**PREAMBLE**

Global Electronics Hardware manufacturing market is estimated to be 1500 Billion USD, over 45% of which is in the Asia Pacific region. China, South Korea, Malaysia, Singapore, Taiwan and Thailand together produce 92% of electronics goods in Asia Pacific region. India’s share is just 1.5% in the Asia Pacific region. India’s electronic equipment consumption which was estimated at around 28.2 Billion USD in 2005 is expected to reach 126.7 Billion USD by 2010 and 363 Billion USD by 2015, growing at a CAGR of 29.8%. Indian electronics equipment production was estimated to be about 11 Billion USD in 2005, expected to reach 58 Billion USD in 2010 and 155 Billion USD in 2015, growing at a CAGR of 26.9%. It is estimated that Karnataka’s contribution in India’s Electronic hardware market is just 6%. Looking at these figures, there is tremendous scope for electronic hardware manufacturing in India, as at present most of the consumption is met out of imports. Karnataka has a great opportunity as there is tremendous potential in this field.

Neighbouring states like Tamil Nadu, Maharashtra and Andhra have a comparatively larger share in the Electronic hardware manufacturing. Tamil Nadu has scored over Karnataka in Electronics hardware manufacturing as Nokia, Ericsson, Samsung, Motorola etc. have their manufacturing units in and around Chennai.
The Electronic hardware sector has a lot of potential for large-scale employment of ITI graduates, Diploma holders, hardware engineers etc. The sector does not require high-end knowledge. Semi-skilled persons with some training can also be employed in this sector. The State has advantages in low cost skilled / technical manpower over other states. The State has to take initiative of dismantling barriers to investments and luring leading Electronic hardware manufacturers. The State already has advantages, as Bangalore is a global hub for R & D activity, a booming software industry, English speaking population and competitive managerial excellence. The State can encourage electronic hardware manufacturing cluster parks taking advantage of the semiconductor designing activities, especially in VLSI and embedded software, which form important components of electronic hardware products. In other words, Karnataka and Bangalore in particular have the ideal ecosystem for development of Electronics hardware sector.

1 OBJECTIVES

To facilitate, promote and develop the Electronics Hardware Manufacturing Sector in the State of Karnataka so as to

a) make it competitive in the Domestic and International markets,
b) make Karnataka the world’s preferred new destination for investments in high-value-added Electronics Manufacturing, and

c) make Karnataka the leader in India and Asia.

2 OPPORTUNITIES FOR KARNATAKA

Electronics Hardware Manufacturing (which is a mix of very light and light-to-moderately heavy engineering) holds many opportunities for the State of Karnataka:

- a million high-quality jobs for our rural youth, and for our educated many;
- opportunity to attract potential investments into the State;
- dispersal of prosperity beyond Bangalore, across our entire state;
- realization of the creative potential of our innovation-catalyst institutions such as IISc and public sector enterprises such as BEL and HAL;
- utilization of the skills-base of our numerous Engineering colleges, polytechnics, and schools;
- the opportunity to attract to Karnataka our human resources who are trained in high-technology areas in India and abroad;
- as a corollary benefit, offering the IT and ITES industries a growing and enduring market.

3 EFFECTIVE DATE

This Policy shall come into force with effect from the date of issue of the Government Order in this regard and shall remain in force for a period of five years from such date or till the issue of a new or revised Hardware Policy.

4 DEFINITION

For the purpose of this Policy, “Electronics Hardware Sector” shall mean, but not be restricted to, Electronics Hardware for IT, Telecommunications, Defence, Medical, Industrial, Automotive, Consumer products, applications and components, parts, and accessories for the aforesaid products and applications.

5 ELIGIBILITY

This Policy shall cover new units in the Electronics Hardware Sector as well as the Electronics Hardware manufacturing (including contract
manufacturing
g) units governed
by the EOU scheme of
the EXIM Policy of
Government of India and
hereinafter referred to as Electronics
Hardware Unit (EHU).

6 MARKETING
A "Destination Karnataka Team" shall be set up,
consisting of members from the Government
and Industry, to make efforts to proactively
market Karnataka as the preferred destination in
the region for investments in manufacturing of
Electronic Hardware products. The composition
of this team along with responsibilities will be
notified in due course.

7 KARNATAKA ELECTRONICS
INNOVATION FUND
High-value-added electronics manufacturing is
feasible only with innovation and creation of
Intellectual Property (IP). To stimulate
innovation and creativity in the State, the

Government will launch the Karnataka
Electronics Innovation Fund with an initial
corpus of Rs. 25 Crores, which will provide
funding to entrepreneurs for developing new
products that will in turn be manufactured in the
State.

