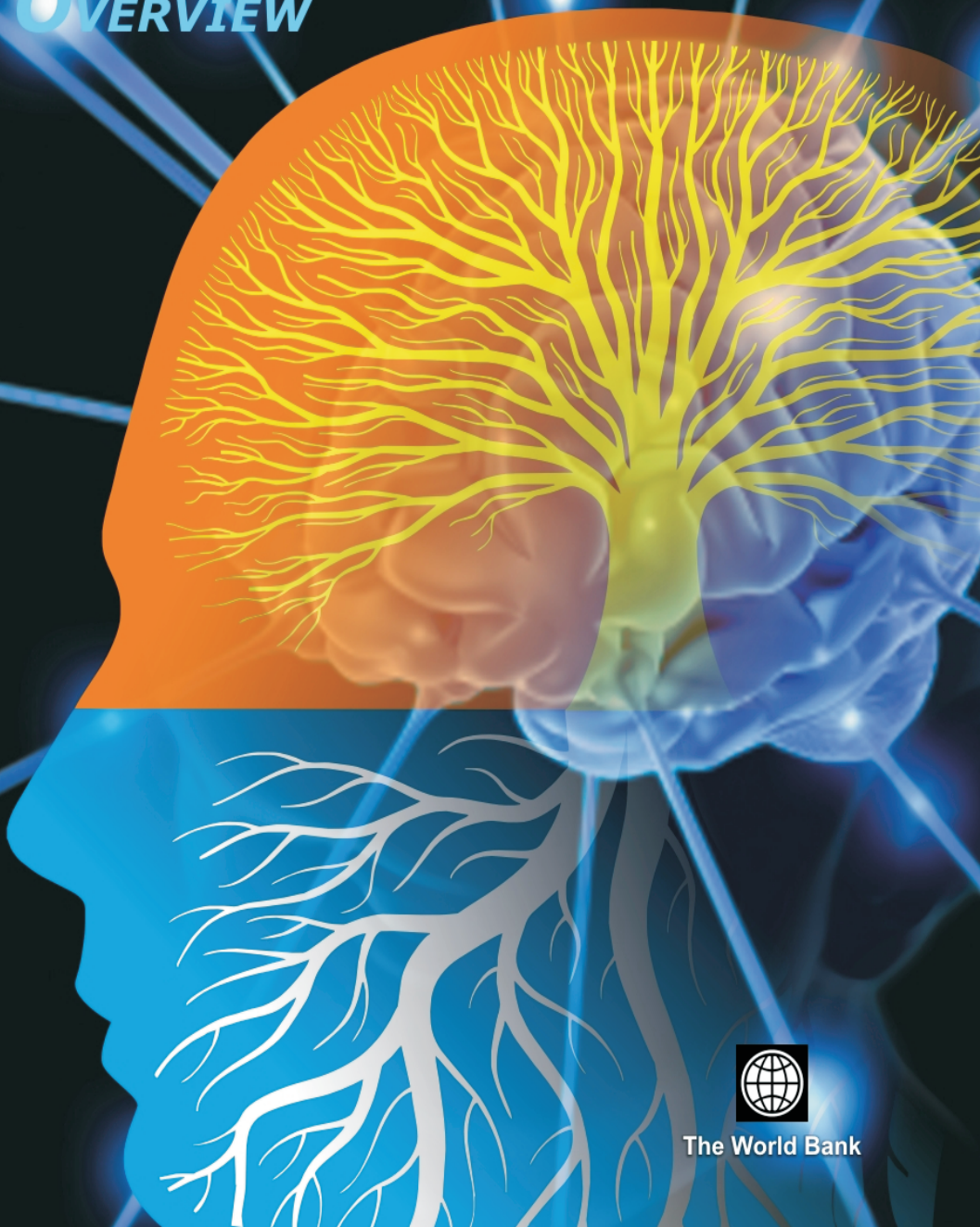


REGIONAL COLLABORATION ON **IT** ENABLED SERVICES

Smart Strategies for Jobs & Growth in South Asia

OVERVIEW



Regional Collaboration on IT Enabled Services

Smart Strategies for Jobs & Growth in South Asia

OVERVIEW

January 2009

Sadiq Ahmed

Senior Manager,

Regional Programs Unit - South Asia

Ernesto May

Sector Director

Simon C. Bell

Sector Manager

Manju Haththotuwa

Senior ICT Policy Specialist

With

Hewitt Associates (India) Pvt. Ltd.

And **Riva Eskinazi**, Consultant

Finance and Private Sector,

South Asia Region,

The World Bank

2009 The International Bank for Reconstruction and Development/The World Bank
1818 H Street
Washington, DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org
E-Mail: feedback@worldbank.lk

Published by

The World Bank Colombo Office
73/5, Galle Road
Colombo 03
Sri Lanka
Internet: www.worldbank.org/lk

This volume is a product of the staff of the International Bank for Reconstruction and Development/The World Bank. The findings, interpretations, and conclusions expressed in this paper do not necessarily reflect the views of the Board of Directors of the World Bank or the governments they represent. Data used are mostly from secondary sources and those from Hewitt Associates internal sources.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown in this work do not imply any judgement on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The International Bank for Reconstruction and Development/The World Bank encourage dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

For permission to photocopy or reprint any part of this work, please send a request with complete information to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, USA. Telephone 978-750-8400, Fax 978-750-4470, www.copyright.com

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher,

The World Bank, 1818 H Street NW, Washington DC 20433, USA,

Fax: 202-522-2422, E-mail: pubrights@worldbank.org

ISBN : 978-955-8908-32-7

Publication Design and Print

NEO Graphics (pvt) Ltd. TP: +94 11 2820220
571/1, Highlevel Rd, Gangodawila, Nugegoda, Sri Lanka

Foreword

The new millennium catalyzed a shift in the focus of South Asian economies to the service sector. The South Asian countries share many common characteristics – a young population, familiarity with the English language, and an emphasis on quantitative skills at the school level. These characteristics make the talent pool in these countries ideal for the ITES-BPO industry. India, a neighbor to all six countries studied in this report, is at the epicenter of the ITES-BPO revolution, and has transformed India's economy in a relatively short time. South Asian countries seek to follow suit.

This report on “**Regional Collaboration on IT Enabled Services – Smart Strategies for Jobs & Growth in South Asia**” was initiated by the South Asia Regional Programs & South Asia Poverty Reduction, Economic Policy, Finance and Private Sector Development Unit. It responds to a need expressed by our client countries for World Bank support to build their capability in the IT enabled services sector. The current study was commissioned with a view to facilitate their efforts through **regional collaboration**.

