

# Bridging the ICT Gap with Africa

## CORPORATE SOCIAL RESPONSIBILITY

### Doing Business with SMEs

In most new emerging markets, SMEs are the backbone of the economy, providing a prime source of new jobs and playing a crucial role in income generation. SMEs play a role in reducing poverty by helping boost employment in poor or rural areas and thereby removing regional and sectoral imbalances from the economy. In addition to serving as a seedbed of entrepreneurship, small enterprises occupy a highly useful niche in industrial structure, subcontracting with large firms and engaging in small-batch production, made-to-order work, or finishing operations complimentary to large-scale industry. Easy entry and exit of SMEs can make economies more flexible and competitive, leading to higher growth rates in the long term.

It is not just a matter of improving the role of SMEs in the local industrial structure. These SMEs can also increasingly become part of the global tech sector value chain. Below, we give various examples of how governments, private businesses and public-private partnerships are fomenting the inclusion of SMEs from newly emerging markets into the global technology industry.

A thriving SME sector is key to a healthy economy, and this applies to emerging markets as well.

This article is about how US – and Europe-based businesses can engage small and medium-sized enterprises in Africa, especially those in the IT, media and telecoms sectors. Generally speaking, SMEs in this sector encounter a lack of financing, orders and technical assistance. At the same time, they can provide quality services for companies that are willing to relocate some of their business to new outsourcing destinations in Africa. Here, we aim at presenting the reader with novel ideas for moving from ‘business as usual’ to more inclusive business relationships rooted in corporate social responsibility.



photographer: Ami Vitale / World Bank

Computer class for distance learning, Ivory Coast

## SMEs can make economies more flexible

### UN Promoting Linkages between Multinational Corporations And SMEs

The United Nations Industrial Development Organization (UNIDO) has taken a step in the right direction by enabling SMEs to develop in clusters and enter global supply chains. 'Development of Clusters and Networks of SMEs' is one of the programmes implemented by the UNIDO Private Sector Development Branch. It is a response to the request of developing countries for technical assistance to help their SMEs become more competitive by fostering inter-enterprise linkages as well as collaborative relations with local support institutions. It aims at helping SMEs combine their strengths and jointly take advantage of market opportunities or solve common problems with a combined effort. The programme covers different modalities of collaboration between enterprises and between enterprises and institutions: horizontal networking (among SMEs), vertical networking (among SMEs and larger enterprises) and clustering where larger concentrations of enterprises operating in the same locality and belonging to the same or complementary sectors are concerned.

More information on the UNIDO programme 'Development of Clusters and Networks of SMEs' can be obtained by contacting: Director - Private Sector Development Branch, A 1400 Vienna, Austria, Tel: +43 1 26026 - 4820/4821

### Advantages of Doing Business with SMEs

Business linkages bring many advantages for SMEs and large companies engaging these companies. Advantages for SMEs include improved access to working capital and other sources of bank financing, upgrading business relationships into long-term relationships, and the transfer of technological and management skills. The issue of skill transfer is of special importance for fast changing and knowledge intensive industries like IT and telecommunications.

Research bears out that small firms that have successfully integrated into one or more value chains have been able to expand their businesses and gain stability and efficiency. Large US- and European-based companies engaging smaller players in the ICT/telecommunications branch located in emerging markets can gain by accessing high-quality, low-cost outsourcing services, as well as by enhancing their reputation as making use of socially responsible (outsourcing and hiring) practices. The process of this integration is supported by several United Nations initiatives (see the text box on the left). BiD Network, a Dutch-based NGO supporting enterprise development in emerging markets, also supports this integration, by matching investors with strong entrepreneurs in these markets.

### Business as Usual And Corporate Social Responsibility

ICT outsourcing is not a new phenomenon. It has already created millions of jobs throughout the developing world and is expected to grow substantially over the next decade. Typical examples of ICT/telecom related activities outsourced to emerging markets are call centres, video editing, software development and maintenance, and network management activities. The main question companies ask from this perspective is which business processes can be outsourced to make their company better and cheaper, i.e. the traditional, maybe rigid focus of improving operational practices and financial performance of the outsourcer.

Businesses can also try to engage smallish ICT outfits in emerging markets in new ways, thereby making outsourcing a two-edged sword. Corporations can start asking themselves what they can do for these companies from a corporate social responsibility perspective, how to use the skills they have obtained to help a company in a comparable sector in an emerging market for example. Large companies can help smaller ICT/telecom firms in a variety of ways, for instance with their business modelling, by providing training and by educating them on best practices. Other ways in which companies can improve the links with SMEs are via leveraging their buying power to allow smaller firms to get materials at a discount. US- and Europe-based companies can also engage their employees by offering them the opportunity to spend up to a month advising an ICT company located in Africa on its business strategy. In this way, they can not only improve their internal operations, but they also contribute to stronger SMEs, implicitly improving the local and national economies in emerging markets.

