Bangladesh Startup Ecosystem Assessment Report

September 2022
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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.

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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

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 with respect to other similar emerging countries.

5.2. Improvement in “Ease of Doing Business” ranking from Bangladesh’s 168th position will further contribute towards establishing positive global branding and attracting international investors.

5.3. Refining and simplifying administrative processes can improve compliance, and also aid the establishment of new businesses, contributing to a more dynamic startup sector.
6. **Skills and networking**

6.1. To meet the rising interest in entrepreneurship among the youth population, it is important to improve the foundational skills and knowledge support required for entrepreneurial ventures. The education system can launch programs for building entrepreneurs through modification of the curriculum.

6.2. Dedicated capacity building initiatives, mentorship programs, and leadership are required for ensuring success of new ventures.

6.3. Mobilizing NRBs as Angel Investors and mentors could contribute substantially to transferring expertise in startups and technology to Bangladesh residents. Spotlighting successful female NRBs as role models to inspire and empower young women in Bangladesh can stimulate them towards innovative ventures and careers.

7. **Gender lens investing**

7.1. Promoting gender lens investment for women-entrepreneurs in Bangladesh requires a two-pronged approach: special accelerator and incubation programs for building pipeline, and exclusive investment program for GLI-based startups and SMEs. Existing initiatives such as iDEA, Startup Bangladesh Limited, and SME Foundation, can be utilized here to build, incubation, accelerators and dedicated funds.

7.2. Private incubators, accelerators, universities, and funds can be encouraged through additional incentives for pipeline development and investment for reducing the gap between male and female startups.

7.3. When it comes to investment, inclusion of gender aspects in each stage of investing (deal originating and screening, evaluation, structuring, deal engagement, impact measurement) can play a significant role in reducing the gender gap.

7.4. A part of such incentivizing initiatives could be to recognize the companies mainstreaming GLI, through industry awards and exposure.

8. **Data for progress monitoring**

8.1. Government investment to make create platforms and set standards for gathering quality data, both on startups themselves and on key parameters of startup growth, could benefit the ongoing development of the ecosystem.

The emerging startup ecosystem in Bangladesh has shown promising growth in the last decade. Startups can be a major economic force in the country’s growth journey - generating millions of jobs and injecting local and global private equity investments into the capital market through IPO, mergers and acquisitions, and other transactions. Learning from Startup sandbox and case studies of successful and failed ventures including sectoral analysis can provide valuable insights to the policymakers, regulators, and investors about the ecosystem. Based on these learnings, customized startup-friendly policies and regulations, corporate
Due to the emerging phase of the ecosystem, availability of quality data on various aspects of this industry is a major challenge. A platform to function as a repository to systematically generate quality data and to house best practices and benchmarks can significantly assist local and global stakeholders with market research. This can also function as a branding platform for the emerging ecosystem. A public-private collaboration can be considered to drive such initiative spearheaded by ICT division.
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**SECTION I**

Bangladesh Macroeconomic Overview

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**Strong Economic Vitals for Startups**

As the country steps into its Golden Jubilee years, Bangladesh, the 41st largest economy in the world, showed an impressive average annual GDP growth rate of 6.8 per cent over the last decade. There has been a sea change in the global image of Bangladesh. The country transformed itself into one of the world’s fastest-growing economies and is being projected as a future ‘Asian Tiger’. In financial year 2020, when economies around the world contracted as a result of pandemic lockdowns, Bangladesh managed a 5.2 per cent growth. A number of strategic and timely stimulus packages mitigated unemployment risks which helped the nation to perform well despite the pandemic. The country is recognized in Bloomberg’s COVID-19 resilience ranking due to its consistent GDP growth and economic performance, even during the pandemic years [Figure 1].

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1 In “Bangladesh Development Update – Moving Forward: Connectivity and Logistics to strengthen Competitiveness”, released by World Bank in April 2021 reports, “Despite the uncertainty created by COVID-19, the outlook for Bangladesh’s economy is positive.”
The economy is on track to graduate from the Least Developed Country (LDC) status in 2026. PwC predicts Bangladesh to become the 23rd largest economy in the world by 2050. It dominates the global RMG market in 3rd position, right after China and Vietnam. Data on key performance indicators and the overall economy is presented in Figure 2.
GDP per capita has been growing at rates over 5 per cent since 2015, peaking at U$ 2,723 (as of May 2022). Consumption expenditures have been growing steadily for the last 10 years. Certain key macroeconomic indicators are shared in Figure 3 and Figure 4.