ITES-BPO is inherently a 'knowledge' based industry and thus the countries can accelerate the growth of the industry in the region by sharing ideas and experience. This study suggests collaborative initiatives that could drive the growth of the industry through a two pronged approach: (i) increase business through joint promotional activities, sub-contracting of work, building common standards and

world class business practices; and (ii) develop supply side resources such as skills, support infrastructure and enabling policies.

This study makes practical recommendations for collaborative growth between the countries in South Asia, who aspire to become the 'Region of Choice' for global outsourcing. The Bank Group shares this vision for transformation, and stands ready to work with the various stakeholders in our client countries to bring this exciting agenda to fruition.

Sadiq Ahmed

Senior Manager,
Regional Programs Unit
South Asia Region

Ernesto May

Sector Director
Poverty Reduction, Economic Management,
Finance & Private Sector Development
South Asia Region

Acknowledgements

This report was commissioned by the South Asia Finance and Private Sector (SASFP) Department of the World Bank to Hewitt Associates in India. The SASFP project team was led by Manju Haththotuwa (Senior Private Sector Specialist) and supported by Riva Eskinazi (Consultant), who wish to acknowledge the invaluable contributions made by the following peer reviewers & advisors: Nagy Hanna (Senior Advisor, World Bank), Randeep Sudan (Lead ICT Specialist, CITPO), Ismail Radwan (Senior Private Sector Specialist, AFRPD) Mohan Kharbanda (Consultant, GICT), and Cecile Thioro Niang (Economist, SASFP).

The team is also appreciative of the regional coordination role in field played by Ms Tenzin Norbhu (Senior ICT Specialist, CITPO) & Christine Qiang (Senior Economist, CITPO).

This report would not have come to fruition without the advice & support of Simon C. Bell, (Sector Manager, SASFP), Philippe Dongier, (Sector Manager, CITPO), Ernesto May (Sector Director, SASPF), Sadiq Ahmed (Senior Manager, Regional Programs Unit - SAR), Fayez Omar (Senior Manager, SARVP), Ejaz Ghani (Lead Economist, SASEP). for their guidance and support for this important study.

The report production benefited from the excellent support provided throughout its development by S A Hye (SASFP). The team is also thankful for the logistical support provided by Aza Rachid & Sashi Jeyaraj (SASFP). The team also acknowledges the professionalism of our copy editors – M/s EEI Communications and our printers – M/s Neo Graphics Ltd.

Introduction

The offshore business-process outsourcing sector of the information technology-enabled services industry, known as the ITES-BPO industry, has witnessed significant growth over recent years, spurring development in several emerging countries across Asia, Latin America, and Eastern Europe. With an estimated global offshore market size of US\$28 billion in 2007, the industry in these regions has penetrated only 6.6 percent of the total outsourcing potential, estimated at US\$423 billion (NASSCOM 2008). This presents a large opportunity for both existing and emerging ITES-BPO locations to increase their share of off-shoring within the global market.

The growth in off-shoring was begun primarily by organizations looking to leverage cost arbitrage, which these emerging markets were able to provide for services required by more developed economies. However, over time, factors such as access to talent, achieving operational excellence, and increasing productivity and market penetration have led organizations to increase their investment in and focus on off-shoring.

For governments in emerging economies, especially those targeting the development of services industries, the ITES-BPO industry has emerged as a key area of focus. This focus has been driven by several socioeconomic benefits the industry offers, including the following:

- **Enhanced job creation:** The ITES-BPO industry is highly people intensive. Scale is achieved by deploying larger numbers of people - unlike traditional industries where growth and development do not necessarily imply an increase in the number of jobs.
- **Export revenues:** Earnings from services provided to developed markets have become the mainstay for the majority of the ITES-BPO industry in emerging locations. This link with developed markets provides several related benefits as well, including higher wages and upgrading of skills.
- **Investment in information and communications technology (ICT) infrastructure:** Positive spillover effects include improvements in ICT infrastructure and business services, which in turn lead to higher efficiencies within the domestic economy.
- **Increased participation of women in the workforce:** Unlike traditional manufacturing industries, the ITES-BPO industry encourages greater female participation in the workforce. It is estimated that women make up 60 percent of the employee pool, on average, in ITES-BPO organizations.
- **Creation of cluster industries:** Another significant benefit that has arisen from the growth of the ITES-BPO industry is the creation of ancillary service sectors such as transportation, training, catering, and so forth. In fact, it is estimated that for every direct job created in the ITES-BPO sector, four additional jobs are created in the economy (see Box 1).

Box I CHAIN REACTIONS: INDIA, IT'S IMPACT ON ECONOMY, CONSUMPTION, AND GDP

According to February 2007 article in *CLSA Quarterly*, the Indian information technology (IT) industry (including ITES-BPO) was expected to have a multi-tiered effect on the Indian economy between 2007 and 2010. The authors based their findings on the expected spending patterns of industry professionals and anticipated that the impact would be on multiple industry segments as follows:

- Two-thirds of five-star hotel room additions and one-third of budget hotel expansion over FY07–FY10 were expected to be driven by growth in the IT industry.
- Twenty percent of incremental domestic travel was expected to be undertaken by industry professionals for personal (non work related) trips during the FY07–FY10 period.
- Industry professionals were expected to own one-fifth of all online trading accounts and will account for 12 percent of all credit card owners.
- Industry professionals were expected to receive 17 percent of new home loans during the FY07–FY10 period.
- Industry professionals were expected to account for 13 percent of car sales, 16 percent of A+B-segment car sales, and one-third of demand for multiplexes during the period.

Source: Vajpayee and Govil 2007.

Given the potential of the ITES-BPO industry to generate mass employment and drive the economic growth of developing nations, as well as, the strong demand for Bank assistance in this sector from client countries, the World Bank commissioned a study to examine the opportunities that exist for South Asian countries to develop the industry, both individually and collaboratively as a region. This overview highlights some of the study's key findings and recommendations.

