Sri Lanka Startup Report 2019

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> A startup is a human institution designed to deliver a new product or service under conditions of extreme uncertainty.
>
> *- Eric Ries - The Lean Startup -*

Introduction

SLASSCOM Startup Report 2019

The Sri Lanka Association of Software and Service Companies (SLASSCOM) launched the "Sri Lanka Startup Report 2019" to understand the current startup ecosystem in Sri Lanka, identify the challenges faced by ecosystem players and strategize the way forward.

The report draws its findings on Sri Lankan startups from a survey sent out to the startups currently registered with SLASSCOM. Most of these startups have been in operation for at least one year. The profiles of featured startups have been put together following interviews with the founders. The challenges faced by the ecosystem at present and the way forward have been compiled based on research and discussions with key ecosystem players.

One of the unique selling points of Sri Lanka is that a startup based in Sri lanka can enter into the other South Asian markets of Pakistan, India & Bangladesh without being subjected to any geopolitical issues. International startups such as Oyo, Ikman and international startup brands like Startup Weekend by TechStars, Seedstars, AngelHack venturing into Sri Lanka are positive indicators of our ecosystem's potential.

Chairman's message

Jeevan Gnanam
Chairman
SLASSCOM

A very important part of our $5Bn goal and employment goals is the Startup ecosystem. We believe that the companies that will help us achieve this target by 2022 are yet to be born or in the nascent stages right now. This is the opportunity in front of us that all of us can become a part of and support.

The opportunity is that the world is changing at a faster pace than ever before. With the onset of the fourth industrial revolution and pace of change, the opportunities or gaps in market are best addressed by new exciting business models, unhindered by old legacy systems; fuelled by innovation and entrepreneurship. I believe Sri Lanka as a nation can be a driver of this change in the South Asian region. Whether Sri Lanka can position itself on the global landscape with a differentiated position for startups, is a challenge we must all embrace. The vision of Sri Lanka as a Startup Friendly Nation should and can be fulfilled.

This report identifies the opportunities and gaps to fulfill such a vision. Our wish is that it will sharpen focus, spark debate and delineate steps needed to move the Sri Lankan Startup Ecosystem to the next level.

The most important aspect of the startup ecosystem is the community. I'm glad to say that the community SLASSCOM along with its partners and other bodies have been able to foster is one of open collaboration, support and a strong growth mindset. It's all about community; the collective "we" that will harness the startups at the same time hone their skills trying to push them to national and international platforms. The success of our startups depend on the ecosystem and the support they receive. As a nation, we have to provide a supportive ecosystem that embraces a diversity of ideas and beliefs; and supports these nascent companies to the fullest. I am glad to say that this year we were able to achieve some significant milestones such as 400 startups, acceptance of LLP structures and allowance of startups to bid for government tenders. With these policy and structural changes I'm certain we can reach our 2022 vision of a 1000 startups.

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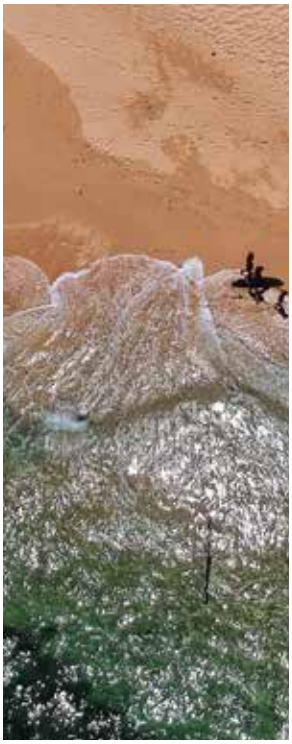
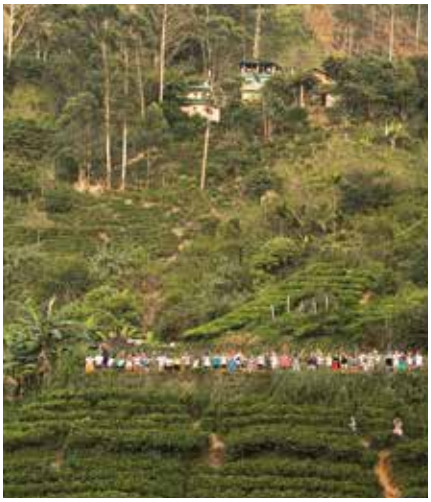
Economic Background of Sri Lanka

Being an island that is strategically located among the most important sea lanes of communication, Sri Lanka has always been recognized as a key naval link between West Asia and South East Asia. Sri Lanka is a Lower Middle-Income country with a GDP per capita of USD 4,102 (2018) and a total population of 21.6 million.

In 2009, after the end a 30-year civil war, Sri Lanka's economy showed signs of a promising development with an average growth of 5.8% during 2010-2017, although in the past few years the growth rate has slowed down. The country's GDP reached USD 88.9 bn in 2018 while the economy grew by 3.3% in 2017 and 3.2% in 2018 according to the Central Bank of Sri Lanka. Services sector continued to grow by 4.7% in 2018 compared to a 3.6% growth rate in 2017. Financial Service activities and IT programming consultancy & related activities were major growth catalysts in the services sector with a growth rate of 11.8% and 10.8% in 2018.

Lacklustre GDP growth in 2018 can mainly be attributed to weak domestic demand, tight monetary policies, stagnant fixed investments, and political instability, but ADB and IMF expect the growth rate to bounce back to 4.3% - 4.5% range in 2019. However, given the terror attacks in April 2019, these estimates might be revised down, as the tourism and retail sectors could be affected in the coming months.





Doing Business in Sri Lanka

Sri Lanka's strategic location provides geopolitical benefits, acts as a global logistics hub, and allows businesses to work with clients in several different time zones. The government has taken steps to attract FDIs and make the private sector the main engine of economic growth.

Sri Lanka has bilateral Free Trade Agreements (FTAs) with India, Pakistan, and Singapore which aim to lower trade barriers and support cross-region relations. Sri Lanka is also a part of the SAARC, of which a key benefit was the duty-free trade on selected goods. Exports grew in 2018 by 4.67%, reaching USD 11.8 bn. Since the reinstatement of the EU GSP+ scheme in May 2017, exports to the EU grew notably.

E-commerce in Sri Lanka is supported by the low cost of data, as affordability is one of the top three factors affecting a customer's decision to get online and stay online. Sri Lanka is ranked 21 out of 181 countries for prices of mobile broadband based on price in USD as a percentage of GNI per capita, which is considered to be one of the lowest prices in the world. Lower prices lead to greater adoption and use, which supports the growth of online business as more people use the services of the internet.

The growing popularity of Sri Lanka as a place to expand a business is also reflected in the fact that several foreign startups have set up shop here, such as Ikman, Daraz, Oyo, Vista Rooms and Carmudi.

Doing Business Index 2019

The country rose 11 places in the World Bank's 2019 "Doing Business index" and now ranks 100 among 190 economies in the ease of doing business (13th in Asia) and 83rd in "Starting a business" index. Sri Lanka's position in comparison to several other countries in the SEA region are as follows

Country	Global Rank	Ease of starting a business rank
Sri Lanka	100	83
Vietnam	69	104
Indonesia	73	134
Philippines	124	166

What is a Startup?

