>• High perception of country/business risk</li> <li>• Limited grade 'A' office space</li> <li>• On-going infrastructure concerns – power outages, both black and brown-outs keep causing problems</li> </ul>
<b>South Africa</b> 	<ul style="list-style-type: none"> <li>• Strong F&amp;A pool – higher numbers of accountants, actuaries and CFAs than most other outsourcing destinations</li> <li>• Strong graduate pool – 90,000 graduates per year</li> <li>• English as a first language and Western cultural fit</li> <li>• Good time zone for Europe – 0-2 hour time difference</li> <li>• Financial hub for the whole of Sub-Saharan Africa</li> </ul>	<ul style="list-style-type: none"> <li>• There are still infrastructure concerns – however, the power outages experienced in 2009 are no longer as frequent, while telecom costs are continuing to come down rapidly</li> <li>• The political and social environment, whilst improving, is still relatively poor – high levels of poverty and crime</li> <li>• Arbitrage is moderate at best compared to other offshore hubs; 10-15% less arbitrage than India and it is decreasing</li> </ul>

# Conclusion

**A number of governments understand the significant economic advantages of becoming an Outsourcing location of choice. However, there are numerous factors that must be taken into consideration.**

## **Geopolitical Stability**

Geopolitical stability is a key factor in any location decision and over the last 6-12 months even more so. The Arab Spring has showed us the consequences of the opposite.

## **MNC investments**

Investments from MNCs as well as continued demand for local and regional service delivery from them will be very important to any country which wants to succeed as an Outsourcing destination. We have already mentioned Nestlé's showcase shared service centre in Ghana as a recent example.

If Africa as a region is going to succeed as an Outsourcing destination government support will be essential. For example, the Ghanaian and Kenyan governments are not just promoting the Outsourcing industry through tax breaks and infrastructure development, they have themselves become users of Outsourcing services, increasing credibility and creating demand essential for continued growth in the industry.

Africa has since long been perceived as a geography with huge potential, and in recent years significant progress in realising this potential has been observed. Infrastructure improvements and lower bandwidth costs have nurtured the growth of the Outsourcing industry. Investments by global Outsourcers in the region, and the sizable market both in terms of being a low cost location with a young population and as a regional market with sizable demand for goods and services are important factors on the road ahead for further expansion of Outsourcing in Africa.

We believe that the African Lions will be able to take on the Asian Tigers.

**About Elix-IRR:**

Elix-IRR is a strategic advisory firm specialising in all forms of transformation, change, operating models and sourcing strategies. It is comprised of senior professionals from consulting and services firms such as McKinsey, Deloitte, IBM and Accenture, as well as experienced practitioners from industry.

We provide practical, pragmatic advice that leads to real results.

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