

## **CHAPTER 5**

### **SERVICES**

Much of Pondicherry's growth in the recent past has been because of the service sector. The service sector's growth rate in the nineties (1993-94 to 1998-99) was 10.44 per cent per annum. The service sector in fact contributed the largest share to GSDP in 1998-99, namely 47.67 per cent. In terms of employment, the service sector in 1999-2000 contributed 36.71 per cent of total employment, only marginally less than manufacturing.

The growth of the service sector needs to be further encouraged. High GDP per capita is generally positively correlated with the intensity of service sector activity. Output and wages are higher in the service sector than in other sectors. Moreover, service sector growth is ideal in an economy such as Pondicherry's where capital is relatively scarce and labour supply abundant.

There are a number of reasons why the service sector in Pondicherry is likely to continue to be an engine of growth in the future. First of all, agriculture is declining both in terms of area under cultivation and in terms of contribution to GSDP. This will mean that surplus labour from the agricultural sector will have to be absorbed either by manufacturing or services. Second, Pondicherry has certain comparative advantages in terms of particular service industries. With a good educational infrastructure and human development base, the potential for a knowledge-based service sector is extremely good. Pondicherry already has a comparative advantage in higher education which can serve as a platform for promoting other services such as IT. Pondicherry's other advantages are natural advantages which could serve as a basis for promoting tourism. Tourism has always been an important feature of the Pondicherry economy but efforts need to be made so as to encourage it to grow faster. Finally, the financial sector has significant potential in an economy which is seeking to grow and in a climate where capital is required. Growth rates within the service sector have been highest in hotels, restaurants and trade and transport which are linked to the tourism industry, communication which is linked to the knowledge based economy, and banks and insurance which are part of financial services - all indications that there is a good potential for the future.

Pondicherry has to fulfill this potential by upgrading services such as transport, communications, housing and banking which are key inputs for other services such as education, tourism and IT. This, however, is not enough. The overall infrastructure and investment climate need to be improved as well as the 'service friendliness' of the Union Territory. Existing policies for IT and tourism, moreover, need to be operationalised and translated into pro-active initiatives which seek out entrepreneurs and new investments. In the context where sales tax concessions are coming to an end, such initiatives are all the more important especially for sectors such as hotels, restaurants and trade.

This chapter examines the service sector's past performance and identifies key sectors for future investment. It also addresses sector specific policy initiatives which are required and the enabling factors which will help the service sector to grow.

## **A Growing Service Sector**

### ***Identifying Growth Potential in Services***

As mentioned above, the service sector has grown significantly in the recent past. In absolute terms the service sector grew from Rs. 51,627 lakh in 1993-94 to Rs. 85,579 lakh in 1998-99 (1993-94 constant prices). The relative contribution of the service sector declined marginally during this period, namely from 51.61 per cent to 47.67 per cent (Table 5.1).

Whereas the growth rate of the service sector was approximately 5 per cent between 1980-81 and 1992-93, the period between 1993-94 and 1998-99 witnessed a growth rate of more than 10 per cent. As Table, 5.2 shows, the fastest annual growth rates in the recent past have been in banking and insurance (19.18 per cent), transport (15.78 per cent), communications (15.88 per cent) and trade, hotels and restaurants (16.10 per cent).

**Table 5.1**  
**Contribution of Service Sector to GSDP (Rs. Lakh),**  
**1993-94 to 1998-99 (1993-94 Constant Prices)**

<b>Item/Year</b>	<b>1993-94</b>	<b>1998-99</b>
Transport	5088	10975
Communication	943	2041
Trade, Hotels & Restaurants	14269	30099
Banking & Insurance	4140	10276
Real Estate and Business Services	11160	14654
Public Administration	5704	5980
Other Services	10323	11554
<b>Service Sector Total</b>	<b>51627</b>	<b>85579</b>
<b>% Contribution of Service Sector to GSDP</b>	<b>51.61</b>	<b>47.67</b>

**Source :** Directorate of Economics and Statistics, Government of Pondicherry.

**Table 5.2**  
**Annual Growth Rates in the Service Sector in Pondicherry, 1993-94 to 1998-99**

<b>Item</b>	<b>Annual Growth Rate</b>
Transport	15.78
Communication	15.88
Trade, Hotels & Restaurants	16.10
Banking & Insurance	19.18
Real Estate and Business Services	4.83
Public Administration	1.13
Other Services	2.16
<b>Service Sector Total</b>	<b>10.44</b>

**Source :** Calculated

Most of these growth engines within the service sector are crucial to the long-term growth of the service sector economy. Two of Pondicherry's areas of comparative advantage within the service sector are tourism and the knowledge based economy. The sectors which have grown quickly are important infrastructural requirements for the growth of these industries. The growth of the transport sector is important given the future of tourism in the Union Territory. A good transportation network is also critical in

terms of basic infrastructure for overall growth. The growth of communications bodes well for industries such as IT and also for overall efficiency within the service and industrial sectors. Banking is important as an engine of growth within the service sector and also in terms of a source of investment to spur on the economy. Real estate, though it has not grown as quickly, is critical in terms of the housing requirements which will emerge due to fast growth.

Higher education is also one of Pondicherry's strengths and a crucial input for the growth of the knowledge based economy. The growth of higher education, however, is more difficult to ascertain as there is no GSDP data available for higher education separately, i.e it is clubbed with public administration. Nonetheless, other indicators highlight the fact that Pondicherry has a good education base. There is a Central University, three medical colleges, four engineering and technology colleges and one law, agriculture and veterinary college each. Pondicherry, moreover, has eight arts, science and commerce colleges. In addition to this, there are teacher training institutes, a school of nursing and a school of catering - all below the degree level.