As per Steve Blank, who is considered the "Father of Innovation" in Silicon Valley, "a start-up is a temporary organization designed to search for a repeatable and scalable business model." Startups are known to disrupt markets with new products and services, or come up with radical changes to existing products. Most startups are technology driven, and are not restricted by geography as they aim for rapid growth.

According to Forbes, a key attribute of a startup is its ability to grow, and is designed to scale very quickly. It is this focus on growth (usually with the help of technology) unconstrained by geography which differentiates startups from small businesses, as many small business owners are happy to maintain their businesses as they are.

Sri Lankan Startup Ecosystem

Overview

The Sri Lankan startup ecosystem is presenting steady progress, with developments in areas such as communication and IT contributing to a rapid growth in the number and scale of start-ups. The local ecosystem benefits from a high rate of literacy, software and technical expertise, high-speed internet access, affordable working spaces and both public and private sector organizations facilitating networking and knowledge sharing platforms in the country.

Global Innovation Index

Sri Lanka rose two places in the Global Innovation Index (GII) to rank at 88 out of 126 countries in 2018. In addition, Sri Lanka ranked 81 in both business sophistication and knowledge and technology outputs.

Co-working Spaces and Accelerator Programmes

Colombo has witnessed an increase in affordable co-working spaces during the recent past, allowing startups to network and share knowledge. There are a number of incubators and accelerator programmes that provide support to the growing number of startups. Programmes like “Venture Engine” encourage founders to present their ideas and become eligible for funding from potential investors. Further, hackathons and competitions organized by Universities and other firms provide a space for innovation to take place and power the startup ecosystem.

Government Support

The Government of Sri Lanka has taken several measures to improve the startup ecosystem in the recent past. Since 2018, the Company registration process has been fully automated and a web-based platform introduced offering a much faster and convenient service. The "Enterprise Sri Lanka” programme by the Export Development Board, provides youth with subsidized loans to accelerate their business ventures. Organized by ICT Agency of Sri Lanka, "Spiralation" and "Disrupt Asia" are funded by the Government and provide startups with exposure to investors, accelerators and mentors. Spiralation is a programme which supports startups with seed funding, market access and capacity building while Disrupt Asia is a startup conference and showcase which brings together investors, academics, students, corporates and entrepreneurs.

Private Sector Involvement

The private sector is also involved in the development of startups, with Companies like John Keells Holdings PLC and Dialog Axiata PLC launching accelerators and innovation funds. Support from Companies of this scale portrays confidence in the potential of the startup ecosystem.

Success Stories

Over the past few years, Sri Lankan business environment has embraced the idea that startups are and will be a part and parcel of the corporate network, and there are quite a number of mentoring programs that target startup founders. Some of the notable startups that have been successful over the past few years are:

Company	Domain	Founded in	Company	Domain	Founded in
Creately	Software	2009	Takas.lk	E-Commerce	2012
Wow.lk	E-Commerce	2011	4Axis Solutions	Creative Space	2012
Bhasha.lk	Product Development	2011	Pickme	Transport	2015

Featured Startups

Background

Founded in 2012 by four University of Moratuwa Engineering graduates, 4Axis Solutions focuses on building mobile applications in the creative space. Their flagship application was a mobile colouring app, while they also have an app to send handwritten messages. The Company currently has 17 employees working from their office in Colombo. The mobile applications developed by 4Axis have reached 18 mn downloads in over 150 countries, with most of the traction coming from USA and Europe.

Success Factors

One of the success factors was that the founders focused on one aspect, without trying to offer several products. For example, the Company received orders to develop different types of products for other clients which could have been monetized but the founders decided not to go down that path. In addition, they did not focus on providing services, but concentrated solely on developing their mobile colouring book application.

The founders also noted that registering 4Axis in Singapore was beneficial, due to the policies and regulations in the Sri Lankan business environment in 2012 that could have potentially restricted the Company's growth. Due to the limitation of payment options in Sri Lanka and global presence of their applications, establishing a Singapore office has helped the business operations of the Company.

Market Research and Marketing

The founders did not engage in market research prior to launching the Company in 2012, instead deciding to follow their passion of developing drawing tools. Following the introduction of their applications, the founders have stayed up-to-date on trends in the creative space and how the US and European markets perceive such apps in order to release relevant updates. As per the founders, the "Drawing Desk" app recorded 3,000 downloads on the first day it was published without any marketing.

Differentiator

The "Colourgram" application developed by 4Axis allows users to publish their artwork for other users to see. In addition, the content is playable; a video that includes music will animate the user's artwork. As colouring is considered therapeutic in US and Europe, this app has remained quite popular in both Apple and Andriod app stores.

Advice from Founders

It is important to be passionate about all aspects of a business, not just the tech. User acquisition, distribution and revenue generation are important to sustain a business, so new entrepreneurs should focus on these aspects to ensure success. The founders also emphasized the importance of believing in the product being offered, and how founders should prioritize what to focus on during initial stages of the business.

Background

Creately is a cloud-based software product company, launched in 2009 with the aim of allowing its users to draw diagrams and graphs and collaborate visually across different platforms in real time. The Company caters to clients ranging from large companies to small and medium businesses and individuals.

Of the four initial founders, three are from a technical background, and one from a marketing background and they operate out of Colombo with 20 employees. The founders believe that the purpose of Creately is globally applicable, as most people are visual communicators. Creately has 2.5Mn users across 140 countries and some of their global clients include NASA, Amazon and PayPal.

Success Factors

According to the founders, when Creately was first launched, there was no other established Company that was providing a similar platform with the same ease of use on a global scale. Therefore, they were able to gain traction in the market. The Company has focused on making their product less technical and more user friendly which has allowed them to remain ranked in the top three providers of platforms for visual collaboration.

The founders noted that they were focused exclusively on their product. They did not turn to providing services for companies, which would have diluted the purpose and resources of Creately. Continuous improvement of the app has also contributed to the Company's success.

Market Research and Marketing

The founders dedicated a significant amount of time for market research prior to launching the Company, in order to validate whether it was worthwhile stepping into this space. Even at present, the Company invests heavily in market research, competitor analysis and understanding how customer needs are evolving. Creately invests in content marketing, search engine optimization, and social media marketing

Challenges

In the early stages, the founders faced difficulty in hiring employees, as most people were not familiar with the concept of a product startup. Additionally, they had funding issues for about a year, where the founders bootstrapped Creately. The founders believed that location was a setback, as being in Colombo did not provide the same growth opportunities that would have been available in a place like Silicon Valley.

Advice from Founders

For a software Company, it is important to understand what problem they have focused on solving and to work with customers closely. Solutions that can be scaled outside Sri Lanka should be chosen, in order to grow a business beyond the local market. Competitor analysis is vital, as a Company should always know what a similar business in another corner of the world is developing.

