

PERSPECTIVES ON DEVELOPING PRIVATE SECTOR

Vajira Kulathilaka

CEO, NDB Capital Holdings Ltd

B.Sc. in Engineering, MEng (AIT), CFA, FCMA

SETTING A FOUNDATION



Macro Economy Should be Managed with

- Low budget deficit
- Low inflation
- Lower interest rates
- Gradual depreciation of currency is not adverse for an Island economy (via Government intervention)

Human Resource Should be Developed

- Training in technical aspects → Know-How is very important
- Development of managers
- Importing of human capital → Technology transfer purposes

Infrastructure Development

- IT infrastructure
- Roads and reliable supply of utilities
- Housing and lodging
- Factory building/space
- Incubators

Investment Incentives, Taxation and Legal Systems

- Land allocation policies
- Taxation and Legal system should be incentives and not disincentives
- Minimise bureaucracy

Financing for the Private Sector

Financing can broadly be divided to

- Equity
 - Debt
- ✓ For the Private Sector to thrive both sources of financing is required

USUALLY INITIAL CAPITAL IS FROM THE SPONSORS...

Before Accessing External Financing, A Private Sector Entity Should Have



A credible Business Plan



*Long term (3 to 5 years)
with contingency plans*

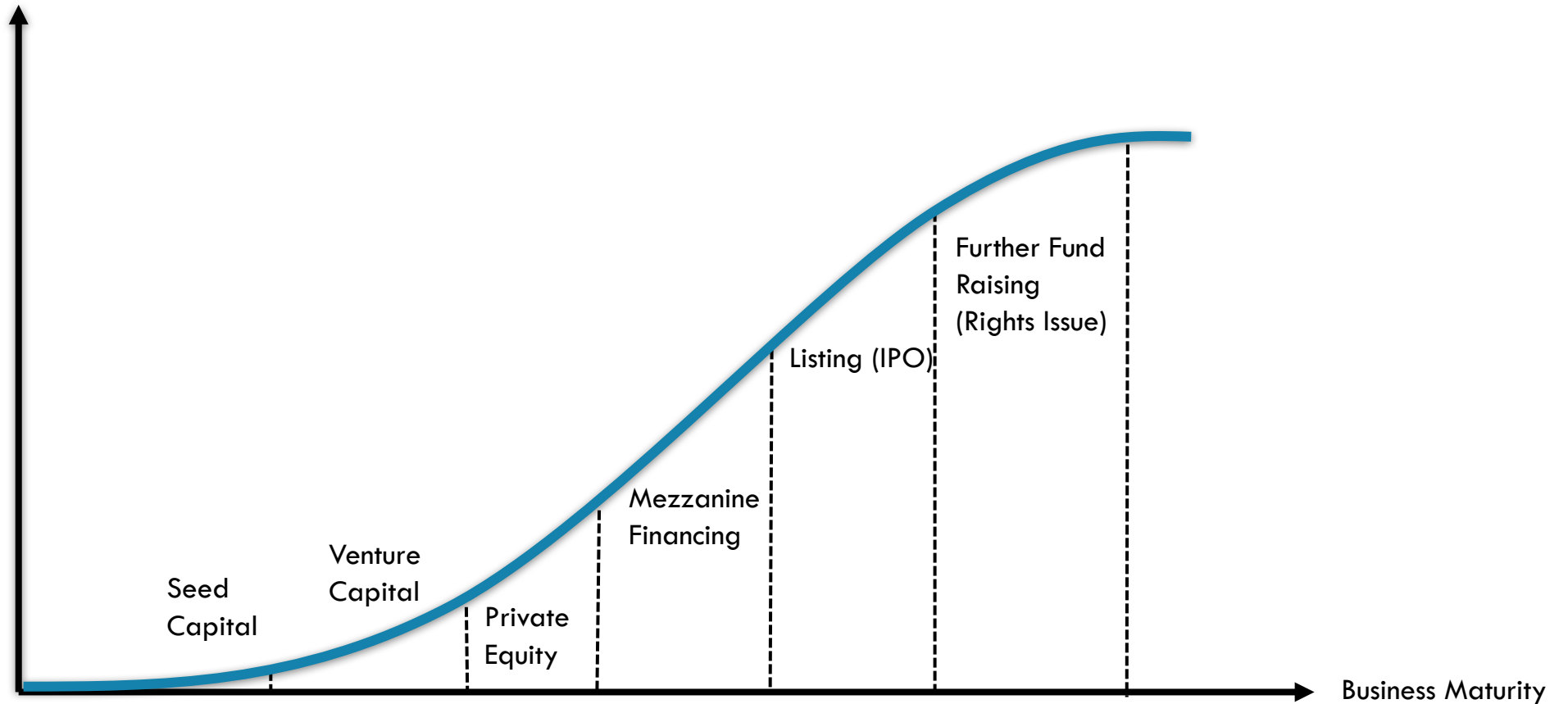


*Strong Management
(Execution capabilities)*



*Family should be
distanced gradually for
professional management
to take over*

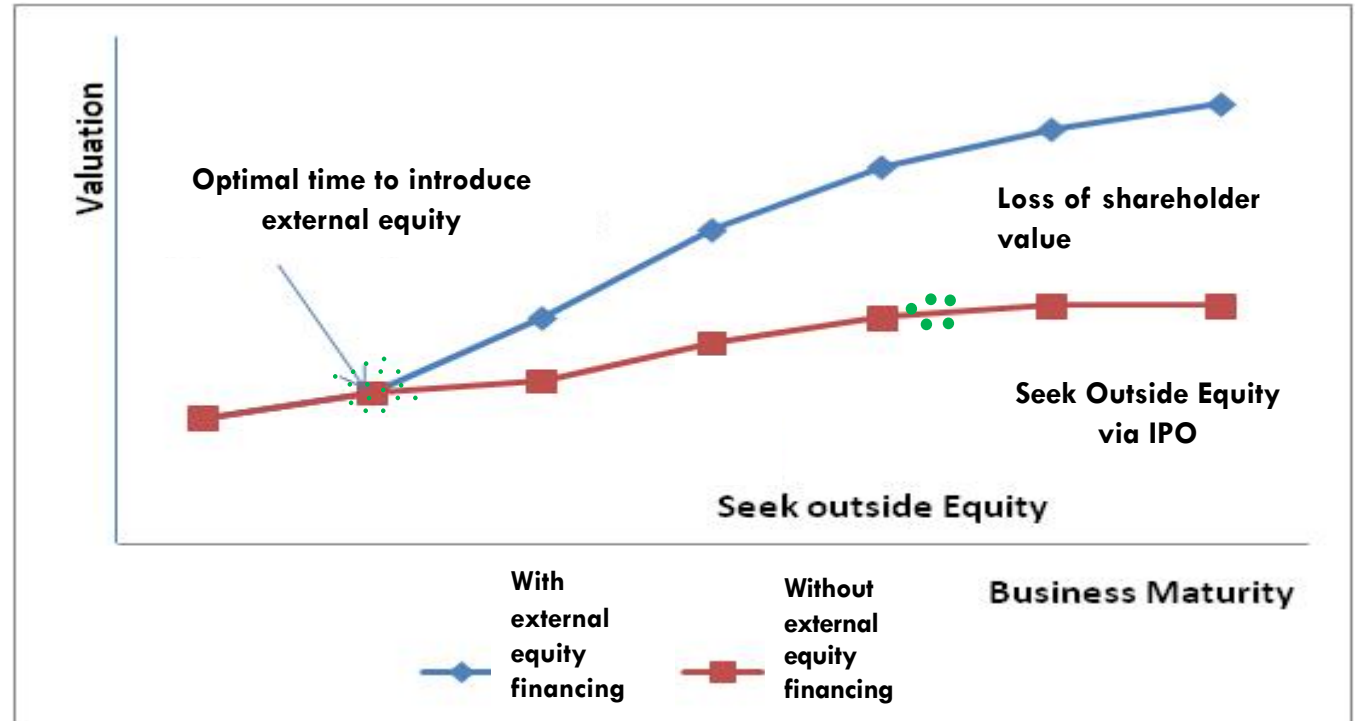
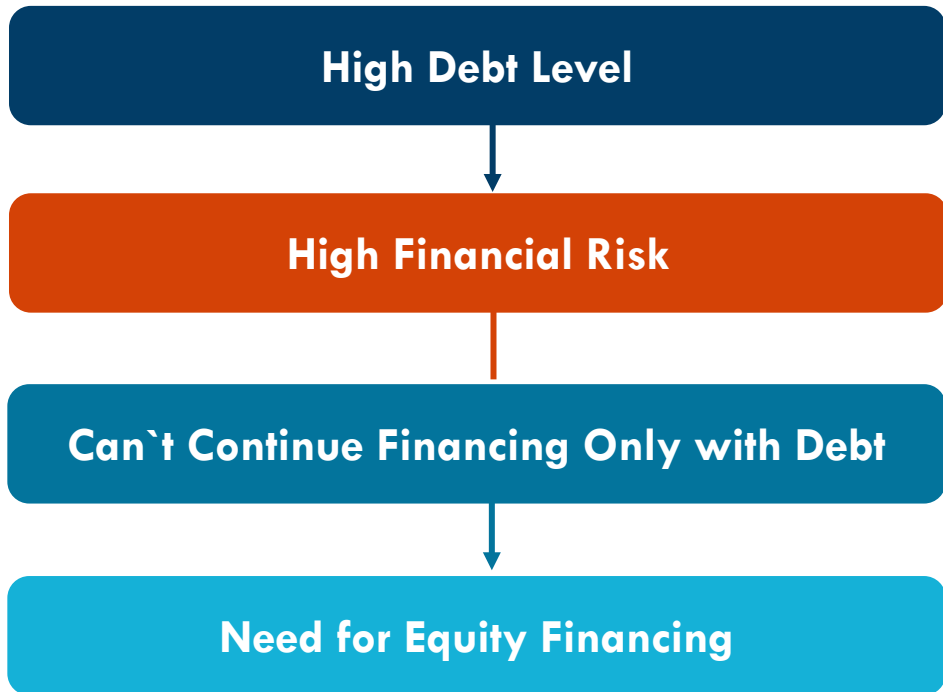
EQUITY FINANCE



