



Karnataka Industrial Policy 2020-25

27 August 2020

In brief

The Karnataka State Cabinet on 23 July 2020 approved the New Industrial Policy 2020-25¹ (New Policy). The New Policy aims to incentivise high tech investments, boosts the creation of local jobs and seeks to move industrial and technology hubs beyond the city of Bengaluru. This New Policy shall be applicable from 13 August 2020 for a period of five years or until a New policy is announced.

In detail

Vision, mission and objectives of the New Policy

- It intends to promote the development of tier-2 and tier-3 cities in the State of Karnataka.
- The New Policy intends to attract investments worth INR 5 lakh crore and create 2m jobs.
- It aims to maintain a yearly growth of 10% each year and to achieve the third position in merchandise exports in the next five years.
- It also aims to provide an enabling ecosystem for technology adoption and innovation.
- It will be aligned with recent reforms such as amendments to the Land Reforms Act, 1961, the Labour Act, and Karnataka Industries (Facilitation) (Amendment) Act, 2002. It will also allow easing of regulatory process and will oversee new incentives.
- In order to emerge as a competitive global player, the New Policy identifies the following thrust areas: Industry 4.0, R&D, Intellectual Property Rights, Technology Adoption and Innovation, Cluster Development Initiatives and Sustainable Industrialisation.

Key highlights of the New Policy

- The New Policy groups Karnataka's districts into three zones to develop areas considered to be industrially backward. The industrially backward districts come under Zone-1 and Zone-2, while more industrially developed districts are classified under Zone-3 and Zone-4. Incentives will be rolled out to direct greater investment to the industrially backward districts.
- Key focus sectors that have been identified under the New Policy are as follows:
 - Automobiles and auto components;
 - Pharmaceuticals, medical devices;
 - Engineering and machine tools;
 - Knowledge-based industries;
 - Cement and steel;
 - Sugar;

¹ [New Industrial Policy 2020-25 dated 13 August 2020](#)

- Logistics;
 - Renewable energy;
 - Aerospace and defence;
 - Electric vehicles;
 - Healthcare and wellness;
 - Higher education; and
 - Bio-fuel sector.
- The New Policy aims to enact the Special Investment Region (SIR) Act to create, operate and regulate such investment regions in the State. SIRs would have an area of about 100 sq. km and be categorised as industrial townships. The first such region or SIR will encompass the Dharwad, Gadag, Haveri, and Belagavi districts of Karnataka. Other SIRs that are being planned include Shivamogga, Davanagere, Chitradurga and Chickamagaluru districts as well as Kalaburagi, which is in the Kalyana Karnataka district.
 - The New Policy offers production turnover-based subsidies for micro, small, and medium-sized enterprises (MSMEs) with a view to boost industrial innovation.
 - The New Policy will set up Pharma Parks in Mangaluru, Yadgiri, Nagamangala and Shivamogga. Additionally, a med-tech zone has been proposed near Bengaluru for medical devices manufacturing and innovation.
 - All renewable energy projects are proposed to be treated as manufacturing industry to pass on the benefits as available to manufacturing industry barring investment promotion subsidy.
 - Fiscal incentives and concessions for all categories are proposed with an approach for ease of doing business.
 - The investment promotion subsidy to the extent of 10% of the turnover each financial year for a period of five years from the date of commercial production and limited to 20% to 30% of value of fixed assets. Other incentives include exemption from stamp duty and concessional registration charges, reimbursement of land conversion fee, tax exemption on electricity tariff for MSMEs, and power subsidy for MSMEs.

A. Labour law reforms

- The New Policy will require new industrial projects to create as much direct employment as possible and hire locally – a minimum of 70% of the workforce should consist of locals and 100% in the case of employees of (housekeeping and sanitation staff, non-technical posts, drivers, etc.).
- An amendment to the Factories Act, 1948 ensures that women workers who work the night shift in factories, i.e. between 7 pm to 6 am are registered. The relevant sections of the Factories Act, 1948 have been amended to extend overtime hours to 125 hours per quarter.
- Additionally, the Industrial Employment (Standing Order) Act, 1946 has been amended to permit fixed term employment or contract employment, and the corresponding Rules thereunder were amended and notified on 30 June 2020.
- The minimum wage will be periodically revised based on factors such as inflation and consumer price index.
- To encourage merchandise exports, State labour laws are amended/ relaxed *vide* Notification No. LD 194 LET 2016 dated 28 November 2019, extending similar relaxation to manufacturing in special economic zones (SEZs) as provided to IT/ ITeS establishments under the Industrial Employment (Standing Orders) Act, 1946.
- The director of the MSME will work closely with the Skill Development, Entrepreneurship and Livelihood Department to assess sector-wise skill gaps by conducting periodic labour market surveys.