The corpus shall be utilized for funding the
development of new products as follows:

7.1 Developing vendor resources with a focus
on indigenization of quality tooling for
electronic products.

7.2 Grants to encourage Research and
Development (R&D) activities.

7.3 Towards research grant for innovative
electronic hardware products. A sum of Rs. 5
Lakhs or 50% of the total cost for each
activity, whichever is less, will be provided as
grant towards research taken up by a start-
up entrepreneur who is an Engineering
graduate, having an annual turnover of less
than Rs. 100 Lakhs.

The selection of projects for such funding will be
totally transparent, with each proposal examined
by a Committee of relevant experts. Each project will also be regularly monitored to ensure proper execution, and successful projects will pay a royalty to the Fund, when commercial sales start, for each product produced.

8 PROMOTION STRATEGIES

8.1 Deregulating Business Environment and Infrastructure Support:

Creating high-class infrastructure facilities all over the State shall receive the highest priority from the Government, which shall encourage participation of the private sector, wherever practical, in developing such infrastructure, which shall include:

8.1.1 Setting up of Electronics Hardware Manufacturing Hubs (EHMH) with world-class facilities, as detailed below.

8.1.2 The EHMHS will be laid out keeping in mind the latest international standards of town and country planning and being made environment-friendly with proper segregated disposal mechanism and landscaped lung space. The detailed policies with regard to the said Hubs have been laid down elsewhere in this Policy.

8.1.3 Development of complimentary infrastructure such as Roads, Railways, etc., ensuring proper connectivity between the Industrial belt and the appropriate Airport / Seaport / Railway stations.

8.1.4 The Government shall make efforts to increase the number of trains and aircraft operating to and from major cities of Karnataka to facilitate better movement of goods and passengers.
9 ELECTRONICS HARDWARE MANUFACTURING (EHM) HUBS
Almost all of the present electronics hardware manufacturing activity in the country is characterized by low value addition, since it consists mostly of mere assembly activities. Karnataka State wishes to be a leading destination for the electronics hardware manufacturing industry by focusing on and encouraging high-technology, high-value-added electronics products. Towards this goal, the State shall create an integrated Manufacturing Ecosystem for a set of select sunrise domains such as Aerospace, Alternative (Solar) Energy, Medical Electronics, Automotive Electronics, and Embedded Systems.

The Electronics Hardware Manufacturing Hubs (EHMH) shall be set up in the following corridors identified, which shall be operated in line with the Special Economic Zone policy: Bangalore-Tumkur : for semiconductors, alternative/solar energy, aerospace, medical electronics, and embedded systems; West Karnataka (Shimoga-Hassan) : for manufacture of electronics components, plastics, metal-fabrication, and for electronics manufacturing services : North Karnataka (Hubli-Dharwar) : for automotive electronics, high-tech machining, and high-tech tooling ; and Mysore-Nanjangud : existing electronics hardware manufacturing base) for medical electronics and computer peripherals. The Western EHMH and the Northern EHMH will connect to the Southern EHMHs of Bangalore/Mysore, and Bangalore will be the logistics center for air-freight, and will connect to Chennai through a high-quality road network for ocean freight.

9.1 Each EHM Hub will comprise:

9.1.1 Large tracts of land fashioned as SEZs/Hardware Technology Parks. Land will be made available only on a thirty-year renewable lease, for a very low, attractive fee.

9.1.2 Educational institutions freshly oriented towards our focus areas: Aerospace, Alternative/Solar Energy, Medical Electronics, Automotive Electronics, and Embedded Systems.
9.1.3 Internationally accredited Testing Labs, Product Qualification Houses, Certification Agencies etc.

9.1.4 A Single-Window Clearance Agency of the Government to speedily and effectively handle statutory matters—Labour, Pollution Control, Power, etc.

9.1.5 A Facilitation Agency for quick removal of roadblocks.

9.1.6 Power Plants; Voice and High-Speed Data Transmission Networks; Utilities (such as Fire Station, Police Station, etc)

9.1.7 Hotels, Business Centres, Shared Canteens, etc.

9.2 In order to meet the above objectives, each EHMH shall feature:

9.2.1 500 acres of land at each of the Electronics Hardware Manufacturing Hubs will be made available to EHM industry. The EHMH would be set up on PPP mode, with Government support in the form of viability gap funding (VGF) upto 20% of the project cost.

9.2.2 200 acres at each EHMH shall be reserved for a few large units (on a ready-to-install basis) that commit a minimum investment of Rs. 100 crores each.

