

*South Asia Region
Regional Collaboration in ITES*

PROJECT CONCEPT NOTE

*South Asia
South Asia Finance & Private Sector Development Sector Unit*

KEY DEVELOPMENT ISSUES & RATIONALE FOR BANK INVOLVEMENT

The South Asia Region (SAR), consisting of eight countries with 1.5 billion people, has the highest number of poor worldwide. The region has experienced fast economic growth in the past few years and has seen significant political shifts and challenges develop in all eight of its countries. It is no longer a uniformly low-income region; however, income inequality has grown at the same time as growth has accelerated. The region has also been significantly impacted by the global financial crisis, with some countries experiencing first-round effects in their financial systems and others seeing a drying up of exports, remittances, and tourists. India alone lost an estimated 500,000 jobs in the fourth quarter of 2008.

The World Bank has responded with programs aimed at protecting the most vulnerable against the fallout of the crisis and sustaining the potential for private sector-led economic growth and employment creation, among other initiatives. In the long-term, the Bank's strategy is to increase productivity through skills development and investment climate advancement to fuel future jobs and growth. One of the key elements of this strategy is to adopt a regional approach to mitigating conflict through possible cross-border projects. This is because South Asia is the least integrated region globally, with intra-regional trade accounting for 5% of total trade, compared with over 50% for East Asia. Regional cooperation can be effective in increasing trade, relieving energy shortages, improving connectivity, increasing investment, reducing macro-economic vulnerability to shocks and promoting peace and stability. Cooperation is estimated to boost South Asian trade from \$5 billion/year to \$20 billion/year and increase regional GDP by 2%.

South Asian countries share many characteristics that lend themselves to collaboration; particularly in IT Enabled Services (ITES). These include a young population, high adoption of the English language, and a strong quantitative focus in education. This provides an environment where the ITES Business Process Outsourcing (BPO) industry can thrive. India has dramatically shifted its export-led economy through services mainly in the ITES-BPO industry; it has 37% of the market share in global off-shoring. Nonetheless, India is facing a talent crunch and wage inflation which has prompted a shift in location to minimize talent cost. The rest of the eight SAR countries are following suit through different paths. However, those countries

require support to build their capabilities in the industry. This effort can be facilitated through effective regional collaboration based on the cost advantages and talent pool the smaller countries can bring and the knowledge and infrastructure investment the more established SAR countries can provide.

The ITES-BPO industry offers much needed foreign exchange and is a significant employer in major cities in the region and has the potential to become one in less urban areas as well; it requires relatively low investment in infrastructure and on behalf of the government and potential employers. It is also an attractive employment option for women as it offers more flexibility and usually offers a workplace that is more conducive than one finds within traditional male dominated industries.

Stimulating a strategic dialogue leading to regional collaboration and integration within the SAR has many gains for each country within the region and the region as a whole. Knowledge partnerships resulting from such collaboration can be a key growth driver for the ITES- BPO industry. The project proposes to develop such knowledge partnerships with the South Asian Association for Regional Cooperation (SAARC) chamber and local public and private institutions. In addition, it will aim to transfer global best practices and technical assistance to **create successful enterprises** offering **sustainable and well paid employment** in the SAR. Project activities will include, but will not be limited to: (i) increasing business through joint promotional activities, sub-contracting of work, building common standards, and creating centers of excellence; and (ii) developing supply side resources such as technical skills, support infrastructure, and enabling policies.

This project, with its main focus on private sector led multilateral collaboration, driven by powerful commercial imperatives, promises to become the torch bearer for regional collaboration hitherto lacking from the more traditional sectors (roads, water, power, etc.), which are led by governments and therefore have been shackled by the region's geo-politics. It will bring together key stakeholders in strategic sectors that will benefit from regional integration and knowledge sharing. The project team had a number of consultations with key actors in government, facilitating the ITES industry development as well as the key trade associations in each country representing the industry. The report which provides the intellectual underpinning for this project was produced after the Bank ascertained strong client demand from our SAR counterparts and key stakeholders.

Recent VCs to disseminate the report also confirmed a strong desire to progress these recommendations into tangible actions; hence this proposal.

PROPOSED PROJECT DEVELOPMENT OBJECTIVES

- Become a catalyst for regional integration/collaboration in the SAR, leading to growth.
- Develop the private sector and enhance its productivity through the applicable use of ICT enabled business processes and HR practices.
- Provide more employment opportunities across the region, particularly lagging areas and opportunities for women and underserved groups within these countries **and** communities.
- Drive market responsive policy reforms and public sector institutional reforms which are designed to contribute to an overall improvement in the enabling business environment, and prompt government institutions to utilize knowledge partnerships that leverage each country's comparative advantage.
- Develop shared solutions to common problems faced by countries in the region.
- Share knowledge, expertise and resources, avoiding duplication of effort and abortive work.

In essence, the ITES-BPO industry is: (i) highly people intensive; supplies export revenues, which provide several related benefits, including better wages and upgrading of skills; (ii) spurs investment in ICT infrastructure, which in turn leads to higher efficiencies within the domestic economy; (iii) affords increased participation of women in the workforce, where it is estimated that women make up 60% of the employee pool, on average, in ITES-BPO organizations; and (iv) creates cluster industries and spillover benefits to other sectors. It is estimated that for every direct job created in the ITES-BPO sector, four additional jobs are created in the economy.

PRELIMINARY PROJECT DESCRIPTION

The project design has been shaped through consultations with our country stakeholders.

Given the complexity that the regional dimension of the project poses, it would be prudent to keep the design and the project components simple and limited to:

- **SAR ITES Venture Fund** - (e.g. matching grants to incentivize regional collaboration) for regional JVs/partnerships, intra- regional infrastructure, standard skills assessment, common accreditation process, joint promotional activity, Diaspora mobilization, common support services, industry clusters, etc.
- **Institutional Capacity Building** - to champion the regional cause, for enabling policies (model frameworks, Intellectual Property Rights (IPR), and e-transaction Act, etc.) and reforms (i.e. creating a conducive business environment).

The project will focus on regional solutions where South Asian countries can work together to address challenges that lend themselves to common cross-border solutions for the knowledge economy, specifically in the ITES industry.

A Matching Grant Fund, possibly under the auspices of the SAARC Fund, could be set up to:

- Provide **risk capital** for collaborative efforts in starting, expanding or venturing into new lines of business between two or more countries. Incentives will increase with the additional number of countries involved in the joint venture.
- Targeted areas for **skill development** could include; developing and promoting common training curricula to international standards, assessment and accreditation.
- **Joint promotional activities**; networking events, joint trade shows and business linkage tours.
- Slicing and dicing large activities across multiple countries.
- **Infrastructure sharing**; data centers, high bandwidth data pipes and common support services.
- Common business delivery standards.

Institutional Capacity Building; as the second component, would focus on the institutional capacity building in government institutions involved in enabling policies (IPR, e-Transactions Act, policies affecting cross-border trade, labor policies affecting ITES, investment barriers, etc.) and general private sector friendly reforms.

This component would also address the formation and development of a small regional secretariat, possibly under the SAARC chamber, which would support the regional body that will be championing the regional cause. Initially such a body could be formed by bringing together each of the ITES trade associations currently active in their respective countries. The Chairman or CEO can be chosen from the ex-officio members in such a virtual organization, rather than form another new entity.