NATIONAL OUTSOURCING POLICY

AND

INSTITUTIONAL FRAMEWORK FOR

NIGERIA

JANUARY 2007

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LIST OF ACCRONYMS

ASP: Application Service Provider

BPM: Business Process Management

BPO: Business Process Outsourcing

CBO: Community Based Organization

CSO: Civil Society Organization

GDP: Gross Domestic Product

ICT: Information and Communication Technology

ISP: Internet Service Provider

IT: Information Technology

ITES: Information Technology Enabled Services

NGO: Non-governmental Organization

NEEDS: National Economic Empowerment and Development Strategy

NOA: National Outsourcing Association

SMIEIS: Small and Medium Industry Equity Investments Scheme

UNESCO: United Nations Educational, Social, and Cultural Organization

NATIONAL OUTSOURCING POLICY AND REGULATORY FRAMEWORK

1.0   Introduction

The present Administration, in realization of the serious implications of Nigeria's finite oil reserves, has continued to explore and exploit alternative sources of national income generation, notably agriculture and solid minerals which have featured prominently in government's economic development agenda.

Outsourcing is gaining momentum globally as a potential candidate for enhancing revenue particularly in the developing economies with net advantages in operational costs for wages and key expenses.

Outsourcing occurs anytime one enterprise makes a contract with another to perform a process that is normally done internally by the first enterprise.

In the late 1960s, however, outsourcing took a major leap forward when firms began to use data transfers to outsource their payroll administration, i.e., the task of calculating workers' wages and deductions and issuing checks. This marked the emergence of a powerful concept: IT-enabled Outsourcing.

Globalization through economic integration requires that individual economies must identify and develop a competitive strength to harness the benefits of the free flow of trade and financial investment into the future. Globalization creates a product and services markets that far exceeds the borders of any country and facilitate access to more capital flows, technology, cheaper imports and larger export markets.

Today, businesses all around the world are taking advantage of the global market place and are constantly searching for economies where cheap and readily available skills and expertise can be employed to improve their overall profitability. This win-win scenario is widely accepted as the new paradigm of strategic business theory.

Outsourcing of non-core operations or jobs from internal production to an external entity (such as a subcontractor) that specializes in that type of operation is changing the landscape of business, globally. In every developed economy, companies are taking the advantage of cheap and readily available expertise in other markets to strengthen their competitive advantage in local markets. India, China, and other South East Asian economies have made outsourcing an important emerging and key sector in the development of an economy.

The Nigerian economy which is the most populous in Africa with an official population figure of 140 million and GDP of US$72.1 billion, is the second

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largest economy in Africa, should by no means be left behind in the outsourcing initiative train. The basic ingredients of the abundance of cheap and readily available skills and expertise and fluency in English, which is the predominant language for global commerce warrants that develop an initiative to harness the benefits of an outsourcing based economy.

The analysis of the costs and the benefits of this global trend to the Nigeria economy shows that Nigeria stands to gain tremendously from developing an outsourcing sector in both the short-run, and in the long-run. A viable outsourcing sector will assist in the diversification of the nation's economic base. It will also enable the nation to enjoy the benefits of free trade: lower cost, higher labour productivity and more efficiency.

The competitive strength of Nigerian vendors will be anchored on a low cost value creation strategy that is backed by a reputation, which is guaranteed by the Federal Government's willingness to provide indemnities through an insurance pool developed in consultation with local financial institutions.

Government's resolve to encourage Public Private Partnerships is even more crucial in the drive to grow an Outsourcing base for Nigeria.

2.0   The Case for a National Outsourcing Program for Nigeria

A vibrant outsourcing sector is estimated to provide 10,000 jobs in IT and Non-IT related jobs in the first three years of implementation alone and over 45,000 new jobs in the next four years. In addition to this, the Federal Government's revenue from licensing and taxation of profits from Outsourcing companies is projected to grow from =N=55 million in the fifth year to over =N=1.3 Billion by the tenth year Also, developing a vibrant Outsourcing sector is inline with NEEDs policy of the Federal Government and it will have a tremendous impact on the productivity of Nigeria. Within a four year period, Outsourcing is projected to grow into a =N=90 Billion industry in Nigeria alone.

