5

STANDING COMMITTEE ON INFORMATION TECHNOLOGY (2004-2005)

FOURTEENTH LOK SABHA

MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY (DEPARTMENT OF INFORMATION TECHNOLOGY)

[Action taken by Government on the Recommendations/Observations of the Committee contained in their Thirty-Eighth Report (Thirteenth Lok Sabha) on 'Problems of Hardware and Software and Requirements of IT Industry']

FIFTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

December, 2004/*Agrahayana,* 1926 *(Saka)*

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Presented to Lok Sabha on 14.12.2004

Laid in Rajya Sabha on 14.12.2004

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COMPOSITION OF THE STANDING COMMITTEE ON INFORMATION TECHNOLOGY (2004-2005)

Shri M.M. Pallam Raju—*Chairman*

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3. Shri Mani Cherenamei
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25. Shri Balbir K. Punj

*Nominated *w.e.f.* 20.8.2004.

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27. Smt. Sarla Maheshwari
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29. Shri K. Rama Mohana Rao
30. Shri Motiur Rahman
31. Shri Sanjay Nirupam

SECRETARIAT

1. Shri P.D.T. Achary	—	*Additional Secretary*
2. Shri Raj Shekhar Sharma	—	*Deputy Secretary*
3. Shri Shri K.L. Arora	—	*Under Secretary*
4. Shri D.R. Mohanty	—	*Executive Officer*

INTRODUCTION

I, the Chairman Standing Committee on Information Technology (2004-05) having been authorised by the Committee to submit the Report on their behalf, present this Fifth Report on Action Taken by Government on the Recommendations/Observations of the Committee contained in their Thirty-Eighth Report (Thirteenth Lok Sabha) on "Problems of Hardware and Software and requirements of IT industry" relating to the Department of Information Technology.

2. The Thirty-Eighth Report was presented to Hon'ble Speaker on 17.09.2002. The Report was also presented to Lok Sabha and laid in Rajya Sabha on 20.11.2002. The Department furnished Action Taken Notes on the recommendations contained in the Report on 20.01.2004.

3. The Report was considered and adopted by the Committee at their sitting held on 25.11.2004.

4. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

5. An analysis of Action Taken by Government on the recommendations/Observations contained in the Thirty-Eighth Report (Thirteenth Lok Sabha) of the Committee is given at Annexure-II.

NEW DELHI;
7 *December,* 2004
16 *Agrahayana,* 1926 *(Saka)*

M.M. PALLAM RAJU,
Chairman,
Standing Committee on
Information Technology.

CHAPTER I

REPORT

This Report of the Standing Committee on Information Technology deals with action taken by the Government on the Recommendations/ Observations of the Committee contained in its Thirty-Eight Report (Thirteenth Lok Sabha) on "Problems of Hardware and Software and Requirements of IT industry" pertaining to the Department of Information Technology.

2. The Thirty-Eight Report was presented to Hon'ble Speaker on 17.9.2002. It was also presented to Lok Sabha on 20.11.2002 and was laid on the Table of Rajya Sabha the same day. It contained 17 Recommendations/Observations.

3. Action Taken Notes in respect of all the Recommendations/ Observations have been received and categorised as under.

(i) Recommendations/Observations which have been accepted by the Government:

Paragraph Nos. 35, 37, 38, 39, 40, 41, 42, 43, 78, 79, 81, 82 & 84

Total : 13
Chapter-II

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the reply of the Government:

Paragraph No. 80

Total : 1
Chapter-III

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:

Paragraph Nos. 36, 77, & 83

Total : 3
Chapter-IV

(iv) Recommendations/Observations in respect of which replies are of interim nature:

Paragraph Nos. Nil

Total : Nil
Chapter-V

4. The Committee trust that utmost importance will be given to the implementation of the recommendations accepted by the Government. In cases, where it is not possible for the Department to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation. The Committee further desire that Action Taken Notes on the Recommendations/Observations contained in Chapter-I of this Report should be furnished to them at an early date.

5. The Committee will now deal with Action Taken by the Government on some of its recommendations.

A. LOW EXPENDITURE ON IT

Recommendation (Para No. 36)

6. In their Thirty-Eighth Report the Committee were seriously concerned to note the Central Government's very low expenditure on IT despite the country's unique and competitive software advantage *i.e.* best in quality but lowest in cost, as per a study of the World Bank. The Committee regretted to observe that Government Departments could not take advantage of quality software products manufactured in the country as the Government had been expending very little on introduction of IT in Government Offices. Observing that apathy and inaction of the Government in this regard were contrary to its proclaimed role of a 'proactive facilitator', the Committee recommended that the Government should allocate a sizeable amount every year to each Department for promotion of IT, should it wish to make the industry more vibrant. The Committee also recommended the Government to closely monitor the actual expenditure on IT by different Ministries/Departments as earmarked for them and thereafter take suitable corrective measures wherever warranted.

7. The Department, in its Action Taken Notes has stated that in the National Action Plan on E-Governance, emphasis has been towards providing efficient and convenient services to Citizen and Businesses and in this context deployment of IT is being considered only as a means towards this and not an end in itself. For the Mission mode Projects, DIT has advised Line Ministries/Department to project their budgetary requirements under the specially created budget head for IT.

8. The Committee are disappointed with the apathetic attitude of the Department. A simple advice to the line Ministries/ Departments to project their budgetary requirements for IT will not yield any results unless and until the Department plays its professed role of a 'pro-active facilitator' to perfection. This, the Committee feel, can be done if each Ministry/Department is encouraged to utilize 2-3% of its budgetary provision on IT in accordance with the guidelines of the Planning Commission.

The Committee are well aware that deployment of IT for providing efficient and convenient services to Businesses and citizens is only a means and not an end in itself. Instead of leaving things to various Central Government/State Government agencies, the Department should truly act as a 'pro-active facilitator' so that quality software products manufactured in the country are taken advantage of and the ultimate aim of making India an IT superpower is achieved.

B. INTERNATIONAL PRIVATE LEASED CIRCUITS (IPLC) SERVICE

Recommendation (Para No. 41)

9. In their earlier Report the Committee had observed that out of the total software exports of Rs. 28,350 crore during the year 2000-2001, STPI units, through their 100 per cent reliable and efficient wide band HSDC facilities, had accounted for about 71 per cent *i.e.* Rs. 20,051 crore. Due to STPI's reliable and stable datacom services, Companies/Units registered with it were desirous of having datacom connectivity from STPI itself, but as per DoT's instructions, these companies had to take the datacom link from VSNL. The Committee were at loss to find any justification for such restrictions. The Committee opined that instructions of DoT would have been appropriate in case of switched/commercial voice where the IPLC was connected to PSTN both on Indian and International sides. The Committee impressed upon DIT take up the matter with DoT and also at other appropriate level so that STPI which had been rendering magnificent service towards software exports, could truly act as a 'single window interface' for the exporting units/companies.

10. The Department in their Action Taken Notes have stated as under:—

"Software Technology Parks of India, an Autonomous Society under Department of Information Technology, Ministry of Communications

and Information Technology has been given a special dispensation from the Government of India to own, operate and maintain International Gateways for providing High Speed Data Communication (HSDC) facilities to Software Exporters in the country. Software Technology Parks of India has been given license *vide* letter No. 220-4/98-PHC dated 13th March, 1999 for the same. The license is valid for a period of fifteen years *i.e.* up to 31.3.2014. Besides this STPI has also obtained the Class "A" ISP license.

STPI has set-up 39 centres all over the country with state of the art technical infrastructure facilities. STPI centres have had a catalytic effect in the growth of software exports from the surrounding regions. STP Scheme, which is a 100% export oriented scheme, has attracted many entrepreneurs in the area of IT software and services sector. More than 3500 units are exporting under STPI umbrella contributing to more than 80% of the total software exports from the country.

The most important contribution of STPI to the software-exporting sector is that of providing dedicated High-Speed Data Communication (HSDC) services. STPI has designed, developed and set up state-of-the-art HSDC Network called Soft NET for software exporters, which is available to software exporters at internationally competitive prices.

Local access to International Gateways at STPI centres is provided through Point-to-Point and Point-to-Multipoint microwave radios for the local loop which has overcome the last mile problem and enabled STPI to maintain an up time of nearly 99.9%. The terrestrial cables (fibre/copper) are also used wherever feasible. As of today, STPI is rendering it's services to nearly 150 customers for International Private Leased Circuit and more than 450 customers for Internet leased lines.

STPI has been providing one stop solution to the IT software and service export industry segment as a part of single window mechanism, enabling software exporters to have hassle free business environment. IT enabled services has emerged as one of the potential area for the software and service export with potential to generate large scale employment for educated and unemployed youth. Call Centre has emerged as one of the most preferred IT enabled services.

Generally Call Centres require the connectivity of International Private Leased Circuits (IPLC) lines with the Public Switch Telephone Network (PSTN) at foreign end. STPI, under its current telecom licenses, can provide only data connectivity. Earlier during the monopoly regime of VSNL, STPI was not allowed to provide voice based IPLCs as international voice communication was a monopoly of VSNL.

