Creating Regional Advantage: The Emergence of IT-Enabled Services in Nairobi and Cape Town

by

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Abstract

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Since the early-to-mid 2000's, South Africa's Western Cape and Kenya's capital city Nairobi have been attracting flows of trade and investments in information technology-enabled services (ITES). The flows are small but significant and growing, with multinational companies like Amazon, Google, IBM, and others locating and developing market niches in these regions. Why have these regions managed to attract IT-enabled services investments, given their regional economic challenges and marginality with respect to the global services economy? I employed a qualitative case study methodology involving 120 semi-structured interviews, secondary data, and participant-observation in both Kenya and South Africa to investigate each context and make broader claims about how regions create regional advantage in global IT-enabled services.

Nairobi's initial attempts to create a BPO sector failed because the region could not compete with other global locations on cost, labor, and service delivery. I argue that two categories of individuals emerged to support the development of Nairobi's nascent BPO market: bureaucrats from the developmental state and members of the international community (as well as local capital) focused on promoting social enterprise and pro-poor entrepreneurship. Though both groups of individuals have resulted in trade and investment opportunities and support job creation, members of the developmental state portray Kenya as an emerging economic and technological hub while individuals involved in social enterprise efforts focus on marginality, highlighting images of poverty. The conflict in developmental strategies and imagery has potential implications for investor sentiment about Kenya's value proposition, the quantity of specific trade and investment opportunities, and the potential for IT-enabled services to address the needs of the poor.

Historical legacies and institutions have contributed to what makes Cape Town preferred and what makes investors averse to the region. Starting with Cape Town's advantages, its history of European settlement has created a community of English and Afrikaans speakers who have linguistic capabilities, legal institutions, and historic transnational ties useful for doing business in Anglophone (UK, USA, and Australia) and Benelux (Belgium, Netherlands, and Luxembourg) markets. However, these institutions that created advantage are in part responsible for what limits the growth of the sector. Along with European colonization and immigration came systems of apartheid that perpetuated inequitable access to economic and educational opportunities and resulted in a short-

age of highly-skilled labor. These shortages drive the costs of labor upward, making the region less competitive on wages with respect to India and the Philippines.

Based on a comparative analysis of Nairobi and Cape Town, I argue that development can lead to IT-enabled services and that IT-enabled services can also lead back to development. The idea of development, by a number of individuals from different regional, organizational, and institutional contexts, is the impetus and the origin for the region's emerging services sector. However, as the region seeks to deepen and expand services, it leads to a coordinated set of actions to boost services that can be considered developmental whereby impediments in the local political economy are removed. I make a contribution to the literature on cluster genesis by arguing that the concept of the Schumpeterian entrepreneur theorized in such literature must be broadened to include other "developmentalist individuals" (i.e., public sector bureaucrats, members of the diaspora, social entrepreneurs, and individuals from international development agencies), esp. where the regional economies are undeveloped for the purposes of supporting and nurturing a technology-based cluster. The less developed a regional economy, the broader the notion of "entrepreneur" one must consider for the purposes of cluster formation.

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Chapter 1

Introduction

1.1 Research Question

1.1.1 Research Question

Since the early-to-mid 2000's, South Africa's Western Cape and Kenya's capital city Nairobi have been attracting flows of trade and investments in information technology-enabled services (ITES). The flows are small compared to India and the Philippines which currently dominate the IT-enabled services market. But ITES is a significant and growing market in these regions, with multinational companies like Amazon, Google, IBM, America Online, GenPact, and others locating and developing market niches in these regions. This dissertation poses the question of why do investment and trade in information services go to new market locations. More specifically, how do unlikely regions become producers in information services when other locations are arguably more advantaged with respect to labor supply and cost, quality and availability of telecommunications and other infrastructure, incentives, training institutions, macroeconomic stability, and potential for profit maximization?

1.1.2 Relevance of Research Question for Theory and Public Policy

From an empirical perspective, this is one of the first cross-comparative historical studies on services offshoring in Africa. However, many empirical processes that lead to such an outcome are under-explored. Why should one undergo a study of the emergence of services offshoring in Sub-Saharan Africa, and particularly in Kenya and South Africa? First, this research question is motivated by a desire to contribute to an understanding of how technology-based sectors emerge and contribute to regional economic development in Sub-Saharan Africa. Technology-based sectors represent a future for African growth and development that has historically relied on agriculture, mineral extraction, and tourism as sources of economic rents. Economic diversification is pursued because it can mitigate against market volatility in more traditional, natural-resource based sectors for which African countries - all too often - have little control over. Agricultural subsidies in more developed countries, global economic shocks, and climate and ecological changes can

disproportionately alter the volume and value of natural resources from Africa. Policymakers and development practitioners continuously search for new and emerging sectors that African countries can participate in that expand the scope of products and services produced. Opportunities in technology services provide a potential for diversifying economic activities through "smart exports" and creating jobs for Africa's unemployed youth. However, the challenges for creating, sustaining, and upgrading these sectors are daunting, and the goal of this research project is to unpack some of these issues in the context of IT-enabled services sectors in the Western Cape and Nairobi. Ultimately, these case studies are the seed of a longer investigation into how a continent that largely missed the Industrial Revolution can make strategic moves into IT-enabled services.

Second, the comparative case studies on African countries will contribute to a global understanding of "regional disadvantage" (or the lack thereof) that applies to other geographies, time periods, and economic sectors. South Africa and Kenya - in various respects - are representative of the rest of the African continent as well as other developing countries (both advanced and non-advanced). Studying Kenya provides insight into smaller developing countries with a salient aid and international development agenda that influences the larger political economy in addition to an economy based primarily on agriculture. South Africa is important as a middle-income country because it has implications for other middle-income developing countries (including outside of Africa). But South Africa, like several other African (and other developing countries), has historically generated wealth through gold, platinum, and other extractive industries. In South Africa, there is a sizable labor supply along with developed infrastructure and large domestic industry. Though South Africa can be considered a continental outlier in some ways, it shares commonalities with many other Sub-Saharan African countries like Kenya, including a lack of cheap, reliable broadband telecommunications; a labor force (compared to Asian industrializing economies) that is not large or educated in science, technology, engineering, and mathematics; high unemployment rates in the formal sector; colonial history with a focus on the extraction of natural resources; and a relatively small diaspora (compared to India and China) abroad (e.g., US, UK) in high-level corporate and technical positions. Most importantly, South Africa shares with the rest of the continent simply its inclusion in "Africa" - a region that historically has been viewed as economically and technologically backward and has detracted foreign investors from making serious, sustained investments in the region.[1] Therefore, this case is a starting point for thinking about other regions throughout Africa that are also considering or are developing IT-enabled services sectors of their own.

African countries, and particularly my case study regions, are examples of regional disadvantage in global IT-enabled services. Their industries are undeveloped and challenged with a host of issues. Most studies on services offshoring to date have been focused on large, advanced developing countries in Asia. The similarities and differences between the political economies in this investigation - one developing (Kenya) and the other middle income (South Africa) - present a more robust set of options available for developing countries that actively seek to create emerg-

[1]South Africa is also a continental outlier in its apartheid policy that shaped cultural, social, and economic institutions throughout the country. The large permanent white population as well as the history of extreme racial segregation ultimately had strong economic consequences for global trade blocks and sanctions as well as the recent trade and investments in IT-enabled services as noted in Chapter 4.

ing offshore services. Their strategies are potentially applicable to other regions and firms within Africa as well as to other firms and regions that represent "regional disadvantage."

Third, my focus within the case studies on regions and institutions is a reflection of a more recent turn in the study of economic development. There is an increasing recognition of the role that sub-national regions play in economic growth and development in both developed and developing economies. Moreover, it is increasingly understood that institutions account for growth in ways that traditional production factors (i.e., land, labor, and capital) or even technological innovation do not (Helpman, 2004; Evans, 2005). This project seeks to contribute to the ongoing work on the role of institutions in economic growth, especially in Sub-Saharan Africa.

1.2 Information Technology-Enabled Services in Africa

Over the past decade, South Africa and Kenya developed export-oriented IT-enabled services sectors spearheaded by investment and business from the U.S.A., Europe, and Australia. Their nascent sectors were inspired by the success of advanced developing economies like India, Philippines, China, and other South East Asian countries that tapped into global demand to provide IT-enabled services, such as business process, IT, and software outsourcing and offshoring.

1.3 Kenya's IT-Enabled Services Sector

The beginnings of Kenya's business process outsourcing industry can be traced to 2002, where firms began to offer online research, data entry, and database services. Convinced that Kenya had human resources, an excellent business environment, and competitiveness with respect to other outsourcing destinations, a number of Kenyans started companies, focusing on voice and data processing-related tasks.

The emergence of these companies took place at the beginning of the Mwai Kibaki administration, a monumental time in Kenyan history, after 24 years of rule under the Arap Daniel Moi regime. The business environment was upbeat and a significant population of the diaspora returned to go about the duty of nation-building. There was excitement surrounding the IT-enabled services sector around 2005-06 with numerous conferences, a mushrooming of call centers and business process outsourcing (BPO) firms, and advanced discussions with foreign investors to locate offshore operations in Kenya. In the wake of the global economic recession paired with Kenya's post-election violence in early 2008, Kenya's BPO and contact center firms that focused on international contracts increasingly began to engage in domestic outsourcing opportunities. These firms focused on opportunities for outsourced work from the international non-governmental organization (NGO) and intergovernmental industry (e.g., IT shared services for United Nations agencies) in the greater Nairobi area as well as public (e.g., digitization projects for the Ministry of Lands) and private sector (e.g., Telkom Kenya) entities. In 2009 and 2010, the roll out of two undersea fiber optic cables along with terrestrial infrastructure (in mostly urban areas) rejuvenated interest

and potential growth in the sector. The sector comprises 50-60 firms, with approximately 5,000 workers, depending on the source (Zavatta et al., 2008, pp. 5-6; Waema, 2009).

Prominent BPO and call center firms include Kencall Ltd., Direct Channel Simba Technologies, Horizon Contact Centers, G7 Systems, Preciss International, and Northwest Offshore Ltd. No Kenyan companies are Capability Maturity Model (CMM) certified at the moment, but the Kenyan Information and Communications Technology (ICT) Board is in the process of working with a South African-based company to extend certification to Kenya. Kenya's primary international markets are the US and UK because they are English-speaking. Most Kenyan firms provide fee-for-service offshore work, tying returns to service rendered per time. Currently there are few captive centers, subsidiaries, or joint ventures in the country, though Accenture piloted an IT Shared Services Helpdesk in Nairobi (2009) and is in discussions with the country to locate an East African Outsourcing Division there as well. Most client-supplier relationships are established through transnational intermediaries and through personal social networks, though the Kenyan ICT Board is also organizing events to facilitate key contact points where possible. The contracts that Kenyan companies typically procure are short-term. However, with the arrival of several undersea fiber optic cables, Kenyans expect cost reductions, quality improvements, and bigger, more long-term contracts.

By most accounts, Kenya's export-oriented IT-enabled services sector is relatively nascent and underdeveloped. Most BPO and call center firms are 5-50 seat operations (Kariuki, 2010, p. 5). In 2009/2010, the sector created 619 direct BPO jobs and 4,168 jobs indirect jobs, only 8.3% of its Vision 2030 targets for the 2009/10 period (Ministry of State for Planning National Development and Vision 2030, 2011, p. 77). Kenya's quality and quantity of labor currently constrains its employment prospects. As part of McKinsey & Company's Value Proposition engagement for the Kenya ICT Board in 2009, they assessed how many out of the 30,000 university graduates (and 250,000 high school graduates) at the time were "ready-to-hire" for multinationals. According to the report at the time, only 5,000 graduates were suitable for employment in the industry (World Bank, 2010, p. 31). According to this research, Kenya was constrained with respect to both population and talent, relegating it to the lower end of the services value chain in basic data and voice processing services (Gathara, 2010; Sudan et al., 2010, pp. 54,59). A significant, if not overwhelming, portion of the expense of connecting to the Internet from Africa is the cost of linking to distant international networks. Up until 2009, East Africa was the most poorly connected large region in the world. The confluence of post-election violence (2007-08) and the global economic recession reportedly slowed the sector and weakened offshore linkages. Moreover, international investors may be deterred for some time because of this ethnic and political instability (Commonwealth Business Council and Cybermedia India, 2009, p. 265; Sowinski, 2010; BMI, 2011, pp. 8,21). As the sector was faced with the political fallout, it was reportedly suffering from the global effects of the economic recession as well.

1.4 South Africa's IT-Enabled Services Sector

South Africa's first call centers date as early as the mid-1970's (Benner et al., 2007, p. 10) and historically have their origins within the domestic financial services industry. However, it wasn't until the 1990's that call centers grew in the South African market. Scholars and analysts cite various (non-mutually exclusive) causal explanations, including reduced telecommunications costs and improved computer equipment (Benner et al., 2007, p. 10), growth in the national economy (Schaal and Krensel, 2008, p. 17), and domestic investment along with increasing international demand (Africa Analysis and Z-Coms, 2005, p. 17). Based on a comprehensive study conducted by UK-based Mitial Research in 2002, the number of call centers rose from 185 in 1997 to 451 in 2002, constituting 78,000 workers (47,000 seats) in the sector, or nearly 1% of the formal sector workforce (see Table 1.1). For comparison, this is larger than the call center industry in Ireland, Scotland, Wales, the Philippines, Italy or Spain (Benner, 2006, p. 1030).

Table 1.1: South African Call Centers by Size (2002)

Seats (bands)	**Number of sites**	**Percentage of total sites**	**Average seats**	**Total seats in band**
20-30	90	22	23	2070
31-50	77	19	41	3157
51-75	50	12	68	3400
76-100	64	16	90	5760
101-200	48	12	162	7776
201-300	47	11	256	12,032
301-500	30	7	372	11,160
>500	4	1	598	2392
Total	410	100		47747

Source: Mitial Research (2002, p. 27)

The majority of South African BPO and call center firms are located in Johannesburg, with Cape Town and Durban important secondary sites. Overall, South Africa's delivery footprint comprises eight locations (Benner, 2006, pp. 1030-1031; Everest Group and Letsema Consulting, 2008, p. 44; Multimedia Group and C3 Africa Research, 2008, p. 2). Most South African contact centers focus on domestic in-bound customer service calls (rather than outbound sales calls) (Benner et al., 2007, p. 4; Multimedia Group and C3 Africa Research, 2008, p. 2). Key sectors that make use of call centers include financial services, telecommunications, and retail, followed by health care and IT support (Everest Group and Letsema Consulting, 2008, p. 44; Multimedia Group and C3 Africa Research, 2008, p. 2; Schaal and Krensel, 2008, p. 17). By 2009, various sources placed South Africa's call center and BPO employment at approximately 100,000 people (Everest Group and Letsema Consulting, 2008, p. 7; Ngobeni, 2009, p. 8; Waema, 2009, p. 52).

Most South African call centers employ a few dozen workers, with a median size of 24 employees (Benner et al., 2007, pp. 7,43) as established in one survey and many less than 20 seats as

established in another (Multimedia Group and C3 Africa Research, 2008, p. 2). The South African call center and BPO industry is largely focused on the domestic market (91%), with most firms serving the national market and a small percentage serving local (14%) or regional (5%) markets (Benner, 2006, p. 1031; Benner et al., 2007, pp. 4,7,11,17; Waema, 2009, pp. 28-29).

Though there is a domestic focus, offshore and international activity is emerging for the sector, especially in the UK. The Mitial Research report described foreign direct investment in the industry as "very limited" in 2002, but by 2004 international outsourcing constituted 30% of all call center operations (or 55% of revenue) (Benner, 2006, p. 1031). By 2008, Everest Research Group estimated over 2,900 service provider employees in the offshore financial services market alone. Their offshore offerings include a number of complex, high-end services, including investment administration and actuarial modeling ((Everest Group and Letsema Consulting, 2008, pp. 9,53-54)). Overall, by 2009, there were 8,000-10,000 workers serving the offshore market in all service sectors. Examples of global suppliers and offshore captives include CSC, Teletech, Sykes, IBM, Accenture, Avanti Call, Deloitte, Teleperformance, Budget Group, State Street, JP Morgan Chase, PruHealth (UK), and Amazon.com (Farrell, 2006; Everest Group and Letsema Consulting, 2008, p. 154;Lippstreu, 2008; Everest Research Institute, 2009, p. 1). Other international call centers operating in the country include Merchants (a division of Dimension Data), Lufthansa (which has had a major call center in Cape Town since 1998), Mindpearl, Cape Town-based Dialogue Group, Delta Airlines, and RCI (A.T. Kearney, 2005; Benner, 2006, pp. 1031-1032). When Delta Airlines closed its Indian call centers in April 2009 because of negative customer feedback, it continued its call center operations in South Africa (and Jamaica) (A.T. Kearney, 2009, p. 9; Waema, 2009, p. 49).

While analyzing various client segments, it is important to take note of South Africa's niche in financial services BPO and call center offerings. Some posit that South Africa's world-class financial sector is a result of a historical trajectory with a foundation in capital-intensive mining activities as well as inherited British institutions in company law and legal infrastructure (Lippstreu, 2008). This financial services sector gave birth to BPO and call center firms since the 1970's, which reportedly account for approximately 33% of total service provider BPO jobs and employed at least 11,000 people by 2008 (Everest Group and Letsema Consulting, 2008, p. 39). The financial services BPO and call center market, though smaller than India and Philippines, is comparable to emerging offshore destinations like Romania, Malaysia and the Czech Republic. In addition to the service providers, there are multiple, large-scale domestic financial services captives in South Africa, employing in aggregate approximately 65,000-75,000 people (Everest Group and Letsema Consulting, 2008, p. 8).

Though the overall call center market is overwhelmingly focused on in-bound customer service (front-office) functions, the financial services segment has a breadth of process capabilities in both front-office (5,000 employees) and back-office (5,000 employees) functions (See Figure 1.1). In 2008, financial services service providers served approximately 240 clients across a number of sub-verticals (e.g., retail banking, insurance, and asset management) (Everest Group and Letsema Consulting, 2008, p. 8).

Table 1.2: Economic Sector of South African Call Centers (2002)

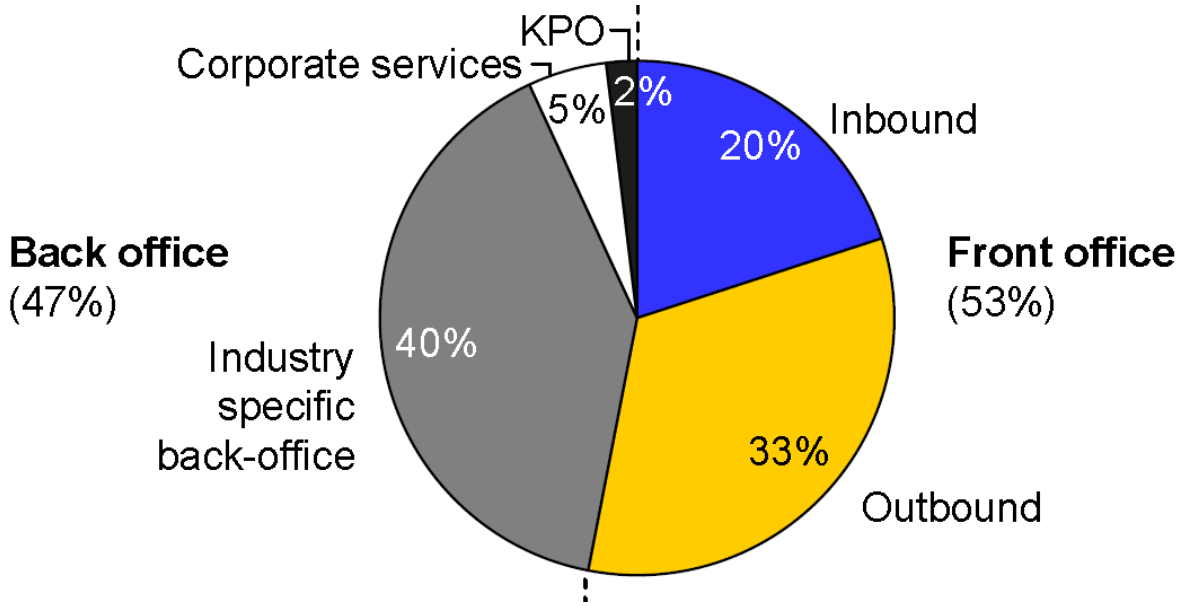
Sector	**Number of Sites**	**Percentage of Total**
Financial services	115	27.9
Telecoms	57	14.0
Marketing communication/research	41	9.9
Information technology	38	9.2
Retail	35	8.5
Health care	32	7.7
Hospitality and leisure	20	4.8
Utilities	15	3.7
Outsourcing	11	2.6
Government	9	2.2
Industrial	9	2.2
Transport	9	2.2
Security	9	2.2
Post and courier	8	1.8
Other	5	1.1

Source: Mitial Research (2002, p. 30)

South African call center agents typically have matriculation certificates and only 2% of centers hire agents with university degrees, below the global average of 22% and the Indian average of 70% (Benner et al., 2007, p. 44). Depending on the type of work and the region of the country, call center workers' wages ranged from R33,000 to R50,000 annually, based on the Mitial Research 2002 study. These wages rates (R2,750-4,167/month) were relatively better than those for urban formal sector workers (R2,040/month for men and R2,068/month for women in 1999) (Benner, 2006, p. 1030). These wage rates are significantly lower than the US and UK (e.g., 50-60%), but they are not as cost-competitive as India or other emerging Sub-Saharan African locations (Farrell, 2006; Everest Group and Letsema Consulting, 2008, p. 105; Waema, 2009, p. 34).

Because South Africa is not the cheapest offshore location and is overwhelmingly focused on call center work, it faces threats not only from cheaper rival countries but also from speech-enabled self-service technology. Because of these challenges, it has been suggested that South African firms upgrade through the services value chain by embracing a human capacity development strategy (Africa Analysis and Z-Coms, 2005, p. 14; Benner, 2006, pp. 1026,1037-38). Another option proposed for South Africa is to serve as a "manager of outsourcers," providing a first tier of service and subcontracting work to lower cost offshore destinations within Sub-Saharan Africa like Mauritius, Kenya, and Ghana (Benner, 2006, p. 1037; Hewitt Associates, 2006, p. 8; MIGA, 2007, p. 26; Commonwealth Business Council and Cybermedia India, 2009, p. 274).

Figure 1.1: Financial Services BPO Employees Across BPO Functions (100%= 11,000)



Source: Everest Group and Letsema Consulting (2008, p. 8)

Table 1.3: Region that South African Firms Outsource To (2004)

Region	**Percentage**
Western Europe	14.3%
Northern America	9.1%
Southern Africa	8.7%
South-central Asia	6.6%
Southern Europe	6.6%
Northern and Eastern Europe	5.9%

Source: Paladin Consulting "Research study into the BPO&O/CC Sector in South Africa" as cited in Naidoo and Neville (2005, p. 23)

South Africa has been globally recognized as an emerging offshore location. The A.T. Kearney Global Services Location Index mentions South Africa in its top rankings (position 17 in 2004, 32 in 2005, 39 in 2009 and 45 in 2011) (A.T. Kearney 2004, A.T. Kearney 2005, A.T. Kearney 2009, A.T. Kearney 2011). However, South Africa is also challenged with a number of problems. First, South Africa is expensive relative to India and the Philippines. In 2007, South Africa's Department of Trade and Industry (DTI) launched an incentive scheme and in 2011 it has been reworked to bring South Africa within 10-15% of India (but only for a three-year period). However, the South African government is aligned with the strong labor union front that pushes for higher wages and

permanent employment, making South Africa unattractive from a price perspective. The skills still sit at the low-end, where the sector is 89% voice and the majority of the contact center agents have a matric (high school) qualification (as opposed to India where many have college/university degrees). South Africa's most recent value proposition marketing materials mention the presence of deep domain skills (large numbers of actuaries, chartered accountants, etc.), but these people are absorbed into South Africa's financial services industry, not the BPO/contact center sector. Second, South Africa is essentially focused on the UK market because of its lack of transport infrastructure. There are some exceptions such as English-language work for other locations (US and Australia) as well as small-scale European-language work (Benelux countries). But South Africa's lack of transport infrastructure means that either (a) night shifts are not possible unless firms pay for private transport (which erode their profits) or poorly paid agents (with no cars) have to get to work on the last mini-bus taxi at 7 pm, sleep in a resting room, and then start a shift at 12am to dial into the USA. Therefore South Africa has to focus on the UK where the agents share the time-zone (and language) with the market. Third, South Africa finds it difficult to compete in banking, financial services, and insurance (BFSI), the industry that drives offshoring globally: Because the BFSI sector in South Africa has been reluctant to outsource domestically, the outsource/offshore providers don't have the competence in this industry vertical. And this is the industry vertical that drives offshoring globally.

1.5 Methods

In order to address the research question, I conducted an in-depth case study of IT-enabled services clusters in Kenya and South Africa, investigating its context and analyzing and interpreting intertwined actors, actions, events, and processes (Ragin, 1992a; Stake, 1995; Yin, 1994). The qualitative approach was more appropriate for describing how local and global factors hang together in a mutual web of influence (Becker, 1996). The qualitative case method was chosen because little is known about this phenomenon in this regional context, and this method allows the involved actors to share their narratives in a way that captures the diversity of their experiences and allows for unanticipated research directions. The goal of this case study approach is analytic generalization (Yin, 1994, p. 10), that is applying this case to theoretical and analytical frameworks (i.e., clusters, global value chains, diaspora networks, and institutions). My approach is historically interpretive in a "restricted sense" by which I refer to a type of social science that "...attempts to account for specific historical outcomes or sets of comparable outcomes or processes chosen for study because of their significance for current institutional arrangements or for social life in general" (Ragin, 1989, p. 3).

The qualitative methodological approach is a case study rather than an ethnography. Taking Burawoy's extended case study method as a starting point, I used a reflexive - instead of positive - model of science to extract the general from the unique (e.g., linking Zambian copper mines with Fanon's theory of post-colonialism). Context is not noise to be avoided but reality itself. This reality points to wider social processes that can be explained by theory as discerned in the local context. Like Burawoy, my investigation differs from ethnographic studies that confine their claims

to the dimensions of the everyday worlds in which they examine. As he has made claims about the nature of post-colonial Africa and how race is reproduced in Zambia, I attempt to make broader claims about how regions address their locational disadvantage, esp. in global IT-enabled services (Burawoy, 1998).

I see the cases as both "found" - empirically real, bounded, and specific (i.e., emerging IT-enabled sectors in Africa) - as well as theoretical constructs (i.e., nascent clusters integrating into global services value chains) (Ragin, 1992b, pp. 9-10). In the case-oriented tradition, the "...causal significance of a condition often varies by context. In some contexts a certain cause may be relevant to a given outcome; in others it may be unimportant and in still others the absence of this condition may be causally significant to the outcome" (Ragin, 1989, p. 166).

What was helpful for explaining the India case may not be helpful for explaining the African cases. Because of this uncertainty, I used the various theoretical and analytical frameworks as "...a vague starting point for looking at empirical evidence" (Ragin, 1992a, p. 218). For example, the cluster concept drew attention to inter-firm learning and joint action through industry associations. Global value chain concepts directed me to relationships multinationals have with offshore captives in Kenya and South Africa. The emerging literature on diaspora networks pointed me to the presence and role of (returning) diaspora in contractual relationship-building between African firms and firms abroad. And the literature on institutions helped me understand how the structural features of African economies laid the foundations for what would later become IT-enabled services sectors. Finally, I approached the field sites as a network, seeking entry-points to firms through existing contacts, iteratively following people and themes to other sites, and stopping with meaning saturation (Burrell, 2009). Meaning saturation was achieved through "sequential interviewing" and "multiple case replication design" that focused more on subjects in the field who could progressively answer the research question rather than serve as a "representative" sample (Yin, 2009, pp. 54-55; Small, 2009).

My fieldwork was conducted using a case study methodology with qualitative methods and specifically grounded theory design (Glaser and Strauss, 1967; Strauss and Corbin, 1990; Strauss and Corbin, 1997). I embarked on a triangulated plan of data collection, involving semi-structured interviews, secondary data, and participant-observation to provide a parallel infrastructure of secondary sources (Becker, 1998). I conducted 120 semi-structured interviews with cluster (and other relevant) actors, including firms, foreign and domestic clients of cluster firms, cluster-wide associations, venture capital firms supporting the clusters, consultants and advisers to the clusters, equipment suppliers, telecommunications firms, export processing zones, cluster training institutions, and relevant government ministries. The interview guide addressed various issues related to the origins of the industries, relationships with foreign and domestic client firms, chain governance and upgrading, dynamics within the local clusters, as well as larger contextual issues relating to the local labor force, telecommunications infrastructure, business services, the advantages of locating in the clusters, the global economic recession, and the national business and political environments. Where possible, I collected internal business memos and other relevant documentation from the companies with their consent as well as made direct observations in field visits to the company campuses. In this way, I verified marketing claims with internal organizational realities. Subjects were recruited through my existing network of contacts and through referral. Data from secondary

sources was gathered online and in the field to frame some aspects of the work, but no new quantitative data was collected. I also attended cluster-wide events as opportunities to meet new industry actors for interviews, collect relevant documentation, and take notes on developments in the cluster. These events (e.g., Outsourcing Forums) were temporary sites where several networks converged and objects came to me - instead of the other way around (Burrell, 2009, p. 196).

1.6 Outline of the Dissertation

In Chapter 2, I investigate a number of ways that academics have viewed the emergence and existence of technology(-enabled) economic sectors in a regional context. After presenting literature from a number of theoretical frameworks, I conclude that a better way to view the growth of trade in IT-enabled services to Kenya and South Africa is through the lens of "information champions" - individuals motivated by a developmental ethos - who catalyze the movement of global economic activity to locations with comparative disadvantage. This lens best explains the empirical data gathered as well as highlights the underlying drivers from multiple theoretical frameworks.

In Chapter 3, I explore the emergence of Nairobi's IT-enabled services sector. In the early 2000's, Kenya began to offer business process outsourcing (BPO) services, based on the successes of call centers and software firms in India and the Philippines. Initial attempts to create a BPO sector failed because they could not compete with other global locations on cost, labor, and service delivery. The chapter argues that two categories of individuals emerged to support the development of the nascent BPO market: bureaucrats from the developmental state and members of the international community (as well as local capital) promoting social enterprise. Though both groups of individuals have resulted in trade and investment opportunities and support job creation, their underlying logics diverged. On the one hand, members of the developmental state support the role of government for BPO through public goods and investment promotion activities that market the country as an attractive location for offshore IT-enabled services. On the other hand, the social enterprise sector asserts that BPO must employ and benefit the most disadvantaged. The ideological differences are most evident in imagery used to market BPO services. Members of the developmental state portray Kenya as an emerging economic and technological hub while individuals involved in social enterprise efforts focus on marginality, highlighting images of poverty. The conflict in developmental strategies and imagery has potential implications for investor sentiment about Kenya's value proposition, the quantity of specific trade and investment opportunities, and the potential for IT-enabled services to address the needs of the poor.

In Chapter 4, I ask how did Cape Town come to emerge in global IT-enabled services and what institutionally explains this emergence. Historical legacies and institutions have contributed to what makes Cape Town preferred and what makes investors averse to the region. Starting with Cape Town's advantages, its history of European settlement has created a community of English and Afrikaans speakers who have linguistic capabilities useful for Anglophone (UK, USA, and Australia) and Benelux (Belgium, Netherlands, and Luxembourg) markets. The British legal institution recreated in South Africa shapes the training of lawyers who are increasingly unemployed and finding work in legal process outsourcing to London. The historic transnational connections

with the UK, Germany, Netherlands, and Australia along with recent waves of emigration in the 1980's and 1990's have created a diaspora that has benefited the emerging BPO sector from the demand side. For example, Amazon's investment in the region along with that of UK-based insurance company Budget were the result of diaspora abroad investing in their country and specifically in Cape Town. However, these institutions that created advantage are in part responsible for what limits the growth of the sector. Along with European colonization and immigration came systems of apartheid that perpetuated inequitable access to economic and educational opportunities, extending to the present-day. As a result, there is a shortage of highly-skilled labor at all levels, necessitating short-term training programs by the government to service global markets. Because much skilled labor left before and in the aftermath of apartheid, it is difficult to recruit highly-skilled managerial labor. These shortages drive the costs of labor upward, beyond the relatively higher living costs in Cape Town, making the region less competitive on wages with respect to India and the Philippines. As a result, local, provincial, and national governments provide incentives and other financial mechanisms to address these structural inefficiencies. In conclusion, the intersection of global opportunities, local, historical institutions, and government policies define the niche that Cape Town (and larger South Africa) plays in global IT-enabled services.

In Chapter 5, I argue that the focus on creating and nurturing a nascent BPO sector by the state induces an iterative, coordinated process that contributes to development more broadly. That is, a commitment to making the ICT sector succeed catalyzes a process of development whereby existing social, political, and institutional constraints are identified and removed in a coordinated way. Belief that IT-enabled services will drive economic development reveals the deeply contextual and starkly placed bottlenecks that hinder its diffusion and intended impact. Commitment to the belief in service-led development induces individuals to address these challenges in ways that I counterfactually argue (probably) would not have happened without such a belief. I further contend that the developmental benefits of focusing on the creation of a BPO sector are agnostic to the success of the ICT sector itself. This state-managed process that is especially committed to industrial policy creates a whole set of policies that benefit the political economy in a broader way.

In Chapter 6, I conclude the dissertation arguing that development can lead to IT-enabled services and that IT-enabled services can also lead back to development. The idea of development, by a number of individuals from different regional, organizational, and institutional contexts, is the impetus and the origin for the region's emerging services sector. However, as the region seeks to deepen and expand services, it leads to a coordinated set of actions to boost services that can be considered developmental whereby impediments in the local political economy are removed. I also return to this question in light of the literature on cluster genesis and the empirical cases presented in this dissertation. I argue that the concept of the entrepreneur theorized in such literature must be broadened to include other "developmentalist individuals," esp. where the regional economies are undeveloped for the purposes of supporting and nurturing a technology-based cluster. The less developed a regional economy, the broader the notion of "entrepreneur" one must consider for the purposes of cluster formation. I end the conclusion chapter with limitations of the study and recommendations for future research.

Chapter 2

Literature Review

In this chapter, I will investigate ways that academics have looked at the emergence and existence of technology(-enabled) economic sectors in a regional context. Though there are many more theoretical frameworks available than currently provided in this chapter, I will highlight the most salient literature that could potentially address my research question of how information-technology enabled services can be attracted to locations with regional disadvantage.

Against the background of my study is the economic idea of comparative advantage. Essentially, regions have advantage based on traditional factor endowments, like labor, land, and capital and more recently with stocks of innovation and ideas. Technology industries migrate to regions that have the right productive factors to create products and services, esp. in technology-enabled sectors. Because of an efficient, free market, services ideally go to the regions that translate their stock of productive factors into high-value, low costs products. Thus, markets efficiently find regions that are best, in a global sense, for producing particular products or services.

A pure economic explanation based on market fundamentalism and comparative advantage does not explain flows of IT-enabled services to these regions. Given the pressure multinational firms face in ensuring cost arbitrage and quality, they must go to predictable locations - like India and the Philippines - where such advantages can be assured. Africa, generally, does not have the reputation for lower-cost, higher quality work in IT-enabled services. In fact, the perceptions/stereotypes about Africa, including under-developed infrastructure and uneducated labor, make the region appear to be more of an expense. Because of this, I focus on alternative explanations for the growth of IT-enabled services in Africa. Following an introduction to IT-enabled services, I survey several theoretical frameworks.

First, recent work on scientific and technical diasporas pose the question of how and to what extent do highly-skilled diaspora create, foster, and support the development of high-technology economies in their home regions. Saxenian's seminal work *The New Argonauts* argues that technical diasporas are the chief explanatory factor in understanding how South and East Asian countries, among other regions, have created new generations of IT companies and imported institutions like venture capital.

Second, some sociologists have pointed to the presence of global value chains. The central question in this literature is how and why do particular production processes touch down in specific

regions, esp. developing countries. Scholars in this body of literature responded that developing countries become part of global value chains when "lead firms" - that is large, multinational firms, typically located in developed countries - decide that specific regions are best suited for producing in segments of the global value chain. This literature, focusing mostly on commodities and manufacturing and more recently services, identifies "chain governance" - or the process whereby lead firms integrate regions into its global value chains - as the explanatory mechanism through which regions get picked to engage in global economic processes. Governance within the global value chain also largely determines how regions move into higher value-added and more sophisticated production regimes.

Third, literature from industrial and technology clusters ask the question of how do sectoral and regional clusters operate and emerge. This work looks into what makes specific regions innovative and how do regions get to participate in specific economic sectors, with a bias for high-technology industries like information technology and biotechnology. More recent work has moved from descriptive and analytical studies focused on the functioning of successful clusters (e.g., Silicon Valley) to how clusters emerge in the first place. This nascent cluster genesis literature asks how do collections of firms, supporting government and business-related organizations, social networks, and institutional innovations arise to support the creation of new technology sectors. This work has focused on high-technology sectors in developed countries with large domestic demand.

Fourth, literature on the "developmental state" emerged in the late 1970's and the early 1980's (with Chalmers Johnson's seminal book *MITI and the Japanese Miracle*) to ask what led to Japan's impressive growth in electronics in the global marketplace. As opposed to laissez-faire market fundamentalism, Johnson and many others argued that a strong, bureaucratic state agency (e.g., Ministry of International Trade and Industry in Japan) created the conditions for a thriving electronics sector. State-led - as opposed to market-led - industrialization was the reason that Japan could compete with the US effectively throughout the 1980's. Studies commenced on other East Asian countries (e.g., Alice Amsden's Late Industrialization) as well as European countries (e.g., Seán Ó Riain's flexible network developmental state in Ireland). This literature waned in popularity in the late 1990's as the Asian Financial Crisis empirically challenged the notion of the developmental state.

Fifth, I survey the work on institutions, particularly in the African context. How do countries and regions make decisions about their future, given their past? I will review the literature on historical path-dependency and institutions in Africa, unpacking how they frame the types of decisions regions and countries can make.

2.1 Overview of IT-Enabled Services

What do we mean by IT-enabled services? Here I will track the historical evolution of IT-enabled services in the global economy and describe how technology enables new forms of service delivery.

2.1.1 What are Outsourcing and Offshoring?

IT Offshore Outsourcing (ITOO) comprises Information Technology (IT) work processes or Information Services (IS) that are outsourced to a supplier located on a different continent than the client (Lacity and Rottman, 2008c). Types of IT work typically outsourced include software application development and maintenance, testing, delivery, telecommunications, end-user support, systems operations, planning, and management (Lacity and Rottman, 2008c; Rottman and Lacity, 2008). As offshore suppliers move up the value chain, there is an increasing market for knowledge process outsourcing (KPO), which involves the outsourcing of market, business and/or industry research (Lacity and Rottman, 2008b).

Offshore outsourcing is related to but distinct from other forms of outsourcing and in-sourcing. Outsourcing and onshore outsourcing are considered interchangeable terms, where the supplier is located within the same country (Berry, 2006). In the US, rural sourcing is a new niche market that combines the benefits of onshore outsourcing with lower costs as suppliers are located in rural areas with lower costs of living. Rural sourcing rates can be 30-50 per cent less than more expensive rates in urban areas (Lacity and Rottman, 2008b). "Near-shoring" is where work is outsourced to a supplier in an adjacent country or on the same continent (Lacity and Rottman, 2008c). Near-shoring is an increasingly attractive trend because of time zone and cultural compatibility as well as geographical closeness. Canada is a preferred near-shoring destination for the US, while the Czech Republic, Poland, and Hungary are near-shore destinations for Western Europe (Lacity and Rottman, 2008b).

Co-sourcing "describes a close supplier/client relationship in which the supplier augments or even replaces the client's IT competencies. The supplier even serves as team lead for some types of work" (Lacity and Rottman, 2008c, p. 33). Finally, in-sourcing is the decision to perform the IS/IT function internally, including the fixed and administrative costs of doing so within the firm (King, 2008). In-sourcing can be performed either onshore or offshore. "Offshore in-sourcing," for example, involves the creation of a subsidiary in an offshore destination whereby the company retains total control (Bragg, 2006). What typically - though not exclusively - distinguishes offshore outsourcing (from outsourcing) is a third-party supplier in a foreign, low-wage nation.

2.1.2 History of IT-Enabled Services

Outsourcing is considered as old as economic development (Paus, 2007). One of the oldest services traded across borders is shipping, which has been around since the Vikings and Polynesians (Mann, 2007). Outsourcing can be viewed as part of the larger trend of the globalization of labor, with the emergence of a single global labor market where workers compete more directly across borders. There are at least three drivers of this globalization of labor. The first is the doubling of the global labor force as the Eastern European countries that once comprised the former Soviet Union, China, and India have entered the global capitalist system. The second is the rapid expansion of scientific and technical tertiary education in developing countries. The third is the transfer of technology to developing countries through university studies, diasporic networks, government and international programs for the transfer of technology, and the activities of multinationals (Freeman, 2007).

Though outsourcing is not a new concept, offshoring to other countries is a more recent phenomenon (Farrell and Institute., 2006). The globalization of labor coupled with the growth of distributed work that is measurable, manageable, valuable, and relevant from a distance has catalyzed offshoring activity (Berry, 2006). Overall, the offshoring of IT work is influenced by the globalization of trade and services, a business-friendly climate in low-wage nations, software commoditization, wage differentials, decreased communication costs, and the growth of labor pools in offshore locations (Carmel and Tjia, 2005, p. 1).

Table 2.1: IT Outsourcing Timeline

Year	**Development(s)**
1963	EDS wins Blue Cross of Pennsylvania - first time large business turns over data processing to third party.
1970's	EDS signed deals with Frito-Lay and General Motors
Mid-to-late 1980's	EDS involved in financial outsourcing deals (Continental Airlines, First City Bank, Enron)
1989	Kodak-IBM, Digital Equipment and Business-Land ("Kodak Effect")
1991	IBM entered information service business. Integrated Systems Solutions Corporation (ISSC) was formed
1994	$3.2 billion outsourcing deal between Xerox and EDS. One of the first mega deals on a global scale.
Mid-1990's	Co-sourcing evolved - A complex arrangement between multiple vendors and multiple clients.
Late 1990's	New outsourcing models of BPO evolved
Early 2000's	Net-Sourcing, Multi-Sourcing

Adapted from Legorreta and Goyal (2007)

IT outsourcing can be traced back to Electronic Data Systems'(EDS) deal with Blue Cross in the 1960's (See Table 2.1). Following a contract between EDS and Blue Cross in 1963, EDS grew its client base to include at first firms like Frito-Lay and General Motors (in the 1970's) and then Continental Airlines, First City Bank, and Enron (in the 1980's). The deal between the Integrated Systems Solutions Corporation (ISSC) division of IBM and Kodak in 1989 legitimized IT outsourcing leading other companies across the world to follow suit. Since then, IT outsourcing has evolved from sole sourcing or total sourcing to arrangements involving multiple clients and multiple vendors. Beyond client-supplier contracts, partnerships and alliances are not uncommon in co-sourcing arrangements (George and Hirschheim, 2008). Despite the growth of global IT sourc-

ing, developed countries are still net exporters of ICT services, primarily outsourcing to domestic suppliers (Rottman and Lou, 2008; Paus, 2007; Majluf, 2007).

Table 2.2: The 3-Tier Taxonomy of the World's Roughly 100 Software Exporting Nations

Tier-1	Mature software exporting nations	Mostly industrialized nations such as USA, Canada, UK, Germany, France, Belgium, The Netherlands, Sweden, Finland, Japan, and Switzerland. Entrants from the 1990's: Ireland, Israel, and India. Entrants from the 2000's: China and Russia
Tier-2	Emerging software exporting nations	Brazil, Costa Rica, Mexico, The Philippines, Malaysia, Sri Lanka, South Korea, Pakistan, Ukraine, many other Eastern European countries, and several more elsewhere
Tier-3	Infant stage software exporting nations	Cuba, El Salvador, Jordan, Egypt, Bangladesh, Indonesia, Vietnam, and 10-20 others
Non-competing	Non-competing	About 100 of the mostly, small, least-developed countries of the world, including most African, and many Middle-Eastern nations. These nations have few to no software exporting firms.

Source: Carmel and Tjia (2005)

Though the majority of Information Technology Outsourcing (ITO) contracts are domestic, the offshore outsourcing component of the ITOO market is increasing. The US and UK are the main offshoring countries while India, Ireland, Canada, Israel, and China are the five countries on the receiving end (in order of market size). Though there are other entrants in the service offshoring industry (i.e., Philippines, China, Thailand, Singapore, Hong Kong, Brazil, Mexico, and South Africa), offshoring to developing countries is geographically limited (See Table 2.2 for list of software exporting nations). Service offshoring could potentially create many more jobs in developing countries, but its impact is limited by immigration of highly skilled labor from developing to developed countries. It is also unlikely that many developing countries will successfully enter the

global offshoring market when developed countries, India, and to a smaller extent China dominate the scene. However, it is expected that offshore supplier countries like India may become the next destination for offshoring to other developing countries. This could represent an opportunity for developing countries to enter niche markets or participate in near-shoring with more advanced developing countries that offshore IT/IS services (Majluf, 2007).

2.1.3 ITES/BPO in India and Other Advanced Developing Countries

India leads as the premier supplier of offshore ITO, with China emerging as the closest rival. Offshore clients are increasingly viewing Indian suppliers not only for cost reduction but also for IT excellence(Rottman and Lou, 2008). India's biggest software development outsourcing firms include Tata Consultancy Services, Wipro Technologies, Infosys Technologies, Cognizant Technology Solutions, and Satyam Computer Services (Bragg, 2006). These Tier-1 firms since 2000 have emerged as multinational companies that now have operations in Eastern Europe and China and are threatening North American (e.g., IBM, EDS, CSC, and HP) as well as European (e.g., Capgemini, Xansa, LogicaCMG, and Atos Origin) firms (Carmel and Tjia, 2005).

This growth is encouraging other domestic companies to move outside the Indian market as well. India's rise in the IT offshore outsourcing industry has led to richer brand equity from cost arbitrage to high-quality IT innovation. This international credibility may have implications not only for business process outsourcing (BPO) but also other export sectors like steel, pharmaceuticals, automobiles, and apparel (Suri, 2007).

The Indian IT story can be traced back to the Indian diaspora that migrated to the US in search of better economic and employment opportunities. Many of these Non-Resident Indians (NRIs) rose through the ranks of technology companies, and some encouraged those companies to setup research and development (R&D) operations in India while others returned to India to start their own technology ventures. The year 2000 (Y2K) scare was an excellent opportunity for Indian companies to fix the software bug for many American companies and establish technical and professional credentials in the emerging IT offshore outsourcing space. Some of the NRI's in large companies, like Citibank and Bank of America, leveraged their knowledge of the Indian market and parent company to help lead offshore operations back in India. Some even left their companies to start BPO operations of their own (Suri, 2007).

Indian companies operate all along the technical spectrum. Low end offshore services include data entry, customer contact centers, basic technical support, and telemarketing. Mid-end services include financial transaction processing of insurance claims, credit card billing, and debt collection. The more high-end services can include R&D, medical diagnostics, design and engineering, and investment analysis (Suri, 2007).

India's labor availability, cost, and quality are premier factors attracting global clients to take advantage of offshore opportunities there. India's labor cost is significantly lower than that of advanced economies (i.e., 12% of the US cost on an hourly basis) and Indian graduates work relatively longer hours (2,350/year). In spite of the glowing image of the Indian IT worker, few (10-25%) of Indian graduates are suitable for multinational recruitment. Another issue is the variability in the quality of Indian universities. Outside of the world-class Indian Institutes of Technology

(IIT) and the Indian Institute of Management, the quality of Indian universities is questionable. Brain drain of IIT graduates to the USA decreases the potential pool of suitable candidates(Farrell et al., 2006). And the turnover rates for Indian professionals in the information services sector is reported as low as 30% and as high as 80-100%, leading to project delays, quality reduction, and cost increases(Lacity et al., 2008).

India has been making strides to ensure that its labor pool has relevant skills for the current and emerging growth areas within the ITOO-BPO sector. NASSCOM's IT Workforce Development (ITWD) initiative helps foster closer industry-academic collaboration for training.[1] NASSCOM's Assessment of Competence (NAC) standardizes an assessment of skills and creates a certification process for Indian IT professionals. The National Skills Registry for IT Professionals (NSR-ITP) provides an externally verified database of IT professionals that employers can use for recruitment(Suri, 2007).

India has gone through at least three phases of quality certification in the ITOO/BPO sector: (1) internationally recognized certifications for basic processes (e.g., ISO 9000); (2) certifications for IT and software engineering (i.e., Carnegie Mellon's CMM) with India having more CMM Level 5 companies than any other country; and (3) certifications for instituting metrics, processes, and improvement frameworks for all areas of activity (e.g., People CMM and Six Sigma). More recently Indian companies have been acquiring COPC (Consumer Operations Performance Centre) certification and eSCM (eServices Capability Model) certification. These certifications have contributed to India's global brand that focuses on quality and innovation rather than cost reduction. In addition to internationally-accredited standards for quality, Indian companies have taken stringent security measures to protect sensitive information and ensure data privacy. The government has launched legislation (i.e., IT Act of 2000 and Indian Copyright Act) and a certification scheme (i.e., Information Security Management Systems) for addressing information security concerns (Suri, 2007).

The Indian ITOO market has also contributed to socioeconomic development throughout the country. The ITOO share of GDP, direct and indirect domestic employment, and income growth and consumption have all increased in part because of the ITOO/BPO market. Indirect domestic employment that benefits from the ITOO/BPO market includes vendors providing transportation, construction, security, telecommunications, janitorial, and other services. The relatively high income for ITOO/BPO workers have significant effects on relatively low-income families that benefit from such employment. For more affluent families, the increased income leads to more consumption funding the mushrooming of entertainment multiplexes in metro areas. BPO employment of women helps encourage a sense of economic and social independence and the opportunity to pursue a lucrative career path. The BPO sector is a good starting point for college and university graduates, with access to and utilization of the latest information and communication technologies. IT-ITOO industry has led to increased air travel and the construction of international airports that support the meetings, negotiations, and information transfer between suppliers and clients. Saturation in the major ITOO cities (i.e., Delhi, Bangalore, Mumbai, and Hyderabad) is leading IT companies to invest and move into Tier II and III cities with universities, IT parks, and lower real

[1] See Section 2.4 for a brief description of NASSCOM

estate prices. This move is leading to developmental effects, including the establishment of IT infrastructure, availability of new employment opportunities, and increasingly decentralized growth. ITOO contributes significantly to foreign exchange reserves and helps cushion the economy during oil price hikes as well as improve the country's risk profile. Though India's ITOO-BPO sector has many developmental effects, according to Suri "it is not going to solve the problems of poor infrastructure, inadequate primary and secondary education, severe rural unemployment and underemployment, dismal access to health care facilities for the underprivileged, and other similarly daunting problems. Each of these solutions requires a separate and specific solution" (Suri, 2007, p. 178).

