



Policy Brief 4: Unleashing the Potential of the Bangladeshi Startup Ecosystem

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This policy brief summarizes the discussion and recommendations from the webinar titled 'Unleashing the potential of the Bangladeshi Startup Ecosystem.' The webinar is part of the integrated development dialogue campaign 'Bangladesh Miracle' organized by Innovision Consulting in association with The Department of Economics North South University and The Financial Express along with mPower as ICT partner and Windmill Advertising, Printagraphy, Sarabangla, Colors Fm 101.6 and Young Economists' Forum (YEF) as event partners. Pathao and Anchorless Bangladesh the exclusive thematic partners for startup for Bangladesh Miracle.

CONTEXT

Innovision Consulting Private Limited, in collaboration with Pathao, Anchorless Ventures, Department of Economics, North South University, and The Financial Express, organized the fourth webinar of the "Bangladesh Miracle" campaign, 17th July 2021. The campaign focuses on factors contributing to the success of Bangladesh in key thematic issues over the past 50 years and aims to define the way forward.

Sarabangla.net, Windmill Advertising, YEF (Young Economists' Forum), Wateraid Bangladesh, BIID, NextgenEdu, Simprints Technology, GAIN Bangladesh, Colors 101.6 FM, mPower (ICT Partner), and Printagraphy are the other partners of the Bangladesh miracle campaign.

The theme "Unleashing the potential of the Bangladeshi Startup Ecosystem" was timely considering the gradual successful steps of Bangladesh in building an vibrant startup ecosystem in the past decade, and the outstanding opportunities for the ecosystem to grow in the following years.

In the last few years, more than 1000 startups started their operation in Bangladesh and 200-300 hundred startups are highly active. Many startups are joining the ecosystem in different sectors every year; the most promising ones being Edtech, e-commerce, and Logistics.

Startup Bangladesh, the state-owned venture capital firm, has invested in over 50 startups, allowing them to be less dependent on foreign investment.

To learn and build the path forward from the success of Bangladesh in shaping the nascent startup industry, Pathao and Anchorless Bangladesh, in collaboration with Innovision Consulting Private Limited, hosted a panel discussion where the intellectuals acknowledged the past successes in startups and talked about the challenges of this sector. The webinar integrated speakers from all concerning sectors to hear each other's perspectives and plan the future collaboration.

Md. Rubaiyath Sarwar, Managing Director, Innovision Consulting Private Limited, was the moderator of the webinar. Rahat Ahmed, Founding Partner & CEO, Anchorless Bangladesh, and Senior Advisor, NSU Startups Next delivered the keynote speech. The acclaimed panelists included: Professor Dr. Abdul Hannan Chowdhury, Dean, School of Business & Economics, North-South University; Fahim Ahmed, President, Pathao; Shamma Raghiv, SaaS Transformation leader at Collibra Inc.; Bijon Islam, CEO, LightCastle Partners; Sadruddin Imran, Chairman & CEO, Innovision Consulting; Laviva Mazhar, Investment Associate, Luge Capital.

CRITICAL SUCCESSES

One of the best kept secrets of Bangladesh, that is, it is the digital gold mine of Asia. The country has had significant success in the sector, some of them are listed in the following.

Creating Employment opportunities: With the help of investors and stakeholders, the startup ecosystem has created over 1.5 million jobs in the country. Startups and SMEs have helped in decreasing the unemployment rate in Bangladesh drastically; the rate has decreased from 5% in 2009 to 4.22% in 2019. Although the pandemic has increased the rate, as new businesses are entering the economy, the displaced workers are expected to find jobs again.

Robust IT/ITES industry and strategy adoption opportunities: The issues in the startup ecosystem revolve around investment, finding the ideal co-founder, and financing issues. Fortunately, the human capital and IT solutions are often available locally, thanks to its booming IT/ITES industry. The sector is supplying a constant flow of tech talents to the Bangladeshi startup ecosystem.

The neighbouring countries being India, Nepal, Sri Lanka, and China, with similar population demographics and economy, the startups can easily adopt strategies from these countries.