The New Telecom Policy' 99 envisaged the opening up of the International long distance service to the private operators. The Government of India has opened the International Long Distance Service since 1st April, 2002 without any restriction on the number of operators. Under the ILDO license private operators can provide international voice connectivity.

With the changing telecom scenario of the country and participation of private players such as M/s Bharti, M/s Data Access, M/s Reliance and M/s VSNL the telecom services have become highly competitive with sharp reductions in tariffs and value added services.

STPI had requested DoT for permission to offer voice based IPLC services to call Centres and software exporters to be a truly one stop shop for the software exporting community of the country. DoT has commented that the private players had invested in the procurement of license (ILDO) and hence permitting STPI to provide voice based IPLCs cannot be justified. STPI was asked to get ILDO license for the provisioning of this service. The cost of ILDO license (Rs. 50 crores) was high as STPI does not want to venture into minutes traffic business like the other ILDO players. Investment in the license fee just for the provisioning of voice based IPLC services was not economical for STPI.

In view of this STPI has initiated to process of 'Strategic Business Alliance' with an ILDO operator so as to provide this service to software exporters and call centres. The matter was put up to the Governing Council of STPI and an agreement has been drafted which would be entered into with the ILDO operators.

Currently STPI is providing around 250 Mbps of bandwidth to software exporters and call centres. This connectivity is only for data due to the licensing restrictions. With the tie-up, STPI will be

able to cater to the bandwidth demand of call centres and software exporters for voice connectivity. This will enable STPI to retain and extend its customer based and be truly one stop shop for the software exporting community of the country".

11. The Committee would like to be continuously apprised of the outcome of all the 'Strategic Business Alliances' entered into by STPI so as to provide various services including voice based International Private Leased Circuits (IPLC) service to software exporters and call centres.

C. AVAILABILITY OF TELEPHONE TRANSMISSION AND OTHER FACILITIES

Recommendation (Para No. 43)

12. In their earlier Report, the Committee had noted that IT enabled services, a new area, which encompassed data processing, medical transcription, call centres, support services through telephone or Internet etc. had a huge opportunity for growth as it had been creating ample job opportunities. The Committee, learnt that in the overall Software Industry, around 2.2 million jobs would be created by the year 2008 and IT enabled services would account for half of that. The revenue generation by the same year would be around Rs. 18,000 crore ($20 billion). The biggest advantage of this Industry was that a large number of simple graduates or even lesser qualified than that could get a job there, which was most unlikely in the Software Industry. But unfortunately, the curriculum in the colleges/universities was not equipped to meet the requirements of this industry. The industry representatives like CII/FICCI/ASSOCHAM were taking initiatives together with the universities in this regard and the Committee would like the Department of Information Technology to associate itself also in the matter. Further, the other requirements like uninterrupted availability of telephone, transmission and other facilities should be taken up at appropriate levels in view of the Industry's tremendous potential for employment generation.

13. The Department have replied that the Department of Information Technology (DIT) is closely associated with industry Associations like CII, NASSCOM etc. to understand the problems in relation to quality manpower generation to serve the needs of IT & IteS industries. The Task Force on HRD in IT set up for this purpose

is examining all the issues and will recommend cohesive action plan. DIT is also promoting IteS through DOEACC which in association with DONER has launched a 2 months course in IT Enabled Services (Call Centres) at its 4 DOEACC Centres in the North Eastern Region at Guwahati, Tazpur, Imphal and Aizawl. Further the courses are also being implemented in Sikkim in association with DIT, Government of Sikkim and DONER, New Delhi. Based on the experience, the programme may be replicated at other DOEACC Centres at Aurangabad, Calicut, Chandigarh, Gorakhpur, Kolkata, Srinagar/ Jammu.

14. In view of the Department's conspicuous silence over the uninterrupted availability of telephone, transmission and other facilities, the Committee would like to reemphasize that the Department should take up the matter at the appropriate levels, and go all out to facilitate this sunrise industry as such basic facilities are indispensable for the growth of the IteS Industry.

D. GUARANTEE OF PROPER COMMUNICATION, POWER SUPPLY ETC.

Recommendation (Para No. 77)

15. In their Thirty-Eighth Report the Committee were perturbed to note that India's Hardware Industry which was well diversified and capital intensive had been under pressure for survival due to infrastructural constraints, inverted tariff structure, lack of investment, lack of strong engineering and design base, inadequate R & D facilities etc. The Committee were further anguished to observe that although India had the ability to manufacture significant components like mother boards, terminals, printers, UPS etc. yet the policy environment had not been conducive to manufacture these items inside the country. The constraints experienced by the indigenous industry primarily included high customs duty on raw materials and capital goods, high excise duty and sales tax, octroi on IT products and inadequate infrastructure like power, road etc. besides a plethora of other constraints. The Committee further noted that as a result of the efforts made by the Department in impressing upon other concerned Ministries/ Departments the problems being faced by the Hardware Sector, some fiscal incentives were extended for the betterment of that sector. Although the incentives extended to the Hardware sector had helped the industry to some extent, yet it had falled short and could not

create the desired impact, as admitted by the Department. The Committee, therefore, recommended for a major paradigm of the policy regime which should encompass flexible Duty/Tax structure, freedom and hassle free environment to the manufacturers, guarantee of proper communication and uninterrupted power supply and moreover speed of business including man, material and decision making process so that there is sufficient inducement and competitive advantage for investment in the Indian Hardware Sector.

16. The Department in their Action Taken Notes have replied as under:—

"Further to the initiatives already undertaken by DIT and discussions held with Department of Revenue and Department of Commerce, the following measures have been proposed to encourage the hardware sector in the country:

(i) Further rationalization of tariffs on raw materials and capital goods.

(ii) Lowering of excise duty on IT and Electronics goods.

(iii) Introduction of full VAT.

(iv) Modification in EHTP scheme to permit DTA sales towards counting of fulfilment of export obligation. Partially it has been implemented already.

(v) Simplification of customs procedures through EDI already under implementation in phases.

(vi) Computerization of Central Excise Department.

(vii) Working of Customs Departments (clearances) for 365 days which has already been implemented at major ports.

The factors such as guaranteed communication, uninterrupted power supply, speed of doing business for having competitive advantage are true for all sectors of industry and Government has initiated some steps in this direction."

17. The Committee are pleased to note that over and above the initiatives already undertaken by the Department of Information Technology, some additional incentives, as enumerated above, have been proposed to be granted for improvement of the Hardware sector.

However, the Committee still feel that the policy environment needs much more to be conducive to the manufacturer, more so, in view of the zero per cent duty which will become effective w.e.f. 2005 under the WTO agreement.

Basic infrastructure e.g. **guaranteed communication, uninterrupted power supply, speed of business for having competitive advantage are Government responsibilities to create a prosperous State and a thriving business climate. The involvement of other Ministries/ Departments is as much essential as that of the Department of IT. The Committee are not satisfied with the progress in this sector and therefore, would like to know in concrete terms the measures initiated by the Government to assure the same to the struggling industry in order to make it competitive and vibrant.**

E. RESPONSIBILITY OF THE GOVERNMENT AND THE INDUSTRY

Recommendation (Para No. 79)

18. In their earlier Report, the Committee found that the role of industry towards R & D activities had also not been very encouraging. The industry's contention was that in order to invest in R & D, there had to be significant volumes in the country and industry perforce would get attracted to invest in R & D where they saw returns. The Committee felt that the industry had to play an equally important role as that of the Government to promote the R & D activities. In other words, while the industry expected the Government to display a trust based facilitator attitude by way of creating a conducive manufacturing environment, the Committee expected the industry to display exemplary focus on domestic hardware growth by way of investing significantly in hardware design and manufacturing, building world class quality levels on hardware and thereafter focusing on exports. As there was a greater need for bringing the industry requirements and the research that had been taking place in the Government side and the industry side in perfect harmony, both the Government and the industry had to ensure that the hardware industry not only survived but flourished also like the software industry.

19. In their Action Taken Notes the Department have stated as under:—

> "The recommendation of the Committee will be taken up with industry associations and industry to see how far Government-industry-academia/R&D labs cooperation can be leveraged to make

the IT industry, including IT software, to become competitive and higher value added products and services can be produced in the country.

Towards the above, industry involvement in DIT R&D activities will be increased. Already, the Working Groups constituted by DIT for selection of R&D projects for fundings, have a representative from the industry so that the needs of the industry are not lost sight of while funding R&D projects. Also, the projects which are directly usable by the industry are partially sponsored by the industry.

Given that Indian IT hardware sector lost its early mover advantage, which Far East got, we need other long term strategies. One of them is to take the design route in areas like: Very Large Scale Integration (VLSI)/Systems on a Chip (SOC). Embedded systems design and R&D services. This would help us come back into next generation production in the country, taking partial advantage of growing domestic market. Other measures (fiscal, infrastructural, financing, VC funding) are also equally important.

For the above, DIT is also, and has been, investing in creation of specialized manpower of relevance to industry as in VLSI design.

DIT is also initiating programs in emerging/sun-rise industries like bio-informatics, nano technology and quantum computing R&D and manpower development. These will help industry in good time."

