03 AP INNOVATION & STARTUP POLICY

AN ENTREPRENEUR IN EVERY FAMILY

PREAMBLE:
Globally, the United States of America has been at the forefront in research and development in the recent past while Israel has been the leading spender in R&D and Innovation (in terms of % of GDP). In the last decade, India spent less than 1% of the GDP for R&D and Innovation. R&D in India, is still largely financed by government sources. Out of over 5,000 Incubators across the world, India has only 65. Countries such as Netherlands, Singapore, Sweden, etc. have been giving more importance to R&D and Innovation.

Science, Technology and Innovation (STI) have emerged as the major drivers of National Development globally. India has declared 2010-20 as the "Decade of Innovation." GoI has stressed the need to enunciate a policy to synergize science, technology and innovation. In 2013, GoI came up with the Science, Technology & Innovation Policy, in order to create a robust innovation culture and ecosystem. It proposes to increase the expenditure on Innovation R&D to 2% of the GDP. For the development of an innovation culture in the Country, the policy envisages the creation of a conducive ecosystem for venture capital in the MSME sector with an initial corpus of ₹ 10,000 Cr.

The Constitution of India along with our fundamental rights has given every citizen 10 fundamental duties of which two are

a. To develop the scientific temper, humanism and the spirit of inquiry and reform;
b. To strive towards excellence in all spheres of individual and collective activity so that the Nation constantly rises to higher levels of endeavor and achievement

The State needs world -lass scientific and technology ecosystems that would empower and enable its youth to carry out this fundamental duty to our beloved nation.

For the development of innovation, entrepreneurship and startup culture in the State, GoAP proposes to set up an Innovation & Capacity Building Mission as envisaged in the Blueprint Document **"Re-Imagining Andhra Pradesh – R*role of e-Governance, Electronics and IT*"** (available on www.ap.gov.in).

The Vision envisaged for the new Innovation & Startup Policy is:
"To create a world-class 'technology startup ecosystem' by fostering 'entrepreneurship and a culture of innovation' which contributes to increased knowledge, wealth and employment in our society."

The State of Andhra Pradesh shares a collective dream of a new India where new generation software products would be manufactured creating multiplier effects in the growth of the State and Nation, employment creation, and social transformation.

Through the Innovation and Startup Policy, the Government intends to create an ecosystem that produces an entrepreneur in every family. The targets laid out for Andhra Pradesh, through this Policy, by June 30, 2019 are:

- 100 Incubators / Accelerators to be established
- 5,000 Companies & Startups to be incubated
- 1 million sft. of Incubation Space to be developed
- Venture Capital of ₹ 1000 Cr. to be mobilized for Innovation
- Foster Innovation Culture
- Create at least one home grown billion dollar technology startup

The Policy would have the following Niche Themes as focus in the initial period:

- Internet of Things (IoT)
- 'IT for X' in the areas of Pharma, Oil & Gas, Urban Management
- Social Media, Mobility, Analytics and Cloud Computing (SMAC)
- Fabless Semiconductors
- Animation & Gaming
- Entertainment
- Visual Effects
- Health and Fitness
- Automotive

Though the IT policy of the State would be the mother policy for the startups in the sector, a specific policy on innovation would top up the efforts of the IT policy. The new policy for innovation would base itself on the 5 pillars of **Shared Infrastructure, Accelerators / Incubators, Human Capital, Funding and above all, a system of Good Governance (State Support)**. The efforts and activities to be taken up in these areas are listed below.

1. Shared Infrastructure:

The Government will endeavor to create world-class shared infrastructure for technology product startups to operate at no cost and technology service startups at nominal cost till the company achieves self-sufficiency.

1.1 **Existing Models of Development:** Government will encourage the Host Institutions of existing Technology Business Incubators (TBIs) to set up their TBIs in the State to jump-start the startup ecosystem. The Innovation and Capacity Building Mission would study the existing models of Incubation / Startup centers across various locations and come up with recommendations on the facilities and shared infrastructure to be developed.

1.2 **Incubation Infrastructure Development Fund:** The Government shall develop physical incubation infrastructure through Public Private Partnerships. A New Incubation Infrastructure Development Fund will be setup under the Innovation Mission as a Revolving Fund that provides Conditional Grant for SPVs, promoted by Host Institutes of TBIs and approved by NSTEDB, DST, GoI. The Fund should be used for the creation of Social Infrastructure in the State of Andhra Pradesh for a full fledged Startup Ecosystem, comparable with the best in the world, which has Incubation facilities, Infrastructure for R&D labs, Office spaces, small and large Conference rooms, Small Office Home Offices (SOHO), Residential facilities like Hostels, Dormitories, 1-2-3 BHKs, Office spaces for Skunk works, Innovation zones and other modern amenities. The SPV mechanism also has to have an escrow account jointly with a leading financial institution into which the entire rent collected would be deposited. The operational cost of running the facility, such as building maintenance, would be covered from the rent. The surplus cash, if any, generated each year, would be transferred back to the Revolving Fund until the total Project Cost is recovered completely.