It is for these various reasons that Government decided on a policy intervention to further the development of an outsourcing sector in Nigeria.

3.0   The National Outsourcing Policy

To achieve all the tremendous benefits from outsourcing, there is need for a concerted and coordinated effort between Government and the private sector. The National Outsourcing Policy addresses the necessary incentives in terms of tax moratorium, designation of a Technology Economic Zone, and guarantees access to credit through the SME program, facilitation of round table discussions with global leaders in outsourcing and Nigerians in Diaspora, and sponsored trade missions to different countries.

It also focuses on a wide range of issues that would foster and facilitate the development of a virile outsourcing sector in Nigeria and ultimately make Nigeria a major IT Enabled Outsourcing hub in West Africa.

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3.1   Direction of Policy

The Federal Government in collaboration with the private sector will follow an accelerated phase-by-phase implementation strategy, in which the outsourcing economy will first be developed to focus on onshore markets, and then proceed to near-shore markets and finally the global offshore market.

To successfully implement the National Initiative on Outsourcing, there is need for a strong collaborative effort between government and the industry leaders in the private sector. The role of government in this initiative is to provide the necessary incentive that will motivate both local and foreign entrepreneurs to invest in this sector of the economy. The role of the private sector is to take advantage of incentive program and utilize its benefit in creating a new and vibrant sector of the economy.

3.2   Policy Thrust

The key thrusts of the policy are:

i.   To promote an outsourcing orientation starting with onshore outsourcing and progressing through near-shore to offshore outsourcing by encouraging stakeholders' involvement in developing a vibrant outsourcing sub-sector;

ii.   To grow Nigeria's image internationally, as the preferred outsourcing destination and ICT business hub by developing a globally competitive Information Technology Enabled Services (ITES) Sector;

iii.   To diversify the economy through growing the outsourcing sector by actively engaging the private sector in public private partnership arrangements;

iv.   To facilitate the development of appropriate ICT infrastructure to support capacity building for the outsourcing sector.

3.3   The Policy Objectives

The overall policy objective is the promotion of an enabling institutional, legal, regulatory, technological, and infrastructural environment for the sustainable development of Outsourcing Business in Nigeria. The specific objectives include:

i.   Actualization of the goals of the NEEDS policy of Federal Government in the area of Information Technology Development;

ii. Developing a globally competitive Information Technology Enabled Services (ITES) Sector in Nigeria towards making Nigeria a regional ICT Outsourcing hub for West Africa;

iii. Promoting Local and Foreign Direct Investment in outsourcing infrastructure development;

iv. Developing an Export-Oriented ICT Product and Service delivery industry;

v. Facilitating the diversification of the national economy through the development of a vibrant outsourcing sector and further strengthen the economy;

vi. Accelerated Human Resource and ICT Infrastructure development to support the growth in outsourcing business;

vii. Rapid deployment of ICT and Enabling Physical Infrastructure;

viii. To achieve lower unemployment rates, particularly amongst the highly skilled graduates that are increasingly being faced by a competitive job market;

ix. Identification of potential government outsourcing business to Jump-start the sector through onshore outsourcing and

x. Ensure an integrated and coherent effort and coordination between the States, Local Government Areas and the Federal Government in the development of appropriate capacity and condusive environment for the growth and development of the outsourcing sector.

3.4 Policy Targets

Based on the objectives listed above, the targets of the policy are to:

i. Facilitate the creation of a minimum of 10,000 jobs in the outsourcing sector within three years of implementation of the policy;

ii. Initiate the development of adequate capacity through providing relevant Outsourcing Data Centres and Model Call Centres to set benchmarks for service delivery in the outsourcing sector consistent with the SERVICOM CHARTER;

iii. Enhance by 100%, the contribution of the outsourcing sector to national GDP within two years of Launching the Outsourcing Policy;

iv.	Through the SMIEIS initiative, grow 500 new outsourcing entrepreneurs employing an average of 20 staff within the next three years of implementing the outsourcing programme;

v.	Develop a national outsourcing orientation and information data bank on businesses involved in outsourcing within the first quarter of the program launch;

vi.	Achieve global recognition as a preferred destination for outsourcing business by the end of 2010;

vii.	Develop adequate infrastructure to ensure service quality to global standards by end of 2009.