9.2.3 50 acres at each EHMH shall be reserved for testing labs, warehouses, Customs/Excise/Sales Tax and other regulatory authority offices, and privately-run public amenities such as crèches, transport, etc.

9.2.4 Flexibility in labour laws will be made without affecting the overall interest of labour but keeping in mind the cyclical nature of labour requirements;

9.2.5 Flexibility in industrial-land use for sub-leasing to ancillaries, vendors, and employee accommodation within the same complex;
9.3 The Government shall, by way of an appropriate notification, declare the areas that it deems fit for Electronic Hardware Manufacturing Hubs. Each EHMH shall be notified as SEZ, after receipt of applications from the intending units and developed as a Hub with world-class facilities to attract potential investors. This would include provision for captive development of power for the requirements of the units set up in the park. Provision would be made for adequate water and other like facilities.

10. FISCAL INCENTIVES AND CONCESSIONS:

Fiscal Incentives would be provided as per Karnataka Industrial Policy 2009-2014 (Incentives to units located in Zone 4 would be as applicable to Zone 3).

10.1. Investment Promotion Subsidy

a) Micro Mfg. Enterprises
   Zone-1: 25% VFA (max. Rs. 10.0 lakhs)
   Zone-2: 20% VFA (max. Rs. 7.5 lakhs)
   Zone-3: 15% VFA (max. Rs. 5.0 lakhs)
   Zone-4: Nil

b) Small Mfg. Enterprises
   Zone-1: 20% VFA (max. Rs. 20.0 lakhs)
   Zone-2: 15% VFA (max. Rs. 15.0 lakhs)
   Zone-3: 10% VFA (max. Rs. 10.0 lakhs)
   Zone-4: Nil

c) Med. Mfg. Enterprises
   (Those who employ minimum 25 workers)
   Zone-1: Rs. 30 lakhs
   Zone-2: Rs. 20 lakhs
   Zone-3: Nil
   Zone-4: Nil

Notes:

(i) 25% of the subsidy sanctioned amount will be released every year on refund basis towards the payments made by the unit in respect of gross VAT, ESI and PF and power tariff. In cases of enterprises which do not use power and not covered under VAT, EPF, ESI, the investment subsidy will be released against the loan dues.

(ii) This incentive is available to enterprises availing term loan to an extent of minimum 50% cost of fixed assets only.

(iii) The unit shall avail the sanctioned subsidy within the period of five years.

10.2 Additional subsidy to SC/ST, Women, Physically challenged, Ex-Servicemen, Entrepreneurs and enterprises coming up in most backward taluks of Hyderabad Karnataka Region.
Additional 5% subsidy subject to a Maximum of Rs. 1.00 lakh, Rs. 3.00 lakhs and Rs. 5.00 lakhs for Micro, Small and Medium Manufacturing Enterprises respectively.

10.3. Exemption from Stamp Duty

MSME, Large and Mega Projects:
Stamp Duty to be paid in respect of (i) loan agreements, credit deeds, mortgage and hypothecation deeds executed for availing term loans from State Government and/or State Financial Corporation, Industrial Investment Development Corporation, National Level Financial Institutions, Commercial Banks, RRBS, Co-operative Banks, KVIB/KVIC, Karnataka State SC/ST Development Corporation, Karnataka State Minority Development Corporation and other institutions which may be notified by the Government from time to time for the initial period of five years only and (ii) for lease deeds, lease-cum-sale and absolute sale deeds executed by Industrial Enterprises in respect of Industrial plots, sheds, Industrial tenements, by KIADB, KSSIDC, KEONICS, Industrial Cooperatives and approved private Industrial estates shall be exempted as below:

Zone-1: 100%
Zone-2: 100%
Zone-3: 75%
Zone-4: Nil

10.4. Concessional Registration Charges

MSME, Large and Mega Projects:
For all loan documents and sale deeds as specified in 2 above, the registration charges shall be at a concessional rate of Re.1 per Rs. 1000.

Note: (i) The exemption of stamp duty and concessional registration charges are also applicable to lands purchased under Section 109 of the KLR Act and also for direct purchase of industrially converted lands for the projects approved by SHLCC / SLSWCC / DLSWCC. This incentive will also be applicable for the land transferred by KIADB to land owners as compensation for the acquired land.

(ii) The exemption of stamp duty and concessional registration charges are also available for registration of final sale deed in respect of lands, sheds, plots, industrial tenements after the expiry of lease period at the rate as specified in the Industrial Policy which was in vogue at the time of execution of lease-cum-sale deed.
10.5. Waiver of Conversion Fine

MSME, Large and Mega Projects:
The payment of conversion fee for converting the land from agriculture use to industrial use including for development of industrial areas by private investors will be waived as detailed below:

Zone-1: 100%
Zone-2: 100%
Zone-3: 75%
Zone-4: Nil

Note: The waiver of conversion fine will be on reimbursement basis after implementation of projects.

