INFORMATION TECHNOLOGY ENABLED SERVICES (ITES) POLICY
OF TAMIL NADU

2005
1. Preamble

Globalisation and the drive to competitiveness is making all organizations to focus on their ‘core business competencies’ and outsource the ‘non-core business processes’. This provides an opportunity to global companies to relocate such processes in India. India has inherent strengths to support this.

Nasscom-McKinsey Report 2002 projects that Information Technology and ITES Industry will account for over 7 percent of India’s GDP (Gross Domestic Product), 30% of foreign exchange inflows and create over 4 Million jobs.

This sector holds immense scope for the common person as it provides employment to technical and non-technical graduates. Besides, this sector has the potential to generate enormous foreign exchange inflow into the country. Through this Policy, the Government of Tamil Nadu proposes to generate large-scale employment and attract increased Foreign Direct Investment.

IT Enabled Services are human intensive services that are delivered over telecom networks or the Internet with a range of business segments. The business segments includes Medical Transcription, Legal Database processing, Remote maintenance, Back Office operations, Data Processing, Call Centres, Human Resources Services, Insurance Claim Processing, Business Process Outsourcing etc.

Tamil Nadu with its excellent physical, civic and social infrastructure and a large pool of talented, educated, hardworking, English-speaking workforce is well positioned to capture a substantial share of the ITES market thereby generating massive employment opportunities in ITES sector in Tamil Nadu.

This policy document seeks to facilitate achieving the above by creating an enabling environment.

2. Vision

- To make Tamil Nadu the Global ITES Capital
- To attract increased foreign direct investments
- To create large-scale employment opportunities
- To add value and wealth by leveraging the inherent strength of the State.

3. Background

Tamil Nadu has:

3.1 A proactive and investor friendly Government.
3.2 An "IT Policy 2002" which covers the IT Enabled Services Sector.
3.3 Back offices of several global multinational corporations.
3.4 Abundant skilled and educated human resources, world-class educational institutions, good infrastructure of connectivity.
3.5 A tradition of commitment and "Devotion to duty" among the work force resulting in lowest attrition rates in ITES sector in the country.
3.6 An excellent Social and Civic infrastructure providing a very high standard of life.
3.7 Higher level of compliance to rules in work place and in the civil society.
4. Objectives

4.1 To get the maximum global ITES investments to Tamil Nadu

4.2 To develop Human Resources specific to ITES Sector

4.3 To create world class infrastructure for IT & ITES and enabling framework for protection of intellectual property and data

4.4 To generate employment and other ITES opportunities in major cities in Tamil Nadu

4.5 To provide a conducive environment for the sector by reducing regulations and increasing opportunities.

5. Definitions

The terms and terminologies used in the policy are the same as defined under clause 5 of IT Policy 2002, which are given below:

The following are the definitions of the terminology used in this Policy.

5.1 IT Companies will include IT Services (ITES), IT enabled services (ITES), Private Communication Providers (PCPs), Software Industries including Services and Training Institutions as covered in IT Policy 1997, IT maintenance and servicing units and hardware units as covered in IT Policy 1997.

5.1.1 IT Services are broadly defined as systems integration, processing services, Information Services (IS) outsourcing, packaged software support and installation, hardware support and installation and IT training and education.

5.1.2 IT enabled services are human intensive services that are delivered over telecom networks or the internet to the range of business segments which inter alia include:

- Medical Transcription
- Legal Database Processing
- Digital content development / animation
- Remote Maintenance
- Back office operations - Accounts, financial services
- Data Processing
- Call Centres
- Engineering and Design
- Geographic Information Services
- Human Resources Services
- Insurance Claim Processing
- Payroll Processing
- Revenue Accounting
- Support Centres
- Website Services
- Business Process Outsourcing (BPO's).
6. IT policy vs ITES policy

All administrative, physical and infrastructure incentives offered in IT Policy 2002 shall be applicable to ITES sector also. For fiscal and other additional incentives please refer sec. 10.1 of this policy.

7. Market Share

According to industry estimates, the ITES market globally is expected to grow to US$ 142 Billion by 2008. The segments within ITES that will witness tremendous growth include Back Office operations, Remote Education, Data Search, Animation, Market Research and Customer Interaction Services. As per Nasscom-Mckinsey report 2002, the Indian ITES industry can attain export revenues of US$ 21-24 Billion by 2008.

Tamil Nadu will strive to achieve 20% share of this market by promotion of Chennai as well as other Tier II cities and Tier III cities as preferred ITES destinations.

8. Human Resources

1. Availability of Skilled Talent: The key resource needed for ITES is skilled manpower. Tamil Nadu has proved to be a huge source of quality talent. The policy of the state on higher education in the last two decades has enabled the creation of this talent pool.

