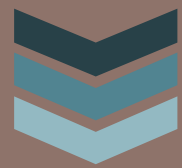


EFFECTIVENESS OF  
ALTERNATIVE INVESTMENT  
TOWARDS FINANCING  
ENVIRONMENT: THE  
ADOPTION OF PRESENT  
RULES IN TERMS OF  
ENTREPRENEUR, VENTURE  
CAPITAL FIRMS AND  
INVESTORS PERSPECTIVES





**“Effectiveness of Alternative Investment towards  
Financing Environment: the adoption of Present Rules  
in terms of Entrepreneur, Venture Capital Firms and  
Investors Perspectives”**

---

BUS 699: Internship

Prepared for  
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Inspiring Excellence

**BRAC University**

**14 May, 2016**

## Letter of Transmittal

**14 May, 2016**

Md. Hasan Maksud Chowdhury

Assistant Professor

BRAC Business School

BRAC University

### **Subject: Submission of Internship Report**

Dear Sir,

It is a great pleasure for me to submit my practicum report on the topic of **“Effectiveness of Alternative Investment towards Financing Environment: the adoption of Present Rules in terms of Entrepreneur, Venture Capital Firms and Investors Perspectives”** I have prepared this report as a partial fulfillment of the course BUS 699 Internship.

I have tried my level best to prepare this report to the required standard. It was certainly a great opportunity for me to write on this paper to actualize my theoretical knowledge in the practicum arena.

I express my heart full gratitude to you to go through this report and make your voluble comments. It would be very kind of you if you please value my performance regarding this practicum report.

Sincerely yours

.....

Shahriar Rawshon

ID # 13264078

Program: MBA

BRAC Business School

## Student Declaration

I, Shahriar Rawshon, a student of Master of Business Administration (MBA), under the BRAC Business School (BBS) at BRAC University declaring that this practicum report on the topic of **“Effectiveness of Alternative Investment towards Financing Environment: the adoption of Present Rules in terms of Entrepreneur, Venture Capital Firms and Investors Perspectives”** have been prepared for the fulfillment of the course of BUS699 Internship as the partial requirement of the Master of Business Administration (MBA) and further study may done in this issue for improving policy reform in both institutional and professional level.

I hereby declare that this report has been solely prepared by me and to the best of my knowledge. It contains no materials previously published or written by any other person which have been accepted for the degree at BRAC University or any other educational institution, except the quotations and reference which have been duly acknowledged.

It has not been prepared for any other purpose, reward, or presentation.

.....

Shahriar Rawshon

Program: MBA

ID # 13264078

## **Acknowledgement**

My homage to the most merciful who gave me physical and mental strengths to undergo required courses and increased me in knowledge through accomplishment of the courses indispensable for being eligible internee. All those individual and specialized learning and activities have increased me in diverse knowledge that has developed this report.

My special thanks to my supervisor Md. Hasan Maksud Chowdhury, Assistant Professor, BRAC Business School, BRAC University for providing me the valuable suggestions and guidelines to make this report from the very beginning to the end with a friendly behavior. I am even thankful to all the respected faculty members, employees, staffs and students who supported me in preparing the report.

My special gratitude to the venture capital firms, investors and SMEs who give me the idea and help me to find out the way to make this report. The Bangladesh Investment and Policy Summit 2016 is a great initiative where I got this idea to work out. The participants of the summit help me a lot to identify the issue and suggest recommendation.

I would like to express my heartiest thanks to the authority of Business Initiative Leading Development to allow me to do this research in this area for fulfillment of my internship Course as a Research associate. I would like to express my sincere appreciation and gratitude expressly, Ferdaus Ara Begum, CEO of Business Initiative Leading Development (BUILD) for helping me to take right decision at the right time and continuous encouragement on the topic and her suggestions and kind considerations and also provided me assistance, guidelines and cooperation while preparing this report. I would also Like to thanks my all colleague at BUILD for their support and valuable suggestion.

Finally, I would like to thank my parents for their inspiration and support during the study period.

