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Is Ghana an Attractive Proposition for IT Services and Business Process Outsourcing?

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Abstract

During the last 10 years, the Ghanaian government has made a serious effort to increase foreign direct investment (FDI) and to use that as a vehicle for export-led growth. Much of the emphasis has been on using technology to fuel the growth engine and as a means of diversifying from Ghana's traditional staple exports, cocoa, gold and timber. The need for improvement is greater now than ever: cocoa prices have tumbled due to global overcapacity, timber production has become increasingly unsustainable and gold—no longer the standard it was—has fallen in value. As a result, the country's GDP per capita has stagnated.

Ghana believes technological investments are the answer to its export and employment problems and that it has a number of advantages over its West African neighbors. It is seeking to increase investment to make an early push into the sector and, ultimately, to turn itself into a major information and communications technology (ICT) and business process outsourcing (BPO) services player. Some have suggested that Ghana could in time become the “Bangalore of West Africa.”

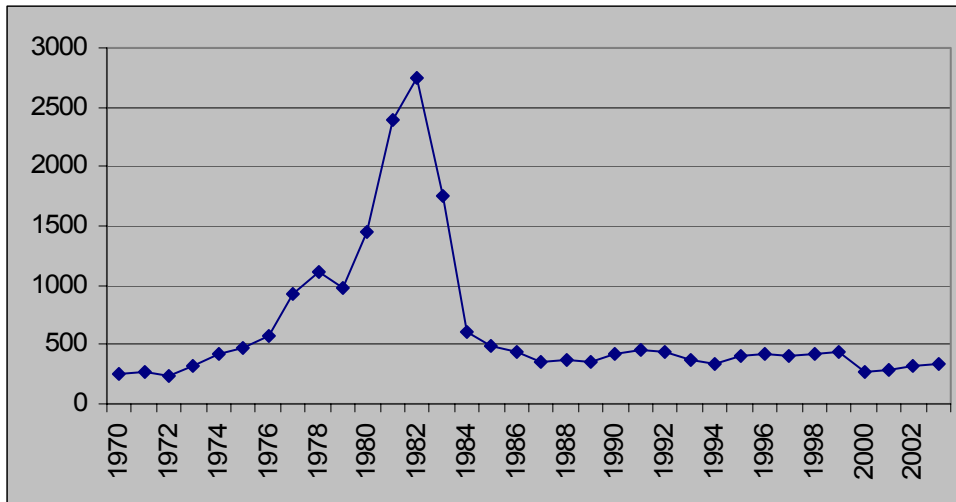
This paper examines Ghanaian efforts to grow its investment in the ICT and BPO sectors and attempts to determine whether Ghana can be successful. The authors base their conclusions on an analysis of the current investment environment, the labor market and the country's infrastructure, as well as the rule of law and government policies and incentives. The authors, who interviewed entrepreneurs and conducted a survey to inform their views, also present a breakdown analysis on the different BPO areas. The authors conclude that while Ghana cannot compete effectively with India in the foreseeable future, the country is competitive in such low-skill, low-margin areas as transcription services, account activation, surveys and basic customer care. They conclude, too, that current government efforts are justified, since Ghana needs only to be moderately successful to have a positive impact on its economy.

1. Ghanaian Economic History

Ghana was the first African country to gain independence from Great Britain. At the time—1960—Ghana was one of the leading producers of cocoa in the world, and it soon formed the Ghana Cocoa Board, Cocobod, to oversee the aggregation, transportation, welfare and marketing of its cocoa beans abroad. This effort, along with the government's subsidies to help farmers grow cocoa and coffee, made Ghana one of the three largest exporters of cocoa in the world, and the small African economy was soon on par with much of Southeast Asia in terms of income per capita (Beim and Calomiris 2001).

Unfortunately, mismanagement, overreliance on cocoa and coffee, government corruption and military coups, and a drop in commodity prices due to excess supply resulted in ever decreasing revenues and stunted growth (Lamb 1987). The result was that Ghana's income per capita in 2003 was no higher than it had been in 1960 (exhibit 1). In contrast, GDP per capita of the Southeast Asian “tigers” is now as much as 30 times that of Ghana's (UNDP 2002).

Exhibit 1. Ghana: Decline in GDP Per Capita (USD) Over 30 Years

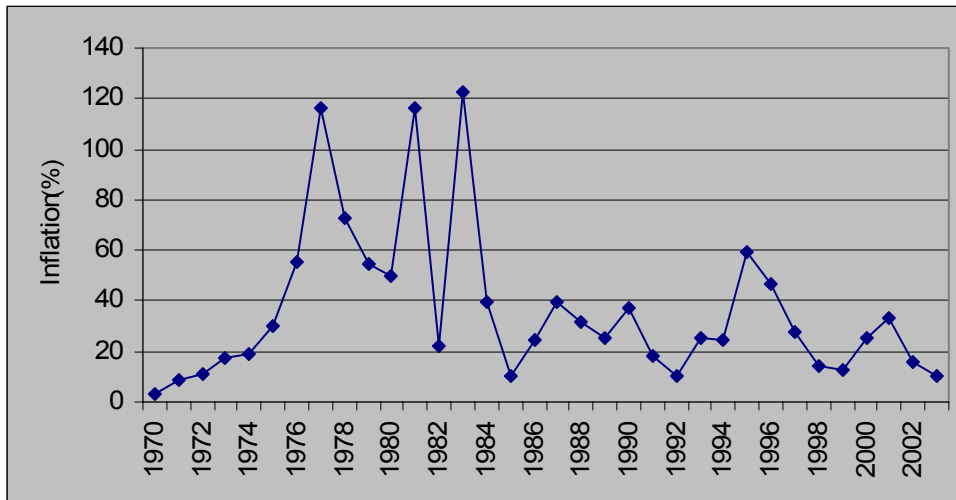


Source: World Bank, <http://www.worldbank.com/data/countrydata/countrydata.html>.

