



GOVERNMENT OF PAKISTAN

Pakistan Export Strategy Business Process Outsourcing

2023-2027



This Business Process Outsourcing sector strategy is part of the National Priority Sectors Export Strategy (NPSES) initiative which contributes to the implementation of Pakistan's Strategic Trade Policy Framework (STPF) 2020-2025.

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Pakistan Export Strategy

Business Process Outsourcing

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Forewords

Message from the Ministry of Commerce

Increasing international trade is not only a means of boosting economic growth and the nation's welfare, but also contributing to strengthening international relations. The stabilization of economic and political affairs paves the way for reinforcing friendly relations based on mutual interests with a wide range of trade partners. Trade is thus one of the most important forms of exchange between countries and fostering this will lead to connections such as foreign investments, better employment opportunities, and scientific and technical exchanges, all of which will contribute to Pakistan's growth and prosperity.

The Government of Pakistan has taken a series of initiatives to promote exports to achieve sustainable and inclusive economic growth, poverty reduction and improvement in the living standard of Pakistani people. This is also aligned with the government's vision of the Strategic Trade Policy Framework (STPF) 2020–25 for 'Pakistan to become a dynamic and efficient domestic market as well as a globally competitive export-driven economy'. In this context, the Ministry of Commerce supported the preparation of the Business Process Outsourcing Export Strategy, a priority export sector under the STPF, which will bring visible benefits to the economy of the country and generate tremendous employment opportunities. This sector export strategy has been formulated in close consultation with all the stakeholders, and the Ministry of Commerce appreciates all those involved in the process, particularly the private sector.

As a priority export product within the framework of the STPF 2020–25, business process outsourcing presents a new services export avenue and an opportunity for Pakistan. The strategy encompasses country's existing strengths, constraints,

and foreseeable potentials in this sector. All activities in the framework of designing Strategies has outlined a detailed 5-year Plan of Action to tackle issues and facilitate export procedures, and as identified by all the stakeholders of the Business Process Outsourcing sector in Pakistan.

Despite challenges in the international trade scenario and the global business environment, I am confident that this initiative will serve as an action-oriented blueprint to enhance trade performance and develop a coordinated mechanism with participation from both the public and private sector, increasing its competitiveness in the international market.

To maintain the momentum sparked by the consultations, the Ministry of Commerce is committed to play a constructive and facilitative role, while making it our top priority to execute the activities and reforms proposed in the plan of action in consultations with the stakeholders. We are particularly committed to continue keeping the private sector in the driving seat for the implementation process through the Sector Specific Council (SSC) on Information Technology. The Government of Pakistan is fully committed to promoting export-led economic growth and encourages all to join hands and work together in making the vision of a flourishing Business Process Outsourcing sector a reality.

Message from Pakistan Software Houses Association (P@SHA)

As the representatives of the information technology (IT) and IT-enabled services (ITeS) sector of Pakistan, we were pleased to see that the Strategic Trade Policy Framework (STPF) 2020–25 has identified the business process outsourcing (BPO)/business process management (BPM) sector as a priority focus export sector for growth and development for the next five years, under the government's plans for accelerating digital transformation of the economy. Even as our association was originally established to cater to software companies, over the course of the last few years, P@SHA has broadened its scope to include other IT-enabled services companies such as BPO companies and call centres. We intend to grow our focus on this sector, and strengthen its representation and advocacy to government in the next five years. As a strong industry voice that has lobbied with the government to initiate policies and create an enabling environment, we remain committed to supporting this strategy's implementation, towards improving sectoral competitiveness and global expansion.

The BPO industry has made impressive gains in a short period of time, amid unprecedented domestic and global challenges. The COVID-19 crisis that gripped the global economy has only increased the demand for offshore services provided by Pakistan-based firms, and customers' preference for Pakistan as a sourcing destination is increasing.

Although there have been concerns about the longevity of the more traditional segments of the BPO industry (e.g. call centres and data entry operations) in light of rapid automation taking place, the strategy has identified emerging segments that provide plenty of opportunities for sustained

growth. Tapping into these opportunities will need to be driven by a joint effort between the industry and public sector bodies like the PSEB, TDAP and others.

Having grown from a nascent industry to a prominent services export sector in a short time-frame, there are now several key issues that require addressing to reach the next wave of growth. These include improving the sector's global positioning, tackling certain regulatory and policy bottlenecks, improving investor attractiveness, promoting in key growth markets, enhancing the skilled talent pool and strengthening firms' internal delivery capabilities, to name a few. Additionally, ensuring that the emerging policy and hard infrastructure being established to facilitate the IT sector (e.g. tech parks) are accessible to the BPO sector in general, and SME BPO firms in particular, will need to be a key focus.

Our surveys have shown, unsurprisingly, that IT sector jobs tend to be higher paid on average than other export jobs. As such, we believe that, by delivering on the goals of this strategy, the industry can play a catalytic role in Pakistan's economic transformation through the creation of good jobs. Even while this is a vision, the shortage of skilled workers is a key risk to current and future growth. As such, it is essential to accelerate efforts to improve both technical/hard skills and soft skills. We recognize the strategy's focus on addressing this, and commit to working with public and private stakeholders to implement feasible and time-bound programmes.

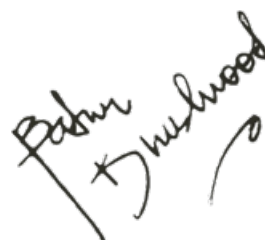
As digitalization takes hold across nearly every sector globally, industry players stand ready to be a dominant force in the region and deliver impressive growth performance through exports,

capitalizing on emerging trends, while continuing to strengthen current competencies. We will also work towards welcoming more foreign investment through joint ventures and partnerships, to strengthen the international penetration and positioning of Pakistan's BPO sector, as a preferred sourcing destination.

Meanwhile, our industry is a pioneer in recognizing the importance of diversity and inclusion. Having published a framework report in 2021, we look forward to accelerating efforts to improve our firm's commitment to this agenda. We will sensitively navigate sociocultural norms alongside the

imperative to substantially increase women's participation in the sector, by enhancing skills and job outreach, dispelling societal concerns and improving enabling conditions for women to join.

The recommendations of the NPSES are a combined effort of public and private sector stakeholders to optimize strengths and overcome constraints. We as the sector's apex industry stakeholders are committed to implementing this strategy, to make Pakistan a prominent leader in the global offshore services market to meet growing global demand.

A handwritten signature in black ink, reading "Badar Khushnood". The signature is stylized, with the first name "Badar" and the last name "Khushnood" clearly visible. There is a small mark below the signature.

Badar Khushnood
Chairman, P@SHA

Acknowledgments

The Business Process Outsourcing Export Strategy forms an integral part of Pakistan's STPF. It was developed under the aegis of the Government of Pakistan and the leadership of the Ministry of Commerce (MoC) and the Trade Development Authority of Pakistan (TDAP), in close collaboration with the Ministry of Information Technology and Telecommunication (MoITT), the Pakistan Software Houses Association (P@SHA).

The document benefited particularly from the inputs and guidance provided by the sector stakeholders that steered the strategy's formulation, namely the following key sector institutions.¹

Institutions
Ministry of Science and Technology
Talliance
S&P Global
Redarmor Solutions
Pakistan Software Export Board (PSEB)
Clayive
KeepTruckin
Future Now Technologies
Sybrid Private Limited
Dream Team
Custom Box Solutions
Urban Sourcing
ANZ International Pvt Ltd
LlveGreeter LLC
DanZ Dispatching Services LLC
Quasar Internet Solutions
Gnomen Ltd

Technical support and guidance from ITC was rendered by the following people:

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Zeeshan Mir	National sector consultant
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Anushka Wijesinha	Manufacturing and digitisation strategy specialist
Aishwarya Nahata	International consultant
Shiraz Lye	BPO services sector international expert

1.— The full list of public–private stakeholders that participated in the consultations and their names is available in Annex I.

Note for the reader

In order to boost export growth, the Ministry of Commerce (MoC) has developed the Strategic Trade Policy Framework (STPF) 2020–25, which was approved in November 2021. ITC provided technical support to MoC and the Trade Development Authority of Pakistan (TDAP) to design selected sector export strategies of the STPF priority sectors. This initiative, called the National Priority Sectors Export Strategy (NPSES), focused on 10 of the 18 STPF priority sectors through a consultative process.

The BPO Sector Export Strategy was developed on the basis of a participatory approach, during which more than 30 Pakistani industry leaders, small business owners and public sector representatives held consultations to reach consensus on key sector competitiveness issues and priority activities. These inclusive consultations were held in a hybrid model owing to the travel restrictions imposed due to the COVID-19 pandemic.

Besides in-depth qualitative and quantitative research and service map analysis, these consultations were complemented by visits and interviews by the national consultants with domestic firms to guide the strategy with insights and market intelligence.

The BPO sector export strategy builds on the ongoing initiatives in areas of private sector development, regional integration, investment and economic empowerment of youth. Equally importantly, the sector strategy is complemented by an effort to establish the proper implementation responsibilities among key stakeholders early on to ensure timely implementation of activities, whether by the public sector, private sector or international development agencies. This strategy's principal output is an endorsed, coherent and comprehensive document with a five-year detailed plan of action (PoA) and an implementation management framework.

This document was approved as the official export strategy for the Business Process Outsourcing 2023-2027 by the BPO Sector Specific Council and endorsed by the Ministry of Commerce of Pakistan.

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Acronyms and abbreviations

Unless otherwise specified, all references to dollars (\$) are to United States dollars (USD).

AI	Artificial intelligence	MENA	Middle East and North Africa
BPM	Business process management	ML	Machine learning
BPO	Business process outsourcing	MoC	Ministry of Commerce
CAGR	Compound annual growth rate	MoITT	Ministry of Information Technology and Telecommunication
EU	European Union	NASSCOM	National Association of Software and Service Companies
FDI	Foreign direct investment	P@SHA	Pakistan Software Houses Association
FY	Fiscal year	PoA	Plan of action
GDPR	General Data Protection Regulations	PSEB	Pakistan Software Export Board
IT	Information technology	RPA	Robotic process automation
ICT	Information and communications technology	SECP	Securities and Exchange Commission of Pakistan
IDC	International Data Corporation	SME	Small and medium-sized enterprises
ITC	International Trade Centre	STPF	Strategic Trade Policy Framework
ITES	Information technology enabled services	TDAP	Trade Development Authority of Pakistan
KPO	Knowledge process outsourcing		

EXECUTIVE SUMMARY

The present strategy outlines a proposed path for the development of the BPO services sector in the Islamic Republic of Pakistan. It is a five-year endeavour that was defined through a consultative process between public and private sector stakeholders. The strategy addresses constraints in a comprehensive manner and defines concrete opportunities that can be realized through the specific steps detailed in its plan of action (PoA). The BPO services strategy is an integral part of Pakistan's Strategic Trade Policy Framework (STPF).

In the last decade, the BPO/BPM sector has experienced steady growth, with more opportunities remaining despite heightened competition from existing and emerging destinations. As BPO has become commoditized (i.e. where there are many countries offering standard services, enabled by reduced technology and communication costs), competition has increased. Adding to this, technology advancements are changing the nature of BPO demand – from low-end services that are easily automatable, to new services in the data enablement and analytics space.

Pakistan's IT-enabled services sector –of which BPO and knowledge process outsourcing (KPO) are part– has many of the fundamentals in place to drive faster growth. The rapid rise in exports already seen in recent years are signs of the prospects for the future. Pakistan's information technology enabled services (ITES) sector's recent advancement points to strong export potential in the medium term.

The strategy process considered current capabilities and constraints, and future shifts/opportunities for Pakistan's BPO sector, and industry stakeholders extensively evaluated future orientations and upgrading trajectories. Some compelling strategic future shifts identified for Pakistan's industry include remote working becoming a permanent/prominent feature, delivering services in other languages (e.g. Chinese and Arabic, etc.), availability of tech parks, growing presence in value-added knowledge-led services, specialized training for the industry, and investments in artificial intelligence (AI) and cloud technologies.

Even as the sector –domestically and globally– transforms and faces numerous pressures, stakeholders identified some compelling assets for Pakistan that include the availability of young, affordable talent and a growing population, English-speaking and with accents suited for the industry, cost arbitrage advantages and improved security conditions. Additionally, financial attractiveness, existing market entry to major importing locations, and investments from the United States of America in upgrading BPO capacity in Pakistan are strengths to be leveraged.

Building on from this would require tackling some key challenges to growth and competitiveness. If overcome in a comprehensive and timely manner, Pakistan can position its BPO sector strongly for export growth and make the destination one of the most desirable locations for offshore services in Asia. What is required is setting some strategic objectives for the short to medium term to drive sector transformation, and to prioritize some key actions.

Upgrading within the BPO segment will require transitioning from basic customer support services to the provision of high-end BPO and KPO services, which rely on a progressively more technically skilled labour force. The limited direct interaction of high-end BPO and KPO services supports the rapid adoption of these functions, as they do not depend heavily on language proficiency. Current advantages and differentiators seen today –such as the labour cost arbitrage, younger work force and English language proficiency with accent clarity– could be made

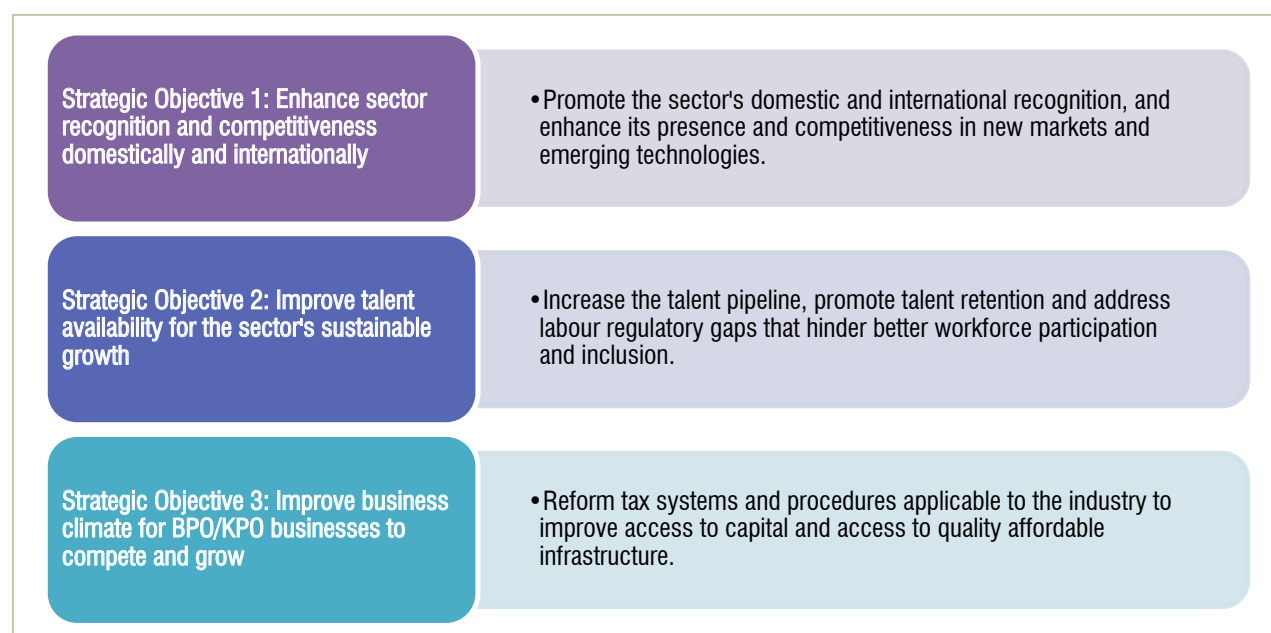
redundant or disrupted fast alongside competition or new technology. Furthermore, the BPO/BPM industry is moving out of cost-based to more outcome – and experienced-based results, as noted earlier. Pakistan's industry needs to gear up the workforce and move up the value chain with skilling for higher-order tasks and complex problem-solving abilities, and offer greater customer satisfaction.

“Be a global knowledge services powerhouse that provides world-class and innovative services, driven by skilled talent, great customer experience and a focus on sustainability.”

VISION AND STRATEGIC OBJECTIVES

To achieve the development of the BPO sector in Pakistan, the present strategy provides a roadmap and a plan of action (PoA) geared at achieving the following overall vision:

This vision statement, which was agreed on by all the BPO services stakeholders in Pakistan, delineates this strategy's proposed vision and strategic objectives. The strategy's plan of action (PoA) responds to this vision by addressing the sector's constraints and leveraging opportunities comprehensively. To this end, specific efforts will be made in the following strategic directions.



IMPLEMENTATION MANAGEMENT

This strategy document details a pragmatic and forward-looking roadmap for upgrading and internationalization. To achieve the strategy's targets, stakeholders will need to coordinate actions, monitor progress and mobilize resources for its implementation. Providing business development support to firms, enhancing innovation and creating an enabling business environment are crucial for successful implementation.

An effectively organized and supported sector specific council is planning industry development strategically. High-level support from the government, in collaboration with strong championship by the private sector, are the real drivers to transform Pakistan into a global BPO/BPM destination.

The following key areas of intervention are priorities to facilitate this strategy's implementation

- Enhance sector recognition within the country, and increase the sector's visibility and promotion internationally;
- Increase the quality and quantity of available human resources through a combination of efforts, including conversion programmes and short-term skill training;
- Address labour regulatory gaps in national frameworks and improve HR practices within firms to increase employee retention and career progression;
- Resolve anomalies and issues in tax frameworks;
- Make quality infrastructure more affordable;
- Improve access to non-collateralized debt capital.

GLOBAL TRENDS FOR BPO/BPM



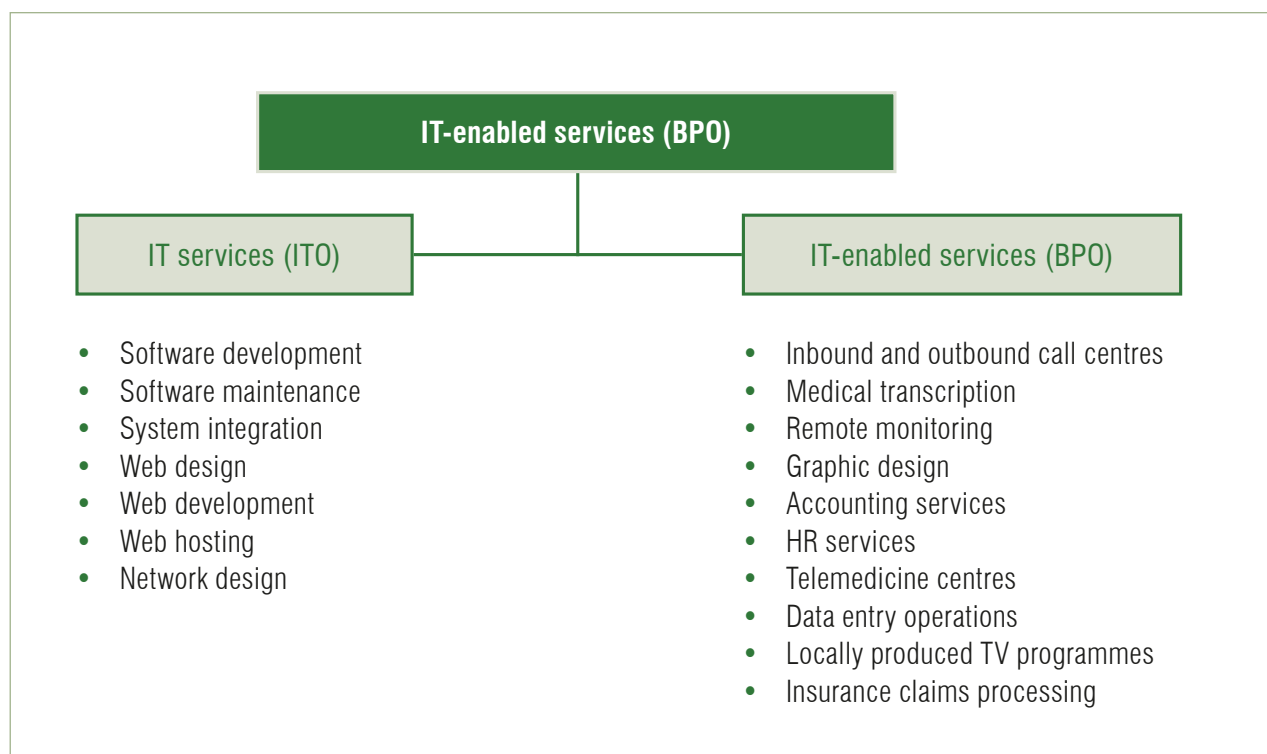
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Services map definition

The offshore IT services sector can be categorized as follows:

- **Information technology outsourcing (ITO):** Centred on the production and use of software.
- **Business process outsourcing (BPO):** Activities related to the management of business functions, including finance and accounting, procurement, supply chain management and human resources management.
- **Knowledge process outsourcing (KPO):** Specialized activities that often require professional licensing, such as in the legal, financial, business intelligence and data analytics fields.

For this sector strategy, we focus on the BPO and KPO (and in an accompanying, separate strategy – information technology outsourcing – software services) segments within offshore services. Pakistani firms are currently primarily in the BPO space, with some limited, but growing presence in the KPO space. Figure 10 displays how the Pakistan Federal Board of Revenue (FBR) classifies these services.

