

Karnataka-Industrial Policy

Preamble

1. Government had formulated a comprehensive Industrial Policy in 1996 vide Government Order read at 1 above. The above policy had extended a Package of Incentives & Concessions for new investors. The policy had been modified from time to time vide orders read from 2 to 4 above. This policy has come to an end on 31st March 1996.

2. Karnataka has been a pioneer in Industry. For several years now, the State has been consistently pursuing progressive Industrial policies to meet the changing needs of the State's economy and Industry. Over the last 100 years, the State has had the distinction of building a strong and vibrant Industrial base, which combines the intrinsic strengths of large industrial public sector undertakings, large and medium privately owned industries and a very wide and dispersed small scale sector. The State has demonstrated its strength over a wide spectrum of sectors in industry and has outstanding examples of success in the old economy. In recent times, Karnataka has emerged as the knowledge and technology capital of the country making rapid strides in the new economy as well. IT and related industries, bio-technology and strong research and development institutions have given Karnataka a pride of place in the global market.

3. Karnataka is among the Top five Industrialised States in the country. The achievements in promoting hi-tech industries in key sectors like Electronics, Telecommunication, Information Technology, Precision Engineering, Automobiles, Readymade garments, Bio Technology and Food Processing have been noteworthy. The State has also witnessed considerable Foreign Direct Investment (FDI) both in Bangalore as well as in other parts of Karnataka.

4. During the period 1996-97 to 2000-2001 the achievements in the industrial sector were as under:

Sl. No	Sector	No. of Units Established	Investment in Rs. Cr.	Employment in Numbers
1.	Small Scale Industries	93,845	3008.78	4,44,259
2.	Medium Scale Industries	194	2499.96	45,703
3.	Large & Mega Industries	21	8682.62	13,331

5. Bangalore has the distinction of being the destination for a large number of Multi-National Companies in knowledge based industries and technology driven sectors and is today recognised as one of the Top 10 Technopolises in the World. The growth in the Information Technology Sector has been phenomenal. From a mere US \$ 45 Million software exports in the year 1995-96, Bangalore today exports US \$ 1.2 Billion

6. The tremendous growth notwithstanding, there has been a general deceleration in Industrial activity in the country, which, over the last few years, has had its impact on the industrial sector of Karnataka too. The setback to the Asian economies added in no small measure, to the problems of the core sector industry such as steel, cement, automobiles etc. The policy framework will therefore have to give impetus to a steady recovery in industrial production in the coming years.

7. Due to limitations of land availability and expansion of the irrigation potential, industrial development, particularly in the rural and backward areas, is critical for augmenting employment in the non-farm sector. This is particularly so to meet the aspirations of the educated youths in the rural areas who need to be encouraged to set up micro enterprises not only as an employment generation scheme but also for economic development of the rural and backward areas.

8. The Industrial Policy of 1996, valid till 31st March 2001, was formulated keeping in mind the challenges of the liberalisation of the Indian economy, globalisation of trade and the logic of privatisation of public sector enterprises. With the dawn of the New Millennium, Industry and Trade have witnessed far-reaching and rapid changes in technology, innovation, new products and processes and business practices. The World is now the market place. The country has also witnessed radical changes in the policy imperatives in recent times. The National consensus of removal of sales tax based incentives, adoption of uniform floor rates for taxes, the threats and opportunities thrown up by the multilateral trading regime under the WTO, the primacy of technology, intellectual property rights and global competition have together given rise to the need for a new and radical approach to Industrial development.

9. A series of meetings/discussions have been held with all concerned agencies and departments of the Government and also the Industry Associations & Chambers. The Government has considered the suggestions made during these meetings/discussions.

10. After detailed examination of the matter a need has been felt for formulation of a New Industrial Policy.

1.0 Mission

Karnataka's Mission is to achieve an economic growth rate of 8% to 9% over the next decade by promoting the rapid growth of a market driven, knowledge based, efficient and competitive industrial sector. This will be done by providing industry access to high quality infrastructure, extending institutional support for technology upgradation, deregulating the business environment for an efficient, proactive and transparent administrative framework and catalysing the entrepreneurial as well as creative capabilities of the human resources.

