

Karnataka

Startup Policy 2022-2027

Department of Electronics, IT, Bt and S&T

Government of Karnataka

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1. Introduction

Government of Karnataka has formulated Karnataka Startup Policy 2022 with a focus on ensuring the State plays an integral role in galvanizing the startup community at the national and international level through its inclusive and tech-enabled innovation ecosystem supported by a strong talent base and entrepreneurial spirit.

The overarching aim of the Policy is to position Karnataka as the 'Champion State' for startups by adopting a holistic approach towards strengthening the startup ecosystem through compendious and equitable strategic interventions across key pillars of support, viz. funding, incubation, infrastructure, mentoring, acceleration, R&D and industry linkages.

The Government envisages to ensure that Bengaluru maintains the lead position at the global level and develop other emerging cities of the State as startup destinations of choice, by developing a robust infrastructure and providing conducive policy environment.

Today, Karnataka is well-positioned to take up a leadership role in the global arena with its new startup policy framework offering startups an ideal ecosystem to grow and explore opportunities across sectors leveraging technology interventions.

1.1 Industry Overview - India

The burgeoning Indian startup ecosystem has evolved dynamically over the last two decades, where startups in India have grown remarkably over the last few years. Since 2018, startups created more than six lakh jobs, including more than two lakh jobs in 2021 alone[1]. According to the Economic Survey 2021-22, Government of India, the number of new recognized startups have increased to over 14,000 in 2021-22 from only 733 in 2016-17. Currently, over 60,000 Startups across 50+ industries are registered with Department for Promotion of Industry and Internal Trade (DPIIT).

India today is the 3rd largest startup ecosystem in the world after the US and China. As of May, 2022, India is home to 100 unicorns with a total valuation of USD 333 billion.[2]India minted 44 unicorns with a total valuation of USD 93 billion and 14 unicorns with a total valuation of USD 18.9 billion in 2021 and 2022, respectively.[3] The NASSCOM Tech Startup Report highlights 2021 as the year of unparalleled growth in the Indian tech startup ecosystem, with continuous steady growth and key achievements such as: 2250+ tech startups founded, taking the total base to 25,000-26,000; 44 unicorns added; increase in funding from USD 8 billion in 2020 to USD 24.1 billion in 2021 and58% of all tech startups funded in 2021 raised the first round

[1] https://pib.gov.ins/PressReleaseIframePage.aspx?PRID=1789472
[2] Inc42's 100 Unicorns Report 2022
[3] The Indian Unicorn Landscape, Invest India, May 2022https://www.investindia.gov.in/indian-unicorn-landscape

of funding, up by 13% from 2020.[4]In April-November 2021, INR 89,066 crore was raised through 75 IPO issues, much higher than in any year in the last decade.[5]

India's startup ecosystem is poised to grow with continued momentum owing to Government of India's continuous efforts to boost startups and entrepreneurship through key initiatives such as: Make in India; Startup India; Stand Up India; Startup Accelerator for Product Innovation, Development and Growth (SAMRIDH); Aspire; Atal Innovation Mission; Startup India Seed Fund Scheme; Fund of Funds for Startups; Startup India Yatra; Startup India Showcase; Startup India Innovation week; etc.

1.2 Industry Overview - Karnataka

Karnataka is well poised to play a pivotal role in reaching India's ambitious aim of becoming a USD 1 trillion digital economy by 2025, with significant contributions by Startups. For the third consecutive year, Karnataka has topped NITI Aayog's India Innovation Index (2019,2020 and 2021) and continues to be the innovation hub of India. Government has taken several initiatives to enhance its stature as the leading high-tech digitalized State and ranks number 1 in software / service exports in the country. The State is spearheading the growth of Indian industry, particularly in the areas of information technology, contributing more than 40 percent to India's software exports, biotechnology, Electronic System Design and Manufacturing (ESDM), aerospace and is in the forefront of cutting-edge technologies such as block chain, IoT, artificial intelligence, nano technology, machine learning, cyber security, robotics, genetic engineering, and quantum technologies.

Karnataka has one of the most mature startup ecosystems with around 15000+ startups and was the first State in the country to announce a dedicated Startup Policy in 2015. Government has rolled out several programs with the objective of supporting startups in their business lifecycle — right from providing funding at various stages (seed funding, venture capital funding, angel investor funding and sector-specific funding); incubation support, mentorship, coworking spaces and a dedicated Startup Cell to facilitate the growth of the startups.

The State boasts of a vast tech ecosystem comprising of incubation space of 1.25 lakh sq feet with state-of-the-art facility and R&D infrastructure comprising of Innovation Hubs, Incubators, Centres of Excellence, Technology & Business Incubators, Common Instrumentation Facilities, NAIN Institutions etc. Through the Grand Challenges Program, Department of Electronics, Information Technology (IT), Biotechnology (Bt) and Science & Technology (S&T) has developed a unique platform for startups to showcase and present innovative and disruptive ideas to

[4] Indian Tech Start-Up Ecosystem- Year of the Titans, NASSCOM and Zinnov, 2021
[5] Economic Survey 2021-22, Ministry of Finance, GoI

solve social impact issues pertaining to Environmental, Social, and Governance (ESG) framework and Sustainable Development Goals (SDGs).Further, Government has enabled market access programs for startups through Global Innovation Alliances (GIA) to engage and collaborate with innovation hubs across the globe and to position startups at a global level. Under the umbrella of GIA, Government has developed international collaboration with over 30+ countries.