2.1.4 ITES Locational Decision Making

The motivation for IT outsourcing can be traced to a focus on core competencies. A core competency related to the organizational strategy of the firm is developed over time through collective learning and information sharing practices, is difficult to enhance through additional investments, shares synergies with other firm capabilities, is difficult to duplicate by or transfer to others, and contributes to the firm's competitive advantage. With the increasing integration of IT into business processes, it is more difficult to distinguish between core and non-core IT and IS functions. For example, broad IT activities that are outsourced may include some core competency within the firm (King, 2008). However, because IT is regularly viewed as a non-core activity, it is usually considered a prime candidate for outsourcing. And although senior management views IT as critical for its operations, it frequently views it as a cost that can be minimized (George and Hirschheim, 2008).

Outsourcing can allow the management to focus on strategy issues like acquisitions, long-term financing, new product development, and market positioning (Bragg, 2006). It allows the client firm access to specialist IS companies that provide high-end services that are difficult to develop and continuously upgrade in-house (Langfield-Smith and Smith, 2008). Follow-the-sun or round-the-clock strategy has also been a potential advantage for offshoring IT work where time zone differences can be exploited to reduce duration time for projects. Though difficult to coordinate in reality, it theoretically can create three shifts within a day that ultimately reduces the development cycle (Carmel and Tjia, 2005). Offshoring can be leveraged for other strategic value including diversifying and flexibly adjusting the firm's labor pool, establishing global networks for sharing knowledge, diversifying a technology portfolio (in core competencies, niche areas, "background competency," and marginal areas), developing local responsiveness for promising emerging markets, and generating new revenue streams (Carmel and Schumacher, 2005; Vashistha and Vashistha, 2006; Bragg, 2006).[2]

[2]New outsourced service providers like Google, Amazon, and Microsoft focus on the provision of server hosting, data storage, and cloud computing.

Choosing a Location & Supplier

If a firm decides to outsource, the next decision-making process involves site and supplier selection for the IT/IS functions. Broad categories influencing site selection include the labor market, business and regulatory environment, location, ICT infrastructure, confidence in emerging market stability, and supplier capabilities (Berry, 2006; Farrell and Institute., 2006).

With respect to the labor market, three key issues are labor costs, labor availability, and labor quality. Labor costs are the most cited reason for moving work offshore. However, all components of labor costs should be investigated, including base salary, benefits, overtime, bonuses, and non-recurring labor costs (e.g., training, recruitment, and termination costs). Also, higher value-added business processes typically imply higher labor costs. Labor availability issues address the size and availability of human resources. Metrics for investigation include labor supply growth, annual production of occupation-specific university graduates, employment rates, proximity to competitor employers, and work schedule issues (e.g., cultural norms may warrant longer-than-expected vacation periods or restrictions on female shift work). Labor arbitrage cannot materialize the offshore advantage without commensurate labor quality. Some metrics include educational levels, productivity rates, annual university graduates as a percentage of working-age population (compared to other offshore options), and bilingual workforce size (Berry, 2006). According to McKinsey Global Institute research, only 13% of university graduates from 28 low-wage nations are suitable for multinationals. Factors limiting the talent pool include lack of practical skills, insufficient English proficiency, suitable talent not residing in major international hubs, and lack of cultural fit with multinational norms (Farrell and Institute., 2006).

The economic, business, and regulatory environment can encourage (or discourage) offshore investments to a particular location. One aspect to consider is government support of business, including its policy on foreign direct investment, private property, intellectual property (IP), labor laws, bureaucratic and regulatory burden, import and export policies, and level of corruption. For example, India waived its 35% tax on corporate profits for back-office and IT work to remain competitive as a preferred offshore location. Another factor is the business environment where procedures for securing work permits and visas, business incorporation and licensing processes, and the compatibility of the business environment with the client's prevailing business culture and ethics play a role in offshore success. Related to the business environment are the market prospects, including the attractiveness of the local market (measured by current GDP and GDP growth rate) as well as access to nearby markets (in the host country and adjacent region). Finally, the living environment plays a role where overall quality of life, prevalence of HIV infection, safety, low crime rates, and availability of cultural institutions are strategic considerations (Farrell, 2006; Berry, 2006).

The availability, quality, and reliability of telecommunications, electrical, and transportation infrastructure play a critical role in whether companies decide to move to a particular location (Berry, 2006). Some metrics to consider with respect to infrastructure include: (1) Telecom and IT: network downtime, speed of service restoration, connectivity, unit costs for telecom networks, and Internet access; (2) Power: availability and reliability of power supply; (3) Real estate: availability and quality of class A office space; and (4) Transportation: scale and quality of road and rail

network (Farrell, 2006).

There are a myriad of risks that offshoring firms must take into account when considering a particular locale for offshore work. Disruptive events involve the risks of labor uprisings, political unrest, and natural disasters (e.g., frequency of typhoons or tsunamis). Security risks are related to personal security and property theft through fraud, crime, and terrorism. Political and regulatory risks involve the stability, fairness, and efficiency of legal and regulatory frameworks. Macroeconomic risks include cost inflation, currency fluctuation, and capital freedom. And intellectual-property risks may involve the IP protection regime and the enforceability of IP breaches (Farrell, 2006; Carmel and Tjia, 2005, p. 1).

Coterminous with the decision of the location is the process of identifying a supplier for the offshored IT work. Clients have a variety of supplier organizations to choose from, including domestic suppliers (e.g., EDS, IBM, Accenture), Tier 1 offshore suppliers (e.g., Wipro, Infosys), niche suppliers with domain expertise, and others that help clients identify and engage resources via staff-augmentation firms. It is advised that client companies not evaluate suppliers only on their resources (i.e., facilities, workforce and IT tools) but rather on their capabilities that build competences that can be leveraged in the sourcing relationship. Twelve supplier capabilities that benefit clients are: leadership, planning and contracting, organization design, governance, program management, domain expertise, business management, behavior management, sourcing, technology exploitation, process improvement, and customer development. These capabilities contribute to three supplier competencies: (1) relationship competency that aligns client and supplier incentives; (2) delivery competence that ensures daily operations at a reasonable margin; and (3) transformation competency that improves service and decreases client's costs (Lacity and Rottman, 2008c).

Though the literature on offshore decision-making addresses regions currently on the global map, it rarely addresses the decisions to invest and do business with nascent geographies (like Kenya and South Africa.) This dissertation will attempt to address the gap in the literature at the intersection of services offshoring decisions and transnational connections linking peripheral regions with global markets.

Estimating the Total Costs of Offshoring

Though the proposition to offshore IT work is primarily made on the basis of labor cost arbitrage, labor costs alone do not reflect the total costs involved in the ITOO arrangement. Having an idea of the transaction and hidden costs involved in offshoring can help firms make more accurate projections of the costs and benefits of moving IT work offshore. One analytic tool that can help ameliorate cost uncertainties is the concept of Total Cost to Offshore (TCO). TCO has the following components: Wage rate; Communication system; Physical infrastructure and support; Transition and governance; Resource redeployment; Resource redundancy; Training and productivity; Disaster recovery & business continuity; Advisory services; Travel costs; and Exchange-rate changes (See Table 2.3).

The wage rate typically drives the decision to offshore, though it may not necessarily comprise the majority of TCO. Communication systems refer to communications infrastructure, including leased circuits (with redundant communication links) and routing equipment. Physical infrastruc-

ture and support includes buildings, power, etc. Transition costs involved in transitioning from locally to globally deployed operations include additional supplier resources for documentation and training and overtime work by enterprise employees. This transition period can be 3-4 months for applications outsourcing projects and 5-7 months for BPO contracts. Governance costs comprise the resources needed for managing offshore projects (which are typically more expensive than project lead resources). Large projects may require expatriate resources while smaller projects depend on frequent travel by employees.

Table 2.3: Typical Percentage Breakdown of the Total Cost of Offshore

Cost Component	**% Cost for BPO**	**% Cost for ITO**
Wage rate	42%	46%
Communication system	5%	3%
Physical infrastructure and support	17%	18%
Transition and governance	8%	7%
Resource redeployment	3%	4%
Resource redundancy	2%	1%
Training and productivity	10%	9%
Disaster recovery & business continuity	5%	3%
Advisory services	2%	4%
Travel costs	3%	3%
Exchange-rate changes	2%	3%

Adapted from Vashistha and Vashistha (2006)

Resource redundancy costs reflect human resource (HR) and other resources redundantly deployed by client and supplier, especially in the first 18 months of an offshore arrangement. As the offshore enters operational steady state, there may be HR redeployment costs, including retraining, layoff-related expenses (e.g., severance and job search assistance), and reorganization of the HR department to reflect new compensations structures and HR metrics. Training and productivity costs indicate that the level of training and productivity of the teams can impact cost effectiveness. Disaster recovery and business continuity capabilities generate additional costs, including data backups and redundancy in people, processes, and technology. Offshore knowledge development/advisory services that facilitate knowledge acquisition for assessing offshore outsourcing opportunity, whether through internal resources or external experts, can also add further costs to the offshore proposition. Travel costs will inevitably incur as staff/managers engage in international travel throughout the life cycle of the offshore arrangement (including the indirect opportunity costs of jet lag, wasted days on airplanes, and sick days due to food and water adjustments). Finally, though not typically included in comprehensive cost assessments, foreign currency strengthening against the dollar can soften the offshore outsourcing market, reduce incentives for

exporting offshore outsourcing work, and increase costs overall (Vashistha and Vashistha, 2006; Carmel and Tjia, 2005; Lacity and Rottman, 2008c; Lacity and Rottman, 2008a).

Though TCO is a useful heuristic for evaluating offshoring costs, it does not factor the costs firms incur when they implement a "Stumble-and-then-Succeed strategy." Correctly evaluating the transaction costs involves not only the indirect costs of particular offshore operations but the costs involved in the portfolio of projects that contributed to learning and eventual positive economic offshore benefit(Carmel and Tjia, 2005).

2.1.5 ITES Future Trends

In the outsourcing literature, at least four forward-looking trends have been observed in ITOO. First, in spite of increased global spending on IT services, there is a trend towards smaller projects and shorter duration contracts suggesting that client firms are engaged in more multi-sourcing. This means client organizations are signing more contracts with more suppliers to decrease risk factors, but supplier firms are also bearing more transaction costs and competition to vie for these smaller deals. Second, though the US leads in ICT spending, its portion of global IT spending with likely decrease as other countries increase their IT spending at faster rates. Third, client companies will increasingly sell IT captive centers or create virtual captive centers because of the following factors: (1) data and intellectual property is no longer a threat; (2) senior executives lack further commitment to captive centers; (3) in-house decision-making no longer necessary; and (4) complex processes can be handled by third parties. And fourth, freelance outsourcing is likely to grow as well, primarily through freelance Internet sites (Rottman and Lou, 2008).

Though the academic literature had little to say of ITOO in the midst of the current global economic downturn, some outsourcing analysts are making short-term predictions. Because 20-40 percent of the revenues of offshore outsourcing firms are tied to the financial services industry, the players will face pricing pressures, reduced profitability, and less growth (compared to before), forcing them to deliver tangible business value to customers. In 2009, Accenture's outsourcing revenues were up 7 percent year-on-year and its outsourcing margins increased due to more offshore work. Accenture management has seen an increased demand for BPO and application outsourcing services. IBM's strategic outsourcing business and HP's services revenues saw increases in margins. HP saw a significant decline in its application services business as discretionary project work fell away. CSC also saw its outsourcing revenues decline by 13 percent, attributed to client delays and pull back of discretionary projects. Overall, the exuberance about revenue growth has become quite muted. On the positive side, companies are improving profitability and streamlining their operations, including increased reliance on offshoring. Overall there is some increased use of offshoring by global and European outsourcers, and there is more emphasis on productivity and delivering value by select Indian players. The result is that there may be an increased use of offshoring in a rational, rather than blind, way. The current economic recession is possibly removing the inefficiencies in the global ITOO market(Kaushik, 2009).

2.2 Transnational and Diaspora Networks

Transnational and diaspora networks serve as a salient explanatory factor in the emergence of new centers of technology and services production in developing countries, and particularly in Asia. In this section, I will survey the relevant literature and specifically how migration trends unfold on the African continent in ways that potentially explain how transnational trade and investments in IT-enabled services are formed.

2.2.1 Conceptualizing Out-Migration

Out-migration is receiving more attention in part because international migration is increasingly understood as a dimension of development itself (Zoomers et al., 2008). The question of whether the migration of the highly skilled from developing countries constitutes brain drain, gain, or circulation has become one of the biggest single areas of research on skilled migrants. This research has policy implications in developing countries in terms of economic development and political stability (Favell et al., 2006). Since the 1960's, when much of the early literature on cross-border labor mobility emerged, conceptualizations of the extent and impact of highly-skilled migration have progressed through several debates, including pessimistic (Bhagwati and Hamada, 1974; Grubel and Scott, 1966; Haque and Kim, 1995; Miyagiwa, 1991; Pang et al., 2002) and optimistic (Beine et al., 2001; Mountford, 1997; Santos and Postel-Vinay, 2003; Stark et al., 1997; Vidal, 1998) arguments about the benefits and disadvantages of skilled emigration for both developing and industrialized countries, respectively. In this section, I map the common conceptual categories used to describe the patterns as well as the impact of skilled migration from and within Africa.

2.2.2 The Brain Drain

Out-migration has been historically viewed as negative and anti-development(Zoomers et al., 2008). Conceptually, the brain drain notion pre-dates that of brain gain and initially described the loss of highly skilled British and other European personnel to the United States after the Second World War. It was during the 1970's that the concept characterized skilled migration from developing countries to more industrialized countries(Pogue, 2007). Though brain drain is not a fixed concept with a conclusive or exact definition, it is commonly considered the outflow of migrants with a high level of skills, qualifications, and competence from developing countries to more developed countries (usually without return), causing permanent tangible economic, social, and political losses for the country of origin (Tanner, 2005; Baruch et al., 2007). Even if there are compensating benefits (e.g., remittances, returns, and diasporic philanthropy) they are not “comparable to the costs of education invested in the migrants as well as the loss of their foregone expertise and societal contributions”(Tanner, 2005, pp. 19-20). Some even consider brain drain return independent; that is, even when emigrants return to their country of origin, if their temporary absence from the country caused some permanent loss to the country (in sectors such as medicine, education, or R&D critical for the national economy), then their temporary migration can be considered as contributing to brain drain (Tanner, 2005).

The brain drain concept is usually associated with negative developments within the country of origin. Emigration removes the middle class, halting democratic processes. In particular, the emigration of professionals frustrates the development of an African middle class, leaving a two-class system. With skilled emigration, it becomes difficult to replace skilled labor in domestic labor markets. Health, education, and technology sectors are the worst hit, and Africa resorting to spending an estimated $4 Billion USD recruiting 100,000 skilled expatriates may not contribute to sustainable development (Tanner, 2005). Because migrants usually originate from specific areas within countries, international migration may perpetuate and reinforce regional inequalities within the country of origin (Zoomers et al., 2008). Other issues cited include migrant/non-migrant conflicts, dependency-creating remittances, inability to undertake cutting edge research, and the deteriorating quality of health services and systems (Adepoju, 2008).

Related to the notion of brain drain are the concepts of chain migration and brain waste. Chain migration is the idea that brain drain causes further emigration from developing countries through family or other personal contacts in more developed countries. For example, an increasing number of African immigrants to the United States are relatives of those already in the country. Relatives in the United States update their family back home of job prospects in the US, leading to more highly skilled emigration. Some argue that many of the individuals that could benefit from a family member abroad prefer to become emigrants themselves (Tanner, 2005). Brain waste is "a situation of specialists being exploited in foreign lands without the knowledge of their countries of origin" (Oucho, 2008). For example, of the highly skilled Kenyans residing in the U.S. during the 1990's, only 52% were able to obtain employment at a level commensurate to their educational status, indicating brain waste (Kizuka, 2007).

The developmental costs of "brain drain" generally assume a zero-sum game where sending countries lose and the developed world wins. The problem with a zero-sum view of international skilled migration is that it fails to incorporate positive, empirically verifiable ways that such migration assists in the development of the home country. It also conveniently ignores or understates how migrants remain in contact with their home countries through periodic visits or through virtual means as part and parcel of contemporary transnationalism (Favell et al., 2006; Cheng and Yang, 1998).

2.2.3 Brain Gain and Return Migration

More optimistic accounts questioning the primarily adverse effects of highly skilled migration date from as early as the 1960's (Szelenyi, 2006). Some argue that international skilled migration can be a win-win-win situation for the individual, country of origin, and receiving country(Tanner, 2005). I categorize the optimistic accounts into three dominant paradigms: that brain drain has positive effects; that return migration/brain circulation undermines the brain drain hypothesis; and that transnational diasporic networks are involved in development initiatives in their countries of origin. The international community and many countries are increasingly making the links between international migration and development and promoting migration-for-development perspectives (Zoomers et al., 2008).

First, some argue for a beneficial or optimal brain drain where the prospect of foreign employment increases the population's propensity to pursue education, regardless of whether the emigration plans materialize or not (Szelenyi, 2006). These forces, then, lead to educational and economic development in that "when successful emigration is not a certainty, the interaction between human capital accumulation decisions, growth, and income distribution can lead to the result that a 'brain drain,' either temporary or permanent, may increase, (in) the long-run, income level and income equality in a small open economy, and, in certain circumstances, may even be preferable to a non-selective 'general' emigration" (Mountford, 1997). An alternative characterization of the brain drain is that it leads to equilibrium in the labor market and "better distribution of the advantages of globalization" (Zoomers et al., 2008). In particular, labor emigration may relieve overpopulation and unemployment for the highly skilled in domestic labor markets(Tanner, 2005). Third, the diaspora abroad can send back monetary remittances as a viable complement for development finance (Zoomers et al., 2008).

Other recent research has shifted the emphasis from "brain drain" to "return migration" or "brain gain" that resupplies the highly educated segment of society, leading to source country productivity (Szelenyi, 2006; Tanner, 2005). Related to this is the concept of "brain circulation," where networks of scientists and engineers are transferring technology, skill, and know-how from distant regional economies to their home economies (Saxenian, 2002a; Saxenian, 2002b; Saxenian, 2005). These highly skilled migrants serve as part of scientific diasporas that contribute to their home countries, either by returning home permanently, making periodic visits back home, or transferring knowledge through transnational mechanisms when their stays abroad have become permanent forms of settlement (Szelenyi, 2006). Brain gain, brain circulation, and return migration are all rooted in the idea of social remittance transfers which are ideas, information, social capital, and identities transmitted through the migration circuit (Tanner, 2005; Zoomers et al., 2008). Though these transfers can be of a technical character as in the example of brain circulation, they include a broader set of activities, including community-to-community transfers related to identity building, lobbying in the current country of residence on issues like human rights and gender equality, post-conflict reconstruction, and the development of new democratic structures (Tanner, 2005; Adepoju, 2008). In all of these constructs, the emigration of the highly skilled potentially leads to a better outcome for the country of origin.

For example, some have argued that Asian-American networks linking Silicon Valley with the Hsinchu region of Taiwan were instrumental in the success of Taiwan's semiconductor and IT sectors in the 1980's and 1990's. Taiwan's engineering students seeking graduate training in the USA ultimately contributed to Taiwan's development, including: the growth of a new technology sector in Silicon Valley that harnessed their skills; the formation of professional associations which provided role models; a high spirit of entrepreneurship within this community; and an active initiative by the Taiwanese government to promote the ICT sector and a proactive engagement of its overseas engineers in developing strategies to promote private sector growth in the Hsinchu region (Saxenian, 2006; Saxenian and Hsu, 2001; Séguin et al., 2006).

2.2.4 Measuring Diaspora's Impact

In addition to the case studies on Taiwan, India, China, and Korea, some quantitative associations are being made between diasporic networks and knowledge sharing. Regets (2001) finds a strong positive correlation between the number of US doctorates received by natives of a country and the percentage of that country's internationally co-authored articles that are with a US-based author. This has led to the interpretation that returned students can be vehicles of information transmission (Lucas, 2005). Agrawal et al. (2006) examined the role of social relationships in facilitating knowledge flows in North America and found that knowledge flows to an inventor's prior location are approximately 50% greater than if they had never lived there, suggesting that social relationships, not just physical proximity, are important for determining flow patterns. However, extrapolating these correlations to an international context is highly problematic, especially where there are institutional barriers to the spillovers of knowledge, including intellectual property, physical distance, etc. Additionally, many of the people emigrating from Africa have not conducted the same type of R&D there that they do in more developed countries because of the lack of infrastructure to do so, making it more unlikely they will co-publish or co-patent with scientists and/or institutions from their respective home countries. Overall, there is virtually no work at this time relating the diffusion of technology to diaspora networks in developing regions (Lucas, 2005).

2.2.5 African Migration Trends and Patterns

Migration is not new to Africa. Sub-Saharan African populations have historically been one of the most mobile in the world due to nomadism and livelihood systems based on movement in response to seasonal variation and variability of natural resources. African labor emigration can be traced back to the departure of over 10 million African slaves into the Americas which, together with the European colonists, radically transformed the racial and ethnic composition of the New World. During the colonial period (19th and early 20th centuries) and after African independence (1950's and 1960's), some Africans settled in the countries of their former European colonizers. While Asylum-seekers are a significant segment of this migrant population, student and labor migration from Africa to the developed world is increasingly a salient feature of North-South migration. In the context of post-independence Africa plagued with political and economic turmoil, this dynamic, complex emigration from Africa to the rest of the world has accelerated in the last 30 to 40 years as compared to the first half of the 20th century (Tanner, 2005; Chambers, 1996; Zoomers and Adepoju, 2008).

African migration patterns take place primarily within the region and are characterized by labor migration (from, to, and through countries), undocumented migration of refugees and migrants, and brain circulation for the highly skilled (Adepoju, 2008). Though this chapter will focus primarily on international migration, it is important to establish that the bulk of migration in Africa is South-South (between African neighboring States) (Zoomers and Adepoju, 2008). Out of a total of 14.5 million migrants originating in Sub-Saharan Africa, 10 million migrants (or 69%) move within the region (International Organization for Migration., 2008). African countries in which there is mainly South-South migration are usually landlocked and relatively poor. Examples in-

clude Burkina Faso, Mali, and Niger (with migration to Ivory Coast, Nigeria and Senegal); Lesotho and Mozambique (with migration to South Africa and Botswana); and Liberia, Sierra Leone, Burundi, Congo, and Rwanda (where continuing conflicts lead refugees to migrate to neighboring countries, including Kenya, Uganda, and Tanzania) (Zoomers and Adepoju, 2008). Many of the migrants involved in regional, South-South migration are not well treated in receiving African countries. There are limited possibilities for earning remittances and many migrate on a temporary basis in order to earn a supplementary income. Migrants are often undocumented, engage in low-paid work, and enjoy little (or no) protection by their own government or by the government of the receiving country. These migrants are often the victims of discrimination and xenophobia, and it is not uncommon for them to be deported back with great regularity to their countries of origin (e.g., Burkinabé from Ivory Coast and Ghanaians from Nigeria) (Zoomers and Adepoju, 2008).

Though migration in Sub-Saharan Africa has been for the most part South-South, there may be increasing pressure for South-North migration as immigrant-receiving countries (Ghana, Côte d'Ivoire) transition into migrant sending countries and labor-importing and/or preferred countries (Côte d'Ivoire, Nigeria, Ghana, Zambia, Zimbabwe) are increasingly ridden with political and economic crises that are increasingly encouraging out-migration of its nationals (Adepoju, 2008). In fact, countries with strong South-North migration (e.g., Senegal and Morocco) and diasporic states (e.g., Kenya and Nigeria) are often seen in their respective regions as desirable destinations and/or transition areas for the South-South migration mentioned above (Zoomers and Adepoju, 2008). In contrast to the relatively disadvantaged South-South migrants in Africa, North-South diasporic migrants constitute a well-off elite (Zoomers and Adepoju, 2008). Northern migration routes may be more complex than originally imagined, where moving to Northern countries like Netherlands may be conduits or transit routes to the UK or the USA (Zoomers et al., 2008).

2.2.6 Who are Africa's Highly Skilled?

Who are Africa's highly skilled? This is in fact a hard question to answer methodologically and with respect to data availability. Common markers for skill are either education or occupation. A common international definition of highly skilled tends to be adult persons with tertiary education who have completed a formal two-year college degree or more. Though this is the most readily available statistic and most widely studied measure, it falls short of a preferable classification that takes both education and occupation into account. Definitions of education and occupation vary over time because of economic and labor market transformations in national and global economies. Thus, the term “skilled” does not have the same meaning in different contexts (including different African contexts). With respect to data availability, the most readily available data sources - censuses and surveys - often lack detailed information about immigrants such as their legal status, migration history, or place of education. For example, U.S. administrative data lack information on education (level of schooling completed or the field of education) and the information on occupation is relatively crude (Batalova and Lowell, 2006). In the context of this review, I reference a comprehensive set of literature that includes work by economists, sociologists, and migration scholars with varying conceptions of who the highly skilled are, including but not limited to occupational identity, schooling, income, and other statistical proxies.

At the time of independence, many African countries invested in higher education to fill the gaps created by the departed colonialists. However, the supply of educated labor grew more quickly than the small private sector and the "bloated public sector" resulted in labor migration to South Africa and increasingly Europe, North America, and the Middle East(Adepoju, 2008). Some estimates suggest that over 23,000 qualified professionals from Africa emigrate annually to more developed countries (International Organization for Migration., 2006). It is estimated that Sub-Saharan Africa lost over 30 per cent of skilled labor to the developed world between 1960 and 1987. The World Bank has estimated that although skilled workers account for just 4% of the Sub-Saharan labor force, they represent some 40% of its migrants (Özden and Schiff, 2006). According to the 2000 US Census, thirty-three percent of immigrants from Africa in the US have more than four years of tertiary education, Thirty-nine percent of the African-born in the US are employed in managerial, professional and related jobs (Tanner, 2005).

The emigration of health professionals from Africa has probably received the most attention both because of the deteriorating quality of African health systems as well as the availability of data on certified medical professionals worldwide. Scholars suggest that the "doctor brain drain" is caused by a combination of push and pull factors related to quality of life, working conditions, and the surrounding environment in which the doctor works. Developing country doctors suffer from low and eroding wages and salaries, and poor or corrupt governments may place little importance on building health systems or providing competitive salaries for their health workers. The World Health Organization (WHO) conducted a study of over 2,000 health professionals across Ghana, Uganda, Cameroon, Zimbabwe, South Africa, and Senegal in 2002. The study found that among other factors, the availability of training, standard of living and working conditions significantly encouraged health personnel to emigrate (Tanner, 2005). It must also be noted that "doctor brain drain" is not just an issue of North-South emigration, but it is also felt through regional migration flows (e.g., to South Africa, Namibia, and elsewhere), rural-urban migration (within countries), and migration from the public health sector to the private sector (Tanner, 2005).

2.2.7 Factors Influencing Skilled Migration in Africa

Many of the factors that influence the emigration of health professionals also play a role in the emigration of Africa's highly skilled in a more general sense. According to Hatton and Williamson, growth among young potential migrants, population pressure on the resource base, and poor domestic economic performance that drove post-WWII European migration to the US are among the main forces driving African migration (Hatton and Williamson, 2001; Tanner, 2005). However, the later increases in economic growth in the European regions from which low-wage workers emigrated as well as a slowdown in demographic growth is not a feature of the contemporary African landscape. With most African countries either suffering from economic downturns and demographic booms, the emigration of the highly skilled to OECD+ economies may be more potent than the European exodus in the mid-twentieth century.[3]

[3]OECD stands for the Organisation for Economic Co-operation and Development.

2.2.8 Stemming Brain Drain and Promoting Brain Gain in Africa

Inspired by the narratives of India and Taiwan, diasporas are increasingly being viewed as mechanisms for fostering indigenous innovation, triggering learning processes and/or facilitating the transfer of knowledge and technology to their home countries (International Organization for Migration, 2006). As a result, some initiatives have been launched to attract highly-skilled African emigrants back home, including the Digital Diaspora Network Africa, the South African Network of Skills, the Research and Development Forum for Science-led Development in Africa, and the African Foundation for Research and Development. These initiatives aim to stem the loss of highly-skilled labor, recruit expatriate graduates in select disciplines, identify those in the diaspora interested in contributing to home development, and relocate professionals from crisis-ridden countries to other places that more productively use their talents (see Appendix A.1) (Adepoju, 2008).

Perhaps the clearest indication of knowledge-intensive activities involving the African diaspora is the creation of new institutions of higher learning. Ashesi University (Ghana) was founded by Patrick G. Awuah Jr., a Ghanaian who spent over 15 years living and working in the United States. After working for Microsoft Corporation as an engineer and a program manager for eight years, he enrolled at UC Berkeley's Haas School of Business, both to evaluate the feasibility of his goal and to gain a broader range of managerial skills with which to found and manage a university. The university is a private, secular, liberal arts college located in the suburb of Accra. In another example, the Somaliland Forum, a group of Somali intellectuals in the diaspora, along with Californian Friends of Hargeisa University, spearheaded the establishment of the University of Hargeisa in 2000. They were assisted by the United Nations (UN) and its affiliated agencies, particularly the United Nations Development Programme (UNDP), as well as by Somali business people and local communities (Okome, 2007; MacGregor et al., 2008).

2.2.9 Diaspora's Role in African Development

These examples of the diaspora making contributions to their countries are indeed inspirational. The challenge lies in systematically investigating these claims and making estimates about the relative size/impact of these contributions. There is a need to get beyond stylized facts that may overstate the role of diaspora as well as a need to understand any credible systematic factors that have and can lead to knowledge-intensive contributions by the African diaspora across the continent.

The historical shift in the perception of the brain drain is understandably one that would invigorate many developing countries as it potentially sheds positive light on a rather negative situation. However, in a recent World Bank publication, it was demonstrated through static analysis that the size of the brain gain and its impact on welfare and growth were significantly smaller than found in the new brain-drain literature and possibly negative (Schiff, 2006). Furthermore, the limited migration literature implicitly assumes that return migration is unconditionally beneficial because it offsets brain drain, with no systematic assessment of the economic and developmental impact of large numbers of return migrants (Lowell and Gerova, 2004).

Understanding the role of the diaspora in technology transfer is frustrated by the general challenges of engaging in migration research. First, since migration is more of a social than a biological event, the definition of a move requires a geographical, social, and political construction (Massey and Taylor, 2004). Second, international migration commonly research suffers from incomplete and low-quality quantitative data (Özden et al., 2007). Information on migration within, from and to Sub-Saharan Africa in particular remains patchy and needs to be upgraded (Adepoju, 2008). There is even less data on return migration than one-way flows, making it difficult to assess the factors that shape the scale, nature and circumstances of return migration (International Organization for Migration, 2006). Third, in Africa, there is very limited explicit evidence about the existence and possible positive consequences of social or technological remittances from the diaspora abroad. If these contributions do exist, they have not ameliorated brain drain or significantly altered social and institutional structures in Africa (Tanner, 2005). This lack of evidence begs the question of whether this is particular to Africa or whether diasporic communities in general can catalyze significant economic and technological reform in their countries.

2.3 Global Value Chains

Global economic processes tend to take place in the context of inter-firm trade, facilitated by diaspora networks or more conventional business networks. Global value chain literature has been used to explain the emergence of such global inter-firm trade and the governance structures that shape the growth of such vertically integrated firms in developing countries.

2.3.1 Value Chains Defined

Global value chain (GVC) research analyzes the transactional relationships of trade between legally-independent firms (as opposed to the intra-firm trade of multinationals and their subsidiaries) (Humphrey and Schmitz, 2004, p. 96). GVC and global commodity chain (or GCC) research is essentially the same, with the GVC research stressing that each chain adds value to the final product (McCormick, 2007, p. 28). GVC and GCC research has three dimensions: (1) an input-output structure, with a sequential production process; (2) a spatial or territorial dimension where different aspects of production take place; and (3) a governance structure - relationship of authority and power that organizes how resources (financial, material, and human) are allocated within and throughout the chain (Clancy, 1998, p. 125; McCormick, 2007, p. 27; Gereffi, 2008, p. 430). Key questions in GVC research "... why particular processes or stages of production take place in specific locales, how the industry in question is organized and governed, and, ultimately, where the economic surplus goes" (Clancy, 1998, p. 123).

2.3.2 Governance in Value Chains

GVC researchers claim that upgrading prospects for developing countries are based on the governance characteristics of a particular global value chain in which they are inserted. Chain gover-

nance is the mechanism whereby some firms coordinate and/or control activities within the chain. Three key parameters defined in chain governance are: what is to be produced; how it is to be produced; and how much is to be produced (Humphrey and Schmitz, 2004, pp. 96-97; Messner, 2004, pp. 29-32). Chain governance is not necessarily static as power relationships evolve (e.g., producers may acquire new capabilities) or as firms and clusters that operate in multiple chains may apply competencies from one chain to supply another (Pietrobelli and Rabellotti, 2006, p. 10).

Overall, where non-market-based relationships exist, the chain governance approach has significant explanatory power (Humphrey and Schmitz, 2004, p. 375). Here, I will cover two relevant chain governance structures covered in the literature. The first is that conceived by Gary Gereffi of producer-driven and buyer-driven chains. Producer-driven chains are typically chains where transnational corporations control the production system, including forward and backward linkages. Buyer-driven chains, on the other hand, are where large retailers, brand-named merchandisers, and trading companies manage production and trade networks without actually owning any of the production facilities (Gereffi, 2008, pp. 430-431).

Humphrey and Schmitz developed an alternative typology of chain governance structures relevant for developing countries: arm's length market relations, networks, quasi-hierarchy, and hierarchy. Arm's length market relations is where buyer and supplier do not form a close relationship, the buyer's requirements could be met by a number of firms, and the product is standard or easily customizable. In the networks arrangement, an information-intensive relationship of reciprocal dependence develops between the buyer and supplier, with value chain competences divided between them. Quasi-hierarchy is where a firm exercises chain governance, specifying the product, process, and control mechanisms to be followed. Hierarchy is where a lead firm directly takes ownership in some operations in the chain (Humphrey and Schmitz, 2002, p. 1023). Humphrey and Schmitz claim that many developing countries are inserted into quasi-hierarchical relationships and focus much of their research on exploring the prospects for understanding how developing countries upgrade within this governance structure.

2.3.3 Upgrading in Value Chains

Humphrey and Schmitz follow with a four-part typology of upgrading: process, product, functional, and inter-sectoral. Process upgrading makes the firm more competitive with existing products by increasing the efficiency of internal processes. Product upgrading is the introduction of new or more sophisticated product lines. Functional upgrading involves a move to superior, high-return activities within the chain. Inter-sectoral (or chain) upgrading is leveraging competencies from one function to move into a new and more profitable sector or chain (Humphrey and Schmitz, 2002, p. 1023; Schmitz, 2004; McCormick, 2007, p. 31). Upgrading sequentially happens in this order - from process through product to functional and inter-sectoral upgrading.

Though Hobday (1995) showed that East Asian late-comer firms were able to transition through the various steps of upgrading, much of the empirical work on value chains in developing countries shows that it is easier to upgrade in processes and products but more difficult to functionally upgrade. Because many developing countries are inserted into quasi-hierarchical chains, lead firms

have incentives to help firms lower in the chain upgrade their products and processes so that they can become more competent suppliers (Humphrey and Schmitz, 2004, pp. 356-358). However, when it comes to functional upgrading, developing country suppliers are potentially encroaching on competencies reserved for the lead firm in the developed country. In one case in Brazil, for example, a cluster-wide initiative to upgrade functionally into marketing was met with resistance by some of the larger firms who did not want to upset their main foreign US buyer (Bazan and Navas-Alemn, 2004, p. 124). Additionally, it requires a significant financial base to launch and market a brand (Humphrey and Schmitz, 2004, pp. 358-360). Therefore, the literature concludes that quasi-hierarchical chains (for the most part) position firms for process and product upgrading while arms-length market relations are best for functional upgrading.

2.3.4 IT-enabled Services and Value Chains

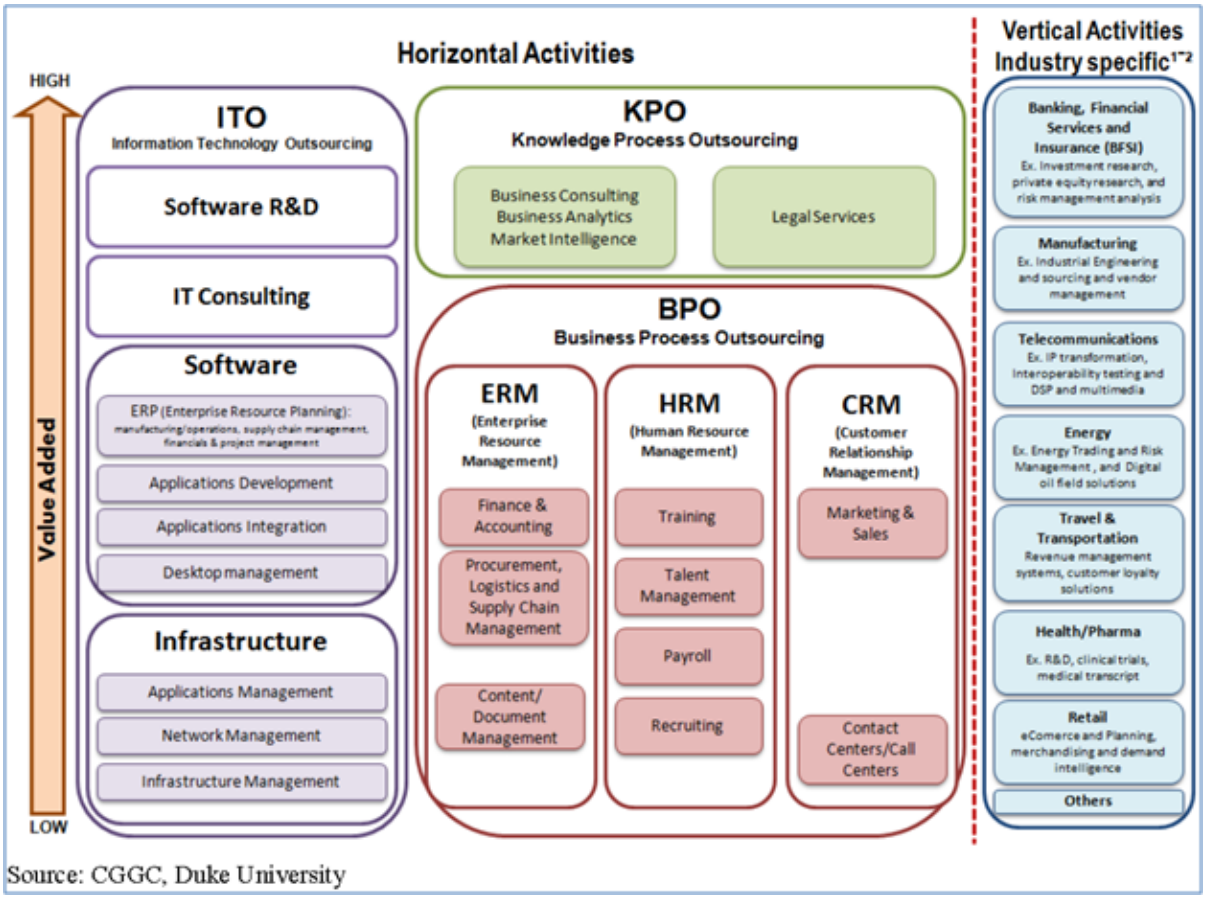
Though the value chain literature is helpful in understanding how developing countries are integrated into global production systems, it is limiting primarily because it focuses on product manufacturing and all but ignores service industries (Clancy, 1998, p. 127). There are some important distinctions to be made between a services value chain (See Figure 2.1) and a product manufacturing value chain.[4] First, in a service value chain, the value of each activity could be correlated with human capital (education level and work experience) rather than the difference between the cost of the inputs and outputs at each stage of the chain. Therefore, call center or routine BPO work - which requires just a high school diploma - will be remunerated less than market research or business consulting - which might require specialized graduate degrees (Gereffi and Fernandez-Stark, 2010, pp. 4-6). Second, for more advanced services (e.g., software development, R&D, and KPO), governance tends to be more network (or market) based, rather than quasi-hierarchical. For example, in a collection of case studies on collaboration between Danish and Indian firms, the management of complex, iterative work processes created a more egalitarian distribution of power. Third, such networked relational models in services do not conform to a sequential, highly codified workflow from location A to B. Rather, the offshoring in advanced services could entail a cyclical, collaborative problem-solving process that engages teams in locations A and B (Jensen, 2009, pp. 189-90). However, not all developing countries in service value chains are able to perform advanced services. To the extent that they perform lower value-added services that do not require much coordination and/or can be clearly defined, these firms may still be inserted within quasi-hierarchical chains governed by developed country firms. Thus, lower value-added services may approximate manufacturing in that developing countries will display similar chain governance and upgrading characteristics.

This literature is important as it helps explain the demand-side market factors critical for the rise of clusters (Bresnahan et al., 2001). Regions are inserted into global value chains in different ways, and this has consequences for enabling (or disabling) local-level upgrading efforts. The rise

[4]The industry is subdivided into horizontal services that can be provided across all industries and vertical industry-specific services. Within horizontal services, ITO contains a full spectrum of low, middle and high value activities of the offshore services chain, BPO activities are in the low and middle segments, while KPO activities are in the highest value segment of the chain.

of India's software services cluster, for example, can be partially explained by its insertion into quasi-hierarchical US-based services value chains. The year 2000 (Y2K) problem in particular created a market opportunity for Indian firms to address the software bug for American companies, deepening the export orientation of India's software sector. However, because Indian firms were initially inserted into the lower end of software value chains (e.g., maintenance rather than product development), it created limited learning opportunities to do more sophisticated work or apply the export-oriented work to the domestic market (Arora et al., 2001; Arora and Gambardella, 2005). Therefore, the chain governance concept may be helpful in uncovering not only the sources of foreign demand for the African firms but also the level of work performed in Africa's ITES clusters as well through their insertion into services GVCs.

Figure 2.1: Services Value Chain



Source: Gereffi and Fernandez-Stark (2010)

Though chain governance can take several forms (arms length market relations, networks,

quasi-hierarchy, and hierarchy), many developing country firms enter into quasi-hierarchical relationships with large, global buyers who define the rules in which the rest of actors in the global value chain have to comply. This has implications for local upgrading prospects (process, product, functional, and inter-sectoral). This conceptual framework is useful for thinking about how the contractual relationships with Western clients affects the ability of local Kenyan or South African ITES firms to upgrade in different ways, including: improve operational system for delivering IT services (process upgrading), move into more sophisticated service offerings (product/service upgrading), acquire new functions within the global chain (functional upgrading), or move into new/different sectors based on acquired knowledge (inter-sectoral upgrading). Given Africa's disadvantageous positioning in the global economy, this case would be particularly interesting in analyzing the relational processes that enable (or disable) regional upgrading.

2.4 Clusters

Global value chains tend to source from specific regions or industrial districts within countries. This means that regions - and not nation-states - are the ideal unit of analysis for understanding where value chains "touch down" and where production actually takes place (Gereffi, 2008, p. 442). Thus, firms are integrated not only in global value chains but also clusters - a spatial and sectoral concentration of firms (including associated suppliers) and non-market institutions (e.g., universities, business and trade associations, relevant government agencies, etc.) (Bresnahan et al., 2005, p. 114; Goldstein, 2005, p. 135; Porter, 1998). Clusters are a supply-side - as opposed to demand-side - way of thinking about how regions attract global IT-enabled services.

Clustering potentially facilitates a number of developments which - if they occur - can enable growth at the firm level. Schmitz introduced the concept of collective efficiency to capture competitive advantage derived from the externalities (or local external economies) and joint actions (among local actors) emanating from clusters (Schmitz, 1995; Pietrobelli and Rabellotti, 2006, p. 6; Giuliani et al., 2005, p. 2). Based on the work of Alfred Marshall, external economies are economies external to the firm but internal to the cluster (Schmitz, 2004, p. 2; Marshall, 1920). These externalities include a market for specialized labor, the emergence of a market for specialized suppliers, inputs, machinery, and services, market access (where firms within the cluster attract domestic and foreign buyers and have better information about markets), and information and knowledge spillovers (McCormick, 2007, p. 32; Pietrobelli and Rabellotti, 2006, pp. 6-7; Goldstein, 2005, p. 137). Joint action is the deliberate, action-oriented aspect of collective efficiency, such as the creation of cluster-wide business associations (Pietrobelli and Rabellotti, 2006, pp. 6-7; McCormick and Oyelaran-Oyeyinka, 2007, p. 33). As a cluster develops, there will be a growth in the cluster's firms and not just in the number of firms in the cluster. Around these growing firms, it is expected that the manifestations of collective efficiency will occur - emerging specialized suppliers, local training and research institutions, information accumulation and dissemination - and that cluster prestige will grow. This process takes time and depends on a number of factors, including the strength of the local environment for business formation, attraction of cluster participants from other states/nations, and forging ties with developed country market(s) (e.g., US) for customers

and technology (Bresnahan et al., 2005, pp. 119,125; Porter, 1998, pp. 240-242). Clustering allows businesspeople to take "riskable steps" within their local environments, but without the trade networks, facilitated through global chains, their products will not reach the appropriate markets (McCormick, 2007, pp. 33-34).

Some elements of the Indian story can be partially explained by the cluster concept. It has been argued that the creation of Software Technology Parks of India (STPI) for very small aperture terminal (VSAT) communications in 1991 - allowing firms access to the satellite links through software technology parks in various cities - had an agglomerating effect. Over time, firms populated these regions because of the overwhelming telecommunications infrastructural constraints in the country (Commander, 2005). Alongside the clustering of firms was the Marshallian externality of a specialized labor market. By the late 1980's, India was producing over 150,000 engineers whose services garnered limited demand in the local economy and eventually attracted some multinational firms (e.g., Siemens Information Systems, IBM, Motorola, Oracle and Sun) to establish development facilities in the country (Arora et al., 2004). By the early 1990's, demand exceeded supply for engineers to the IT industry. Some universities started offering master's degrees and diploma courses in computer applications to meet the demand. Engineering capacity in India increased from around 60,000 in 1987-1988 to around 340,000 in 2003, and over the same period IT capacity increased from around 25,000 to nearly 250,000 (Arora and Gambardella, 2005, p. 8). There was also growth in private training institutions (e.g., NIIT and APTECH) as well (Desai, 2005, pp. 57-59; Arora and Gambardella, 2005, p. 9).

Finally, another element of India's story is the creation of joint action in particular through the National Association of Software and Services Companies (NASSCOM). This is India's private sector lobby group whose members come from software development, software services, software products, consulting services, BPO services, e-commerce and web services, engineering services and animation and gaming. It works very closely with the Government to implement required policy issues, address issues in the education system, and help grow the industry.

Though cluster literature explores characteristics of functioning clusters, rarely does it address how clusters actually emerge (Bresnahan et al., 2005, p. 116). Based on a model of cluster formation from the US Capitol Hill region along with an examination of other clusters, it appears that entrepreneurs in furthering their own business interests are critical for the institution building that shape cluster development (Feldman and Francis, 2004; Feldman et al., 2005). The early entrepreneurs in a nascent cluster draw on existing resources and add new resources to the cluster, which ultimately manifest as joint actions (e.g., business associations) and external economies (e.g., external markets for specialized labor), etc. Feldman acknowledges that her model of cluster genesis may be specific for innovative, technology-intensive entrepreneurial clusters and that the literature would be enhanced with comparative case studies that consider cluster genesis with nuanced typologies of the variations of cluster formation (Feldman et al., 2005, p. 131). Because this research project investigates the emergence of a nascent cluster, the local externalities and joint actions in African-based ITES clusters are currently in formation in response to such international market opportunities.

2.5 Developmental State

Technological clusters arguably do not develop without a supportive State. The developmental state can be broadly defined as "any state that deliberately intervenes to promote development" (Chang, 2010, p. 84). The concept of the developmental State emanates from the literature on East Asian countries (1950's - 1980's) that used strong bureaucratic states to define and shape economic development. In Japan and Taiwan, state bureaucratic capacity helped diversify these economies' export sectors. Chalmers Johnson's work demonstrates how Japan's Ministry of Industry and Trade (MITI) played a central role in helping local firms catch-up and compete globally in select product markets (Block, 2008, pp. 171-172). A number of influential publications point to the fact that state intervention is needed for developing countries to catch-up with developed countries and achieve economic development goals (Johnson, 1982; Wade, 2012; Amsden and Chu, 2003; Evans, 1995). This literature was influential in countering the Washington Consensus that prescribed market liberalization and minimal state intervention as essential factors leading to economic growth.

Much literature has focused on the structure of developmental states to identify whether it can be embedded in other political and economic contexts or is simply a feature of the East Asian States in the 20th century. The work of Evans shows how a state embedded in the business context with interpersonal ties can still be autonomous to prevent capture by the local elite and steer a national agenda for economic development(Evans, 2010; Evans, 1995). Some scholars have advocated for strong, bureaucratic states, reminiscent of Japan and South Korea. Subsequent to the flood of literature on the developmental state in the 1980's and 1990's, other versions of the developmental state have emerged showing that institutions can differ from East Asia, including the "flexible developmental state" (of Ireland) as well as the "hidden developmental state" of the USA.

The developmental state is both structure and ideology - that is, the state bureaucratic structure that organizes and steers economic activity as well as the ideology under-girding the economic development and policy actions (Mkandawire, 2001, p. 290). "Developmentalism" - the ideology of the developmental state - "implies that a developmental state aims to achieve industrialisation through active industrial policy, while simultaneously 'implementing policies to redistribute income (intended to minimise unequal distribution resulting from industrialization), to promote education, and to achieve other social and political goals"' (Edigheji, 2010, p. 9). Though underemphasized in the literature, the transformative capacity of the developmental state to enact industrial policy went hand-in-hand with the redistributive capacity to enact social policy focused on alleviating unemployment, providing access to education, and building infrastructure (Edigheji, 2010, p. 5; Evans, 2010, p. 44). The developmental ideology of the State connects the alleviation of unemployment with the attraction of foreign direct investment and nation-branding exercises.

