

Information Technology

---

**POLICY DOCUMENT**

December 2001



Department of Information Technology  
Government of Kerala

Information Technology

---

**POLICY DOCUMENT**

December 2001

## CONTENTS

<i>S. no.</i>	<i>Contents</i>	<i>Page No.</i>
<b>POLICY DOCUMENT</b>		
1.	Preamble	7
2.	The Policy Initiatives	8
3.	Immediate Objectives	8
4.	Financial Incentives	9
5.	IT Infrastructure	9
6.	State Information Infrastructure	11
7.	Ancillary and Support Infrastructure	12
8.	Thrust Areas	12
9.	Performance Excellence Initiative	14
10.	Synergy with the Tourism Industry	14
11.	Promotional Initiatives	14
12.	HRD for the IT Industry	15
13.	Industrial Relations and Labour Laws	16
14.	Accelerating PC and Internet Access	18
15.	Role of Open or Free Software	18
16.	Software Piracy, IPR, Data Protection, Patents	18
17.	Role of Industry Associations	19
18.	Accessibility	19
<b>KERALA IT INDUSTRY INCENTIVE SCHEME</b>		
1.	Preamble	21
2.	Incentives	21
3.	Existing Companies	22
4.	Early Bird Scheme	22
5.	CMM Level V	23
6.	Incentives for Kerala based IT industry	23
7.	Incentives for KINFRA - IT Parks	24
<b>Appendix I-A</b>		
<b>Abstract</b>		

# INFORMATION TECHNOLOGY INDUSTRY POLICY DOCUMENT

---

## 1. Preamble

1.1 This IT Industry Policy document endeavours to delineate a strategy for harnessing the opportunities and the resources offered by Information Technology for the comprehensive social and economic development of the State. This strategy has been conceived keeping in view the fact that Information Technology constitutes the primary instrument for facilitating Kerala's emergence as a leading knowledge society in the region.

1.2 This blueprint for IT development has been formulated in the context of emerging developmental trends and imperatives that are relevant to the growth strategy of the State.

The growth of Kerala in coming years will be increasingly driven by the knowledge and service-based sectors, where ease of information transactions will be a key determinant of success. Recent trends in the convergence of technologies have thrown up new opportunities and new services for the State, such as IT enabled services, e-commerce and multimedia.

- Kerala has a large traditional agricultural and industrial sector; and the infusion of IT into these domains would be essential for its survival and growth in the face of imminent international competition.

- IT has opened out new channels for service delivery in areas such as e-Governance, education, e-health and information dissemination. IT can serve as the platform for widening the reach of the advances made by the State in domains like health, education, and participative local governance.

1.3 Kerala offers fertile ground for the effective utilization of these new technologies; on account of its densely networked communities which possess high awareness and literacy levels, its superior telecom connectivity, and its propensity for quick technology absorption.

1.4 IT offers exciting possibilities for radically enlarging and improving human resource skills. Kerala's core competence is its near universal literacy and awareness levels, and this can be transformed into economically rewarding and employable skills by deploying the tools offered by IT.

1.5 The primary impetus for growth in IT has to come from private enterprise and community energies. The IT policy accordingly envisages the role of Government as being primarily that of a facilitator for creating an enabling environment where the energies of the private sector and of civil society can be most effectively deployed. The objective of the Government is to put in place a package of policy

measures and incentives, which will make Kerala one of the most attractive investment destinations in IT.

- 1.6 The CII sponsored independent study of 18 Indian States 'How the States are Doing' placed Kerala at #3 in terms of overall composite score, #1 in Health and Education, #1 in Law & Order, #8 in Labour; #5 in investment attractiveness, and #13 in investment. These are not IT sector specific. Through the measures enunciated in this policy document the Kerala Government seeks to improve its relative position on both labour and investment into the top 3 ranks amongst States in the country, making it #1 in overall composite score amongst all States.

**2. The Policy initiatives delineated in this document comprise a three pronged strategy aimed at:**

- Creating an appropriate pro-business, pro-enterprise, legal, regulatory and commercial framework to facilitate the rapid growth of the IT industry in the State
- Establishing Kerala as a global centre for excellence in Human Resources, through the creation of a large pool of diverse, multi-skilled, technically competent manpower in the State and
- Establishing an internationally competitive business infrastructure and environment for the IT industry in the State, on par with the best facilities and practices worldwide.

**3. In line with this broad strategy, the Government have set the following immediate objectives for the promotion of the IT industry in the State.**

1. To establish Kerala as a leading IT destination in the country within the next five years.
2. To provide a nurturing and enabling environment conducive to the vigorous growth of the local IT industry in the State.
3. To significantly enhance direct and indirect employment creation in the IT sector.
4. To attain a minimum growth level of 100% every year in IT.
5. To significantly accelerate the levels of investment inflows including foreign capital into the hardware, software and ITES sectors.
6. To aggressively promote the State as the destination of choice for emerging IT business opportunities including IT Enabled Services, new media products and E-services. To establish ITES as the definitive core competence of the State.
7. To develop Kochi as an international media and ICT hub.
8. To consolidate and expand the Technopark, Trivandrum as a leading software and HR Centre in the region.
9. To provide the physical and institutional environment for the growth of SOHO and decentralized IT businesses.

#### **4. Financial Incentives for the IT industry**

4.1 The Govt. has formulated a comprehensive and unique package of incentives for the IT products, software and ITES industry in the State, which seeks to reward value creation, employment generation and enterprise excellence. The scheme called the Kerala IT Industry Incentive Schemes is enclosed as Annexure.