Background

Yohobed is a virtual hotel chain and has positioned itself as the "first branded network of budget hotels in Sri Lanka". While the Company does not own any properties, they take online ownership and provide the operational know-how and technology to provide customers with a better service. The Company also gets involved in training staff of their properties and follows up with the quality, in order to ensure their properties are up to standard.

The three founders come from different backgrounds, one who has around a decade of startup experience, one from a service and accounting background and the other from a retail background. When one of the co-founders was travelling to India, he came across a similar business concept for hotels and believed if India could do it, so could Sri Lanka, where the hospitality industry was booming and more recognized. Their idea was to localize this new concept to the Sri Lankan market. At present, Yohobed claims to have a reach in 70 cities, across over 500 properties.

Success Factors

The founders had combined experience working in startups and the corporate world, which gave them a network of contacts and an understanding of how to run a business. Therefore, they knew how to convince investors to taking a chance with their business idea, so they did not find it challenging to access funding.

Having experienced founders also translated to a better understanding of the operational side of business. The founders noted that many startups do not realize the magnitude of the expenses that need to be incurred when starting a business. Even employees are not cheap, therefore it is important to be realistic about numbers, which is why some startups drain their cash before reaching the end product.

Market Research and Marketing

One of the founders came from a background where he was experienced in localizing global concepts. Therefore, understanding the market came mainly through past experience. In terms of marketing, working with established partners such as Booking.com and Expedia gave the business exposure and helped them gain traction. After generating business initially through these channels, and after customers had a taste for how Yohobed worked, they were able to resell their services through their own website. From day one, the Company was focused on getting the right, experienced people to their team which enabled them to move to the market fast.

Challenges

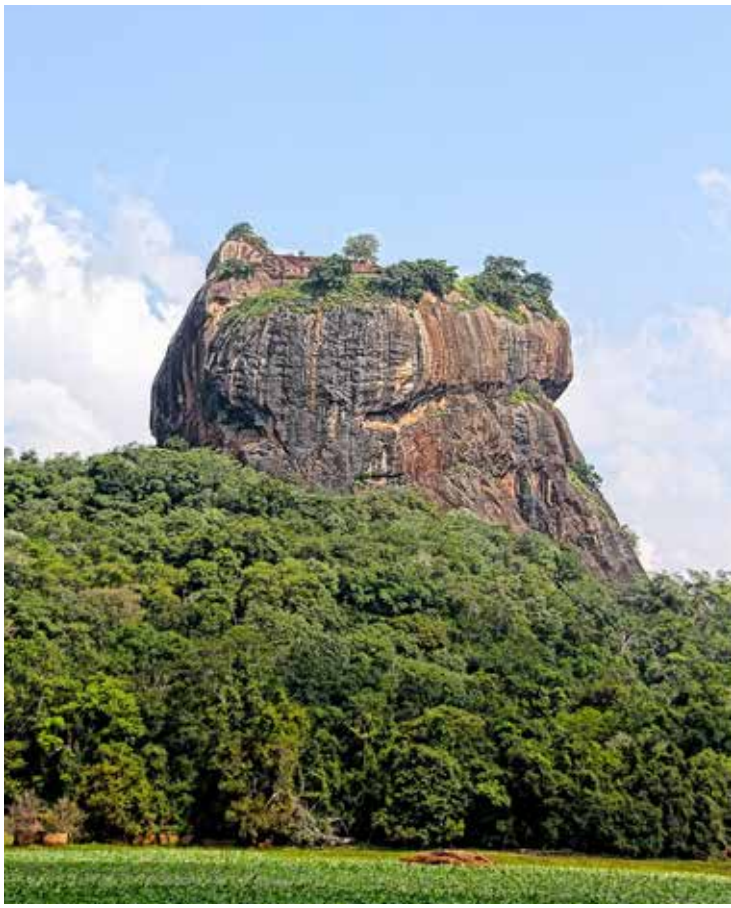
The Company is completely tech based, allowing them to scale fast. As such, they can add more properties on a daily basis which other hotel chains cannot accomplish. They strive to become the largest hotel chain in Sri Lanka without owning any physical properties.

As the industry is mature, the founders found it challenging to work with giants such as booking.com that has more than 20 years of experience and to building technology to get on a par level. In addition, the Company had to go through a restructure due to pre-mature scaling.

Advice from Founders

It is important to find the right partners to begin with by looking at their profiles and how those profiles will help build the company and move forward. In addition, the founders need to focus on finding serious and realistic investors in order to ensure their business stays afloat long enough to roll out the end product and generate revenue.

Survey Methodology and Analysis



SLASSCOM Startup Survey 2019

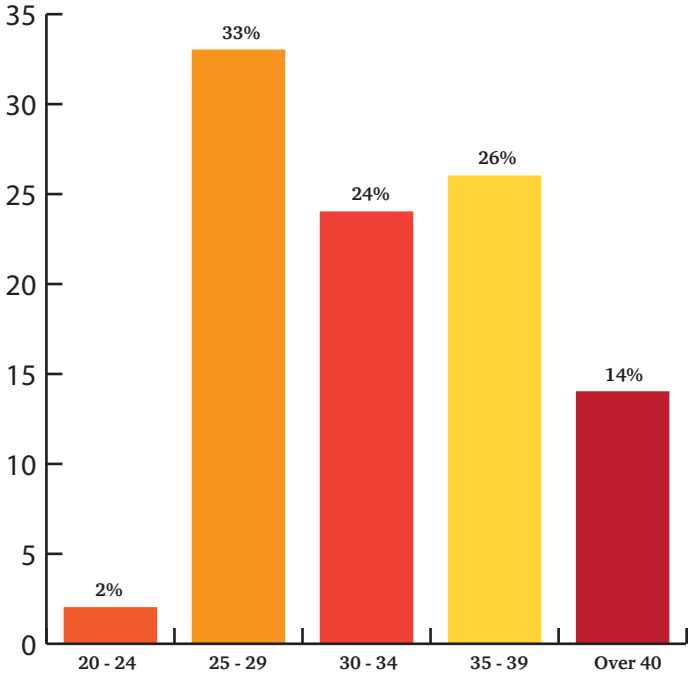
The 2019 Survey was launched by the SLASSCOM Entrepreneurship Forum, in order to understand the nature of the startups and their founders, and what challenges are faced in Sri Lanka's startup ecosystem.

The survey was shared among the startups registered with SLASSCOM, in addition to being shared on social media platforms to reach those startups who may not be connected with SLASSCOM as of yet.