The proposed Industrial Policy will therefore aim to achieve an average industrial growth rate of 10% to 12% per year and attract investments of atleast Rs. 20,000 Crores per year and create, on an average, employment potential of atleast 1.5 lakhs per year.

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2.0 Objectives

In achieving this Mission, the focus will be on the objectives set out below:-

- a) Encourage rapid growth of sectors and markets in which Karnataka has strategic advantages.
- b) Enhance value addition in products and processes through rapid technology upgradation.
- c) Enable optimal utilisation of capacity and resources in different sectors viz., Agriculture, Horticulture, Animal Husbandry, Minerals and Human capital.
- d) Enable industry to access new markets - domestic and export - through new products that meet global standards of quality and competitiveness.
- e) Give impetus to knowledge based industries and the service sector.
- f) Create a market driven environment with the private sector being the primary engine for growth.
- g) Provide Industry access to high quality infrastructure.
- h) Fully tap the potential of the Small Scale Sector and encourage establishment of new tiny and Small Scale Industries, particularly in the rural areas to achieve the twin objectives of employment generation and utilisation of local resources.

Towards this end Government will undertake, through an expert group, a detailed study of the small scale industrial sector in the state to ascertain their present status; problems and prospects and come out with a separate policy on employment generation in the industrial sector which among other things would also include a suitable incentives scheme linked to employment generation. This Study will be completed in the next six months time.

3.0

Strategy

In order to achieve these objectives the following strategy will be adopted.

- a) Forge a strong partnership with the private sector in all aspects of Industrial Policy and its implementation to provide for a demand driven decision making process in an increasingly market oriented economy;
- b) Create a policy framework to facilitate competitiveness of local industry and enabling ease of doing business;
- c) Enhance public and private expenditure to build efficient and competitive Industrial infrastructure;
- d) Give impetus to technology upgradation by forging symbiotic and mutually beneficial institutional arrangements between Government Academic - R&D Institutions and Industry;
- e) Focus on catalysing comparative advantages that Karnataka has in the Global market by increasing its exports in information technology, bio-technology, food processing, electronics and communication, garments, machine tools and precision engineering goods;
- f) Assist the tiny, small and medium scale industries to upgrade their technologies and manufacturing processes to face the increasing competition; and
- g) Radical restructuring of the State Public Sector undertakings as well as Government infrastructure agencies and Financial Institutions by promoting private sector initiative in these activities.

4.0 Policy Framework

4.1

Technology

Upgradation

The first principle of the Industrial Policy will be technology. In particular, putting in place an institutional mechanism and a viable revenue model for the rapid technological upgradation of the small and medium industries in Karnataka will receive special attention. The objective will be to facilitate a cluster based approach aimed at meeting the sectoral/sub-sectoral technology needs on a demand driven basis. To catalyze the efforts of technology upgradation, the Government of Karnataka will establish a corpus called The Technology Upgradation Fund of Rs. 50.00 Crores over a period of 5 years. The fund will be administered through a Government/ Industry partnership and its deployment dictated by the logic of the market and by industry. In particular, this fund will focus on niche products and processes in the value chain of industries in which Karnataka has comparative advantages and reinforce best practices in technology and business. The following specific schemes and proposals will be implemented under this scheme:

- (a) Interest subsidy to SMEs who avail loan from State Financial Corp. for technology upgradation and modernisation for which separate orders have been issued;
- (b) Promoting Technology Business Incubators/Accelerators with the active involvement of private sector in identified potential locations in the State. This Technology Business Incubator will aim build on the strengths of small decentralised Technology Development Groups and are expected to spawn high value SMEs. Government assistance will be in the form of providing financial assistance for creation of basic infrastructure facilities subject to a ceiling of Rs. 50 lakhs per incubator.

(c) To establish, over the next 5 years, ten more Science & Technology Entrepreneurs Parks [STEPs] in potential districts of the State. Government assistance will be in the form of capital grants for creating basic infrastructure facilities to the extent of 25% of the cost of each STEP subject to a ceiling of Rs. 25 lakhs.

