

# TECH Pearl

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# UGANDA'S IT & ITES VALUE PROPOSITION FOR AFRICA



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# EXECUTIVE SUMMARY

A value proposition for the scaling of the Ugandan Information and Communication Technology (ICT) sector within Africa has been designed by stakeholders of Uganda's ICT sector under the Netherlands Trust Fund IV Uganda project. This follows from the idea that ICT is a crucial sector contributing disproportionately to a country's economic growth, while African companies are getting IT savvy, opening an opportunity for the Uganda's IT industry to scale, via exports in the region.

## Why does it matter?

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The research has confirmed that the current opportunity to export is relatively more concentrated in Africa than in other continents for Uganda—reinforcing the importance of « getting the Africa value proposition right » for the country.

.....

The work also highlights that the ICT industry may lack a cohesive IT/ITES branding that could build the right impetus to scale export opportunities for the Ugandan enterprises in the African market.

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It is well known that building a country brand is a multi-year journey. But its positioning, if successful, may be a major enabler of performance. In the past, country branding was mostly implemented to boost tourism. Some countries are now proving that the concept works in the context of ICT as well: recently, for example in Singapore (« Smart Singapore »), Germany (« Industry 4.0 »), or Israel (« Start-up Nation »).

One African country that served as inspiration was Kenya. A neighbouring country to Uganda, Kenya has engaged in a massive development of their ICT sector under the branding of « Silicon Savannah ». In AT Kearney's Information Technology / Business Process Management (IT / BPM) offshoring brand rankings, Kenya rated in the top 5 most attractive suppliers in Africa<sup>1</sup> (and number one in Africa in terms of Digital Resonance). This is way ahead of its national brand, which is usually in the twelfth (12) position of Africa<sup>2</sup> according to Bloom Consulting. In contrast, Uganda's country branding is not that far of Kenya – but Kenya's ICT sector is rated to be stronger than Uganda's ICT sector. ICT service exports were 10 times larger in Kenya than in Uganda in 2017, according to World Bank data<sup>3</sup>.

Kenya's experience is not unique. South Africa more than doubled its IT/BPM industry in 5 years, expanding beyond traditional call centre services, to a wide array of IT services including digital<sup>4</sup>. Other aspiring countries like Egypt, India and the Philippines use the ICT industry as a driver of their export strategy, to become major players in the Information Technology and Information Technology Enables Services (IT & ITES) industry. Based on all these cases, a plausible ambition for Uganda would be to double the size of its ICT opportunity within Africa over the next 5 years. Translated in money terms, this could be an

<sup>1</sup>Digital Resonance: The New Factor Impacting Location Attractiveness – Kearney

<sup>2</sup>[https://www.bloom-consulting.com/en/pdf/rankings/Bloom\\_Consulting\\_Country\\_Brand\\_Ranking\\_Trade.pdf](https://www.bloom-consulting.com/en/pdf/rankings/Bloom_Consulting_Country_Brand_Ranking_Trade.pdf)

<sup>3</sup>See <https://data.worldbank.org/indicator>. By 2017, the ICT services export sector was worth 40 million USD in Uganda- taking goods and services and recent growth, by 2020 ends- we estimate the sector to be in the range of 70-100 million USD for Uganda as a first approximation

<sup>4</sup>ZA\_SA\_Offshoring-wave\_publication.pdf (deloitte.com)

opportunity worth in the range of 50–100 million USD annual revenue in 5 years.

Uganda may not be operating at a large gap against the main pillars (quality of workforce, adequate business environment, solid infrastructure, cost-efficient labour, and digital transformation) that create the backbone of an attractive IT & ITES industry compared to other African countries. The good news is that Uganda is not in relative competitive disadvantage versus most attractive African neighbour countries<sup>5</sup>.

Still, a few points are in order. While Uganda is relatively good with respect to African peers, Africa is still behind other aspiring countries such as Philippines or India. Second, Africa's digital transformation is lagging behind the rest of the world, but is predicted to take-off significantly. Uganda has started to build a vibrant digital start up ecosystem, but its focus is more on B2C than B2B software, or services to support the international development of the IT/ITES industry. It is important to note that countries more advanced in outsourcing tend to also be more advanced in their digitization, as seen in Kenya and South Africa.

Finally, Uganda appears to exhibit a favourable labour cost structure profile, something that is usually even more attractive for exporting beyond Africa (notably Europe). While a good cost structure is an important advantage for more basic services like BPO and call centres, it is less so for the most attractive and growing ICT services such as software development, data centre management, and IT maintenance services. One might need elements that go beyond cost efficiency to build a compelling story in IT/ITES for Uganda.

Among other things, Uganda has the opportunity to rework and support a new value proposition, if it wants to capture a major boost out of the IT/ITES offshoring opportunity in Africa. Uganda has for example, a young, educated talent pool, and

is already building up its digital ecosystem. Those elements are appealing if leveraged to expand exports to target countries such as Ethiopia, Tanzania, or Nigeria.