10.6 Exemption from Entry Tax

MSME, Large and Mega Projects:
In Zone - 1, 2 and 3:

100% exemption from payment of ET on 'Plant & Machinery and Capital Goods' for an initial period of 3 years from the date of commencement of project implementation. For this purpose, the term, 'Plant and Machinery and Capital Goods' also includes plant and machinery, equipment etc., including machineries for captive generation of Electricity.
On raw materials, inputs, component parts & consumables (excluding petroleum products) (wherever applicable) for a period of 5 years from the date of commencement of commercial production.
Zone - 4 Nil

10.7 Incentives for Export Oriented Enterprises
MSME, Large and Mega Projects:
(i) Exemption from payment of ET
   For 100% EOUs, 100% exemption from payment of ET on ‘Plant & Machinery and Capital Goods’ for an initial period of 3 years from the date of commencement of project implementation irrespective of zones.
   For other EOUs, (Minimum Export obligation of 25% of their total turnover) 100% exemption from payment of ET on raw materials, inputs, component parts & consumables (excluding petroleum products) for an initial period of 3 years from the date of commencement of commercial production in Zone 1, 2, 3 and 50% in Zone 4.
(ii) Refund of Certification Charges:
    Refund of expenses incurred for compulsory marking like Conformity Europeene (CE), China Compulsory Certificate (CCC) etc., to the extent of 50% of expenses subject to a maximum of Rs. 2.00 lakhs per unit for both 100% and other EOUs in all zones.

10.8 Subsidy for setting up ETPs
MSME, Large and Mega Projects:
One time capital subsidy upto 50% of the cost of Effluent Treatment Plants (ETPs), subject to a ceiling of Rs. 100 lakhs per manufacturing enterprise in Zone -1, 2 & 3 and a ceiling of Rs. 50 lakhs in Zone -4.
**10.9 Interest Free Loan on VAT**

Large and Mega Projects:

All new large and mega manufacturing Enterprises established in Zone-1, 2 and 3 shall be offered interest free loan on VAT as specified below:

<table>
<thead>
<tr>
<th>Investment range on fixed assets (Rs. in Crores)</th>
<th>Min. Direct Emp. (Nos.)</th>
<th>Quantum of interest free loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 (value of plant &amp; machinery) - 50</td>
<td>Minimum 100 employment and additional 20 employment for every Rs. 10 Crore investment</td>
<td>50% of assessed gross VAT for initial 5 years subject to the max. of 100% of total value of fixed assets. Repayment of the loan shall be in 3 annual installments after 5 years.</td>
</tr>
<tr>
<td>51-250</td>
<td>Minimum 200 employment and additional 20 employment for every Rs. 50 Crore investment.</td>
<td>50% of assessed gross VAT for initial 6 years subject to the max. of 75 of total value of fixed assets. Repayment of the loan shall be in 3 annual installments after 6 years.</td>
</tr>
<tr>
<td>251-1000</td>
<td>Minimum 400 up to Rs. 300 Crores and 50 additional employment for every Rs. 100 Crores additional investment</td>
<td>25% of assessed gross VAT for initial 7 years subject to the max. Of 50% of total value of fixed assets. Repayment of the loan shall be in 4 annual installments after 7 years.</td>
</tr>
<tr>
<td>1001-3000</td>
<td>Minimum 750 for Rs. 1000 Crores and additional 25 for every Rs. 100 Crores additional investment</td>
<td>25% of assessed gross VAT for initial 10 years subject to the max. of 50% of total value of fixed assets. Repayment of the loan shall be in 4 annual installments after 10 years.</td>
</tr>
<tr>
<td>More than 3000</td>
<td>1250</td>
<td>25% of assessed gross VAT for initial 15 years subject to the max. of 50% of total value of fixed assets. Repayment of the loan shall be in 5 annual installments after 12 years.</td>
</tr>
</tbody>
</table>

Zone-4: Nil
10.10 **Anchor Unit Subsidy**
Anchor unit subsidy of Rs. 100 lakhs shall be offered for the first two manufacturing Enterprises with minimum employment of 100 members and minimum investment of Rs.50 Crores in each of the taluks coming in Zone-1, 2 & 3 will be offered. This subsidy will be applicable only in taluks where no industrial Enterprises with investment of Rs. 50 Crores and above exist at present.

