

# Startup Fundraising Trends in 2022

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## Sectoral Trends

On the surface, the year 2022 may appear to have been a reasonable year for startups in Bangladesh with a total of USD 109 million being raised. The sectors that had shown promise in previous years, began to thrive in 2022 – namely – fintech, logistics and mobility-based startups. Education and e-commerce startups also showing promise in the context of being able to secure However, relative to the previous year, 2022 saw a significant decline in foreign investments coming into the country with total investments seeing a whopping 74% decline from the USD 415 million raised in 2021 to a meagre USD 109<sup>i</sup>.

This decline in funding however was not exclusive to Bangladesh, with overall global funding also declining considerably, owing to the instability in the world economy<sup>ii</sup>. Uncertainties brushed onto the global venture capital firms causing them to tighten up their fundings, especially in developing countries like Bangladesh. These pressures on global capital flows manifested in the Bangladesh startup sector. While the second quarter of the year saw USD 82 million raised, the first saw only 10 and the third, a meagre 8. A silver lining was that locally sourced investments saw a rise, taking up 8 percent of the total share of the funds raised<sup>iii</sup>.

## Overview of Funds Raised

Of the USD 109 million raised in total funding, the largest overall share was obtained by ShopUp, the largest B2B e-commerce platform in the country. The financial services providing company raised USD 63 million in June 2022 from its latest fund-raising round from Valar Ventures and Flourish Ventures with plans of expanding the brand and improving and upscaling its supply chain system. ShopUp during the start of 2023 announced that they had secured further funding of USD 30 million in debt financing, with USD 20 million coming in from Lendable, a debt provider for Fintech startups and another USD 10 million coming from The City Bank Ltd. in loan financing<sup>iv</sup>.

Educational technology, better known as EdTech also showed its potential which was evident from the USD 7.95 million raised in 2022, a mammoth 335% increase from the USD 1.83 million raised in 2021. The online educational platform, 10 Minute School opened up the fund raising for 2022 for EdTech, raising USD 10 million in seed funding from the India-based Sequoia Capital's rapid scale-up program, Surge<sup>v</sup>.

Shajgoj, a beauty and personal care e-commerce platform received funding from the same source i.e., Surge, worth USD 2.1 million, making this the biggest investment in the e-commerce and retail sector.

In March, another EdTech platform, Shikho which provides digital learning services raised USD 4 million in seed funding, with its total funding amounting up to USD 5.3 million, the largest ever seed-funding acquired by a Bangladesh-based start-up<sup>vi</sup>. The US-based venture capital firm Wavemaker Partners along with 7 other investors provided this funding.

The logistics and mobility sector also raised USD 16.83 million overall, with Paperfly, a doorstep delivery network raising USD 13 million from Ecom express, an Indian tech-based e-commerce logistics solutions provider.

Within the travel and tourism sector, GoZayaan, an online travel booking platform received USD 4.6 million in funding.

In October of 2022, Agroshift, an agri-tech company engaged in connecting businesses with farmers for their resources, acquired the largest ever pre-seed funding in Bangladesh

worth USD 1.8 million. UAE-based Sharooq Partners and Anchorless BD jointly led this investment in the food and agriculture sector<sup>vii</sup>.

## **Challenges in Capital Raising**

The World Bank in its “Ease of Doing Business” survey in 2019, ranked Bangladesh 168th among the 200 countries surveyed. This indicator is of course telling with regard to the overall business environment of the country.

A multitude of long-running issues, which were long overdue to be resolved have all culminated in making this burgeoning economy underwhelming in achieving its desirable investment-attraction success. While raising funds is difficult for local businesses, when foreign investors want to invest in the country, they suffer for setbacks from the very get-go, because of challenges to registration of new businesses, acquiring land, difficult taxation regimes and even complications in getting utilities connections as per a focus group we conducted with business analysts and entrepreneurs. The bureaucratic red tape that entails setting up a business is confusing and convoluted even for local businesses, so it is no surprise that foreign investors would be deterred from attempting to do business here<sup>viii</sup>.

As investors express their disinterest in investing in Bangladesh, this has only made it difficult for local startups to begin their journey, further discouraging young minds from translating their ideas into tangible business. The Center for Policy Dialogue in its “Business Environment Survey 2022” found deterioration in almost all indicators from its 2021 results. Inadequate infrastructure, bureaucratic barriers to credit access, highly inefficient administration, the recent crisis in the foreign exchange market, and high levels of inflation have all contributed to the worsening of the business environment. High levels of corruption, which is prevalent in all aspects of society has been a major contributor with 64.6% of the executive’s attributing corruption as a major hindrance in being able to do business. The effects of such corruption are undoubtedly felt by newcomers into the business world with them having to face multiple roadblocks every step of the way. All these instances are not very telling when it comes to encouraging investors to bring in their investments into this country’s economy.

While venture capital funds and angel investors are already scarce in Bangladesh's startup ecosystem, the more traditional methods of financing that are available, such as loans from various financial institutions are not provided either due to the inherent risk that investing in any startup entails. Bangladesh's performance regarding startup funding as a percentage of GDP is also not satisfactory, especially compared to its other South Asian counterparts. While India and China's startup funding as a percentage of GDP are 0.51 and 0.74 respectively, the value for Bangladesh is a measly 0.04, which is extremely poor and dismal<sup>ix</sup>.

