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ANGEL INVESTMENT IN BANGLADESH

TRENDS, CHALLENGES, AND OPPORTUNITIES

CES WHITE PAPER

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Executive Summary

In the last 12 years, early-stage companies in Bangladesh saw almost USD 45 million in total angel investments across 121 disclosed deals. Almost 60% of it came from investors outside Bangladesh, who are mostly Non-Resident Bangladeshis—indicating that although foreign capital is flowing in, it isn't necessarily from foreign investors per se. However, despite relatively smaller cheque sizes from local investors, local investors have funded about 69% of all deals.

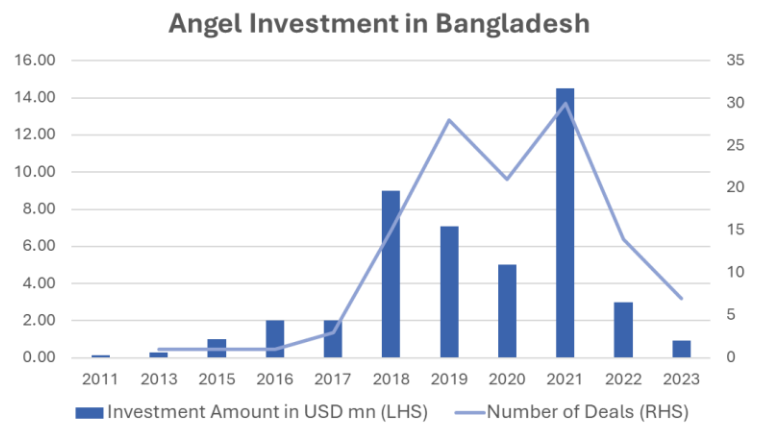
When looking at where the investments went, the majority of them went to pre-seed and seed-stage companies, which is typical of angel investments worldwide. But the size of this majority—almost USD 30 million—is dwarfed by the almost USD 98 million investment in the same stages of companies by venture capital funds, the closest type of investor to angel investors. Even then, angel investors are distinguished from VC investors by funding more early-stage companies—making them a more accessible source of capital for early-stage companies. Upon a closer look, we can see that healthcare received the most angel investments in terms of aggregate investment size, followed by e-commerce and logistics. On the contrary, it isn't necessarily the case that most deals were funded in healthcare or that this is the favorite sector of angel investors. This is evidenced by the fact that more deals were funded in e-commerce, more investment per year went to e-commerce except for only two years, and, more importantly, almost all disclosed or tracked investments are in technology-enabled startups—which are a minority when considering more traditional and mainstream businesses in the early-stage category. Therefore, it is highly likely that angel investments are mostly funding more mainstream businesses, such as agriculture-focused small and medium-sized businesses (SMEs), that generate more stable income. In terms of emerging favorites, the financial services space—particularly financial technology companies (fintech)—is a top contender as the country's income and technology adoption rise rapidly, accompanied by the implementation of favorable regulations such as the digital bank framework.

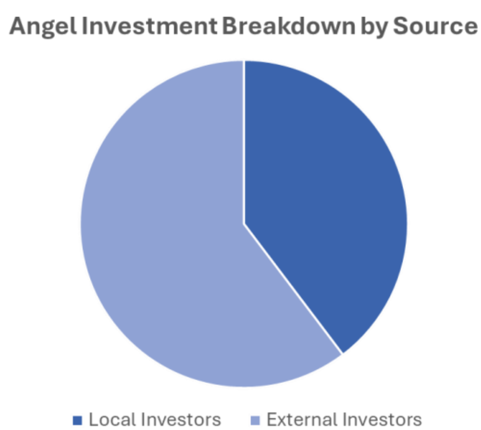
There are still challenges obstructing both more investments and the creation of more businesses. Being a frontier market, Bangladesh has its fair share of roadblocks, like narrow exit opportunities, difficult foreign currency transactions, and a difficult yet developing business environment where the masses don't appreciate entrepreneurship much. All these roadblocks constrict the pool of businesses and, thereby, investment opportunities as well. The challenges, however, are being addressed gradually through actions by all stakeholders, including the government. The scope of doing business has grown over time.

Regardless of the challenges characteristic of a developing country, Bangladesh has strong macro tailwinds that promise a lucrative case for long term gains.