These colleges and institutes not only cater to local students, but also to many students from outside the Union Territory. Thus, they are not only crucial in terms of providing a good educational foundation for the future workforce of Pondicherry, but also as a service that Pondicherry provides and consequently a potential source of growth in the future. Having said that, we must hasten to add that the standards of teaching and of the courses needs to be upgraded to compete with the best in India, especially in scientific, technical fields including higher mathematics.

### ***Employment***

From an employment perspective, the service sector has also grown significantly over the last few decades. Table 5.3 gives details of service sector growth between 1971 and 1991. In absolute terms, employment in the service sector increased from 39,778 to 1,03,236 between 1971 and 1991. In percentage terms, the service sector's contribution increased from 28.25 to 39.43 per cent. Employment in trade, hotels and restaurants and community, social and personal services together accounted for almost 90 per cent of total employment in the service sector in 1991.

**Table 5.3**  
**Service Sector Workforce, 1971-91**

<b>Sub Sector/Year</b>	<b>1971</b>	<b>1981</b>	<b>1991</b>
Wholesale and Retail Trade and Restaurants and Hotels	14,152 (35.58)	18,248 (34.35)	33,088 (32.05)
Transport, Storage and Communication	3,575 (8.99)	5,923 (11.15)	8,493 (8.23)
Financing, Insurance, Real Estate and Business Services	1,440 (3.62)	2,636 (4.96)	5,253 (5.09)
Community, Social and Personal Services	20,611 (51.82)	26,311 (49.53)	56,402 (54.63)
Activities Not Adequately Defined	-	-	903 (0.34)
<b>Service Sector Total</b>	<b>39,778</b> <b>(100.00)</b>	<b>53,118</b> <b>(100.00)</b>	<b>1,03,236</b> <b>(100.00)</b>

**Source:** Census, various issues.

**Note:** The numbers in parentheses are the percentage contribution of each sub sector to total service sector employment.

What is also evident is that the increase in service sector employment has been faster in the period between 1981 to 1991. Whereas employment increased from 39,778 in 1971 to 53,118 in 1981, it increased from 53,118 to 103,236 between 1981 and 1991.

Employment in the service sector has continued to increase in the nineties. Whereas the number of people employed in the service sector was 117,548 in 1993-94 it increased to 133,765 by 1999-2000 (Table 5.4). Employment generation seems to have taken place most in the hotels, restaurant and trade sector where the numbers employed increased from 36,897 to 69,708. The relatively slow increase of overall service sector employment in the nineties was largely due to the fact that employment in public administration and other services decreased from 65,023 in 1993-94 to 42,924 in 1999-2000.

**Table 5.4**  
**Service Sector Employment, 1993-94 and 1999-2000**

Item/Year	1993-94		1999-2000	
	Number	% of Total	Number	% of Total
Wholesale and Retail Trade and Hotels and Restaurants	36,897	31.39	69,708	52.11
Transport, Storage and Communication	8,908	7.58	14,058	10.51
Financing, Insurance, Real Estate and Business Services	6,720	5.72	7,075	5.29
Community, Social and Personal Services	65,023	55.32	42,924	32.09
<b>Service Sector Total</b>	<b>117,548</b>	<b>100.00</b>	<b>133,765</b>	<b>100.00</b>

**Source :** N.S.S. 50<sup>th</sup> and 55<sup>th</sup> Rounds

In terms of growth, the annual growth rates of employment for 1971-81 and 1981-91 were 2.93 per cent and 6.87 per cent respectively. As is also clear from Table 5.5, most service sector sub-categories grew faster in 1981-91 than they did in 1971-81, the exception being transport and communication which grew faster between 1971-81. The fastest growers in the period 1981-91 were community, social and personal services (7.92 per cent), finance, insurance, real estate and business services (7.14 per cent) and transport and communication (6.13 per cent).

In the period between 1993-94 and 1999-2000, however, the overall growth rate in employment in the service sector was significantly less, namely 2.17 per cent. Nonetheless, individual sectors such as trade, hotels and restaurants and transport, storage and communications grew even faster than between 1971-91, namely at 9.51 and 7.90 per cent respectively. The growth rate was negative (-6.69) for community, social and public administration - though the reasons for this are unclear.

**Table 5.5**  
**Growth of Employment in Service Sector between 1971 and 1998-99**

<b>Item/Year</b>	<b>1971-81</b>	<b>1981-91</b>	<b>1993-94 to 1999-2000</b>
Hotels, Restaurants and Trade	2.57	6.13	9.51
Transport, Storage and Communications	5.18	3.67	7.90
Finance, Insurance, Real Estate and Banking	6.23	7.14	0.86
Community, Social and Personal Services	2.47	7.92	-6.69
<b>Service Sector Total</b>	<b>2.93</b>	<b>6.87</b>	<b>2.17</b>

**Source :** Computed from Census and N.S.S. data

It is also important to examine the service sector's potential in rural areas in particular because of the declining role of agriculture. The major source of service sector employment generation in rural areas has been trade, hotels and restaurants with an annual compound growth rate of 13.95 per cent. Financial services too have emerged in rural areas as a source of employment. The transport sector, however, has registered negative growth rates unlike its urban counterpart. Public administration has also registered negative growth rates but not as much as in urban areas.

### **INFRASTRUCTURE SERVICES**

Sustaining high growth rates in infrastructure services will be critical to continued overall growth in the service sector. This section, therefore, looks more closely at key infrastructure sectors, namely roads and transport, communications, real estate and housing in order to identify ways in which growth can be sustained and accelerated.<sup>7</sup> Power and banking (financial sector) are examined in separate chapters and so too the specific infrastructure requirements of agriculture and industry.