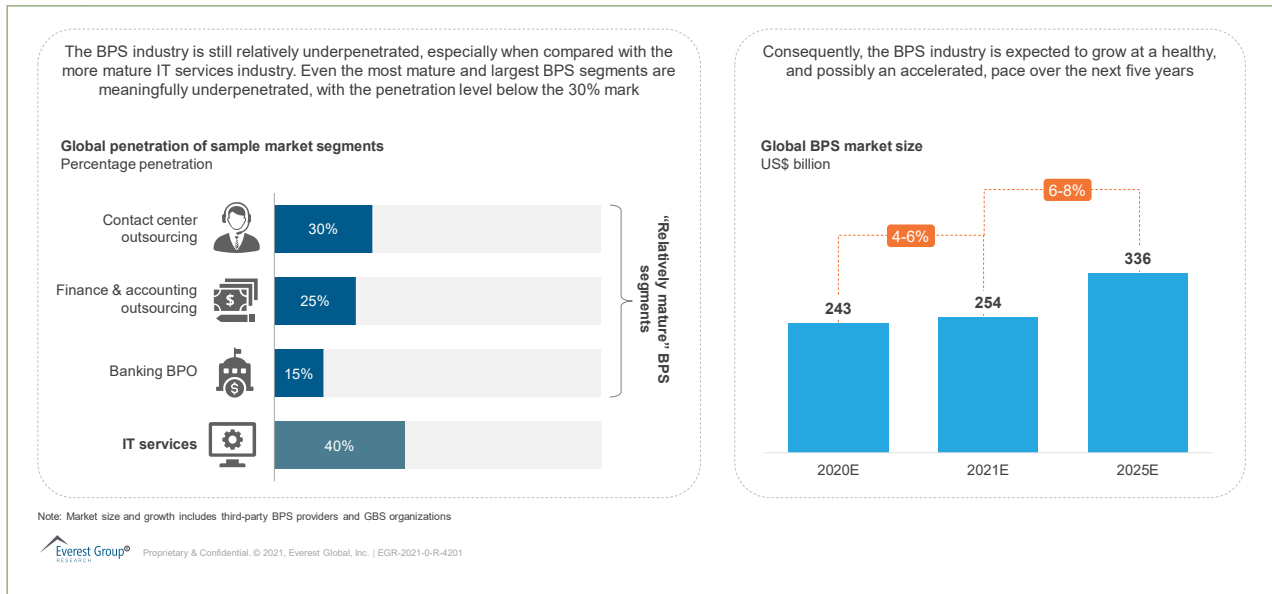
Figure 1: Information technology outsourcing (ITO) and ITES/BPO services classification

Source: Federal Board of Revenue, Pakistan.

The concept of BPO has existed for more than 70 years and became a vital cog in the global value chain for services from around the 1990s, and more recently in manufacturing and agriculture global value chains as well, with greater 'servicification' of trade. When closed markets in Asia became more liberal, telecommunication costs dropped with technological advancements, and cost efficiencies became a key focus for large enterprises. What started off as regional and nearshore outsourcing went truly global. Today, business process outsourcing (BPO) is becoming commoditized (i.e. where there are many countries offering standard services, enabled by reduced technology and communication costs), and competition is increasing. The global BPO market continues to grow slowly, with increased competition in all segments of the industry. More experienced players are moving into higher-end services, end-to-end BPO and domain-specific expertise, while new countries continue to announce themselves as BPO destinations. Definitions for segments of BPO services are becoming wider and providers are becoming more specialized in their offerings. Key technology innovations are driving companies to outsource business processes.

Larger offshore players are setting up onshore or nearshore service centres in key geographic locations. The Republic of India is a leader in providing offshore BPO services, but the People's Republic of China is closing the skill gap with India and is expected to outperform in coming years. Malaysia, the Republic of Indonesia, the Federative Republic of Brazil, the Socialist Republic of Viet Nam and the Republic of the Philippines follow in the ranking of Top 10 global outsourcing countries. The United States remains the country importing the most offshore information and communications technology (ICT) services.

Recent statistics estimate the industry to be valued at \$243 billion in 2020, which is expected to grow at a compound annual growth rate (CAGR) of 6%–8% in 2021–25 to reach \$336 billion (Figure 1). This growth is caused mainly by the benefits offered by business process management (BPM) solutions, including cost and time efficiency, better productivity, ease of use, flexibility and the capacity to monitor individual processes throughout the entire life cycle. With the advancement of emerging tech such as robotic process automation (RPA), the internet of things (IoT), artificial intelligence (AI) and machine learning (ML), the BPO modus operandi and expectations are changing constantly.

Figure 2: BPM industry segments and growth trajectory

Note: Market size and growth includes third-party BPM providers and global capability centres (GCC) BPM.

Source: Everest Group (2021).

Outsourcing processes, such as data entry, call centre operations and payroll, have long been accepted as budget-friendly operations and management alternatives, but larger-scale business operations are now expanding the BPO landscape to more senior positions.

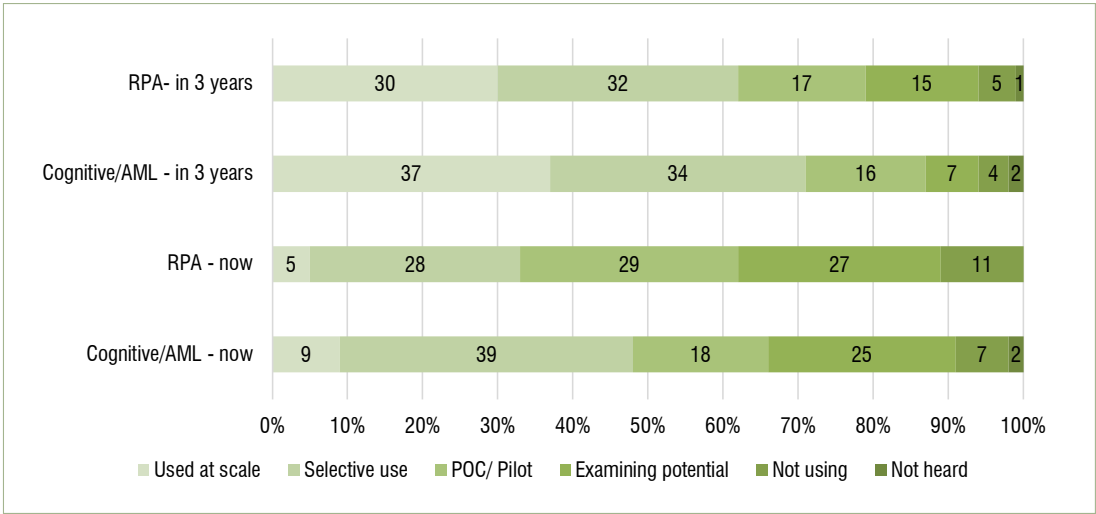
Mark Thacker, Forbes, April 2021.

CHANGES IN TRADITIONAL BPM AND COMPETITIVE PRESSURES

Back-office functionalities such as finance and accounting, human resources (HR), procurement, and marketing from high-sourcing industries such as IT & telecom, banking, financial services and insurance (BFSI), health, retail, transport and manufacturing will soon start using AI, RPA, chat bots and machine learning to handle large volumes of regular calls or cases. Increasing automation taking place within such global industries has a double-edged impact on the global IT-BPM industry – where traditional BPO jobs are being made redundant through automation, and a new wave of data enablement services is taking effect to enable this automation and empower the relevant data-related services (e.g. AI/ML) that are being introduced to the market. RPA and ML are expected to automate existing BPM jobs that entail repetitive and structured tasks (Figure 2). Due to automation, by 2022, India is expected to lose ~250,000 jobs (~22% of all BPM jobs in the country), while the Philippines is expected to lose ~110,000 jobs (~16% of their national IT-BPM workforce). On the back of this, data-enablement services such as data annotation are expected to take off (Figure 3).

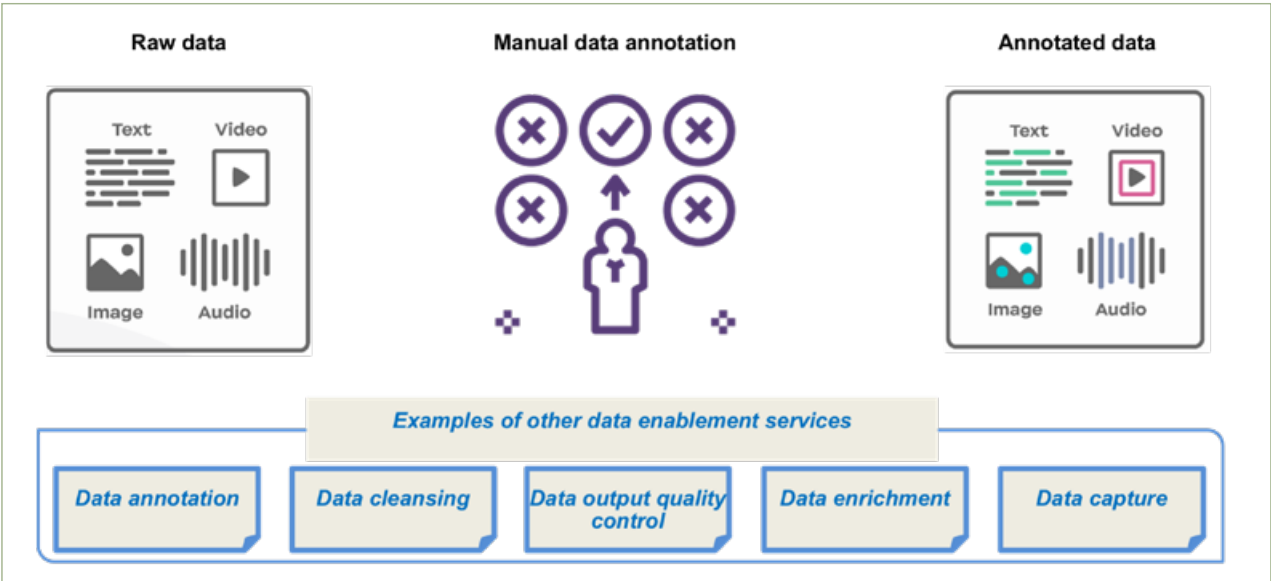
Despite the steady growth, the industry is underpenetrated compared to the more matured information technology (IT) services. The most common of the BPM services are the contact centres that communicate with customers through a variety of methods, including phone, e-mail, live chat, instant messaging and social media. With 24/7 service expectations, the support functions are primarily being routed to sourcing contact centres. Demand for these is changing from live chats and conversations to complex problem-solving services. With the rapid technological advancements and use of predictive technologies streaming from AI, RPA, machine learning and big data, etc., the mundane calls and contact services will slowly decline, if not completely disappear.

Figure 3: Use of RPA/ML/AI now vs three years from now



Source: Kearney Global Services Location Index.

Figure 4: Data annotation processes



According to the Gartner Magic Quadrant for Customer Service BPO (2021), service organizations partner with customer service BPO vendors to reduce costs, achieve greater staffing flexibility and/or access new digital or technology capabilities. In the four quadrants:

- **Leaders** 'execute well against their current vision and are well positioned for tomorrow';
- **Visionaries** 'understand where the market is going or have a vision for changing market rules, but do not execute well';
- **Niche players** 'focus successfully on a small segment or are unfocused and do not out-innovate or outperform others';

- **Challengers** 'execute well today or may dominate a large segment, but do not demonstrate an understanding of market direction'.

Accordingly, Figure 4 illustrates the Gartner Magic Quadrant for Customer Service BPO, which includes many well-known enterprises, including companies from India such as Tech Mahindra, Wipro and Hinduja Global Solutions (HGS), which are currently in the leader's quadrant.

Figure 5: Gartner Magic Quadrant for Customer Service BPO

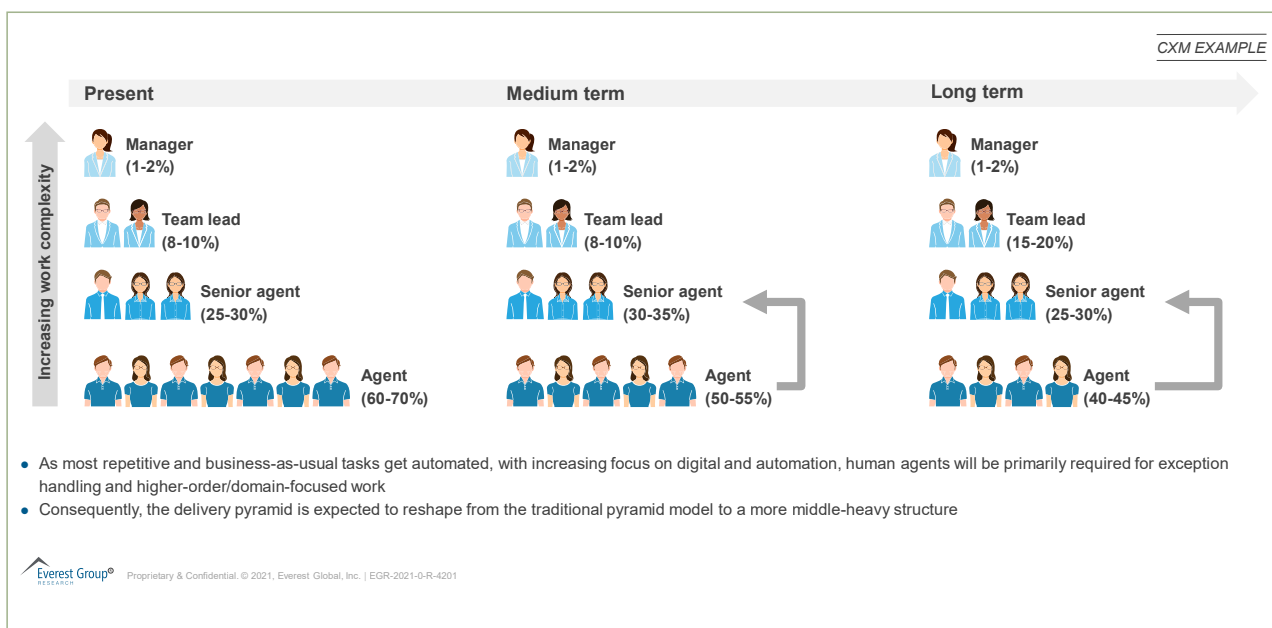


Source: Gartner, February 2021; Deborah Alvord, Kim Dans, Philip Jenkins, John Quaglietta and T.J. Singh.

CHANGES IN BPO DRIVING CHANGES IN SKILLS AND REGULATORY PRIORITIES

With the changing need from transactional to business outcomes and problem-solving, an agent's required skill set would be expected to be multidimensional. While the bottom of the pyramid would be relocated to automated processes such as RPA and AI, most of the human resources and workforce will have to move up the ladder to offer increasingly complex services (Figure 5). Developing countries like Pakistan have an abundance of labour, but gearing them up to face the new demands would be key. With the surge of emerging technologies, the demand of unskilled labour diminishes with an increased demand for skilled labour. For example, when 3D printing starts printing products and when it becomes mainstream, the production lines will disappear, and instead global organizations will look for data scientists, cloud experts or AI specialists or firms to cater to the needs. Having an English-speaking IT BPO workforce of 500,000 or more within a pool of 132 million aged below 29 years, Pakistan can look at investing in upskilling or 'new skill-ing' of at least 0.1% of the workforce. This can create a generation that is competent in key emerging technologies that will inevitably be rolled into the global value chains. A shift of focus to upskill and equip the workforce will enable the IT/BPO industry to thrive in the upcoming growth years.

Figure 6: BPM delivery pyramid



Source: Everest Group (2021).

Meanwhile, data privacy and data security are gaining increasing importance for BPO and outsourcing services. Outsourcing transactions involves sensitive data processing and increased cyber security threats, which mean more difficulties in managing data privacy and security. The number of cyber security incidents worldwide is increasing and many countries have introduced regulations on data protection. The European Union (EU) General Data Protection Regulations (GDPR) holds data processors responsible for protection of personal data. Should a data breach occur, even third-party providers can be accountable. Similar regulations will encourage companies to comply with data protection laws and regulations regarding the processing, storage, handling, collection and transmission of data (see Box 1 on GDPR).



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Box 1: The EU GDPR

Approved by the EU Parliament on 14 April 2016, this regulation is directly applied by all member states from 25 May 2018. The regulation was designed to harmonize data privacy laws across Europe, to protect and empower all EU citizens' data privacy and to reshape the way organizations across the region approach data privacy. The GDPR not only applies to organizations located within the EU, but also to all organizations outside the EU if they offer goods or services to EU data subjects. A data protection officer must be appointed in an organization that engages in large-scale processing of sensitive personal data. Most established BPO destinations are aligning their regulations with the GDPR to ensure compliance at national or sector level. Personal data is allowed to leave the European Economic Area only if there is a sufficient data protection standard in the destination country. When a country has been awarded the status of meeting the GDPR standards, information can pass freely between that country and the European Economic Area. Company-to-company model agreements can be also used.

Source: European Union, <https://gdpr.eu/>.

IMPACT OF COVID-19 ON BPO SERVICES

The COVID-19 pandemic is still impacting businesses worldwide, and efficient process management can help organizations of all shapes and sizes strengthen their resilience and survive in difficult times. It became clear during the pandemic that companies and individuals that adopted BPO more deeply in their operations had an easier time adapting to the changes and disruptions caused by COVID-19. There is also a growing desire to diversify service locations to mitigate risk. The demand for BPO services is expected to remain resilient, but the nature of demand and service offering is likely to undergo some change. According to Signavio (2021), BPO will become an even more integral

part of corporate culture and management, data integrity will come more to the fore, and process mining will grow faster than any other technology in BPO from 2021.

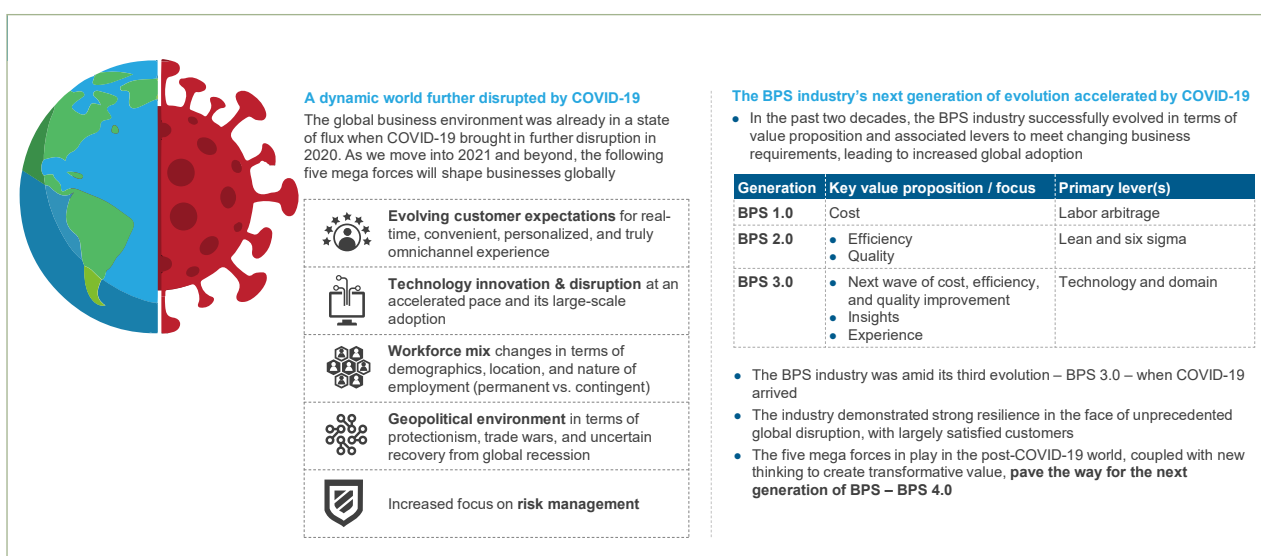
Overall, the BPO sector is expected to continue to grow post-COVID-19 in the short-term at a CAGR of approximately 10% until 2024. The growth is especially driven by the rising emphasis on process automation led by the IT and telecom services industries, followed by banking, financial services and insurance (BFSI), retail, healthcare and then others globally, with a market leadership by North America. However, though North America has the major share of the market, it is anticipated that the Asia Pacific region will have the highest growth in the coming years.

In 2020, North America emerged as the dominant regional market and accounted for a revenue share of over 36%. The growth was attributed to the increasing adoption of cloud enablement and digital services that require frequent assistance and maintenance for business operations. North America will retain the leading position throughout the forecast years due to rising demand for BPO services on account of the presence of tech giants and legislative & regulatory pressures in the region.

The Asia Pacific regional market is expected to witness the highest CAGR from 2021 to 2028. Increasing demand for talented professionals, reduced labor costs, and significant digital investments by leading vendors, such as HCL Technologies Ltd., Infosys Ltd., Accenture, and Wipro, are driving the regional market growth. Moreover, significant investments in infrastructure development by government bodies are expected to help enhance the existing BPO ecosystems in the region over the forecast period.

Source: Grand View Research (April 2021).

Figure 7: The Evolution of the BPO/BPM industry



Source: Everest Group (2021).

As part of the strategy formulation process, Pakistan industry stakeholders were guided in strategic foresight visioning to identify permanent changes brought on by COVID-19 for the BPO sector. Accordingly, industry leaders had to assess shifts across four dimensions and the summary of their deliberations is displayed in Figure 7.

- Growth:** Trends that are increasing or succeeding more than before (accelerated by the pandemic), with minimal disruption.

- Collapse:** Actors, trends and business models that have experienced catastrophic breakdown, are broken beyond repair and are unlikely to see growth in the future, consequent to the pandemic.
- Constraint:** New (or stronger than before) limits, restrictions or boundaries that are being developed, introduced or embraced for the greater good, but have an impact on the sector, brought on by the pandemic.
- Transformation:** Fundamental societal, systems and business model changes or reorganized around a new paradigm; essentially bold and previously unthinkable or underestimated ideas and changes.

Figure 8: What will fundamentally change due to COVID-19?

Growth	Collapse	Constraint	Transformation
<ul style="list-style-type: none"> Increased openness of the Western world to outsource Increase focus on infrastructure Focus on productivity Growth of domestic e-commerce, leading to more local BPO Increased logistics and transportation sector remote hiring regardless of location Resource outsourcing for international companies looking to hire remote resources 	<ul style="list-style-type: none"> Human resource retention Conventional business models ('8-5 job' model) not catering to the new models Conventional team structures Rentals and travel agencies Resource mobility 	<ul style="list-style-type: none"> Supply chain will become more regional High-speed internet will be pushed to the brink as new tech and sectors pop up Companies will need to improve their quality of service significantly as more services are outsourced Time constraints for obtaining licensing through local bodies 	<ul style="list-style-type: none"> New working models Flexibility to work from anywhere Online training and certification Hybrid models increasing efficiency for the resource as well as the company itself

In the last decade, the BPO/BPM sector has experienced steady growth, with more opportunities remaining despite heightened competition from existing and emerging destinations. As BPO has become commoditized, competition has increased. Adding to this, technology advancements are changing the nature of BPO demand – from low-end services that are easy automatable to new services in the data enablement and analytics space.