The classic study of Japan's developmental state focused on the Ministry of International Trade and Industry (MITI) as a central actor in the Japanese "miracle" (Johnson, 1982, pp. vii-viii). Developmental states in Japan and South Korea helped domestic firms compete in specific product markets (Block, 2008, pp. 171-172). Greene's study on the origins of Taiwan's industrial S&T policy centers on high-technology sectors as opposed to public health and agriculture (Greene, 2008, p. 5). Ó Riain's concept of the developmental network state is conceived from a case study of Ireland's software industry (Ó Riain, 2004; Ó Riain, 2000). In fact, defining a state as "de-

velopmental" does not mean that every part of the state is "...equally development-minded at all times..." (Greene, 2008, p. 141). Neither does a developmental state have to be as "developmental" as its East Asian exemplars. States are not necessarily caught between the binary choices of neo-liberalism and developmentalism. Many times, developmental states are constructed in complex and messy ways. Korea (dysfunction, corrupt polity in the 1950's), China (previous ideological, revolutionary state), and Vietnam all transitioned to become developmental states (Noman and Stiglitz, 2012, p. 34).

Identifying developmental states in Sub-Saharan Africa has been beset with challenges. First, with the exception of countries like Botswana, it is difficult to identify economic successes paralleling the experiences of East Asian countries. Second, assumptions about corruption militating against effective African governance stand in the way of the bureaucratic capacity of the State required for developmentalism. Third, structural adjustment programs throughout Africa, as part of the Washington Consensus, deprived African states of meaningfully engaging with business and could have contributed to an "anti-business political culture" (Mkandawire, 2010, p. 73). In spite of these challenges, Mkandawire comments, "most arguments raised on the impossibility of developmental states in Africa are not firmly founded either in African historical experience or in the trajectories of the more successful 'developmental states' elsewhere. Africa has had examples of countries whose ideological inclination was clearly 'developmentalist' and that pursued policies that produced fairly high rates of growth and significant social gains and accumulation of human capital in the post-colonial era." (Mkandawire, 2001, pp. 309-310).

I think the developmental state lens is useful because it focuses attention on the state apparatus that supports export-oriented IT-enabled services when the private sector is unable or unwilling to. The members of the Kenyan and South African private sectors quickly realized that the invisible hand of the market would not automatically lead to substantial services trade or investment touching down into their region. The state came in to subsidize operations, provide infrastructure, and market the nation in a way that would benefit firms in the mid-to-long-term.

2.6 Institutions and Historical Path-Dependency

Based on the work of Douglas North, institutions are humanly devised constraints structuring human interactions. Institutions are the "rules of the game" while organizations are its players (North, 1990; Oyelaran-Oyeyinka, 2006, p. 1; McCormick, 2007, p. 21). However, institutions can be thought of more broadly as comprising rules (coordinated behavior with few informational requirements), beliefs (motivation to follow rules and incentive structures in informal structures), and organizations (Helpman, 2004, pp. 114-115). Ideally, institutions protect people from each other and the State, help to manage uncertainty, provide information, manage conflicts, and promote trust among groups (Helpman, 2004, pp. 112-113; Oyelaran-Oyeyinka, 2006, p. 28). Firms and clusters operate in an institutional context which defines the rules by which they play (Saxenian, 1994, p. 7; McCormick, 2007, p. 21). The institutions, located within a broader historical context, are path-dependent and self-reinforcing, where the history depends upon the past and a self-reinforcing dynamic is present. Although institutions (and culture) are not static and may be

recreated through conflict, struggle, routines, practices, and habits, they are extremely difficult to change (Saxenian, 1994, pp. ix,162; Helpman, 2004, p. 140; Oyelaran-Oyeyinka, 2006, pp. 27, 29).

Good working institutions play a key role in the ability of firms and clusters to upgrade and innovate, for at least two reasons. First, institutions through the management of uncertainty can create a stable environment where agents' actions are regulated and contractual obligations are enforced. This helps cluster entrepreneurs take "riskable steps" to start firms and upgrade. Second, institutions in the narrow sense of technology-based organizations (e.g., R&D institutes, venture capital firms, and universities) as well as the broad sense of rules (e.g., intellectual property rights, patent laws, etc.) help create and distribute knowledge within a cluster for technological learning (Oyelaran-Oyeyinka, 2006, p. 28). It is increasingly understood that institutions along with technological innovations matter to the process of economic development (Mokyr, 2002; Helpman, 2004, p. 112). This section will show that unfortunately many countries in Africa have not built the institutions to support technological change (Oyelaran-Oyeyinka, 2006, p. 1).

2.6.1 Historical Role of State and Government Institutions Across the African Continent

The legacy and ineffectiveness of many African States are traced back to its colonial history. The British created extractive institutions that facilitated "institutional discontinuity" for some African pre-colonial societies that were relatively technically developed. The purpose of these extractive institutions was to exploit natural resources, not build institutions. For example, pre-colonial India's thriving textile industry was practically destroyed in order for it to become a source of cotton for British industry. This extractive institutional framework was applied in colonized areas like Ghana, Nigeria, and Kenya. Though different colonizing forces (British, French, Portuguese) setup different colonies (settler vs. extractive) based on local conditions and thus influenced unique institutional trajectories, European colonialism introduced extractive institutions - instead of institutions of property rights, law, and order (that took hold in other countries) - to what would become African States. Some of the newly formed African States would adopt these routines and structures of governance (Helpman, 2004, pp. 122-124; Oyelaran-Oyeyinka, 2006, pp. 32-33).

Some African States have been poorly coordinated with the private sector because: (1) there was no business class at the time of independence; (2) some African States had been financially independent from the private sector (because of alternative sources of support); and (3) it may perceive the private sector with suspicion, especially former colonial members (British, French) or minority ethnic groups (Asian). Because of these historical and more recent institutional failures (structural adjustment programs), some view various African States with weak administrative and institutional capacities as unable to facilitate and manage innovative activities (Oyelaran-Oyeyinka, 2006, pp. 2,6,8,10).

2.6.2 Ethnicity and Business Networks Across the African Continent

Though not unlike other geographies, African business networks may be based on ethnic and family ties. Here, business networks are domestic firm-to-firm linkages that help companies do business with each other (for example, getting credit from each other). Potential African entrepreneurs are more likely to enter businesses in which they have friends or relatives, making it easier for them to get information about how to procure trade credit, connect with clients and suppliers, and expand their businesses. Historically, communities that have established themselves in a particular business tend to self-reinforce the entry of others within that community to that line of business. For example, though Asians are a minority in Kenya, they own the majority of the country's light industries and owe much of their business success to the use of formal and informal family networks to resolve a number of problems (managerial, marketing financial, and technical). Though this information sharing helps these communities gain a comparative advantage, they often become less willing to deal with members outside of their communities, reinforcing their group cohesion and business advantage. There are at least three problems with this pattern of ethnic business segmentation. First, because not all economic activities are equally profitable, certain economic groups are more profitable than others, with implications for politics and equity. Second, segmentation may distort the aggregate allocation of investment. For example, if one group dominates a sector for which it has comparative advantage, it may lead to excess entry in that sector and under-supply in another (possibly more lucrative) sector. Third, segmentation makes it unlikely that people in a particular ethnic community will move outside of careers for which they already have comparative advantage, because the anticipated returns are lower. Thus ethnic segmentation as an institution potentially plays a powerful role in African business networks. However, it must be clarified that ethnicity and ethnic affiliation are not the only platform for business networks in Africa. With ethnic minorities such as Asians in Kenya numbering in the hundreds of thousands, a Kenyan Asian cannot, for instance, “walk into another Asian's shop and obtain supplier credit without referral. Unless the two individuals find a common acquaintance that can vouch for them and guarantee repayment, credit will not be offered.” However, two Kenyan Asians are more likely to find a common acquaintance than an Asian and a Kikuyu (Fafchamps, 2004, pp. 297,307-8,447-50; Oyelaran-Oyeyinka and McCormick, 2007, pp. 121,300-1).

2.6.3 Financial Institutions

African financial institutions tend to privilege lending to larger firms over micro-enterprises and small-and-medium-size (SME) firms. African micro-enterprises generally do not receive credit from financial institutions or suppliers. Though some manage to collect advances from customers, they are vulnerable to liquidity shocks that ultimately threaten their growth and survival. Only the most fortunate have access to personal savings that help them buffer against temporary difficulties and move into the small-and-medium-size (SME) firm category. The middle group, SME's, are in a better position than micro-enterprises because they have access to bank overdrafts, hire purchase, and supplier credit. However, they still find it difficult to grow because of: deferred or downsized projects, due to a lack of funds; resistance to equity partnership; and missed investment opportuni-

ties because of reluctance to assume fixed debt obligations. At the top are large firms with access to sources of external finance, including medium-and-long term finance (from African commercial banks), offshore borrowing, outside equity financing, venture capital, and equity through local stock exchanges (Fafchamps, 2004, pp. 434-6, 445-47).

On the supply side, Africa's financial institutions are risk averse to the demands of small firms for support. African States are establishing development banks and special credit guarantee schemes to facilitate financial resource flows to firms in light of the fact that the capital market is a difficult proposition. The capital markets, banks, and technical support organizations many times have unqualified staff inefficiently running these institutions (Oyelaran-Oyeyinka, 2006, p. 149).

Also, there appears to be an ethnic bias in trade credit in manufacturing firms that is favorable for minority entrepreneurs who originate outside the continent and detrimental to entrepreneurs of African descent. This bias is related somewhat to the fact that African entrepreneurs run smaller businesses, but even when firm size is controlled for, the bias remains (Fafchamps, 2004, pp. 368-369). This relates to the fact that the institutions of ethnic segmentation spillover into the allocation of financial resources for entrepreneurship.

2.6.4 Laws and Contracts as Institutions

Markets require a system of laws, especially for the governing and making of contracts. Without it, business is risky and business dealings may be restricted to those with whom trust is already established (McCormick, 2007, pp. 23-24). Unfortunately, weak or unenforceable legal institutions mean that contractual disputes are regularly resolved through direct negotiation than through the courts. For example, in Kenya the lack of a small-claims court means that only the largest companies have access to the court system. For micro-enterprises and SMEs, this effectively restricts business dealings to those the owners can contact in case of default (McCormick and Kinyanjui, 2007, p. 66). For many firms, contractual flexibility is the rule - and not the exception - for market exchange to take place. Because there is a missing institutional context that enforces the performance of contracts through the legal system, contractual disputes usually get resolved to the satisfaction of the parties, with trade resuming thereafter. This contractual flexibility does become a source of misunderstanding when foreigners, in their dealings with African firms, encounter contractual delays and requests for contractual renegotiation. This sometimes leads to a perception that African firms are opportunistic and unreliable and may explain why some African firms find it difficult to penetrate export markets (Fafchamps, 2004, pp. 53,110).

Though it is difficult to make generalizations about African institutions from a continental perspective, this brief survey is meant to present high-level institutional dimensions of Africa relevant for value chains and cluster analysis. Much of the empirical work to date asks questions of African institutions and particularly how they did not facilitate an industrial revolution or transition to manufacturing that happened in other developing countries. This institutional legacy is important for considering whether African firms and clusters can participate in the global IT-enabled services economy as well.

2.6.5 Institutions for IT-Enabled Services

Nassimbeni and Sartor argue that India built its IT service sector on two legacies of the colonial period. First, the British colonials founded the first universities and scientific institutions on which the government of India later established the Indian Institutes of Technology - a feeder for the domestic IT industry. Second, the English language served as an advantage with English-speaking markets and especially in call centers (Nassimbeni and Sartor, 2008, p. xx). Arora argues that India's "historical accident" of having an availability of IT skills at an opportune time led to spin-offs and an entrepreneurialism that emanated from the more prominent firms that established early successes (e.g., TCS, Wipro, Infosys) (Arora et al., 2004).

Similar to India, some posit that South Africa's world-class financial sector is a result of a historical trajectory with a foundation in capital-intensive mining activities as well as inherited British institutions in company law and legal infrastructure (Lippstreu, 2008). The discovery of diamonds in 1867 attracted foreign investment, creating a demand for labor and initiating an era of modern capitalism in South Africa. By 1886, gold was discovered on the Witwatersrand and led the British to exploit this mineral wealth as it was central to the stability and liquidity of the gold-based international economy of the day. Demands for labor and stability led the British to a process of unification and state creation in the late 1800's and early 1900's whereby it could "...enforce contracts, secure transport links, regulate labour and business, and ensure strategic security across the area of contemporary South Africa as a whole" (Butler, 2009, p. 12). The financial services sector eventually grew out of the wealth from the gold economy which birthed captive BPO and call center firms starting in the 1970's. What is interesting about the South African case from an institutional perspective is how the birth of the ITES sector may be the result of a path-dependent history with origins in South Africa's extractive industry that started over 150 years ago. Additionally, the British institutions of property rights, law, and order helped facilitate an institutional isomorphism with the UK that eventually helped what would become the South African ITES sector integrate into global value chains.

2.7 Theoretical Synthesis

Here I review how each literature maps onto the cases explored in this dissertation. Conventional trade theory, as mentioned earlier, marginally explains the emergence of IT-enabled services in Kenya and South Africa. To a small extent, it explains why certain IT-enabled services go to these regions. Kenya has a comparative advantage as a location to do BPO and to do what is now described as "impact sourcing." South Africa, as I will argue, has a relative comparative advantage in Anglicized voice support to Europe. Conventional trade theory is in fact the rationale made by the region in its marketing to the global market. However, Kenya is not the only developing country where one can do BPO for social impact. One could arguably do this in India, for example in second and third-tier cities. Similarly, Eastern European countries could offer Anglicized voice services to Western Europe. Additionally, Africa's lack of global brand equity mean that these regions would not even be on the radar of most firms in developed countries.

In the diaspora framework elucidated above, people who left their home country or region and returned are the key agents in creating this new sector. This - as I will describe - explains part of the story in both Kenya and South Africa. Some of the biggest or most notable BPO firms in these regions were started by members of the returning diaspora. However, a focus on the diaspora misses the local contingency of people who also deserve credit for bootstrapping the sector, sometimes even before the diaspora become involved. Even with significant diaspora involvement, their entrepreneurial work is not sustainable in the mid-term without other key critical factors, especially the State.

Cluster formation - or the growth of a nascent agglomeration of firms and other actors - is partly responsible for emergence of BPO sectors in Kenya and South Africa. As I describe in the empirical chapters, this did in fact happen, starting in the late 1990's for South Africa and in the early 2000's for Kenya. But the agglomeration of firms and other critical actors does not explain how and why these clusters of firms became part of global IT-enabled services.

Global value chains describe how and why certain global business activities are organized geographically, with a special focus on chain governance. Some of the cases described in the dissertation focus on the role of "lead firms" in choosing alternative regions like Kenya and South Africa as part of their services value chains. On the other hand, GVC theory does not address the local agency involved whereby regions inserted themselves into global services and took the lead, especially where "lead firms" were not aware of BPO offerings in Africa.

The developmental state frame helps to analyze how the apparatus of the state supports industrial policy, particularly in IT-enabled services. Public goods investments bolstered and supported the sectors in Kenya and South Africa. Without these investments and government champions, BPO would not have taken off. However, the developmental state frame does not adequately account for the beginnings of the sectors in either region. Rather, the State typically supports the sector once entrepreneurs and diaspora bootstrap the nascent sector and push for government support. Also, government support does not explain why firms go to Africa. Arguably, most major cities and regions have government agencies working to attract global investments in IT-enabled services.

Finally, institutions shape economic activity in general and IT-enabled services in particular as shown in the forthcoming empirical chapters. The apartheid regime and European immigration to South Africa shape both the opportunities and challenges of BPO services work from the region. Similarly, I show that the aid and international development community that is so salient in the Kenyan political economy shapes the growth of the "impact sourcing" BPO that locates there. But the institutional story does not explain the factors that lead a region to economically diversify in the first place. The case studies provided here entail an embedding and dis-embedding from institutional contexts. The institutional story would miss out on how these regions disrupt their own natural resource-based economies in the first place.

I conclude that a better way to view the growth of trade in IT-enabled services to Kenya and South Africa is through the lens of "information champions" (Wilson III and Wong, 2005) - individuals motivated by a developmental ethos - who catalyze the movement of global economic activity to locations with comparative disadvantage. This lens best explains the empirical data gathered as well as highlights the underlying drivers from multiple theoretical frameworks.

I argue that these individuals from multiple organizational, institutional and geographic contexts who are motivated by their own notions of development help pull trade and investments in IT-enabled services to these regions, despite conventional trade flows that would pull trade into India. These individuals can disrupt - or decouple - economic activities from the larger political economy. In a sense, they can push against the institutional norms that shape the types of activities that normally take place in those regions. These developmental individuals can help create agglomerations of firms as well as embed these agglomerations into global IT-enabled services. They can assist in the building of regional markets and/or push "lead firms" to choose the region. These individuals include diaspora and "philanthropic cosmopolitans" who promote BPO because of a development-oriented mission. Individuals - within and outside the State - are also responsible for shaping a developmental state with respect to BPO.

The other side of the coin is that the developmental impulse that catalyzes these individuals to act in creating and nurturing a BPO sector is also responsible for frustrating the emergence of the sector as well. Conflicting visions of what development entails sometimes leads to conflicting strategies by these individuals. Depending on how an individual envisions development, it shapes her or his strategies and tactics to achieve that development. Because there are multiple visions of what it means to do development through BPO services, a messy, iterative, and sometimes conflict-ridden process characterizes the establishment of a new economic sector in these regions.

Chapter 3

Emergence of IT-Enabled Services in Nairobi

3.1 Introduction

When local capital realized that its nascent information industry could not attract the investments and trade needed to make Kenya a recognized location for BPO, it turned to the national government. The founding of BPO companies along with the establishment of Kenya's Ministry of Information and Communications (MoIC) led to State-led development in IT-enabled services. Three leading firms (along with other actors) played a role in convincing the state to engage with BPO firms and over time support them as part of a national strategy. Members of the diaspora - and returnees - supported firm and State-level efforts to promote BPO. Social enterprise - in addition to the state - also came to support the growth of BPO in Kenya. Representatives from multilateral agencies assisted the State in its efforts to provide public goods. Individuals from international foundations and social enterprises conceived of BPO as an opportunity to do development through "impact sourcing" where they helped Kenyan small and medium enterprises to access global markets or directly employed marginalized Kenyan workers.

Though this multifarious group of individuals helped drive trade and investment opportunities to the region and support job creation, their underlying logics diverged. One perspective focuses on the support of BPO through public goods and investment promotion activities that market the country as an attractive and competitive location for offshore IT-enabled services. Another perspective asserts that BPO must employ and benefit the most disadvantaged. The ideological differences are most evident in imagery used to market BPO services. Some individuals portray Kenya as an emerging economic and technological hub while others focus on marginality, highlighting images of poverty. The logics of the divergent narratives differ in a number of ways, including similarity vs. otherness, past vs. future Africa, and a focus on the individual (within the Kenyan context) vs. the region (in the global context). A focus on social impact may negatively affect IT-enabled services trade and investment. However, the industrial policy approach can leave unjust social structures unchecked or not adequately address inequality at the local level.

3.2 History and Context of Nairobi's BPO Sector

The beginnings of Kenya's IT-enabled services sector is centered around the founding of three firms which saw the opportunity to develop IT-enabled services primarily for the international market. The beginnings of Kenya's IT-enabled services sector starts with the founding of Preciss International. While giving a talk on her e-commerce business at a local convention of the United Nations in Nairobi in 2001, Mugure Mugo picked up a brochure which mentioned outsourcing. Following the meeting, she decided to start a BPO business in 2002 with another partner by initially offering online research services. Through her first contracts, she developed the capability to learn how to serve international clients. Over time, Preciss established a presence in the UK and built a firm providing non-voice BPO work in transcription, captioning, and human resource outsourcing. By 2009, her firm had attracted private equity from Business Partners International-Kenya (a subsidiary of a South African investment fund) (Singer, 2006).

Nicholas Nesbitt and Mugure Mugo both independently conceived the idea of an IT-enabled services firm around 2001.[1] Nesbitt, the founder of Kencall, decided to plan the creation of a call center after a distinguished career in the telecommunications industry in the United States. He started to plan it from his Denver apartment, raising money from his pension fund, friends, family, and later procuring debt funding from a Kenyan bank that believed in the idea. With 1.3 USD million in investment capital, Kencall started operations in November 2004 (Zavatta et al., 2008, p. 20). After winning lucrative international contracts, by 2007 Thomas Friedman drew international attention to Kencall in the *New York Times*. Additionally, in 2008 Kencall won Non-European Call Center of the Year at the Birmingham Expo in the UK. The company had built a reputation for servicing international clients and had become the poster child of Kenyan IT-enabled services, having at its height 500-600 call center agents.

Skyweb-Evans was established by Gilda Odera in 2005. In an effort to “liberate” Odera's internet service provider (ISP) Skyweb Technologies of bandwidth, she decided to move into the call center business. While at a World Information Technology and Services Alliance (WITSA) meeting, she met Ronald Evans from Canada who would eventually become her joint venture partner. Odera managed the Kenyan operations and Evans pitched for work in Canada as well as facilitated training of the Kenyan agents in Canada. Odera formerly chaired the Public Computer Society of Kenya, a background that would enable her to found the Kenya BPO and Contact Center Society in 2007.

3.2.1 Growth of BPO in Nairobi

There was excitement surrounding the IT-enabled services sector around 2005-06 with numerous conferences, a mushrooming of call centers and BPOs, and advanced discussions with foreign investors to locate offshore operations in Kenya (See Appendix A.3). In the wake of the global economic recession paired with Kenya's post-election violence in early 2008, Kenya's BPO and contact center firms that focused on international contracts increasingly began to engage in do-

[1] Mureithi (2007)

mestic outsourcing opportunities. These firms looked to outsource work from the international NGO and intergovernmental industry (e.g., IT shared services for United Nations agencies) in the greater Nairobi area as well as public (e.g., digitization projects for the Ministry of Lands) and private sector (e.g., Telkom Kenya) entities. In 2009 and 2010, the rollout of two undersea fiber optic cables along with terrestrial infrastructure (in mostly urban areas) rejuvenated interest and potential growth in the sector. There have been new entrants into the sector either through start-up (Horizon Contact Centers), joint-venture (Direct Channel Simba Tech Kenya and Spanco Raps Kenya Ltd.), acquisition (Techno-Brain BPO acquiring KenTech Data), and foreign direct investment (Digital Divide Data). Accenture Development Partnerships piloted an IT Shared Services Helpdesk in Nairobi (2009) and General Electric created an offshore captive servicing its internal clients and the entire Central and East African region with a centralized back office function (Kariuki, 2010). In 2011, the government unveiled its plans for Konza Technology City, the $7 USD billion 2000-hectare "e-city" 60km outside of Nairobi that aims to create 100,000 jobs, the majority of which will be in BPO. This project is Kenya's largest development project in its history as a nation and will host the BPO Park proposed in Vision 2030.

3.2.2 Post-Election Violence and Global Economic Recession

The confluence of post-election violence (2007-08) and the global economic recession reportedly slowed the sector and weakened offshore linkages. Kenya's image as the bastion of peace in East Africa was marred by the wave of violence throughout the country following the disputed presidential elections in December 2007. The violence, which cost more than 1,000 lives, ended in February 2008 when President Mwai Kibaki and Raila Odinga agreed to the creation of a coalition government. Most firm managers and industry stakeholders I spoke with shared a sober story about the role that post-election violence played in their companies and the industry at that time. Many companies shut down during the height of post-election violence while prospective deals with transnational clients were tabled or canceled. In August 2010, Kenyans voted in favor of a new constitution addressing ethnic tensions, devolving power from the center and curbing executive and leadership powers. However, international investors were deterred for some time because of this ethnic and political instability (Commonwealth Business Council and Cybermedia India, 2009, p. 265; BMI, 2011, pp. 8, 21; Sowinski, 2010).

As the sector was faced with the political fallout, it was reportedly suffering from the global effects of the economic recession as well. Though some representatives in the Kenyan IT-enabled services sector hoped the crisis would lead to more offshoring, the reality for some firms was exactly the opposite. One respondent mentioned, "If not for the financial service meltdown, we would be growing in leaps and bounds. Only a month ago Company A [US Financial Services Firm] told us they were going to reduce their head count with Company B [IT services company base in India] and increase ours in Kenya. All of that changed a week ago, when they announced they were closing their branch network [which is the unit we support from an IT perspective]." Another recounted how, in light of the recession, potential offshoring contracts (through an intermediary) were canceled for onshore (USA) service where tax incentives were offered to bring jobs back to America. Kenya (and many other developing countries) probably experienced the two

effects of the economic recession: a general contraction in demand from existing customers as well as a substitution effect where new services were moved from developed economies to emerging economies. However, because this substitution effect was relegated to large developing nation providers like India and the Philippines, more nascent services sectors like Kenya did not benefit from the substitution effect and as a result experienced weakened offshore linkages (Gereffi and Fernandez-Stark, 2010). This confluence of political instability, global contraction of demand, and a nascent sector from a global perspective would lead the sector to look onshore (and nearshore) for market opportunities.

3.2.3 Funding

Kenya's IT-enabled services firms are largely resource-constrained from a startup perspective. The majority of firms I spoke with started their firms from personal funds. Some of the small BPO and call center firms were unable to acquire loans because their intellectual assets did not qualify as collateral with the local banks. Some of the respondents mentioned that banks wanted land as collateral, making it difficult for some of them to start out. At one forum I attended, there was a suggestion for government to develop more flexible policies for allowing SME's to acquire bank loans for these information-based firms. However, I did find several exceptions. In one case, a bank supplied debt funding (early in the firm's formation) which was combined with money from family members, business partners and overseas friends. And in a couple of other cases, the call center/BPO companies acquired equity financing. However, those companies received that funding 5-7 years after those firms had been established.

My findings are corroborated by a study that identified a financing gap for ICT and IT-enabled firms in Kenya seeking funding in the range of USD $50,000-500,000. Factors contributing to this gap include: (1) financing policies (banks hardly lend to SMEs and start-ups); (2) limited diffusion alternatives (where credit guarantee schemes are available for agribusiness but not for IT-enabled services firms); (3) constraints on the demand side (entrepreneurs unfamiliar with equity instruments); and (4) understanding of ICT (bankers uncomfortable with new business models). On top of these factors, the initial investment in call centers tends to be more sizable than for other IT-related ventures because of seat counts (e.g., 30-40+) and training costs (Zavatta et al., 2008, pp. 1,9).

Typically, only large firms (like Kencall and Horizon Contact Centers) have access to sources of external start-up finance, including medium-and-long term finance (from African commercial banks), offshore borrowing, outside equity financing, venture capital, and equity (e.g., TBL Mirror Fund) (Fafchamps, 2004, pp. 434-6, 445-47). This financing gap means that the (few) firms that have access to significant cash up front in the start-up phase are able to build larger operations with more seat counts.

3.2.4 Shift to Domestic Outsourcing and Near-shoring (2009-current)

Kenya inherited the Indian export-oriented model as its model of an IT-enabled services sector. In fact, in 2007 (before post-election violence and effects of the global financial crisis), BPO

had the highest export percentage turnover (90%) relative to other professional services sectors (e.g., legal services, accounting, insurance services, shipping and freight, banking, etc.) (Export Promotion Council and World Bank, 2010, p. 13). Interviews with respondents and presentations by industry representatives revealed an export-bias and a largely unexploited domestic market at the time. However, the challenge of procuring contracts internationally led some operators to consider forging linkages onshore as well as near-shore with the East African economies (see Figure 3.1). Northwest Offshore, which gathered data for fund managers on Wall Street, shifted its business to the local Kenyan market providing data management solutions (Kinyanjui, 2010). Kencall and TechnoBrain-BPO began to start penetrating the domestic insurance, non-profit, and media sectors to remain afloat. For example, TechnoBrain-BPO started offering an emergency helpline service for children and youth under the Department of Children Services while Kencall began managing a Famine relief campaign to help the government dispatch food to affected drought areas throughout the country (Mark, 2011; Maalim and Were, 2011). Kencall had also started to manage customer service for telecommunications firms in Tanzania (Riungu, 2010).

Within the domestic sector, some of the most significant outsourcing deals have been within the mobile telecommunications market. ICT has unarguably driven Kenya's economic growth over the past decade, growing on average by 20 percent annually and outperforming all other sectors (See Figure 3.2) and there has been phenomenal growth in the growth of mobile phone subscriptions (See Figure 3.3). The growing market has led to new market entrants and a price war where Average Revenue Per User (ARPU) has fallen to amongst the lowest in Africa (BMI, 2011). The mobile competition has led new market entrants to cut costs by outsourcing non-core functions, including customer care. As a result, Kencall and Horizon Contact Centers have started to do customer service for Orange (formerly Telkom) Kenya, Horizon Contact Centers (formerly Aegis Services Kenya) does customer service for Essar Telecom Kenya Limited (yu), and Spanco Raps Kenya Ltd. does customer service and back-office work for Airtel Africa (across Kenya, Tanzania, Burkina Faso, Chad, Niger, and part of Nigeria) (Southwood, 2010; Isenberg, 2009, p. 8;Ochieng, 2010; Nyabiage, 2011; Kimutai, 2011).

Kenya's ICT revolution, especially in mobile, is not disconnected from the growth of domestic BPO opportunities in the area of customer care. Despite the opportunities in mobile, there are challenges to growing the domestic segment of local BPO operators' portfolios. First, representatives in the BPO sector cite a lack of trust and data privacy as a potential barrier for local outsourcing, particularly in the banking, financial services, and insurance segment. In a recent study of outsourcing in Kenya's commercial banks, customer account processing was the least outsourced function in the sector, with no banks outsourcing the function at the time (2008). The author of the research article explained it had to do with the principle of confidentiality and explained that Kenya's banks associated outsourcing with "high reputational, operational, strategic and contractual risks" (Barako and Gatere, 2008, p. 37). Second, the recent growth of local captive (or in-house) contact center operations (e.g., Safaricom Jambo Contact Centre, Kenya Commercial Bank, Barclays Bank, and Co-operative Bank of Kenya) was viewed as a sign that local operators did not have the capacity to deliver customer service functions for these large local blue chip firms (Bohnstedt, 2009; Ouma, 2009).

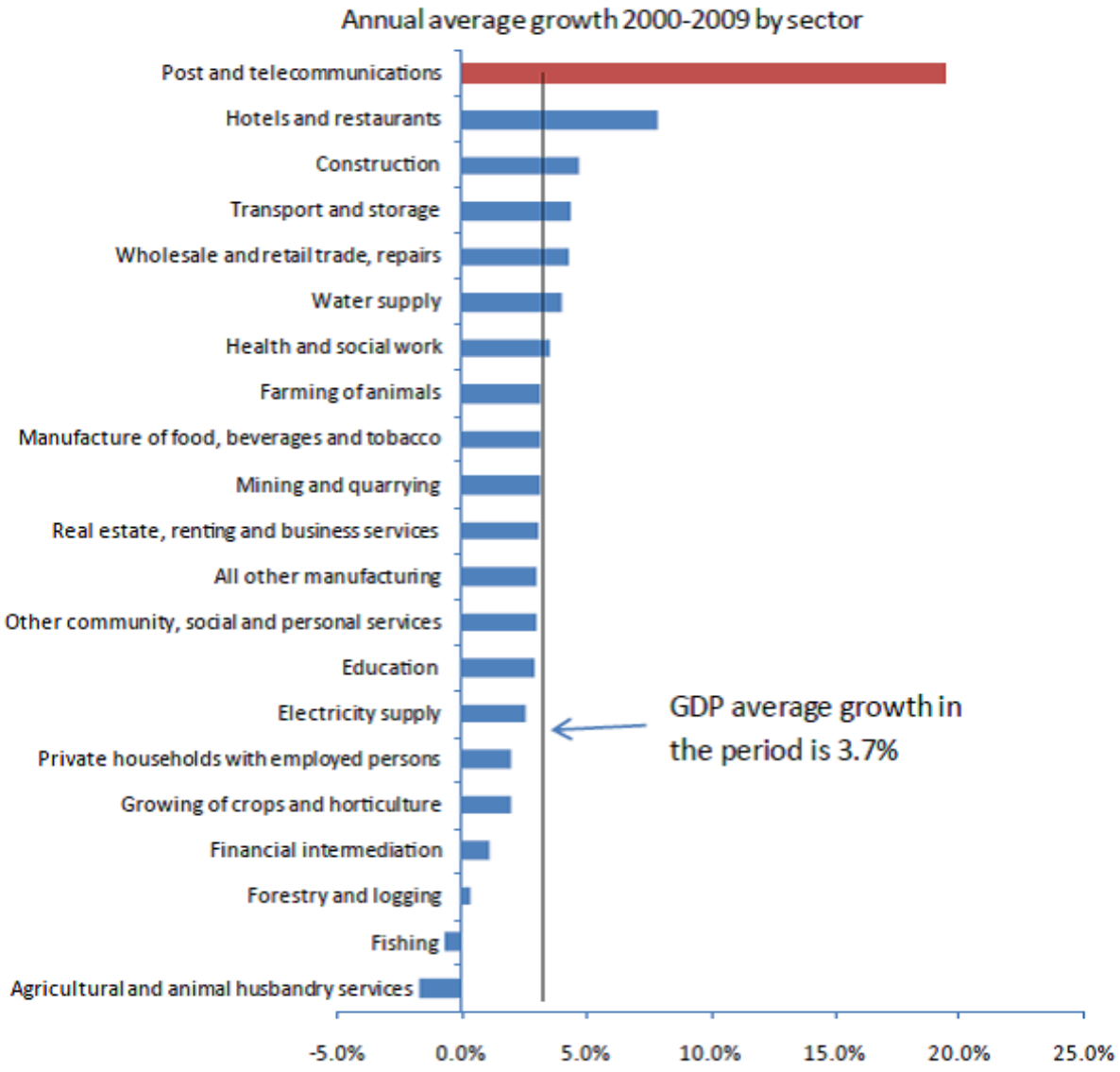
Figure 3.1: Respondents' Views Concerning International and Domestic Outsourcing

	International	Domestic
Opportunities and Benefits	• Higher Margins • Credibility and World-Class Service that can be leveraged for Domestic Outsourcing • Foreign Companies understand outsourcing concept • Opportunity to Build Kenya as Global Brand for Offshoring • Attraction of FDI into the country can employ thousands of Kenyans, esp. youth	• Opportunity to gain experience and develop capacity to outsource • Credibility for International Outsourcing • Opportunity to deliver shared services to public sector and international NGO Sector based in Nairobi • Does not require accent neutralization • Potential clients are a car ride away, not a plane ride away • Domestic contracts are not necessarily cancelled because of international events (e.g., global economic recession, American political backlash to offshoring) • Legal recourse for due payment within territorial borders
Challenges, Disadvantages, and Risks	• Intense competition from India, Philippines, and the rest of the world • Stringent SLAs to meet, esp. strict infrastructural and human resource requirements • Intermediary company or broker may not pay for work rendered • International bandwidth very expensive and unreliable (dropped calls) • US (Obama) administration does not like offshoring • International market wants to know that you have a domestic track record • Need for legal incorporation (and/or) onshore presence in client country(ies) • Steep learning curve • Global Economic Recession contracts demand for offshoring	• Lower margins than international contract • Outsourcing is a new concept – private sector is agnostic or antagonistic towards the concept • Domestic Market Takes a long time to sell • Payment in domestic market is slow • Fear about information confidentiality – information could be passed on to a competitor • Lack of confidence in local operators

Source: Author

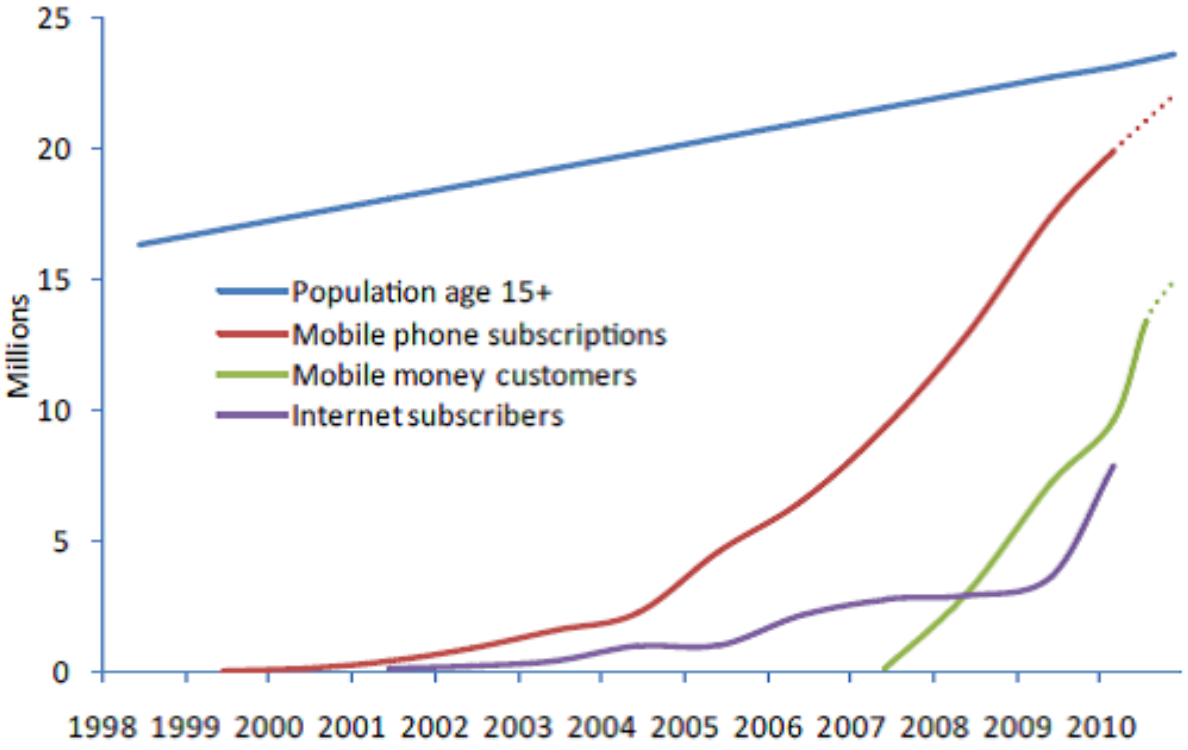
It will undoubtedly take time before local BPO and call center operators overcome - if at all - these challenges with respect to confidentiality, data security, and overall capacity to serve the local sector.

Figure 3.2: Since 2000, the Telecommunications Sector Outperformed All Sectors in the Economy



Source: Kenyan National Bureau of Statistics and World Bank staff estimates (World Bank, 2010, p. 13)

Figure 3.3: Growth of Mobile and Internet in Kenya



Source: International Telecommunications Union, KNBS, World Bank Projections (World Bank, 2010, p. vi)

3.2.5 Weak Offshore Linkages as an Opportunity to Escape Export Enclavity

Kenya's limited success (as measured by its ability to reach its midterm Vision 2030 targets) in the offshore market created an opportunity for it to forge links with the domestic economy and overcome potential enclave economic effects. Local operators redeployed offshore chain competencies of customer care and BPO into the local market for the telecommunications, government, and non-profit sectors. In some ways, exogenous events like the global economic recession, post-election violence, and Kenya's telecommunications price war redirected the course of the sector early on such that it is not as outward-facing as the Indian sector it sought to emulate. India's export-oriented software sector, with limited links with the domestic economy, is spatially concen-

trated and has limited inter-industry links (Arora and Athreye, 2002, p. 272; Commander, 2005, p. 23).

Kenya's IT-enabled services sector, like India software sector, did not really grow out of links with related sectors that served as sources of competency or demand like other countries (Ireland, Israel, Brazil, China) (Arora and Gambardella, 2005, p. 7). However, at the end of its first decade it is growing into links with the telecommunications sector in particular because of Africa's mobile revolution. And as the sector is developing, it is resembling call center industries across the world which - unlike India - "... serve a domestic market and in which large, outsourced call centers are the exception, rather than the rule" (Benner et al., 2007, p. 7). The inability to forge strong offshore linkages may be an opportunity to "reach for the nearest leaf," as one respondent remarked in the course of fieldwork.

Prior to the undersea fiber optic cable being laid along East Africa, Kenya's BPO sector relied on the arrival of broadband connectivity to catalyze the sector. What has happened since 2009 has been marginal sector growth exacerbated by the global economic recession as well as Kenya's marginality in the global economy. Though telecommunications provision did not grow the sector, the techno-centric development discourse catalyzed a process of institutional creation and reform. The institutional developments are driven by the need to make Kenya a more attractive location for offshoring by building the stock of human resources, addressing the country's telecommunications constraints, supporting local BPO operators, and creating an enabling environment for transnational, offshored work. This process has been driven by a small constellation of individuals - entrepreneurs - that while acting in their own interests are building the foundations of institutions that constitute the IT-enabled services cluster. Therefore, the promise of technology - though not yet realized - can be a factor in institutional reform and market creation.

3.3 Developmental State and Support for Nascent IT-Enabled Services Sector

When local capital realized that its nascent information industry could not attract the investments and trade needed to make Kenya a recognized location for BPO, it turned to the national government. Local capital identified the limits of a neo-liberal, laissez faire approach to making their country a leader in BPO. Over time, they influenced the State to adopt BPO as a national project focused on economic development. This emerging developmental state invested in infrastructure, education, and policy initiatives to position Kenya as a major source for information services.

3.3.1 Convincing the State to Support BPO

The three leading firms aforementioned (along with other actors) played a role in convincing the State to engage with BPO firms and over time support them as part of a national strategy (see Appendix A.2). As a result of Mugo's early work on BPO, in April 2003 the Export Processing Zone (EPZA) invited a number of firms involved in BPO to discuss how the EPZA could help them. From 2002-2004, Nicholas Nesbitt (of KenCall) held 40-50 meetings with the Kenyan

Government and the Communication Commission of Kenya, eventually assisting in the creation a new license category for BPO operators in the country (Isenberg, 2009). Nesbitt also lobbied government personally to support the nascent BPO activities (see Appendix A.4).

3.3.2 State-led Developments in BPO

At this time, several State-led developments facilitated a more favorable alliance between government and local capital for promoting IT-enabled services. In 2002, the new political administration led by Kibaki renewed a commitment to private sector development with a 2004 Investment Promotion Bill to assist investors with obtaining license and incentives (UNCTAD, 2005b, p. 45). In July 2004, Kenya's Ministry of Information and Communication (MoIC) was formed with the responsibility of drafting an ICT policy and steering telecommunications regulation (Zavatta et al., 2008, pp. 6, 21). Under the helm of the MoIC, the National ICT Policy was drafted and released in March 2006 with a vision of "a prosperous ICT-driven Kenyan society." Within the ICT policy, at least three objectives related to outsourcing: "Using IT to generate additional employment and promoting entrepreneurship for the new digital economy"; "Encouraging and accelerating investments and growth in IT hardware, software, Internet, training, IT-enabled services, telecommunications and electronic commerce"; and "Providing adequate infrastructure in the country for IT sector to flourish" (Waema, 2009, pp. 19-20).

With the success of the early BPO firms, and with more firms joining the IT-enabled services sector, BPO and contact centers became a national priority. In 2007, Kenya's Vision 2030 was launched, aiming to transform Kenya into a newly industrializing "middle-income country" by 2030. The vision was founded on economic, social and political pillars. BPO was identified as one of the key economic sectors to drive economic growth of 10% per annum for 25 years. Within this sectoral focus, the overall goal was to be "the top BPO destination in Africa" by attracting global IT suppliers, large multinational company captives, and foreign BPO players and developing strong local firms. Kenya's Vision 2030 was to be implemented in 5 Medium-Term Plans (MTPs). Within the first MTP (2008-2012), the goal was to create 7,500 direct BPO jobs with an additional GDP contribution of KSH 10 billion ($149.7M). Specifically, this meant attracting at least 5 major leading IT suppliers, attracting 10 large multinational captives and global players, and targeting 5 local players to develop as "local champions." The strategy would entail a combination of marketing (in UK, followed by US and Canada), training, incentives, improvement in telecommunications infrastructure, and the establishment of a BPO park (National Economic and Social Council, 2007).[2]

The Kenya Communications (Amendment) Bill, which was passed by Parliament in December 2008 and signed by the President in January 2009, included a key section on e-transactions under Part VII, supporting the use of electronic records, electronic contracts, and digital signatures, as well as various dimensions of ICT and cyber crimes. One of the pending issues is that of data protection and privacy laws. Kenya's IT-enabled services sector has hitherto been constrained,

[2]This strategy (developed by McKinsey & Company) for the Government of Kenya, would largely set the institutional agenda for the Kenya ICT (Information and Communication Technology) Board that would later be formed.

from a policy perspective, by the lack of a framework protecting data transfers, especially from EU member countries (Waema, 2009, p. 24; TMG, 2008, p. 43;Sudan et al., 2010, p. 69).

Kenya has a Draft Data Protection Bill (2010) which was in the Cabinet in early 2011 and awaited passage to Parliament for enactment. With respect to incentives, BPO firms (like Kencall) are able to benefit from locating in Export Processing Zones (EPZs) and will benefit from the Special Economic Zones (SEZs) which were approved by Cabinet in 2009 which will encourage both local and foreign investments and production of goods and services for both export and domestic market(Kenya Ministry of Trade, 2009).

Kenya's ICT Board was established as a State Corporation by President Mwai Kibaki February 19, 2007 and became operational in 2008 (Kenya ICT Board, 2008).[3] In line with the Medium Term goals of Vision 2030 for BPO, the Board's Marketing Objectives were to develop and launch a brand, creating 12,500 BPO jobs by 2012 (including attracting 3 top ICT vendors, international BPO companies, and developing local champions) as well as attain top 40 status on the Kearney Global Services Location Index by 2012. Its five point plan, which resembled Vision 2030, consisted of local and international marketing, capacity support, skills and standards intervention, bandwidth support, and research and benchmarking (Kenya ICT Board, 2008, p. 8). The Board also commissioned McKinsey & Company to develop a value proposition and go-to-market strategy for the sector in 2009. And in 2011, they hired consultants from IBM to advise the government on data security and privacy law. The Board engaged the World Bank to fund local BPO and call center operators with a 7 USD million telecommunications subsidy to offset the costs they were paying to access internet through expensive satellite while they were waiting to be connected via undersea fiber optic cables. The most significant State-led success is the establishment of an IBM Research lab in 2012.

Kenya BPO and Contact Center Society (KBPOCCS) is the industry body representing the sector. It was founded in 2007 and is involved in marketing the sector locally and internationally, lobbying the government (e.g., World Bank bandwidth subsidy), and developing standards for the sector. As a small body, its lack of institutional capacity has been noted. In the interim, a High-Level BPO/ITES Working Group has been established under the Prime Minister's office and is envisaged to lay the foundation for a stronger KBPOCCS (Kariuki, 2010, p. 6). In the longer term, it has been recommended that KBPOCCS merge with other associations (Computer Society of Kenya, IT Standards Association, Kenya Private Sector Alliance, and Telecommunications Service Providers Association of Kenya) to form a strong NASSCOM-modeled ICT/BPO industry association. Other organizations that (prospectively) support the sector include KenInvest for investment promotion, Brand Kenya Board for international marketing, Export Promotion Council which has assisted BPO operators in marketing their services abroad, and CCK in registering call center and BPO operators. Around these organizations, there exists private equity and venture capital firms that have supported the sector, equipment suppliers (local and international), and training institutions (e.g., software incubation center, colleges for BPO training, and IT training institutes).

[3]Personal Communication with Eunice Kariuki, Marketing Officer, Kenya ICT Board, June 21, 2011.

3.3.3 Kenya's Developmental State?

In this section, I argue why Kenya is a developmental state and how the State resembles - to some degree - the bureaucratic structures of East Asian or other countries. One could argue - based on the State's (non-)role in other sectors - that Kenya is not a developmental state. Some literature alludes to the weak institutional base in the country, implying that it cannot be developmental like the Asian exemplars (Edigheji, 2010, p. 6). Much developmental state literature has been used to understand how the state contributed to some economic success or "miracle." This analysis is different in that I identify Kenya's developmental state not by some successful outcome but rather by ideology and structure - that is, the state bureaucratic structure of the Ministry of Information and Communications along with the Kenya ICT Board that organizes and steers economic activity as well as the ideology undergirding the economic development and policy actions (Mkandawire, 2001, p. 290).[4] What makes a state developmental is "commitment to development," regardless of the outcomes (Johnson, 1982, p. 306). In this case, it is possible to identify the State's developmentalism through its ICT policy and statements from political officials along with its newly formed organizations, investments, and policy instruments.

3.4 Diaspora

The diaspora has also been a key actor in attracting services investments to the region, assisting both local entrepreneurs as well as the State. At the sector level, the diaspora serves as a credibility-enhancing mechanism to overcome the stigma of working in Africa as well as a first point of contact for foreign direct investment. At the firm level, the diaspora is involved directly in institution-building (firm creation), serving as transnational intermediaries, and investing as prospective business partners. A number of cross-border financial flows outside of the category of remittances may be motivated through diaspora initiatives. Moreover, the establishment of IT-enabled services in Kenya challenges traditional notions of "brain drain" and "brain gain" by suggesting a kind of "virtual migration" is under way where labor and skills "migrate" without crossing nation-state borders.

3.4.1 Kenya and International Migration Patterns

Though migration in Sub-Saharan Africa is for the most part South-South, Kenya is considered a diasporic state (Adepoju, 2008).[5] Historically, Kenyans migrated outside Africa for education and

[4] Interestingly, Arora argues that the weak, inefficient bureaucratic Indian State was effective precisely because it did not do much and was decentralized. The Indian states competed to develop software in a way that focused policy on the provision of infrastructure and checked political excesses instead of regulating entrepreneurship or directing the industry into a "high-tech" or "high-value-added" direction (Arora and Gambardella, 2005, p. 25).