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<sup>7</sup> The focus on these infrastructure categories only is because they are treated as part of service sector activities in CSO's GSDP classification. There is no separate infrastructure chapter in the report as all the major infrastructure concerns are addressed either here or in other sectoral chapters. Power is addressed in a separate chapter.

### *Telecommunications*

The growth of communications has been rapid in the last decade. Communications grew at almost 16 per cent annually between 1993-94 and 1998-99. A major component of communications is telecommunications. Table 5.6 gives details with regard to the expansion of telephones and public call offices between 1992 and 2000. As can be seen, the number of telephone connections increased from 9,670 in 1992 to 62,603 in 2000, an annual growth rate of 16.86 per cent. The number of public call offices increased from 300 to 1,039 in the same period, an annual growth rate of 17.07 per cent.

**Table 5.6**  
**Telephone Connections and Public Call Offices in Pondicherry**

<b>Year/Item</b>	<b>Telephone Connections</b>	<b>Public Call Offices</b>
1992	9,670	300
1993	10,743	330
1994	13,200	246
1995	16,970	206
1996	23,188	370
1997	29,734	558
1998	36,552	661
1999	50,605	710
2000	62,603	1,039

**Source:** Government of Pondicherry, 2000, Statistical Handbook 1999-2000.

Despite the fast growth of telecommunications in the last few years, this growth has been primarily in terms of basic services not value added services. A good telecommunications network is critical, especially for the IT sector. Pondicherry still lags far behind in terms of the sophistication of telecom services. This is due in large part to the fact that the telecommunications sector is highly concentrated and consequently there are restrictions on interconnectivity of facilities.

New opportunities exist for Pondicherry today to improve the quality of the telecommunications network. The Government of India has initiated a planned liberalisation programme for the telecom industry. Private actors such as Bharathi and Reliance have already entered the telecommunications sector and invested substantially in telecom business such as mobile services, internet services and long-distance services. Pondicherry must encourage these new players to enter the Pondicherry market so that its

fibre optic network is expanded and its international bandwidth increased at competitive prices.

It is likely, moreover, that significant new developments will take place within the telecommunications sector at the national level. Likely developments include speeding up of the reform process not only to increase tele-density but also to support special service-level requirements like voice-data convergent networks and bandwidth on demand. Pondicherry must be in the forefront of these changes if it wants to carve out a niche for itself in the communications sector and promote in particular the IT industry.

For this to happen, Pondicherry must adopt a telecom policy in line with the National Telecom Policy. Telephones should be made available on demand and teledensity should increase to 15 by the 2010. While telecom services should be encouraged in rural areas so that all areas benefit, equally important is creating a modern and efficient telecommunications network which takes into account the convergence of IT, media, telecom and electronics so that Pondicherry can compete in sectors such as IT. Competitive tariff structures should also be introduced to encourage competition.

### ***Priorities for Infrastructure Development***

The above mentioned goals in terms of specific infrastructural requirements have to be part of a major rethink in terms of infrastructure development in the future if infrastructure services are to continue to grow and provide the necessary basis for overall economic growth. The Pondicherry government needs to take some bold policy decisions which include:

- remodelling government agencies so that the provision of infrastructure facilities is more efficient,
- increasing the budgetary support given to infrastructure development agencies,
- reforming the sector so that private players play a more important role in the future,
- providing the necessary incentives so that the private sector is encouraged to participate in infrastructure development, and

- rationalising the pricing structure so that prices more accurately reflect the economic costs.

Such a focus will enhance both public and private sector investment in infrastructure. While the role of the public sector will have to be curtailed/reduced, it will remain critical especially in terms of areas such as low cost housing or roads in far off places where the incentive for private sector actors to participate is much less. By increasingly involving private sector actors, moreover, the government can focus its attention on specific concerns without worrying about budgetary constraints.

There should be a conscious move, however, to retrieve costs within the infrastructure sector. One of the main problems at present is that infrastructure projects incur huge expenditure of which nothing is retrieved from the user. A greater role for the private sector will ensure to some extent that costs are met. Government projects too can charge user fees.

The other emphasis within the infrastructure sector should be on efficiency improvements. These can be realised by prescribing performance standards and by introducing performance incentives. Increased competition within the infrastructure sector will also go a long way in increasing efficiency.

Improved infrastructure is a prerequisite for stimulating engines of growth such as higher education, IT and tourism. Without significant upgrading of infrastructure facilities, it is unlikely that Pondicherry will capitalise on its comparative advantages. The above mentioned policy prescriptions in the infrastructure sector are a necessary (if not sufficient) condition for services to grow.

## **HIGHER EDUCATION**

Pondicherry's higher education system has in the past been a major pillar of strength to Pondicherry. Not only has it provided a highly educated local workforce, but it has also been a major centre of learning for people from outside the Union Territory. There are signs, however, that Pondicherry has lost some of its competitive edge in higher education. Graduates no longer have the professional requirements that industry wants. Even the recently started Institute for Information Technology has closed down,

suggesting that it was not adequately catering to the needs of IT firms. ITIs also no longer serve as a main source of skilled labour with industry preferring to look outside the Union Territory for labour.

Despite these worrisome trends, higher education remains a source of huge potential. Educational institutions, by providing good training to students, can make them more competitive for the job market as well-trained students are future professionals, managers and entrepreneurs. For example, in the past, Pondicherry's excellent medical colleges provided highly competent doctors. Even if graduates do not remain in Pondicherry, the 'export' of skilled graduates could serve Pondicherry well in the long run.

