

# Venture capital funding in Bangladesh

## Startup Bangladesh

<http://startupbangladesh.gov.bd>

Bangladesh is one of the youngest countries in the world, with more than half of its population being under the age of 25. The nation is transitioning towards becoming a middle-income country by year 2021. In order to develop an innovation-centered economy and sustain its remarkable growth, Government of Bangladesh (GoB) has undertaken a pioneering initiative to create a national entrepreneurship platform and its supporting ecosystem. This effort will enable the nation to innovate faster, create new jobs, develop technical skills and realize the vision of Digital Bangladesh. In support of the above-mentioned objectives, GoB has created a fund (the Fund) under iDEA project. The Fund will provide financial support to entrepreneurs in the form of equity, convertible debt and/or grant (the Investment). The Investment will provide the necessary capital to accelerate development and achieve success. The Fund is committed to fostering innovation and entrepreneurship through a process that is equitable, transparent and accountable.

### Investment objectives

1. Support technology-based innovation
2. Create new employment opportunities
3. Provide training and develop technical skills
4. Promote groups that are under-represented in the tech sector
5. Connect Non-Resident Bangladeshis (NRBs) with the local ecosystem
6. Foster an entrepreneurship culture in Bangladesh
7. Attract foreign investment and expertise

### Investment risks

Venture investment carries high inherent risks. All submitted proposals will be assessed for certain major risks that include but are not limited to:

1. Market Risks: market receptiveness to product/service; size of potential customer base; competitive dynamics & pace of competing innovations; scalability of product/service
2. Management and Execution Risks: strength and experience of management and technical teams
3. Financial Risks: ramp-up period; burn-rate, profitability; capital required to operate; additional capital required to scale and distribute
4. Other Risks: Additional risks may pertain to internal factors (i.e., legal, technical, operational) as well as external considerations (regulatory compliance, economic conditions)

Despite the risks, Venture Capital investment takes place in dynamic economies worldwide because of the potential rewards – business success, technical breakthrough, skill development, employment generation, public benefits, international branding and so on.

### Investment categories

The following types of Investments may be made:

- Idea (Pre-Seed) support
- Venture capital
  - a: Seed stage
  - b: Growth stage
  - c: Guided startups
- Targeted investments
- Strategic partnerships
- Co-investments

Detailed policies and procedures for each category of Investment are discussed below:

- Idea (pre-seed) support

The Fund will support innovative ideas thorough mentoring and funding:

1. Requirement: Viable business idea and an executable business plan
2. Investment amount: up to Tk. 10 lakh
3. The Investment will be provided in tranches based on achievement of defined milestones
4. Fund participation: Grant

The Fund will require regular progress reports and financial statements for performance monitoring purposes.

### Venture capital

The Fund will make the following kinds of Venture Capital investments:

#### a : Seed stage

1. Requirement: Prototype and an executable business plan
2. Investment amount: up to Tk. 1 crore
3. The Investment will be provided in tranches based on achievement of defined milestones

4. The Investment may be used for product development, operations, expansion, marketing and other approved purposes
5. Fund participation: Equity and/or Convertible Debt. The equity ownership percentage may be up to 49%, based on Investment amount and company valuation. In case of Convertible Debt, the amount financed will be interest-free. The Convertible Debt may be fully or partially convertible
6. The Fund may have representation on the Board commensurate to its equity ownership
7. The Fund will require regular progress reports and financial statements for performance monitoring purposes.

#### **b : Growth stage**

1. Requirement: Minimum Viable Product, existing customer base and an executable business plan
2. Investment amount: up to Tk. 5 crore per round
3. The Investment will be provided in tranches based on achievement of defined milestones
4. The Investment may be used for product development, operations, expansion, marketing and other approved purposes
5. The Investment may be made during one of the financing rounds generally known as Series A, Series B and Series C rounds
6. Fund participation: Equity and/or Convertible Debt. The equity ownership percentage may be up to 49%, based on company valuation and Investment amount. In case of Convertible Debt, the amount financed will be interest-free. The Convertible Debt may be fully or partially convertible
7. The Fund may have representation on the Board commensurate to its equity ownership
8. The Fund will require regular progress reports and financial statements for performance monitoring purposes

#### **c : Guided Startups**

1. Requirement: Specific startup ideas that the Fund considers to be in the national interest
2. Investment amount: up to Tk. 5 crore per round
3. The Investment will be provided in tranches based on achievement of defined milestones
4. The Investment may be used for product development, operations, expansion, marketing and other approved purposes

5. Fund participation: Equity and/or Convertible Debt. The equity ownership percentage may be up to 49%, based on company valuation and Investment amount. In case of Convertible Debt, the amount financed will be interest-free. The Convertible Debt may be fully or partially convertible
6. The Fund may have representation on the Board commensurate to its equity ownership
7. The Fund will require regular progress reports and financial statements for performance monitoring purposes.