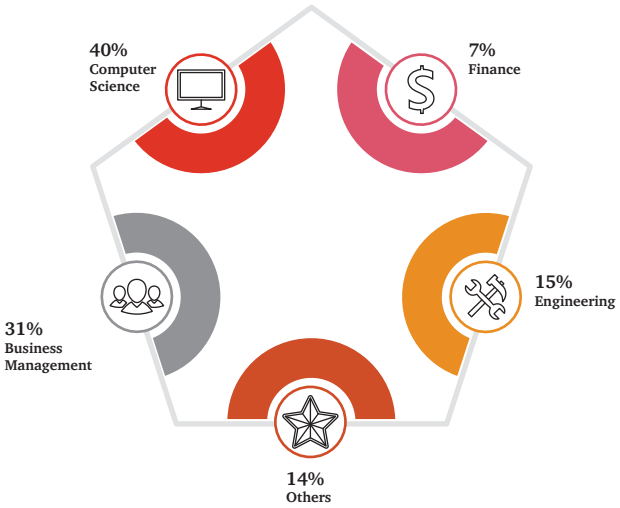
While the questionnaire focused on collecting in depth information regarding the startups, key players in the startup ecosystem were also interviewed in order to glean an understanding on the challenges faced by the ecosystem as a whole, and how they can be addressed.

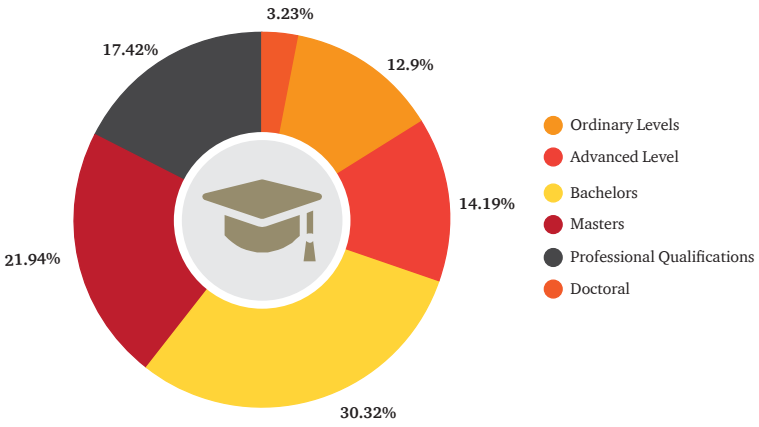
Startup Founders – What backgrounds are they from?

Sri Lankan Startup Founders are young – 33% of founders who responded are between the ages of 25 – 29, while only 2% were between the ages 20 – 24. This is a notable shift from 2016, where 16% of founders were between the ages of 20 – 24. According to the 2018 Startup Genome Report, the new era of tech has paved the way for a new type of founder: one who has formal education, experience and whose median age is 39 years.

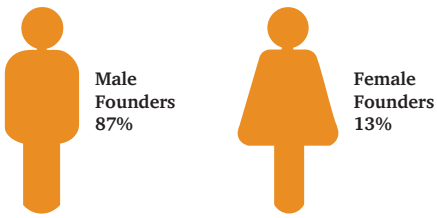


Founders are educated, with 73% of respondents having a bachelor's degree or above. It was interesting to note that while 40% of founders come from a Computer Science Background, 31% identified their area of expertise as Business Management.

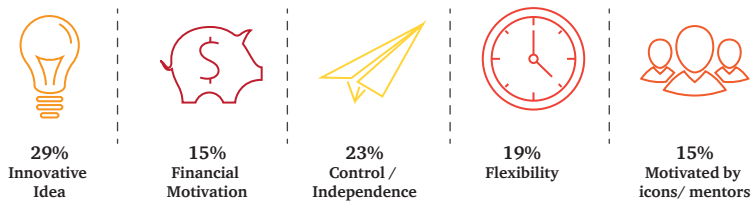




Sri Lanka's Startup arena is predominantly male, however in 2019, we noted that 13% of founders were female, in comparison to 4% in 2016. However, an interesting observation is that while male to female ratio between founders in Colombo is around 60/40, it shifts to 40/60 for teams who are from out of Colombo.

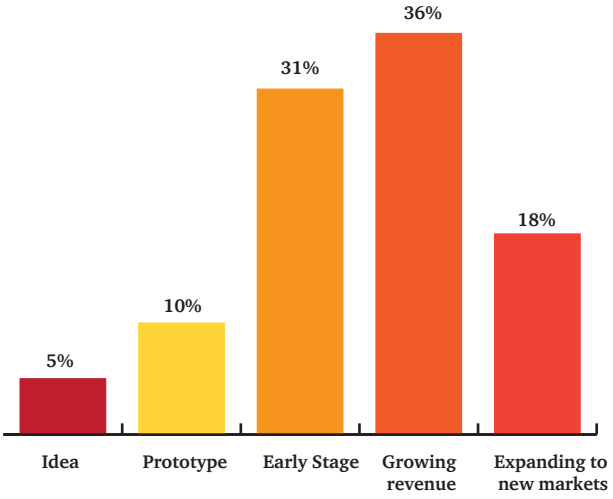


Reasons for embarking on a Startup:



Startups in Sri Lanka – What are they like?

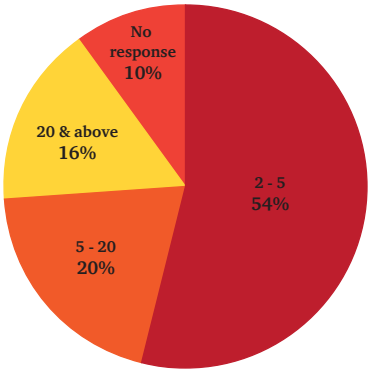
Sri Lankan Startups are expanding – 55% of startups that responded are in the growing revenue or expansion stage. In addition, 29% of respondents reported an annual revenue of more than LKR 10 mn, while 40% are still in the less than LKR 1 mn revenue category. 61% of respondents reported being profitable, while the rest are not.



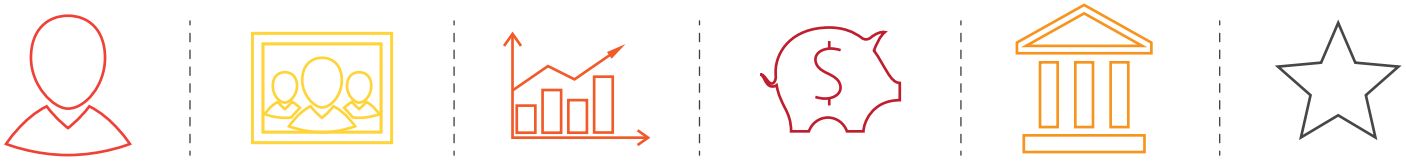
Many of the respondents are relatively new – 36% have been in operation less than one year while 44% have been in operation between 1 to 3 years. Only 8% have been in operation more than 5 years.

In terms of staffing, 16% of respondents have employed more than 20 staff members, with 82% of respondents expecting to increase staff in the next 12 months. When considering female participation, 52% of respondents have females in the management team, however only 32% have women on the Board of Directors.

Number of Staff



Sources of Funding:



51% Self | 19% Family | 12% Angel Investors | 8% Banks | 4% Venture Capitalists | 6% Other Sources

For sources of future funding, 38% of respondents expected internal cash flow to be sufficient to grow the business. While 28% expected to be funded by Private Equity or Venture Capital, 28% expected individual investors to invest in their startup.

For 36% of Startups that responded, their long term financing goal was to stay private, while 14% expected to go to market with an Initial Public Offering (IPO) and 23% expected to be acquired by a larger Company

What are Sri Lankan startups involved in?

