

National Policy on Software Products (2016)

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I. Preamble

1. Information and Communication Technologies (ICT) have been contributing significantly to the economic growth of the country and have the potential to script India's future across the economy, society and governance. Given its current global position in the IT and ITeS sector, India is well positioned to enhance and leverage its abundance of soft power for a global leadership role. The IT/ITES industry made very significant employment and revenue contributions to the country and as it graduates and matures further, this can only multiply. The fact that the industry contributed towards 45 percent of incremental urban employment speaks volumes of its important role in the India growth story.

2. Over the last two years, as it has acquired width (with expansion of the base) and depth (quality and content of work) the industry has braved challenges as never seen before with issues of slowdown in growth, pricing pressures, protectionism in key markets, among others. These have had a definite impact; but in the short term. As a maturing industry, with a distinct and strong charter of growth, there is a need to reevaluate the sector and to draw out strategies with a medium to long-term perspective and introduce innovative solutions to leverage its full potential. In this context there is a need to sustain our edge in the services sector and at the same time draw strategies to address weaknesses in regard to developing innovative software products that address the challenges thrown in implementing ambitious programmes like Digital India, Make in India, Smart cities etc.

3. There are tectonic shifts in the global ground realities which include demographic, business, social and environmental global megatrends. These are fostering new opportunities for the industry such as decline in working age population in many developed and developing economies, increased technology adoption and globalization and needs focused strategies to increase the global spread of our IT-ITES sector which at present drives its business mainly from limited geographies.

4. The IT/ITES industry has potential to impact the country by providing technology and paving way for inclusive growth. The industry also has the potential to further transform India and play a major role in the development of the country's key sectors such as education, healthcare, infrastructure, citizen services and financial inclusion. The technology-enabled provision of basic services can take the benefits of ICT to all 1.3 billion citizens.

5. With this vision, the industry can contribute up to 350 billion USD accounting to ~10 percent of India's GDP and generate 30 million employment opportunities (direct and indirect) by 2025.

6. While the industry has the potential to generate revenues of US\$ 350 billion by 2025 thereby creating employment for 30 million people, though a portion of this opportunity is at risk if continuing problems including creation of an innovative ecosystem for IT sector are not tackled soon. This also includes creating specialized manpower for moving the sector up the value chain. Low employability of existing talent with only 10-15 percent employable graduates in business services and 26 percent of employable engineers in technology services continues to be a major bottleneck. Infrastructure development is largely constrained to the nine cities, which contribute more than 95 percent of India's exports and further development of tier 2/3 cities as alternative centres for BPO business promotion. Under the Digital India Programme Government has implemented India BPO Promotion Scheme and North East BPO promotion scheme for promotion of BPO/ITES operations in Tier-II and Tier III cities thereby creation additional employment opportunities for 1,60, 000. The experience of this will be ap-

appropriately used to demographically diversify the employment opportunities created by this sector across the country. There is also a need for creating an environment with a long term policy framework blunting the competition from other low cost countries with potential erosion of the India opportunity.

7. With the launch of Digital India initiative has created a \$ 1 trillion business opportunity for providing innovative solutions and services both in public and private sector. This has also created substantial opportunities for ICT sector to grow domestically. With internet penetration reaching 400 million and with more than a billion mobile phone connections, the opportunities to leverage the soft power of Indian IT professional for producing niche innovative IT solutions for Indian needs is enormous. Initiatives under the Digital India programme such as Bharatnet, CSCs, BPO Scheme, Aadhar etc are focused towards bridging the Digital Divide and increased use of ICT to socially and economically benefit 1.3 billion Indians. Indigenous customized IT products and solutions specific to Industry needs will catalyze these opportunities.

8. In addition, India has the opportunity to emerge as one of the top three global IT Innovation hubs. The Indian ICT Industry has of recent shown signs of moving up the value chain with the mushrooming of a number of young entrepreneurs focusing on software products and are trying to exploit the possibilities that have arisen due to emerging of cloud infrastructure, alternate delivery models including off the self and SaaS (cloud) based Software Products and mobile based delivery model using social media platforms. This is further complimented by fast evolving use of Big Data and Internet of Things (IoT) ecosystem resulting in the convergence of hardware with software. Though capabilities exist in the IT services sector however there is a need of Software products specific to Indian needs to reduce time frame for implementation of IT projects, which of today are largely dependent on bespoke developments. To realise this growth potential in the next 10 years, industry stakeholders including Government need to act together in an unprecedented manner.

9. The emerging and rapidly growing ecosystem for innovation driven by young, tech savvy entrepreneurs is a powerful new complement to the existing global reach of the industry and has potential to capture the opportunities listed above.

