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ICT opens up new prospects for Bangladesh

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In the last three years Bangladesh has seen tremendous growth in the information and communications technology (ICT) sector. It has a market of 160 million plus people, where consumer spending is around USD 130 billion plus and growing at 6 percent annually. After telcos launched 3G services in 2013, internet penetration in Bangladesh grew by 22 percent by the end of 2014. Of the 66.8 million active Internet subscribers (BTRC, Sept 2016), nearly 96 percent are mobile users and 10 million smartphone users. With growing Internet connectivity, availability of cheaper smartphones, and rapid rise in social networking (23 million plus Facebook users), we have seen an increasing emergence of digital savvy consumers.

Here are three main reasons for growth in ICT sector.

I. Government policy and awareness

In the last three years the Government of Bangladesh has played a major role in promoting the ICT sector as the next growth engine for Bangladesh. A major role was played by a2i, the key driver from the Prime Minister's Office in deploying the rapid expansion of technologies in delivering public services to citizens. Some of the key milestones of a2i have been the following:

• 8.5 million students learning from multimedia content developed by 100,000 teachers

• 105 Digital Talking textbooks for visually disabled students

• 103 innovations incubated through Service Innovation Fund

• USD 28.15 million earnings for Digital Centre Entrepreneurs

The ICT ministry played a phenomenal role in creating awareness and programmes to transform ideas into reality, e.g. through Digital World, ICT Expo, National Hackathon, Connecting Startups Bangladesh, etc.

Recent policies formulated by the government have been very helpful in enhancing the attractiveness of the ICT sector. Key incentives include:

• 100 percent foreign ownership of companies

• Small-cap exchange for easier raising of capital/listing on capital markets

• Software park which facilitates high speed internet connection trade facilities, similar to Export Processing Zones (EPZs)

After three years, we now have a mix of community tech space, co-working space and accelerators. As an emerging economy we have fundamental gaps in infrastructure that impact digital entrepreneurship, connectivity, and technology development. These hubs are providing enabling infrastructure and skills training in the IT sector. As a mandate, the government will try to bring ICT programmes throughout the country, but this will be less impactful if certain areas of the country do not have surrounding ecosystem mature enough to support viable startup and accelerator activities. For example, Dhaka has enough critical mass of all the right things—access to funding, universities, international tech companies, media, entrepreneurs, etc., which allow it to build a successful tech hub.

Building a thriving ecosystem requires close collaboration between the public and private sectors. As we move along this path, we predict that we will develop a closer working relationship between the public and private sector.

II. BASIS policy and advocacy

The software association of Bangladesh, popularly known as BASIS, brought focus on startup activities in Bangladesh. It initiated well-known programmes like the BASIS Soft Expo, BASIS Student Forum, BASIS e-commerce alliance, etc.,

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to create awareness about startups and facilitate the growth of this sector. BASIS also helped shape the policy framework of the ICT sector. Some of the policies are outlined below:

• Seven-year tax holiday for registered IT companies

• Private equity and venture capital policy framework implemented as of July 2015

• VAT for e-commerce reduced to nil

III. Private sector movement at the heart

• Startups: There has been a significant increase in new startups and founders joining the arena. It is not limited to first-time entrepreneurs only, but people with professional work experience are taking risk to join the startup life. A recent study by Light Castle Partners (LCP) found the top three sectors where startups are currently working now to be e-commerce, tech and impact business.

• Telcos: Telecom firms have been one of the major stakeholders as they made the infrastructure investment in 3G that practically jumpstarted the Internet-enabled businesses in Bangladesh. Local private device suppliers played the second biggest role in bringing smartphone prices down by locally manufacturing them. Last year three major telcos either started an accelerator programme or sponsored one to promote digital business in Bangladesh, e.g. the Grameenphone Accelerator which provided access to deal flow.

• Investment: While we do have local angel investors who provide seed funding, their numbers are very limited, and their deal size is below USD 50,000. However, there are larger financial institutions that have invested in various capacities. Some of the venture capital and private equity companies that are currently working in Bangladesh include: Fenox Ventures, IPE Capital, BD Venture Limited, Aviskar, DEFTA Partners, Innotech Corporation, Bangladesh Venture Capital, Razor Capital, 500 Startups, Segnel Ventures, IMJ Ventures, Mind Initiative, Brummer & Partners, Princestreet, Osiris Group VIPB, IFC, etc.

• According to a recent study by LCP, the sectors most preferred by investors are mobile financial services (83 percent), health tech (67 percent), and C2C commerce (50 percent). Local startups that recently got funded include: GObd, PayWell, Priyo.com, Solaric, SureCash, Styleline, Direct Fresh, AjkerDeal, Eshosikhi, Pathao, Bagdoom, Sheba, BPCL, Brian Station, Studio 71, Smart Compare, Light Castle Partners, Magnito Digital, and Doctorola.