The general conclusion is that the promise of the Uganda brand must evolve from a « low cost » value proposition, to a value proposition of disruption. Uganda must leverage (and promote) its young, dynamic, emerging digital talents able to work on IT access infrastructure and deliver advanced, competitive application/software services solutions for the African market (and beyond).

We believe that this brand architecture has multiple advantages, as multiple elements can be combined to appeal to different client-country segments. For example, the cost efficiency element may be the best position for proposition to countries like Morocco or Egypt, where Uganda can be perceived as a subcontracting hub for IT & ITES services. On the other hand, associating Uganda's brand with the digitization of the ICT services could provide ways into nearby Eastern African countries. Needless to say, taking this value proposition from theory to reality requires that a set of initiatives be jointly launched to support the development of Uganda's IT & ITES industry.

This report provides the basis for the Uganda brand, with high-level elements of a roadmap. For full contextualisation, the standalone document should also be read with the supporting PowerPoint document that make the full bundle of this work. This work has followed a multi-phase process (see Exhibit 1), and has been made possible through close collaboration with multiple local parties engaged in the Uganda ICT industry (listed in exhibit 1 on the next page).

Local parties intervened early in phase 1 to help build early hypotheses on the possible value proposition for Uganda. In phase 2, local parties assisted in

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<sup>5</sup>Either because they are large and are developing their ICT, or because Uganda is close by, benefitting from the advantage of nearshoring, common language, and possibly a common backbone infrastructure)

## EXHIBIT 1:

### IT & ITES PROJECT PLAN PHASES



#### PHASE 1

Factualisation of IT & ITES market dynamics in Africa and heatmap for Uganda



#### PHASE 2

African value proposition arising from the research and heatmap opportunities



#### PHASE 3

Documentation and high level roadmap



reviewing and providing input for the emerging IT & ITES heatmap of Uganda, and consulted during the final phase to reach a consensus on the building blocks of the value proposition. The International Trade Centre (ITC) has facilitated the creation of the work, and the key stakeholders have been working on steering its development.

#### The list of key stakeholders includes:

- Ministry of ICT and National Guidance
- Ministry of Trade, Industry and Cooperatives
- Uganda Export Promotions Board (UEPB)
- National Information Technology Association of Uganda (NITA-U)
- Alliance for Trade in Information-Technology and Services (ATIS)

- ICT Association of Uganda (ICTAU)
- Startup Uganda
- Financial Technology Service Providers Association (FITSPA)

The report is to be seen as the ICT vision of Uganda's sectoral stakeholders.



# THE AFRICAN ICT HEATMAP FOR UGANDA

As a background to the value proposition build-up, a comprehensive heatmap was built. This ground work is documented in detail in a PowerPoint titled « Uganda's IT & ITES Value Proposition for Africa »

Here we present the key findings<sup>6</sup>.

## 2.1. Sizing the ICT offshoring market at large

ICT offshoring has a long tradition, especially in Anglophone countries like The United States of America (USA) and the United Kingdom (UK). In those economies, companies are traditionally large, have developed a global franchise as multinationals, and their corporate centres are typically expensive, reflecting their economic development. In markets like the USA, outsourcing was already a dominant tactic for large companies by 2010, and 10 years later it has now become mainstream for US SMEs as well. The same development has been building up across other countries, by function of their relative costs, their industry, multinational structure, etc.

The outsourcing market has become increasingly owned by foreign providers, leading to offshoring—in particular to countries such as India, that built up a major infrastructure of local firms and large multinationals with global delivery systems to support their clients.

Outside of software, IT/ITES offshoring services is a market now worth close to 270 billion USD revenue worldwide<sup>7</sup>, of which a portion is already digital. Digitization itself leads to a substitution of traditional services such as IT on cloud versus premises, and adds new ones such as data analytics. The total portion of digital revenue, on top of traditional services, is already about USD

50 million<sup>8</sup>.

Given that worldwide offshoring adoption and digital transformation is still mostly driven by large companies, the market's natural growth rate remains positive, but with a few challenges:

- As the largest demand segments and destination markets like Anglophone countries become more mature, their needs evolve towards digital upgrade. This encourages offshoring market tenants like India to accelerate their digital transition to meet demand.
- The value proposition of offshoring is constantly evolving: shifting to digital, rather than just an IT-savvy workforce, and shifting to a more global service delivery offering. This reflects the emerging digital trends for multinationals and medium enterprises to leverage global platforms to go international.

Today, the main ICT outsourcing market holder is India, with roughly half of the global ICT market serviced by an Indian company. India's industry is composed of 200+ IT multinational enterprises (MNEs) and a plethora of smaller, more localised companies. This industry is already tightly integrated in a powerful ecosystem, with active participation of educational institutions (engineering and business schools were created along the way to fit ICT and digital needs), business associations (Nasscom) and government. Further, large MNEs have aggressively invested in their digital offering, tapping into a major young workforce being trained on digital skills. Ibef.org, among others, even claims that 75% of the global digital-savvy workforce is now located in India<sup>9</sup>.

