Karnataka Startup Policy 2015-2020

To give wings to startups in the state through strategic investment & policy interventions by leveraging the robust innovation climate in Bengaluru.

INTRODUCTION

As per the Global Startup Ecosystem Ranking Report 2015,"Bangalore is home to approximately 3,100 to 4,900 active tech startups and has achieved the second highest growth rate for exit volume and VC investment among the top 20. As a result, Bangalore moved up four positions to #15 in 2015, advancing from #19 in the 2012 ranking". As per this report Bengaluru is the only Indian city to be ranked within the best twenty start-up eco systems across the world. The State's long and sustained leadership in driving the IT economy and conducive R&D ecosystems have contributed to this. The existing policy framework of Government of Karnataka, mainly the i4 (IT, ITES, Innovations and Incentives Policy 2014-2019), ESDM, AVGC policies and the Industries Policy 14-19, recognized the importance of promoting startups and the need to give the necessary impetus to tech-entrepreneurship early in the day, and has invested on building incubation spaces in partnership with industry bodies; encouraging innovation in educational institutions through its New age incubation network; providing seed capital and other incentives. In 2015, close to 35% of Indian startups functioned from the state, making it the single largest startup hub in the country.

Small businesses have been in fact the largest job providers and a vibrant start-up ecosystem driven by innovation can be a key to better employment opportunities for the youth and have widespread positive impact on the economy. Social innovation could have wide-ranging beneficial impacts on quality of life as it could improve accessibility to health care; introduce environmentally-friendly technologies etc. Karnataka is poised for the next phase of growth in startup sector as the potential to leverage the existing ecosystem in Bengaluru and build similar eco-systems in two-tier cities is tremendous. With the projections of being the largest conglomeration of IT professionals by 2020, Bangalore is well placed to also be amongst the top 5 startup ecosystems in the world in the near future. The objective of the State is to ensure that Bengaluru maintains the lead position in the country and to develop other important cities as startup destinations on par with top 30 international startup hubs.

Vision: To create a world-class startup ecosystem in the state through strategic investment and policy interventions leveraging the robust innovation climate in Bangalore.

Goals

a) Stimulate the growth of 20,000 technology based startups including 6,000 product startups by 2020 in Karnataka

b) Achieve creation of 6 lakh direct and 12 lakh indirect new employments in the sector

c) Mobilize Rs. 2,000 Cr funding for investment in startups through Government intervention alone, by leveraging the Fund of Funds proposed to be put in place by the State Government

d) Facilitate generation of at least 25 Innovative Technology solutions with a social impact in sectors like Health care, Food Security, Clean environment and Education for all etc.

Strategies

Encouraging Entrepreneurship in Education through NAIN

Innovation is second nature to man. This policy document recognizes the fact that the seeds of entrepreneurship and the innate ability to innovate must be nurtured in academic institutions. It is the need of the hour to develop a culture that produces innovators who dare to dream an original idea and pursue it till fruition. The State would therefore work towards creating such an ecosystem in academic institutions as follows:

New Age Incubation Network (NAIN)

The new age incubation scheme under implementation in engineering colleges will be expanded to all professional and post-graduate institutions in two-tier cities in a phased manner. At least 50 academic institutions shall be covered under this program during the Policy Period. The selected academic institutions would be assisted to establish an incubator in the given discipline and encourage student projects. All such incubators would be networked and connected to a common portal to facilitate exchange of thoughts, ideas and collaboration across institutions and disciplines. All selected institutions would be graded on the basis of Key performance indicators. Financial assessment will be provided for three years to the selected institutions for setting up the incubator and other activities. Institutions that excel would be further supported for another two years.

Each NAIN institution will be assisted as follows:

a) Grants for supporting operational expenses in their incubator e.g. Salaries of Regional Coordinators, mentoring programs, networking meetings, conducting Hackathons etc.

b) Annual Financial support for projects for upto Rs. 3 lakhs per project

c) Training and Capacity Building for Faculty and students

d) Exposure to Support and Network Programs conducted by the departments concerned

e) Opportunity to visit international startup destinations

f) Internship Stipends NAIN institutions shall act as hubs with other academic institutes in the district acting as spokes driving the innovation ecosystem in the geography. They shall be mandated to incubate projects through competitive selection process among students, alumni as well as local entrepreneurs.

g) Students of such institutions will also be encouraged to intern with startup incubators recognized by the state government to do their mini-projects or summer/ winter projects or internships that are done during vacations. The incubators may be mandated to run selection programs throughout the state to ensure students have access from any college in Karnataka. Such projects can then also be converted to final year Projects where the university and college must involve an external project guide/ mentor as identified by such incubators. GoK shall allocate 20% of the total program cost additionally towards setting up a PMU (Program management unit) in KBITS that shall be entrusted with the job of capacity building of institutional personnel responsible for management of the program at institution level, conduct networking and mentoring events for the benefit of participants and other related activities e.g. student stipend for internships. The PMU shall also be responsible for assisting in the monitoring and management of the programme.

