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Fahim Ahmed

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2012 was a challenging year for the Bangladesh economy in some respect. On one hand, the economy registered over 6 percent GDP growth; on the other hand, inflation was high particularly earlier in the year and has since come down due to various policy interventions and market factors. Availability of financing was difficult. Due to the continued liquidity crunch in the financial sector, small businesses found it difficult to get financing. I think some of the challenges will continue into 2013 as the overall financial system resolves the liquidity issues, and regulatory changes in loan provisioning and loan classification rules come into effect. However, that also opens an opportunity for private equity investors, and we have seen strong growth in our pipeline during this period.

2012 was a very successful year for SEAF. Over the last twelve months, we have evaluated investments in over 60 companies. We have disbursed \$2.5 million into 5 investments since we started our operations. We have an additional \$2 million in our advanced pipeline that we hope to close over the next quarter. Our investee companies are doing very well. We see scope for investments opening up, particularly in small businesses.

Private equity is a new mode of financing in Bangladesh. SEAF has been operating in Bangladesh for the last two and a half years. During this period, we have focused on educating the market about private equity. The long term prospect of private equity in Bangladesh is very strong. The demographic conditions of Bangladesh support the growth of private equity.

One of the key things that differentiate us from a traditional bank or financial institution is that we not only provide medium to long term growth capital but also work with our investee companies in meeting their business development needs. As an example, we invested in SOLARIC, a startup renewable energy technology company about a year ago. It registered about \$1 million in revenue during its first year of operation and it needed additional capital to grow. The company has expanded their local market and is also exploring overseas markets. We worked with SOLARIC to provide follow-on investment to meet its working capital needs, and utilized our global network to facilitate its market expansion.

While we are pleased with progresses made, and the growing willingness from among business to accept investments from private equity investors, there continues to be challenges. Transparency and accountability, and regulatory issues remain major obstacles to the growth of private equity in Bangladesh. Transparency to financing providers, in terms of maintaining proper

books of accounts, and ensuring regulatory and tax compliance are critical pre-requisites for private equity investments. There is also a need to address certain regulatory issues related to investments. Since there has been very limited investment activity in the private equity space, it is too early to develop comprehensive regulations for private equity. However, there should be changes in existing regulatory framework, which would facilitate greater foreign direct investment, and private equity investment.

One of the major areas that require reform is the foreign exchange regulations. A major challenge for foreign investors is the repatriation of capital and capital gains, which are subject to very restrictive thresholds and require ad-hoc approval by the central bank. This makes the exit path for private equity investors very unclear. There are other regulations that also need reform. For example, the Companies Act has certain restrictions that limit redemption of equity. Tax issues are also of potential significance, particularly for local private equity investors.

We see a lot of opportunity in the information technology and business services sector. The Gartner report lists Bangladesh among the top 30 potential countries for offshore. While this gives us great exposure to the global market for IT services, it is also important that we address some of the challenges as reflected in our ranking. One of the areas where we are ranked very low is the area of skill development. Another issue that relates to the growth prospect of the sector is scalability. When people talk about outsourcing in Bangladesh, they basically focus on freelancing. However, when investors seek to invest, they need to identify companies, and not just individuals, that have the potential for growth. We have actively focused on this sector. Two of our investee companies are in technology space. In addition to the technology sector, we see strong potential in the energy, transportation, and manufacturing sectors.

SEAF supports emerging entrepreneurs with capital and advisory support. While we believe that entrepreneurship development is important an important pre-requisite to economic growth, what is equally important is skill development. The government policies have to be focused in making sure that the youth are provided with needed training to explore their capabilities- whether they fit better as an entrepreneur or as a professional.

Our outlook for the private equity sector in the near future remains strong. We are confident about our growth prospects and expect other private equity firms to follow suit in Bangladesh in next 3 to 5 years.

Interview is taken by Md. Ashaduzzaman Riadh and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.

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