

## BusinessLine

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## Nurturing start-ups

*Policymakers must shift focus from funding, to an ecosystem approach to help start-ups grow*

The trends emerging from the National Association of Software and Services Companies (NASSCOM) report on the country's tech start-up ecosystem indicate that India is on the right track to becoming a global hub for innovation and emerging entrepreneurs. Specifically, there are two big shifts in the start-up space that are encouraging. One is the increasing focus on the business-to-business (B2B) space. The second, and more important shift, is the rapid growth in the number of deep-tech start-ups as well as start-ups focussing on the underserved markets. Over 18 per cent of all start-ups are now leveraging deep-tech, which means there are over 1,600 such companies in India engaged in high-end engineering. Only 8 per cent of all start-ups were involved in deep-tech in 2014. These are significant changes from the initial rush of young entrepreneurs who were merely replicating successful business models from the Silicon Valley primarily aimed at retail consumers. While these businesses have made services such as booking a cab or a hotel room more affordable and convenient, the reality is that Indian start-ups are way behind in terms of creating products like Google and Microsoft do. This could be a thing of the past soon with more number of Indian

start-ups now focussing on creating solutions using deep-tech such as artificial intelligence, analytics, augmented reality/virtual reality, blockchain and the Internet of Things, among others. India desperately needs these deep-tech start-ups in order to take digital transformation to the next level. Current digital technologies such as mobile and cloud help enterprises in their digital transformation journey. However, solutions based on deep-tech add another layer on this transformation to solve real-life problems in areas like health care, fintech, agriculture and water management. The big worry though is that the current approach by policymakers and investors mostly focusses on funding but not on scaling up. As a result, the number of unicorns that are engaged in deep-tech is still minuscule.

This is where the Start-up India mission needs to focus more on providing an ecosystem that enables start-ups to grow. For example, there are still some niggling issues on exemption given to start-ups on Angel Tax. Once the exemption from 'Angel Tax' is given, the end-use restrictions will disallow a start-up from acquiring a smaller company to expand its business or from giving advances to their employees. Rather than micro-managing how start-ups operate, the government should promote entrepreneurship. Corporates and established entrepreneurs should also step in to provide mentorship and guidance to promising start-ups.

India has its share of challenges when it comes to food, energy, water and national security. It badly needs many large companies to develop platforms to address these issues at every nook and corner of the country at a low cost. These solutions will also be useful to address similar problems globally. Start-ups focussing on using deep-tech to provide solutions to such problems should be given all the support needed if India wants to have the next big technology company emerging from its shores.

## How to go about auctioning public assets

Focussing on short-term revenue maximisation can hurt long-term welfare. Auctions must be redesigned to meet a wider set of goals

MADHURA DASGUPTA/  
SAMARTH GUPTA/ SANJIB POHIT

Since the last decade, the auction of key public goods has emerged as yet another important tool in India for resource mobilisation. As a result, the auction mechanisms are increasingly being designed to maximise revenue. However, designing these auctions with the single-minded focus of appropriating more and more revenue for the government may be imposing long-term costs on other sectors of the economy.

For example, bids in mineral auctions — which require revenue from minerals to be shared with the government — have ranged from 2 per cent to more than 200 per cent, with 14 winning bids of more than 100 per cent, suggesting that the winners were willing to part with more than the prescribed value of the resource.

Such high costs are justified only when certain malpractices such as hoarding or outbidding competitors are in play, leading to an oligopolistic market structure, creating artificial scarcity, etc. This could also strangle the more productive downstream industries such as metal and metal products, which have much higher employment and output multipliers than the mineral industry.

Hence, while mineral auctions could be considered successful in the short run due to high revenue generation, the loss of jobs and the fall in production levels in the long term may more than offset such gains. Similar concerns have been highlighted by TERI, which states that auctions in minerals "have the potential to reduce the financial viability of

metal making industry, and reduces competitiveness".

## Economic trade-off

This trade-off between short-term revenue maximisation for the seller and long-term efficiency in the overall economy has been duly noted under the study of auctions in economics. Indeed, this conflict exists in all sectors, where the resource being auctioned acts as a productive input for other spheres of the economy as well. A simple hypothetical example provides insight.

Let's imagine, the government auctions to contending firms the private ownership of a public good (say, highways) which serves as an input for all the competing firms. Auctioning a higher fraction of the public resource may lead to greater revenue realisation for the government; but at the same time, it will also lead to the privatisation of a larger part of the previously free public resource, which will result in an increase in the said firms' cost of production.

