

Shardul Amarchand Mangaldas

A DECADE YOUNG, A CENTURY STRONG

AI GOVERNANCE FOR INDIAN STARTUPS

A Set of Principles

FOREWORD



Mr. Priyank Kharge

*Minister of Electronics,
Information Technology &
Biotechnology and Rural
Development & Panchayat
Raj*

Karnataka has long been at the forefront of India's technology and innovation journey. With a vibrant startup ecosystem, world-class research institutions, and deep engineering talent, the state continues to play a defining role in shaping the future of the digital economy. As Artificial Intelligence emerges as a transformative technology across sectors, it is essential that innovation is guided by principles of responsibility, trust, and accountability.

The "AI Governance for *Indian Startups: A Set of Principles*", developed by Shardul Amarchand Mangaldas & Co. in collaboration with the Karnataka Digital Economy Mission (KDEM), provides a timely and practical framework to support startups in navigating the evolving AI landscape. By promoting fairness, transparency, data protection, safety, sustainability, and intellectual property protection, these principles encourage startups to design and deploy AI systems that are both innovative and responsible.

The Government of Karnataka remains committed to fostering an enabling policy environment that empowers entrepreneurs, strengthens research and industry partnerships, and builds a future-ready talent base. Through progressive policies and initiatives, we aim to position Karnataka as a global hub for trusted, ethical, and impactful AI innovation.

I commend the efforts of SAMCo and KDEM in bringing together this important set of guiding principles and encourage startups and ecosystem stakeholders to adopt them as we collectively advance a secure, inclusive, and globally trusted digital future.



Dr. Shardul S. Shroff

*Executive Chairman
Shardul Amarchand Mangaldas & Co.*

AI has become the defining general-purpose technology of our era, reshaping how every sector delivers value. Across India's rapidly evolving digital economy, start-ups are the practical bridge between frontier breakthroughs like AI and their adoption at scale. Particularly, Karnataka stands out for its forward-looking and start-up-friendly approach towards turning technological ambition into impact.

The unique features of AI - agility, proximity to users and speed—empower businesses to build robust and reliable solutions for business growth. However, with technological scale and diffusion come commensurate risks; and only a principles-based approach, grounded in lawfulness, accountability, transparency, privacy and human oversight can convert such innovation into sustainable adoption. These Principles on “*AI Governance for Startups*” set out that pathway. They offer both a map and a compass, guiding a powerful current of innovation into safe harbours of trust and long-term value.

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GLOSSARY

Understanding Key Terms

Key Terms	Description
Accountability	The obligation of individuals or organizations to account for their actions, accept responsibility, and disclose results transparently through specific means and criteria.
AI Incident	An event where an AI system malfunctions, produces unintended outcomes, or behaves unpredictably, potentially causing harm or violating legal rights.
Artificial Intelligence (“AI”)	An AI system is a machine-based system that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments. Different AI systems vary in their levels of autonomy and adaptiveness after deployment.
Auditability	The ability to inspect and verify system processes and decisions.
Bias	Systematic difference in treatment of certain objects, people or groups in comparison to others.
Data Minimisation	Collecting only as much personal data as is necessary to achieve a specific purpose.
Explainability	Property of an AI system to express important factors influencing the AI system results in a way that humans can understand.
Fairness	Ensuring AI decisions are free from harmful bias or discrimination.

GLOSSARY

Understanding Key Terms

Key Terms	Description
Human in the loop/ Human-allied AI	Involving human expertise in the AI lifecycle, particularly during training and deployment, to actively improve system performance and reliability.
Inference Attacks	An attack against machine learning models that infers sensitive attributes of a training data record, given partial knowledge about the record.
Model Cards	Model cards are short documents accompanying trained machine learning (ML) models that provide benchmarked evaluation in a variety of conditions, such as across different cultural, demographic, or phenotypic groups and intersectional groups that are relevant to the intended application domains.
Model Inversion	Model inversion is a machine learning security threat in which an attacker exploits a model’s outputs or other accessible information to infer sensitive or private details about the data used in training the model.
Mosaic Effect	A mosaic effect occurs when multiple data sets are combined to identify individuals within those data sets, even if they were anonymized within each individual set.
Privacy by Design	Privacy-by-design provides a framework for a holistic approach for organizations that can be adopted in protecting the privacy of their stakeholders across the spectrum.
Transparency	Making information about an AI system available to relevant stakeholders in an accessible and understandable manner, to the extent technically feasible.

