

## **BUSINESS PROCESS OUTSOURCING**

### **WHY UGANDA IS NOT READY**

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#### **Background**

Business Process Outsourcing (BPO) commonly known as Outsourcing is a concept where services required by any entity are obtained from without the organisation as opposed from within.

NelsonHall defines BPO as the outsourcing of business functions or processes, such as procurement, to a third party. In these contracts the provider is responsible for performing and managing the outsourced function or process on behalf of the customer.

Outsourcing can be intra or inter country. In otherwords, you can have organisation X outsourcing services from another organisation within the country or from without. The advent of the internet has made the outsourcing business grow in leaps and bounds. Countries like India are gaining billions of dollars from the BPO industry alone.

Uganda is one of those countries that is looking at raking in some good money from the BPO industry. Some of the reasons advanced are;

- The good command of English spoken in the country.
- The time zone difference between Uganda and countries like USA, UK and Canada which are big potential clients.
- Clear accented English
- Patient nature of Ugandans

Benefits to be derived from BPO by organisations that choose to outsource can be summarized as follows:

1. Productivity Improvements
2. Access to expertise
3. Operational cost control
4. Cost savings
5. Improved accountability
6. Improved HR
7. Opportunity to focus on core business

Efforts have been made to encourage the outsourcing industry to take off, but despite over three years of attempting to set up a BPO industry, the country still seems to be on the starting blocks. What is preventing or rather slowing the take off of this industry?

This report is written with a bias towards the ICT industry, being my background.

#### **The Phillipines as a case study**

The Phillipines is an Asian country that is giving India a run for its money in the BPO business. Some of the factors they list as making them competitive are;

##### **1. People Power**

The Filipino workforce is one of the most compelling advantages the Philippines has over any other Asian country. With higher education priority, the literacy rate in the country is 94.6% - among the highest. English is taught in all schools,

making the Philippines the world's largest English-speaking country. Every year, there are some 350,000 graduates enriching the professional pool.

## **2. Low Cost of Doing Business**

Wages are typically less than a fifth of that in the U.S. Local communication, electricity and housing costs are also 50% lower compared to the U.S. rates. Foreign companies that are now outsourcing programming and business processes to the Philippines estimate 30 to 40% business cost savings, 15 to 30% call center services and application systems and 35 to 50% software development.

## **3. Liberalized and Business-Friendly Economy**

An open economy allows 100% foreign ownership in almost all sectors and supports a Build-Operate-Transfer (BOT) investment scheme that other Asian countries emulate. Government corporations are being privatized and the banking, insurance, shipping telecommunications and power industries have been deregulated. Incentive packages include the corporate income tax, reduced to a current 32%, with companies in the Special Economic Zones are subject to only 5% overall tax rates. Multinationals looking for regional headquarters are entitled to incentives such as tax exemptions and tax and duty-free importation of specific equipment and materials.

## **4. Unlimited Business Opportunities**

As Asian economies integrate within the vast framework of the ASEAN Free Trade Agreement (AFTA), the Philippines is the natural and most strategic location for firms that want access to the large ASEAN market and its vast trade opportunities. The Philippines has enhanced and primed up various areas for investors and offers a dynamic consumer market accustomed to an array of product choices created by a competitive domestic economy.

## **5. Developing Infrastructure for Global Growth**

A well-developed communication, transportation, business and economic infrastructure links the three major islands and distinguishes the Philippine economy. Highly accessible by air, water and cyberspace, liberalization of inter-island shipping and domestic aviation further sparked improved facilities and services. The container terminals are suited to handle cargo traffic at the highest levels of efficiency.

Communication provides redundant international connectivity 24/7 with fiber optic cable as primary backbone network and satellite as backup. Economic reforms emphasize regional growth, converting remote areas into business centers. The landmark BOT legislation allows private investors to build and operate infrastructure, then turn it over to the Philippine government after a set period of time.

## **6. All you Need and more**

The Philippines offer state-of-the-art telecommunications facilities, adequate and uninterrupted power supply. There are ready-to-occupy offices and production facilities, computer security and building monitoring systems, as well as complete office services in specialized IT zones. With the government's focus on building up an IT-enabled economy, the Philippines is on its way to becoming the E-services Hub of Asia.

## Where is Africa?

Africa still remains burdened by severe disadvantages, not the least of which is a terrible image. Big corporations don't even have Africa on the map when they consider outsourcing locations.