The State's several exemplary initiatives towards developing futuristic policies, supporting new and disruptive technologies has been instrumental in achieving Best Performer State in DPIIT's Startup Ranking 2021 and top performer position for two consecutive years (2018 and 2019).

Bengaluru with an estimated GDP of USD 110 billion is expected to grow at an average annual real GDP growth of 9.9 per cent over 2020-2024.[6] Out of the USD 41.7 billion funding raised by the Indian startups in 2021, Bengaluru accounted for 62 per cent, amounting to USD 26 billion.[7]The city has been ranked 8th as per the Global Startup Ecosystem Index 2022 by Startup Blink and has also been ranked 22nd in the world as per the latest Genome Startup Ecosystem Report 2022, the only Indian City to be featured in top 10 and top 30 respectively. Bengaluru houses the lion's share of total unicorns in India with a presence of 40 unicorns out of the 104 unicorns (USD 340 billion).[8]India has seen four decacorns (companies with a valuation of USD10 billion and above) three of them being from Bengaluru.

With the vision to create a world-class startup ecosystem in the State, Government through its policy landscape has leveraged the tech ecosystem in Bengaluru for creating a culture of innovation and entrepreneurship with support of Industry and Academic partnerships. Despite the pandemic, India's Silicon Valley — Bengaluru, the fourth largest technology cluster in the world, is the fastest growing city in Asia and its startup ecosystem is being compared to ecosystems like New York, Paris, Berlin, and Tel Aviv.

Karnataka is poised for the next phase of growth in the startup sector by leveraging the existing ecosystem in Bengaluru and of Beyond Bengaluru ecosystem. Beyond Bengaluru technology clusters*(Kalaburagi, Belagavi, Dharwad, Mangaluru, Shivamogga, Mysuru, Tumakuru)* are emerging as one of the preferred and attractive destination for domestic and global investments across several industry verticals*(IT/ITeS, Business Processing Outsourcing (BPO), ESDM, Animation, Visual Effects, Gaming and Comic (AVGC), Artificial Intelligence, EdTech, Agritech, Fintech and Telecom),* driven by a combination of strategic location, incubation and acceleration infrastructure, connectivity, access to research and educational

[6]Oxford Economics https://inc42.com/features/how-kdem-aims-to-apply-the-bengaluru-recipe-to-emerging-startup-clusters-like-mysuru/
[7] https://inc42.com/features/how-kdem-aims-to-apply-the-bengaluru-recipe-to-emerging-startup-clusters-like-mysuru/
[8]Unicorns In India: The List Of Indian Startups In The Unicorn Club (inc42.com) July 2022

institutions, co-working spaces and availability of skilled and talented workforce. These clusters offer a plethora of lucrative emerging business opportunities for partnerships and collaborations which can be leveraged to achieve inclusive growth.

2. Policy Roadmap

2.1. Vision

To play a vital role in creating an enabling environment across the State for nurturing startups throughout their business lifecycle and make Karnataka a global innovation hub for startups.

2.2. Objectives

i. Strengthen the infrastructure set up in Government institutions and support the ecosystem with a greater thrust on emerging clusters Beyond Bengaluru.

ii. Inculcate innovation and entrepreneurial skills in students across all streams of learning and provide opportunities where they can nurture and grow to their full potential.

iii. Stimulate the growth of upto 25,000 startups and further increase the number of high growth startups.

iv. Encourage social entrepreneurship/assistive technology innovations.

v. Facilitate innovative technology solutions in Social Governance sectors to address the existing social challenges in Environmental, Social, and Governance (ESG) framework and to meet Sustainable Development Goals (SDGs).

vi. Support the creation and development of incubation and acceleration infrastructure as key enablers to boost the prevailing startup ecosystem.

vii. Facilitate funding avenues that lead to investment in startups by institutional investors and angel investors and also through Government funding.

2.3. Strategies: Policy Pillars

Government aims to nurture Karnataka's startup ecosystem by adopting a 9-pillar approach for startups***,*** with the following strategies.

i. **Pillar 1: Creating and Strengthening New Age Innovation Network:** Boost innovation and entrepreneurship at technology institutions of higher learning in emerging tech clusters Beyond Bengaluru under the "New Age Innovation Network 2.0".

ii. **Pillar 2: Fostering strong partnerships between Academia and Industry:** Encourage research activities Beyond Bengaluru, by establishing Technology Business Incubators (TBIs) in institutions of higher learning in regions outside Bengaluru Urban District.

iii. **Pillar 3- Funding for Startups:** Provide access to finance through various stages of funding viz. seed funding, venture capital funding, angel investor funding and sector-specific fundingfor supporting growth of the startups.

iv. **Pillar 4- Supporting Mentorship and Creation of Incubation and Acceleration Infrastructure:** Assist globally and nationally renowned incubators and accelerators to set up new and strengthen existing infrastructure in the State.