A two-fold strategy is required to harness Pondicherry's comparative advantage in higher education. First of all, efforts need to be made to promote professional courses. Along with existing areas of comparative advantage such as medicine, Pondicherry should develop skills in emerging industries such as biotechnology and information technology. As stated elsewhere in the report, standards of advanced courses in Information Technology and Computer Engineering has to be immediately upgraded.

## **INFORMATION TECHNOLOGY**

The IT industry in India has grown rapidly over the last few years and is becoming an increasingly important player in the world market. Much of this growth has been because of the large pool of trained manpower and the sector's focus on knowledge based industries. While there are signs of a slowdown due to a worldwide lag in the IT industry, India's potential remains high especially in IT enabled services such as back office operations, call centres, medical transcription, online education, etc.

Pondicherry needs to take advantage of this huge potential. Having a comparative advantage in higher education, it has the ability to create the right conditions for fast growth in the IT sector and to become a knowledge-based society. The Union Territory needs to tap this potential in order for the economy to grow and to create employment. The government too will benefit from the growth of the IT industry by more actively

introducing it into the school curriculum and using IT as a means to improve the functioning of government offices and service delivery.

In order for the Pondicherry IT industry to grow, it will have to compete with nearby IT centres such as Chennai, Bangalore, Hyderabad and Thiruvananthapuram whose IT industries are already well-established. Software parks, in these cities, can be used as models for Pondicherry. The lag in the IT industry is also an opportunity for Pondicherry, as a lot of young IT professionals who have been squeezed out of the job market elsewhere, are searching for employment.

For these opportunities to result in growth, the government needs to create the right conditions for attracting IT industries. The government of Pondicherry has already taken steps to promote the IT industry by introducing a separate IT policy in 2000. This 5-year policy is aimed essentially at three things: (1) promoting IT education in the state, (2) using IT for improving the functioning of the government and (3) accelerating the growth of IT industries in Pondicherry. The government has started to introduce electronic governance, has plans to set up a Centre for Advanced Studies in Information Technology (CASIT) to help operationalise its IT policy, set up an IT-Park inside the Engineering College Campus and introduced tax concessions to attract IT companies.

The aim must be, however, to translate these goals and first steps into concrete achievements - something which is far from happening at present. In fact, the IT sector is extremely sluggish with little sign of picking up. Pondicherry's Vision 2020 must restate and move forward on the goals of IT policy. A number of realisable goals need to be used as benchmarks. They include:

- (1) Developing the infrastructure which is needed to attract IT industries to the Union Territory
- (2) Promoting the IT industry (and especially IT-enabled industries) as a major actor in the economy
- (3) Introducing e-governance and ensuring that all departments have completely switched over to e-governance

- (4) Encouraging the growth of IT-education centres (both public and private) which impart high-quality (and updated) education.

### **Attracting IT Industries**

Pondicherry, as mentioned above, has a long way to go in terms of realising these goals. Most of its policies continue to be on paper and have not been translated into ground reality. While an IT Park has been set up, the infrastructure is inadequate and as a result IT companies have not established base there. In fact, IT companies in general have not found Pondicherry to be a favourable location thus far. Most of the big IT companies present in Pondicherry such as HCL, WIPRO and Pragati are involved only in hardware and assembling. IT Investment in Pondicherry in the past could be attribute largely to the short-term income tax concessions offered. Software and IT enabled service companies are few and far between and most of them are spread throughout Pondicherry town, not in the IT Park.

### **State of the Art Infrastructure**

A main reason for the IT Park not gathering momentum is its poor infrastrucutre. Base infrastructure must be the first priority of the Pondicherry government to promote its IT Park. State of the art telecommunications is an absolute necessity for an IT park to grow. The government needs to invest heavily in this. IT industries of the future will require more telecommunications bandwidth than present day industries. The plans to provide High Speed Data Communications facilities, which will be able to provide world wide connectivity, need to be pursued with a vengeance.

The conditions under which this can be done are improving every day. Private players are entering the market and competition is improving. Prices have drastically fallen for internet connectivity. It is up to the government to pursue these avenues so as to cut back on its costs which is acting as a major barrier at present for the development of the IT Park.

Power is another critical infrastructure for the IT industry. At present, Pondicherry does not have any supply problems, since it obtains its supply from the national grid. Moreover, the cost of power remains far less than in neighbouring states and is likely to remain so even if power tariffs are increased in the future. The worry is

more in terms of power distribution and periodic power cuts. Regular and constant supply is a must for the IT industry.

Other state of the art infrastructure is also required in the IT Park. Most of the big IT parks have a dedicated satellite earth station and business incubators to facilitate quick start-ups. In addition well-developed business services such as convention facilities, a bank and a library are a must. Comprehensive support and maintenance services are also required. Adequate built up space and developed plots at competitive rates should be the order of the day. The IT Park should also have facilities such as a restaurant, guest house and club which will attract young IT professionals. The IT Park should be a self-contained unit. The IT Park will after all serve not only as a hub of activity but also as a base which other IT professionals in Pondicherry can utilise.

In order for these infrastructural goals to be realised, the first step is to adopt a much more systematic approach to the development of the IT park. Other IT Parks such as Technopark in Kerala have a CEO running the show. The CEO oversees the development and running of the park. The IT Park in Pondicherry must follow suit. At present, the government is supposed to be in charge but nothing is happening. A possibility is to run the IT Park as a joint venture or even turn it over to private hands. The running of the park can be corporatised. Tenders can be given for infrastructure development.