African governments also must be willing to start small: expend a lot of effort to attract pilot projects in the hope of larger employment in the future. With sensible reforms, many barriers can be removed or at least eased. Starting with the following could be of great help:

- **Better Governance:** African governments often boast when they simply stop the corrosive effects of corruption and irrational business regulation. But little attention is given to the high cost of telecommunications, unreliable electrical-power systems, and the poor transport infrastructure.
- **Greater Competitiveness:** African leaders have been slow to realize that they must woo foreign corporations with special services, training programs for workers, and even subsidized offices. Asian countries attract many jobs by creating "industrial parks," with more reliable services, including ultra-reliable communications networks, offered at competitive prices. By restructuring their secondary schools and universities to train graduates with skills demanded by multinational corporations, Asian countries also create more competitive workforces.

**South Africa** – SABC News recently revealed that the Government of South Africa is going to spend 1 Billion Rands (Ushs 250 Billion) to act as stimuli for the Outsourcing industry. Already the country has over 80,000 people employed in this industry with most dealing with intra country and less than 10,000 dealing with inter country work. However sources indicate that the government is aiming to be the number three BPO destination after India and the Phillipines by the year 2008.

**Egypt** – This is a country that we dont know much about, however it is making major strides in the BPO arena. In is already unparalleled in the Arab world and is now targeting the likes of India.

The competitive edge of the BPO industry in Egypt is the direct result of many factors:

- Plentiful workforce with more than 200,000 university graduates each year growing at 28% annually.
- 88% of relevant workforce enrolled in secondary schools.
- 45% of population is of age 15 – 39.
- Egypt ranks among the best in average wages and the lowest in infrastructure cost – A.T.Kearny.
- Rich with talented, skilled and multi-lingual labor.
- Major foreign universities reside in Egypt such as the American, British, Canadian, German and French universities.
- Internationally accredited language institutions exist in Egypt teaching English, German, French, Italian, Spanish and other languages.
- Due to its historic, touristic and geographic heritage, Egypt's culture is open and used to westernized cultures.
- Egypt is centrally located between US, Europe and Asia with a favorable time zone of GMT +2 allowing it to serve the globe round the clock.
- Egypt possesses a healthy commercial atmosphere that is backed up by international country agreements.

**Tunisia** - Tunisia is exceptionally placed as a destination for IT business. With modern facilities and a highly educated workforce, it offers all the opportunities of the developing world on the doorstep of the developed world. It cites the following strengths

### 1. An emerging economy

- Tunisia's GDP is comparable to the income of a small American state
- Average GDP growth of 5% during the last 10 years

### 2. A resource base

- In the next 10 years, 1 million new students will graduate from Tunisian universities
- Large number of graduates ensures 1) an adequate supply of skilled resources and 2) a relatively stable or diminishing salary basis
- With a sound theoretical grounding, requiring minimal training to become excellent R&D and engineering

resources

- An impressive diaspora with a high international education standard, looking for any opportunity to do business in Tunisia with an international partner

### 3. An exceptional geographical location

- Central position, between Europe (2 hours from Paris, 3 hours from London), the Middle East (5 hours from Dubai), and Africa (5 hours from Dakar)

### 4. Enabling environment

The Government of Tunisia has committed its support by establishing an enabling environment for the development of a world-class knowledge-based outsourcing industry, allowing duty-free imports of capital goods and providing tax exemption on export of IT enabled services. Software Technology Parks with state-of-the-art IT infrastructure and telecom facilities providing a "single window clearance" for all regulatory compliances have helped Tunisia emerge as a prominent outsourcing hub.

### 5. Free Trade Agreements

Tunisia has Free Trade agreements with numerous economic zones, including

- Arab Maghreb Union
- European Union
- Targeted African countries

**Kenya** – This country identifies its competitive advantages as follows

- Political Stability
- Dynamic Private Sector
- Harmonious Industrial Relations
- Preferential Market Access
- Convenient time zone
- Qualified Workforce

### Issues to Ponder about Uganda

To effectively participate in the global BPO industry, Uganda needs to address the issues presented below otherwise without doing that, its a waste of energy, finances and time. These are;