[5] 'Diasporic states' are countries with a large number of expatriates dispersed in other countries. A substantial part of the population of these states is dispersed over a large number of countries throughout the world, including refugees as South-South migrants and the elite in South-North migration. African examples of diasporic states include South Africa, Nigeria and Kenya, and to a lesser extent smaller countries such as Ghana, Somalia, Ethiopia, Eritrea, Gambia,

training (mainly at British institutions) to return to their country and assume civil service positions. Over time, Kenyans through government-based scholarships and guaranteed jobs upon return have headed for higher education in the West (UK and USA) and East (Former Soviet Union and India) (Rutten and Muli, 2008, p. 190).

According to the 2000 U.S. Census, there were 47,000 Kenyans in the USA. In addition to the Kenyans immigrants in the USA, it is estimated that at least 20,000 reside in Canada, 15,000 live in the United Kingdom, and more than 10,000 are in Germany and Australia combined (See Figure 3.4). Kenyans abroad are disproportionately highly educated. While only five percent of the Kenyan population holds a tertiary degree, for Kenyans living in the US this figure is more than ten times larger. The US Census from 2000 indicates that an overwhelming majority of Kenyans residing in the US have at least a high school education; 60.4% had an associate, bachelor, graduate or professional degree, while 21.8% had some tertiary education but had not obtained a degree. A further 12% had a high school diploma or its equivalent. Only 5.9% had not finished the 12th grade (Kizuka, 2007; Özden and Schiff, 2006, pp. 235-238).

In 2002, the Mwai Kibaki administration came to power, after 24 years under the Daniel Arap Moi regime. At this time, a significant portion of the diaspora returned to go about the duty of nation-building. This also coincided with an upbeat business environment and the emergence of the IT-enabled services sector which some of the returning diaspora helped to start. Based on their corporate and technical experiences abroad and inspired by the success of Indian and Filipino call center and software development industries, the diaspora helped to create and/or incubate firms that would deliver services for international markets, starting with the US and the UK.

3.4.2 Diaspora Contributions at the Sectoral Level

In this section, I draw on interview transcripts and field data relating to the diaspora to analyze their current and prospective contributions to Kenya's IT-enabled services at the sector and firm levels. I argue that the diaspora at the sector level helps make the global market aware of Kenya as an outsourcing destination and at the firm-level creates, finances, and links enterprises to global clientele.

Credibility-Enhancing Mechanism for Kenya

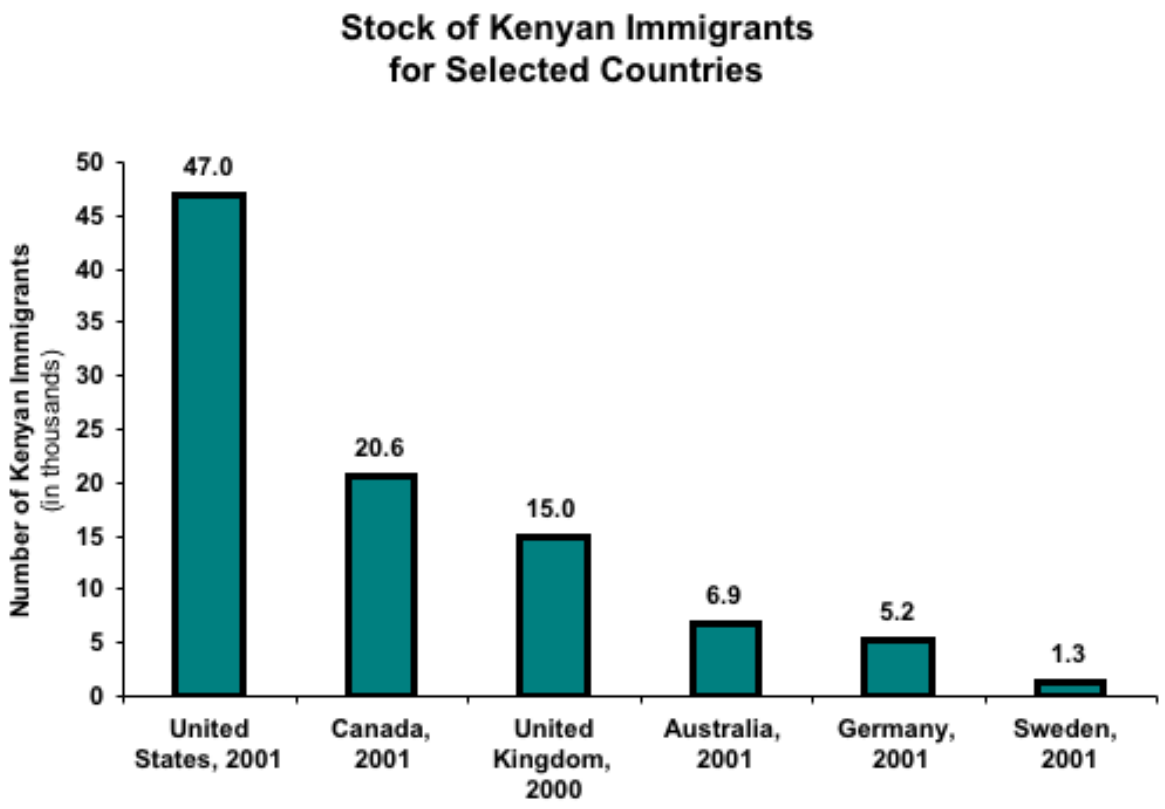
Kenya views the social capital of the diaspora as a mechanism for enhancing Kenya's reputation as a global outsourcing destination.[6] Africa historically has been viewed as economically and technologically backward, and the emerging sector views its diaspora as brand ambassadors. Conceptually, this practice of engaging the diaspora as credibility-enhancing mechanisms for an emerging sector or for a nation as a whole is in part a strategic move by the Kenya ICT Board

and the Cape Verde islands (Sheffer, 2003; Zoomers and Adepoju, 2008).

[6]Here, social capital is defined as the "capacity of individuals to command scarce resources by virtue of their membership in networks or broader social structures…The resources themselves are not social capital; the concept refers instead to the individual's ability to mobilize them on demand…" Source:Portes (1995, p. 12)

and the Government of Kenya as a structural force for convergence. Kenyan diasporic communities abroad are seen as ambassadors who can forge closer economic relations with certain trading partners (Levitt and de la Dehesa, 2003). Relatedly, as the diaspora transnationally interacts with the global outsourcing community, they are able to engender attitude changes towards firms within Kenya's emerging sector. These attitudes "...create new myths, symbols, and norms to provide legitimacy for their activities" (Joseph S. Nye and Keohane, 2008, pp. 27-28).

Figure 3.4: Stock of Kenyan Immigrants for Selected Countries



Source: Migration Information Source

These attitude changes would potentially provide the legitimacy to counteract the negative images that prospective clients get about Kenya and Africa and help them consider Kenya as an outsourcing destination and particular firms as providers of outsourced services. One of the ways the sector - and specifically the Kenya ICT Board - engages the Diaspora is through networking events and Diaspora conferences in the UK and USA. The Kenya ICT Board hosted a Kenya Diaspora cocktail in London in 2008. At this meeting it presented its value proposition to the

diaspora, hoping they in return would market Kenya as an ICT destination as well as invest in the sector. In an interview with a stakeholder familiar with the meeting in London, he added:

> We organized an event specifically for Kenyans in the Diasporas so that we could go and sell to them. Because at the end of the day, if you want people to promote your product, you've got to sell to them so that they will become your brand ambassadors. We also tried to identify an opportunity in the US that we could do a seminar or a conference just for the Kenyans in the US or Kenyans in the UK. We want to tell them, "Look there is actually an outsourcing industry in Kenya." Some did not know.

According to these accounts, enhancing the credibility of the sector for the international markets starts with the diaspora in those markets first. And this educational process begins by informing diasporic communities of the existence of the sector in the first place. This idea of reaching out to the diaspora to overcome the stigma or ignorance of working with a new location happened with India. Not only does Kenya have to overcome the "Africa" stigma, but there are fewer diaspora in influential positions of power to effect the change India was able to facilitate in IT (Page and Plaza, 2006, p. 297).

This role for the diaspora in promoting the sector and Kenya as a country is both proactive and reactive. It is proactive as the sector markets itself. But it is reactive when the country endures periods of political and violent strife that make international headlines, requiring the diaspora to buffer or deflect images filtered through the international media. During post-election violence (end of 2007 through the beginning of 2008), many companies shut down while prospective deals with transnational clients were tabled or canceled. Other companies that survived only barely weathered the storm. Many company managers were fearful about the role that future political instability and ethnic conflict could play on the industry. While I was in Kenya, the recurring headline in the local news was the issue of whether perpetrators of post-election violence would be tried by a local tribunal or at the International Criminal Court in the Hague (Netherlands). The image of Kenya as an unstable and corrupt country thus has implications for the image that the country relies on its diaspora to promote.

Facilitating Foreign Direct Investment

On a sectoral level, the diaspora's networks and social capital can be leveraged to help locate a multinational's operations to Nairobi, thus crystallizing Nairobi's emergence on the global outsourcing stage.[7] Members of the BPO and contact center industry believed that the maturity of Kenya's outsourcing industry would be demonstrated by the presence of a thousand-seat call center facility. Though Kenya has an internationally-recognized call center with 500 seats and a newly established contact center with several hundred seats, the industry could not exceed the thousand-seat threshold. Many in the industry thought exceeding this threshold would only come when a

[7]The work of the diaspora is complementary with the State's initiatives to create incentives for locating multinationals there, like drafting a policy on Special Economic Zones, creating tax incentives, building world-class infrastructure, etc.

Western multinational locates some of its operations in Kenya. Only with such firms could the sector begin to meet its employment targets and develop an internationally recognized reputation.

The attraction of foreign investment via multinationals to the sector has been a strategy of the sector and has been echoed throughout interviews as well as public forums on the sector during field research. Consider this comment from the manager of a BPO operation:

> When you have an international company wanting to locate its call center or its data center in Nairobi - that is the time when it will happen in Nairobi. That will be a good signature that we've been accepted in the global arena or we have been recognized that we can contribute and be part of the outsourcing market.
>
> Forget about Company X, Company Y, or any other person. You need the presence of a multinational here who tells the rest of the world we are in Kenya doing business. Then they will come.

This manager believed that Kenya's IT-enabled services sector would not grow large through indigenous firms but through the location of multinational firms in Kenya, which would facilitate a clustering effect of other global firms in Nairobi. A consultant to US clients that outsource to other destinations shared why he thinks his clients are unlikely to consider some African destinations for their processes:

> When I go to talk to people about South Africa, the big thing they ask is who's already doing what there? Yeah I understand in some ways it's even more mature than India in terms of kinds of general infrastructure, etc. But please help me understand who is already doing business there. So the vast majority of this customer segment group I'm talking about likes to do things that others are already doing. In theory, Ethiopia would actually be a pretty great place. And then there are some who've been in Ghana, like ACS, but others have known that, and it's too hard to convince customers to go there just because it seems too risky. What happens if it goes down? Whereas people perceive some other places as just less risk. In a similar way, this respondent argues that the presence of a multinational firm in a location sends a reputational signal to the world and other multinational firms about the viability of doing business in a particular location. The fact that a multinational firm has taken a risk to locate to Nairobi is a much more credible sign for doing business than the marketing pitch any firm or government could ever make.

To facilitate foreign direct investment to Nairobi, diasporic connections are needed. One of the roles of the diaspora in C-suite, technology positions in the US is to help facilitate some meetings to help make this happen. At the BPO Value Proposition Luncheon, Paul Kukubo, the CEO of Kenya's ICT Board said:

> The Middle Eastern countries decided to focus on very high end support with American companies largely because a lot of their diaspora is in very senior decision making

> in the US. For example, one of the big IT decision makers in Google is of Middle Eastern origin. People in Microsoft also have a huge pool of those people. And what happens is that they use their relationships just like India did to take work back home. And one of the things we're looking at as a Board is discussions with the Diaspora as well to see in what positions are they and what kind of difference can they bring to bear in terms of bringing work back here? And that's so important. It's an important strategy.

In other public forums, Mr. Kukubo mentioned how high-level diasporic connections facilitated meetings with technology companies in places like Silicon Valley. However, the sector has been unsuccessful, up to this point, in convincing the multinationals in the call center industry to locate for a number of reasons, some of which included telecommunications infrastructure.[8]

Therefore, the diasporic connections were necessary but insufficient for deepening the sector. It is unclear whether Kenya's diaspora - which is not as deeply embedded in the US technology sector as other diasporas (India, Taiwan, China) - played as much a role as other factors that already discourage foreign investment in East Africa, including lack of telecommunications infrastructure and human capital, unreliable institutional environment, and erroneous economic policies (Castells, 2000, pp. 90-1; Collier, 1995).[9]

3.4.3 Diaspora Contributions at the Firm Level

Firm Creation

At the firm-level, the diaspora plays a role in creating ventures which it links to clients in target markets. It is increasingly being recognized through career history and spatial distribution studies that entrepreneurs are formed in an organizational context. There is evidence that those starting (successful) companies will start in a same or related industry. Their previous organizational experiences serve as the learning context for their entrepreneurial ventures for several reasons. First, entrepreneurs gain confidence through their experiences within existing organizations to start new companies. Second, organizations provide knowledge about entrepreneurial opportunities. Third, organizations help individuals form social networks to mobilize resources (Audia and Rider, 2005).

John went to school in the US, rose to the senior ranks of a company in the United States, and then started working as an independent contractor for the company he used to work for.[10] He then used this contractual relationship to launch a base in the United States and later in Nairobi.

[8]Google Kenya is an example of a technology-focused multinational with a presence in Nairobi established by Kenya's diaspora, and it may serve as an exception to this statement. However, its business processes do not qualify it as part of the emerging IT-enabled service sector typology presented. Overall, Kenya has been unable to attract large multinationals providing call center and/or BPO support work that potentially provides the large employment prospects envisioned in Kenya's Vision 2030.

[9]The move by the Kenyan government to invest in an undersea fiber optic cable (TEAMS) from Kenya to the United Arab Emirates specifically for this sector is an investment in "infrastructural globalization." This backstops its current efforts to leverage its "relational globalization" via the diaspora in target markets. See Laguerre (2008).

[10]John is a pseudonym.

Drawing on his organizational experiences in the US and his knowledge of the technical labor force in Nairobi, he targets businesses in more developed markets. A member of the returning diaspora who received a degree from an American law school started a Nairobi-based firm with one of her partners who has a Master of Business Administration (MBA) in entrepreneurship, a Bachelor of Science in IT, and experience managing a data center in the United States. These two, along with an IT staff person, started a digital storage firm. Another member of the returning diaspora recounted how she worked in US call centers before returning to the country, helping other call centers launch in the local market, and finally starting her own call center. Another member of the returning diaspora shared:

> I worked for ABC Company, and there I got to see a lot of the growth of the internet and the start-ups and the development of outsourcing as it grew into India. And that got my interest - that if it's happening in India then why can't it happen in Kenya? I was always waiting to find the idea that I could bring back to Kenya and help bridge the gap between what I was able to do and what I experienced in America and what people were able to do and experience in Kenya. I always had a "give back" mentality, a development attitude towards Kenya and I always thought what I would do was make a ton of money in America and come back to Kenya and invest in something.

These members of the returning diaspora were motivated by a combination of personal commitment and economic opportunity, believing that their technical and corporate capabilities were more highly valued in creating firms in their homeland than working in the United States (Saxenian, 2006, p. 326).

Transnational Intermediaries

Some of the entrepreneurs who start the BPO and call center firms have no experience in the sectors or markets they seek to outsource from. They are typically not members of the returning diaspora but rather Kenyans who hear about the prospects of outsourcing through conferences and public forums and are interested in setting up a local firm. For these (non-diasporic) entrepreneurs who have little or no prior experiences in the target markets they expect to outsource to, they rely on other individuals and mechanisms as transnational intermediaries - be they the diaspora, consultants, venture partners, etc. - to connect them to potential clients for work. These challenges are not only relegated to non-diasporic entrepreneurs. One firm, started by a member of the returning diaspora who worked in the target market but in a slightly different sector, had to rely on brokers to get its initial contracts for outsourced work. Unfortunately, the firm's initial brokers were untrustworthy, and these brokers ended up getting work from the Kenyan firm without remitting payment.

In other centers of technology entrepreneurship, the diaspora serve as human bridges to connect entrepreneurs from their homelands to clients in target markets. Some Indians who emigrated to work in U.S. firms in the 1980's helped US buyers to find suppliers in India (Arora et al., 2004). And when Taiwan was considering transferring semiconductor technology back home to develop

its electronics sector, it used its diasporic presence in the USA to shop technology transfer deals to prospective US companies. Kenya seems to be employing a similar strategy. One BPO manager said, "So we started to leverage on the networks of University X in the US. Also there is a fair number of Kenyans abroad who actually either went to University X or have one connection with University X and we tried to contact them and find out whether we could do something in this space." Later in the interview, he discusses how someone in his university network connected him to a senior employee of a company in the United States, helping them to procure their first BPO contract. This university friend closed the "structural hole" that existed between the Nairobi-based manager and the New York businessman in charge of outsourcing conference calls for companies listed on the New York Stock Exchange.

In a similar way, a publicly available transcript published by Kenya's ICT Board on emerging players in the BPO Industry and members of the Kenyan diaspora in New York offers the following:

> In the role that I play with my employer, I was responsible for an operation that was channeling a fair amount of business probably in the range of 4 million USD to 5 million USD a year to outsourcing vendors, primarily in India, some South Africa and some Philippines. Over the last two years I have been able to move probably about 10 per cent of that business to operations in Kenya people are doing between 500,000 USD and 750,000 USD with some Kenyan operations and it has been immensely satisfying for me on a personal level because I am Kenyan...

This member of the diaspora used his position with his New York-based company to broker an arrangement that entrepreneurs in Kenya without the requisite connections and organizational experiences would not have been able to facilitate.

Some of the firms address the issue of getting clients by setting up marketing or other offices in target markets, presumably through members of the diaspora. According to the Kenya BPO Guidebook, Northwest Offshore Ltd had three Marketing offices in Connecticut, Massachusetts and Texas. Newbry, a BPO and Call Centre firm had headquarters in Washington, DC, with offices in Nairobi. Arch-Link Consultants, a Kenyan architectural practice, had associate offices in USA and Italy. SSI Kenya had teams in U.S. & Kenya. And according to one of my interviews, Preciss International, one of the first BPO firms in Kenya, has a representative based in the UK for marketing and sales. In the case of Preciss, a member of the firm "became" a member of the diaspora precisely to exploit the offshoring opportunity. Because Kenya does not have an extensive professional diaspora in the US and the UK, its firms engage in "onshoring" strategies. Onshoring includes the corporeal, representational, material and legal practices of offshore firms developing a presence onshore, with Kenya as offshore and the USA as onshore in this case. This typology - developed in the context of Russian firms seeking access to US markets - is relevant for the Kenyan case. Through corporeal presence (establishing contacts and becoming local onshore), representational procedures (contracting onshore firms to do public relations), and legal registration, Kenyan firms are creating connections and contacts onshore in the USA as part of offshore outsourcing (Feakins, 2009).

Business Investors

Other members of the diaspora in the target market may serve as prospective business partners or investors. One BPO firm started with a three-member team, with two based in Kenya and one initially based in the United States. Another manager of a firm started her firm as a joint venture with an international investor who had significant financial backing and experience in call centers. The Kenyan manager is now looking for a different investor/partner in the diaspora to help expand her operation, as she realizes the joint venture model works to supplement for the experience and contacts she does not have. Therefore, the diaspora plays a current or prospective role at the firm level either directly in firm creation, serving as a transnational intermediary in linking Kenyan firms to clientele, or as a business investor or joint venture partner.

Kenya's current and prospective role for its diaspora in IT-enabled services implicates this community at the sector level to make the global market aware of Kenya as an outsourcing destination and at the firm-level to create, finance, and link enterprises to global clientele. The precise impact of the diaspora is unclear even as Kenya faces structural and institutional challenges relating to its political environment, macroeconomic stability, availability and quality of physical infrastructure, legal institutions, and human capital.

3.5 Multilateral Agencies

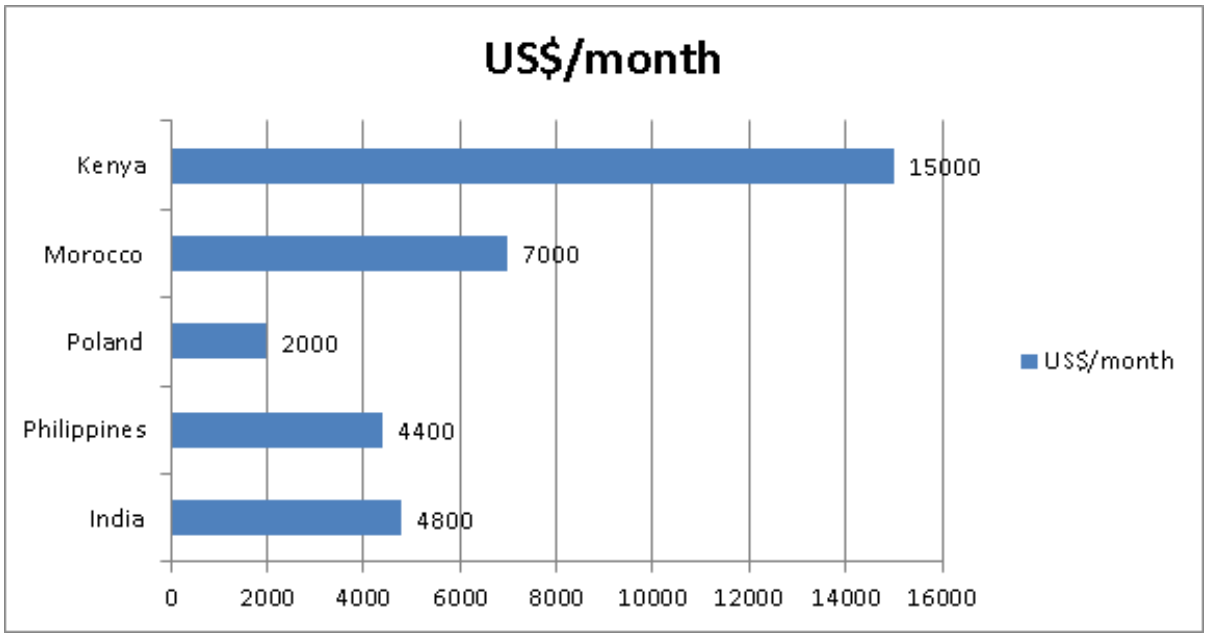
Since the early part of the 2000's, "offshoring for development" has been promoted by several multilateral agencies, with a focus on this business model's potential for alleviating poverty and unemployment. The United Nations Conference on Trade and Development (UNCTAD) began to champion offshoring as a trade-related opportunity for developing countries with its *E-Commerce and Development Report* in 2002.[11] The reports and UNCTAD's larger program on trade and development promote the concept of "pro-poor business process outsourcing" (UNCTAD, 2012). Similar to UNCTAD, the World Bank and its related Infodev program have endorsed the role of BPO in development. Through the program on IT-Enabled Services (ITES), the World Bank and Infodev recognize the possibilities of increased employment and incomes through remote work. It views technology as an enabler of increasing offshore opportunities for developing countries, particularly through its key publication *The Global Opportunity in IT-Based Services: Assessing and Enhancing Country Competitiveness* (Sudan et al., 2010). Over time this story was extended to share how BPO penetrated Tier II cities and relatively rural areas in India. This is the starting point for aid agencies that sought to use BPO reaching the lower-skilled and those who lived outside major urban areas (UNCTAD, 2010, p. 70).

[11]This report series was renamed the *Information Economy Report*, continuing to this day. Every annual report since 2002 has addressed BPO for development.

3.5.1 Public Goods Investments

International organizations engage the sectors with tangible assistance, in addition to narratives about BPO for development. One way they engage these developing countries is through targeted public goods investments, including infrastructure and sector-specific education schemes. Telecommunications infrastructure is a critical input for IT-enabled services clusters. A significant, if not overwhelming, portion of the expense of connecting to the internet from Africa is the cost of linking to distant international networks. Up until 2009, East Africa was the most poorly connected large region of the world (see Figure 3.5). In an effort to address East Africa's bandwidth poverty, several undersea fiber-optic cable projects were commenced, with TEAMS (governments of Kenya and the United Arab Emirates) and SEACOM (privately funded) slated for arrival in mid to late 2009. Kenya developed a National Optic Fibre Backbone Infrastructure (NOFBI) project to facilitate access to affordable and reliable international telecommunication connectivity from the cable systems as well. The World Bank financed both the undersea fiber optic cables as well as the terrestrial infrastructure through the Kenya Transparency and Communications Infrastructure Project (KTCIP) under the Regional Communications Infrastructure Program (RCIP).[12]

Figure 3.5: Telecom Bandwidth Cost for 2Mbps International Leased Line to UK



Source: Kenya Ministry of Information and Communication, Telegeography, World Bank as cited in National Economic and Social Council (2007, p. 79)

[12] 114.4 million USD was approved and became effective in 2007. In 2012, this loan was amended with additional financing for 55.1 million USD.

Until the fiber infrastructure came, the World Bank provided a subsidy to BPO and call center firms relying on the outdated satellite infrastructure. In the first installment of the subsidy scheme (July 2007 to February 2009), only seven out of twenty-three companies that applied for the subsidy qualified to receive it. The combination of stringent criteria for the firms and the lack of price reductions five months following the arrival of the fiber optic cables systems would lead to only 508,937.29 USD of the budgeted 7 million USD subsidy being disbursed in this first phase. The subsidy program was extended, based on the same set of criteria, and according to the Vision 2030 Mid-Term Report, thirty-eight BPO operators received the subsidy (Waema, 2009; Mark, 2010;Ministry of State for Planning National Development and Vision 2030, 2011).

In addition to overall telecommunications infrastructure, international organizations are funding technology parks that will support BPO. In 2011, the Kenyan government unveiled its plans for Konza Technology City, the 7 USD billion 2000-hectare "e-city" 60km outside of Nairobi that aims to create 100,000 jobs, the majority of which will be in BPO. This project is Kenya's largest development project in its history as a nation and will host a BPO Park that was proposed in Vision 2030. The African Development Bank and the World Bank have committed funding to the project, and the World Bank and the International Finance Cooperation have managed the tendering process for the techno-city.

Beyond facilities and infrastructure, training and educational facilities have also received international assistance. Part of the initial KTCIP World Bank funding included skills-related initiatives, involving both a BPO Center of Excellence institution as well as development of a Software Developer Certification scheme (World Bank, 2012; Kariuki, 2010). Some foundations have sponsored company-specific training. The Canadian International Development Agency (CIDA) financed training for some of the earliest call center agents from Kenya (see Appendix A.5) (CIDA, 2007). Below is an excerpt of a transcript with Gilda Odera, co-founder of Skyweb-Evans, a joint venture between her (Kenya) and Ronald Evans (Canada):

> Gilda: When we started, Ron Evans got a grant from CIDA Canada for training. So what we did was, we took 4 people to Canada for over a month, to be trained by our clients. And then, our clients, part of that grant was to bring people to Kenya to continue with us. So our people went there, got a feel of what a call center is, what it is with dialing and doing everything, and the management and the supervisor level and everything. Then when they came back, and we started dialing, our clients used to send somebody here to live here for 1 month, managing our center.
>
> And after 1 month, the person will go back and a different one comes to manage. That happened for 3 months, because the grant was for 3 months for them to come and then run our center and continue training our managers and our supervisors.

More recently, Direct Channel Simbatech Kenya (a subsidiary of South Africa-based Direct Channel Holdings) reportedly received a World Bank grant for call center training.[13] These public goods investments have been instrumental in positioning the sector, particularly in Kenya, with the training and infrastructure needed to compete.

[13] According to interview with Suleman Shaik, Direct Channel Holdings CEO.

3.5.2 Events and Information Sharing

Through conferences and reports, international actors share the message of offshoring as a developmental process. In some cases, these activities have indirectly led to firm formation. Mugure Mugo is commonly regarded as the first BPO-related company in Kenya. She owned another e-services business in the last 1990's and was inspired to start a new BPO company based on attending a UN conference in Nairobi.

> Bob Bell: I think it was the end of 2001 when you went to a UN conference here in Nairobi. . . I think it was the International Trade Centre and that was where you learned about opportunities in terms of technology in developing countries, diversifying into other economic opportunities.
>
> Mugure Mugo: That's right, I had been invited to make a presentation. I was in the business of e-Commerce. I was developing websites and that was something pretty new in Kenya so I was invited to speak on that. And what happened is when I was there this team from Geneva had come with some publications that they wanted to leave us reading and though they had not come to speak to us really about outsourcing, that's one of the publications they had. And I just happened to see it on the table so I took it home with me and I read it and I became very interested because the web development business was not doing well. It was new and a lot of Kenyans were not on the internet so I wanted to know what we could do with our skills to improve our business. So that's how I started. Yes, my first business was called "E Business Solutions." It was E-Commerce development. So I formed [Preciss, the BPO company] in 2002 April. And registered in, I think, June. I got my first client in August.

It can be argued counterfactually that Kenya's founding BPO firm would not have started without the UN brochure she encountered.

3.5.3 Value Proposition and Strategy

International organizations have either funded or directly been involved in assisting regions with sector strategies, studies, and reports. The Kenya ICT Board also commissioned McKinsey & Company to develop a value proposition and go-to-market strategy for the sector January through March of 2009. This process was funded by the Rockefeller Foundation and resulted in 14 recommendations to help the sector build capacity and attract foreign direct investment. The foundation also sponsored the Kenya ICT Board's launch of the study findings at the Rockefeller Bellagio Center in Italy in 2011 (Kariuki, 2010). Around the same time (June 2008-July 2009), the Canadian International Development and Research Centre (IDRC) sponsored a study in conjunction with the University of Nairobi to understand the critical success factors driving Kenya's nascent BPO sector (Waema, 2009). The report specifically focused on policy, legal, regulatory and institutional frameworks, human resource issues, youth and gender, incentives, and Kenya's niche in global

offshoring. InfoDev, UKaid,[14] and HIVOs financially supported a report on the emerging ICT landscape in East Africa (Firm, 2010). The report concluded that mid-market entrepreneurs face key barriers with management, organization, access to capital, and access to markets (Firm, 2010). Another Infodev report, focusing on the challenges and opportunities for Kenyan entrepreneurs, proposed innovative financing options for firms in the BPO and ICT sectors (Zavatta et al., 2008). McKinsey & Company developed a Location Readiness Index (LRI) as a tool for the World Bank and Infodev to advise countries on their IT/ITES strengths and weaknesses. In a report that discusses the index methodology, it includes a section applying the LRI model to Kenya (Sudan et al., 2010).[15] Several World Bank reports have covered Kenya's prospects for services exports and FDI competitiveness, with specific references to call centers and shared services (Dihel et al., 2011; Export Promotion Council and World Bank, 2009; Government of Kenya and Export Promotion Council, 2008; World Bank Group and MIGA, 2007; TMG, 2008). These reports and processes helped to develop a knowledge base on which the Kenyan sector could take action.

3.6 Social Enterprise

Social enterprise - in addition to local entrepreneurs, the state, diaspora, and multilateral agencies - also came to support the growth of BPO in Kenya. During the 2000's, BPO was recognized as an opportunity for doing social enterprise. Based on the success of India, and to a smaller extent the Philippines, the international community has considered the potential of offshoring as a catalyst for economic development. With India employing approximately 1.98 million people (direct employment as of 2011)[16] in its combined software and business process outsourcing sectors, international actors have pondered whether what happened there could take place in other developing countries faced with significant (youth) unemployment (Singh, 2012).

3.6.1 Rockefeller Foundation and "Impact Sourcing"

Rockefeller Foundation, like the multilateral agencies, has been a vocal actor in characterizing the developmental aspects of offshoring. At a broad level, Rockefeller promotes "Smart Globalization": "connecting individuals, institutions, and communities with tools and techniques, ideas and innovations to build better futures" (Rockefeller Foundation, 2008; Jhirad et al., 2009, p. 11). Within this framework, the foundation has contributed to the discussion on BPO for development through the concept of impact sourcing which "employs people at the base of the pyramid, with limited opportunity for sustainable employment, as principal workers in business process outsourcing centers to provide high-quality, information-based services to domestic and international clients" (Monitor Inclusive Markets, 2011, p. 2). This is similar to "social outsourcing" framed by Heeks and Arun (2010) as a midpoint between "workfare outsourcing" (pro-poor employment

[14] UKaid is another name for the UK Department for International Development: www.dfid.gov.uk.

[15] See Appendix B of World Bank Report

[16] Indirect employment is 7.5 million. Philippines direct IT-BPO employment was 640,000 in 2011, with indirect employment amounting to 1.3 million.

schemes focused on public works projects) and "commercial outsourcing" with competitive, commercial contracting. The former is developmental while the latter is neo-liberal. The middle ground allows marginalized communities (though not the most excluded or poor) access to "new assets: new skills, new income, new physical assets and new contacts" (Heeks and Arun, 2010, p. 453).

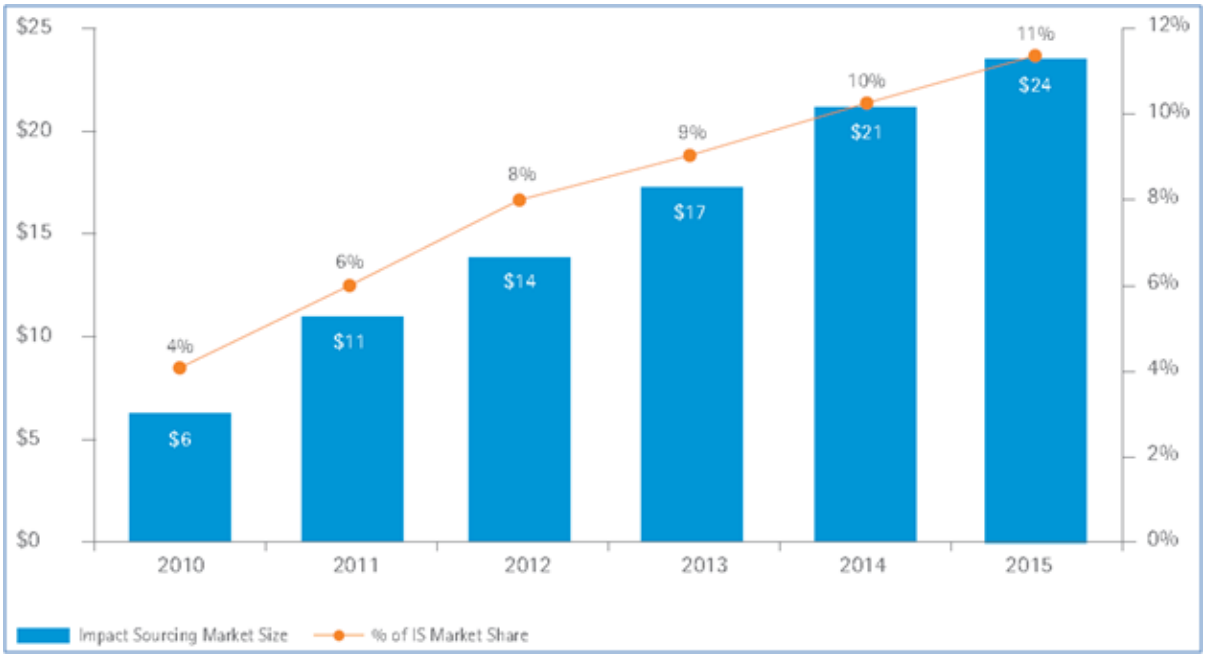
Impact sourcing focuses on the individual employed. If this person comes from an underprivileged background, economically, academically, or professionally, then this person's BPO employment is framed as "impact sourcing." By several accounts, this includes both BPO firms that expressly employ youth with the intent of social impact and those that do not. This accounting frame enables Rockefeller and its affiliated partners to estimate the employment and market figures for a phenomenon that has only recently been constructed (see Figure 3.6). The tasks typically associated with impact sourcing include low-end work processes, including content editing, transcription, and data management. Tasks from a client, typically in OECD countries, are broken into smaller tasks called "micro-work," requiring relatively little skill. Impact sourcing leverages the Bottom of the Pyramid (BoP) framework.[17] Instead of focusing on how multinational firms can sell to this previously ignored consumer segment, it views them as an extension of globalized business processes. Thus, poor youth in Nairobi are not just an undiscovered consumer but potential contract workers for these MNC's as well.

Kenya has been the largest geographic recipient for Rockefeller's PRIDE program (see Appendix A.6).[18] There are several potential reasons for Kenya being the focus for a large part of Rockefeller's work. Rockefeller has had a presence in Kenya since the middle of the 20th century. In fact, Rockefeller Foundation runs its Africa program from its Nairobi office. In this office, its former Associate Director was a previous consultant for McKinsey and Company. He was on the team that developed Vision 2030, which included a focus on BPO as a chief economic sector. Following his work at McKinsey, he joined with Rockefeller Foundation in Nairobi and convinced the foundation leadership of the role this program could play for the foundation and in development. As a result, Rockefeller sponsored the development of Kenya's Value proposition (which is funded by McKinsey and Company) as well as forums on offshoring and shared services (including brochures and documents). For example, Rockefeller Foundation financed the conference on "Optimising Service Delivery through Shared Services" which convened in June 2009 (see Appendix A.7). Rockefeller's rationale for the conference was twofold: first to educate the local NGO and development community on outsourcing and secondarily to introduce those organizations to Kenya's BPO service providers. This conference arose as both an opportunity to service the global development sector (which is highly represented in the surrounding Nairobi area) as well as help Kenyan BPO operators who faced significant challenges accessing international markets. Their latest (2013) announcement is a 97 million USD grant to stimulate employment in Africa through BPO.

[17] This was popularized by C.K. Prahalad at the University of Michigan's Business School

[18] PRIDE stands for Poverty Reduction through Information and Digital Employment.

Figure 3.6: Global Impact Sourcing Market Size, 2010-2015 ($B)



Source: Bulloch and Long (2012, p. 19)

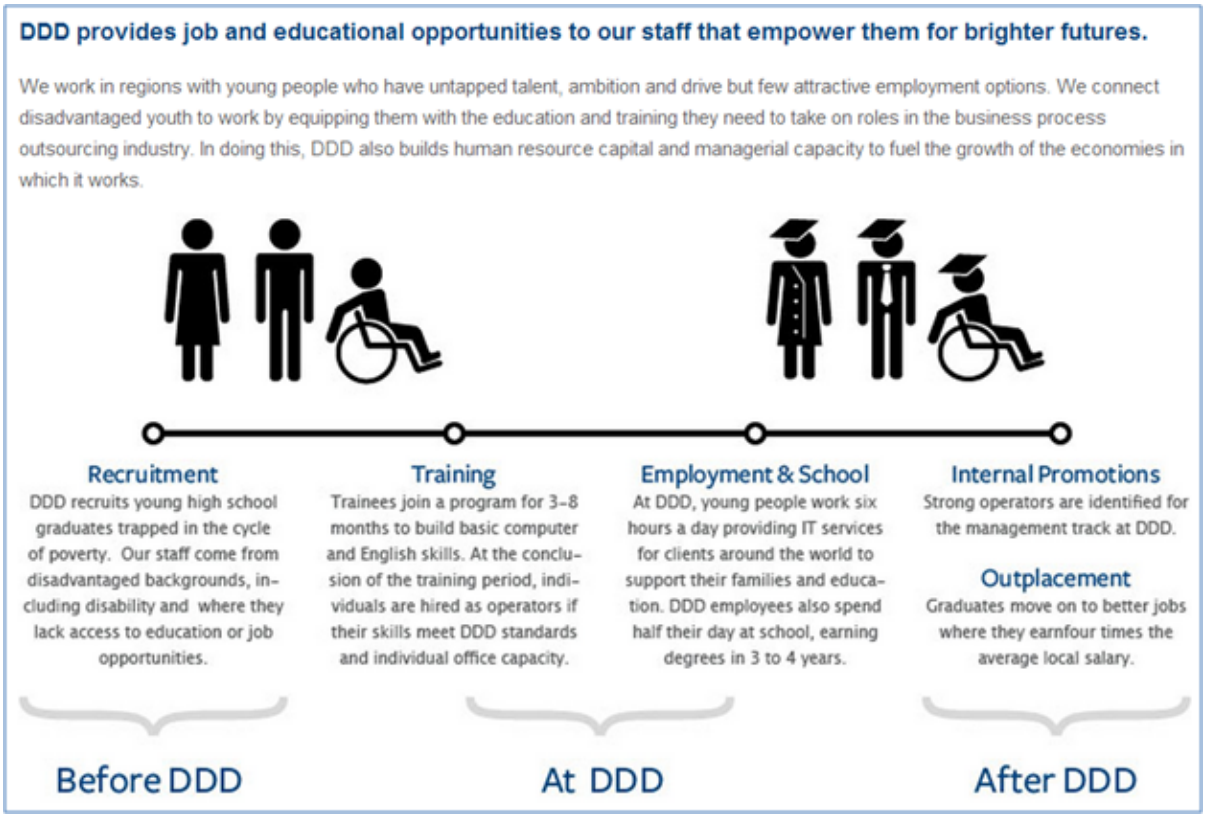
3.6.2 Social Enterprises - Samasource and Digital Divide Data-Kenya

Rockefeller's funding supports several "impact sourcing" firms that assist Kenyan small and medium enterprises to access global markets or directly employ marginalized Kenyan workers. The PRIDE program supports Samasource, a San Francisco-based social enterprise founded by Leila Janah that employs youth and marginalized communities with micro-work.[19] As a student at Harvard, for Janah "...it became clear to her that while trade was good for developing countries at the macro-level, the benefits didn't necessarily flow to poor people at the bottom of the pyramid" (Gino and Staats, 2012, p. 2). Inspired by Henry Ford's assembly line, Samasource developed proprietary technology to split up tasks, delivering them to service providers across the world (Hegarty, 2011). Sitting in the supply chain between customers and service providers, Samasource works with selected partners in developing countries that are "locally owned, in a low-income region, and that ideally had a social mission..." (Gino and Staats, 2012, p. 4). By marketing and branding "fair trade" services, they have a mission to ensure that low-income Kenyan workers benefit from the global sourcing market. The Samasource model is different not only in its social mission but also in its level of engagement as an intermediary (See Appendix A.8). Not only is

[19] Sama meaning "equal" in Sanskrit.

there the pre-contractual engagement (like the sales, consulting, and diaspora models) where vendors and clients are matched, but Samasource is involved post-contract (managing the offshoring relationship), intermediates cultural distance, and intermediates cognitive distance (sets system requirements, budget timeframes, technical language, etc.) (Mahnke et al., 2008).

Figure 3.7: Digital Divide Data Model



Source: http://www.digitaldividedata.org/impact/

The company's field operations are located in Nairobi, Kenya, where many of its service provider partners are located. Nairobi hosts its SamaLab (funded by the Ford Foundation), a test center for evaluating processes, recruiting, and payment methods that can be franchised out to entrepreneurs. According to its press kit, Samasource paid 2 million USD to over 3,000 agents in nine countries.[20] Long-term, they desire to fund operations completely from sales instead of with donor support.

[20]Press kit available at: www.samasource.org. In fact, one of the biggest contracts in the sector was when Samasource brokered a deal with TechnoBrain BPO for six months at a value of 22.5 million KSh.

Rockefeller also supports Digital Divide Data Kenya (DDD Kenya), an initiative launched by Amolo Ng'weno combining social mission with outsourcing. Amolo Ng'weno is originally from Kenya and co-founded Africa Online - the first East African ISP - in the 1990's while studying as an undergraduate student at Harvard University. The initial aim was to train 300 youth from Nairobi's slums in the mornings, allowing for afternoon and evening tertiary education. This firm is part of a larger Digital Divide Data footprint reaching into Cambodia and Laos and founded by Jeremy Hockenstein in 2001. Though it is similar to Samasource in the target groups it employs as well as the low-end data entry services, it extends training beyond the immediate work tasks into more long-term academic learning and professional outplacement (see Figure 3.7). DDD as a whole claims that it has trained more than 2,000 people, employed over 700 staff, and graduated more than 400 staff into better employment opportunities. Digital Divide Data (DDD) established a subsidiary in Kenya in 2011 for "impact sourcing." Its mission is similar to Samasource, though it is different in that it creates its own BPO facility for workers instead of coordinating with existing SME's.

3.6.3 Kenya's Political Economy and the Development Sector

Social enterprise is part of a larger phenomenon in Kenya where philanthropic organizations are well embedded in Kenya's political economy. The growth of the aid and development sector within Kenya has grown considerably since the 1980's for a number of reasons. First, as Kenya and other African countries implemented the World Bank Structural Adjustment Programs in the 1980's and 1990's, the multilateral and bilateral donors became increasingly important in the policy formulation process. When Kenya faced an economic crisis in the latter half of the 1990's, this dependence on donor support was strengthened (Ikiara et al., 2004, p. 210). Second, increasing government corruption and political repression prompted donor institutions to avoid government entities and collaborate with local and international NGOs (Wilson III and Wong, 2005, p. 74). As a result, the number of NGOs in Kenya grew rapidly from 125 in 1974 to over 4,200 in 2006 (Brass, 2012b, p. 387).[21] And the majority of NGO's are internationally funded. By 2005, approximately 91% of all NGO funding emanated from international sources. According to Jennifer Brass, "To obtain this international funding, NGOs have opened the country to the 'do-gooder,' participatory ethos of the international donor community." (Brass, 2012a, p. 210).

Kenya's existing connections to the international aid sector have framed the assistance opportunities it has received thus far. As a result, the emergence, growth, and clustering of BPO firms in Kenya are tied to the developmental and social entrepreneurship ethos of "impact sourcing." It is no surprise that the first BPO firm Preciss in the country was conceived at a United Nations conference and received export assistance from the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO). The country's first foreign investment is with Digital Divide Data Kenya, a social enterprise. And the overwhelmingly majority of Rockefeller Foundation's PRIDE funding has gone to Kenya. These global linkages that help Kenya construct its image, create its market, build its infrastructure are also the kinds of links

[21] This is based on figures from the Republic of Kenya NGO Coordination Board. NGO Database. December 2006.

that could potentially define and shape what the region will look like - a place to send work for aid. These global connections frame the types of opportunities available to the country and reinforce a "social" niche within global services. Kenya as an "impact sourcing" nation is a confluence of the promises of "new" services offshoring along with Kenya's historic position as an aid recipient country.

3.7 Conflicts over "Development"

Each of the aforementioned actors has achieved relative success in attracting BPO trade and investments to Nairobi. However, these actors have their own visions of what "development" means that influences their strategies. These "developmental" aspirations sometimes conflict and potentially lead to fragmented - if not thwarted - efforts in making Nairobi a preferred location for IT-enabled services. My first exposure to the conflicts within the sector were apparent in a 2011 email exchange on the Kenya ICT Action Network (KICTANet):[22]

> On Tue, Jun 21, 2011 at 4:34 PM, Person A wrote:
>
> First, they called is [it] Social Entrepreneurship, Then impact Investing ... now its Impact Sourcing
>
> On 21 June 2011 17:22, Person B wrote:
>
> How did Samasource help BPOs get started? I don't remember Nik Nesbitt from KenCall, for example, talking about Samasource (but maybe I wasn't paying enough attention). I do remember Nik Nesbitt and a number of others talking about perception issues: that Kenya is not seen as a BPO market internationally, it's not on anyone's radar screen, the operations are still too small to carry weight, etc. I very much doubt that an NGO-type outfit like Samasource, with people in refugee camps, does much to create a perception of Kenya as a punchy, professional, grown-up BPO player.
>
> On June 23, 2011 at 1:07 pm (in response to other posts)
>
> From: A
>
> I'm a writer/analyst/professional nosy person, so I'm always interested in facts. But there are way more interesting stories out there than I could conceivably tackle, so I'm going to concentrate on the proper business and country risk stories, and ignore the fluffy heart-warming ones. I really think that all this well-intentioned 'social business' is incredibly bad PR for Kenya and Africa: because it's a cute, heartwarming story, it gets more popular (i.e. non-specialist) attention than a completely standard boardroom story, but it actually misrepresents what business in Kenya is.

[22] All messages on KICTANET are archived and freely accessible on the internet. A simple web engine search with relevant key terms will produce the message. Though I anonymized the names, I take its public availability as the freedom to re-produce relevant email excerpts.

> Capacity is one thing, and I'm sure there are several dimensions to it (technical, number of seats, education levels, etc). Perception also matters: I remember Nik mentioning that in the beginning, it was just really difficult to get on the radar screen of bigger outsourcing clients. But my more general point is as above: There are so many plain-vanilla business issues to this that I've got enough to research and write about if I want.
>
> And I think there's nothing wrong with employing middle class - or nascent middle class: There were some interesting stats on what middle class actually means in Africa (interesting column material as well Employing middle class doesn't take anything away from anyone - it's employment, people pay taxes, and at least in Kenya, anyone middle class in employment has probably a number of family members that s/he helps looking after. I see the point that more employment everywhere is desperately needed. I do wonder, however, whether it makes sense to use a subsidised business model (which then isn't really a business, and its growth will depend on donations or 'sponsorship') is the best way of reaching these people. Maybe outsourcing just isn't the answer to marginalised youth unemployment?
>
> Happy day everyone,
>
> Person B

These comments reflect the (confidential) sentiments of other members of the Kenyan BPO sector (as expressed with me in private). Some Kenyan business leaders think that "impact sourcing" misrepresents instead of reflects what is possible for its nascent sector. Aid-driven initiatives could result in their country being branded as an aid - instead of trade - location. Though only time can confirm whether any of these assumptions will become reality, this conversation compelled me to analyze the varying notions of development that repulsed some members of the BPO sector.

Kenya's developmentalist ideology involving BPO is focused on the alleviation of unemployment as well as economic growth. What we find in this case is that the developmentalist ideology of the State and other actors focused on regional competitiveness is not the same as the ideology of "impact sourcing." "Impact sourcing" and social entrepreneurship is focused (almost exclusively) on "social policy" while neglecting or ignoring the "transformative" potential of BPO to enhance overall economic growth. The focus on "social policy" is centered on job creation for the most vulnerable in Kenya's population, esp. slum dwellers, women, refugees, etc.