Another idea is to provide loans or equity to companies. Instead of just doing business with smaller companies, for instance, you can actually invest in them, providing them with highly necessary financing. MyC4 and BiD Network are two organizations which do just that. With MyC4 ([www.myc4.com](http://www.myc4.com)) you can lend money to micro-enterprise businesses in Africa while still doing some good business for yourself. Even though the goal of the platform is to end poverty by 2015, MyC4's operations are based on the philosophy that it is perfectly legitimate to earn interest on your contribution. BiD Network, which bases part of its success on its powerful ICT platform, thus allowing SMEs to showcase themselves directly to potential investors, focuses on facilitating flows of equity to promising SMEs in emerging markets. For more on BiD Network, see the text box on page 14.

Both MyC4 and BiD Network are examples of how companies and organizations can use ICT as a tool to reach micro-enterprises and SMEs in new emerging markets. The STAR programme of Hivos and KPN also uses ICT/telecommunications as a tool, in this case to promote awareness about vital issues, such as HIV and AIDS. The programme also shows how you can provide technical assistance by teaming up with local (telecom or radio) providers, see the text box below.

### Uniting Forces to Promote HIV-AIDS Awareness: KPN And Hivos

'Safer sex is the best sex.' This message appears when a penalty is saved in the AIDS Penalty Shoot-Out game on a mobile phone. While playing, the gamer gets information on HIV/AIDS awareness, prevention and misconceptions about the virus. Mobile phones are widely used in most parts of Africa, especially in urban areas, and are therefore cut out for spreading information and interacting with young people.

The project is just one of the results of STAR, a joint initiative of Hivos and Dutch telecom provider KPN. It is a unique public-private partnership using ICT in the fight against AIDS and poverty in Africa. Whereas Hivos is responsible for the overall coordination of STAR, KPN's role is primarily the provision of technical and management expertise, seen as an ideal way of enhancing the experience of its young promising professionals.

The STAR programme aims at increasing the capacity of civil-society HIV/AIDS organizations and microfinance institutions to apply ICT effectively to improve their management processes and communication with their target groups. The focus

of the programme has been on the HIV/AIDS and microfinance sectors because of their potential impact on the course of African development. Practice and experience have shown that small and medium-sized organizations working in these sectors generally lack ICT skills and have limited access to communication technologies. The STAR programme started in September 2005 and will end in September 2009. Twenty organizations from six African countries (Tanzania, Kenya, Uganda, Malawi, Mozambique and Namibia) are currently participating in the programme.

The power of the STAR programme lies in the combination of group activities and individual attention, in the intensive collaboration between a group of partners, and in the development of practical and replicable ICT tools which are useful to many organizations. Furthermore, the involvement of KPN professionals adds valuable knowledge, (technical) expertise and original solutions to the programme.

Skill building is a key characteristic of the STAR programme. Through workshops, training, exchange visits and individual guidance participating organizations are made aware of the available ICT tools and are trained and supported in the use of these tools to improve their administration procedures and communication strategy. Projects are executed in collaboration with local telecom providers, local NGOs and local radio senders. By doing so, not only access of local NGOs to ICT is improved, but also smaller companies benefit from the programme and participate in socially important processes.

For more information on the STAR program, contact Issmail Nnafie, STAR Programme Coordinator for Hivos Kenya, telephone: +254 20 386 9621, email: [i.nnafie@hivos.nl](mailto:i.nnafie@hivos.nl), or Fleur de Bruijn, Bureau External Relations, web site: [www.hivos.nl/english](http://www.hivos.nl/english), telephone: +31 70 3765500, email: [info@hivos.nl](mailto:info@hivos.nl)

**ICT Outsourcing:****the Case for Shifting from Traditional Destinations toward Africa**

Much ICT sourcing has been centered around countries such as India, which has been a leading sourcing country for many years. However, companies also have a choice: to continue doing business as usual and only engage with trusted partners in relatively mature markets such as India and the Philippines, where wages are relatively high, or to start branching out into new markets for their outsourcing needs. According to Leila Chirayath, founder and CEO of Samasource (see the text box below), a company pioneering socially responsible outsourcing, a few emerging African players, notably Ghana and Kenya, contain the right mix of success factors to attract outsourcing business.