PAKISTANI BPO SECTOR EQUIPPED TO TAP INTO DYNAMIC GLOBAL TRENDS

Pakistani BPO sector leveraging its comparative advantages

In exploring the prospects for the BPO sector, it is first useful to explore the overall information technology (IT) space in the country. Pakistan's IT sector has a promising future, brimming with talent and strong potential to become the country's largest export industry. The sector accounts for a growing contribution to gross domestic product (GDP) of close to 1%, earning valuable foreign exchange for the country and creating high-paying jobs. In recent decades, revenues from the sector have increased rapidly – from just \$70 million in 2006 to approximately \$220 million in 2011 and nearly \$2,000 million in 2021. In the past decade, growth has averaged 14% CAGR per year, indicating that, while the sector is still in its early stages, its growth trajectory displays huge potential. The sector has also remained resilient during the pandemic. According to the 2021 Commonwealth Trade Review (July 2021), *'Pakistan's service exports showed a strong resilience during the Covid-19 pandemic [...] by September 2020 Pakistan's services exports had already rebounded to December 2019 levels (despite falling by 20% in April 2020)'*. In 2020, with demand for such services high with the onset of the pandemic and remote work, Pakistan's computer services exports had increased to \$1,342 million, from \$984 million a year earlier, according to WTO trade data.

The growth and potential of the IT and ITES sector, and digital economy generally, have been supported by government policy and investment in infrastructure. The significant investment in ICT infrastructure includes

more than 16 IT parks with IT-enabled infrastructure and state-of-the-art facilities, as well as spreading internet access to more than 2,000 cities and towns across Pakistan. The sector now has greater recognition in planning and policy development, with many pro-investment policy initiatives aimed at the sector introduced in national budgets.

Interestingly, in government, there is interest to use domestic BPO capabilities to improve government operations. There are examples of provincial governments being very open to outsource non-critical call centres/data entry to outside companies – dengue eradication campaigns, COVID response and natural gas departments are some examples.

KEY FUNDAMENTALS ARE IN PLACE

Engagement in high-value-added segments remains nascent albeit highly sophisticated, with some companies exporting digital technologies for large industries in the United States such as oil and gas and health-care. Freelance is a growing activity and Pakistan is ranked in the Top 3 countries for freelancing in the world (Online Labour Index, Oxford Internet Institute).

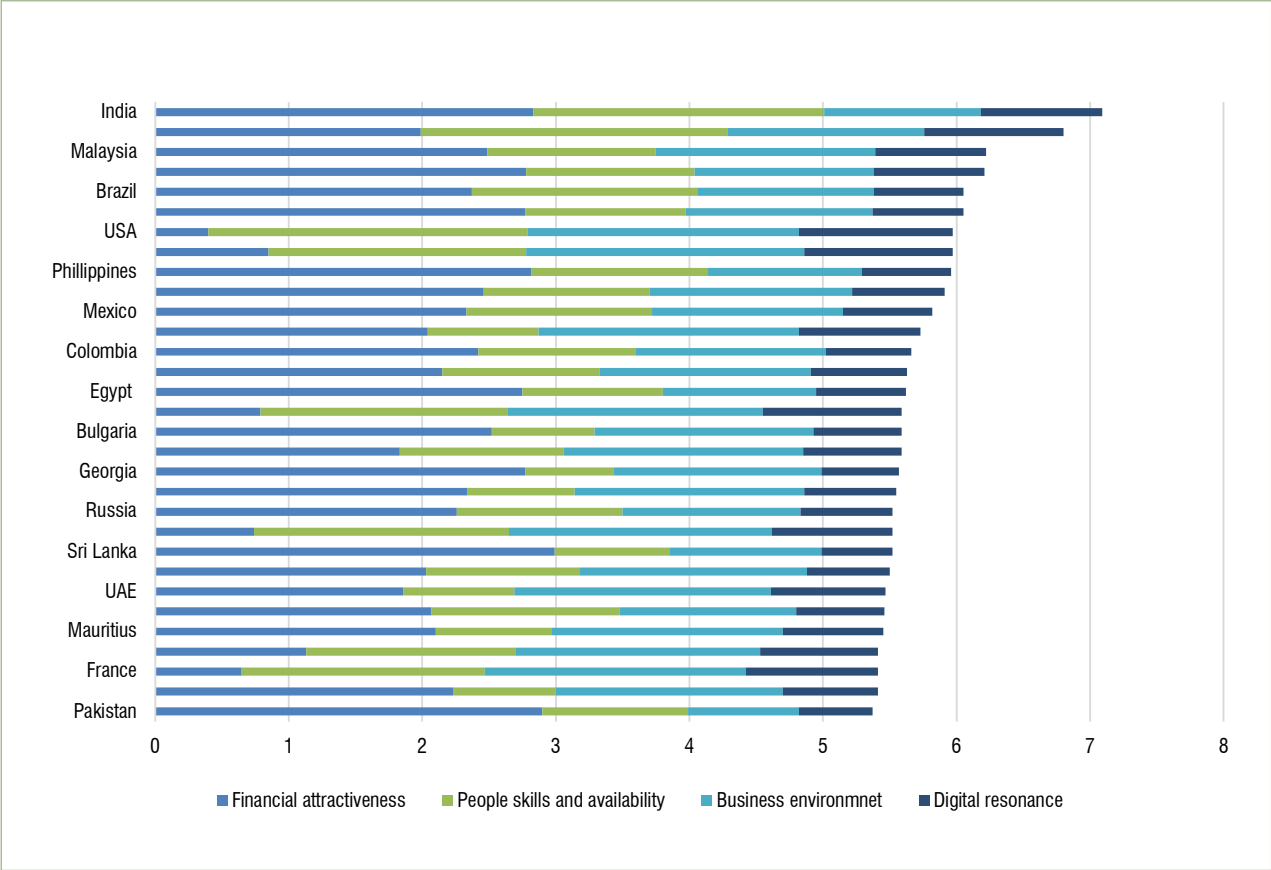
Despite some areas of weakness, Pakistan ranks among the Top 50 jurisdictions (Rank 31) worldwide in the 2021 Global Services Location Index (GSLI),¹ a measure of competitiveness as a location for export of ICT and other knowledge services (see Figure 8).

1.— Kearney's Global Services Location Index (GSLI) now includes 50 countries and is based on 44 metrics from independent sources. Regardless of whether a country is already a successful exporter, the index aims to assess the country's fundamental competitiveness as a location for export of knowledge services, based on four broad factors: financial attractiveness, people skills and availability, business environment, and digital readiness.

According to Kearney’s GS LI, Pakistan is the second most financially attractive location in the world for offshoring IT–BPO services (Kearney, 2021). Moreover, in the low-end BPO segment, operational costs are 60%

lower than in the Philippines, which is often seen as the world’s customer support powerhouse. This edge is favoured by the low competition for labour in Pakistan, due to the sector’s relative immaturity.

Figure 9: Pakistan ranks 31st in Global Services Location Index (2021)



Source: ITC, based on Kearney Global Services Location Index (GSLI), 2021.

The Pakistani IT and ITES industry has earned recognition and has the established labour pool to win more and bigger contracts for the country. Particularly, there is a trainable and competent workforce, most of which (60% of the total population of 200 million) is aged 15–29. This represents an enormous human and knowledge capital to drive the IT sector. Approximately 25,000 IT graduates and engineers are produced each year. Pakistan is reportedly has the world’s third-largest number of English speakers (approximately 94 million) after the United States (268 million) and India (125 million) and approximately 49% (94.3 million people) of the population speak English as a second language (Couto, 2019). An added advantage –especially for customer-centric services– is that Pakistani IT workers’ English pronunciation is relatively better than in competitor countries.

FEMALE PARTICIPATION IN THE SECTOR

Gender dynamics play a significant role in the availability of appropriate skill to meet the industry’s labour demands. Compared to developed economies, Pakistan features a slightly lower share of female workers in IT, which is remarkable given the global bias towards male professionals in the field of technology. However, participation of females in IT studies and IT employment remains low and is rooted in concerns for safety, mobility restrictions and traditional family roles. One key factor pertaining to the underemployment of women is the commute to work; the inadequate transportation system is of such significance that females might ignore better job opportunities and go for lower-paid, low-skill jobs. Only 15% of women make up the total employment in software services, which is the largest

segment in Pakistan's information technology (ITO) sector (Table 1). According to a recent Pakistan Software Houses Association (P@SHA) survey, only 16%

of female computer science graduates are working versus 83% of male graduates.²

Table 1: Women in the IT segment, Pakistan vs selected countries

Country	Enrolled in IT college studies	Working in the IT industry	Year
Pakistan	14%	15%	2016
India	45%	30%	2014
United States	22%	25%	2017
United Kingdom	18%	16%	2014
Brazil	15%	38%	2014

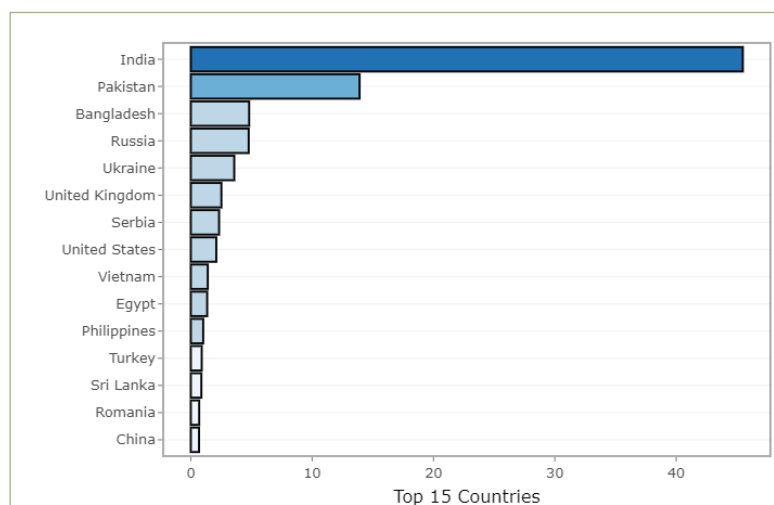
Source: Duke Global Value Chains Center (2019). 'Pakistan in the Offshore Services Global Value Chain'.

GROWING FREELANCER COMMUNITY CONTRIBUTING TO EXPORTS

In the last several years, the number of freelancers in Pakistan has increased exponentially, as the number of clients and projects have been increasing. Transactional IT/ITES (freelancers) are mainly virtual assistance services such as website development, translation, content writing and schedule management. According to the Pakistan Software Export Board (PSEB) report, 'Pakistan's IT Industry, 2020', by 2019–20, freelancers were serving foreign clients in more than 120 countries and earned \$150 million in revenue. Pakistan's share of the global online worker population for software development and technology monitored by the

Online Labour Index (OLI) grew from 11.9% in 2017 to 13.9% in 2021 (Online Labour Index, 2020). This is illustrated in Figure 9, which is produced using the OLI 2020's time series data. Most freelancers in Pakistan are in their 20s and 30s (more than 60%). In terms of user numbers, Freelancer.com ranks Pakistan as the third-largest country, accounting for 4% of the total registered users. According to the recently formed Pakistan Freelancers Association (PAFLA), more than 1 million Pakistanis freelanced in the last three years and billed more than 10 billion hours, with annual revenue of \$1 billion.³ Arguably, this data does not get captured or reflected fully in the official statistics on IT/ITES exports, as the earnings come to personal accounts.

Figure 10: Top 15 freelancing countries (2017 – left; 2021 – right)



Source: Online Labour Index 2020.

2.– Source: <https://www.brecorder.com/news/40107362/inclusion-of-women-in-tech>.

3.– Source: <https://pafla.org>.

While the growing freelancing community has provided a strong impetus for the growth in export earnings (remittances), there will be strategic considerations for managing the role and growth of freelancers when developing a competitive and sustainable IT services destination, as will be discussed in the way forward section.

Pakistan’s IT-enabled services sector – of which BPO and KPO are part – has many of the fundamentals in place to drive faster growth, and the rapid rise in export earnings already seen in recent years is a sign of the prospects for the future.

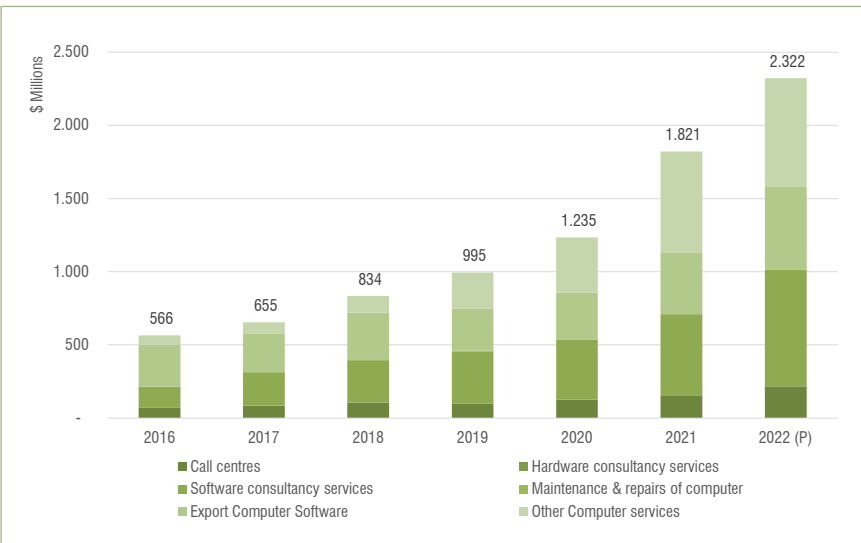
Positive export outlook confirms sector potential

According to the latest data available, in FY 2021/22, IT and ITES export earnings topped \$2.3 billion, up from \$1.8 billion the previous year. Although the industry originally targeted \$3.5bn for this year, the government expects the industry to reach \$5 bn by 2023. Pakistan has more than 2,860⁴ IT enterprises registered with the Pakistan Software Export Board (PSEB), providing services to more than 100 countries.⁵ The sector employees more than 300,000 professionals (of which

14% are estimated to be women according to the industry body, PASHA), making it an important source of employment for young graduates of higher education with expertise in current and emerging IT products and technologies.

A closer look at the growth pattern indicates that three categories in services had the most consistent growth: i) software consultancy services, ii) other computer services, and iii) call centres (Figure 11).

Figure 11: IT and ITES export remittances



Source: State Bank of Pakistan.
Note: P - Provisional

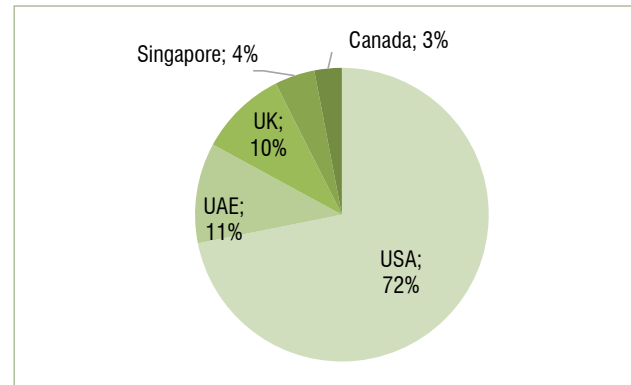
4.– As of 31 December 2020.
5.– Source: <https://startuppakistan.com.pk/it-and-ites-export-remittances-have-increased-by-1-98-billion-in-the-last-11-months/>.

Pakistan's top export destinations include the United States, the United Arab Emirates, the United Kingdom, the Republic of Singapore, and Canada, generating approximately 90% of total revenues in the sector (Table 2). Of this, the United States is the main market (72%), followed distantly by the United Arab Emirates

(11%) and the United Kingdom (10%). While this is a key strength – given the United States' continued steady growth in demand for offshore services – there are strategic considerations around market concentration that need to be considered (and are discussed more in the way forward section).

Table 2: Top 5 export destinations of the IT sector

Country	FY 2018/19 (USD millions)	FY 2019/20 (USD millions)
United States	667.19	828.19
United Arab Emirates	96.85	127.4
United Kingdom	80.33	111.23
Singapore	35.14	50.81
Canada	30.97	40.68
Total	910.48	1 158.31



Source: Pakistan's IT Industry Report, PSEB, MoITT

Managing through challenges of COVID-19

In consultation with industry experts who were at the forefront of helping companies adapt to the pandemic and work from home conditions, the following section reviews the Pakistani BPO industry's response to COVID-19, across two phases.

Phase 1: In this early phase, where COVID-19 was not seen as a major threat to Pakistan, even as it was gaining ground abroad, there was some initial discussion within the BPO industry as to what should be done if there was a total lockdown. In this phase, some companies, mostly large companies, implemented some types of measures such as making masks available, setting up screening points at entrances and implementing daily workplace scrubbing, but largely, the way offices worked remained the same. Subsequently, a sudden lockdown was announced on 21 March 2020. Industry players noted that 'the government was very articulate and had a good strategy'. BPOs were advised to only work at half the capacity to adjust to the new scheme of things. Government handed out very clear instructions as to what sanitation measures were to be taken by companies, and authorities vigilantly enforced the rules.

Phase 2: In this phase, following the total lockdown, conditions were challenging. Almost all BPOs were working from home and there were issues with bandwidth, employee-centric problems, power outages and other communication issues. However, the BPOs bounced back fast and the perception that an office is needed to run a business was quickly changed. Some challenges identified by the industry during this time were:

- Government departments providing enabling infrastructure had poor performance. BPO is primarily a voice operation and required whitelisting of internet service providers (ISPs) at employees' homes. The relevant department was slow to respond and this delayed projects. It left BPOs in a position where their business was down for days at a time.
- Some large BPOs, which usually work under the IT umbrella, sidestepped work from home orders. They compelled their employees to come in, citing that the sanitization measures were enough. This led to a lot of issues with human resources.
- Poor internal management of some BPOs also became a constraint, as many realized they had under-invested in good project management software and people, which could help them to run operations smoothly. Due to the fact that the BPO is primarily young people

who are tech savvy, this was quickly overcome. This improvement was timely, and these good practices are now permanently part of BPOs' operations.

- BPOs' operating costs increased initially, with extra internet connections and usage costs, unexpected infrastructure spends and setting up home-based voice solutions, etc. However, these costs started reducing as other costs came down due to less overhead expenses of maintaining office buildings. In fact, there have now been permanent shifts, where some companies, after a year of the pandemic, decided to permanently adopt a work from home model. An oft-cited example is the company Keep-Truckin, which only has 70 out of 600 employees present in the office for critical infrastructure.
- Financial troubles among US customers (as the market was worst hit) affected the financial strength of Pakistani BPOs. Payments were delayed or deferred, some business was cancelled, and there were risks of layoffs and pay cuts. However, the State Bank of Pakistan helped to ease cash flow issues by providing loans to BPO companies with

deferred and very low interest rates. It is estimated that more than 90% of the affected BPOs survived the crisis. One entrepreneur in the BPO sector noted:

As an example, my company has 95 percent business in US. Most of our payments were deferred for months. We initially gave an all-around 5 percent pay cut to staff, and 10 percent to management in monthly salary. This happened for two months, and then we availed the State bank offer. That helped us take back the pay cut decision after 2 months of it. At the start of fourth month, our deferred payments started coming in and as a sign of appreciation, the deducted amount from each employee was paid back with an extra month's contribution from the company. Everyone came out a winner.

Overall, although the first 3-4 months were hard on the BPO sector, firms adjusted fast and explored different avenues to become better and leaner. Some of the practices and processes discovered during COVID, and adopted to cope and manage through the crisis, will hold the industry in good stead for the medium-term future.

Favourable investment environment being established

Pakistan does not categorize foreign direct investment (FDI) in IT or BPO separately and includes it together with telecoms. FDI in IT and telecoms together reached \$622.5 million in 2019-20 and \$99.8 million in 2021 (up to June).⁶ Typically, such FDI numbers –when joined together with telecoms– tend to be dominated by the telco sector. As such, there is a need to categorize FDI correctly and separately into IT and ITES to track progress over time. Some key features of the investment incentives regime for IT include:

- Zero income tax on IT and ITES exports;
- Zero income tax for PSEB-registered IT start-ups;
- 100% foreign ownership of IT and ITES companies;
- 100% repatriation of profits to foreign IT and ITES investors.

Most of the leading foreign investment in Pakistan's BPO sector is from the United States (largely via

Pakistani Americans), along with some foreign invested firms such as TRG Holdings LLC (considered one of the biggest investors in Pakistan's BPO sector), Touch-Stone Communications, Keep Truckin, S&P Global, Transdata International, OZ Digital Consulting, Premier BPO Inc. and Sublime Wireless. In addition, LiveAdmins in the United States works in chat and AI solutions for BPO industries.

The recent passing of the Special Technology Zones Authority Act (July 2021) is expected to give a major boost to the sector's FDI prospects. The Act provides for wide-ranging powers for the authority to promote and manage investments in the technology sector, in a 'single window' approach.⁷ Under the new law, investors (IT zone developers and companies) can receive a 10-year tax exemption. It also gives provisions to exempt zone enterprises from all customs duties and taxes on investment goods.

Pakistan's ITES sector's recent advancement points to strong export potential in the medium term, leveraging on the available talent pool, financial attractiveness and existing market entry to major importing locations. Investments from the United States in upgrading BPO capacity in Pakistan is a strength to be leveraged. Building on this would require tackling some key challenges to growth and competitiveness.

6.– Source: <https://invest.gov.pk/statistics>.

7.– Source: <https://profit.pakistantoday.com.pk/2021/07/25/na-passes-act-to-attract-fdi-in-tech-sector/>.