1.2.1 Along with the Incentives provided in the IT Policy, Host Institutes of TBIs that are recognized by National Science and Technology Entrepreneurship Development Board (NSTEDB) shall be entitled for lease of land and space for a period of 90 years for setting up TBIs and related infrastructure to create world-class Live-Work-Play environments at Government-owned IT Parks. The lease amount in such cases shall be payable in equal annual installments over the period of lease.

1.2.2 The responsibility of marketing the facilities created shall be with the selected partner. The Government shall provide such promotional support as needed.

1.2.3 Appropriate relaxations will be provided from the zoning regulations and land usage conversions, subject to environmental safeguards.

1.2.4 Relaxation to AP Building Rules would be considered, subject to the payment of City Level Infrastructure Impact Fee and clearances from Fire Services, Airport Authority and conformance to the National Building Code and statutory regulations.

1.2.5 The principles of green buildings, green IT, e-Waste management, Walk-to-Work and Cycle-to-Work shall be followed while designing the facilities.

1.3 **Common Infrastructure:**

The Government would facilitate the creation of support infrastructure for the development of the innovation ecosystem to attract new entrepreneurs. This includes:

a) Common Testing labs & Tool rooms

b) Enterprise Software & shared Hardware

c) Shared services like Legal, Accounting, Technology, Patents, Investment Banking

d) Other amenities and facilities like individual accommodation, hostel rooms

e) Community for startups

2. Accelerators & Incubators:

The Government shall establish at least one world-class Accelerator / Incubator by inviting global accelerators and incubators to set up their programs in the State.

2.1 The Government will also support small accelerators / incubators in multiple locations, by providing support and space to bring in expertise and startups in the incubation centers through diverse models.

2.2 The Government targets to create 1 million sft. of Incubation Space by 2019

2.3 Government proposes to partner with Indian and globally successful Incubators in order to replicate the successful Funding and Mentoring Models.

2.4 Government proposes to partner with accelerators by providing support and space to bring in expertise in operating and managing the Incubation centers.

2.5 Government would focus on closely monitoring the proceedings of the initial batches / groups in the Incubation centers as these would seed the ecosystem which will fuel the subsequent batches.

3. Human Capital:

Inculcating the habit and embedding the idea of innovation among all the citizens in every aspect of economic activity is essential for promoting the culture of innovation in the people. This needs to be achieved through strong educational support to bring out innovators and technopreneurs among the youth. The Government would work with universities, educational institutions and the industry to provide pre-trained manpower in emerging technologies and to foster a culture of entrepreneurship.

3.1 **Update Syllabus:** The Universities will be advised to change the course curriculum to be in tune with the emerging technologies and align to the requirements of the Industry, and to introduce courses in entrepreneurship development through incubators. Industry experts may be leveraged to teach courses at incubators and students who are interested may elect these courses. The evaluation provided by approved industry experts may be sent by the incubator to colleges / university for inclusion in the electives that students can learn as part of the degree course.

3.2 **Faculty Upgradation:** A special scheme of faculty upgradation shall be introduced. Government would support enhancing infrastructure at existing universities to train the faculty for promotion of innovation.

3.3 **Mandatory Apprenticeship:** All educational institutions offering under-graduate courses shall implement a mandatory scheme of internship / apprenticeship in the last year of the course in association with the Industry. This may be waived off for students who are setting up their own startups in Incubators.

3.4 **Credits to MOOCs and insertion as electives:** The Universities will be advised to give credits to the students successfully completing notified online courses (MOOCs) and their insertion as electives. The University in conjunction with Incubators operating in the state shall decide the number of credits and evaluation methodology for such courses. Students should be free to learn electives even in first or second year of college as part of degree completion.

3.5 **Gap Year - Concept of Student Entrepreneur in Residence:** Universities may introduce the concept of Student Entrepreneur in Residence. Outstanding students who wish to pursue entrepreneurship can take a break of one year, after the first year, to pursue entrepreneurship full time. This may be extended to two years at the most and these two years would not be counted for the maximum time for graduation. Even though this can be done even now, our society is still not ready and thus having this as a scheme from the University would ensure parents are comfortable and confident that this is a Government approved scheme that their children are availing. The Gap Year facility may be

given to ensure syllabus continuity at the time of joining back and after an appraisal process by an incubator where the student is attached.