Since 1970, Ghana's economy has also been devastated by high levels of inflation, due in part to the missteps of its leadership. After a military coup led by Flight Lieutenant Gerry Rawlings, inflation reached 120 percent from 1979 to 1983 (exhibit 2). High dollar interest rates led to high interest payments on sovereign debt. This prompted Ghana to accept structural adjustment measures from the International Monetary Fund (IMF) and reined in government spending and inflation, earning admiration from the West (Farmer and Talbot 2001).¹

¹ *Washington Consensus* was coined by John Williamson to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989 (see S. Venkitaramanan, *Washington Consensus revisited*, *Hindu Business Line*, June 4, 2001). The term now refers to the whole developing world and encapsulates the experience of the 1990s. The original version of the Washington Consensus is now extended to the rest of the world and advocates fiscal discipline; redirection of public-expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution; lowering taxes; and a raft of neoclassical reforms that include interest-rate liberalization, a competitive exchange rate, trade liberalization, liberalization of capital controls, privatization, deregulation and property rights. Most economists agree with the need for the first three, but there is controversy over the others. Stiglitz (2002), for example, has criticized the Washington Consensus for its failure to pay attention to sequencing, or local factors and the need to increase government spending during economic down cycles—the significance of which is often understated by neoclassical economists and the Washington Consensus. The developing world also has been critical, as these countries find themselves pushed to pursue policies that tend to relegate the jobs or development agenda to a secondary consideration, and the rewards for pursuing the policies do not always justify the pain.

Exhibit 2. Ghana's Inflation: Rampant in the Early 1970s, but Controlled Since



Source: World Bank, <http://www.worldbank.com/data/countrydata/countrydata.html>.

As the leader of Ghana, Rawlings ran the country as a benevolent despot. In 1983, he initiated a concerted liberalization of the economy and efforts to increase his country's share of FDI.² Despite this, FDI remained minimal: \$70 million in 1999, compared to a sovereign debt of \$7 billion. Debt levels were so high that servicing them consumed 51 percent of the national budget.³

The economy grew modestly in the 1980s and 1990s, registering a compound annual growth rate (CAGR) of 4.5 percent between 1992 and 2002 and a GDP per capita of \$300 in 2002 (\$6 billion).⁴ Growth is forecast to be sustained at about 7 percent for the next few years,⁵ but all this cannot mask the fact that Ghana remains one of the poorest countries in the world. Agriculture accounts for 40 percent of GDP (and 60 percent of employment), services 31 percent and industry 29 percent. Though the industrial base is fairly diverse—it includes aluminum smelting, oil refining, textiles, pharmaceuticals, brewing, cement fabrication and mining—capacity utilization has been low due to maintenance and infrastructure issues. Recently the country has experienced lower inflation (exhibit 3) owing to tighter fiscal policy.

² World Bank. Data are available at http://www.worldbank.org/privatesector/ic/ic_ica_resources.htm.

³ Ibid.

⁴ Ghana Ministry of Trade and Industry (MOTI), <http://www.moti-ghana.com>.

⁵ Economist Intelligence Unit, 2002.

Exhibit 3. Ghana: Key Economic Indicators

	1997	1998	1999	2000	2001	2002
GDP at Market Prices (GHC billion)	14.2	17.3	20.6	27.1	38.1	44.7
GDP (USD billion)	6.9	7.5	7.8	5.0	5.3	5.6
Real GDP Growth	4.2%	4.7%	4.4%	4.1%	4.2%	4.5%
Consumer Price Inflation (annual average, in %)	27.9%	14.6%	12.4%	25.2%	21.3%	15.2%
Total External Debt (USD billion)	6.3	6.9	6.9	7.0	6.6	6.1
Debt Service—Ratio (paid, %)	28.5	20.0	17.7	16.2	15.3	11.7
Population	17.9	18.4	18.8	19.3	19.7	20.1

Source: Economist Intelligent Unit, Country Report, Budget Statement.

2. Growth Initiatives

Many factors can affect the attractiveness of a country for private FDI, including the following: infrastructure; labor laws; special tax provisions; the rule of law; legal provisions to protect investments, such as intellectual property rights (IPR); the tariff structure; the size and skill level of the labor force; and political stability. The Ghanaian government has used a combination of incentives to improve its investment climate. This section discusses their impact as measured by the number of companies investing. The authors also use the results of a survey to gauge the impact of these incentives and conclude by evaluating the proposed technology park (GCG 2003).

In Ghana, the government has attempted to attract FDI through aggressive changes in business law, privatization of state-owned companies and other related initiatives, including the formation of a free-trade zone:⁶

1. The Companies Code, 1963, established the right of overseas firms to establish and register a place of business in Ghana and to invite the general public to subscribe to their shares. These companies can be private limited, public limited or unlimited—and indeed the Partnership Act, 1962, established rules for the formation of partnerships.
2. The Companies Code, 1963, was further liberalized by the Ghana Investments Promotion Centre (GIPC) Act, 1994, which eased rules for the establishment of companies. Under the act, foreign investors in Ghana are required by law to register with the GIPC. The GIPC provides to all enterprises guarantees of “free transferability through any authorized dealer bank in free convertible currency of dividends or net profits attributable to a foreign investment.” Additionally, Ghana is a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, which provides some protection against noncommercial risk for investment in developing countries.
3. Beginning in 1988 as part of Ghana’s recovery program, the government has implemented an aggressive divestiture of state-owned enterprises (SOEs). To date, more than 250 of the 300 SOEs

⁶ Ghana MOTI, <http://www.moti-ghana.com>.

have been divested.⁷ The rationale for privatization is to improve company incentives, increase the size of the private sector (which is now 10 percent, up from 4.5 percent), inject entrepreneurial direction into the SOEs and increase investment in plant and equipment to foster increased productivity and growth. Although mismanagement and a shortage of trained managers have been issues, the divestiture program has met some of the success criteria set out in 1988 (Dzakpasu 2000).

4. The Trade and Investment Reform Program (TIRP) is a four-and-a-half-year—1998–2003—USAID program⁸ designed to offer \$50 million in assistance to boost such key economic sectors as agriculture, marketing, industry, small-scale enterprise development and trade. The program and its predecessor succeeded in expanding international sales from \$1,072 million (1995) to \$1,480 and increasing private investment as a share of GDP from 5.3 percent (1995) to more than 10 percent.⁹

5. The government has also established a Ghana Free Zones Scheme managed by the Free Zone Board. Companies can be engaged in the production of any type of goods or services for export, including BPO, telemarketing and other call-center operations, and IT services. The scheme has a large number of generous incentives, including the following:

- exemption from the payment of income tax on profits for the first 10 years and a maximum tax rate of 8 percent thereafter.
- exemption of shareholders from the payment of withholding tax on dividends.
- the right of foreign investors to take and hold 100 percent of the shares in any free-zone enterprise.
- guarantees of unconditional transfers through authorized dealer banks.
- freedom to contract with local labor under terms set by the employer only.
- in cases in which people may be subject to double taxation, the option of paying income tax in the country of origin.
- the right of citizens of Organisation for Economic Co-operation and Development (OECD) member countries and of South Africa to apply for visas at ports.