1. Angel Investment Scene in Numbers

Almost USD 45 million has been invested across 121 disclosed deals in Bangladesh by angel investors from 2013 to 2023.[1] On average, about USD 130,000-2,000,000[1] was invested per deal in the last 10 years, with 2021 accounting for the highest average investment size and 2023 accounting for the lowest average investment size. Given that about 60%[1] of angel investments were made by people outside of Bangladesh, the high of 2021 and the low of 2023 corresponded to globally eased and tightening monetary policies.

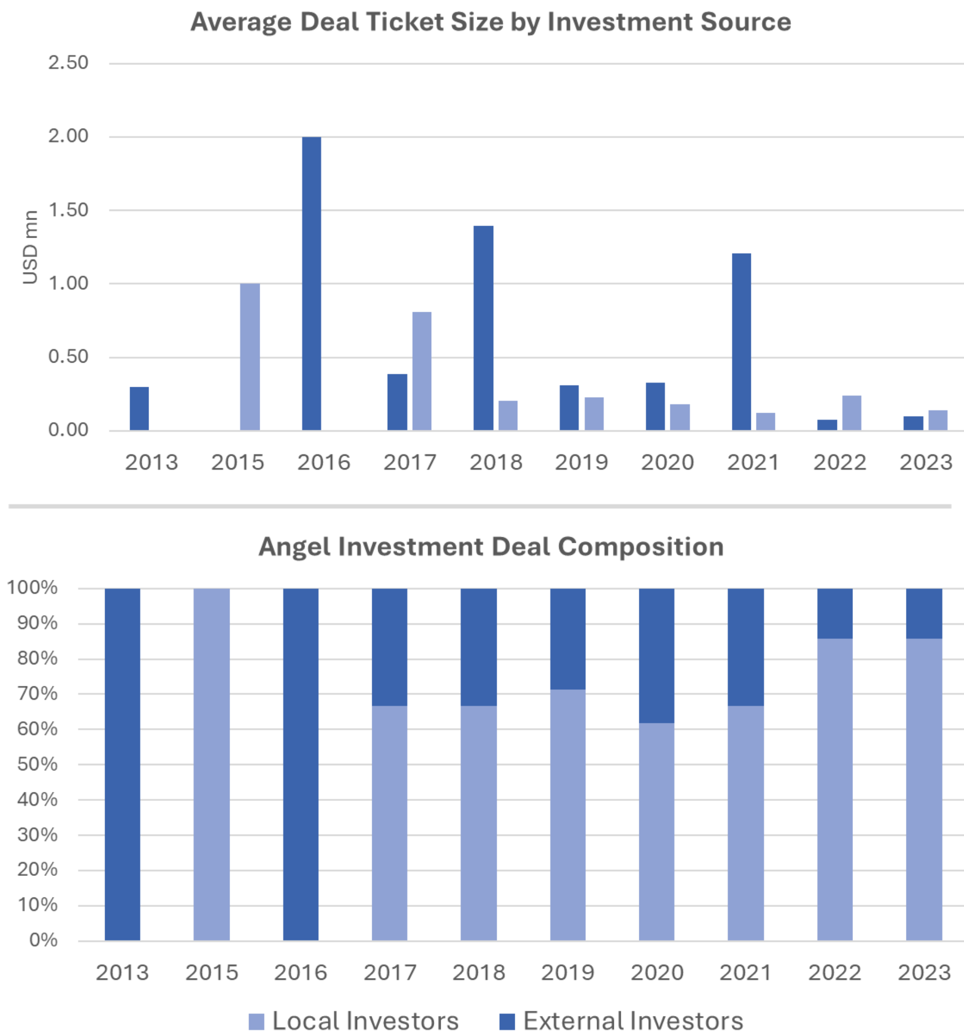




CES Visual based on data from LightCastle Partners

Even though, the majority of angel investments came from outside Bangladesh, most of it came from Non-Resident Bangladeshis (NRBs); that is, not necessarily from foreign investors. While this is a positive sign that people of Bangladeshi origin are investing in their home country, it also shows that we have yet to attract foreign capital. However, NRBs—most likely from higher-income countries—investing in the country significantly boosted the total availability of angel capital owing to bigger cheque sizes on average.