3.6 **IT & Entrepreneurship @ College level:**

- All Universities in Andhra Pradesh may give 5% grace marks and 20% attendance every semester for student startup teams, which have at least one woman as a cofounder.
- Students may be permitted to undertake their Industrial Seminar, Project Seminar and Industrial Visit at Technology Business Incubators where additional facilities are being setup.
- Student Entrepreneurs working on a startup idea from first year of college may be permitted to convert their startup project as their final year project towards degree completion. Mentors assigned by Incubators may be allowed to conduct Viva Voce. Project Reports certified by the Incubators may be sent back to the respective colleges for forwarding to the university.

All the above three proposals may be implemented by Universities from the semester starting from June-July 2014 itself and may issue this with immediate effect.

3.7 **Distribution of Raspberry Pi / Adruino / Little Bits Kits & Startup boxes to the students:** Schools in the State would be encouraged and helped to distribute Rasberry Pi, Adruino, Litte Bits & Startup boxes to promote the teaching of basic computer science in schools and ignite the imagination of students. Government would also make efforts to bring in private sector and CSR funding for this purpose.

3.7.1 Annual Science Fairs would be held to identify and promote innovation & Entrepreneurship at School Level.

3.7.2 A program would be conceptualized to have district level competitions for business ideas for Student groups from 8th to 10th standards with a maximum grant of ₹ 25,000 per idea. A maximum of 50 ideas each year would be facilitated.

3.8 **Innovation and Transformation Academy:** An academy for fostering Innovation in the State would be established in Tirupati. This would help in institutionalizing the culture of entrepreneurship in the State by providing leadership and entrepreneurship training.

3.9 **Entrepreneurship Boot-camps** - College and School Level Entrepreneurship Development Cells (Boot Camps) may be created through pilot incubators for creating support and awareness at local level inside the college campus itself.

3.10 **Entrepreneurship Learning** - Pilot Incubators are to roll out one day training programs in schools for exposure to entrepreneurship. At college level, entrepreneurship training has to be immediately provided as a weekend workshop done in partnership to be taken up by the Innovation and Transformation Academy.

3.11 **Attracting International Mentors:** Government will provide subsidy to Incubators for bringing international consultants, mentors and for hiring and training local fresh talent.

3.12 **International Startup Culture and Exchange Programme** - An international startup program would be setup to send the most brilliant startups, college and school students to leading startup destinations around the world for getting global exposure at a young age. Select College Principals and Teachers would also be sent for gaining international exposure about the startup culture in universities like Stanford, Harvard and MIT and see how MOOCs are being used in various schools and colleges for education. Similarly, tie-ups may be setup to bring world-class startups to work alongside startups in Andhra Pradesh for faster learning and cultural exchange.

3.13 **e-Literacy:** The GoI scheme of e-Literacy would be implemented to make one person e-literate in every household, in partnership with the Industry.

3.14 **Innovation Zones** - All State departments have to setup Innovation Zones at Pilot Incubators in order to bring closer industry-institute interaction for creating innovative products and applications for the PSUs under the Department, eGovernance Applications, SMAC products etc. in the Department.

3.15 **Market Support and State Database:** Government will focus on startups while supporting industry associations (as decided by AP Inc.) for conducting surveys and / or research on trends in technology, research, innovation and market intelligence on niche themes. It would also create a portal containing a database of innovations being carried out in the State.

3.16 **Business Networking and Promotional Events:** The Government will promote and encourage participation in various national and international events by the Industry and by leading a Government-industry business delegation to identified Exhibitions and Conferences. Government would also undertake promotional events and road shows at various locations from time to time. 50% (100% for SC / ST & women entrepreneurs) reimbursement of the exhibition stall

rental cost for participating in the notified national / international exhibitions limited to 9 sq.m. of space would be provided to the startups.

3.17 **Digital Marketing:** Advertisement and marketing support subsidy will be provided for digital marketing as most of the SMAC enterprises are in the B2C space.

4. Funding - State Innovation Fund:

The Government will create an Initial Innovation Fund of ₹ 100 crore (1 billion) for entrepreneurs and businesses.

4.1 The Fund will be in the nature of Fund of Funds. It does not invest directly into startup companies. It shall participate in the Capital of SEBI approved Venture Capital Funds, up to 15% as Limited Partner. The VC Fund in turn is free to invest in startups located in AP, basing on its own criteria.

4.2 The Fund would be professionally managed like a PE / Venture Fund with Industry leaders on the investment committee and would also leverage support from private partners and the GoI.

