

Problems and prospects of Business Process Outsourcing in Nepal

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The services sector's contribution to many countries' gross domestic product (GDP) and employment has been significant over the years. It has contributed enormously to employment growth, productivity and innovation in most countries.¹ In Nepal, the share of the services sector in the country's GDP was 53 percent in 2000/01, which rose to 57 percent in 2011/12.² However, the services sector's contribution to employment in Nepal is not very significant. According to the Nepal Labour Force Survey 2008, only 16.5 percent of the economically active population was employed in the services sector. International trade in services has also gained tremendous importance in the last few

decades. According to the latest *World Trade Report* published by the World Trade Organization (WTO), world exports of commercial services rose by 11 percent to reach US\$4,170 billion in 2011, up from the pre-crisis level of US\$3,850 billion in 2008. While services trade is significantly important to most of the countries in the world today, it is more so in the case of landlocked developing countries (LLDCs). That is because most services do not require transport and transit facilities for international trade, which most LLDCs sorely lack. This is also corroborated by the fact that the share of services trade income in total income of Nepal increased from 62.4 percent in 2004/05 to 72.6 percent in 2010/11.³

The growing volume of services trade worldwide necessitated the establishment of a mechanism that would regulate international trade in services. Accordingly, the General Agreement on Trade in Services (GATS)—the first and only set of multilateral rules governing international trade in services—was put in place as part of the WTO in 1995. GATS covers all internationally-traded services, such as banking, health, education, tourism, professional services, including communication and information, among others. It also categorizes modes of services delivery into four types, namely, cross border supply (mode 1), consumption abroad (mode 2), commercial presence (mode 3) and movement of natural persons (mode 4).

It is the advancement in technology, such as telecommunication, computer, internet, satellite, among others, that has helped services trade to grow over the years. For example, progress made in information and communication technology (ICT) has made cross-border trade possible. A software producer of country A, for instance, can export his/her software to country B electronically without physically crossing the border. Similarly, a computer manufacturer from country X can have an outsourced technical support firm/personnel based in country Y, who could help a customer in country Z to solve a technical issue. Thus, technology has paved the way for trade in new types of services, including information technology (IT)-enabled services. Business Process Outsourcing (BPO) is one of them.

Business Process Outsourcing

BPO is a business model that involves transferring all or some processes of operations, and responsibilities, of a specific business or an enterprise to a third-party service provider or to its own subsidiary. The transferred tasks are generally non-strategic and non-core in nature, but essential for smooth operations of a business enterprise. The main objective of BPO is to reduce the operating cost and enhance the quality of service, while the main enterprise focuses solely on its core competencies.

According to a technology research and consulting firm *ebis*, BPO has evolved over many years.⁴ Offshoring of business processes began with offshoring of time-sharing data processing in the 1960s; data processing in the 1970s; entire IT operations in the 1980s; shared business services in the 1990s; and internet-enabled business-to-business alliances/consortia, internet-enabled process outsourcing and IT-enabled offshore services in the 2000s. Over the years, BPO has moved from being simply transactional to being

strategic. Owing to huge opportunities offered by BPO, large corporations too have ventured into the business and have set up BPO operations all over the world. The International Association of Outsourcing Professionals, which conducts an independent assessment of capabilities of outsourcing companies and publishes “The Global Outsourcing 100” annually, categorized Accenture, Infosys, HCL Technologies, CBRE, ISS, NCR, Wipro Technologies, Capgemini, CSC and TeleTech as the top 10 outsourcing companies in 2012.⁵

BPO services are generally categorized into horizontal and vertical services. Horizontal BPO involves function-centric outsourcing in which the vendor specializes in carrying out particular functions across different industry domains. Outsourcing in procurement, payroll processing, human resource management, facilities management and other similar functions are some examples of horizontal BPO. In a vertical BPO, various functional services are provided in a limited number of industry domains. Healthcare, financial services, manufacturing and retail are some examples of vertical BPO domains. Similarly, BPO services are also categorized as front office and back office services, or voice and non-voice services. Front office (voice) services require service providers to deal directly with customers, such as in call centres, whereas back office (non-voice) services, such as medical transcribing and accounting, do not require a face-to-face or telephonic interaction with the client.