[1] Bangladesh Startup Ecosystem Funding Dashboard, LightCastle Partners



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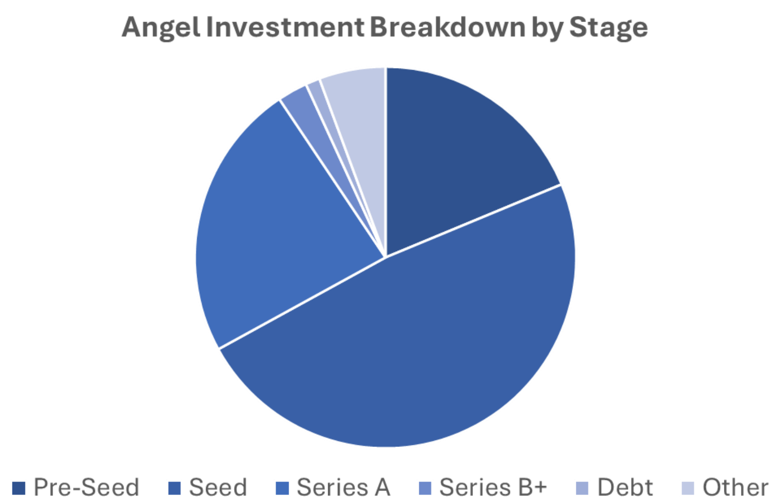
1.1 Seed Stage: Angel Investor Favorite

In Bangladesh, as in most other places, angel investments are typically concentrated in pre-seed and seed-stage companies, reflecting the smaller ticket sizes of angel investors relative to institutional investors or funds. Of the around USD 45 million total angel investment, about 48% went to seed stage companies, followed by a relatively smaller share of 19% to pre-seed stage companies[2]—highlighting the trend that, although angel investors at large are focused on very early-stage companies, they are still mostly averse to pre-revenue companies, most of which are in the pre-seed stage.

[2] Bangladesh Startup Ecosystem Funding Dashboard, LightCastle Partners



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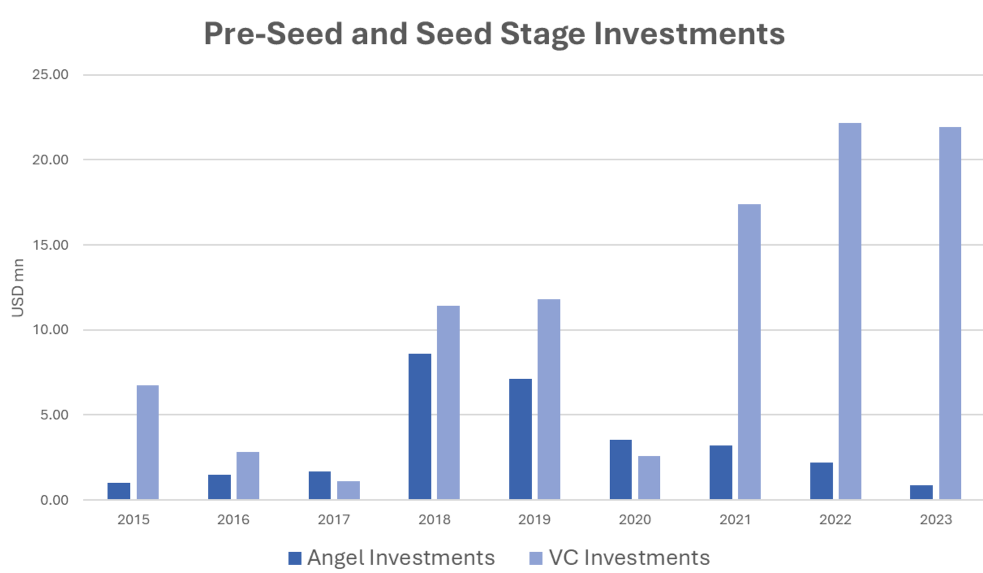
1.2 Angel Investments: More Accessible than Venture Capital Investments

Venture Capital (VC) is the closest type of capital to angel investing capital since both are essentially early-stage focused capital. However, when compared, VC generally invests much larger cheques in slightly mature early-stage companies that require much higher funding. This is also evident in Bangladesh, where VC funds invested about USD 98 million[3] in pre-seed and seed-stage companies combined, compared to a much smaller figure of about USD 30 million[3] in angel investments in the same early stages of companies. Of course, despite the much larger investments from VC, angel investors have funded more companies in the country—making angel investors a more accessible investment source for early-stage founders.