## Executive Summary

Internship is must to fulfill academic requirement. This internship report is based on Alternative Financing situation and its implementation in Bangladesh.. This report contains several parts. In the first part of this report contains some short perspective of the BUILD. Here history and back ground of the company. Their corporate mission and vision, social responsibility internal and external environment analysis are also written in detail. Then a brief description of the Trustee board and secretariat profile has been given. One important fact that is focused in the report is the Reform policy paper developed and implemented by the specific committee of BUILD in terms of financial sector development of the country. The second part of this report explains my duties responsibility and my work area at BUILD as a Research Associate. In the actual task part it describe where I am working as a research associate and looking after the FSDWC of BUILD. FSDWC activities and reforms are broadly described in this part. The third part is project part where how data has been collected is also described. Methodology, Research model and the whole research compilation process also stated here. It is describing the primary research with some general question to find out the Effectiveness of Alternative Investment towards Financing Environment: the adoption of Present Rules in terms of Entrepreneur, Venture Capital Firms and Investors Perspectives with a survey with simple random sampling method. Data are analyzed in MS Excel. The report goes beyond national boundaries regarding secondary data collection, to look at financial products, requirements, constraints and opportunities in the Venture capital financing for new entrepreneur and SME;s Financing. Here also four chapters where theoretical review, Present practice of AI and Public Engagement in Bangladesh is describe in details respectively. Finally the data analysis, Recommendation and conclusion with necessary reference have been attached for future work It is to be mentioned that this is from my point of view. I have also pointed out some recommendations based on the questionnaire survey which I believe to be the best from my point of view. At the concluding part I have focused the overall facts of this report. The main finding s of this report is there are some problems regarding rule adaption because the govt. is not taking feedback from the related stakeholder and some reform can make this new rule in future for better and effective policy.

# Table of Contents

|                                                                 |     |
|-----------------------------------------------------------------|-----|
| Letter of Transmittal .....                                     | iii |
| Student Declaration.....                                        | iv  |
| Acknowledgement.....                                            | v   |
| Executive Summary .....                                         | vi  |
| Table of Contents .....                                         | vii |
| List of Table .....                                             | x   |
| List of Figure.....                                             | x   |
| List of Abbreviation .....                                      | xi  |
| 1 Organization Part .....                                       | 1   |
| 1.1 Why BUILD came to inception.....                            | 2   |
| 1.2 Our Vision .....                                            | 2   |
| 1.3 Our Mission.....                                            | 2   |
| 1.4 Objective .....                                             | 3   |
| 1.5 History of BUILD .....                                      | 3   |
| 1.6 What we do.....                                             | 4   |
| 1.7 How we work .....                                           | 5   |
| 1.8 Trustee Board Member.....                                   | 6   |
| 1.9 BUILD Organogram.....                                       | 7   |
| 2 Job Part.....                                                 | 8   |
| 2.1 Actual Task part .....                                      | 9   |
| 2.2 Task Area .....                                             | 9   |
| 2.3 Job Responsibility .....                                    | 10  |
| 2.4 Financial Sector Development Working Committee (FSDWC)..... | 11  |
| 2.5 Why do we need a FSDWC?.....                                | 11  |
| 2.6 Objective of the Committee .....                            | 12  |

|        |                                                               |    |
|--------|---------------------------------------------------------------|----|
| 2.7    | Scope of FSDWC .....                                          | 12 |
| 2.8    | Formation of FSDWC .....                                      | 12 |
| 2.9    | Meetings conducted by FSDWC so far .....                      | 13 |
| 2.10   | How FSDWC work.....                                           | 14 |
| 2.11   | Financial Sector Development Issues Dealt by committee: ..... | 14 |
| 2.12   | Major Achievements.....                                       | 15 |
| 2.13   | Achievements Summary at a glance.....                         | 15 |
| 3      | Project Part.....                                             | 16 |
| 3.1    | Summary of the Project.....                                   | 17 |
| 3.2    | Objective of the Project.....                                 | 18 |
| 3.2.1  | Broad Objective .....                                         | 18 |
| 3.2.2  | Specific Objective .....                                      | 18 |
| 3.3    | Scope of the Report .....                                     | 18 |
| 3.4    | Methodology .....                                             | 19 |
| 3.4.1  | Beneficiary of this Report.....                               | 19 |
| 3.4.2  | Research Model.....                                           | 20 |
| 3.4.3  | Population and Sample.....                                    | 21 |
| 3.4.4  | Data Collection.....                                          | 21 |
| 3.4.5  | Research Approach .....                                       | 22 |
| 3.4.6  | Research Instrument.....                                      | 22 |
| 3.4.7  | Contract Method.....                                          | 22 |
| 3.4.8  | Data Analysis .....                                           | 22 |
| 3.4.9  | Data collection process .....                                 | 22 |
| 3.4.10 | Data Compilation .....                                        | 23 |
| 3.4.11 | Data presentation Analysis.....                               | 23 |
| 3.5    | Project Timeline .....                                        | 24 |
| 3.6    | Limitation of the Project.....                                | 25 |