ENRICHING KARNATAKA'S PREMIER STARTUP ECOSYSTEM

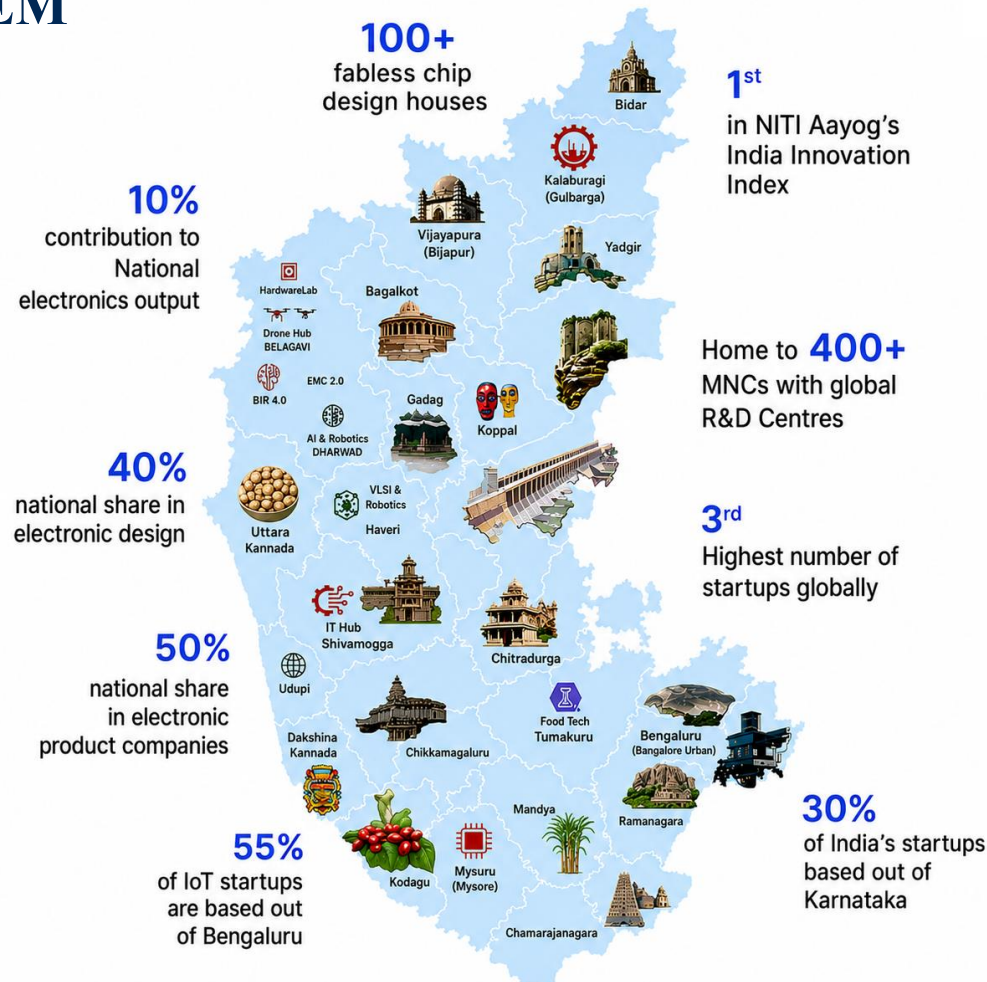
National Leadership

Karnataka is India's unrivaled startup leader, hosting over 18,952 registered startups and acting as the primary driver of the country's entrepreneurial growth.

Global Recognition

Bengaluru has solidified its status as the "Silicon Valley of India," ranking 10th among the top 20 startup cities globally according to the 2025 Global StartupBlink Index.

Source: Karnataka Start-up Policy 2025-2030



Focus on DeepTech

The state is emerging as a powerhouse for Artificial Intelligence, Quantum Technologies, and DeepTech, supported by heavy government investment and world-class research institutions.