20. The Committee feel that the Department should interact much more closely with all the Industry associations in order to shape the policy adequately before the zero duty regime of the WTO comes in. The Committee would like to be apprised of the outcome of the efforts made by the Department, in consultation with the industry associations, to enable the Hardware industry to flourish.

F. INDIA *VS* CHINA

Recommendation (Para No. 83)

21. In their Thirty-Eight Report the Committee had observed that PC penetration per 1000 people was 13.2 in China whereas it was only 6.2 in India. Similarly, internet user base was 22.5 million in

China and a meager 2.5 million in India. Likewise in basic and cellular phones per 100 people, China was way ahead of India. The Committee found that China's success had been due to large domestic consumption led by the Government itself, unique package of investment and tax incentives, high competition among the local Governments for attracting hardware industry related investments, high investments in infrastructure sector, flexible labour laws and linking of access to domestic market with condition of local manufacturing. The Committee believed that it would be worth to make a proper study of the development-model of IT industry in China, more so when the Indian hardware industry was battling for survival.

22. The Department, in their Action Taken Notes, have stated that the study on hardware industry by Ernst and Young and sponsored by DIT/MAIT covers the development model in China. It has also been stated that China has gone aggressively to make their hardware industry competitive in the world whereas India is moving slow in this direction. The package of fiscal incentives recommended to Ministry of Finance and Department of Commerce by DIT are not accepted in toto and as a result the Hardware Industry suffers and is unable to compete.

23. The Committee are not convinced that fiscal incentives are the sole criteria to make the Indian hardware industry competitive and vibrant. Over a period of time a number of fiscal incentives like rationalization of tariff on raw materials and capital goods, lowering of excise duty on IT and Electronic goods, introduction of full Value Added Tax (VAT) etc. have been extended to the hardware industry. Sadly, the industry is still not internationally competitive.

The Committee are of the opinion that fiscal incentives in conjunction with freedom and hassle free environment to the manufacturers, speed of business, proper communication, power supply, strong engineering and design base, adequate R&D facilities etc. are the key to a successful and competitive hardware IT industry. The onus, therefore, lies with the Department of Information Technology, it being the nodal Department, to impress upon the other concerned Government Departments/Ministries to remove all impediments that the Indian hardware industry has been encountering so that it becomes aggressively competitive like its Chinese counterpart.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation/Observation (Para No. 35)

The Committee notes with satisfaction that the Indian Software Industry has been performing consistently well and today it represents one of the most successful business models that has managed to sustain high growth and competitiveness, despite adversaries. It is heartening to learn that the software driven IT industry is today on top of India's national agenda as instrument and means for lifting India's economy. The turnover of the industry has grown from Rs. 24,350 crore in 1999-2000 to Rs. 3760 crore in 2000-2001 and further to Rs. 48,135 crore in 2001-2002. Software exports from the country were worth Rs. 17,150 crore in the 1999-2000, Rs. 28,350 crore in 2000-2001 and Rs. 36,500 crores in 2001-2002. Similarly, domestic software revenue has also grown from Rs. 7,200 crore in 1999-2000 to Rs. 9,410 crore in 2000-2001 and further to Rs. 21,634 crore in 2001-2002. For the year 2002-2003, it has been anticipated that the total size of the Industry, exports and domestic market would increase to Rs. 60,700 crore, Rs. 35,800 crore and Rs. 13,200 crore respectively. Moreover, the Industry has generated 92,000 new jobs and provided indirect employment to over 2.5 lakh people during the year 2001-2002. However, amid such a satisfying performance the Committee is constrained to observe that India's share in the world's software trade has been a meagre two per cent. Secondly, the Government's expenditure on IT has been very low *vis-a-vis* other countries in the world. In view of the fact that it would be extremely difficult to sustain exports in the absence of a strong and stable domestic industry, the Committee impresses upon the Government to make all out efforts for encouraging use of IT in a big way. It should take more initiative for e-governance in the fields of education, agriculture, health care etc. It would go a long way in not only maintaining the momentum of software growth but also making India a true IT Superpower.

Action Taken by Government

— Planning Commission guidelines advise usage of 2 to 3% of the budget provision of Central Ministries/Departments for programmes/scheme relating to Information Technology.

— A minimum agenda for E-Governance has also been drawn up for implementation by the Central Ministries/ Departments (Annexure-I).

— National Informatics Centre (NIC) has been providing computer based E-Governance support and has established a Nationwide ICT Network (NICNET)— with Gateway nodes in all Central Government Departments, State/UT Secretariats (28+7) and about 600 Districts Administrations.

— Department of Information Technology has taken up replication of successful projects on e-governance such as Land Records, Registration and Transport in different States on a pilot scale (Details are Annexure-II) in conjunction with Line Departments/State Governments concerned and NIC.

— Department of Information Technology jointly with Department of Administrative Reforms & Public Grievances (DAR&PG) have formulated a National Action Plan for E-Governance covering the following components:

- Core E-Projects
- Core Infrastructure
- Integrated Services Projects
- Support Infrastructure
- Core Policies
- Human Resource Development/Training
- Technical Assistance
- Awareness & Assessment
- Organisational Structures (NEGC, NISG, State EGCs, EG Standards Institutions, NIC)
- R&D

Government has accorded endorsement to the National E-Governance Action Plan for its overall programme content, implementation approach and governance structures. Financial outlays would be on the basis of specific proposals/projects approved by the Planning Commission/Ministry of Finance.

Certain Mission Mode Projects have also been identified which are to be taken up a priority basis as per details at Annexure-III. Pursuant to this, Department of Information Technology has advised the concerned Line Ministries/Departments to take up their implementation and approach Planning Commission with specific projects/proposals for necessary budget allocation.

K. SRINIVASAN
Pr. Adviser (PC & Admn.)
Tel. No. : 2371 4388

योजना भवन
नई दिल्ली-110 001
PLANNING COMMISSION
YOJANA BHAVAN
NEW DELHI-110 001

D.O. No.. : H-11016/32/97-PC Dated : April 24, 1998

Dear Shri Ravindra Gupta,

The Expert Group on "Computerisation of the Information on Personnel and Citizens Services" in its report had recommended *inter alia* that the Ministries should have a Five Year Plan for Information Technology and each Ministry/Department must allocate 2-3 per cent of its Budget for spending on IT so that there is an increase in the availability of funds for training in IT and acquisition of hardware, software as well as for the development of software maintenance. The said recommendation of the Expert Group was approved by the MOS (PP) and Cabinet Secretary.

2. The matter has been examined in the Planning Commission and it is felt that the above recommendation of the Expert Group may be accepted in principle. Planning Commission, therefore, requests you to make a provision of 2-3 per cent of your Ministry/Department's Plan/ Budget for programmes/schemes relating to Information Technology.

With regards,

Yours sincerely,

Sd/-
(K. Srinivasan)

Shri Ravindra Gupta,
Secretary,
Department of Electronics,
C.G.O. Complex,
New Delhi.

ANNEXURE-I

MINIMUM AGENDA FOR E-GOVERNANCE IN THE MINISTRIES/DEPARTMENTS OF THE CENTRAL GOVERNMENT

(i) (a) Each Ministry/Department must provide PCs with necessary software upto the Section Officer level.

(b) LAN must also be set up.

(ii) (a) 100% training of all staff who have access to and need to use computers for their office work should be ensured.

(b) For this purpose, *inter alia*, Ministries/Departments should set up or share Learning Centres for decentralized training in computers as per the guidelines issued by the MIT.

(iii) Each Ministry/Department should start using the Office Procedure Automation software developed by NIC with a view to keeping a record of receipt of dak, issue of letters, as well as movement of files in the department.

(iv) Pay roll accounting and other house-keeping software should be put to use in day-to-day operations.

(v) (a) Notices for internal meeting should be sent by email to the officers;

(b) Similarly, submission of application for leave and for going on tour should also be done electronically;

(c) Ministry/Department should also set up on-line notice board to display orders, circulars etc. as and when issued.

(vi) Ministries/Departments should use the Web-enabled Grievance Redressal Software developed by Department of AR & PG.

(vii) Each Ministry/Department should have its own website.

(viii) All Acts, Rules, Circulars should be converted into electronic form and, along with other published material of interest or

relevance to the public, should be made available on the internet and be accessible from the Information and Facilitation Counter.

(ix) (a) The websites of Ministries/Departments/Organisations should specifically contain a section in which various forms to be used by citizens/customers are available. The forms should be available for being printed out or for being completed on the computer itself and then printed out for submission.

(b) Attempts should also be made to enable completion and submission of forms online.

(x) The Hindi version of the content of the websites should be developed simultaneously, as far as possible.

(xi) Each Ministry/Department would also make efforts to develop packages so as to begin electronic delivery of services to the public.

(xii) Each Ministry/Department should have an overall IT vision or strategy for a five year period, within which it could dovetail specific action plans and targets (including the minimum agenda) to be implemented within one year.