(d) To assist and encourage the private sector to establish material and product testing as well as quality assurance laboratories in different districts of the State. These laboratories will focus on ensuring compliance with Product & Process Methods [PPM] and Sanitary & Phyto Sanitary [SPS] measures of the WTO. Government assistance for establishing such laboratories and testing centres would be in the form of capital grants of 10% of the capital cost subject to a ceiling of Rs.10 lakhs per Centre; and

(e) Government will encourage the SMEs to obtain ISO 9000, ISO 14000 and similar international certification with a view to promote total quality management and best practices in SMEs. Government Assistance will be in the form of; meeting 50% of the cost of obtaining such certification, subject to a ceiling of Rs. 75, 000 per industry.

4.2 Infrastructure Support

(a) The Government of Karnataka recognises that a key parameter to make local industry globally competitive is to provide industry access to high quality industrial infrastructure at competitive prices. Towards this end the Government will establish an Infrastructure Development Fund with an initial corpus of Rs.100 Crores. This fund will seek to leverage the strengths -technical - of major private infrastructure providers through a Public-Private and financial partnership. The Government will significantly enhance expenditure on infrastructure development and infuse efficiency in the management of industrial infrastructure. The common infrastructure fund will be aimed at meeting the infrastructure needs of sector specific and location specific technology parks/industrial estates /industrial areas/ industrial corridors for the focus sectors. This corpus fund would be used to kick-start investments in common industrial infrastructure, which could be accessed by industry.

(b) In keeping with the Government's objective of developing a market driven and efficient management of industrial infrastructure, the Govt. of Karnataka will establish Industrial townships in major locations that have clusters of industries. The Industrial Townships will provide for management of the Industrial Infrastructure by private industry associations/user groups. The Industrial Townships are expected to allow industry to manage their own assets and ensure a high order of maintenance of the basic infrastructure like roads, power, water supply, telecommunication etc. within the Industrial Estate/Industrial parks.

(c) The Karnataka Industrial Areas Development Board will act as a key Govt. agency to develop sector specific/location specific industry parks over the next five years. Among others, the Government through the KIADB, will promote the following:

- i) Five Agro Food Processing Parks at Malur, Bagalkot, Belgaum, Chitradurga and Maddur.
- ii) Two Apparel Export parks, one each at Bangalore and Bellary.
- iii) A special Economic Zone in Hassan.
- iv) An Export Promotion Industrial Park in Mangalore.
- v) Three Auto parks, one each at Bidadi, Shimoga and Dharwad.
- vi) A knowledge park dedicated to BioTechnology and related industries near Bangalore.
- vii) A full-fledged Financial District near Bangalore.

These projects will be implemented by KIADB with the active participation of the private sector. While Government of Karnataka will provide margin money support to the KIADB to an extent of 15% of the equity contribution for these projects, financial assistance will be mobilised from the Govt. of India, multilateral funding agencies as well as from Industry.

(d) In order to ensure that cost of land to the entrepreneur is not exorbitant, wherever Government land is available, the same will be transferred to KIADB free of cost so that this could be used as a cushion to reduce the price of land acquired and developed by KIADB for allotment to entrepreneurs;

(e) KPTCL will take steps to ensure uninterrupted and quality power to the Industrial sector by:

- i) Establishing dedicated sub-stations of adequate capacity in all major Industrial Areas/Estates over the next five years; and
- ii) Conversion of 11 KVA feeders with more than 50% Industrial loads into exclusive Industrial feeders/express feeders; and

4.3 Human Resource Development

(a) Developing a large skill/knowledge based workforce is fundamental to a self-sustaining industrial sector. Recognising this imperative, the Govt. will, with the active participation of Industry, revitalise the network of Artisan Training Institutes, the District Training Institutes and Polytechnics to upgrade the quality and skill of manpower employed by SMEs. This effort will be driven by market needs dictated by private industry. The effort to retrain the existing Industrial workforce, upgrade training systems/methods, will receive impetus from industry. It is envisaged that the focus of this programme will be to allow industry to manage the training institutions such that skill upgradation is market driven on the supply side of the formal labour market.