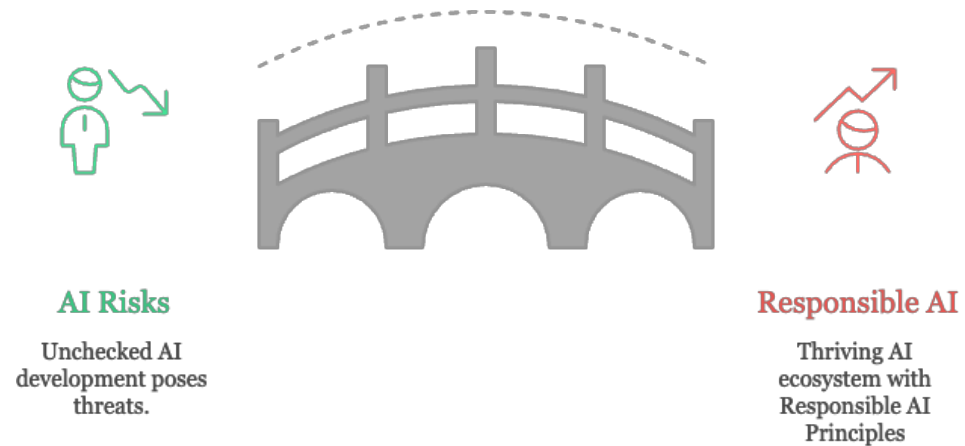
Capital Inflow

Bengaluru's thriving startup ecosystem, fueled by innovation and strong investor confidence secured USD 71.19 billion funding between 2014 to 2024, strengthening its position as the top destination for venture capital inflows.

PROBLEM STATEMENT

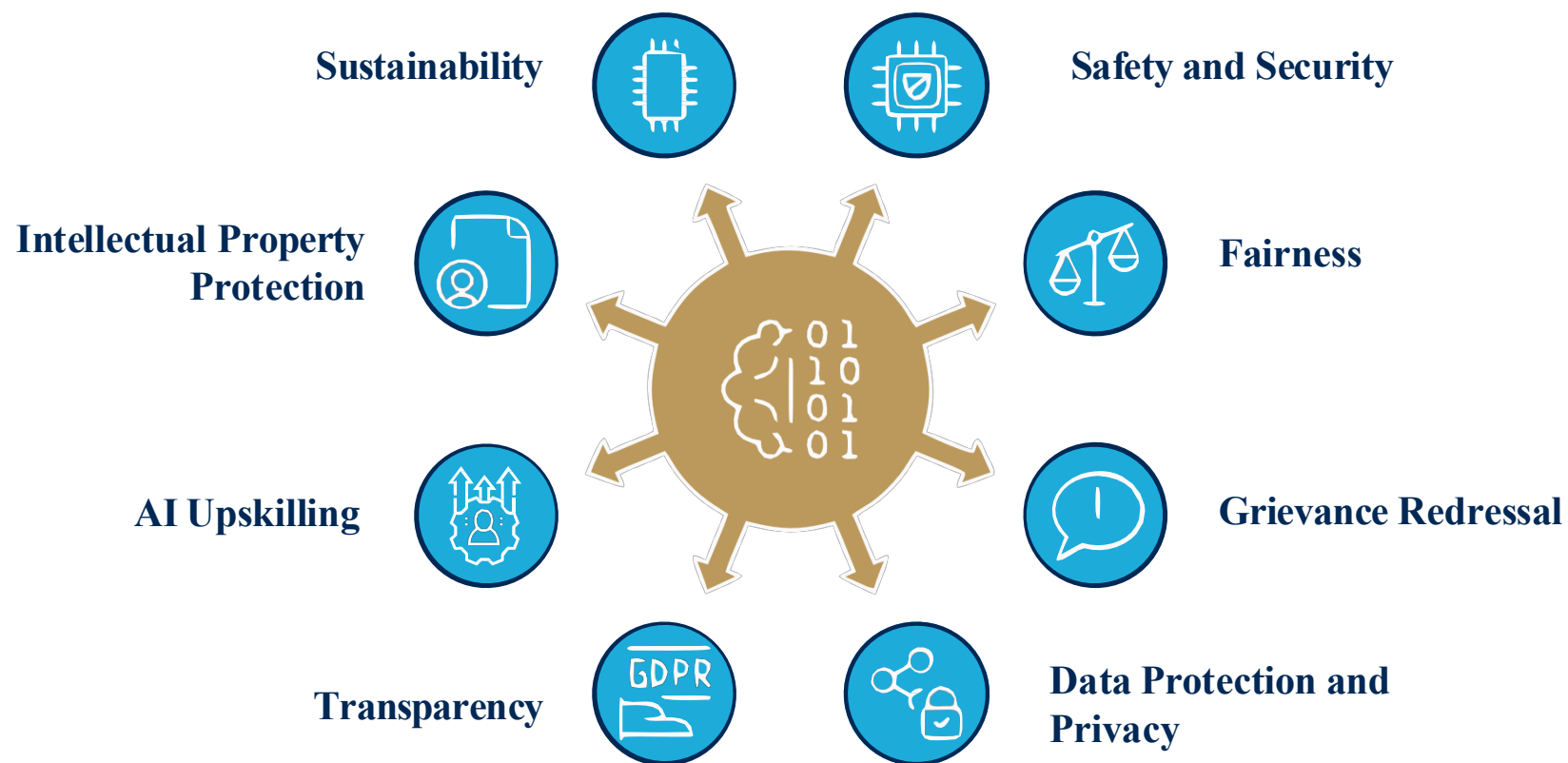
- As Indian startups increasingly adopt and build AI-driven systems, they face the dual challenge of leveraging AI for innovation and economic growth while mitigating its potential harms, ranging from privacy breaches and algorithmic bias.
- Amid calls for a mature, comprehensive AI regulatory framework in India, startups must proactively design internal AI governance mechanisms that align with emerging global norms, ethical principles, and sectoral expectations. A robust AI governance framework, prioritizing safety and trust,
- The central problem, therefore, lies in determining how Indian startups can frame practical, context-sensitive AI governance frameworks that ensure responsible development, deployment, and oversight of AI systems, balancing innovation with trust, compliance, and societal well-being.

