

CONTRIBUTION OF IT SECTOR IN INDIAN ECONOMY

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Abstract

The IT/ITES industry has contributed to the growth and development of the country in terms of various economical and social aspects through its "for-profit" as well as "not-for-profit" activities. This particular study, attempts to identify areas in the economic and social sector where IT/ITES industry has made a significant contribution and assess the same based on quantitative and qualitative parameters. 123 member companies participated in this study, well spread across geographical regions, turnover categories and areas of operation.

Besides the information received from the participating companies, the study has relied heavily on past reports and articles on relevant aspects of the industry. Specific examples and case studies of member companies which help illustrate the points being made in the report have been liberally used. To illustrate the impact made by IT/ITES companies by spreading their business to Tier II/III cities, a case study on Bhubaneswar has been included, which is based on field visit and secondary research.

In the last two decades, the Indian IT/ITES industry has contributed significantly to Indian economic growth in terms of GDP, foreign exchange earnings and employment generation. However, equally significant though not as tangible, has been the ripple effect it has created on the general economic environment in the national and international economic space. The industry has been the trigger for many "firsts" and has contributed not only to unleashing the hitherto untapped entrepreneurial potential of the middle class Indian but also taking Indian excellence to the global market.

Direct Contribution to the Indian Economy

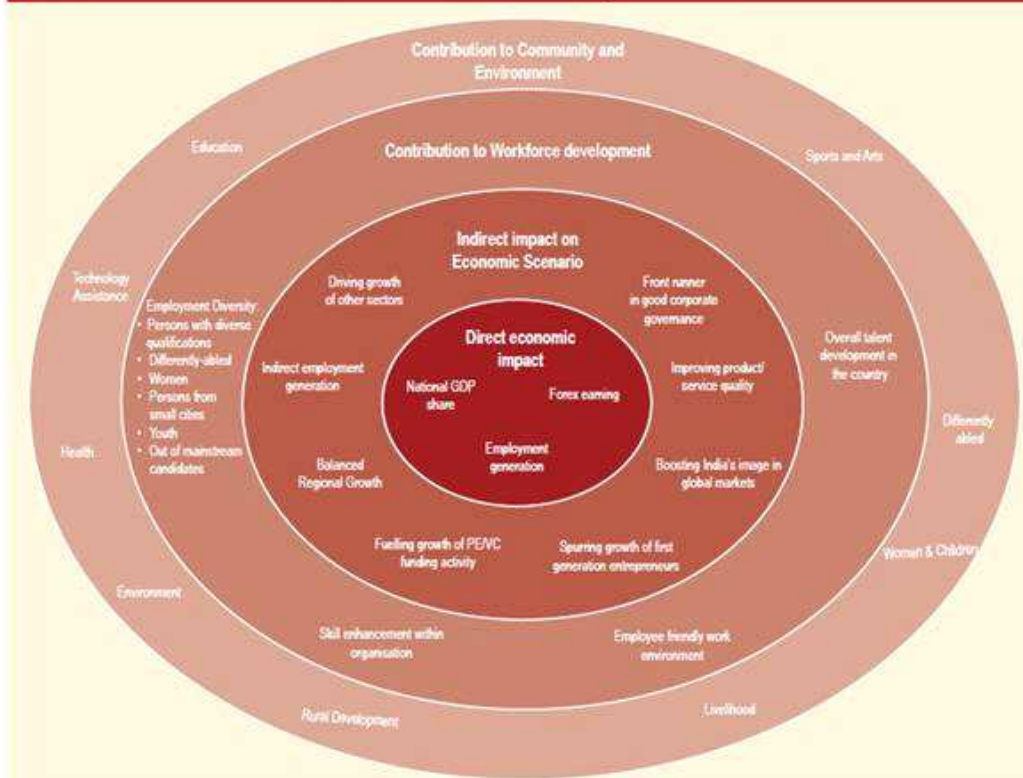
The current and evolving role of IT/ITES industry in India's economy is well established. The sector is proving to be the major growth pole within the services sector, which in turn drives several economic indicators of growth in the country. A few key indicators of direct contribution are:

Growing share of the country's GDP: The sector's contribution to the country's GDP has been steadily increasing from a share of 1.2% in FY98 to 5.2% in FY07

Boosting the foreign exchange reserve of the country: Export earnings in FY08 stood at approximately USD 40.0 billion with a growth of 36%.

Employment generation: Direct employment in the sector is expected to be 2.0 million by end of FY08, growing at a CAGR of 26% in the last decade, making it the largest employer in the organized private sector of the country.