Fostering strong partnerships between R and D institutions and Industry

Technology business incubators (TBIs) in institutions of higher learning:

The State Government would assist in the setting up of TBIs in institution of higher learning with well-developed Research and development facilities to foster a strong link between R&D and commercialization of technologies so developed. TBIs are proposed to be promoted in following selected thrust areas that have potential for faster growth like (the list is not exhaustive):

- Information & Communication Technology (ICT)/Internet of Things (IOT)/Software Products
- Manufacturing including Electronics systems design, Robotics and 3 D Printing, manufacturing 4.0
- Healthcare and Bio Pharma
- Agriculture and allied fields
- Clean-Tech
- Energy
- Water and its recycling
- Education
- Nanotechnology and Composites

The host institution must provide land and built-up space for TBI and must also share available facilities and expertise for setting up of the TBI. The TBI must be run as a society or a section 8 company with strong academic-industry collaboration. The eligible funding would be decided on case to case basis. The state support would be for the initial capital cost for equipments and facilities, and recurring costs of management of TBI for three years period, extendable by another 2 years based on performance, at the end of which the incubators are expected to become self-sufficient. The existing TBIs would be eligible for assistance for scaling up or for expanding into niche areas with the condition that a single TBI may not focus on more than 2-3 thrust areas.

For the purpose of this policy, a TBI is an incubating facility in an institution of higher learning and provides services such as business advice, financial counseling, assistance with business management and accounting, legal and regulatory guidance, access to mentors etc., in addition to physical infrastructure appropriate for the thrust area for the incubator.

PROVIDING EARLY STAGE/IDEA2POC (PROOF OF CONCEPT) FUNDING

To encourage innovators who may need early stage funding to stimulate commercialization of research discoveries and to help in validating proof of concept and subsequently to assist them to cover costs like certification, manufacturing pilot devices etc., the State will set up an Ignition fund on the lines of BIG fund of BIRAC, GOI. Funding will be in the form of Grant-in-aid limited to a one time grant of upto Rs. 50 lakhs to be released in tranches based on the life cycle of the business plan. The state may at its discretion choose to administer this Grant in Aid Fund through TBI s (as defined earlier) or identified incubators of excellence. This may also help incubators to work as accelertors. Startups need not necessarily be incubated in the incubator for being eligible for such assistance.

Recognized Incubators which are managing Seed Fund Scheme of Government of India will be given matching seed funds to further increase the amounts available for startups by 200%.

Creating Incubation infrastructure through PPP

The State would invite the private sector including globally and nationally well known accelerators and incubators to set up world class incubation centers and accelerators or expand existing facility /operations on PPP basis. Such centers must provide all necessary infrastructure for the given sector such as R&D Labs, common centre for prototyping, common testing/QA/QC labs, design studios and tool rooms, Fab labs, Biotech Wet Labs, Green Houses, Animal Houses, Office Spaces, Small and Large Conference Rooms, Office Spaces for Skunk Works and other modern amenities as required and shared services like legal, accounting, patents, investment banking, community events and mentoring and promotional and marketing support for startups. Land or built-up space would be provided at the applicable rates in Industrial/ITparks/SEZs developed by the Government in two-tier cities. The support from the Government for the PPP partner would be determined through price discovery through open bidding. The support shall be for a period of 3 years. In addition, the Government may partner with Industry bodies, trade associations, think tanks or similar non –Profit organizations working for the promotion of the relevant sector for setting up incubators or for implementing other startup initiatives. These incubators in Tier II cities and Bangalore shall play the role of mentor institutes for NAIN colleges. The incubators/accelerators shall be assessed on KPIs such as number of companies incorporated, no of funding transactions facilitated, mentor interactions facilitated etc. The Incubators/accelerators shall administer the following schemes to be rolled out for incubatees:

a) Full facilitation for establishment of an entity (a company or other such entity) by obtaining requisite information in a single form, and facilitating filing for regulatory compliances in prescribed format.

b) Subsidized seats up to Rs. 3000 per seat per month limited to 5 seats per incubatee for a maximum duration of a year depending on market discovered rates which vary from city to city. Other assistance like Legal, Accounting and mentorship on regulatory compliances shall be provided.

c) Virtual incubation of incubatees where incubatees are not physically plugged into the facility through mentorship, funding etc.