NEED TO BUILD THE AI ECOSYSTEM WITH A SELF GOVERNANCE APPROACH



AI GOVERNANCE PRINCIPLES

Translating them to Implementable Actions



Sources: Principles sourced and triangulated, from a review of the (i) India AI Governance Guidelines, 2025; (ii) the RBI FREE-AI Framework, 2025 and (iii) the SEBI Consultation Paper on Guidelines for Responsible Usage of AI/ML In Indian Securities Market (2025).

PRINCIPLE 1: FAIRNESS

Fairness and bias mitigation are central to AI governance, as biased data or algorithms can entrench discrimination and cause disproportionate harm to marginalised groups.

In India, such outcomes may create legal risks, contravening equality principles housed in the Constitution of India. Outcomes may also contravene digital and product liability laws, such as the Information Technology Act, 2000 and the Consumer Protection Act, 2019.

IMPLEMENTATION

1 Establish Governance Framework	2 Testing and Validation	3 Monitoring
Secure board approval for a comprehensive AI policy that sets clear standards for ethical deployment. The Data Security Council of India provides sample templates for AI Security, Privacy and Governance Policy.	Conduct pre-deployment vendor diligences to ensure that the AI systems have been tested for fairness. The Telecommunication Engineering Centre has established tests for Fairness Assessment and Rating of Artificial Intelligence Systems.	Schedule periodic reviews and retrain on freshly audited data. Report key metrics (accuracy and fairness scores) to regulatory bodies. Microsoft Azure Machine Learning provides model monitoring for generative AI applications, making it easier to monitor on key metrics like data prediction, attribution, and performance.

Example: An HR tech startup’s hiring AI, trained on historical data, disproportionately rejects women. A governance framework, rigorous fairness testing, and continuous monitoring can flag bias early and trigger fixes - improving selection parity and increasing callbacks for qualified women.

Relevance for Startups: Aside from mitigating the risk of liability for startups - fairness-based testing and monitoring may help create commercial value: fewer costly mis-hires and regulatory exposures, a larger high-quality talent pipeline, faster time-to-productivity, and lower cost-per-hire.

Sources: India AI Governance Guidelines, Data Security Council of India AI Policy Template, TEC Standard 57050:2023

PRINCIPLE 2: GRIEVANCE REDRESSAL

Grievance Redressal Mechanisms ensure accessible channels for users to report AI-related harms, mandating timely resolution to build trust and mitigate risks like discrimination or errors. India’s AI Governance Guidelines recommend organizations establish these mechanisms for early issue detection.

Sectoral regulators insisting on it include the Department of Consumer Affairs (through the National Consumer Helpline), the Ministry of Electronics and Information Technology(IT intermediaries under IT Rules), and the Reserve Bank of India (RBI)/Securities and Exchange Board of India (SEBI) for financial AI systems.

IMPLEMENTATION

1 Set up a Helpline or Form on your Website for AI harm Reports The Telecommunication Engineering Centre has provided for a framework to report AI Incidents.	2 Designate Team Members to Resolve AI-related Reported Harms Consumer Protection (E-commerce) Rules, 2020 mandate e-commerce entities to appoint a Grievance Officer.	3 Track Grievances to Apot Patterns and Improve AI systems JanSeva is a grievance lodging and tracking system designed to modernize and streamline the process of public grievance redressal in India.	4 Publish Periodic Transparency Summaries on AI governance Microsoft has published the Responsible AI Transparency Report highlighting all the progress made in responsible AI governance, and how AI incidents are addressed.
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Example: A HealthTech startup's diagnostic AI misclassifies a patient's condition; the user appeals through a dedicated portal, triggering human review and compensation.

Relevance for Startups: For early-stage startups, effective grievance redressal mechanisms could help avoid remediation/legal spend and incentivize faster enterprise sales due to trust and compliance readiness.

