

## West Bengal's New Policy on IT-Enabled Services

West Bengal has been one of India's fastest growing states in the last decade, with a 5.2% growth in per capita net SDP. Over the last 3 years (1998-99 to 2000-01), it has also ranked as the fifth most attractive destination<sup>1</sup> for investments. Going forward, the State has identified IT as a priority focus sector to be developed into a growth engine for the future. While the State will target both IT Services and IT-Enabled Services<sup>2</sup>, its focus in the short term will be on ITES, which is expected to grow by 75 per cent and touch Rs. 7,100 cr in 2002<sup>3</sup>. The IT Services sector, in comparison, is expected to grow only 23 per cent in the short term.

The ITES market has witnessed exponential growth, with over 100 per cent employee growth in the last 5 years. With its abundant talent, excellent infrastructure, low cost of operations and a highly responsive Government, Kolkata is well positioned to benefit from this spurt in ITES services.

To expedite the sector's growth, West Bengal has crafted a policy document aimed specifically at ITES. This policy has been created after a thorough evaluation of the State's existing IT policy and the policies of other Indian states.

This document explains the ITES policy in detail. It consists of three sections:

1. West Bengal's IT vision
2. Its winning position on the enablers required to succeed in this sector
3. The regulatory support offered to investors.

### **THE STATE HAS SET AGGRESSIVE TARGETS IN IT**

West Bengal has registered steady growth in the IT sector with a CAGR of 115% in the five years between 1996 – 2001. It presently has a share of three per cent of total national exports. The State recognizes that the potential is far higher, given its intrinsic capabilities. It has, therefore, set significantly higher targets in both IT Services and ITES, going forward.

A study by McKinsey & Company has helped create the State's IT vision and draw up a roadmap for success in the sector. The aspiration set for West Bengal is to

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<sup>1</sup> As per the Central Statistical Organisation (CSO)

<sup>2</sup> ITES includes services like back office operation, call centre, content development/ animation, data processing, engineering and design, geographic information system services, insurance claim processing, legal database, medical transcription, payroll processing, remote maintenance, revenue accounting, support centre and website services.

<sup>3</sup> As per Nasscom

rank among the top-3 IT States in India by 2010 and contribute 15-20 per cent of the country's total IT revenues. The focus in the long term will be on high value-added IT work, developed through intellectual leadership and supported by Government initiatives. In the short term, as explained above, the focus is on ITES.

In ITES, the State is targeting 15 per cent of BPO<sup>4</sup> revenues (transaction processing and customer interaction services, including call centres) and 10 per cent of other revenues (including a leadership position in knowledge services and animation). In IT services, it is targeting 10-15 per cent of software services exports, 25 per cent of all product development/R&D outsourcing and 5-10 per cent of domestic software services and products.

The State realises that government initiatives to increase IT usage will play an important role in creating internal demand and spurring growth in the industry during the formative years. The Government is, therefore, committed to making this happen. Today, WBSWAN (West Bengal State-wide WAN), developed by WEBEL and Tata Infotech, connects Kolkata to over 18 district headquarters. Nine other important townships are in the process of being connected while 340 blocks and 3,600 panchayats will be covered shortly.

The other initiatives taking shape include usage of the ASP<sup>5</sup> model and government portals in collaboration with TCS to provide public interface to government information, GIS (geographical information system) for municipalities, computerisation of government departments (including land records), and an aggressive IT literacy programme in schools and colleges in collaboration with IBM, Wipro, NIIT and others. The State has already introduced significant computerisation in several government departments, including the Departments of Finance, Labour, Transport, Land and Land Reforms, Higher Education and School Education.

## **THE STATE IS WELL-POSITIONED ON THE KEY ENABLERS REQUIRED FOR SUCCESS**

A detailed study of the ITES industry has led to the identification of five key enablers for success. These are: availability of good quality talent, low cost of operations, availability of high quality infrastructure, operational support and investor facilitation. A detailed analysis shows Kolkata to be very competitive on all these dimensions.

### **1. West Bengal possesses a sizeable talent pool of good quality**

West Bengal has a huge pool of quality talent and has historically enjoyed very low attrition rates:

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<sup>4</sup> Business Process Outsourcing

<sup>5</sup> Application Service Provider

**1.1 Highest per-capita spending on education:** West Bengal has the highest per capita spending on education among large Indian states. This is reflected in the huge annual intake of undergraduate students (360,000 students for graduate courses and 8,000 for engineering courses). Moreover, over 30,000 students pass out every year from English medium schools in Kolkata alone.

**1.2 Good quality talent pool:** The talent available in this region is of high quality. This is demonstrated by the fact that over 20 per cent of IIT students belong to this region. A significant section of the NRI entrepreneurship at Silicon Valley too belongs to this region. In addition, premium educational institutes like the Indian Institute of Technology, Kharagpur (IIT-KGP), Indian Institute of Management, Calcutta (IIMC) and the Indian Statistical Institute (ISI) are located in the State.