## 3.5	Policy Strategies

To accomplish the above stated objectives and targets the following strategies will be undertaken:

i.	Government will develop a sustainable funding mechanism for outsourcing as follows:

a)	A special Outsourcing Development Fund be established;
b)	Outsourcing to be a key beneficiary of the proposed National Information Technology Development Fund;
c)	Encourage Banks to invest part of their SMIEIS Funds to adequately cater for financing of outsourcing entrepreneurship development through special incentives;

ii.	Acceleration of the National ID Project to provide standardised and secure national system of identification which will create more confidence in the international community regarding the cross border relationships that typify outsourcing businesses;

iii.	Government funding of appropriate ICT infrastructure development that will provide Outsourcing businesses reliable facilities (for example call centre communication and reliable high speed internet connectivity);

iv.	Immediate development of a database of companies engaged in IT Enabled Outsourcing business in Nigeria;

v.	Establishment of standards for specific outsourcing businesses to enhance the quality of service delivery;

vi.	Registration and accreditation of outsourcing companies for certification to stipulated minimum standards in conformity with the new policy guidelines;

vii.	Promotion of public private partnerships in the outsourcing industry by encouraging all tiers of Government to devote

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resources to improving infrastructure for efficient running of call centres irrespective of location; and

viii. Suitable incentives (such as tax relief over a period) to encourage strong private sector leadership of the sector.

4.0   LEGAL, INSTITUTIONAL AND SUPERVISORY FRAMEWORK

4.1   Introduction

Building a Legal, institutional and Supervisory Framework to attract IT-Enabled Outsourcing is essential for the development of the outsourcing sub-sector of the Nigerian economy. Although IT-Enabled outsourcing are essentially non-legal, to improve Nigeria's potential to attract outsourcing business, Government, as part of policy objectives would focus on further strengthening of appropriate legislative and regulatory processes towards ensuring that the environment is conducive for outsourcing business to thrive.

4.2   Required Legislation

To foster the development of a virile outsourcing sector, appropriate legislative framework will be put in place. The proper implementation of this policy is predicated on the enactment of the National Information Technology Development Agency (NITDA) Bill which addresses the development of Business Process Outsourcing in Nigeria amongst other things.

4.3   Self-regulation:

One method for minimizing dispute is through self-regulation. Government will encourage the establishment of an IT-enabled outsourcing trade association such as a National Outsourcing Association and a public private partnership to establish a voluntary quality program, which **ITES** providers can join in order to demonstrate that they satisfy the level of service expected within the industry.

5.0   Creating a Competitive Environment for the Outsourcing Sector

5.1   Introduction

An important ingredient for the rapid development of the outsourcing sector in Nigeria is the institutionalisation of a competitive environment which would foster healthy competition amongst service providers and thus enhance the general quality of service in the country.

Government proposes to support healthy competition in the outsourcing market with special emphasis o specialisation.

5.2 Scope of IT-Enabled Outsourcing

The outsourcing market is a large one and therefore the various IT- Enabled Outsourcing services that the policy is focused on include the following:

- Software Development
- Website/E-Commerce
- Hosted applications
- Disaster Recovery Services
- Network Operations
- Desktop Support
- Data Centre Support
- Help Desk

Software development is the fastest growing of all the above market segments and Government has already embarked upon complementary initiatives to boost this as well as other segments in the local market. In more specific terms the markets that the policy would focus primalrily could be categorised as follows:

- **Back office:** payroll; accounting; finance; tax preparation; internal auditing;processing of documents, transcripts, applications, or claims; data storage

- **Front office:** marketing & customer service through call centres, email, websites

- **Operation departments:** procurement, inventory and supply chain Management

- **Special projects:** transition to new software, application service provision, internet service provision.

In any case, it is Government's intention to support the development of these segments of the outsourcing market and support appropriate capacity building schemes for the requisite skills set for each segment.

To facilitate an orderly development of the sector Government proposes to encourage the establishment of strong sub-sector of providers of outsourcing services as well as strong domestic market/buyers.

Accordingly the supervisory institution (NITDA) would be strengthened to enable it foster the development and use of appropriate schemes and procedures to foster the use of standard contract agreement which incorporates minimum standards and product/service specifications consistent with global best practices and standards.