- The journey of India has not been easy, but it

<sup>6</sup>Note, that figures included in this synthesis are to be seen as estimates. As for many countries, 2019 data were not available. We thus take the most up to date data, and for the offshoring decision arbitrage between countries, we also essentially base on a triangulation of multiple sources, but mostly linked to the Anglophone literature, as the largest offshoring demand worldwide remains Anglophone base to date.

The exercise is there however, not to create a business plan, but to provide a heatmap picture of the opportunities. They are very indicative of the direction to take, in the context of the brand architecture discussed in the following section

<sup>7</sup>Source is Ibef.org, which estimates India offshoring revenue, and Indian global market share in that market.

<sup>8</sup>Ibef.org and Nasscom

<sup>9</sup>IT & BPM Industry in India: Market Size, Opportunities, Growth, Report | IBEF

shows that over two decades, India has become a major player in the ICT sector worldwide, with IT servicing currently weighting between 8-10% of GDP, and boosting an IT & ITES export of more than USD 140 billion of revenue by 2020, –or an order of magnitude more than 1000 times the size of the current Uganda ITES export (estimated to be in the range of 50-70 million USD by now). In all cases, the learning one can draw from the market leader is three fold:

- 1) First, India value proposition has been based not on one, but a set of consistent pillars: efficient cost with high quality people, daring innovators eg in digital, and adequate business environments– e.g. multiple city centres and IT ecosystem, etc.
- 2) Second, India attracted key sponsors, in particular, US and UK, especially through leveraging its population diaspora in those countries.
- 3) Third, it builds a self-propelling model with education–companies– state– certification

companies working for the same IT/ITES development goal, and for India.

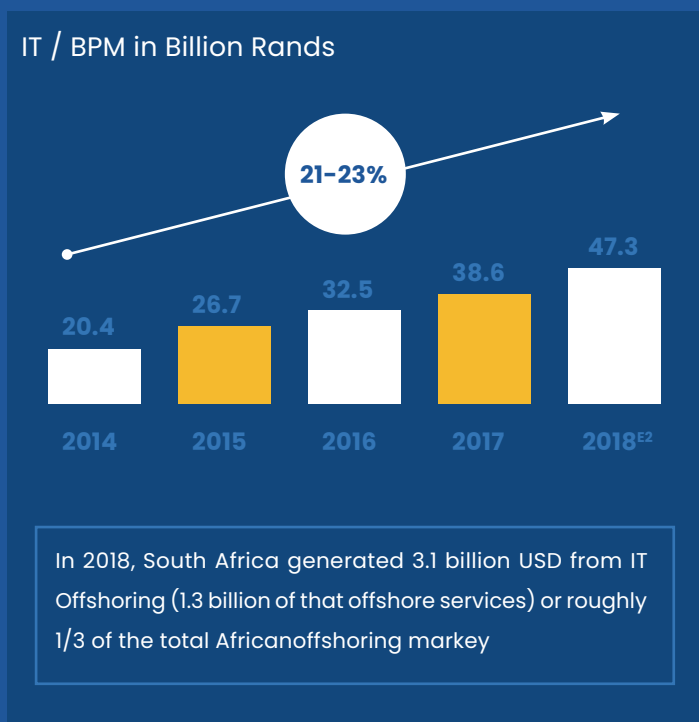
- This recipe has been also followed by the Philippines, and more regionally, by South Africa. By leveraging the UK as a major sponsor, South Africa developed a multi-offer (from call centres to IT services), and an integrated plan for the sector (see Exhibit 2).
- Those factors serve as an anchor for the Uganda value proposition – this will be further discussed in forthcoming sections of this document.

## 2.2. The IT & ITES African offshoring market: small but growing

While public and private African companies' total IT spending represents 4% of the global total<sup>10</sup>, African companies only capture 1.5% to 2% of the worldwide IT offshoring market. Offshoring market capture is easier in close-by markets ('nearshoring'), because of shorter distances

EXHIBIT 2:

## AS LEADER OF THE AFRICAN OFFSHORING MARKET, SOUTH AFRICA USED 5 TACTICS TO DOUBLE ITS IT & BPM REVENUE IN 5 YEARS



1. Cost of operations are at least 50-60% lower than those in the UK and Australia for both voice and non-voice work, and just on par with Asia
2. Large country sponsors with cultural affinity e.g. UK, Australia, and increasingly, the US
3. Global contact centre standards ISO 1825 are based on South African standards (the global standard development was led by South Africa)
4. Industry and Call center specialization: South Africa is pivoting towards automated contact centers with a specialization in financial services
5. Development of digital services, together with emergence of digital start up ecosystems in multiple cities, e.g. Cape Town, Johannesburg

<sup>10</sup>As inferred from global spent, IDC

and better cultural affinity. As a result, African IT suppliers face some constraints. On the one hand, the density of very large firms in Africa is much lower than in the Western World, leading to lower rates of outsourcing. The ICT demand driven by manufacturing is also smaller in Africa, as the continent remains dominated by agriculture. On the other hand, the market is expanding to digital services. However, a large part of Africa still deals with a digital divide, and lacks a pervasive and robust infrastructure for those services to be scalable.