6. IPR Considerations: Ghana is a signatory of the Universal Copyright Convention and a member of the World Intellectual Property Organization, the African Regional Industrial Property Organization and the WTO (USTR 2001, 140). Unfortunately, anyone who feels that these rights have been infringed must seek recourse in local courts, although few infringements have been brought before the court in recent years. As in other emerging financial markets, there is some misappropriation of trademarks and music piracy, but the data are somewhat patchy (USTR 2001, 140).

⁷ Ghana MOTI, “The Divestiture Programme,” <http://www.moti-ghana.com/divestiture.htm>.

⁸ The TIRP replaced the U.S.-Ghana Trade and Investment program funded by the United States, which ran from 1992 to 1997 and provided \$80 million in assistance to increase nontraditional export earnings (Ghana MOTI, “Trade and Investment Reform Programme,” http://www.moti-ghana.com/trade_invest_prog.htm).

⁹ For more details, see Ghana MOTI, “Trade and Investment Reform Programme,” http://www.moti-ghana.com/trade_invest_prog.htm. Private foreign and national companies serve on the program’s board, including TechnoServe, a multinational business working with local entrepreneurs in more than 20 emerging markets.

7. The government of President John Kufuor that took office in 2001 recently declared that the private sector is the “engine of growth” and the current decade the “Golden Age of Business.” The government expects to achieve its mission by working closely with the private sector and providing “assistance through the divestiture program, financial support and streamlining of government bureaucracy” (DMFA 2003). Some of the initiatives are designed to increase educational output, develop incubators and business advisory services and provide financial assistance for micro, small and medium industries. These have come under fire of late from religious leaders who believe that the pronouncements have not been backed up with concrete proposals (AllAfrica 2003).

8. A large number of donor institutions, both multilateral and bilateral, are engaged in the private sector in Ghana. Others, including the Danish Government, are working both with private businesses and directly with the Ghanaian government to reform the legal and judicial systems, strengthen the business culture, provide business-support instruments and enhance access to markets (DMFA 2003).

3. Evaluation of Ghana’s BPO/ICT Suitability

3.1. Infrastructure

The stability of the power grid is an issue. Power is currently supplied by the national monopoly, the Electricity Company of Ghana. The company’s record is poor. It is often the subject of legislation intended to protect the consumer and improve service.¹⁰ Power failures are common, and businesses that require high uptime often need a private generator to ensure uninterrupted supply. This adds significantly to the cost of business and is inefficient.¹¹ The government is aware of this issue, but it is unlikely to be solved through privatization alone (Laryea 1999).

The main telecommunications provider is Ghana Telecommunications Company Ltd (Ghana Telecom). It was incorporated in 1995 as a successor to the telecommunications division of the Ghana Posts and Telecommunications Corporation (GPTC), which was established in 1974 to operate and license telecom services. In 1996, Ghana Telecom privatized its mainline operations by awarding a Malaysian-led consortium (Telecom Malaysia) a 30 percent stake in the company, with full management control. The government plans to sell an additional 21 percent to the public.

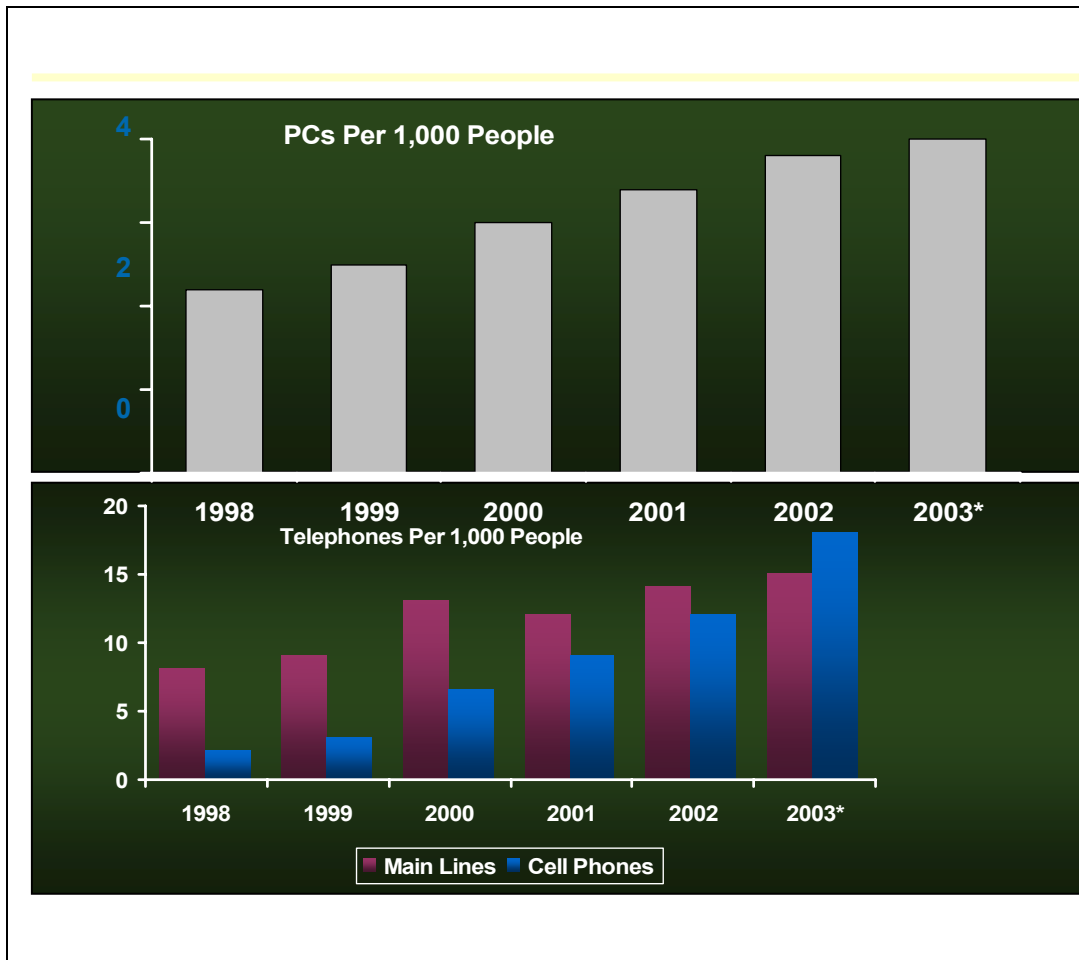
Ghana’s cities are connected by microwave radio, and there is another telecom operator, Western Telesystems Ghana Ltd (WESTEL). Still, there is a backlog of 30,000 people currently waiting for telephone lines. Cellular telephony is growing quickly to meet this demand. Millicom Ghana Ltd (Mobitel), which began in 1991, now has more than 300,000 subscribers, and CellTel Ltd (CellTel), which began in 1993, has 200,000 subscribers (Addy-Nayo 2001). All told, the country’s phone lines