#### **5. IT Infrastructure**

##### *5.1 The Govt. Parks Initiative*

1. The city of Kochi will be promoted as an ICT hub where facilities offered will match the best available worldwide. A hi-tech park will be developed here, comprising an area of 200 acres. An IT Corridor connecting the new international airport at Nedumbassery with the city will also be established as part of the larger proposed Special Economic Zone continuum. These facilities shall be developed through Joint Venture partnerships with the private sector and shall endeavour to provide an international business infrastructure and environment at Kochi. Kochi has all the necessary enablers in place including virtually unlimited bandwidth on tap from the VSNL gateway, concentration of quality, technical and non-technical human resources, a cosmopolitan social infrastructure and environment, and excellent air connections. These advantages shall be leveraged to make the city amongst the most preferred IT investment destinations of India.
2. The Technopark, Trivandrum with about 1 million sq. ft of built up area, has established itself as one of the leading IT parks in the country. The campus is now home to several SEI-CMM companies and centres of HR excellence. The IIITM-K, which commenced functioning last year and which offers high-end training in emerging technologies is expected to move over to an independent campus shortly. In the second phase of expansion of the park, it is proposed to develop 26 acres with the participation of the private sector.
3. The total space availability for IT industry shall be augmented by a minimum of 750,000 sq. ft annually for the next two years. Thereafter, for the next three years a minimum of 1.5 million sq. ft space capacity shall be created annually. These additional capacities will be created through 100% private sector investments as well as Joint Venture projects between the Govt. and the private sector.
4. The IT Department shall shortly initiate, with the help of leading consultants, the exercise of preparing Master Plans for each of the designated IT parks/zones. These Master Plans shall delineate the blueprint for park development and framework for facilitating private sector participation.
5. The Govt. shall endeavour to maintain uniform, international quality standards for park infrastructure and services across all State promoted and managed IT parks. A professional Parks' Management team will be set up under the Kerala IT Department for ensuring this.

6. The built-up space for IT industry shall be classified under a new category “IT Industry” under the Kerala Building Rules with applicable FAR of 5. This classification shall apply only for newly built-up space that shall be used predominantly (at least 80% of carpet area) for IT software industry for a minimum period of 5 years from the date of first occupation/commissioning.
7. The Govt. shall proactively encourage and facilitate the development of ancillary social infrastructure in a planned manner including hotels, restaurants, entertainment multiplexes, hospitals, schools, colleges etc. within and appurtenant to the IT parks.

#### 5.2 *Private Parks Scheme*

1. To accelerate the process of private sector led IT infrastructure development, the Govt. shall, in association with reputed global IT parks’ developers/consultants, announce a minimum set of standards to qualify as ‘Parks’ Standard’ certified IT park. Compliance shall be assessed, on formal request, at the pre-construction/design stage and thereafter on project completion. The State IT Parks’ Management team shall serve as the nodal agency for compliance assessment and administration of the ‘Private IT Parks Scheme’.
2. All ‘Parks’ Standard’ compliant IT parks shall be entitled to the FAR classification as applicable to IT industry under Kerala Building Rules. For other compliant IT parks that are either entirely for IT hardware industry or for both IT hardware and IT software industry companies, classified under ‘Industrial’ category of the Kerala Building Rules, additional FAR of 50% shall be permitted (over currently applicable FAR of 1.5).
3. The Kerala State Electricity Board, the Kerala Water Authority, and the Office of the Chief Town Planning Authority shall each designate a Nodal Officer who shall facilitate the process of inspection, application processing and application closure, for their respective responsibility areas. Response standards shall be announced by these agencies for the fast track clearance process.
4. A certified private IT park shall be governed by the same set of industry enabling regulations that are applicable for the State promoted IT parks.
5. A private park that qualifies for certification under this scheme shall be promoted by the State Govt. as an integral part of the State’s IT Infrastructure, provided the promoter of the park so desires.
6. The scope of the ‘Private IT Parks’ scheme shall be restricted to projects that seek to provide a minimum of 50,000 sq. ft per project either through creation of fresh built up space or through conversion of existing space for use by IT industry. Projects less than the 50,000 sq. ft qualifying stipulation shall still have the benefit of FAR provided under point 1 provided they are otherwise compliant with the Parks’ standard.

#### 5.3 *Leveraging Submarine Cable Landing at Kochi for Industry*

Kochi has the unique connectivity advantage of being the landing point of two major

international submarine cables linking to US, Europe and the Far East. All IT Parks partially or fully promoted by the State Govt. shall be connected by OFC to the Kochi gateway. Data communication bandwidth, a strategic input for the IT sector, shall be thus made available to IT industry through the SII with assured quality of service across the State.

## 6. State Information Infrastructure (SII)

The State Information Infrastructure, which is to be set up within the coming two years shall endeavour to provide robust and seamless connectivity to industry across the state.

### *a. Present Status*

Kerala enjoys the highest telephone density in the country today. 100% of the 982 telephone exchanges in the State are digital, covering all 14 district headquarters, all 63 taluk headquarters, and all 1468 panchayats/villages. The BSNL telephone exchange is collocated with the panchayat headquarters in a majority of the panchayats, and the balance is within a maximum of 3 km from the nearest telephone exchange. 945 of the 982 exchanges are networked through optic fibre cable (OFC), and the balance 37 shall also be connected on the OFC backbone within 3 months. 266 exchanges currently support ISDN service. Further, another 100 digital telephone exchanges shall be commissioned by BSNL across Kerala this financial year.

VSNL has made substantial investments in its Kochi gateway where two submarine cables- SEA-ME-WE-3 and FLAG land. Kochi is one among two locations nationwide which has submarine cables landing. With 10 GBPS bandwidth supported, it currently handles about 70% of the nation's data communication traffic. Sourcing bandwidth from VSNL at Kochi and Thiruvananthapuram provides significant savings vis a vis most other locations in the country.

Subsequent to the 'Rights of Way' policy announced in 2001, a number of telecom companies have come forward to establish OF based data/voice networks in the State.

### *b. Purpose of the SII*

The Govt. has identified target beneficiaries of IT led development as (i) citizens/ individuals (ii) industry (iii) academic institutions and (iv) the different bodies of Government. For the benefits of IT to be exploited in full measure, but at minimal cost, the Government recognizes the need for a communication infrastructure backbone - the State Information Infrastructure - that spreads across the State and reaches out to all targeted beneficiaries. Further, there is the critical need to ensure that a minimum grade/quality of service is available from the SII so that the target beneficiaries can in turn plan software applications and hardware deployment based on the availability and quality of the SII.