v. **Pillar 5- Building Inclusive & Equitable Startup Ecosystem:** Embrace diversity, equity, and inclusion to support a holistic and gender-neutral startup ecosystem across the State.

vi. **Pillar 6- Fostering Social and Rural Entrepreneurship:** Encourage and promote innovative startups from Tier II and Tier III cities, focused on elementary/grassroot-level innovation and help them to scale up and grow.

vii. **Pillar 7- Channelizing Innovation for Societal Impact:** Explore new tech-driven business models and disruptive innovation technologies by encouraging startups/young entrepreneurs to solve social impact issues pertaining to ESG framework and SDGs.

viii. **Pillar 8: Enablement and Facilitation:** Adopt a trust-based governance approach for handholding startups and facilitating ease of doing business in the State through various key enablers viz. Startup Cell, Startup Portal 2.0, etc.

ix. **Pillar 9: Providing State support in the form of incentives & concessions:** Provide support in the form of incentives and concessions to startups during the policy period.

3. Policy Pillars

3.1. Pillar 1: Creating and Strengthening of New Age Innovation Network

3.1.1. New Age Innovation Network 2.0 (NAIN 2.0)

i. NAIN 2.0 in Technology Institutions of Higher Education

Under the New Age Innovation Network scheme, 50 new NAIN centres will be established in technology institutions of higher learning located outside Bengaluru Urban District, prioritizing the Government Engineering colleges of the State. Each institution will be assisted to establish an incubator to encourage innovation and entrepreneurship among students.

- 35 NAIN 2.0 centres for IT/ Electronics and 15 NAIN 2.0 Centres in the field of Biotechnology.
- Each NAIN 2.0 centre will be provided with a funding support of upto INR 5 Lakhs per student project, for a maximum of 10 projects in a year, for a period of three years. A minimum of 2 project per NAIN centre should be related to Sustainable Development Goals (SDGs) including Circular Economy, Renewable Energy / Sustainability / Climate Change. Each NAIN 2.0 centre will be provided annual financial support of upto INR 12 Lakhs towards operational expenditure.

ii. Strengthening of NAIN 1.0 Centres

For strengthening of existing NAIN Centres, the NAIN 2.0 model will be adopted, by extending financial support of 25% of the total cost, upto a maximum of INR 45 Lakhs, for a period of three years, with remaining 75% contribution from the college. Total cost shall include cost incurred towards student projects, maintenance of labs or incubation space and other operational expenses.

iii. Collaboration with Ecosystem Partners

Government will facilitate region-wise connect between NAIN Centres and external incubators/ accelerators through their acceleration network program. Each NAIN centre will be mapped to the selected incubator/ accelerator to provide handholding, implementation and industry connect support. Funding support of INR 10 Lakhs per year per NAIN centre will be provided to the external incubators/ accelerators.

3.2. Pillar 2: Fostering strong partnerships between Academia &Industry

3.2.1. Technology Business Incubators (TBIs) 2.0

To encourage research activities Beyond Bengaluru, Government will assist in setting up of 6 TBIs in IT/Electronics and 3 TBIs in Biotechnology, with a funding support of upto INR 10 Crore per TBI for over a period of 5 years. The TBIs shall forge a strong link between R&D and commercialization of technologies in Academic/Technical/ R&D Institutions. TBIs in emerging areas like Additive Manufacturing, AI/ML, Digital Twin Technology, Language Technologies, Computer Vision, AR/VR, Blockchain, Quantum Technologies and Web 3.0, Clean Energy Solutions, Agriculture and allied fields, Education; etc. would be promoted.

3.2.2. Support to Technology Business Incubators (TBIs) 1.0

Government will continue to support the existing TBIs that have successfully created infrastructure for promoting new technology/knowledge/innovation-based startups and facilitated speedy commercialization of innovative ideas or products and IPs.

- Funding support and assistance will be provided towards operational expenditure of the TBI on a case-to-case basis.

3.3. Pillar 3: Funding for Startups

3.3.1. Idea2PoC Grant-In-Aid Scheme- ELEVATE

Government funding support to encourage entrepreneurship and foster innovation:

- One-time Grant-in-Aid, of upto INR 50 Lakhs, will be provided to startups requiring early-stage seed funding support to develop their ideas to a proof-of-concept stage.
- Government will give greater thrust- by allocating 10 percent of Idea2PoC Grant-In-Aid Scheme fund to startups working in areas related to Deep Tech, Assistive Technology and Sustainable Development Goals (SDGs) including Circular Economy, Renewable Energy / Sustainability / Climate Change
- Startups recognized under this program will be given mentoring and incubation support at subsidized rates at Government supported incubation centres to help in product development and validation.

3.3.2. Startup Funding through Fund of Funds

The Government will provide funding through a Venture Capital Fund of INR 100 Crores to support emerging innovative and deep tech startups in Artificial Intelligence, Machine Learning, Electric Vehicles, MedTech, Robotics, Drones, and other such disruptive technologies across all sectors.

3.3.3. Beyond Bengaluru Cluster Seed Fund

To support growth stage startups established outside Bengaluru Urban District, Government will provide funding support through Beyond Bengaluru Cluster Seed Fund, dedicated to the emerging technology clusters i.e., Mysuru, Hubballi and Mangalore which will enable scaling up of the startups.