• Ecosystem builders: The startup ecosystem originally started in 2013 with main advocates being Startup Dhaka also know as SD Asia, Team Engine, Hub Dhaka, EMK Center, Better Stories, Preneur Lab, etc. Most of these companies are involved in mentoring and accelerator activities which help startups take their business to next stage.

Every ecosystem will have challenges and it is important to be aware of those that could hamper growth.

Trust

Trust with the consumers is the most important factor for growth in the ecosystem. If consumers do not feel comfortable conducting commerce online, it will slow down growth. This is why it is important to establish consumer protection programmes and policies that cover refund, fraudulent activity, and consumer data. There needs to be reporting mechanisms and action must be taken so that consumers feel protected. There will be a huge amount of data being generated and there needs to be stricter data protection laws and penalties in place so that one cannot easily give consumer data to anyone.

Bureaucratic procedures

We need to be able to create companies in a day and also close them down in a day. Startups face a tough task getting incorporated, trade licenses, VAT registration, and bank accounts due to the number of steps. It is also very difficult for a startup to rent a commercial property in order to get a trade license and other necessary documentation to open the company.

Competition

We believe that everyone needs to operate with the same rules. In the startup world, it is best to let the customers choose the winner. This will drive the industry to attain better results and improve standards of the businesses to keep up. Consumers will also adopt technology startups at a faster rate if they experience better quality.

International companies that spend outside the country of origin have parent brands with global spending contracts. A local company faces restrictions when sending money abroad for advertisements, where as these foreign companies can spend straight from their foreign accounts, which are faster and easier to deploy.

We are proposing a few suggestions that we have also earlier shared with stakeholders, as we believe it may help accelerate the growth of the ecosystem.

Tax incentives

From the seed round to different fundraising rounds till exit or initial public offering, raising capital is not easy. The market hasn't matured enough to attract mainstream international investors, as deal flow is still limited and growing. Although alternative vehicle policies are being created to attract mainstream investors, we need to grow our local angel investor scene with policy incentives by giving tax credits. We propose tax incentives to encourage investors to risk their money in startups. Since access to startup funding is an issue, tax incentive to encourage people with a considerable appetite for risk can be a good alternative for the local market. This will help to fund more early/seed stages startups by increasing deal flow for the entire ecosystem.

Matching government grant to funds raised by startups

The Singaporean government has launched initiatives like the Business Angels Scheme (BAS), which matches any investment up to SGD 2 million (USD 1.32 million) that a startup raises from a business angel investor through its investment arm Spring Seeds Capital Pte Ltd. Bangladesh government has similar grants for technology companies, like the Innovation Fund, but it is not really promoted among the community. This fund could be easily used to match the fund raised by local startups to provide financial backing that the startups require so desperately.

Regional connectivity

India, Singapore, Vietnam, Malaysia, Thailand, Indonesia, and Philippines have a growing startup community. Privately, a lot of local startups are connecting regionally, but we need to connect from the government level as well. These markets have policy frameworks that we can use and best practices that we can implement. We need to bridge the stakeholders from the regional startup community for idea sharing to better support the ecosystem. The government can also provide subsidies to the startups to participate in regional tech events.

Bridge the academia with entrepreneurship

Many entrepreneurs in Bangladesh have started up by necessity or taken risk with a leap of faith to earn more. Though many have gone through a formal education system, there is a vast number who haven't been able to for various reasons and lack of access to quality education. Knowledge is the key to any economy moving towards an advanced society. Therefore vocational training to provide basic knowledge to startup entrepreneurs is a necessary step to build solid companies based on fundamentals.

The mindset of young founders needs to change when they are learning at schools and universities. Government education policies need to align with their vision of Digital Bangladesh so that there is a pipeline for talent in the private sector. It's a long-term process, but in the short-term there has to be a way to make the education system more relevant for the ICT sector. One way the government can encourage students to get more relevant job experience in early stages by subsidising paid internship programmes in tech companies. This way, both students and tech companies benefit from developing talent that is prepared for the future.

Contribution from the most important stakeholders

The telcos, payment providers, logistics services, service companies, and the government (ICT Ministry) should support local startups in the next five years to obtain decent valuation. These five parties are integral parts in making the machine move in the right direction. The telcos need to make data service cheaper; payment providers need to make online payment secured and seamless; logistics services need to be reliable and designed to support the cash-on-delivery system, which is a dominant payment solution in South East Asia; service companies need to start solving real problems that are affecting the bottom of the pyramid; and the ICT Ministry needs to work with all the parties so that real change can take place.

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