The industry shall benefit from direct Optic Fibre Cable Connectivity into the Kochi gateway from most towns within the State, and that at a significant cost advantage.

This would drive IT enabled services that are bandwidth intensive and which require reliable, failsafe operations including Business Process Outsourcing operations, Multimedia call centres, and Multimedia Content Development/Processing centres. Schools and colleges within the State as well as the Panchayats can today look forward to an era of seamless connectivity for communication within their communities as well as the world at large. Finally and most importantly, the SII would enable the ushering in of a new era of transparent, efficient, citizen-responsive governance from the Kerala government.

c. *Quality of Service (QOS) Definition for Data Communication Services*

Service providers within the State shall be urged to maintain and transparently share quality of service data with their consumers. This minimum grade of service shall apply irrespective of the location within the State. This step is expected to ensure uniform quality of internet access and community level intra-networking across the State. Further, this shall prepare the State for an era when 'voice over internet protocol' (VoIP) communication shall be permitted in India. Appropriate mechanism shall be established to measure, report, analyse and provide feedback to service providers to maintain/improve network performance. The QOS requirement shall be reviewed with concerned service providers and consumers, on an annual basis to reflect changes in network capabilities as well as consumer requirements.

## **7. Ancillary and Support Infrastructure**

### *7.1 Power*

IT industry units are entitled to tariff under HD I industry and LT IV industry depending on the supply of and connected load to the IT industry. This classification shall be maintained even in the case of IT software industry units brought under the purview of the Kerala Shops and Commercial Establishments Act 1960.

### *7.2 Roads*

The Govt shall ensure that access roads from the nearest city or airport to designated IT Parks/zones shall be of the highest quality and designed/upgraded to minimize travel time. This is recognized as a basic need of industry. Such activity shall be encouraged on a build-operate-transfer basis with the private sector.

## **8. Thrust Areas in IT**

### *8.1 IT Enabled Services*

1. The Govt. shall endeavour to promote Kerala as a favoured ITES destination in this part of the world and to aggressively market ITES as the State's core competence. The focus domains in this sector shall be Business Process Outsourcing (BPO), Customer Interaction Centers, Multimedia Content Creation and E-services. Kerala already has the basic enablers in place to make this vision a reality - best in class communication infrastructure to support bandwidth intensive ITES operations, a

large pool of English speaking personnel, low cost of operations and low employee attrition. The Govt. is also putting in place a regulatory framework, which would address the specialized employment requirements of the industry.

2. To leverage the natural advantages the State has in this sector, focused training inputs shall be delivered throughout the State to create a large pool of trained manpower for Business Process Outsourcing Centres, voice and non-voice based ITES centers, including voice/web/email based call centers, Geographical Information Systems, and Animation/Content Creation. The content shall be created with the help of experts from the ITES industry and delivered using innovative methods.
3. English is the universal language of business. Kerala Govt. realizes that its front runner advantage in universal coverage and reach in the State's education network can be leveraged to ensure frontline status in the use of English for enhanced employability of its people. To improve the communication skills of the local populace in English, Colleges and Universities in the State shall be encouraged to upgrade the quality of English language courses to accepted international standards. Further, the Govt. shall also encourage the introduction of Japanese, French and German language courses in a phased manner in Colleges so that a pool of manpower trained in these languages is available within the State.
4. Kerala shall host an annual International Business Process Outsourcing Conclave each year. This event, the first of its kind in India, shall be the lead and definitive event for the Indian and regional BPO industry.

#### *8.2 Supply Chain management Operations*

The Govt. recognizes it as an imperative to attract global IT Products companies to Kerala. Kochi offers several natural advantages to become a choice location for Supply Chain Management Operations (SCM). Kochi has an all-weather port, an international airport well connected into the Far East through Singapore and into Western Europe/ USA through the West Asian countries. Further, Kochi is home to one of four Special Economic Zones of the country that provides a flexible, fast track environment for running predominantly export oriented SCM operations. Special incentives have been announced for such SCM units. The IT products companies based at designated IT parks in the State have enjoyed harmonious labour relations over the last several years in addition to high productivity levels. The new labour regulatory framework shall lay the foundation for such operations to proliferate. The Govt. commits itself to playing a strong enabling role in this regard.

#### *8.3 Establishment of a Global HR Centre in Kerala*

In view of Kerala's peaceful, salubrious and cost competitive setting, the State is a natural location of in-house training facilities for IT companies. The State Govt. shall focus on this comparative advantage by promoting the Technopark as an attractive global HR

centre. As a part of this endeavour, the Govt. shall encourage leading IT Corporates to set up their HRD centres in Kerala.

## **9. Performance Excellence Initiative**

The State Govt. will promote international bench marking of the IT industry in the State by fostering a Performance Excellence Initiative for improving organizational excellence and business maturity. A Performance Excellence advisory group shall be constituted for prescribing short and medium term course and to devise operational guidelines as well as training inputs for the IT industry.

Performance Excellence calibration shall be undertaken and a system of awards and incentives shall be put in place.

## **10. Synergy with the Tourism Industry**

IT and Tourism have been defined as Kerala's focus areas and both these sectors can benefit from mutual synergy. IT has a significant role to play in enhancing service levels, particularly in the high end tourism segment that Kerala dominates. The Tourism and IT Department shall develop a comprehensive plan for improving efficiencies, reducing costs and for creating customer delight in the tourism industry through the use of IT. Local IT industry shall be encouraged to develop/offer the necessary IT products and services. The State Information Infrastructure shall be made available to the tourism industry to serve the industry's communication needs. Special tourism packages shall be evolved to bring in leisure travelers from the IT industry into the State thus benefiting both the sectors.

## **11. Promotional Initiatives**

The Govt. shall launch concerted promotional efforts to establish the State as a favoured investment locale within the country and abroad. These efforts shall comprise overseas business promotion, focusing on global IT centers as well as targeted individual efforts aimed at attracting large IT companies into the State.