3.3.4. Facilitate Investor Connect/PoCs for Startups

Government will create an Investor Network platform to connect startups with Angel Investors/ HNIs/ Venture Capitalists/ Government Departments through E-Governance Dept. encompassing online/outreach activities viz. State sponsored tech-event, speed dating sessions, sensitization workshops, training programmes and webinars etc.

3.4. Pillar 4: Supporting Mentorship and Creation of Incubation and Acceleration Infrastructure

3.4.1. Facilitation for Setting Up New Incubation Centres by Private Entities

The State Government will support private incubators and accelerators in establishing state-of-the-art incubation centres outside Bengaluru Urban District.

- One-time capital grant of max. 50% or INR 50 Lakhs (whichever is less) for Fixed Cost Investment (excluding land & building) will be provided for setting up incubators in emerging technology clusters Beyond Bengaluru.

3.4.2. Incubation Centres-Support for Upgradation/Expansion

Government will augment the capacity of the established incubation centres located outside Bengaluru Urban District by providing one-time capital grant of 50% of Fixed Cost Investment (excluding land & building), with a ceiling of INR 25 Lakhs, whichever is lower, for scaling up infrastructure such as upgradation/expansion of workstations, interiors, labs etc. of the facility.

3.4.3. Acceleration Network

Government will establish the ‘Acceleration Network’ in a hub and spoke model in collaboration with Industry partners, where existing accelerators will act as Hub to further augment and develop the network of accelerators across Karnataka and extend the benefit to startups, especially from outside Bengaluru Urban District. This network will assist the startups in their growth journey after the seed funding program by providing strategic support, funding, mentorship, and networking opportunities. Thrust will be given to startups working in areas related to Sustainable Development Goals (SDGs) including Circular Economy, Renewable Energy / Sustainability / Climate Change

3.4.4. On Demand Virtual Incubation and Mentorship Connect Platform

With an aim to provide a platform for startups to grow and nurture, Government will collaborate with ecosystem partners to create a virtual incubation platform to provide incubation as per global standards accessible to startups wherever they want. The virtual incubation platform will provide entrepreneurs services such as incubation, mentoring and seed financing; access to labs, production facilities; outreach & investor connect; entrepreneur tool kit and detailed analytics, etc. The platform will connect a variety of existing ecosystem enablers such as investors, incubators, accelerators, and policy makers to bolster entrepreneurship.

Note: Government through this policy, intends to promote public-private collaborations by channelizing Corporate Social Responsibility (CSR) funds towards incubators funded by the Central or State Government or PSU of State or Central Government or academic institutions, as per the provisions of the Companies Act.

3.5. Pillar 5: Building Inclusive & Equitable Startup Ecosystem

3.5.1. Women Entrepreneurship

To nurture and accelerate the growth of women entrepreneurs in the State, with the following initiatives:

- Exclusive Idea2PoC/ Seed funding program for women entrepreneurs from Beyond Bengaluru
- Earmarking 25% of the INR 100 Crore venture capital fund to women startups
- Accelerate women startups through Elevate WomEN -'Acceleration and Incubation Programme'
- Reservation of 20% seats at Government supported incubators for women startups
- Direct loan of upto INR 10 Lakh through Karnataka State Women Development Corporation to women startups
- Focused capacity development programs
- Creation of a dedicated vertical in 'virtual networking portal'

3.5.2. Social Inclusion

Social Inclusion has been an integral theme of the Startup policy. Entrepreneurs spread across geographies and from different sections of the society are being

actively supported over the years, and the Government intends to carry forward this vision through the following initiatives:

- The State Government will facilitate setting up a Centre of Excellence for Assistive Technology (AT) with a grant/funding support of INR 15 Crore to develop innovative products and solutions for Differently abled community and senior citizens, in collaboration with Department of Empowerment of Differently Abled and Senior Citizens, academia, and industry partners.
- Elevate-Unnati will be conducted by Government for supporting startups promoted by SC/ST entrepreneurs
- Dedicated programmes to assist startups founded by entrepreneurs from different sections of the society like OBC and Minority category
- Identify, support and nurture startups from aspirational districts of Kalyan Karnataka region
- Organize capacity-building programs for Transgender community and Differently Abled Entrepreneurs to foster their ideas

3.6. Pillar 6: Fostering Social and Rural Entrepreneurship

3.6.1. Rural Innovation Centre

Government intends to establish Rural Innovation Centre with a funding support of upto INR 15 Crore at a government academic institution set up Beyond Bengaluru, and by partnering with local ecosystem players like incubators/ accelerators/ premier academic institutes. The objective of the Centre is to strengthen the regional entrepreneurial ecosystem to accelerate growth of grassroot and rural startups.

3.6.2. Experiential Internship Support

Government will extend support to social entrepreneurs to hire interns by subsidizing the internship cost.

- Subsidy of upto INR 1 Lakh as internship fees per startup for hiring maximum 3 interns from Beyond Bengaluru for period of minimum of 6 months for about 50 Startups annually. This can be availed once during the policy period.