### **Encouraging Investment**

The government must actively promote and pursue a number of initiatives it has taken to attract the IT industry. The bulk of these come in the form of economic incentives. These include sales tax exemption for a period of 10 years, state investment subsidies of upto 10 per cent of capital investment subject to a maximum of Rs. 10 lakh and 50 per cent subsidy for installation of captive generation sets subject to a maximum of Rs. 15 lakh. These apart, PIPDIC and SIDBI should also go ahead with its venture capital fund to be established for IT related industries.

Besides these incentives, the Pondicherry government must be constantly looking for new financial incentives for the IT industry. In order to do so, it must keep abreast of

what is happening in the IT world so that it does not lose out. With the fast growth of IT-enabled services, the Central Government is taking the initiative to give graded income tax holidays to IT-enabled services. Some state governments have already brought IT-enabled services under the Essential Services Maintenance Act (ESMA) for companies to be able to offer continuous service (7 days, 24 hours). Pondicherry has scope in this area and must follow suit.

Private sector investment will only be forthcoming if there is an investment-friendly climate. The government must make it easier for IT industries to establish roots in Pondicherry. This will involve going ahead with its plans for a single window clearance system under the aegis of an Industrial Guidance Bureau, giving priority clearance in servicing of power at industrial rates and allowing IT industries to be established in residential areas as well.

As in many of the other sectors, the government will have to take an active role in seeking this investment. With Hyderabad, Bangalore and Chennai in close proximity, kick starting the growth of the IT industry in Pondicherry will require hard work. One way to do this is to promote Pondicherry at IT exhibitions. Another way is to liaise much more closely with the Confederation of Indian Industry (CII) whose chapters throughout the country can help promote Pondicherry. Of course, promoting Pondicherry will depend critically on good financial incentives and good infrastructure. The Pondicherry government has to go out and attract private sector investment as opposed to expecting it to come to Pondicherry. If one major IT player invests in Pondicherry, this itself could lead to significant investment in infrastructure development and consequently other actors entering the Pondicherry IT market.

### **Promoting Pondicherry's Location**

One way of promoting Pondicherry, other than through the merit of its IT infrastructure, is by promoting the town itself. Again, the government needs to be more pro-active. Given the proximity of other IT centres, the Union Territory must focus on its strengths. Location is extremely important. One of the major attractions of the Technopark, Thiruvananthapuram is its location near the Arabian sea and its breathtaking view. Pondicherry has similar locational advantages which need to be advertised and promoted.

The IT Park is located in the Engineering College which is close to the beachfront. It is also easily accessible, located on the East Coast Road, only two hours from Chennai.

Much more needs to be done, however, for Pondicherry to attract the upwardly mobile IT entrepreneur. As IT professionals vote with their feet, they have to be attracted to Pondicherry and then be enticed to remain there. IT professionals need to have places to spend money. Although a few may be attracted to Pondicherry because of its serene and calm nature, many more will not. Living conditions, therefore, must be favourable. Pondicherry, in promoting its tourist industry and recreational activities, will be going a long way in enticing these entrepreneurs. In addition to these activities, it would be worthwhile to explore the possibility of starting clubs which offer recreational activities such as golf, tennis, squash etc.

### **Exploring New Avenues**

With the short-term slow down in the IT sector, the government needs to be active in identifying new areas which IT companies can explore. Whereas in the early nineties, software development was a prime focus of many software players, today the main market seems to be in IT-enabled services. Foreign IT companies are trying to cut costs and are increasingly making use of skilled workforces in other parts of the world. At present, other southern cities are capturing most of these benefits. The Pondicherry government can take some initiative in identifying areas for the future, though of course it will have to be individual software entrepreneurs who pursue them actively.

IT-enabled services offer a lot of scope for Pondicherry because it does not require a very skilled workforce. Unlike software development, where software engineers and/or IT graduates are a must, IT-enabled services require little background in computer applications. Pondicherry has a highly literate and educated workforce who could easily provide the required numbers to IT-enabled services grow.

IT-enabled services are likely to diversify further. The Indian government has already taken a number of steps to promote venture capital in the country. Private companies have also realised the potential for IT-enabled services and are increasingly focusing their activities in this area. Telecommunications and networking companies

have started focusing on call centre facilities. Even specialist institutions are increasingly using IT-enabled service providers to develop innovative new services.

Some of the areas which are fast developing in India within IT-enabled services include medical transcription, business process outsourcing/back office operations, insurance claims processing, legal data bases, digital content development, on-line education and data digitization/GIS. There is no reason why IT players in Pondicherry cannot corner some of the market. A base already exists in terms of the highly literate nature of the Union Territory and the good higher education infrastructure. This, however, will have to be translated into an IT-literate workforce.

The French connection also needs to be actively explored as Pondicherry has a comparative advantage in the French language and can benefit substantially from outsourcing from France. This has not happened, thus far, with even the French preferring to invest more in Chennai due to the rather inadequate infrastructural facilities available in Pondicherry. Again this is partly a case of not actively pursuing opportunities. The tendency in Pondicherry has been to underplay the French connection though it is available right at its doorstep. Initiative should be taken to kindle it through discussions with the French consulate in Pondicherry. For example, it may be possible for a delegation of IT entrepreneurs headed by the Secretary, IT and Tourism to make a presentation to French IT entrepreneurs.

### **Involving the Private Sector**

The growth of the IT industry in Pondicherry depends upon private sector players entering the market. The Pondicherry government needs to interact much more actively with private sector IT industries in order to take these companies into confidence. Private entrepreneurs will be much more aware about new opportunities in the IT sector and new developments in the IT-market.

Thus, seeking out new opportunities must be part of a wider strategy of involving the private sector. IT policy must be developed along with IT professionals who have hands on experience and who are aware of the pitfalls and shortcomings they experience. At present, there is little communication between IT industries and the government

despite the IT Policy making a recommendation for private sector involvement in an IT Task Force. Such a Task Force must be reconstituted with private sector actors who are abreast of developments within the IT sector.