Characteristics of the Startups that responded

Structured Hierarchy

52% of the respondents have a hierarchical management team in place, while the rest do not.

Technology

17% of startups are based on B2B Products, 14% on B2C Products and 10% on Knowledge & Professional Services.

Business Outlook

91% of respondents believed business outlook will improve for next year, while 6% did not know.

Number of Founders

86% of Startups have 1 – 3 members in their founding team, while 13% have 3 – 5 members

Software or Hardware?

62% of the Startups are based on Software, while 4% are based on hardware alone and 34% are based on both.

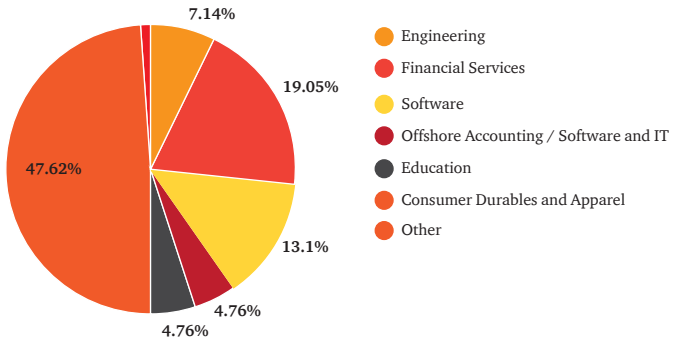
Location

92% of Startups are based in the Western Province, while 2% are located in the Eastern Province.

Of the startups that responded, it was noted that 56% earned all of their revenue within Sri Lanka. The proportion of revenue earned from different geographies are shown in the table below:

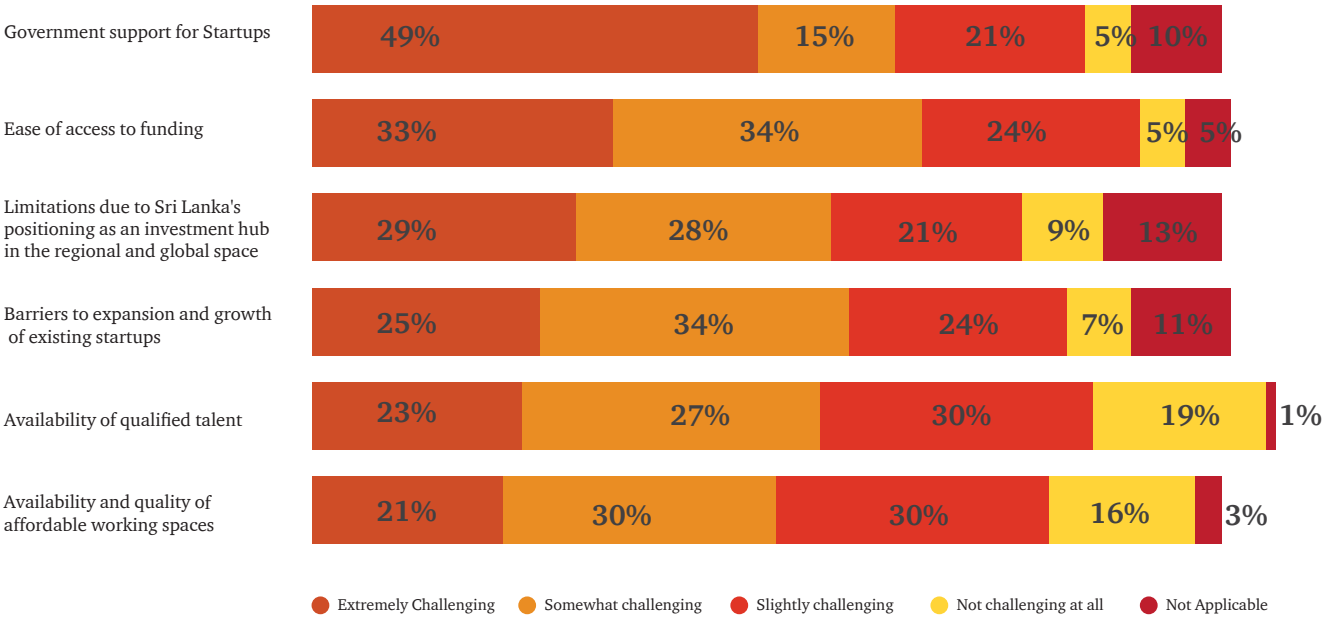
Geographic revenue breakdown	Share of Startups
100% Abroad	5%
100% Sri Lanka	56%
50% Sri Lanka, 50% Abroad	9%
60%- 80% Abroad, 20%- 40% Sri Lanka	16%
60%- 80% Sri Lanka, 20%- 40% Abroad	14%

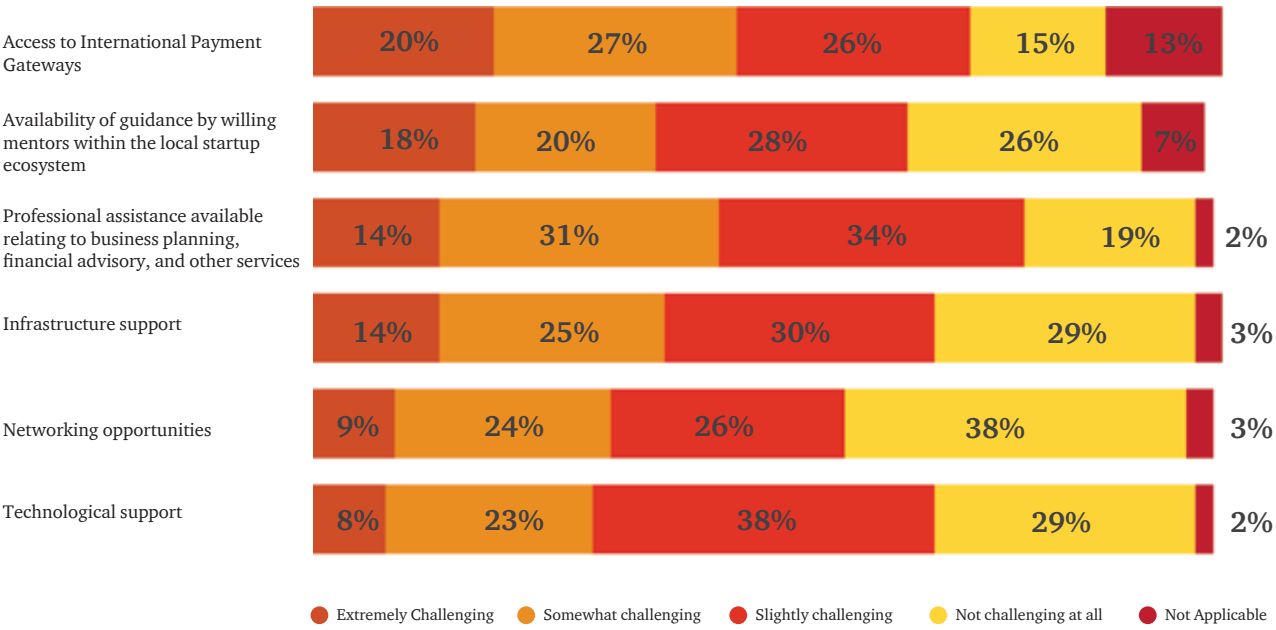
Of the Startups that responded, 32% are involved in Software, Offshore Accounting and IT Services. The other industries that Startups are involved in include: retail, media, telecommunications, digital services, logistics etc.