- A State-level body would be constituted with members from the industry, academia, director (MSME) and the Skill Development, Entrepreneurship and Livelihood Department to co-ordinate skill development and enhancement requirements of the industry.
- Industry facilitation has been the prime focus for the State Government, for which it introduced the Karnataka Industries (Facilitation) (Amendment) Act, 2002 that exempts certain manufacturing enterprises from obtaining certain approvals for setting up an industry for an initial period of three years.
- The Government also amended the Karnataka Industries (Facilitation) (Amendment) Act, 2002 that allows any company to commence construction and other operations after it is cleared by high-level committees and not be delayed with further approvals. It has constituted a single window clearance mechanism at district and state levels for providing approvals of all investment proposals. Similarly, the Government intends to provide auto-renewal of trade licenses under the Karnataka Municipal Corporation Act, 1976 and the Karnataka Municipalities Act, 1964.
- The Department of Labour has proposed to introduce the following key procedural reforms:
 - Introducing a labour manual for the documentation and standardisation of operations and practices that will help in strengthening processes and procedures.
 - Introducing self-certification schemes for boilers.
 - Interlinking of approvals of labour/ factories and boilers with all related approvals.
 - Exempting MSMEs employing upto 50 employees from maintaining cumbersome records, registers and furnishing returns.
 - Allowing periodical submission of over-time reports instead of considering prior approval received from the Department of Factories for over-time exemption.

B. Promotion of MSMEs

The New Policy aims to promote the MSMEs in the state by proposing to launch a new “MSME Sarthak” scheme that will create institutional mechanisms to address the key challenges faced by the MSMEs. The State proposes to provide a grant of INR 0.5bn for the Centre of Excellence (CoE).

- The aforementioned scheme is proposed to be implemented through a two-fold mechanism, wherein they would deploy an online technology platform and establish a CoE for managing the platform.
- MSMEs will be provided with the following support in areas such as technology upgradation and technical support, vendor development and facilitation, marketing support in public procurement, skill development, and support services for entrepreneurship and livelihood missions.
- MSMEs will also be provided with equity funding support by setting up an equity fund exclusively for Small and Medium Enterprises manufacturing sector initially with a corpus of INR 1bn, 75% of which is proposed to be provided by the Government and the rest by financial institutions.
- The director MSME shall revise and revamp the Zilla Panchayat Schemes, and it is proposed to provide support to artisans by putting that sector on a high-growth trajectory.
- The State Government, through this New Policy, proposes to establish a Design Clinic Service Center at the State-level and a coordinator at selected clusters to promote market-driven interventions in the handicraft and khadi sector.
- The infrastructure support to the MSMEs will be provided by Karnataka Industrial Areas Development Board (KIADB) that will earmark a minimum 30% of allotable land in their industrial areas for MSMEs.
- It is also proposed to create a credit enhancement scheme on pilot basis in collaboration with financial institutions with an objective to address the issue of expensive loans faced by MSMEs. This scheme will aim at improving the credit risk profile of MSMEs, which in turn will lead to reduction in interest rates.

C. Promotion of large, mega, ultra and super-mega enterprises

- The State of Karnataka provides a unique package to meet all the needs of large, mega, ultra and super-mega enterprises and to ensure that it remains an attractive destination for investment. This Policy intends to provide annual action plans for investment generation, revive existing operational state public sector units by extending one-time capital infusion of INR 0.1-0.15bn, and provision of infrastructure support by KIADB by earmarking 70% of the allottable land in their industrial areas.
- In order to promote investments and to market Karnataka within India and globally to attract investments, a non-profit company called Invest Karnataka Forum (IKF) has been formed.
- The New Policy intends to set up an International Facilitation Desk at IKF to provide the following key facilitation services:
 - One-stop window to assist investors through the investment process.
 - Providing in principle approval from various single window agencies.
 - Constituting a dedicated team to assist in fast tracking investment proposal and support communication with various governmental departments.
- Keeping in view the new opportunities post-COVID 19 and to attract large investments across the sectors, the New Policy has addressed many reforms especially in the procurement of land, compliance of labour laws, and offers attractive incentives and concessions.