This is the current situation. Going forward, if those constraints can be addressed, Africa presents a large opportunity to serve this latent demand – Africa is set to continue to grow, given its large and young population. It also has some recent successful traction in ICT, from countries as diverse as South Africa, Mauritius, Kenya or Egypt. Finally, countries such as Kenya, Ghana and Nigeria are building up strong digital ecosystems, that one day may build up strong business offshoring services.

Currently, the total IT offshoring market captured by African countries is dominated by a few notable countries, which we call the « top 5 » (South Africa, Mauritius, Morocco, Kenya and Egypt, where international firms have set up operations). Those countries' main clients are outside Africa– e.g. France for Morocco, UK for South Africa, but for the rest of Africa, this is rather the exception. For them, their main IT offshoring portion is still nearshored African countries. According to our estimates, 70% of the total offshore market captured by African countries originates from other African markets<sup>11</sup>.

The top 5 countries are not only large exporters outside Africa, they also have a large domestic demand due to their stage of development, e.g. South Africa, Morocco or Egypt. Kenya is, in contrast, a smaller country than those three, but it took notice of ICT offshoring as a catalyst to

major export-led growth, looking to India and the Philippines. The country invested in both submarine fibre optic cables in Mombasa between 2009 and 2012 to deliver high-speed internet to the country, and mobile technology (together with a digital payments revolution) to build up its ICT growth under the brand of « Silicon Savannah ».

### 2.3. Uganda ICT landscape to date

High level estimates suggest that the total IT/ITES offshoring market for Uganda might be worth about 50-70 million USD dollars by 2020 –(the upper bound is an extrapolation of strong market growth in the last two years before 2020, without consideration of issues like the COVID-19 crisis).

Based on a major modelling exercise (where we looked at both the demand for IT outsourcing from the African firms, and how they might select their country providers based on critical offshoring decision choice factors) the calibration suggests that the current revenue size of the Uganda market is just about what it deserves to be based the country's current relative attractiveness compared to neighbours.

### 2.4 Framing the ambition: doubling the offshoring revenue in 5 years' time

The ambition for Uganda should be bigger than maintaining the status-quo. First, because Africa has been lagging behind other continents, and the catch up is accelerating now This is creating a window of opportunity for development. Second, because most of the surrounding countries have yet to develop an aggressive strategy towards ICT. Exceptions include Kenya and Rwanda, but Uganda must quickly launch its ICT offshore strategy to build a competitive advantage against other countries that could turn as competitors instead of market opportunities. Finally, Uganda has already witnessed the development of companies

<sup>11</sup>We triangulated this figure to three sources: 1) From the World bank, gap between ICT trade Africa, and bottom up estimates, based on size of ICT exports and imports from African countries; 2) demand-supply of offshoring model at continental level, instead of at country level, was used for the African heatmap; 3) surveys collected from African ICT companies and other reports. See Jensen, P. D. Ø., & Pedersen, T. (2011). The economic geography of offshoring: the fit between activities and local context. *Journal of Management Studies*, 48(2), 352-372



involved in IT and application development– those companies are still young, and the ecosystem must be organized to scale in order for those young companies to survive and thrive.

Finally, as discussed, the value proposition may help to scale the revenue of the IT & ITES value chain for Uganda. We believe that an achievable ambition would be to stretch for a revenue of more than 100 US million in 2026.

This ambition can be tracked and measured through various approaches:

### **Benchmarking**

Taking successful country benchmarks, India managed to more than triple its revenue in 7 years, and scaled exports even faster. South Africa, as seen in Exhibit 2, doubled **its revenue in 5 years after developing the sector**, (and possibly more than doubled its exports).

Another way is to look at offshoring ambitions of other African countries. For example, in the next three years, South Africa aims to generate USD 1.5 billion in offshoring revenue, while Egypt and Morocco are aiming for about USD 1 billion. Scaling this ambition in proportion to GDP size, **this would be equivalent to Uganda doubling its export revenue from current estimated size**. (The effect is even bigger if Morocco is taken as the sole benchmark)<sup>12</sup>.

### **Bottom-up estimates**

Another way to frame the ambition is to look at market opportunities bottom-up, and create a view as to what it would take for Uganda to build that ambition among other countries in Africa.