|        |                                                                                         |    |
|--------|-----------------------------------------------------------------------------------------|----|
| 3.7    | Chapter 1: Introduction .....                                                           | 26 |
| 3.7.1  | Financial System of Bangladesh .....                                                    | 26 |
| 3.7.2  | Need for Alternative Financing .....                                                    | 27 |
| 3.7.3  | Venture Capital Financing and SME's Challenges before Alternative Investment Rule ..... | 28 |
| 3.7.4  | Introduction of Alternative Investment Rule 2015 .....                                  | 32 |
| 3.8    | Chapter 2: Theoretical Review .....                                                     | 33 |
| 3.8.1  | Alternative Investment .....                                                            | 33 |
| 3.8.2  | Venture Capital .....                                                                   | 35 |
| 3.8.3  | Present Practice of Alternative Investment in Bangladesh .....                          | 42 |
| 3.9    | Chapter 3: Engagement of Public in Policy Making Bangladesh .....                       | 46 |
| 3.9.1  | The Citizen Engagement in Rulemaking .....                                              | 47 |
| 3.10   | Chapter 4: Data Analysis and Findings .....                                             | 50 |
| 3.10.1 | Data Analysis .....                                                                     | 50 |
| 3.10.2 | Results and Discussion .....                                                            | 61 |
| 4      | Recommendations and Conclusion .....                                                    | 64 |
| 4.1    | Recommendations .....                                                                   | 65 |
| 4.2    | Conclusion .....                                                                        | 68 |
| 4.3    | Suggestions for future research .....                                                   | 69 |
|        | Bibliography .....                                                                      | 70 |
|        | Appendix .....                                                                          | 73 |
|        | Alternative Investment Rule 2015 .....                                                  | 73 |
|        | Survey Questionnaire .....                                                              | 74 |

## List of Table

|                                                                                        |    |
|----------------------------------------------------------------------------------------|----|
| Table 1: Working Committees of BUILD .....                                             | 5  |
| Table 2: Definitions in various countries .....                                        | 38 |
| Table 3: Stages and modeling technique of VC.....                                      | 39 |
| Table 4: Stage at which investment made Risk and causation stage .....                 | 40 |
| Table 5: Present operation of Venture capital and Private equity financing in BD ..... | 43 |
| Table 6: Space for multi-stakeholder dialogue on national development policies .....   | 47 |
| Table 7: Bangladesh Position in Citizen Engagement in Rulemaking .....                 | 49 |
| Table 8: Changes area from respondents .....                                           | 62 |
| Table 9: Suggestion area from respondent's percentage.....                             | 62 |
| Table 10: Measuring Effectiveness of Alternative Rule (Values in number).....          | 62 |
| Table 11: Measuring Effectiveness of Alternative Rule (in percentage).....             | 63 |

## List of Figure

|                                                                                |    |
|--------------------------------------------------------------------------------|----|
| Figure 1: BUILD Trustee Board .....                                            | 6  |
| Figure 2: BUILD Secretariat.....                                               | 7  |
| Figure 3: Task Area at BUILD.....                                              | 9  |
| Figure 4: Achievements through FSDWC of BUILD (2012-2015) .....                | 15 |
| Figure 5: Research Beneficiary .....                                           | 19 |
| Figure 6: Dependent and Independent Variable.....                              | 20 |
| Figure 7: Research Model .....                                                 | 20 |
| Figure 8: Data Compilation Flow .....                                          | 23 |
| Figure 9: Alternative Investment Fund Formation and Type.....                  | 34 |
| Figure 10: Process Map of Alternative Investment (VC/PE) Licensing in BD ..... | 41 |

## List of Abbreviation

|                  |                                                           |
|------------------|-----------------------------------------------------------|
| <b>AI</b>        | Alternative Investment                                    |
| <b>ASM</b>       | Asia SME Finance Monitor                                  |
| <b>Basel III</b> | International regulatory framework for banks              |
| <b>BB</b>        | Bangladesh Bank                                           |
| <b>BD</b>        | Bangladesh                                                |
| <b>BSEC</b>      | Bangladesh Security and Exchange Commission               |
| <b>CEO</b>       | Chief Executive Officer                                   |
| <b>FSDWC</b>     | Financial Sector Development Working Committee            |
| <b>PE</b>        | Private Equity                                            |
| <b>PMO</b>       | Prime Minister Office                                     |
| <b>PSDPCC</b>    | Private Sector Development Policy Co-ordination Committee |
| <b>SME</b>       | Small and Medium size Enterprise                          |
| <b>VC</b>        | Venture Capital                                           |
| <b>WB</b>        | World Bank                                                |
| <b>WC</b>        | Working Committee                                         |