SERVICE MAP AND COMPETITIVENESS DIAGNOSTIC

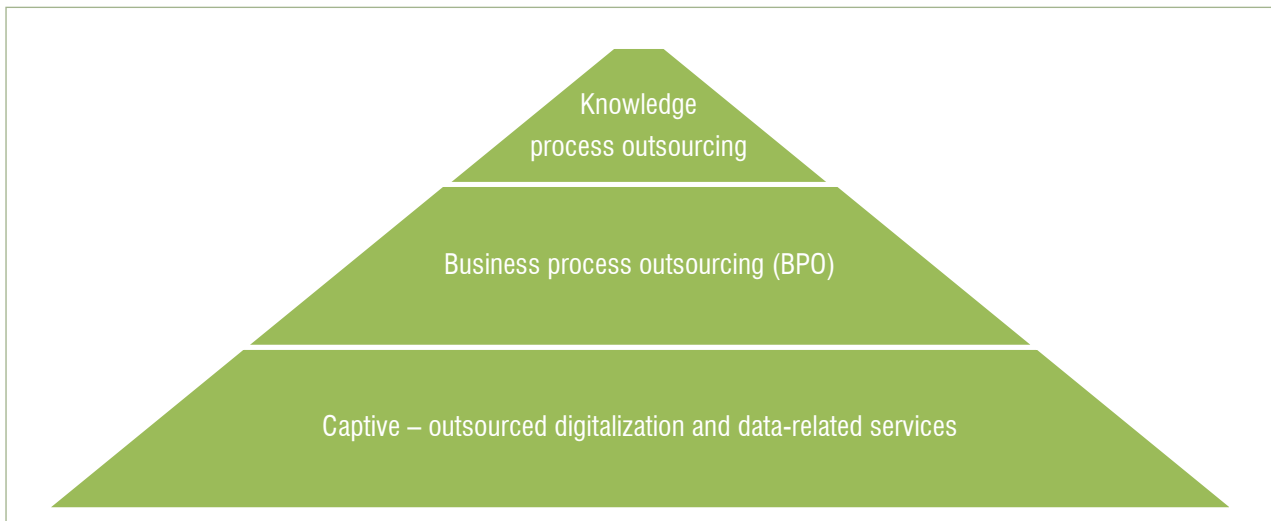
SERVICE MAP OVERVIEW

In Pakistan today, BPO services include those provided by domestic firms as well as foreign (including joint venture operations). Approximately 200 firms exist in the industry, with new firms entering continually. The majority of the firms are smaller BPOs (approximately 5–25 seats/employees) and provide only BPO

services. There are approximately 30 large players, of which only an estimated 7 are pure BPO operators; the rest are primarily large IT firms with a BPO vertical.

Most of the existing players operate in the middle segment (BPO) of the value pyramid (Figure 13). However, as the strategy later articulates, the industry has objectives to grow not only this segment, but also the KPO segment in the next five years.

Figure 12: Outsourced services value pyramid



INSTITUTIONAL AND POLICY SUPPORT ECOSYSTEM

Beyond firms, the industry consists of supporting public and private institutions, mostly based in Lahore and Islamabad. In the private sector, Pakistan Software Houses Association (P@SHA) is widely recognized as the most prominent industry supporting institution. P@SHA has led significant lobbying and advocacy initiatives to drive policy development. Public sector efforts for the IT and BPO industry are coordinated by

the Pakistan Software Export Board (PSEB), a government body under the Ministry of Information Technology and Telecom (1995). Additionally, there are some provincial bodies such as the Punjab Information Technology Board, who work specifically on development and delivery of IT services in the province.

Some of the key industry stakeholders/institutions, alongside their capability to support sector development and influence policies and programmes for it, are presented in Annex II, based on stakeholders' perspectives and feedback. According to stakeholders,

the main body tasked with taxation for the sector is seen as highly resourced, capable and influential, while the main sector-specific body (PSEB) and the main ministry (MoIT) are seen to be moderately resourced, capable and influential. The apex private sector body (P@SHA) is seen to have reasonable resources and influence, but lacking in capacities. Notably, the intellectual property office scores low on all three parameters and is a strong signal for the need to improve this space if the industry seeks more IP – and product-led growth.

During consultations, there was considerable debate among stakeholders around the need for a

BPO-specific industry body – several independent BPO firms were strongly in favour of a dedicated association, while others felt that the existing association provides sufficient umbrella coverage and focus. Eventually, it seemed evident that what might instead be required is to strengthen the BPO-specific voice within existing bodies like P@SHA. Regardless, it would be important for the BPO industry players to come together with a unified voice to advocate for the strategic and policy-level changes required for the sector's overall growth, while also driving forward the five-year sector development agenda as set out in this strategy document.

Table 3: Other key laws and regulations pertaining to the sector

Name of policy/law/regulation	Date enacted/introduced	Relevant responsible government institution	Objectives and purpose	Remarks on current status of implementation
Pakistan Telecommunication Reorganization Act 1996	1996 – subsequently amended and updated at intervals	Pakistan Telecommunication Authority (PTA)	Regulation and laws governing use of communication and related matters	Modernized; addresses most issues, but red tape in implementation and accessing clear information
Whitelisting of IP addresses and regulations	2019	Pakistan Telecommunication Authority (PTA)	Deals with conditions and regulations for voice communication for call centres	Similar to above
The Labour Laws Amendment Act	Last updated 2002	Collaboration of different federal ministries and provincial governments	Deals with general labour and employment regulations	Not particularly updated to reflect needs of the BPO industry
Income Tax Ordinance 2001	2001/Revised in every financial budget	Federal Board of Revenue	Taxation of income of individuals and businesses	Income tax exemption was given up to 2025 for IT firms bringing 80% of their proceeds back into Pakistan. FY 2021/22 budget converted the exemption to 100% tax credit Indirect tax implication on remittance of export proceeds up to 1% sales proceed (under 154A) under withholding tax regime creates cash flow/documentation problem for IT firms. IT firms are allowed to get withholding tax exemption, but process needs to be facilitative Start-up exemption converted to 100% tax credit will put the burden of onerous documentation on start-ups
Prevention of Electronic Crimes Act (PECA)	2016	Federal Investigation Agency	Prevention of crimes, defamation and fraud committed using internet-based platforms and employing digital identity. Must be read with allied laws for prevention of specific crimes. The law also stipulates methods of prosecution, investigation and adjudication for cybercrimes.	Digital rights groups contest its misuse by law enforcement agencies on protection of civil liberties and freedom of expression using transnational digital platforms PECA 2016 is gaining prominence in its use due to rapid growth in digital users and social media platforms in Pakistan

Name of policy/law/regulation	Date enacted/introduced	Relevant responsible government institution	Objectives and purpose	Remarks on current status of implementation
National Cyber Security Policy 2021	2021	Pakistan Telecommunication Authority	New national policy recently approved by the Cabinet aimed at data protection and prevention of cybercrimes. It also provides for the establishment of a new cyber security agency	As this is a very recent policy, implementation status is yet to be seen. The new policy aims to support both public and private institutions, including national information systems and critical infrastructure.
Foreign Exchange Regulation Act	1947	State Bank of Pakistan	Regulation of inbound/outbound foreign remittance in Pakistan via correspondent banking subject to review from the State Bank of Pakistan and the Federal Board of Revenue (FBR)	Progressive measures taken in 2020 to allow software firms to make import-based software vendor payments without approvals from the State Bank of Pakistan. Further relaxation given retaining export proceeds outside Pakistan for outstation expenses
Provincial sales tax on services (Sindh, Khyber Pakhtunkhwa, Baluchistan)	2010	Sindh Revenue Board Khyber Pakhtunkhwa Revenue Board Balochistan Revenue Authority Punjab Revenue Authority	Sales taxation on IT services	IT firms exporting more than 80% of their total revenue are exempt from services tax

Source: ITC compiled.

There are numerous sub-bodies under the MoITT or provincial governments that are reportedly working in silos, for example, the National Information Technology Board, Ignite National Technology Fund and Universal Service Fund, which are often impacted by severe resource constraints, delayed decision-making and, in some cases, lack of leadership. At the provincial level, there are the Khyber Pakhtunkhwa Information Technology Board and Punjab Information Technology Board, but other federating units do not have such bodies. This can be confusing, because they could duplicate some of the work that also seems to be happening at the federal level.

Most recently, the Sindh Revenue Board (SRB) has exempted sales tax on services exported out of Pakistan rendered by call centres to their foreign clients. According to the notification, the sales tax exemption would be available to the call centre services exported and delivered by registered persons to persons outside Pakistan. This is subject to the condition that the value of the export of the services is received in foreign exchange through banking channels in the business bank accounts of the registered person exporting the services, and is also reported to the State Bank of Pakistan in the manner prescribed by the bank.

Competitiveness constraints

While recent trends have shown that Pakistan is moving in the right direction and has the potential to foster further growth of the IT and ITES sector, achieving this growth will require addressing several constraints that weigh on the sector, create uncertainty, raise costs, reduce efficiency and prevent full participation. Fundamentally, these issues arise from constraints on the sector's capacity to compete in the present, connect

through accessing and using information and knowledge, and change by adapting to changing conditions and opportunities. A summary of these is presented in Table 4.

Table 4: Longlist of competitiveness constraints

Constraints	Root causes	Ease of resolution (Grade 1-5; 5- very difficult)	Urgent action needed (Grade 1-5; 5- very urgent)
Firm level			
Talent short- ages and labour regulations	<ul style="list-style-type: none"> Insufficient annual flow of new talent Employability among graduates is low due to lack of required skills New talent not sufficiently focused on emerging technology fields like big data and analytics Lack of BPO-relevant labour regulations and human resources practices hinders career progression and workplace satisfaction 	2	5
Physical infrastructure constraints	<ul style="list-style-type: none"> Cost of office space in metropolitan areas is expensive and drive up operating costs of IT firms Rent is regularly rising, pricing out small and medium-sized enterprise (SMEs) and start-ups Zones become too expensive too quickly due to high demand and limited supply BPOs usually do not have a lot of capital at the start to afford high rent No special zones or building facilities catering to the BPO industry Availability of reliable/stable electricity supply, and high-speed broadband internet that is widely available and reliable Interruption of power supply is a huge problem and translates into lost business 	3	4
Strengthening tax and regulatory frameworks	<ul style="list-style-type: none"> Tax treatment of IT sector changes from time to time Current regime of tax credits makes for onerous documentation, adding to costs for business Start-ups are exempt from withholding tax for five years, but procedures are cumbersome and create an environment of exploitation with the tax authorities Lack of understanding among the industry and tax authorities fosters tax harassment and evasion Costs in terms of time and compliance is onerous, since BPO is a relatively new business and tax authorities lack understanding of their unique operations 	3	4
Access to finance and growth capital	<ul style="list-style-type: none"> High reliance on external investment and family capital Bank credit relies too heavily on collateral-based lending, thus affecting access to IT firms Founders having to give up equity to international investors to simply obtain liquidity Working capital constraints affect payroll delays and employee turnover Schemes aimed at providing capital for start-ups, but often poorly administered – not friendly for start-ups 	2	4
Business environment level			
Risk perception and investor attractiveness	<ul style="list-style-type: none"> Political stability and national security are key considerations for investors, especially in building a culture of trust and reliability Risk aversion towards Pakistan affects investor attractiveness 	4	5
Market access level			
International branding and marketing	<ul style="list-style-type: none"> No concerted effort to brand Pakistan's IT industry against international competition Consular missions underused as vehicles to promote exports and investment in the sector; limited understanding among international missions about the industry and limited cooperation by industry to use missions 	2	4
Dedicated recog- nition for BPO as a sector	<ul style="list-style-type: none"> Nature of BPO work and operations and the employment and health hazards posed by BPO work requires laws and frameworks that addresses these specific issues Currently, BPO is included in the aegis of the IT sector, while in reality they are very different; there are no consultations with the BPO industry to make sector policies and plans Policies should be designed taking into account the problems faced by BPO companies and workforce 	2	5

Deeper discussion of selected key issues

SUPPLY-SIDE AND INPUTS LEVEL

Talent shortages and labour regulations

- The current talent pipeline is insufficient for the sector's growth needs. Pakistan needs an annual supply of 100,000 IT graduates, while it is currently at approximately 20,000. Estimates by industry leaders suggest that the total talent pool currently available for the sector is roughly 75,000 high school graduates and 25,000 university graduates. This shortage will particularly affect SMEs and start-ups in the sector, unlike large firms that can have various talent attraction schemes. Consequently, it will affect the sector's inclusive development.
- Currently, there aren't any major programmes by the industry or government to tackle talent shortages. In approximately 2001-08, the upcoming and new BPO companies in Pakistan with large budgets started their own training programmes, but were mostly aimed at on-the-job training for workers already hired. Later, these training programmes also faded away due to cost cutting. A few private training ventures started up, but did not take root due to a lack of formal recognition by the government and the industry.
- Additionally, the incoming talent is not sufficiently focused on emerging technologies. Talent development and university programmes focus on technology skills related to immediate market needs as opposed to emerging markets around big data/analytics, which is rising in importance in the BPO/KPO space as highlighted in the global trends section.
- There is also a question of employability of talent. The employability rate across the sub-segments in the IT and ITES services industry remains relatively low, at 30% and 50% for high school graduates and IT graduates (Tier II–III universities) respectively. The government has initiated some programmes for skill development, but reportedly they do not attract quality talent and do not result in employability in areas like data analysis and project management. Starting criteria for employability include basic technical skills, proficiency in the English language and the relevant domain competencies.
- Given BPO work's unique requirements, the lack of labour laws that cater to this segment needs to be addressed. Labour regulatory frameworks that cater to the BPO workforce need to provide a fairer and more productive work environment to BPO employees, resulting in greater growth, retention and skill

building. The instability of the job, poorer pay scales and an environment that doesn't sufficiently foster career growth tends to incentivize high employee turnover. Lack of sustained and formalized human resources and continuous development practices mean that existing workers are often unable to manage projects effectively and creatively, and have problems with thinking outside the box.

Physical infrastructure

- In major cities such as Lahore and Islamabad, local and foreign companies struggle to find office space aligned to international standards and requirements of the services industry (e.g. 24/7 availability, IT-ready infrastructure, reliable power and security, among others). This constraint hinders the growth of small IT product-based companies and freelancers, who lack affordable IT plug-and-play spaces (e.g. co-work) to expand their business and/or provide more complex and sophisticated services. Rising rent in metropolitan areas, especially in Karachi, puts cost pressure on IT firms. Industry players assert that metropolitan rents are highest in Karachi, and are nearly 30-40% more than Lahore and Islamabad. Typically, these costs account for almost 20% of an IT firm's operating expenses.
- Additionally, rent increases at a rate of 10% each year. New moves to create IT parks and software technology zones are expected to solve this problem to some extent, but its accessibility/affordability to BPO SMEs must also be considered. Software technology parks (IT parks with IT-enabled infrastructure and state-of-the-art facilities) could solve this problem to some extent. Yet, some stakeholders believe that such zones become too expensive too quickly due to high demand and limited supply, and BPOs usually do not have a lot of capital at the start to afford high rent.
- There are no special zones or building facilities catering to the BPO industry. Part of the infrastructure challenge is also the availability of reliable/stable electricity supply, and high-speed broadband internet that is widely available and reliable. Industry stakeholders note that the interruption of power supply is a huge problem and that the slightest interruptions translate into lost business. This makes companies rely on their own power supply, which increases costs.

Box 2: Pakistan's push for special technology zones

In December 2020, the government promulgated the Special Technology Zones Authority Ordinance, 2020 (the STZA Ordinance) with the stated objective of setting up a corporate authority to establish, among others, software and hardware technology parks, high-tech industrial areas, science and technology zones, knowledge cities, technology incubation zones or any sector zone requiring technological intervention. The goal behind the creation of such zones is to provide institutional and legislative support for the technology sector with internationally competitive and export-oriented structures and ecosystem, in addition to developing collaboration between the academia, researchers and technology industry. A STZA Act was subsequently passed in July 2021 by the National Assembly. Zone developers, international 'big tech' firms and the local IT industry are being encouraged to participate in the growth of the Special Technology Zones Authority (STZA). In summary, the STZs allow for cheaper real estate, one-window government facilitation and a tax-free zone. The incentives regime under the STZA is as follows:

- 10 years' break from income tax to zone developers and zone enterprises, including exemption from minimum tax otherwise payable under Section 113 of the STZA Ordinance;
- 10 years' exemption from customs duty, sales tax and withholding income tax on import of capital goods such as plant, machinery and equipment for use within the zone;
- Tax exemption on dividend income and long-term capital gains of any venture capital fund from investment in a zone enterprise(s);
- Complete exemption on income of the Special Technology Zones Authority established under the STZA Act, 2021.

The passage of the STZA is expected to usher in an environment conducive to the investments required in high tech industry, putting the country on a fast track to transforming the wider economy and creating a highly skilled labour force.

Access to capital for growth

- The access to finance for BPO firms for growth is limited, and most firms rely on financing by way of external investment (giving up equity) or from friends and family. The collateral requirements of banks are not feasible to meet for most technology companies, which have limited immovable assets. Obtaining capital by divestment costs founders substantial share of equity. There are no sector-specific export/project refinance facilities by banks or government, in the way they exist for other industry sectors. Lack of working capital financing (coupled with internal issues like poor cash flow management) creates payroll delays, which increases employee dissatisfaction/turnover.
- In a positive move, the government's FY 2021 budget envisions an SME financing facility of up to PKR 5 million (non-collateralized loans) funded by the Government of Pakistan. The streamlined eligibility of BPO firms and the administration of the facility would need to be ensured. Additionally, the Government has introduced schemes like 'Kamyab Jawan Scheme' and other State Bank of Pakistan financing schemes to incentivize the IT sector. Nevertheless the streamlined eligibility of BPO firms.

- There are also some schemes aimed at providing capital for start-ups. However, although advertised as easy and fast to access, they are often poorly administered in a way that understands and caters to start-ups. As one industry stakeholder noted, 'bureaucratic red tape and hesitancy of banks makes them next to impossible to be availed. A lack of check and balance by the authorities granting these funds also mean that often the funds allocated for such schemes do not go into deserving hands'.

Relevant activities in the PoA for supply-side and inputs level: Talent – 2.1.1, 2.1.2, 2.1.3, 2.1.4, 2.1.5, 2.1.6, 2.2.1, 2.2.2; Access to capital – 3.2.1, 3.2.2; Infrastructure – 3.3.1.

BUSINESS ENVIRONMENT LEVEL

Risk perception and investor attractiveness

- Pakistan is generally perceived as a high-risk investment proposition, particularly by US firms, which are the largest IT services importers. The United States Department of State rated Pakistan with the Advisory Level 3⁸ (i.e. 'reconsider travelling'), pinpointing terrorism and sectarian violence as the main reasons.

8.– Travel advisory updated on 16 June 2021: Accessed at <https://travel.state.gov/content/travel/en/traveladvisories/traveladvisories/pakistan-travel-advisory.html>.

Similarly, the 'political stability and absence of violence/terrorism' index from the World Bank's World Governance Indicators ranks Pakistan in the 125th position out of a total of 126 countries. It is widely acknowledged in the industry that national security and political stability have a direct influence on the attractiveness and trust in Pakistan as an IT exporter. As an industry leader noted, 'Continuous government reform/policy irrespective of political changes will create the trust foreign capital and foreign buyers seek to invest in Pakistan and import IT services from Pakistan'.

Strengthening tax, legal and regulatory systems

- Given its relatively newer status as a sector, there is a need to look at rules and regulations surrounding different aspects of BPO sector operations. Stakeholders note that category-wise regulations within the industry might be required – between BPO, tiers, IT solutions outsourcing, IT personnel augmentation and outsourcing, etc. This is particularly true of taxation issues.
- Costs in terms of time and compliance are onerous, since BPO is a relatively new business and tax authorities lack understanding of their unique operations. As a BPO industry leader noted, 'Any procedure which involves the tax agencies tends to be very tedious and time consuming. The fact that the tax agency staff themselves tend to be the least accessible and helpful people does not help the cause either'.
- On the other hand, BPO firms also tend to find creative ways to evade tax compliance, and this is coupled with weak enforcement of tax authorities, which leads to low compliance. To bridge these differences, in 2017, a campaign by PSEB and Punjab Information Technology Board was started, but it did not progress. According to their website, the last relevant programme listed was in 2017. The blanket categorization of IT affects authorities' ability to oversee the sector, and there are no dedicated forums aimed at resolving the various issues with the BPO sector outlined above.

Lack of dedicated BPO recognition

- Given the relatively nascent, but rapidly growing status of the BPO industry, stakeholders believe that

there is a need for dedicated policy attention, separate to that afforded to IT. The nature of BPO work and operations and the employment and health hazards posed by BPO work requires laws and frameworks that addresses these specific issues.

- As one stakeholder noted, 'The BPO industry is far removed from the IT industry despite popular belief. The government should recognize the industry, its potential to change the economic landscape of Pakistan, and work accordingly to make it grow. People would like to see learned and experienced people from the BPO industry being consulted to make a regulatory framework to govern BPOs'.

Relevant activities in the PoA for business environment: National recognition – 1.1.1, 1.1.2, 1.1.3, 1.1.4; Tax and regulatory – 3.1.1, 3.1.2, 3.1.3; Investor attractiveness – 1.3.2.

MARKET ACCESS LEVEL

Inadequate market intelligence and international marketing/branding

- Coupled with the investor risk perception is the challenge that Pakistan has not developed a concerted international marketing strategy to effectively position the country as an attractive and competitive off-shore services destination.
- Consular staff around the world are not trained to identify/facilitate opportunities for Pakistani IT firms, and there is no formalized process for IT firms to access Pakistani international missions to facilitate business promotion or to drive country-specific IT export targets.
- There is also a lack of research and market insight to inform expansion into new markets. Often, it is the case that Pakistani IT exports are limited to where the Pakistani diaspora resides and thus assist in getting market access. IT firms have less visibility into opportunities in countries where the Pakistani diaspora does not exist.

Relevant activities in the PoA for market access level: Market intel and global marketing – 1.2.1, 1.2.2, 1.2.3, 1.2.4, 1.3.1.

By solving some of the key competitiveness and growth constraints, Pakistan's BPO sector can be positioned strongly for export growth. What is required is setting some strategic objectives for the short to medium term to drive sector transformation, and prioritization some key actions.



THE WAY FORWARD

Pakistan's IT-enabled services sector – of which BPO and KPO are part – has many of the fundamentals in place to drive faster growth, and the rapid rise in export earnings already seen in recent years are signs of the prospects for the future. Pakistan's ITES sector's recent advancement points to strong export potential in the medium term, leveraging the available talent pool, financial attractiveness and existing market entry to major importing locations. Investments from the United States in upgrading BPO capacity in Pakistan is a strength to be leveraged. Building on this would require tackling some key challenges to growth and competitiveness.