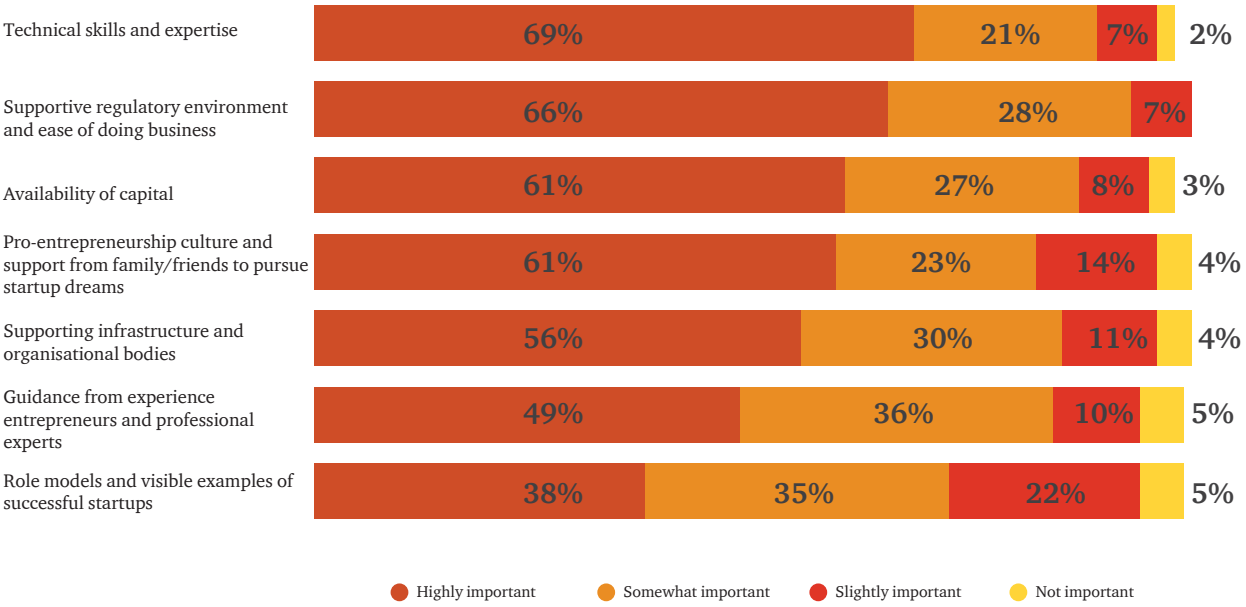
Breakdown of Startups based on Province are depicted in the map below:

Challenges faced by Startups





Factors that enable startups to succeed



Why Do Startups Fail?

Failure to do Market Research

One issue that investors and mentors of accelerator programs have encountered is that startups do not conduct sufficient market research. The current ecosystem is tech-driven, which leads to founders designing products without consideration for the end-user and the need for their product in the market.

One of the main reasons for failure is that startups do not focus on solving a market problem. Instead, they follow their capabilities and passion and introduce a solution which may not be needed by customers, which results in the startup being unable to attract a customer base. A study done by CBInsights identifies "tackling problems that are interesting to solve rather than those that serve a market need" as the number 1 reason for failure in startups. While it is important to introduce a product that is needed in the market, it is also important to focus on solving a large enough problem that would enable the startup to scale in the future.

In instances that secondary market research is not readily available, founders can conduct primary market research by interacting with customers and identifying problems that need solving.

In order to maintain long term sustainability, it is important for entrepreneurs to be data driven, and not carry out business based on emotions and passion alone.

Commitment

While young founders have the passion for their product, it has been observed that some of them lack the commitment that is required to ensure the business succeeds. As Sri Lanka's startup ecosystem is in its early stages, founders need to take a more active role, unlike in Western countries where the ecosystems are more mature and founders can be more passive.

Lack of Experience

An observation in the Sri Lankan ecosystem has been that startups with more experienced founders tend to succeed more often. While this is not the status quo (for example, the USD 3 mn revenue generating 4axis was founded by four University graduates), startups tend to do better if its founders have at least a few years of corporate experience. Given the dynamics of starting and running a business, a founder with real world business experience would have more resilience in the face of challenges faced during initial stages, in addition to having better knowledge of daily operations such as finance and human resources.

When authors of the article titled "Research: The Average Age of a Successful Startup Founder Is 45" published in Harvard Business Review analysed the winners of the US based TechCrunch Awards over the last decade, the average age at the time of founding was 31 years. When the top 1% of highest growth startups (over a period of five years) in the US were analyzed, it was identified that approximately 30% of the founders were between 40 – 49 years old and the average age was 45.

Why Do Startups Fail?

Spending habits and insufficient business acumen

Money is a finite resource that must be allocated prudently. Unnecessary expenditure when money flows in causes cash flow issues for startups. This is due to a lack of direction, where the founders may not be aware of appropriate money management techniques. Oftentimes, founders spend exorbitant amounts on digital marketing campaigns which do not have measurable results, causing the cash flow to take a hit. The monthly burn rate is a crucial metric to keep track of, in order to identify how the company is managing its fund in day to day operations.

Another reason that startups have a hard time succeeding is that most tech startup founders do not have a solid understanding of how a business is managed in terms of operations, distribution, marketing, finance and human resources. It is important that founders hire the right people, or invest in learning these aspects themselves to ensure their business does not tank after a few years.

In addition, ecosystem partners who mentor startups have noted that some founders lack confidence in pitching their business, which results in investors being hesitant to provide funding. While technical skills are important, those alone will not ensure business success. Therefore, founders must broaden their horizons in order to become more business savvy and attract high quality investors

Funding issues

While the number of startups in Sri Lanka has grown exponentially, the investor pool has not expanded to meet this growth. At present, there are around 300 startups registered with SLASSCOM, however only a few players exist in the angel investor and venture capital space, with Lanka Angel Network, Blue Ocean Ventures and Crowdisland acting as the main connectors between investors and startups.

Shortage of risk taking investors stifles innovation, due to major investors being unwilling to lose money. Most investors only invest in products that have gained traction and end up doing what is safe, avoiding investing in potentially high risk projects. The typical investor mindset of always requiring a return needs to be addressed and investors need to be educated by providing global data surrounding investors who have realized successful investments only after moving through a multitude of failed investments. The cultural stigma in Sri Lanka that is attached to failed investments fuels the reluctance to take a chance on new businesses. Additionally, our systems do not allow for investors to write off losses; if a Company closes down, Directors are held liable. This also deters investors from funding startups.