# 1 Organization Part

## **Business Initiative Leading Development (BUILD)**

-A Public-Private Dialogue Platform



Business Initiative Leading Development

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E-mail: [info@buildbd.org](mailto:info@buildbd.org), Website: [www.buildbd.org](http://www.buildbd.org)

## **1.1 Why BUILD came to inception**

In recent years, global analysts have observed that Bangladesh has significantly improved in terms of its investment potential. This is captured in several global studies, including the World Bank's Doing Business 2011 and the Global Competitiveness Index (2010-11), two reports in which Bangladesh's rankings improved for the first time, and the World Bank's 2010 Investing Across Borders report, which commended Bangladesh's 100% openness to FDI, the highest in the region. These studies all recognized the potential offered by Bangladesh's large domestic market size, as well as recent developments in financial markets and the macroeconomic environment. However, despite these significant achievements, many concerns remain. Bangladesh adds 2 million people to its labor force every year, while it only creates about 1 million true jobs, even including migrants. In addition, although Bangladesh has performed well in terms of manufacturing exports, the growth has created very few productive jobs for men entering the labor force. In comparison, Bangladesh's competitors have a much more diversified export base. Finally, Bangladesh's record in attracting FDI despite the low cost of labor has been dismal. The Government of Bangladesh therefore needs an effective partner to help it provide an effective environment for private sector growth, thereby unlocking the private sector's tremendous potential to develop and grow to meet the nation's development goals, and to create the jobs necessary to transform Bangladesh into a middle income country by the 50th year of its birth. With this background, BUILD came into existence to become the Government's partner and platform to promote private sector development, investment, jobs and therefore growth in Bangladesh.

## **1.2 Our Vision**

To become key thought leader and center of knowledge, data and experience on private sector issues in Bangladesh in an attempt to eradicate constraints facing private sector growth in Bangladesh

## **1.3 Our Mission**

“To place BUILD as a platform for fact-based and research-backed dialogue and advocacy, with the objective of identifying investment climate constraints and recommending changes to laws, policies and regulations in order to unlock growth potential of the country's private sector.”

## 1.4 Objective

Along with the Government, the private sector has also come forward with the initiative to work for development of business environment. To this end, Business Initiative Leading Development (BUILD) was established in 2011 as a joint initiative of the Dhaka Chamber of Commerce and Industry (DCCI), in partnership with the Metropolitan Chamber of Commerce and Industry (MCCI) and the Chittagong Chamber of Commerce and Industry (CCCI). It aims at building an enabling business environment and initiating a platform for Public-Private Partnership, where both the government and the private sector could work together to initiate research for policy reforms, process simplification and identify bottlenecks hampering growth of private sector. The important feature of BUILD is that the initiative is taken by the private sector to work jointly with the government to promote trade and investment. Activities of BUILD are supervised and monitored by the Prime Minister's Office.

BUILD's targets are ambitious -- it estimates that it will support the government to achieve the following impacts:

- creation of at least 2 million jobs
- facilitating at least \$10 billion in investment
- generating at least 40,000 new SMEs.

BUILD's biggest impact, however, is when this permanent change is brought in the way the government and private sector work together to achieve the nation's development goals and ensure a brighter future for Bangladesh.<sup>1</sup>

## 1.5 History of BUILD

Business Initiative Leading Development (BUILD) was launched jointly by the Dhaka Chamber of Commerce and Industry (DCCI) in partnership with the Metropolitan Chamber of Commerce and Industry (MCCI) and Chittagong Chamber of Commerce and Industry (CCCI) in October 2011 as a Public Private Dialogue (PPD) platform to facilitate structured dialogues between the public and the private sectors under an institutional framework. BUILD is envisaged as the bridge that will connect the public and private sector for better communication, coordination and collaboration in bringing reforms in business policies and procedures to improve the country's investment climate in

---

<sup>11</sup> BUILD Website, URL: <http://www.buildbd.org/page.php?page=111>

Bangladesh. BUILD has been recognized as the primary source of recommendations for meetings of the PSDPCC, established at the Prime Minister's Office (PMO).

The absence of a formal system for dialogue between the public and private sector had been felt widely and for a while. The private sector is a recipient of policies and information, rather than an equal partner. While meeting with the Hon'ble Prime Minister on May 26, 2011 DCCI voiced the long felt need for establishing a coordination committee with representatives from both public and private sectors to identify bottlenecks in private sector development and address those issues in a coordinated manner.