### *11.1 Business Promotion Cell for IT Industry*

The Kerala IT Department has set up a Business Promotion Cell for IT (IT-BPC), which shall

- Direct enquiries from within Govt. as well as from industry elsewhere in India/abroad to IT units in the State, and
- Appropriately represent/promote IT units at the leading industry tradeshows/seminar that the IT-BPC participates in. This shall include provision of space at important exhibitions/tradeshows. IT units must register with the IT Department to participate in this program
- The ongoing interface mechanism between the IT-BPC and IT industry shall be transparent and open. The services of the IT-BPC shall be provided free of cost to IT units until 31.12.2002. Thereafter, a nominal fee may be charged to cover the expenses of operation. Kerala based IT units have to register with the IT Department to participate in this program.

### 11.2 *Customer Facilitation Cell for IT Industry*

The Kerala IT Department shall set up a Customer Facilitation Cell for KIT (IT-CFC) to facilitate the initial entry phase of business into the State. The services of the Cell shall include facilitation of single window clearance, including STPI registration and other statutory registrations; expedited import clearance, advising on company formation/setting up procedures; and other facilitation as may be necessary.

### 11.3 *Incubation facilities*

A Business Cum Technology Incubation Fund shall be set up to assist young start up entrepreneurs. This Fund shall provide services including appropriate business and technical advice, and infrastructure and shall work in close co-ordination with the Kerala Venture Fund and the IIITM-K.

## 12. **HRD for the IT Industry**

12.1 Kerala's distinctive edge lies in the quality and adaptability of its human resource base. The high quality of manpower available in Kerala can be a lever not only for attracting high value IT investments into the State, but also for widening and disseminating the IT base into small towns and outlying areas spanning the entire State. The State's endeavour shall be to convert Kerala as a leading off shore center for provision of IT services worldwide.

12.2 *The policy measures delineated in this document seek to address the following two broad objectives*

- (a) To provide adequately trained manpower to meet the requirements of the IT industry and
  - (b) To upgrade the productivity, skill and knowledge levels of the populace by equipping them with the appropriate level of IT literacy.
1. The Government has set up the IIITM-K as a centre of excellence in IT education, for imparting training in high-end and emerging technologies. The Institute will be leveraged as a key resource center for upgrading the quality of technical education in the State.
  2. The State Govt. will promote the establishment of an International Business School in Cochin within the next three years. This school is envisaged as being a predominantly industry driven and industry led enterprise and shall focus on offering business education relating to the management of information. This institute will produce high calibre managers who will be equipped to run the information oriented enterprises of the future knowledge society.
  3. The State Govt. has recently embarked on a major policy initiative of liberalizing the professional and higher educational sector of the State. The Government has multiplied manifold the number of technical seats in the IT sector (including Engineering and MCA). With the liberalization of the technical education sector in Kerala, the number of seats available is expected to be increase four fold in the next five years.

4. Basic IT skills have become a sine qua non for exploring any branch of knowledge. Hence, a fundamental IT module will be incorporated as an essential component of the curriculum for all degree courses in the State, including the Arts and Humanities courses.
5. The relevance of the course content and training imparted in the ITIs and Polytechnics shall be reviewed and appropriated changes made in the course design and curriculum to ensure compatibility with requirements of the local industry.
6. The State Govt. shall promote the deployment of a state-wide educational grid to cover all colleges and institutions of higher learning which will facilitate the creation of subject specific e-learning communities centering around designated institutions as resource centres for various subjects. The objective of the grid shall be to formulate dynamic partnership between existing institutions of higher educations and centres of excellence for upgrading the quality of course content and teaching. IIITM-K shall prepare the basic blueprint for the educational grid and shall function as the nucleus of the grid.
7. The Govt. shall also promote the establishment of a Media Information and Resource Centre for Education under the IIITM-K as a nodal agency for the creation of educational content in relevant disciplines.
8. The Govt. shall form an Expert Committee with experts drawn from academia/IT industry to review the content of IT in the higher education curriculum in the State on an annual basis, particularly for non-Computer Science Engineering and Electronic Engineering students and for Science, Arts and Commerce streams.
9. Supplementary training programmes in IT shall be introduced in professional and non-professional colleges with support from nationally accepted training agencies such as the NCST and other reputed training institutes.
10. The Govt. shall undertake career aptitude assessment programmes in co-operation with private organizations with proven expertise in the area to help develop cost-effective programmes that provide appropriately trained human resources for the IT industry. The whole assessment process shall be monitored by a group of eminent experts from industry, academia to ensure that the objectives are substantially met, without compromise in quality.
11. The Govt. shall formulate minimum guidelines for IT training institutions in the State.

### **13. Industrial Relations & Labour laws**

In an area like IT, where the nature of the labour inputs are highly flexible and mobile and where there is an intense competition between States and regions for attracting inward investment, the Govt. recognizes the need to ensure a regulatory environment and an employment regime that will be a positive inducement for investment.

- a. The Govt. shall declare by notification that IT Software industry units are deemed 'establishment' under the purview of the Kerala Shops and Commercial Establishments Act, 1960.
- b. Further, the Govt. shall exempt these units from the provisions of the Kerala Shops and Commercial Establishments Act, 1960 in respect of the following:
  - i. Working hours stipulation under Section 6 of the Act. This shall enable 'Flexitime' operation.
  - ii. Employment of female employees between 7 PM and 6 AM, under Section 20 of the Act, subject to (a) Special arrangements being made for protection of female employees during these hours, (b) female employees should be employed jointly or in a minimum group of 10 female employees, (c) arrangement of a rest room should be made separately for the female employees. (d) the IT software industry unit shall employ a minimum of 50 persons (including female employees) between these hours.
  - iii. 'Spread Over', under Section 9 of the Act.
  - iv. 'Opening and closing hours', under Section 10 of the Act.
  - v. 'Closing of establishment and grant of weekly holidays', under Section 11 of the Act.
  - vi. Further, by virtue of the IT Software industry being deemed an 'establishment' under the Kerala Shops and Commercial Establishments Act, 1960, there shall be no restriction on a three shift operation.
- c. *Loading and Unloading Work for the IT Industry*  
The Govt. shall through necessary enactment regulate the presence and activity of headload workers on the premises of the IT industry establishments, as well as state promoted IT Parks in general, to ensure smooth, undisturbed functioning of the IT industry.
- d. *Self certification*  
The Govt. shall permit self-certification, to the extent possible, of IT industry in respect to the following Acts/Regulations:
  - i. Payment of Wages Act
  - ii. Minimum Wages Act
  - iii. Contract Labour (Regulation & Abolition) Act
  - iv. Workmen's Compensation Act
  - v. Employees State Insurance Act
  - vi. Employment Exchanges Compulsory Notification of Vacancies Act
  - vii. Kerala Shops and Commercial Establishments Act
  - viii. Payment of Gratuity Act
  - ix. Kerala Casual, Temporary, Badli Workers' (Wages) Act
- e. *Public Utility Services*  
The Govt. shall declare the IT Industry as a 'Public Utility Service' under the Industrial Disputes Act, 1947.