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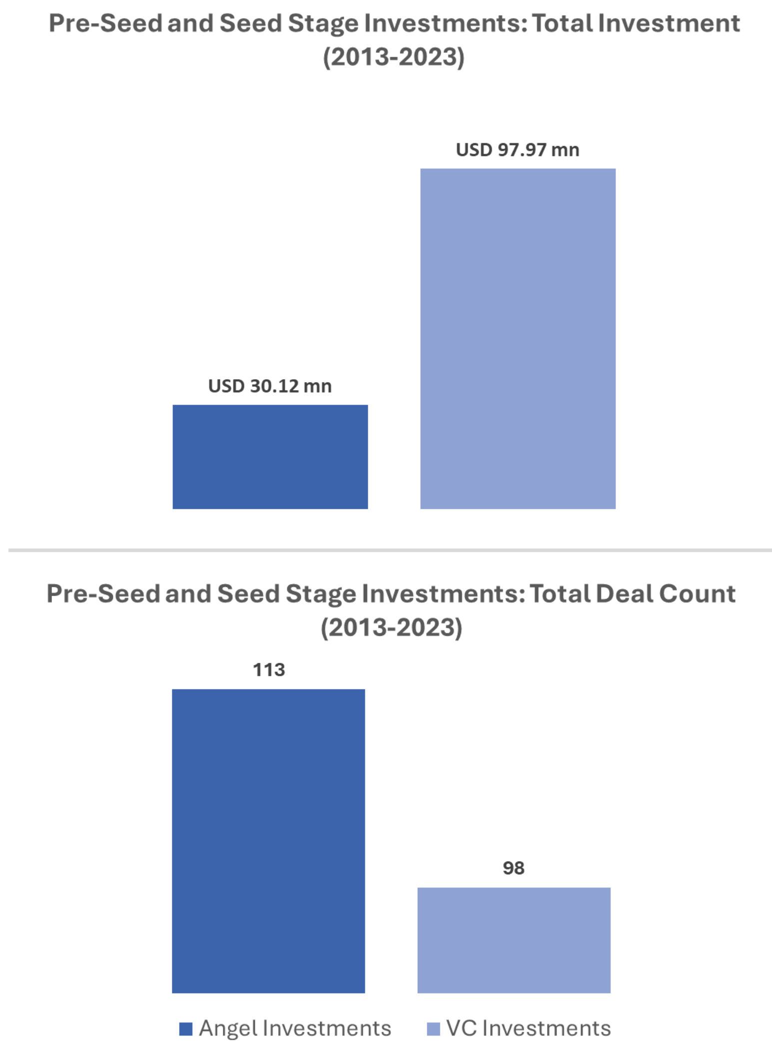
[3] Bangladesh Startup Ecosystem Funding Dashboard, LightCastle Partners



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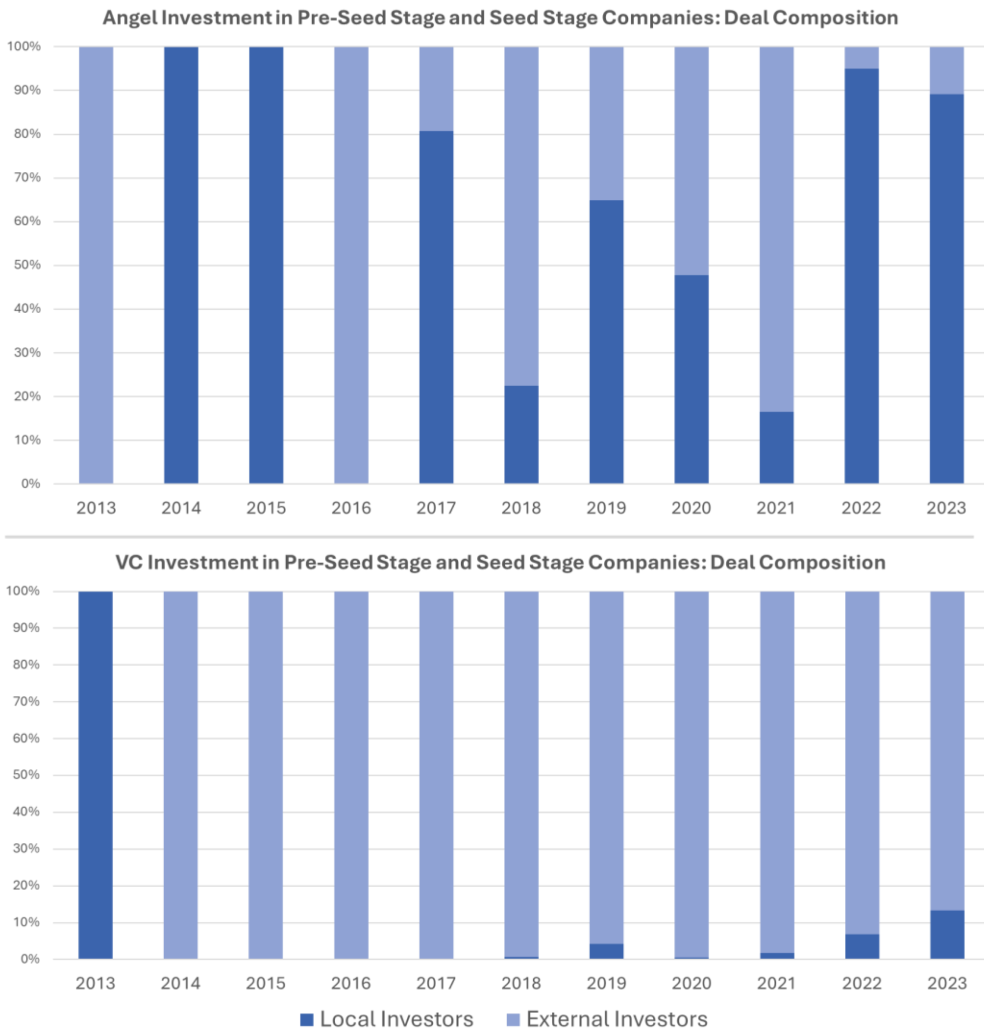
While one could argue that the inaccessibility of VC investments is due to them being more suited for early-stage companies on the more mature end of the spectrum, potentially the biggest factor behind such exclusivity of VC in Bangladesh is the little to no presence of VC funds in the country. This almost non-existent presence of VCs in Bangladesh implies that most VC investments in the country are foreign capital—reducing the accessibility of VC capital even further since foreign investors tend to allocate much less to frontier markets like Bangladesh, where investment opportunities are considered much riskier than those in developed markets.