4.3 The Fund would also support the establishment of Pilot Incubators and Human Capital Developmental Programs through Host Institutes approved by the National Science and Technology Entreprenuership Development Board, Government of India.

5. State Support:

A. Non-Fiscal Incentives

The fiscal and non-fiscal incentives applicable to all categories of IT industry would be applicable to incubators, accelerators and startups. In addition,

5.1 **Effective Single-Window System:** A highly empowered 'Single Window Clearance Unit' will be created and operationalized for granting approvals and clearances to primarily first time and young entrepreneurs. A single window clearance will be provided for VAT, Labour, Municipal and other local registrations and compliances. It would be supported by a state-of-the-art centralized help desk on 24x7 basis duly leveraging the e-Biz portal set up by GoI. The objective of this window would be to (a) reduce time to set up business and (b) reduce cost of doing business.

5.2 **Special provisions for Startups:** In addition, allocation of space will be provided to incubators and startups on priority. Special dispensation for startups backed by PE / VC funding would be created.

5.3 **Awards for Innovation:** Government will encourage innovation amongst the entrepreneurs through Innovation awards. The focus of these awards will be mostly on innovative products that attend to societal problems and would be awarded every year.

5.4 **Technology – Server & Software:**

5.4.1 **Cloud Server:** Government would host a cloud sever that would connect all the incubation centers across the State. This server would be available to all the startups, at low or nominal costs.

5.4.2 **Enterprise Software & Device Testing Labs:** Based on the requirement, Government would

procure Enterprise versions of key software required for testing and other purposes at incubators. These software and labs can be utilized by the companies in the incubation space at nominal charges.

5.4.3 **MIT FAB Labs:** In order to promote education in hardware manufacturing and creating prototypes of hardware products a High-end FABLAB from MIT (Boston, USA) would be setup at a Pilot Incubator.

B. Fiscal Incentives

The incentives available for MSMEs in the IT policy would also be directly applicable to the startups. In addition to that:

5.5 **Reimbursement of VAT/ CST:** Reimbursement of VAT / CST on goods supplied to the Incubator or incubatee and on sale or leasing of goods by Incubator to incubatee would be provided.

6. Governance of Innovation Policy

6.1 **APInC:** An empowered 'Andhra Pradesh Innovation Council (APInC)' would be formed with the representatives of industry, incubators and the other stakeholders. APInC would administer the incentives in a speedy, time-bound and transparent manner.

6.2 **Empowered Mission for Innovation & Capacity Building:** An empowered Mission would be established to give a fillip to the development

of the sector and take faster and agile decisions. The mission would be headed by a Technocrat who has a proven record of promoting innovation in technology areas. It would consist of 3 experts one each in e-Governance, Electronics and IT, 3 academicians and 3 representatives of Industry.

7. Public Private Partnership Model

The establishment of new incubators and accelerators would be in PPP model to leverage the risk taking strength of the Public Sector along with the execution skills of the Private Sector. The roles and responsibilities of State Government and Private Sector is outlined below.

7.1 **Role of State Government**

7.1.1 Provide Administrative Guidance and Support to Private Partner for setting up Incubator.

7.1.2 Provide guidance and support to arrange infrastructure and other necessary support from time to time for the successful running of the Incubator based on existing government policies in effect from time to time.

7.2 **Role of Private Sector as Host Institute**

7.2.1 Vision and Execution of Incubator.

7.2.2 Organizational Responsibility and Management of Incubator.

7.2.3 Establishing Support Ecosystems, Capital Asset Management and Resources as required for the Incubator.

7.2.4 Management of the Incubator on day-to-day basis.

7.2.5 Private Partner will be responsible for creating a self-sustaining business model needed for the execution of the Incubator after the support period

given to incubated startups which is maximum of 3 years in case of service startups and 5 years in case of product startups from the date of their entry into the Incubator.

7.2.6 Shortfalls, if any, in revenue generation will be met by the Private Partner post the support period.

7.2.7 Private Partner will be responsible to find, nurture and support incubatee companies with a flexible framework based on the changing incubatee requirements in the Sector.

7.2.8 Ensure pro-active participation of other Private Sector companies for the Incubator in terms of raising funds for the incubator and angel investment for startups.

8. Establishment of Pilot Incubators in PPP Model

8.1 Andhra Pradesh would be one of the first states in India to come out with a comprehensive Innovation and Startup policy with a thrust on the PPP model of incubation. Thus, there are very few case studies or models to learn from, and knowledge has to be built with pilot experimental projects to create a comprehensive roadmap for Innovation and Entrepreneurship in the State. As the Indian Startup Ecosystem is at a nascent stage, considerable support has to be provided by the State in terms of infrastructure and policy support with program execution and expertise leveraged from the private sector.