Improving electrification capacity, from 47 per cent in 2009 to 99 per cent in 2021, propelled the economic development of the country. The government plans to increase capacity to 60,000 MW by 2041. Ambitious mega infrastructure development projects and large-scale
technology parks, including a Tier IV National Data Center, are fueling the growth of the country, across all sectors (Figure 5 and 6).
Investment in the country has grown over the last decade

Alongside steady economic growth, Bangladesh’s Investment as a percentage of GDP grew from 26 per cent (U$ 26 billion) in 2010 to 30 per cent (U$ 112 billion) in 2021 [Figure 7]. Investor-friendly policies to substantially increase Foreign Direct Investment (FDI) is underway. FDI stood at only 3 per cent (U$ 2.56 billion) of GDP in 2020.

Tech Enabled Digital Adoption is on the Rise

The ICT sector is booming with the GoB targeting to export U$5 billion by 2025. With ubiquitous mobile phone adoption and 75 per cent internet penetration, Bangladesh has established high rates of digital adoption [Figure 8].

The ICT sector has grown by 40 per cent annually since 2010. Over 1,500 IT companies thrive in the country, capturing a significant share in the international markets worldwide, and are expected to produce 1 per cent of the country’s total GDP in the next five years. In addition, Bangladesh is the second-largest supplier of online labor, with over 650,000 registered freelancers generating U$ 100 million annually.
The COVID-19 pandemic has accelerated ICT adoption in key sectors such as digital commerce, education, healthcare, and agriculture. Micro Financial Services (MFS) has been growing steadily at a rate of 30 per cent over the last five years [Figure 9].

In Bangladesh, every two out of three persons has an MFS account, accounting for more than 11 million transactions of $270 million per day. The e-commerce market currently stands at US$ 2 billion and is expected to expand to $3 billion by 2025. There are 2,000 e-commerce sites and 50,000 Facebook-based outlets which deliver around 30,000 products every day, and 80 per cent of online sales are concentrated in Dhaka, Chattogram, and Gazipur.
Startups Creating Employment Opportunities

Addressing unemployment, especially among youth population, is a key focus of the GoB. A strong startup ecosystem in concert with the prolific growth of a digital economy can play a crucial role in generating millions of jobs. It is noteworthy that the startup ecosystem alone generated approximately 1.5 million employment opportunities\(^5\).

During Covid-19, 200,000 new jobs were created in the e-commerce sector, and it is projected that by 2024, another 300,000 jobs will be created.
Section II
Bangladesh Startup Ecosystem

Bangladesh Startup Ecosystem Ready to Takeoff

There is a strong entrepreneurial wave across the Nation, introducing technology enabled solutions with focus on solving critical day to day problems which gained momentum especially during the pandemic. In Bangladesh, one of the youngest countries with median age of 28 years, more young people and STEM graduates are choosing entrepreneurship as an occupation. Non-Resident Bangladeshis (NRBs) are infusing investment capital and knowledge remittance is further strengthening the startup and tech sectors [Figure 10].

With an excess of US$ 740 million in funding from mostly international corporate investors and venture capital funds (May 2022), the Bangladesh startup ecosystem is at a turning point. In the last 7 years, the emergence of active angel investment networks, impact investors, local and international accelerators/ incubators, university accelerators, development agencies and most importantly government funded grant and VC platforms propelled the startup ecosystem to a turning point. The cumulative impact of which is a robust ecosystem with 2,500 active tech-enabled enterprises which generated 1.5 million direct and indirect employment. Tech-
enabled solutions primarily in fintech, logistics, mobility, E-commerce, education and agriculture sectors brought transformational changes to the lives of millions.