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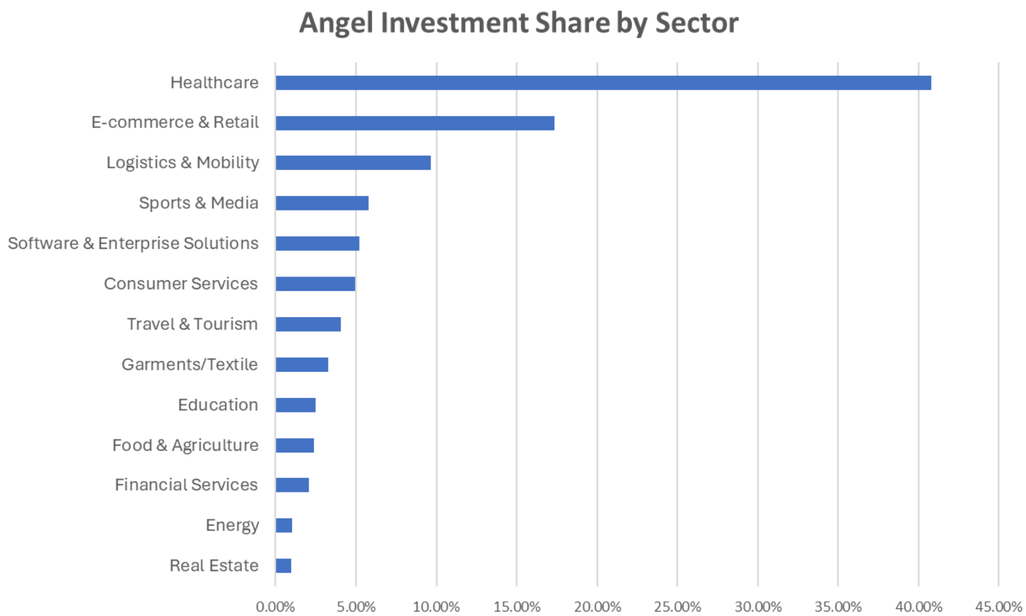
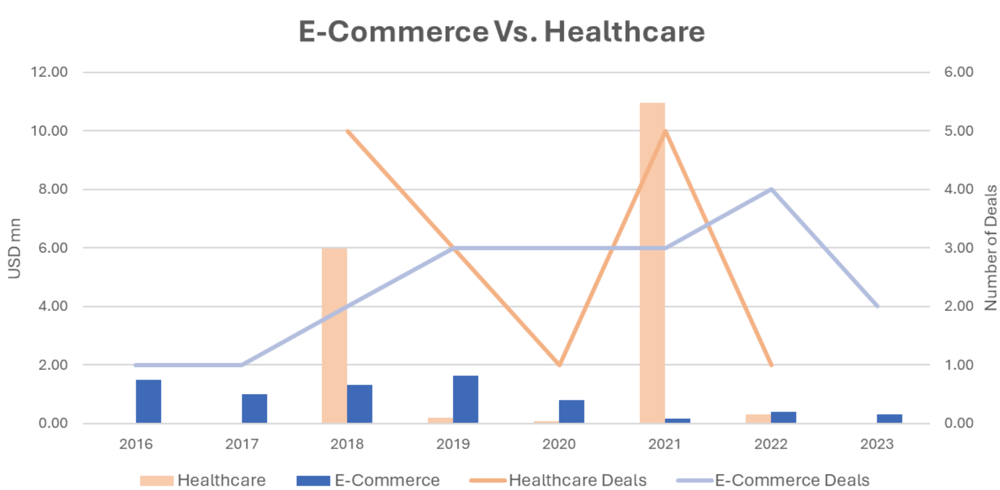
1.3 E-Commerce, Logistics, and Healthcare: Sectors Receiving the Most Angel Investment