f. *Part-time Working*

The Govt. recognises the need for the IT industry to deal with fluctuating demand for services, cost effectively. The Govt. shall put in place special provisions for part-time employment for IT industry.

g. *Tele-Commuting*

The Govt. shall put in place special provisions to encourage tele-commuting in order to ensure greater efficiency in functioning of IT Software industry.

#### **14. Accelerating PC and Internet access and usage penetration**

1. Kerala with its unique social fabric, socio-economic development, penetration levels of the press, audio-visual media, telephony, mobile telephony, and with the best information infrastructure in the country represents fertile ground for the use of IT products and services by the population at large, and for the introduction of viable services targeted at and involving the citizen, the community, panchayats, and Government bodies.
2. The ability to generate Malayalam language content at a decentralised level by the individual for the immediate and extended community, with resultant content being managed centrally, can possibly evolve into a viable business model. The Government shall encourage private sector initiative to attempt a Proof of Concept of this or similar models that encourages creation and use of Malayalam language content.
3. An Expert Advisory Group with leading experts from the Internet and Computer industries has been formed under the aegis of the IT Department to recommend the enabling steps to accelerate the process of PC and Internet penetration in the State.

#### **15. Role of Open or Free Software**

The Government wishes to encourage the judicious use of open source/free software that complements/supplements proprietary software, to reduce the total cost of ownership of IT applications/solutions without compromising on the immediate and medium term value provided by the application. The Government welcomes research into the use of open/free software in the context of education, governance, and for general use at home, to make IT truly a part of the daily lives of the people of the State. The Government also encourages projects such as the Simputer that is low cost, based on open software, and attuned to the needs of the common man.

#### **16. Software Piracy, IPR, Data Protection, Patents**

The IT Department shall centrally make available resources that will simplify the process of applying for patents in India and the U.S. This will be backed by an expert committee on IPR/Patents (not restricted to IT) that will advise and guide the serious inventor through the process of patent application.

The Government shall provide orientation programs to its law enforcement agencies to understand the intricacies of the laws under the IT Act 2000 to curb software piracy.

### **17. Role of Industry Associations**

The Government shall work closely with industry associations including NASSCOMM, MAIT, CII, and GTECH (Group of Technopark Companies that represents Kerala IT industry) and others to ensure a coordinated and smooth industry-Government interface on all matters of common concern, for the vibrant development of the IT industry in the State.

### **18. Accessibility**

Kerala has traditionally been at the forefront of enlightened social initiatives. The Government shall examine the means by which access to and use of information and services by individuals with disabilities shall be made comparable to that available to individuals without disabilities. IT is a significant enabler of accessibility. An Expert Committee with members from organizations representing the disabled, from industry, and from the relevant departments of the State Government shall be constituted within 3 months under the chairmanship of the Minister for IT & Social Welfare to chart out the steps to be taken in this regard. The report by this committee shall be submitted not later than 6 months from the effective date of this policy.

The Government is aware that rapid change and transformation is the essence of this sector, and acknowledge the need for a dynamically evolving policy that caters to the changing I.T environment. Hence this policy document is envisaged as an evolving blueprint, that sets out an indicative roadmap. The Government will endeavour to improve upon the components of this policy on the basis of suggestions from stakeholders as well as the changing requirements of the sector.

KERALA IT INDUSTRY  
INCENTIVE SCHEME

## **Preamble**

The Kerala Government recognises the potential of the IT industry to transform the economy of the State. The Government also realises the need to accelerate the growth of this industry by offering an incentive package that is simple to participate in, and that which rewards excellence in operations, marketing, human resources development, and process quality.

The incentive scheme seeks to achieve the following objectives:

1. Attract new IT companies to set up operations in the State as well as incentivise the existing IT companies in the State.
2. Reward employment creation in the State.
3. Reward value addition by the IT industry in the State.
4. Reward acquisition of world-class quality/process certification by companies within the State.
5. Incentivise the entry of India's top software exporters into the State.
6. Incentivise the early setting up of a medium to large scale (in terms of employment and value) IT investment in the State.
7. Incentivise premier electronics/hardware companies to set up assembly/ supply chain management operations in the State.

### **Title**

This scheme shall be known as Kerala Information Technology Industry Incentive Scheme, 2001-2003, hereafter referred to as 'incentive scheme'.

### **Operative Period**

The incentive scheme shall become operative with effect from 1st of December 2001 and shall remain in force for a period of four years. However, a review of the incentive scheme shall be carried out after two years, and based on the needs of the IT sector and the experience of the Kerala Government the incentive scheme shall be amended, if necessary.

### **Area of Operation**

The incentive scheme is operative for units operating and functioning in the State of Kerala.

### **Effective Date**

1st December 2001.

## **Incentives**

The incentives currently available to IT (hardware and software) industry companies that set up operations within the State after the effective date shall be modified as under.