Networking and Aggregation of Common Instrumentation Facilities (CIFs):

GoK and GoI have established Labs and Common instrumentation Facilities like IMTI etc across the state. Efforts shall also be made to maintain list of all such CIFs (Government or Private) that are available for public use. Efforts will be made to develop and use a single online application to reserve lab and equipment time on pay per use basis for all incubatees on priority, through a MOU with such institutes. Common instrumentation facilities shall be set up in identified areas like Electronics, Mobile, Animation and Gaming, IOT, Analytics, Design Engineering etc on PPP or under GoI schemes under MSME, Deity etc. The testing and product evaluation facilities should be of international standards.

Startup funding through Fund of Funds

A fund of funds shall be allocated for investing in venture funds that invest in startups in various sectors. The fund of funds would be in addition to any sector-specific venture funds already being operated by the State through its entities, and could also invest in future venture funds promoted by the State. A portion of the fund of funds may be utilized for Angel stage funding. A professional fund manager shall be selected through open bidding process. Investment committee with Officers from the Government, industry and academic experts with sector-specific domain knowledge, financial and legal background etc with no conflict of interest will be constituted.

Channelizing Innovation for Social Impact

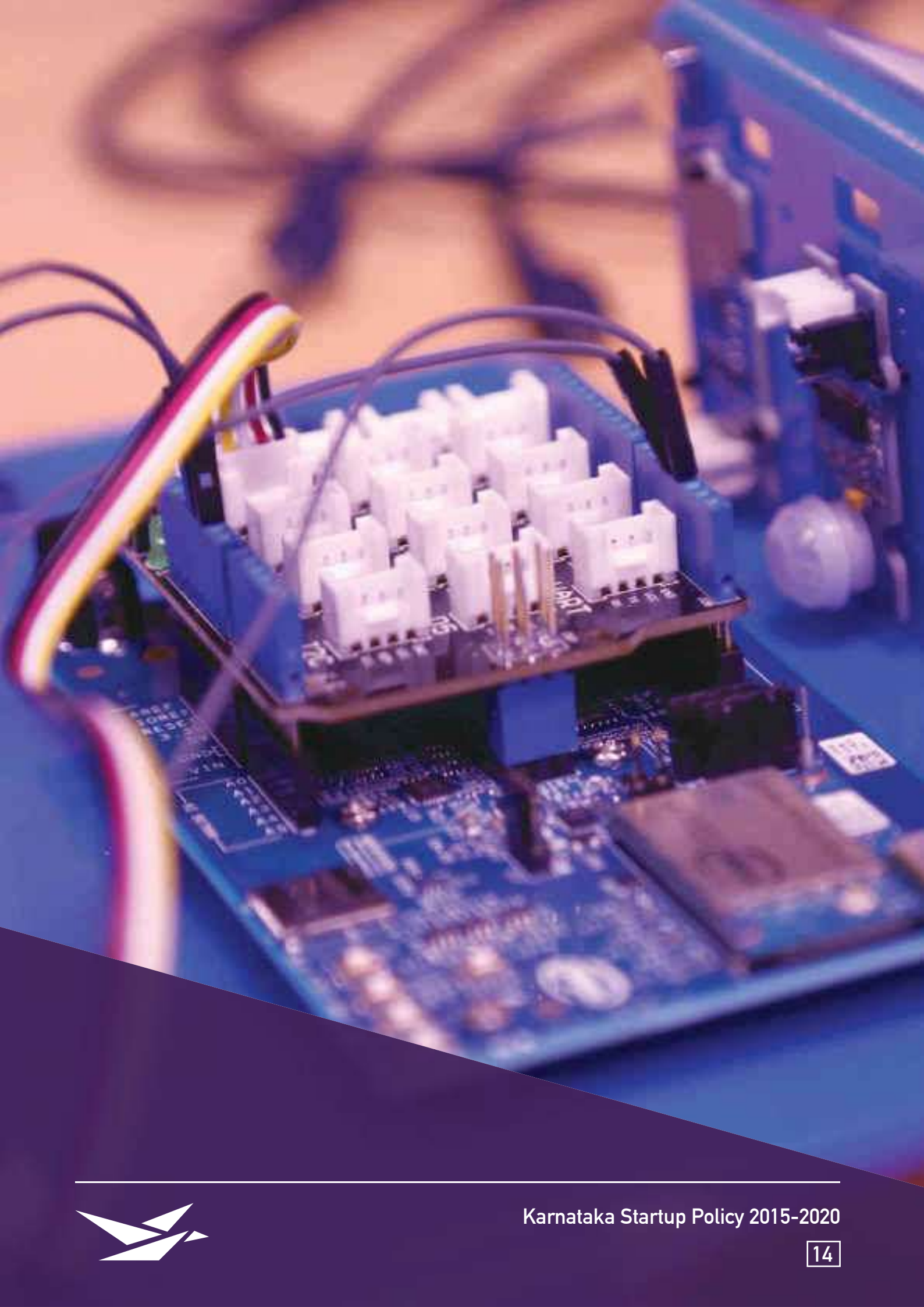
The State intends to use the vibrant startup environment to drive innovation through use of technology to find workable and scalable solutions to challenges faced by it. Under its Social innovation challenge competition, the State will use the model of Grand challenges to focus attention and effort on specific problems. Each year, 5 challenges will be identified by a committee with representatives from Government, subject specialists, NGOs etc. Each year challenges would be posed in 5 identified areas and solutions selected through a rigorous selection process shall be awarded an initial grant and a follow on funding and may be taken up for implementation as a pilot project at an appropriate scale. The winners will also automatically qualify for incubation space in the incubators supported by the State Government as per the prevalent norms.