Sources: TEC Standard 57090:2025, Microsoft AI Transparency Report 2025

PRINCIPLE 3: DATA PROTECTION AND PRIVACY

AI systems introduce privacy risks such as model inversion, inference attacks, and mosaic effect. Under India’s Digital Personal Data Protection Act, 2023 (DPDP Act), businesses are required to respond to these risks with “reasonable security safeguards.” Businesses must “implement technical and organisational controls” to prevent unauthorised processing and ensure that any de-identification is robust enough that individuals are not reasonably identifiable.

IMPLEMENTATION

1	2	3	4
Compliance with the Digital Personal Data Protection Act, 2023 (DPDPA) and Implement Privacy by Design	Prevent a Data Breach	Notify a Data Breach	Use Tailored Data Sharing Agreements for Cross-border Data Transfers
Data Security Council of India provides a comprehensive guide on how organizations can implement Privacy by Design.	CERT-In Security Guidelines require organizations to mandatorily report cyber incidents to CERT-In within 6 hours of noticing such incidents or being brought to notice about such incidents.	The Karnataka Cyber Security Policy - Operational and Procedural Guidelines (2024) promote the development of key cybersecurity standards to improve an organisation’s cybersecurity posture.	UK Information Commissioner’s Office provides for best global practices while executing data sharing agreements.

Example: An EdTech startup uses student data for personalized-learning AI without explicit consent; a breach exposes records and results in regulatory fines. Aligning with DPDPA, this can be assuaged by implementing explicit, purpose-specific and revocable consent, data minimization, processor contracts, and rapid breach responses.

Relevance for Startups: DPDPA-aligned approaches are likely to avoid fines and litigation, lower cyber-insurance premiums, improve conversion in institutional procurements, and shorten sales cycles.

Sources: DSCI Privacy by Design Guidance, Karnataka Cyber Security Policy, Direction No. 20(3)/2022-CERT-IN, Data Sharing Code of Practice

PRINCIPLE 4: TRANSPARENCY

Transparency means providing clear, understandable and precise information on how an AI system works, where it is used and what is its limitation. Transparency manifests as both a standalone principle and as a practical obligation around disclosures, documentation and auditability. The India AI Governance Guidelines require that AI systems provide explanations and disclosures “that can be understood by the intended user and regulators”. RBI FREE-AI Framework similarly demands explainable systems and public disclosures by regulated entities on AI use, governance and safeguards in annual reports and websites.

IMPLEMENTATION

1 User Disclosures	2 Inventory AI Systems	3 Schedule periodic reviews and furnish reports to regulatory bodies
Inform stakeholders proactively and accessibly. Adobe Generative AI User disclosures provide for comprehensive details on elements of GenAI used, and what data is used for training models.	Create a central registry of all AI deployments. Infosys publishes its GenAI User Guidelines providing details regarding AI governance frameworks, adoption areas, ethical guidelines adopted, consumer protection measures, complaints and grievances handled, etc.	SEBI mandates periodic disclosures of AI systems being used for algo-trading, along with key use-cases.

Example: An e-commerce startup's recommendation AI hides its logic; users complain of unfair suggestions. Regular, user-facing disclosures explaining the factors driving recommendations, coupled with periodic internal and third-party data audits to detect and remediate bias, can strengthen transparency.

Relevance for Startups: Aligning with transparency through user-facing explanations of recommendation factors and regular independent audits - raises conversion and retention. It increases trust, reduces support and dispute costs, and mitigates regulatory and platform risks, thereby lifting gross margins and accelerating profitable growth.

Sources: India AI Governance Guidelines, RBI FREE-AI Framework, SEBI Consultation Paper, Infosys Knowledge Institute, Adobe Generative AI User Guidelines

PRINCIPLE 5: AI UPSKILLING

AI adoption demands reskilling programs and impact assessments to mitigate job displacement while creating new opportunities in AI-related roles. The India AI Governance Guidelines and the RBI FREE-AI Framework position human beings as the core reference point for AI governance, not efficiency or automation alone. They place emphasis on re-skilling and education of current workforce. SEBI's approach expects Senior Management to have AI expertise/familiarity with AI systems to ensure robust governance in financial markets.

IMPLEMENTATION

1

Re-skilling Current Workforce to Reflect AI-forward skills

IndiaAI FutureSkills provides for programs that can assist in re-skilling members of the team. The Karnataka Information Technology Policy (2025-2030) identifies “future-ready workforce” as a key policy pillar. As a part of the policy, to meet rising demand for skilled IT workers and support development, the Government of Karnataka has offered to fund training for working professionals in emerging technologies.