Alternative Investment Fund (AIF) Rules and small-cap stock exchange guidelines by the Securities and Exchange Commission are paving the way for investment friendly regime and startup exits. In the past eight years, the emergence of active angel investment networks, impact investors, development partners such as ESCAP, UNDP, USAID SARDI and a proliferation of marquee local and global accelerators/incubators have provided essential business and management mentoring and critical investment network access to push the ecosystem to a new height.

Furthermore, there is growing interest in women-led entrepreneurship. According to Meta, more than 70 per cent of female-led businesses in Bangladesh were set up on Facebook since the pandemic began and there has been an increase of more than 65 per cent in Instagram businesses owned by women.

**Catalytic Role of the Government in Building the Startup Ecosystem**

Founded on four pillars – internet connectivity and infrastructure, e-governance, development of human capital and the ICT industry, the Digital Bangladesh Campaign (launched in 2009) catapulted digital adoption across the country. In tandem with ambitious infrastructure development projects, the government is developing the technology sector to diversify its export basket.
Section II
Bangladesh Startup Ecosystem

The Bangladesh Hi-Tech Park Authority (BHTPA) introduced 39 technology parks offering infrastructure supports, data centers, operational and tax incentives, startup space and capacity building programs. BHTPA’s Startup Scale-up and University Activation program are geared to provide in-kind support and technical capacity building trainings to more than 4000 university students and startup founders with a special emphasis on gender lens investing. Groundbreaking initiatives such as the Sheikh Hasina Institute for Frontier Technologies (SHIFT) to train millions of youths in frontier technology is also underway. Incentive Policies [Figure 11]. 13,000 Sheikh Russell Digital Labs, 400 schools of future and 5500 union digital centers, are playing a complementary role in building an ICT-enabled workforce.

Pioneering initiatives such as the iDEA Project - a pre-seed grant platform for startups and Startup Bangladesh Limited (SBL) - the only VC firm wholly funded by the GoB for equity financing are playing pivotal roles in developing a robust startup ecosystem with a healthy sustainable pipeline – all with the goal to create a technology and innovation-based economy [Figure 12].

Key regulatory initiatives from the Bangladesh Securities and Exchange Commission (BSEC) such as Alternative Investment Funding Rule (AIFR) and small-cap stock exchange guidelines are strengthening the fledgling startup ecosystem. Furthermore, the Central Bank introduced a US $58 million startup fund, in debt form, to be disbursed by public and private banks, in addition to encouraging banks to set up startup investment schemes.
Furthermore, to restore public confidence on e-commerce sites and also to protect consumer interests, the Registrar of Joint Stock of Companies (RJSC) recently introduced digital commerce business ID.

**Figure 12**

**CATALYTIC ROLE OF THE GOVERNMENT**

**Startup Bangladesh Ltd.**
- $65 Mn VC fund
- ShaltoBolshe ShaltoAsha campaign to fund 50 startups
- 100 crore ($12Mn) 2021-2022
- 15 investments in 2021 – 2022 vintage (May 2022)

**Bangabandhu Innovation Grant (BIG)**
- 142 countries engaged; 257 startups competed.
- (2020-2021)

**Innovation Design and Entrepreneurship Academy (iDEA) – Grant Project**
- 261 pre-seed startups (as of May 2022)

**Bangladesh Hi-Tech Park Authority**
- 39 Hi-Tech & Software Tech Parks, 64 IT Training & Incubation Centers, Dedicated Co-working spaces for Startups.
- PRIDE Project.
- SHIFT.

**Startup Scale-up and University Activation program with GLI FOCUS** (to be rolled out in 2022)

**U$ 742 million+ Investments raised by the Bangladeshi Startups**

Over the last decade, the Bangladesh startup ecosystem received a total investment of U$ 742 million through 225 deals, out of which 54 per cent of the funding deals are disclosed. In 2021 alone, the investment amount received rose to U$ 415 million, which includes SoftBank’s capital injection of U$ 250 million in bKash and ShopUp’s U$ 75 million Series-B rounds, which is the largest Series-B round raised in South-East Asia. Out of this, U$ 33 million investments were raised locally through 92 investments, with an average ticket size of U$ 350,000 mostly in pre-seed, seed, or pre-Series A stage deals executed by local angels. Global investors, mainly VCs, invested U$ 709 million through 131 investment deals with an average ticket size is U$ 3.5 million (excluding bKash), where most of these deals are in Series A, B, or venture rounds [Figure 13]. Supported by Startup Bangladesh and iDEA project, local accelerators, angles and key stakeholders facilitated emergence of startups from a wide range of sectors like FinTech, Logistics, e-Commerce, and Healthcare.
Figure 13