For this objective, a comprehensive model of relative demand and supply attractiveness of African countries with respect to IT/ITES service was built. The model relies on the latest data available:

on average, the data is 1-2 years old<sup>13</sup>. Nevertheless, we have managed to collect enough indicators of the stage of development and attractiveness of ICT through academic and official sources, to develop a high-level heatmap of the ICT offshoring market potential for Africa.

Importantly, the criteria used to filter the market opportunities are similar to many studies as the rankings published by AT Kearney, but with one important upgrade: The criteria were weighted according to how those factors influence the decision of companies to outsource. Those weights naturally vary according to the type of ICT services, e.g:

The labour cost factor is more important for non IT shared services.

When it concerns IT contracts of long-term duration, business environment is relatively more important.

The talent base is important to all services, but the knowledge base and digital skills-development are more and more important when it comes to digital IT (such as data-savvy and analytical) services.

The potential for more than 30 African countries has been rated and ranked, in contrast to only five for the AT Kearney index . The top 5 African countries from the AT Kearney index<sup>14</sup> match our upgraded methodology.

Further, the following insights have emerged. The total size of the Uganda opportunity at current demand and relative attractiveness of the African countries is roughly in line with its offshored ICT revenue collected, or about USD 50- 70 million in 2019<sup>15</sup>. This implies that Uganda must develop and upgrade its current value proposition if it wants to scale the sector faster than the overall rate of offshoring in Africa.

Current African market opportunities are not

<sup>12</sup>If one further corrects for difference in labour costs, (when Uganda is lower than other African countries benchmarked) the total potential may be lower.

<sup>13</sup>All data sources are included in the document PowerPoint titled « Uganda African Offshoring Value Proposition »,

<sup>14</sup>Digital Resonance: The New Factor Impacting Location Attractiveness – Kearney

<sup>15</sup>This includes IT services, but also BPO shared services and call centres, software service, but not new digital services such as analytic, big data etc (as data is very complex to obtain).

homogenous (see exhibits 3 and 4). In fact, they represent four different segments (Priority, Sponsor, Opportunist, Watch Out), each with different challenges and opportunities for growth.

Currently, the main countries of export for Ugandan IT/ITES companies are in Rwanda, Kenya, Tanzania and Ethiopia. This comes as no surprise, as those countries belong to the most natural segment for Uganda in Africa, based on nearshoring trends and language affinity, among other factors. As such, we have labelled this segment, "priority". The bottom-up analysis suggests, however, that the first segment (currently worth 40% of the revenue potential) includes a broader set of countries than the current practice of Ugandan firms, and slightly broader than the current East African countries cluster. It includes Kenya, Tanzania, Ethiopia, South Africa, Botswana and Zambia. In this first segment, Uganda is competitive when it comes to the full mix of decisive factors for IT/ITES offshoring, and the offshoring demand is above average for African countries, given their size and relative stage of

development. But note that Kenya and South Africa are already leaders in offshoring, and their solid domestic IT companies might be a competitive challenge for Uganda firms.

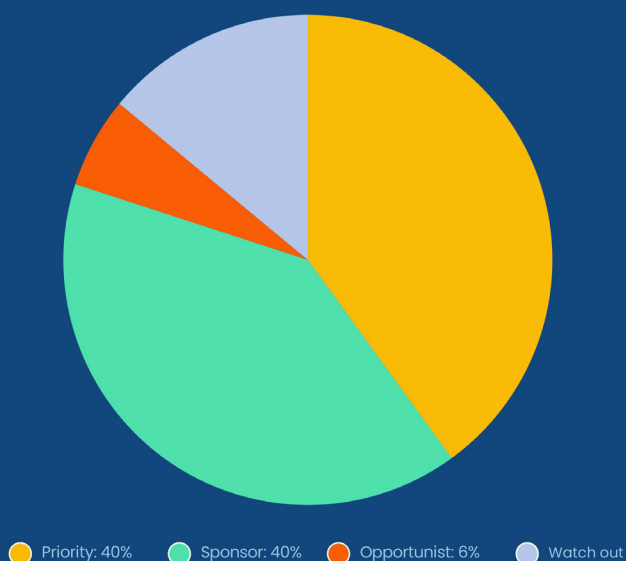
The second segment (also worth about 40% of the opportunities) is composed of geographically more-distant countries, but with large needs for IT services. The segment includes Egypt, Morocco, and especially Nigeria. The potential of this segment is weighted to account for how hard it will be for Uganda to gain momentum there. Uganda is not necessarily very competitive against domestic players in those countries, and Uganda only comes 5-6 in the ranking of possible countries for Morocco and Egypt. Nigeria is the most promising prospect for Uganda. It is relatively close, shares the same language, and has a healthy demand for services. Successfully penetrating the Nigerian market may also provide secondary rewards, as the country is relatively well advanced in digitisation. Interacting with that market will only encourage Uganda's own digitisation. We call this segment, "sponsor",