D. Making land easily available for manufacturing

- As the State continues to industrialise, the State Government has taken steps to bring out land regulatory reforms by amending the Karnataka Land Reforms Act, 1961 to simplify procurement of land and for speedy conversion of agriculture land for industrial purposes.
- The State Government, by amending certain sections of the Karnataka Land Reforms Act, 1961, has addressed the issue of delay in getting permission under this Act, as with this amendment, any industrial project approved by the State High Level Clearance Committee or State Level Single Window Clearance Committee constituted under the Karnataka Industries (Facilitation) Act, 2002, shall be deemed to be exempted by the Government from provisions of the Karnataka Land Reforms Act, 1961.
- Further, it intends to encourage the establishment of Private Industrial Parks such as Integrated Industrial Parks, Sector-Specific Parks, Logistics Parks and Flatted Factories by Private Developers and intends to leverage the development of Industrial Nodes under the Chennai-Bengaluru Industrial Corridor and Bengaluru-Mumbai Economic Corridor.
- The Karnataka State Small Industries Development Corporation shall be tasked with setting up of Common Effluent Treatment Plants (CETP).
- The time required for allotment of land has been reduced from 60 days to 45 days. It is also proposed to constitute a Price Fixation Committee within KIADB to determine the prices of all land parcels in a timely manner.
- Existing large industrial areas in the State will be declared as Industrial Townships under appropriate laws.
- The Industrial Area Development Authority of Karnataka shall be constituted under the Karnataka Industrial Areas Development Act, 1966 to perform statutory powers/functions of local body.

E. Export promotion

The Government's focus under this New Policy is the promotion of exports through various measures *inter alia* creating export infrastructure and logistics, participating in international trade fairs, and creating awareness for export promotion.

F. Fiscal incentives

- The State Government of Karnataka realises the importance of MSMEs and other enterprises and is committed via this New Policy to provide fiscal incentives to such enterprises in following form:

- Exemption of stamp duty and concessional charges;
- Reimbursement of land conversion fee;
- Exemption from tax on electricity tariff for MSMEs;
- Interest subsidy on MSME technology up-gradation loan;
- Incentives for quality certification;
- Incentives for the establishment of Effluent Treatment Plant and CETP;
- Additional incentives are proposed to special category entrepreneurs such as SC/ ST, women, minorities, physically challenged, and ex-servicemen;
- Investment subsidy for anchor industries (minimum investment INR 1bn) in taluks lacking any major industries;
- Financial assistance to establish intellectual property cells and technology transfer centres;
- Encouraging waste management practices by providing one-time capital subsidy on bio-medical waste management system for all zones;
- Capital subsidy will be provided for supporting direct digital manufacturing as per the industry 4.0 initiative;
- Establishment of pharma and medical devices park;
- Incentives for export-oriented units; and
- Providing capital subsidy for R&D.

G. Review and monitoring committee

A high-level review and monitoring committee will be constituted to monitor the progress implementation of all provisions of the New Policy regularly. Similarly, a State-level Co-ordination Committee shall also be constituted to address any ambiguity that may arise in the New Policy. This committee will be the authority to interpret the policy measures, incentives and concessions detailed in the New Policy.

The takeaways

The New Policy comes with a vision that would help Karnataka ensure a well-balanced, sustainable and inclusive industrial development throughout the State and emerge as a global leader in advanced manufacturing, R&D and innovation.

It is a pro-industry policy and comes with notable fiscal, labour and land reforms that focus on facilitating investments by providing fresh incentives and easing regulatory processes.

This New Policy also introduces a new concept of providing production-based turnover incentives rather than tax-based incentives in order to encourage investment.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact your local PwC advisor.

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