

WHITE PAPER

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# Bangladesh Startup Ecosystem Assessment Report

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September 2022



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# Acknowledgements

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This White Paper on Bangladesh Startup Ecosystem Assessment Report (SEAR) has been issued in September 2022 and sponsored by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in collaboration with Bangladesh Hi-Tech Park Authority (BHTPA), ICT Division, Bangladesh.

The Bangladesh Startup Ecosystem Assessment Report (SEAR) was launched in May 2022 at the presence of Honorable State Minister Zunaid Ahmed Palak MP, ICT Division, Government of Bangladesh and Honorable Executive Secretary Armida Salsiah Alisjahbana, UN ESCAP.

The SEAR and the study have been facilitated under the leadership of Rupa Chanda, Director and Jonathan Wong, Chief of Technology from the Innovation section, Trade, Investment and Innovation Division, ESCAP.

The White Paper on the SEAR is prepared by Tina Jabeen, Policy Consultant, ESCAP; Benjamin McCarthy, Investment and Enterprise Development Section, ESCAP; and Elizabeth Larson, Technology and Innovation Section, ESCAP; with contributions from Abdul Bari, Innovation Specialist, ICT Division, Government of Bangladesh and Ainan Tajrian, DataSense.

The team gratefully acknowledges the valuable feedback from all stakeholders of Bangladesh startup ecosystem across cross-cutting sectors, whose participations enriched the study.

# Executive Summary

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The White Paper presents key findings and recommendations as discussed in the Bangladesh Startup Ecosystem Assessment Report (SEAR). The White Paper also elaborates on Gender Lens Investment and the need for inclusive policies and business practices to address the unique challenges of women entrepreneurs.

The White Paper can serve as a useful reference towards developing the national startup policy framework being spearheaded by the ICT Division, Government of Bangladesh.

The White Paper refers to global best practices in capacity building, funding, operational and governance structures and startup focused policies and regulations. These benchmarks can be customized in light of local context to build a resilient next generation startup ecosystem.

## Background on the White Paper

The previously issued Startup Ecosystem Assessment Report (SEAR) is an in-depth diagnostic assessment report based on a series of dialogues and interviews with key public and private stakeholders from Bangladesh startup ecosystem.

ESCAP conducted this comprehensive assessment of the Bangladesh startup ecosystem with the objective of analyzing the gaps and assessing the needs for capacity building relevant to startups. The early findings were discussed in a stakeholder workshop held in collaboration with the BHTPA on March 13, 2022, in Dhaka. The SEAR is prepared in collaboration with Bangladesh Hi-Tech Park Authority (BHTPA); whereas the study was facilitated by Bangladesh Startup Consortium, DataSense and LightCastle Partners.

## Discussion

Against the backdrop of a growing Bangladesh economy, the White Paper shows Bangladesh's startup ecosystem at a dramatic inflection point poised to ignite a startup "revolution". A young, educated population with extensive digital access, and strong government patronage towards building an innovation-based economy, leads to a situation where the startup economy is ready to take flight. The White Paper presents action-oriented insights which may also be of interest to a myriad of stakeholders in the startup ecosystem.

## **Part I: Bangladesh Startup Ecosystem – Soaring High**

### **Readiness at Macroeconomic Level – Emergence as the Asian Tiger**

With a population of 167 million people, Bangladesh encompasses a tech-adaptable young population where 62 per cent of people are aged under 35 years. The country's middle class is growing at 10 per cent per annum and is expected to reach 34 million by 2025. The Covid-19 pandemic accelerated the adoption of ICT technology, including digital commerce, education, healthcare, and agriculture. Mobile phones are ubiquitous, internet penetration is at 75 per cent, and more than 125 million people are regularly using the internet.

### **Startup Ecosystem – at a Dramatic Inflection Point**

The Bangladesh startup ecosystem is primed to ignite the startup “revolution”. Venture investment almost tripled in the past six years and stands at U\$ 742+ million (May 2022). The primary source of the funding is from corporate investors, venture capital firms and Startup Bangladesh – the flagship venture fund by the Government of Bangladesh (GoB). FinTech, E-commerce, Mobility, HealthTech, AgriTech, and EdTech startups dominated 80 per cent of the investments. Within the past six years, the ecosystem grew sixfold and now hosts more than 2,500 active startups and enterprises supporting approximately 1.5 million jobs (directly and indirectly). A significant proportion of female-led businesses in Bangladesh are being set up on social media platforms since the pandemic began. Startups continue to narrow the digital divide as products and services, mainly in fintech, e-commerce, and mobility, harness the power of technology.