Study Approach

The study covered six countries in the South Asia Region – Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka- to assess the potential for regional collaboration and to identify areas of potential collaboration. The following approach was followed:

- A broad understanding of each country's current ITES-BPO industry landscape was developed. A detailed assessment of each country was then undertaken based on the four critical drivers – talent, infrastructure, business environment, and clusters – that are the key factors for attracting investment into the industry. To assess each driver, both quantitative data and elements of the prevailing policy environment were reviewed. The key strengths and areas needing development were identified for the four drivers in each country.
- The key strengths and areas for development were used to identify those potential ITES-BPO segments that each country can consider developing in the near term and over the long term. A broad roadmap was developed for each country. Although the study's focus is on regional collaboration, the resulting policy recommendations must be addressed by individual national governments. Therefore, the findings highlight key initiatives that must be made in each country.
- The potential for regional collaboration was studied through interviews and discussions with various stakeholders. The study makes a strong case for regional collaboration among the South Asian countries and discusses in detail how each of the countries

studied would benefit from such collaboration. Potential collaboration initiatives and the role that could be played by key stakeholders to ensure the success of proposed initiatives are discussed at length.

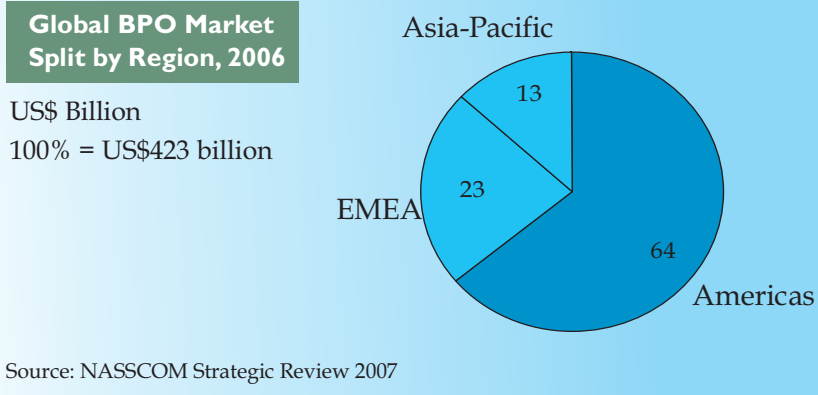
- A broad regional roadmap was developed, highlighting key initiatives, key stakeholders, and proposed timelines. However, the study report does not include detailed assessment parameters and milestones. Since regional collaboration within the ITES-BPO industry is a relatively new concept, it is important to first understand the feasibility of the concept before developing a more robust and complete implementation roadmap. The report does highlight potential constraints and challenges of regional collaboration among the countries.

Global ITES-BPO Industry Overview

The potential global market size was estimated \$423 billion for spending on ITES-BPO services in 2006 (NASSCOM 2007), and is expected to grow by 10 percent a year to US\$700–800 billion by 2012 (NASSCOM 2008).

The Americas accounted for nearly two-thirds of global spending on ITES-BPO services in 2006 (see Figure 1). North America alone constituted the largest market, accounting for more than 60 percent of the total ITES-BPO industry worldwide and growing at nearly 10 percent in 2006. Europe, the Middle East, and Africa (EMEA) accounted for about 23 percent of the market, with Western Europe accounting for more than 95 percent of that regional market. Regional growth EMEA was estimated at about 9 percent in 2006.

Figure 1
Global BPO Market: Spending on Outsourced Services, by Region



Asia-Pacific, in contrast, is a relatively nascent market for ITES-BPO, with an estimated market share of about 13 percent in 2006. However, the Asia-Pacific region was the fastest growing market, with regional growth estimated at more than 20 percent that year.

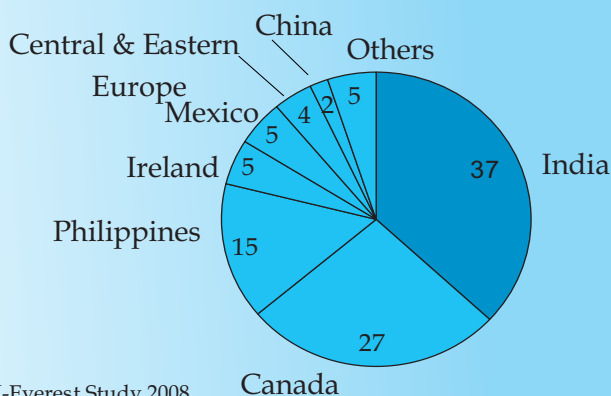
Figure 2 shows percentage market share by country, based on actual BPO spending. Within the estimated global outsourcing opportunity of US\$423 billion in 2006, the actual global BPO spending stood at about US\$28 billion in 2007. Global delivery from multiple locations across regions is a relatively recent trend that is gaining prominence. Worldwide, most developing countries are strongly focused on encouraging the growth of the ITES-BPO industry, and this includes countries in the South Asia region. With 37 percent of the overall offshore BPO market, India has emerged as the leading destination in terms of both breadth and depth.

Figure 2

**Share of Actual Spending,
by Destination Country**

**Business Process Offshoring Market
by Destination Location, 2007**

Percent, US\$ Billion
100% = US\$28 billion



Source: NASSCOM-Everest Study 2008

Other countries in the region, such as Sri Lanka and Pakistan, have also attracted ITES-BPO investment. Bhutan, Nepal, and Bangladesh have recently initiated efforts to attract ITES-BPO investment and to spur ITES-BPO growth in their respective countries.