This in turn would reduce firms' production and increase the market price, leading to a dampening effect else.

where in the economy. Hence, simply auctioning a higher proportion of the public good to gain more revenue may prove costly in the long run. Land auctions are yet another example where such a trade-off may be most likely.

## Different approaches

Alternate auction mechanisms, rather than revenue maximising ones, may be required to balance the short-term financing need of the government with the overall economic benefit. The Vickrey-Clarke-Groves auction mechanism is one such method, where theoretically, the winning bidder has to make transfers to all other bidders to offset their losses.

Putting theory to practice, however, may need more nuance. One way would be to employ end-user agreements. For example, in the case of mining auctions, this would appear as bidders ensuring some supply to domestic players. Such end-user agreements are common in land auctions, where a parcel of the land is required to be devoted to low-income housing. Another way might be to practice 'asset

recycling', which involves commitment from the government to allocate the revenue received from the sale/lease of pre-existing assets into some welfare-generating projects with the view to offset efficiency losses to other stakeholders.

Australia has proved to be successful in the implementation of this practice. For example, recently three new highways of 49.8 km, costing AS160 million have been funded by Infrastructure NSW, an independent body created by the state of New South Wales through its asset recycling programme. Moreover, a five-year National Partnership Agreement on Asset Recycling in Australia mentions increased economic activity and employment as the desirable outcomes to achieve the objectives of enhancing growth and productivity, through sale/lease of existing public assets.

This idea is gaining traction in India as well. For instance, the NHAI plans to generate more than ₹85,000 crore through asset recycling, to finance its road construction work. However, the efficacy of asset recycling would essentially

depend upon the government's capacity to invest the proceeds into its most productive unit, with the view to maximise public value.

India must also learn from international experience, where auctions have been used to usher higher technological standards, rather than simply creating wealth for the government. This can be introduced through a more stringent bid qualification requirement for participation in auctions.

## Designing the mechanism

In sum, the present approach of short-term revenue maximisation from auctions can hamper long-term welfare growth. The need of the hour is a strategic approach that incorporates context-specific application of mechanism design tools for designing auctions that lead to holistic gains. To achieve these multi-dimensional goals, policymakers obviously need to take the help of specialists in designing the auction procedure. It is ironic that not just academics noted this problem long ago; economists observed it too, and have devised mechanisms to overcome the issues. Yet, specialists/mechanism design experts have never been involved in auction procedures.

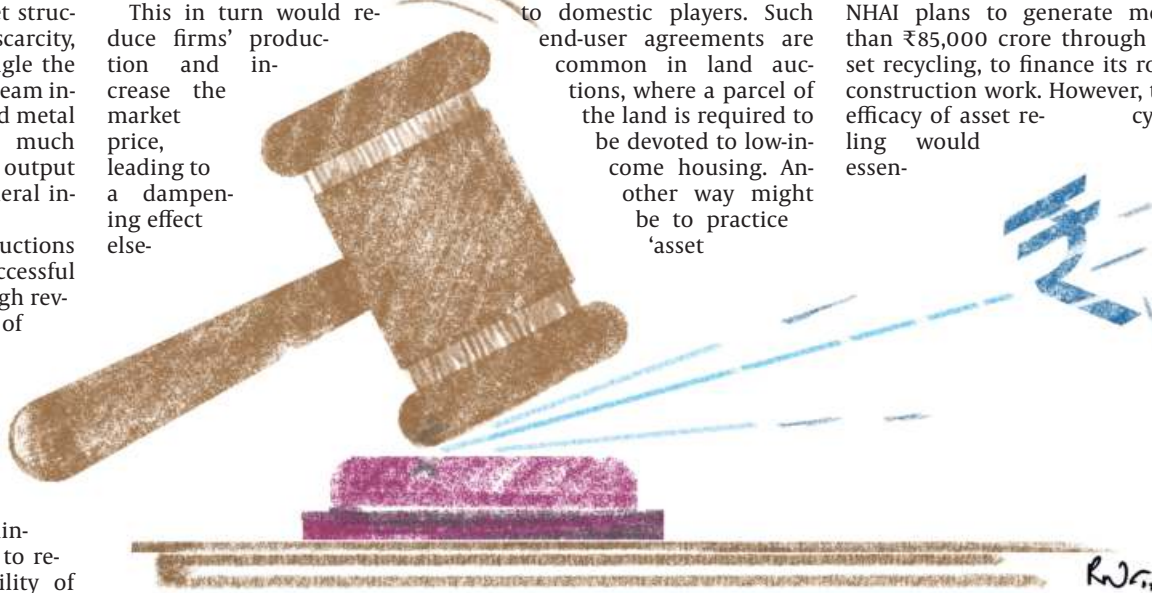
The non-professional approach in India is best explained by the fact that revenue generation from auctions is typically 3-4 times government's expected revenue. It would appear that policymakers have very little idea of the subject they are dealing with, so surely this is where auction specialists need to step in for the greater public good.