All in all, the troubles regarding bringing in investments in the country and attracting potential investors imply a need for an overhaul with regard to regulations pertaining to the startup ecosystem in particular and the business landscape in general. The country and especially its government must recognize the potential that this ecosystem holds in stimulating its economy and ensuring sustainable development.

### **Policy Revisions and New Initiatives**

A proper startup ecosystem can undeniably serve as an engine for sustainable economic growth and development, but for that to happen, the ecosystem must first be given the space to build and grow. Bangladesh's initial startup ecosystem was launched around 2012, with the government getting involved in the process from 2016 through its Information and Communication Technology (ICT) Division. Since then, the government has spearheaded various projects and activities with the most notable being the establishment of Startup Bangladesh Ltd., the flagship venture capital fund of the ICT division. Established in the March of 2020, the funds the venture capital are provided by the government of Bangladesh<sup>x</sup>.

Although the ICT Division has initiated much-needed steps to shake up and bolster the startup sector, the fundamental problems that have served as an impediment for said sector from prospering remain unsolved. Bureaucratic complications, convoluted taxation system, archaic policies and regulations are all in dire need of revising especially in the case of the startup ecosystem. However, a glimmer of hope was obtained from the national budget announcement for the fiscal year 2022-2023, where it was mentioned

that the startups would be provided with government support in the form of special incentives. The proposed benefits include:

- Local startups would be exempt from all types of binding reporting, bar the income tax returns.
- Startups would be allowed to carry forward losses over a 9-year period.
- Restrictions on their expenditures would be withdrawn.
- Turnover tax would be reduced from 0.6% to 0.1% for the next financial year.

However, two groups of startups would not qualify for the above proposed benefits; first being startups that are older than 5 years or more and second being startups with 50% or more of their ownership being under foreign investors<sup>xi</sup>.

In addition to the proposed benefits, the government of Bangladesh has also supposedly been working on revising previous regulations and policies to make them more accommodating, in order to ease the process of starting businesses. One probable revision is that a grace period of 10 years or so would be granted to the startups to allow them to establish and flourish and receive the benefits, before categorizing them as a normal business.

If these proposed changes can be materialized and set into motion, it will undeniably change whole industry for the better, enabling an increase in the flow of investments into the startup sector.

### **Job Prospects in the Startup Sector**

As a sector for employment, the startup sectors still remain undermined and often overlooked by both old and new incumbents in the professional world. Owing to the underwhelming performance of local startups in being able to make their mark in Bangladesh as well as the preconceived notions developed by society, jobs in startups are not as lucrative as they should be. The low pay paired with the uncertainty that working in startups entails serves as deterrents with freshers preferring the stability that public and private sector jobs offer. However, once a startup ecosystem is established,

and its benefits are felt and universities start focusing on expanding their research and development facilities along with incubators for prospective entrepreneurs, the chain reaction is sure to increase the attraction towards startup jobs. The creative independence, the opportunity to learn new things and work with new, innovative ideas is unlike any other as can be seen by the success of Silicon Valley. Various companies in Bangladesh, as well as the government have now been engaging in setting up incubators and accelerator programs to help startups develop, with some programs promising partnerships with the organizing companies. Robi Axiata Ltd has “r-ventures,” their flagship digital entrepreneurship platform, Huawei has introduced the Huawei ICT incubator program while Grameenphone has their innovation platform called “Grameenphone Accelerator”.

It has now become an utmost necessity that the prospect that startups provide for Bangladesh be taken seriously and that the ecosystem is allowed to thrive. Whatever assistance and tools are needed should be provided because once this sector takes off, the potential that it can reach will undoubtedly catapult Bangladesh to new heights and allow its very young population to transform the country into the prosperous economy and achieve its potential that has always lied dormant in the shadows.

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## End Notes

<sup>i</sup><https://www.lightcastlebd.com/insights/2023/01/bangladesh-startup-investment-report-2022-a-year-in-review/>

<sup>ii</sup><https://www.thedailystar.net/life-living/news/bangladesh-friendly-enough-startups-analysis-3090656>

<sup>iii</sup><https://www.lightcastlebd.com/insights/2023/01/bangladesh-startup-investment-report-2022-a-year-in-review/>

<sup>iv</sup><https://www.thedailystar.net/tech-startup/news/shopup-secures-funding-more-tk-300cr-debt-financing-3237096>

<sup>v</sup><https://www.dhakatribune.com/business/2023/01/03/bangladeshs-startup-ecosystem-in-2022>

<sup>vi</sup><https://www.dhakatribune.com/business/2023/01/03/bangladeshs-startup-ecosystem-in-2022>

<sup>vii</sup><https://www.thedailystar.net/tech-startup/news/brief-recap-how-local-startups-fared-2022-3208421>

<sup>viii</sup><https://www.thedailystar.net/life-living/news/bangladesh-friendly-enough-startups-analysis-3090656>

<sup>ix</sup><https://www.thedailystar.net/life-living/news/bangladesh-friendly-enough-startups-analysis-3090656>

<sup>x</sup><https://www.lightcastlebd.com/insights/2023/01/bangladesh-startup-investment-report-2022-a-year-in-review/>

<sup>xi</sup><https://www.thedailystar.net/tech-startup/news/brief-recap-how-local-startups-fared-2022-3208421>