EXHIBIT 3:

**OPPORTUNITIES FOR UGANDA**

The African IT & ITES opportunities for Uganda is split among four segments

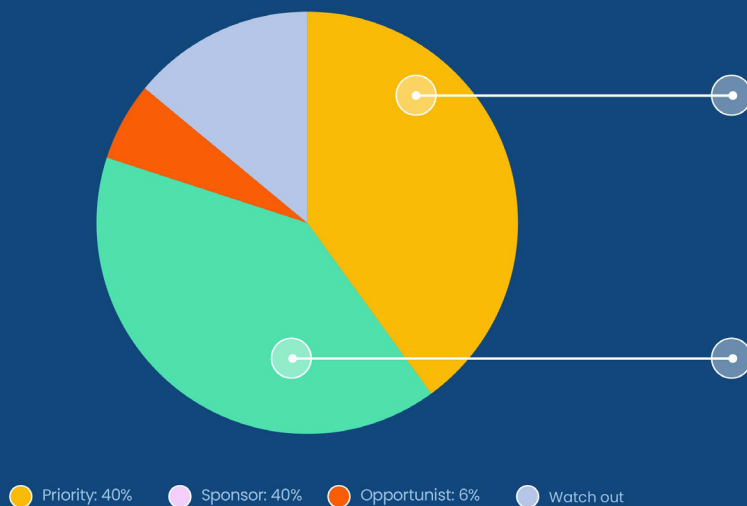
**AFRICAN IT & ITES OPPORTUNITIES FOR UGANDA, REVENUE (%)**



## EXHIBIT 4:

### UGANDA OPPORTUNITIES

AfCFTA may scale the intra-continent trade



Major countries with high IT demand (Egypt, Morocco, Nigeria)

Cost efficiency is the favorable feature of Uganda

Nigeria and Ghana are a large market that could be a good sponsor for Uganda: seeing that Uganda has the language affinity and is digitally advanced

Can Egypt leverage Uganda as a sub-contractor?

Nearshore countries with a common language (English), but larger market than EAC

South Africa, Kenya, Ethiopia, Tanzania, Botswana, Zambia

Uganda IT offshore advantage is average, USP on cost efficiency and to some extent digital savviness (except in Kenya)

as the country size may be so attractive that gaining contracts in those countries will grow the Ugandan reputation simply by association. Egypt is also a potential prospect. Given its cost structure, Egypt may be looking at Uganda for sub-contracting. There is also a good history of cooperation between Egypt and Uganda, for example on training of Ugandans on ICT.

Segment three ("opportunistic") and four ("watch-out") together only make up 20% of potential. Segment three includes small nearshore countries such as Malawi or Rwanda. There are opportunities here, but the scale of the respective markets means that they will not affect the scale of success of Uganda's ICT offshore development. The last segment is composed of Western Africa. There, countries are larger, but distance, language barriers, and more regional competition make the opportunity rather challenging.

Based on this bottom up analysis, the real opportunity lies in the first two segments (especially in the first). However, if Uganda only doubles

down in a few country opportunities (for example segment 1 and Nigeria in Segment 2), it will have to generate triple the current revenue in those countries in order to reach its goals (doubling the total revenue of the IT & ITES export sector, on top of natural market growth, in just 5 years).

As benchmarks and bottom up analysis show a realistic path to doubling revenue in the sector, the value proposition must be not only well structured and communicated, but must also include discussion of the necessary material development. This will be discussed in the next section.

# UGANDA VALUE PROPOSITION TOWARDS AFRICA

## 3.1. Cylinders to play on as part of the value proposition

Looking at all segments, from a Uganda perspective, it should be re-emphasized that a consistent dimension of the value proposition is Uganda's labour cost efficiency versus the average African country.

The example of other countries that have been successful in scaling their IT & ITES exports makes it clear that a successful value proposition for IT & ITES offshoring must be anchored on multiple dimensions. India, is not only more than twice as cost efficient versus its main clients (USA and UK), but it also has a strong pool of young, digital-savvy talent. Further, India can boast an ecosystem of MNEs with large global networks of service delivery to serve all locations of their main multinational clients. More regionally, Kenya is home to a vibrant start up and innovation ecosystem, in addition to a well-diversified and developed workforce and good access to near and far-shore.

Uganda also features a large, young workforce that is increasingly well-educated, and whose skills could be further enhanced going forward. Uganda's current digital start up ecosystem is far from the benchmarks of Kenya or Rwanda, but it is relatively ahead of other nearby countries such as Tanzania and Ethiopia.

We believe that those three dimensions (1. cost efficiency, 2. young, skilled, trainable workforce, and 3. digital ecosystem take off), will be the pillars to activate for the future value proposition of Uganda.