In particular Government policy is targeted at encouraging specific role playing in the outsourcing market, typically categorised as follows:

- *Providers:* firms that provide IT-enabled outsourcing services;

- *Buyers:* firms deciding which provider they should outsource their processes to;

- *IT-integrators:* large companies that establish global networks of service centers at which they centralize the IT-enabled outsourcing work of multiple clients to achieve economies of scale;

- *Application Service Providers (ASP):* Smaller providers that generally focus on one process or industry and handle medium-sized accounts.

IT-Enabled outsourcing business thrives better where service specialty is encouraged. Government proposes to facilitate specialisation and would thus encourage service specialty in the following areas;

- *Back office:* clerical, accounting, and software skills are more important than language skills because the IT-enabled outsourcing service provider interacts only with its client.

- *Front office:* Telecom is more important for front office operations (e.g., call centers) than it is for back office operations, and language skills are as important as other skills because the IT-enabled outsourcing service provider interacts with its client's customers.

- *Middle Office:* Services that are very essential and provide a link between the front and back office services for total quality service delivery chain.

6.0   The National Outsourcing Programme

As part of efforts to institutionalise a competitive outsourcing sector in Nigeria Government proposes in this policy the systematic development of appropriate capacity through a National Outsourcing Training Programme (NOTP). NOTP, which is conceived as a mechanism through which outsourcing skills set and other requisite capacity, would be developed and rules of engagement standardised in line with global best practice with institutions playing different roles in different locations towards achieving the objective of manpower development for the sector.

The various initiatives under the NITDA towards manpower development (like Software Engineering Training Institutes (SETIs) and ETF/NITDA Centres of Excellence (COEs)) and the formal educational system are complementary programmes in this process.

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Accordingly, an Outsourcing Department would be set at the NITDA to function in a supervisory capacity as well as coordinate outsourcing-specific ICT infrastructure development across the country, in collaboration with other appropriate institutions as represented in the schema below.

Structural Linkages of the NOTP
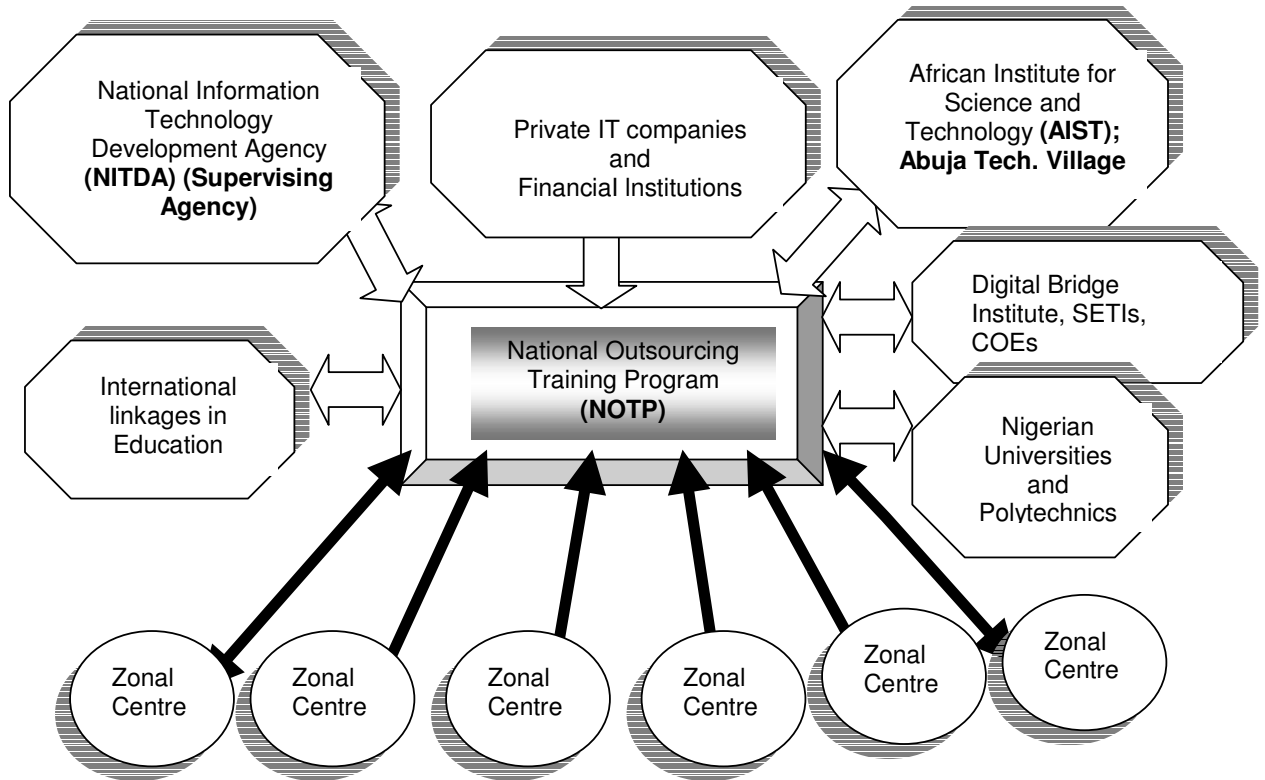
7.0   Stakeholders' Responsibilities