- IIT, National Institute of Technology
- 252 Engineering Colleges
- 210 Polytechnics
- 600 + Industrial Training Institutes
- 79800 Engineering Graduates
- 56000 Diploma Holders

2. Large pool of English speaking professionals: Tamil Nadu has the largest number of English medium schools among the Indian States. There are large number of Engineering, Medical, Law, Commerce and Arts and Science colleges. English being the business and social language, majority of these educated people are fluent in English. To further strengthen language capabilities,
Government of Tamil Nadu shall provide specialized accent training in collaboration with industry and US/UK Councils by promotion and conduct of ‘Training the Trainers’ program.

The Government will encourage Universities and Institutions in the state to create institutional infrastructure for acquiring foreign language skills.

Good quality talent: Premium educational institutions like the Indian Institute of Technology, Chennai, Anna University, Madras University, National Institute of Technology Trichy, Institute for Financial Management and Research (IFMR), Loyola Institute of Business Administration (LIBA), Institute of Mathematical Sciences, Madras School of Economics and others produce some of the best and diversified talents in the country. The expertise of these institutions will be leveraged by the Government for development and creation of ITES skills.

Industry Academia Interface: The large base of educational institutions in the State is a significant asset. These institutions will be encouraged to include ITES specific curricula designed to industry needs as part of their syllabi so as to promote on-campus recruitment by ITES Companies. This will promote Industry-Academia interface.

High Computer Literacy: Tamil Nadu is the first State to introduce Computer education in schools and colleges with Public-Private participation. Under this programme students of classes 9 to 12 are imparted with computer literacy. The computer literacy programme is being successfully implemented in Higher Secondary schools spread all over the state. Being aware that the future manpower needed by the ITES sector is still in the schools, Government of Tamil Nadu intends to provide both language and ITES specific skill sets in the Schools. Importing of ITES skills at the level of 9th and 10th standards will be taken as a goal from the next academic year.

Core Competence in Financial, Health Services and Design

Tamil Nadu is strong in the financial services area, and the accounting skills of its professionals are renowned worldwide. Testimony to this is the World Bank, ABN AMRO, CITIBANK, Standard Chartered Bank and other international financial institutions opting to locate their back office financial operations in Chennai. The Government will strive to leverage this advantage to attract ITES investments and position Chennai as the Banking, Financial Services and Insurance (BFSI) Capital of the world.

Large opportunities in ITES are available in the Health Sector. Chennai is the Health Capital of India and has been offering services of international quality with the help of Medical Institutions like Apollo Hospitals, Sri Ramachandra Medical College, Madras Medical Mission, Sankara Nethralaya, Cancer Institute etc.

The opportunities available in health services will be utilized by the Government of Tamil Nadu to promote Chennai as an ITES destination for Health Services.

The State has already earned the distinction of being variously described as ‘Detroit of India’ because of the presence of a large and varied automobile manufacturing base, ‘Manchester of India’, because of its proven prowess in the textile sector. These resource bases will be effectively utilized to attract investments in Computer Aided Design, Computer Aided Engineering, Computer Aided Manufacturing and Computer Aided Testing operations in these areas.

In order to achieve the above the Government of Tamil Nadu will

* Declare ITES as an essential service under Appropriate Act
* Increase ITES literacy in schools and colleges.
* Promote teaching of English language at primary and secondary education levels.
* Encourage 'Spoken English Courses' with the required accent in schools, colleges and private institutes.
* Encourage the importing of skills in foreign languages like Japanese, German, French, Chinese etc., to tap non-English market.
* Introduce ITES specific courses in educational institutions.
* Under BFSI Sector a new sector for Pension / Insurance will be created.

**Communication Backbone:** The world's biggest and India's first private submarine Optical Fibre Cable project (OFC) network with a bandwidth of 8.4 Tbps has made Chennai the 'Connectivity Gateway of India'. The Government of Tamil Nadu will ensure through Communication Providers, the availability of complete bandwidth requirements for ITES companies at their doorstep.

8 Infrastructure for ITES Sector

Infrastructure is the backbone for ITES companies impacting cost, quality and productivity. Government recognizes that high quality infrastructure is of paramount importance to make Tamil Nadu the Global ITES Capital and has taken several steps in this direction.

9 Government of Tamil Nadu shall have a single window agency for IT and ITES in ELCOT. This agency will ensure that all State level statutory clearances are issued without delay. Government will create Single window clearance agencies in Tier II cities / Tier III towns also.

Government of Tamil Nadu through ELCOT, will provide International Certification Programmes in collaboration with leading world level institutions.

9.5 ITES Parks: Government of Tamil Nadu will lead as well as encourage the creation of ITES Parks in Chennai and other Tier II / Tier III cities. A rating of the builders through an independent rating agency will be done and the land will be given to the eligible builders for the development of ITES Parks as per the rating in the Government promoted ITES Parks.
Government of Tamil Nadu through ELCOT has cleared proposals for construction of IT buildings by major Indian as well as International players. They have the capacity to build IT Parks of International standards.