(b) As part of the initiative to promote a strong entrepreneurial, base, the Government will strengthen the Centre for Entrepreneurship Development of Karnataka (CEDOK) The objective will be to utilise the creative capabilities of the local people particularly in less industrialised districts. CEDOK will be encouraged to collaborate with recognised National/International organisations involved in Entrepreneurship Development. In partnership with the private sector, the Government of Karnataka will seek to develop CEDOK into a Centre of excellence in Entrepreneurship Development, Business Management and Training.

(c) In order to encourage micro enterprises in rural and backward areas the Government of Karnataka will continue its programme of establishing Rural Development and Self-Employment Training Institutes (RUDSETI's) in all Districts of the State. Government has successfully established nine RUDSETI's in collaboration with financial institutions and banks. Over the next five years, the Government of Karnataka will establish one RUDSETI in each District of the State. The Management of these institutions will be largely through private initiative to meet the needs of local industry.

(d) In addition, the Government will also promote specialised training institutes, viz:

- a) Steel Technology Institute at Bellary;
- b) Three Automobile Training Institutes at Bidadi, Shimoga and Dharwad.

Government will assist the Industry Associations and other stakeholders to establish and run these training institutes. Govt. support will be in the form of making available required lands upto an extent 50 acres and other infrastructure as well as capital contribution of 10% of the cost of the project subject to a ceiling of Rs.2.00 Crore per institute.

4.4 Deregulation of Business Environment

(a) The Principal objective of the policy framework for industry in Karnataka will be to provide an enabling environment for the growth of industry. One of the key reform measures will be to simplify the regulatory framework to enable ease of doing business in the State. The regulatory framework extant is fraught with a multiplicity of acts and rules, a multiplicity of registers to be maintained and returns to be filed by entrepreneurs as well as a plethora of approvals to be obtained. Industry is today also subject to several inspections carried out by various Govt. departments/agencies under the provisions of a variety of acts and rules. The existing regulatory framework constitutes in many ways a barrier to the growth of industry. The entrepreneurs encounter difficulties both at the entry/implementation level as well as during operations;

(b) Deregulation of business environment is therefore imperative. With the objective of providing an efficient, responsive and transparent administrative framework for industry, the following is envisaged:

1. To bring in comprehensive Industries Promotion/Deregulation measures through amendments to the existing rules;

2. Karnataka Udyog Mitra (KUM) shall be the Nodal Agency to guide and to provide assistance to the entrepreneurs as well as to obtain the required clearances/consents/approvals/ registrations/ license from the various departments at the implementation stage of a project.

3. To reduce the multiplicity of Application forms, a Combined Application Form (CAF) shall be introduced.

4. Industries to be segregated into two categories:

a) A restricted list of dangerous hazardous, and polluting industries which will continue to be subjected to the normal approval procedure and

b) All other Industries in the open list eligible for fast track clearances.

5. Under 'Fast Track Clearance' entrepreneurs will be required to complete the CAF and submit it to KUM as a single window for obtaining necessary clearances from the various departments concerned;

6. The Multiplicity of Registers/Records to be maintained under various Acts/Rules will be simplified and rationalised by introducing Combined Registers/Records, wherever possible.

7. The Multiplicity of periodical returns to be filed will be simplified and rationalised by introducing Combined Returns, wherever possible.

8. Inspections by various authorities of different departments shall be minimized and regulated through a random annual inspection and inspections only on the basis of complaints.

9. Providing for a scheme of self-certification by the entrepreneur confirming compliance of the extant laws and rules. Such self- certification to be supported by a stringent penalty structure for default;

(c) The Government of Karnataka will also commission a bi-annual survey of industry. This will be aimed at obtaining primary data on key performance indicators of industry, which will serve as the input for policy prescriptions, based on the analysis of empirical data generated. This survey will also serve as a platform for Govt./Industry partnership and provide valuable inputs to direct policy changes/application of corrections.