¹⁰ “Parliamentary Committee Drafts Rules on Electricity,” *newsinghana.com*, posted July 8, 2002, <http://www.newsinghana.com/politics/parliamenatary-committee.htm>.

¹¹ M. Phillips, “Entrepreneur betting on Internet phone calls,” *Wall Street Journal*, May 22, 2002. Phillips reports, “[E]lectricity in Accra cuts out at least once a week, so they need a \$30,000 backup generator and a huge battery to keep the computers up and running for 11 minutes until the generator kicks in. Then there is the \$18,000 transformer out back; at times the 240 volts power can surge to 290 volts. The computers require frequent cleaning because of the dust that blows down from the Sahara.”

are now approaching 750,000, roughly 250,000 of which have land connectivity. PC and phone usage have grown significantly over the past five years (exhibit 4).

Exhibit 4. Growth in PC and Telephone Usage in Ghana, 1998–2003



Source: World Bank, World Development Indicators 2002.

Currently, there are a growing number of Internet service providers (ISPs), most of which pay between \$2,000 and \$5,000 per month for their connection. A growing number are using Internet telephony to facilitate phone calls via the Internet for customers who would otherwise use the more expensive land or cellular technologies. This can reduce significantly revenues for Ghana Telecom. In some cases, Ghana Telecom has responded by shutting down the ISPs (as they are still banned by law), but more and more people are taking their chances with this.¹² Since charges for international calls are so high, and given the fact that the queue for land lines is 30,000 long, the government will

¹² G. P. Zachary, "Searching for a dial tone in Africa," *New York Times*, July 5, 2003.

need to introduce additional legislation deregulating the sector, especially to allow for the use of Internet phones. Until that happens, the telephony infrastructure will remain inadequate.

3.2. Labor Laws and the Labor Force

It is difficult to obtain reliable information on the labor market, but there are a few sources.¹³ The total labor force is 9.3 million, and unemployment is currently estimated at 7 percent.¹⁴ A recent census showed that 80 percent of the economically active population is engaged in the private informal economic sector, 6 percent in the public sector and 8 percent in the private formal sector.

Ghana is a signatory of the International Labor Organization (ILO), and there is a considerable amount of labor union activity in the country. The workforce is unionized, and some of the unions are closely affiliated with international movements and are quite powerful. This affects mainly the formal sector. The unions include the Trade Union Congress, the Ghana National Association of Teachers, the Civil Servants Association, the Judicial Service Staff Association and the Public Utility Workers Union, among others.

There has been a history of these unions vigorously defending the rights of their members. However, some of the laws passed in support of the free-trade zones have had the effect of weakening the unions' power, as they allow employers to hire and fire at will.¹⁵ This has tended to affect women and children more than men, especially in rural industries, where companies often use children as cheap labor in insecure employment conditions (DMFA 2003).

The minimum wage is set at \$1 per day, or 12 cents per hour. This gives Ghana a significant cost advantage in industries, such as the services business, in which the labor force is a key component of cost. However, the number of students graduating from universities in Ghana each year is less than 10,000, compared to more than 350,000 in the Philippines or more than 500,000 in India.¹⁶ This would suggest that although Ghana has a cost advantage over India and the Philippines, the relatively small number of trained workers represents a significant competitive disadvantage. However, as labor costs increase in India and the Philippines owing to the high demand for their workers' skills, the Ghanaian labor cost advantage will become more pronounced.

3.3. Political, Regulatory and Financial Environment

Despite the military rule that characterized its postindependence years, Ghana has experienced relative peace and stability compared with its West African neighbors, and its democratic institutions are now becoming entrenched following three successive elections. It has enjoyed a smooth third-term election following the introduction of the new constitution in 1992, and the country—despite its mix

¹³ Ghana Living Standard Survey 4, 1998, available at http://www4.worldbank.org/afr/poverty/databank/survnav/show_survey.cfm?ID=138; Ghana Labor Market Survey, 2002.

¹⁴ Ghana Population and Housing Census, 2000.

¹⁵ Ghana Free Zones Board, "Free Zone Act," <http://www.ghanaclassifieds.com/gfzb/fzact.htm>.

¹⁶ H. Bray, "Philippine leader aims to lure more outsourcing," *Boston Globe*, May 22, 2003.

of multiple ethnic groups—enjoys complete religious freedom (Addy-Nayo 2001). In the 2000 World Business Environment Survey (WBES) 2000,¹⁷ Ghana was rated “favorable” for government intervention in employment and investment decisions and “moderate” for the helpfulness of the central government today.

Ghana inherited an Anglo-Saxon legal system. However many of the laws are in need of modernization. In spite of the positive findings of the survey regarding Ghana, it is still a very difficult environment in which to do business. A recent report from the Danish government has highlighted the problems faced by businesses (DMFA 2003):

- Many laws and regulations are outdated, complex, overlapping or conflicting with one another.
- Administration of the laws is inadequate, caused by bureaucratic systems and administrative constraints.
- Lack of access to credit and capital is hindering growth, particularly of micro and small enterprises.
- Venture capital is difficult to obtain, hampering the further expansion of medium and large companies.
- Ghanaian enterprises find it difficult to penetrate international and regional markets due to unfavorable international trade conditions and poor product quality.
- An inadequate infrastructure, especially unreliable service from public utilities, results in production losses and high production costs.
- An inefficient system for the resolution of commercial disputes causes prolonged disagreements and uncertain settlements of disputes.
- Insufficient attention is given to research and development, training and retraining, and cost control.

