Kenya BPO and ITES Policy Brief
March 2014

A team from the University of Oxford and the University of Nairobi have carried out a multi-year (2009-2013) study into the effects of Kenya's changing Internet connectivity on the country's nascent business process outsourcing (BPO) and information technology enabled services (ITES) sectors. This policy brief summarises some of the key policy implications to emerge from that work.

Key findings in the Kenyan BPO/ITES sector

The focus on international BPO work has not succeeded as originally envisioned.
While some homegrown firms have been able to capture large amounts of work for foreign clients, the Kenyan BPO industry does not have the depth, scale, costs, and training to compete with competitors like India. Kenyan firms have often found most success focusing on the local and regional markets. Knowledge of local contexts and the remaining importance of proximity to customers have been important factors here.

The country has been moderately successful in attracting foreign BPO/ITES firms to Kenya. This has the dual benefits of enhancing the country's reputation in the area and creating employment. However, there are also potential negative consequences such as crowding out the market for local firms and pushing down wages. Foreign firms are also likely to divide work between geographical locations and often retain high value work in other areas.

Kenya has been able to build a positive and successful brand around the BPO/ITES sector. The power of this brand is not to be underestimated. While the brand is largely based around a few success stories, Nairobi is seen by many businesspeople in Africa and around the world as a city able to thrive in a digital economy. Many Kenyan firms report being able to harness Kenya's digital brand in order to tap into networks, opportunities, and financing.

The arrival of fibre-optic cables has been an important enabler for the BPO/ITES sector. The resultant faster and cheaper connectivity is a necessary condition for firms operating the sector. However, connectivity alone isn't a sufficient strategy for a thriving BPO/ITES industry. Other enablers include: affordable and reliable power, easy and affordable access to requisite technology and capital goods, a supportive regulatory environment, programmes for skills development, and an ability to make trusted and verifiable payments.

Summary of recommendations

The recommendations that we outline below are derived from the extensive research that we conducted with a variety of stakeholders in the Kenyan BPO/ITES sector.

Adopt a multi-pronged BPO/ITES strategy.
Kenya is currently home to both low-end BPO work (e.g. contact centres and microwork) and relatively high-end ITES work (e.g. software development and financial consulting). The low-end work provides much needed jobs, whilst the high-end work contributes to both value capture and skills development in Kenya. Wherever possible, the country should encourage and support its nascent high-end ITES businesses in order to avoid a low-wage race to the bottom associated with low-end BPO work. But, given the constraints on, and competition in, the high-end market, low-end BPO work will continue to have an important place. In the low-end space, it is unlikely that Kenya will ever be able to compete with the economies of scale that India or the Philippines offer. It will, however, be able to occupy certain strategically useful niches like impact sourcing.

Harness the critical mass of digital adoption the region.

There are now over 20 million Internet users in Kenya, and many more millions in the East African Community. The proliferation of the Internet into everyday life means that people, businesses, and organisations are creating an unprecedented amount of data and requiring an unprecedented amount of digital services. Kenyan BPO/ITES firms have faced many challenges attempting to find work with foreign clients. However, the rapidly growing local market offers local firms an important competitive advantage. Proximity to customers and an understanding of local contexts can allow Kenyan firms to gain a foothold and develop expertise in the face of foreign competition.

Encourage knowledge spillovers from foreign BPO/ITES work based in Kenya.

The movement of foreign BPO/ITES firms to Kenya will have positive and negative impacts on the homegrown sector. Many Kenyan BPO/ITES managers see the arrival of foreign firms as a way of enhancing the country's reputation, creating employment, and fostering spillover effects. It is those spillover effects that should be amplified and harnessed. Rather than allowing BPO to be seen as an extractive industry, government and industry associations could work to maximize knowledge spillovers. For high-end work, this could entail continued support of innovation hubs and clusters (particularly outside of Nairobi). Because they often work with non-standardised tasks, high-end software and web developers are most in need of clusters and spaces to interact with other developers, clients, and investors. For low-end work, this could mean re-energising trade associations and encouraging more cross-sectoral managerial interactions.

Continue to build the Kenyan brand

In part because of a few high-profile success stories, Kenya is widely perceived to be a thriving technology cluster. The power of this brand should not be underestimated, and many in Kenya's BPO/ITES have used it to their advantage. The Kenyan government could continue to build and strengthen this facet of Kenya's international branding. Concurrently, it will be important to ensure that some firms are not damaging the larger industry's reputation through poor work. Industry-body led training, registration and certification schemes would be able to counter some of those risks.

Financially supporting SMEs

Many Kenyan BPO/ITES firms stress that they are at a disadvantage in tendering processes. Tenders are often configured to require or encourage formal guarantees, foreign backers, or large capital resources. Government departments could potentially loosen some of these tendering requirements. Whilst this would increase risk, it would also provide a fertile ground for Kenyan SMEs and entrepreneurs to develop their skills and ultimately expand their businesses. In contrast the previous subsidy given to the sector (supported by the World Bank) does not appear to have been particularly effective. It encouraged unsustainable practices by some firms and was thus potentially damaging to the industry in the longer term. It could be more useful to further support local venture capital initiatives to invest in promising early-stage firms.

Research and training

There exists little general knowledge about the configuration of global and regional value chains in the BPO/ITES sector. Some Kenyan firms find themselves locked into relatively exploitative business relationships with foreign partners, and others are unclear about whether they want to pursue disintermediated strategies, work with intermediaries, or attempt to become intermediaries themselves. Better understanding the nodes at which value is captured in the BPO/ITES sector could allow Kenyan managers and entrepreneurs to develop more targeted strategies. The government could more explicitly highlight this need through targeted research programmes.

For more information about the research that this policy brief is based on, please contact Dr Mark Graham at the Oxford Internet Institute: geospace.co.uk or mark.graham@oii.ox.ac.uk