### **IT INDUSTRY EMPLOYMENT PROMOTION SCHEME**

Companies that set up operation after the effective date of this incentive scheme:

1. Standard Investment Subsidy (SIS) on Fixed Capital Investment (FCI) for software, hardware and ITES operations- 20%, subject to a ceiling of Rs. 25 Lakhs.

2. Companies that employ minimum 50 employees in software (excluding ITES) or 25 employees in hardware industry, or 100 employees in ITES for a minimum of 12 months during the first 24 months of operation shall be entitled to an additional 7.5% investment subsidy over the Standard Investment Subsidy (SIS). The Net subsidy shall be 27.5% of total FCI. i.e the total incentive amount payable, including that paid earlier, shall be subject to a ceiling of Rs. 27.5 lakhs.
3. Companies that employ minimum 100 employees in software (excluding ITES) or 50 employees in hardware industry, or minimum 200 employees in ITES industry for a minimum of 12 months during the first 24 months of operation shall be entitled to an additional investment subsidy over that applicable for preceding slab (50/25/100 employees). The net subsidy shall be 30% of total FCI and the total incentive amount payable, including that paid earlier, shall be subject to a ceiling of Rs. 30 lakhs.
4. Companies that employ minimum 250 employees in software (excluding ITES) or 125 employees in hardware industry, or minimum 500 employees in ITES industry for a minimum of 12 months during the first 24 months of operation shall be entitled to an additional 10% investment subsidy over that applicable for preceding slab (100/50/200 employees). The net subsidy shall be 40% of total FCI. The total incentive amount payable, including that paid earlier, shall be subject to a ceiling of Rs. 40 lakhs.

The companies may apply for the standard incentive on commencement of operations. Further incentives may be applied for on sustaining the employment criterion for each slab for minimum period of 12 months.

### **Existing Companies**

Existing 'eligible IT companies' that set up operation before the effective date and have availed the 20% standard incentive in the past, and that which expand operations shall be entitled to the above incentives, provided they sustain the specified levels of employment for a minimum period of 12 continuous months.

Existing 'eligible IT companies' that set up operation before the effective date and have not availed of the 20% standard incentive in the past, may choose to participate in the newly announced 'IT Industry Employment Promotion' scheme.

### **Early Bird Scheme**

IT Industry companies that set up operations in Kerala before 30th June, 2002 that fulfil the following conditions,

1. Employs minimum 250 permanent headcounts.
2. Employment level to be maintained for a minimum period of 12 months within a 36-month period.
3. The employee count includes all permanent employees. Temporary, part-time and contract employees employed by the IT industry in its primary business shall be converted to 'full year equivalents' and included.

shall be entitled to the following incentives:

1. A flat one time incentive payment of Rs. 50 lakhs.
2. This incentive is over and above the incentives claimable by the company under any other scheme announced elsewhere under this policy.
3. This incentive shall be payable immediately once the conditions of the 'early bird' incentive scheme is fulfilled.

### **CMM Level V or COPC Certification**

With the intention of encouraging Kerala based companies to obtain quality certification and thereby raise the maturity level of the IT industry in the State, a special one time incentive of Rs. 5 lakhs from the Kerala Government shall be provided to:

- i. An IT Software unit that has been certified at CMM Level 5 of the Capability Maturity Model of the Software Engineering Institute, Carnegie Mellon University; OR
- ii. An ITES unit that has been certified as compliant with COPC-2000 standard of the Customer Operations Performance Centre; OR
- iii. An ITES unit that has been certified for at least the eSCM Level 3 capability of the services Capability Model of the ISRI, a division of the Carnegie Mellon University.

This incentive is restricted to companies with their registered office in Kerala.

### **Incentives for Kerala Based IT Industry in Government Purchases**

#### **IT Software Industry Units**

An IT software unit that has its registered office in Kerala and employs a minimum of 30% of its total workforce in its Kerala operations, and otherwise compliant with the tender requirements, shall be entitled to 7.5% price preference on IT Software solutions required by Kerala Government/PSUs/Government Bodies. Other conditions remaining the same, they shall be given higher preference.

#### **IT Product Industry Units**

An IT Product unit that has its registered office in Kerala and employs a minimum of 30% of its total workforce in its Kerala operations, that is either excise paying or ISO certified, and otherwise compliant with tender requirements, shall be entitled to 10% price preference on IT Products that is required by Kerala Government/PSUs/Government Bodies. Other conditions remaining the same, they shall be given higher preference. This shall apply to eligible existing IT Product units as well as new IT Product units that engage in electronics/computer hardware assembly/supply chain management operations in the State.

#### **Special investment promotion package**

The Government shall offer special, customised incentive packages to any company that seeks to employ minimum 500 employees for a minimum period of 12 months in the first 36 months of operation. To attract investment in the computer hardware and computer peripheral sector, special incentives shall also be offered to any global, national level player to set up their supply chain management operations in Kerala subject to a minimum scale of operations of Rs. 100 Crore. turnover p.a from their Kerala operations.

Such special incentive packages shall be developed and proposed to the potential investor by a special Committee set up for this purpose within the Government. The Government realises that time is of the essence in all such interactions with investors from the IT industry and shall expeditiously process all serious applications, and a firm response shall be forthcoming to the investor no later than 4 weeks from receipt of proposal with full details.

## **INCENTIVES FOR KINFRA -IT PARKS**

Kerala Industrial Infrastructure Development Corporation (KINFRA), a statutory body of Government of Kerala has developed several industry specific parks. KINFRA has developed two IT parks i.e. KINFRA Information Technology & Electronics Park (KITEL) at Kakkanad, Cochin and Malappuram, Calicut. The task of improving infrastructure would be given the highest priority by KINFRA. The plans for infrastructure development will take into account the resource endowment and growth potential of each area. Special emphasis will be given to the development of thrust sectors, which have been identified keeping in view their infrastructure requirements, growth potential and the capacity to generate employment.