This analysis is broadly in line with the findings of the WBES, although in the survey the government scores high (about 5 on a scale of 1 to 6 on such issues as taxes, government intervention in business and employment decisions). In spite of the government’s efforts, its officials are perceived to be only moderately helpful. The courts’ proceedings are slow (see “Ease of Enforcing Contracts” in exhibit 5), and their decisions can only be moderately trusted. The postal and telephone systems are rated only average. The good news is that these ratings are all higher than they were three years ago.

¹⁷ The WBES 2000 is a survey of over 10,000 firms in 80 countries that examines a wide range of interactions between firms and the state. More information about the WBES is available on the World Bank Group’s Web site, <http://info.worldbank.org/governance/wbes/>.

Exhibit 5. Ease of Starting Businesses or Enforcing Contracts in Ghana Compared to Nigeria, India and the United States

Ease of Starting a Business			
	Number of Procedures	Number of Days	% of Income Per Capita
Ghana	10	84	112%
Nigeria	10	44	92%
India	10	88	50%
United States	5	4	0.6%
Ease of Enforcing Contracts			
Ghana	21	90	24%
Nigeria	23	730	7%
India	22	365	95%
United States	17	365	0.4%

Source: World Bank Group (2004).

The WBES suggests that there is moderate corruption. This is consistent with Ghana's ranking in the Corruption Perceptions Index published by Transparency International (TI 2003). Ghana dropped 20 places to 70th out of 132 in 2003, having come in at a credible 50th in 2002. Even at 70th, Ghana compares favorably with its neighbors Nigeria (132), Senegal (76) and The Gambia (92), who are potential competitors for FDI within the region.

The government recognizes these shortcomings and has accepted assistance from the Danish government for dealing with the legal and regulatory aspects of the issues (DMFA 2003). Ghanaians are increasingly finding ways of breaking into the export market and raising capital for Ghanaian projects from international capital markets. One recent example is the raising of about \$10 million in the United States for a cocoa processing plant in Ghana (E. Poku, personal communication).

4. Survey Results

The authors conducted a survey to examine the thoughts of potential investors and Ghanaians living abroad about the suitability of Ghana for ICT investments and the factors that might limit that expansion. Although the sample of responses is small, the insight provided is instructive:

- Those interviewed expressed unanimous confidence in Ghana as an investment location for ICT/BPO. Given that some of them are entrepreneurs already vested in Ghana, one would be tempted to discount the self-selection. However, the fact that businesspeople are voting with their feet cannot be dismissed lightly.
- The government's efforts to attract investment were thought to be good, particularly the export promotion initiatives as well as the direct policy framework on ICT, the "Golden Age of Business" initiative as well as the provision of project financing through the Agricultural Development Bank.

- There was unanimous agreement that the government needs to do more to improve its infrastructure—improve electricity delivery, modernize the university and improve the telephone system.
- There was unanimous agreement that political stability gives Ghana an advantage, but this was always in comparison with its neighbors, which have had greater relative political uncertainty.
- There was unanimous agreement that low labor costs gave Ghana an advantage over its competitors, including India, where costs are now beginning to rise.¹⁸
- A key obstacle to development of the call-center and Internet-café business in Ghana is the high cost of telephone service and the fact that voice-over-Internet protocol (VoIP), which enables a call to be placed to a long-distance location using the Internet (so that the charge is always at the local-call rate), is a controversial issue. The government appears reluctant to allow VoIP for fear of cannibalizing revenues that currently go to Ghana Telecom and other operators, but it has made a concession for business use.
- The issue of VoIP was critical in the minds of some of those interviewed, and it is obvious why. Some of the most successful IT businesses in Africa are Internet cafés, many of which would like to expand their services to include telephony. VoIP would cut down significantly on their operating costs and allow them to offer a cheaper service and win market share from the incumbent government-controlled telecom company. This would represent an even bigger cost savings if the technology could also be used in outsourced call centers. VoIP has been held back mainly because of quality-of-service (QoS) issues associated with a new technology, particularly transmission of voice over a medium that was designed for asynchronous communication. Over the years, there have been significant improvements, and at the end of 2003 Cablevision in the United States became the first major telecom company to offer VoIP services—unlimited long-distance and local calls for a monthly fee—to customers (Joyce 2003). This is a clear declaration that the QoS issues have been resolved.
- Given problems with the telephone network and the resistance to VoIP, some respondents felt that Ghana may be a long way from running large-scale voice services; however, it is in a position to benefit from data services right away.
- Some respondents felt that the government is not doing nearly enough to market Ghana or specific areas like Kumasi, as a brand that can be associated with BPO activity—as India, for example, has done successfully with Bangalore.

5. Ghana's IT/BPO Sweet Spot

The global BPO/IT services opportunity is projected to grow from about \$2 trillion in 2000 to \$5 trillion in 2003.¹⁹ The market in India has grown by as much as 40 percent CAGR (over the past

¹⁸ A. Daga, RPT—Global tech firms compete to hire Indian staff, Reuters, May 28, 2003.

five years). Given the government's initiatives, the cost advantages and the fact that Ghana (like India) is an English-speaking country, this presents an attractive opportunity for Ghana.²⁰

Currently, there are 10 U.S. IT/BPO firms in Ghana, the 7 most important of which have made small but significant investments in Ghana since 2000:

- **Global Response Ghana MG**—contact center and fulfillment services.
- **Rising Data Solutions**—established the first English-speaking call center in West Africa in 2001; mainly involved in medical billing.
- **BusyInternet**—Africa's largest technology incubator, with a 100-PC Internet café, high-tech-serviced offices for rent and a 24-hour digital copy center. It provides businesses and the public with affordable state-of-the-art ICT services. The company became cash flow positive after seven months (GCG 2003). The facilities are currently used by 1,800 people per day and have incubated 10 companies.
- **AQ Solutions**—specializes in application design, programming and software database development.
- **Data Management International**—with 40 workers, processes environmental fines for New York City (NYC). Recently signed a two-year, \$910,000 contract with NYC to continue to provide these services.
- **Supra Telecom**—provides data-processing services for export; established in Ghana with 65 employees and currently has a 900-seat call center that is expected to be expanded to more than 1,000 seats by the end of 2004.
- **Affiliated Computer Services (ACS)**—established in Ghana in November 2000 with 85 workers; currently employs more than 1,400 people, with the number expected to reach 2,000 employees by the end of 2004, and with an average employee salary of \$1,000 per year, compared to \$20,000–\$25,000 in the United States (GCG 2003). ACS is a major global player, with a presence in nearly 100 countries, including India. Up to 20 percent of its business comes from investments made abroad.²¹

In the space of a few years, the firms together invested tens of millions of dollars, partly because of their confidence in the government's policies and partly because they expect the BPO space to continue to grow in Ghana. The space will almost certainly grow, but since Ghana is competing with other countries for these services, such growth will be difficult. Other countries saw the need earlier

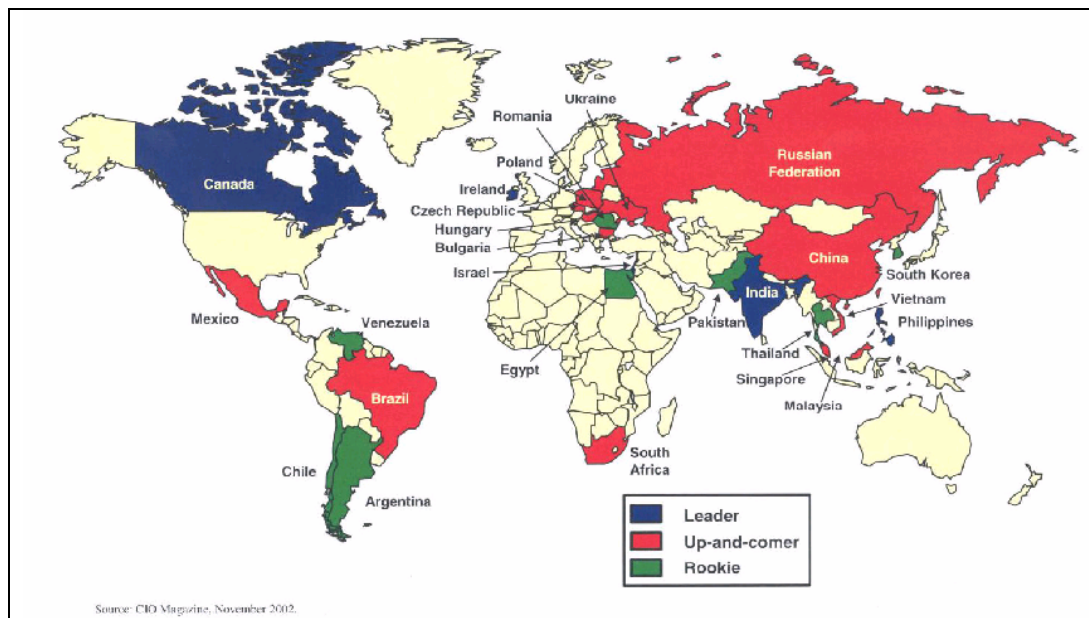
¹⁹ Times News Network, "Outsourcers look beyond cost advantage," *Indiatimes.com*, October 16, 2003, <http://infotech.indiatimes.com/articleshow/236503.cms>.

²⁰ Given India's more advanced economy and the increasing demand for higher-skilled work due to its success with outsourcing, one would expect the wage differential to increase as competition for higher-skilled workers drives up the price of Indian labor (Feenstra and Hanson 1996). GCG reports that annual Ghanaian wages can be as low as \$1,000 per year. In India, the figure for IT specialists is closer to \$6,000 per year.

²¹ ACS, *Annual report*, 2003.

and have taken a lead, as can be seen in exhibit 6. Only two African countries are in either the “Rookie” or the “Up-and-comer” category; the rest are not even on the map.

Exhibit 6. Global Outsourcing Locations



Source: CIO Magazine, November 2002.

The BPO pyramid in exhibit 7 (see page 18) shows that Ghana can grow its BPO activities in areas that constitute low-margin, low-skill work, such as data-transcription services, document-management services, archiving of paper documents and expense-claims-management services. Ghana should be competitive, owing to the large labor cost arbitrage. Additionally, it can also enter the call-center space, but this would need to be limited to such tasks as surveys, help desk (e.g., password reset or lost card reporting) and basic customer services. It is interesting that Rising Data Solutions, which was the first company to set up a call center in Ghana, later switched its business after only four months to concentrate on medical billing. Sambou Makalou, CEO of the company, believes that the Ghanaian temperament is more suited for customer care (because of patience) than for telemarketing, which requires a bit more aggressive approach.²² If this is the case, then focusing on back-office-intensive operations or service rather than sales and marketing call-center operations would play to Ghana’s strengths.

Call-center work requires a considerable telephony and Internet infrastructure as well as reliable and uninterrupted power supply—both problems in Ghana. The former can be minimized through the use of VoIP technology, which should become mainstream over the next few years. The lack of existing infrastructure gives Ghana an opportunity to leapfrog into the most cost-effective

²² Sambou Makalou, interviews with the authors, November 2003 and March 20, 2004.

technologies from their low starting position. However, as mentioned earlier, the government has approved VoIP for business operations but restricts its private use. In principle, this should not prevent companies from using the technology, but the business community would benefit from government clarification in this regard, especially considering that the QoS issues—once a real obstacle (Hardy 2003)—are now largely resolved.