Promoting Capacity Building through exposure visits and workshops

A corpus fund will be created to conduct training workshops and organize exposure visits to both national and international startup ecosystems/innovation hubs for faculty, students and incubatees in GOI/GOK recognized incubators. Ideathons and Startup festivals would be organized to create an exhilarating climate to inspire innovation.

International and National Exposure:

A programme would be setup to send selected startups, college and school students, faculty etc., to leading startup destinations in the country and abroad for getting exposure as well as an opportunity to meet and converse with industry leaders, thinkers and innovators. Provision shall be made to ensure 1/3rd representation of women entrepreneurs, students and teachers etc. Existing programmes of the Government like the Market development assistance scheme of VTPC would be also accessed for some of these purposes.



Providing State support in the form of incentives & concessions

The startups that qualify the eligibility conditions in Karnataka would be entitled to the incentives and concessions provided in the i4, ESDM, AVGC, BT, Industrial policy etc., as well as to additional incentives and concessions as specified in annexure-2. Please see annexure-1 for the definition of startup for the purposes of this policy.

Startups signed up in recognized incubators/ accelerators including through virtual incubation will be permitted to file self-certifications, in the prescribed formats under the following acts and rules framed there under barring inspections arising out of specific complaints. The same shall be facilitated through the startup cell

a) The Factories Act 1948

b) The Maternity Benefit Act 1961

c) The Karnataka Shops & Commercial Establishments Act 1961

d) The Contract Labour (Regulations & Abolition) Act 1970

e) The Payment of Wages Act, 1936

f) The Minimum Wages Act 1948

g) The Employment Exchanges (Compulsory Notification of Vacancies) Act 1959

h) General permission shall be available for 3-shift operations with women working in the night for startups, subject to such units taking the prescribed precautions in respect of safety and security of employees in addition to providing the required welfare and health amenities as prescribed under applicable labour laws and obtaining the necessary approvals from the competent authority of the Government under the Karnataka shops and Commercial Establishments Act and Rules or the Factories Act 1948 and Rules, there under as the case may be.

Applicability:

This policy is applicable to all startups satisfying the eligibility criteria set forth in the policy in the sectors of Manufacturing, ICT, BT and other sectors.

Enablement

Startup Cell:

New ventures, mostly started by young people with little prior knowledge of corporate affairs, have many hurdles to face during the early stages. Rather than worrying about how to get their business floated, concerns of IP Protection, navigating through state and central regulations and incentives, tech entrepreneurs should be able to focus on building the right product and seeking early customer validation. Further, there are numerous informational and awareness needs of startups that should be addressed in a business friendly environment. To facilitate such handholding, Startup Cell will be established in KBITS to act as a one stop shop that enables easy flow of information and assistance to needy startups. The cell shall also act as a single connect with Government departments where the Startup needs to implement pilots of their projects e.g. facilitate clinical research through coordination with Hospitals through the Health Department.