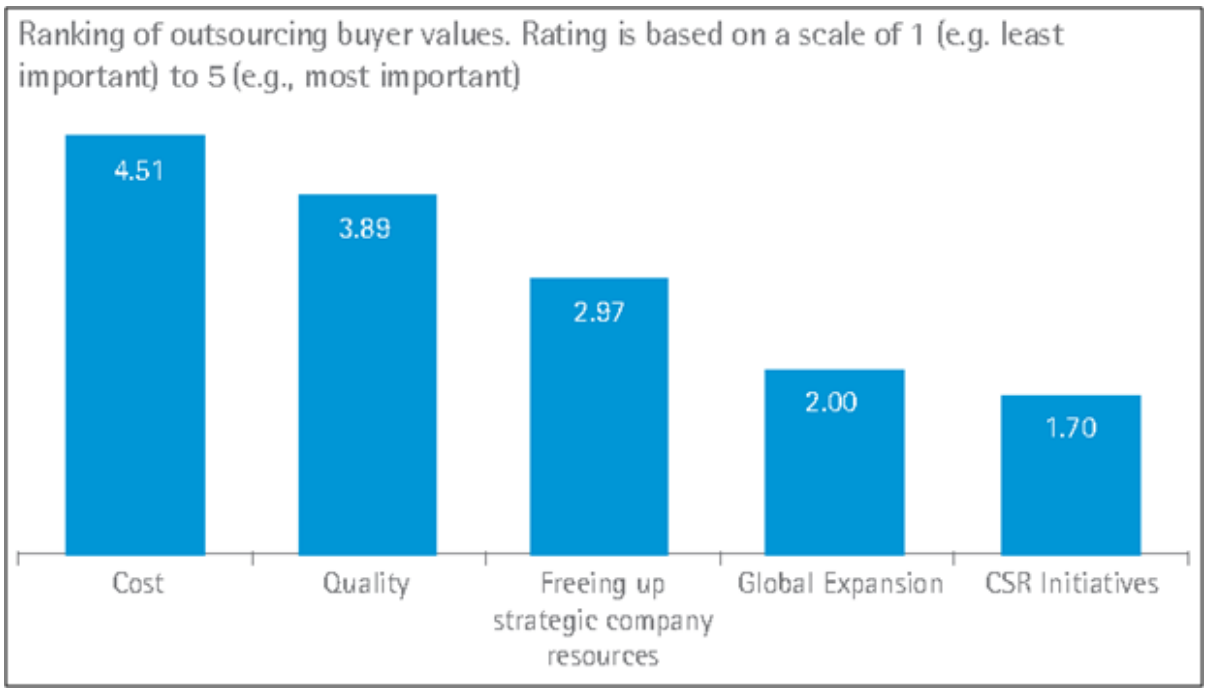
> In most countries, there are many other bodies, agencies, ministries, special interest groups, non-governmental organizations (NGOs) and companies all promoting their version of the country too. Since most of these bodies, official and unofficial, national and regional, political and commercial, are usually working in isolation, they send out conflicting and even contradictory messages about the country. As a result, no consistent picture of the country emerges, and its overall reputation stands still or moves backwards (Anholt, 2007, pp. 2-3).

Social entrepreneurship contradicts with the developmentalist ideology of the State and local capital who frame "social policy" more broadly as the provision of infrastructure, training (through State-sponsored educational institutions), and overall employment generation. The differences in different developmental ideologies in marketing imagery (from both social enterprise and the State) can have implications for both sets of actors.

3.7.1 Development as Regional Competitiveness

Corporate investors and clients choose IT-enabled services locations based on a set of factors akin to that of foreign direct investment. The locational decision factors that influence trade and investment flows in IT-enabled services are based primarily on cost and quality. The standard FDI framework encompasses general economic environment, policies, and business facilitation (UNCTAD, 2011, p. 144). A number of consulting firms have developed benchmarking standards assessing the attractiveness of global locations for IT-enabled services. Key factors shared by these studies include "...availability of employable skills (including IT skills), competitive costs, quality of public infrastructure relevant to the IT services and ITES industries, and an overall environment that is conducive to business" (Sudan et al., 2010, p. 11).

Figure 3.8: Outsourcing Buyer Values



Source: Accenture Analysis, Impact Sourcing Feasibility Survey, 2012 as cited in Bulloch and Long (2012, p. 19)

Though BPO engagement with Kenya could be framed as "social impact," potential investors and clients rarely make locational decisions based on development outcomes. Given that corporate investors are inundated with cost and quality issues, they rarely privilege investments for corporate social responsibility or social impact. The only factors that consistently influence locational decisions are related to the outsourcing work itself - namely price and quality of service delivered. Based on a survey conducted by Accenture Development partnerships, cost and quality are the most important concerns for clients in outsourcing (see Figure 3.8).[23] All other initiatives, including those involving corporate social responsibility (CSR) and global expansion, are secondary to these (Bulloch and Long, 2012, pp. 12, 20).[24]

As a business service provider, Kenya has low brand equity from an international perspective. Kenya's government has historically been perceived as unstable and having high levels of corruption (Dihel et al., 2011, p. 8; Brass, 2012a, p. 211; Waema, 2009, p. 61).[25] The country is viewed as a place with challenged infrastructure, poor work culture, filled with ethnic conflict, and having a less than desirable socio-economic environment (Waema, 2009, p. 6). At a workshop launching a report on the BPO sector (2009), a member of the BPO industry and the study team mentioned:

> Africa is viewed as challenged. There's a lot of negative perception of Africa and they see us having poor work culture, poor work ethic and those are the facts that's how they see us - a lot of governance issues and the socio-economic situation. However we noted that people who have been to Africa have a totally different opinion. Most of the executives in the US and the UK have this perception based on what they've seen on CNN or BBC or in the news. But those who have been here it's totally different.

This representative is referring to something recently confirmed in the 2012 *Ernst and Young Africa Attractiveness Survey*. The report cited that there is a perception gap between investors who do business on the continent and those who are not yet involved. By the latter group, Africa is viewed as the least attractive region in the world, citing issues of security, political instability, and corruption (Ernst & Young, 2012, pp. 3, 10). This perception gap and the overall negative perception of Africa (including Kenya) are quite old. American media, in particular, tends to offer a consistently negative perception of the African continent. In one analysis conducted in the 1990's, 73 per cent of *New York Times* articles from 1955 to 1995 provided "negative images of the African politics and society" (see Table 3.1) (Schraeder and Endless, 1998, p. 32). This perception is what the developmental state seeks to remake in its initiative to attract overseas investment in BPO.

To induce investors to trade with and invest in a region with negative foreign perception, the developmental state remakes its image through industrial policy and investment promotion. Because

[23]Accenture Development Partnerships surveyed 322 Accenture executives (across 29 countries and all industry verticals) about Impact Sourcing during February 2012.

[24]Survey conducted February 2012 with Accenture's client account teams with 322 responses across 29 countries and covering all industry verticals. Interestingly, when these companies were asked whether they would pursue Impact Sourcing in countries supported by Rockefeller's PRIDE program (Kenya, Ghana, Nigeria, and rural India), 48 percent indicated interest.

[25]Transparency International. 2010. Global Corruption Barometer 2010. Berlin: Transparency International. . 2011. Corruption Perceptions Index. (January 31, 2011).

of the requirements of multinationals to assure cost and quality and Kenya's perceived (and/or real) gap in meeting these requirements, the developmental state must market to international firms to assuage their fears and concerns about the cost and quality of doing work in Kenya. Developmental state creates a set of images that make the region indistinguishable from other regions these companies are likely to trade or invest with. The images show that Kenya can be a "global location" with all the cost and quality advantages of other regions it competes with. The developmental state - through locational policy - aims to make the location more attractive for prospective entrepreneurs and external investors through investments in real estate, infrastructure, and effective communication between the public and private sectors (Meyer-Stamer, 2004, p. 326). The developmental state is involved in "Aggressively developing, promoting and enhancing Kenya's image as a competitive regional destination for ICT foreign direct investment (FDI)" (Waema, 2009, p. 32). One project that exemplifies the State's remaking of Kenya is the Konza Technology Park (see Figure 3.9). The Konza project is an example of how the developmental state is recreating the image of the country as an attractive location for IT-enabled services.

Table 3.1: Positive/Negative Images of Africa - 1955-1995 (Percentage of Total Coverage)

Image	**1955**	**1960**	**1965**	**1970**	**1975**	**1980**	**1985**	**1990**	**1995**	**Ave.**
POS	33	31	21	28	32	34	8	43	15	27
NEG	67	69	79	72	68	66	92	57	85	73
Total	100	100	100	100	100	100	100	100	100	100
% of articles	72	53	63	59	49	74	63	68	73	62

Source: Schraeder and Endless (1998, p. 32)

At the East African Community Investment Conference (2009), the former Permanent Secretary for the Ministry of Information and Communications said, "The other day I got somebody from India, who said when in the late 90s, they went to America to talk about Software Development; someone said, 'can I be candid enough?' And [I] said yes, 'what would snake charmers know about software?' And a few years later India emerges as one of the leading software developers... software providers in the world." For him, the state project is as much image re-creation and management as it is fostering competitiveness. In fact, India's repositioning in ICT had broader implications not only for BPO but also other export sectors like steel, pharmaceuticals, automobiles, and apparel (Suri, 2007, p. 171). As a commentator remarked, "More importantly, [the IT sector's] impact was psychological. It signaled to the world that India was much more than its old historical stereotypes. It suddenly . . . made the world think that every Indian was smart and could fix their computers. That helped entrepreneurs in India from all industry segments because it gave them a more receptive environment in which to do business" (Sudan et al., 2010, p. 11).[26]

[26]This excerpt is drawn from Masani, Zareer. 2008. "India Still Asia's Reluctant Tiger." BBC Radio 4, London.

3.7.2 Development as Pro-Poor Social Entrepreneurship

While the developmental state seeks to attract BPO based on a new image of the country, social enterprise attracts work based on a familiar images of poverty. Though social enterprise updates its developmental efforts through BPO, it does not update its imagery and marketing which are firmly rooted in depictions of poverty. Unlike corporate investment, social enterprise moves based on the needs of the region rather than its endowments and comparative advantage.

Aid agencies have done charity work in Africa by using compelling imagery (focusing on Africa's poverty) to appeal for such philanthropy. A marketing video for Samasource chronicles Martha - a call center agent - who was abandoned by her mom and abused by her drunken uncle (see Figure 3.10). When Martha from Kibera slum gets a call center job, she says to herself "You're gonna work before the computer. And I've never done that before also." At the end of the video Martha says, "Thanks to Samasource. They found us, the less fortunate. They were my angels. They rescued me from the tough life that I had." This video highlights computer illiteracy, poverty, and lack of infrastructure.

Digital Divide Data has similar marketing on its website (See Appendix A.9). In one vignette, it describes: "Criminal activity runs rampant and Nairobi police rarely venture into the area... As a young woman of 23, Emmeldah recognizes the dangers of living in one of the worst slums in Africa. 'The place is full of illegal activities like the selling of illegal drugs and the brewing of *changaa*. Stabbing passers-by, burning houses, and robbery with violence is common here,' she relates." The story continues: "A short distance from Nairobi's bustling urban center lies the Mathare Valley, one of the oldest and worst slum areas in the Kenyan capital. Levels of poverty here are extreme. A family of 8 typically lives in a 6-by-8 foot space with no electricity, running water or sanitation system." After this hopeless description, the workers find hope in digital work provided by this social enterprise.

This imagery is linked to the logic of social enterprise and international aid. It is similar to tactics in the fair trade industry. In a study of coffee fair trade, Brown mentions the importance of telling stories that connect American consumers to coffee farmers:

> I later learned that those who travel to live with coffee farmers tend to return home telling similarly tragic stories. These travelers do not talk about extravagant vacations and luxurious accommodations. They describe the poor living conditions they experienced during their visits to the *campo* (countryside). They talk about the lack of electricity, the slow pace of life, the ever-present poverty, and the impact of war. With time, I came to realize the importance of these stories. Through the telling and retelling of these experiences, individuals feel part of the fair-trade movement and become increasingly motivated to seek out ethical products (Brown, 2013, pp. 55-56).

Brown shows that those in the industry believe that the demand for fair trade is positively associated with the depravity of the stories told. One store manager of a fair trade coffee shop said to her employees and volunteers "... the better stories we can tell, the more products we can sell - and, most important, the more people's lives 'we' can improve" (Brown, 2013, p. 67).

Figure 3.9: Konza Tech City

Source: http://www.konzacity.co.ke

Like the coffee farmers, Samasource and Digital Divide Data create narratives that "... emphasize the gender or ethnicity of the producing group" and demonstrate "how men and women with 'little education' use their talents and expertise to produce..." (Brown, 2013, p. 112). In short, "Fair

traders need to frame workers as impoverished, exotic, and needy to compel customers to support their cause" (Brown, 2013, p. 113). Exoticizing workers in developing countries is a market strategy. Its purpose is to imbue the product or service with value beyond traditional price and quality factors.

Figure 3.10: Samasource Video

Source: Samasource Youtube Channel: http://youtu.be/s9nVNrV5jS8

I argue tentatively that such images facilitate trade, but a particular kind of trade that is focused first of all on aid and social impact. Marketing a region to the global market versus selling the work of refugees to US corporations takes place under different premises and units of analysis. Investment promotion agencies largely position themselves as regions with comparable capabilities and vast economic opportunities. Impact sourcing focuses not on the region but the individual, and the images often center on the lack of capabilities (e.g., computer illiteracy) and opportunities (e.g., unemployment).

3.7.3 Points of Divergence between Regional Competitiveness and Pro-poor Social Enterprise

The logic of the developmental state is based on competitiveness while social enterprise operates based on the concept of marginality. Competitiveness is the way that regions show that they can provide cost and quality needed by multinationals. Conversely, social enterprises show images of

marginality to ensure that its stakeholders are assured of the maximum social impact. The logics underlying these actors differ in a number of ways. First, there is a dichotomy between similarity vs. otherness. Competitiveness is based on the idea of "institutional isomorphism" - where regions replicate others, making it possible for capital to move from place to place in an ideally frictionless way (DiMaggio and Powell, 1983). In Anholt's book on nation branding, he notes:

> Most 'nation branding' films I've seen are simply strings of library shots of the country's most impressive buildings, beaches and landscapes, interspersed with shots of smiling families, aeroplanes taking off (look! we have airports!), chemists in white coats looking at blue fluids in glass beakers (look! we do science!), and trails of red tail-lights stretching along night-time freeways (look! We have cars!), set to pompous and triumphal music tracks with just a hint of something ethnic, in order to create the correct impression of respect for ancient traditions co-existing with a dynamic and thrusting modernity. It is remarkable what a great job these films do of making very different countries look virtually identical, and it's hard to believe that they achieve anything else at all, except of course for enabling the department that commissions them to prove that it has actually spent its promotional budget and not handed it out to friends and family. (Anholt, 2010, p. 87)

Nation-branding campaigns make different countries look similar, and Kenya's marketing campaigns as well as the Konza project Nairobi as a technological hub not too different than other global locations. Otherness is the draw for social enterprise, where the reason for capital/trade flows is because the workers and their decrepit environments are so different.

Second, their images center on different historical or imagined periods of Kenya: the past, timeless Africa as well as the future Africa that has yet to be seen (Vision 2030). The well-meaning marketing of "impact sourcing" reinforces popular Afro-pessimist images. Victoria Schorr defines "Afro-Pessimism" as the "...perception that 'Africa' has always been and will continue to be a scary, backward and poverty-ridden place..." (Schorr, 2011, p. 23). Key elements of Afro-Pessimism include homogeneity ('Africa' as a country instead of a continent); colonial mythos as the 'Dark Continent' (Africans as promiscuous, backward and superstitious); illness and disease (esp. emphasized by HIV/AIDS epidemic); a place of starvation; "Africa as National Geographic"; violent tribal conflict; and African Big Man and political instability (civil war and corruption); and poverty (Schorr, 2011, pp. 28-32). This is similar to what Dambisa Moyo refers to as the "Four Horsemen of Africa's Apocalypse": war, disease, corruption, poverty (Moyo, 2009). Both Schorr and Moyo contend that such images detract prospects for foreign direct investment. I argue that these constructs fix Kenya - and other developing countries - in time. Conversely, the developmental state through projects like Konza promise a region that is unlike what most people currently think of Kenya.

Third, the developmental state seeks to minimize the (social) distance between Kenya and other nations in BPO/ITES (globally) while social enterprise seeks to minimize social distance between individuals in society. Both are interested in the mitigation of inequalities through technology, but in different geographical units of space. Social enterprise focuses on the local while the devel-

opmental state focuses on the global. Social enterprise wants to make digital employment more inclusive for marginalized individuals within the country. Developmental state seeks to facilitate the marginal region's inclusion within the global informational industry. This is further demonstrated in how both sets of stakeholders talk about the "middle": moving the poor into the "middle class" vs. catapulting Kenya into a "middle income economy." Social enterprise seeks to help unemployed youth become a part of the middle class (in their countries) with digital jobs. Kenya's Vision 2030 is to facilitate technological catch-up, making the country a middle-income economy by the year 2030. Castells contends that "...the process of social exclusion in the network society concerns both people and territories. So that, under certain conditions, entire countries, regions, cities, and neighborhoods become excluded, embracing in this exclusion most, or all, of their populations" (Castells, 2000, p. 72). The developmental state and social enterprise focus on how regions and marginalized individuals can overcome this process of exclusion within informational capitalism, respectively.

3.8 Conclusion: Development as Driver of IT-Enabled Services and Contested Terrain

3.8.1 Transnational Connections as Drivers of IT-Enabled Services Trade and Investment

Markets are created through a set of social relations and then engaged in more rational ways after that market is established. With nascent sectors, their ability to interface with key decision-makers abroad is critical in garnering investment and business opportunities for a market that has yet to be created. Before regions are globally established as sourcing locations, someone must make the initial investments as well as send business to these regions waiting to be proven. As this process continues, the location becomes recognized, market data is generated on the sector, and decision-makers abroad can use more traditional "economic" indicators for evaluating locations. Earliest investments, joint ventures (JVs), and business opportunities in Kenyan services offshoring were a product, in part, of transnational social relations facilitated through local entrepreneurs, the State, diaspora, multilateral agencies, and social enterprises. Without these social relations, it is difficult to imagine these business arrangements materializing. Because some of the connections are established for reasons others than or in spite of factor endowments (e.g., desire to contribute to job creation in Kenya), the arguments laid out here critique the spread of services globalization in pure economic terms. I do not doubt that the economic logic operates, but it is doubtful that this logic kick-starts the process of creating new sectors. It is in the spirit of Granovetter that I draw attention to the networks of inter-personal relations that link the emerging clusters with overseas firms, attempting to avoid both under-socialized and over-socialized explanations of how firms become part of services global production networks (Granovetter, 1985).

3.8.2 Development as Contested Terrain

Kenya promoted BPO as an opportunity to alleviate unemployment. It has been argued that employment generation is a pro-poor strategy of the African developmental state (Khan, 2012). Kenya's ICT Board and the Ministry of ICT took roles similar to that of bureaucratic agencies in other developmental states. What makes this case distinct is that, unlike its East Asian counterparts, the institutional landscape in Kenya (and other African states) has an overwhelming foreign aid presence (Mkandawire, 2012, p. 99). Thus, in this case, multiple embedded autonomies of the state not only involve local capital, international capital, local and transnational communities, and civil society, but also multilateral agencies, foundations, and social enterprises. These foreign actors have their own developmental ideologies that intersect with as well as diverge from the developmentalism of the state. The developmentalism of the state is focused on economic growth with respect to key sectors, employment generation, training, and infrastructure provision. As such, the developmental state portrays itself globally as an attractive location for informational industry. The foreign aid sector echoes the need for employment generation but accentuates it with additional criteria on the type of people who are employable. Their focus on creating jobs for the most marginalized is to mitigate the socio-economic inequality germane to employment within the informational industry. However, the foreign aid sector's insistence on employability of a particular form leads to marketing materials that potentially perpetuate images of marginality. These images of marginality conflict with the "attractive" images the developmental state reproduces as part of its nation-branding and investment promotion activities.

Social Enterprise for Development?

A focus on social impact may potentially negatively affect IT-enabled services trade and investment. Some experts have indicated that BPO operations in rural locations or with low-skilled employees could be an obstacle in convincing potential clients these operations can handle their work (Monitor Inclusive Markets, 2011, p. 28). Narratives about slum dwellers and refugees as BPO workers perpetuate a narrative of Kenya's labor force as uneducated. This is a challenge for IT-enabled services which - as compared with ICT manufacturing - requires certain language, ICT, and other related skills for employment (UNCTAD, 2010, p. 51). A focus on under-educated individuals can undermine the value proposition of cost and quality to the global market. Without minimum educational standards, BPO services from Kenya will likely compromise quality, increase costs through the provision of training to mitigate the skills gap, and heighten the risk for the corporate investor (Bulloch and Long, 2012, p. 48; Monitor Inclusive Markets, 2011, pp. 27-28; Rockefeller Foundation, 2011, pp. 26-27). Furthermore, images of war and civil strife reinforce an image of political and social instability. These images signify "barriers to entry for an ISSP/traditional outsourcer, such as safety & security and infrastructure barriers" (Avasant, 2012, p. 10).[27] Given that investors do not privilege developmental or social concerns (above cost and quality), the imagery presented by social enterprise actors could potentially detract large-scale

[27]ISSP stands for "Impact Sourcing Service Provider."

BPO trade and investment. This is best characterized by the following quote from Anholt in a discussion of Lagos that is quite relevant for Nairobi:

> Lagos, like Nigeria itself, and like most cities and most countries in Africa, suffers from this "continent branding effect": none of these places has been able to create a separate, unique international reputation, and so they are obliged to share a generic continent brand called Africa. And Brand Africa, with its simple message of ongoing catastrophe, is promoted with skill, dedication, creativity and vast financial and media resources by aid agencies, international organizations, donor governments and, most prominently, by aid celebrities including Bob Geldof and Bono. Every time such a celebrity appears before tens of millions of television viewers around the world to make another impassioned plea on behalf of the continent (usually represented by a black logo in the shape of Africa), he is building the brand image of Africa not as 53 countries in various stages of development and struggle for independent existence and identity, but as a uniform, hopeless basket-case. And with each additional promotion of this brand, it becomes harder for countless thousands of places such as Lagos, their companies and entrepreneurs, to break free of these negative associations and start to build a Competitive Identity of their own, or to inspire anything more useful than pity. This kind of negative branding is the hardest of all to criticize because it is so plainly done with the noblest intentions, and because it does as much good in the short term as it does harm in the long term. It is no accident that all the successful city brands and nation brands are also rich. Having a powerful and positive international reputation is the cost of entry into the global marketplace, and without it, it is difficult to see how places like Lagos can begin to build their own economies and break their dependence on foreign aid (Anholt, 2007, p. 122).

Is the Developmental State "Developmental"?

On the other hand, the developmental state approach to industrialization can leave unchecked unjust social structures or not adequately address inequality at the local level. ICT/BPO across the world has tended to benefit the middle class but not the rural poor or those with limited education (UNCTAD, 2010, p. 51). Though India's ITES-BPO sector has many developmental effects, according to Suri "it is not going to solve the problems of poor infrastructure, inadequate primary and secondary education, severe rural unemployment and underemployment, dismal access to healthcare facilities for the underprivileged, and other similarly daunting problems. Each of these solutions requires a separate and specific solution." (Suri, 2007, p. 178). In fact, establishing BPO can have adverse effects, esp. on the poor. The BPO industry can drive rural-urban migration, leading to the proliferation of slum areas (UNCTAD, 2010, pp. 52-53, 70-71). BPO developments can lead to higher priced land, housing, and services that disproportionately impact the poor who cannot afford the soaring market rates (UNCTAD, 2010, p. 53).

In other developmental states like Ireland and Singapore, labor was excluded, subordinated, or repressed (Ó Riain, 2004, p. 134). In India, expansion of IT-enabled services has contributed

to the growth of urban slums and rural-urban migration (UNCTAD, 2010, pp. 70-71). Seán Ó Riain in speaking about the Irish developmental network state argues, "Social transformation and integration into the global economy do not undermine the structures that reproduce inequality of opportunity or outcome; in this respect, industrial development in Ireland has been too locally embedded" (Ó Riain, 2004, p. 134). In fact, the developmental state can, he argues, "...lead to uneven internationalization of society and growing inequality" (Ó Riain, 2004, pp. 5, 134). Edigheji argues that the transformative capacity of the developmental state to facilitate industrial transformation does not require as complex, broad political and social coalitions to unlock the redistributive capacity of the state to provide basic goods and redress historical injustices (Edigheji, 2010, p. 5). It remains to be seen what becomes of Kenya's developmental state. However, large projects like Konza Tech City appear to privilege overseas investors at the expense of local citizens, and particularly the poor.

Chapter 4

Emergence of IT-Enabled Services in Cape Town

How did Cape Town come to emerge in global IT-enabled services and what institutionally explains this emergence?[1] Historical legacies and institutions have contributed to both what makes Cape Town preferred and what makes investors averse to the region. Starting with Cape Town's advantages, its history of European settlement has created a community of English and Afrikaans speakers who have linguistic capabilities useful for Anglophone (UK, USA, Australia) and Benelux (Belgium, Netherlands, and Luxembourg) markets. The British legal institution recreated in South Africa shapes the training of lawyers who are increasingly unemployed and finding work in legal process outsourcing to London and other parts of the UK. The historic transnational connections with the UK, Germany, Netherlands, and Australia along with recent waves of emigration in the 1980's and 1990's have created a diaspora that has benefited the emerging BPO sector from the demand side. For example, Amazon.com's investment in the region, along with that of UK-based insurance company Budget, were the result of diaspora abroad investing in their country and specifically in Cape Town. However, these institutions that created advantage are in part responsible for what limits the growth of the sector. Along with European colonization and immigration came systems of apartheid that made access to economic and educational opportunities rare, even to

[1]Here I will clarify the racial categories referenced in this chapter. White "...is adopted as the generic term for those who came to South Africa from Europe, with 'Afrikaners' used to refer to the Afrikaans-speaking descendants of those who come from Holland, France, and Germany, and 'English' for those from Britain" (Feinstein, 2005). The term "African" refers to the indigenous dark-skinned, Bantu-speaking inhabitants, with no implication that others are not now equally rooted in the continent" (Feinstein, 2005). "The other indigenous inhabitants of the southern part of Africa were the hunter-gatherers, previously referred to as Bushmen, but now generally known as San, and the Khoikhoi (previously called Hottentots) who were nomadic herders. Khoisan is the collective term for these two groups. The group referred to as 'Coloured' includes the descendants of the Khoisan, of slaves brought to the Cape by the Dutch, and of black slaves freed at the Cape in the decades after Britain's abolition of the slave trade in 1808, and as many of the children born from the interracial sexual relationships that have occurred throughout South Africa's history. The Asian population was largely created by the decision to bring indentured labourers from India to work in the sugar plantations in Natal. The term 'black' is used as a collective noun for the African, coloured, and Asian peoples" (Feinstein, 2005).

this day, for the Black population. As a result, there is a shortage of highly-skilled labor at all levels, necessitating short-term training programs by the government to service global markets. Because much skilled labor left before and in the aftermath of apartheid, it is difficult to recruit highly-skilled managerial labor. These shortages drive the costs of labor upward - beyond the relatively higher living costs in Cape Town, making the region less competitive on wages with respect to India and the Philippines. As a result, the governments provide incentives and other financial mechanisms to address these structural inefficiencies. In conclusion, the intersection of global opportunities, local, historical institutions, and government policies define the niche that Cape Town (and larger South Africa) plays in global IT-enabled services.

4.1 Introduction

South Africa's first call centers date as early as the mid-1970's and historically have their origins within the domestic financial services industry (Benner et al., 2007, p. 10). However, it was not until the 1990's that call centers grew in the South African market. Based on a comprehensive study conducted by UK-based Mitial Research in 2002, the number of call centers rose from 185 in 1997 to 451 in 2002, constituting 78,000 workers (47,000 seats) in the sector, or nearly 1% of the formal sector workforce. For comparison, this was larger than the call center industries in Ireland, Scotland, Wales, the Philippines, Italy or Spain at the time (Benner, 2006, p. 1030).

The majority of South African BPO and call center firms are located in Johannesburg, with Cape Town and Durban important secondary sites. However, Cape Town has emerged as the hub for offshore call centers. Overall, South Africa's delivery footprint comprises eight locations (Benner, 2006, pp. 1030-31; Everest Group and Letsema Consulting, 2008, p. 44; Multimedia Group and C3 Africa Research, 2008, p. 2). Most South African contact centers focus on domestic in-bound customer service calls (rather than outbound sales calls) (Benner et al., 2007, p. 4; Multimedia Group and C3 Africa Research, 2008, p. 2). Key sectors that make use of call centers include financial services, telecommunications, and retail, followed by health-care and IT support (Everest Group and Letsema Consulting, 2008, p. 44; Multimedia Group and C3 Africa Research, 2008, p. 2; Schaal and Krensel, 2008, p. 17).

By 2009, various sources placed South Africa's call center and BPO employment at approximately 100,000 people (Everest Group and Letsema Consulting, 2008, p. 7; Ngobeni, 2009, p. 8; Waema, 2009, p. 52). Most South African call centers employ a few dozen workers, with a median size of 24 employees (Benner et al., 2007, pp. 7, 43) as established in one survey and many less than 20 seats as established in another (Multimedia Group and C3 Africa Research, 2008, p. 2).

The South African call center and BPO industry is largely focused on the domestic market (91%), with most firms serving the national market and a small percentage serving local (14%) or regional (5%) markets (Benner, 2006, p. 1031; Benner et al., 2007, pp. 4, 7, 11, 17; Waema, 2009, pp. 28-9). Though there is a domestic focus, offshore and international activity is emerging for the sector, especially in the UK. The Mitial Research report described foreign direct investment in the industry as “very limited” in 2002, but by 2004 international outsourcing constituted 30% of all call center operations (or 55% of revenue) (Benner, 2006, p. 1031). By 2008, Everest Research Group

estimated over 2,900 service provider employees in the offshore financial services market alone. Their offshore offerings include a number of complex, high-end services, including investment administration and actuarial modeling (Multimedia Group and C3 Africa Research, 2008, pp. 9, 53-4). Overall, by 2009, there were 8,000-10,000 workers serving the offshore market in all service sectors.

Examples of global suppliers and offshore captives include CSC, Teletech, Sykes, IBM, Accenture, Avanti Call, Deloitte, Teleperformance, Budget Group, State Street, JP Morgan Chase, PruHealth (UK), and Amazon.com (Farrell and Institute., 2006; Everest Group and Letsema Consulting, 2008, p. 154; Lippstreu, 2008; Everest Research Institute, 2009, p. 1). Other international call centers operating in the country include Merchants (a division of Dimension Data), Lufthansa (which has had a major call center in Cape Town since 1998), Mindpearl, Cape Town-based Dialogue Group, Delta Airlines, and RCI (A.T. Kearney, 2005; Benner, 2006, pp. 1031-32).

4.2 Creating Advantage

4.2.1 Multi-lingual Voice Support

The Western Cape is increasingly being recognized as a location for English voice services. According to Business Process enabling South Africa (BPeSA) and Department of Trade and Industry (DTI) officials, South Africa has approximately 345,000 English-speaking graduates annually, making it the third largest location after India and the Philippines (Mochiko, 2011).[2] Investors are reportedly impressed with not only the quantity but also the quality of the English voice services delivered from South Africa, and particularly Cape Town. The Indian outsourcing firm WNS entered South Africa in June of 2012 through acquisition of Cape Town's Fusion Outsourcing (China Weekly News, 2012; Booysen, 2013). Their chief executive Keshav Murugesh remarked, "South Africa was the ideal location for servicing the UK market because of the accents, cultural affinity, similar time zone and operational costs that were as much as 50 percent lower than the UK..." Cape Town is a location from which they can offer "English premium voice quality." One of their agents commented, "Most customers think I'm in Britain and that I'm actually British," said Osman, 23, who handles 20 to 35 calls a day and fine-tunes his accent by listening to the commentary of English Premiership soccer games" (Pretoria News, 2013). US-based Teletech located a customer service operation to Cape Town in 2007 in part because of the "...widespread use of English, spoken in neutral accents that will be easily understood by Americans" (Jooste, 2007). And South African-based Merchants, an outsourcing company, procured a customer service contract with Australian-based iiNet "...largely because of the quality of service, high levels of English fluency and neutral accent" (Merchants, 2008).

Over recent years, India's advantage in English voice services has eroded with the Philippines taking first place. One of the reported reasons for this decline - among many - are complaints about the accents of Indian customer service agents (Foreign Direct Investment, 2009; Anderson,

[2]This 345,000 figure includes both high school leavers and college graduates. They include high school (matric) graduates because call center and related BPO work can be done by this demographic.

2011; Strauss, 2012; Thomas, 2010b). Santander (bank) announced in 2011 that its Indian call center would be returned to the UK because of customer complaints about quality (Strauss, 2012). Similarly, when Delta closed its Indian call center in 2009 citing quality concerns with the Indian accent, its South Africa call center operation was unaffected (A.T. Kearney, 2009; Thomas, 2010b). Such market developments create and reinforce the perception that South Africa is competitive with, if not superior to, India's English voice offering across the world and specifically in the UK market (Mangxamba, 2007a; Thomas, 2010a). As a result, South Africa and Cape Town tend to strike a balance between outright competition with India and positioning itself as a complementary location to India. One strategy has been to acquire the English voice work that is moving out of India for quality concerns (Mungadze and Wild, 2013). Another strategy is South Africa as an alternative hub as part of an overall risk diversification strategy that mitigates against consumer complaints (Cape Argus, 2012; Reed, 2005;Vecchiatto, 2004a).

Cape Town's advantage is not just its English language services, but its multilingual capability in a range of European languages in addition to English. Chief among the non-English offerings is Dutch language support. As a "historical accident," the Dutch settlement in Cape Town began in 1652 as the United East India Company needed a refreshment station as it carried goods from the Orient to European ports. This community would eventually become the Afrikaner community, the largest white minority on the African continent, with its own language (Afrikaans) linguistically related to Dutch. As early as 2004, the Dutch market was expected to be the largest non-English market because of the Dutch influence in the Afrikaans language as well as the lack of margin offered by Dutch providers to its domestic market (CMP Techweb, 2004). In 2005, Netherlands-based call center company CendrisBSC created a program to train Cape Flats youth to speak Dutch in three months (Joffe, 2005).[3] The company reportedly chose to locate to Cape Town in 2003 because South Africa's 6 million Afrikaans speakers at the time were the largest pool of potential workers compared to other destinations (e.g., Indonesia, Surinam, and the former Dutch Caribbean colonies). Though Afrikaans and Dutch diverged to an extent, Afrikaans shares 85% of its words with Dutch and some have remarked that the Afrikaans spoken by the mixed race "Coloureds" in the poor Cape Flat suburbs is closer in accent to Dutch than that of White Afrikaans speakers (Reed, 2005). In an interview with a senior manager of IBM South Africa, I learned a little more about how the Dutch training was facilitated in their Cape Town office:

> Interviewee: We also did a similar thing in Cape Town. So our learnings were as follows like for one, we actually found it's better to bring in some Dutch IBM'ers... [We] worked with them, trained them. Told them what's acceptable you know so the Dutch have a certain way if there's a sports thing on, the way they would handle questions and conversations the next day.... So we had the curriculum of conversion from Afrikaans

[3] "The zoning of the country under the Group Areas Act of 1950 into white areas and black areas meant that millions of Africans, coloureds, and Indians (and very few whites) found that their places of residence had been designated, by officials using small-scale maps and a rigid vision, as land for the occupation of some other racial group, usually the whites... The coloureds and Indians were also forced out of the racially mixed districts in which many had been living, particularly in Cape Town's suburbs. This caused much individual suffering, as families were driven to desolate new townships on the sands of the Cape Flats, notably Mitchell's plain." Source: Ross (2008).

> to Dutch, but added some Dutch-speaking people in who brought in the cultures and the values and some of the linguistic dynamics...
>
> So once we developed the methodology better when we brought these Dutch people. So as an example they only watched Dutch television, it's a major thing around the linguistic subtleties. They are not allowed to speak Afrikaans anymore, yeah because ...the languages were so close, they created confusion mentally about the correct way to do things (SA070).

Like IBM, another Cape Town call center outsourcer, Absolutvalu, partnered with the Dutch company People2Contact to also enlist its young recruits in 3 months of Dutch training before handling customer service queries in the Netherlands (Mills, 2004).

Along with English and Dutch, German voice support is also offered from Cape Town. The entry of Germany's Lufthansa Airlines - through its subsidiary Global Telesales - into Cape Town in 1999 is widely considered as the first offshore BPO investment in the country. It was initially setup to handle overflow calls (e.g., general reservations and frequent flyer and mileage programs) from its call center in Kassell, Germany but by 2005 was also tasked with performing flight calculation for aircraft as well as global load control operations (LiquidAfrica, 2004a; De Jong, 2006; M2 Presswire, 2005; Reed, 2005). More recently, in 2010 Amazon.com established a Cape Town call center to service German, British, and American clients (Pretoria News, 2013; news aktuell, 2013; Mochiko, 2010; Strauss, 2012). According to the call center manager Scott Sommers,

> We have built a great team that is taking excellent care of our global customer base... Cape Town is also a place of great language diversity and meets our coverage needs from a geography point of view. We can support the US overnight hours and provide additional support for European countries.[4]

As the Amazon.com case highlights, some companies decide to come to Cape Town to provide multi-lingual voice support across geographies. For example, IBM's global delivery center, located in Johannesburg and Cape Town, offered English, Dutch, Flemish, Spanish, French, Italian, Portuguese, German, and Norwegian, with much of the non-English languages supported from Cape Town. According to the IBM manager, they were able to recruit French-speaking Africans already living in South Africa (e.g., Democratic Republic of the Congo), leverage the German and French-speaking communities in Cape Town, and bring in talent from across the African continent as well as overseas, in addition to training (SA070).[5] In 2006, Royal Dutch Shell announced that it was locating a customer service center in Cape Town where South African agents would undergo

[4] Phakathi (2011)

[5] South Africa has been effective, in its economic history, in attracting African talent from across the continent to work, particularly in its mining industry. "In one sense, recruitment to the mines tied the subcontinent together. Individuals from, especially, the Transkei, Lesotho, and Mozambique, but also from Botswana, Namibia and further to the north, were sucked in by the great draw of the mining economy. At any one time in the 1920s, about 55 per cent of the approximately 180,000 black men working in the gold mines would have been from outside the country, and most of the rest would have been from the Transkei and Ciskei." Source: Rossi (2008, p. 106)

language conversion training in Dutch, French, and Flemish to provide customer service and credit management support for Benelux countries, Canada, France, and South Africa (Gunnion, 2006; Benton, 2008;Thomas, 2013a). In an interview with an outsourcing manager who helped Shell establish its Cape Town operation, the recruiting efforts are similar to those of IBM:

> Interviewee: Shell wanted to build a call center for their Western European operations... they were looking at French, Dutch and Flemish to be the skill sets from Cape Town... so the Shell call center for the Benelux countries Belgium, Netherlands and Luxembourg is ran out of Cape Town.
>
> Interviewee: And we built the call center for them, and once we had built it they then appointed a manager and then we went and worked with them on the recruiting role identifying the language centers, trying to identify whether they could find the language skills here it was more about the accents and the vocabulary and putting people through this whether we had language skills in Cape Town that they could certify as the right level of skill.
>
> In fact getting the right language was more difficult than setting up the technology. It was easy to do the technology it wasn't that easy to find the right language skills with people with their own qualifications.
>
> It's interesting I mean if you look at Dutch and Flemish it's very similar to Afrikaans and from an accent point of view they are able to take a specific segment of the populations of people that speak Afrikaans in Cape Town tend to speak Afrikaans with an accent that is a lot flatter than Afrikaans that is spoken here and actually has more similarities with the European Dutch and Flemish accents and so the question was just to get these people through a language school to help them with the vocabulary, the grammar, the structure and so we took local people in Cape Town to do that.
>
> They brought over some people, mostly the people that came over would have been specifically people that had the Shell experience in Europe... French was easy enough I mean all the people there came from African countries so they came from Cameroon or from Côte d'Ivoire... Senegal yeah, they all came basically DRC [Democratic Republic of the Congo], many of them also so those people there was big enough pool in Cape Town to recruit French speakers.[6]

As implied by this interview, Cape Town was a rich source of multi-lingual talent, leveraging local Afrikaans speakers as well as African immigrants. Like IBM and Shell, Lufthansa's Global Telesales reportedly conducted business in German, English, and Hebrew for Germany, US, and southern Africa markets (LiquidAfrica, 2004a; Reed, 2005). Dialogue Group, one of the largest call centers in Cape Town in the mid-2000's, targeted the European market with services in Dutch, German, French, Italian, Portuguese and Spanish (SA Call Centre, 2004; Vecchiatto, 2004a). And the recent establishment of UK-based Serco Global Services' Cape Town operation in 2012 is to

[6]Source: Interview SA048

offer "high quality English and other European language skills to Serco's customers around the world" (Dataquest, 2013). These cases demonstrate that Cape Town's emerging niche in global services is centered around multi-lingual voice support that is difficult to find in other global locations. As a call center analyst put it, "Whilst the RSA is not as much of a labor arbitrage cost play when compared to India and the Philippines, it offers multilingual and non-English language agents that are better able to deliver more differentiated customer service based on greater empathy and closer cultural affinity to customers in key target markets such as the US and Western European countries like the UK, Holland, Germany and France" (CMP Techweb, 2004). The city's centuries long history built on European immigration and colonialism is the foundation for a linguistic advantage, particularly in European markets. And such a historical and institutional advantage is not easily copied by other regions.

4.2.2 Diaspora Connections

Cape Town has extensive diaspora connections that enable it access to overseas markets, particularly in BPO. Between 1945 and 1994, at least 500,000 South Africans emigrated without declaring their intent, with many leaving during the political unrest of the 1960's and 1970's (Marks, 2006, p. 175).[7] In the post-apartheid era, many South Africans left because of crime or (the perception of) limited employment opportunities. Between 1989 and 1997, over 200,000 South Africans permanently left for English-speaking nations and it is estimated that (tens of) thousands more leave annually (Butler, 2009, p. 52). In 2009, it was estimated that approximately twenty percent of South Africa's professionals emigrated since 1995. A popular destination for South African emigrants is the UK. By 2003, the British High Commission estimated that more than 300,000 South Africans resided in the United Kingdom alone (Marks, 2006, p. 175).[8] The fact that a number of South Africa's diaspora lives where a large part of South Africa's offshore business creates a

[7]For the most part, it was white and highly-skilled labor that emigrated, according to Bhorat et al. (2002, p. 16)

> Finally, there is debate on the racial distribution of the emigration cohorts, which needs to be addressed. Some argue that emigrants are mainly white and others that all types of groups are represented. In fact, the figures cannot give a conclusive answer to this question but supporting evidence does provide clues. The first point is that according to all indications, the majority of the highly skilled South African diaspora is white, meaning that most of those in this category who emigrated in the past were of this racial group. This has been checked on a database of over 2,000 highly skilled expatriates, showing that less than 5% of them had names of African origin. The second point has to do with South African history. The apartheid system clearly excluded non-white groups from higher levels of education and access to qualified jobs through the two pillars of the Bantu Education Act and the Labour Bar. Even though this has changed today, the expansion of skills base in non-white communities is taking some time. For this reason, it is realistic to consider that most of those who have been able to acquire skills and sell them abroad are not members of the historically disadvantaged groups. The third point is that when trying to evaluate the propensity of young professionals to emigrate per racial groups, non-white individuals show a desire to do so, even if it is in a smaller proportion than white professionals. However, this refers to intentions and not to real, effective moves, which may be very different.

[8]Marks (2006) mentions that there are 800,000 South Africans who hold British passports. Additionally, there are South Africans who are eligible for work permits in the UK based on British ancestry.

potential advantage in terms of investment promotion and marketing.[9] According to the Director of Customer Management and International for Capita, the UK's leading BPO and professional services company, "...many clients have either interacted with the large ex-pat South African community in the UK or have been to South Africa and, in particular, the Western Cape" (Lacity et al., 2012, p. 20).

There are several examples of South Africa diaspora who have either created or encouraged investment in Cape Town. Douw Steyn, founder of UK-based Budget Insurance, created a subsidiary call center and BPO operation in Cape Town named Fusion Outsourcing (later acquired by India-based WNS). Chris Pinkham, an alumnus of the University of Cape Town and founder of the first commercial internet service provider (ISP) company in South Africa (Internet Africa in 1993), later moved to the USA and worked for Amazon.com where between 2001 and 2006 Pinkham was "responsible for IT infrastructure at all Amazon.com data centers, offices and facilities [and] proposed and led development of Amazon EC2." Based on personal family reasons and the availability of software engineering talent back home, he moved back to Cape Town, establishing an Amazon.com software development center in 2005 (Cape Argus, 2005; Agence France Presse, 2005; Mail and Guardian, 2011;Brodkin, 2010; Stones, 2005).[10] The success of this software development center was part of the reason Amazon.com later followed up with investment in a contact center operation in Cape Town in 2010. Penny Streeter, UK entrepreneur and daughter of a South African publisher and writer, setup the call center QACalling in Cape Town around the mid-2000's (Business Wire, 2006; Gass, 2004). And iiNet, one of the largest telecommunications companies in Australia, secured an outsourcing contract for customer service with South Africa-based Merchants in part because the diaspora suggested South Africa as a potential offshore location. In 2007, iiNet's Australian-based call centers were at saturation and the management was initially looking to locate a call center in India or the Philippines. A South African working in Australia at iiNet suggested South Africa, but iiNet's CEO commented, "While it was initially met with a bit more amusement than credibility, we decided, Hold on a minute, let's flush this out because the time zone is very attractive."[11] Those discussions led to a trip to Cape Town and eventually a contract where Merchants created a call center for iiNet in Cape Town. This call center has been one of their most successful based on internal performance measures.

To a certain extent, some of Cape Town's investments have mirrored regions like India, where the initial success of some Indian firms and the prominent role of Indian entrepreneurs in Silicon Valley helped overcome the "made in India" stigma for software. This helped new firms enter the

[9]The UK is the largest export market for Cape Town's offshore BPO sector. This UK-South Africa link in terms of exports can be traced to the beginnings of British settlement in the Cape, where the Cape colony developed an export industry, first in wines and later in wool, from the early through the middle of the 19th century. Source: Feinstein (2005).

[10]The size of Cape Town's software engineering sector is difficult to assess, though there are initiatives like Silicon Cape and the Cape Information Technology Initiative (CITI) along with local universities that offer instruction in IT and computer science. The presence of this technical community seems rather odd in that the BPO industry also finds it difficult to recruit labor with basic literacy and communications skills. However, this irony may be a legacy of apartheid in Cape Town, where a minority might have access to technology skills and the majority of the Black residents struggle with basic educational proficiency.

[11]Youtube video, Interview with Mike Malone, http://www.youtube.com/watch?v=6K8n4lRlHPQ.

market and find customers(Arora et al., 2004). Like India, South African diaspora played a role in the locational decision-making process or directly heading up operations back home. Beyond diaspora, the historic transnational connections between South Africa and the UK and Australia mean that executives are more likely to consider South Africa and Cape Town.

4.2.3 The Developmental State

South Africa's state has also played a role in creating - or rather "defying" - comparative advantage by addressing the bottlenecks in the economy that hinder investment in services. This "developmental state" is an institutional product of the post-apartheid government that prioritizes economic development and the creation of a more unified country.[12] In this section, I will demonstrate how this developmental state has addressed the issues of high telecommunications costs, engaged in investment promotion and marketing, provided incentives to combat its relatively high operating costs in the global economy, and assisted in human resource development. Without these measures, Cape Town (and South Africa's) BPO sector would not exist at the level it does today.

Telecommunications

In the early days of South African BPO, telecommunications was considered a barrier that hindered the full potential of the sector (Reed, 2006; Thomas, 2010b; Wanneburg, 2009). Telkom was privatized in 1997 with a fixed line monopoly. Though it reduced international calling costs, local calls increased on average by 25% from 1997 to 2003, raising the costs of all services (including internet and mobile) (Economist Intelligence Unit, 2005). In fact, Efficient Research (a research group) suggested that South Africa's inflation in 2002 was increased by one percent because of Telkom's pricing practices (Economist Intelligence Unit, 2004). In 2004, the DTI reported that the country lost potential business from 32 companies "over time" due to high telecommunications costs (Times, 2004). In 2006, the head of ICASA, Paris Mashile, reported that seven or eight prospective US companies visited South Africa but decided not to invest because of Telkom's call costs.[13]

Representatives from the BPO sector as well as government across the country, and particularly Cape Town, protested Telkom's high fees, relative to those in competitor regions. Early call center industry associations made Telkom lobbying a priority. For example, shortly after the launch of the South African Call Centre Community (SACCOM) in 2004, a Telco Action Committee (TAC) was formed to work with Telkom on competitive pricing for the BPO sector.[14] National and provincial governments also worked to reduce Telkom costs. The Provincial Government of the Western Cape, for example, lobbied for increased competition in the national telecommunications market as well as telecommunications convergence and regulated access and pricing to SAT-3 ca-

[12]The discussion of the developmental state here builds on the literature review from Section 2.5.

[13]Source:http://www.fin24.com/Companies/Call-costs-cut-business-chances-20060503 4/13/2011, Call costs cut business chances, May 07 2006 12:57

[14]SACCOM Newsletter, October 29, 2004

ble.[15] In September 2004, the telecommunications industry and Telkom were deregulated, with the Telkom monopoly ending in February 2005 (Gauteng Enterprise Propeller, 2010). This liberalization meant that operators were allowed to use voice-over-internet-protocol (VOIP) legally as well route calls without using Telkom's network (Business Day, 2005; Economist Intelligence Unit, 2004; Deloitte and CallingtheCape, 2005; Reece, 2004;Vecchiatto, 2004d). At the time of the deregulation (2005), it was estimated that the cost of moving to VoIP was approximately half as much as the old Telkom regime (on per-minute charges), but it was still more expensive than India ($200,000 for 2 MBS lease line from South Africa to US/UK versus $150,000 for India)(Stanford, 2005). Below is an excerpt of a media article covering the impact of the liberalization:

> Gateway Communications delivers up to 50-million voice minutes to sub-Saharan Africa each month over its private networks. But, until now, calls to and from South Africa had to be diverted onto Telkom's network - not from any technical necessity, but purely to comply with the law.
>
> "We weren't able to carry voice traffic on our network into the call centres here. We had to hand over the call so by the time it crossed the border it was a Telkom call," says Van den Bergh.
>
> "Now we can cut Telkom out of the equation and connect call centres directly into our international network to take calls to the rest of the world at very aggressive rates."
>
> When operators had to pay Telkom's interconnection fees, there was always a basic minimum price point.
>
> "Now it's down to how efficient you can make your network, and that makes SA enormously attractive," says Van den Bergh.
>
> Liberalisation is equally vital for giving foreign companies more freedom in how they operate. Forcing international customers to work with Telkom made them dependent on Telkom's technology, and its offerings didn't please some blue chip companies, says Mills.
>
> That lack of choice made a lot of global players too nervous to base any business here.
>
> Now they can work with other operators, and some global telecoms carriers are making major investments in SA to meet an expected boom for call centre services, says Mills.[16]

Later in 2005 (July), Telkom was subject to a cap on price rises by the telecommunications regulator ICASA (Economist Intelligence Unit, 2005). ICASA used the national economic development agenda around foreign investment to push Telkom on cellphone pricing (Mzolo, 2005).