Bangladesh's many STEM graduates are increasingly venturing into forming ICT-enabled companies and startups, as the number of jobs in larger technology firms are limited in the absence of large-scale industrialization (except for textile industries). Investment capital and knowledge remittance are slowly trickling in as Non-Resident Bangladeshis (NRB) are migrating back and/or establishing technology-oriented businesses, especially in the BHTPA facilities, incentivized by investor-friendly policies.

### **Catalytic Role of the Government**

In 2009, the Government of Bangladesh launched the Digital Bangladesh Campaign grounded on four pillars to develop an innovation and technology-based economy:

- internet connectivity and infrastructure
- development of human capital
- e-governance
- investment in the ICT industry.

On its Golden Jubilee year, Bangladesh attained the status of a middle-income country as set under Vision 2021. The National Perspective Plan 2041 is set to propel the nation towards an Upper Middle-Income country by 2031 and High-Income country by 2041. Pioneering initiatives such as the iDEA Project – a pre-seed grant platform and Startup Bangladesh Limited – the flagship venture capital fund by the GoB, were launched to catalyze and develop a robust startup ecosystem. The advent of anchoring guidelines from the Finance Ministry, the Central Bank, the Bangladesh Securities and Exchange Commission (BSEC) and National Board of Revenue are all part of a national strategy to further boost the success of startups.

## **Part II: Next Level Growth to Ignite a Startup “Revolution”: Recommendations**

The multi-stakeholder agenda presented here can be useful in developing the national startup policy framework – which would strengthen the startup ecosystem for a startup “revolution”.

### **1. Pipeline building**

- 1.1. Active promotion and widespread advocacy for startups and entrepreneurship is vital for the development of a steady pipeline of innovators. High tech parks and other cluster-oriented developments, such as those being supported by BHTPA, can facilitate infrastructure and education for entrepreneurs and startups.
- 1.2. More incubators and accelerators (national and global) need to be established with support from the government and development partners. Universities, both public and private, are particularly suitable for encouraging the development of incubators due to their immediate access to talent.
- 1.3. In addition to the current initiatives, the integration of gender and inclusivity angles in the funding opportunities can support the ecosystem by bringing into the fold women, people with disabilities, and people from underrepresented and marginalized groups.

### **2. Creating startup-inclusive investment regime**

- 2.1. Ongoing evaluation of the flexibility of the investment regime for local and international investors is needed. Access to foreign funds, and the ability of foreign investors to withdraw invested funds, are both important considerations for improving the attractiveness of an investment destination.
- 2.2. Government funds currently being injected into the ecosystem can be considered for their suitability for strengthening private venture funds. Public-private cooperation could make efficient use of the available expertise in this area in Bangladesh.

- 2.3. Introducing creative financing mechanisms such as venture debt and quasi-equity structure, can further align investors and enterprises' needs for both attractive returns and funding.

### **3. Introducing startup-friendly regulations**

- 3.1. Regarding the Alternative Investment Rule (2015) framework, reducing the lock-in period for global investors to one year could allow Bangladesh to compare more favorably with similarly situated investment locations in the global market.
- 3.2. Recognition of the key role of fund managers, and their need to structure fees according to the nature of their business should prompt consideration of options like charging management fees based on committed capital.
- 3.3. The Foreign Exchange Regulation Act, 1947 (FERA) could be revisited by setting profit repatriation clauses and clearly defined investment entry/exit strategies.
- 3.4. Facilitation of share buybacks by the startup ventures themselves can also contribute to improved exit options, and hence flexibility, of investors.
- 3.5. Allowing Employee Stock Options (ESOP) would enable startups to incentivize and keep its key employees.

### **4. Facilitating growth by startup-specific tax incentives**

- 4.1. A variety of tax options exist for further incentivization of startup investments, such as introduction of tax-exempt dividends from Alternative Investment Funds, tax-breaks on sold assets, and special treatment of the tax rate of management fees received by fund managers. Consideration of special treatment for encouraging sector-specific investment can channel funds to startups.
- 4.2. Tax rebates on investments in startups, especially in impact startups, could increase the flow of investments from both foreign and local sources.

### **5. Creating an investment-friendly business environment**

- 5.1. The global image of Bangladesh matters, and improving the country's ranking in the Global Startup Ecosystem Index from its 93rd position can position it more favorably

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