It is important that investors understand that the capital provided is ultimately what the investor can afford to or is willing to lose thereby reducing their risk-averse mindset. That is, one should invest only that portion of money in risky investments that they are willing to lose.

Ecosystem Issues

Availability of Market Information

Currently, there is a deficiency of recent, up to-date and relevant information at a reasonable cost in certain industries. For example, the transport industry does not have easily accessible descriptive statistics which could be useful to ride sharing platforms. Market research on the real estate industry is prohibitively expensive. Thus, startups may fumble in the dark due to poor knowledge and advice regarding direction of markets and customer needs. Lack of information also leads to poor investor education which means their involvement may be a hindrance to the founders and their start-up.

While certain information can be collected through primary research, it is challenging to obtain data for historical trend analysis through this method. Availability of well analyzed historical market information allows founders to conduct thorough research before developing a product and business plan. Up to date, current information throws light on information such as market maturity and competitors.

Whether provided by the government or private sector, timely and accurate market information would provide a strong foundation for startups to flourish. Therefore, it is important for both private and public sectors to take steps to increase the availability of comprehensive market data that startup founders and investors can refer to.

Low Female Participation

As the startup ecosystem in Sri Lanka is predominantly tech-oriented, this has organically resulted in a male dominated ecosystem. While women are involved in the tech industry, they fail to be included in the respective circles, which to an extent is by choice, however a main reason is cultural limitations. In areas in the Northern Province for example, most families do not believe females should run a business, insisting instead that they should follow professions which allow them to raise a family comfortably. Certain features in the startup ecosystem are inherently inconvenient for females; for example events and courses mostly take place during the evening, which might create issues as women need to return home to their families. While such aspects lead females to be excluded, it is important that the ecosystem partners acknowledge this and create more inclusive programmes.

Female participation in educational programs conducted by ICTA is higher than male participation, with the breakdown being 60/40 outside Colombo. However, that same participation is not seen in the aftermath of these programs, due to the above reasons.

Nonetheless, it should be noted that many non-tech startups focusing on food and beverages, health and wellness and fashion are mostly female dominated. Awareness on these issues would help shed light on female talent and increase representation in the startup space.

Ecosystem Issues

Delays in Government Procedures

Red tape has been identified as a major obstacle, where delays create an uneven playing field for founders who do not have contacts in higher ranks, and therefore experience delays when trying to get approvals necessary for the business. It is important for the government to adopt measures to cater to the needs of fledgling startups whose requirements may differ from those of traditional businesses.

The divide between resources and drivers of startups hinders the swift development of new businesses. For example, Artificial Intelligence and similar newly developed segregations are unheard of in the business registration department, which delays the operations of startups in those fields.

It is also important that government programs are catered to the specific nature of startups. For example, the Enterprise Development Authority's programmes do not speak the language of startups, creating a disconnect between what is needed by their founders and what the programmes offer. The government could look into partnering with bodies who work within the ecosystem and who have the capacity to follow up once resources are provided, to ensure that startups are driven forward.

Coordination and Cohesion in Programmes

While there are a number of startup focused programs, a lack of cohesion amongst them has been noted by several ecosystem players. For example, certain programmes provide introductory knowledge on how to start a business. However, after participating in such a workshop, founders may not know how or where to connect with a program that provides exposure on attracting investors, conducting marketing campaigns etc. Thus, it is vital for the programmes conducted by different hosts to be connected, in order to provide a holistic learning experience for new founders.

Regulatory Barriers

Most startups follow non traditional business models, and certain regulations that exist in the Sri Lankan context have resulted in an uneven playing field for startups. For example, banks only provide loans against tangible securities. However, most startups operate out of home offices and do not have a tangible product, and their ideas sound risky to traditional bankers, which discourages banks from offering loans. Certain legislature prevents crowdfunding as a source of funds for startups. Section 31I of the Securities Council (Amendment) Act, No. 26 of 1991 prevents private companies from "inviting the public to invest" in them. In addition, the Companies Act no. 07 of 2007 limits the number of shareholders of a privately held company to fifty.

As per the survey carried out by SLASSCOM, the number one challenge for startups has been identified as government support. Additionally, when asked about the factors that enable startups to succeed, supportive regulatory environment and ease of doing business were identified to be of highest priority.

Thus, it is important that the government works in tandem with the private sector and parties with expertise in the startup space in order to facilitate their business operations.

Failure Stigma and Investor Mindset

Sri Lankan culture is such that failure is viewed as despicable. While any business is an inherently risky undertaking, startups entail higher risk due to the novel products and non-traditional ways of operation. The investor mindset not allowing for failure is a deterrent when it comes to investing in startups, as most investors are unwilling to take on possible losses. Additionally, most investors demand a lion's share of the business, so much so that by the third round of funding, the founders may not have more than 10% ownership in their business.

Sri Lankan Startup Scene is Looking Up

Programmes encouraging Entrepreneurship

The Information and Communication Agency (ICTA) of Sri Lanka conducts several programs at school level and University level to encourage students to explore the avenue of entrepreneurship.

"Educate to Innovate", targeting students in secondary school level, focuses on STEAM educational approach, where Arts is included in the traditional Science, Technology, Engineering and Mathematics streams. This program also focuses on introducing the idea of entrepreneurship and basic computer coding to students.

"Imagine If" caters to State University students, which gathers interested students to inspire them to think outside the box. They are motivated through workshops, inspirational speeches and mentorship events. Students are introduced to the concepts of revenue and cost models, what to consider before starting a business, stakeholder theories, marketing plans etc.

Tech Talent and Brain Gain

Sri Lanka is home to excellent tech talent, graduating from both State and Foreign Universities in the country. As per the UGC Annual Report, 1,153 State University Computer Science and IT graduates entered the workforce in 2017. In addition, there are a number of private programmes that offer IT qualifications for students aspiring to be employed in the tech industry.

In the recent past, Sri Lanka has witnessed an influx of students who studied and worked abroad for some time with the goal of building Companies on home ground. With their exposure and world view, they are able to bring an interesting dynamic to the startup ecosystem.

Growth of co-working spaces

Over the past few years, Colombo has witnessed an increase in the number of co-working spaces that can be utilized by startups. Spaces like Hatch and Colombo Cooperative provide more than just a space to carry out their operations, they introduce founders to important players in the ecosystem like investors and possible mentors.

Only 21% of respondents believed that availability of affordable co-working spaces was an issue, indicating the relative availability of affordable co-working space. As Sri Lanka's startup ecosystem expands, it is important to have spaces that foster a sense of community and provide founders with a way to network and be exposed to learning experiences from industry specialists.

The Way Forward

One Stop Shop for Startups

At present, Sri Lanka does not have a one stop shop in place for startups to gather information on how to register a business, what events are going on in the startup space, how to connect to other startups, accelerators, incubators and investors etc. One website that anyone could get all information regarding the startup ecosystem would save time and ease connectivity between ecosystem players. Currently, one issue is that most founders are not aware of who the most prominent investors are, and investors do not know what startups to invest in.