After Initial Phase Of Growth Private Entities Must Have External Equity Financing

EXTERNAL EQUITY FINANCING

Needs a Vibrant Share Market



**A Different Institutional Set Up Is Required.
Banks Cannot Fulfill This Need Due To Basel III Requirements**

SOURCES OF EXTERNAL EQUITY FUNDS

Venture Capital

- High risk takers
 - VC Firms, Angel Funds and Crowd Funding
 - Experts in evaluating a concept and funding them
 - Providing guidance to the business and introducing controls
 - Scalable businesses are more attractive
 - Exit plans are essential (Trade sale, IPO, Sponsor acquisition)
 - Failure rates are very high
-

Private Equity

- Different styles of financing
 - ✓ Growth funding
 - ✓ Obtaining full control
 - ✓ Minority with substantial interest
 - ✓ Turn around specialists
 - Management strategies
 - Introduction of new markets and technology
 - Introduction of business planning and controls
 - Need an exit plan
-

SOURCES OF EXTERNAL EQUITY FUNDS CONTD.

Mezzanine Financing

- Strategically important investors could be attracted at this stage
- Next round of Private Equity (may be different funds)
- Other institutional investors
- High Net Worth Individuals
- Foreign funds

IPO

- Approaching public as a whole
 - ✓ Retail including HNWIs, Institutional investors, foreign funds etc.
- Opens up an entity to higher regulatory scrutiny and governance standards

Secondary Equity Raisings (Rights Issues / Private Placement)

- Further rounds of equity raising

SOURCES OF EXTERNAL DEBT

Capital Market

Benefitted from disintermediation

- ✓ Commercial Papers
- ✓ Bonds/Sukuks (Role of rating agencies is important)

Bank Loans

- ✓ Short Term
- ✓ Long Term
- ✓ Working Capital

New Products to fund SMEs to satisfy their requirements

- ✓ Forming of a SME Bank is a step in the right direction

Should have staff with expertise to evaluate businesses

THANK YOU !