Depending on the distance of the outsourced company from the parent company, a BPO is categorized as an on-shore BPO, a near-shore BPO or an off-shore BPO. In an on-shore BPO, the activities are outsourced to another company within the country; a near-shore BPO is the one in which the activities are outsourced to a neighbouring country; and in an off-shore BPO, the activities are outsourced to a country far from the parent company. Although on-shore and near-shore BPO have existed for a few decades, off-shore BPO gained momentum only in recent times.

The changing global scenario of business, increasing competition, and the pressure to cut down operating costs necessitated large companies to look into different avenues. They gradually off-shored many components of their business operations, mostly to developing countries like India, where the labour was cheap but more or less of the desired quality. This, in turn, has resulted in a win-win situation for both the large companies and the host developing countries. While the former have managed to reduce their costs of business

without compromising the quality of their services, the latter have gained in terms of increased revenue from exports, contribution to GDP and employment creation. However, the outsourcing companies have also been criticized for shifting jobs to other countries, leaving a huge population in their home country without work.

Global scenario of BPO

The increasing trend of computer and information services exports, which reached US\$250 billion in 2011, posting more than a five-fold increase since 2000 (See Figure), indicates that exports of BPO services have also grown over the years. Ovum, an independent technology analyst, has predicted that the worldwide BPO market will fetch revenues of US\$93.4 billion in 2015, up from the US\$71.92 billion it earned in 2010, which is a compound annual growth rate (CAGR) of 5.4 percent.⁶

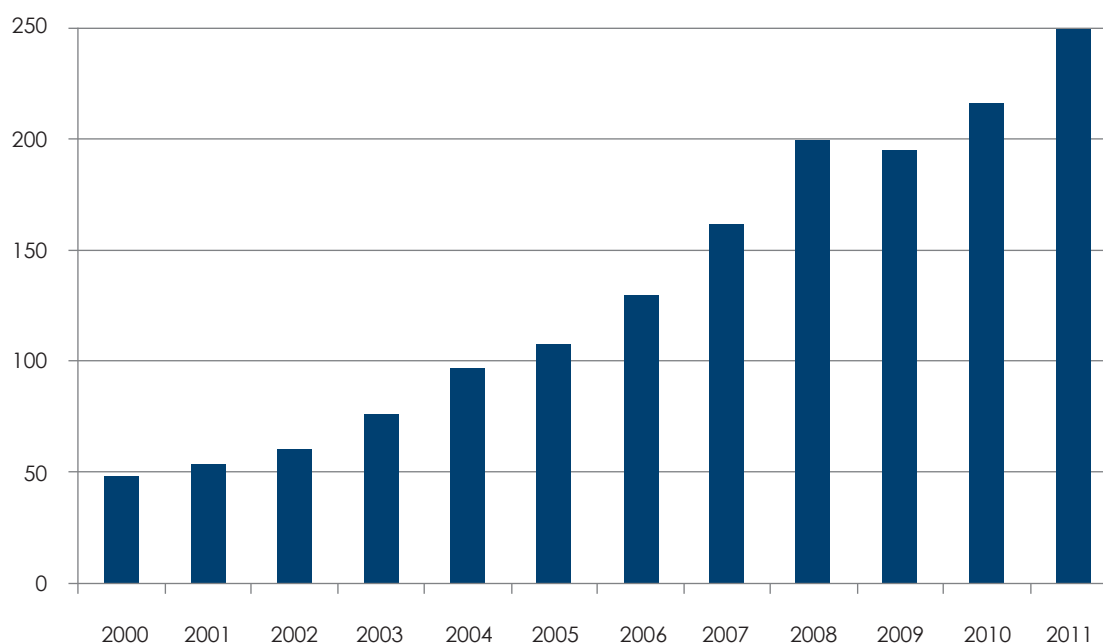
Strong growth in emerging economies such as India and China is believed to drive the global BPO market forward as businesses in these economies wake up to the benefits of BPO. According to Ovum's forecast, the BPO market in Greater China will increase at a CAGR of 16.1 percent during the period December 2010 to December 2015. Meanwhile, India's market will increase by 15.7 percent during the same period.