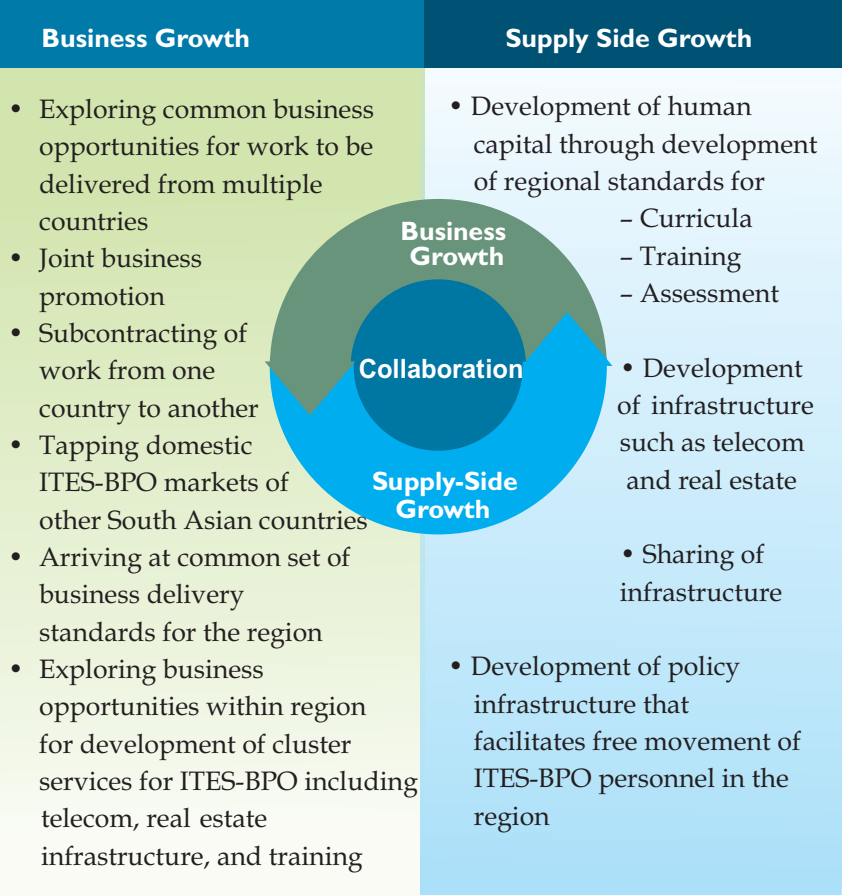
Opportunity for South Asia

Given the large size of the educated populations of the South Asian countries in this study (Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka), the ITES-BPO industry represents a very attractive prospect for investment and growth. This is especially true given that India—a neighbor to all these countries—is a dominant player in the industry. As indicated earlier, India has about 37 percent of the market share in global off-shoring, which translated into revenues of US\$9.5 billion in 2007 (NASSCOM 2008).

Industry studies project that by 2012, India's revenues from ITES-BPO could be in the range of US\$280–300 billion (NASSCOM 2008). While the current economic and financial industry downturn is likely to temper these estimates, Indian ITES-BPO players are continuing to gain business from smaller U.S. firms. Also, although individual projects might be smaller (in revenue terms) than before, newer segments such as human resources (HR) outsourcing and legal process outsourcing are predicted to grow during the downturn.

However, even at its current industry size, India faces a talent shortage accompanied by wage inflation, so that Indian companies are moving to Tier III and Tier IV cities in order to minimize the cost of talent. While Pakistan and Sri Lanka have a somewhat developed ITES-BPO industry, the sector is still nascent in other South Asian countries. It is thus imperative for South Asian countries, including India, to look at collaborative growth in the ITES-BPO industry. From the perspective of Indian ITES-BPO companies, collaboration would give them access to a larger and, in some cases, better qualified talent pool. Moreover, collaboration would open new markets for Indian companies that specialize in infrastructure development. From the perspective of other countries in the region, collaboration would allow them to develop new business opportunities and to develop the supply side in terms of talent and infrastructure. Figure 3 highlights how collaboration can enable both business and supply-side growth.

Figure 3
Benefits of Collaboration



The Current State of ITES-BPO in Individual Countries

To develop specific initiatives for ITES-BPO growth that should be undertaken at a regional level, it is necessary to understand --

- the current state of the industry in the six countries, and
- specific strengths and areas of development with respect to the four drivers of investment: talent, infrastructure, business environment, and clusters (supporting industries) in each country.

An overview of this assessment, with the salient findings for each country, is given in Box 2.

Bangladesh

- The government has begun focusing on growing the ITES-BPO industry. In April 2008, it started giving out call center licenses at a nominal cost.
- Bangladesh has two key strengths: large-scale availability of young talent and a distinct cost advantage.
- Given the large pool of commerce graduates, Bangladesh should consider services within the finance and accounting vertical and can expand to offer analytics and HR-related services in the long term.
- Looking ahead, Bangladesh will need to address key concerns in terms of employability of talent, infrastructure, and existing political environment.

Bhutan

- The ITES-BPO industry in Bhutan currently consists of only three players, employing an estimated 225 people. Key strengths include availability of English-speaking talent and a stable political environment.
- Given the constraints on the size of its talent pool, Bhutan should focus on specific niche segments within the ITES-BPO industry and target the medical transcription, health care billing, and coding segments in the near term. In the long term, Bhutan can develop segments such as graphic design and technical helpdesk services.
- Bhutan will need to focus on increased investment promotion as well as the development of talent and necessary infrastructure.
- The availability of reliable clean energy and the inherent safety of this land locked Himalayan nation, makes Bhutan an excellent business continuity (BCC) site for offshore server services.

Maldives

- The ITES-BPO industry is currently at a formative stage of development in Maldives. The country has not yet identified ITES-BPO as a priority sector for the economy.
- Key strengths include young, English-speaking talent and a well-developed telecom infrastructure.
- Given the limited size of the talent pool, the country should look at developing specific niche industry segments, rather than aim for a cross-sectoral or the large volume end of the market. In addition to tourism, the government plans to develop industries such as fisheries, logistics, and ports; over the long term, ITES-BPO industry developments can largely exploit the growth in these industries.
- In addition to determining the potential niche areas for ITES-BPO as an economic segment, Maldives will need to build technology parks & a skills development program among other initiatives to make an entry in this completely new sector for the country.

Nepal

- The ITES-BPO industry is currently at a nascent stage of development in Nepal. Currently, there are only two ITES-BPO companies in Nepal employing an estimated workforce of about 200 people. Nepal offers a sizeable pool of English-speaking talent with a significant cost advantage.
- With respect to areas of opportunity, Nepal should focus on developing niches for both voice and non voice segments in existing areas such as animation and geographical information systems (GIS).
- To emerge as an ITES-BPO destination, Nepal needs to focus on talent and infrastructure development and also build an investment promotion strategy.

Pakistan

- The ITES-BPO industry in Pakistan is estimated to be the second largest within the South Asia region (after India) in terms of employment. Pakistan's software and ITES sector is estimated at US\$1.6 billion (and the industry employs more than 24,000 people locally out of an estimated total work force of 110,000 in the sector).
- Key strengths include a large English-speaking population and a relatively well-developed infrastructure.
- With respect to opportunity areas, Pakistan should focus on developing over time a larger scale industry in both voice and non-voice segments. Within the knowledge process outsourcing (KPO) segment, the industry is currently focused primarily on financial services. In the long term, the industry should strive to diversify into finance-related areas such as investment research and analytics and also target emerging segments such as legal process outsourcing and patent-related analytics.
- Implementation of an ITES-BPO policy, supported by investment promotion and talent development efforts, are critical for further industry development.

