ERGO
Analysing developments impacting business

KARNATAKA'S FINAL GCC POLICY LAUNCHED

2 December 2024

Background

Karnataka is home to 875+ Global Capability Centres (GCC) units, having the largest share of India's GCC talent and accounting for 35% of the GCC's workforce in India. Karnataka's impressive performance is largely attributed to its capital city, Bengaluru, often referred to as India's 'Silicon Valley' and 'Unicorn Capital', which is also recognised as the world's second-largest hub for artificial intelligence talent. The Karnataka government had released a draft Karnataka GCC Policy 2024-29 (Draft Policy) (covered in our earlier piece 'Impetus to GCCs in India: Karnataka Releases First of its Kind Draft Policy').

Taking into consideration stakeholder comments on the Draft Policy, the Karnataka government has finalised its approach to GCCs and released the Karnataka GCC Policy 2024-29 in its final form (Policy) on 19 November 2024, during the annual Bengaluru Tech Summit. Aimed at bolstering Karnataka's reputation as a GCC hub, the policy outlines several strategic measures to attract these centres beyond Bengaluru, targeting cities like Mysuru and Mangaluru. It underscores the Karnataka government's commitment to providing various benefits to industries considering GCC locations, with a focus on talent upskilling, minimising bureaucratic obstacles and offering financial incentives such as reimbursement for internship stipends, costs for the use of GCC facilities, electricity duty, statutory fees (including patent registration and quality certification), etc.

There are certain differences between the Policy and the Draft Policy. Some of these are summarised below:

➢ While the Draft Policy provided that one of the Karnataka government's goals for its GCC ecosystem is inclusivity and diversity by providing workforce empowerment and mentorship programs for transgender employees, the Policy has placed emphasis on inclusivity and diversity towards the 'specially-abled'.

➢ While the eligibility restrictions mentioned in the Draft Policy for availing incentives related to the skilling of local talent were limited to GCCs having at least 100 employees, the Policy expands the eligibility criteria by making all new or existing GCCs be eligible for availing such incentives, regardless of the number of employees.

➢ The GCC Policy has increased the funding cap for applied research in academic programs from INR 7,500,000 to INR 10,000,000.

➢ The Draft Policy provided for recruitment assistance to GCCs by providing them with 10% of the recruitment cost in case new GCCs recruit 100-250 employees, however, the Policy has expanded the eligibility criteria by making all new and existing GCCs

having at least 100 employees which are expanding in the 'Beyond Bengaluru' areas to be eligible for availing such incentive.

➢ The Policy has: (i) increased the funding limit for establishing 'Innovation Labs' / 'Centres of Excellence' for GCCs in Bengaluru Urban District from INR 40,000,000 to INR 50,000,000; and (ii) raised the funding percentage for GCC in 'Beyond Bengaluru' areas (which applies to Mysuru, Mangaluru, Hubballi-Dharwad-Belagavi, Tumakuru, Kalaburagi and Shivamogga) from 40% to 75%, while at the same time lowering the funding limit from INR 50,000,000 to INR 30,000,000. Additionally, the Karnataka government will support a maximum of 2 projects per year in Bengaluru Urban District, as per the Policy, instead of a maximum of 5 projects during the policy period, as was initially suggested in the Draft Policy.

➢ The Policy has increased the requirement for usage of facilities for utilisation of GCC labs and technology from 1 month (as per the Draft Policy) to 6 months, in order to avail 100% reimbursement of costs incurred on such usage.

➢ The Policy has modified the eligibility criteria for availing the incentives for strengthening research and development (R&D) infrastructure for GCCs in 'Beyond Bengaluru' areas, to now extend to the Bengaluru Urban District as well.

➢ The Policy has introduced a limit to the reimbursement for internet expenses for the first 3 years of the GCC operations for telecom infrastructure development to INR 1,200,000 per year.

➢ The Policy has introduced new incentives for setting up 'GCC Immersive Hubs' which shall aid in innovation and R&D, and any registered entity in Karnataka / industry associations is eligible for availing the incentives for setting up such hubs.

➢ The Policy now also proposes a global outreach initiative to be undertaken by the government of Karnataka, which will entail participation in high profile international roadshows, trade delegation & conferences. Also, the government of Karnataka will implement a comprehensive strategy to facilitate the engagement with key global markets / audiences, including by establishing robust marketing and distribution channels.

➢ While the Draft Policy offered a 100% exemption on electricity duty for 5 years from the date of the GCC being established in Karnataka in the 'Beyond Bengaluru' areas, the Policy now provides this incentive as a 100% reimbursement on such duty.

Conclusion

The Policy marks a pivotal advancement in establishing Karnataka as a leading hub for GCCs. By focusing on talent enhancement, research funding and infrastructure support, the policy aims to attract both existing and new GCCs to the state, while promoting innovation and economic growth. Notably, while there are various changes made from the Draft Policy, the theme of the Policy continues to reiterate Karnataka's strong commitment to GCCs.

- *Rabindra Jhunjhunwala (Partner); Swathy Ramanath (Partner); Ayush Nanda (Counsel) and Priya Maharishi (Associate)*

For any queries please contact: editors@khaitanco.com