2

Conducting Workshops to Upskill Employees on AI Use-cases and Responsible AI Use

Shardul Amarchand Mangaldas & Co., a law firm, uses Harvey AI as a legal tech solution and regularly conducts sessions for its associates to upskill them in responsible AI usage. These sessions are tailored to the sector, practice group and includes examples to inform associates of harms.

Example: A logistics startup automates warehouse jobs with AI robots. To upskill the workforce to use these robots, it launches reskilling programs for drivers into drone operations to retain talent and avoid unrest.

Relevance for Startups: In the long run, this will save startups money and time. It will reduce turnover and downtime, redeploy experienced staff to higher-value roles, cut safety incidents and claims, and keep operations running smoothly to protect performance, revenue and margins. A BCG report says that upskilling the workforce on AI, including GenAI, helps companies get more from their tech spend and gain a competitive edge.

Sources: India AI Governance Guidelines, RBI FREE-AI Framework, SEBI Consultation Paper, The Karnataka Information Technology Policy (2025-2030), INDIAai

PRINCIPLE 6: SAFETY AND SECURITY

Start-ups must ensure AI systems function reliably and safely with its intended use. Systems must also endeavour to not produce unintended consequences. The India AI Governance Guidelines and the RBI FREE-AI Framework position safety, security and resilience as a core principle. Safety includes resilience under stress, anomaly detection, early-warning mechanisms and robust model governance across the lifecycle.

IMPLEMENTATION

1

Governance Policy on Commitment towards Safety and Training Organization

Data Security Council of India provides for templates of policies for AI security, privacy and governance. The structure of the governance policy can be mapped to some of the key pillars under Karnataka Cyber Security Policy -Operational and Procedural Guidelines 2024.

2

Ensure to develop fail-safe and backups

Infosys Knowledge Institute provides a comprehensive guide on Supply Chain Resilience. This can be built by mandating human-in-the-loop, diversifying vendors to avoid concentration, developing fallback plans for power outages, and retaining logs.

Example: A study by MIT Technology Review Insights has revealed that while 87% of business executives believe that responsible AI principles are critical to adopt, 85% of all the executives say they are not well prepared to implement them.

Relevance for Startups: By cutting fraud losses and chargebacks, reducing false positives to approve more good transactions, and speeding incident response, startups can protect revenue and lift authorisation yield while holding risk steady.

Sources: India AI Governance Guidelines, RBI FREE-AI Framework, Infosys Knowledge Institute, Data Security Council of India, Karnataka Cyber Security Policy -Operational and Procedural Guidelines-2024, *Implementing Responsible AI in the Generative Age* (MIT Technology Review Insights 22 January 2025).

PRINCIPLE 7: SUSTAINABILITY

AI development efforts should be environmentally responsible and resource-efficient, and the adoption of smaller, resource-efficient ‘lightweight’ models should be encouraged. The India AI Governance Guidelines position sustainability as a long-term goal, to ensure that the digital ecosystem is mindful of long-term environmental impacts. This links sustainability to infrastructure choices (for instance., smaller, efficient models; shared compute and data infrastructure) and to long-term resilience of the digital and financial ecosystem, not only to environmental impact in a narrow sense.

IMPLEMENTATION

1

Vendor Due Diligences for Environmental Impacts

European Union’s Corporate Sustainability Reporting Directive (CSRD) provides for a list of compulsory disclosure requirements related to corporate governance and sustainability. These disclosures inform users of commitment towards environmentally conscious practices.

2

Promote Sustainability within the Organization

The Karnataka Data Centre Policy (2022-2027) provides an example for supporting green development of data centers in Karnataka. It offers green power tariff reimbursement as an incentive for sustainable development.

Illustration: A cloud AI startup could face soaring GPU inference costs and a growing environmental impact. In response, it planned to migrate workloads to a green cloud provider and optimized its stack with energy-efficient model architectures.

Relevance for Startups: According to a report by KPMG, although greening a data centre will incur upfront capital costs, in the long run it will reduce operational expenditure and improve efficiency.

Sources: India AI Governance Guidelines, European Union’s Corporate Sustainability Reporting Directive, Karnataka Data Centre Policy (2022-2027), NITI Aayog Principles for Responsible AI, Going Green: Data Centers, KPMG.

PRINCIPLE 8: INTELLECTUAL PROPERTY PROTECTION

AI raises practical IP and copyright issues. Businesses must, illustratively, determine who owns AI-assisted outputs, whether copyright subsists without sufficient human authorship in AI-generated work, and how training on copyrighted works fits within fair dealing/text-and-data mining exceptions. Key IP risks in this context are infringement from training or lookalike outputs, enforceability of licences over training inputs, and allocation of liability across developers, deployers and users.

