



PROCEEDINGS OF THE GOVERNMENT OF KARNATAKA

Sub: Special Incentives Scheme for ESDM Sector (2020-25) – reg.

Read: File No: DITB/ADMIN/REPO/1/2020 of Directorate of Electronics, IT and Bt.

Preamble:

- 1] Electronics Systems Design and Manufacturing (ESDM) has seen rapid growth in the past decade, riding on increasing demand from emerging market economies. Manufacturing has also seen a shift in its loci from Europe and North America to Asia. China is the leading global destination for ESDM, accounting for nearly 40% of global electronics production and 30% of the global electronics exports. South East Asia, especially Vietnam and Indonesia, has been emerging as a global hub for electronics manufacturing due to cheaper labour costs, proximity & cultural affinity to China, and attractive incentives.
- 2] The outbreak of Covid pandemic and subsequent lockdowns have slowed the growth rate of industry and adversely impacted the ESDM sector. Electronics manufacturing, predominantly located in China and East Asia, was shut down, as the origin of the pandemic was traced to these countries. Companies in ESDM sector, predominantly those with manufacturing plants in China, realized the need to diversify their manufacturing locations and have started scouting for potential locations to ground their investments out of China. In order to diversify their supply chains, companies have started looking to move out of China.
- 3] With a large domestic market and existing ecosystem, India is well positioned to attract these companies. This opportunity for investments has been picked up by several States in India and there is fierce competition among the States to ground these investments moving out of China in their respective states. While Karnataka has an established ecosystem for ESDM, it still needs to compete with leading industrialized states like Tamil Nadu, Gujarat, Telangana, Maharashtra, and Uttar Pradesh, among others.
- 4] Government of India has announced the National Policy on Electronics 2019 (NPE 2019) to increase the domestic production of electronics and propel the growth of the ESDM industry. NPE 2019 aims to encourage domestic manufacturing and exports in the ESDM value chain. Building on the Policy, Government of India has come out with three schemes to boost the ESDM sector in the country. Of these three Schemes, Scheme for Promotion of manufacturing of Electronics Components and Semiconductors (SPECS) and Production Linked Incentive (PLI) Scheme are aimed at Manufacturing units in ESDM sector, while Electronics Manufacturing Clusters 2.0 (EMC 2.0) is aimed at Industrial Park developers. NPE 2019 also had the provision that States could offer incentives over and above that proposed by Union Government under the Policy.
- 5] The sector industry representatives felt that development of the ESDM sector may be better achieved by leveraging the robust ecosystem of Bengaluru, which has world class social infrastructure, presence of leading ESDM sector companies (Cisco, Qualcomm, Texas Instruments, etc.), proximity to international airport, and strong base of skilled manpower.

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6] In post-Covid investment scenario, it is felt that the State should facilitate investment plans of ESDM sector investors in the locations of their choice. Therefore, it is proposed that Karnataka offer special incentives for ESDM sector investments that are geographically broad-based and encompassing the entire State.

7] The State has already undertaken various non-fiscal measures such as land and labour reforms and several initiatives under ease-of-doing-business to attract investments. Along with these reforms, a Special Incentive Scheme is proposed to provide the much-needed fiscal interventions that will provide fillip for ESDM investments.

Hence, the Order.

Government Order No: ITBT 101 ADM 2020,
Bengaluru, Dated: 7th September, 2020

In the circumstances explained in the preamble, Government is pleased to accord approval for providing the following Special Incentives for the ESDM sector:-

Sl. No.	Incentive Head	Quantum Proposed
Manufacturing & Assembly Units		
1	Capital Investment Subsidy	25% on Land only in areas other than Bengaluru Urban and Bengaluru Rural districts upto an extent of 50 acres on actual procurement cost. 20% on Plant & Machinery
2	Reimbursement of Stamp Duty and Registration Charges	100%
3	Reimbursement of Land Conversion Fee	100%
4	Power tariff reimbursement	INR 1.00 per unit for 5 years from the month of commencement of commercial production
5	Exemption from Electricity Duty	100% for 5 years from the month of commencement of commercial production
6	Production Linked Incentive (for new investments and expansions)	1.00% of annual turnover for a period of 5 years, starting from the first year of commercial operations

2] The 25% Capital Investment Subsidy on land will be eligible to only those industries who are setting it up in areas other than Bengaluru Urban and Bengaluru Rural districts.

3] Capital Investment Subsidy on Land will be provided for land area up to and not exceeding 50 acres and on actual procurement cost if procured from KIADB or any other agencies of Government of Karnataka. The subsidy for land procured from other sources will be as per the guidance value of land at the time of procurement. Cap on the maximum amount of land subsidy for each ESDM unit will be prescribed in the Operational Guidelines which would be formulated for implementation of the Scheme.