Several countries like Singapore1 and Lithuania2 have established a single destination website which includes all the information a startup founder would require in terms of starting a business, funding a venture, regulatory procedures and potential investors to connect with. They also list upcoming events, programmes available to ease business processes, who the ecosystem players are and important news highlights.

The existence of a single point of reference eases the process of entering into a new venture, as most startups are founded by individuals who do not possess prior business experience. A one stop shop would be beneficial for foreign investors as well, as it reduces the time they would have to spend looking for information on the startup ecosystem.

https://www.startupsg.net/
https://www.startuplithuania.com/

Government Support

It is vital for the government to work cohesively with institutions and individuals who have experience and expertise in the startup arena, in order to benefit upcoming business ventures. Improvement of approval processes, introducing funding programmes should be carried out in consultation with key players in the startup ecosystem, so that programmes can be catered to best suit the participants.

In terms of funding, the government could look into co-investing with someone who has the expertise in the startup field, in order to direct Companies towards acceleration and growth. For example, Vietnam has experienced explosive economic growth over the past 30 years, with startups playing a key role as drivers of change in the past decade. The Vietnamese government has launched several projects to support local innovation and entrepreneurship. The government assistance program “SpeedUP” had invested in 14 startups by mid-2018.

The government could also look into allowing foreign talent to work in Sri Lankan tech space, even for short time periods, which may assist startups in developing their businesses. Singapore has introduced an “Entrepass Workpass Scheme”, which allows foreigners to work in startups, which is required to be renewed every two years.

Regulatory support would signal Sri Lanka as an economy that is startup friendly, which would be beneficial in attracting foreign capital.

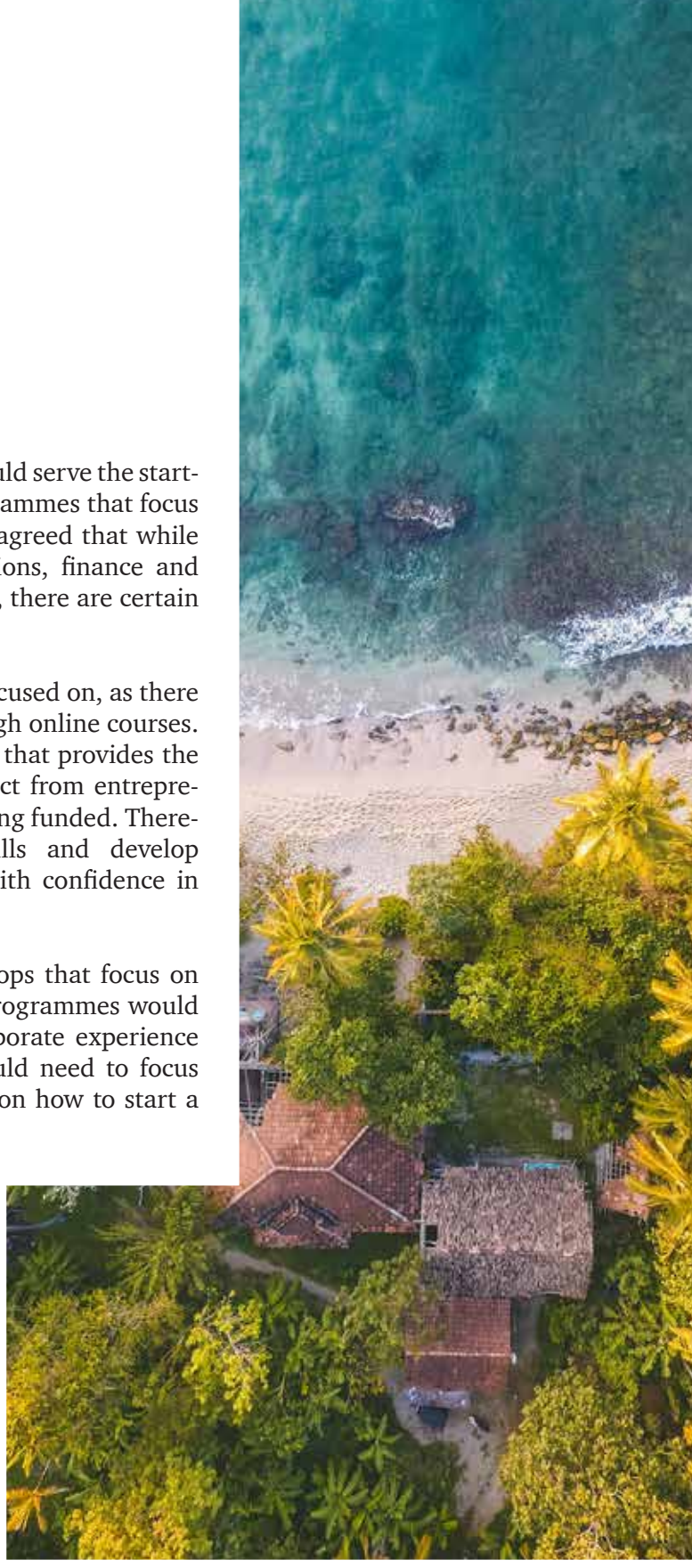
The Way Forward

Skill Focused Programmes

While it is important to host speeches and meetups, it would serve the start-up community well if coworking spaces could host programmes that focus on improving specific skills in founders. Most partners agreed that while initial knowledge like how to handle business operations, finance and human resources can be learned through online courses, there are certain areas which need extra focus.

For example, investor readiness is a skill that could be focused on, as there is a practical side to it that might not be conveyed through online courses. Founders must treat investment readiness as the bridge that provides the financial and fundraising capability that investors expect from entrepreneurs, thereby significantly increasing the chances of being funded. Therefore, ecosystem partners could focus on such skills and develop programmes that enable founders to move forward with confidence in these areas.

In addition, the ecosystem would benefit from workshops that focus on founders who are experienced professionals, as these programmes would need to be tailored toward individuals with more corporate experience than recent University graduates. These programs would need to focus more on business acceleration, rather than knowledge on how to start a business and day to day operations.



Export and Business Acceleration

Accelerators that focus on a specific business type would be beneficial for startups that have moved beyond the earliest stages of getting established and are currently in the “adolescence stage”. While these startups can stand on their own two feet, they may be looking for guidance to gain strength in external markets. As the Sri Lankan market of 21 mn people may be limited for startups focusing on certain types of technology, export and business accelerators would support businesses that are looking to tap into foreign markets.

For example, Singapore has different corporate sponsored accelerators that focus on specific areas such as fintech, cloud computing, internet of things etc. Currently the Sri Lankan Export Development Board provides a LKR 1.5 mn loan for innovative business ideas. In addition to such programmes, the startup ecosystem would benefit from accelerators that focus on specific industries or technology types, that would allow businesses to draw on know-how from of experts in those fields

Toolkits

Ecosystem partners agreed that in addition to a one stop shop, founders would benefit from a comprehensive toolkit detailing everything from how to register a business in Sri Lanka to what steps to follow when pitching to investors. This could be prepared with the participation of industry experts, in order to assist new businesses obtain the knowledge and tools they need to succeed in the cut throat startup arena.

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