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Start-ups await 'proper' share swap legislation to raise capital

By Duruthu Edirimuni Chandrasekera

The Council for Start-ups (CFS) is awaiting a positive response from state authorities to a proposal to allow local start-ups to incorporate holding companies in Singapore specifically to raise capital.

Current restrictions on raising capital have stalled the start-up ecosystem already affected by the current economic crunch. This can be done by share swaps which are essentially allowing the shareholders of local start-ups to swap their shares in such local entities for the shares of a Singaporean holding company. "This can be done without any outflow of capital from Sri Lanka and subject to the strict condition that any distributions and/or return to such local shareholders upon liquidation of such shareholding be repatriated to Sri Lanka through a designated account," Prajeeth Balasubramaniam Chairperson CFS told the Business Times.

Attracting regional investors to increase the valuations of such companies is the main goal of this proposal as currently since foreign investors shy away from investing in start-ups incorporated in Sri Lanka. "nCinga Innovations Pte Ltd in December 2019 was valued at Rs. 3 billion. The Dialog Axiata Digital Innovation Fund (DADIF), having made an initial investment in the company of Rs. 91 million (US$500,000), exited from the company with a massive return (amounting to $1 million) via a remittance from Singapore to Sri Lanka through its outward investment account (OIA)," Mr. Balasubramanium explained.

Accordingly, a start-up that might attract a valuation of only $1 million in Sri Lanka could potentially look at a significantly higher valuation based out of Singapore. Upon an exit, a majority of these funds would then flow back to Sri Lanka.

Founders of start-ups such as M intpay (Pvt) Ltd, Agrithmics (Pvt) Ltd, Ifinity (Pvt) Ltd and Scybers are currently working with KPMG and the Department of Foreign Exchange (DFE) in considering share swaps to incorporate Singapore holding company to bring follow-on investments to boost their growth, Mr. Balasubramanium added. Even though none of the proposed share swaps will involve an outward remittance of funds (whether in local or foreign currency), they have yet to receive a response to their application and have not been successful in getting the approvals required, he said.

"Our fear is that if we are unable to carry out the share swaps as proposed, we stand to lose foreign investments into these start-ups that are essential for their expansion and development regionally."