**Socially Responsible Outsourcing: Samasource**

Samasource, a US-based organization, is a pioneer in socially responsible outsourcing in the ICT sector. Samasource, which derives its name from the Sanskrit word sama, which means 'equal' or 'level', functions as a bridge for consumers in developed economies in need of low-cost ICT services with reputable African providers via an online marketplace in which consumers themselves rate businesses and provide feedback. The model allows consumers to interact directly with service providers at no cost to subscribe. Provider-partners are selected by a panel of international and in-country experts, based on objective quality and capacity criteria adapted from international standards currently used in more established markets. A US-based team conducts routine quality checks, and eventual evolution to a commission-based pricing system ensures sustainability of the business and increased local ownership.

Leila Chirayath, Founder and CEO of Samasource says their mission is two-fold: (1) to create knowledge jobs for skilled, economically underprivileged people, and (2) to create business value for US enterprises through low-cost, high-quality business process and IT outsourcing services. Samasource is currently running several programmes focused on developing and promoting guidelines for socially responsible outsourcing, awareness building among consumers, training small and medium-sized outsourcing firms (SMOs) and connecting SMOs to the global outsourcing marketplace.

**Best Practices For Connecting Large US-Based Corporates with Small Outsourcing Companies**

One of Samasource's most successful interventions to date is a book validation pilot project with Bookshare.org, a technology-driven project initiated at Benetech, a California-based non-profit organization led by social entrepreneur Jim Fruchterman.

Bookshare provides disabled people in the US access to over 40,000 books via large print, digital to audio and Braille formats. Part of the digital to audio was outsourced to Daproim, a Nairobi-based firm headed by a dynamic Kenyan entrepreneur named Steven Muthee. Chirayath shared some of the success factors in gaining this contract: 'We made direct introductions between the clients and moderated conversations, which smoothed communication. Muthee is also an extremely strong entrepreneur, who combined courtesy and promptness with good pricing. In Kenya, you can hire a very educated person to work for USD 10-15 per day, which is considered to be an excellent salary, as many people do not even earn the minimum wage.'

Chirayath notes a few more factors which help smooth deal facilitation: 'We try to get clients to send samples of what they need to the outsourcing units prior to getting a quote, as this eliminates ambiguity and helps with pricing. Frequent and repeated communication is also key in this business, where we need to build up trust between the parties. We also recommend clients to partner with someone who has already done outsourcing.'

For more information about Samasource:

[www.samasource.org](http://www.samasource.org)

Source: *interview with Leila Chirayath, CEO Samasource*

These factors include:

- talent: 60% unemployment among university graduates in some cities and over one million high school and college graduates with English skills;
- business environment: new, pro-business leadership in several countries, increased government funds for tax incentives and ICT training programmes, and growing private-sector interest in Africa (e.g. private equity firms, telecoms, and partnerships with development agencies);
- bandwidth: new fibre optic capacity – the SEACOM fibre optic cable and a regional backhaul link will go live in early 2009, and telecom costs are expected to decline by over 80% in the next decade.

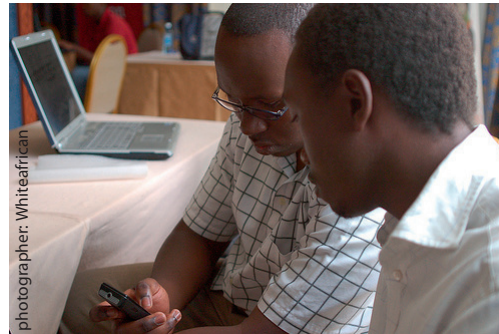
Another advantage of African countries over Asia is that much of Africa is in the same time zone as Europe, which facilitates contact.

Despite this potential, reliable small and medium-sized ICT enterprises in emerging African markets remain off the map for Western corporate customers for several reasons. Chirayath explains: 'First, African entrepreneurs have little opportunity to build personal relationships with potential clients in the West – most of Africa is unfamiliar to businesspeople, and the ICT industry is young compared to the 'brownfields' of India and Eastern Europe, which offer a myriad of tried-and-tested case studies to encourage would-be clients. Second, the region has many scattered players with disparate marketing needs and service offerings – there is as yet no critical mass of providers to attract outsourcing contracts of Global 1000 Companies. Third, the high level of political risk in certain countries damages perceptions of the entire continent.'

## Helping SMEs Profit from the Growing ICT Sector in Uganda

Uganda has a dynamic Information and Communications Technology (ICT) sector. The sector has registered double-digit growth since 2000 and grew by 33% in 2006/2007. Direct employment stands at 6,000 whereas over 350,000 people are indirectly employed. Sector dynamism is a result of Uganda's good legal and regulatory ICT framework, a stable macro-economic environment and economic reforms pursued since the early 1990s.