Dasgupta and Gupta are Associate Fellows and Pohit is Professor at NCAER. Views are personal

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## Finally, we can put Ayodhya behind us

The long dispute over the land where the Babri Masjid once stood was simply not worth the pain caused to the Muslim community



RASHEEDA BHAGAT

For years I have held the view that all the Muslim bodies engaged in the Ram Janmabhoomi-Babri Masjid dispute should voluntarily give up claim to the land where the Babri Masjid once stood, and ask the government/people of India to provide a grand mosque in the town at an alternate site.

I was slayed for saying this. However, the never-ending courtroom battle on this contentious issue has now ended with the five-member Supreme Court Bench giving a clear verdict in favour of building a Ram temple on the disputed 2.77-acre plot.

Mercifully, the violence, arson or rioting that could have erupted — as has happened so often in the past — did not take place. I had to take a flight within an hour of the verdict being pronounced. There were un-

usually long queues at the Chennai airport and stringent security, which was assuring. A day later, on Sunday, while taking the return flight from Mumbai, it was business as usual. There were hardly any queues or undue fuss about security.

On Saturday, there was heavy police presence on Mumbai's streets but the city had remained calm. Although, while taking an Uber from the airport to the hotel, the driver's comment jarred a little when I asked him about the situation on the roads. He said: "As of now, fine. And I must say I was relieved when I got a ride to a non-Muslim locality like Parel!"

## The dispute

Returning to the Ayodhya issue, the acrimony, hatred and violence this dispute has claimed over long decades were just not worth it. The way in which the issue was used to polarise the country, whip up hatred against Muslims and gain political capital was horrific. Once again, it was the lack of leadership that let down the community. Instead of fighting for better education, employment opportunities or decent livelihood, I thought it was futile to fight for a mosque which had been desecrated before being demolished;

and where puja had taken place — which meant that namaz could never be performed there. Having said that, let me reiterate that the demolition of the mosque through such jingoistic force was a heinous crime.

But it is a huge relief to find that the majority of Muslims have accepted the Supreme Court verdict calmly. One cannot rule out a sense of resignation in the larger community, at the receiving end in recent years amidst the rising tide and a brand of Hindutva that carries out lynchings. True, Muslims are on the back foot in today's India.

It might seem strange, but I think there was more anger and hurt in the community over the lockdown in Kashmir and the demolition of the State into a Union Territory than

there is over the judicial resolution of the Ayodhya dispute, clearly in favour of Hindus.

## Five acres for new mosque

The immediate response to the apex court's directive to the Central government to allot five acres of land — much more than the disputed land "all of 1,500 square yards" on which the Babri masjid once stood — to Muslims to build a mosque, is divided. While hardliners such as Asaduddin Owaisi have flayed the judgment saying Muslims don't need such "charity", the UP Sunni Central Waqf Board — whose decision will really matter — has welcomed the judgment and its chief Zulfar Farooqui has said that a decision on accepting the land and its utilisation will be taken at the Board's next meet on November 26.

He said he was getting "diverse views" on whether to take the land or not, but personally felt that "negativity" was not the way forward. A sane point of view.

A mosque, or any other religious structure for that matter, doesn't need five acres. As some have suggested, the bulk of the gifted land should be used to put up a quality educational institution, as education

is what the Muslim community sorely needs.

A silver lining in the dark and thick clouds that have loomed over the Ayodhya dispute over long years was Prime Minister Narendra Modi's demeanour and measured tones in his reaction to the Supreme Court verdict in a televised address to the nation. Looking sober, the Prime Minister while welcoming the verdict said in staid and measured tones that this was nobody's victory or defeat, and the resolution of this long dispute was bound to bring a "new dawn".

While repeating his usual mantra of "making a new start for a new India", Modi had a biting message for those saffron outfits that had been pushing the government not to wait for a court verdict and use its muscle power to make way for a Ram temple through an ordinance. In an obvious reference to them he said: "The Supreme Court has also given the message that the solution to the most difficult of issues lies in the Constitution and the ambit of law, even if it takes time."

Mercifully, this contentious issue will soon be behind us. But can the PM and his team control the Twitter troll army which is already braying: "Kashi and Mathura next?"