ANNEXURE-II

PILOT PROJECT ON REPLICATION OF E-GOVERNANCE PROJECTS IN VARIOUS STATES

States	Land Records	Registration	Transport
Kerala	Yes	Yes	Yes
West Bengal	Yes	Yes	Yes
Sikkim	Yes		
Tripura	Yes		Yes
Punjab	Yes	Yes	Yes
Haryana	Yes		
Goa	Yes	Yes	Yes
Madhya Pradesh	Yes		
Tamil Nadu	Yes		
Himachal Pradesh	Yes	Yes	Yes
Chhattisgarh	Yes		
Uttaranchal	Yes	Yes	Yes
NCT Delhi			Yes
Gujarat	Yes		
Orissa	Yes		
Rajasthan	Yes		
Assam	Yes		
Jharkhand	Yes		

ANNEXURE-III

MISSION MODE PROJECTS

S.No.	Mission Mode Projects	Line Ministries/Departments
Central Government		
1.	Income Tax	MoF/CBDT
2.	Passport Visa & Immigration Project	MoEA/MoHA
3.	DCAI	DCA
4.	Insurance	DoBanking
5.	National Citizen Databse	MoHA/RGI
6.	Central Excise	Revenue/CBEC
7.	Pensions	DOPT & Exp.
8.	Banking	DoBanking
State Government		
1.	Land Records	MoRD
2.	Road Transport	MoRT&H
3.	Property Registration	MoRD
4.	Agriculture	Deptt. of Agriculture
5.	Treasuries	MoF
6.	Municipalities	MoUD
7.	Gram Panchayats	MoRD
8.	Commercial Taxes	MoF
9.	Police (UTs initially)	MoHA
Integrated Services		
1.	EDI (E-Commerce)	MoC & I
2.	E-Biz	DoIPP/DIT
3.	Common Service Centres	DIT
4.	India Portal	DIT and DAR & PG
5.	EG Gateway	DIT

Recommendation/Observation (Para No. 37)

The Committee notes that the National Tax Force on IT and Software Development and NASSCOM-MC Kinsey study has set a total market target of 87 billion US dollars for Software and IT services by the year 2008—the break up being $ 38.5 billion for IT services, $ 19.5 billion for software products, $ 19 billion for IT enabled services and $ 20 billion for E-business. Similarly, the exports target has been fixed at 50 billion US dollars out of which $ 23 billion has been fixed for IT services, $ 8 billion for software products, $ 15 billion for IT enabled services and $ 4 billion for E-business. In order to meet the aforesaid targets, a number of measures have been initiated which the Committee considers to be small steps in right direction. The Committee trusts that must more initiatives will be devised in consultation with captains of Information Technology Industry. Further, the Committee learns that if India achieves 50 billion US dollars software exports by the year 2008, it would contribute more than one-third of the total exports of the country and 7 percent of India's GDP will be contributed by software alone. Not only that, India will be a net foreign exchange earner and more than 22 lakh jobs will be created. Therefore, it becomes all the more important for the Government to accelerate growth and development of this sector so that not only the targets set for the year 2008 are achieved but the country also takes full advantage of the opportunities that come in its way through the information revolution all over the world.

Action Taken by Government

1. Government of India has taken necessary steps for the growth of Software industry and to counter the backlash against outsourcing from India. National Association of Software & Service Companies (NASSCOM), Ministry of External Affairs and the Department of Information Technology (DIT) have jointly initiated steps to counter the backlash and Bills being introduced by various US States against outsourcing of jobs.

2. Procedural issues for clarifications/simplification of tax laws have been taken up with the Ministry of Finance by DIT as part of the pre-budget exercise.

3. A 'Task Force on Human Resource Development (HRD)' under the Chairmanship of Shri F.C. Kohli is looking into the aspects of HRD in IT.

4. Exports to other countries in Japan, EU, Middle East and ASEAN is being encouraged so as not to depend on USA. Electronics and Computer Software Export Promotion Council (ESC) and NASSCOM are making all efforts in this direction with full support of DIT.

Recommendation/Observation (Para No. 38)

The Committee observes that additional manpower requirement would be around 2.2 million by the year 2008 and in order to meet the same, the Task Force on Human Resource Development on IT, in its interim Report, has made several recommendations like development of IT faculty and curriculum, strengthening of computing and networking facilities, digitization and modernization of libraries, use of IT in administrative services, etc. to ensure adequate supply of manpower for the IT sector. While the responsibility of the implementation of these recommendations has been vested with the Ministry of Human Resource Development, the Department of Information Technology has been concentrating mainly on the non-formal sector *i.e.* children joining IT courses after schooling. The Committee feels that the Department has a larger role to play in making available the required manpower that just concentrating on the non-formal sector. There should be closer and more intense interaction between the Ministry of Human Resource Development and the Department of Information Technology with a view to increasing the availability of quality IT manpower and helping the software services sector to increase its productivity and move up the value chain, thereby enabling the country to capture larger share of global market of IT Software and services.

Action Taken by Government

With a view to maintain India's competitive advantage and continuous growth in supply of quality manpower, the Government has constituted a Task Force on 'Human Resource Development in Information Technology'. The main objective of the Task Force is to prepare a long term strategy for significantly increasing the number of well trained IT professionals in line with economic projections. The Task Force is headed by Shri F.C. Kohli, Former Dy. Chairman, Tata Consultancy Services and has members from academia, industry and Government. There are eight Terms of Reference of the Task Force to cover the projected global IT sector growth trends during 10th and

11th Plans assess numerical gap between global demand and supply of manpower in different segments of IT industry, strategy for enhancing the institutional capacity in formal and non-formal education sectors, identify emerging areas, design, standards and define a common test for BPO skills, optimum deployment of non-IT professionals in IT enabled services and R&D and to suggest fiscal policy measures to maximize private sector participation in HRD activity.

Non-formal education has always been a major tool in meeting the needs of professionals who missed out on normal education, as well as to provide learning opportunities to students who cannot gain access to the formal school/college system. This implies that a graduate in non-IT field, wishing to specialize in IT, will look at Non-Formal Sector of education rather than Formal Sector of Education/Distance Education for upgrading their skills, as it would not be possible for them to join regular courses without leaving their jobs. This responsibility has been assigned to DOEACC, an autonomous society under the Department.

There is a close interaction between Department of IT and Ministry of Human Resource Development for conferring both academic as well as professional equivalence, of DOEACC courses.

Recommendation/Observation (Para No. 39)

The Committee is concerned to note that by the year 2003 there would be severe shortage of teachers to the extent of approximately 10,000 whereas the number of students in different IT courses would be around 2,25,000. IT is a matter of serious concern. In view of the same, the Department has initiated steps towards online and distance education in order to bridge the gap. The Committee feels that it is a step in right direction. Further, the Department should work in unison with the Ministry of Human Resource Development to make good the shortfall of teachers as far as possible in view of the fact that there could hardly be any substitute for quality classroom teaching.

Action Taken by Government

The Department of Information Technology (DIT) is continuing to support the development of course content for distant learning as well as e-learning tools to facilitate web based learning.

Active cooperation and interaction between DIT & Ministry of Human Resource Development exists. The Task Force on HRD in IT is looking into all the issues including shortage of teachers, in IT education.

Recommendation/Observation (Para No. 40)

The Committee is glad to note that the two units of National Centre for Software Technology (NCST) which have been set up at Navi Mumbai and Bangalore at a cost of Rs. 11.5 crore each are operating as Centres for Excellence in software technology and related Computer Sciences and have developed their repletion as the National Laboratory for software technology. Being a premier R&D institution, NCST has developed software in the areas of intelligent computing, visual computing, Internet technology, on-line education etc. It produces around 150 Researchers every year by offering four diploma level programmes. However, the Committee is constrained to observe that such Centres for Excellence have been set up at only two places in the country. Secretary, DIT's statement that opening such centres in other places depends on the response of the States as the interest level and computer saviness varies from person to person and State to State is not at all convincing in view of the fact that no efforts whatsoever have apparently been made by the Department to ascertain the response of different States in this regard. Possibilities should be explored earnestly to set up such state-of-the-art R&D Centres in other places also by the Central Government so that the young aspirants at other parts of the country are also provided opportunities nearer to their homes. No State should be denied such facilities.

Action Taken by Government

In order to provide enhanced focus to Research & Development, the Department of Information Technology merged the Societies doing Research & Development in the area of Electronics & Information Technology under the brand name of Centre for Development of Advanced Computing (C-DAC). These include:

1. Centre for Development of Advanced Computing (C-DAC), Pune
2. Centre for Development of Advanced Computing C-DAC, Bangalore
3. Electronics Research & Development Centre of India (ER&DCI), Calcutta
4. Electronics Research & Development Centre of India (ER&DCI), Trivandrum

5. Electronics Research & Development Centre of India (ER&DCI), Noida
6. National Centre for Software Technology (NCST), Bombay, and
7. Centre for Electronics Design & Technology of India (CEDTI), Mohali

In addition, DIT has also got other societies such as, SAMEER, Media Lab Asia, ERNET etc. to conduct research in their own specialized areas. Semiconductor Complex Limited (SCL), a Public Sector Undertakings of DIT is also doing R&D in the area of VLSI design technology. Many of these centres are also conducting high end training programmes in different areas of Electronics & IT. In addition to this, based on the receipt of R&D proposals from the organizations, Department has also been funding Research & Development at recognized Education and Research institutions across the country. The conduct of R&D through the support provided by the DIT is well spread across the country.