7.1   Government's promotional role:

Government will provide information to potential outsourcing buyers and providers in collaboration with the private sector. Accordingly Government will participate in conferences, trade fairs, etc.

7.2   Government procurement: Government will "jump-start" the IT-enabled outsourcing economy by outsourcing some of the non-critical functions and services.

7.3   Public-private partnerships:

Government will encourage public private sector partnership especially with indigenous businesses and trade associations, (and also universities and other civil society actors) in the development of appropriate ICT infrastructure especially software parks and investor support through various

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forms of incentives including those approved under the Nigerian Investment Promotions Council.

8.0   Funding of the National Outsourcing Program

Government proposes to create a funding arrangement that is safe, condusive and investor friendly. The funding objectives include the creation of a healthy environment with globally acceptable risk standard, stable economic environment, suitable framework for financing skills and capacity development amongst others.

In specific terms therefore, the outsourcing programme will be funded largely from the following sources:

- Government incentives to Banks to allocate a greater proportion of the SMIEIS Fund to funding entrepreneurs in this sector;

- Creation of a national outsourcing development fund;

- Application of part of the Universal Service Provision Fund (USPF) and the Digital Solidarity Fund towards the development of ICT infrastructure that would support outsourcing.

9.0 DEVELOPMENT OF OUTSOURCING SPECIFIC INFRASTRUCTURE.

Government will promote the establishment of IT parks and **ITES** free trade zones .towards the development of outsourcing-specific ICT infrastructure development.. These parks will include cutting-edge telecom links, a separate power grid, and modern tech-equipped offices. In addition to the lower tax and other incentives that would be offered, such parks will create a "cluster" effect. in the country towards attracting **ITES** providers.

Government has shown a desire over the last couple of decades to stimulate economic growth through the promotion of free trade and economic zones. The results have only recently become encouraging. Government will continue to pursue this strategy in the development of Outsourcing.

Because of the cost of infrastructure, Government will lead the way in building model Digital Parks and Villages like it did with the Calabar Export Processing Zone to catalyse investment in IT Parks and ITES free Trade Zones.

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To ensure sustainability and consistency with Government's reform agenda, these Parks and Digital Villages would be developed in partnership with the private sector in line with the Administrations' Public -Private partnership initiative.

10.0   CONSULTATION WITH STAKEHOLDERS

,A concerted and coordinated effort between Government and the private sector. Is essential for the optimisation of the benefits of a well developed outsourcing sector

Aside from the primary focus of policy on basic incentive for private sector participation in the outsourcing sector in terms of tax concession, designation of a Technology Economic Zone, and guaranteed access to credit through the SME programme, Government will promote regular dialogue with the private sector, leaders in the global outsourcing market and Nigerians in Diaspora, as well as sponsor trade missions to different countries.

In furtherance of this, the National Technology Development Agency (NITDA) will regularly host a Stakeholders' Forum with the aim of reviewing developments in the market with a view to informing policy adjustments.

11.0 POLICY IMPLEMENTATION PROCESS

An essential aspect of the development of the sector is the graduated approach towards realising the objectives of policy. Government will therefore undertake the implementation of the policy in phases, focusing simultaneously on the legislative, infrastructural and human capacity issues as well as the funding. Central to the implementation process is the public-private sector partnership initiative of this Administration.