10. The Software Product Industry is estimated to be \$411 billion globally today and is expected to reach around \$1.0 trillion by 2025. However, in India the Software Product Industry is still in its infancy stage. The total revenue of software product industry in India is \$6.1 billion, out of which \$2 billion is from exports. On the other hand, today IT Industry in India is around \$143 billion and is expected to grow to \$350 billion by 2025. In order to make the Indian IT Industry move up the value chain and thereby sustain its growth trajectory, India has to adopt a paradigm shift in its strategy for software sector by focusing to create vibrant Indian Software Product Industry, where IT Products also contribute equitably and significantly along with IT Services.

11. Though India is well positioned to further grow in services sector, however for the holistic growth there is a need for a National Policy on Software Products that can synergies the efforts of the Government and Industry to create a robust Software Product Industry, which enables the germinating ground for large number of Software product startups, promotes development of an ecosystem encouraging R&D and innovation, opens up multitude of opportunities of access to capital and helps build and improve the domestic demand. A National Policy on Software Products aligning with other initiatives such as Start-up India, Make in India and Digital India etc. can provide the springboard for India to emerge as a global leader in this important industry.

II. Vision

To drive the rise of India as a Software Product Nation and synergy with the ITES sector, so as to place India as a leading player as creator, producer and supplier of innovative Software Products globally thereby enabling the IT Industry to sustain growth momentum.

III. Mission

1. To promote creation of a sustainable software product industry leveraging India's strength in IT so as to create disruptive innovations and cutting edge technologies.
2. To create conducive environment for creation of 10,000 technology startups to develop software products that are globally competitive and thereby generating a direct and in-direct employment for 3.5 million persons.
3. To support the software product industry by way of ease of doing business, enhanced market access and improved R&D and innovation ecosystem.
4. To strive for a tenfold increase in share of the Global Software product market by 2025 by promoting easy access to local domestic/international market for software product.
5. To create a specialized talent pool of 100,000 professionals by 2025 conversant with nuances of software product development that can support the growth of software product industry.
6. To build absorptive capacity in domestic market (including Government, Public sector and MSMEs) and develop linkages with other sectors including core & social infrastructure and service sector.

IV. Strategies

1. Ease of doing business.

- 1.1. To leverage the Start-up India initiative to ensure ease of business and to address concerns that maybe specific to the software product industries through an Inter-Ministerial Coordination Group.
- 1.2. To enable incorporation of Software Product Industry in a time bound manner through a fully online process. Similar facilitation to be created for ease in closure of company specially for Start-ups.
- 1.3. To motivate and instill confidence in innovators, entrepreneurs and investors in Software Product space through a conducive software product development ecosystem by continually improving the conditions of ease of doing business and through further simplified rules and regulations for establishing, operating, financing, exit and closure of a business.
- 1.4. Creation of a Single Window online platform through STPI for setting up/closure of a software product enterprise in accordance with the recommendation of the Inter-Ministerial Coordination Group.
- 1.5. To evolve through a consultation process under the aegis of the Inter-Ministerial Coordination Group, parameters to define (i) Software products (ii) Digital Products/Goods and (iii) Software products Company
- 1.6. To provide fiscal and other incentives for Software Product Start-ups maturing to create of revenue of more than 25 Crores and direct employment generation of 25 persons per startup.
- 1.7. To provide special incentives for Software Product Industries operating out of Tier II and Tier III cities and creating more than 100 local jobs.

2. Funding, Seed Funding and Stock Options

- 2.1. To remove bottlenecks from system for availability of funds and investments in to Software Products right from angel and seed stage capital, which is a key driver in the growth of the software products industry.
- 2.2. To enable an easy employee stock option regime for Software Product Companies.
- 2.3. To allocate a defined portion of Fund of Funds of 100, 000 crores in Electronic Development Fund with a support of 100 Crores by MeitY under PPP model. Also, an Innovation Fund to be created by Ministry of Finance exclusively for domestic Software Product Industry promoted by resident Indian nationals.

3. Employment Generation

- 3.1. To create 3.5 million direct and indirect jobs by 2025 through various initiatives of proposed Software Product Policy.
- 3.2. The policy targets to achieve a goal of creation of 100,000 jobs by 2017, and additional 2,500,000 by 2025.
- 3.3. To align with the National Skills Mission with the need of Software Products companies so as to generate millions of skilled IT professionals employable in Software products Industries.
- 3.4. To motivate entry-level IT professionals towards the need and skills required for Software product Industries through short term courses, workshops, hackathon, competitions etc .