IT entrepreneurs already have an active nation-wide forum, NASSCOM, who regularly advise the Government of India. An attempt can be made to encourage IT entrepreneurs in Pondicherry to establish a local chapter. The government can regularly consult with the local chapter for inputs into IT policy and an on-going process of discussion and consultation can be started.

### **IT Education**

If Pondicherry is to benefit from the growth of the IT sector in terms of employment creation, it will have to promote IT education in a much bigger way than at present. Initiatives taken by the government thus far have either not been successful or have not materialised at all. The Indian Institute for Information Technology has shut down and the planned Centre for Advanced Studies in Information Technology has not taken off. Also very few private institutions such as NIIT and Aptech exist in Pondicherry. The result is that most IT entrepreneurs in Pondicherry are from outside - not a problem in itself but certainly a constraint in terms of local labour absorption.

In order to kick-start IT education in the Union Territory, a separate committee on IT education should be formed which consists of government people, academics from university/college IT departments, teachers from private IT institutions and IT professionals. The committee should look into a number of issues (1) the IT curriculum (in schools, colleges and private institutions), (2) the potential for IT institutions (government and private) in Pondicherry, and (3) ways in which IT education can be promoted. Specific recommendations should be made which are not overly ambitious and which can be met. These can be both of a short-term and long-term nature.

Focus should be given to school education as well as post-school education. The government already has in the pipeline plans to introduce IT education in school. This is crucial in the long-run as it will make all children computer literate. Moreover, it should not be difficult to implement given the small demographic size of Pondicherry. Care,

however, should be taken that it is done in a manner which excites the imagination of children. This might require changes in teaching methodology as well as imparting new and different types of skills required to succeed in the information age.

By 2020 all schools should have good computer facilities. Internet connectivity can also be provided to schools so that children will be familiar with the new information age. The government can take the initiative in promoting computer-based education of high quality in Tamil and make material available in all government schools. The National Informatics Centre (NIC) at the Chief Secretariat can play an important role.

Computer literacy is one thing and computer skills for succeeding in the IT industry another. The government should try to rekindle the Indian Institute of Information Technology and make it a model for IT-based higher education institutes. There is already an Information Technology Department in the University which should be promoted much more aggressively. Institutions such as NIIT should be encouraged to come and establish shop in Pondicherry. Land at reasonable prices can be offered as an incentive.

## **TOURISM**

Tourism is an increasingly important component of the service sector in Pondicherry. Pondicherry's location on the Coromandel Coast coupled with its French past and spiritual attractions of the Aurobindo Ashram and Auroville provide the Union Territory with multiple tourist attractions. In the year 2000, over 5.5 lakh tourists visited Pondicherry of which nearly 25,000 were foreigners. Growth rates in tourism related sectors such as hotels and restaurants and retail and wholesale trade were well over 15 per cent.

Pondicherry has the potential to improve upon these achievements and become a major tourist centre in South India. Pondicherry's goal should be to convert Pondicherry from a day trip and week-end destination to a long-haul destination. At present, many visitors to Pondicherry either come from Chennai in the morning and return in the evening or pass through Pondicherry on the way to other cities such as Chidambaram A

concerted effort must also be made to attract more foreign visitors to Pondicherry as only a small percentage of foreign tourists who visit Chennai come to Pondicherry.

Tourism has both growth and employment benefits. Direct spin-offs include the growth of hotels, restaurants and leisure centres. Indirect benefits will come in the form of hospitality services, retailing and transportation. Tourism is also a major foreign exchange earner.

The development of tourism should, however, not destroy the serenity and peacefulness associated with Pondicherry. Pondicherry must continue to promote itself as a calm and peaceful destination and take care to preserve its pristine beauty. Tourism should aim to be environmentally friendly. The leisure industry should be given incentives to use resources diligently and to encourage eco-tourism. Growth of tourism must be planned properly in terms of infrastructure. Hotels and leisure establishments should not emerge in a haphazard manner.

In order to move in this direction, Pondicherry's tourism vision over the next twenty years should include the following:

- 1) identifying potential new tourist sites within the Union Territory and developing them within a framework of ecotourism,
- 2) upgrading hotel infrastructure to acceptable service standards,
- 3) improving physical infrastructure
- 4) introducing courses in tourism related topics so as to improve the quality of trained personnel,
- 5) establishing a strong promotional base for the tourist industry, and
- 6) promoting private sector participation in tourism-related activities and in the operation and maintenance of tourist and heritage sites.

This vision signals an attempt to entice the entrepreneur to invest in Pondicherry and consequently to develop the attractiveness of Pondicherry as a tourist destination. The Pondicherry government should facilitate this by providing attractive incentives to private actors. The upgradation of physical and service infrastructure will require significant investment from the private sector. The government's responsibility should be

more those of a facilitator. In addition to facilitation, the government should ensure that the environment is protected and that environmental standards are not dispensed with.

A detailed consultancy report has already been prepared for tourism in Pondicherry which can serve as a basis for a masterplan. This consultancy report includes assessments of potential new tourist sites, infrastructure requirements as well as the human resource requirements. Thus, as in many other sectors, the groundwork has already been done. The government now needs to commit itself to move forward and in the process take with it both private sector actors and citizens' groups concerned about the future of Pondicherry.