## OTHER VOICES



## Babri Masjid verdict

On Saturday, the Indian Supreme Court ruled that a temple would be built on the site of the razed mosque. While the apex court did say that the demolition was illegal, by allowing the building of the temple, it has, through this verdict, indirectly supported the vandalism by the mobs. It is also a tad ironic that the decision came on the day when the Kartarpur Corridor was opened for Sikh pilgrims, indicating Pakistan's intentions to facilitate other religious communities. KARACHI, NOVEMBER 11



## US cannot break China's supply chain

The US has once again disparaged the Chinese economy to entertain itself. US President Donald Trump on Saturday claimed China's supply chain was "all broken, like an egg," and said China wanted a deal more than the US did. The fact is, however, senior US officials are talking about trade wars and trade deals almost every day, while Chinese officials rarely do this. BEIJING, NOVEMBER 11



## The battle for democracy

Democracy is, by definition, people power. But even now the question of who constitutes "the people" remains. The answer may determine whether Donald Trump remains president after 2020. Democracy in America faces many perils, from dark money to foreign interference, but one goes directly to its central promise of one person, one vote. LONDON, NOVEMBER 11

## LETTERS TO THE EDITOR

Send your letters by email to [bleditor@thehindu.co.in](mailto:bleditor@thehindu.co.in) or by post to 'Letters to the Editor', The Hindu Business Line, Kasturji Buildings, 859-860, Anna Salai, Chennai 600002.

## Citizens' welfare

This is with reference to the editorial 'After Ayodhya' (November 11). The court has ruled in favour of construction of a Ram temple, which will begin shortly. Along with the Ram temple, let us also usher in another 'Ram rajya', a period of prosperity, peace and righteousness. Mahatma Gandhi once rightly said: "Ramayana of my dreams ensures equal rights to both prince and pauper".

The late Pandit Deen Dayal Upadhyay, one of the founding members of Jana Sangh (the predecessor of the BJP) also believed in 'Antyodaya', which literally means a person standing last in the queue will be benefited.

Hence, now it is the duty of the government, both at the State and the Centre, as well as every citizen to work hard for

the economic and social well-being of the country.

**Veena Shenoy**  
Thane

## Educating farmers

Apropos 'India, 16 nations drag EU to WTO on MRL issue' (November 11). This is not a matter for Indian farmers to rejoice, since the rationale behind the use of most derivatives — including pesticides, insecticides, fungicides and chemical manure — is not based on scientific prerequisite.

Without going too deep into the claims of these nations on the issue of maximum residue levels (MRL), the need of the hour is to alert the Indian farming community on the calamitous effects of uncontrolled application of these substances, which ultimately leads to MRL. Though India is out of the RCEP

for the moment, one day it may have to change its decision in the interest of the economy. Hence, efforts to educate the farming community on certain sensitive issues must begin at once.

**Rajiv N Magal**  
Sakaleshpur

## MSME growth

Apropos 'Enable MSMEs to grow and create jobs' (November 11). Beyond the key issues for MSMEs — which employ 92 per cent of the workforce — such as regulatory burden, poor labour productivity and problems in land acquirement, the absence of industrial clusters is the pivotal lacuna.

Viable, product-wise industrial clusters should be set up with technical, finance and marketing services that will avert their problems and avoid fail-

ures. With product-synchronised clusters, it will be easy for the government to facilitate growth.

**NR Nagarajan**  
Sivakasi

## Pre-poll alliances

This refers to 'Shiv Sena invited to form govt in Maharashtra' (November 11). Electoral democracy is all about meeting the aspirations of the people. In the recently held Maharashtra elections, the BJP and the Shiva Sena had secured 105 and 56 seats, respectively.

Both the parties had a pre-poll alliance based on ideology. The Shiv Sena, citing a 50:50 formula reportedly agreed to by the BJP before the polls, is bent upon claiming the Chief Minister's post. Going forward, to avoid such scenarios in the future, any pre-poll alliances involving like-

minded parties need to be documented and placed before the public.

For now, there can be only two possible outcomes — either the Shiv Sena must prove its majority in the floor of the Assembly, which they can do only with the support of the NCP and the Congress; or President's rule must be imposed in the State. The former will amount to going against the aspirations of the people and the latter will lead to elections being ordered once again.

The silver lining is that the BJP has declined the governor's invitation without indulging in horse trading. In a democracy, it is not just about assuming power by proving majority, but doing so as per the will of the people.

**Srinivasan Velamuri**  
Chennai