Total funding raised by Bangladeshi startups from 2010-2022

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<tr>
<td>5M</td>
<td>125K</td>
<td>10M</td>
<td>15M</td>
<td>19M</td>
<td>7M</td>
<td>16M</td>
<td>107M</td>
<td>84M</td>
<td>40M</td>
<td>168M</td>
<td>250M</td>
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<table>
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<tr>
<th>Highlight</th>
<th>110 Funded Companies</th>
<th>225 Number of Funding Deals</th>
<th>122 Funding Deals Disclosed</th>
<th>US$742Mn Funding Raised Till Now</th>
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<tbody>
<tr>
<td>US$709Mn Fund Raised From Global Investors</td>
<td>US$33Mn Fund Raised From Local Investors</td>
<td>131 Global Deals</td>
<td>92 Local Deals</td>
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**Highlights of Bangladesh National Budget 2022-23 on Startups**

The national budget FY 2022-2023\(^6\) introduced several welcoming provisions to strengthen the fledgling startup ecosystem. The goal is to streamline compliance, improve operational efficiency and minimize various tax and reporting burden to enhance the competitiveness of local startups. A synopsis of these provisions is presented in Table 1.

**Table 1: Bangladesh National Budget 2022-23 and Startup Ecosystem**

<table>
<thead>
<tr>
<th>Provisions for Startups in National FY Budget 2022-23</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of reporting compliance</td>
<td>Startups are exempted from most types of reporting, except for submitting their Income Tax Return.</td>
</tr>
<tr>
<td>Increase in the number of years to carry-forward losses</td>
<td>Startups are now allowed to carry-forward losses over a period of 9 years.</td>
</tr>
<tr>
<td>Ease on expenditure restrictions</td>
<td>Startups are now allowed to make business expenses, as needed, without a defined ceiling or area of expenditures.</td>
</tr>
<tr>
<td>Decrease in turnover tax rate</td>
<td>Startups are now allowed a turnover tax rate of 0.1 per cent.</td>
</tr>
<tr>
<td>Introduction of “My e-commerce, My own business” project</td>
<td>E-commerce based startups and small and medium enterprises can harness necessary business skills under this targeted program.</td>
</tr>
<tr>
<td>Startup sandbox for new entrepreneurs</td>
<td>Startups incorporated on/after 2017-18 will enjoy the benefits of startup sandbox, provided that they comply with the eligibility criteria.(^7)</td>
</tr>
</tbody>
</table>
State of Women Entrepreneurship

Female entrepreneurs are critical to driving economic growth. An analysis by Boston Consulting Group (BCG) shows that if women participated equally with men as entrepreneurs, the global GDP could ultimately rise by approximately 3-6 per cent, boosting the global economy by between U$ 2.5 trillion and U$ 5 trillion. The study also shows that although women received about a third of the investment compared to their male counterpart, in terms of revenue, women founders did better than men. In a positive note, in the ‘Global Gender Gap Report 2020’, the World Economic Forum has stated that Bangladesh has successfully closed 72.6 per cent of its overall gender gap and obtained 50th position out of 153 countries globally.

An impressive growth of F-commerce/ digital platform businesses owned by women is seen since the pandemic. According to Meta, more than 70 per cent of female-led businesses in
Bangladesh were set up on Facebook since the pandemic began and there has been an increase of more than 65 per cent in Instagram businesses owned by women\textsuperscript{10}.

Despite this growth, in Bangladesh, the participation of women in the IT and digital business space is only 20 per cent, and only 7.2 per cent of total entrepreneurs are women. Women’s labor force participation is only 36.3 per cent, where 91.8 per cent of working women are employed in the informal economy and more than half of them are involved with lower-end agriculture\textsuperscript{11}.

