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The next major outsourcing hub - Africa?

Summary & Comment: In this opinion piece the author identifies a number of advantages that make Africa a candidate for offshore outsourcing. Morocco and Tunisia have provided reliable, cost-effective outsourced operations in textiles, footwear and call-centres for years. Kenya, Ghana and Senegal have several companies that provide outsourced services. DN

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Africa: The next major outsourcing hub?

"Major multinational companies are increasingly outsourcing their manufacturing and business processes to Africa, and these companies are benefiting from ensuing significant reductions in their direct costs; in some cases by as much as 50%!"

If only the above paragraph was a true reflection of reality. Sadly it isn't. It does however give an indication of a possible future scenario; just as offshore outsourcing to Brazil, India, China and other countries has brought significant benefits to Western companies and the economies of those countries. Outsourcing has been around for a while, although the constituents of the business model have changed over time. Today outsourcing of 'service' functions, such as product design, software development and procurement is as common as outsourcing of traditional manufacturing processes. Additionally, the geographical footprint of offshore outsourcing has seen a shift eastwards as Eastern European and Asian countries have ridden the wave of the outsourcing boom.

A common thread running through the evolution of the offshore outsourcing industry is the drive by Western companies to transfer their business and operational processes to outsource partners in countries with low labour costs, in order to reduce their operating costs. With the constant presence of competitive pressures across most industries and continued globalisation of most product and service offerings, it is inevitable that the search for low-cost locations will continue. Africa may be in a position to capitalise on this, especially considering a number of key factors.

Firstly, Africa remains under-exploited as a regional outsourcing hub, hence there is significant untapped potential across the continent, and that is a sizeable geography just waiting to be utilised more effectively. Secondly, Africa is currently experiencing a resurgence in its global profile, especially on the world political and trade agendas, helped by the efforts of world leaders like ex-US President Bill Clinton and the previous British Prime Minister, Tony Blair. Significantly, Gordon Brown, the current British Prime Minister, continues to place 'Africa' as a key global political agenda item and this also helps. Additionally, some African countries appear to be making serious efforts at tackling many of their fundamental problems. Ghana, for example, has made great strides in improving its political stability and physical infrastructure in recent years. It is quite possible that all of these factors may coincide to launch Africa onto the world stage as a pre-eminent offshore outsourcing hub.

Central and Latin America was the first region to benefit from the move of sizeable operations by Western manufacturers to low-cost offshore locations. More recently Eastern Europe and Asia have become more synonymous with offshore outsourcing as companies continue to seek out low-cost regions to sustain the cost competitiveness of their products and services. Even Russia and ex-Soviet bloc countries like Estonia and Slovakia have been notable offshore outsourcing locations for a few years now.

Examining this geographical evolution of offshore outsourcing reveals an interesting fact: the only region that has not played a major role in the history of offshore outsourcing is Africa. One must ask why this is so, especially considering the wide-ranging impacts of global trade across regional economies. How can it be that while other regions of the world have played major roles in the development of offshore outsourcing, either as home to the major outsourcing companies or as offshore outsourcing destinations, Africa is particularly noticeable by its absence from the global

evolution of this trans-regional industry?

It is widely known that Africa continues to be plagued by problems usually associated with developing regions, as well as its own unique challenges. Some of these include the lack of adequate physical and financial infrastructure; the poor security situation; corruption; as well as lack of economic and political stability. It is worth examining some of these issues in more detail to better understand why Africa has not benefited from the offshore outsourcing boom like other regions.

Lack of political stability almost goes hand-in-hand with the lack of economic stability. Indeed, comparing the levels of economic and political stability of most countries in the world reveals a relationship of some sort: most of the economically stable and prosperous countries in the world have stable political bases and vice versa. The most obvious examples of this are the industrialised nations of the West. But even in Africa itself, South Africa is a fairly good example of this. Despite widely reported problems like crime, lingering racial tensions, unemployment and others, South Africa is way ahead of almost all other African nations in its development. This is most visible in the advanced state of its economic and political infrastructure (compared to most other African countries).

South Africa's relative young age as a democracy may be pertinent here, but it does not detract from the fact that it is more politically and economically stable than most other nations in the continent. Attaining political stability will go a long way in helping African nations achieve economic stability. Both of these are top consideration factors which significantly affect successful inflows of foreign direct investment of various kinds, including offshore outsourcing.

It almost goes without saying that a country or region that lacks political and economic stability is quite unlikely to have advanced infrastructure in place, whether that be physical or economic infrastructure. Today many countries in Africa still lack the most basic of physical infrastructure, e.g., good roads; an effective transportation network; reliable power supply; reliable supply of drinkable water; and security.

Without these basic things in place, it is even more difficult to attract offshore outsourcing investment with the added infrastructure requirements that successful development of such a sector demands, such as modern communications networks and advanced e-commerce capabilities. Even in manufacturing, a sector increasingly viewed as stale or unexciting, these requirements are key, for example for the transfer of design files from an outsourcing company's facilities in the West to the outsource location, as these specifications are what get transformed into a manufactured product.

It is not necessary to examine all the issues listed earlier in detail in order to make the point: Africa has major developmental problems which impinge on its ability to play a greater role in the global evolution of offshore outsourcing, and thus exploit its unique position as an untapped resource. Proponents of Pan-Africanism may find these views infuriating. In anticipation of such sentiments I should point out that I am of African parentage myself, and I spent my formative years there. So I am well qualified to comment on the virtues and ills of the region. Also, unless there is open discussion of these issues it is unlikely that they will be adequately tackled, and will thus continue to deny Africa a place at the table of global economic development sweeping across the world today.

Thankfully there are indications that Africa can benefit more from the global growth of offshore outsourcing. One of the strongest indicators is the existence of some incumbent outsourcing providers across different parts of Africa, many of whom have existed for a while. Good examples are in the North African countries like Morocco and Tunisia, which have for years provided reliable sources of cost-effective outsourced operations in sectors as diverse as textiles, footwear and call-centres. More recently countries in other parts of Africa, such as Kenya, Ghana and Senegal, have sprouted several companies providing offshore outsourced services to Western organisations.

Another powerful, yet less obvious, indicator is the recent emergence of a renewed determination across several segments of African society to drive effective leadership and governance across the continent. This is particularly symbolic since most of the problems hindering Africa's development can be traced to a single root-cause: poor leadership and governance. Thankfully there are signs that this is indeed changing, although change will take time. Perhaps the most poignant sign of this change is that, whereas as recently as twenty years ago most African leaders were unelected and were frequently men in uniform, today that picture is significantly different.

Addressing the leadership problem in Africa will go a long way in ensuring the continent exploits its capabilities robustly, including its potential as a low-cost offshore outsourcing hub. Africa already has many advantages in this regard, especially having a well-educated workforce which, in most countries, speaks two of the major languages of global commerce – English and French – having been previous colonies of England and France. This language advantage is one of the strengths India has today as a major offshore outsourcing centre, and Africa could exploit it just as well.

While it is true that Africa has so far lost out on the economic gains from the growth of the global outsourcing industry, it is also evident that Africa has a number of distinct advantages that make it the prime candidate as the next big offshore outsourcing region in the world. This potential can not be exploited immediately, but setting certain actions in motion now could ensure the timely confluence of many of the prerequisites to make this happen. In the end, whether or not this becomes reality is

down to African leaders. If this does not come to pass, it may well be as great a loss for world trade and global economic growth as for the common man in Africa. The probabilities look no better than fifty-fifty right now, but this may change.

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