Recommendation/Observation (Para No. 41)

The Committee appreciates but out of the total software exports of Rs. 28,350 crore during the year 2000-2001, STPI units, through their 100 per cent reliable and efficient wide band HSDC facilities, have accounted for about 71 per cent *i.e.* Rs. 20,051 crore. Due to STPI's reliable and stable datacom services, Companies/Units registered with it are desirous of having datacom connectivity from STPI itself, but as per DOT's instructions these companies have to take the datacom link from VSNL. The Committee is at loss to find any justification for such restrictions. Such instructions of DoT would have been appropriate in case of switched/commercial voice where the IPLC is connected to PSTN both on Indian and International sides. The Committee would like to impress upon DIT take up the matter with DOT and also at other appropriate level so that STPI which has been rendering magnificent service towards software exports, can truly act as a 'single window interface' for the exporting units/companies.

Action Taken by Government

Software Technology Parks of India, an Autonomous Society under Department of Information Technology, Ministry of Communications

and Information Technology has been given a special dispensation from the Government of India to own, operate and maintain International Gateways for providing High Speed Data Communication (HSDC) facilities to Software Exporters in the country. Software Technology Parks of India has been given license *vide* letter No. 220-4/98-PHC dated 13th March, 1999 for the same. The license is valid for a period of fifteen years *i.e.* up to 31.3.2014. Besides this STPI has also obtained the Class "A" ISP license.

STPI has set-up 39 centres all over the country with state-of-the-art technical infrastructure facilities. STPI centres have had a catalytic effect in the growth of software exports from the surrounding regions. STP Scheme, which is a 100% export oriented scheme, has attracted many entrepreneurs in the area of IT software and services sector. More than 3500 units are exporting under STPI umbrella contributing to more than 80% of the total software exports from the country.

The most important contribution of STPI to the software-exporting sector is that of providing dedicated High-Speed Data Communication (HSDC) services. STPI has designed developed and set up state-of-the-art HSDC Network called Soft NET for software exporters, which is available to software exporters at internationally competitive prices.

Local access to International Gateways at STPI centres are provided through Point-to-Point and Point-to-Multipoint microwave radios for the local loop which has overcome the last mile problem and enabled STPI to maintain an up time of nearly 99.9%. The terrestrial cables (fibre/copper) are also used wherever feasible. As of today, STPI is rendering it's services to nearly 150 customers for International Private Leased Circuit and more than 450 customers for Internet leased lines.

STPI has been providing one stop solution to the IT software and service export industry segment as a part of single window mechanism, enabling software exporters to have hassle free business environment IT enabled services has emerged as one of the potential area for the software and service export with potential to generate large scale employment for educated and unemployed youth. Call Centre has emerged as one of the most preferred IT enabled services.

Generally Call Centres require the connectivity of International Private Leased Circuits (IPLC) lines with the Public Switch Telephone Network (PSTN) at foreign end. STPI, under its current telecom licenses,

can provide only data connectivity. Earlier during the monopoly regime of VSNL, STPI was not allowed to provide voice based IPLCs as international voice communication was a monopoly of VSNL.

The New Telecom Policy' 99 envisaged the opening up of the International long distance service to the private operators. The Government of India has opened the International Long Distance Service since 1st April, 2002 without any restriction on the number of operators. Under the ILDO license private operators can provide international voice connectivity.

With the changing telecom scenario of the country and participation of private players such as M/s Bharti, M/s Data Access, M/s Reliance and M/s VSNL the telecom services have become highly competitive with sharp reductions in tariffs and value added services.

STPI had requested DoT for permission to offer voice based IPLC services to call Centres and software exporters to be a truly one stop shop for the software exporting community of the country. DoT has commented that the private players had invested in the procurement of license (ILDO) and hence permitting STPI to provide voice based IPLCs cannot be justified. STPI was asked to get ILDO license for the provisioning of this service. The cost of ILDO license (50 Crores) was high as STPI does not want to venture into minutes traffic business like the other ILDO players. Investment in the license fee just for the provisioning of voice based IPLC services was not economical for STPI.

In view of this STPI has initiated to process of 'Strategic Business Alliance' with an ILDO operator so as to provide this service to software exporters and call centers. The matter was put up to the Governing Council of STPI and an agreement has been drafted which would be entered into with the ILDO operators.

Currently STPI is providing around 250 Mbps of bandwidth to software exporters and call centers. This connectivity is only for data due to the licensing restrictions. With the tie-up, STPI will be able to cater to the bandwidth demand of call centers and software exporters for voice connectivity. This will enable STPI to retain and extend its customer base and be truly one stop shop for the software exporting community of the country.

Comments of the Committee

(Please *See* Paragraph No. 11 of Chapter I)

Recommendation/Observation (Para No. 42)

The Committee learns that the major impact of the global slowdown, especially US economy, is likely to be on the business of on-shore development. This transitory recession may turn out to be a blessing in disguise as the clients in the USA could be more interested in off-shore development and they may find out-sourcing their work in India more attractive due to quality and cost-effectiveness. The Committee feels that it is the most opportune time for the Government to come out with some concrete measures to ensure that the USA creates an environment to give the Indians, who have come back from the United States due to global slowdown, an opportunity in India itself. It is also euqally important for the Government to facilitate the Software companies to exploit the hitherto untapped or under tapped markets in other countries in Europe and Asia Pacific regions.

Action Taken by Government

The observations of the Committee have been noted. The figures of software exports from India, including IT related services to various countries during the last three years are as under:—

Year	Country	Software exports (US$ Billion)	Total software exports (in US$ Billion)
2000-2001	US/Canada	3.71	6.2
	EU	1.33	
	Other Countries	1.16	
2001-2002	US/Canada	4.91	8.0
	EU	1.79	
	Other Countries	1.30	
2002-2003	US/Canada	6.13	10.0
	EU	2.19	
	Other Countries	1.38	

The data above clearly indicates that India's software export to various countries including USA has been growing steadily which may

be attributed to several factors including outsourcing of work by US companies to cut costs.

Several steps, as are deemed appropriate from time to time are taken to explore the possibility of exploiting the hitherto untapped or under-tapped markets in other countries in Europe and Asia Pacific region.

NASSCOM, ESC, the IT industry associations take several steps for promoting IT exports with the main objective of achieving the target of software export of US$ 50 billion by 2008.

Recommendation/Observation (Para No. 43)

The Committee observes that IT enabled services, a new area, which encompasses data processing, medical transcription, call centres, support services through telephone or Internet etc. has a huge opportunity for growth as it has been creating ample job opportunities. The Committee learns that in the overall Software Industry, around 2.2 million jobs would be created by the year 2008 and IT enable services would account for half of that. The revenue generation by the same year would be around Rs. 81,000 crore ($17 billion). The biggest advantage of this Industry is that a large number of ordinary graduates or even lesser qualified can get a job there, which is most unlikely in the Software Industry. But unfortunately, it is stated that the curriculum in the Colleges/Universities is not equipped to meet the requirements of this industry. The industry representatives like CII/FICCI/ASSOCHAM are stated to be taking initiatives together with the Universities in this regard and the Committee would like the Department of Information Technology to associate itself also in the matter. Further, the other requirements like uninterrupted availability of telephone, transmission and other facilities should be taken up at appropriate levels in view of the Industry's tremendous potential for employment generation.

Action Taken by Government

Department of Information Technology (DIT) is closely associated with industry Associations like CII, NASSOCM etc. to understand the problems in relation to quality manpower generation to serve the needs of IT & IteS industries. The Task Force on HRD in IT set up for this purpose is examining all the issues and will recommend cohesive action plan. DIT is also promotion IteS through DOEACC. DOEACC in

association with DONER has launched at 2 months course in IT Enabled Services (Call Centres) at its 4 DOEACC Centres in the North Eastern Region at Guwahati, Tazpur, Imphal and Aizawal. Further the courses are also being implemented in Sikkim in association DIT, Government of Sikkim and DONER, New Delhi. Based on the experiences, the programme may be replicated at other DOEACC Centres at Aurangabad, Calicut, Chandigarh, Gorakhpur, Kolkata, Srinagar/Jammu.

Comments of the Committee

(Please *See* Paragraph No. 14 of Chapter I)

Recommendation/Observation (Para No. 78)

The Committee notes that a lot of companies have been doing R&D work in India as a result of which some outstanding products like 'Simputer'—a simple computer designed to take IT to rural masses; 'high station'—a simple e-mail device, have been developed which have become quite popular. Further, a number of medium and small entrepreneurs have been doing outstanding work in optical network and low cost communication. The Department on its part has been trying to encourage these entrepreneurs through a method called "moving up the value chain" with the Government as the facilitator. Nevertheless, these small and medium entrepreneurs should be encouraged in terms of creating technology incubation centres. However, the Committee is perturbed to note that focused R&D efforts have not received the desired attention and momentum as has been admitted by the Secretary, DIT. It is really shocking that the country's tremendous potential in terms of expertise talent and brain, although recognized the world over, have not been properly utilized for research and development projects and the Department appears to be still on thought process. The matter is more alarming due to the fact that during the year 2002-03, the actual allocation for R&D activities has been Rs. 113.30 crores against a proposed outlay of Rs. 454.53 crores. Due to such reduced budgetary allocation, core R&D activities would be curtailed as has been stated by the Department. In view of the fact that the quality of innovation would ultimately make the country competitive and self-sufficient especially in Hardware, it is high time the Government put in place the research priorities of the industry in a time-bound and articulate manner, create a conducive atmosphere for investment in R&D, extend all possible help and assistance including

sufficient budgetary support to enrich the research activities and thrive to make it a long term objective.