As discussed in previous sections, there are several competitiveness challenges facing the BPO sector, which, if overcome in a comprehensive and timely manner, can position the sector strongly for export growth and make Pakistan one of the most desirable locations for offshore services in Asia. It is necessary to set some strategic objectives for the short to medium term to drive sector transformation, and prioritize some key actions.

Upgrading within the BPO segment will require transitioning from basic customer support services to the provision of high-end BPO services and KPO services, which rely on a progressively more technically skilled labour force. The limited direct interaction of high-end BPO and KPO services supports the rapid adoption of these functions, as they do not depend heavily on language proficiency. Current advantages and differentiators seen today – such as the labour cost arbitrage, younger workforce and English language proficiency with accent clarity – could be made redundant or disrupted fast alongside competition or new technology. Further, the BPO/BPM industry is moving out of cost-based to more outcome – and experienced-based results, as noted earlier. Pakistan's industry needs to gear up the workforce and move up the value chain with skilling for higher-order tasks and complex problem-solving abilities, and offer greater customer satisfaction.

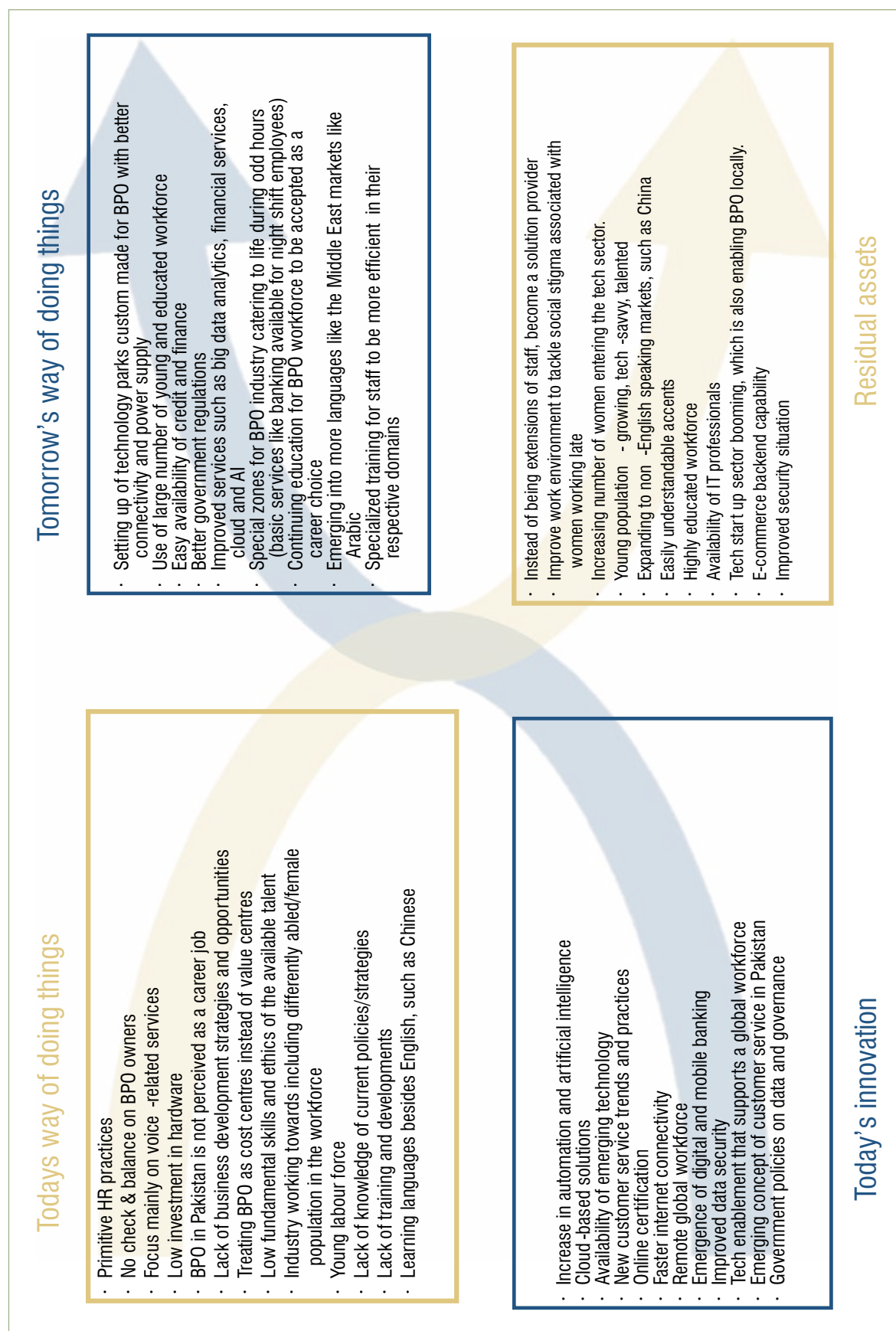
Strategic foresight

The strategy process considered current capabilities and constraints, and future shifts/opportunities for Pakistan's BPO sector, and industry stakeholders extensively evaluated future orientations and upgrading trajectories. Figure 14 captures the summary of stakeholders' analysis of future trajectories along the Ride Two Curves.⁹ The first assesses today's ways of doing things and which of those will remain strong and competitive into the future (i.e. will remain as residual assets for Pakistan). The second assesses the current innovations and trends already seen in Pakistan and globally, and how these will influence the future strategic orientation of Pakistan's BPO sector (i.e. tomorrow's way of doing things). Some key messages that emerge from this exercise are the following:

- Some compelling **residual assets** for Pakistan include the availability of young affordable talent and a growing population, English language-speaking and accents suited for the industry, cost arbitrage advantages and improved security conditions.
- Some compelling **strategic future shifts** for Pakistan's industry include remote working becoming a permanent/prominent feature, delivering services in other languages (e.g. Chinese and Arabic), availability of tech parks, growing presence in value-added knowledge-led services, specialized training for the industry, and investments in AI and cloud technologies.

9.– The Ride Two Curves tool is used to better understand disruptive change and how it will affect our current ways of working, so we can get ready for it. This tool comprises two curves: one symbolizes the current way of doing things, the other one is the new disruptive one. Ride Two Curves, © 2017 Institute for the Future. All rights reserved.

Figure 13: Ride Two Curves foresight exercise – summary



Source: ITC, adapted from the Institute for the Future.

To develop a way forward plan, the strategy process assessed current market and product orientations and obtained strategic input from industry stakeholders on future orientations. Accordingly, several orientations were identified: i) around markets; ii) around products, industries and technologies; and iii) around value addition and upgrading of service offering. Each of these are discussed in detail in the following section.

ORIENTATION 1: EXPLORING NEW MARKETS WHILE CONTINUING TO GROW IN EXISTING MARKETS

Currently, Pakistan's Top 5 ITeS exports are to the United States (>50%), the United Arab Emirates (>8%), the United Kingdom (>7%), Singapore (>3%) and Canada (>2%).¹⁰ There are some other limited exports to European countries and the Republic of Turkey. Pakistan should aim to reduce the overdependence (of more than 50%) of its revenue arising from a single market. Other regions, such as the Middle East, North Africa, Europe, Scandinavia and Asia Pacific, have a growing need for IT products and services and would be of interest for Pakistan's market diversification efforts. The International Data Corporation (IDC) identifies that a 54% share from the \$5 trillion technology industry spend comes from these three regions – Europe and Scandinavia (22%) and Asia Pacific (32%).

Market focus and strategies

During strategy consultations, industry stakeholders identified the following markets/regions as their current focus:

- United States
- United Kingdom
- EU
- Middle East and North Africa
- China
- Southern and Western Africa
- South America
- Canada
- Australia

While continuing to strengthen exports in these markets, they identified the following additional/specific markets for the future:

- The Federal Republic of Germany
- Japan
- The Russian Federation and Eastern Europe
- Malaysia



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In expanding to new markets, stakeholders identified the following risks associated:

- Lack of knowledge of regional markets;
- Issues relating to travel to the target countries;
- Unavailability of language skills in some of the target markets;
- Knowledge of cultural sensitivities;
- Issues in keeping up with digital laws and regulations governing the target markets;
- Trust factor/building trust with customers in these markets;
- Lack of awareness of local laws governing host countries.

The following section briefly explores an overview of trends and opportunities.

Middle East and North Africa (MENA) region: This is a particularly interesting region for Pakistan, where IT sector expansion could be helped by supportive foreign policy (and consequently, trade) allegiances. Gartner forecasts IT spending in MENA to reach \$171 billion in 2021. According to Gartner (April 2021), 'Business in MENA show renewed interest in IT projects as impact of COVID 19 declines in the region'. Gartner went on to report that the projects that were put on hold or cancelled during lockdowns in 2020 have recommenced with a true understanding of resilient digital ecosystems. Some countries in the region have adapted encouraging policy regulations such as Digital Nomad Visas, remote work visas and Smart Dubai 2021, which would boost investment in IT services. The growth in 2021–22 is expected to reach 4%, amounting to \$177 billion. Key expenditure categories are indicated in Table 5.

10.– Pakistan IT Industry Overview by PSEB and MoITT (2020).

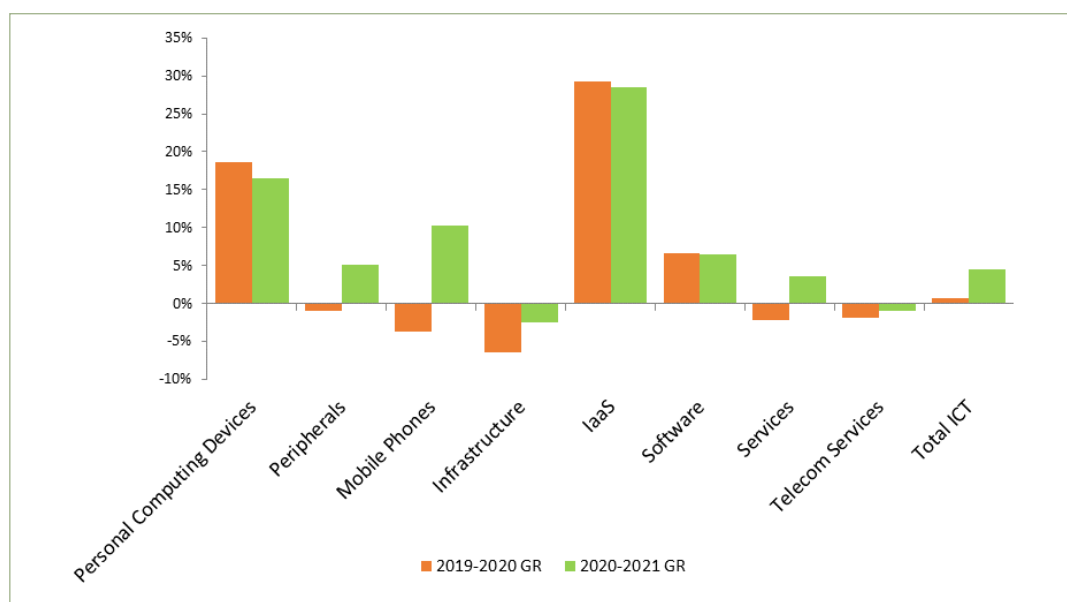
Table 5: MENA IT spending (2020–22) (USD millions)

	2020 spending	2020 growth (%)	2021 spending	2021 growth (%)	2022 spending	2022 growth (%)
Data centre systems	4 940	0	5 274	6.8	5 423	2.8
Enterprise software	6 922	0	7 925	14.5	8 737	10.2
Devices	25 522	-12.2	27 588	8	28 129	1.9
IT services	12 566	0.6	13 657	8.7	14 721	7.8
Communications services	114 031	7.2	116 895	2.5	120 932	3.5
Overall IT	163 981	2.7	171 339	4.5	177 942	4

Source: Gartner (April 2021).

Europe: This region is the second-largest market after the United States, with a share of 19% of global spending on IT and forecasts of growth to \$988 billion in 2022. According to the IDC, in Europe, the 'digitalization processes will continue and even accelerate this year, and this includes cloud adoption. In terms of software, the strong demand for applications related to human capital management, advertising, marketing, and customer service is expected to continue throughout 2021'. The IDC (May 2021) forecast the European software market to post a growth of 6.6% in 2021. Pakistan houses

a few European multinational corporations, including Telenor, Jotun, Nestlé, Unilever, Ecolean, Standard Chartered, GlaxoSmithKline and British American Tobacco. The industry can push to set up global in-house centres (GICs) of these companies that have not set up in Pakistan already, and advocate for their regional presence to be based out of Pakistan. For example, in India, the offshoring industry got its initial boost through multinational corporations that offshored their onshore requirements first, and then offshore requirements to Indian companies and workforce.

Figure 14: ICT spending growth rate (year over year)

Source: IDC Worldwide Black Book: Live Edition (May 2021).

Asia Pacific: Asia is home to half of the world's 3.2 billion population and, by 2030, will be home to 65% of the global middle class and will account for 40% of global consumption. Asia currently accounts for half of the world's 2.2 billion internet users. According to the IDC (April 2021), ICT spending in the region was expected to grow by more than 4.9% to reach \$924 billion

in 2021 and \$1 trillion by 2024. Due to the disruption to working models (for example, work from anywhere policies) and a surge in spend for devices, cyber security and user experience, it is likely that cloud-based services will dominate in months and years to come. As per Gartner, mature countries in the region such as Singapore, the Republic of Korea, Australia and New

Zealand were projected to spend \$174 billion, while China, Hong Kong Special Administrative Region and Chinese Taipei were expected to grow in spend to reach \$498 billion in 2021.

While the United States is the main market, IT-BPM opportunities should be explored in other growing regions and countries, building alternatives in the medium to longer term. Participants in the strategy formulation exercises identified these regions as focus markets, as well as Indonesia, Australia and Malaysia. It is recommended to identify the most potential and high-priority markets in these regions with which Pakistan can do business in IT and BPM and have a focused effort to commence and expand business opportunities there (this is dealt with in the plan of action). A thorough analysis of these priority countries needs to be conducted from an 'outside in' approach, to identify what would make the target country do business with Pakistan's IT industry (apart from 'hygiene factors' like overall digital, skills, trade and investment, and regulatory policies). Once these high-priority countries for short, middle and long term are identified, third-party analysts and market-entry consultants could promote the engagements and business between the two countries – ranging from bilateral economic partnership arrangements to industry association memorandums of understanding, and contracts between companies.

Required investments and skills

Investments would be needed in terms of public resources to help minimize the risk of some of the international market expansion efforts of firms, including support for business to business (B2B) transactions, participation in key trade fairs and technology conclaves, support from Pakistan's diplomatic missions in the above markets and regions, and enabling long-term non-collateralised financing for new foreign



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projects. On the private sector side, investments would be needed in formulating market-specific business strategies, developing new product portfolios to suit these markets and associated market collateral, as well as investments in new certifications, quality assurance and risk and security processes that might be unique and variable from market to market.

Firms would need to continue to strengthen in-house skills in international business development and sales, contract negotiation, client servicing and advanced project management. Stronger contract (legal) and financial management skills would also be needed as international business relationships proliferate and become more complex for existing firms. Additionally, language skills (aside from English) to cater more deeply and competitively in key target markets that are non-English speaking would be an advantage to Pakistani IT firms looking to break in.

In summary, Orientation 1 would have the following implications for the strategy:

- **Markets:** Commission benchmarking studies to identify high-potential markets and identify specific unique selling propositions to promote Pakistan BPO in those markets (see Activities 1.2.1 and 1.2.2 in the PoA).
- **Skills:** Improving soft skills (including language skills relevant to priority markets) to support servicing clients in identified growth markets (see Activity 2.1.2 in the PoA).
- **Institutional:** Improving the abilities of agencies like the TDAP and PSEB to promote the BPO sector in key markets and provide timely market intelligence (see Activity 1.2.4 in the PoA); better market promotion by Pakistan's commercial counsellors (see Activity 1.2.3 in the PoA).
- **Investments:** Availability of affordable financing to support international expansion (see Activities 3.2.1 and 3.2.2 in the PoA).

ORIENTATION 2: STRENGTHENING PRESENCE IN GROWING INDUSTRIES AND TECHNOLOGIES

Market focus and strategies

Pakistan's IT industry is already present in many industry verticals. Participants identified its presence in the following:

- Health and medical (transcription);
- Fast-moving consumer goods;
- Telecom;
- Real estate;
- Banking, finance and insurance;
- Human resources management;
- Data entry;
- Energy and other utilities.

While continuing to grow in these verticals, the industry envisions growing additionally in the following:

- Medical services (consultation);
- Oil and gas;
- Automotive;
- Education;
- Aerospace;
- Agriculture;
- Digital marketing;
- Marine/shipping/cargo;
- Warehousing and supply chain.

In terms of the current products and services, stakeholders identified that the Pakistani BPO industry present is in the following:

- Low-end call centres;
- BPO for customer relationship management and after-sales;
- Medical transcriptions;
- Payroll, training and development, and compensation and benefits;
- Accounting and financial services;
- Back office/office support/administration;
- Live chat;
- Remote networking and IT administration;
- Data entry and data processing;
- Legal transcription.

In terms of future positioning, the industry envisions a presence in the following:

- Bespoke web services;
- Offshore medical advisory/consultations;
- Voice operations of a complex nature;
- Medical research;
- Military;
- Project management;
- 3D construction;
- Confidential transcription (e.g. for psychologists);
- More complex financial services.

Some of the risks in terms of the future strategies for technologies and products/services/solutions that stakeholders identified include:

- Lack of a strong business development;
- Price pressures;
- Acquiring talent to enter new verticals and develop new products/services;
- Rising costs of labour, especially for skilled personnel;
- Cost of hardware, which hinders internal technology upgrading to enter advanced verticals and new products/services.

Required investments and skills

Clearly, Pakistan has a growing talent pool for the current industry verticals and current suite of products and services. However, investments in skills to ensure continued competitiveness in these segments will be needed – especially in further growing the absolute numbers of talent in order to continue offering cost-competitive services. These skills include English as a core communication language, and effective communication skills. Communication skills are not only proficiency in a language, but also the ability to use it in a business environment, client-centric communications and the ability to use the 'jargon' in the industry. Additionally, general skills training for management is needed, including problem-solving, client retention, management and multitasking. Alongside this, investing in upgrading the skills to undertake the envisioned upgrading of products/services and entering new industry verticals will be required. Additionally, and as clearly identified by industry stakeholders, fresh investments in technology at the firm level will be needed to be globally competitive, especially in the new segments – be it investments in cloud infrastructure, advanced software solutions or advanced cyber security solutions, etc. The plan of action includes activities identified for these purposes.

In summary, Orientation 2 would have the following implications for the strategy:

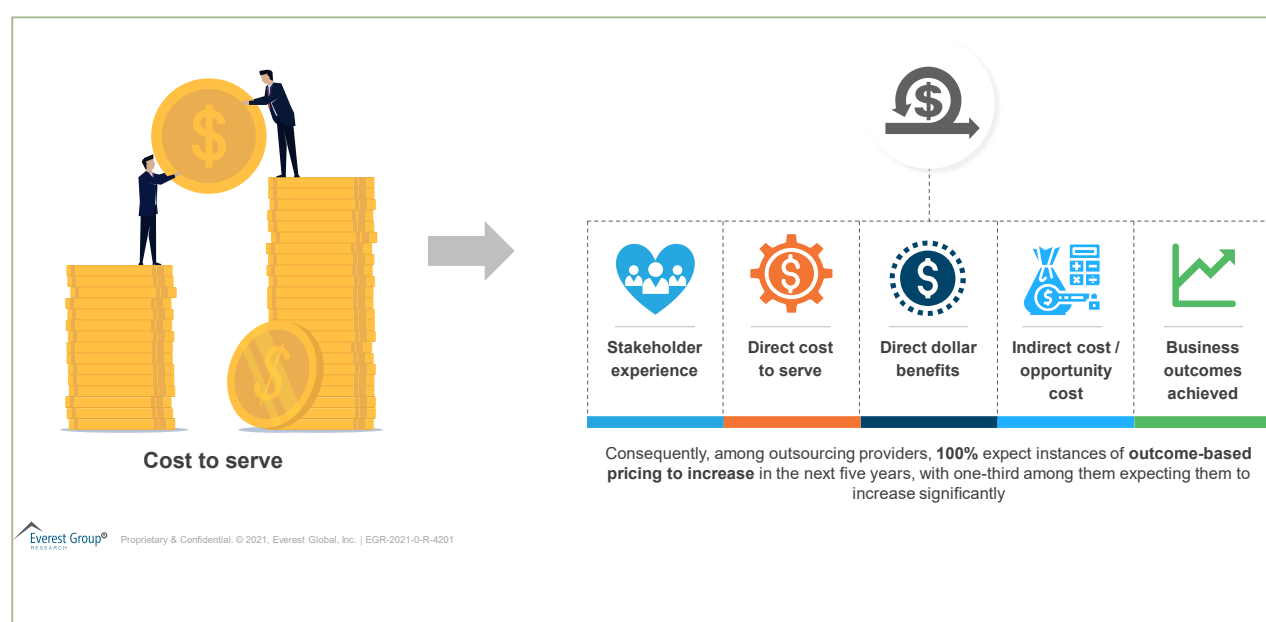
- **Investments:** Invest in studies that benchmark Pakistan's BPO capabilities alongside emerging trends and industries (see Activities 1.2.1 and 1.2.2 in the PoA); conduct studies and knowledge events to enhance the domestic industry's understanding of emerging trends and drive upgrading of the BPO sector (see Activity 1.3.1 in the PoA); attract FDI that will support Pakistani BPO entry into new industries and technologies (see Activity 1.3.2 in the PoA).
- **Skills:** Build up the overall talent pool, as well as the specialized technical skilled workforce, to cater to new and emerging technologies/industries (e.g. data analytics) (see Activity 2.1.6 in the PoA).
- **Institutional/policy:** Introduce special incentives regimes to support technology upgrading initiatives of BPO firms so they are better geared to take advantage of emerging trends (see Activity 3.1.3 in the PoA).