The telecommunications sub-sector, formerly dominated by a single national operator, has been progressively liberalized over the last 10 years. The result of this liberalization has a well-known pattern: the number of telephone subscribers has risen sharply in the last few years. The increase has been driven by mobile telephones, where increased competition has brought down prices and new connections can be made instantly. Mobile-phone users now account for more than 90% of all telephone users in Uganda. Market penetration, at around 17%, has grown substantially in recent years, with an estimated 5 million subscribers by the end of 2008 out of a population of 32 million. MTN is the market leader by far with 52% of market share, followed by Celtel with 36%, UTL with 10% and Warid with 2%.



Two members of Ushahidi's team work on application development for mobile phones

According to Michiel Slootweg, a Dutch telecommunication industry specialist, there is a host of opportunities for cooperation between large multinational operators and smaller companies along the telecommunications value chain. 'Linkage openings in this sector lie in strengthening the distribution networks, a core determinant for further improvement of Uganda's teledensity. Whereas Uganda's teledensity has increased sharply, there is a need to extend this transformation of the sector further because of its essential contribution to business growth,' says Slootweg. 'The distribution of mobile phones is mostly done by smaller local companies. The distribution of Scratch cards (pre-paid top-up cards) is also outsourced to small companies, which sell cards in denominations of as little as \$1. Ugandans prefer to buy a Scratch card of \$1 right away instead of saving up for a \$5 or \$10 card,' says Slootweg. 'This provides many opportunities for smaller companies and dealers to reach the client at street level.'

**The Bid Network operates  
the largest online marketplace  
dedicated to stimulating  
entrepreneurship**

## Conclusion

In this article, various examples are presented of how SMEs in newly emerging markets can be integrated successfully into the global value chain for the IT and telecommunications services. There are many ways to do this: by outsourcing to new destinations in Africa, as in the case of Samasource; by linking investors with promising young ICT firms in Africa, as BiD Network does; by using ICT (and local ICT companies) as a tool to spread awareness about HIV-AIDS in Africa, as in the public-private partnership between Hivos and KPN; and by promoting clusters and networks of SMEs, as the UN agency UNIDO does.

What is the way forward? According to Leila Chirayath from Samasource, there will be an increasing demand for more socially responsible activities by large ICT companies, at least in the US: 'Many local governments are facing cost pressures and are willing to engage low-cost providers outside the US. And there are a growing number of socially responsible companies in the US which serve consumers who are increasingly conscious of their outsourcing policies.' We hope that the ideas presented in this article will be food for thought to the many large ICT companies that are looking for another way of doing 'business as usual'.

### Susan Randall

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## Linkage in Action: BiD Network

The Business in Development (BiD) Network operates the largest online marketplace dedicated to stimulating entrepreneurship in new emerging markets, with over 24,000 members. BiD Network runs the BiD Challenge, an on-line global business plan competition that invites entrepreneurs to develop and execute innovative business plans with growth potential, in order to stimulate local economic growth and generate jobs and income in emerging markets. BiD Network operates the BiD Challenge from 10 countries in Asia, Latin America and Africa. Some 60% of the plans submitted to the BiD Network are start-ups.

Of all the plans submitted via the various challenges so far this year, some 10% are in ICT/telecommunications, making this the second-largest category of plans after agriculture and food processing. Common needs for businesses in this sector are advice on expanding networks of buyers and customers and support on public relations and marketing. Many ICT/telecommunications-focused businesses are interesting for investors in the BiD Network, due to their high innovative value and growth potential.

BiD Network is also a good example of how ICT can be harnessed to engage SMEs in new emerging markets in general. The success of the network is partly due to the powerful ICT platform, which allows SMEs to showcase themselves directly to potential investors.

BiD Network is highlighting opportunities for links between large and small companies in the ICT branch in a new series of guides on investing in SMEs in emerging markets. The first guide in the series, Investing in Small and Medium-Sized Enterprises in Uganda 2008, contains information on linkage opportunities for SMEs with large corporates, investment guarantees for foreign investors, and a full listing of providers of business and financial services available to SMEs. Information about the guide series can be accessed via: [www.bidnetwork.org/factsheetcountryguides](http://www.bidnetwork.org/factsheetcountryguides).

Every year, the best entrepreneurs in the BiD Network are invited for the final award event. Next year's event, which is sponsored by Rabobank, will be held at the Creative Factory in Rotterdam on 27 January 2009.

For more information as well as access to thousands of business plans of promising SMEs, please consult [www.bidnetwork.org](http://www.bidnetwork.org)