3.7. Pillar 7: Channelizing Innovation for Societal Impact

3.7.1. Grand Challenges Karnataka (GCK) – Innovative solutions for societal impact

Government acknowledges the role of startups in accelerating the circular economy for improving resource efficiency by reusing, recycling, and refurbishing natural resources to increase the demand for sustainability related products in the market. To

leverage circular economy innovative business technology solutions and to address the existing social challenges in Environmental, Social, and Governance (ESG) framework and to meet Sustainable Development Goals (SDGs), Government Departments such as Urban Development Department, Transport Department, Energy Department, Department of Agriculture, Department of Ecology & Environment, Department of Animal Husbandry, Revenue Department, Heath Department, Women & Child Department, etc. will be enabled to identify societal problems for startups to propose potential solutions. Challenges will also be announced in collaboration with e-Governance Department in the field of Smart Governance to enhance the functionality and service delivery.

- Each year 3 challenges will be announced in collaboration and funding support of different Government Departments/Corporates. The winners will be awarded an initial grant of INR 10 Lakhs to test and demonstrate the solution and a follow-on funding of INR 50 Lakhs for deployment of solution.
- Department of Electronics, IT, Bt and S&T in collaboration with other Government Departments intends to encourage CSR investments as per the provisions of the Companies Act, in projects related to Sustainable Development Goals (SDGs) including Renewable Energy / Sustainability / Climate Change technology-led solutions that create a transformative value in the long term and drive sustainable growth. Same funding pattern as above will be adopted to support the startups.

3.7.2. Accelerating Transition to Circular Economy

- To support ambitious efforts to achieve a sustainable society and to stimulate transition towards Circular Economy, a consortium of concerned State Government Departments, led by Department of Electronics, IT, Bt and S&T, shall be constituted to identify and implement suitable interventions across the following areas:
  - Creating spaces for experimentation and partnership
  - Facilitating access to finance
  - Stimulating demand through Government participation
  - Creating incubators to promote circular economy projects
  - Creating stakeholder networks
  - Awareness & Sensitization Programs
  - Promoting public-private partnerships

  Funding support of upto INR 5 Crore shall be allocated by the Government.
- Government will setup a dedicated Resource Centre to encourage and support Circular Economy Innovation startups with a funding support of upto INR 50 lakhs during the policy period. The centre shall promote startups by sharing insights,

creating networking opportunities and learning from circular economy experts and practitioners

- Government will conduct acceleration program with a funding support of INR 40 lakhs/ Cohort annually to support startups working on products/services that align to Sustainable Development Goals (SDGs) including Renewable Energy / Sustainability / Climate Change/ Circular Economy

3.8. Pillar 8: Enablement and Facilitation

3.8.1. Open Data Access

Government aims to leverage the power of data through accessibility and re-usability of data for innovation and economic growth.

- Government's efforts under the banner of 'The Karnataka Open Data initiative (KODI)' provides a foundation for new technological innovation by bringing together and making available large amounts of data across verticals.
- 'e-Sahamathi', is a tool to empower citizens to own, control and share their data for their own benefit by sharing with any service provider. Through the Karnataka Open Data Policy 2021[9], Government has enabled new opportunities for startups to innovate and collaborate in new ways to build products/ solutions/ commercial applications by leveraging Karnataka State open data portal.

3.8.2. Leveraging GCC Environment to drive Innovation

With Global Capability Centres (GCCs) turning into Innovation Hubs and Centres of Excellence (CoE), Government aims to leverage the existing GCC ecosystem in the State by facilitating GCC partnerships with technology institutions.

3.8.3. Outreach and Awareness

Government will facilitate outreach and awareness through sponsorship of National/International Trade Shows/ Exhibitions and will continue to organize meets, webinars and events with leading stakeholders in the startup ecosystem.

3.8.4. Global Innovation Alliance Connect

Government through its network of Global Innovation Alliances (GIAs) will create new strategic partnerships and leverage existing collaborations with leading innovative economies of the world under programs such as the GIA Market Access

[9] https://egovernance.karnataka.gov.in/storage/pdf-files/DPAR%2045%20PRJ.pdf

Program and GIA Tech Engagement Meet to promote innovative startups from across the State.

3.8.5. Ease of Doing Business

3.8.5.1 Self - Certification

Startups 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 would be facilitated through the Karnataka 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.

3.8.6. Preferential Market Access for Startups in Public Procurement

To encourage and boost startup participation in the procurement process of Government Departments/ Boards / State PSUs and other organizations, Government has issued notifications and amended the Karnataka Transparency in Public Procurements Act, 1999 (Karnataka Act 29 of 2000) through Karnataka Transparency in Public Procurements (Amendment) Rules, 2021, covering general relaxations for startups in public procurement, value-based preferential procurement from startups and the adoption of startup inclusion plan in a tender.

3.8.7. Enablement of Karnataka Innovation Authority Act 2020 for Startups

The Karnataka Innovation Authority (KIA) Act 2020 was enacted to promote and regulate innovative technologies in the State. The Act enables setting up of

"Regulatory Sandboxes" wherein such innovators are allowed a small window of exemption for a prescribed period to carry out innovation and the State also gets to observe such innovations and time to respond with further legislation and amendments, if required. The startups and potential sandbox operators who are supporting the startups during the policy period would be granted fiscal assistance as mentioned below.