4. Tax on Software Products

- 4.1. To ensure and promote easy, fair, neutral and transparent tax regime that is favorable to ~~the~~ trade of Indian Software products.
- 4.2. Propose to demarcate tax regime for ~~Software Products~~ from ~~Software Services~~ by providing clearly defined ITC/HS Code for the ~~Software products~~ (intangible goods) delivered through any medium physically or online using internet.

4.3.To provide level playing field to Indian Software Product companies vis-à-vis foreign Software Products being traded online using internet, with respect to indirect taxes.

5. Trade Promotion.

5.1.To provide special focus for Indian Software Products in international trade development programs;

- a) Integrate Indian software products in India's foreign aid programs
- b) Develop trade promotion linkages and FTAs with other product nations.

5.2.To actively pursue the case for seamless cross border trade of digital products.

5.3.To provide a level playing field to Indian software product industries in access to seed funding, public sector procurements, taxation and trade so that they can fully leverage the benefits of both domestic and international market.

5.4.To work with concerned stakeholders to ensure seamless electronic payment infrastructure to enable transactions, critical for internet led startups and innovations

6. Improving access to Domestic Market

6.1.To develop an enabling framework for inclusion of Indian software product in Government procurement.

6.2.A cloud based infrastructure for Indian Software products having applications in e-Government for easy use will be established.

6.3.To provide special incentives to the Indian Software products companies developing solutions for achieving identified actions under Digital India programme specially in regard to bridging digital divide, empowering the less privileged citizens and differently abled with a goal to create a digitally equitable society.

- 6.4. To promote software products in emerging sectors such as Smart Cities, healthcare, smart agriculture, e-learning etc enabling efficient implementation.
- 6.5. To promote usage of Indian Software Product Industry in strategic sectors like Defense, Atomic Energy, Space, Railways, Telecommunication, power and healthcare etc.
- 6.6. To promote use of open APIs and Open Data for promoting use of software products in provisioning and development in e-Government services
- 6.7. To work with concerned stakeholders to ensure seamless electronic payment infrastructure to enable transactions, critical for internet led startups and innovations, and facilitate incentive framework.
- 6.8. To increase the access of Domestic Software Product Industry in MSME segment by way of developing active linkages between the stakeholders with Domestic Software Product Industry through an institutional mechanism.

7. Incubators and Competitive Clusters

- 7.1. To promote and incentivize setting up of specialized incubators for Software Product development in Government and Private sector and foster competition amongst incubators.
- 7.2. To create a fiscal benefit for Software Product startups in incubators supported by MeitY under STPI Scheme for specialized Software Development purpose in line with fiscal benefit available under DST and other programs.
- 7.3. To establish 30 dedicated entrepreneur parks spread over the country in Tier-II and Tier-III towns specifically aimed at software products entrepreneurship through STPI.

7.4. In order to demo-graphically spread the Software product ecosystem in Tier-II and III cities, support for technical software and other infrastructure required for ensuring a plug and play facility will also be provided through 30 dedicated entrepreneur Parks.

8. R&D Credits, Grants and Challenge Grants

8.1. To create an enabling environment for innovation, R&D and IP Creation & protection leading to an eco-system of globally competitive Software Product Industry factored upon local niche domestic needs and positioning to become global leaders.

8.2. To create incentive schemes, grants and funds for R&D based innovation specially designed for creation of Software Product through an institutional framework.

8.3. To setup challenge grants for social transformation moon-shots in Education, Healthcare, Sanitation, Agriculture and other sectors in collaboration with NASSCOM, iSPIRT, STPI, Science Parks, Think Tanks and other institutional arrangements.

9. Promote of Software Product through Training and Education

9.1. To promote Indian SaaS, enterprise, cloud infrastructure, data analytics, IoT and mobile products and solutions globally through the various market access initiatives.

9.2. To promote Indian software product companies in software infrastructure sector by giving special focus on cloud computing, explosion of data and video, usage of e-commerce, information security, availability of real-time social media etc.

9.3. To initiate a scheme to address unique requirement for Software Products Industry a special training & skill development programmes will be designed and implement such that there is awareness and expertise available for software products.

9.4.To guide long range strategic investments in technology, innovation and research and to identify immediate and long term focus areas (in technology & research).

9.5.To help strategic research by creating a Software Product Industry Research Program (SPIRP) that will focus on building strategic technologies at IISc/IITs/IIITs and providing privileged access to multiple startups at the same time, thereby developing a symbiotic relationship between publicly funded research centers and product companies based on international benchmarks.

10. Government Structures.

10.1.To realize the above, MeitY shall launch a National Software Product Mission+with Industry participation.

10.2.MeitY shall actively encourage states to participate and promote Software Products Industry in line with this policy.