70 + Builders given NOC for construction of IT buildings.

Construction of more than 20 million sq. ft in progress.

9.4 Power:

Tamil Nadu is one of the few states in India offering uninterrupted quality power supply to the ITES firms at competitive tariffs.

Tamil Nadu Electricity Board (TNEB) provides uninterrupted quality power at adequate voltage and frequency within the prescribed technical limits.

TNEB provides round the clock maintenance services and is committed to provide new service connections within a time frame of one week to four weeks depending upon the level of supply infrastructure required.

ITES firms/ITES Parks do not require any license to set up captive power generation plants. These units will have open access to Tamil Nadu Electricity Board transmission and distribution network for wheeling purposes. Electricity supplied to IT and ITES units is charged at industrial tariff.

Tamil Nadu is free of power cuts and load shedding. IT and ITES units will be exempted from statutory power cuts, if any, in future.

IT and ITES units are eligible for industrial tariff irrespective of whether the premises using these units are owned by them or leased.

9.5 Transportation

The Government will develop sustainable means of public transport to serve the needs of ITES units.

The Government, wherever needed, will create Public Bus Terminals near the ITES parks.

The Government will deploy adequate security near the ITES parks.

9.5.1 Air Connectivity

Tamil Nadu has three International Airports providing good connectivity to prime locations both Overseas and India. These locations include Bangkok, Malaysia, Singapore, London and Frankfurt. Chennai is also well connected to important domestic locations such as Mumbai, Delhi, Bangalore, Hyderabad and Kochi.

9.5.2 Road Transport:

Chennai as well as other Tier II cities have excellent bus services infrastructure, which is rated as the best in the country. Government of Tamil Nadu shall build bus stops near ITES Parks. Regular bus services shall be run connecting ITES parks.

The developers of ITES Park will be encouraged to get into public private partnership to construct good quality road from the highways to the ITES Park.

9.5.3 MRTS

Chennai offers a fast track Mass Rapid System for Transport (MRTS) from the city centre to major commercial and ITES hubs along a corridor for 16 Kms. This is well integrated with the bus and rail transport system in the city. It is proposed to extend
the scope and coverage of MRTS in the near future and technical studies have already been initiated. A state of the art highways is being developed to connect all IT / ITES ventures located in the southern corridor of the city.

9. Social Infrastructure:

Tamil Nadu, a perfect blend of tradition and modernity, has an excellent social infrastructure, which offers unmatched 'Quality of Life' for ITES professionals both citizens and expatriates. They are:

- A law abiding citizenry
- Perfectly maintained law and order and social harmony in the state
- Vibrant and varied cultural life
- Shopping Malls of international standards
- Excellent schools including international schools like American School, Chennai, Kodai International School etc
- Top Quality Hotels to suit all budgets
- International and National food chains
- Range of tourist destinations
- Top Quality Hotels to suit all budgets
- International and National food chains
- Range of tourist destinations
- Beautiful 18 hole Golf Courses
- Health Clubs and Sports like Rowing, Swimming, Bowling, Pool etc.
- Global Standard Corporate Health care systems
- The only city which has an Entertainment Corridor of 25 km running parallel to IT Corridor.

Being aware of the 24/7 operations of ITES sector and in order to maintain business process continuity Government of Tamil Nadu has allowed 24x7x365 operation as well as employment of women during night shift in IT and ITES industries.

Vehicles of IT and ITES units transporting women employees during night hours will be issued special passes/permissions.

10. Supportive Environment

III. Concessions extended to the ITES Industry:

ITES industries will also be extended the following Fiscal and Administrative incentives:

ITES Industry will continue to enjoy facilities of unrestricted movement of capital equipment including hardware, peripherals, captive power generation sets, UPS sets and Telephone Exchanges, subject only to Sales Tax payments.

Government will at its discretion offer specific packages to single investments exceeding Rs. 300 crores made in eligible fixed assets within a period of not more than three years from the date of project approval.

Incentives for new units investing in eligible fixed assets will be restricted to the following:

- Rs 50 crores and above and below Rs 100 crores would be eligible for a capital subsidy of Rs 25 lakhs.
- Rs 100 crores and above and below Rs 200 crores would be eligible for a subsidy of Rs 50 lakhs.
- Rs 200 crores and above would be eligible for a subsidy of Rs 100 lakhs.

This subsidy will be payable after commencement of commercial operations.

One time reimbursement for patent registration after 1.1.2004 up to 50% of expenses or Rs 1,00 lakhs (whichever is lower) will be given to any production unit in Tamil Nadu.
New industrial units (small, medium or major) where more than 40% of the total workers employed are women shall be eligible for an additional Capital subsidy of 5% of investment in fixed assets subject to a ceiling of Rs. 10 lakhs.