Linking Policy to economic results presupposes that focus will be on the accelerated phase-by-phase implementation strategy already mentioned, in which the development of the outsourcing market will first focus on onshore markets, and then proceed to near-shore markets and finally to the global offshore market.

As a first step government will provide a take-off grant for the setting up of the institutional mechanism as well as the required public awareness campaign.

Government will set up Pilot Call Centres to afford diverse sections of the Nigerian public better understanding of the economic and career opportunities in the Outsourcing business. In the pilot scheme there will be a Call Centre in Abuja and each of the six Zones in the country.

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12.0   Proposed Implementation Timeline

Quarter one and two 2007;

- Set up an Outsourcing department at NITDA;

- Develop a database of Nigerian IT companies already engaged in outsourcing business (ISPs, Consulting Firms, Web, Application and Database developers, Business Support Services, Radiologist, and Application Service Providers) and those with potential to engage in outsourcing business;

- Hold consultative meetings with NITDA, SMEDAN, NEPC, NUC, FMST, NITEL, and TELCOs to create the platform for the successful implementation of National IT Outsourcing initiative.

- Hold a consultative meeting with the Nigerian IT companies enlisted in the database to ascertain necessary incentives such as tax relief and tariff moratorium, loan guarantees and licensing conditions.

- Initiate the process for selection of independent consultants to assist in the implementation of aspects of the policy with respect to the SME loans program.

- Launch National Outsourcing Initiative portal with public awareness campaign and press release.

- Initiate the process for implementing organized global consultative missions for selected private sector IT companies including active dialogue with Nigerian IT professionals and Nigerians in the Diaspora.

Quarter Three, 2007;

- Develop skills acquisition and other training programmes consistent with the identified segments of the outsourcing market;

- Hold review forum with stakeholders on compliance with designated milestones.

- Articulate a programme for the development of phase two of the Call Centres nationwide in collaboration with the private sector

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- Develop a strategy document to fast track the development of the onshore and near shore outsourcing markets.

Quarter four, 2007;

- Commence organised global consultative and trade missions in collaboration with the private sector;

- Hold a consultative meeting to evaluate success in implementation;

- Hold consultative meetings with stakeholders, financial institutions and interested foreign companies to discuss necessary modalities for smooth execution of contractual obligations;

- Establish strategic alliances and partnerships with various foreign businesses interested in outsourcing to Nigeria.

  - Commence Cross Border Business Process Outsourcing Business

Phase two : Making Nigeria the African IT Hub Project

Nigerian services will be more cost effective than that obtainable in international markets due to proximity, the cost financial transaction will put Nigerian vendors ahead of the competitive curve with global players in the industry. In general, Nigerian vendors can sell the following outsourcing services to other African countries:

- Web Design and Hosting
- Database Design and Hosting
- Data Management Services
- Medical Transcription and Coding System
- Document Digitization and Management System
- Help Desk and Call Centre Services
- Financial Analysis

- To provide the necessary incentive for the successful implementation of this second phase, Government will:

- Promote healthy economic ties with African countries starting with West African countries;

- Support specific outsourcing trade missions across regions of Africa for Nigerian IT companies;

- Encourage the hosting of international Conferences and Trade Exhibitions on Outsourcing

- Institute incentive packages for IT companies undertaking outsourcing businesses in Africa;

Phase three: Global Market Entry

To achieve a global market share would require the development of a systematic entry strategy. Accordingly the plan is to commission consultants to assist Nigeria in the development of a marketing strategy for the branding of outsourcing products and services in Nigeria. This would precede any specific effort at launching Nigeria into the global outsourcing market from the third year of implementation of the policy.

13.0 CONCLUSION

Government realises the need for facilitating the development of the Outsourcing sector as a strategy for diversification of the Nigerian economy as well as wealth creation through job opportunities that will result from an orderly development of the sector.

Accordingly Government commits to the rapid development of the sector and would strengthen and fund NITDA, which is the primary institution that will implement Government's policy in this regard, to effectively implement the policy.

Government invites the private sector to take advantage of Government's commitment towards the development of the outsourcing sector in Nigeria**.**