8.2 With a view to jump-start the Startup Ecosystem in Andhra Pradesh, reputed Pilot Incubators (Host Institutes), approved by the National Science and Technology Entrepreneur Development Board, Dept of Science & Technology, Govt of India, will be selected on nomination basis and non-exclusive basis to setup Pilot Incubators under the Public Private Partnership model.

8.3 An appropriate selection mechanism shall be created for the selection of Pilot Incubators (Host Institutes).

8.4 Focus Areas - Initial forays for establishment of pilot incubators would be within the areas of

- Telecom and Mobile Internet
- Internet of Things (IoT)
- 'IT for X' in the areas of Pharma, Oil & Gas, Urban Management
- Social Media, Mobility, Analytics and Cloud Computing (SMAC)
- Fabless Semiconductors
- Animation & Gaming
- Electronics
- Entertainment
- Visual Effects
- Health and Medical Equipment
- Sports and Fitness
- Automotive

8.5 **Performance Linked Assistance:** Assistance at ₹12,500 per month, for a maximum period of three years per incubated startup company located in the identified Incubation Center developed by the State, would be provided to the Pilot Incubator (Host Institute) approved under the Pilot Projects. 10% annual increase in performance linked assistance would be provided.

8.6 **Physical Infrastructure and Essential Infrastructure:** Fully furnished and ready-to-use plug and play infrastructure along with computers with 1 GBPS Internet connectivity, electricity, water, security and other office facilities would be provided as infrastructure support from the State Government for the Pilot Incubators.

8.7 **Term and Duration:** The Pilot Incubators which are setup initially for five years. Based on a successful performance review, they would be eligible for further support-based on learnings from the Pilot.

9. Establishment of Startup - Bootup - Scaleup Model for a Product Startup Nation

9.1 The Government has published on its portal, (www.ap.gov.in) a Blueprint for development of IT, Electronics and e-Governance sectors in the State. To realize this vision, the Government of Andhra Pradesh will seek to co-create a product nation in India and will work to bring cutting-edge policy recommendations necessary to enable the creation of Indian-owned Global Technology Companies based out of AP.

9.2 Government of AP will work with Industry Associations for Software Product Industry to be recognized as a new Industry with NIC (National Industrial Classification) Code.

9.3 The Government will act as market maker for giving a massive fillip to the Software Product Industry. In line with the State IT Policy, an Innovative Startup-Bootup-Scale-up Model would be followed for attracting cutting-edge Software Product Startups to Andhra Pradesh by leveraging the points of IT projects up to ₹ 50 Lakhs for Rural Companies, up to ₹ 5 Cr. for MSMEs registered in Andhra Pradesh and up to ₹ 50 Cr. per annum proposals to be taken up *suo moto* using Swiss Challenge.

.9.4 Time-bound approval of proposals in 4 weeks would be given to Innovative Product Companies to demonstrate their product(s) as Pilot projects i.e., Startup Phase. Once the pilot is successful, the Government would encourage companies to do local product development for software companies and manufacturing (for hardware companies) i.e.- Bootup Phase. Companies that have deployed their products in Andhra Pradesh would then be given incentives as decided by the State Innovation Council to go National and International i.e.- Scaleup Phase.

This Policy would be valid till 2020 unless modified.

A customized index would be created to track the quality of innovation ecosystem over time in the State by benchmarking with the National and International levels. The factors for this index would be drawn from renowned international indices such as World Bank Knowledge Economy Index, UNCTAD Innovation Capability Index, UNDP Technology Achievement Index, Arco Technology Index, RAND Science and Technology Capacity Index, European Innovation Scoreboard Summary Innovation Index, WEF Global Competitive Index, World Business and INSEAD Global Innovation Index etc. Based on the performance on this index and other experiences in the implementation, this policy would be updated every year in order to strengthen the software products culture and ecosystem, crafting better polices and enabling the creation of market catalysts for the State of Andhra Pradesh.

ITE&C Department shall issue appropriate Implementation / Operational Guidelines with simplified application proforma and procedure for claiming of the incentives.

www.apit.ap.gov.in

A.P. GOVERNMENT ORDERS

IT Policy - G.O. Ms. No.:13, dated: 11-08-2014 of ITE&C Dept.
Electronics Policy - G.O. Ms. No.:16, dated: 09-09-2014 of ITE&C Dept.
Innovation & Startup Policy - G.O. Ms. No.: 17, dated: 09-09-2014 of ITE&C Dept.

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