- Re-imbursement of 50% of Processing fees for establishing regulatory sandbox for sandbox operators who are supporting a minimum number of 5 Startups as per the provisions of the Karnataka Innovation Authority Act, 2020.
- Re-imbursement of 75% of Application fees for startups participating in regulatory sandbox as per the provisions of the Karnataka Innovation Authority Act, 2020.

3.8.8. Nodal Agency – Karnataka Innovation and Technology Society (KITS) and Karnataka Startup Cell

Karnataka Innovation and Technology Society

KITS is the nodal agency to promote the startup ecosystem in the State and is responsible for facilitating implementation of various schemes, programs, interventions of the policy and any new initiatives required for the growth of the startup ecosystem in the State.

Karnataka Startup Cell

Constituted under the aegis of KITS, Karnataka Startup Cell is an initiative to promote and facilitate the startup ecosystem. The Karnataka Startup Cell acts as a single point of contact for information on various incentives and offerings, government sponsored events, K-tech ecosystem hubs including CoEs, TBIs, CIFs, Incubators and facilitates industry mentor connect, investor network, etc. The Startup Cell also enables networking through outreach and awareness activities such as participation in International Trade Shows/ Exhibitions events, etc. For the developing a more holistic inclusive Startup ecosystem in the State, the Startup Cell shall be further strengthened during this policy period.

Karnataka Digital Economy Mission (KDEM) as Facilitator

KDEM is a Section 8 Company (not-for-profit) with equity participation by both Industry and Government of Karnataka (Department of Electronics, IT, Bt and S&T). KDEM has been setup to promote digital industry growth by providing hand-holding services and suggesting policy initiatives to be taken up by the State. KDEM, with dedicated program verticals for Startups and Beyond Bengaluru, has taken several initiatives to promote and facilitate the startup and innovation ecosystem in the

State. KDEM will continue to support the Department in implementation of various startup initiatives.

3.8.9. Startup Portal 2.0

The new dynamic bilingual Startup portal 2.0 will be designed with enhanced features with an aim to unify and bring together the entire startup ecosystem and processes under one platform.

3.8.10. Vision Group on Startups

Government has constituted Vision Group on Startups lead by industry captains and stalwarts to provide insights and strategies for strengthening incubation support, establishing global alliances, promoting entrepreneurship in emerging technology clusters, implementing legal framework for supporting innovation, etc. The Vision Group will make recommendations and suggestions to State Government on suitable course of action to be taken for implementation of various initiatives to nurture and promote startup ecosystem in the State.

3.9. Pillar 9: Providing State support in the form of incentives & concessions

The startups can avail the following standard package of incentives and offerings during the policy period.

3.9.1. Reimbursement of State GST

Category	Incentive
Reimbursement of State GST	○ Beyond Bengaluru Startups, incubated in GoK supported incubators and CIFs with a maximum annual turnover of INR 1 Crore shall be eligible for 100% reimbursement of annual State GST (SGST), within first three years of being incubated.

3.9.2. Marketing Cost Reimbursement

Category	Incentive
Marketing Cost Reimbursement	○ Government shall provide reimbursements of 30% of the actual costs including travel incurred in international marketing through trade show participation. This incentive will be subject to a maximum of INR 5 Lakhs

Category	Incentive
	per year per startup.

3.9.3. Patents Filing Cost Reimbursement

Category	Incentive
Patents Filing Cost Reimbursement	○ The cost of filing and prosecution of patent application will be reimbursed to the startups incubated in GoK supported incubators and CIFs subject to a limit of INR 2 Lakhs per Indian patent awarded. For awarded foreign patents on a single subject matter, upto INR 10 Lakh 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.

3.9.4. Quality Certification Cost Reimbursement

Category	Incentive
Quality Certification Cost Reimbursement	○ 50% reimbursement of cost of quality certification fee with an overall ceiling of INR 6 Lakhs (with maximum of 3 industry standard quality certifications) for startup outside Bengaluru Urban District

4. Eligibility Criteria, Policy Validity and Sanction Process

4.1 Eligibility Criteria to avail Incentives and Offerings

To avail the policy incentives and concessions, the entity should meet the definition of Startup as per the Startup Policy and must be registered with Karnataka Startup Cell under Karnataka Innovation& Technology Society (KITS), Department of Electronics, IT, Bt and S&T, GoK as a Startup.

a. **Definition of Startups**

An entity will be considered as a Startup on fulfilling the below conditions defined by Government of Karnataka which is in line with the definition of GoI notification (G.S.R. notification 127 (E) dated 19.02.2019). However, the Policy will adopt the amendments and changes made to the definition by Government of India from time to time.

1. The Startup should be incorporated as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) in Karnataka.
2. Turnover of the entity for any of the financial years since incorporation/ registration has not exceeded INR 100 Crores.
3. An entity shall be considered as a startup up to 10 years from the date of its incorporation.
4. The Startup should be working towards innovation/ improvement of existing products, services and processes and should have the potential to generate employment/ create wealth.

b. Exclusions

An entity formed by splitting up or reconstruction of an existing business shall not be considered a "Startup"

c. Exit Clause

A startup will cease to receive benefits under this policy on completion of ten years from the date of its incorporation/ registration or if its turnover for any previous year exceeds INR 100 Crores

4.2 Sanction Process

Benefits and offerings will be granted from time to time through separate committees constituted under the policy, the details of which will be published in the Operational Guidelines to this policy. All schemes and incentives will be administered based on the budget availability during the policy period.