**Progress in Gender Lens Investing (GLI)**

Early-stage work towards GLI is happening in Bangladesh. Notable work is being done by Bangladesh Women Investors Network (BWIN) under the sponsorship of Bangladesh Angels (BAN), Biniyog Bridhi, SARDI DAI, UNCDF CWEP programs facilitating female investors and founders. In BAN at present, 30 per cent of the founders in their pipeline are women-led businesses. BWIN is working towards improving the participation of female angel investors. Through the iDEA project, GoB provided grants to more than 260 startups, among which 10 per cent are to female founders. The GoB’s flagship VC fund Startup Bangladesh Limited invested in a number of women-led ventures.

In Bangladesh, the private sector is also taking notes towards supporting women entrepreneurs. Recently, iSocial through its WE for BoP program is providing customized services and mentorship along with mobilization of new funding stream, both venture capital and debt financing. Women in Digital initiated capacity building programs for women entrepreneurs. SARDI, a USAID funded regional initiative, facilitated by DAI, has launched a program for women entrepreneurs in South Asia, where Bangladesh is one of the countries. SMEF Bangladesh is creating a digital platform, in collaboration with UN ESCAP, to provide one-stop-service to women SMEs and MSMEs.

The GLI approach can be successfully implemented by applying the gender lens in the following stages of investment decisions:

i. **Deal origination & screening:** Emphasizing on the gender aspects in the deal origination process, where the firms should incorporate this in the strategic and communication plans.

ii. **Evaluation/underwriting:** Integrating gender lens plans in investment decisions and strategies.

iii. **Structuring/negotiation:** Mapping the outcome analysis and tagging the outcomes with gender-focused approaches.
iv. **Pre/post-deal engagement:** Offering gender-focused resources and services to the startups.

v. **Impact measurement/exit:** Designing the impact assessment in such a manner that it accounts for the gender biases.

In the National Startup Policy, incentives for companies to mainstream GLI can bring industry-wide change in the approach towards promoting women entrepreneurship. A part of such incentivizing initiatives could be to recognize the companies mainstreaming GLI, through awards and exposure.

There are two parts of promoting gender lens investment for women-entrepreneurs in Bangladesh:

1. special accelerator and incubation programs for building pipeline, and
2. exclusive investment programs for GLI-based startups and SMEs.

The iDEA project, Startup Bangladesh Limited, BHTPA and SME Foundation and other relevant stakeholders can collaborate and synchronize in establishing incubation, acceleration programs and investment funds.
Pipeline Building

For a healthy startup ecosystem, it is important that there is a steady pipeline of investable startups.

Building a healthy startup innovation and investment pipeline can be sustained through multi-stakeholder partnerships. The private sector, development partners and government agencies need to collaborate and work in concert towards this goal. Regional incubators and accelerators can play a large role in building an innovation ecosystem across the country. To identify talents at early-stages, public universities can establish startup/entrepreneurship curriculum and programs (similar to local universities feeding the Silicon Valley innovation landscape and other tech-hubs). Special programs can be set up for women.

The startup programs already extant in the BHTPA hi-tech parks can be further strengthened by global standard research & development facilities, more affordable logistics, internet services and in general more interoperable and secure payment systems.
Creating a Startup-friendly Investment Regime

Bangladesh can incorporate global best practices in the area of operational, legal and cross-border fund transfers. Reconsidering the processes and requirements for depositing and withdrawing investments, and instituting special rules for locally and internationally registered Bangladeshi startups could attract further international private equity and venture capital funding.

The introduction of creative financing mechanisms such as venture debt and quasi-equity structure, can further align investors and enterprises’ needs for both attractive return on investments and funding. Introducing the possibility for employee stock options would allow companies to retain key talents by offering flexible compensation packages. Expansion and simplification of channels of entrepreneurial financial access to meet the variety and extent of startup entrepreneurial needs can better allow startup founders to meet their goals.