(d) To enable a real time response both by Govt. as well as industry to the various implications of the multilateral trading regime under the WTO, the Government of Karnataka will in collaboration with Indian Institute of Management, Bangalore and National Law School of India establish a WTO Relay Centre. This relay centre will be managed jointly by KCTU and VITC from Govt. side and by the Industry Associations/Bodies from the Industry side. The objective of this centre will be the following.

i) Establish a credible and extensive database on WTO and its implications for sectors/ sub-sectors as well as products and processes that are likely to be affected by the WTO. This database will be made available to industry as well as policy makers to enable them to design a suitable response.

ii) To lend legal, technical and administrative support to user industries effected by WTO on the one hand as well as to enable them to make use of the opportunities for export markets.

iii) Relay compliance levels expected in terms of quality, technical standards, sanitary and Phyto-sanitary standards, product and Process methods that local industry will have to comply with to meet the global standards prescribed under the WTO; and

iv) Enabling capacity building in institutions in Karnataka to meet sector specific needs for quality testing, and compliance of these standards.

4.5 Marketing Assistance for the SSI Sector :

Governments, both at the State and the Central level, have been extending marketing assistance to Small Scale Industries in Government procurements through purchase and price preference. The State has also established the Karnataka Small Industries Marketing Corporation to provide marketing assistance to the Small Scale Industries Sector. These measures have helped the Small Scale Industries Sector to a great extent. However, with the coming into force of the Karnataka [Transparency in Public Procurement] Act 2000, the special preference available to the Small Scale Industries Sector has been negated. While the Act provides for exceptions to the applicability of the Act to procurements from Government Departments, Public Sector Undertakings, Statutory Boards and such other Institutions specified by the Government, there is no such exceptions made in respect of Small Scale Industries Sector. However, Sub Para-G of Para-4 of the Act states that exceptions to applicability will be available "in respect of specific procurements as may be notified by the Government from time to time". In view of the serious sickness faced by the Small Scale Industries Sector as a whole and the problems getting much more serious with full implementation of the provisions of various agreements signed with the WTO, it is necessary that Small Scale Industries is protected for some more time. In this background it is necessary that purchase and price preference to the Small Scale Industries Sector be continued for at least another 5 years. It is also necessary that the purchase and price preference is adhered to strictly by all Govt. Departments, Public Sector Undertakings, Statutory Board & Corporations. It is therefore proposed to amend the Karnataka [Transparency in Public Procurement] Act 2000 to provide purchase-price preference to SSI units of the State, which manufacture items reserved for SSI sector by Government of India from time to time, in the following manner:

- a) 75% of the items reserved by the SSI Sector shall be procured from the units located within the State, through an open tender system;
- b) SSI units of the state shall be offered a price preference of 15% over the lowest price quoted;
- c) This benefit will be available for a period of 5 years from 1st April 2001.

The role of KSIMC will also be reoriented to help the SSI Sector to :

- i) Improve quality of the products;
- ii) Improve the production-manufacturing processes;
- iii) Reduce prices; and
- iv) Augment exports.

5.0 Streamlining Single Window Mechanism

In order to ensure that the Single Window mechanism for approval/monitoring of projects is made more effective, the following modifications in the existing scheme shall be incorporated:

- a) There will be only one High Level committee chaired by the Hon'ble Minister for Large & Medium Industries to consider and approve all investment proposals in excess of Rs.50 Crores in all sectors including Industry, Tourism, IT, BT, Agro Food Processing & Infrastructure. The composition of the Committee will be suitably modified to include the concerned ministers and officers;
- b) The State level Single Window Agency under the Chairmanship of Principal Secretary to Govt., Commerce & Industries Dept., will henceforth consider and approve all projects of investments upto

Rs. 50 Crores in each case including Industry, Tourism, IT, BT, Agro Food Processing & Infrastructure. The composition of the Committee will also be modified suitably to include officers of the concerned departments and agencies;

c) The District level Single Window Agency headed by the Deputy Commissioner will henceforth examine all proposals in all sectors including Industry, Tourism, IT, BT, Agro Food Processing & Infrastructure with investment of up to Rs. 3.0 Crores. Separate orders detailing the powers, authorities and functioning of the above committees will be issued.