Exhibit 2: Socio-economic contribution of the Indian IT/ITES industry -- an overview



Additional employment generation: The indirect employment generated, at the rate of 4 additional jobs created in the economy for every 1 job created in the sector, is even more socially relevant as nearly 75% of the workforce employed in those additional jobs are SSC/HSC or less educated

Driving growth of other sectors of the economy: Apart from contributing to the growing income of its direct stakeholders (promoters, shareholders and employees), the IT/ITES industry has had a multiplier effect on other sectors of the economy with an output multiplier of almost 2 through its non-wage operating expenses, capital expenditure and consumption spending by professionals. Study show that USD 15.85 billion spent by the IT/ITES industry in the domestic economy in FY06 generates an additional output of USD 15.5 billion.

. Encouraging balanced regional development: By gradually spreading their business operations to smaller Tier II/III cities, the IT sector (besides generating revenue and employment) is also assisting in improving the supply of talent pool and development of physical and social infrastructure, either directly by themselves or by spurring the Government to action

In case of Bhubaneswar (a Tier III city), some of the key impact of the IT/ITES sector has been,

1. Increase in software exports - Software exports from the state reached USD 183 million in 06-07, a 60% rise over exports in 05-06, on track to reach the target of 500mn USD by 2011-12.
2. Increase in registered IT/ITES units - The number of registered and exporting units has risen steadily showing a CAGR of 118 and 170% respectively. as compared to 98-99. Besides the capacity expansion of existing units, many of the big companies are also setting up operations in the city
3. Employment - Supply of IT professionals, which was higher than demand till 2004, now have a shortfall of 62,697. Demand for IT professionals is expected to reach 430,000 by 2011-12 with the corresponding figures on indirect employment being 1,720,000
4. Education - While building and expanding capacity of educational institutes are underway, IT majors are undertaking training initiatives to improve student quality. At least 5 new educational institutions (including IIIT and IIT Kharagpur campus) by both Government and private players are also being set up.
5. Infrastructure and other amenities - Keeping in line with the expansion/entry plans of major IT/ITES companies, IT parks and townships are being built with a corresponding improvement in other amenities like roads, housing, retail and entertainment facilities.

Diversity in Employment

Besides being the largest employer in the organized private sector, the IT/ITES industry also consciously follows a diverse employment practice and encourages diversity in the work place in terms of qualification, abilities, gender, skill sets.

- . Creating employment opportunities in smaller towns/cities: By recruiting talent from non-metro towns and rural background, the industry has reached out to the educated resource pool in these places and created employment opportunities, which hitherto was largely limited
- . Large IT/ITES companies often have 33 to 50% of their employees coming from non-metro/rural areas
- . Encouraging employment of differently-able: Through their policy and practice of employing differently able people, training them and creating a conducive working environment, IT/ITES companies are initiating a trend which could have a significant impact on employment opportunities for the differently able in India.
- . 64% of the companies surveyed by Deloitte employ people with disabilities
- . Opening opportunities for non-technical personnel: The growing employment opportunities in this sector (both direct and indirect) are not restricted to the better educated or technically

educated people alone. While 75% of the employment generated through the indirect route are filled in by candidates who are SSC/HSC or less educated, companies also help under qualified candidates to reach a desired skill level by investing in their training and skill up gradation

Promoting women empowerment: The growing trend in the number of women employed in this sector indicates that not only does the industry offer equal opportunity to women but also has in place proactive and sensitive mechanisms which counter the common causes that discourage women from pursuing employment in the corporate sector.

Women employment in the industry is set to rise to 45% by 2010 from the current 30%.

Providing high growth opportunities for the youth: The industry has created excellent employment and fast track growth opportunities for the younger section of the population and is likely to become one of the largest employers of a growing 'young population' of India.

The overall median age group of the sector is 28.9 years with 70% of the workforce being in the age-group 26-35 years.

Creating opportunities for the 'out-of-the-mainstream' candidates: The IT industry through its innovative recruitment practices has also hired persons who would not typically be considered employable such as retired persons and housewives.

Limitations

The contribution of the IT/ITES industry to India's economy and society has been well established and is indeed significant. Each of companies has played a role in this success story. As the industry grows in stature and size, it would be expected to play an even larger role, especially in contributing to the marginalized and vulnerable sections of the community. This is even more important as the industry has at its call, the two most important tools for making this impact, a young motivated work force and technology. Both together can make a significant impact on improving the lives of the poor.

The study highlights that while there are many meaningful and significant initiatives being taken by a number of companies. There is both, a need to increase the participation by member companies as well as to work towards ensuring that the efforts are able to achieve the maximum impact. Some of the challenges faced in this area have been discussed in the following paragraphs.

Submitted by: Mangesh M. Ukey

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