Relaxation of FSI (Floor Space Index) to the extent of 100% will be given in designated IT Parks. Such requests need to be addressed to the concerned Regional Development Authorities.

50 % exemption of the Stamp Duty and Registration fee will be given at the time of purchase of a land/building for IT industries. This will be conditional to the concerned company putting up the facilities to commence the operations within twelve months from the date of the transaction. The certification in this regard will be undertaken by ELCOT as per prescribed procedure.

Apart from development of software and hardware industries through ITPs/STPs the Government will also encourage software development outside the Parks by giving such stand-alone units the same incentives as the Units in the ITPs/STPs. There will be no locational restrictions for setting up units exclusively engaged in software development/training.

ITES industries will be assisted in obtaining necessary cable and satellite links for connectivity, ELCOT will be the nodal agency for the above.

All Software Industries including Services and Training Institutions in ITES will be entitled to "Industry" status. Such units shall be eligible for all concessions and incentives applicable to industries. For the purpose of this clause, accredited Training Institutions will also be eligible to claim industry status, subject to certain norms which will enable them to obtain Term Loans and Bank Finance at industry rates.

Special concessions will be given to the ITES companies giving employment opportunities to the physically challenged persons. Government of Tamil Nadu will collaborate with leading institutions for the development and promotion of specific software for the use of physically challenged persons.

IT Policy 2002 allows IT Companies to self certify that they are maintaining the registers and forms as contemplated under the following 9 Acts:

- Tamil Nadu Shops and Establishments Acts and the Rules framed thereunder.
- Payment of Wages Act.
- Minimum Wages Act.
- Workmen Compensation Act.
- Contract Labour Act.
- Employees State Insurance Act.
- Employment Exchanges Compulsory Notification of Vacancies Act.
- Payment of Gratuity Act.
- Equal Remuneration Act.

This self-certification will be regarded as sufficient compliance with the requirements of the different Acts and the rules made there under regarding the maintenance of registers and filing of the returns. Along with the above 9 Acts, the following 3 Acts are also included in the list for ITES Policy:

- Labour welfare Act 1972
- Maternity benefits Act 1961
- Industrial employment (Standing Orders) Act 1946.

Permission will be given to erect towers and antennae as part of building plan approval.

11.2 Incentive for Quality Certification & Award for Excellence

In order to promote the highest quality standards of operation in the ITES Sector, Government of Tamil Nadu will encourage ITES Industries to obtain International Process Quality Certification like COPC, ISO, etc. by providing a cash reimbursement incentive of Rs. 5 lakhs or the actual amount spent whichever is less to the ITES companies.

11.3 Information Technology Day

One of the Greatest Mathematicians of the present age Ramanujan was born in Tamil Nadu. His birthday (22 December 1887) will be celebrated
every year as the Information Technology Day of the State. Presentation of State-level awards will be given for outstanding performance to ITS & ITES units on Information Technology Day every year.

10. New Enactments

As an industry catering to international customers, the Government will enact/assist in enacting the following legislations for effective operation, early and stricter enforceability of violations:

Data Security And Customer Privacy Act:
To reassure the ITES companies and their customers the safety of their data and to indicate the Government of Tamil Nadu’s commitment to and respect for consumer privacy and for combating crimes and violations and to incorporate penal provisions for violation of IPR issues the Government of Tamil Nadu will formulate the Data Security and Customer Privacy Act.

Society for Electronic Transaction and Security (SETS) which has been head quartered in Chennai will be utilised for this purpose. SETS is a Centre of Excellence in Information Security Cryptology. It is a hub of INFOSEC Knowledge Network. It is a unique public-private partnership a non-profit organisation. SETS will assist policy makers in their efforts to generate and protect the Nation’s wealth by adding secured asset-building activities. SETS is a consultative body for Tamil Nadu State Planning Commission.

Assistance In Clearances Under Central Acts:
The Government of Tamil Nadu will assist the IT/ITES Industry in obtaining clearances/exemptions under various Central Acts in consultation with the Union Government for better and smooth functioning of the industry.

11. Date Of Effect

All Concerned Departments of the Government will expeditiously issue necessary Orders

/ Notifications as per this ITES Policy, which will be effective from the date of its release and will be valid for three years.

13. Summary

Tamil Nadu will establish itself as the Global ITES Capital and consolidate its leadership position.

Chennai as a global destination of IT/ITES will be ensured and additionally the potential of Tier II cities and Tier III towns in Tamil Nadu will be developed and marketed globally to expand foreign investments in IT/ITES in the state.

In short, this policy will position Tamil Nadu as the Global hub of ITES, attract a large market share of ITES investments and create massive employment opportunities in the State.
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