Of all disclosed angel investments to date, in aggregate amount terms, about 41% went to the healthcare sector, followed by about 17% to e-commerce, and about 10% to logistics.[4] Each of the rest of the sectors is represented by about 3%[4] on average. However, this doesn't necessarily imply that healthcare, or even the other two, is the most preferred sector of angel investors. This phenomenon is indicated by the fact that on a year-on-year basis, e-commerce saw higher investments than healthcare except for only two years—although e-commerce is behind healthcare by about USD 10 million in aggregate investment terms, and the around USD 2 million average investment per deal in healthcare in 2021 was significantly higher than the weighted average investment per deal size of about USD 510,000 from 2015 to 2023, potentially owing to

[4] Bangladesh Startup Ecosystem Funding Dashboard, LightCastle Partners

one or two higher than usual large healthcare deals. In fact, e-commerce beats healthcare even by the number of deals, which is a better indicator of angel investor preference or consensus as the vast majority of them typically don't make large investments and are better represented by relatively small cheques.





CES Visual based on data from LightCastle Partners

Because most of the disclosed angel investments are into technology-enabled startups, which are generally more followed and reported by mass media, it is highly likely that most angel investors—if not just more than in e-commerce and healthcare—are going for generic agriculture-focused small and medium-sized businesses (SMEs) since these types of businesses are more mainstream and stable income generating in Bangladesh.

1.4 Financial Services: Growing Popular Among Angel Investors

Currently, financial services account for only about 2%[5] of disclosed angel investments. However, it is poised to be a frontrunner for top investor favorites in the coming days, as indicated by increasing attention towards financial services companies, particularly financial technology (fintech) companies, from angel investors.[6]

Arguably, the biggest factors inhibiting more angel investments in financial services are the very small pool of companies in the area and the low-income level of the country. This macroeconomic reality—a narrow basket of financial services companies, which is exacerbated by the difficulty of making sophisticated financial products for a market that isn't large enough yet—is leaving angel investors with very few options to invest in the area of financial services.

On the contrary, the basket of financial services companies is expected to grow bigger because of the country's rising income level and technology adoption, which is already evident. Even the recently adopted regulations, such as the introduction of a regulatory framework for digital banks[7], are a testament to the gradually more convenient environment for financial services on the regulatory front. All these favorable changes should lead to more investments in this area.

2. Angel Investor in Bangladesh: Profile and Dynamics

The general demography of angel investors can be mainly divided into two categories, i.e., local investors and external investors, who are by and large Non-Resident Bangladeshis (NRBs). However, when comparing investments in technology-enabled startups to investments in more traditional and mainstream businesses, the share or ratio of investors between the two types can be quite divergent. In the case of technology-enabled startups, the ratio is close to 50/50 between local investors and NRBs in terms of the number of investors[6], although almost 60%[8] of angel investments are from NRBs due to their larger cheque sizes in general. On the other hand, in the case of more traditional businesses such as restaurants or agriculture-focused SMEs, which are largely not tracked and thereby unknown, almost all the angel investors represent local investors both in terms of the number of investors and investment size.