5. Achievements of Karnataka Startup Policy 2015

The Government of Karnataka was a pioneer in announcing the first Startup policy in the country in 2015 to stimulate the growth of startups, bring in innovative technology solutions, and strengthen the startup ecosystem in the State.

Some of the notable achievements of Karnataka's Startup initiatives are here under:

1. More than 15,000 startups have signed up on the Startup Karnataka Portal.
2. Idea2PoCGrant-In-Aid Scheme (ELEVATE)- a seed funding program, the first of its kind in India, has been successful in assisting startups develop their ideas to POC/ prototype. Till date, around 721 startups *(comprising of 30%of women entrepreneurs and 25% of the entrepreneurs from Tier II / Tier III cities)* have been supported under the program with a committed fund of ~INR 165.28 crore.
3. The Department has established Innovation Hubs comprising of Incubators, Centres of Excellence, Technology Business Incubators, Common Instrumentation Facilities, NAIN Institutions across the State. This ecosystem spans across 24 Districts in 58 institutions.
4. To promote innovation at educational institutions, Government has supported New Age Innovation Network in 30 Engineering colleges across 18 districts, majorly targeting the Tier-II and III cities.
5. Bangalore Bio Innovation centre (BBC), India's first and biggest bio-incubator with an area of 50,000 sqft was set up by the Government in 2016.
6. The Department has collaborated the incubation program at The Centre for Cellular and Molecular Platforms (C-CAMP), DBT, GOI, to continue its efforts to nurture and support more startups.
7. Incubation centres at University of Agricultural Sciences, Dharwad, University of Horticultural Sciences, Bagalkot and Central Food Technological Research Institute (CFTR), Mysore, have been set up by the Department in area of Biotechnology
8. The VLSI Incubation at KLE Technological University Campus at Hubballi has been re-branded as ESDM eXchage- (HEX). It is a dedicated incubation centre for ESDM startups.
9. A Brownfield cluster has been set up at Deshpande Foundation, Hubballi, which has prototyping facilities for ESDM startups.

10. The Department has been successful in conducting 7 Grand Challenges to scout for new technologies or innovations that can offer solutions to some of the persistent social issues pertaining to the state of Karnataka.
11. Government has created a network of Global Innovation Alliances (GIAs) with leading innovation economies of the world and has collaborated with GIA partner country stakeholders including Governments, academic institutions, startup incubators, universities, and large tech companies for facilitating startups.
12. Government has set up a world class K-Wings incubation facility which offers subsidized incubation space, physical workspace (Plug & Play), support services (HR/Legal/Accounting etc.), access to network of investors, mentors, industry experts and access to Startup Kits.

Annexure 1: Definitions

1. **Acceleration Programs:** Acceleration programs are short to medium term mentoring programs to support startups with business expansion once they have scaled up from an idea to formal product launch in the market. Startups typically enter accelerator program for a fixed period of time as part of a cohort of companies

2. **Accelerator:** An accelerator is typically a three-to-four-month program for startups at early traction and scaling stage. It is a process of intense, rapid, and immersive education aimed at accelerating the growth of the startup. The accelerator may take a set amount of seed equity from the startups in their cohorts in exchange for capital and mentorship.

3. **Angel Investors:** Individual wealthy private investor who provide early-stage seed funding to small startups or entrepreneurs. The Angel investor should be registered with SEBI or banks or GoK/GoI approved incubation centers.

4. **Assistive Technology:** Assistive technology (AT) is any item, piece of equipment, software program, product system, or service that is used to increase, maintain, or improve the functional capabilities of persons with disabilities or older people, or people with gradual functional decline as defined by WHO, thereby promoting their well-being.

5. **Beyond Bengaluru:** Used to describe cities/areas in Karnataka outside Bengaluru (Urban) District

6. **Circular Economy Startups:** Startups who qualify to be part of Circular Economy Startups Innovation are defined as those startups that have solutions contributing to circular economy model which involves sharing, leasing, reusing, repairing, refurbishing, reducing and recycling of existing materials and products as long as possible. The technology enabled innovative solution should be aligned to the principles of circular economy to tackles challenges like climate change, biodiversity loss, waste, and pollution etc.

7. **Deep Tech:** Deep-tech or science-based innovations are disruptive solutions built around unique, proprietary or hard-to-reproduce technological or scientific advances, in prominent deep tech fields such as biomedical, medtech, advanced materials, artificial intelligence, biotechnology, blockchain, robotics, photonics, electronics & semiconductors, quantum computing, edible electronics/ bioelectronics.

8. **Emerging Technologies:** Emerging technologies are new technologies whose development or practical applications, or both are still largely inherent, such that they are emerging into eminence from a background of nonexistence or

ambiguity. Emerging technologies are often anticipated as capable of changing the status quo.