1. **Weak IPR Laws;** Uganda is still one of those countries with weak Intellectual Property Rights laws. Many of the companies participating in the BPO business do demand stringent terms in their Non Disclosure Agreements and would also want to be assured of the possibility of litigation in the country where they are obtaining services from. Apart from the Copyright bill, there is no noticeable progress in addressing this issue.
2. **Poor ICT Infrastructure;** As a nation, Uganda is still lacking heavily in terms of good ICT infrastructure. It is an open secret that the current services provided by the ISPs leave a lot to be desired. It is important to note though that some of the reasons for this are beyond the ISPs themselves. As a country that is relying on VSAT connectivity to access the internet, we are let down by the high latency on such links which makes them less efficient than the fibre optic connections. Within the country, despite the efforts made by the current telecoms services providers, Data and voice service quality are still very poor. It is a nightmare having a data link between Kabale and Mukono for example. Good ICT infrastructure within the country can act as an advantage for BPO

investors because it would mean that one can set up camp in Mbale and Masaka towns and offer services to American companies if it makes more economic sense. The Ugandan Government is making an attempt to address this issue by setting up a national fibre optics backbone and for all I know, it will only partially address this problem.

3. ***Intermittent Electricity Supply***; Uganda is plagued by power cuts. This problem is not expected to subside until after the year 2010 and even this is a very optimistic target. The kind of contracts that are entered into in the BPO business do have very tight deliverables that are mainly pegged to certain time lines. Excuses of no electricity are not likely to be entertained by the hiring party. Even when you as an ISP client get a generator for a steady stream of electricity, you can be let down by the service provider whose internet link could go down because of power cuts (it is a common thing). In the Enterprise Survey for Uganda 2006 commissioned by the World Bank ([www.enterprisesurveys.org](http://www.enterprisesurveys.org)), over 60% of the firms interviewed indicated that Electricity was the main obstacle to doing business in Uganda. The bigger the company was, the more it viewed this as a problem.
4. ***High Costs of Labour***; Ugandan labour in the ICT arena is very expensive when compared to potential rivals like India and China. In India, one can get a competent computer programmer with world class programming skills at a salary of Ushs 500,000/= per month. In Uganda, such a person would cost not less than Ushs 2,000,000/=. When it comes to competing in the BPO arena for clients, it is practically impossible for a Ugandan company to compete with an Indian company. It is unfortunate that the focus of our current campaign for the BPO business is to create “Cyber coolies” i.e. offering low skilled services like those that require only a good command of the English language. We need to target a notch higher and see that we focus on those services that require higher level skills and yet pay better e.g. programming, technical support, accounting etc. The competition at that level is less than when we settle for the cyber coolie level.
5. ***High Cost of Connectivity***; Connectivity in Uganda is expensive. This is a fact we can not hide from. It is such costs that increase the entrepreneur's overheads meaning that the eventual charges to the BPO client also certainly go up.
6. ***Scarce Labour***; Other than the cyber coolie kind of labour (for low cost BPO services), one can hardly get the kind of staff that is required to manage some of these global opportunities in the right numbers. Once I was given an outsourcing opportunity on a silver plate and all this company wanted was me to raise a team of 5 Python developers based in Uganda to carry out some programming. It was a pity that a month of searching yielded nothing fruitful. Even though one identified these five in Uganda, their going price would be certainly very uncompetitive internationally.
7. ***Lack of Government Incentives***; In countries like India and China where BPO has taken off very well, a lot of Government involvement has been noted. The incentives I have seen being offered by UIA locally pale by far in comparison.
8. ***Workers' Attitudes***; Many Ugandans are configured mentally to earn money in form of a fixed salary at the end of the month. When one proposes an hourly rate, many of them get jittery for obvious reasons I dont want to get into. This therefore means that getting people to handle a project based on time (which is the way most BPO supplies pay) is a challenge.

After so much local and international press coverage, a number of well touted Outsourcing initiatives are yet to show their worth. Some of them are;

Makerere University (Faculty of Computing and IT) is expected to have launched a US\$ 1 million call centre by September

2007. Nothing has been heard from them as yet. (East African Business Week, Monday 9<sup>th</sup> July 2007, Article by Nshuti Edwin)

InterGlobal Services (IGS) a US call centre operator had plans in 2006 with the Busoga Kingdom to set up a 150-seater world-class call centre in Jinja, 80 kilometres east of Kampala. No news about that a year later.