Startup Portal and Hotline:

The startup cell must network with Industry bodies, TBIs, academic institutions, other incubators etc and thus, provide a common interface where the symbiotic components of the startup ecosystem could interact more closely and effectively. The cell shall manage a common startup portal and hotline, which could provide information on

a) ***Service Providers***
CA, Lawyers, IP Protection, real estate agencies

b) ***Organizations***
TiE, NASSCOM, iSpirt, Coffee Meetup

c) ***Programs/Events***
Consrukt Festival, TiE-Con, Hackathons

d) ***Incubators/Accelerators/co-working space***

e) ***Investors/investor organizations***

f) ***Incoming trade delegations***

g) ***Policies Regulatory environment etc***

Promotion:

The Startup cell shall promote Bangalore and Karnataka as a startup destination through participation in international and national events, sponsoring the participation of local startups in such events and various other means. The cell must also sponsor the visit of delegations of startups to promotional and marketing events in India and abroad.

Startup council:

A startup council shall be set up under the chairmanship of the Chief Minister with the relevant ministers and senior officers of the government and 10 industry experts as members to review the implementation of the startup policy. Attempt shall be made for equal representation of various domains like ICT, Animation and Gaming,

Agri-Biotechnology, Health, BFSI, ESDM and other manufacturing. The council shall meet at least once a year. A Startup Policy Monitoring and Review Committee shall be set up under the Chief Secretary with Principal Secretary, IT, BT and ST, Commissioner, Industries and Commerce; Managing Directors of KSIIDC, KSSIDC, VTPC; Director, IT & BT and two-three outside experts with the Managing Director, KBITS as the convenor.

Operational Guidelines

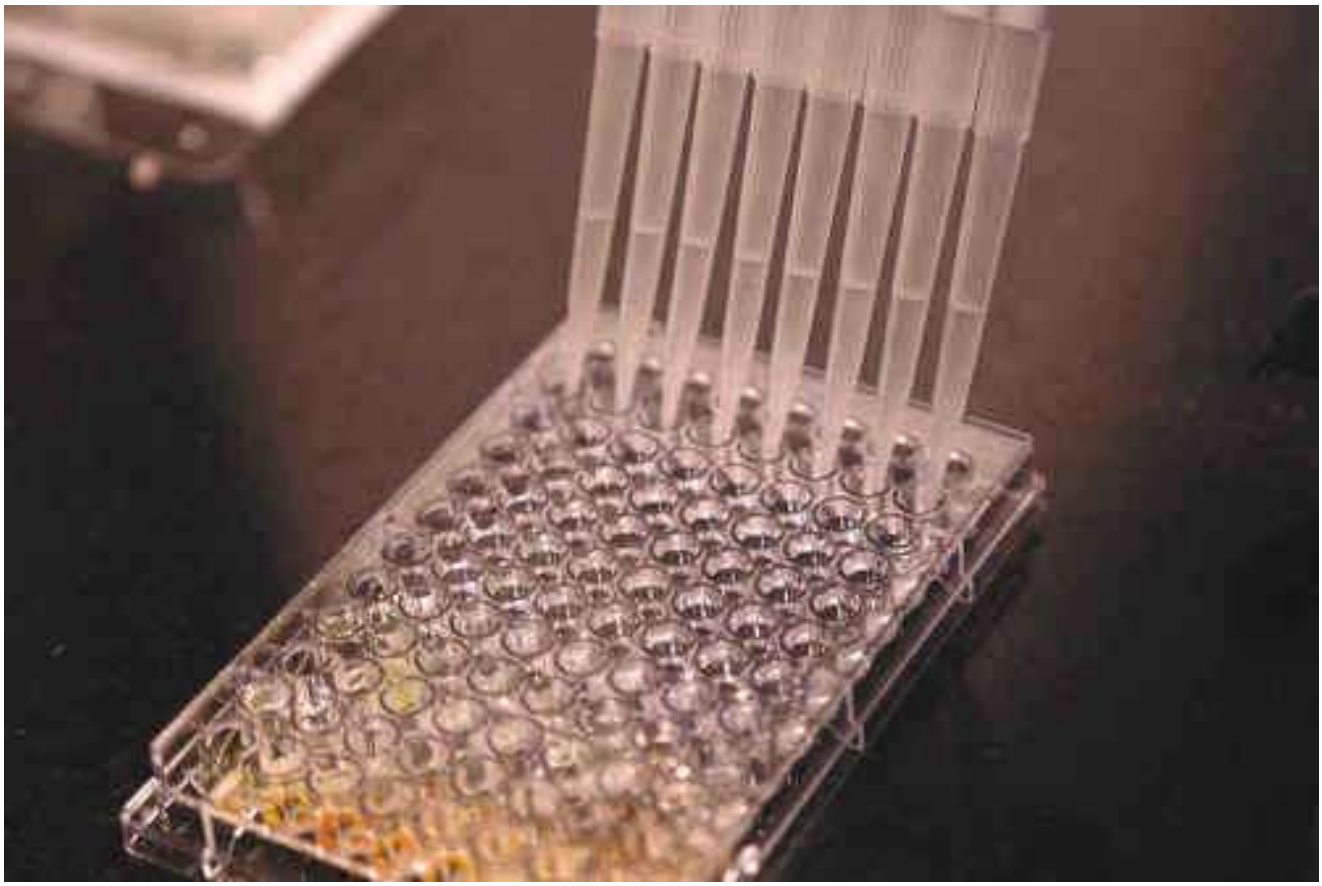
Detailed operational guidelines shall be put in place for administering all the programs under this policy and the same shall be reviewed annually.