9. **Entity:** A Private Limited Company (as per the Companies Act 2013), a Registered Partnership Firm (under the Partnership Act, 1932) or Limited Liability Partnership (under the Limited Liability Partnership Act, 2008)

10. **Grassroot Innovation or Innovation with Rural Impact:** Startups who qualify to be part of Grassroot or Rural Innovations are defined as those startups that lead bottom-up solutions for sustainable development; solutions that respond to local situation / interest / values of rural communities and are aimed at improving the socio-economic condition/ ease of living and standard of living of the rural communities

11. **Incubator:**

    i. **New Incubator:** An incubator should have a minimum 7,500 sqft area and should be an incubation facility for a minimum 50 seats. The incubator should have provision to provide necessary infrastructure to startups such as plug and play facilities, meeting/conference rooms/office space or shared services, high-speed internet access, etc. The Incubator shall also provide various services to startups such as mentors, training, funding, legal services, accountancy services, technical assistance, networking activities, marketing assistance etc.

    ii. Expansion/ Upgradation of Incubator: An incubator increasing its capacity by additional 2,500 sqft area, and incubation facility for a minimum 25 additional seats or more.

12. **Innovation Regulatory Sandbox:** An innovation regulatory sandbox is a regulatory approach, customarily epitomized in writing and published, that allows conscious, time bound testing of innovations under a regulator's oversight

13. **K-Tech Ecosystem:** The State boasts of a vast tech ecosystem comprising Innovation Hubs, Incubators, Centres of Excellence, Technology & Business Incubators, Common Instrumentation Facilities, NAIN Institutions etc.

14. **New Age Innovation Network (NAIN) 1.0**: New Age Innovation Network (NAIN) centres established by Government under the Startup Policy 2015

15. **New Age Innovation Network (NAIN) 2.0**: New Age Innovation Network (NAIN) centres established by Government under the Startup Policy 2022

16. **Reimbursement:** Compensation given by the State/ public body/ organization for a defined expense by giving them an amount equal to what was agreed upon.

17. **Renewable Energy, Climate change, Sustainability Startups:** Startups who qualify to be part of Renewable Energy, Climate change, Sustainability startups Innovation are defined as those startups with innovative technology solutions addressing critical innovation gaps in the Renewable Energy, Climate change, Sustainability Innovation sector.

18. **Sandbox Operator:** The Sandbox Operator under the Karnataka Innovation Authority Act is defined as 'An agency or instrumentality of the Government of Karnataka, notified by the Authority under Section 13 of KIA Act to oversee and implement a Regulatory Sandbox.

19. **Seed Funding:** Seed capital is the initial funding used to begin the creation of a business or a new product. Generally, seed capital is used to develop a business idea to the point that it can be presented effectively to venture capital firms that have large amounts of money to invest.

20. **Subsidy:** Subsidy is a sum of money granted by the state or a public body to help an industry or business to keep the price of a commodity or service low

21. **Technology Business Incubators (TBIs):** 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.

22. **Venture Capital:** Venture Capital firms invest in startups at a later stage. Startups with a potential to grow, need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital and the investors are called venture capitalists.

23. **Venture Capital Funds:** Investment funds that manage money from investors seeking equity stakes in startups with strong growth potential. These investments are generally characterized as high-risk/high-return opportunities.

24. **Women Entrepreneurship:** Any entity meeting and qualifying the definition as per the Government Order ITBT 09 PRM 2021, dated 18.06.2021

    "*Women Entrepreneurship -Any entity having women as founder or co-founder (individual or group of women) with minimum 51 % stake in the entity and qualifying the definition of a Startup as per the prevailing Karnataka Startup Policy".*

    This definition shall be applied for giving preference in seed Funding, Venture Funding and Public Procurement Policy for Startups.

However, Startups with women founder/co-founder having less than 51 % stake and giving at least 51 % employment opportunities to women in the Startup entity, shall be considered for availing other benefits such as government sponsored incubation support, acceleration support, capacity development workshops, mentorship and so on.

Annexure 2: Glossary

ABBREVIATION	DEFINITION
AI	Artificial Intelligence
AR	Augmented Reality
CoE	Centre of Excellence
DBT	Department of Biotechnology, Ministry of Science and Technology, Government of India
Department of Electronics, IT Bt and S&T (Department)	Department of Electronics, Information Technology, Biotechnology and Science & Technology, GoK
DPIIT	Department for Promotion of Industry and International Trade, GoI
GO	Government Order
ESG	Environment Social Governance
GoI	Government of India
GoK	Government of Karnataka
GSDP	Gross State Domestic Product
GST	Goods and Service Tax
HNI	High Net Worth Individuals
IIIT, B	International Institute of Information Technology, Bengaluru
IoT	Internet of Things
IT	Information Technology
ITeS	Information Technology enabled Services
KITS	Karnataka Innovation and Technology Society
KPI	Key Performance Indicators
NAIN	New Age Innovation Network (NAIN)
OPC	One Person Company
PPP	Public Private Partnership
PoC	Proof of Concept
PSU	Public Sector Undertaking
R&D	Research & Development
SDG	Sustainable Development Goals
TBI	Technology Business Incubators
VCF	Venture Capital Fund
VR	Virtual Reality