The Best Foot Forward

Absence of laws is preventing the start-up eco-system growing

2016 YEARENDER

RUPAK D SHARMA

From left to right: Arvind Sah, Dhruba Adhikari, Amit Agrawal and Manish Modi of Picovico.

Down a narrow alley in Hariharbhawan, Lalitpur, right opposite the Institute of Engineering, stands an ordinary grey building, four-storey tall. Inside, men sit in front of computers in small partitioned rooms on every floor, punching keyboards or brainstorming solutions.

Amit Agrawal climbs up the rather dark staircase to the second floor, takes off his shoes and enters his office. He expects visitors to do the same—take off their shoes before going inside his room.

This is the main office of Janaki Technology, an IT company, and Agrawal is its CEO.

There's a decent chance you haven't heard of Janaki Technology yet. Well, it is better known as creator of Picovico, an app that converts pictures into videos.

What the app does sounds pretty banal today, but it was developed at a time when social media sites didn't provide options to instantly create videos from pictures of, say, weddings, birthdays, anniversaries, outings or daily life saved in smartphones and tablets.

The concept of developing the app was floated right after New Year holidays in 2011, when Agrawal and four of his college friends found themselves uploading heaps of photos taken during the vacation on Facebook.

All of them noticed that uploading pictures was a time consuming job. That's when they decided to create videos, or rather slide shows, out of pictures, so that they could later share them on Facebook or Twitter. Thus, was born Picovico, which basically allows users to pick photos and transform them into videos in three simple steps, complete with effects and music.

Since its inception, Picovico has attracted around 300,000 visitors to its website, while its Android app has been downloaded at least 50,000 times.

Considering downloads of Nepal-made apps like Nepali Patro (Nepali calendar), Loadshedding Schedule or even Passport ID Photo Maker Studio or Call Break Multiplayer, which have ticked one million mark each, Picovico's client base is still small.

But what gives Picovico an edge is its global appeal.

Today, most of the users of this app are based in the US and other parts of developed world. What's more, app similar to Picovico called Replay—together with Splice—was recently acquired by GoPro, a US-based producer of action cameras, for $105 million in cash.

Of course, Replay, which has been rebranded as Quik after the acquisition, renders video much faster than Picovico and is more user-friendly. But if given an opportunity, Picovico could do the same. And there are many camera producers in the world that would still want to have its own video editing tool, as videos are said to be the future of the social media.

"We are planning to add new features to the app and make video rendering faster in 2017, so that we can stay relevant," says Agrawal. "But it'll depend on how much money we have, as we earn very little from the app, and are currently using our savings and diverting earnings from other businesses to keep Picovico afloat."

Funding is one big problem that most of the start-ups, like Picovico, face in Nepal.

To quickly gauge the gravity of this problem just check out startupsinnepal.com and you'll notice that most of the start-ups are either "bootstrapped", meaning they are relying on their own funds, or "looking for investors".

Of course, this should not mean funding is still as big a problem for start-ups as five years ago.

These days, start-ups seeking investment or looking forward to scaling up do not necessarily have to rely on banks to secure funds, as there are business accelerators like Rockstart Impact, Enterprise and M&S NEXT Launchpad that are willing to acquire stakes in businesses with considerable market opportunities.

If funding provided by these business accelerators is not adequate then one can turn to few venture capital firms that have lately started sprouting in the country or tap private equity funds, like Dolma Imapct Fund, Business Oxygen and True North Associates.

These firms not only provide much-needed money, but work as mentors to help a company grow. They also work as a bridge to connect start-ups with potential clients, government officials and other investors.

"But founders of companies looking for support should be committed to expanding or upgrading their businesses and sticking to them in the years to come," says Ajay Shrestha, program director at Enterprise, a business accelerator.

Over the last four to five years, many college graduates have been drawn towards the idea of "becoming their own bosses" rather than working as employees. This has led to opening of many start-ups in the country.

But Shrestha has also come across youths, who have immediately switched to "Plan B", when things didn't go their way. Such people, instead of focusing on ways to make things right, walk out of the projects midway, leaving investors like him in the lurch.