KINFRA proposes the following incentives to attract investors in the KINFRA IT park and also its Joint Ventures (JV)

1. Incentives for infrastructure developers in KINFRA Parks for development of IT infrastructure
  - a. The Government of Kerala shall give all statutory clearance under various statutes pertaining to state.
  - b. Exemption from stamp duty, registration fee and the transfer duty of land for infrastructure developer. Also the same exemption should be extended to stamp duty and the registration fee for loan agreements, credit deeds, mortgages and hypothecation deeds executed by the infrastructure developer in favour of banks or financial institutions.
  - c. Concession offered to KINFRA sponsored IT parks will be made available to Infrastructure developers in Kinfra IT parks.
  - d. The infrastructure developer in KINFRA IT park will be eligible for single window clearance as per the Kerala Industrial Single Window Clearance Boards and Industrial Township Area Development Act, 1999.
2. Special Incentives for Units in KINFRA IT Parks
  - a. Exemption from Stamp duty and registration fees for the units inside the park upon executing lease/sale agreement with KINFRA for lease/sale of land and built up space.
  - b. Exemption from entry tax for goods like machines equipments, capital goods and construction materials procured for implementation of infrastructure projects.
  - c. Rebate in the cost of land allotted to an IT industry in KINFRA IT park at Rs.20,000/- (Rupees twenty thousand only) per job created subject to the following conditions:
    - i. The rebate shall be applicable only in respect of land allotted by KINFRA with prospective effect
    - ii. The rebate shall be restricted to Rs.20,000/- (Rupees Twenty thousand only) per job created or the cost of the bare land (excluding development charges/cost) whichever is less subject to a ceiling computed @ 0.30 acres for every 100 jobs created

- d. As an investment promotion drive, first five acres of land in each KINFRA IT parks will be offered at 25 % discount.
- e. 50% discount will be given in service charges for the first ten pioneer units for an initial period of three years.

3. FAR shall be made at the level of 5

#### Notes

In all cases, the number of employees in the software unit shall not exceed [no. of computer workstations x 1.33 x no. of shifts normally run by the software unit]. As such, only permanent, full time, employees of the IT units shall be included for the purpose of the calculation. However, part-time employees and other consultant/temporary staff shall be converted to man-year equivalents assuming 52 weeks of 48 hours per man-year. On-going contractual employment shall not be included in the employee calculation.

The minimum salary (based on standard cost to company calculations) to be paid for software development personnel must be Rs. 7500 p.m, while for other categories has to be Rs. 4500 p.m for inclusion of employees in the calculation for employment level related incentive schemes.

A company can claim incentives only once for each employment slab that it qualifies for, i.e multiple applications within a given slab are not permitted.

The Government shall prioritise and to the extent possible ensure prompt disbursement of all incentive claims to the IT industry.

The Kerala IT Mission shall be the nodal agency for receipt and processing of incentive applications from the IT industry. It shall appoint a reputed Chartered Accountancy firm to professionally administer the incentive scheme.

#### Definitions

- a) 'IT' includes IT and Telecommunications.
- b) 'IT industry' includes IT hardware and software industries; IT software industry includes IT software, IT service and IT enabled service. However, it excludes IT training institutions that provide training to the public at large.
- c) 'IT infrastructure' refers to the physical infrastructure built by a firm or build up and sold to an IT industry for its own use; or infrastructure built by an IT industry for its own use.
- d) 'IT Software' is defined as any representation of instruction, data, sound, image including source code, object code recorded in a machine, readable form and capable of being manipulated or providing interactivity to use by means of automatic data processing machine falling under head 'IT Products'. IT Software includes Operating System, Application Software, Middleware, and Firmware.
- e) 'IT Service' is defined as any service which results from the use of any IT software over a system of IT products for realizing value addition.

- f) 'IT Enabled Service' is defined as any product or service that is provided or delivered using the resources of Information and Communication Technology.
- g) 'IT Products' is defined as computer, digital-data communication and digital data broadcasting products as notified by the Ministry of Finance, Government of India or Central Board of Excise & Customs.

**Appendix I-A gives the list of IT industry heads**

- h) The 'Eligible New Information Technology Unit' is defined as a new unit in IT industry set up after the effective date. It should also fulfill the following criteria:
  1. The new project should have registered with the STPI/DOE under the EHTP scheme or the Kerala IT Mission.
  2. The new project should have a separate identifiable capital investment means that, it should not have any linkage with an existing manufacturing/IT Industry unit.

- i) Eligible IT Unit

The 'Eligible IT Unit' is defined as an existing IT Unit which registers itself as an IT Industry with the STPI/DOE under EHTP scheme or the designated State agency as the case may be, after the effective date although it commenced production before the effective date.

In case of any ambiguity in implementing/interpreting this policy clarifications issued from time to time by the Department of IT shall prevail.

- j) Fixed Capital Investment

**The eligible Fixed Capital Investment includes**

- 1) Investment made in land

The actual cost of the land including the legal charges incurred for acquisition of land needed for the project. A plot of land acquired under lease agreement, except from Technopark/KINFRA/approved private IT Parks on 25 years lease basis, shall not be considered as Fixed Capital investment.

- 2) New building

New building means building required for the IT industry including that for production/development, administration, canteen, and in-house training for staff and would include the cost incurred on purchase of old building or repairing cost.

- 3) Machinery

This includes plant & Machinery needed to set up 'Eligible New IT Unit'. This also includes 'IT Product' and 'IT Software'.

**Further includes**

IT Product and IT Software installed at the residence of the employees of the eligible new unit, subject to the limit of 5% of the eligible total Fixed Capital Investment.

The cost of electrification, transportation, erection and installation will be capitalized under the head - plant and machinery. The investment made in acquiring air-conditioning plant/machine. Transport facilities like bus/buses invested in for the conveyance of the workers to the work premises and back. Plant for non-conventional source of energy. Material handling equipment. Plant for purification of water. Plant for pollution control measures. Testing facilities.

The investment made in related furniture up to 10% of eligible Fixed Capital Investment.

k) Timing of Acquisition of Assets

The eligible fixed assets acquired and bought up to eighteen months from the date of commencement of commercial production will be eligible as 'Eligible fixed capital investment'. No assets acquired, created and/or bought after the operative period of the scheme shall be considered eligible.