### Is all lost?

Not all is lost in our quest for participating in the global BPO industry. As a nation, we still have some strengths that can be leveraged upon and these are;

1. **Clear and Well Spoken English Language;** English is the official language of the nation and it is well spoken in a more clear manner than in many other countries. Within the East African region, Ugandan schools are famed for the good training in the English language. According to the TOEFL (Test Of English as a Foreign Language) examinations carried out between July 2005 and June 2006, Botswana, Mauritius and South Africa were the only countries on the African continent to register a better performance than Uganda in the Total Score Mean index ([www.ets.org](http://www.ets.org)).
2. **Inexpensive Labour;** When targeting the low cost inexpensive BPO services like Call Centres and Data Entry, Uganda has cheap labour that can be utilised to wrestle some business opportunities from other destinations currently like Singapore ( An Investment Guide to Uganda, Opportunities and Conditions, March 2004). Findings in this year's GSLI suggest the wage-cost advantage of offshore locations will last for at least another 20 years (Offshoring for Long term advantage, The 2007 A.T. Kearney Global Services Location Index)
3. **Growing ICT use;** Slightly over 30% of the Ugandan firms use email to interact with Buyers, Suppliers and Customers while 10% use websites to interact with the same target groups (Enterprise Survey for Uganda 2006 ). This implies that the uptake of ICT is positive in the business arena and therefore taking up BPO opportunities for these firms would not be a very strange move.
4. **Positive Outlook towards ICT;** The Government is placing a lot of emphasis on ICT development. This can be viewed through the establishment of an ICT ministry which is usually the first step in achieving political recognition. This year, ICT is number three priority in the Government Initiatives. The laying of the national fibre backbone and endorsement of the EASSY project are a clear signs that finally ICT has the attention it deserves from the powers that be.
5. **BPO Think tank;** The Ministry of ICT set up a BPO think tank called "T Cubed" which is coming up with a structured approach to the BPO industry and it is hoped that it will come up with a white paper that the country can base upon to participate in this increasingly lucrative business.
6. **Energy;** The Government is taking serious the issue of solving the energy crisis. Various initiatives are being promoted to achieve this. Some include the Bujagali Dam construction, fast tracking the Oil Exploration and production in Hoima, attracting investors for the various hydro and thermal power opportunities and investment in Nuclear Energy as a future alternative.

## Tips on the way forward

- 1. Promotion of Local Outsourcing;** In the 2006 Global Outsourcing Guide, one of the disadvantages identified within the Ghanaian BPO industry is lack of experience by the service providers. South Africa, with over 80,000 people working in the outsourcing industry has under 10,000 of them carrying out Outsourcing work for foreign companies. This implies that as a country, we need to encourage local outsourcing through which our BPO firms will then get the required experience to service global markets. One of the biggest challenges here will be changing the mindsets of the executives in the large firms that can easily take advantage of outsourced services.
- 2. BPO Promotion Body;** It would be a good idea for the nation to have a common body like NASSCOM in India that brings together all companies involved in the BPO industry. This can enable joint marketing and sales opportunities. Besides, affiliation to such a large organisation would increase the credibility of the various players in the industry.
- 3. Positioning;** Uganda should not entirely position itself as a low cost BPO destination but should have other value propositions to sell like talent and skill sets that are required for high value services. This can be done through a 20 year masterplan which would ensure well coordinated investment in high value skills. The key to maintaining and enhancing long-term competitiveness lies in skills development, infrastructure investment and the regulatory environment, not in attempts to control wages. Indeed, the failure to improve the skills of the workforce and the business environment will likely translate to a loss of competitiveness in the fast-moving remote services business. Studies indicate that while offshoring is viewed as a way to reduce costs, the most successful companies focus less on saving money and more on improving operational performance.
- 4. Packaging;** In the 2007 A.T. Kearney Global Services Location Index, a look at the top BPO destinations revealed that their Financial attractiveness plays a key role. This involves among other things; Compensation costs (Average wages, Median compensation costs for relevant positions- call center reps, BPO analysts, IT programmers and local operation managers), Infrastructure costs (Rental costs, Commercial Electricity costs, International Telecom costs, Travel to major customer destinations), Tax and Regulatory costs (Relative tax burden, Corruption perception and currency appreciation or depreciation). As a nation therefore, we need to look at our financial attractiveness, People and Skills availability and Business environment and ensure that we package ourselves accordingly.
- 5. Tertiary Institutional Support;** Ugandan tertiary institutions need to design courses that are geared towards the BPO industry needs. This can be done through a Public-Private partnership. These courses should also be continuously revised to reflect the changing global demands. Most Asian countries took this approach and even introduced most of this training at the Secondary School level. Recently the Kenyan Government announced that it would support an initiative to train young Kenyans on how to speak American Accented English. Such dynamism is required for any nation that expects to get a slice of the market.

## **Conclusion**

As I wind up, I would like to state that despite the challenges ahead of us, Uganda as a country has a chance to partake of the global BPO business. Where initiatives are in place to address some of the concerns, it would be a good idea to make them public.

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