Though the BPO and call center firms benefited from telecommunications liberalization, in 2007 the telecommunications costs were still not as competitive, particularly in Cape Town. In

[15] MEDS 2005 Report.

[16] Business Day (2005)

Wesgro's Cape Town Investments Constraints Survey in 2007 covering 103 firms in priority growth sectors (including call centers), telecommunications costs (54%) and telecommunications availability (39%) were cited among the major constraints on investment in the region (Kemp, 2007). In June of 2007, the Western Cape Premier Ebrahim Rasool in a press conference about recent BPO investment in the country pushed for Telkom to further deregulate and provide rates aligned with countries like Philippines, India, and Malaysia (Mangxamba, 2007b). In a move to further reduce costs, in November of 2007, the Department of Communications and Telkom reached an agreement to offer reduced telecommunications rates for call center and BPO firms, which at the time reportedly amounted to 15% of operational costs (Hazelhurst, 2007; Hill, 2007a).[17] In fact, incremental changes in Telkom's pricing were significant to encourage further international BPO investments, particularly in Cape Town. For example, in June 2007, the UK's Budget Group invested in a larger, R35 million call center facility in Century City (near Cape Town). Part of the rationale for the investment was the fact that reduced Telkom costs (in addition to a weaker rand) made staff 40% cheaper than UK employees, as opposed to 20% cheaper in 2004 (D'Angelo, 2007). To further drive down costs, in 2011 the Western Cape's provincial government as well as Cape Town-based Internet Solutions offered 6 months of telecommunications services (valued at 1.5 million Rand per every 200 employees) free to companies doing offshore BPO in Western Cape (Mena Report, 2011; Bester, 2011).

The impact of all of these regulatory and market changes resulted in a 85-90% reduction in telecommunications costs between 2003 and 2009 (Pretoria News, 2013; news aktuell, 2013; Vecchiatto, 2013. Though not mentioned in depth here, the increasing availability of undersea fiber optic cables also facilitated more favorable costs. In March 2003, South Africa was linked to Europe via a submarine fiber optic cable (SAT-3). In that month, Cape Town-based CendrisBSC started training agents in Dutch-language, in part because of the cable (Reed, 2005). More cable systems connected to South Africa (e.g., EASSy, SEACOM, etc) have resulted in a twenty-fold increase in bandwidth by May 2013 (news aktuell, 2013). What is more interesting is how government and local business used an agenda based on the attraction of foreign capital to partly force its incumbent telecommunications carrier to liberalize, deregulate, and provide more competitive pricing to the region. This case demonstrates that where mobile capital and local infrastructure are aligned, the potential of the former can be used to drive improvements in the latter.

Incentives

As the state lobbied to deregulate Telkom, it also worked to provide incentives to investors to minimize operating costs that were driven by labor, telecommunications, and currency volatility. As early as 2004, the South African government allocated 200 million Rand over a three-year period to promote BPO. This incentive package approved by Senate included, according to a government spokesperson, "...the development of human resource capacity through top-up incentives

[17] Telkom applied low rate for international bandwidth (comparable to service and capacity in other countries) to 10 call centers (each employing 1,000 people). These call centers received "developmental pricing" because of their employment impacts (Hill, 2007b). The negotiations reportedly took months between Telkom and the State and ended when a government-enforced deadline was reached (Roux, 2007).

and company-specific incentives" (Reuters, 2004). Following more industry lobbying, the government launched support for Business Process Offshoring and Outsourcing (BPO&O) as part of the Government Assistance and Support (GAS) initiative in 2007. This 1 billion Rand (71m) program to promote outsourcing would include training grants and up to R60,000 per employee hired (Insurance Times, 2007). In 2007, US-based Teletech was one of the first companies to benefit from the GAS incentive scheme, using the grants to subsidize its newly formed Cape Town call center operation (Stent, 2007). Teletech, along with six other companies, received between R37,000 and R60,000 in financial grants for each of the 1,300 seats it was expected to create (Khumalo, 2007). For some companies, the subsidy was a critical factor while for others it was not. According to Shell South Africa's general manager Busi Mashiyi, "The subsidy worked well for us but is not the key reason for the service centre being in SA" (Thomas, 2013a). In July 2010, Fagri Semaar (interim chief executive of BPeSA Western Cape) said Amazon "hasn't thought of using incentives and this shows its commitment to invest in the country despite the incentives."[18] Later as managing director of Teleperformance South Africa in February 2012, Sameer commented that the DTI subsidy was a "massive factor" (Thomas, 2012).

Beyond the national incentives, the regional and local governments rolled out their own incentives. For example, the provincial government of the Western Cape has made government buildings available to BPO firms through public/private partnerships. It has also assisted negotiations between BPO firms and transport companies to ensure the best combination of price and service. Finally, as mentioned above, it co-sponsored the incentive with Internet Solutions for an initial six month period of free telecommunications. The city of Cape Town has allocated some city-owned property at zero cost to investors as well as provided a 30% rebate for business rates for BPO investors.[19]

Human Resource Development

As telecommunications costs were being addressed through the deregulation and liberalization, attention in the sector shifted to the need for quality human labor for BPO (Guest, 2007). In fact, the McKinsey report made talent development one of the five pillars of South Africa's strategy for BPO. The talent development program promulgated by DTI and Business Trust would have the following three objectives:

> To increase the pool of entry-level employable people through a targeted, customized skills training programme aimed at 30,000 young unemployed people from disadvantaged backgrounds for the period 2006-2010 to meet the anticipated growing demand for staff from local and foreign companies.

[18] Amazon eventually utilized the state-sponsored incentives. This quote demonstrates that the quality of customer service the company perceived Cape Town could provide was more important than specific cost advantages (with respect to other global locations). Source: Mochiko (2010)

[19] Presentation by Luke Mills of CallingtheCape on "Business Process Outsourcing and Offshoring in Cape Town, South Africa" at the "Offshore Contact Centre Executive Forum," Thursday, 3rd November 2006.

> To accelerate the development of home-grown supervisors and managers to lessen the country's dependence on foreign managers. Such development would be achieved by reimbursing company-specific training for new jobs through a DTI/Department of Labour (DoL) skills support programme and funding from SETA discretionary funds for 5,000 supervisors and managers. The training and development of supervisors and managers is also vitally important in order to prevent any bottlenecks at the supervisory and management level occurring in the workplace.
>
> To ensure the ongoing development of a globally competitive talent pool with the requisite skills at all levels of employment for effective service delivery and operation of the National Skills Development Strategy (NSDS).[20]

Arguably, the McKinsey report shaped the DTI's BPO programme from 2005 through the present, whereby public and private sources invested in talent development, among other initiatives. However, apart from the BPO sector, the government passed the Skills Development Act and the Skills Levy Act, making employers contribute 1% of their payroll to the National Skills Fund, beginning in 2001. At the time this legislation was passed, there were no national call center standards in place. As early as 1998, The Call Centre Competency Association was formed to develop national contact center standards specifically related to career pathing, industry performance benchmarks, and international competitiveness (Sirin, 2001). The Skills Development Act would create the standard for national contact center qualifications that would be leveraged for the skills development in the emerging offshore BPO sector.

Monyetla was one of the programs resulting from the national BPO skills development strategy as a partnership between the DTI and the Business Trust, with funding from the National Skills Fund. Through employer-led consortia (consisting of learner, trainer, recruiter, and employer) in three provinces (Gauteng, Western Cape, and Kwazulu-Natal), the initial objective of the program was to recruit 1,000 unemployed youth who would undertake a 60-credit BPO skills program,[21] with a minimum of 70% of them employed in the BPO sector by the end of the training (Macheke, 2008).[22] The Monyetla program played a key role - like the CADET programme - in hiring unemployed youth in BPO firms, across the country and particularly in Cape Town. For example, the CEO of Teletech South Africa Luke Mills remarked, “if not for the grants, we wouldn't be able to hire so many unemployed people.” By 2008, in an evaluation of the Monyetla programme, Teletech had 422 learners enrolled in the programme with 87% of them passing competency tests and subsequently employed by the firm (Macheke, 2008).

By December 31, 2008, Monyetla's placed 1,016 learners (of the initial 1,325) in employment (Macheke, 2008). Following the pilots in 2008 and 2009 with 1,300 learners, it was rolled out in 2010 with 3,350 work seekers (Rockefeller Foundation, 2011, p. 14). By 2013, the Monyetla programme was reportedly training 3,000 entry-level agents per year countrywide (Thomas, 2013b).

[20] Macheke (2008)

[21] Completing the program gives learner 60 of the required credits for the 128-credit Level-2 Contact Center learnership of the National Qualifications framework.

[22] According to a presentation by the Johannesburg Office of Economic Development, the Department of Labor, DTI and Business Trust budgeted 17.2 million Rand for the pilot phase of the program.

Additionally, many say the bottleneck within the contact center is not necessarily at the agent level but at first line middle-management which keeps the agents productive and where the country has not invested. A number of public and private initiatives have been launched to address this challenge. One industry association, the Contact Centre Management Association (CCMG), has emerged (2009) in response to this challenge. In 2013, the Development Bank of Southern Africa launched a three-year program focused on supervisory skills (Thomas, 2013b).

Monyetla intended to close the skills gap between previously disadvantaged individuals (PDIs) with a minimum of secondary education and the needs of foreign companies, providing South Africa the chance to respond to short-term opportunities in BPO. The Monyetla evaluation report highlighted that the skills gap is attributable, in part, to "the legacy of the Apartheid-era schooling system." The needs of foreign companies further exposed the limitations of inequitable access and education and encouraged the government to make short-term investments to mitigate its impact. Here is another example where the needs of foreign capital align with developmental goals and have some effect on national policy in skills development.

Alongside national efforts to develop human capacity, Western Cape governments also provided their own training programs. In 2004, CallingtheCape launched the CADET programme, with an initial pilot of 60 learners.[23] This program was conceived to provide training for unemployed, Afrikaans-speaking black students in the Western Cape. Built on the national learnership framework, the CADET programme runs for 12 months where learners selected by BPeSA Western cape (previously Callingthecape) undergo training followed by practical work experience with their respective host companies (Appoles, 2010a; Stanford, 2005; Vecchiatto, 2004b). The classroom training includes communication (voice, accent, and articulation), psychometric testing to ensure they are a fit for the rigor of the program, and simulated call center projects. Once they go to the hosting companies, they are provided with secondary and company-specific training and provided a support network. At the end of the program, learners judged competent are awarded a certificate from the Services SETA (Gorman, 2006). By 2007, the Provincial Government of the Western Cape allocated $2.75M for the CADET program (African Business, 2007). Based on the initial success of the program, a BPO Talent Centre training facility was built in 2008 - with the support of the City of Cape Town, the Department of Economic Development and Tourism, and assistance from the Department of Public Works. The new facility hosted CADET training as well as a new five-week World of Work (WoW) program, providing more elementary skills in computer literacy, communication, financial control, and life skills (Stent, 2008). As of 2010, this set of host companies included Direct Axis, Woolworths Financial Services, ADT, G326, MBD, Nimble, Sell Direct, Quest and Kelly (Appoles, 2010a; Appoles, 2010b).

Investment Promotion

As Western Cape and South African governments addressed local constraints, they also helped market their region and secure BPO investments. The national government sponsored investment

[23] Before CADET, the government sponsored the Communication & Contact Centre Training Institute (CCTI) that trained South Africa's in Dutch language and culture (Vecchiatto, 2004c). It is unclear whether this program was later subsumed under CADET or disbanded.

missions across the world to market the country and its regions. The Department of Trade and Investment - along with the International Marketing Committee - were reportedly instrumental in the Teletech investment. Since the early 2000's, the government has conducted at least one mission annually to the USA, UK, and other parts of Europe to investigate investment prospects and connect overseas firms with local contacts (BuaNews, 2007). The government used its diplomatic presence in other countries as parts of its corporate diplomacy efforts. South Africa's Department of Foreign Affairs contributed to international marketing through its network foreign offices (Reed, 2006). And the DTI has a select number of global offices that it uses to field inquiries for investment promotion. In fact, the DTI hosts a number of informational workshops on BPO at South Africa House in London. Once the company decides to come to South Africa, various government agencies provide after-care investor support. For example, the DTI helps facilitate the following: information on regulatory requirements; information and application assistance for incentives; acquisition of work permits for foreign managers; information on various utilities and infrastructure as well as salaries, rental costs and amenities; assistance with site visits with vendors, HR agencies and BPO centers; and assistance in locating available space for a BPO center.[24]

The Provincial Government of the Western Cape (PGWC) played a pivotal role in investment promotion for the Western Cape region. In the fall of 2004, a delegation comprised of the Western Cape Premier Ebrahim Rasool, finance minister Lynne Brown, CallingtheCape, Wesgro, and the Department of Economic Development and Tourism conducted forty meetings with British call center firms as part of a two-week trip to the UK and Holland, securing "at least an additional 1000 jobs." In the words of the provincial finance minister Brown, "We want to use the trip to raise the Western Cape's profile as an investor-friendly destination to the UK business market. To ensure this happens, the premier and myself will also talk to some of the UK's most influential business publications, including the Financial Times" (LiquidAfrica, 2004b; SAPA, 2004; Vecchiatto, 2004f). Wesgro was reportedly instrumental in the Budget Group's R100 billion call center announced at the end of 2003 (Vecchiatto, 2004e). Teletech's interest in the country and specifically Cape Town reportedly began in 2005 when it visited the country as a host of DTI (Khumalo, 2007). The Western Cape government has also sponsored contact center conferences in the region to showcase its regional offering. For example, in November 2004, Cape Town hosted the second International Offshore Customer Management Conference (LiquidAfrica, 2004b). The confluence of linguistic and transnational ties to key overseas markets as well as a developmental state arising out of South Africa's post-apartheid dispensation has helped Cape Town and the larger South African BPO sector create a small but growing niche in IT-enabled services.

4.3 Constraining Advantage

Institutions that constructed South Africa's market advantage in offshore IT-enabled services also constrained its ability to grow. The post-apartheid developmental state that arises to facilitate broad socio-economic development both creates and constrains global advantage in service. It creates advantage by engaging in investment promotion and marketing, providing incentives, reducing

[24]Pumela Salela Presentation to World Bank

telecommunications costs, and training South Africans to work in BPO. Without these interventions, there would be no BPO sector because the state creates advantage by "defying" comparative advantage - artificially lowering the costs of working in South Africa. However, that developmental state is divided and others in the state have a vision of development that potentially constrains it from the perspective of global IT-enabled services and foreign investors. From the perspective of others in the State focused on broad-based economic empowerment, a vision of people over profits unexpectedly enhanced the monopoly position of the telecommunications operator, inadvertently leading to higher costs. They also insist on more regulated labor relations (based on history of apartheid) that make the region less attractive to investors who avert regions with strict labor laws. These regulations could also make labor more expensive - as they are guaranteed permanent (not temporary) jobs. Thus, the developmental state itself both creates and constrains advantage - in part because the developmental state is divided in its vision of what development means.

4.3.1 Lack of Skilled Labor

European immigration and colonization brought linguistic capabilities and transnational networks but also contributed to an apartheid state where access to educational opportunities was limited for historically disadvantaged individuals.[25] Up until the 1970's, apartheid benefited from low-wage, relatively unskilled African labor in mining.[26] However, after the downturn in the global economy after 1973, South Africa was ill-prepared to improve its labor productivity to rival economies of South-east Asia, for example. Bantu education was designed to maintain low skills levels for Africans, and efforts to expand African education in the 1970's focused more on quantity than quality, making it difficult for the economy to absorb the school-leavers (Ross, 2008, pp. 142-143). As early as 1938/39, South Africa's net output per employee in manufacturing was 60 per cent of the levels in Canada and 70 per cent of figures from Australia and New Zealand (Feinstein, 2005,

[25]Before 1948, local (church-related) missions provided black education, though the government paid teachers' salaries. Overall, black education was severely underfunded, catering for a small proportion of students. For example, in 1949, only 30 per cent of children aged seven through sixteen attended school. Through the initiative known as "Bantu education" African education was under the control of the state. Under this system, only basic skills from the first four years of school were emphasized. Bantu education effectively lowered educational standards for early school years and played a role in deteriorating English proficiency levels for the minority of students who matriculated to higher primary and post-primary education (Ross, 2008, pp. 130-31; Feinstein, 2005, p. 159). Though the proportion of African children attending school rose to 85 per cent in the early 1990's, there was still a significant disparity on funding for black versus white pupils and it is unclear how this impacted corresponding levels of functional literacy. "In 1995, 80 per cent of black adults - and 40 per cent of whites - failed a test of functional literacy and numeracy, at a level more or less equivalent to seven years of schooling, which meant that about half of those, both black and white, who had completed such schooling had lost the skills supposedly acquired there" (Ross, 2008, pp. 130-31; Feinstein, 2005, p. 243).

[26]A distinctive aspect of South Africa's economic history is the creation of the 'colour bar', prohibiting Africans from engaging in (semi-)skilled work. Though racial discrimination dates as early as European settlement in the country, the first formal colour bar (in mining) was established during the 1890's and progressed especially during the first decade of the 20th century. The reason for the colour bar was not an inability on the part of Africans but rather "...the desire of white miners to protect their jobs and their very large income differentials." Source: Feinstein (2005, pp. 74-75)

p. 132). By the end of apartheid (in 1994), South Africa's labor productivity "... was only between 20 and 50 per cent of the level in a representative sample of developed nations, and between 50 and 75 per cent of the level in developing countries such as South Korea, Brazil, Taiwan, Mexico, and Morocco. South Africa's level of output per worker in manufacturing was superior to that of only four of the twenty countries ... (Egypt, Poland, India, and Indonesia)" (Feinstein, 2005, p. 245). As the economy is shifting from mining and manufacturing to IT-enabled services, the lack of access to education and higher skills development has created a shortage of talent for IT-enabled services like BPO and call centers.

With respect to global IT-enabled services, South Africa's skills still sit at the low end, where the sector is 89% voice and the majority of the contact center agents have a matric (high school) qualification (as opposed to India where many have college/university degrees). According to a DTI BPO&O report, only 7% of those with high school diploma in the country are ready for (international) BPO. South Africa's most recent value proposition to the global market mentions that the country has deep domain skills (i.e., large numbers of actuaries, chartered accountants, etc.), but based upon fieldwork, these people are absorbed into South Africa's financial services industry, not the BPO/contact center sector. Though South Africa has an extensive diaspora across the world as noted earlier, many of these people with technical and managerial talent left in the 1980's and 1990's based on South Africa's changing political economy. This shortage of talent has forced the government and industry to find creative ways of training prospective talent at the entry-level as well as managerial levels. In fact, the shortage of talent as well as the need for extensive training is a key part of premium cost for South African operations and the reason why incentive packages are provided by government. Cape Town (and South Africa generally) tend to attract international firms that are less sensitive to price (e.g., iiNET, Amazon, etc.) and more focused on cultural affinity (Paladin Report).[27] Ultimately, this means that Cape Town's BPO sector serves a mostly European market at the lower end of IT-enabled services (voice) where price competitiveness with India and the Philippines is not as important as other locational factors.

4.3.2 Telecommunications Costs

Though the developmental state ultimately forced Telkom to reduce its rates, this developmental state in the 1990's potentially contributed to the problem it sought to alleviate. Telkom liberalization and privatization was opposed by unions and the African National Congress (ANC) because it was thought such regulatory changes were pro-commercial and anti-social development, esp. in a new political, post-apartheid dispensation. The debate was between ANC and the Congress of South African Trade Unions (COSATU) vs. private industry. The net effect is that the government created a monopoly for Telkom that it used to increase prices from the 1990's through the mid-2000's (Lewis, 2005). The union's fears were not completely unfounded. In fact, as Telkom was privatized in the late 1990's, the large, formerly government-owned telecommunications incumbent operator shed many jobs due to outsourcing (from 50-60K jobs to only 17,000 in the early 2000's) (Omar, 2005). However, it was shown that Telkom's monopoly position initially encouraged by

[27] US-based Teletech left Cape Town in 2010 because, according to some field interviews, it was too price-sensitive.

COSATU and the ANC government led to price hikes there were anti-developmental. The push for BPO investment, in some ways, catalyzed a process of regulatory reform that made prices cheaper for all South Africans. Overall, the aspect of South Africa's history related to post-apartheid reform fueled a set of fears about telecommunications policy that was actually anti-developmental. Even if these policy positions were well-meaning by unions and the ANC government, it constrained its global advantage in IT-enabled services as well as domestic access to affordable telecommunications.

4.3.3 Labour Relations Act

The historic struggle between labor and capital in the context of racial equality has initiated a push in the post-apartheid developmental state to ensure equitable and permanent employment.[28] These labor regulation policies promulgated by COSATU and the ANC conflict with the FDI-focused wing of the state that is interested in job creation even if accompanied by temporary labor for unpredictable demand for global IT-enabled services. In a global context, IT-enabled services-related sectors are not highly unionized and investors tend to view unions with suspicion and as potential disruptors of operations (Benner et al., 2007). Telkom privatization in the late 1990's convinced unions that outsourcing was synonymous with "job shedding" and "exploitation." With the DTI promoting FDI and job creation, the 2002 ICT Sector Summit tried to get the backing of the unions to support call centers because it would lead to 100,000 jobs - and not the job shedding they had witnessed at Telkom. Supposedly this buy-in from the unions was critical for the government to move forward with the BPO sector support program.

In the Zuma political administration, there has been more of an alliance between government and COSATU. This renewed alliance between government and the unions has reportedly led to more unionization within government-based call centres and a renewed interested in the Labour Relations Act. Here I describe key components of the Act. In Section 200B, burden of proof is on employers to first give evidence that a contract they were on was a fixed-term contract and not some open-ended, indefinite contract that is exploiting a vulnerable worker. What will this mean? They want all employers to make all workers permanent.[29] South Africa's contact centre sector has a history, from its beginnings, of using staffing agencies (labor brokers) to hire agents as temporary labor and then "permanize" them after they are tried and tested. The issue with making labor permanent is that contact centres cannot forecast their call volumes. So they want

[28]The ANC-led government in the 1990's introduced progressive social and labor policies to redress structural and racial imbalances. With significant contributions from COSATU, the government formally deracialized the labor market, providing benefits that were reserved only for whites to the rest of its citizens (Masondo, 2012, p. 113; Nattrass and Seekings, 1997, pp. 456-57).

[29]By the late 1800's and early 1900's, African miners were recruited as temporary labor, with typical contracts ranging from twelve-to-eighteen months. These short-term contracts, the provision of controlled compounds where the laborers lived, and prohibitions on seeking outside employment facilitated unprecedented control that companies had over their workers (Feinstein, 2005, p. 64). There historically was a relatively high labor turnover among African labor in mining (as well as secondary) industry, compared to the whites who generally had steady jobs (Ross, 2008, p. 116). Perhaps this historic divide contributes to the debate on permanent employment, a reality of work life that eluded most African workers in South Africa's economic history.

a flexible staffing arrangement that conforms to their business requirements and making all their agents permanent would not make sense from a cost perspective. The Employment Services Bill says that all companies are required to post all vacancies, placements, and learning opportunities within 14 days to a central government HR database. The government "Labour Centres" will send candidates to the company. If the company refuses some of their candidates, the company has to tell them (the government) in writing why it refused some of their candidates. Some believe this may phase out the private HR industry. And the Basic Conditions of Employment Act stipulates that sub-contracting employees and principal employees must enjoy equal pay/benefits for work of equal value. It is expected that this will affect the productivity of workers.

Interestingly, this labor legislation aims to remove the temporary staffing industry which contact centers in Cape Town and across the country so heavily rely on.[30] As a response, the head of the DTI changed the name of the government sector support program from Business Process Outsourcing and Offshoring (BPO&O) Sector to Business Process Services and Offshoring (BPS&O) in 2010/2011 to avoid the controversial term "outsourcing." The future of labor legislation in the country remains to be seen, but it demonstrates that the institutions that gave rise to the developmental state that promotes BPO arises from the same fabric that insists on not just more but better jobs. This potentially raises the cost of labor and BPO operations in Cape Town, making the region less competitive on the global market.

4.4 Discussion and Conclusion

My working argument is that Cape Town's advantage is constructed on the basis of historical, institutional legacies that in the long-term threaten the growth of the sector. For example, consider the South African case where the gold mining industry was the basis for South Africa's comparative advantage in global trade. Mining and related industries set the stage for a set of well-developed (British-like) financial and legal institutions as well as "first world" infrastructure. European migration to South Africa made possible the linguistic advantage (British English, Dutch to Afrikaans, French, German, Hebrew) and expat-friendly (European/cosmopolitan) locations in South Africa (particularly Cape Town). The linguistic diversity, significant technical talent (e.g., mainframe programmers in financial sector), large domestic firms, and "first-world" financial/legal institutions, infrastructure, and ("culturally compatible") locations would become part of South Africa's BPO value proposition.

And yet the history and institutions that supported the conditions making South Africa marketable seem to threaten the sustainability of the sector. The enduring apartheid legacy perpetuates inequalities that compromise South Africa's value proposition. Inequitable access to education constrains the quality (i.e., higher value-added services) and quantity of work that South Africa

[30] At the firm-level there have been run-ins with unions where outsourcers and captives either have had to quell uprisings (e.g., MTN Durban Contact Centre June 2011) or retrench union staff (e.g., Merchants firing unionized staff from outsourced South African Airways contact centre).

can perform.[31] The institutional, historical context that produces the "factor endowments" making a region competitive also constrains it. South Africa's unique history provides a multi-lingual workforce with cultural compatibility and some technical talent. However, that same history produced an unequal society where workers and some dimension of the State are in opposition to Capital.

The attraction of foreign capital in IT-enabled services can catalyze a process whereby government seeks to alleviate challenges latent in the political economy. Creating training programs to educate unemployed, disadvantaged youth, pushing the incumbent telecommunications operator to deregulate the sector and make lower costs available to all, and developing a bureaucratic capability in investment promotion for IT-enabled services potentially benefit all of Cape Town and South Africa. However, the focus on foreign capital can fail to address the aspects of the political economy historically dis-articulated from the global economy. For example, historically disadvantaged regions and communities who have been bypassed by global trade flows could continue to be economically marginalized, furthering the distinctions between the two "South Africa's."

[31] Bangalore and other Indian cities are fast-growing, wealthy enclaves in a very poor, mostly rural, economy with a national per capita income of less than $1.50 per day. India's IT-related industries employ at most one million out of India's 410 million employees. Seventy-two percent of India is rural, and fifty-eight percent of the workforce depends on agriculture. Karnataka's IT sector provides only 0.7% of all jobs, most of which are concentrated in Bangalore (Saxenian, 2006, pp. 276, 320). India's ITES is concentrated spatially and has limited inter-industry links (Commander, 2005, pp. 29-30). However, because India has a large population, even a small percent of its working age population is still significant for foreign capital.

Chapter 5

How IT-Enabled Services Sectors Induce Development

5.1 Introduction

In this chapter, I argue that the focus on creating and nurturing a nascent BPO sector by the state induces an iterative, coordinated process that contributes to development more broadly. That is, a commitment to making the ICT sector succeed catalyzes a process of development whereby existing social, political, and institutional constraints are identified and removed in a coordinated way. Belief that IT-enabled services will drive economic development reveals the deeply contextual and starkly placed bottlenecks that hinder its diffusion and intended impact. Commitment to the belief in service-led development induces individuals to address these challenges in ways that I counterfactually argue (probably) would not have happened without such a belief. I further contend that the developmental benefits of focusing on the creation of a BPO sector are agnostic to the success of the ICT sector itself. This state-managed process that is especially committed to industrial policy creates a whole set of policies that benefit the political economy in a broader way.

This developmental process is not emblematic of trickle-down theory. The autonomous market mechanism does not drive the aspects of development in this case. Rather, it is members of an intentional State - along with other individuals (e.g., local entrepreneurs, members of the diaspora, "philanthropic cosmopolitans", and representatives from international agencies) - that drive this process. However, in both of my cases - as well as across the world - there is an assumption that the benefits of BPO will "trickle down" to others in the form of spillover employment effects. In a UN report with a significant focus on service-led development is the following quote:

> In addition, this expansion has had multiplier effects on other parts of the economy with additional job creation. In India, for example, it is estimated that every new job in IT(-enabled) services generates another 3.6 indirect jobs in related areas... In the Philippines, it has similarly been found that each new job results in two to three new jobs in other industries... Opportunities offered outside the IT-BPO industry itself include formal or informal sector work in facility maintenance and security, transporta-

> tion and other communication services, restaurants, shops, construction and various small business vendor entrepreneur operations, as well as domestic workers. For example, in Bangalore, India, the number of maid servants and construction workers has surged.[1]

As part of South Africa's process, it also forecasted a "multiplier effect" as a result of a growing BPO sector.

> At our estimate of 8.1 direct jobs per R1m production, BPO&O is ranked fifth across all sectors in terms of direct job creation - along with agriculture, clothing, tourism, wood products and so-called 'other producers' (predominately personal domestic services). However, the use of limited inputs, some of which are imported (especially IT hardware and software), also means that the BPO&O sector will have a small multiplier in line with other service industries. Our estimates are in line with those of business services more generally (which we ultimately use) at around 1.27 to 1.5. This multiplier can be expanded to include so-called 'second round effects' which include the jobs created by the spending of factor income (such as wages) on the domestic economy.[2]

I do not deny that this phenomenon, if it occurs, can be considered developmental.[3] But in this chapter, I show that the developmental impacts of BPO can be felt well beyond the sector itself. And further, I show that such developmental benefits are not inevitable (as a result of the market) but intentional (as a result of individuals from the public and private sectors). In the next section, I unpack the developmental process that is part of creating an IT-enabled services sector.

5.2 Informational Industry Creation as a Developmental Process

Here I describe how a focus on creating a BPO sector can catalyze a coordinated set of complex actions to unlock development and induce individuals - both in the public and private sectors - to understand history and context to re-create new institutions, norms, and practices. Noir and Walsham (2007, p. 326) comment, "...we do believe that there are great benefits of ICT for development. But, these benefits, we argue, often lie in unintended successes rather than necessarily in intended uses of ICT for development." They describe an example from their case study on the integration of information systems in Indian health centers:

[1] UNCTAD (2010, p. 69)

[2] Hodge and Maloney (2006, p. viii)

[3] Some members of the South African BPO sector have been skeptical of - or denied - the "multiplier effect" as an import of global consulting firms transporting the India experience to South Africa. Others relentlessly defend the "multiplier effect" as empirical reality.

> While the informant admitted that there had been no real success in terms of the HMIS goal of 'empowering local level managers to use information to take local decisions' there had been a number of successes on other levels. There had been empowerment in terms of computer literacy. Members of rural communities had become very able computer operators and proficient in the use of computer software. In this way, the informant argued, there had been an unintended effect of empowerment by decreasing the digital divide.[4]

Noir and Walsham go on to say that ICTD success metrics should be broadened to include outcomes not originally envisioned for the technical intervention. In this intervention, computer literacy was a prerequisite for leveraging HMIS to improve local decision-making. In the process of implementing the ICT tool, the "problem" of computer literacy had to be addressed. This new skill for the members of the rural community has benefits outside of the narrowly defined goal of the HMIS system.

Positive "unintended consequences" were also observed in a case study from Kenya involving agricultural biotechnology. In 1996/97, the Kenya Agricultural Research Institute (KARI) launched an international collaborative program with the aim of providing small-scale farmers with pathogen-free banana planting material through the use of tissue culture (TC) biotechnology. The project intended to build and upgrade banana TC capacity in four banana-growing regions, to expand the genetic base of banana and the varietal choice for growers by exchanging and introducing selected superior banana varieties with enhanced pest and disease resistance and higher yield, develop a sustainable distribution system of the TC materials to the smallholder farmers, and commercially evaluate the adaptability of this technology within current farming practices in Kenya. Addressing the barriers to technological diffusion and agricultural productivity led the project partners and community to address more general barriers to quality of life, such as lack of access to water, soil infertility, inadequate marketing and extension services infrastructure, gender disparities limiting economic prospects, and other related issues (Qaim, 1999b; Qaim, 1999a). In the case study, Qaim argues, "... a new technology application such as tissue culture plantlets could induce institutional innovations and attitude changes, which might be harder to achieve without such a mechanism" (Qaim, 1999a, pp. 9, 28). TC banana's role in highlighting impediments in this project brought more urgency to addressing these issues without the project. Qaim further comments,

> ... the potential of an appropriately introduced technological innovation to bring about broader institutional innovation and a more comprehensive modernization of farming systems should not be underestimated. In connection with a tangible technological product (i.e. TC plantlets) it will be much easier, for instance, to transfer knowledge about improved management practices than without such a tool.[5]

The technology development and diffusion process highlighted existing impediments and catalyzed coordinated efforts to remove a number of these different but related infrastructural and

[4] Noir and Walsham (2007, p. 327)

[5] Qaim (1999a, p. 19)

institutional constraints to potentially improve the quality of life of the Kenyan rural farmers. I clarify that it is not the technology itself that highlights the impediments and removes them. Rather, it is individuals that in pursuit of a technical goal are confronted with challenges. To achieve the goal, they remove the constraints - in an iterative and coordinated way.

Building on these illustrative examples, I show in this chapter that the focus on creating and nurturing a nascent BPO sector can induce developmental processes that are beneficial beyond the initial sector focus. Because of the infrastructural, educational, policy, and other issues that must be addressed, the BPO focus can draw attention to these issues. Promoting BPO as a key sector for foreign direct investment (FDI) can induce "policy advocacy," especially on the part of state agencies involved in investment promotion.

> Whereas investment generation and image-building depend on "marketing" a country on the basis of its existing strengths as an investment destination, successful policy advocacy remedies weaknesses in the investment climate and creates new strengths. It may also promote IPA goals other than FDI attraction.[6] For example, an IPA mandated with seeking benefit from FDI for domestic firms might advocate policies that establish a formal business linkage programme or provide incentives to transnational corporations (TNCs) that create greater technology spillovers. Ideally, those bodies which oversee IPAs will take a long-term view and allow IPAs to advocate measures - such as infrastructure and sector development - that support not only FDI but also national competitiveness overall. In this way, IPA policy advocacy can be seen as having three major functions in terms of overall national development:
>
> - Shaping the investment climate to attract greater inflows of FDI;
> - Promoting policies that allow greater benefits to be extracted from that FDI; and
> - Building national competitiveness in a global economy.[7]

Policy advocacy, as part of the investment promotion process, can be a tool for creating assets and investing in public goods that benefit the country beyond the specific focus on a particular form of FDI. In fact, "... The less developed a location and its investment climate, the more fundamental policy advocacy is in FDI attraction." (UNCTAD, 2008, p. 13). In many economies, especially in Sub-Saharan Africa, investors view the investment climate as risky relative to other locations. Policy advocacy can play a role in improving this investment climate through more long-term investments. In the report, UNCTAD argued that "... IPAs should advocate for infrastructure, education and other long-term development needs, where resources and expertise allow. Although IPAs have little control over national expenditures on infrastructure and education, they may be able to persuade relevant decision makers that the lack of long-term commitments in these areas is an immediate deterrence for foreign investors and a long-term impediment to development." (UNCTAD, 2008, p. 65) The power of policy advocacy, especially in IT-enabled services like

[6] IPA stands for investment promotion agency.

[7] UNCTAD (2008, p. 5)

BPO, is that the immediate challenges to the sector are also long-term constraints in the political economy - namely, infrastructure and education.

5.3 Kenya and South Africa BPO Policy Processes

In this section, I document the policy processes that led Kenya and South Africa to address constraints relevant for their emerging BPO sectors. I start with the general policy processes and then center on telecommunications and education for the purposes of this chapter.

5.3.1 Kenya

Kenya's policy framework for BPO has roots in Vision 2030 and the ICT Policy of 2006 which aimed to generate employment and promote entrepreneurship through IT, encourage investments in IT-enabled services, and provide adequate infrastructure. With the success of early BPO firms, and with more firms joining the IT-enabled services sector, BPO and contact centers became a national priority. In 2007, Kenya's Vision 2030 was launched, aiming to transform Kenya into a newly industrializing "middle-income country" by 2030. The vision was founded on economic, social, and political pillars. BPO was identified as one of the key economic sectors to drive economic growth of 10% per annum for 25 years. Within this sectoral focus, the overall goal was to be "the top BPO destination in Africa" by attracting global IT suppliers, large multinational company captives and foreign BPO players and developing strong local firms. Kenya's Vision 2030 was to be implemented in 5 Medium-Term Plans (MTPs). Within the first MTP (2008-2012), the goal was to create 7,500 direct BPO jobs with an additional GDP contribution of KSH 10 billion ($149.7M).[8] Specifically, this meant attracting at least 5 major leading IT suppliers, attracting 10 large multinational captives and global players, and targeting 5 local players develop as "local champions."[9] The strategy would entail a combination of marketing (in UK, followed by US and Canada), training, incentives, improvement in telecommunications infrastructure, and the establishment of a BPO park (National Economic and Social Council, 2007).[10]

Kenya's ICT Board was established as a State Corporation by President Mwai Kibaki February 19, 2007 and became operational in 2008 (Kenya ICT Board, 2008).[11] In line with the Medium Term goals of Vision 2030 for BPO, the Board's Marketing Objectives were to develop and launch a brand, creating 12,500 BPO jobs by 2012 (including attracting 3 top ICT vendors, international BPO companies, and developing local champions) as well as attain top 40 status on the Kearney Global Services Location Index by 2012. Its five point plan, which resembled Vision 2030,

[8] Assuming Exchange rate of 1USD = 66.78103KSh (2007 Yearly Average).

[9] To put this FDI strategy in perspective, South Africa had 79,000 call center workers (captive and outsourced) in 2002 and managed to attract 9 major multinationals in the period 2003-2009 according to its latest BPO value proposition (i.e., 9 MNCs in 6 years). Kenya by comparison had no more than 1,000 workers (captive and outsourced) in 2007 and intended to attract 10 multinationals in 4 years.

[10] This strategy (developed by McKinsey & Company) for the Government of Kenya, would largely set the institutional agenda for the Kenya ICT (Information and Communication Technology) Board that would later be formed.

[11] Personal Communication with Eunice Kariuki, Marketing Officer, Kenya ICT Board, June 21, 2011.

consisted of local and international marketing, capacity support, skills and standards intervention, bandwidth support, and research and benchmarking (Kenya ICT Board, 2008, p. 8). The Board also commissioned McKinsey & Company to develop a value proposition and go-to-market strategy for the sector in 2009. And in 2011, they hired consultants from IBM to advise the government on data security and privacy law. Key to the strategy of attracting BPO investment was a focus on alleviating constraints, particularly in the areas of telecommunications and education.

5.3.2 South Africa

During 2004-05, McKinsey and Company, which had developed a BPO strategy for the City of Johannesburg used this work as a basis to develop a value proposition for the country at the request of the Department of Trade and Industry (DTI). They estimated that a likely scenario for South Africa's BPO sector - given investment in a number of areas - could lead to 100,000 jobs (25,000 direct and 75,000 indirect). However, to realize that potential, South Africa would have to address a number of constraints. Several challenges were elucidated, including telecommunications, labor quality, quantity, and costs, and investment incentives (See Figure 5.1).

McKinsey and Company conducted a study (with inputs from local consulting firms) demonstrating that South Africa had gaps in the following areas: talent availability; operational costs; operational risks; set-up; regulations; vendor landscape; and marketing. To alleviate the gaps, McKinsey & Company proposed initiatives (outlined in Figure 5.2) that would form the national BPO strategy with 5 pillars: marketing, industry mobilization, standards, talent development, and incentives.

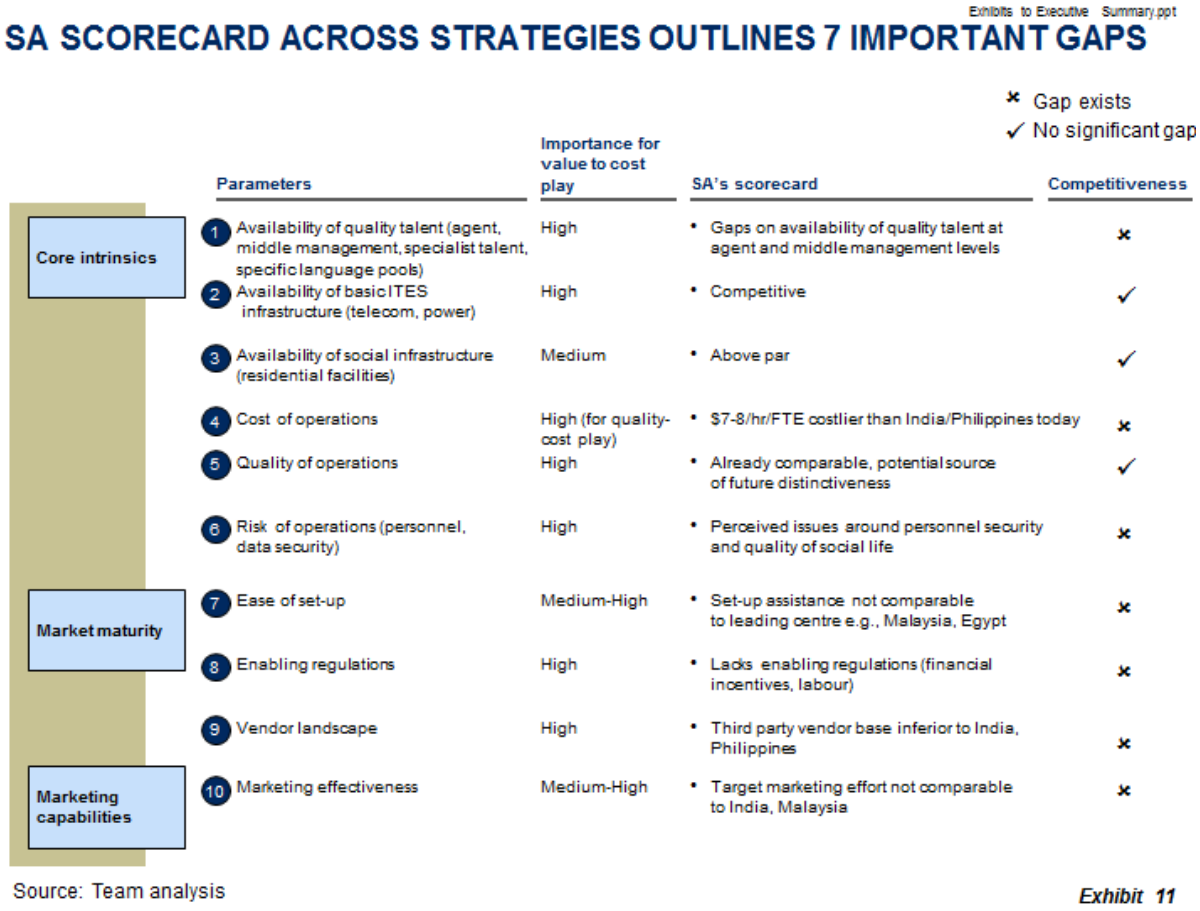
These initiatives were formalized in the DTI's Customized Sector Program for BPO as well as their Industrial Policy Action Plans (I and II). In addressing the issues to make the region competitive for BPO investment, stakeholders recognized that some broader benefits could arise from the investments aforementioned. Consider the following excerpt from an industry report:

> BPO has the potential to make a significant contribution to accelerating and sharing growth in South Africa... It was predicted that the sector had the potential to create 100,000 new jobs in South Africa (25,000 direct and 75,000 indirect) and contribute up to R16-billion to GDP over four years. A number of added benefits were also identified, including:
>
> - social benefits as a result of the improved quality of life due to development and increased employment within the local economy;
> - knowledge enhancement as a result of the increase in the pool of highly skilled labour and the capacity of public and private training providers to service the industry;
> - the enhanced image of the “South Africa brand” by promoting the country as a leading player in the knowledge economy; and

- infrastructure improvement arising from improvements in information technology and related services and utilities. Because of its potential for accelerating and sharing growth, the BPO&O sector was identified as one of three priority sectors by government in 2005 [12]

This excerpt demonstrates that the South African BPO sector had the potential not only to create new jobs but also to enhance the labor market, enhance South Africa's image and brand, and improve infrastructure.

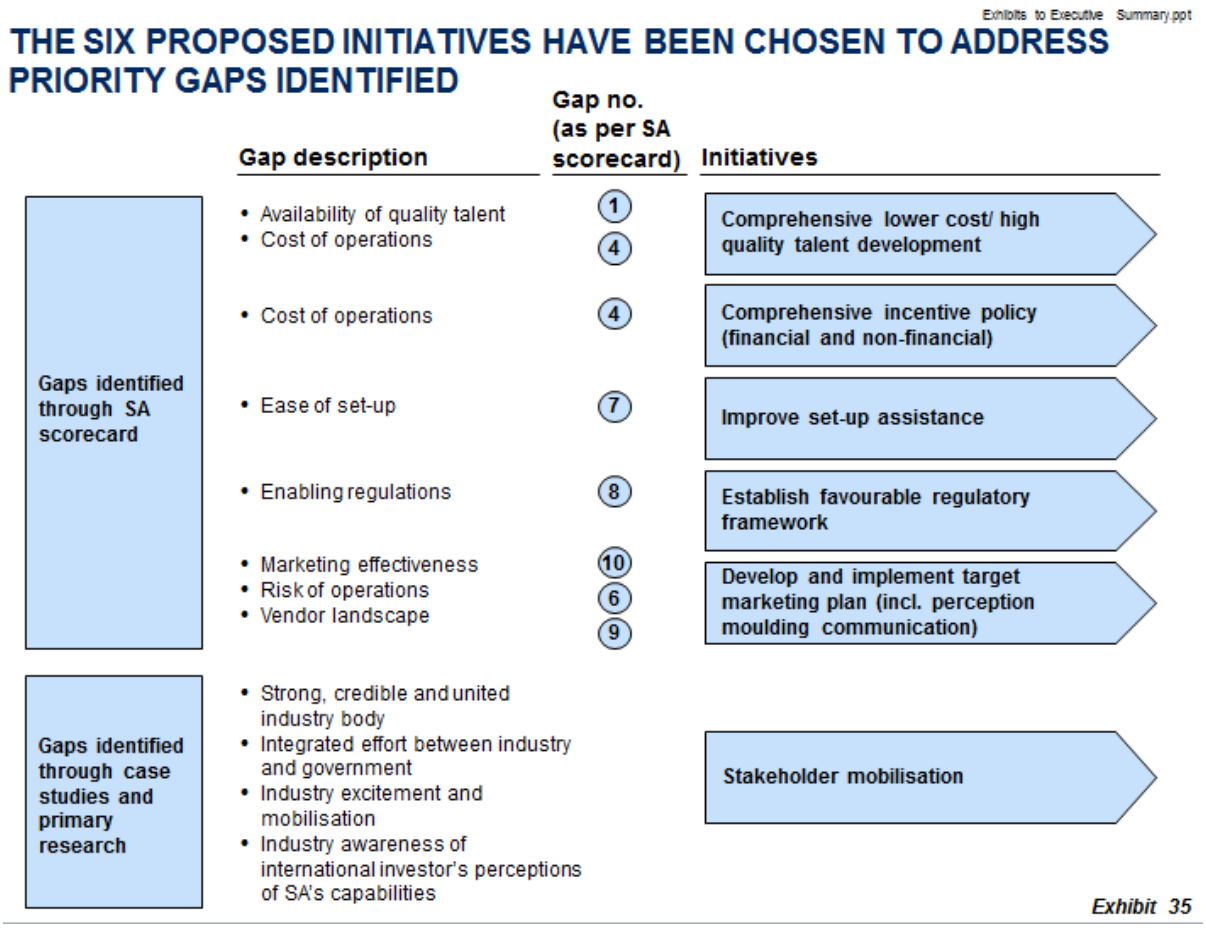
Figure 5.1: South Africa Scorecard and Important Gaps



Source: McKinsey 2004 Report

[12] DTI et al. (2009, p. 5)

Figure 5.2: Proposed Initiatives for Addressing South Africa's Gaps



Source: McKinsey 2004 Report

5.4 Kenya's Telecommunications Infrastructure

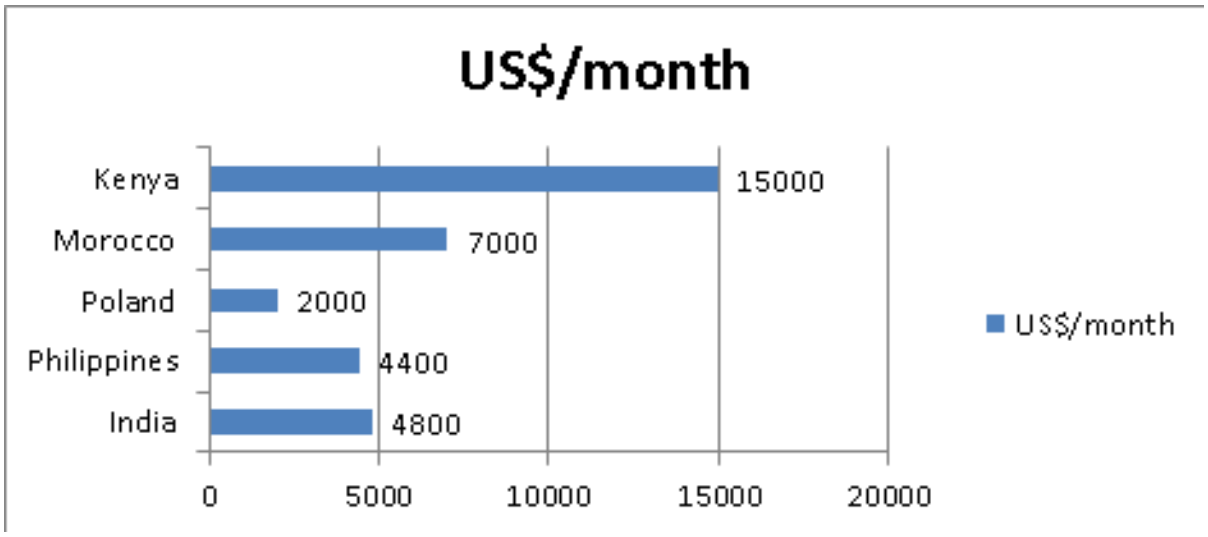
As mentioned earlier, telecommunications infrastructure is a critical input into IT-enabled services. Early in Kenya's BPO policy process, the lack of international telecommunications connectivity was cited as a major deterrent to foreign direct investment.

