Angel investing 101: Doing it right in Bangladesh

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That is easier to do through technology than physical assets.

• Not aiming high enough: Investors need to recognize that a startup should at least aim to dominate a market. Lowered expectations may stunt the company's growth and make it less attractive to future venture investors.

• Funding properly and following up on financial commitments: Investors must allocate capital in no more than two tranches—and not monthly. An investor should want founders to worry about who to hire next or what product feature to add rather than focusing on whether they will be able to pay their employees.

To reiterate, the reason an angel invests in a founder is because they trust them. Investors should be there for guidance and support, not to treat them as employees without their own will and direction. Additionally, investors need to remember that if the founders' mental health does not allow them to operate at optimal efficiency, the investor's return will be limited. When we think of the best founders globally, we see the strength of their leadership and the support of their investors through their journey as a key complement to their success.

MANAGING PORTFOLIO RISK

The most important thing to understand is that, while an angel may lose money in the majority of their investments, the ones that are successful should yield a disproportionately positive overall return. So, how does one approach angel investing knowing this? By creating a diversified portfolio. Once a potential investor decides how much money they will allocate to angel investing, the next step is to diversify risk.

For instance, this is how we explain the risk management process to potential angels: if an angel investor has $100,000 to invest, make 5 investments ranging from $15,000 to $25,000. The goal is to champion your portfolio companies' ambitions without constant risk of failure. Per our previous point, if we allocated $20,000 into five investments, consider the difference between the two following scenarios:

In Scenario A, each of the five investments return 25% resulting in a total return of $25,000. In Scenario B, however, four of the five investments go to zero—but the fifth investment returns 2,000%, or 20x, bringing in a return of $400,000! This kind of portfolio allocation is what makes angel investors successful.

We remind angel investors that supporting ambitious founders can often result in better returns for an overall portfolio than seemingly safe business models.

THE IMPACT OF QUALITY ANGELS

When angel investing is done right, its value to the ecosystem and economy as a whole cannot be understated. Think about what percentage of global GDP is attributed to venture-funded startups like Facebook and Google, or the fact that Gojek contributed $7.1 billion to Indonesian GDP in 2019. As angels are a critical component of early stage funding, without their presence, startup ecosystems can be held back. In Bangladesh, the need for greater angel funding is currently a limiting factor for the success of our brilliant, young founders. By increasing local angel capital and bringing in global angels, including NRBs (non-resident Bangladeshis) through networks such as Bangladesh Angels, we can set up our startups for future success.

Quality angel investors can help founders take their companies to the seed stage where they can get further funding from institutional funds, including a vast amount of global capital that is actively looking to enter Bangladesh.

The impact of venture capital is significant to an economy. Companies such as Uber and Facebook had angel investors before they became companies that changed the way we live. In Bangladesh, only a few startups have scaled to a level of national visibility, yet none with the possible exception of bKash are at the level of funding and valuation that regional peers in India or Indonesia have achieved.

For Bangladesh to go from $500 GDP per capita to $1,000, and then $1,000 to $2,000e was achievable with low-level labor arbitrage, but for the country to double from $2,000 to $4,000 and beyond, we'll need to not only nurture home-grown startups but also build a culture of local wealth creation by empowering local founders to move up the value chain and bring in global capital.

In celebration of our country's 50th anniversary, let this next decade be filled with opportunities for every one of us. Let's give our founders the tools to put Bangladesh on the global map as a destination for the startups that may come to shape our collective futures.

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