Ghana can participate in the higher-level segments on the BPO pyramid (exhibit 7) only after the infrastructural issues are resolved. Higher-level work (segments 3 to 5) comes with much higher margins but requires more advanced technical and professional skills. This is an area in which Ghana lacks a competitive advantage—at least in the near term, given the lead of such countries as the Philippines and India. In fact, although Ghana has a cost advantage, it is not the most important factor that companies consider in offshoring. The business environment as a whole needs to be right, giving the host nation not only a wage but also a *total* cost advantage.²³

The authors' research suggests that segment-1 activities are within reach. Transcription services, for example, present a good opportunity. Transcription does require a reasonable amount of skill, but a number of courses are provided through various institutions, and there is a relatively active industry association, the American Association for Medical Transcription (AAMT). Much of transcription work can be done offshore at a significantly lower cost than the \$31,400 average salary the AAMT reported following a survey of its members in May 2002.²⁴ There are several other job categories that fall in segment 1 for which Ghana would have a distinct advantage in terms of cost and service; for a small increase in salary in Ghana above the average wage, the motivational impact can be significant, even while the salary remains a fraction of the U.S. wage for comparable work.

Some entrepreneurs see the limited infrastructure as an opportunity. One such is Ghana Cyber Group (GCG), a technology company currently operating in the ICT space in Ghana. It is raising capital (\$10 million) from inside and outside Ghana for a technology park at the University of Science & Technology (UST), Kumasi. GCG has assembled a consortium that includes the UST; Columbia University, which is expected to contribute, among other things, links with the venture-capital community and architects from the Earth Institute to carry out the design of the facilities; and the Massachusetts Institute of Technology, which is expected to contribute, through assistance from its Digital Labs, to building the Kumasi facilities, as well as to allow students from the Second Summer Program (SSP) to intern at the facilities and help in knowledge transfer (GCG 2003). This will

²³ This was a view expressed by J. T. Battenberg III, chairman and CEO of Delphi Corporation, during a guest lecture at Columbia Business School in October 2003. Similar views were expressed by Sambou Makalou, COO of Rising Data Solutions, in an interview with author Ikezi in November 2003.

²⁴ AAMT, <http://www.aamt.org>.

be a versatile technology facility, offering a variety of business-to-business and business-to-consumer services, including the following:

- outsourcing and call centers
- high-tech-serviced offices for rent
- conference facilities and corporate wireless ISP
- VoIP service
- a 200-PC cybercafé (Internet café), a restaurant and a 24-hour digital copy center
- a digital lab for research and development

Without details on the revenue streams, it is not possible to carry out a full evaluation. However, given that some of the companies in the technology sector in Ghana delivered positive cash flow in less than a year, the growth within the sector, government encouragement and the continued need for ICT services within a developing economy, the technology park would appear to be a good idea in principle. There is clearly a business need for this sort of facility (GCG 2003). Sambou Makalou of Rising Data Solutions believes that the initiative will be a boost to the sector.²⁵ When the company entered Ghana a few years ago, it relied on incubation facilities provided by BusyInternet, one of the largest technology incubators based in Ghana. BusyInternet provided Rising Data Solutions with prime real estate and Internet facilities and helped the company set up without having to make big upfront capital investments. As noted earlier, BusyInternet became cash flow positive after only seven months in operation.

Yaw Owusu, the CEO of GCG and champion of the initiative, has worked hard to get international backing. He has lobbied the UN, which, as it happens, is interested in helping build a technology park in Africa. Following a runoff among competing projects, the GCG project appears to have advanced into the final phase. UN delegates visited Ghana in March 2004 to discuss the details, meet local stakeholders and conduct due diligence. It is now likely that the UN will support the GCG project in one form or another.²⁶ If this technology park initiative succeeds in breaching the infrastructure gap, and if it can be extended to other parts of Ghana, it would give a boost to the BPO sector as well as to other businesses that will rely on it for technological services. In the end, the technology park could be a significant factor in making Ghana an attractive location for outsourcing.

6. Conclusions and Recommendations

The Ghanaian government has undertaken a number of initiatives over the last few years to increase Ghana's share of wallet in the BPO/ICT area. It has also made overtures to the private sector under its "engine of growth" initiative and the labeling of the current decade as the "Golden Age of

²⁵ Based on interview conducted by author Mainsah with Sambou Makalou on March 20, 2004.

²⁶ Dr. Walter Shearer, UN officer and member of the UN delegation that visited Ghana for the due diligence trip, is reported by GCG to have declared that he "cannot imagine that another African country would have more assets . . . relevant to a science and technology park" than Ghana.

Business” in Ghana, and although declarations are not a substitute for economic development programs, tone is an important step in policy change. The seriousness with which the government treats this is evidenced by the fact that President Kufuor has been speaking abroad on these issues.²⁷ The private sector appears to be responding, with 10 U.S. companies investing in BPO/call centers in Ghana since 2000. Many of these have seen a good return on their investment, and it appears that momentum is building.

The wider question as to whether Ghana can compete against India is in a sense immaterial because the market opportunity is large enough for big and small players. With the market opportunity at \$3 trillion, Ghana needs to capture only an insignificant proportion to positively affect the lives of its citizens.

The obstacles, however, should not be underestimated. First, Ghana produces fewer than 10,000 university graduates per year. Any large corporation looking to grow its outsourcing business will find that number disappointing.

Second, neighboring Nigeria is a sleeping giant, with about 400,000 students in institutions of higher education and an estimated 60,000 graduates per year (COL 2001, 22–23). If Nigeria were to make the same concerted effort to enter the space, it could become a formidable competitor to Ghana.

Third, even if the companies are successful, they are not expected to generate tax revenues for the government for a very long time. The tax concessions are for 10 years, with a maximum tax rate of 8 percent in perpetuity. The government is clearly betting that the jobs created from the companies clamoring to enter Ghana, the wages paid and the skills acquired by Ghanaians are enough to justify forgoing taxes. This is also likely to have an impact on the competitiveness of local firms that either do not benefit from these concessions or lack the capital to benefit. It is a bet worth taking, but it is a big one; a study conducted on the ICT sector in India has shown that 99 percent of the population in India has not been touched by the growth experienced in the ICT sector. It is therefore unlikely that BPO success in Ghana would lead to nationwide prosperity (Singh 2002).

The authors’ analysis shows that there is an opportunity for Ghana in the lower-end BPO segment and in casual services to the growing technology sector (internal) but that infrastructural- and educational-quality issues may prevent Ghana from being a player in the higher-value segments (segments 3 to 5 in the BPO pyramid; see exhibit 7), at least in the current decade.

The numbers of graduates are also so small and the infrastructural gap so large that Ghana is unlikely to compete effectively with India or the Philippines for high-end BPO business. This may not be an issue, because some of the leading players in the BPO business in India are looking to move up the information curve to offer services of increasingly higher value.²⁸ If the Indian companies make this

²⁷ President Kufuor supported the proposal by Ghana Cyber Group for a technology park in Ghana.