India, China and the Philippines, among others, have been successful in tapping the huge opportunities provided by the emergence of BPO. According to the National Association of Software and Services Companies of India, within the global outsourcing industry, India was able to increase its market share from 51 percent in 2009 to 58 percent in 2011.⁷ Its revenues from software and services (excluding hardware), comprising nearly 87 percent of the total industry revenues, was US\$87.6 billion in 2012, which is an estimated growth of about 14.9 percent over 2011. The industry remained a net employment generator providing direct and indirect employment to about 2.8 million and 8.9 million people, respectively, in India.

Similarly, in the Philippines, the Business Processing Association of the Philippines has projected the revenues of the country's BPO industries to reach US\$16 billion in 2013. In 2011, it was US\$11.56 billion, accounting for 5 percent of the country's GDP.⁸

Apparently, the BPO sector is growing and is expected to grow at a steady pace in the near future. Particularly, outsourcing of some specific services in the years ahead look promising. For example, the outlook for healthcare outsourcing looks bright. That is because, it is estimated that in the United States (US), due to the new Healthcare Reform Act, there will be 30 million

Figure World exports of computer and information services (US\$ billion)



Source: Trademap online database.

additional individuals who will have health insurance. That will create immense pressure on hospitals, doctors, nurses, etc. in the US to attend the growing number of patients, and on insurance companies to process the claims and get them paid. Hence, outsourcing will be the solution to get the job done smoothly.⁹ This is an encouraging sign for the BPO industries in Asia, which are well placed to absorb the maximum business.

BPO in Nepal

Compared to its neighbours, the scale of output of BPO companies in Nepal is rather small. However, it is an emerging sector. According to the Computer Association of Nepal (CAN), there are more than 6,000 BPO companies in the country of which only 256 are legally registered.¹⁰ Therefore, it is difficult to ascertain the exact number of companies in operation, their total exports, revenue received and the number of people employed by the sector in the country.

There are a few companies that have been doing well in this sector for the past few years. These companies have been providing various services such as back office (finance and accounting, administrative services, back office processing for human resources, etc.); customer support (IT help desk); data entry; call centres; telemarketing; remote infrastructure management; medical transcription; software development; and animation; among others. They have been providing these services to their clients in Nepal as well as in the US, Europe, Africa and the Asia-Pacific region. Low wages and availability of English speaking graduates has, to a large extent, benefited the Nepalese BPO industry.

Government of Nepal's efforts to promote the IT and BPO sector

The first-ever policy put in place by the Government of Nepal (GoN) specifically targeting the IT sector is the Information Technology Policy 2000. In line with the Policy, the government set up the National Information Technology Centre in 2002. Eight years after the formulation of the Information Technology Policy, considering the rapid changes taking place in the IT sector worldwide, the government put in place a new Information Technology Policy in 2011. One of the policies of the Information Technology Policy 2011 is to give special priority to the promotion of different IT-enabled services, including BPO. Legal instruments that have prepared the foundations for the growth of the IT and BPO sector in Nepal are the Telecommunications Act 1997 and the Electronic Transactions Act 2006.

To promote the overall ICT sector, in 2003, the GoN established the High Level Commission for Information Technology (HLCIT) under the chairpersonship of the Prime Minister. The major objective of establishing the Commission was to provide crucial strategic direction, and help take appropriate policy measures for the development of the ICT sector in the country. Another objective of establishing the HLCIT was harnessing ICT to meet key developmental challenges, including governance reform, and catalysing economic growth for poverty reduction. The HLCIT helped provide strategic direction and also worked as a conduit between the public and private sectors. Unfortunately, it was dissolved later, and therefore, ceases to exist today.

In 2009, the GoN put in place Trade Policy 2009 repealing the earlier Trade Policy 1992. In the new Trade Policy, the government has chosen the IT sector as one of the services sectors to be developed and promoted as a special thrust area. Similarly, in 2010, the Ministry of Commerce and Supplies prepared the *Nepal Trade Integration Strategy (NTIS)*¹¹, in which 19 goods and services having high export potential have been identified, and measures have been suggested to enhance their exports. The IT and BPO sector, considered to be having medium export potential as well as medium socio-economic impact according to the NTIS, is also one of the 19 sectors thus identified (See Box 1 for some highlights of the sector as mentioned in the NTIS).