Assets acquired under hire purchase scheme or installment system/lease scheme would be considered eligible, exclusive of cost of interest.

l) Ineligible Investment

The following investment shall not be considered eligible for inclusion as fixed capital investment:

- 1) Working Capital
- 2) Commissioning fee
- 3) Goodwill fees
- 4) Royalty
- 5) Preliminary and Pre-operative expenses
- 6) Second-hand equipments purchased or reinstalled/shifted
- 7) Capitalized Interest
- 8) Any other investment which is not expressly narrated as eligible
- 9) Technical know-how fee

m) The phrase 'company' is used interchangeably with the phrase 'unit'.

n) Floor area in sq. ft. for the purposes of the incentive scheme shall be at carpet area basis.

## Appendix I-A

### CATEGORIES OF INDUSTRIES INCLUDED IN THE SCOPE OF INFORMATION TECHNOLOGY INDUSTRY

---

#### **A. Computing devices including**

- Desktop ▪ Personal Computer ▪ Servers ▪ Work-station ▪ Nodes ▪ Terminals ▪ Network PC
- Home PC ▪ Laptop Computers ▪ Note book Computers ▪ Central Processing Unit (CPU ▪ Palm top Computers/PDA

#### **B. Network controller cards/Memory/Processors including**

- Network interface card (NIC) ▪ Adaptor-ethernet/PCI/EISA/combo/PCMCIA
- SIMMs-Memory ▪ DIMMs-Memory ▪ Controller-SCSI/Array ▪ Processors-Processor/Processor Power Module/Upgrade

#### **C. Storage Units including**

- Hard Disk Drives/Hard Drives ▪ RAID Devices & their Controllers ▪ Floppy Disk Drives ▪ C.D. ROM Drives ▪ Tape Drives - DLT Drives/DAT ▪ Optical Disk Drives ▪ Other Digital Storage Devices

#### **D. Printers & Output Devices including**

- Dot-matrix ▪ Laser jet ▪ Ink jet ▪ Desk jet ▪ LED printers ▪ Line printers ▪ Plotters ▪ Pass book Printers

#### **E. Net working Products including**

- Hubs ▪ Routers ▪ Switches ▪ Concentrators ▪ Trans-receivers

#### **F. Software including**

- Application Software ▪ Operating System ▪ Middle Ware/Firm Ware

#### **G. Power Supplies to Computer Systems including**

- Switch Mode Power Supplies ▪ Uninterrupted Power Supplies

## **H. Net working/Cabling & related Accessories**

(related to I.T.Industry)

- Fibre Cable ▪ Copper Cable ▪ Cables ▪ Connectors, Terminal Blocks ▪ Jack Panels, Patch Cord
- Mounting Cord, Patch Panels ▪ Back Boards, Wiring Blocks ▪ Surface Mount Boxes

## **I. Electronic Components**

- Printed circuit Board Assembly/populated PCB ▪ Printed Circuit Board/PCB ▪ Transistors
- Integrated Circuits/Ics ▪ Diodes/Thyristor/LED ▪ Registers ▪ Capacitors ▪ Switches (On/Off, Push- button, Rocker etc.) ▪ Plugs/Sockets/Relays ▪ Magnetic Heads, Print Heads ▪ Connectors
- Microphones/Speakers ▪ Fuses

## **J. Tele-communication Equipment including**

- Telephones ▪ Videophones ▪ Facsimile Machines/Fax cards ▪ Tele-Printers/Telex machines
- PABX/EPABX/RAX /MAX -Telephone exchange ▪ Multiplexers/Muxes ▪ Modems ▪ Telephone Answering Machines ▪ Tele-Communication Switching Apparatus ▪ Antenna & Mast ▪ Wireless data communication Equipment ▪ Receiving Equipments like pagers, Mobile/Cellular Phones etc.
- VSATs ▪ Video Conferencing Equipment including Set Top Boxes for both Video and Digital Signalling

## **K. Consumables including**

- C D.ROM/Compact Disk ▪ Floppy Disk ▪ Tapes DAT/DLT ▪ Ribbons ▪ Toners ▪ Ink jet cartridges ▪ Inks for out put devices

## **L. Others**

- Key Board ▪ Monitor ▪ Mouse ▪ Multi Media Kits ▪ Access Card ▪ Electronics Purse ▪ Electronics Wallet ▪ Universal Pre Payment card ▪ Smart card etc.

GOVERNMENT OF KERALA

Abstract

Information Technology. Department - New I.T Industry Policy and Incentive Policy - approved - orders issued

INFORMATION TECHNOLOGY DEPARTMENT

G.O.(MS) 25/ 2001/ITD

Dated, Thiruvananthapuram 1-12-2001

ORDER

Government are pleased to approve the new IT Industry Policy along with the Incentive Policy as outlined in the appendix. The policy shall come into force w.e.f. the date of this order

By Order of the Governor

Aruna Sundararajan  
Secretary to Government

To

The Chief Secretary/Additional Chief Secretary.

All Principal Secretaries/Secretaries/Special Secretaries to Government.

The Accountant General, Kerala (A&E) /Audit (This is issued with the concurrence of the Finance Department)

The Director, Kerala Information Technology Services Society.

The Chief Executive Officer, Technopark, Thiruvananthapuram.

Managing Director, KELTRON, Vellayambalam, Thiruvananthapuram.

Managing Director, Kerala State Industrial Development Corporation, Thiruvananthapuram.

Managing Director, KINFRA, Vellayambalam, Thiruvananthapuram.

General Administration (SC) Department (vide proceedings No.574 dt.30-11-2001 of Council of Ministers)

The Finance Department (vide U.O No.92391 A-Expenditure B3/01/Fin dt.27-1-2001).

Copy to: Principal Secretary to Chief Minister.

Private Secretary to M (Industries and Social Welfare).

C.A to Secretary (Information Technology).

CA to Additional Secretary (Information Technology).

Stock File/Office Copy.

Forwarded /By Order

Section Officer



Department of Information Technology  
Government of Kerala

December 2001