Making Regulations Further Investment-friendly

Investors are naturally concerned with their ability to withdraw a profit (or exit to protect their capital) at appropriate times, in accordance with their preferred investment strategy. Resulting from this, a country’s rules around when capital may be invested and withdrawn from startups is a key concern for a burgeoning startup ecosystem. Regulations around profit repatriation with clearly defined investment entry/exit clauses, share buyback rules, and shorter lock-in period for foreign investors would likely attract further investment to Bangladesh. In this regard, reforms to the relevant sections in the Alternative Investment Rule (2015)12 and the Foreign Exchange Regulation Act, 1947 (FERA) can be considered by the GoB. Learning from the practices of other globally competitive startup locations on matters like flexible fee structures and novel taxation schemes can provide direction for making Bangladesh an even more attractive place for startup founders, asset managers and investors.

An initiative by the GoB to establish a national startup policy is underway; and more recently the announcement of startup sandbox initiative reflects the GoB’s commitment towards strengthening the startup ecosystem. The ecosystem can be further strengthened by introducing customized and strategic regulatory provisions for:

1. startup financing and capital
2. de-risking investment and exit strategy for investors
3. flexibility in startup ownership structure as well as tax schemes for stakeholders across the board.
Streamlining administrative and compliance processes, and instituting a synchronized regulatory framework across relevant agencies can boost the ecosystem morally and operationally. Such policies will further promote the growth of the startups as they can focus more on attracting investments and scaling operations.

**Facilitating Growth by Startup-specific Tax Incentives**

An introduction of tax-exempt dividends from the Alternative Investment Funds, for a period of ten years, and tax-breaks on sold assets for investments in venture capital funds could incentivize more investments to come. Treatment of carried interest as capital gains can encourage the participation of more fund managers. Tax rebates on investments in startups, especially for impact startups, could increase the flow of investments from both foreign and local sources.

**Improvement in Global Rankings**

Being an emerging innovation hub, the ecosystem of Bangladesh has successfully drawn the attention of the global market. This global image could be enhanced by reforms targeted to improve Bangladesh’s ranking in the Global Startup Ecosystem Index (currently standing at 93rd, lagging peers in the regions such as Indonesia at 45th)\(^3\). Additionally, improvement in “Ease of Doing Business” ranking from Bangladesh’s 168th position can further contribute towards establishing positive global branding and attracting international investors\(^4\). This can be done by facilitating access to local, regional, national, and international markets.

**Skills Capacity Networking**

Knowledge platforms to provide global standard training, coaching, and technical mentoring, operational and leadership trainings can develop a more investment-ready enterprises. Furthermore, improved access and availability of such consolidated platforms are necessary to efficiently streamline the knowledge outputs generated from mentorship, guidance, and training for entrepreneurs. Multi-stakeholder initiatives, such as BHTPA’s “Startup Scaleup,” could be replicated for various other sectors to capacitate the entrepreneurs with foundational skills and systematic knowledge to run a business.

Connecting and encouraging the tech-enabled Bangladeshi diaspora to work with and invest in local startups by incentivizing knowledge remittance and investments. Successful NRBs, with an emphasis on successful women NRBs can be a source of aspiration for millions of young
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minds. Developing an active NRB alumni network can be as boon for knowledge transfer in the local universities.

Gender Lens Investing

Separate incubation and acceleration programs and investment funds can be set up by the GoB spearheaded by ICT and relevant ministries. Accelerators and incubation programs for women entrepreneurs, both in Dhaka and more importantly outside Dhaka, can contribute towards achieving gender parity.

Inclusion of gender aspects in each stage of investing (deal originating and screening, evaluation, structuring, deal engagement, impact measurement) can play a significant role in reducing the gender gap. A separate GLI fund could be created to boost women entrepreneurship in the ecosystem. Financing institutions need to mainstream GLI principles.