**1.3 Number of graduate colleges:** West Bengal has over 350 degree and 40 engineering colleges, with two of its colleges, Presidency and St. Xavier's, ranked among the top-10 degree colleges in India.

**1.4 Domain knowledge in financial services, travel/ logistics:** The local talent has domain knowledge in verticals such as financial services and travel/logistics:

- **Financial services:** West Bengal has a strong presence in financial services. Three banks are headquartered in Kolkata , while over 15 foreign/ private banks are present in the city and over 4,400 bank branches are present in the state.
- **Travel and logistics:** West Bengal has one of India's largest port complexes (Kolkata and Haldia) and acts as the logistics hub for 11 states in eastern India. A few software units in Salt Lake dedicated to airlines and the shipping business have managed to successfully tap this talent pool for people with domain knowledge experience.

**1.5 State-level initiatives to ensure availability of quality talent:** The State plans to launch a series of initiatives to further develop the existing talent pool and to ensure availability and high quality of talent for ITS and ITES companies in future. To ensure successful execution of this strategy, the State will draw up a public-private funding model that will ensure that the necessary investments are made in this sector.

## **2. Cost of operations is significantly lower than in other metros**

Kolkata offers ITES players one of the lowest operation costs in the country. This is reflected in the low CMIE consumer price indices, compared to other key ITES destinations in the country (355 for Kolkata compared to 454 for Chennai, 413 for Bangalore, 410 for Hyderabad and 401 for Delhi).

Salaries for fresh graduates are about 10-15 per cent lower in Kolkata as compared to the other metros. Also, the low attrition levels in Kolkata (10 per cent as compared to industry benchmarks of about 20 per cent in the IT industry) work in its favour by reducing the training costs incurred by employers.

In addition, the State offers best-in-class fiscal incentives to IT companies. The financially attractive one-time and recurring incentives further strengthen the value proposition of Kolkata as a low-cost operations centre.

### **3. High quality infrastructure available in the State**

The State has strengths in all areas of physical infrastructure. This includes international telecom connectivity, physical and social infrastructure and power supply. Kolkata is also well connected to international destinations in Asia, Europe and the US.

**3.1 Telecom Connectivity:** Kolkata offers about 580 Mbps of international satellite connectivity through VSAT and STPI. About 70 per cent of this bandwidth is available to new players. The State is now planning to set up two more earth stations at Kharagpur (near IIT) and Durgapur. Cable connectivity is provided through leased BSNL lines of 92 Mbps to Mumbai and onward connectivity through submarine cables landing at Mumbai. Besides BSNL, private players like Reliance Infocom and Bharti Telesonic plan to connect Kolkata through their own NLD backbone to Chennai and Mumbai. While the Reliance connectivity will be completed by end-2002, Bharti has initiated the work on its cable connectivity projects. Additional cable connectivity will also be provided by Railtel, which will provide bandwidth to the telecom carriers. In addition, highly reliable local loop options are available from BSNL, STPI WLL/OFC.

**3.2 Availability of built-up space and land:** Kolkata offers excellent walk-in physical infrastructure. These include the STP2 in the Salt Lake IT hub and privately-constructed parks like BIP and Infinity. These house over 160 IT/ITES companies, employing some 13,000 IT professionals. Several educational/-training institutions too are present here. In addition, the Government makes plots available for new ITES projects at the highly-subsidised rate of about Rs. 40 lakh per acre, which is 15-20 per cent of the prevailing market price. The Government also plans to create a 40-acre ITES park at Nonadanga, near Salt Lake in Kolkata.

**3.3 Continuous supply of high-quality power at a low cost:** Its high investments in power generation over the last 10 years have made West Bengal one of the few power-surplus states in India. The high percentage of thermal power ensures that the supply is not adversely affected during dry season. In addition, the Government will ensure that the existing low-cost power plants in West Bengal feed all new ITS/ITES units on priority basis.

**3.4 Availability of social infrastructure:** The Government recognises the importance of social infrastructure in attracting senior/middle management talent to Kolkata. The city has excellent social infrastructure in place. These include social, sports, rowing, swimming and golf clubs of international repute (e.g. Tollygunge club, Calcutta Cricket and Football Club, Calcutta Club, Royal Calcutta Golf Club, Calcutta Swimming Club, Saturday Club, Turf Club, Conclave, Bengal Club and Circle); cultural centres (Nandan), recreational centres (Science City, Aquatica and Bowling alleys near Salt Lake); excellent hotels (Oberoi Grand, Taj Bengal, Hyatt and ITC Sonarbangla); some of the best schools in India (La Martiniere, St. Xavier's, Modern High, Don Bosco, St. James); privately-managed hospitals (AMRI, Woodlands, West Bank, Bellevue, Birla Medical Research Institute, Peerless and Duncan Gleneagles) and a range of tourist destinations nearby (Shantiniketan, Digha, Sunderbans, Darjeeling, sub-Himalayas and Southeast Asia). To further improve facilities in and around Salt Lake, a dedicated team has been drawn up from the IT companies that have a presence in the area.