Sri Lanka

- The ITES-BPO industry is relatively mature in Sri Lanka. The ITES-BPO industry has been identified as a priority sector in the Sri Lankan economy. Sri Lanka's ITES-BPO industry revenue is estimated at US\$125 million, employing more than 6,000 people in 2007 (ICTA et al. 2007). Current estimates suggest that the IT-ITES industry has grown rapidly to about \$250 million in revenues and employs over 8000 directly in the sector.
- Key strengths include the availability of cost-effective, skilled manpower and active involvement of industry bodies.
- With respect to opportunity areas, Sri Lanka should focus on developing niches within non-voice segments. Given the inherent strengths of the talent in mathematics and finance, Sri Lanka should focus on segments such as finance and accounting, research and analytics, and customer support in the near term. In the long term, the country should look to further expand its operations into legal process outsourcing and HR-related services.
- Looking ahead, Sri Lanka should focus on increased investment promotion as well as the development of talent and necessary infrastructure.

Collaborative Growth of ITES-BPO in South Asia

As noted in the summary country assessments, most of the South Asian countries studied have begun initiatives to ensure that suitable talent and infrastructure are being developed for the ITES-BPO industry.

However, at present these countries are competing among themselves and with India for investment in the ITES-BPO industry. No concerted efforts to collaborate and develop the region as a single market for off-shoring and outsourcing have yet been undertaken. From an outsourcing and off-shoring perspective, the region is still a collection of individual countries rather than a common unit. Collaboration among countries on some form of standardization—in terms of service delivery, quality levels, or the capability levels of talent from different countries—would benefit the entire region. This could be achieved through formal information exchange, motivated by the goal of economic growth and the reality of geographic proximity.

Collaboration would allow countries to leverage their individual strengths such as a large talent pool in the employable age group, knowledge of English, expertise in finance, and their overlaps in identified potential areas of opportunity. The potential revenues for local industries and employment generation for the countries could be much greater if they worked together in this way. Besides the region itself presents a significant market & an opportunity yet left untapped.

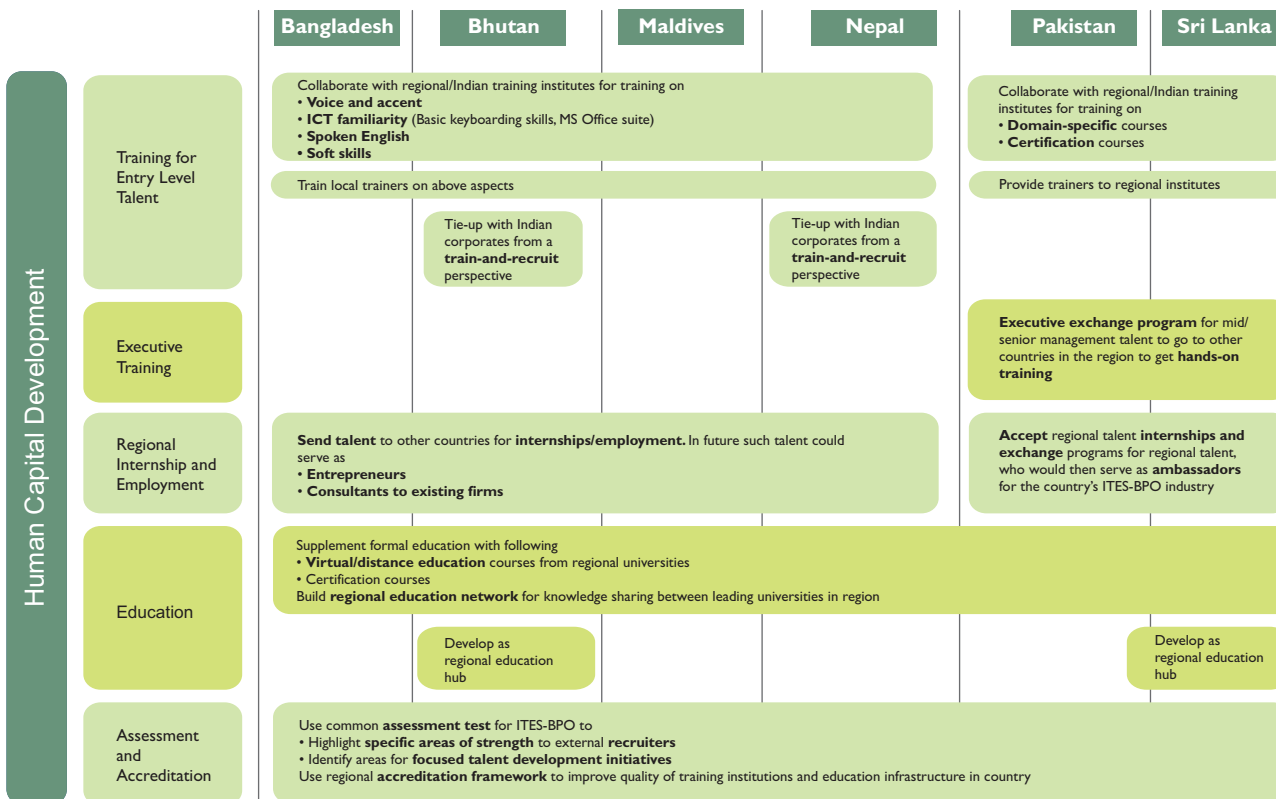
When one considers the further development of the ITES-BPO industry in this manner, a number of potential areas for collaboration emerge. While business-to-business relationships have already been explored in the telecommunication infrastructure space, and some degree of