Action Taken by Government

1. The Department of Information Technology has set up several autonomous organizations like C-DAC, STQC, NCST, SAMEER, ER&DCI, CEDTI, etc. to address the requirements of different sectors of information technology in a focused manner. Recently some of the Societies doing R&D in different sectors of IT have been merged under the Umbrella of C-DAC in order to provide synergy and focus.

2. "Moving up the value chain" has been identified as a major initiative for DIT to work closely with IT industry through a broad set of action point such as:

   (i) A proposal to set up Technology Incubation Centres at IITs and premier educational institutions to help students and faculty at these institutions in setting up technology start-ups has been prepared.

   (ii) DIT is also considering to provide facilitation support to IT industry in filing international patents.

   (iii) A Division has been set up in DIT to provide enhanced focus to help the industry in moving from software services to software product development.

   (iv) The National Venture Fund for Software and IT Industry (NFSIT) set up by the DIT in association with SIDBI and IDBI is also providing Venture Capital Funding to the Industry for product development.

3. As against a budgetary allocation of Rs. 113.30 crores for R&D activities in 2002-03, the project and likely allocation of funds for R&D activities in 2003-04 is expected to be Rs. 272 crores.

4. R&D in IT, Electronics and convergence have been delineated as a separate groups to put greater focus on R&D components of DIT.

5. DIT have initiated following two projects with Indian Institute of Sciences, Bangalore for development of Simputer:

   (i) "Simputerisation of IISc Campus" by Society for Innovation and Development, Indian Institute of Science, Bangalore.

(ii) "Simputer Productization, Training and Application Development" by Centre for Electronics Design and Technology (CEDT), Indian Institute of Sciences, Bangalore.

Recommendation/Observation (Para No. 79)

The Committee find that the role of industry itself towards R&D activities has also not been very encouraging. Their contention is that in order to invest in R&D, there have to be significant volumes in the country and industry perforce would get attracted to invest in R&D where they see returns. The Committee feels that the industry has to play a significant role and supplement Government efforts to promote the R&D activities. In other words, while the industry expects the Government to display a trust based facilitator attitude by way of creating a conducive manufacturing environment, the Committee expects the industry to display exemplary focus on domestic hardware growth by way of investing significantly in hardware design and manufacturing, building world class quality levels on hardware and focusing on exports. As there is a greater need for bringing the industry requirements and the research that has been taking place in the Government side and the industry side in perfect harmony, both the Government and the industry have to ensure that the hardware industry not only survives but flourishes also like the software industry.

Action Taken by Government

1. The recommendation of the committee will be taken up with industry associations and industry to see how far government-industry-academia/R&D labs cooperation can be leveraged to make the IT industry, including IT software, to become competitive and higher value added products and services can be produced in the country.

2. Towards the above, industry involvement in DIT R&D activities will be increased. Already, the Working Groups constituted by DIT for selection of R&D projects for fundings, have representatives from the industry so that the needs of the industry are not lost sight of while funding R&D projects. Also, the projects which are directly usable by the industry are partially sponsored by the industry.

3. Given that Indian IT hardware sector lost its early mover advantage, which Ear East got, we need other long term

strategies. One of them is to take the design route in areas like: Very Large Scale Integration (VLSI)/Systems on a Chip (SOC). Embedded systems design and R&D services. This would help us come back into next generation production in the country, taking partial advantage of growing domestic market. Other measures (fiscal, infrastructural, financing, VC funding) are also equally important.

4. For the above, DIT is also, and has been, investing in creation of specialized manpower of relevance to industry as in VLSI design.

5. DIT is also initiating programmes in emerging/sun-rise industries like bio-informatics, nano technology and quantum computing R&D and manpower development. These will help industry in good time.

Comments of the Committee

(Please *See* Paragraph No. 20 of Chapter I)

Recommendation/Observation (Para No. 81)

The Committee noted that the Consumer Electronics Sector comprising Audio-Video products *i.e.* Transistors, Televisions etc. accounts for 40 per cent of the total hardware production of the country. It is appreciable to learn that the achievement in this sector has been 90 per cent during the Ninth Five Year Plan although there have been some slippages in the year 2000-01 when the achievement has been Rs. 11,700- crore against the target of Rs. 13,000 crore. What is more encouraging is that out of the total production worth Rs. 11,700/- crore during 2000-01, three leading indigenous companies have accounted for 55 per cent that year and on an average the market share of these three would be around 40 per cent at any given point of time. However, stiff competition from MNCs, lack of investment, lack of industry clusters and high incidence of duties and taxes have put this sector in a disadvantageous position. The Committee feels that indigenous industry must learn how to be competitive; however, if and when dumping is resorted to by the MNCs, the Government must intervene to protect the indigenous manufacturers, as was also assured by the Secretary, DIT. It is stated that the Indian industry does no longer require protection, as admitted by the representative of FICCI, ASSOCHAM and CII. What it needs badly is facilitation from

the Government in terms of provision of a flexible duty regime, promotion of clusters etc. what is needed to be looked into that there may not be indiscriminate to the state of our domestic industry, which is suffering from serious constraints and is not able to expand as it needs to. The Committee believes that if a level playing field is provided to the Indian Industry it would attract investment, make the industry competitive and thus, the existing market share of the Indian companies would increase.

Action Taken by Government

To protect indigenous manufacturers from dumping by MNCs, the Government has set up an Anti-dumping Cell in the Department of Commerce, Ministry of Commerce and Industry, which is very active. Overall tax incidence in Consumer Electronics is about 35%. Compared to this, the Chinese Industry is subject to VAT of 17%. High taxation in India is facilitating grey market to flourish and also nurturing growth of the Industry in the unorganized sector. High product prices are hindrance to growth of the market. To encourage the growth of consumer electronics industry, reduction in the overall tax incidence is being recommended. In order to provide a level playing field to the Industry, Government is taking a number of measures such as rationalization of Tariff, lowering of customs duty on capital goods, promotion of SEZs, modification in EHTP Scheme, etc.

Recommendation/Observation (Para No. 82)

The Committee notes that by the year 2008, the total equipment requirement would be worth 160 billion US Dollars, the break-up being $100 billion for strategic and professional electronics. The estimated requirement of equipment to be met indigenously would be $120 billion estimated requirement of components would be $60 billion and estimated requirement of components to be met indigenously would be $39 billion. Similarly, investment requirement for components and equipments would be $13 billion and $3 billion respectively. The Committee wonders whether under the existing scenario *i.e.* rigid duty/ tax regime, inadequate infrastructure, lack of strong engineering and design base, absence of R&D, reluctance of the Industry in investing in Hardware etc. the above mentioned targets by the year 2008 would ever be achieved. Needless to say, these bottlenecks have to be dealt with a sense of urgency and priority so that the above targets do not remain illusory.

Action Taken by Government

As mentioned earlier, steps have been initiated in consultation with Department of Revenue and Department of Commerce so as to remove the bottlenecks and provide healthy and conducive environment for the growth of hardware industry in India. The Working Group on IT for the Tenth Five Year Plan has revised the targets for the hardware sector and are given below:

(Rs. in Crores)

Sector	2001-02*	2006-07**	CAGR%
Consumer Electronics	12,700	30,000	18
Industrial Electronics	4,550	5,800	5
Computer H/W	3,500	10,000	20
Communication & Broadcasting	4,500	8,400	11
Strategic Electronics	1,800	2,800	8
Components	5,700	12,000	15
Total	32,750	69,000	15

*Terminal year of Ninth Five Year Plan
**Terminal year of Tenth Five Year Plan

The year-wise estimated production in various hardware sectors during the Tenth Plan (Realistic Scenario) is enclosed as Annexure-I.

ANNEXURE I

ESTIMATED PRODUCTION IN VARIOUS SECTORS OF HARDWARE DURING THE TENTH PLAN (REALISTIC SCENARIO)

(Rs. in Crores)

Sector	2002-03	2003-04	2004-05	2005-06	2006-07	CAGR%
Consumer Electronics	15,400	18,200	21,500	25,400	30,000	18
Industrial Electronics	4,700	4,900	5,200	5,400	5,800	5
Computer H/W	4,800	5,700	6,900	8,400	10,000	20
Communication & Broadcasting	5,600	6,100	6,900	7,600	8,400	11
Strategic Electronics	2,100	2,200	2,400	2,600	2,800	8
Components	6,900	7,900	9,100	10,600	12,000	15
Total	39,500	45,000	52,000	60,000	69,000	15

Recommendation/Observation (Para No. 84)

To sum up, so far as the problems of Software, IT enabled services and Hardware and the requirements of IT industry are concerned, the Committee finds that although Software Industry has been doing consistently well despite the global recession, yet the domestic software market has relatively been small; there is dearth of teachers, Institutions like NCST have been confined to only two places etc. So far as IT enabled services are concerned, curriculum in Colleges/Universities have not been adverting to the requirements of this Industry. In Hardware, there are constraints galore in terms of duties, taxes, lack of investment in R&D and others. The biggest constraint that is slowing down growth in all the three sectors is inadequate communication infrastructure. The Government has to look into all these aspects urgently and the industry has to come forward to invest in Hardware design and manufacturing and build world class quality levels on Hardware. All possible encouragement should be extended to small and medium entrepreneurs who have brought out innovative products

like 'Simputer', 'high station'. Moreover, the Academic Institutions should volunteer to have joint development with industry on technologies besides focusing on Hardware Projects incubation and developing IPR oriented curriculum. The Committee trusts, with such combined efforts from the Government, Industry and Institutes, India can attain its long cherished vision of a true IT Superpower.