**3.5 Good connectivity to international locations:** Kolkata is well connected to prime locations overseas and in India. These include the prime Asian hubs of Bangkok (10 flights per week) and Singapore (7 flights per week) as well as key Western locations such as London (direct flights twice a week), Amsterdam (1 direct flight per week) San Francisco (three flights per week via Singapore) and New York (three flights a week via Europe). The city is also well connected to important domestic locations such as Mumbai (9 flights daily) and Delhi (7 flights daily).

#### **4. Operational issues have been addressed by the Government**

The Government has addressed most issues related to ITES operations. These include 'Public Utility Service' provider status for ITES companies, permission for women to work at night, permission to run three shifts irrespective of national holidays, relaxation in building and zoning laws (e.g., ability to construct centre in residential areas), exemption from zoning laws for purposes of regulations, exemption from statutory power cuts and exemption from purview of West Bengal Pollution Control Act (except for diesel generator sets). These are discussed in more detail in the 'Regulatory support' section.

#### **5. WEBEL<sup>6</sup> acts as a single-window agency for all IT investors**

At the operational level, the Government has ensured ease of setting up operations in Kolkata through Webel, which acts as a single-window support centre for all IT investors in the State. Webel helps companies in obtaining building space on rent/lease and in purchase of land. It also interacts with Government bodies such as BSNL (last-mile connectivity), WBSEB (power connections) and the local municipality

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<sup>6</sup> West Bengal Electronics Industry Development Corporation

(building clearances) to reduce the company's exposure to bureaucratic problems. Further, the STPI has authorised it to grant registrations on its behalf.

Going forward, the Government intends to set up a Cabinet Committee on Information Technology to monitor and implement the outlined policies at the apex level. The Chief Minister will chair this committee. In addition, a high-powered committee of secretaries will be set up under the Chief Secretary to monitor the implementation of the projects and to examine applications from companies requiring grant of special incentives.

## **INVESTORS TO GET BOTH REGULATORY SUPPORT AND FISCAL INCENTIVES**

The Government has evolved a best-in-class package of fiscal incentives and regulatory support to investors.

### **A. Supportive regulatory framework set up for investors**

Our discussions with potential ITES investors indicate that supportive regulations go a long way in attracting investments to a state. Based on the inputs received from investors, West Bengal has granted the following non-fiscal incentives to ITES investors to help their day-to-day operations.

#### **1. Procedures under existing labour laws simplified to ensure smooth operations**

In ITES, where human resource inputs are highly flexible and mobile, the Government recognises the need to simplify procedural framework under the existing labour laws. Accordingly, the Government is committed to move from a regulated administration framework to a promotional framework to facilitate smooth functioning of the business.

- 1.1. All ITES companies are granted the status of 'Public Utility Service' providers under the Industrial Disputes Act, 1947. The majority of employees in ITES organisations are outside the purview of the 'blue-collared worker' class. However, in view of the Government's understanding of 24x365 operations of the ITES sector, the Government has decided to classify the ITES sector as 'Public Utility Service'
- 1.2. All ITES units are deemed 'establishment' under the purview of the West Bengal Shops and Commercial Establishments Act, 1963.
- 1.3. Given the round-the-clock nature of work that is part of the ITES industry, the Government grants it permission to work on a 24x7x365 model. These units are also exempt from the following provisions of the West Bengal Shops and Commercial Establishment Act, 1963.

- Closing an establishment and granting of a weekly holiday under Section 5 (1) of the Act, provided that every individual has at least one day off every week and a compulsory day off in lieu of working on bank holidays. This would enable the ITES companies to run their operations on all seven days of the week.
- Opening and closing hours under Section 7 (1) of the Act. This would enable the ITES industry to run a three-shift operation.
- Working hours' stipulation under Section 7 (2) of the Act. This will enable 'flexitime' operations for its employees.
- Enabled to engage female employees between 8 pm and 6 am, under Section 10 (b) of the Act subject to (i) Special arrangements being made for protection of female employees during these hours; (ii) Female employees being employed jointly or in a minimum group of 10 female employees; (iii) Arrangement of a separate rest room for female employees; (iv) A minimum of 50 people to be employed during these hours (including female employees).

1.4. Under section 13 of the West Bengal Shops and Commercial Establishment Act, 1963 the ITES companies will now have an option of giving compensatory day off to an employee if the quantum of work exceeds 48 hours a week.