When it comes to profession, most local investors are entrepreneurs or mid to senior-level corporate executives based on the general background of angel investors in the disclosed startup investments. Among NRBs, the overall background is similar but more diverse in sector and role. It is to be noted that many of the entrepreneur investors are 2nd or 3rd generation entrepreneurs running family businesses.[6]

In terms of funding dynamics, angel investors invest by usually forming syndicates—a group of investors with a common interest that pools their individual investments to collectively invest in a company—since most angel investors tend to be small-ticket investors. In Bangladesh, typically 5-6 angel investors on average comprise an angel syndicate, which invests about USD 200,000 on average.[9] Although that translates to roughly USD 33,000 per angel investor, the majority of cheques are much smaller and can be even as small as USD 1,000-5,000 depending on the company and size of the syndicate. However, in most cases, the lead investors—the investor

[5] Bangladesh Startup Ecosystem Funding Dashboard, LightCastle Partners

[6] Ahmed Jawad Yusuf, Advisory Lead, Bangladesh Angels

[7] "Bangladesh Bank Approves Digital Bank Guideline", Report, The Business Standard

[8] Bangladesh Startup Ecosystem Funding Dashboard, LightCastle Partners

[9] Nirjhor Rahma, Chief Executive Officer, Bangladesh Angels

leading or representing a syndicate—tend to put in much larger cheques because they typically represent most of the collective investment size.

3. Industry and Investment Challenges: Factors Discouraging Investors and Constraining Pool of Businesses

Bangladesh, like most frontier markets, has a host of small and big issues for both businesses and investors. However, key factors contributing to inhibiting more investment and the creation of new businesses can be mainly categorized into two groups, i.e., narrow exit opportunities and difficult foreign investment repatriation on the investor side primarily, and the unease of doing business and a lack of widespread recognition of entrepreneurship on the business creation side.

3.1 Narrow Exit Opportunities: Difficulty in Listing in Bangladesh

The stock market in Bangladesh adopts very stringent yet inconvenient listing eligibility requirements that make it nearly impossible for early-stage companies to go for Initial Public Offering (IPO). Not only is the process behind an IPO reportedly cumbersome, but the current requirements would take early-stage companies—many of which have novel yet scalable business models—years to list on the Dhaka Stock Exchange (DSE). For example, loss-making early-stage startups that have the potential to become profitable at scale over time can't go public here; whereas, even India has numerous instances of allowing unprofitable companies to go public.

Such a roadblock to the public market makes secondary exits through new investment rounds less likely, which again makes angel investors averse to early-stage companies, for which angel investments are a matter of do or die in most cases.

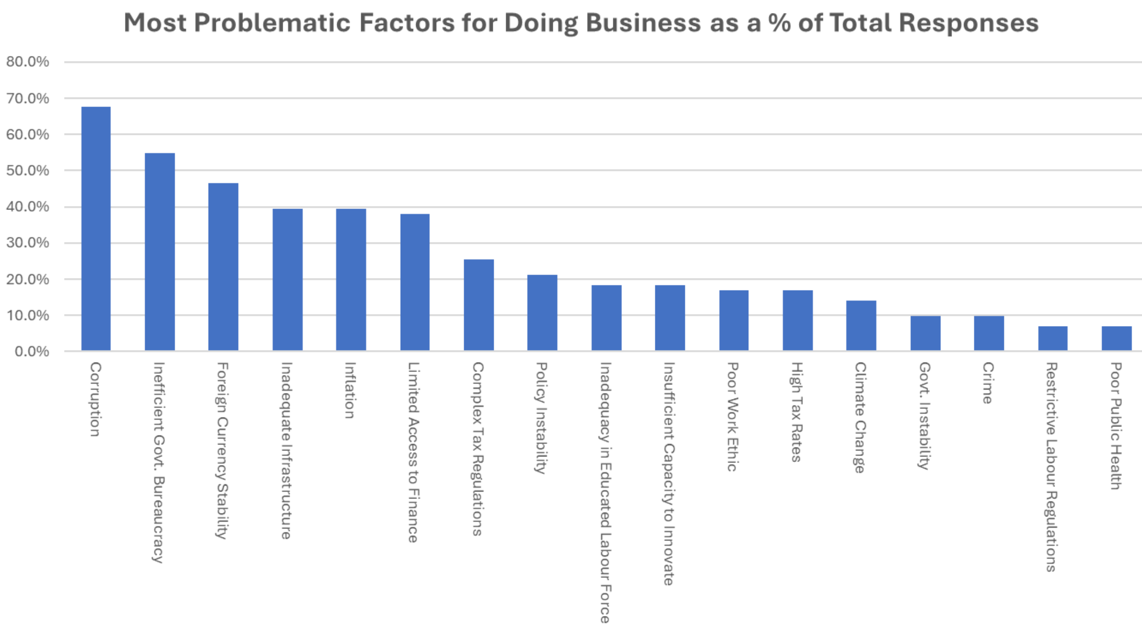
3.2 Difficult Foreign Investment Repatriation: Inconvenient Experience

Many NRBs are interested in investing in Bangladesh, but inconvenient processes ultimately dim out whatever interest is left. For example, Canada-based angel investor Anik M. Rahman says that he had to undergo a lot of difficulty in convincing people to create a Canada-based angel syndicate for investing in Bangladesh. Another such example of inconvenience is the fact that the investment of any foreign investor in any public company can't be withdrawn before at least a year has passed. Essentially, difficulty with foreign currency transactions serves as a big source of discouragement for angel investors who might invest in the country.