10.11 **Special incentives for Enterprises coming up in low HDI districts**
Only for Large & Mega Projects:
New large scale Enterprises setting up facilities in six districts having bottom most Human Development Index (HDI) and employing atleast 75% local persons as defined in the Sorojini Mahishi recommendations will be offered 75% reimbursement of expenditure on account of contribution towards Employees State Insurance (ESI) and Employees Provident Fund (EPF) Scheme for a period of initial five years.
However, these benefits over a period of five years will be limited to 25% of value of fixed capital investment. The amount of reimbursement will be paid annually based on minimum statutory limit subject to the condition that the unit has paid its contribution towards ESI & EPF on the due dates. Following are the six districts having bottom most Human Development Index:

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>District</th>
<th>HDI* (2001)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bagalkot</td>
<td>0.591</td>
</tr>
<tr>
<td>2</td>
<td>Bijapur</td>
<td>0.589</td>
</tr>
<tr>
<td>3</td>
<td>Koppal</td>
<td>0.582</td>
</tr>
<tr>
<td>4</td>
<td>Chamarajanagar</td>
<td>0.576</td>
</tr>
<tr>
<td>5</td>
<td>Gulbarga</td>
<td>0.564</td>
</tr>
<tr>
<td>6</td>
<td>Raichur</td>
<td>0.547</td>
</tr>
</tbody>
</table>


10.12 **Interest Subsidy**
Micro manufacturing enterprises:
Interest subsidy @ 5% on term loans, the interest subsidy is payable only on the interest actually paid to financial institutions and not defaulted in payment of principle or interest installments. The amount of interest subsidy will be effective rate of interest (after deducting
10.13 Exemption from Electricity Duty

Micro & Small Mfg. Enterprises: 100% exemption of electricity duty/tax for the initial period of five years, four years and three years in Zone 1, Zone 2 and Zone 3 respectively.

10.14 Technology Upgradation, Quality Certification and Patent Registration

(i) Patent registration: 75% of the cost of fees payable to Patent Office (max. Rs. 125 lakhs) and 50% of the cost of fees payable to Copyright Office (max. Rs. 50,000).
(ii) ISO certification: 50% of the cost of fees payable to ISO.
(iii) Certification: 75% of the cost of fees payable to local certification bodies (max. Rs. 20,000).
(iv) BIS Certification: 50% of the cost of fees payable to BIS.

10.15 Water Harvesting and Conservation Measures

Small & Medium Mfg. Enterprises: 25% of the project cost (max. Rs. 50 lakhs).

10.16 Energy Conservation

(i) Use of energy-efficient equipment: 20% of the incremental cost of equipment.
(ii) Waste water recycling: 50% of the cost.
(iii) Zero discharge process: 50% of the cost.
(iv) Rainwater harvesting: 50% of the cost.

10.17 Incentives to the enterprises following Reservation Policy of the State

Small & Medium Mfg. enterprises in Zones 1 to 3: 15% of the incremental cost of equipment.

10.17.1 Incentives to the enterprises following Reservation Policy of the State

Medium, Large and Mega Manufacturing Enterprises in all zones employing more than 100 persons.
50% reimbursement of expenditure incurred for employees coming under reserved category towards contribution to ESI & EPF schemes for a period of initial 5 years.

10.18 Refund of cost incurred for preparation of Project Reports
Micro & Small Mfg. Enterprises: Zone 1, 2 and 3:
The cost incurred for preparation of project reports by TECSOK/CEDOK/KSFC or any recognized institutions for availing loans shall be reimbursed to the maximum of Rs.10,000/- per unit subject to financing of the unit.

11. MANUFACTURE / ASSEMBLY OF LOW COST MOBILE HANDSETS:
There are increasing applications available on mobile telephony including banking transactions and there are tremendous opportunities for mobile penetration in rural areas. Farmers would have access to vital data related to cropping, rainfall, market price etc with the introduction of 3G technology. The poor farmers may not be economically capable of owning a handset with 3G technology. Government proposes to set up a 'Mobile Hand Set Manufacturing Cum Assembly Hub' in 100 Acres of land in the IT Investment Region, proposed to be developed near BIAL at Bangalore.

12. TEST FACILITIES
The Government shall actively encourage the Research and Development activities and facilitate setting up of full-fledged Testing Centres and Laboratories.

13. RECOGNITION AND AWARDS
To boost performance, quality and accelerate growth, the Government shall announce a few schemes of awards and recognition, which shall be announced in due course.
The Government shall issue notifications as appropriate within the respective statutes to give effect to the said Policy.