1.5. Under the Employment Exchange Compulsory Notification of Vacancies Act, 1959, ITES companies will be required to send a consolidated report every quarter on the vacancies to the concerned employment exchange. The exchange, will, however sponsor names only when specifically requested to do so by the company.

## **2. Self-certification allowed for ITES companies on various acts**

Having regard to the Government's responsibility envisaged in the Acts and Regulations mentioned below, the Government permits self-certification to ITES companies to the extent possible. In addition, on all acts administered by Central agencies, prior consultation will be required with such agencies.

- Payment of Wages Act
- Minimum Wages Act
- Contract Labour (Regulations & Abolition) Act
- Workmen's Compensation Act
- Employees State Insurance Act
- West Bengal Shops and Commercial Establishments Act
- Payment of Gratuity Act

- Employees Provident Fund and Miscellaneous Provisions Act
- Maternity Benefits Act
- Water and Air Pollution Act.

### **3. ITES companies awarded special status under various acts to improve infrastructure availability**

In addition to the exemptions mentioned above, ITES companies are given the following facilities:

- Automatic clearances under the West Bengal Pollution Control Act, except in respect of power generation sets
- Exemption from zoning regulations on application of company

### **B. Fiscal incentives for ITES investors**

The existing West Bengal IT Incentive Scheme, 2001 offers fiscal incentives that are significantly more competitive than those offered by any other state. The ITES investments have been included in the scheme which enables them to avail of the fiscal incentives.

To ensure balanced development in all regions, the Government has divided the State into three types of areas: Group A, B and C. The fiscal incentives offered vary by location category. Group A includes Calcutta Municipal Corporation. Group B includes Howrah, Hooghly, North 24 Parganas, South 24 Parganas excluding the area under the jurisdiction of the Calcutta Municipal Corporation, Burdwan, Nadia, Purba Medinipur and Paschim Medinipore districts. Group C includes Murshidabad, Birbhum, Purulia, Bankura, Malda, Coochbehar, North Dinajpur, South Dinajpur, Jalpaiguri and Darjeeling districts.

#### **1. One-time fiscal incentives**

- **State Capital Investment Subsidy:** ITES companies in Group A & B are granted subsidy of 15 per cent of the fixed capital investment subject to a ceiling of Rs. 1.5 crore. Companies in Group C are granted subsidy of 25 per cent subject to a ceiling of Rs. 2.5 crore.
- **Exemption from consumption tax:** As per section 2(b) of the State Tax on Consumption or Use of Goods Act, 2001, ITES companies are exempted from consumption tax on computer hardware, computer peripherals and other capital goods including captive power generation sets during the implementation stage.
- **Quality linked incentives:** In pursuance of high quality standards by the State, ITES companies in the small scale sector will be reimbursed 50 per cent of the expenditure incurred by them to obtain ISO/ ISO 9000

certificate or SEI-CMM Level 5 or COPC-2000 or eSCM level 3 with a ceiling of Rs. 5 lakh.

- **Remission of Stamp Duty & Registration:** ITES companies in Group A, B & C are completely exempted from payment of Stamp Duty and Registration Fee required for registration of documents. The requirement of land will be assessed at the rate of 0.3 acre for every 100 jobs created.

## **2. Recurring incentives**

- **Interest Subsidy:** ITES companies in Group A will be subsidized to the tune of 50 per cent of annual interest liability on the loan borrowed for an approved project subject to a ceiling of Rs. 1.0 crore per year for 5 years. Companies in Group B will be subsidized 60 per cent of annual interest liability on the loan borrowed for an approved project subject to a ceiling of Rs. 1.2 crore per year for 7 years while those in Group C will be subsidized 60 per cent of annual interest liability on the loan borrowed for an approved project subject to a ceiling of Rs.1.2 crore per year for 9 years.
- **Waiver of Electricity Duty:** ITES companies in Group A, B & C are granted waiver of Electricity Duty on the electricity consumed for production for 5 years from the date of commercial production. (This would be applicable only for grid power and not for captive power, where the company would have to pay duty at the rate of approximately 5 paise per unit).
- **Employment Generation Subsidy:** ITES companies in Group A & B will be reimbursed 50 per cent of their contribution towards ESI & EPF for 5 years while those in Group C will be reimbursed 50 per cent of their contribution towards ESI & EPF for 7 years.
- **Special incentives for mega-projects:** For mega-projects that require investments exceeding Rs. 25 crore and employ more than 750 people in their first year of operation, the Government may consider a Special Package of Incentives on a case-to-case basis. Specifically, for companies with plans to setup large centres, the State may consider a graded incentive package that would increase the incentives offered per employee with an increase in the planned size for the centre.

The Government of West Bengal strongly believes that this policy will create an enabling regulatory framework for ITES, attract investments and create the initial momentum to drive growth in the sector.