Startups are expanding regionally: The out of the box solutions provided by Bangladeshi startups are changing the overall economy and lifestyle of the people in Bangladesh, and have the potential of easy expansion to other countries. For example, Pathao has started its bike sharing services in 2016, two years later the company has expanded its business to Nepal in 2018. Maya, a healthtech startup has recently expanded their business to Pakistan.

Most startup companies in Bangladesh have scalable business models, and can reach global markets with the appropriate guidance and investment.

72% of the audiences in the webinar thought that **Ideas, Inventions, Research** of Bangladeshi startups are comparable to Asia and the Pacific. The innovative solutions Bangladesh is bringing in can be expanded easily, as Pathao and Maya have done, to foreign markets.

Booming Financial Frontiers: With the advent of mobile financial services, Bangladesh has ensured financial inclusion in brand new methods. The country's population are now using telemedicine, MFS, food delivery, ride-sharing, and other innovative platforms even at rural levels. Startups are re-imagining the traditional services provided to the general population, and the people are eating it up. For example, the MFS has grown steadily at a 20% CAGR in the last 5 year; at present every one out two people in Bangladesh has an MFS account. The eCommerce market is expected to be valued at USD 3Bn by 2023. This outstanding growth has happened locally, and there is still potential for the new startups to get customers.

Due to rapid economic growth, Bangladeshi Startup ecosystem is at an inflection point: Bangladesh has been hailed by The Economist as the new Asian Tiger, and investor attitude towards the country reflects on the statement. The country received \$3.61 billion in FDI in the year 2018, and homegrown startups have raised over \$200 million in the last decade. Although FDI has decreased because of the pandemic in recent years, the economy of Bangladesh stays promising. The experts are expecting Bangladesh to become the 5th Asian Tiger, the other four being Hongkong, Singapore, South Korea and Taiwan. The Asian Tigers are high growth economies with growth rates of over 7% a year.

With the healthy mix of innovation, investment, and booming middle class of consumers, the startups in Bangladesh are at an inflection point. To cater to the 164 million strong local consumer market, several sectors are propelling the industrial ship of Bangladesh, startups are acting as one of the crucial tools.

CRITICAL SUCCESSES

Bangladeshi Startup Ecosystem coming of age:

With the help of over 200 active angel investors, USD 80 million in Alternative Investment Fund, and more than 20 accelerator programs, Bangladeshi startup ecosystem is at an inflection point. Active engagements from the startups and stakeholders had made the ground fertile enough to produce some successful startups in the coming years.

64% of the audiences in the webinar thought that **startup incubators** are contributing to the startup ecosystem of Bangladesh on the same level that is done in Asia and the Pacific. Over 20 incubators were actively working as enablers for the startups in 2019, the numbers have substantially increased in the last two years.

CHALLENGES

Absence of conducive local investment system:

Around 94.3% of the funding received by the Bangladeshi startups in the past decade has come from abroad; this indicates the lack of local investment in a country of fledgling entrepreneurship. Even in the beginning of the ecosystem development, the local investment was less than that of the abroad. In 2010, of \$317 million received by the startups, only \$18 million was sourced locally. To give a quick comparison, in 2020, Bangladeshi startups have been funded at 92¢ per person - an incredibly small amount in contrast to India and Indonesia, both have funding per capita above US\$30.

Although the government did invest in other development sectors such as agriculture, EPZ, and manufacturing industries, they missed out on the startups.

Only 22% of the audiences in the webinar thought that **Angel Investors** in the Bangladesh startup ecosystem are comparable to that of the Asia and Pacific.

Also the keynote speaker pointed out that startups are a different type of asset class. It follows a different investment model compared to other investment assets like- stocks, real estate, bonds, etc. They are high-risk, high return, high reward as an asset class. Local investors and policy stakeholders need to clearly understand this difference, particularly compared to SMEs to create a conducive investment environment.

Unable to attract global investment due to poor global ranking and negative branding: Global Startup Ranking includes 100 countries where Bangladesh is standing 93rd out of 100th rank. Again, in the Global Fintech Ecosystem Rankings 2021, Dhaka stands 225th among 264 cities, while Bangladesh has ranked 78th among 83 countries. Bangladesh's low ranking in the global platforms often discourage investors and global talents.