Such an inconvenient experience even forces companies to find no other option than domiciling in foreign countries like Singapore and the UAE to make it easier to receive investments, which may penalize Bangladesh by potentially missing out on future tax revenue.

3.3 Unease of Doing Business: Complex and Slow Processes

Slow and reportedly problematic approval processes, as well as unfriendly rules, among other problems, as indicated by Bangladesh's 168th position[10] out of 190 nations on the ease of doing business ranking table, make for a tough environment for businesses in Bangladesh. With the inherent complexity of doing business in a developing market, such a challenging business climate disincentivizes the creation and, in some cases, even the continuation of businesses.



CES Visual based on data from the report "Bangladesh Business Environment 2023" by the Centre for Policy Dialogue (CPD)

3.4 Lack of Recognition of Entrepreneurship: Social Stigma

While the lack of highly skilled human resources is an unresolved issue for setting up good businesses, a major roadblock to the creation of businesses is a lack of recognition of entrepreneurship by the country's masses. A common barometer in the context of Bangladesh for understanding this stigmatized consensus is the willingness to marry someone based on their profession. The average family in the country would still prefer a salaried man over an entrepreneur, even though the entrepreneur has the potential to build more wealth and status in the long term. This is characteristic of a low-income country, where the majority is predisposed to a job with a predictable and stable income.

Such social stigma around entrepreneurship, which is essentially an awareness issue, discourages people from taking up entrepreneurship and thereby makes the pool of businesses smaller.

[10] "Doing Business 2020: Bangladesh Improves Business Climate, but More Remains to Be Done", Press Release, World Bank

4. Macro Tailwinds and Cheap Valuations: A Case for Long Term Gains

The challenges in Bangladesh are no different from those of similar developing countries. Even some of the most successful countries today have gone through a phase of an informal economic state where roadblocks made it difficult for investments. However, the silver lining in developing economies with attractive macroeconomic factors, such as Bangladesh, is the opportunity to invest in businesses at very low valuations and watch your returns grow to attractive levels as the economy develops and grows significantly. In some ways, investing in very early-stage businesses in such developing markets allows you to take advantage of the market's macro tailwinds the most because early-stage businesses—if operated correctly under a viable business model—are businesses that will constitute new or more developed stages of markets within the country rather than simply offering relatively low valuations.

The only caveat to early-stage investing is the illiquidity and insufficient performance metrics in the early years due to little traction initially. Therefore, as fully evaluating companies in the early-stage category is tough, investing in several companies rather than trying to find only one or two quality companies is the way to go in this stage. Typically, one or two companies that progress to more mature stages compensate for all of the investments combined. A clear example of such companies is some of the blue-chip technology companies in the US today, which once were small and unprofitable. While there is a lot of risk inherently in this category, it can be minimized through diversification across sectors and even geographies. Furthermore, the low valuation level in the early-stage category makes it possible to allocate a relatively small sum for multiple companies compared to allocating for more mature and established companies. The current combined angel investment sizes of only USD 130,000 to at most USD 15 million for all companies in a single year indicate that most early-stage companies are still raising funds at extremely low valuations; of course, valuations should rise in the long run as the economy develops.

GDP **USD 460 bn** (35th Largest Economy)	**GDP Growth Rate** **7.1%** (5.8%+ average during COVID-19 Pandemic)	**Trillion Dollar Economy** Year 2040
Population **171 mn** (8th Largest)	**Median Age** **28 Years** (62% under the age of 35)	**9th Largest Consumer Market** Year 2030

CES Visual based on data from Bangladesh Bank, World Bank, UNESCAP, HSBC, and LightCastle Partners

Bangladesh's advantageous geographical location connecting South Asia and Southeast Asia—two of the world's fastest-growing regions—as well as its large young population with a median age of only 28 years, rapidly rising income level, and technology adoption, provide an opportunity to generate lucrative long term gains from one of the future's top markets.