ORIENTATION 3: FOCUS ON VALUE ADDITION AND UPGRADING OF SERVICE OFFERING

Today, companies globally look for a better experience and outcome for their customers when contracting BPO services rather than focusing on cost-cutting. Therefore, investment in upgrading technology and skills of resources (moving beyond just voice services) is a mandatory element for BPO and BPM servicing companies to remain competitive in the global market. Having more than 500,000 clear English-speaking

IT/BPO professionals, and a yearly output of more than 25,000 graduates, means Pakistan could be the next top BPO destination with a growing presence in the sourcing world. Yet the emerging transformation from 'cost' to 'serve' (outlined in Figure 16) requires a shift of mindset from the industry as well as the government for Pakistan to win and, most importantly, survive in the sourcing business in the coming years. Transactional engagements by agents would increasingly be replaced by robotic process automation (RPA) and artificial intelligence.

Figure 15: Current and future evaluation parameters for BPO services



Source: Everest Group, 'Business Process Services (BPS 4.0) Impact Will Be Measured in a Refreshingly Holistic Way'.



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A key focus for firms is the need to move from a transactional mindset to a serve and customer satisfaction mindset with a 'five-star rating' appetite. As part of the resource shift, problem-solving attitudes need to be instilled in the workforce, as business outcomes would be linked to contracts (outcomes) rather than volume of transactions. As noted in Forbes (April 2021), 'Outsourcing processes, such as data entry, call center operations and payroll, have long been accepted as budget-friendly operations and management alternatives, but larger-scale business operations are now expanding the BPO landscape to more senior positions' (Mark Thacker, Forbes, April 2021).

To strengthen service provision and continually improve, firms would need to invest in new technologies to complete mundane tasks fast and accurately. Additionally, 24/7 service has become a default

expectation, along with the use of technology to keep up with it. Aligned to this is having the right tools and infrastructure to operate from anywhere; this would also bring down overhead costs of having to maintain large offices for service centres. Part of the infrastructure investments would be to strengthen business continuation planning in case of global disruptions, as was seen with the COVID-19 pandemic, which is essentially mandatory for the industry. With emerging compliance and regulatory shifts, strong internal policies and procedures for data and security is a key element for the industry. Particularly as remote working models are here to stay, firms need to pay attention to mitigation of cyber security and data privacy risks. Pakistan needs to showcase progress in this area to win in the market.

Required investments and skills

Investments in technology and infrastructure are needed in order to keep up with customers' growing demands for speed, accuracy and efficiency, as well as for 24/7 service and business continuity during disasters/emergencies. Firm-level workforce upskilling is necessary on both the newer technologies and the changing customer expectations for service beyond transactions. The shift from 'cost' to 'serve' will require mindset and skillset changes. With the changing need from transactional to business outcomes and problem-solving, the required skill set of an agent would be expected to be multidimensional. While the bottom of the pyramid would be transferred out to automated processes such as RPA and AI, etc., most of the human resources and workforce will have to move up the ladder to offer increasingly complex services. Competency development for customer service, five-star reviews and problem-solving attributes are a necessity at firm level, as well as national training and development plans. Agents' skills need to be upgraded to offer not just transactional engagement, but also advisory services.

In summary, Orientation 3 would have the following implications for the strategy:

- **Investments:** Conduct studies and knowledge events to enhance the domestic industry's understanding of emerging trends and drive upgrading of the BPO sector (see Activity 1.3.1 in the PoA); attract FDI that will support Pakistan BPO improvement in terms of world-class

delivery and service quality (see Activity 1.3.2 in the PoA).

- **Skills:** Introduce skills upgrading programmes to ensure the BPO workforce has the right skills to cater to the changing nature of customer requirements (including communication skills, project management and negotiation) (see Activities 2.1.3 and 2.1.5 in the PoA).

The strategic framework

THE VISION

Industry stakeholders deliberated at length in crafting a vision for the sector's five-year strategy, considering key strategic orientations and transformation areas

identified. Key words were identified, and several permutations of a vision statement were developed and discussed. A 'word cloud' that visualizes the key words introduced by them is provided in Figure 16.

Figure 16: Word cloud of key vision areas



Eventually, the following statement was selected and delineates this strategy's proposed vision and strategic approach to develop the BPO sector.

“ Be a global knowledge services powerhouse that provides world-class and innovative services, driven by skilled talent, great customer experience and a focus on sustainability. ”

Some key parts of this statement that are compelling are:

- The vision of becoming a 'knowledge services powerhouse' indicates the sector's desire to move up the value chain from basic services to more knowledge-led services, which is both more resilient and also higher export revenue earning;
- The vision to provide world-class and innovative services provides a strong beacon of motivation to the firms in the sector that the aim is to be highly competitive on the global stage and to survive and beat the competition through being innovative;
- The vision of having higher-skilled talent signals to both the private and public sector alike on the

focus in terms of human resource development for the sector, while the focus on customer experience indicates recognition of what clients prioritize, and the mention of sustainability recognizes new global trends and customer demands around environmental credentials.

THE STRATEGIC OBJECTIVES

The plan of action (PoA) will respond to this vision by addressing the sector's constraints and leveraging opportunities in a comprehensive manner. The PoA will be structured around the following strategic objectives, agreed with all sector stakeholders.

Strategic Objective 1: Enhance sector recognition and competitiveness domestically and internationally

- Promote the sector's domestic and international recognition, and enhance its presence and competitiveness in new markets and emerging technologies.

Strategic Objective 2: Improve talent availability for the sector's sustainable growth

- Increase the talent pipeline, promote talent retention and address labour regulatory gaps that hinder better workforce participation and inclusion.

Strategic Objective 3: Improve business climate for BPO/KPO businesses to compete and grow

- Reform tax systems and procedures applicable to the industry to improve access to capital and access to quality affordable infrastructure.



IMPLEMENTATION FRAMEWORK

The objective of the BPO sector strategy for Pakistan is to create an enabling environment for the industry to realize its potential and benefit the country's image. Achieving this ambitious objective will depend on the industry's ability to implement the activities defined in this strategy. To structure sector development, it is recommended that the following interventions be implemented with priority:

- Enhance sector recognition within the country through specific measures, and increase the sector's visibility and promotion internationally;
- Increase the quality and quantity of available human resources through a combination of efforts, including conversion programmes and short-term skill training;
- Address labour regulatory gaps in national frameworks and improve human resource practices within firms to increase employee retention and career progression;
- Resolve anomalies and issues in tax frameworks;
- Make quality infrastructure more affordable;
- Improve access to non-collateralized debt capital.

MANAGING FOR RESULTS

It is the translation of priorities into implementable projects that will contribute to achieving the substantial increase in export competitiveness and export earnings envisaged under the strategy. These will be driven by reforming the regulatory framework, optimizing institutional support to exporters and strengthening private sector capacities to respond to market opportunities and challenges. Allocation of human, financial and technical resources is required to efficiently coordinate, implement and monitor overall implementation.

Successful execution of activities will depend on stakeholders' abilities to plan and coordinate actions in a tactical manner. Diverse activities must be synchronized across public and private sector institutions to create sustainable results. Therefore, it is necessary to foster an adequate environment and create an

appropriate framework for the strategy's successful implementation.

Key to achieving the targets will be coordination of activities, monitoring progress and mobilizing resources for implementation. To that effect, industry representatives recommended that a public-private sector specific council for the BPO industry be rapidly established, operationalized and empowered. The sector specific council is to be responsible for overall coordination, provision of policy guidance and the monitoring of industry development along the strategic orientation.

BPO SECTOR SPECIFIC COUNCIL

It is recommended that a BPO sector specific council be rapidly established by the MoC and effectively organized by the TDAP and MoC to support the industry with the capacity to steer its development strategically. The sector specific council is to be facilitated by a secretariat coordinated by the TDAP, supported and advised by P@SHA.

Industry representatives recommend that the BPO sector specific council be composed of the following members:

- Ministry of Commerce;
- Trade Development Authority of Pakistan;
- Ministry of Information Technology and Telecommunication;
- Pakistan Software Export Board;
- Ministry of Federal Education and Professional Training;
- Small and Medium Enterprises Development Authority (SMEDA);
- Federal Board of Revenue;
- Ministry of Industries and Production;
- Securities and Exchange Commission of Pakistan;
- Board of Investment;
- P@SHA;
- University of Engineering and Technology, Lahore;
- Private sector: S&P Global.

It is recommended that the sector specific council be empowered to meet quarterly and to implement the following functions:

- Create a shared understanding of key market challenges and opportunities facing the sector;
- Set goals and targets that, if achieved, will strengthen the sector's competitive position and enhance Pakistan's overall capacity to meet markets' changing demands;
- Propose key policy changes to be undertaken and promote these policy changes among national decision makers;
- Support the coordination, implementation and monitoring of activities in the sector by the government, private sector, institutions or international organizations to ensure alignment to goals and targets, as required to contribute to resource identification and alignment.

KEY SUCCESS FACTORS FOR EFFECTIVE IMPLEMENTATION

During stakeholder consultations, several participants reiterated the need to focus on implementation to ensure the strategy's success. One comment is worthwhile featuring here, as it further reinforces the need for sound monitoring and follow-up of progress:

The strategy document is comprehensive and looks good so far; however the outcome can only be determined as long as the stakeholders and their responsibilities are clearly defined. One cannot rely on a single institution or the government alone. The tasks need to be clear, and everyone's role needs to be assigned and cross-checked so it can be seen through. The industry needs support, the government is willing to provide it and, if assembled, applied and monitored properly, it will set us on the right track and enable the industry to achieve its true potential.

The presence of the sector specific council to oversee the strategy's implementation is a key success factor, but it is not sufficient to effectively fulfil its assigned functions.

Private sector support and participation in implementation

The private sector clearly expressed its willingness to contribute, directly or in partnership with public institutions, to the strategy's implementation. Their implementation efforts can range from providing business intelligence to institutions to contributing to project design, promotion and branding, and policy advocacy, etc. In brief, the private sector's practical knowledge of business operations is essential to ensuring that the strategy remains aligned to market trends and opportunities.

Proactive networking and communication

The key implementing institutions detailed in the PoA need to be informed of the strategy's content and the implications for their 2022–26 programming. This networking and communication is essential to build further ownership and to provide institutions with the opportunity to confirm the activities they can implement in the short to long term. It will be important for the TDAP, MoC and members of the sector specific council to reach out to relevant institutions nationally to create awareness and support for the BPO industry's development.

Resources for implementation

The sector specific council, in collaboration with the TDAP and the Secretariat at MoC, will need to leverage additional support for efficient implementation. Effective planning and resource mobilization is indispensable in supporting strategy implementation. Resource mobilization should be carefully planned and organized.

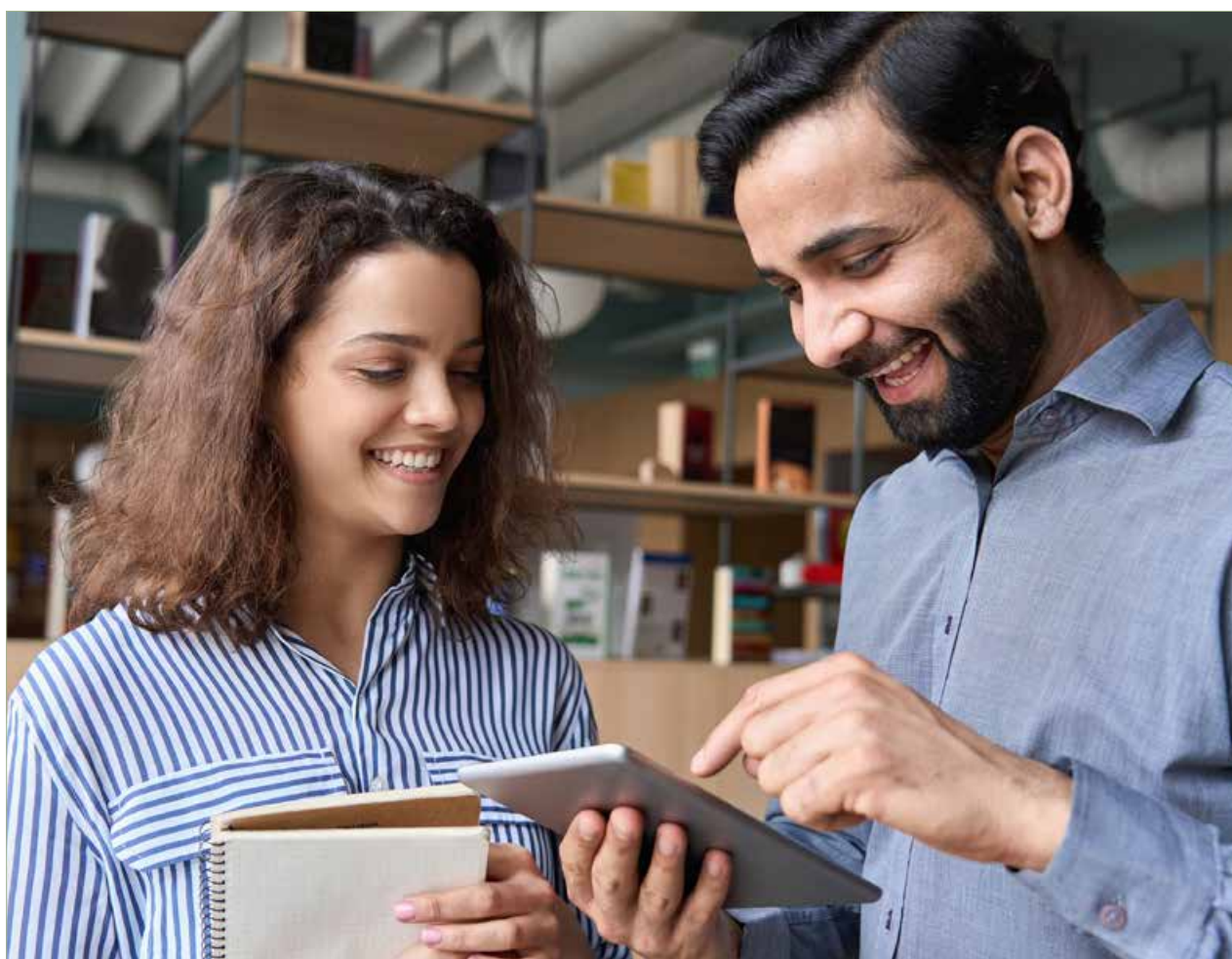
As the BPO sector is a priority sector of the STPF, the Government of Pakistan should define annual budget allocations and support to drive the industry growth. This commitment will demonstrate clear engagement towards strengthening the sector and will encourage private partners to support development. In addition to national budget support, resource identification will require the Board of Investment to effectively target foreign investors in line with the strategy's priorities, such as the attraction of more commercial farmers. Investment flows to Pakistan should also be considered as a valuable driver of strategy implementation and overall industry development.

The various implementation modalities detailed will determine the success of the strategy's implementation. However, high-level support from the government, in collaboration with strong championship by the private sector, will be the real driver of successful strategy implementation.

To achieve the vision and strategic objectives discussed, a robust, actionable and realistic strategic plan of action (PoA) is required. This is provided in the section below, and constitutes the heart of this strategy.

The PoA is structured along the three strategic objectives and the operational objectives described above. For each objective, the PoA outlines detailed activities and their implementation modalities, which include:

- **Priority level:** Priority 1 being the highest and 3 the lowest.
- **Period:** The desired time-frame of the activity.
- **Reform or project:** Defines whether the activity entails a legal action.
- **Targets:** Quantifiable targets that allow completion monitoring of the activity during the implementation stage.
- **Leading implementing partners:** One single accountable lead institution per activity. (The institution can also have a technical role or can solely have an oversight and coordination role.)
- **Supporting implementing partners:** Any institution that should be involved at any stage of the activity's implementation.



PLAN OF ACTION (2023–2027)

Strategic objective	Operational objective	Activity	Priority (1=Highest)	Period				Reform or project	Targets	Leading implementing partners	Supporting implementing partners
				2023	2024	2025	2026	2027			
1. Enhance sector recognition and competitiveness domestically and internationally	1.2. Strengthen Pakistan BPO/KPO sector's global market positioning	1.2.3. Conduct information sessions (by the industry, coordinated by lead government agency) for Pakistan's commercial counsellors abroad to improve their ability to promote the destination for BPO/KPO exports and investment, and provide them with the marketing collateral developed	2						<ul style="list-style-type: none"> Information sessions delivered for 10 identified priority markets by 2023 	P@SHA	<ul style="list-style-type: none"> Trade Development Authority of Pakistan Trade missions
		1.2.4 Improve capabilities in key government agencies (e.g. TDAP and PSEB) through a series of briefing programmes from the industry to promote the BPO/KPO sector (including in conducting and providing market intelligence to the sector) and appoint a dedicated sector officer to support BPO/KPO sector development activities	2						<ul style="list-style-type: none"> BPO/KPO-specific officer appointed At least two high-quality market intelligence reports delivered for the sector 	P@SHA	<ul style="list-style-type: none"> Ministry of Information Technology and Telecommunication Ministry of Federal Education and Professional Training Trade Development Authority of Pakistan PSEB
	1.3. Enhance sector competitiveness in emerging technologies and markets	1.3.1 Conduct an annual 'emerging trends' summit (with international speakers etc.) as an industry development exercise to showcase industry achievements/developments and to identify and create awareness on new market trends and business opportunities at a sector-wide level, to drive increased competitiveness, continual upgrading of the sector and product diversification.	1						<ul style="list-style-type: none"> Annual summit conducted with at least three international expert speakers each time Increase in media mentions of BPO/KPO businesses in mainstream print and electronic media At least 50% of BPO/KPO firms report introducing new segments of business/diversifying into new products 	P@SHA	<ul style="list-style-type: none"> Ministry of Information Technology and Telecommunication Local chamber of commerce Trade Development Authority of Pakistan Ministry of Industries and Production
		1.3.2 Embark on a time-bound and focused investment promotion drive to encourage leading multinational corporation with operations in Pakistan to set up captive centres (global in-house centres) in the country, to serve the broader region as well	3						<ul style="list-style-type: none"> Investment promotion drive launched At least three captive centre FDI's secured 	Board of Investment	<ul style="list-style-type: none"> P@SHA Ministry of Information Technology and Telecommunication

Strategic objective	Operational objective	Activity	Priority (1=Highest)	Period					Reform or project	Targets	Leading implementing partners	Supporting implementing partners
				2023	2024	2025	2026	2027				
2. Improve talent availability for the sector's sustainable growth	2.1 Increase the talent pipeline for BPO enterprises and promote talent retention	2.1.1. Introduce rapid conversion courses for school-leavers (high school graduates, pre-university) and university graduates interested in entering the BPO sector to obtain required skills for a BPO sector job in a short time period	1						Project	<ul style="list-style-type: none"> Conversion courses introduced and 2,000 students enrolled annually 	Ministry of Federal Education and Professional Training	<ul style="list-style-type: none"> P@SHA Ministry of Information Technology and Telecommunication
		2.1.2 Industry to partner with the Ministry to introduce to introduce short-term basic skills programmes (e.g. English proficiency) in local vocational training institutes/centres to quickly upgrade the available talent pool for BPO firms	2						Project	<ul style="list-style-type: none"> Short-term skills programmes introduced, and 3,000 students undertake training 	Ministry of Federal Education and Professional Training	<ul style="list-style-type: none"> P@SHA Ministry of Information Technology and Telecommunication National Vocational and Technical Training Commission
		2.1.3. Conduct awareness workshops for young people (in colleges, etc.) to understand job opportunities and career prospects in the BPO sector	1						Project	<ul style="list-style-type: none"> Two job and career opportunities workshops held annually 	P@SHA	<ul style="list-style-type: none"> Ministry of Information Technology and Telecommunication Ministry of Federal Education and Professional Training
		2.1.4 Improve internal human resource development capabilities at firm-level to improve employee retention, continuous professional development, mental health and other needs	2						Project	<ul style="list-style-type: none"> Internal human resource development improvement programmes held in at least 75% of firms in the industry 	Ministry of Federal Education and Professional Training	<ul style="list-style-type: none"> P@SHA Ministry of Information Technology and Telecommunication
		2.1.5 Conduct and publicize a detailed skills assessment gap on emerging skill requirements in the KPO sector (with a focus on technical skill areas) to inform youth education choices and influence tertiary institutions' curricula	1						Project	<ul style="list-style-type: none"> Emerging skills assessment conducted and published Skills assessment publicized in traditional and social media, and presented to 80% of tertiary institutions 	Ministry of Federal Education and Professional Training	<ul style="list-style-type: none"> P@SHA Ministry of Information Technology and Telecommunication
		2.1.6 Engage selected suitable tertiary education institutions to introduce new courses aimed at building the talent pool for emerging technology/market opportunities in KPO (e.g. data analytics, data enablement services and cyber security support)	3						Project	<ul style="list-style-type: none"> At least 50% of tertiary institutions engaged introduce new courses in emerging skill areas 	Ministry of Federal Education and Professional Training	<ul style="list-style-type: none"> P@SHA Ministry of Information Technology and Telecommunication