"This makes commitment a big issue here," says Shrestha, also chairman and managing director of iCapital, a private investment company, emphasising, "There should be no Plan B if founders want their start-ups to succeed."

Perhaps the tendency to look for alternatives is the upshot of a culture which does not encourage youths to pursue imaginations and ideas that others think are absurd. So, many simply follow the herd, without confronting the status-quo. Closely related to this problem is the culture of stigmatising failure. Elders here do not tell youngsters that failing and trying, failing again and trying again are natural processes.

Yet it is also said youths, with knowledge, idea, courage and tolerance for risk, are sometimes hard-pressed by investors to generate profits. These investors, it is said, even interfere in their works consistently instead of letting them operate independently.

"They do this because angel investors or venture capital firms here invest in one or two companies and want to reap as much profit from each of them. This does not happen abroad," says Agrawal.

Agrawal's statement makes sense because success rate of start-ups globally is less than 10 percent. This means, on average, less than 10 out of 100 companies—in which investors have acquired stakes—will succeed. And success gained by fewer than 10 companies not only covers losses created by 90 or more companies, but provides handsome returns to investors as well.

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This implies investors here are investing in too few companies, or, simply put, not diversifying risk.

But again this is not unusual because start-up ecosystem in the country has not become mature. This means everyone, including those founding new companies, those investing in these companies and those regulating the entire sector, is basically operating in learning-by-doing mode.

Take the case of regulatory environment, for instance. Currently, the country does not even have a law on alternative investment, which means angel investors, venture capital firms and private equity funds are operating in vacuum.

Absence of law, on the other hand, has forced these investment firms to register themselves as private companies. The downside of this practice is that private equity or venture capital firms may have to bear the brunt even if a single firm in which they have acquired stake makes a mistake.

By nature private equity and venture capital firms invest in multiple companies. Of these companies, one may fail and default on loans and get blacklisted. But failure of one company leads to blacklisting of the entire private equity or venture capital firm.

"Private equity and venture capital firms cannot work in this environment. That's why we are asking the government to immediately introduce a law so that private equity and venture capital firms can work effectively," says Suman Joshi, founder and managing partner of True North Associates, a private equity fund.

Because of absence of clear cut laws, people who have money and are interested in investing in private equity funds are choosing to park their cash at banks instead, depressing deposit rates.

"It's unfortunate, but we have built a very inefficient financial system that does not support innovation," says Joshi, a former banker for two-and-a-half decades.

Instead of resolving issues created by legal hurdles, the government, on the other hand, seems more interested in launching its own venture capital project.

The budget of this fiscal year has appropriated a sum of Rs1 billion for Challenge Fund to provide "seed capital to innovative and entrepreneurial youths with strategic vision".

Experience of Israel, which has one start-up per 2,000 people—the highest in the world in terms of population density—shows that government's direct funding for start-ups will not help much unless there are vibrant venture capital firms.

In the late 1980s and early 1990s when start-up companies first started sprouting in Israel, the government allowed start-ups to apply for matching grants from the Office of the Chief Scientist. The government also allowed Israeli companies to tap grants extended by the Bi-national Industrial Research and Development Foundation, a $110-million fund created by the US and Israeli governments to support US-Israeli joint business ventures.

But matching grants alone did not solve the problem.

This was because grants were usually not sufficient, which led to closure of companies deemed capable. On the other hand, companies, which were doing fine in research and development, were unable to market products or manage themselves.

This was when the Isareli government realised that the only solution to these problems was venture capital because success of start-ups depends not only on funding but nurturing them by teaching how to promote themselves, market their products and attract investment.

Today, the country, located in the Middle East, is dotted with over 5,000 start-ups, working in areas, such as IT, telecom, biotech, digital health, financial technology, consumer goods, education technology, energy and water—albeit part of the reason for this success is the first big break achieved by Israel's budding start-up industry in mid-1998 following acquisition of ICQ, an Internet chat programme, by America Online for a whopping $407 million.

"Nepal's start-up sector has a promising future and many business ideas born here have the potential to evolve into global businesses. But to harness this potential, the government should play facilitator's role," says Joshi.

Selection committee of Rockstart Impact Season 3 listen to business pitches.