Regarding its international commitments, the GoN has made liberal commitments in the ICT sector in the WTO. As reflected in the sub-sector "Computer and related Services", it has allowed up to 80 percent foreign equity participation in the sector for companies incorporated in Nepal. Mode 4 commitments, however, are the same across the entire services sectors in which the country has made commitments.¹²

At the regional level, member countries of the South Asian Association for Regional Cooperation have put in place the SAARC Agreement on Trade in Services since 2010 to complement the Agreement on South Asian Free Trade Area, which covered only trade in goods. Member countries are now in the process of negotiating schedules of commitments in the different services sectors, including the IT and BPO sector, for services trade liberalization at the regional level. Therefore, there is a need for Nepalese stakeholders to come together and identify issues that need to be raised during the negotiations so that the outcomes are in the country's larger interests.

Box 1 IT and BPO sector in Nepal: An overview

- There has been an increase in both homegrown business and foreign subsidiaries in the IT sector in Nepal over the past few years, the domain of work being data processing, call centre operations, medical prescription transcribing, map digitization, and animation, among others.
- There is no reliable and official data about the export value of the IT sector. Estimated export values are in the range of US\$5.4 million to US\$10 million.
- There are at least 10 large companies with 50 or more employees, and a larger number of small companies that often consist of 15-20 people. Based on discussions with industry experts, estimates suggest that the total number of employees in the IT and BPO export sector in Nepal is 2,500.
- IT and BPO services are exported to different countries, mainly member countries of the European Union, United States, Japan, Australia and New Zealand. The volume of IT services trade with India is negligible.
- There is no significant labour cost advantage to Nepal in the IT and BPO sector compared to other low-cost suppliers because of low labour productivity at home. Although the overall production cost is generally low, it is not considered to be lower than in India. However, since labour costs in India are increasing fast, it could offer new opportunities for Nepal.
- The average salary of the human resource employed in this sector was estimated to be US\$400 per month in 2004. Currently, programmers often earn well above US\$500 a month, with some earning up to US\$2,000.
- In 2004, only 14 percent of the employees in the sector were female.

Source: MOCS (2010). Note 11.

Challenges facing Nepal's BPO sector

Growth of the BPO sector worldwide is an opportunity for Nepal as well. However, there are a number of challenges that the country needs to overcome to benefit from this opportunity. As discussed earlier, lack of data on BPO companies in Nepal makes it extremely difficult to ascertain the current status and future course of the BPO sector. Nevertheless, based on available literature and interactions with stakeholders, it can be inferred that, as in the case of every other industry, the major challenges to the BPO sector in Nepal are supply-side constraints. These, as well as other challenges discussed below, need to be jointly addressed by the government and the private sector to take advantage of the possible benefits of BPO in the days to come.

Lack of adequate infrastructure

Electricity is a major pre-requisite for the IT and BPO sector. But for the past few years, there has been acute shortage of electricity in Nepal. Therefore, most of the industries are dependent on captive generators that run on petro-fuel to meet their electricity needs. Due to the lack of domestic sources, the country depends entirely on imports of petro-fuel. This has raised the cost of doing business in almost every sector, including IT

and BPO. Moreover, the country also faces occasional shortages of petro-fuel for various reasons, making business operations more difficult.

Another infrastructure-related constraint in the IT and BPO sector is the unavailability of high-speed internet connectivity in the country. As is obvious, the sector is dependent on the internet. Therefore, the lack of required internet connectivity poses a serious challenge to the sector. In the past, Nepal was reliant only on a satellite, but now the country has a fibre-optic cable routed through India and another one via Tibet/China. However, the cost of bandwidth in Nepal is about five times more expensive than that in India.¹³

Unlike in the Philippines, where BPO companies are situated in special economic zones (SEZs) and enjoy special privileges, including access to quality infrastructure, BPO companies in Nepal operate with no extra facilities. Despite the government recognizing the IT and BPO sector as one having export potential, there has not been much progress in terms of providing quality infrastructure and other necessary facilities. The industry people have been lobbying to use the Banepa-based IT Park and its premises since the property has remained unutilized, but there has not been much progress on this front.