Action Taken by Government

The Communication infrastructure has improved substantially over the last few years. Steps have been taken by the Department of Telecommunications in this direction. The current status of achievements between 2nd September, 2001 to 1st September, 2002 is given below:

1.	VPT (Village Public Telephones)	One every 5 minutes (90,626 VPT's added)
2.	Mobile Phone	One every 10 seconds (32.52 Lakh Subscribers)
3.	WLL (Limited Mobility)	One every minute (4.94 Lakh Subscribers)
4.	Optical Fibre	One Kilometre every 5 minutes (1.22 Lakh R Km. added)
5.	Telephone Penetration	Teledensity goes up from 3.5 to 4.5 per 100 population
6.	S.T.D.	Tariffs down by 62%
7.	I.S.D.	International Long Distance open to competition. Prices fall by 40%
8.	Internet Telephony	Now Opened
9.	Coverage in Remote Areas	Mobile Services now permitted in Jammu & Kashmir and North East

As a result of the pro active measures initiated in the area of Telecom and IT, Internet connections have grown from 0.14 million in March, 1998 to 3.3 million in June, 2002. The estimated Internet user base is 16.5 million and likely to increase exponentially. Broad Band access technology such as ADSL, 802.11 b, a & g Cordect etc. are being promoted by the Government. The ISM Band of 2.4 GHz using bluetooth and 802.11b technology equipment has been delicensed for

use within the single contiguous campus of an individual duly recognized institutions.

Societies under DIT *viz*. SAMEER and ER&DCI are involved in the design and development of Hardware. DIT also supports financially the design and development projects by SMEs. Media Lab Asia has taken up lead in development of technology/products for masses in its programme including the financial assistance for development of Simputer. With these steps, India will be in a position to achieve its cherished dream of one of the hardware suppliers in the world.

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLY OF THE GOVERNMENT

Recommendation/Observation (Para No. 80)

The Committee is constrained to note that for computers and peripherals, a production target of Rs. 17,850/- crore was fixed for the year 2001-2002 whereas the actual production of these items has been of the order of Rs. 3,400 crore only. Although during the years 1999-2000 and 2000-2001 the growth rate of the Hardware Industry was 11 per cent and 9 per cent respectively which was much above the average growth of the overall Indian industry, yet the Hardware industry has been grossly under performing so far as the ten years targets set by the Task Force in 1998 are concerned. Such under performance has been attributed to carry over the targets since 1998 and fixation of hardware targets almost at par with software targets. The Committee is unable to accept these reasons for shortfall of targets in computers and peripherals as it feels such targets have been grossly unrealistic. In view of the reported absence of an environment that allows sufficient inducement for the manufacturers. Without addressing the basic constraints faced by the Hardware manufacturers, the Department cannot hope to achieve the targets. Further, in order to curb the menace of grey market which had an adverse effect on the achievement of targets in computers and peripherals, the duty differences between components and finished goods should be fixed at 10 per cent, as suggested by the industry, so that the people who import computer components and assemble them for selling are not at disadvantage against those who are importing computers as a whole. Such a move would definitely help the organized sector's scope *vis-a-vis* the grey market so far as the production of computers and peripherals is concerned.

Action Taken by Government

Hardware industry has been passing through a critical phase because of various problems as mentioned at para 77 above and signing of Information Technology Agreement (ITA-1) of WTO in 1997. The

production was much below the target in the Ninth Plan. DIT has been proposing a package of incentives to the Ministry of Finance (MoF) as recommended by the National Task Force on IT & SW development set up by the PMO in May, 1998. MoF did not accepted the package and have been providing in piece meal thus delaying the revival and time was lost in the process. However, the situation is improving every year since the general environment for manufacturing is improving. Computers & Computer peripherals are covered under ITA-1 of WTO and the duty on these would be zero% in 2005. The duty on major inputs such as ICs, microprocessors, storage devices, CDTs and deflection parts of CDT are already at zero% parts under HS 8473.30 are at 5%, Computers and peripherals are at 15% duty. Presently, the differential of 10% is maintained but in 2005, all items would be at zero% duty being ITA-1 items and it may not be possible to maintain any differential. With the initiatives taken by the Government and incentives provided to the hardware industry, it is expected that demand for computers will pick up and manufacturing will be viable.

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation/Observation (Para No. 36)

However, it is matter of serious concern that Central Government's expenditure on IT has been very low despite the country's unique and competitive advantage in software *i.e.* best in quality but lowest in cost as per a study of the World Bank. It is regretted that Government Departments could not take advantage of quality software products produced in the country as the Government has been expending very little on introduction of IT in Government Offices. Apathy and inaction of the Government in this regard are contrary to its proclaimed role of a 'proactive facilitator'. It is imperative that the Government should come out with innovative ideas to allocate to each Department a sizeable amount for promotion of IT every year, should it wish to make the Industry more vibrant. In this context, the Committee would like the Government to closely monitor the actual expenditure on IT by different Ministries/Departments as earmarked for them and every year and thereafter take suitable corrective measures, wherever warranted.

Action Taken by Government

— In the National Action Plan on E-Governance, emphasis has been towards providing efficient and convenient services to Citizen and Businesses and in this context deployment of IT is being considered only as a means towards this and not an end in itself.

— For the Mission mode Projects, DIT has advised Line Ministries/Departments to project their budgetary requirements under the specially created budget head for IT.

Comments of the Committee

(Please *See* Paragraph No. 8 of Chapter I)

Recommendation/Observation (Para No. 77)

The Committee is perturbed to note that our Hardware Industry which is well diversified, highly competitive and Capital intensive has because of the rapidly changing policy and global dimension been under pressure for survival. It has also been so due to infrastructural constraints, inverted tariff structure, lack of investment, lack of strong engineering and design base and inadequate R&D facilities etc. It is a matter of serious concern that hardware manufacturing industry is insignificant and it has so far lost the race against South-East Asian countries like Singapore, Thailand, Malaysia and Taiwan together with China and Korea which have generated major chunk of World hardware industry. It has happened so because out of a total size of about 4 billion US dollars, including services, maintenance etc., over $2 billion worth of components and raw materials were imported. Further, about 80 per cent of the components of a computer were imported and the rest comprising some keyboards, printers, monitors etc. were manufactured locally. What hurts is the fact that although India has the ability to manufacture significant components like mother boards, terminals, printers, UPS, CD ROMs, floppy discs etc., the policy environment has not been conducive to manufacture these items in India. The constraints experienced by the indigenous industry primarily included high customs duty on raw materials and capital goods etc., high excise duty and sales tax, Octroi on IT products and inadequate infrastructure like power, road, ports etc. besides a plethora of other constraints which might be the off-shoot of the primary cause. The Department of Information Technology has started to have been discussing regularly the issues of concern with all the concerned Ministries/Departments to impress upon them the problems of Hardware sector. As a result of such efforts inverted tariff structure is being gradually rectified and all quantitative restrictions have been removed on electronics and IT products. Further, a number of measures like rationalization of Export Promotion Goods (EPCG) scheme, implementation of Electronics Hardware Technology Park (EHTP) scheme, establishment of special economic zones, concessional rate of custom duty for specified raw materials etc. have been undertaken to promote the Hardware sector. Although the incentives extended to the Hardware sector have helped the industry to some extent, yet it fell short and could not create the desired impact, as has been candidly admitted by the Department.

Therefore, it has become imperative to have major paradigm of the policy regime which should encompass flexible Duty/Tax structure,

freedom and hassle free environment to the manufactures, guarantee of proper communication and uninterrupted power supply and moreover speed of business including man, material and decision making process so that there is sufficient inducement and competitive advantage for investment in the Indian Hardware Sector.

Action Taken by Government

Further to the initiatives already undertaken by DIT and discussions held with Department of Revenue and Department of Commerce, the following measures have been proposed to encourage the hardware sector in the country.

1. Further rationalization of tariffs on raw materials and capital goods.
2. Lowering of excise duty on IT and Electronics goods.
3. Introduction of full VAT.
4. Modification in EHTP scheme to permit DTA sales towards counting of fulfilment of export obligation. Partially it has been implemented already.
5. Simplification of customs procedures through EDI already under implementation in phases.
6. Computerization of Central Excise Department.
7. Working of Customs Departments (clearances) for 365 days which has already been implemented at major ports.