> Kenya, impeded in the BPO industry to-date by poor and expensive communication links to the rest of the world, is hoping that the arrival of the fibre-optic cable will boost its status as the region's top economy. Kenya hopes that this, plus cheap labour, clear accents and customer fatigue with Indian call centres could help it hook into

> this multi-billion dollar industry. As an indication of how important this sector is to Kenya's economic growth, BPO is one of the pillars in the government's Vision 2030 document. Kenya has also developed a policy framework and defined some strategic directions (Kenya ICT Strategy 2006), one of which explicitly focuses on BPO as a key opportunity for realising the country's ICT objectives.[13]

A significant, if not overwhelming, portion of the expense of connecting to the Internet from Africa is the cost of linking to distant international networks. Up until 2009, East Africa was the most poorly connected large region of the world (See Figure 5.3).

Figure 5.3: Telecom Bandwidth Cost for 2Mbps International Leased Line to UK



Source: Kenya Ministry of Information and Communication, Telegeography, World Bank as cited in National Economic and Social Council (2007, p. 79)

In an effort to address East Africa's bandwidth poverty, several undersea fiber optic cable projects were commenced, with TEAMS (Governments of Kenya and United Arab Emirates) and SEACOM (privately funded) slated for arrival in mid-to-late 2009. Before the cables arrived, the Kenyan government received a subsidy from the World Bank to subsidize select BPO firms (Waema, 2009, p. 8).[14] The BPO project was the push needed by the public and private sectors to bring undersea fiber optic cables to the region, a desire expressed as early as 1980.

[13] Waema (2009, p. 8)

[14] Until the fiber infrastructure came, the World Bank provided a subsidy to BPO and call center firms relying on the outdated satellite infrastructure. In the first installment of the subsidy scheme (July 2007 to February 2009), only seven out of twenty-three companies that applied for the subsidy qualified to receive it. The combination of stringent criteria for the firms and the lack of price reductions five months following the arrival of the fiber optic cables systems would

With respect to the companies in the emerging sector, there were four general classes of responses to the arrival of the ICT infrastructure. The first response was that the rollout of the undersea fiber optic cable (along with terrestrial fiber) would radically change the face of their businesses - both in terms of the range of services that could be delivered as well as the volume of work that could be done. Most BPO and contact center firms could not do voice work because the quality (latency) and price (costs) of dialing over a satellite connection. Thus, the fiber represented an opportunity for Kenyan companies to truly exploit what they thought was their competitive advantage - voice. The second response was that fiber would not change the services the company offered but rather the volume of work they could perform. Several companies shared stories of how long it took to download multimedia files for transcription. Theoretically, if they were able to download more files in a shorter amount of time, they could get more business and thus employ more people. So some managers saw bandwidth constraints as a bottleneck for business expansion and employment creation.

The third response was that the presence of the undersea fiber optic cables would help make Kenya a more attractive outsourcing destination. One of the consultants to the industry mentioned that some investors (interested in setting up a massive call center) would not locate their operations to a location with only 2 or 3 undersea fiber optic cables.[15] Therefore, the fiber would essentially put Kenya on the global map. The fourth response (and one of the most interesting) is that fiber optic cable developments would marginally, if at all, improve business processes, profitability, and expansion. They thought that ICT infrastructure was not the constraining factor for firm strategy but that efficiency, the ability to secure contracts, and the track record of delivering project on time and to the specification of the client(s) were the key challenges. History would show that the fourth response was more accurate and that even when broadband arrived, the BPO sector would not grow only from the provision of fiber telecommunications.

5.5 South Africa's Telecommunications Investments

One of the reported challenges from the initial research reports on South Africa's BPO sector was the relatively high cost of telecommunications (Genesis Analytics, 2003). One media report mentioned that according to the DTI, by 2004 the country had lost potential business from 32 international companies due to high telecoms costs, with the majority of the business focused on call centers (Times, 2004). Though Telkom reportedly sponsored one of the first studies on South Africa's BPO potential, it was unwilling to provide internationally competitive rates to local firms and international investors to grow the sector. Telkom's intransigent pricing practices and

lead to only $508,937.29 of the budgeted $7 million subsidy being disbursed in this first phase. The subsidy program was extended, based on the same set of criteria, and according to the Vision 2030 Mid-Term Report, thirty-eight BPO operators received the subsidy (Waema, 2009; Mark, 2010;Ministry of State for Planning National Development and Vision 2030, 2011).

[15]The investor was concerned about ensuring stability and redundancy in case one or more undersea fiber optic cables were severed.

unwillingness to liberalize and deregulate the telecom sector spurred a lobby by the BPO industry to change the telecommunications landscape.

Several studies were conducted as benchmarking exercises to demonstrate the country's relatively high telecommunications costs. In 2004, Bridges.org sponsored a study showing that South Africa's ICT legislation was compromising the country's position as a potential technology leader (LiquidAfrica, 2004c). In 2004/2005, the South Africa Foundation sponsored a study claiming that data and call costs were restricting call center growth in the country (Genesis Analytics, 2005, p. 9). Johannesburg-based Call Centre Nucleus led call center players in a proposal to incentivize offshoring by offering zero telecommunications costs (Infonomics South Africa and Shoretec International, 2003). The Provincial Government of the Western Cape intended to change the way national government thought about telecommunications through the promotion of competition, explicit preservation of voice within the proposed telecommunications convergence bill at the time, and access and pricing regulation of SAT-3 cable (Provincial Government of the Western Cape, 2005). And SACCOM (BPeSA predecessor organization) had setup a Telco Action Committee (TAC) to engage the Department of Communications, ICASA (telecommunications regulator), and Telkom for competitive price positioning.[16] It is useful to note here that the impetus for telecommunications reform was competitive benchmarking exercises. When the BPO sector, along with government, compared South Africa's costs relative to other global locations, it realized more needed to be done to liberalize the sector and bring its cost structure in line with that of other countries if it was to successfully compete in BPO. For example, the following quote (from June 2007) shows this:

> The call centre industry maintains that even the discounted international call rates are not good enough to set the industry on a par with its major competitors. “We would like to see the prices aligned with our major competitors like India, Malaysia, and Philippines, said Fusion Outsourcing managing director Johann Kunz.[17]

By 2007, President Mbeki announced during his opening address at Parliament that Telkom would “apply a special low rate for international bandwidth to 10 development call centres each employing 1,000 persons.” The rates would be commensurate with those of comparable countries (Mawson and Senne, 2007). Later that year (2007), the DTI issued Telkom instructions to reduce its rates on BPO operations and with the rates was able to attract investments from three foreign firms (one US and two European). This happened at the end of months of negotiation between the State and Telkom over cheaper prices (Roux, 2007). The end to the protracted deadlock between the State and Telkom was resolved by an agreement to provide reasonable pricing for both the BPO operators and Telkom as well as not engage in discriminatory tariffs. Making the tariff “developmental,” where firms of only a certain size could benefit, was key (Hill, 2007a; Hill, 2007b). A more significant development later on was the liberalization of the telecommunications industry for which the BPO industry lobbied. The potential of BPO motivated the government to more actively engage the telecommunications sector in competitive pricing. The belief that ITES could

[16] According to SACCOM newsletter.

[17] Mangxamba (2007b)

create jobs was a powerful lobbying point for the government to counteract concerns from Telkom about lost revenue. Economic development, as a result of IT and offshoring, was used by the State to force Telkom's hand and make public infrastructure more accessible to local and global firms.

Following the liberalization of the sector, a chief government official remarked the following:

> Today's launch comes in the wake of a long-awaited agreement between Telkom and the department of communications, aimed at reducing telecoms costs, which make up about 15 percent of total costs for investors.
>
> Mokoena said: "Besides attracting more foreign direct investment, the cut in pricing will make operators more competitive and will enable them to pursue and win more business. This is likely to create thousands more jobs in the South African economy."[18]

Like this official, another government official from the Western Cape had a similar understanding in 2004:

> Ebrahim Rasool, premier of South Africa's Western Cape, said the country was in a position to offer a "credible alternative" to India as an outsourcing centre thanks to its stable economy, relatively low costs and the advantages of its time zone proximity to the UK and the rest of Europe.
>
> The biggest spur to growth, said Mr Rasool, would be the February 2005 deregulation of South Africa's telecoms industry, which would lower costs even further.
>
> Mr Rasool said in Cape Town yesterday: "We are signalling that South Africa is open for business as an exciting offshore market and as a credible alternative to existing offshore destinations."[19]

Unfortunately, the policy changes involving telecommunications were not sufficient to bring the jobs envisioned by the sector. Public and private sectors would go back to the drawing board and discover that telecommunications was not the biggest constraint. Rather, the quality and quantity of its labor pools contributed more to the costs of doing business in South Africa than even telecommunications as originally thought.

5.6 Iterative Development: From Investments in Telecommunications to Education

In both Kenya and South Africa, the failure of telecommunications investments and reform to bring about increased BPO investments as originally conceived led both regions to rethink the elements of its competitive offerings. They both began to shift their focus from telecommunications

[18] Hazelhurst (2007)

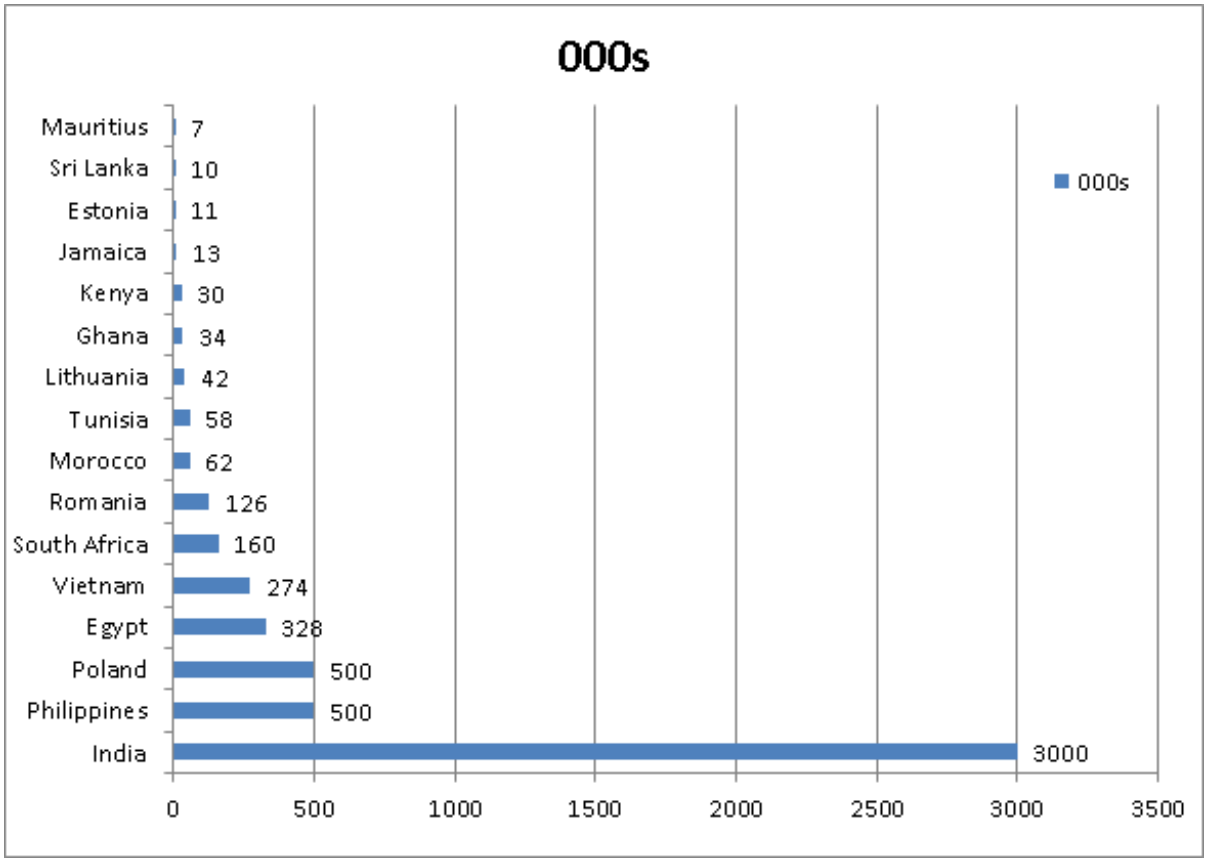
[19] Reece (2004)

infrastructure and prices to increasing the quality and quantity of their labor forces suitable for international services-based work.

5.6.1 Kenya's Investments in Education

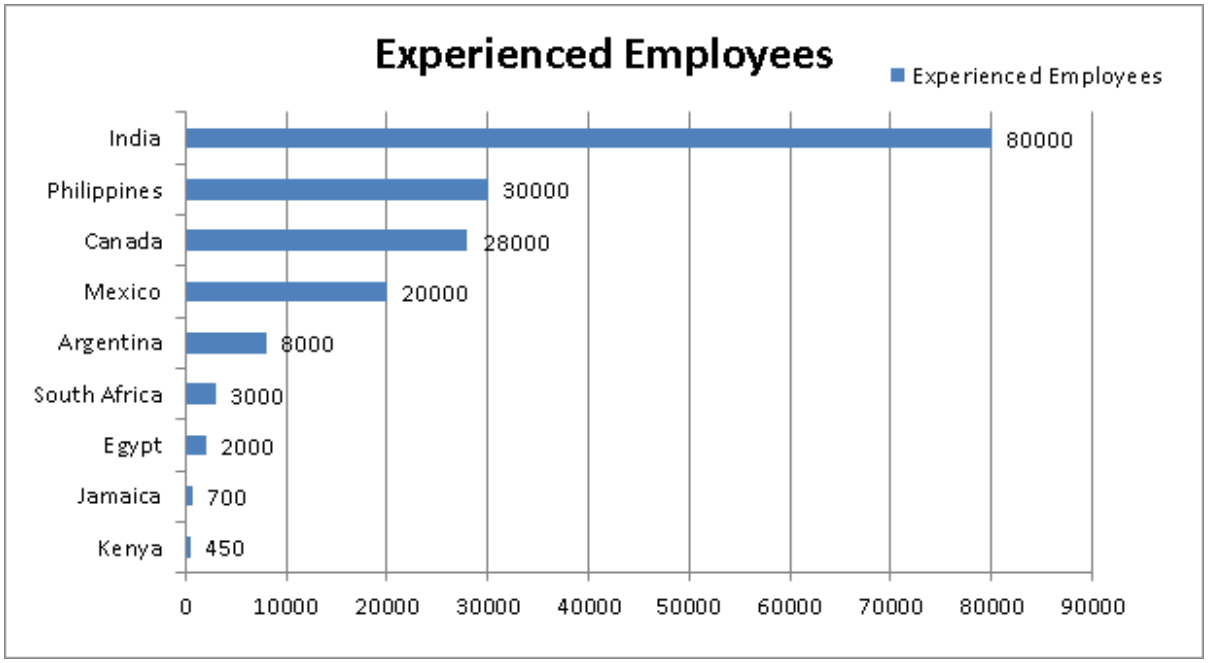
Kenya's quality and quantity of labor currently constrains its employment prospects and has led to a series of institutional developments for training in the sector. With respect to the quantity of its labor force, Kenya is at a disadvantage relative to other offshoring locations that compete for English language BPO and contact center work. In Figures 5.4 and 5.5, Kenya has significantly less labor than other locations in general and at the managerial levels.

Figure 5.4: Annual Tertiary Education Labor Pool Estimates by Country (2009)



Source: Adapted from Everest Research Institute (2009, p. 1)

Figure 5.5: Experienced Talent Pool (Supervisors, Team Leads, and Managers) in BPO (2008)



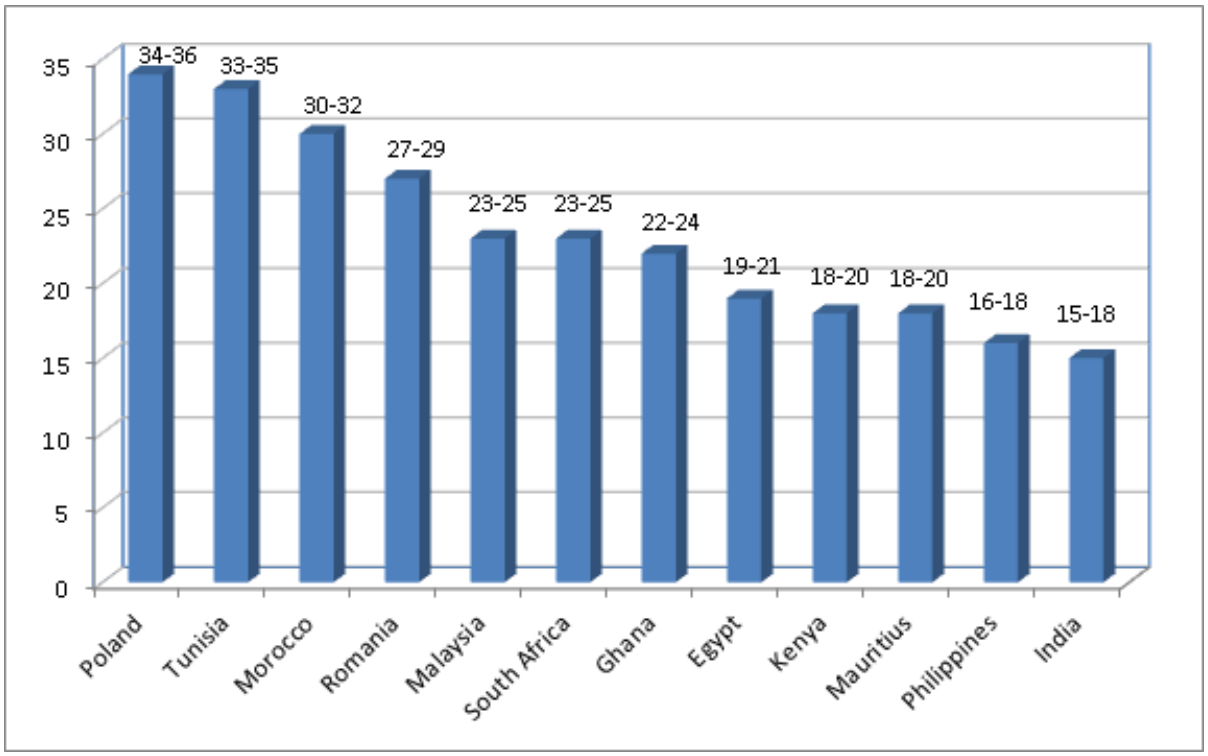
Source: Everest Group and Letsema Consulting (2008, p. 124)

Not just the quantity, but the quality of the labor force able to work in international BPO is critical. As part of McKinsey & Company's Value Proposition engagement for the Kenya ICT Board in 2009, they assessed how many out of the 30,000 university graduates (and 250,000 high school leavers) at the time were "ready-to-hire" for multinationals. According to the report, only 5,000 graduates were suitable for employment in the industry (World Bank, 2010, p. 31).[20] According to this research, Kenya was constrained with respect to both population and talent, relegating it to lower end of the services value chain in basic data and voice processing services (Gathara, 2010; Sudan et al., 2010, pp. 54, 59). But from a labor cost arbitrage perspective, Kenya is relatively competitive. In both Figure 5.6 and Table 5.1, Kenya is relatively cost competitive, especially at

[20]While in Kenya, there was considerable controversy over these findings which significantly discounted the labor pool for multinationals. However, by comparison, research by McKinsey Global Institute established that only 13% of university graduates from 28 low-wage nations are suitable for multinationals. Factors limiting the talent pool include lack of practical skills, insufficient English proficiency, suitable talent not residing in major international hubs, and lack of cultural fit with multinational norms. The low-wage nations are Argentina, Brazil, Bulgaria, Chile, China, Colombia, Croatia, Czech Republic, Estonia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Philippines, Poland, Romania, Russia, Slovakia, Slovenia, South Africa, Thailand, Turkey, Ukraine, Venezuela, and Vietnam. Furthermore, in India, the suitability of Indian grads for multinationals ranges from 10 to 25% (Farrell and Institute., 2006, pp. 13-15, 29-30).

the lower end of IT-enabled services. Kenya's challenge is in creating the scale of labor that is needed to attract multinationals as planned in Vision 2030.

Figure 5.6: Direct Operating Cost per Full Time Employee (FTE) for Transactional Finance and Accounting (F&A) (2009; US$ 000 per annum per FTE)



Source: Everest Research Institute (2009, p. 2)

Table 5.1: Labor Cost per Hour per Full-Time Equivalent for Data Processing (in US Dollars)

Country	**Data Processing**	**Voice Services**	**Knowledge**	**IT Services**
United States	23.67	25.25	45.67	46.32
India	5.34	6.55	14.02	8.78
Indonesia	6.03	6.03	9.74	5.27
Kenya	4.41	4.85	12.73	7.50

Source: Sudan et al. (2010, p. 64) based on McKinsey & Company 2008 Consultancy Inputs

In efforts to address Kenya's human resource quantity and quality constraints, various training programs have been launched. According to the 2010 Kenya ICT Board Survey, 73.5 percent of

IT-enabled services firms facilitate their own in-house training, with huge costs for the BPO operators. For example, KenCall spends Sh10 million ($133,802 USD)[21] on average annually on in-house training (Juma, 2009). As a result, the following institutions have begun to offer BPO skills training: Multimedia University College of Kenya (industry-specific college established by the government for ICT skills development), Jomo Kenyatta University of Agriculture and Technology (JKUAT), Augustana College, Cambridge BPO training center, Horizon Call Centers, Direct Channel Call Centers, and Wisemen Trainers and Consultants (Kariuki, 2010, p. 7). According to the Vision 2030 Medium Term Plan Progress Report, JKUAT trained 1,341 youth trained in BPO and entrepreneurship skills (Ministry of State for Planning National Development and Vision 2030, 2011, p. 78). Other developments include the creation of the African BPO Academy by Gilda Odera, in partnership with the BPO Certification Institute (BCI), an international firm offering BPO standards, consultancy, and certification services (Avasant, 2012, p. 46).[22] The Kenya ICT Board is also planning the creation of a BPO Centre of Excellence to standardize BPO curricula and certification across the industry (Gathara, 2010).

5.6.2 South Africa's Educational Investments

As the telecommunications costs decreased, a growing concern was South Africa's ability to train and attract talent (Guest, 2007). Many challenges existed throughout the sector. Supposedly South Africa is the world's third largest location for English language BPO after India and the Philippines.[23] Though South Africa has approximately 350,000 high school and college graduates, many young adults (esp. from disadvantaged backgrounds) did not have the skills to be employed in the call center sector owing to the schooling system legacy of Apartheid (Macheke, 2008). In the Western Cape, high attrition rates were considered both a cause and effect of low numbers of suitably trained candidates (Provincial Government of the Western Cape, 2005). Some interview respondents said that in the early days of going to the international market (2002-03), potential investors asked where the training institutions for BPO were. As early as 1998, the Call Centre Competency Association was formed to develop a nationally recognized curriculum[24] for call center training to establish career pathing guidelines, set performance benchmarks in the industry, and develop internationally competitive standards that also benefit industry (Sirin, 2001).

The BPO Skills Development Strategy had three objectives: targeting 30,000 unemployed individuals from disadvantaged backgrounds for entry-level training in the 2006-2010 period; creating a cadre of home-grown managers and supervisors; and ongoing support for globally competitive talent development at all levels (Macheke, 2008). Based on the Skills Development Strategy,

[21] Assumes 1 USD = 74.73711 (2009 Yearly Rate).

[22] http://www.africanbpoacademy.com

[23] According to Everest Research Institute (Offshoring South Africa, 2010)

[24] The call center training would be standardized as part of the National Qualification Forum (NQF) and South African Qualifications Authority (SAQA), building on South Africa's recently passed Skills Development Act. This curriculum for call center management was for various levels (agents, team leaders, supervisors, managers). This curriculum has an in-class as well as work-place component that allows for grants to be claimed by corporate firms that take in the call center learners. This curriculum created a supply of training providers as well as local universities aligned with the unit standards.

the Monyetla[25] Work Readiness Programme was launched in 2008/09.[26] The pilot program in 2008/2009 trained 1,300 learners, the second phase trained 3,350 learners in 2010/2011, and the current (third) phase aims to train an additional 3,000 unemployed youth (Rockefeller Foundation, 2011, p. 14).[27] For the approximate 4,700 learners from the first two phases, 86% were employed (Rockefeller Foundation, 2011, p. 42).The training programs have been a way for the country to address the skills challenges that perpetuate unemployment in South Africa, which by some numbers is as high as 50% for working age adults. The focus on the promise of job creation through ITES drew attention to the under-education working age population and catalyzed the formation of training programs and institutions for the unemployed and previously disadvantaged.

More recently, BPO stakeholders say the bottleneck within the contact center is not necessarily at the agent level but at first line middle-management which keeps the agents productive and where the country has not invested. One industry association, the Contact Centre Management Association (CCMG), has emerged (2009) in response to this challenge. Only 10% of this group (coming from programs like Monyetla) has been able to effectively serve the offshore component and the industry has seen it is as waste of money and time. Though the success of the more recent initiatives to address managerial talent remain to be seen, this development reveals how the BPO sector is committed to address the constraints in its sector in an iterative and coordinated way.

5.7 Conclusion

5.7.1 Offshore Services as a Driver of Institutional Development in Kenya

The Vision 2030 Medium Term Progress Report documented that the Kenyan IT-enabled services sector created 619 jobs in the 2009/10, only 8.3% of the projected target in the first medium term plan. Based on this progress, it is unlikely that the sector will achieve its employment targets in the short-term. In comparative perspective, India had an abundant supply of labor and institutions for the creation of labor supply in advance of the market demand for IT and IT-enabled services at the end of the 1990's. And in other centers of technology entrepreneurship, there was a ready supply of labor for the market opportunity in software services. Kenya did not have this ready supply of labor at the high or low end of the IT-enabled services value chain. However, the promise of massive employment through offshore linkages has catalyzed a process of institutional creation and reform. Concerns about the quality and quantity of labor for multinationals created the demand for training institutions. The government's sponsorship of the TEAMS undersea fiber optic cable project was underpinned, in part, by the promise of IT as a driver for mass employment.

Other policy and institutional developments also arose in response to Kenya's challenges. Because international (and particularly European) clients need data security and privacy, it created a demand in policy for the pending Data Protection Bill. The need for standards and certification

[25] SeSotho word for ”opportunity.”

[26] Deloitte's research on the skills development strategy resulted in Monyetla.

[27] Results also disseminated in Monyetla Briefing Session Report from May 2012: http://www.paladin-consulting.co.za/pc/files/files/Monyetla%203%20%20RFPBriefing%20Generic_0.pdf.

would create a demand for an industry body. Therefore, in a country like Kenya where firms, labor, infrastructure, and the enabling environment did not have the capacity to effectively deliver to the global market, institutions were created to respond to this need. The effectiveness of those institutions remains to be seen, but this institutional creation answers, in part, a question of how clusters emerge. It begins to answer how non-market institutions for labor supply, policy and incentive creation, and telecommunications development develop in response to perceived and/or empirical locational disadvantage relative to other offshoring destinations.

5.7.2 South Africa and Institutional Developments

By 2011, South Africa had reportedly created 10,000 offshore jobs.[28] These numbers fell below the sector's targets. In developing a strategy and addressing constraints, South Africa addressed several long-standing constraints in the economy - namely, telecommunications costs and education. In the South African case, the potential of BPO/ITES for job creation was never questioned. The assumption was that given the potential (which could be translated from the geographic and temporal context of India), South Africa could achieve certain job creation and investment targets if local constraints were addressed. Mitigating these challenges already latent in the economy led to a number of institutional changes that transformed local industry and government. The belief in BPO as a driver of economic growth and job creation induced a set of actions that benefited the economy, regardless of the failure of the ICT vision to manifest 100,000 jobs as of this writing.

5.7.3 BPO Focus Leads to Development and Institutional Reform

The unrealized potential of a regional or national project to create a BPO industry can motivate its proponents to investigate the context in which the technical intervention is being imported. I argue that in Kenya and South Africa, this insistence on developing BPO led to a focus on underlying constraints that obstructed the movement of the business model, technology, and its success to their regions. In reaching for a concept abstracted out of space and time (e.g., from India), they attempted to address spatial and temporal constraints in their own contexts, reconstituting institutions and practices that could benefit not only their visions for the BPO sector but also the broader economy.

The failure of the BPO project is actually beneficial for iterative analysis of the underlying social, economic, and political context. In Kenya and South Africa, telecommunications infrastructure was made available and affordable for call center operators. Yet, such technical provisions did not automatically bring the jobs promised with the BPO promise. In both cases, the countries focused their attention on the labor supply and quality bottlenecks. These cases demonstrate that when ICT did not do what it was promised to do, people committed to BPO's success did not abandon the technology promise but rather created new organizations, trained the unemployed, crafted incentives and policies, and invested in additional infrastructure. The industry and govern-

[28] Some members in the sector that I interviewed disagree with the evaluation of jobs created. Some reasoned the country created no more than 5-10K offshore jobs in the 2005-2011 period.

ment stakeholders sought to continuously remake their institutional environment amenable to the unquestioned benefits of BPO and call centers.

In some of my discussions with industry representatives, very few (that I spoke with) knew about India's investments in education and infrastructure going back to the middle of the 20th century that laid the foundations for the BPO and software industry to take off. Most had no knowledge of India's relationships with US technology multinationals, body-shopping practices, and immigration patterns. Some knew about the Y2K bug that created the demand for Indian technical labor, but very few (if any) acknowledged that India's dominance is as much through planning and strategy as it is historical accident. Not understanding the history and context of technology and business models can obfuscate the processes that led to India's success. The isomorphic organizational forms of companies, industry associations, technologies, policies, and incentives can be replicated across the world. But the history, institutions, and idiosyncratic circumstances cannot.

This ignorance is both a curse and blessing. Ignorance creates an unrealistic expectation that India's recent export-oriented technology success can be replicated in five-or-ten year plans, government funding, and attractive marketing materials. The blessing is that if a region - even in its ignorance - is committed to create jobs like India, it is forced to introspectively analyze its political economy and address latent challenges it otherwise would not have addressed. The argument of this chapter is that the process of addressing latent constraints is the power and potential of ICTD projects, irrespective of the original intent or expected outcomes. If success is broadened to include the unintended consequences of the focus on BPO, it may possibly involve investments in infrastructure, education, and other public goods in addition to new norms and practices of public and private sector coordination.

This argument has several implications. It addresses a concern among practitioners about the BPO sector and larger issues involving ICTD project failure. If the rubrics for ICTD success are widened to include aspects of the project outside of its original intent, then even technical failure might be accompanied by institutional or organizational success. For example, was the widely publicized One Laptop per Child project a complete failure? Or did it create a conversation around education and computing in dozens of countries in a relatively short amount of time involving public, private, and charitable stakeholders? Other similar questions can be asked about ICTD projects at local, national, and global scales.

Chapter 6

Conclusion

My argument in this dissertation is that development can lead to IT-enabled services and that IT-enabled services can also lead back to development. The desire to contribute to development, expressed by a number of individuals, is the impetus and the origin for the region's emerging IT-enabled services sector. However, as the region seeks to deepen and expand IT-enabled services, it leads to a coordinated set of actions to boost IT-enabled services that can be considered developmental whereby impediments in the local political economy are removed.

6.1 Development leading to IT-Enabled services

In my first two empirical chapters, I show that individuals with developmental aspirations found ways to attract IT-enabled services to the respective regions in spite of - and in some cases because of - disadvantage. Here, two concepts need to be elucidated, “developmentalist individuals” and “disadvantage.” Developmentalist individuals are the groups of people I have identified in my case study regions who have developmental visions for the region and view IT-enabled services as a tool for doing development. Across the region, these individuals include (but are not limited to) local entrepreneurs and business stakeholders, the diaspora, the international development community, and bureaucrats within the State. Though these individuals all view IT-enabled services as a tool for development, their perspectives on development may differ and sometimes lead to conflict. For example, the bureaucrats within the State view development as a process that applies to the region (e.g., transforming from developing to middle-income economy) while the members of the international development community might perceive development as a process that applies to individuals (e.g., where slum inhabitants progress into middle income jobs). Developmentalist individuals may differ in the rubrics by which development is measured. For example, it could be assessed by numbers of jobs created, trade and investment flows, numbers of multinationals firms operating in the region, or amount of individuals previously living on one-dollar-per-day who are now employed in the IT-enabled services sector. As a result of these differences, these individuals with developmentalist aspirations have different conceptions of what strategies will stimulate the type of development they want to see. For the State bureaucrats and local business leaders, for

example, tax incentives could be pillars of its investment promotion strategy. For other business representatives, grants disbursed to small, local firms as well as "second-economy" sub-regions could be the strategy. For individuals from the international development community, grants from international foundations could provide assistance to the individuals they work to uplift. Others might view infrastructure investments, like broadband telecommunications and science parks, as critical to facilitating the development they care about. These differing perspectives lead to a multitude of strategies that sometimes conflict as resources are often limited and choosing one strategy might impact the funding and viability of other strategies. In this sense, development - as conceived by the panoply of developmentalist individuals - is a contested terrain not just in the ideas about what it entails but also how those ideas influence what strategies are implemented to turn developmental rhetoric into reality.

My first two empirical chapters focus on how these developmentalist individuals in the region attract IT-enabled services despite "disadvantage." By disadvantage, I mean a relative, comparative concept where a region is judged as advantaged or disadvantaged relative to the global market in a sectoral, competitive sense. For example, Kenya's IT-enabled services is disadvantaged with respect to the global market because of lack of labor (quantity and quality), supporting infrastructure, and other factors mentioned in the chapter. Disadvantage within IT-enabled services can be represented by relative market size or other proxies for participation in IT-enabled services, including suitable labor force, infrastructure availability and quality, presence of multinationals in the region, security, etc. Based on this definition, most regions in the world can be defined as disadvantaged (or advantaged) with respect to the global market in some sector(s) over some period of time. With this definition of disadvantage, I am not ignoring historical, and particularly colonial, patterns that frame how and why certain regions are disadvantaged (or advantaged) in particular economic sectors over periods of time in recent history. In fact, in my case studies, I show how global and regional histories perpetuate institutions that lock-in regions into particular economic, labor market, and related patterns. Additionally, perceptions about Africa as a region perpetuate an aversion by global investors to move trade and investment to the continent. This is why developmentalist individuals play such an important role in that they move IT-enabled services to the region despite these long-term issues involving the optics of "Africa." However, referring to my case study regions as disadvantaged based primarily (or only) on historical (and particularly) colonial ideas is antithetical to how my interview respondents view their regions and in some ways perpetuates the colonial myth of "Africa" that frustrates the emergence of IT-enabled services in these regions.

Because of the disadvantage these regions experience in IT-enabled services, these individuals motivated by development implemented strategies that eventually differentiated the region in the global IT-enabled services market. Both of the regions began with a value proposition to emulate the leaders. Over time, they found they could not compete head on with India and the Philippines and through a process of learning figured out what their strengths were and how to represent them in the market. For example, South Africa could not compete on cost or a large labor force, but promoted the region as a location for "quality outsourcing" where expatriate managers could travel to Cape Town and relax at Table Mountain. In a parallel way, Kenya became a region known for "impact sourcing" and has received the global attention for the potential to do offshoring in a

way that furthers international development. In the Kenyan case, the “disadvantage” is actually embraced as a reason for bringing IT-enabled services to the region. Both regions discover reasons that multinational companies might offshore work that is complementary to India's strengths in large-scale BPO operations as well as advanced data processing and software development. This is similar to the finding of Saxenian in *The New Argonauts* where regions rarely displace incumbent leaders in technology-based sectors but over time develop specialized niches that complement the leaders.

6.2 IT-Enabled Services Leading to Development

The last empirical chapter focuses on how the region uses IT-enabled services to address and remove disadvantage. I argue that a commitment to making the ICT sector succeed catalyzes a process of development whereby existing social, political, and institutional constraints are identified and removed in a coordinated way. In the beginning, individuals with developmental aspirations help bring IT-enabled services to the region in spite of - or because of - its disadvantage. This process generates initial flows of trade and investment as well as new jobs created. However, as the region seeks to scale and deepen its IT-enabled services sector, it runs into challenges. The region may not have the quantity and quality of people who can be employed in international call center or BPO work. Existing telecommunications infrastructure cannot meet global service level agreements (SLAs) ensuring that international calls will not be dropped. Larger multinational firms may not be willing to move to the region because of the relatively higher operating costs. In both of the case study regions, scaling and deepening the IT-enabled services sector required more long-lasting change at the regional level. This meant fundamentally addressing elements in the political economy that made the region disadvantaged in the first place. Here IT-enabled services helped the region uncover what historically and institutionally made it disadvantaged. And developmentalist individuals committed to scaling the sector address more long-term issues that have always been challenges in the region. For example, the Kenyan government planned on deploying broadband telecommunications since the late 1980's and early 1990's. However, it was not until BPO became a priority that the government made investments to connect the East African country to the rest of the world with broadband. Similarly in South Africa, BPO has driven new educational and training programs that aim to equip historically disadvantaged individuals with the skills that were often denied under the apartheid regime. IT-enabled services becomes an opportunity for individuals committed to the region’s success to uncover and address sources of disadvantage. Addressing these issues that perpetuate disadvantage not only impact IT-enabled services but potentially other sectors and issues in the local political economy. In this way, IT-enabled services can induce a broadly developmental process, one that transcends the original economic sector of focus.

6.3 IT-Enabled Services as Anti-Development?

Though this dissertation shows that IT-enabled services can be catalyzed by - and promote - development, I also understand that IT-enabled services offshoring can frustrate "development" in a number of ways. Though I do not go into these details in depth in this dissertation, I highlight a number of ways that IT-enabled services can be antithetical to the project of development, however conceived.

6.3.1 BPO as a "Race to the Bottom"

As previously discussed, promoting BPO for development can highlight the unexplored opportunities for developing countries to diversify their exports. However, the message elucidated in global development reports and forums also has several pitfalls. First, it assumes a specific, predictable direction within which globalization processes enable job creation in developing countries. Such reports rarely mention that the processes that move work to developing countries can move work away from them as well. For example, labor cost arbitrage can move work from one developing country to another in a "race to the bottom."

Also, technology can be used to minimize, if not eliminate, rudimentary labor-intensive work processes. One academic article on the South African BPO sector opined that without moving into higher value-added services, the sector could fail to compete not only with lower cost locations but also automation (Benner, 2006, p. 1037). Micro-work leads to significantly de-skilled work that makes it possible to integrate vulnerable communities into global business processes. These tasks, amenable to automation using artificial intelligence, will be available in the not-too-distance future (e.g., some estimate 10 years) (Hichert & Associates, 2012).[1] Some analysts wonder if the benefits of impact sourcing can be exploited before technology catches up. Ultimately, the technological developments that make remote work possible can automate the processes previously done by labor.

Finally, some of the recent literature taking into account the global financial crisis expected that developed country firms might offshore more work to take advantage of cost arbitrage and minimize risks (UNCTAD, 2009, p. 84). However, this is different than what happened in some of the Kenyan firms I studied. One respondent mentioned, "If not for the financial service meltdown, we would be growing in leaps and bounds. Only a month ago Company A [US Financial Services Firm] told us they were going to reduce their head count with Company B [IT services company base in India] and increase ours in Kenya. All of that changed a week ago, when they announced they were closing their branch network [which is the unit we support from an IT perspective]." Another recounted how, in light of the recession, potential offshoring contracts (through an intermediary) were canceled for onshore (US) service where tax incentives were offered to bring jobs back to America. Kenya (and many other developing countries) probably experienced the two effects of the economic recession: a general contraction in demand from existing customers as well as a substitution effect where new IT-enabled services were moved from developed economies to

[1] On the other hand, the field of artificial intelligence has a history of inaccurate predictions about the state of field.

emerging economies. However, because this substitution effect was relegated to large developing nation providers like India and the Philippines, more nascent IT-enabled services sectors like Kenya did not benefit from the substitution effect and as a result experienced weakened offshore linkages (Gereffi and Fernandez-Stark, 2010). This confluence of global contraction of demand and a nascent sector from a global perspective would lead the sector to look onshore (and nearshore) for market opportunities. In summary, these alternate trajectories of globalization processes and technological developments are underrepresented in the popular narratives surrounding BPO for development.

6.3.2 Outsourcing as a Threat to Domestic Full-Time Employment

Second, prevailing developmental narratives underestimate the multifarious effects and perceptions that outsourcing can have in a developing country's domestic context. In both of my field sites, "outsourcing" was a contentious issue, despite the government's support of outsourcing for job creation. The challenges arise when countries experience some of the same job displacement as their Northern counterparts. Not only in South Africa, but also in Kenya there has been union resistance against outsourcing in the contact center sector. In September 2012, 200 contact center agents of Spanco Reps, an outsourced customer care outfit for Airtel Kenya, started a strike to protest over their working conditions. This action disrupted customer care for the second largest telecommunications company in the nation (Kiragu, 2012).

6.3.3 Offshoring as a Threat to Employment in Developed Countries

Third, the BPO for development narrative does not adequately address the concerns of those in developed countries, from which demand will emanate. The UNCTAD reports allude to the social and political aversion to offshoring in more developed countries. It counters the fears by the fact that offshoring is overwhelmingly North-North (i.e., almost 70 per cent in early 2005) and that India could not be blamed for massive job losses (with only 1 per cent of services imports) (UNCTAD, 2005a, pp. 4-5). Despite some of these justifications, it is not enough to allay the fears (perceived or imagined) of potential clients. Samasource initially had a motto of "Socially responsible outsourcing" and shifted over time to "Give work, not aid." In addition to the motto change, the founder, Leila Janah, claims that many of the tasks outsourced to her firm were previously not outsourced. Their technology allowing tasks to be broken up into manageable pieces makes this possible. They are trying to convey that minimal if any jobs are lost for US workers. In another effort to respond to the fears, Accenture suggested that the concept of "impact sourcing" be broadened to include marginalized communities with developed countries (Bulloch and Long, 2012, p. 10). Samasource, for example, launched SamaUSA to help disadvantaged communities get work during and after the tough economic time in the USA. Clearly, outsourcing is not just a problem for developing countries but the developed countries they are sourced from.

6.3.4 Call Centers as "Female Job Ghettos"

Finally, the narrative typically does not focus on the nature of the work as well as the workplace practices. For example, Vicki Belt argued, based on fieldwork in the United Kingdom and Ireland, that call centers are "female job ghettos," offering limited career progression opportunities (Belt, 2002). Bonds, in looking at the rural American West, argued that call centers are feminized labor relegating women to the bottom of information economy's occupational hierarchy (Bonds, 2006). More generally, it does not address the physical and psychological discomfort that can be experienced in such a workplace environment.

In summary, these challenges or rebuttals to the overwhelmingly positive narrative of offshoring for development creates a semi-false image of the processes of globalization that under gird offshoring as well as the nature of the work that is conducted. However, to mold offshoring and outsourcing to a developmental ideal requires - to some extent - abstracting away the aspects of the process that challenge the concepts of job creation and economic development.

6.4 Theoretical Implications for Cluster Genesis

Maryann Feldman argues that scholars' understandings of entrepreneurship are based on successful clusters after the fact. The question is "... how these entrepreneurial processes begin, take hold and transform a regional economy." (Feldman, 2005, p. 136) In this section, I return to this question in light of the literature on cluster genesis and the empirical cases presented in this dissertation. Here, I argue that the concept of the entrepreneur theorized in such literature must be broadened to include other "developmentalist individuals", esp. where the regional economies are undeveloped for the purposes of supporting and nurturing a technology-based cluster. The less developed a regional economy, the broader the notion of "entrepreneur" one must consider for the purposes of cluster formation.

6.4.1 Returning to Feldman's Theory of Cluster Genesis

Feldman argues that "... entrepreneurs spark cluster formation and regional competitive advantage." As entrepreneurs work in their own self-interests, they may act collectively to build institutions that further the interests of the emerging industry (Feldman et al., 2005, p. 130). Feldman states that entrepreneurs are a critical element in the formation and viability of innovative industries and clusters (Feldman et al., 2005, p. 131). Drawing on Schumpeterian tradition, she argues that entrepreneurship is "... a complex mix of individual preferences, perceptions of opportunities, and access to capital and other complementary resources." What turns latent entrepreneurship (desire to be an entrepreneur) into active entrepreneurship, are exogenous factors, such as a crisis, discontinuity, or opportunity (Feldman et al., 2005, p. 132).

In an edited volume, Feldman further developed her model for the evolution of high-technology industrial clusters in a series of three phases. The first phase is the emergent phase (Braunerhjelm and Feldman, 2006). In this phase few start-ups exist, there is little or no venture capital, and entrepreneurs respond to exogenous shocks. Cluster characteristics emerge from entrepreneurs'

activities and the organizations and institutions they build to support them. The second phase is where individual entrepreneurs' actions are part of a self-organizing system. Networks and community act as factors further developing the cluster. Through initial start-up experiences,"...the successful cluster becomes self-sustaining." This happens through the attraction of human and physical capital, public and private networks are built to support ventures, relevant infrastructure is created, and services grow to feed these companies. The third phase is a fully-functioning, rich entrepreneurial system differing little from Silicon Valley (Feldman et al., 2005, pp. 133-34). Overall, Feldman's characterization of the formation of technology clusters rests largely on the shoulders of private sector entrepreneurs who essentially jump-start the process.

6.4.2 Revisiting Cluster Genesis and the "Entrepreneur"

Based on the empirical cases explored here, I argue that the notion of the "entrepreneur" should be expanded to include other individuals whose entrepreneurialism are as effective - if not more - than the canonical private sector entrepreneurs in creating a technology cluster. In this dissertation, I argue that "developmentalist individuals" facilitate the growth of IT-enabled services in Nairobi and Cape Town. What is common about these individuals is their commitment to development. This commitment - analogous to the Schumpeterian "fire in the belly" - fuels their initiative to produce a technology-based regional economy. Each of these "developmentalist individuals" creatively combines resources, ideas, and networks to create a new technology cluster. For example, individuals in government from both Kenya and South Africa are entrepreneurs - they combine resources (social capital, state resources, global networks, etc.) to facilitate the growth of BPO in both regions. In fact, they represent the "Entrepreneurial State" that engages in innovation, making investments that are collective, cumulative, and uncertain (Mazzucato, 2013). In fact, Kenya's Konza project to support the growth of service in the region is the largest infrastructure investment in the country's history. Entrepreneurial bureaucrats from the State (e.g., former Permanent Secretary Bitange Ndemo) made risky bets and investments so that private sector "entrepreneurs" could take "riskable steps" in creating and expanding their businesses. The role of the State (and/or specific agencies and individuals within it) as entrepreneur is in fact (implicitly) highlighted in the literature on the developmental state and entrepreneurial state.

Like the State, entrepreneurial individuals are found in foundations and social enterprises that contribute to "impact sourcing" in Kenya and South Africa. Former associate director of the Rockefeller Foundation's Nairobi Office Wiebe Boer convinced the foundation to invest in the nascent "impact sourcing" sectors in Africa. Since that time, Rockefeller has pledged $100 million in its "Digital Jobs Africa" program. Other "social entrepreneurs" like Amolo Ng'weno (Digital Divide Data) and Leila Janah (Samasource) creatively provide digital jobs to the youth in these countries through their entrepreneurial efforts focused on poverty reduction. These contributions have been acknowledged in recent literature from business schools on social entrepreneurship. Like individuals involved in international development, the diaspora are motivated by the desire to see development in their home countries. Like the other entrepreneurial individuals in these regions, they take risks to invest in existing firms at home or return to create new firms at great personal

and financial cost. In fact, recent literature on scientific and technical diasporas have highlighted their contribution to regional economic development.

My argument is that to understand the South African and Kenyan cases, one must expand the notion of "entrepreneurs." Here, I argue that State bureaucrats and politicians, social entrepreneurs, representatives of international agencies and foundations, and members of the diaspora all represent the "entrepreneurs" in Feldman's framework of cluster genesis that catalyze the formation of clusters. Like Schumpeter (1942), I view entrepreneurs as central to the process of economic development, but I don't imagine "entrepreneur" as only being a member of the private sector. This entrepreneurial process is most clearly seen with private sector entrepreneurs but by no means is that where it stops. Individuals from differing institutional and regional contexts help co-create a regional economy in IT-enabled services. They all share a Schumpeterian-defined "fire" to create a new sector, though they differ in their strategies to make it happen. This divergence of strategies contributes to the complicated and sometimes conflicting process of regional development described in both Nairobi (industrial policy vs. social enterprise) and Cape Town (investment promotion vs. broad-based economic empowerment).

6.4.3 Regional Development Shapes Diversity of "entrepreneurs"

Cluster genesis should not be narrowly viewed as a process of building firms and associated organizations. It includes the process of building infrastructure to support the cluster itself, as mentioned by Feldman and other scholars. The process of cluster genesis in underdeveloped regions may include processes that are not as prominent in other regions - like creating new universities and colleges (and/or academic programs), improving infrastructure, creating other public goods, etc. Feldman states that her model of cluster genesis may be specific for innovative, technology-intensive entrepreneurial clusters, and that the literature would be enhanced with comparative case studies that consider cluster genesis with nuanced typologies of the variations of cluster formation (Feldman et al., 2005, p. 131). In resource-poor regions like Nairobi and Cape Town, the available infrastructure and public goods that facilitate the growth of technology-based markets do not yet exist. So the process of cluster genesis, esp. in resource-poor regions, could involve more than the canonical private sector entrepreneurs. Cluster genesis involves individuals or "entrepreneurs" from multiple sectors working together. When the regional economy is relatively well-developed, the entrepreneurs can be more concentrated in the private sector. But when the regional economy is less well-developed, the "entrepreneur" may include the public sector, private sector, international aid sector, diaspora, and others.