### **Developing Tourism Sites**

Many visitors come to Pondicherry because of its serenity. Away from the hustle and bustle of Chennai, Pondicherry is a good retreat for the traveller. The quietness of the French quarter with its picturesque roads and traditional architecture are appealing. Pondicherry needs to highlight this character as its comparative advantage. Pondicherry Tourist and Transport Development Corporation (PTTDC) has started doing this by packaging Pondicherry as 'peaceful Pondicherry' and promoting bike tours and treks as well as yoga for the spiritually inclined.

### **The French Connection**

Pondicherry's strength, however, is also its weakness in terms of tourism potential: its quietness and serenity do not offer tourists enough to do. While treks and yoga appeal to some, others are looking for activity-filled days of recreation. Thus, for Pondicherry to realise its aim of making tourism a major industry, it has to provide the tourist with more attractions which will make Pondicherry a stand alone destination.

One way to do this is by building on its existing strengths. French culture and ambience give Pondicherry a unique advantage over other destinations and protect it from competition as well. At present, Pondicherry's French aura is not being capitalised upon: not only is the French quarter being neglected, but French culture and cuisine are hardly visible. Efforts must be made to promote the French connection. This can be done in a number of ways: by preserving and renovating French architecture, by popularising French culture through the celebration of French festivals such as Bastille Day and the

hosting of French cultural events. One possibility is setting up an integrated French ambience tourist complex, as is planned, which will give the tourist a better idea about Pondicherry's French past. Smaller initiatives could include the promotion of French cafes and restaurants in the French part of the town. A network of French institutions such as the Alliance, the French Institute and the Consulate already exist in Pondicherry which can offer considerable help in promoting French culture.

### **Beach Front Tourism**

Pondicherry's location is another potential comparative advantage which needs to be exploited. Very few visitors to Pondicherry visit its beaches other than the Promenade. Though Pondicherry's sea is rough and rarely conducive for swimming, its coastline is strewn with beautiful beaches. Potential beach sites exist both north and south of the city which can be developed. At present, public beaches are rarely frequented. Only private hotels such as Hotel Pondichery Ashok and Hotel St. James Court are located on the beach front but even these have not developed beach front activities.

Beaches can be promoted not only in Pondicherry but also in Karaikal and Mahe. Karaikal's beach is famous for its sunrise and view of the Bay. Mahe's beach is strewn with tall palm trees. Pondicherry can explore a number of possibilities in terms of beach front development. The setting up of a water park or leisure park would be a big attraction. One potential site has already been identified on the Cuddalore Road. The development of beach resorts should, however, be safe, eco-friendly and non-disruptive to local communities (fisherfolk).

Pondicherry has a number of backwater areas which offer potential for further development. At present, Chunambar, located eight kilometres south of the city is the only backwater area which has been promoted as a tourist site. There is a boat club cum restaurant there, pedal boats, hydroplanes and motor boats. Recently, small cottages have been set up on the beach front which can be hired on an hourly basis.

Other potential backwater areas with recreational potential have already been identified near Chunambar in the Ariyankuppam River. This stretch south of Pondicherry has similar backwater characteristics as Kerala and has significant tourism potential. It

can become part of a larger Chunambar complex which promotes boat rides in the backwaters similar to that in Allapuzha (Allepey).

Much more potential (besides the promotion of beach fronts) exists in places such as Chunambar. Such areas can be developed into more full-fledged water sports complexes which attract many more tourists including foreign tourists. In addition to water sports, there is the potential of making places like Chunambar more of a recreation centre which can attract visitors from nearby town and cities – similar to VGP, MGM or Little Folks on the Chennai- Mammalapuram Road.

### **Nature and Heritage**

There are a number of other existing tourist sites which need to be promoted much more actively. Ousteri Lake, located west of the city, was a huge water body and a home to hundreds of migratory birds. However, today due to sand excavation and poor maintenance the lake is almost always empty. The area should be protected much more diligently as a nature reserve. It can become a viable green destination within the Union Territory. The Botanical Gardens, another such destination, already attracts a number of tourists.

Pondicherry also needs to much more actively promote its culture, heritage and history. The French connection is only one aspect of this. Pondicherry has a museum but it hardly attracts any tourists. It also has a number of temples and churches which testify to its many different histories. One other possibility that is being considered seriously is the establishment of an Arts and Crafts Village which will provide a glimpse of Pondicherry's history and promote the handicrafts, folklore and cuisine of the region. An arts and crafts village can also provide a conduit for marketing and sale of traditional goods manufactured by artisans.

Pondicherry culture can also be promoted outside of Pondicherry. Cultural groups can be sponsored by the government to perform in all-India festivals and cultural exchange programmes both within and outside of the country. This will give Pondicherry a higher profile than it now has.

While the Ashram and Auroville will continue to attract a regular flow of visitors, they cannot be the main attraction if tourism is to grow rapidly. The government must highlight and promote Pondicherry as a spiritual destination, but it must remember that the Ashram is a private establishment not meant as a hub of tourism. Nonetheless, there are positive externalities to be derived from the Ashram: Pondicherry must benefit from the flow of regular visitors to the Ashram.

### **Building Up Infrastructure**

Pondicherry is by and large well connected to other destinations such as Chennai, Chidambaram and Cuddalore. The East Coast Road has made travel from Chennai extremely convenient though the flip side is that now many people prefer to make Pondicherry a day visit. Its rail link, however, is extremely poor though a Broad-Gauged track is being constructed. This, along with an Airport, could make visiting Pondicherry more convenient for people from far off places.

A lot of other infrastructural improvements are necessary in Pondicherry. Within Pondicherry, the local transport system is poorly organised, making travel within the town extremely difficult. Increasing number of vehicles have made the roads very congested as well. Improving the quality of roads and proper traffic management are very much part of tourism promotion. They are also crucial to maintaining the serenity of Pondicherry as poor roads and traffic congestion are adding to pollution within the town area. Inter-department interactions is a must for better pollution control.

