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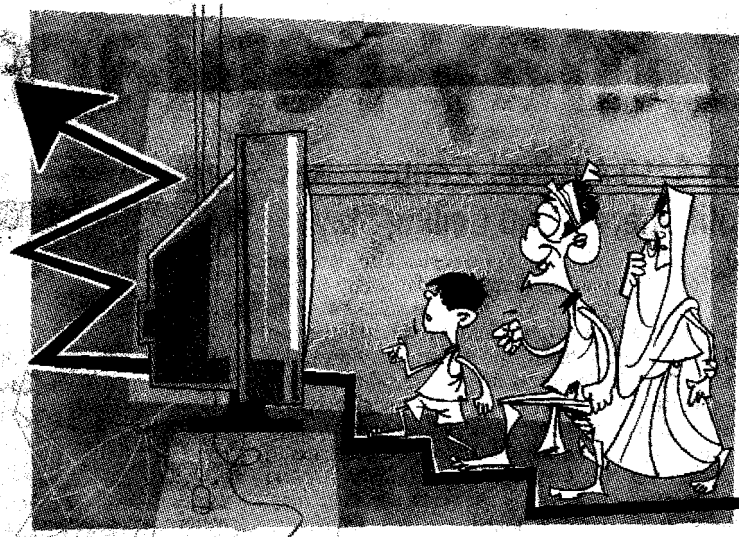
# Transforming IT and rural India

The massive outlays on the rural employment scheme, health and education present opportunities of exceptional magnitude for the IT industry, as do the large investments proposed in defence and railways, says Kiran Karnik

IN ANY industry, annual growth of over 25% would be considered excellent; for an industry that is already large — with revenues of Rs 200,000 crore — it is truly exceptional. What makes the story even better is that about three fourths of the revenues come from exports, and that too in a highly competitive global environment. Finally, as icing on the cake, is the fact that this industry created over 300,000 direct jobs last year, and four times as many indirectly. It requires but little knowledge to infer that we are referring to India's phenomenally successful IT software and services industry.

It is this outstanding track record — with exports going from \$1 billion to \$10 billion in six years, and \$10 to \$50 billion (this year) in another six years — that has raised high expectations, and created a degree of "policy complacency". Meanwhile, global competition has intensified, even as a host of supply-side problems (the inter-related issues of shortage of suitable talent, rapidly rising wages, and high attrition or job-change rates; and poor infrastructure) have persisted and the external environment has become adverse. This includes the impact of the subprime crisis and the general economic downturn in the US and, to a lesser extent, globally; visa difficulties, and a general hesitation to outsource or offshore.

This difficult situation may well be a good time for some transformational changes. Amongst the possibilities are: new business models, including a move away from cost-based pricing; developing products and IPR; developing new markets, beyond the US and UK; moving into new areas of work and new industries. However, amongst the most exciting new opportunities is the one we are amidst: right here in India. The strong growth of the Indian economy, the opening up and deregulation of many sectors — resulting in intense competition — the boom in telecommunications, and financial services, increasing globalisation, all these have opened up a huge potential market for IT. The massive outlays on the rural employment scheme, as also on health



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The government has an important role in facilitating this change by accelerating the growth of the domestic IT market. It can do a great deal through policies and fiscal measures that spur the rapid expansion of broadband, lower the price of IT hardware and software, incentivise corporate investment in IT, and create a competitive environment in more sectors.

A vigorous thrust to the ambitious e-governance programme and increased government investment on IT R&D, especially for India-specific needs, would also help to boost growth. There will be substantial national benefits from these steps. First, greater use of IT would lead to increased efficiency, lower costs and better service for the consumer and citizen. Second, especially through e-governance, there will be greater transparency and accountability; it will also facilitate citizens' participation and lead to empowerment. Third, by using IT in the large scale poverty-alleviation programmes, there will be a reduction — if not

elimination — of corruption and "leakages", and on-line monitoring will lead to more efficient delivery. Fourth, it will create a ready market for developing, testing and deploying new software products and services, which could also be marketed globally. Finally, it will lead to further and large-scale employment creation.

Clearly, a positive intervention by the government could help take the IT industry to its next stage of growth. This is a particularly opportune time on two counts: the growing Indian economy is now well-poised to draw the benefits of embracing IT on an extensive scale; and the Indian IT industry can better weather the global economic slowdown if the government helps to create more opportunities in the domestic market. Already, a combination of these and other factors is making major IT companies (both Indian and MNC) pay greater attention to the domestic market. This huge pool of expertise could develop solutions for India, and thus boost demand for IT, leading to higher overall productivity, more revenues for the industry, and greater employment.

Amongst the most exciting prospects for the Indian IT industry — indeed, for the country — is the expansion of the industry into the hinterland. The phase of moving to Tier-II (Chandigarh, Jaipur, Kochi) and even Tier-III cities (Mangalore, Indore, Bhubhaneshwar) is well-established; the industry is now set to move into small towns. In fact, there are some exciting examples of moving into rural areas. Many of these were highlighted at a recent conference in Hyderabad on rural BPOs, organised by the Byrraju Foundation — which is, itself, a pioneer in setting up as also catalysing rural BPOs. Byrraju's unique Gram IT initiative has established the viability and success of outsourcing work to the village level. The conference highlighted the surprisingly large number of rural BPOs and the fact that, despite many difficulties, they were all doing well. An example is Vintes, with 100 seats in three pilot projects in rural Kerala, which is emulating and adapting a model it developed for decentralised rural manufacturing.

These rural BPOs are emulating the original "India model", in which work is broken up into small tasks, appropriate ones outsourced for execution in India; this is then sent back and reintegrated. The very same approach is being followed for work being done in a large facility in India: break it into manageable pieces, ship appropriate ones to the rural BPO, have it executed securely and well, ship back and reintegrate.

This is throwing up new possibilities for rural development. If such rural BPOs can help to retain even a small proportion of educated youth in villages, it can transform the face of rural India. Appropriate government policies can help kick-start such a process. Tax incentives, similar to exports; rural employment zones, with the same fiscal sops as SEZs; schemes to train educated rural youth; high-quality broadband connectivity in rural areas: these are some of the essential steps. Government and industry, working in tandem, can now make India amongst the largest IT markets and certainly the most exciting and inclusive one.

(The author, a communications professional, is former president Nasscom)