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- 4] The 20% Capital Investment Subsidy on Plant & Machinery will include expenditure on used / second hand / refurbished plant, machinery, and equipment (including for associated utilities and R&D), whether imported or procured domestically.
- 5] Production Linked Incentive will be based on annual sales turnover (includes sales within the state, inter-state and exports), as evidenced by annual audited accounts/audited balance sheets.
- 6] Incentives will be provided only to new investments or for capacity expansion. It will not be applicable for existing companies
- 7] Total quantum of incentives sanctioned to a Manufacturing / Assembly unit under this package shall not exceed 100% of the value of fixed assets created by the unit.
- 8] **Products/activities eligible for the Special Incentives Scheme are:-**
- a. Manufacturing and / or design of electronics products such as Telecom Systems / Mobiles / IT Systems and Hardware / Consumer Electronics / Medical Electronics / Avionics / Industrial Electronics / Defense & Strategic Electronics / Automotive Electronics / Information & Broadcasting Equipment/etc covered by Karnataka ESDM Policy 2017-22.
 - b. Semiconductor manufacturing & design including manufacturing of Semiconductors, ICs, PCBs, bare boards, chip components, chemicals for board manufacture, covered by Karnataka ESDM Policy 2017-22.
 - c. Electronic Manufacturing Services including design / IP / software services for electronics products, covered by Karnataka ESDM Policy 2017-22.
 - d. The products / activities covered by National Policy of Electronics 2019 of Govt. of India and schemes of Govt. of India such as SPECS and PLI.
 - e. Solar Cells Manufacturing - Standalone and with Modules.
 - f. LED - Fab, Intermediaries and manufacturing & assembly of LED products.
- 9] A 'Technical Committee' would be constituted to certify the eligible activities falling under 'Electronics Systems Design and Manufacturing' category other than those mentioned above.
- 10] The 'Special Incentives Scheme for ESDM Sector' will be applicable for new investments or investments in expansion of existing units for a period of 5 years from the date of announcement of the Scheme.
- 11] The 'Special Incentives Scheme for ESDM Sector' can be availed in addition to incentives and subsidies provided under any of the policies of Government of India. Industries availing this package of incentives cannot avail incentives under any of the other policies of Government of Karnataka.

This order is issued with the concurrence of Finance Department in Endorsement No.FD 146 Exp-2/2020, dt: 07-08-2020.

The aforesaid Scheme of Special Incentives for ESDM sector during the period 2020-2025 has been approved by State Cabinet (vide subject No:392/2020) in the meeting held on 3rd September, 2020.

By order and in the name of
Governor of Karnataka,



(E.V. RAMANA REDDY)

Additional Chief Secretary to Government,
Department of Electronics, Information Technology,
Biotechnology and Science & Technology.

To:

The Compiler, Karnataka Government Gazette, Bengaluru.

Copy to:

1. The Accountant General (Audit & Accounts), Karnataka, Bengaluru.
2. Additional Chief Secretary to Chief Minister, Vidhana Soudha.
3. Additional Chief Secretary, Finance Department, Govt. of Karnataka, Vidhana Soudha.
4. ACS and Development Commissioner, Bengaluru.
5. All Additional Chief Secretaries/Principal Secretaries/Secretaries to Government.
6. Deputy Commissioners of all Districts.
7. Regional Commissioner, Bengaluru /Mysuru/Belagavi/Kalaburagi.
8. Director, Directorate of Electronics, IT & Bt, Bengaluru.
9. Managing Director, KITS, Shanthinagar, Bengaluru.
10. Deputy Secretary to Government, (Cabinet) Cabinet Section (Sub No: 392/2020).
11. Commissioner for Industrial Development and Director of Industries and Commerce.
12. CEO-Karnataka Industrial Areas Development Board.
13. Managing Director, Karnataka Udyog Mitra, Khanija Bhavan, Bengaluru.
14. Vice President, NASSCOM, Bengaluru (through MD-KITS)
15. President, India Electronics & Semiconductor Association [IESA], B'lore (through MD-KITS)
16. Chairman, Karnataka Council, Associated Chambers of Commerce and Industry of India [ASSOCHAM], Bangalore (through MD-KITS)
17. Chairman, Karnataka State Council, Confederation of Indian Industries (CII), Bangalore (through MD-KITS)
18. Head, Karnataka State Council, Federation of Indian Chambers of Commerce & Industry [FICCI], Bangalore (through MD-KITS)
19. PS to Hon'ble Deputy Chief Minister and Minister for Electronics, IT, Bt and S & T.
20. PS to Chief Secretary to Government, Government of Karnataka.
21. PS to Additional Chief Secretary to Govt., Dept. of Electronics, IT, Bt and S & T.
22. Guard File/Spare Copies.