²⁸ An opinion expressed by Vivek Paul, CEO of Wipro Technologies, during a presentation to the Operations and General Management Association of Columbia Business School on November 4, 2003.

transition, they will be competing even more effectively for some of the high-value work that has escaped offshoring to date. The impact will be twofold: competition for the more highly educated graduates of India's universities will drive up their wages, increasing Ghana's comparative cost position, and the Indian companies may be more prepared to partner with companies in countries that are lower in the BPO value chain, such as the growing companies in Ghana.

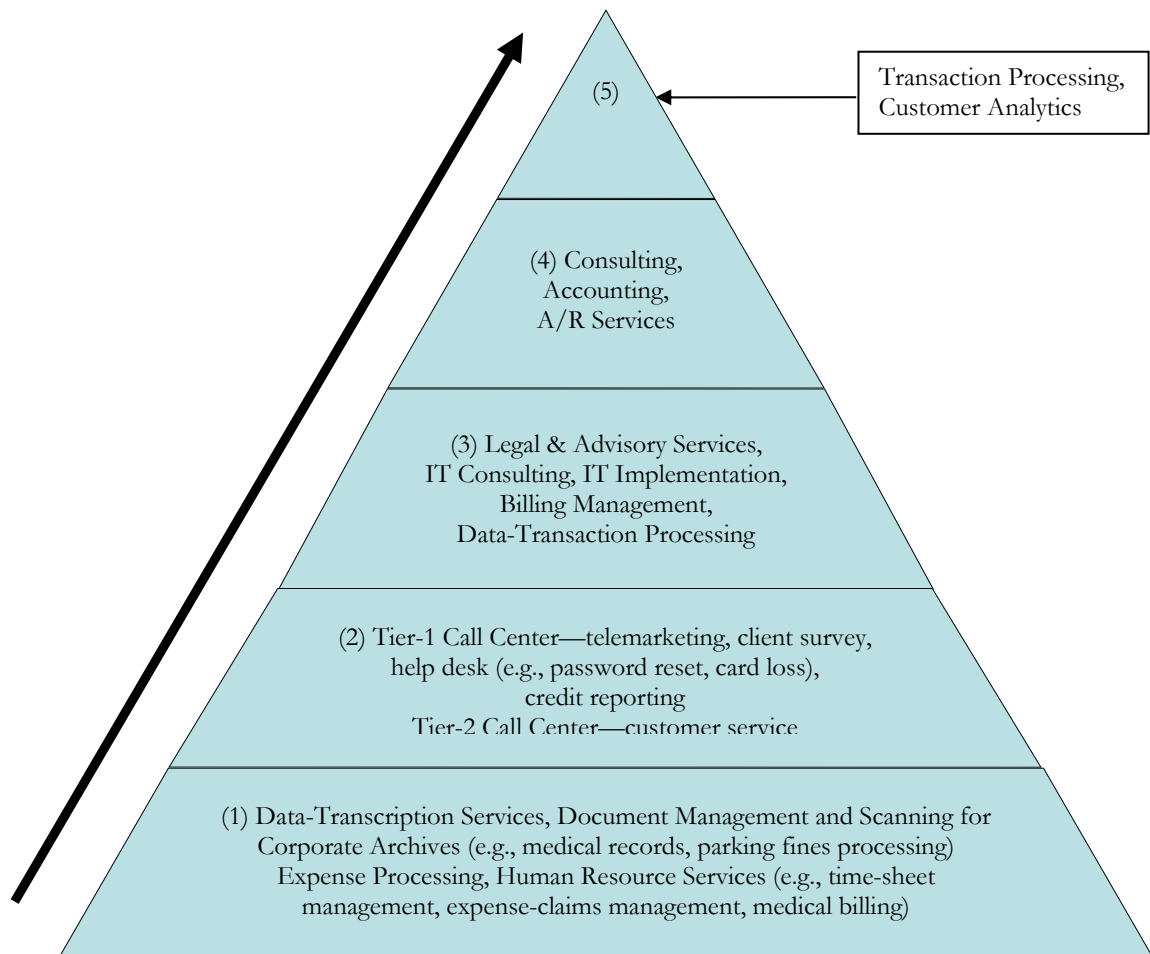
Given India's success to date and the declared intention of some of the major Indian players to migrate to higher-value work, Ghanaian companies should be engaging the Indian players and creating alliances to allow them to feed segment-1 work to Ghana. This is likely to be a more effective strategy than trying to compete directly with India. Ghana would then become a subcontractor, with much of the marketing effort carried out through India.

Unfortunately, the issue will get even more politicized than it is at the moment, with some sectors of public opinion and U.S. politicians already calling for steps to reduce jobs lost to offshoring. Indian players may be wary of the risk associated with this—any perceived reduction in service quality as a result of alliances with other partners will deal a blow to their reputation and will be seized upon by politicians concerned about the offshoring of American jobs. But controversy cannot be averted, and migrate some of these jobs ultimately will.

Given the cash position of the Ghanaian government, it is hard to envision that it could do more. However, the view among some entrepreneurs is that the government is not walking the talk. One way in which the government could help is to increase marketing efforts to enhance the profile of Ghana as a true potential player in this space. It should also clarify its position on VoIP—at least some of the respondents to the authors' survey felt that the government maintains an unfriendly stance against the technology. The government's concerns are, however, understandable: tax revenues are not expected from any of these entrepreneurial ventures, so enabling them to compete with the local utility, which is a major source of revenue for the government, is a hard pill to swallow.

However this plays out, the pie is large, and any crumbs that Ghana can pick up will make a significant difference for a country that—despite an income per capita at the same level it was at in 1970—is determined to ride the technology wave out into prosperity.

Exhibit 7. The BPO Market: Different Segments for Different Players



Infrastructural and educational prerequisites for success at the different levels:

- (1) Low skills, little telecom infrastructure but some network requirements
- (2) Low skills, some telecom and Internet technologies required
- (3) Medium to high skills; require advanced telecom and Internet
- (4) High-value business advisory skills; high infrastructure requirements
- (5) Very-high-value business advisory and customer analytics skills

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