IMPLEMENTATION

1	2	3
Enforce Clear Guidelines	Establish rights over AI output and clarify the scope of liability for infringement	Clarify the Scope of Indemnity for Infringement
Establish clear guidelines about training AI models on copyrightable data. Adobe provides a guide on best practices guidelines about training AI models.	Australian Government’s Digital Transformation Agency provides model clauses for AI contracts, specifically for intellectual property clauses.	While signing vendors contracts for procuring AI-related services, ensure indemnity against any copyright-infringement related concerns. Google Cloud provides for generative AI indemnification.

Example: An AI startup trains its model on openly licensed content. It pays contributors through a compensation program. Enterprise customers own the outputs they generate. The company manages risk with clear contracts, offers IP indemnities for compliant use, and requires users not to create infringing content.

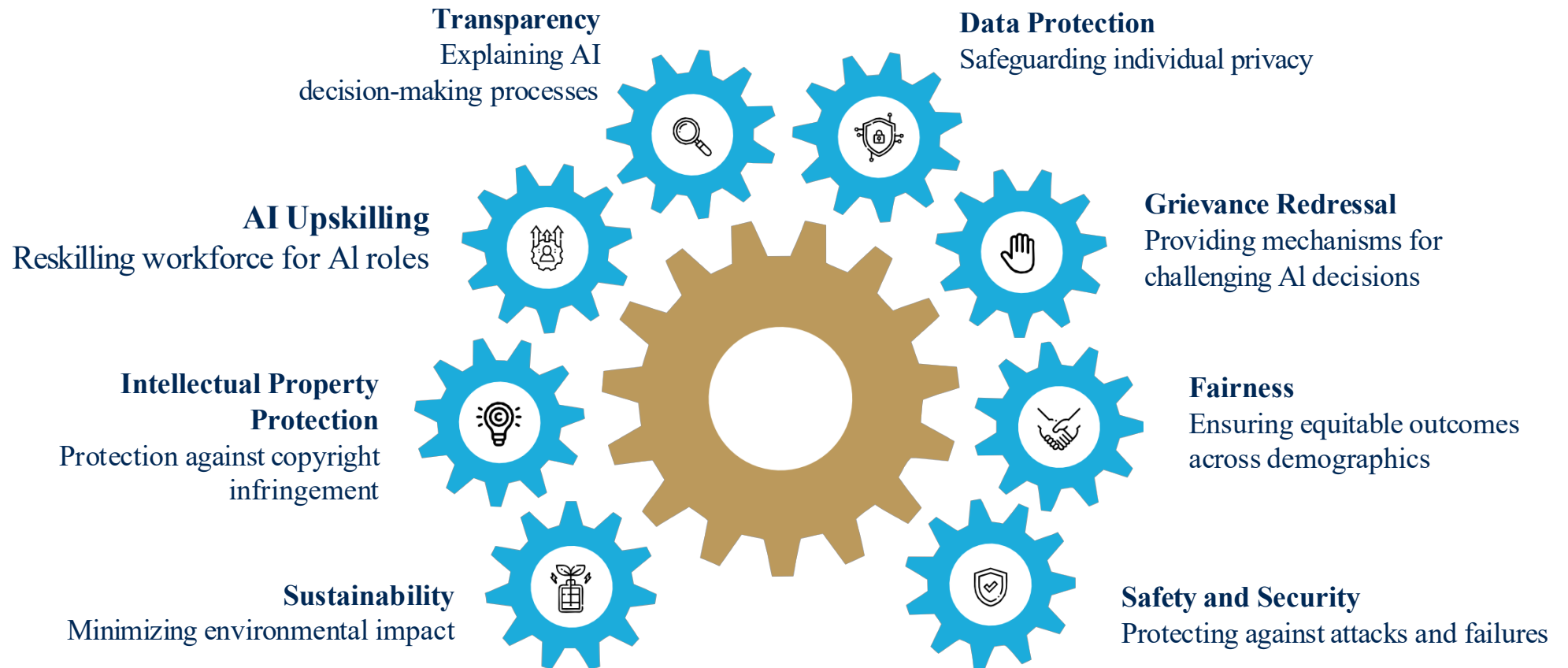
Relevance of Startup: This helps avoid copyright claims, ownership disputes, and takedown demands. IP protection as a core product feature can dampen tail-risk that would otherwise inflate the cost of capital, converts legal certainty into enterprise-grade trust that widens the addressable market and unlocks channel partnerships.

Sources: India AI Governance Guidelines, Australia Digital Transformation Agency, Google Cloud.