Validity

This Policy is valid for a period of 5 years from the date of its notification or till a new policy is formulated.

Review mechanism

This policy shall be reviewed once a year. A status report shall be commissioned by the State to critically appraise the usefulness of the policy, the ease of implementation and the outcomes achieved. The report shall be placed before the Startup council.



Annexure-1

Definition of a Startup

a. **Should be Technology Based:** The facilitation under this policy is intended for only technology based startups, i.e. one that creates a technology based service or product or uses technology for enhancing functionality or reach of an existing product or service.

b. **Tenure:** The startup must not have been registered/incorporated for more than 4 (Four) years from the date of such application for any incentive applied under this policy. The same shall be 7 (seven) years for BT companies. Though the startups may not have to be registered or incorporated for receiving various incentives or benefits under the policy, any funding beyond early stage funding shall require necessary registration or incorporation.

c. **Location:** The company/entity be registered in Karnataka under the Karnataka Shops and Commercial Establishment Act, 1961 ; and

a. **Employment:** The company employs at least 50 (fifty) per cent of its total qualified workforce in Karnataka, which shall not include contract employees.

Note: The term "qualified" may be understood in connection with the National Skills Qualification Framework, issued by the Ministry of Skill Development and Entrepreneurship, Government of India ("NSQF"). Under NSQF, the term "qualification" has been defined as: "a formal outcome of an assessment and validation process which is obtained when a competent body determines that an individual has achieved learning outcomes to given standards"

b. **Exit Clauses:** A startup will cease to receive benefits under this policy upon the following:

Revenue Criteria: Upon the company reaching a revenue of Rs. 50 Crores

f. **Exclusions:** A company in order toqualify as a start-up under this policy should not have been

1. Formed by the demerger or reconstitution a business already in existence;

2. A subsidiary of a firm in the State, except subsidiary of a start-up itself – that still qualifies as startup and the combined entity also satisfies the start-up criteria;

3. A merged entity in the State, except if the combined entity satisfies the criteria listed above;

4. A franchisee of an existing business in the State;

5. Promoted or sponsored by or related to an Industrial group in the State whose group turnover exceeds Rs. 300 crore;

6. A holding company or should not derive more than 50% of its income from investments and loans

7. A holding company or should not derive more than 50% of its income from investments and loans.

Annexure-2

Incentives and concessions to startups would as per existing policies in addition to incentives available under various state and central government policies. Startups shall be eligible for following additional benefits:

1. Reimbursement of Service Tax paid by startups incubated in GoK supported incubators and CIFs whose annual turnover does not exceed Rs. 50 Lakhs for the first three years or till the incubator becomes DST certified whereby the services given by the incubator and the incubatees become exempt from service Tax.

2. Reimbursement of VAT/ CST: Annual Reimbursement of VAT/CST paid in Karnataka, upto a maximum of Rs. 50 Lakhs turnover by incubated startup companies within a period of first three years of being incubated.