Strategic objective	Operational objective	Activity	Priority (1 = Highest)	Period				Reform or project	Targets	Leading implementing partners	Supporting implementing partners
				2023	2024	2025	2026	2027			
2. Improve talent availability for the sector's sustainable growth		2.2.1 Conduct a joint review (industry and government) of current labour laws and regulations to identify specific reforms that could better enable employment and retention of workers in BPO firms (taking into considering the special work arrangements in BPO work) and use this review to advocate authorities to enact the required changes	2						<ul style="list-style-type: none"> Review conducted and presented to relevant government authorities At least 50% of legal and regulatory gaps identified resolved by 2024 All gaps resolved by 2026 	P@SHA	<ul style="list-style-type: none"> Ministry of Labour Local chambers of commerce Securities and Exchange Commission of Pakistan (SECP)
	2.2 Address labour regulatory gaps	2.2.2 Improve BPO firms' awareness of and compliance with relevant labour frameworks through a series of briefing programmes from labour authorities to BPO firms conducted through the industry association, and upgrade the labour rules compliance capabilities of human resource professionals in the sector	1						<ul style="list-style-type: none"> At least 75% of human resource managers in BPO/KPO firms report improved awareness of relevant labour frameworks 	P@SHA	<ul style="list-style-type: none"> Ministry of Labour Local chambers of commerce SECP
3. Improve business climate for BPO/KPO businesses to compete and grow		3.1.1 Address the corporate tax anomalies between BPO/KPO and IT (software) sectors in order to create a level playing field and prevent firms from circumventing tax rules	1						<ul style="list-style-type: none"> Tax anomalies on BPO sector resolved 	Federal Board of Revenue	<ul style="list-style-type: none"> P@SHA Local chambers of commerce SECP
	3.1. Reform tax systems applicable to BPO/KPO sector	3.1.2 Conduct biannual industry–government engagement sessions to resolve operational issues in tax compliance, address procedural inefficiencies and build confidence and trust between tax authorities and industry players. (A sub-working group under the Sector Specific Council and/or a dedicated Working Committee on Tax at PASHA could be established)	1						<ul style="list-style-type: none"> Two engagement sessions held per year At least 70% of firms report improvement in tax compliance experience and procedural efficiency At least 60% of firms report improved confidence in tax authorities 	P@SHA	<ul style="list-style-type: none"> Federal Board of Revenue Local chambers of commerce SECP
		3.1.3 Introduce special import duty concessions on capital equipment focussed specifically on SME BPO/KPO firms to enable them to upgrade service offering, improve productivity and grow seat capacity in order to enhance their global competitiveness.	2						<ul style="list-style-type: none"> Special import concessions for equipment for SME BPO's upgrading introduced 	Ministry of Commerce	<ul style="list-style-type: none"> Federal Board of Revenue P@SHA Local chambers of commerce SECP

Strategic objective	Operational objective	Activity	Priority (1=Highest)	Period					Reform or project	Targets	Leading implementing partners	Supporting implementing partners
				2023	2024	2025	2026	2027				
3. Improve business climate for BPO/KPO businesses to compete and grow	3.2. Improve access to capital for BPO/KPO firms	3.2.1 Introduce dedicated financing windows under current and future credit schemes (e.g. the SME financing facility) to ensure access to non-collateralized loans and ensure administration of existing schemes are streamlined for BPO/KPO business eligibility	1						Reform	<ul style="list-style-type: none"> Dedicated financing window introduced At least 50% of BPO/KPO firms seeking finance report improved access 	Ministry of Finance and Revenue	<ul style="list-style-type: none"> State Bank of Pakistan (SBP) P@SHA Local chambers of commerce SECP Federal Board of Revenue
		3.2.2. Federal financial sector authorities and banks to collectively identify and develop new lending products to suit IT business in general, and BPO/KPO firms in particular	1						Project	<ul style="list-style-type: none"> New dedicated lending products introduced in at least three banks or non-bank financial institutions 	State Bank of Pakistan (SBP)	<ul style="list-style-type: none"> Ministry of Finance and Revenue Local chambers of commerce SECP Federal Board of Revenue P@SHA
	3.3. Make infrastructure more affordable, especially for small and new entrants to the sector	3.3.1 Introduce subsidized rent scheme for first six months in the new special technology zones for SME BPO/KPOs (eligibility to be defined by relevant authority in consultation with the industry)	1						Reform	<ul style="list-style-type: none"> Subsidized rent scheme introduced At least 50% of smaller and/or start-up BPOs/KPOs report improved infrastructure affordability 	Ministry of Finance and Revenue	<ul style="list-style-type: none"> P@SHA Local chambers of commerce SECP Federal Board of Revenue

ANNEXES

Annex I:

List of participants in the public–private consultations

Name	Designation	Organization
Arzish Azam	Advisor to Minister, MoST	MoST
Ashique Ali	Director	Talliance
Asif Raza	Deputy director	TDAP
Rohail Nazir	Assistant director	TDAP
Mujeeb Zahur	Managing director	S&P Global
Barkan Sawed	Chairman	Pasha
Azka Akhtar	Clinical Dietitian and Nutritionist	Online Nutrition Consultancy – self-employed
Muhammad Faraz	BDM (co-founder)	Redarmor Solutions
Syed Ali Abbas Hasani	Director, Operations & Admin	Pakistan Software Export Board (PSEB)
Hamzah Nasir	Managing partner, Pakistan Operations	Clayive
Ardisher Kiani	Director, Support Operations, Pakistan	KeepTruckin
Bilal Iqbal	Director, contact centre	Future Now Technologies
Omar Farooq Jamil	Senior manager, Omnichannel	Future Now Technologies
Ather Imran	CEO	Sybird Private Limited
Bashir Khan	COO	Dream Team
Rana Zeeshan	CEO	Custom Box Solutions
Adeel Makhdumi	Owner/founder	Urban Sourcing
Waqas Sethi	CEO	ANZ International Pvt Ltd
Umair Ahmad Malik	Director Pakistan operations	LlveGreeter LLC
Zeeshan Mir	Managing director	ITC
Suleman Daniel	Founder/CEO	DanZ Dispatching Services LLC
Tashfeen Hayat	Managing director	Quasar Internet Solutions
Waseem Zubair	Senior manager, Operations	Gnomen Ltd
Syed Bilal Mahmood	Managing director	Contour Software
Saima Azhar	Assistant director	TDAP
Sumair Ahmad	Research associate	Ministry of Commerce

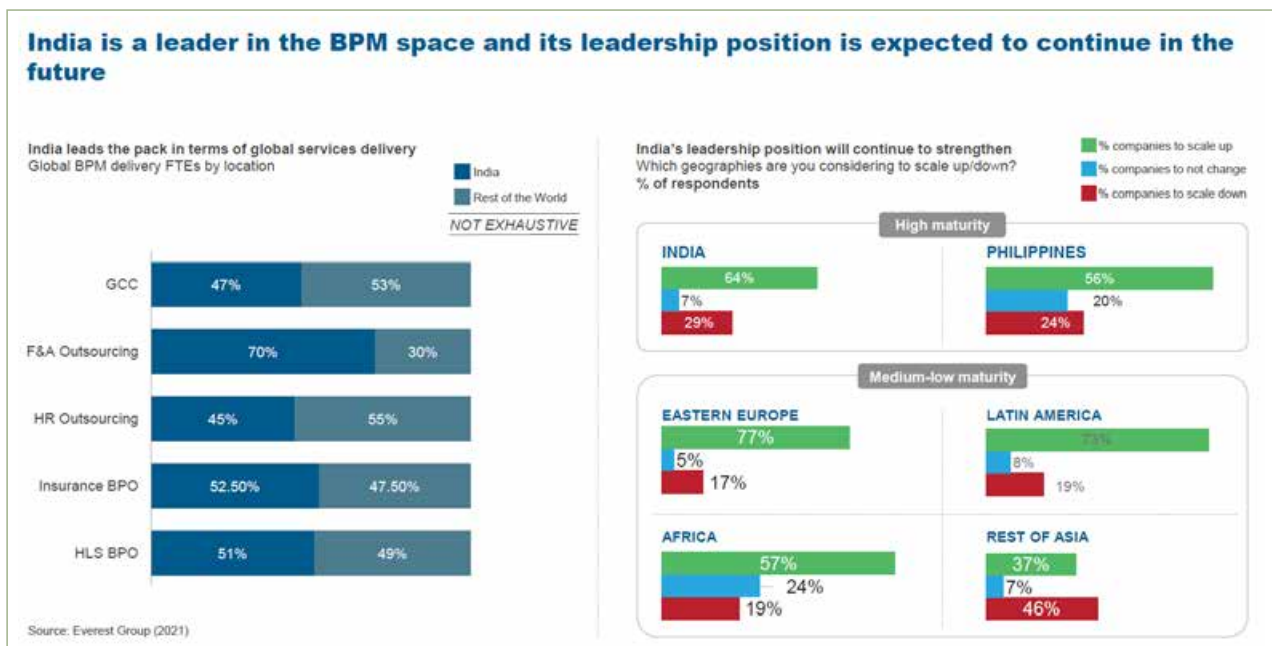
Annex II: Learning from regional experiences

Lessons from a global leader: India

BPO/BPM in India started off as voice-based call centres for telemarketing, which followed to after-sales support and non-voice-based data entry operations in the 1990s. This has now moved into dept collection, equity and bond analysis, accounting, filing income taxes and clinical drug research, etc. The sector was fuelled by the setting up of outsourcing centres

for American Express and General Electric in the late 1990s and the ramping up of operations of multinational corporations in the early 2000s. Industry growth within banking, financial services and insurance (BFSI) and telecom added up more outsourcing opportunities for India, who was, by then, an upcoming global player in BPO/BPM.

Figure 1: Comparison across different BPM markets



Source: Everest Group (2021).

India is the most mature BPM location and an indispensable part of the industry. Almost half of the global BPM workforce and one-third of all global capability centres are in India

Everest Group, April 2021.

Having a large multinational corporation presence in the country has helped India to attract many global in-house centres and pushed others to invest in open captive centres in the country. Nearly half of the global captive centres are based in India, followed by other sourcing functions such as finance and accounting, human resources, procurement and live streaming BPO, etc. with a dominant share. In the coming years, operations in the sourcing industry are poised to scale up significantly compared to other players in the market.

India has now transformed and positioned its BPO industry to BPM to thrive off the competition and add value to its offering. Asian regional peers such as the Philippines and Viet Nam came into the fray and started carving off market share on the typical 'call centre agent' business with the language fluency and, most importantly, the relationship these countries had with the global leader in BPO, the United States. Adding to that, the 'cost' as a value to service has been replaced by 'value addition' as a value to service. More than customer service, now consumers and companies are looking for user/customer experience – in other words, total solutions. India changed its game early on by offering KPO services such as accounting, legal, research and digital services, etc. This was beyond the typical 'call centre agent' services that were the hallmark of BPO business. India then transformed

and positioned its outsourcing business as BPM, adding more value-added and specialized services such as managing entire business processes, including employee onboarding, expense reporting, complete account management, invoice management, loan management and compliance management.

The IT-BPM industry reached a total revenue of \$194 billion in 2021, close to 8% of the gross domestic product (GDP), of which nearly 80% came from the export of ITES and BPM. As per the India Brand Equity Foundation (May 2021 report), 54% (\$81 billion) of IT-BPM export revenue is expected from IT services exports, while \$34.5 billion was recorded from BPM (23%) and another \$34.5 billion from engineering services and research and development (R&D) of software products (23%).

Figure 2: India's technology profile (2021)



Source: NASSCOM.

The IT and BPM industry's revenue was estimated at \$194 billion in 2021, accounting for close to 8% of the country's gross domestic product (GDP). Of this, nearly 77% revenue estimates are from the export of IT and BPM services. Moreover, 54% (\$81 billion) of IT and BPM export revenue is expected from IT services exports, while BPM is 23%, and another 23% from engineering services and R&D of software products. The IT-BPM sector, with 4.47 million employees, is the largest private sector employer of India. In 2020, alone there were more than 138,000 new recruits to the sector. India also has more than 12,500 tech start-ups, and has established delivery centres in more than 80 countries with more than 1,000 units.

As per a National Association of Software and Service Companies (NASSCOM) report of December 2020, out of 4.47 million employees in the tech sector in India, 1.6 million (36%) are women, and 62% of medium and large organizations have implemented programmes on diversification.

As per the Department for Promotion of Industry and Internal Trade, the FDI for the IT-BPM sector was the second-highest ranked in 2020. India Brand Equity Foundation (IBEF) notes that the computer and hardware sector attracted \$69 billion in April and December 2020. 'In 2020, PE investments in the sector stood at \$7.5 billion. IT & BPM led the venture capital (VC) investment with 380 deals in in 2020, contributing 71% to the total deal count' (IBEF, May 2021).

Fuelling its growth trajectory, Indian IT and BPM companies expanded their operations to onshore and nearshore, taking advantage of local regulatory frameworks and being close to its clients to serve better. Leading IT-BPM companies such as Tata Consultancy Services and Infosys are expanding headcount in the United States and Canada. As per the NASSCOM TECH BYTES monthly industry report in April 2021, the TCS is expanding its delivery centre presence in Montreal and Ohio, with plans to hire more than 500 employees in the next three years, and 800 employees by 2022, while Infosys plans to double its Canadian workforce to 4,000 employees by 2023. The TCS announced in February that it plans to recruit 1,500 employees in the United Kingdom in the next year. Further, quite uniquely, Infosys has an employee base of more than 2,000 working in the Philippines, taking advantage of the market and its reach and showing the strength of collaborative than competing mindsets. The operation commenced in 2007 and now houses several centres of excellence, such as accounting, customer service and service desk.

On emerging technologies, Everest Group, on behalf of NASSCOM, reported that more than 400 start-ups are AI related. Further, it goes to show that India is the leading country for RPA development. Patent

filing across emerging technologies is gaining pace in India according to a NASSCOM study. It is reported that more than 6,500 patents for IP were created in the United States by Indian companies in 2015–19. Already, India is driving towards making the country a global AI innovation hub. As per *The Economic Times* (18 June 2021), India ranks 8th in terms of AI patent filing and 4th in terms of AI research papers globally.

The cohesion of the industry, government and academia in India gives rise to the dominant IT-BPM sector. Having identified the role of an inclusive workforce to meet the growing demand, the organizations and regulatory framework adapts a well-rounded approach to keep the resources engaged.

Figure 3 shows some of the initiatives and programmes that inculcate a culture of inclusiveness and encouragement for women to join and expand in the IT-BPM industry. The figure presents the leading establishments that have adapted and executed these programmes, such as safety of women at the workplace, including people with disabilities and lesbian, gay, bisexual, transgender, queer and intersex (LGBTQI+) talent acquisition, skilling programmes for women, and retaining women in the workforce.

Figure 3: Recalibrating culture and policies for hybrid work model



Source: Rising Together: Diversity, Equity & Inclusion in a Changing World, released by NASSCOM in March 2021.

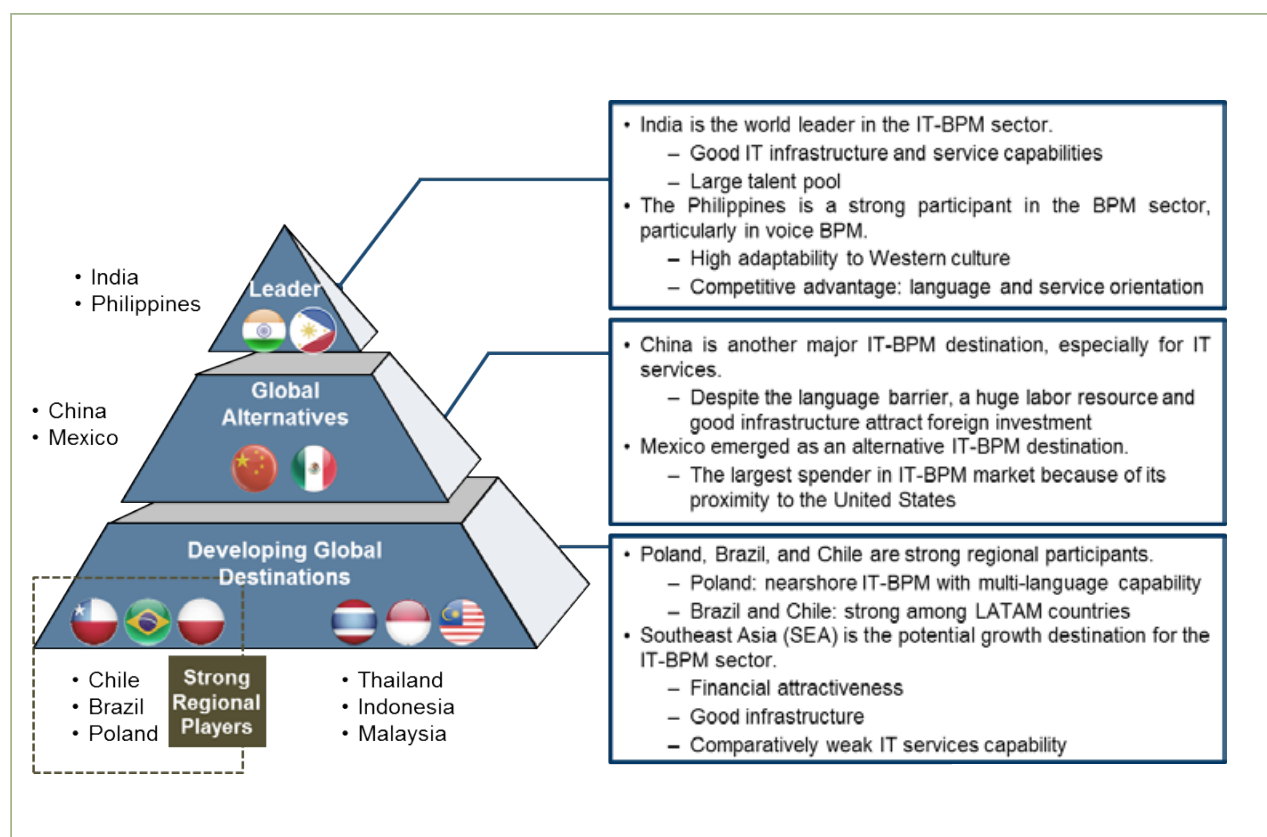
Philippines

As per the IT & Business Process Association of the Philippines (IBPAP), the country overtook India in voice-based sourcing services in 2010. As per the Department of Information and Communications Technology of Philippines, the IT-BPM sector contributed an export revenue of \$26.7 billion in 2020, employing 1.32 million resources.

For the last decade, the Philippine IT-BPM sourcing business remains in a leadership position along with India, while having a larger market share in voice-based services due to the language fluency, soft skills and historic relationship with the United States. Currently, the country enjoys an 18% market share on voice-based services.¹¹ The number of full-time employees is projected to increase from 1.3 million in 2019 to 1.8 million by 2022, a CAGR growth of 7.8%.



Figure 4: Competitive positioning of IT-BPM centres



Source: Frost & Sullivan analysis, 2018.

11.– Source: <https://www.bworldonline.com/government-dropped-the-ball-in-the-it-bpm-industry/>.

Figure 5: Assessment of the Philippine IT-BPM sector

Source: Based on a workshop with the IT & Business Process Association of the Philippines (IBPAP) Board of Trustees.

Figure 5 shows the strength of language proficiency, tone of voice (friendly) and cost leadership positions. The country, however, is moving up from cost leader position to offer value servicing, as more regional countries (e.g. Viet Nam and China) are now entering the sphere with low-cost services.

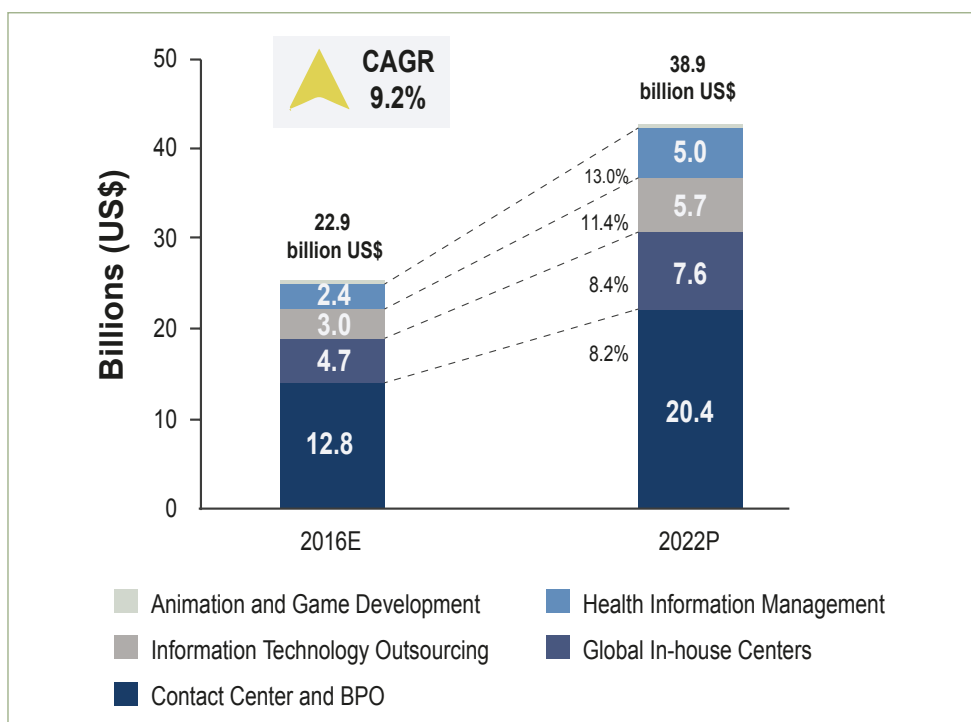
Moving up the value chain, the Philippines identified the following offerings and services as opportunities to grow during the six years, starting in 2016.¹²

- Contact centre and BPO subsector:
 - » Engineering services outsourcing (ESO), data analytics, performance management and legal process outsourcing (LPO).
- Information technology services subsector:
 - » Application development management (ADM), system integration, automation enablement and internet of things-enabled languages (e.g. Python programming).
- Health information management subsector:
 - » Preventive health, remote healthcare management and provider services.
- Animation and game development subsector:
 - » 3D animation, augmented and virtual reality (AR/VR), and gamification.
- Global in-house centre subsector:
 - » Industry specific services for telecom, healthcare, insurance and pharmaceuticals.



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12.– Source: The Philippine IT-BPM Sector Roadmap 2022, by the IT & Business Process Association of the Philippines (IBPAP) and Frost & Sullivan (2016).

Figure 6: Current and projected headcount of IT-BPM sector in the Philippines

Source: Frost & Sullivan analysis, 2018.

Taking note of the changes in the technologies, especially the threat of emerging tech such as RPA, internet of things (IoT), machine learning and the Philippine dominant voice-based services, the country plans to drive multiple programmes to compete and retain its leadership position in the sourcing business.

Following are a few of the high-impact programmes:

- **Human capital:** Interventions to expand, upgrade and attract a supply of fresh graduates and career shifters, as well as retain and develop the existing workforce.
- **Inclusive growth:** Interventions to create more diversified, nationwide growth of the IT-BPM sector and

the improved capabilities of local government units to attract and sustain IT-BPM sector investments.