### **First dimension to harness: the cost efficiency factor**

We know that the cost element is an important part of the opportunity to market Uganda's offshoring services in Europe. The competitive advantage of the cost efficiency of Uganda remains solid

versus African countries on average. Unfortunately, this advantage may be less of a determinant for European countries. Because Europe's labour cost is so much higher than the African average, Uganda's advantage within Africa is somewhat diminished. Further, (as we have mentioned before) cost efficiency is only a major factor for call centres or shared services, rather than pure IT services. Thus, it can be believed that a cost-efficiency position on its own cannot be the exclusive selling point. In general, cost-efficiency would only be a marketable selling point for 20% of the potential offshoring origin-market.

### **Second dimension to be deployed: young talented workforce**

Uganda has a large, young, English-speaking pool of talent, and one of the youngest populations of Africa, with 69% of the population age 24 years and under. This young population is literate (close to 90% vs. an average of 50% in sub-Saharan countries) and is majority English-speaking. This builds a unique ability for regional and international work.

Africa is only catching up regarding knowledge capabilities, and even more, regarding digital skills capabilities. Uganda may decide to turbo-charge education and learning as a way to upgrade and differentiate its talent pool. This is an opportunity to the extent that digital skill capabilities are usually better learned at younger age, and knowledge capabilities introduced before the age of 40 translate to better productivity over a lifetime<sup>16</sup>. Changing an education system takes time, but digital can be used as a tool to provide a wide array of learning platforms to the population-digital is thus important.

<sup>16</sup>Data – PIAAC, the OECD's programme of assessment and analysis of adult skills

### Third dimension to be deployed: digitisation

The morphing of IT&ITES towards digital technologies is an established trend worldwide. Digital technologies are playing everywhere in the IT/ITES value chain; e.g. replacing IT on-premises with cloud, substituting traditional BPO work tasks with automation, and creating new services such as analytical services.

Globally, the market for IT & ITES is already at the tipping point whereby its growth will be through its digital portion only. Major global country leaders, such as India, have aggressively morphed to digital services. Whether as way to fulfil their offshoring contracts, or as a way to propose new offers, India has pursued digitisation aggressively. Today, 1/3 of their IT & ITES export revenues are already from digital services<sup>17</sup>.

Uganda has started to develop its digital ecosystem, and as the 9th largest digital ecosystem in Africa, while ranking only 12th based on GDP, (Exhibit 5. The Ugandan digital market is essentially composed of start-ups in the B2C space, and not that much into the B2B space).

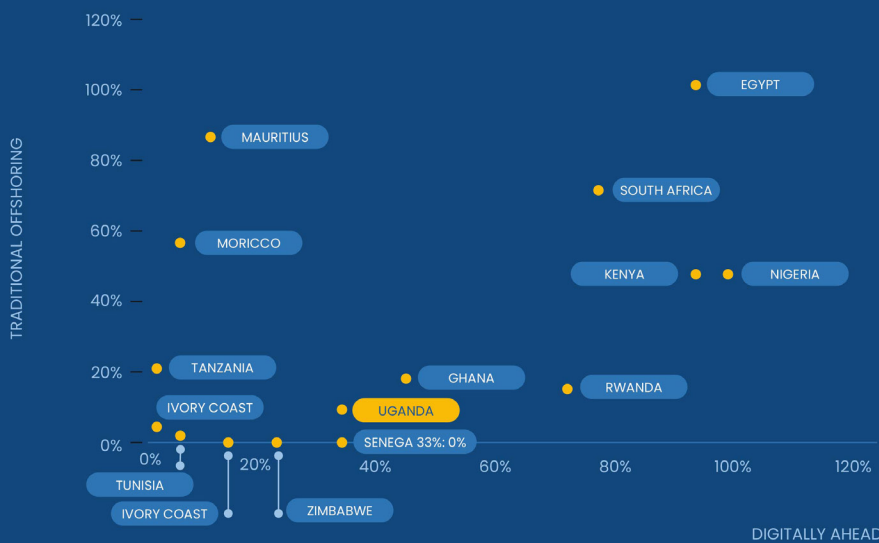
We believe that this dimension should be nurtured, for the following reasons:

1. In the two identified, viable opportunity segments for Uganda, African countries are already migrating to digital and digital IT services. This includes Nigeria, Kenya and South Africa.
2. Digital services, specifically software and applications services, have lower costs than traditional IT architecture contracts. This allows smaller firms to be competitive, which is an opportunity for Uganda where such suppliers are

EXHIBIT 5:

## WHILE 12TH LARGEST GDP IN AFRICA, UGANDA RANKED 9TH IN AFRICAN COUNTRIES LINKED TO DIGITAL POTENTIAL

Top 15 countries - African countries ranking



Computed based on ranking of digital start ups and start up funding for digital, on GDP, Innovation and offshoring size. Sources: TechAfrica, StartupBlink,ILMF, AT Kearney, 2019 data

<sup>17</sup>See Ibfef.org, Nasscom



heavily represented.