Table 2 summarizes the points discussed in the Agenda for Action:

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<tr>
<th>Proposed Action</th>
<th>Description</th>
<th>Partners</th>
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<tr>
<td>Establishment of more incubators and accelerators</td>
<td>Bringing in more incubators and accelerators in the ecosystem</td>
<td>Relevant government agencies, local and global accelerators, development partners, universities, and other stakeholders.</td>
</tr>
<tr>
<td>Engagement of universities</td>
<td>Integrating universities into the ecosystem through different modes of engagement</td>
<td>Government and public and private universities in collaboration with other stakeholders.</td>
</tr>
<tr>
<td>Programs for underserved communities</td>
<td>Designing programs for underserved communities like women, people with disabilities, people from marginalized groups, etc.</td>
<td>Relevant government agencies, local and global accelerators, development partners, universities, and other stakeholders.</td>
</tr>
<tr>
<td>International registration of startups</td>
<td>Facilitating the startups to register for both local and global funding</td>
<td>Investment regulation authority in collaboration with other public and private stakeholders.</td>
</tr>
<tr>
<td>Creative financing mechanism</td>
<td>Introducing financing options such as venture debt, quasi-equity structure, etc.</td>
<td>Finance regulation authority in collaboration with other public and private stakeholders.</td>
</tr>
<tr>
<td>Reduced lock-in period</td>
<td>Allowing one-year lock-in period for global investors</td>
<td>Investment regulation authority in collaboration with other public and private stakeholders.</td>
</tr>
<tr>
<td>Management fees of fund managers</td>
<td>Allowing fund managers to charge management fees</td>
<td>Investment regulation authority in collaboration with other public and private stakeholders.</td>
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### Section IV
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<tr>
<td><strong>Fund-of-funds</strong></td>
<td>Facilitating the process of channeling the startup funds accumulated by banks, government and private agencies, through government-backed funds</td>
<td>Investment and Financial regulation authority</td>
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<tr>
<td><strong>Revision of profit repatriation clauses</strong></td>
<td>Revisiting the profit repatriation clauses of FERA</td>
<td>Investment regulation authority in collaboration with other public and private stakeholders.</td>
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<td><strong>Definition of entry and exit strategies</strong></td>
<td>Clearly defining the entry and exit strategies for investors</td>
<td>Investment regulation authority in collaboration with other public and private stakeholders.</td>
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<td><strong>Buyback provision</strong></td>
<td>Startups buying back their shares and investors being able to exit with ease</td>
<td>Investment regulation authority in collaboration with other public and private stakeholders.</td>
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<tr>
<td><strong>Employee Stock Options (ESOP)</strong></td>
<td>Allowing ESOP for the employees of startups</td>
<td>Investment regulation authority in collaboration with other public and private stakeholders.</td>
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<tr>
<td><strong>Creative structures of corporate restructuring</strong></td>
<td>Allowing structures such as Holding Company to facilitate equity ownership transfer and operational activities</td>
<td>Investment regulation authority in collaboration with other public and private stakeholders.</td>
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<tr>
<td><strong>Tax-break</strong></td>
<td>Offering tax incentives related to startup investments, particularly for impact startups</td>
<td>Investment and taxation related authority</td>
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<tr>
<td><strong>Improving global ranking</strong></td>
<td>Enhancing the ecosystem and simplifying the process of doing business for the startups and enterprises</td>
<td>Relevant public agency and stakeholders of the startup ecosystem</td>
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<td><strong>Capacity building program</strong></td>
<td>Developing program with multi-stakeholder involvement, ensuring development of necessary skills</td>
<td>Entrepreneurship and skills development authority of government and private entities</td>
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<td><strong>Engagement of NRBs</strong></td>
<td>Encouraging and involving the Bangladeshi community stationed at global innovation hubs and investment firms</td>
<td>Entrepreneurship and technology related authority of government</td>
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<tr>
<td><strong>GLI focused investment program</strong></td>
<td>Creating exclusive GLI-based funds and investment strategies</td>
<td>Government and Private Funds and Investors</td>
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<td><strong>Pipeline development incentive</strong></td>
<td>Designing incentives (awards, exposure) for ecosystem developers working towards reducing gender gap</td>
<td>Entrepreneurship and technology related authority of government</td>
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<tr>
<td><strong>Generation of systemically quality data</strong></td>
<td>Investment channeled to facilitate the generation of quality data</td>
<td>Public-private collaboration</td>
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**Table 2**<br>**Proposed Reforms for The Startup Ecosystem of Bangladesh**<br>Recommendation of White Paper: Bangladesh Startup Ecosystem Assessment Report.
References