Lack of qualified human resource

Brain drain has been a major worry for Nepal. Political instability and lack of employment opportunities at home, and better opportunities abroad have together created the conditions for the exodus of a large number of young and qualified people from the country. IT professionals are among the most sought-after people in many developed countries. This has affected the availability of qualified human resource in the country. Stakeholders also point to the mismatch between educational attainment of prospective employees and the knowledge and skills employers look for as a major challenge. In addition, with the BPO companies now moving into highly skilled knowledge process outsourcing (KPO) and cloud computing (See Box 2), the dearth of qualified human resource can further hamper the growth of this sector.

A member of the BPO/Software Committee at CAN, during an interaction programme, claimed that the wages in the BPO sector in Nepal is about 35 percent

lower than that in India, and hence is an advantage.¹⁴ But, as stated in the NTIS, labour productivity is also low in Nepal. Moreover, in the long run, the wage difference might not matter much as the lack of human resource can lead to an increase in wages to retain existing staff or hire experienced ones. Nepalese professionals working in this area also lack adequate interpersonal skills as well as language and accent skills, which are necessary to give positive impression to the clients and remain connected with them in the long run. Hence, these aspects of human resource development must be a priority for the Nepalese IT and BPO sector.

Absence of quality control

Another issue raised primarily by BPO companies is the lack of quality of exported services. There are a large number of BPO companies that are operating illegally, primarily for short-term gains. Hence, they are not concerned much about quality. Some Nepalese companies also lack corporate culture. These are issues

Box 2 Knowledge Process Outsourcing and Cloud Computing

KPO is an extension of BPO, but in which the achievement of objectives is dependent on the skills, domain knowledge and experience of the people providing the outsourcing service. KPO business entities provide typical domain-based processes, advanced analytical skills and business expertise, rather than just process expertise.

KPO holds a high future potential as it is not restricted only to IT or IT-enabled services sectors, but also includes other sectors such as legal services, intellectual property and patent related services, engineering services, web development application, business research and analytics, clinical research, etc. India is considered to be the major recipient of KPO business globally. According to a report of an Indian outsourcing company, the global KPO market in 2003 was US\$1.2 billion, which it had expected to grow at a cumulative annual rate of 46 percent.

Cloud Computing is the use of computing resources (hardware and software) that are delivered as a service over a network (typically the internet). It entrusts remote services with a user's data, software and computation. There are various business models of cloud computing. In the model using software as a service (SaaS), users are provided access to application software and databases. Cloud providers manage the infrastructure and platforms that run the applications. SaaS is also referred to as "on-demand software" and is usually priced on a pay-per-use basis. Proponents claim that the SaaS allows a business the potential to reduce IT operational costs by outsourcing hardware and software maintenance and support to the cloud provider. Also, with applications hosted centrally, updates can be released without the need for users to install new software.

Thus, cloud computing allows enterprises to get their applications up and running faster, with improved manageability and less maintenance, and enables IT to more rapidly adjust resources to meet fluctuating and unpredictable business demand. According to Gartner, an IT research and advisory company, the public cloud services market is estimated to be US\$131 billion worldwide in 2013—a rise of 18.5 percent from US\$111 billion in 2012.

Sources: www.kpoexperts.com; www.wikipedia.org; www.gartner.com

of great concern since they could damage the reputation of the entire BPO sector in Nepal. There is also a serious lack of monitoring mechanism in place to ensure transparency in transaction and quality, and to control activities deemed illegal.

Lack of coordination among government bodies

Lack of coordination among government bodies is a huge problem in Nepal. This is true in the case of IT and BPO sector as well. For example, as is obvious, the IT and BPO sector is very closely related to the Ministry of Information and Communication as well as to the Ministry of Commerce and Supplies (being an export-oriented services sector). But the Ministry of Science and Technology is the focal ministry for IT and BPO sector in Nepal. This has created confusions regarding the jurisdictions of the ministries in relation to the sector, and has affected effective policy making. There is also lack of effective coordination among these ministries, which is one of the reasons for the dissolution of the HLCIT.