3. Reimbursement of VAT/ CST: Reim bursement of VAT/CST on goods supplied to the Incubator or incubatee.

4. The tax incentives shall be modified once G.S.T is introduced in the state.

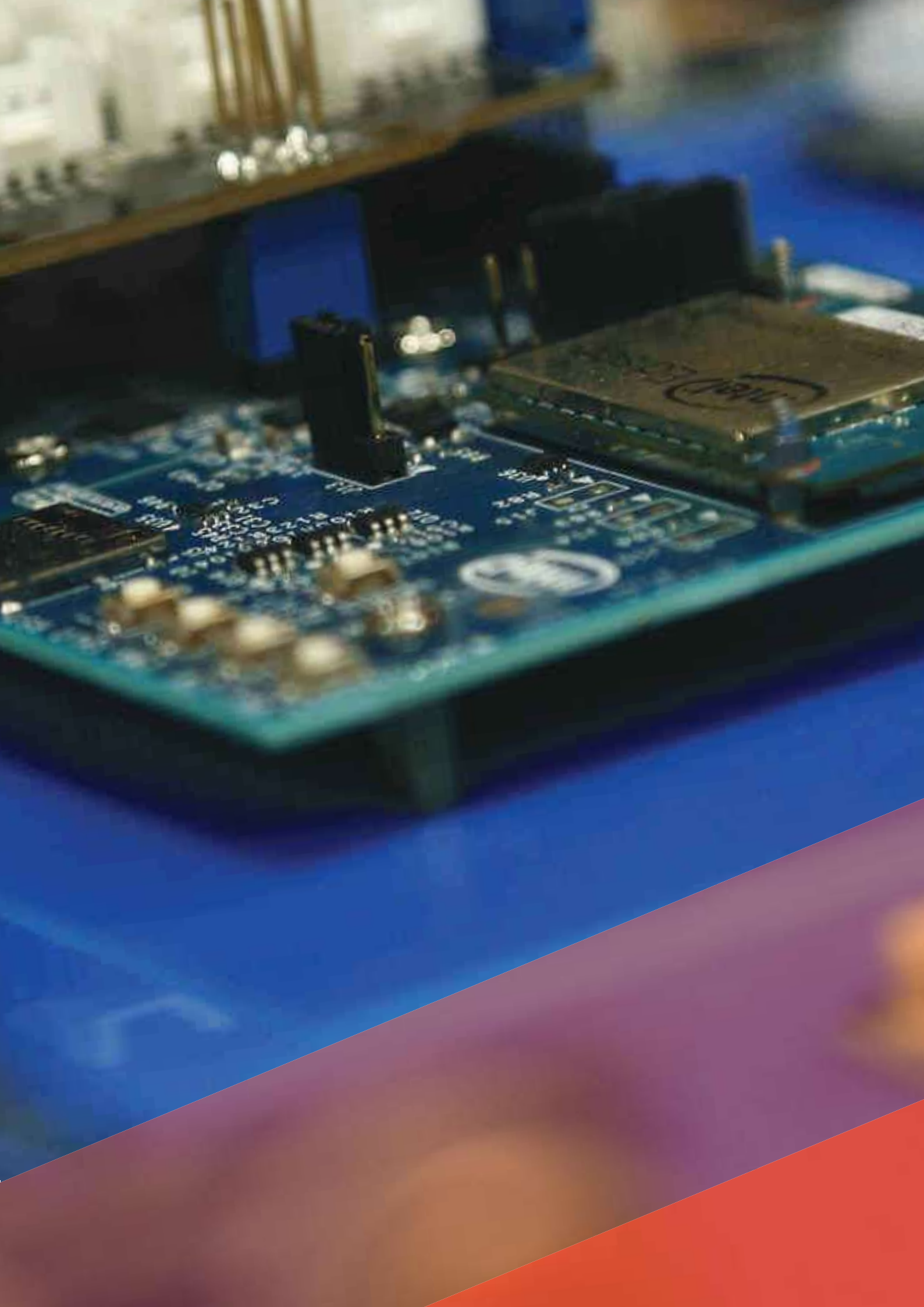
5. Financial Assistance as Matching Grants: The Government would match the funding raised by the Incubator from Government of India on a 1:1 basis as matching grants.