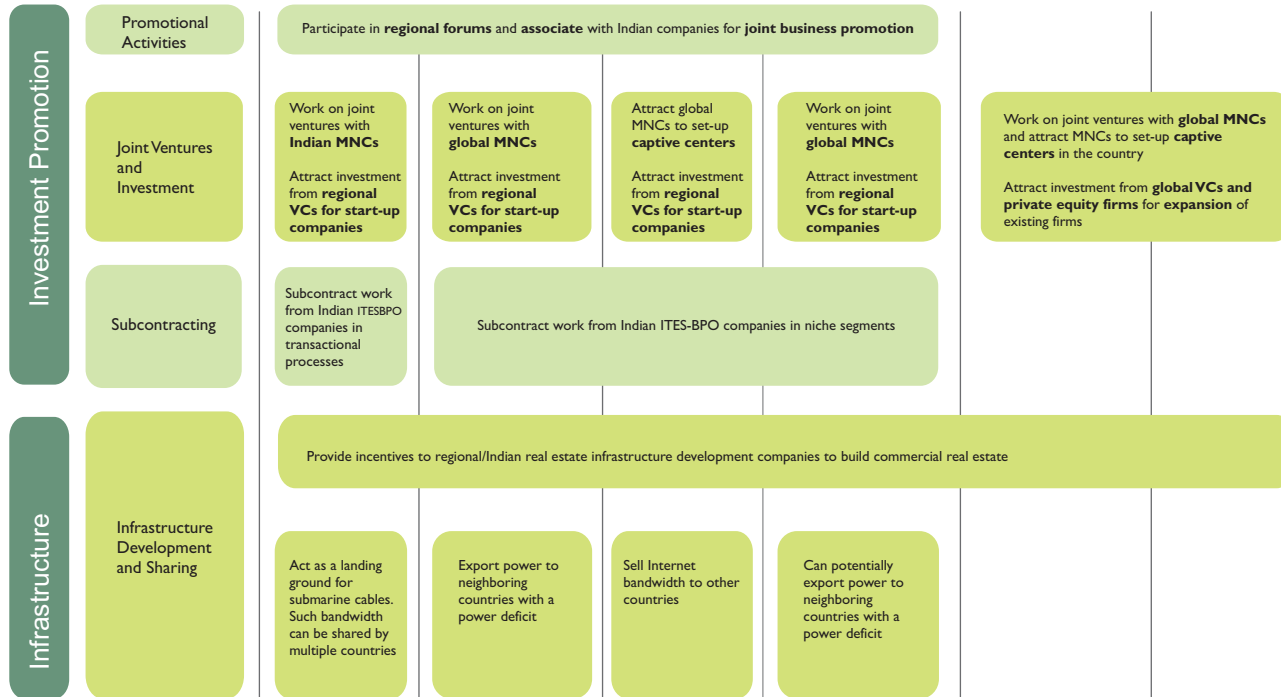
subcontracting of work from Indian ITES companies does occur, there are no formal mechanisms to identify potential collaboration areas and facilitate knowledge sharing. Nonetheless, corporations use informal channels to explore collaborative possibilities to do complementary work.

Figure 4 offers an overview of potential collaborative opportunities for each of the countries in the study. Given the differing states of maturity of the domestic of the ITES-BPO industry in these countries, collaboration would benefit each country in different ways, and thus the opportunities for each country vary.

Figure 4

Country-by-Country Benefits of Collaboration





The process of collaboration however, requires integrated efforts from three main stakeholders: country governments, corporations, and institutional bodies. Each stakeholder has a specific role to play in the various collaborative initiatives to be undertaken at the regional level. These initiatives have been broadly classified under the following areas:

- Talent development – in areas such as education, training, assessment, and accreditation
- Investment promotion – marketing the entire region as a single unit as well as attracting investments, joint ventures, and subcontracting of work
- Infrastructure initiatives – building support infrastructure for the ITES-BPO industry in terms of telecom, real estate, air connectivity, etc., and
- Regional policy development initiatives – in terms of macro-level initiatives that may be taken up by the government.

To implement these initiatives in a streamlined manner, stakeholders will need to work toward the common goal of ITES-BPO growth for the entire South Asia region. It is thus recommended that a regional body be formed that has a specific focus on developing the South Asia region as an ITES-BPO hub. This body would encourage collaboration among the countries and play a key role in the coordination of all efforts from the other stakeholders. In the initial years, the regional body would primarily rely on country-level associations to carry out much of its work and would act in an advisory capacity. This would facilitate the immediate implementation of some quick wins and would not require much investment in the creation of the body itself. The nature and role of the body could evolve over time. This is illustrated in Figure 5.