However, this is not a purist argument about the differences in cluster genesis between more developed and less developed regional economies. Even in the most well developed regional economies, the State and other actors are always there - though their presence and role can often be understated by the visibility of prominent private sector "entrepreneurs." The fact that we see a diversity of "entrepreneurs" in the Kenyan and South African contexts sheds light on the variety of individuals involved in cluster genesis in potentially all regions. In these cases, I argue that what we see is a history that in other regions unfolded over decades and centuries - individuals not only from varying institutional contexts but also across time play a role in cluster genesis. The

analysis of underdeveloped regions makes it easier to see the process that unfolds over longer time spans in other more developed regional economies. The creation of Stanford in the late 19th century and the forging of university-industry ties by Dean Frederick Terman played roles that would later facilitate the growth of the semiconductor and software industries in the Bay Area region. Because Nairobi and Cape Town have to catch up more quickly to compete globally, they have to coordinate a number of different activities in a concentrated time frame that occurred in other regions over longer time periods. In this accelerated process of regional development, we can more clearly see the diversity of individuals involved in the process of cluster formation. This is not just a feature of Kenya, South Africa or other emerging regional economies. It happens everywhere. But in cases like Kenya and South Africa, the individuals promoting cluster formation just appear more diverse and the investments seem more foundational because the regional economy does not yet have the supporting infrastructure, networks, and public goods.

6.5 Future Research

There are a number of ways to extend this research. First, scholars might be interested in conducting comparative historical case studies involving field work in additional African countries with IT-enabled services sectors, including Ghana, Mauritius, Egypt, and Nigeria. Another potential research project could develop and test hypotheses that are broadly applicable to the continent. This study could involve understanding the dynamics of a wider range of IT-enabled services from multiple countries, delivered in more languages and to a more diverse set of target markets. Scholars could further test whether "development" serves as a salient driver for IT-enabled services in these regions as well as an outcome of establishing IT-enabled services. Second, future research could investigate the decision-making process as well as factors that led investors and overseas clients to these respective regions for investment and business, respectively. Third, researchers might be interested in testing the inductive hypothesis that "development" is the reason that trade in IT-enabled services flows to these regions through a variable importance analysis. Using firm-level data from companies in the respective regions, along with regional data collected from government and industry associations and data from multilateral agencies (e.g., World Bank and the United Nations), scholars could conduct a "variable importance" study using machine learning and statistical estimation techniques to identify the factors most important in driving IT-enabled services trade and investments in Kenya and/or South Africa.

6.6 Concluding Thoughts and Policy Implications

This dissertation contributes to a number of discussions for policymakers broadly interested in economic development. First, I show that "normal," predictable trade and investment flows can be redirected to new and emerging regions. It is possible for regions to capture a portion of an emerging economic landscape. In this sense, the dissertation implies that regions that desire to diversify their economic landscapes can do so with the right sets of individuals and strategies.

Because IT-enabled services do not ordinarily go to regions in Sub-Saharan Africa, this focus on specific individuals with developmental aspirations is much more salient. Regions like Nairobi and Cape Town proactively solicit for trade and investment in ways that induce multinational firms to locate operations in their locales. Their actions fight the inertia of existing trade and investment flows. In fact, this story is inspirational in that it shows how individuals work to erase stigmas of their respective regions, train labor, establish infrastructure, and create the social and business networks needed to attract business that ordinarily would have gone to other regions. However, this dissertation is careful in delineating the challenges in changing the structure of a regional economy.

Second, this dissertation shows how "development" goes hand-in-hand with the emergence of IT-enabled services. This is no different than previous iterations of the concepts of development that co-evolved with agriculture as well as manufacturing. "Development" is both a reaction to as well as a driver of the importance of IT-enabled services in the global economy.

Third, these cases demonstrate that development is a contested, sometimes conflicting space that means different things to different sets of individuals. The process of economic development is as much political as it is economic. Though this dissertation has focused on IT-enabled services, what matters most is not technology but the process whereby individuals assert their agendas and achieve their respective goals. The stakeholders that "win" the battle to push their agenda get the right to define what development looks like, who it affects, and how it is framed.

Fourth, from a theoretical perspective, I show that sometimes not one but several theoretical frameworks can be useful for elucidating a particular phenomenon. As I have shown, a number of bodies of literature in some way address the genesis of IT-enabled services industries, particularly in emerging regions. Though these bodies of scholarship are useful lens, they fail to disentangle the role of developmentalist individuals predicted by multiple theoretical frameworks. The literature on diasporic networks predicts that the diaspora is the reason that IT-enabled services go to Africa. There are some high profile cases in Kenya and South Africa where diaspora played a role in encouraging, influencing, or directly bringing IT-enabled services to the region. But the diaspora contribution does not necessarily account for most of IT-enabled services trade to the region. And even with the diaspora contributions, they cannot directly influence the operating costs of working in Africa or establish infrastructure where it previously was not available or prohibitively expensive. Another possible theoretical explanation is that bureaucrats within the developmental State are the reason for IT-enabled services migrating to Africa. In my cases, I have shown that the State plays a pivotal role in investment promotion, incentives, establishing infrastructure, etc. However, the State can also get in the way and discourage IT-enabled services investments to the region (e.g., ANC government and labor unions in South Africa). Finally, the State's efforts do not necessarily always lead to IT-enabled services. Many governments across the world offer incentives for IT-enabled services, but inter-state competition limits the flows of IT-enabled services to every region offering incentives. With many countries/regions competing for IT-enabled services, there is no reason why IT-enabled services have to go to Kenya or South Africa. Additionally, there are reports that the State can be ineffective at attracting IT-enabled services because of lack of capacity or knowledge to do so.

Another possible explanation is that private sector entrepreneurs are the reason IT-enabled services go to Kenya and South Africa. They undeniably kick start the process of creating IT-enabled

services-based firms as predicted by Maryann Feldman's work on cluster genesis. However, they can only go so far; without the State they cannot scale up their efforts. I also explored the claim that cosmopolitan individuals with social mission promote IT-enabled services to these regions. In fact, social enterprises (Digital Divide Data and Samasource) bring IT-enabled services to the region and individuals working within multilateral agencies (World Bank) help support efforts to improve infrastructure and education for IT-enabled services. However, these socially-focused IT-enabled services initiatives only account for a small percentage of IT-enabled services in the region. Furthermore, social mission and aid can potentially thwart efforts to bring (corporate) IT-enabled services to the region. The more traditional economic argument is that comparative advantage and factor endowments attract IT-enabled services to Kenya and South Africa. However, these flows are not predicted by traditional economic and trade theories involving comparative advantage. Conventional market/trade theory predicts that such IT-enabled services flows would continue to migrate to incumbent regions in Asia. Africa is challenged with lack of infrastructure, low brand equity, and overall impediments for investors. Instead, I conclude that the developmentalist individuals create (or rather "defy") comparative advantage to establish an IT-enabled services sector for the purposes of doing "development." And even if the factors are there, overseas investors would not know because it is not portrayed in international media.

I further interrogated whether technology (particularly telecommunications infrastructure) is the reason why IT-enabled services go to Africa. I agree that (broadband) telecommunications is a reason that investors consider new regions, including Africa. However, telecommunications is not the sole or most important reason. Kenya and South Africa demonstrate that with every infrastructure bottleneck addressed, IT-enabled services do not automatically come. Solving one problem leads to a focus on the other myriad of problems that potentially frustrate IT-enabled services investments and trade. Finally, I explored whether Global Value Chains explain growth of IT-enabled services to my case study regions. Lead firms in developed countries usually do not think of integrating Africa into their IT-enabled services global value chains. My work shows that instead of lead-firm driven global IT-enabled services chains, individuals with developmental aspirations drive this process from the bottom-up. I argue that these individuals are critical in the establishment of IT-enabled services, particularly from the State, diaspora, and development and social enterprise communities. I cannot share the story only focusing on a sole theoretical framework. Rather, it is the sum of these individuals - sometimes working in harmony and others times in conflict - that catalyze IT-enabled services sector creation. Each theory frames a portion of the bigger picture, and multiple theories in conjunction can do a better job of describing this phenomenon than any one theory in isolation. An interdisciplinary stance allows one to incorporate multiple perspectives in ways that are more faithful to the empirical findings and potentially further theory itself.

Fifth, development is an interesting process that is both global and local. It is a process of leveraging the benefits of a historical, institutional context while being emancipated from it at the same time. Sixth, this dissertation does not apply to Africa and IT-enabled services alone. It is relevant for any geography that is looking to diversify into new economic sectors where it is at some disadvantage. The lessons learned here are not confined to ITES or developing countries. It could apply to a region like Detroit that seeks to create economic opportunities through software

development.

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Appendix A

Appendix

A.1 Selected Return Migration and Diasporic Network Initiatives in Africa

Scope	Description of Activities
Continent	Africa's Brain Gain, Inc. (ABG) was established in 2000 to facilitate return of the Diaspora's talents physically and virtually to Africa. Annual ABG conferences are convened to generate strategies for harnessing Diaspora potential, facilitate technology transfer for business incubation, maximize investment capitalization, and collaborate on research projects.
Continent	The Migration for Development in Africa (MIDA) initiative was launched by the International Organisation for Migration (IOM) in 2001 in Libreville, Gabon. It addresses the lack of qualified human resources and assists African governments in their efforts to enhance the Diaspora potential. MIDA offers options for the African Diaspora to re-invest skills, financial and other resources in temporary, long-term or virtual returns to home country or region.
Kenya	As a result of the ABG 2004 Conference, Kenya's Ministry of Planning and National Development set up the Kenya Diaspora Remittances Facilitation Committee to enhance the trade and investment climate for Kenya's Diaspora. In the same spirit, the Kenyans Abroad Investment Fund (KAIF) has also been established to facilitate convenient transmission of funds by Kenyans abroad to Kenya at minimal cost. KAIF funds are being invested in Kenya equities, Kenya physical investments, government securities (long term), global equities, fixed income, and money markets.
South Africa	The South African Network of Skills Abroad (SANSA) was developed through collaboration between the University of Cape Town and the Institute for Research and Development, the French development agency. The network has concentrated on linking expatriate and South Africa-based academics, researchers, and practitioners working in science and technology. The South African Diaspora Network was developed by the University of Cape Town's Centre for Innovation & Entrepreneurship with assistance from the World Bank Development Marketplace. This network focuses on developing knowledge and entrepreneurial connections between South African firms and well-connected and strategically placed individuals in the United Kingdom.

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Scope	Description of Activities
Ghana	Following the Regional Conference on Brain Drain and Capacity Building held in Addis Ababa in February 2000, the Ghanaian government initiated the Homecoming Summit, which brought together government officials, local professionals, and expatriate professionals. Along with the Ghanaian Homecoming Summit in 2001, the Ghanaian Dual Citizenship Regulation Act (in 2002) and the Non-Resident Ghanaians Secretariat (established May 2003) were all established to encourage dialogue with, dual commitment for, and return of diaspora, respectively.
Nigeria	Nigerian diaspora organizations have conducted skill audits in Europe, Americas, and other African countries with large concentrations of Nigerians. The annual Nigerian diaspora summit is held in Abuja for the transfer of technology. Some Nigerian doctors in the USA have established state-of-the-art hospitals in select locations in Nigeria to minimize alternative treatment at exorbitant costs abroad.
Mali	Transfer of Knowledge through Expatriate Nationals project encourages Malians abroad to return home at least temporarily and UNDP has facilitated the return of 133 Malians as consultants and university researchers. Malian ministerial level post has been created to help receiving countries understand the situation of the Malians they receive as well as assist potential Malian emigrants of prospective employment opportunities abroad. In conjunction, consular posts abroad assist Malian diaspora with return and sending of remittances.
Senegal	Senegalese Minister of Foreign Affairs and Senegalese Abroad was restructured in 1993 to assist diaspora with their welfare abroad and potential repatriation back home.
Benin	Some Beninoise doctors in France are encouraged by migrants'associations to volunteer one month a year to work in Benin.

Sources: (Adepoju 2008; Marks 2006)

A.2 Kenya BPO Institutional Developments through 2011

Year	Development(s)
July 2004	First BPO license/gateway (CCK) & EPZ license is granted to Ken-Call
March 2006	Kenya National ICT Policy launched
July 2006	Ministry of Information and Communications commissions process to develop a strategy plan for BPOs
January 2007	CCK reduces BPO license fee from KSh 100,000 to 10,000
February 2007	Kenya ICT Board established
March 2007	Kenya BPO and Contact Centre Society Founded
July 2007	World Bank Bandwidth Incentive Scheme is launched
October 2007	BPO becomes economic pillar of Vision 2030
June 2008	Augustana College launches Call Centre Training
November 2008	Multimedia University College of Kenya established under Legal Notice No. 155 of 2008 to provide industry-specific training for the country
December 2008	Kenya Communications (Amendment) Bill, 2008 passed in Parliament and later signed by President January 2009
May 2009	Cabinet approved Special Economic Zones Policy (which includes special provision for BPO)
June 2009	Kenyan Government-sponsored TEAMS cable lands
Summer-Fall 2009	McKinsey & Company and the University of Nairobi/IDRC Study Teams commission complete studies on the nascent sector
Late 2009	African BPO Academy Launched for skills development
December 2009	High Level BPO/ITES Working Group is established
March 2010	Kenya ICT Board launches Centre of Excellence initiative to address skills gaps and employability in BPO/ITES
January 2011	Jomo Kenyatta University of Agriculture and Technology (JKUAT) signs deal with Direct Channel Simba Tech Kenya to offer BPO and call center training
February 2011	Konza Technology City funding approved by Government

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Year	**Development(s)**
Mid-Late 2011	Pending Data Protection (Amendment) Bill in Cabinet and awaiting passage to Parliament

Source: Author

A.3 List of Kenyan BPO Firms through 2011

Established	Firm	Geographic Relationship	Type of Work
April 2002	Preciss International	Offshore	Call center services, Data processing and captioning, and subtitling services.
March 2004	Cascade Global	N/A	BPO and Call Centre Consultancy Services.
2005	Kencall	Onshore, Nearshore, Offshore	Level 1 Tech Support, Sales, Customer Information (CRM), Billing, Admin & Data Management.
2005	Skyweb-Evans	Onshore, Offshore	CRM Voice, Appointments, order taking, market research, event planning, telemarketing, customer care services, help desk, subscription services, and data conversion.
2006	G7 Systems	Offshore	Computer Programming, Rural ICT Infrastructure implementation, hosted Project Management Software [SaaS], and ERP [Enterprise Resource Planning] implementation and support.
2006	Andest Bites Ltd.	Onshore	Digital transcription, word processing, internet research, and data entry/digitization.
January 2006	eManage Africa	Onshore	Data management, data storage, and data protection.
Mid-2006	Oriak Digital	Offshore	Transcription and recruitment outsourcing.
October 2006	Techno-Brain BPO/ITES	Onshore, Offshore	Customer Care, Finance & Accounting, Human Resources, Knowledge Services (Market Research, Data Mining, Lead Generation, etc), Order Management, and Web Services (Web Designing, Online Sales and Marketing).
December 2006	DaproIM	Offshore	Data entry, Form processing, Survey processing, Invoice Processing, Audio Transcription & Video Subtitling, and Web Design.

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Established	Firm	Geographic Relationship	Type of Work
March 2007	Quest BPO	Onshore, Offshore	Call centre services and back office.
April 2007	Northwest Offshore Ltd.	Onshore, Offshore	BPO and call centre.
July 2007	Adept Technologies	Onshore, Offshore	CAD Services, Transcription Services, and Data Services (Data Capture, Internet Research, Data Processing).
October 2007	Beeline BPO and Call Centre	Onshore, Offshore	Call Centre and Data Processing.
2008	SimbaTech Direct Channel Kenya	Onshore, Offshore	Outbound telemarketing, CRM, inbound call centre services, field marketing distribution channel, debt collection & credit management, hosted platform and disaster recovery solutions, back-office fulfillment and admin services, and Contact centre training.
November 2007 (Started June 2008)	Call Centre Solutions	Onshore, Offshore-Offshore, onshore	Call centre services and Business Centre.
Incorporated October 2008 (Started June 2009)	Horizon Contact Centre	Onshore, Offshore	Customer Contact Services, Collections, Training and Content Solutions, Finance and Accounting, Procurement, HR and payroll services, Learning & Training Outsourcing, Analytics and Data Management, IT Services, Re-engineering, Quality Assurance, and Workforce Management.
2010	Spanco Raps Kenya Ltd	Onshore	Call centre operations (Voice, Non-Voice, and KPO), Building and managing call and data centre infrastructure, and Global manpower outsourcing.

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Established	**Firm**	**Geographic Relation-ship**	**Type of Work**
2011	Digital Di-vide Data	Onshore, Nearshore, Offshore	Digital MarketingAdWords, Facebook, Mobile Ads, Data Entry & Conversion, Digital Publishing & e-books, Digital Li-braries, Records Management, and Ad-ministrative Back-office Functions.

Source: Author

A.4 Nik Nesbitt

Excerpts from July 30, 2008 Nesbitt letter to Deputy Prime Minister, Ministry of Trade

Dear Sir:

With respect to your question regarding what it will take for the BPO industry in Kenya to create massive employment over the next few years. . . .

The opportunity

With the onset of globalization the opportunities for rapid improvement in the standards of living around the world are immense. In particular, the opportunities to create meaningful work for the well educated citizens of previously impoverished nations are growing rapidlyIndia, the Philippines, Malaysia, Mauritius, South Africa, the Caribbean, Eastern Europe, Peru, Brazil and Argentina are just some of the better known countries that have taken advantage of this phenomenon and over the last 5 years have created millions of jobs collectively in the BPO/Call Centre industry. Over the past 10 years, India alone has created well over 1.5 million jobs in this sector. Kenya has created 650 jobs. . .

With cost pressures and quality issues beginning to occur in the more traditional outsourcing destinations more and more companies are asking "Is there an alternative?". . . In particular, in Anglophone Africa, Kenya presents one of the best opportunities for new growth in outsourcing. The country has a high number of highly motivated university graduates with neutral, anglicized accents. It has a progressive pro-business government with aggressive national goals to increase new employment, a well developed technical and educational infrastructure, a submarine fiber optic connection due in mid 2009 and a highly customer service-oriented culture. In addition, the under 30 generation of Kenyans is very well exposed to the outside world. . .

The Challenges Kenya faces

Kenya is relatively new in this outsourcing arena and has had limited success. Over a dozen small companies have started up since 2003, however barely a handful of them are still viable entities. Most of them currently employ less than 25 staff despite several years of experience. Only KenCall appears to have made it out of the incubation stage and grown in to a fully-fledged and award-winning operation. KenCall made it despite the challenges everyone else faced, but its case was unique.

Nevertheless, the challenges all the centres face are numerous and very difficult to overcome. And they include:

1. Expensive bandwidth. Kenyan companies pay 7,000 USD per MB per month versus companies in India who pay under 500 USD per MB per month

2. The lack of submarine fibre optic connectivity. This makes the overseas companies wary of doing voice calls over satellite and choose to defer coming into Kenya until the submarine cable arrives

3. The lack of local experience. Very few people in the local labour market have any call centre/BPO experience, which makes growing and building experience difficult and expensive

4. The lack of marketing of Kenya as an attractive outsourcing destination
5. Very few Kenyan role models and so the potential of Kenya as a destination remains a question mark in the minds of clients and even investors
6. Inadequate funding for the local BPO outsourcers. Very few venture capital companies and banks are not willing to lend. Friends and family are the primary sources of funds, which is not scalable
7. Very few local opportunities to gain experience and learn the industry (private or government)
8. The new labour laws restrict outsourcers ability to match staffing with demand, because it is so difficult and expensive to let staff go if there is a down turn in the business
9. The Lack of EPZ status for companies in this growth sector. Many of the countries in the outsourcing world afford their domestic BPO companies EPZ status to encourage their growth. IN Kenya one has to be within an EPZ to have that status. However, EPZ facilities are rarely in locations attractive to white collar workers.
10. Con artists coming into Kenya long on promises and invisible on delivery. Many companies have lost lots of money from international dealers who do not deliver

Given the success of many of these other countries in this arena, it is clear that that these obstacles can be overcome, and quickly, if Kenya were to take the effort to learn from such countries. . . In general, these successful countries have followed varying paths to reach where they are today, but they seem to have one thing in common: Government support. In some countries this sector has received direct government investment to promote and subsidize indigenous companies gaining a firm foothold in this space before the big international companies swooped into the countries to sweep up the best resources and talent.

I advocate that the country focuses on the following:

1. Create an attractive investment environment in Kenya
    a) Bandwidth Costs. Ensure that once the submarine cable connects Nairobi to the world that the cost of bandwidth remains competitive to other countries around the world.
    b) BPO Marketing and publicity domestically
    c) BPO Marketing and publicity internationally.
    d) Tender for eGovernment contracts data entry, customer service,
    e) Improve roads eliminate pot holes, clear up kiosks
    f) Improve telecommunications in Kenya
    g) Improve security

2. Attract large outsourcers to set up operations in Kenya

    a) Promote Kenya as an outsourcing destination (media articles, trade missions to Europe, USA and Asia for politicians'speeches and celebrate successes in Kenya)

    b) Travel to meet these large companies with a powerful senior minister led delegation to India, USA, UK, South Africa and convince them of Kenya's potential

    c) Invite large outsourcers to come to Kenya

    d) Make concessions to large outsourcers to invest in Kenya (affordable rent in office parks, tax incentives, bandwidth subsidy incentives, DIT training reimbursements)

    e) Create a one stop shop for investment between the KIA and EPZA and others...

3. Attract large corporate companies to set up captive call centre operations in Kenya.

    a) Promote Kenya as an outsourcing destination (media articles, trade missions to Europe, USA and Asia for politicians speeches, and celebrate successes in Kenya).

    b) Travel to meet these large companies with a powerful senior minister led delegation to India, USA, UK, Europe, South Africa and convince them of Kenya's potential

    c) Invite large companies to come to Kenya and open up BPO facilities here, especially those already doing business in Kenya in one form or other

    d) Make concessions to large companies to invest in Kenya (affordable rent in office parks, tax incentives, bandwidth subsidy incentives, DIT training reimbursements

    e) Create a one stop shop between the KIA and EPZA and others...

4. Attract the Kenyan Diaspora to return to Kenya and invest or at least influence business coming to Kenya

    a) Visit the diaspora in the major cities in Europe and the USA to spread the word about outsourcing opportunities in Kenya

    b) Encourage Kenyan expatriates to create outsourcing companies of their own in Kenya

    c) Encourage Kenyan expatriates to drive outsourcing opportunities within their own companies to Kenya

    d) Make it easier for Kenyan expatriates to return to Kenya. Affordable loans, permit duty free purchase and repatriation of personal vehicles (new or old). Allow returning residents to even buy their vehicles duty free in Kenya

    e) Provide favourable investment advice to the diaspora

    f) Pass dual citizenship bill

5. Invest heavily in building man power and skill sets in this arena.

    a) Invest in training facilities

b) Create facilities up country

c) Drive hard the requirement for typing skills and neutral accents in new recruits and in existing employees

d) Invite experts from around the world to lecture and provide local consulting advice.

Source: Company document as cited in Isenberg (2009, pp. 12-13)

A.5 CIDA Training Grant

Selected Results

- A joint venture between R.W. Evans Research Corp. and Skyweb Technologies of Nairobi has led to an international call centre employing 41 people, mainly women; of the five senior personnel, three are women, including the managing director, who was recognized as Kenyan Entrepreneur of the Year.
- The Canadian Co-operative Association has helped the Nicaraguan co-operatives to export black beans to Costa Rica and El Salvador for the first time, with an income increase of 222 per cent.
- In Uganda, a program by the Society of Obstetricians and Gynaecologists of Canada saw the development of an MA program in "Safe Motherhood" at a local university, as well as the creation of a professional association of obstetricians and gynaecologists which boasts a membership of 30 medical doctor volunteers, one third of whom are women.
- The Mennonite Economic Development Association (MEDA) worked through the MEDA Trade Company to promote the use of insecticide treated mosquito nets in Uganda. Business partners of this initiative credited the CIDA project for assisting them to sell more than 500,000 bednets since 2000, saving thousands of lives that would otherwise be lost to malaria. This project led to the design and implementation of a similar but much larger project in Tanzania.

Source: CIDA (2007)

A.6 Rockefeller PRIDE Grants Involving Kenya and South Africa (2011-2013)

Organization	Grant Term	Amount	Geographic Focus	Description
Results for Development (Washington, DC)	10/1/2012 - 2/28/2013	$50,000	Northern Africa, Sub-Saharan Africa	In support of a paper documenting research to identify skills sought by employers in the digital economy, training models to provide those skills and identifying additional innovative employment-creating opportunities from an economic perspective as part of a broader effort to scale the nascent field of "impact sourcing" which can yield better employment opportunities for poor or vulnerable populations
Accenture LLP (Chicago, IL)	11/1/2012 - 4/30/2013	$246,460	Kenya	For use by its Accenture Development Partnerships in support of developing a replicable recruitment, training and impact measurement approach for outsourcing work to business process outsourcing companies employing poor or vulnerable people, as part of a broader demonstration to test whether the nascent field of "impact sourcing" can yield better employment opportunities for poor or vulnerable populations

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Organization	**Grant Term**	**Amount**	**Geographic Focus**	**Description**
International Youth Foundation (Baltimore, MD)	12/1/2012 - 7/31/2013	$224,860	Sub-Saharan Africa	In support of identifying, researching and assessing sectors which have high growth potential for quality employment of youth in sub-Saharan Africa with a focus on Kenya, Ghana and South Africa
Hungry Heart Media (Los Angeles, CA)	9/1/2012 - 12/31/2012	$155,576	Global	In support of producing a video that will raise awareness of the benefits of Impact Sourcing to a global audience and ultimately increase the coalition of stakeholders that can help Impact Sourcing go to scale
Digital Divide Data (New York, NY)	8/1/2012 - 7/31/2013	$250,000	Kenya	In support of sustaining a program in Kenya to operate local impact outsourcing centers employing disadvantaged youth
Monitor Company Group LP (Cambridge, MA)	7/1/2012 - 11/30/2012	$450,000	Global	In support of developing strategies for scaling Impact Sourcing and analyzing demand-led training models for poor or vulnerable youth to work in Impact Sourcing
Global Sourcing Council (New York, NY)	4/1/2012 - 12/31/2012	$135,000	Global	[no description available]

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Organization	**Grant Term**	**Amount**	**Geographic Focus**	**Description**
University of KwaZulu-Natal (Westville, South Africa)	4/1/2012 - 6/30/2013	$127,840	Ghana, Kenya, South Africa	In support of a labor market analysis to assess the possibilities of creating employment opportunities for poor and vulnerable populations including the labor demands, impact trends and influencing factors in Ghana, Kenya and South Africa
Ikhono Communications (Durban, South Africa)	12/1/2011 - 2/29/2012	$49,557	Ghana, Kenya, South Africa	In continued support of an Impact Sourcing convening, held in South Africa, December 2011 that brought together stakeholders within the Impact Sourcing ecosystem to discuss routes to scaling and address the Foundation's learning questions
William Davidson Institute (Ann Arbor, MI)	4/1/2012 - 12/31/2012	$100,000	Global	In support of a research study to explore Impact Sourcing opportunities in 20 countries in order to create an actionable template for the enhancement of job creation opportunities for poor and vulnerable communities
Hichert & Associates (Somerset West, South Africa)	4/1/2012 - 6/30/2012	$15,163	Africa	In support of a scenario planning exercise for future-informed decision-making about the best intervention points to scale Impact Sourcing in order to have a meaningful impact in the lives of poor and vulnerable people

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Organization	**Grant Term**	**Amount**	**Geographic Focus**	**Description**
Kenya Information and Communications Technology Board (Nairobi, Kenya)	11/1/2011 - 11/30/2012	$400,000	Kenya	In support of digitizing medical records at Kenyatta National Hospital in Kenya to improve efficiency and service delivery at the hospital, as part of a broader demonstration to test whether the nascent field of "impact sourcing" can yield better employment opportunities for poor and vulnerable populations
Leaders'Quest, Ltd. (Surrey)	10/1/2011 - 9/30/2012	$160,040	Kenya	In support of convening a leadership learning program to facilitate raising the profile of and building a more global stakeholder community for the nascent field of Impact Sourcing, which seeks to create sustainable employment opportunities for poor and vulnerable populations
Ikhono Communications	10/1/2011 - 2/29/2012	$226,000	Ghana, Kenya, South Africa	In support of a convening to address challenges and opportunities facing the nascent field of "impact sourcing" and explore strategies for bringing the work to scale to be held in South Africa December 2011

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Organization	**Grant Term**	**Amount**	**Geographic Focus**	**Description**
Community and Individual Development Association (Johannesburg)	10/1/2011 - 12/31/2012	$700,000	South Africa	Toward the costs of establishing an academy to train unemployed and disadvantaged youth for various roles within the outsourcing industry, as part of a broader demonstration to test whether the nascent field of "impact sourcing" can yield better employment opportunities for poor and vulnerable populations
Accenture LLP (Chicago, IL)	11/1/2011 - 5/31/2012	$278,623	Sub-Saharan Africa	For use by its Accenture Development Partnerships to develop a replicable value proposition, business case and pilot design for outsourcing work to business process outsourcing companies employing poor and vulnerable people, as part of a broader demonstration to test whether the nascent field of "impact sourcing" can yield better employment opportunities for poor and vulnerable populations

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Organization	Grant Term	Amount	Geographic Focus	Description
Edward T. Jackson and Associates Ltd. (Ottawa, Canada)	10/1/2011 - 1/31/2013	$425,000	Ghana, India, Kenya, South Africa	In support of monitoring and evaluation of the Rockefeller Foundation's initiative in development, Poverty Reduction through Information and Digital Employment (PRIDE) and to foster learning, accountability and performance improvements in the Foundation and among its grantees
National Council for Law Reporting	11/1/2011 - 5/31/2013	$293,000	Kenya	In support of the digitization of the laws of Kenya, as part of a broader demonstration to test whether a new field of “impact sourcing” can yield better employment opportunities for poor and vulnerable populations
Enablis Entrepreneurial Network East Africa Limited (Nairobi, Kenya)	9/1/2011 - 3/31/2013	$180,700	Kenya	In support of identifying, training and providing development support to business process outsourcing entrepreneurs in Nairobi and Kisumu, as part of a broader demonstration to test whether a new field of “impact sourcing” can yield better employment opportunities for very poor populations

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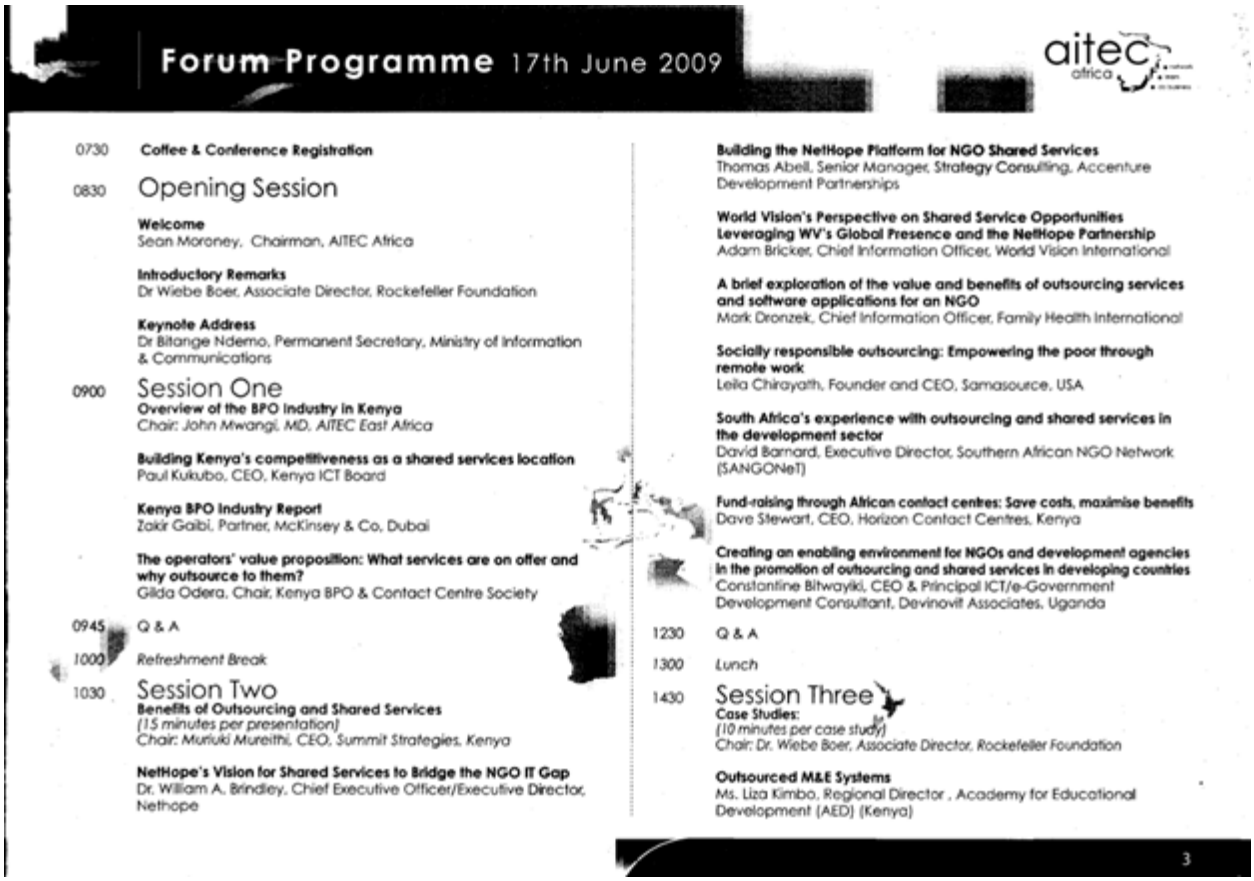
Organization	**Grant Term**	**Amount**	**Geographic Focus**	**Description**
Avasant (Manhattan Beach, CA)	9/1/2011 - 2/29/2012	$294,475	Ghana, India, Kenya, South Africa	In support of researching the policies, incentives and global best practices that encourage the growth of employment opportunities for people who are historically and socio-economically disadvantaged
TechnoServe (Washington, DC)	9/1/2011 - 1/31/2013	$346,439	Kenya	In support of a proof-of-concept pilot project to demonstrate the potential for a local Impact Sourcing Service Provider in Kenya to create and sustain opportunities targeting poor and disadvantaged students in public universities
Monitor Company Group LP (Cambridge, MA)	4/1/2011 - 7/31/2011	$588,370	Ghana, Kenya, South Africa, United States	For use by its Monitor Institute in support of a research project to explore the potential of outsourced employment opportunities for providing jobs and economic growth to very poor populations in South Africa, Kenya and Ghana and to understand the current and potential scale of client demand and the critical interventions necessary to increase client demand for Impact Sourcing services

A.7 AITEC/Rockefeller Conference Program



Forum Programme 17th June 2009

aitec africa

0730 **Coffee & Conference Registration**

0830 ## Opening Session

Welcome
Sean Moroney, Chairman, AITEC Africa

Introductory Remarks
Dr Wiebe Boer, Associate Director, Rockefeller Foundation

Keynote Address
Dr Bitange Ndemo, Permanent Secretary, Ministry of Information & Communications

0900 ## Session One

Overview of the BPO Industry in Kenya
Chair: John Mwangi, MD, AITEC East Africa

Building Kenya's competitiveness as a shared services location
Paul Kukubo, CEO, Kenya ICT Board

Kenya BPO Industry Report
Zakir Gaibi, Partner, McKinsey & Co, Dubai

The operators' value proposition: What services are on offer and why outsource to them?
Gilda Odera, Chair, Kenya BPO & Contact Centre Society

0945 Q & A

1000 *Refreshment Break*

1030 ## Session Two

Benefits of Outsourcing and Shared Services
(15 minutes per presentation)
Chair: Muriuki Mureithi, CEO, Summit Strategies, Kenya

NetHope's Vision for Shared Services to Bridge the NGO IT Gap
Dr. William A. Brindley, Chief Executive Officer/Executive Director, Nethope

Building the NetHope Platform for NGO Shared Services
Thomas Abell, Senior Manager, Strategy Consulting, Accenture Development Partnerships

World Vision's Perspective on Shared Service Opportunities Leveraging WV's Global Presence and the NetHope Partnership
Adam Bricker, Chief Information Officer, World Vision International

A brief exploration of the value and benefits of outsourcing services and software applications for an NGO
Mark Dronzek, Chief Information Officer, Family Health International

Socially responsible outsourcing: Empowering the poor through remote work
Leila Chirayath, Founder and CEO, Samasource, USA

South Africa's experience with outsourcing and shared services in the development sector
David Barnard, Executive Director, Southern African NGO Network (SANGONeT)

Fund-raising through African contact centres: Save costs, maximise benefits
Dave Stewart, CEO, Horizon Contact Centres, Kenya

Creating an enabling environment for NGOs and development agencies in the promotion of outsourcing and shared services in developing countries
Constantine Bitwayiki, CEO & Principal ICT/e-Government Development Consultant, Devinovit Associates, Uganda

1230 Q & A

1300 *Lunch*

1430 ## Session Three

Case Studies:
(10 minutes per case study)
Chair: Dr. Wiebe Boer, Associate Director, Rockefeller Foundation

Outsourced M&E Systems
Ms. Liza Kimbo, Regional Director , Academy for Educational Development (AED) (Kenya)

3

THE ROCKEFELLER FOUNDATION

Programme

Single, shared or married – matching service needs for two international NGOs (ICRAF and ILRI)
Tony Simons, Deputy Director General, ICRAF

Lessons from Kencall Famine relief Work "Answering hunger one call at a time"
Nick Nesbitt, CEO, KENCALL

Case Study: Providing contact centre services to World Neem Foundation
Peres Were, Cascade Global, Kenya

The concept of an outsourced farmer helpline
Fiona Smith, GSMA Development Fund Programme Manager, GSM Association, UK

Shared Services structure: Case of Enablis OrganizationMoses Mwaura, Regional Director, ENABLIS East AfricaPayroll outsourcing
Eric Langton, MD, Data Centre, Kenya

Case Study: Shared Services and Outsourcing for World Vision Entities in Kenya
Stephen Cirah, IT Director, Africa Regional Office, World Vision

1630 Session Four

Workgroups – Matching needs with services on offer

Financial services
Facilitator: Barry Ryan, CEO, Fintech, Kenya

Human Resources
Facilitator: Caroline Juma, CEO, Kenya Computer Recruitment

ICT
Facilitator: Adam Bricker, CIO, World Vision International, USA

Customer care/Contact Centres
Facilitator: Peres Were, Cascade Global, Kenya

1730 **Workgroup reports**

1800 **Way Forward and Vote of Thanks**

1830 **Networking Cocktail Reception and Launch of the TechSoup Global service in East Africa, in partnership with SangoNet**

techsoup GLOBAL

sangonet

Speakers

Adam Bricker
Chief Information Officer,
World Vision International

Adam Bricker has a BS in Aerospace Engineering and an MS in Engineering Mathematics and Applied Physics. Adam began his career as an Aerospace Engineer at General Dynamics, and held various leadership positions before accepting a position as Director of Purchasing and as Director of Information Systems at Southwest Airlines. Adam then worked for the global restaurant company, Yum!, as their VP of Information Technology and then worked for Bearing Point for almost six years as the Partner/Managing Director focused on Operational Excellence and IT Systems Integration.

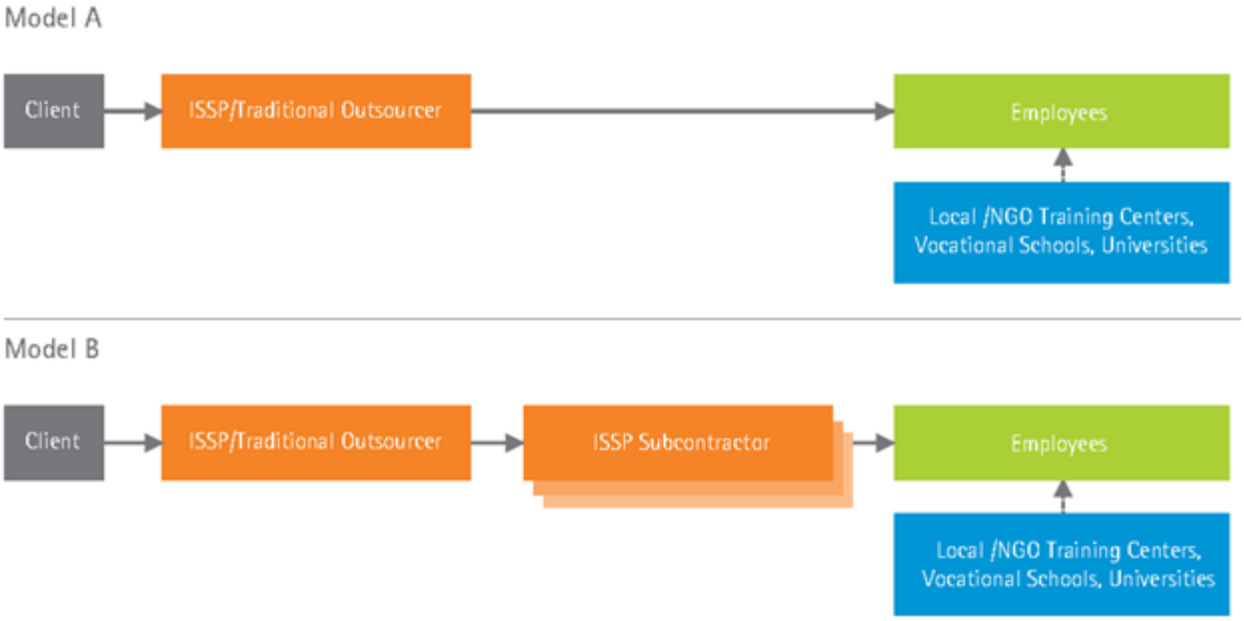
Adam joined World Vision October 30, 2006. Adam, his wife and four children live in Laguna Niguel, CA and attend Shepherd of the Hills United Methodist Church. Adam enjoys mountaineering, rock climbing, travel, and sailing... when not consumed by his children's numerous endeavors.

Barry Ryan
CEO, Fintech, Kenya

W. G. Barry Ryan, an Australian citizen, is the Managing Director of Loita Transaction Services Ltd as well as Fintech International Ltd. Also a former Citibank manager, Barry has over nineteen years of experience in planning, developing and implementing banking automation and telecommunications solutions in Africa. He holds a Bachelor's degree in Engineering from Sydney University and a Postgraduate degree in Data Processing from the University of Technology in Sydney. As the Technology Head for Citibank until 1993, he was responsible for managing the technology requirements for the bank's twenty-two branches in eleven countries across Africa.

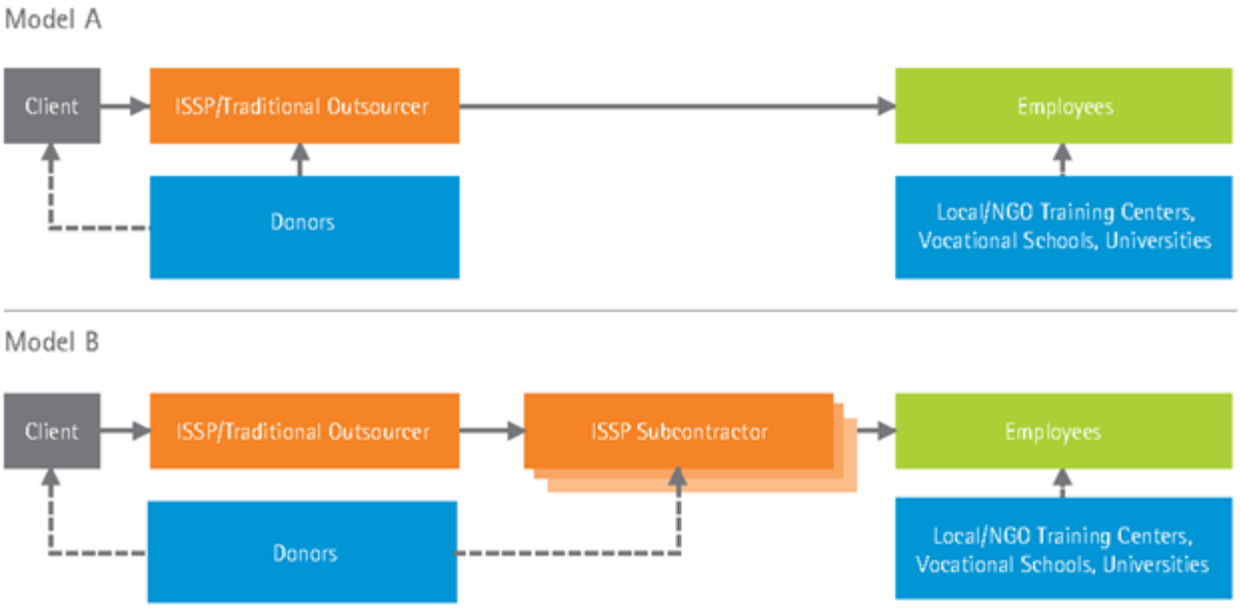
A.8 Impact Sourcing Models

Two Base Impact Sourcing Business Models



Source: Bulloch and Long (2012, p. 37)

Two Interim Supported Impact Sourcing Business Models



Source: Bulloch and Long (2012, p. 37)

A.9 Digital Divide Data

Emmeldah's Journey: Moving On to Higher Ground

Hope for youth living in one of the Nairobi's worst slum areas.

Posted on 13.01.17 at 5:52 PM by Digital Divide Data

Emeldah at the Mathare Valley in Nairobi. An estimated 600,000 people live in an area of three square miles. Most live on incomes of less than a dollar per day.

A short distance from Nairobi's bustling urban center lies the Mathare Valley, one of the oldest and worst slum areas in the Kenyan capital.

Levels of poverty here are extreme. A family of 8 typically lives in a 6-by-8 foot space with no electricity, running water or sanitation system. Criminal activity runs rampant and Nairobi police rarely venture into the area. Yet despite circumstances, many living in the Mathare Valley strive to create change in their lives. Among them is Emmeldah Millicent Amolloh.

As a young woman of 23, Emmeldah recognizes the dangers of living in one of the worst slums in Africa. "The place is full of illegal activities like the selling of illegal drugs and the brewing of changaa (local moonshine notorious for being mixed with toxic substances like jet fuel and embalming fluid). Stabbing passers-by, burning houses, and robbery with violence is common here," she relates. With few opportunities for employment and

limited family income (only her father has a job as a casual machinist), a better life seemed far for Emmeldah's reach.

That changed two years ago when a village elder told Emmeldah about DDD. Having learned about the opportunity just a day before the deadline, she spared no time filing her application for training. Not long after, Emmeldah received word that she was selected for a one-month course to develop her computer and English language skills. On April 1, 2011, Emmeldah began work at DDD as a data management operator performing data entry and records management tasks.

The first few weeks at work were a challenge for Emmeldah. She lives in the Bondeni area in Mathare, about 10km (6 miles) from the DDD Nairobi office. She recalls, "I felt so happy since I finally had a job. But it was hard because I had to walk to and from work because I had no money for bus fare. I told myself things will work out; I knew at the end of the month I would have something in my pocket." Sure enough, Emmeldah did earn enough money to pay for her daily commute. More important, she was able to provide for her family's needs and support her two younger brothers' schooling. Emmeldah, too, is furthering her education. Supported in part by a DDD scholarship, she is in her second year of pursuing a bachelor's degree in Accounting at Kenyatta University, one of the top 3 universities in the country.

Emmeldah credits her work at DDD for helping her build confidence. "Here I feel safe and I have learned not be afraid to express and share my ideas with others." Looking ahead, Emmeldah envisions a career in the development sector, and she aspires to become a senior accountant in one of the biggest non-governmental organizations in Kenya. Emmeldah shares, "Working at DDD has really changed my life socially, economically, and even spiritually. It has raised me from being dependent to becoming a provider. It has taught me to think independently and become a strong person."

"Working at DDD has really changed my life. It has taught me to think independently and become a strong person." -

Fredrick Nzioka Soo

DDD Data Management Operator

"DDD to me is like a savior."

My name is Fredrick Nzioka Soo. DDD to me is like a savior. Having maneuvered through high school dependent on well wishers, my anticipation of advancing education was bleak. I could not afford university fees. My father died when I was younger and my mother was a housewife. After two years of hard labour in the village, I relocated to Mathare slums in 2008. The slum was a misery characterised by many problems. It was atrocious. I knew all was well when the day ended without chaos. Slum dwellers were easily agitated by trivial things, and this would result in deaths and burning of houses. Insecurity was high with gun shots being heard from outside during the night.

I used to live in a small sheet-iron makeshift. It was my bedroom, kitchen and at times my bathroom. Found between other structures, it had no light. I depended on a kerosene lamp during the night. In daytime, it was the equivalent of a cave in terms of darkness. The slum was characterised by odour stench from poorly dumped garbage and raw sewage which flowed openly. Poor sanitation posed all sorts of health problems. At times, cholera claimed the lives of dwellers. I remember when the CEO of DDD visited me and asked whether I was comfortable, I posed the answer even before he completed his question, that I was eager to egress Mathare.

I depended on well wishers for survival and getting a decent meal was often unfeasible. I could only get one meal per day, which wasn't guaranteed. I couldn't afford bus fare so I used to walk. One day a neighbour asked me which kind of vehicle I preferred for transport. I told him the truth, that the last time I boarded a vehicle was more than five months ago. He was so surprised, because Nairobi is full of vehicles, he even described my character as that of a wild beast. I pitied myself, with tears almost flowing from my eyes.

My recruitment to DDD came as a surprise. During a visit to one of my buddies, a stranger came and asked my friend casually, "are you interested in applying for a job?" My friend was not ready and I said I would give it a chance. I started the vital training and tests which were conducted by Ms. Reydon. She was so hospitable, caring and supporting. Her character was astounding and I can compare it with what I am experiencing in DDD now. I signed the contract letter in April. It was a wonderful day for me, because apart from getting a job, I was visited by a VIP in Mathare, Jeremy Hockenstein, the CEO of DDD. I felt great and appreciated.