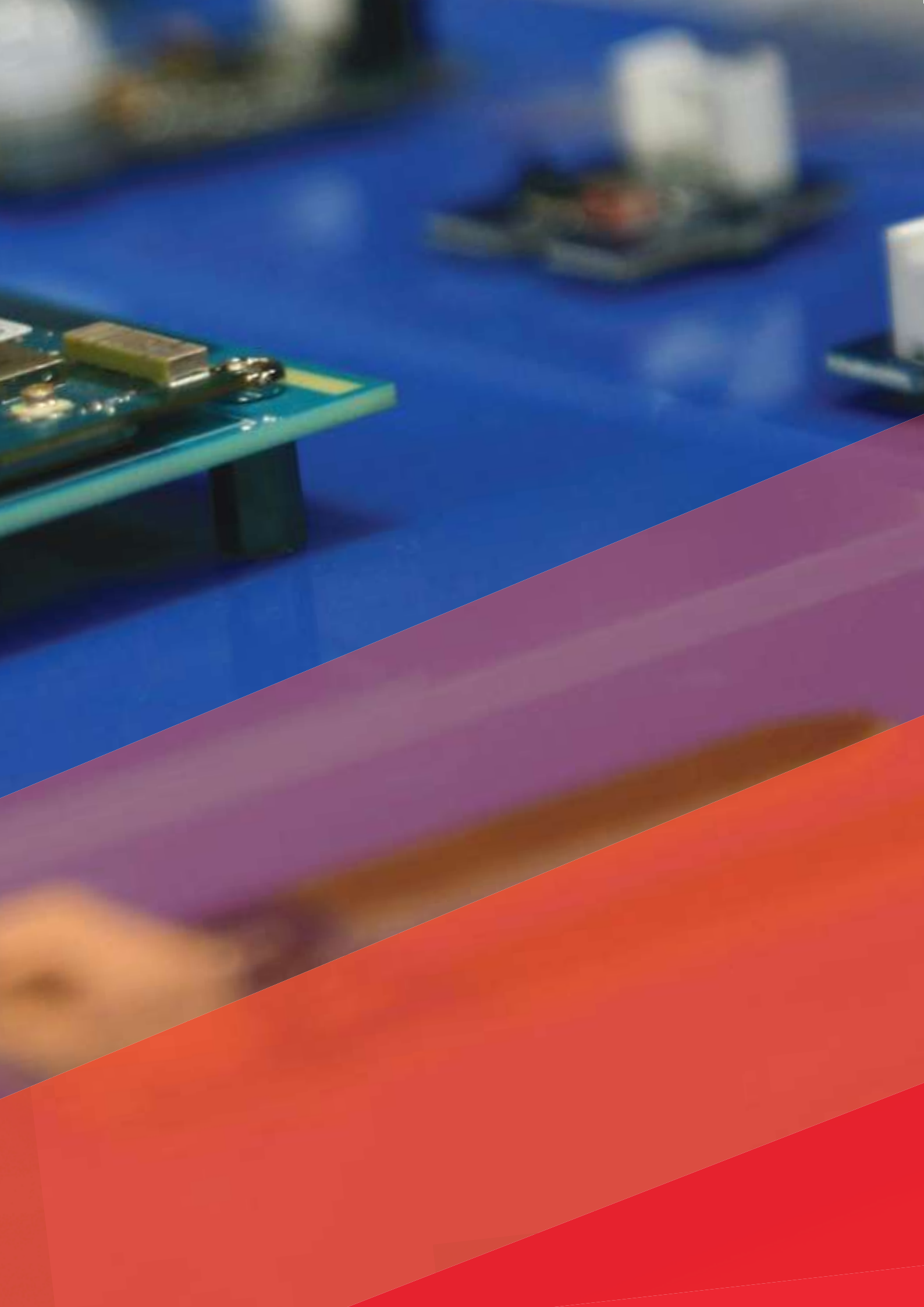
6. Marketing Incentives to Startups: Government shall provide reimbursements of 30% of the actual costsincluding travel incurred in international marketing through trade show participation. This incentive will be subject to a maximum of Rs.5 Lakhs per year per company.

7. Patent Filing Cost: The cost of filing and prosecution of patent application will be reimbursed to the incubated startup companies subject to a limit of Rs. 2 lakh (0.2 million) per Indian patent awarded. For awarded foreign patents on a single subject matter, upto Rs. 10 lakh (1 Million) would be reimbursed. The reimbursement will be done in 2 stages, i.e., 75% after the patent is filed and the balance 25% after the patent is granted.

8. Promoting Entrepreneurship among women: All Government supported startups shall be mandated to allocate minimum 10% seats for startups with women co-founders on preferential basis.

Many of these benefits shall be administered through identified incubators as implementation partners in order to speed up the process without compromising on due diligence in disbursal of fiscal incentives. At the same time incubators shall not insist on physical incubation of mentee incubatees so as to ensure greater touch points for incubators being supported by the Government.





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