#### **Targeted investments**

The Fund may make investments to create, support, augment or procure specific products, services, applications, and hardware or technology platforms. The Fund may also invest in training programs to create skilled resource pools in selected technology areas. Additionally, the Fund may make strategic investments in selected entities, projects or initiatives to bring about substantial public benefits. The investments may be made solely, in collaboration with other entities or following the Public-Private partnership (PPP) model.

#### **Strategic partnerships**

The Fund may invest in strategic partnerships with local and international institutions (universities, companies, governments, incubators/accelerators, research organizations, media and other suitable entities) to acquire expertise, technology, products, services and/or support entrepreneurship development.

#### **Co-investments**

The Fund may enter into joint investments with other venture capital funds or funding entities in order to scale its investments and leverage partner expertise while sharing risks. Investments may be made in a single company, in a venture fund or in a fund-of-funds.

Fund participation: Equity and/or Convertible Debt. The equity ownership percentage will be based on company valuation and Investment amount. In the case of Convertible Debt, the amount financed by GoB will be interest-free. The Convertible Debt may be fully or partially convertible.

The Fund may have representation on the Board commensurate to its equity ownership. The Fund will require regular progress reports and financial statements for performance monitoring purposes.

#### **ASEAN-India Science & Technology Cooperation**

ASEAN-India Science & Technology Cooperation supports collaborative S&T projects and activities between India and ASEAN countries. A dedicated ASEAN India S&T Development Fund (AISTDF) has been established to support R&D projects and associated project development activities. The ASEAN-India Innovation Platform is the major element of enhanced AISTDF.

For more information, access:

<https://aistic.gov.in>

# Guidelines on equity policy and foreign investment in Malaysia

Malaysian Investment Development Authority (MIDA), Malaysia

<http://www.mida.gov.my>

## Equity policy in the manufacturing sector

Malaysia has always welcomed investments in its manufacturing sector. Desirous of increasing local participation in this activity, the government encourages joint-ventures between Malaysian and foreign investors.

## Equity policy for new, expansion, or diversification projects

Since June 2003, foreign investors could hold 100% of the equity in all investments in new projects, as well as investments in expansion/diversification projects by existing companies, irrespective of the level of exports and without excluding any product or activity.

The equity policy also applies to:

- Companies previously exempted from obtaining a manufacturing licence but whose shareholders' funds have now reached RM2.5 million or have now engaged 75 or more full-time employees and are thus required to be licensed.
- Existing licensed companies previously exempted from complying with equity conditions, but are now required to comply due to their shareholders' funds having reached RM2.5 million.

Equity Policy Applicable for Existing Companies

- Equity and export conditions imposed on companies prior to 17 June 2003 will be maintained. However, companies can request for these conditions to be removed and approval will be given based on the merits of each case.

## Protection of foreign investment

Malaysia's commitment in creating a safe investment environment has attracted more than 8,000 international companies from over 40 countries to make Malaysia their offshore base.

## Equity ownership

A company whose equity participation has been approved will not be required to restructure its equity at any time as long as the company continues to comply with the original conditions of approval and retain the original features of the project.

## Investment Guarantee Agreements

Malaysia's readiness to conclude Investment Guarantee Agreements (IGAs) is a testimony of the government's desire to increase foreign investor confidence in Malaysia. IGAs will:

- Protect against nationalisation and expropriation
- Ensure prompt and adequate compensation in the event of nationalisation or expropriation
- Provide free transfer of profits, capital and other fees
- Ensure settlement of investment disputes under the Convention on the Settlement of Investment Disputes of which Malaysia has been a member since 1966.

Malaysia has concluded IGAs with the following groupings:

- Association of South-East Asian Nations (ASEAN)
- Organisation of Islamic Countries (OIC)

## Convention on the Settlement of Investment Disputes

In the interest of promoting and protecting foreign investment, the Malaysian government ratified the provisions of the Convention on the Settlement of Investment Disputes in 1966. The Convention, established under the auspices of the International Bank for Reconstruction and Development (IBRD), provides international conciliation or arbitration through the International Centre for Settlement of Investment Disputes located at IBRD's principal office in Washington.

## Kuala Lumpur Regional Centre of Arbitration

The Kuala Lumpur Regional Centre for Arbitration was established in 1978 under the auspices of the Asian-African Legal Consultative Organisation (AALCO) - an inter-governmental organisation cooperating with and assisted by the Malaysian government.

A non-profit organisation, the Centre serves the Asia Pacific region. It aims to provide a system to settle disputes for the benefit of parties engaged in trade, commerce and investments with and within the region.

Any dispute, controversy or claim arising out of or relating to a contract, or the breach, termination or invalidity shall be decided by arbitration in accordance with the Rules for Arbitration of the Kuala Lumpur Regional Centre for Arbitration.