

Managed services

Pakistan's potential for ITeS exports

Iftekhar Ahmed Moghal, FCA

The context, market structure and trends

Business case for outsourcing non-core activities to managed services providers (MSPs) builds on: i) the need to have greater focus on core activities like product R&D, production, marketing and distribution etc.; and ii) benefiting cost efficiencies due to cost sharing and/or lower HR costs in the case of offshore outsourcing. Technology especially cloud computing, and availability of business intelligence tools are the major enabler. Post COVID – 19 pandemic, greater acceptance of remote working has further catalyzed the appetite for outsourcing.

For larger high performing businesses that are operating in multiple territories, engaging an MSP is more of a strategic choice to be faster and more innovative.

“Companies that use MSPs for strategic advantage are 1.6 times and 2.4 times more likely to be faster to market and more innovative, respectively, than those focused solely on cost savings.” – [Survey by PwC](#)

Managed services (subsegment of ITeS) market also referred as business process outsourcing (BPO) market globally is sizeable, circa USD 344 billion and growing at modest growth rate ~ 6 %. Services commonly outsourced include accounting and reporting, invoice processing, performance management, supply chain, HRM, knowledge process outsourcing e.g., legal process outsourcing, etc.

In terms of market segmentation, based on contract value and duration, following distinct segments exists to account for major part of managed services market:

High value long-term contracting segment:

Developed world is a major driver of demand for this segment (mostly offshore), while developing countries host major service centers. Such centers are mostly managed by large consulting firms including Big 4 accounting firms, Accenture, Cognizant, Infosys, IBM, Capgemini etc. Multinationals have also set up intra group shared services centers in the territories of their operations where it is convenient to source required skills at lower costs. Sourcing could either be to close talent gaps or for cost reductions.

Moderate value long-term contracting:

This is mainly relevant to onshore sourcing of services on a retainer basis. Tax and legal services are major products within this segment. Sourcing high quality or specialist skills not available in-house is the primary driver for this segment.

Low value short-term contracting:

USA and other developed countries are major demand centers. Services are sourced mostly from freelancers using platforms like Upwork, Fiverr, Toptal, Freelancer.com etc. Cost is major consideration for sourcing.

Pakistan's case for ITeS exports growth

With a population of over 240 million, Pakistan has the 3rd largest English literate population with an affordable and abundant workforce of 80.98 million people as of 2023 with 8.6 million people who are graduates and 3.5 million people who have a master's degree or above. The country has 193 million cellular and ~135 million 3G/4G subscribers with one of the highest rates of mobile penetration in South Asia at nearly 80%.

Pakistan is among the top five countries in the world in respect of IT/ITeS services freelancing and is home to circa 12% of the total freelancers in the world. As per the report by World Economic Forum, these numbers are expected to grow to one million by 2025. Managed services or business process outsourcing accounts for ~ 12% of the total Pakistan's exports but still well below its potential considering Pakistan's favorable demographics discussed above.

“
Over 50% of
organizations believe that
over 50% of their
operations will utilize a
Managed Services
provider in the next 10
years”

- PwC global CEO survey

Pakistan has a potential to be part of high-end finance and accounting global outsourcing market. A research conducted by [Kearney](#) determined the competitive advantages of countries based on their digital resonance, financial attractiveness, business environment and availability of skills. Pakistan ranked second among the South-Asian countries with Bangladesh at third while India ranked first.

Professional accountants (qualified and those pursuing qualification) including chartered accountants, cost and management accountants, ACCAs etc. and finance and accounting, graduates are estimated to be in the range ~ 135,000 to 150,000. Sound working knowledge/experience of accounting software globally in use like SAP and Oracle ERPs, MS Dynamics, QuickBooks, Peachtree etc. exists and many are serving offshore clients through small to medium sized delivery service centers or as freelancers.

Small and medium sized managed services operators are growing at pace but large-scale centers managed by global brands is need of the hour for Pakistan to tap its ITeS exports potential much talked about. Tax concessions and other incentives available from government for IT/ITeS sector strengthen the business case of setting up large scale delivery centers. Major risks and challenges to ITeS growth are summarized below:



Not meeting service levels agreed with clients due to infrastructure shortcomings, power failure, connectivity issues



Data protection or cyber risks



Staff retention/attrition, local or due to emigration



Human resource pipeline may not be enough to support growing demand



AI delivering mechanical/predictable processes thus reducing demand for replaceable services



Taking stock or census of skills available for ITeS exports is first logical step including identifying the need for upskilling/re-skilling. Developing robust infrastructure for service centers in territories where skills are based is another important step including aesthetically designed workspaces, making available cloud computing with 24/7 reliable connectivity, power backup, putting in place strong data protection arrangements etc. Following options available to balance or optimize risk and reward pivot for ITeS segment for sustainable growth:

- International managed service providers set up their service centers through their local partners; capital investments by foreign firm and working capital arranged by local firm.
- Affiliated firms of the international brands set up such centers in collaboration with local infrastructure investors; prop co/op-co model. Propco to invest in infrastructure i.e., brick & mortar, fixtures, uninterrupted power supply and technology and lease spaces at lowest possible cost per HR to Op-co who recruit, train human resources and assure timely and quality services to offshore (also to local) clients. Prop-co may also be structured as REIT. Important consideration is that cost of services should be optimal for foreign firms to source from Pakistan.

A strong case for both public-private and private-private partnerships exists in Managed Services subsegment of ITeS. Government's role in developing and sustaining an appropriate supply of human resource, a supporting infrastructure and enabling regulatory framework regime is critical. Private sector needs to mobilize investments, create appropriate delivery systems and market channels to exponentially grow the ITeS exports. It is definitely doable.

The writer is a Fellow Chartered Accountant and a partner for advisory services at A.F Ferguson & Co. Chartered Accountants – a member firm of the PwC network.