The factors such as guaranteed communication, uninterrupted power supply, speed of doing business for having competitive advantage are true for all sectors of industry and Government had initiated some steps in this direction.

Comments of the Committee

(Please *See* Paragraph No. 17 of Chapter I)

Recommendation/Observation (Para No. 83)

In this context, the Committee cannot but refer to the position in which China has overtaken us to a great extent. For example, PC penetration per 1000 people is 13.2 in China whereas in our country it is only 6.2. Similarly, Internet user base is 22.5 million in China and

a meagre 2.5 million in India. Likewise in basic and cellular phones per 100 people, China is way ahead of India. The Committee finds that China's success has been due to large domestic consumption led by the Government itself, unique package of investment and tax incentives, high competition among the local Governments for attracting Hardware industry related investments, high investments in infrastructure sector, flexible labour laws and linking of access to domestic market with condition of local manufacturing. The Committee believes that it would be worth to make a proper study of the development-model of IT industry in China, of course in the above mentioned fields, more so when the Indian Hardware Industry is battling for survival.

Action Taken by Government

The study on Hardware industry by Ernst and Young and sponsored by DIT/MAIT covers the development model in China. The summary of the polices and incentives in China adopted for the HW sector are enclosed at **Annexure-II**. China has gone aggressively to make their Hardware industry competitive in the world. India is moving slow in this direction. The package of fiscal incentives recommended to M/o Finance and D/o Commerce by DIT are not accepted in *toto* and as a result the Hardware industry suffers and is unable to compete.

Comments of the Committee

(Please *See* Paragraph No. 23 of Chapter I)

ANNEXURE II

China & Malaysia-
Policies & Incentives

SEZ Policy

- China
  - 5 major SEZs, 52 high technology zones
    - Coastal & South China; Shenzhen-Hong Kong; Xiamen-Taiwan
  - Policy by center; administration by provinces/municipalities
    - up to US$ 30 M-SEZ/province; up to US$ 10 M-others
    - up to US$ 100 M-center; > US$ 100 M - State council
      - — provinces and SEZs compete with entrepreneurial spirit
  - time frame - 10 to 30 years typical; - max of 20 years
  - Categories of businesses - encouraged, restricted, prohibited
    - emphasis on exports & employment; shifting to high technology and higher value addition exports and higher VA "encouraged"
- Malaysia:
  - discourages low level work; US$ 14,600 per employee capital investment required
  - exceptions - >30% VA; >14% technical employees; high technology
  - minimum 80% export required in free industrial zones

China SEZ infrastructure development

- Scale economy for infrastructure due to concentration
  - common pool of skilled labour and specialized services
- Infrastructure investment by private sector encouraged
  - 15% to 20% investment desired from private sector; FDI welcome
- Area development
  - land allocation by Government, 65 hectares of agricultural land/ 135 hectares of non-agricultural land
  - power/water from local utilities if possible; else to be developed
  - area developers to provide
    - buildings, workshops, water/power distribution, sewage
    - roads, railheads, ports with approval from concerned authorities
    - construction for customs, post office, banks, insurance
    - build colleges, vocation training schools
  - approval of industry by local body; maintenance by area developer

Shenzhen and Xiamen

- Large areas : 150 sq. Km of contiguous area
  - all land owned by "people"; only usage rights;
  - cities with entry/exist controls like a foreign territory
- Shenzhen infrastructure development followed demand
  - leveraged proximity to Hong Kong
  - credibility of doing what was promised; endorsed by incumbents
  - world top 10 container ports; 5 million TEU capacity; 420 ships
  - 26 municipal departments co-located for single window approval

- approvals in 12 days after submission of documents (weekly meetings)

- Xiamen infrastructure led demand
  - 10 year wait before development took off
  - focussed on encouraging Taiwanese investment
  - converted military post to trade port

Labour Policy

- Low labour rates; comparable to Indonesia, Thailand
  - locally designated minimum wage norms exist
  - compensations beyond basic wages; subsidized housing, medical care
  - social security - 20% by companies; 4% by employees
- Shortage of engineers; emphasis on training
  - no limits on bringing professionals or technical persons holding bachelors degree or higher
- Termination of employment possible
  - varies with location, type of company and size
  - easier in south China, in small companies and with contract labour
  - labour contract companies present
  - unions present; can not be banned
  - 1 to 2% labor turn over present

Other policies

- Stock and trade present through FTZs
  - sale outside the zone on full payment of duty
  - trading in China not permitted by foreign companies; Only through State owned enterprises
- Exit policy
  - closure due to poor viability

- failure of JV partners to fulfill obligations
    - exports and local value addition norms are often performance factors
- termination at the end of operating period

- Repatriation of profits permitted after
    - paying off accumulated losses and payment of taxes
    - no restriction for technology transfer fees and royalties

Incentives

- Electronics industry part of encouraged list
- FDI encouraged over domestic-local investors through Hong Kong
    - normal tax rates 30%; foreign enterprises 15%
- Preferential polices are same
    - negotiated and implemented differently; not all benefits conferred automatically
    - simplification of rules and flexibility in implementation and bending of rules by local authorities to please investors
- Incentive factors
    - tax allowances, duty free raw materials, and capital equipment, direct import rights, preferential allocation of land, RM and basic infrastructure facilities

Income Tax incentives—China

- Basic IT rate: 15% for foreign companies; normal 33%
    - tax exemptions for 10 year minimum tenure as indicated below
    - beyond the exemption period 10% tax when export >70% of turnover
    - reinvestment also qualifies for tax refunds
- For manufacturing
    - 2 year exemption, 3 years 50% for manufacturing companies
    - 10 year tenure, exemption from the first profit making year

- reinvestment of profits for 5 years qualifies for refund of taxes on 40% of the amount

- For high technology zones
  - 2 year exemption, 8 years 50% for high tech zone
  - reinvestment for 5 years in high technology qualifies for 100% refund of taxes on such amount

Other tax incentives - China

- Value added tax
  - basic tax 17%; under revision to 14% with 5% rebate provision
  - "local manufacture, local sell" exempted-*i.e.* as within Shenzhen
  - no VAT for permitted capital equipment imported for encouraged industry
  - no VAT on material procured for use in export goods
- Customs duty
  - normal average level 16%
  - no duty on components and raw materials procured for export processing

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES ARE INTERIM IN NATURE

—Nil—

NEW DELHI;
7 *December,* 2004
16 *Agrahayana,* 1926 *(Saka)*

M.M. PALLAM RAJU,
Chairman,
Standing Committee on
Information Technology.

ANNEXURE I

MINUTES OF THE FOURTEENTH SITTING OF THE STANDING COMMITTEE ON INFORMATION TECHNOLOGY
(2004-2005)

The Committee sat on Thursday, 25 November, 2004 from 1100 hours to 1330 hours in Committee Room No. G-074, K-Block, Parliament Library Building, New Delhi.

PRESENT

Shri M.M. Pallam Raju—*Chairman*

MEMBERS

Lok Sabha

2. Shri Nikhil Chaudhary
3. Shri Mani Cherenamei
4. Shri Sanjay Dhotre
5. Dr. P.P. Koya
6. Shri P.S. Gadhavi
7. Col. G. Nizamuddin
8. Shri Sohan Potai
9. Shri Chander Shekhar Sahu
10. Shri Ram Kripal Yadav

Rajya Sabha

10. Smt. Sarla Maheshwari
12. Shri N.R. Govindarajar
13. Shri K. Rama Mohana Rao
14. Shri Motiur Rahman

SECRETARIAT

1. Shri Raj Shekhar Sharma — *Deputy Secretary*
2. Shri Shri K.L. Arora — *Under Secretary*
3. *** *** ***

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. The Committee then took up for consideration the following draft Reports and adopted the same with certain amendments/modifications:

(i) Draft Report on Action Taken by Government on the Recommendations/Observations of the Committee contained in its Thirty-eighth Report on "Problems of Hardware and Software and requirements of IT Industry relating to Department of Information Technology.

(ii) *** *** ***

(iii) *** *** ***

(iv) *** *** ***

(v) *** *** ***

(vi) *** *** ***

3. The Committee also decided to undertake a weekend Study Tour to Chandigrah and Amritsar on 17 and 18 December, 2004.

4. The Committee, then, authorised the Chairman to finalise and present the above mentioned Reports to the House.

The Committee, then, adjourned.

ANNEXURE II

ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE THIRTY-EIGHTH REPORT (THIRTEENTH LOK SABHA)

[*Vide* Paragraph No. 5 of Introduction]

(i) Recommendations/Observations which have been accepted by the Government:
Paragraph Nos. 35, 37, 38, 39, 40, 41, 42, 43, 78, 79, 81, 82 & 84

Total : 13

Percentage : 76.47%

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the replies of the Government:
Paragraph No. 80

Total : 1

Percentage : 5.88%

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:
Paragraph Nos. 36, 77, & 83

Total : 3

Percentage : 17.64%

(iv) Recommendations/Observations in respect of which replies are of interim nature:
Paragraph Nos. —Nil—

Total : Nil

Percentage : Nil