Ineffective role of the private sector

The private sector itself has also not played an effective role in promoting the IT and BPO sector in Nepal. The sector remains under the coordination of a sub-committee as part of the CAN. So far, the CAN and the sub-committee have conducted a few programmes to discuss the prospects and challenges of the IT and BPO sector in the country, but no concrete studies have been undertaken. They have also not put in enough efforts to check mushrooming of illegal BPO companies.

Lack of a separate policy for BPO

Although BPO is a part of the ICT, and is an IT-enabled service, its needs and requirements are not always the same as that of the IT sector. For example, human resource requirements of the BPO sector are different from the IT sector. Therefore, an overall IT policy might not be able to address the issues related to the BPO sector. But in Nepal, the BPO sector is placed under the broad ICT sector, and so there is no separate policy for the former.

Lack of fiscal incentives

As noted in the NTIS, BPO companies have been demanding tax reforms and fiscal incentives to support the growth of the BPO sector in Nepal. India, for

example, provided corporate tax exemption to emerging companies for more than 10 years, which helped them stand firm and become competitive. Such tax exemptions are also given in the Philippines. This can prove beneficial as it can attract large investments in the country.

Lack of data protection

One major concern of offshoring companies is the issue of intellectual property and data protection. Absence of strong protection measures can lead to unwanted leakage of client's personal information or misuse of an intellectual property. Currently, there is no strong and effective legal mechanism to enforce such protection in Nepal.

Other problems

Other issues like political instability, frequent *bandas* and strikes, lack of fair competition between telecom and internet service providers, among others, are some of the problems that have hindered the growth of this sector.

Conclusion and way forward

The world market for BPO is growing, and will grow further in the years to come. Although there are demands in home countries of the service-seeking companies to bring back jobs, all BPO will not move back to home countries due to price differences—one of the factors that determine outsourcing companies' competitiveness. Fierce competition between companies and the need to reduce their operating costs mean that BPO are here to stay.

Moreover, BPO in India is gradually moving to cater to the high-end segment of the market. Nepal can tap this opportunity and establish itself as an alternative and viable destination for the low-end segment. However, it should also explore possibilities of deriving benefits from new areas of outsourcing such as KPO and cloud technology so that high-skilled individuals like architects, engineers, chartered accountants, lawyers, analysts, bankers, etc. can be retained in the country.

Also, this industry need not necessarily be located in Kathmandu. Like the way India developed Bangalore as an IT hub, Nepal can also develop one of its upcoming, semi-urban areas as an IT city. To begin with, the Banepa-based IT Park can be developed as an SEZ for IT and BPO by providing all necessary infrastructure and

facilities, coupled with tax holiday packages and other incentives. This will not only increase investment but will also help the development of smaller cities in the country. Both the government and the private sector need to work together on this aspect.

Similarly, there is a need to revive the HLCIT that will play a catalytic role in bringing together public and private sectors. Coordination between government bodies and promotion of public-private partnerships will help encourage foreign investments and technology transfer in the sector. Currently, the Nepal Investment Board is working towards attracting foreign investment in different sectors in the country, including in the IT and BPO sector. This needs to be strengthened through coordinated efforts of relevant government bodies.

The government also needs to provide additional support, for example, in the form of tax holidays, to the industry. The private sector needs to work closely with the government to control illegal operation of BPO companies. In terms of quality assurance, companies should opt for quality certification like the Capability Maturity Model Integration (CMMI)¹⁵ appraisal, which provides benchmarks for quality and delivery.

There is also a need to organize trainings and capacity building workshops for existing and new aspirants that want to enter the sector. The government and the private sector should collaborate with universities to help them plan their curriculum so that the universities are able to produce the human resource that can meet market demands.

Finally, as pointed out earlier, the biggest problem at present is the lack of adequate information about the IT and BPO sector in Nepal. Therefore, there is a need to carry out an extensive study looking into every aspect of the sector in Nepal. ■

Notes

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- ¹² See WTO's Schedule of Specific Commitments in Services (WT/ACC/NPL/16/Add.2) for details.
- ¹³ MoCS (2010). Note 11.
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- ¹⁵ According to NTIS, only one Nepalese firm is currently CMMI certified.



South Asia Watch on Trade, Economics and Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and 11 member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization.

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