Also Bangladesh has an attitude of presenting itself as the poor nation, which does ensure a steady flow of foreign relief into the country, but negatively

portrays the startups in the economy. The startups, and their success, especially their ability to handle heavy flow of investments need to be highlighted in the global platforms, both through the government sector and private sector involvement.

Education system lagging behind to cater the startup ecosystem: Around 47.6 million or 30% of the total population in Bangladesh are between 10-24 years old. Education system is struggling to produce enough entrepreneurial tech talents to cater the ambition of the local startup ecosystem. Also, the curriculum particularly at tertiary level is lagging behind to produce world-class CXOs or tech talents.

42% of the audiences in the webinar thought that **universities** benefitting the startup ecosystem in Bangladesh are comparable to that of Asia and the Pacific. This data reflects on peoples' attitude towards education, even in universities.

Lack of Startup Oriented Policies: In the webinar, only 22% of the audience thought that **Government sponsorship** in Bangladesh startup ecosystem is comparable to that of Asia and the Pacific.

Although the Bangladesh Government has formulated several policies for the betterment of the Startup ecosystem such as obligations for Banks to provide funding for the startups, there are some shortcomings. Firstly, the policy makers are not keeping pace with the startups; for example, the ride sharing services were introduced in 2016, but the Ridesharing Services Guidelines 2017 was implemented in July of 2019. Secondly, there are tax and other barriers discouraging people from joining the startup ecosystem.

Low entry barrier for foreign businesses: With low barriers to entry, foreign startups and companies can easily enter the Bangladeshi market, and disrupt the competition environment for the Bangladeshi startups. Usually, the foreign companies have more funding and resources to spare compared to the emerging Bangladeshi startups, which further challenges the struggling companies in Bangladesh. Also, there is a lack of policies and tax regulations to promote the local startups and curb the rapid growth of foreign businesses that may seriously hamper their growth.

POLICY RECOMMENDATION

Reduce the Talent Leakage: Around 25-30 thousand Bangladeshi students go abroad for higher studies every year. A large pool of talents has left the country for its lack of opportunities in the past decade. Bangladesh needs to harbor a significant chunk of these talents through proper financing opportunities and funding for building global companies.

Education needs to focus on skills and entrepreneurship mindset: Instead of opting for the traditional approach of attaining degrees and following textbook education, the youth population must lean towards development of their skills, with the help of education institutions. Higher Educational Institutions should encourage innovative and entrepreneurial minds to harness their talents through interactive courses and events. And gradually increase their industry and academia collaborations.

Startup-friendly policies: In order to build a digital Bangladesh, policy makers need to understand that heavy taxes imposed on the startups in their initial stages will only cripple them; they need fiscal policy support for bettering the economy as a whole.

It is also recommended to implement investment friendly policies for startup investors, and designing programs from the local conglomerates to hire and train local talents. Also device tax regulations in such a way, that it can secure the growth of local startups at their early stage.

Bridge our expert NRB community with local startups: The startups require support from their inception, to sustain and scale their businesses. The country can utilize the Bangladeshi NRB talent community abroad who are working as successful entrepreneurs and executives in global companies.

Focusing on global expansion: 33% of the audiences in the webinar thought that Global Outreach/network of the Bangladeshi startup ecosystem is comparable to that of Asia and the Pacific.

The startups in Bangladesh require a global vision. Most startups are only expanding locally, and are often unwilling to expand their businesses in other countries. Their focus needs to be towards creating a global brand perception, otherwise they won't be able to expand their businesses in other countries.

Branding Bangladesh as a Startup nation of South Asia: The Bangladesh government, private sector, and startup entrepreneurs can portray the startups of Bangladesh in a positive light in the global platforms. The marketing of startups in global platforms need to be continuous for the potential investors to be interred in the domestic market of Bangladesh.

As Bangladeshi startups receive a huge amount of capital from foreign investors, it is important that the entrepreneurs and VC funds maintain a relationship with those investors. The local market of Bangladesh is versatile and dynamic, there is huge potential of investment and new business opportunities.



Photo: Ledger insights

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