Figure 5

Evolution of the Role of the Regional Body

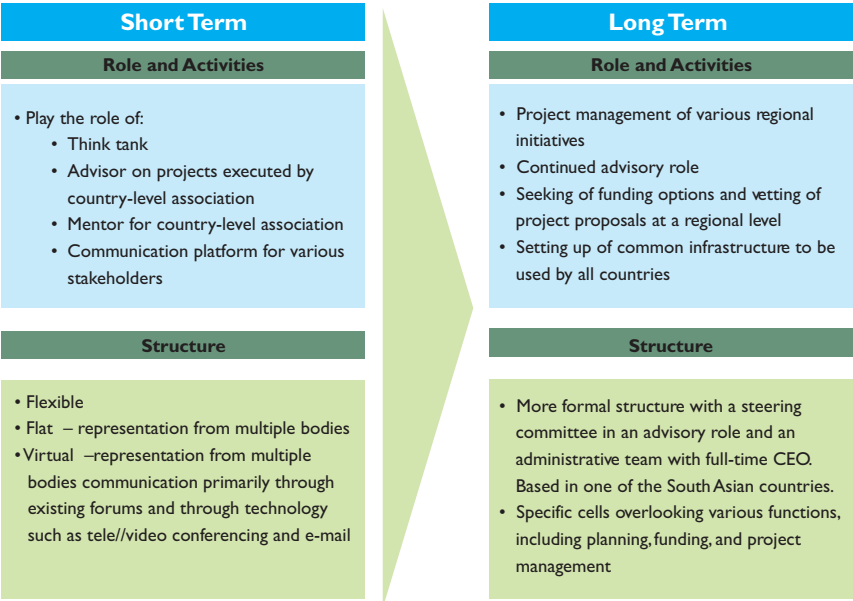


Figure 6

Role of Stakeholders in Regional Collaboration

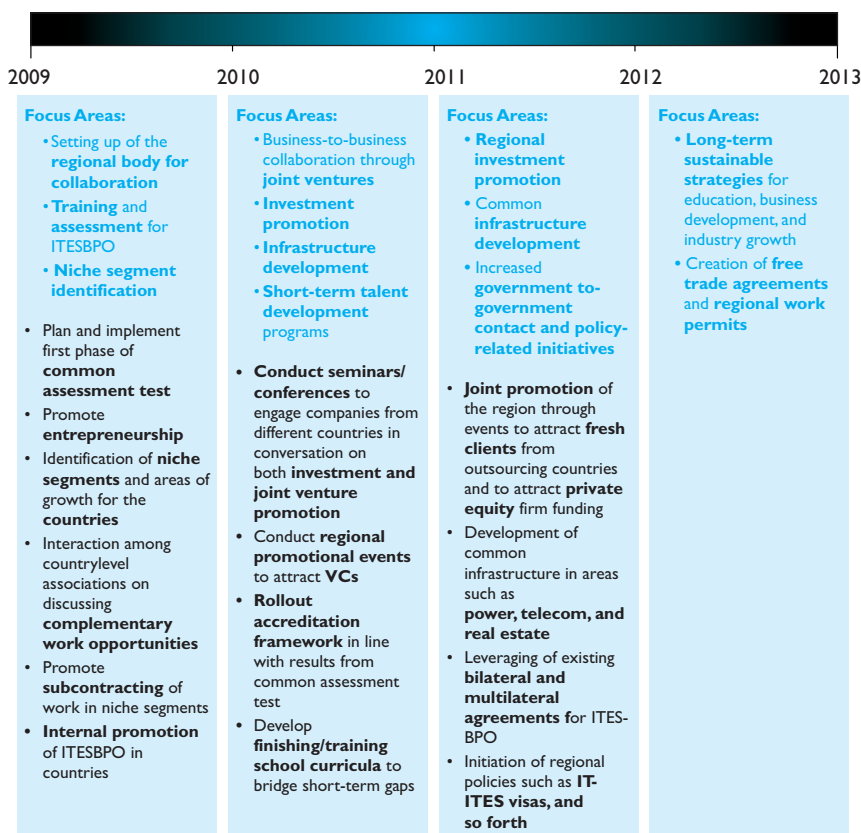
Human Capital Development		Government	Institutions	Corporates
	Training for Entry Level Talent	<ul style="list-style-type: none"> Create Conducive investment policy regime for regional training vendors Align secondary school curricula to needs of the ITES-BPO industry 	<ul style="list-style-type: none"> Identify skill gaps in individual countries Identify partners for trainings Fund country-level education and assessment initiatives 	<ul style="list-style-type: none"> Communicate talent requirements in terms of skills and volume to government through country-level associations
	Executive Training	<ul style="list-style-type: none"> Create attractive investment regime for international training/education institutions to open local branches 	<ul style="list-style-type: none"> Identify world-class organizations in the South Asian countries that can provide on-the-job training 	<ul style="list-style-type: none"> Communicate mid/senior management talent requirements in terms of skills and volume to government through country-level associations
	Internship and Employment	<ul style="list-style-type: none"> Ease visa and migration laws Ease repatriation of salaries into regional countries 	<ul style="list-style-type: none"> Identify global and regional employers willing to employ regional candidates 	<ul style="list-style-type: none"> Encourage employment of candidates from region since it builds the employer brand
	Common Assessment Test	<ul style="list-style-type: none"> Provide government infrastructure for running test Provide student subsidies for the test Link employment schemes to test Align education to test results 	<ul style="list-style-type: none"> Project management implementation of the test Identify organizations willing to employ on the basis of test Subsidize government spending on test on per-candidate basis 	<ul style="list-style-type: none"> Provide feedback on quality of talent qualifying on the test Replace internal testing procedures with the test
	Accreditation	<ul style="list-style-type: none"> Assess quality of the government-run educational infrastructure using accreditation framework 	<ul style="list-style-type: none"> Project management accreditation process Fund creation of accreditation mechanism 	<ul style="list-style-type: none"> Provide feedback on quality of talent emerging from accredited institutions

Investment Promotion	Marketing Activities	<ul style="list-style-type: none"> • Make government infrastructure available for running promotional seminars and info-share events 	<ul style="list-style-type: none"> • Drive marketing and promotional campaigns • Conduct conferences for ITES-BPO professionals from the region • Identify regional business development agents • Fund promotional activities 	<ul style="list-style-type: none"> • Leading corporates in a particular sector should nominate representatives to act as regional ambassadors
	Joint Ventures and Investment	<ul style="list-style-type: none"> • Create favorable policy regime that allows free flow of funds • Attract venture capitalists and other global investors • Provide fiscal and non fiscal incentives to regional infrastructure development 	<ul style="list-style-type: none"> • Facilitate contact and dialogue between organizations in similar spheres of work • Replicate successful models of socially oriented ITES-BPO • Act as the bridge between potential investors and the governments 	<ul style="list-style-type: none"> • Seek partners in other countries in the region for complementary work • Seek opportunities for direct investments in regional companies • Set-up greenfield projects and captive centers
	Subcontracting		<ul style="list-style-type: none"> • Facilitate contact and dialogue between organizations in similar spheres of work • Identify opportunities for regional MNCs to outsource specific processes based on individual country competencies 	<ul style="list-style-type: none"> • Identify opportunities to subcontract work to regional companies
	Visa and Migration Laws	<ul style="list-style-type: none"> • Introduce IT visa that allows free movement of IT and ITES-BPO professionals within the region 	<ul style="list-style-type: none"> • Fund study on how industry-specific visas are implemented in other regions in the world 	
Policy-Led Initiatives	Financial Incentives	<ul style="list-style-type: none"> • Fiscal incentives in the form of tax holidays, exemptions from duties for import of hardware-equipment • Easy regulations for investment clearance, funds remittance and land allocation 	<ul style="list-style-type: none"> • Act as a bridge between industry and the government to convey the needs of ITES-BPO organizations and investors to the government 	
	Infrastructure Development and Sharing	<ul style="list-style-type: none"> • Ease of regulatory framework for telecom, power, and real estate development • Regulatory guarantees and safeguards to protect interests of parties sharing infrastructure, in case of default 	<ul style="list-style-type: none"> • Identify potential areas for bundling of infrastructure so that better rates may be negotiated by the region as a whole from external suppliers 	
	IP Protection	<ul style="list-style-type: none"> • Patent protection at regional level 		
	Leveraging Existing Agreements	<ul style="list-style-type: none"> • Update and further detail existing agreements to include the ITES-BPO industry 	<ul style="list-style-type: none"> • Consult governments and other responsible bodies regarding amendments and additions that can be made to existing agreements 	

An overview of the specific roles of the stakeholders—governments, institutions, and corporations—is shown in Figure 6. The approach to regional collaboration is primarily driven by business growth, which in turn is expected to drive closer relations among governments. However, to be seen as a “**region of choice**” for ITES-BPO, the region needs to have a certain level of standardization in the quality of service delivered, talent capability, and overall client experience. Figure 7 depicts a phased implementation of various initiatives that would help achieve this goal.

Figure 7

Roadmap for ITES-BPO Development in South Asia



In conclusion, while ITES-BPO has immense potential for generating employment and earning valuable foreign exchange for the country, growth could be slowed if political instability associated with the region and complementary niche areas are not collectively identified & developed as early as possible. It is, therefore, even more critical that countries work together and share expertise in the sector for mutually beneficial and potentially lucrative common goals. Thereafter building global awareness of South Asia's new capabilities will ensure each participating country realizes its full potential in the sector and positions itself as being an integral part of the “outsourcing hub of the world.”

A Cautionary Note

The timing of this report coincides with the global financial downturn, which has affected each country in different ways. The extent of the impact of the crisis is uncertain. We have tried to present a true current picture and future potential of the industry in the six countries. However, the global downturn may affect these projections.