PHASED IMPLEMENTATION OF THE PRINCIPLES ACROSS THE AI LIFECYCLE

Level 1 Must-Do	Level 2 Good to Do	Level 3 Necessary for Company Growth
Data Privacy - Design a consent and notice system before using any personal data - Notify data breach immediately upon occurrence - Draft Clear Data Sharing Agreements IP and Copyright - Explore a royalty model while training copyrighted data - Contractually establish the following: - Rights over the IP - Liability and indemnity for IP infringement	Grievance Redressal - Set up a helpline for AI harms and designate an official to handle this - Track grievances to spot patterns, improve models accordingly Data Privacy and Safety and Security - Implement privacy by design - Commit to safety and training; and build fail-safe and backups	Fairness Retrain only on newly audited models
		Grievance Redressal Prepare regular transparency reports for AI use
Fairness - Establish an ethical use of AI policy - Conduct vendor due diligence for fairness - Conduct periodic reviews of systems	Transparency - Provide user disclosures while deploying AI systems and conduct periodic reviews - Create a central registry for AI deployment	Transparency Conduct central registry for all AI deployments
		AI Upskilling Upskill existing workforce to upskill and reskill members of the team
		Sustainability Conduct vendor due diligence for environmental impact and promote sustainability

SUMMARY



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CLOSING MESSAGE

Dr Manjula N. IAS

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and Science & Technology*

Karnataka's strong engineering talent, research institutions, and vibrant startup ecosystem continue to position the state at the forefront of technology innovation. As Artificial Intelligence becomes a defining technology, startups across the state are translating research into real-world impact.

These AI Governance Principles provide a practical framework to mainstream responsible AI, embedding ethics, accountability, transparency, and human oversight into innovation. By focusing on talent upskilling, safety, and sustainability, Karnataka aims to ensure that AI-driven growth remains inclusive, resilient, and globally trusted.

Mr. Sanjeev Kumar Gupta

*Chief Executive Officer,
Karnataka Digital Economy Mission*

As India advances toward a \$1 trillion digital economy, Karnataka remains committed to building a \$300 billion digital economy driven by innovation and responsible technology adoption. With Bengaluru emerging as a global hub for AI innovation, the need for trusted AI frameworks is increasingly important.

These Principles provide startups with a clear pathway to embed fairness, transparency, privacy, safety, sustainability, and intellectual property protection into AI systems. Through ecosystem initiatives and policy support, KDEM aims to empower startups to innovate responsibly and contribute to a secure, inclusive, and globally competitive digital future.

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Karnataka Digital Economy Mission (KDEM) is a Section 8 organisation designed to function as the knowledge bridge between the Government of Karnataka and the industry ecosystem to accelerate the development of the state's IT, BT, and S&T sectors. Endeavouring to contribute US\$300 billion to the prime minister's vision of a US\$1 trillion digital economy, KDEM plays a critical role in supporting technology investments, uncovering technology opportunities through research, structuring promotional efforts abroad, providing feedback on policy, and forming strategic roadmaps. The organisation's 'Beyond Bengaluru' initiative seeks to maximise the economic potential of emerging cities/regions outside the state capital by enabling their organic growth and inviting investments for start-ups/enterprises.

As a result, over 25 companies, including IBM and GlowTouch, have begun functioning in the Mysuru, Mangaluru, and Hubballi clusters, generating employment for more than 5,000 people. Additionally, in measures to create about 10,000 start-ups by 2030, KDEM is working on augmenting the start-up ecosystem in the existing and planned clusters through the 'Beyond Bengaluru Startup Grid'. The project facilitates access for upcoming start-ups with mentor groups across broad areas like HR, legal, R&D, accounting, and marketing/branding, with more than 300 start-ups already a part of the grid. KDEM, in association with industry partners, is also setting up funds of INR 75 crore for the three clusters to invest in promising tech-based start-ups.



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Shardul Amarchand Mangaldas & Co, founded on a century of legal achievement, is one of India's leading full-service law firms. Our mission is to enable business by providing solutions as trusted advisors through excellence, responsiveness, innovation, and collaboration.

We are one of India's most well recognised firms and are known globally for our integrated approach. Our 900 lawyers including 186 partners provide exceptional services across practice areas which include General Corporate, Merger & Acquisition, Private Equity, Banking & Finance, Insolvency & Restructuring, Competition Law, Dispute Resolution, Infrastructure, Energy and Project Finance, Capital Markets, Tax, Intellectual Property and Venture Capital.

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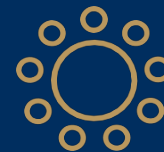
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