**3.** Early digital offshoring opportunities are visible in sectors such as telecommunications, high-tech and fintech services. Today, these services are dominated by pan-African firms, thus opening the opportunity for Uganda to quickly build strong, agile digital/IT ecosystem.

### 3.2. Pitching the Uganda IT & ITES African Value proposition

The value proposition relies on the above 3 dimensions, as described in Exhibit 6. The underlying “Why Uganda for our IT & ITES” pitch will be:

**1. Good ICT infrastructure and cost efficient:**

The country has good infrastructure with an ICT maturity in line with the African average, and is geographically well-located in the centre of Africa. Its ICT industry is vibrant, supported by the

authorities, and with international experience from neighbouring countries. This makes Uganda ‘as good as’ any average African market on all critical dimensions for an IT & ITES decision. Also, Uganda is slightly more cost-efficient in terms of labour force versus most African countries.

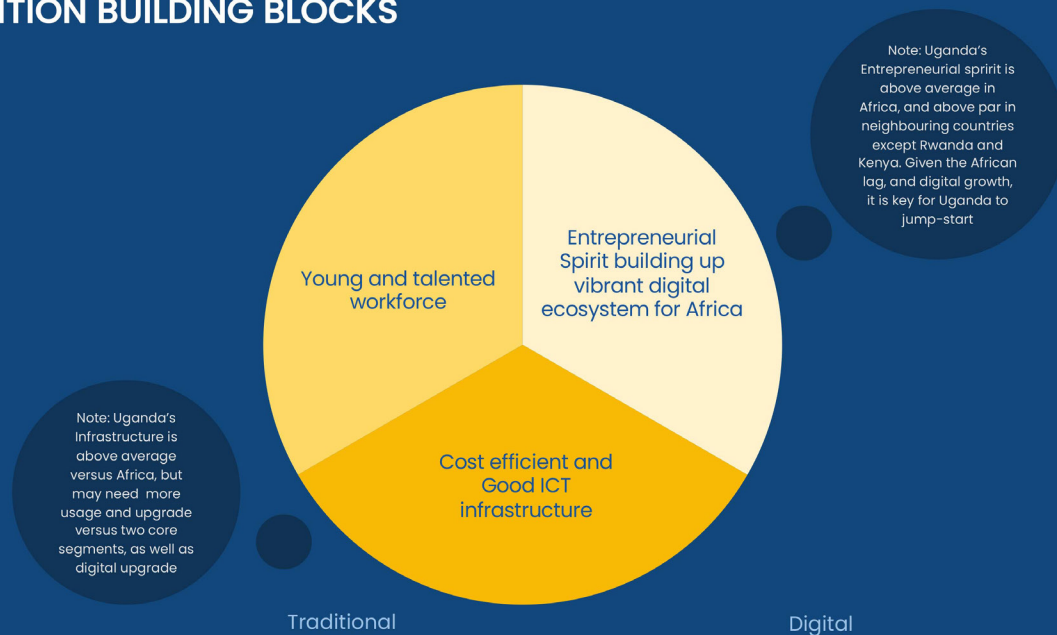
**2. Young talented labour work force:** Uganda has a large pool of young, skilled talent, and is only getting increasingly educated to fit the knowledge economy.

**3. Entrepreneurial and digital:** Uganda is known as the most entrepreneurial country in Africa<sup>18</sup>, and is quickly building its digital transformation, with a digital ecosystem under solid development, and with aim to expand in B2B.

As said, this value proposition has multiple dimensions, so that they add to the benefits of Uganda as offshoring partner. The first objective is to make other countries aware of Uganda’s

EXHIBIT 6:

## UNLOCKING THE AFRICAN IT & ITES OFFSHORING: THE VALUE PROPOSITION BUILDING BLOCKS



<sup>18</sup>Uganda value proposition for Europe

good foundations and cost effectiveness (The East Africa region may be more aware of the Kenyan ICT story). The second aim is to emphasize and advertise the large pool of young, educated talent available. It must be reinforced with a promises of continued improvement and education towards knowledge services like digitization (which are more and more needed in the context of ICT).

The last element demonstrates that digital skills are not abstract – they are already being used to build a digital ecosystem. This must, however, be shown to play in the B2B domain. Currently,

Uganda’s digitisation is concentrated in the start up, B2C realm. To establish the clear connection between Uganda’s digital space and the IT & ITES industry, digitisation must spread to B2B offerings as well. Furthermore, Uganda must scale the number of hub opportunities according to its pan African ambition. For example, Kenya has double the GDP of Uganda, but around 5 times as many tech hubs.

# APPENDIX: FURTHER REVIEW OF LITERATURE

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<sup>19</sup><https://www.forbes.com/sites/tobyshapshak/2019/10/30/africa-now-has-643-tech-hubs-which-play-pivotal-role-for-business>