References

Vajpayee, Bhavtosh, and Anshu Govil. 2007.

"Chain Reactions – Indian IT's Impact on Economy, Consumption and GDP."
CLSA Quarterly, February 2007.
www.clsa.com/quarterly/report.cfm?pdf=CLSA_Quarterly_20070226_b.pdf.
Accessed December 2008.

ICTA et al. 2007.

Sri Lanka: National IT/BPO Workforce Capacity Development Strategy, v 1.0.
"Global Off-shoring Explosion and Sri Lanka's Potential."
Draft prepared by ICTA and member organizations. www.ICTA.lk

NASSCOM. 2007c.

Strategic Review. Delhi, India: NASSCOM.

NASSCOM-Everest. 2008.

"Roadmap 2012 - Capitalizing on the Expanding BPO Landscape."
Delhi, India.
<http://www.nasscom.in/Nasscom/templates/NormalPage.aspx?id=53361>.

P@SHA (Pakistan Software Houses Association). 2007.

"Composition of Industry." From the P@SHA web site.
www.pasha.org.pk/show_page.htm?input=page_120220081605.
Accessed November 2008.

PSEB (Pakistan Software Export Board). 2005.

Setting Up Call Centers in Pakistan: A Guide for Local Entrepreneurs and Business Persons. Islamabad: PSEB.
www.pseb.org.pk/UserFiles/documents/SettingUp_CallCenter_Pakistan.pdf.
Accessed May 2007.

Acronyms and Abbreviations

ACCO	Association of Call Center Operators
ADB	Asian Development Bank
ADSL	asymmetric digital subscriber line
ASOCIO	Asian-Oceanian Computing Industry Organization
BASIS	Bangladesh Association of Software and Information Services
BCC	Bangladesh Computer Council
BCS	Bangladesh Computer Samity
BFSI	banking, financial services, and insurance
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BPO	Business process outsourcing
CAGR	compound annual growth rate
CAN	Computer Association of Nepal
Cedefop	European Centre for the Development of Vocational Training
CIA	Central Intelligence Agency
CIMA	Chartered Institute of Management Accountants
CMM certification	capability model maturity certification
DSL	digital subscriber line
DTAA	Double Taxation Avoidance Agreement
DXX	digital cross connect
EMEA	Europe, Middle East, and Africa
EU	European Union
F&A	finance and accounting
FAO	finance and accounting outsourcing
FTA	free trade agreement
GCC	Gulf Cooperation Council
GDP	gross domestic product
GDP at PPP	gross domestic product at purchasing power parity
GDS	graphic design systems
GIS	geographical information systems
HLC-IT	High-Level Commission for Information Technology
HR	human resources
ICT	information and communications technology
ICTA	Information and Communication Technology Agency
IMF	International Monetary Fund
IP	Internet Protocol
ISDN	integrated services digital network

ISO	International Organization for Standardization
ISP	Internet service provider
ISPAB	Internet Service Provider Association of Bangladesh
IT	information technology
ITES	information technology-enabled services
ITPF	IT Professional Forum
ITU	International Telecommunications Union
KPO	knowledge process outsourcing
Mbps	megabytes per second
MNC	multinational company
MoU	memorandum of understanding
NAC	NASSCOM Assessment of Competence
NAFTA	North American Free Trade Agreement
NASSCOM	National Association of Software and Services Companies
NCIT	National Center for Information Technology
NIIT	National Institute of Information Tehcnology
PASHA	Pakistan Software Houses Association
PPP	public-private partnership
PSEB	Pakistan Software Export Board
PSTN	public switched telephone network
PTA	Pakistan Telecom Authority
PTCL	Pakistan Telecommunication Company Limited
R&D	research and development
SAARC	South Asian Association for Regional Cooperation
SADB	South Asian Development Bank
SAEU	South Asian Economic Union
SAFTA	South Asian Free Trade Agreement
SAR	South Asian region
SAU	South Asian University
SEA-ME-WE	South East Asia-Middle East-Western Europe cable
SEZ	special economic zone
SII	Securities Investment Institute
SLA	service-level agreement
SLASI	Sri Lanka Association for the Software Industry
STP	software technology park
UNDP	United Nations Development Programme
VC	venture capitalist
VET	vocational education and training
VoIP	Voice over IP
VSAT	very small aperture terminal

Definitions

BPO	Business process outsourcing includes processes that may be It enabled and do not require onshore presence (that is, may be performed offshore).
Captives	Captive units include both MNC-owned units that undertake work for the parents' global operations and the company-owned units of domestic companies.
Drivers	Drivers refer to the elements that Hewitt research has identified as key requirements for a location targeting ITES-BPO services.
Factors	Factors refer to the individual parameters that make up a driver.
Grade A	Grade A specifications refer to internationally acceptable real estate standards with respect to floor space, construction, and so forth.
Incumbents	Incumbents refer to IT and ITES-BPO organizations that are already operating and prevalent in a particular location.
ITES	Information technology-enabled services encompass outsourcing of processes that are supported through the use of information technology. ITES may cover different functions, including finance, human resources, and administration. ITES may be useful in different industries, such as health care, telecommunications, and manufacturing.
Labor arbitrage	Labor arbitrage refers to the savings realized by offshoring owing to the difference in labor costs between the source and destination locations.
Offshoring	Offshoring involves outsourcing (see next) specific IT and IT enabled services and processes to other locations and regions.
Outsourcing	Outsourcing refers to the engagement of external firms and organizations to execute particular processes and services.
SAR countries	This refers to the South Asian countries considered for this study: Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka.
Secondary enrollment	Secondary enrollment refers to the ratio of total enrollment in secondary educational institutions, regardless of students' ages, to the total population of the age group that officially corresponds to the secondary education level (World Development Indicators definition).
SEZ	SEZ refers to a special economic zone. BPO units in SEZs may be eligible for certain incentives from the government and the SEZ establishing authority.

STP	STP or software technology park is specifically set up for the promotion of the software industry.
Tertiary enrollment	Tertiary enrollment refers to the ratio of total enrollment in tertiary educational institutions, regardless of students' ages, to the total population of the age group that officially corresponds to the tertiary education level. Tertiary education, whether or not it leads to an advanced qualification, requires as a minimum condition of admission the successful completion of secondary level education (World Development Indicators definition).
Third party	Third-party units are BPO service vendors that are mostly independently owned units (that is, no single client has a controlling stake in the vendor entity). Third-party vendors also include a small section of MNC-owned independent third-party vendors that have a significant part of their global operations in a particular country.