- **Country competitiveness:** Interventions to enhance international competitive positioning of the Philippine IT-BPM sector.
- **Government support:** Interventions to strengthen government–industry collaboration.
- **SMEs and start-ups:** Interventions to create a vibrant SME and start-up ecosystem contributing to the IT-BPM sector.
- **Impact of technology:** Interventions to enable increased adoption of technology with a view to drive the sector's productivity and competitiveness and to ensure the development of a future-ready workforce.

Viet Nam

Oxford Business Group states that Viet Nam is still a boutique market when it comes to outsourcing and lags behind its regional peers such as India and the Philippines. However, Viet Nam has overtaken India to become Japan's second-largest software outsourcing partner after China, accounting for approximately 21% of the market. Viet Nam has 20,000 employees working

for Japanese companies providing BPO services (Kearney, 2019).

Viet Nam has 55.5% of the population younger than 35 years (2019 Population Census Report), a literacy rate of 98.5%, and more than 60% internet users and 55% smartphone users. Having connected 99% of the provinces with 4G, it ranked 47th out of 127 in the

Global Innovation index (G11-2017), and was ranked 67th Most Competitive Nation in the world, out of 140 countries, by the World Economic Forum's Global Competitiveness Report in 2019. Hanoi and Ho Chi Minh City are among the Top 10 Dynamic Cities in the World according to the City Momentum Index, 2019. Gartner recognized Viet Nam as the Tier 1 Emerging Offshore Outsourcing Location in the APAC region in 2015 and KPMG International Limited stated it is an attractive destination for IT outsourcing service thanks to its young and highly trainable labour force, competitive cost structure and a stable business environment (2015).

There was a surge of large-scale global companies such as Intel, Nokia, LG, Samsung and Microsoft setting up manufacturing operations in the country. Out of the total hardware products manufactured and exported, mobile phones have the lead, with more than 60% share (Ministry of Information and Communications, 2014).

The Vietnamese IT-BPM industry is relatively new, but is catching up fast. Though the sourcing services from Viet Nam don't cover end to end, as only a limited number of companies have more than 1,000 full-time employees and most companies have fewer than 500 employees, they are able to provide application development and testing, customization, maintenance and support. (Oxford Business Group, 2016).

Viet Nam is rapidly moving up the ranks to position itself as an outsourcing destination in South-East Asia. Multiple initiatives and regulatory frameworks have been introduced to catch up market share, such as a 98% tariff reduction within the ASEAN region for cross-border trade and investment, infrastructure improvements driven by large multinational corporations setting up plants, adherence to international standards

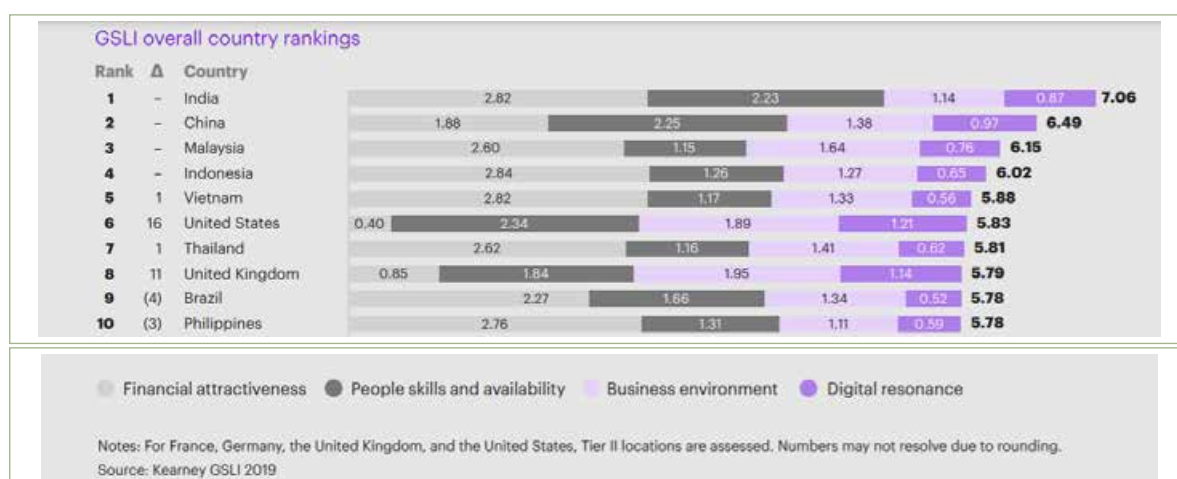
of doing business, and the pledge to execute more business-friendly policies for foreign enterprises and investments. Outward-looking, market-oriented economic policies have seen an influx of private enterprises and foreign investment in recent times. The drivers have paved the way for Viet Nam to become a dominant player in the BPO industry along with the following accolades.

- Ho Chi Minh City as a top outsourcing city for eight consecutive years (Tholons, 2009–16);
- Top-ranked pioneering location and cost environment for BPO services in BPO and Shared Service Location Index (Cushman and Wakefield, 2016);
- The next BPO giant according to 'Spotlight on Viet Nam' (Pricewaterhouse Cooper, 2017);
- Ranked 5th in Top 10 global locations for offshore services (Gartner, 2016);
- Ranked 5th in Global Services Location Index (Kearney, 2019);
- Ranked 67th Most Competitive Nation in the World (World Economic Forum, 2019).

Source: Outsource Asia (September 2020).

Viet Nam entered the BPO market late when compared to other Asian countries, which jumped into the BPO services frenzy in the mid-1990s. However, it got attention and now is ranked as the 5th topmost outsourcing location in the world (Figure 7).

Figure 7: Kearney Global Services Location Index 2019, Digital Resonance





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Viet Nam has the following competitive sourcing factors.

- Strategic location – gateway to East Asia and Pacific;
- Integration into the global economy – part of global trade agreements such as the implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and ratification of the European Union-Vietnam Free Trade Agreement (EUVFTA);
- Improving business regulations – ranked 70th out of 190 economies in Ease of Doing Business 2020;
- An emerging middle class with increasing purchasing power – forecast to be among the Top 20 economies in the world by 2050;
- Young population with growing skill set – the median age is 32.5 years, which comprises 70% of all Vietnamese; the emerging middle class comprises 13% of the population, the literacy rate is more than 95% literacy rate and there is more than 77% labour participation;
- Fast, stable economic growth – export-oriented manufacturing and processing industry, robust domestic demand, rising FDI flow and high fintech investments;
- Competitive labour cost – salary ranges in 2020 were \$132–\$190 per month.

Source: Outsource Asia (September 2020).

To summarize, Viet Nam has convincingly taken over the cost leader position in BPO services using its political stability, literate younger population, connectivity, geopolitical relations, ease of doing business regulatory frameworks, and geographic location for nearshore

and onshore services in the East Asia and Pacific market. The industry is poised for a rapid growth trajectory alongside the World Bank-predicted economy growth rate of 6.6% in 2021.

Annex III:

Institutional capacity

Table 1: Pakistan BPO services industry stakeholders: role and capabilities

Name of institution	Type of institution ¹³	Role played by the institution	Capability check		
			Resources ¹⁴	Capacity ¹⁵	Influence ¹⁶
Federal Board of Revenue	B	Taxation of income and sales at a federal level	1	1	1
P@SHA	C	Association of IT firms; advocacy and lobbying to ensure government support, but focus on BPO specifically is low	2	3	2
PSEB	B	Promotion and facilitation of IT exports	2	2	2
MoITT	A	Development and regulation of IT infrastructure and resources at federal level	2	2	2
Ministry of Finance and Revenue	A	Development and regulation of finance and revenue	2	2	1
Contact Center Association of Pakistan	C	Private forum meant to provide a platform	1	1	1
State Bank of Pakistan	A	Central bank	1	1	1
Sindh Revenue Board (SRB)	A	Taxation of services in Sindh	1	1	1
Punjab Revenue Authority (PRA)	A	Taxation of services in Punjab	1	1	2
Khyber Pakhtunkhwa Revenue Authority (KPRA)	A	Taxation of services in Khyber Pakhtunkhwa	2	2	2
Intellectual Property Organization of Pakistan	B	Protection of intellectual property	3	3	3
Ministry of Commerce	A	Development and policymaking for growth in domestic and international commerce	1	2	2
TDAP	B	Development of trade activities of goods and services	1	2	3

Source: ITC, based on stakeholder consultations.

13.– A) Public sector ministry; B) Public sector specialized agency/statutory body; C) Private sector chamber or trade association; D) Private sector support service provider; E) Donor agency/aid project; F) Other.

14.– How well financially resourced to support sector development needs: 1. Very well resourced; 2. Somewhat well resourced; 3. Poorly resourced.

15.– Capacities in the institution to support sector development needs: 1. High capacity; 2. Moderate capacity; 3. Low capacity.

16.– How influential is this institution to drive sector development: 1. Very influential; 2. Somewhat influential; 3. Not influential.

Annex IV:

Detailed description of the plan of action activities

STRATEGIC OBJECTIVE 1: ENHANCE SECTOR RECOGNITION AND COMPETITIVENESS DOMESTICALLY AND INTERNATIONALLY

Operational Objective 1.1: Promote specific recognition of the BPO/KPO sector in Pakistan

1.1.1. Strengthen the BPO/KPO voice and representation in existing sector associations (P@SHA) and government institutions (e.g. TDAP, PSEB, MoC and MoITT, etc.) to identify and implement specific measures for sector recognition in policy and regulatory matters through a series of public–private dialogues between industry representatives .

1.1.2. Engage in a series of public–private dialogues between industry representatives and government institutions (e.g. TDAP, PSEB, MoC and MoITT, etc.) to identify and implement specific measures for sector recognition in policy and regulatory matters.

1.1.3. Formulate definition and industry scope for BPO and KPO sector in order to inform future policy frameworks governing the sector and related regulations.

Within Pakistan, the BPO sector is still gaining prominence and certain frameworks are not yet particularly well suited to the sector's unique characteristics. While industry stakeholders acknowledge the need for greater sector recognition and clearer industry definition and scope, this could not be decided overnight and must be done in a focused manner over successive sessions between the industry and public sector agencies. Better identification of measures that boost sector recognition – particularly in the policy and regulatory space – as well as tighter definitions and scope of the sector and types of activities in the sector, will help remove any regulatory ambiguities that often add unnecessary burdens on firms and hinder business growth.

Operational Objective 1.2: Strengthen Pakistan BPO/KPO sector's global market positioning

1.2.1. Commission a benchmarking and marketing study (e.g. Gartner and Kearney, etc.) on Pakistan BPO/KPO sector to identify specific unique selling propositions and promote the destination.

1.2.2. Use the above sector benchmarking assessment and/or develop marketing collateral featuring Pakistan's BPO/KPO capabilities, sector development initiatives and incentives, and top business profiles (case studies of success).

1.2.3. Conduct information sessions (by the industry, coordinated by lead government agency) for Pakistan's commercial counsellors abroad to improve their ability to promote the destination for BPO/KPO exports and investment, and provide them with the marketing collateral developed.

1.2.4. Improve capabilities in key government agencies (e.g. TDAP and PSEB) through a series of briefing programmes from the industry to promote the BPO/KPO sector (including in conducting and providing market intelligence to the sector) and appoint a dedicated sector officer to support BPO/KPO sector development activities.

These activities are all anchored to the purpose of strengthening the positioning of Pakistani BPO in the minds of the international market. Many sourcing destinations often turn to globally reputed technology analytical firms like Gartner and Kearney to publish benchmarking reports on their industry, in order to gain global recognition quickly from an independent and credible third-party source. Public resources would need to be allocated for such an exercise, given that no single firm or group of firms may be willing to bear the cost. Eventually, the outcome will be beneficial for the entire industry. Based on the benchmarking report, Pakistan should develop targeted marketing material to promote key features of strength that the report identified and also conduct information sessions for the country's diplomats to advocate for new business in priority markets.

Operational Objective 1.3: Enhance sector competitiveness in emerging technologies and markets

1.3.1 Conduct an annual ‘emerging trends’ summit (with international speakers etc.) as an industry development exercise to showcase industry achievements/developments and to identify and create awareness on new market trends and business opportunities at a sector-wide level, to drive increased competitiveness, continual upgrading of the sector and product diversification.

1.3.2 Embark on a time-bound and focused investment promotion drive to encourage leading multinational corporations with operations in Pakistan to set up captive centres (global in-house centres) in the country, to serve the broader region as well.

The above activities aim at creating awareness on emerging business opportunities and the market trends in the sector to attract investment to set up captive centres in the country, thus resulting in product diversification.

STRATEGIC OBJECTIVE 2: IMPROVE TALENT AVAILABILITY FOR THE SECTOR’S SUSTAINABLE GROWTH

Operational Objective 2.1: Increase the talent pipeline for BPO enterprises and promote talent retention

2.1.1. Introduce rapid conversion courses for school-leavers (high school graduates, pre-university) and university graduates interested in entering the BPO sector to obtain required skills for a BPO sector job in a short time period.

2.1.2. Industry to partner with the Ministry to introduce to introduce short-term basic skills programmes (e.g. English proficiency) in local vocational training institutes/centres to quickly upgrade the available talent pool for BPO firms.

2.1.3. Conduct awareness workshops for young people (in colleges, etc.) to understand job opportunities and career prospects in the BPO sector

2.1.5. Conduct and publicize a detailed skills assessment gap on emerging skill requirements in the KPO sector (with a focus on technical skill areas) to inform youth education choices and influence tertiary institutions’ curricula.

2.1.6. Engage selected suitable tertiary education institutions to introduce new courses aimed at building the talent pool for emerging technology/market opportunities in KPO (e.g. data analytics, data enablement services and cyber security support).

The above activities are all aimed at improving the quantity and quality of the human resource pool to support the sector’s growth ambitions. This ranges from introducing programmes in vocational institutes to improving basic skills and rapid conversion courses from other disciplines to the BPO sector, as well as introducing more advanced tertiary programmes to help strengthen competitiveness in emerging technologies. Additionally, there is a need for youth to understand the career opportunities in the sector, as well as understand the current and emerging skill requirements, so that it conditions their education and career choices.

Operational Objective 2.2: Address labour regulatory gaps

2.2.1. Conduct a joint review (industry and government) of current labour laws and regulations to identify specific reforms that could better enable employment and retention of workers in BPO firms (taking into considering the special work arrangements in BPO work) and use this review to advocate authorities to enact the required changes.

2.2.2. Improve BPO firms’ awareness of and compliance with relevant labour frameworks through a series of briefing programmes from labour authorities to BPO firms conducted through the industry association, and upgrade the labour rules compliance capabilities of human resource professionals in the sector.

It is not unusual to not have a country’s labour regulations perfectly aligned to the modern needs of the BPO industry. The activities under this operational objective are aimed at revealing and resolving gaps in the current labour regulations and adjustments needed to make them more suited to the BPO industry’s current and emerging requirements. Alongside these business environment-related frameworks, firm-level improvements are also required – for example, improvement of internal human resource compliance with labour frameworks. Additionally, a relevant activity from Operational Objective 2.1 (given below) is linked to the same purpose, as it relates to improving internal capabilities to ensure employee retention and growth.

2.1.4. Improve internal human resource development capabilities at firm-level to improve employee retention, continuous professional development, mental health and other needs.

STRATEGIC OBJECTIVE 3: IMPROVE BUSINESS CLIMATE FOR BPO/KPO BUSINESSES TO COMPETE AND GROW

Operational Objective 3.1: Reform tax systems applicable for BPO/KPO sector

3.1.1. Address the corporate tax anomalies between BPO/KPO and IT (software) sectors in order to create a level playing field and prevent firms from circumventing tax rules.

3.1.2. Conduct biannual industry-government engagement sessions to resolve operational issues in tax compliance, address procedural inefficiencies and build confidence and trust between tax authorities and industry players (a sub-working group under the Sector Specific Council and/or a dedicated Working Committee on Tax at P@SHA could be established).

The taxation frameworks for the IT industry is continually evolving as authorities learn more about what IT-enabled services businesses need. Yet, in this process, there seems to be a hidden divide created between IT (software) businesses and BPO/KPO businesses. The activities above are aimed at resolving these tax anomalies to create a more even playing field, and to institute a regular tax dialogue to keep raising and resolving tax-related issues between industry and authorities on a periodic basis.

3.1.3. Introduce special import duty concessions on capital equipment focussed specifically on SME BPO/KPO firms to enable them to upgrade service offering, improve productivity and grow seat capacity in order to enhance their global competitiveness.

As the industry moves towards upgrading technology solutions, and advancing productivity and service delivery, BPO firms will need to invest in new hardware and infrastructure. Industry players face high capital costs and require upfront expenditure to be lower in order to incentivize upgrading. As such, special duty concessions on capital expenditure imports should be introduced to enable this.

Operational Objective 3.2: Improve access to capital for BPO/KPO firms

3.2.1. Introduce dedicated financing windows under current and future credit schemes (e.g. the SME financing facility) to ensure access to non-collateralized loans and ensure administration of existing schemes are streamlined for BPO/KPO business eligibility.

3.2.2. Federal financial sector authorities and banks to collectively identify and develop new lending products to suit IT business in general, and BPO/KPO firms in particular.

Most BPO firms rely on equity financing for their expansion (and even working capital requirements), which reduces the founders' ownership position. Ideally, firms should also have good access to debt finance as an alternative for use at the appropriate times in a business's lifecycle. Recognizing the difficulties BPO firms face in accessing non-collateralized lending, these activities are aimed at improving access to dedicated financing windows and improving the availability of new loan products for BPO firms. Already, some banks –with support from the State Bank of Pakistan– have begun introducing better-structured loan products for technology sector firms, and this will no doubt help BPO firms as well. Such initiatives need to be expanded and strengthened. Banking sector players would need to periodically dialogue with industry players in order to understand how to better structure debt capital products to suit BPO firms' unique business models and cash flow cycles. The industry could consider annually rewarding/recognizing financial institutions with the most innovative products for the sector.

Operational Objective 3.3: Make infrastructure more affordable, especially for small and new entrants to the sector

3.3.1. Introduce subsidized rent scheme for first six months in the new special technology zones for SME BPO/KPOs (eligibility to be defined by relevant authority in consultation with the industry).

While new technology zones are being established and are likely to address the current infrastructure/space constraint, it is expected that smaller BPO players would be priced out of the market and would continue to face difficulties in access and affordability. As such, this activity envisages introducing a scheme to bring down initial costs for smaller firms (especially start-ups), and the size of firm could be defined by the relevant authority in consultation with the industry. The purpose is to ensure that such firms also have access to good-quality infrastructure to support their growth, and to encourage new firm creation/new entrants into the sector.

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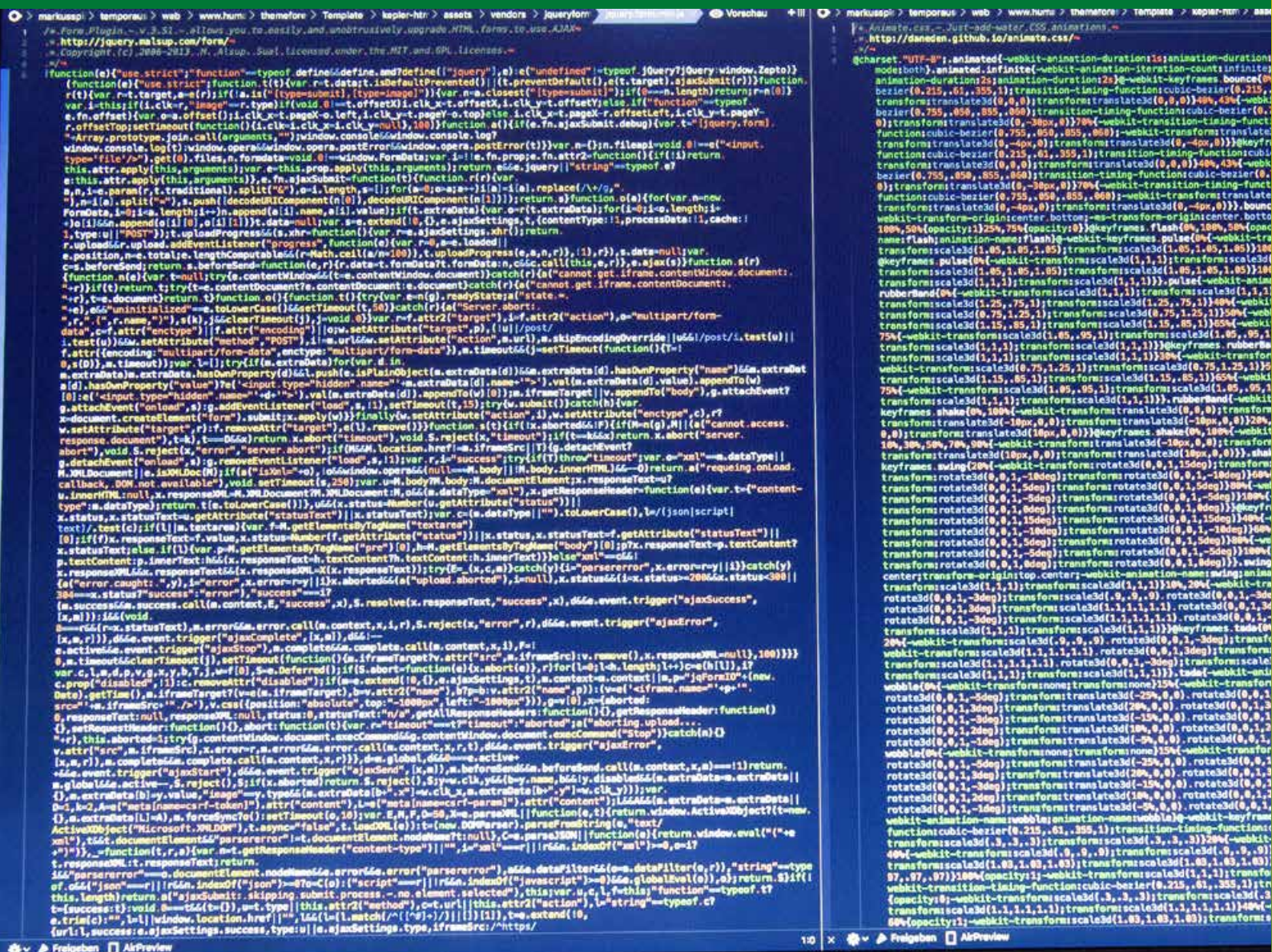
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