Hotels are also an important component of infrastructure. A considerable number of star hotels have come up in the last few years making Pondicherry more appealing to the better off tourist and enticing them to stay in Pondicherry as opposed to only passing through. Pondicherry, in the past, has been frequented mostly by budget tourists who spend very little money.

More such hotels will be needed in the future. If tourism is to grow at present rates, the existing hotel infrastructure will be inadequate. Also, no five star hotel is yet available in Pondicherry. Executive tourists still prefer, therefore, to make Pondicherry a day trip destination. Way-side rest houses are also an important component of tourism

promotion as they provide a stop-over point for refreshment. The government must provide entrepreneurs with the incentive to start such rest houses. Government-run rest houses are often in poor condition.

Certain other readily available services are also crucial to Pondicherry's tourism drive. ISD, STD, fax and e-mail services are everyday needs of the tourist. While Pondicherry has a fair number of STD/ISD booths, it needs to encourage the establishment of more e-mail and fax centres so that the tourist can keep in touch with the outside world. Banking facilities also need to be diversified. Tourism development is as much about infrastructure development as it is about providing places of leisure.

### **Campaigning for Pondicherry**

The manner in which tourism is promoted is also very crucial. First of all, on the customer side, a concerted effort needs to be made to promote tourism in Pondicherry. The government must set the example. The PTTDC needs to play a much more active role. Except for the main PTTDC office on the Promenade, there are no other tourist centres in Pondicherry. A centre can be established at the main bus stand and on Nehru Street so that tourists have access to information about what to see and do in Pondicherry. Similar tourist booths can be available also in Karaikal, Mahe and Yanam. Computer information kiosks are the way of the future: the government should explore the possibility of offering tenders to entrepreneurs interested in setting up such kiosks at various points in Pondicherry town.

PTTDC should also market tour packages to Pondicherry more aggressively. At present Pondicherry, is a day stop over on most existing tourism packages of the Tamil Nadu Tourism Development Corporation (TTDC). This only reinforces the idea that Pondicherry is day visit destination. PTTDC should take active steps to promote Pondicherry as a stand alone destination. PTTDC must also link up with travel agents to promote Pondicherry by offering 'economical holidays' and 'good deals'. Various package tours can be developed and marketed such as a beach and recreation holiday or a pilgrimage holiday. Efforts should also be made to link up with Andhra Pradesh State Tourism Development Corporation Ltd. (APSTDC) and Kerala State Tourism

Development Corporation Ltd. (KSTDC) to promote Yanam and Mahe. A calendar of events can be put together for different tour packages at different times of the year.

Efforts at promoting Pondicherry should span all major urban centres of the country. The French connection is also important as the French constitute a large percentage of foreign tourists. Promoting Pondicherry in far off destinations can be facilitated by developing tieups with airlines and chartered flight operators. It would also be worthwhile to have multilingual tourist guides to cater to tourists from different regions.

All of these initiatives need to be packaged in appealing ways. Pondicherry will have to compete with other destinations for tourists. In order to do so, it needs to make a concerted effort to promote itself in multiple ways: through brochures, audiovisuals and electronically. Some initiatives are already being taken by PTTDC. The National Informatics Centre (NIC) is also promoting Pondicherry through the net. But much more creative input is required for which private actors are readily available.

The human dimension in all of this cannot be ignored. Visitors to Pondicherry should feel welcome and at home when they are there. Tourists should not be seen as a burden - they are after all 'customers'. A customer first culture is completely absent in most cities of India including Pondicherry. A concerted effort needs to be made to improve customer relations by providing training to staff involved in hoteliering or the leisure industry in general. Private institutions should be encouraged to take an active role in this and tax incentives can be provided to establish such centres.

Pondicherry should attempt to present itself not only as a place with "tourist" attractions, but also a clean, orderly, relatively unpolluted haven with friendly and polite people. Proper plan and development of the city and its transport system and strict enforcement of traffic rules are essential requirements to attract foreign and even rich domestic tourists.

### ***Private Investment and Public Participation***

The growth of tourism depends critically on the increased involvement of private sector actors. While PTTDC will remain the nodal state agency involved in promoting tourism, the growth of tourism depends as much on the growth of hotels, leisure centres, travel agents and allied services. It is here that the private sector will have to play the main role.

The benefits of investing in Pondicherry should be more actively publicized. One proposition already put forward is to organise an 'Invest in Pondicherry' mela in order to attract private investment. The tourism department can publicize its Industrial Policy and the specific concessions and benefits being offered to entrepreneurs ready to invest in the Union Territory. The Tourism Department can tie up with groups such as the Confederation of Indian Industry (CII) who have showed interest in promoting tourism in Pondicherry. Investors should be shown potential areas where projects (hotels, recreation parks etc.) can be started and where land is available.

All of these promotional initiatives will, however, only succeed if red-tapism is at a minimum. Potential investors should not be discouraged from investing because of long, drawn out clearance procedures for land acquisition or approval of site plans for hotels or leisure complexes. Much of the land which can be used for tourism development is government land. Such land can be made available to the leisure industry, though it should be done without turning a blind eye to coastal zone regulations or building regulations.

These measures will require significant changes within PTTDC. First of all, PTTDC will have to be professionalized. Second, the Pondicherry government should seriously consider the possibility of making PTTDC a joint venture. This will not only enhance the flow of funds to PTTDC, but also instil an entrepreneurial spirit in the corporation. Third, PTTDC's focus should not be so much on transportation (as it is now), but more on tourism promotion. This will be possible with the private sector playing an increasingly important role in tourism.