Accordingly, the Government announced the Private Sector Development Policy Coordination Committee (PSDPCC) on September 12, 2011 (Government notification no 03.068.022.03.00.24.2011-377). The committee has membership of all secretaries involved in trade and business with a provision of co-option of other members as and when necessary and corresponding representatives from private sector.

To support the committee, Business Initiative Leading Development (BUILD) was established in 2011. Hon'ble Finance Minister of the Government of the People's Republic of Bangladesh, Abul Mal Abdul Muhit unveiled the logo of BUILD on October 17, 2011 at the first National Conference on Public Private Partnership for Rapid Economic Growth.

Since 2011, BUILD has worked as the secretariat of PSDPCC and provides all secretarial support to the committee and organizes meeting regularly. As the strategic partner, BUILD sets out research backed recommendations, taking input from the public and private sectors and presents summary reform proposals (which are already validated from the respective working committees of BUILD) to PSDPCC at PMO.

## **1.6 What we do**

BUILD provides a sustainable platform to facilitate structured dialogue between the government and the private sector under an institutional framework. Reform recommendations from BUILD are backed by sound research and analysis to focus on concrete and demonstrable business-friendly policies.

BUILD listens to the voice of the private sector to identify the constraints, initiates research, analyzes the problems, and validates all related key information before recommending the required reforms or changes in business policies and procedures. Furthermore, BUILD monitors implementation and tells the stories of the beneficiaries for

better dissemination of the results of the reforms. BUILD works very closely with the Government of Bangladesh. BUILD submits all its recommendations for reforms to the Private Sector Development Policy Coordination Committee (PSDPCC), chaired by the Principal Secretary and represented by the secretaries of all the related ministries. The Secretariat of PSDPCC is the Policy Coordination Unit (PCU) working at the Prime Minister's Office (PMO).

BUILD acts as the united voice of the private sector to ensure that the major issues impeding the development of the private sector are addressed in a meaningful way with an emphasis on private sector led growth in achieving Bangladesh's vision.

## 1.7 How we work

BUILD has established a mechanism to lead the private sector towards presenting their concerns in a structured manner and get the solutions across the table. BUILD has four thematic working committees, each with its own ability to implement recommendations since each is co-chaired by a private sector leader and a high-up official from a relevant Ministry of the Government of Bangladesh (GoB). Working Committee meetings are attended by the country's leading Chambers and Associations as well as key officials from various government agencies. BUILD is supported by a strong independent Secretariat that undertakes much of the analysis and advocacy to support the dialogue process, and assists in ensuring that BUILD develops specific, measurable and results-based recommendations for the Government to implement.<sup>2</sup>

Table 1: Working Committees of BUILD

| Working Committees                  | Objectives                                                                                                       | Public Sector Co-Chair               | Private Sector Co-Chair |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------|
| <b>Trade &amp; Investment</b>       | To unlock the investment potential of Bangladesh and addresses the issues related to trade and investment policy | Secretary, Ministry of Commerce      | President, MCCI         |
| <b>Financial Sector Development</b> | To identify Financial Sector Development constraints and ensure a conducive business environment                 | Deputy Governor - 1, Bangladesh Bank | President, DCCI         |
| <b>Taxation</b>                     | To bring in reforms for tax formulation and continuous re-appraisal of tax-                                      | Chairman, National                   | President, FBCCI        |

<sup>2</sup> BUILD Website, URL: <http://www.buildbd.org/page.php?page=111>

|                        | policies and tax-laws                                                                                                  | Board of Revenue                                       |
|------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| <b>SME Development</b> | To identify constraints to SME business development and promote SMEs for alleviating poverty and generating employment | Secretary, Ministry of Industries<br>President of CCCI |

BUILD sources knowledge of private sector constraints straight from businesses individually, at public forums/events and through dialogue. BUILD's research wing investigates these regulatory issues, and develops possible solutions in the form of implementable recommendations, which are validated with relevant GoB agencies and the private sector before placing them in front of Working Committees. Recommendations which are inter-ministerial in nature and cannot be implemented at the Working Committee level are then forwarded to the PSDPCC for further discussion and implementation.

BUILD has been recognized as the primary source of recommendations for meetings of the PSDPCC established at the Prime Minister's Office (PMO), a high level forum chaired by the Principal Secretary to the Prime Minister, and it is one of BUILD's most remarkable achievements to have been identified by this forum as the most important source of reform recommendations.

## 1.8 Trustee Board Member

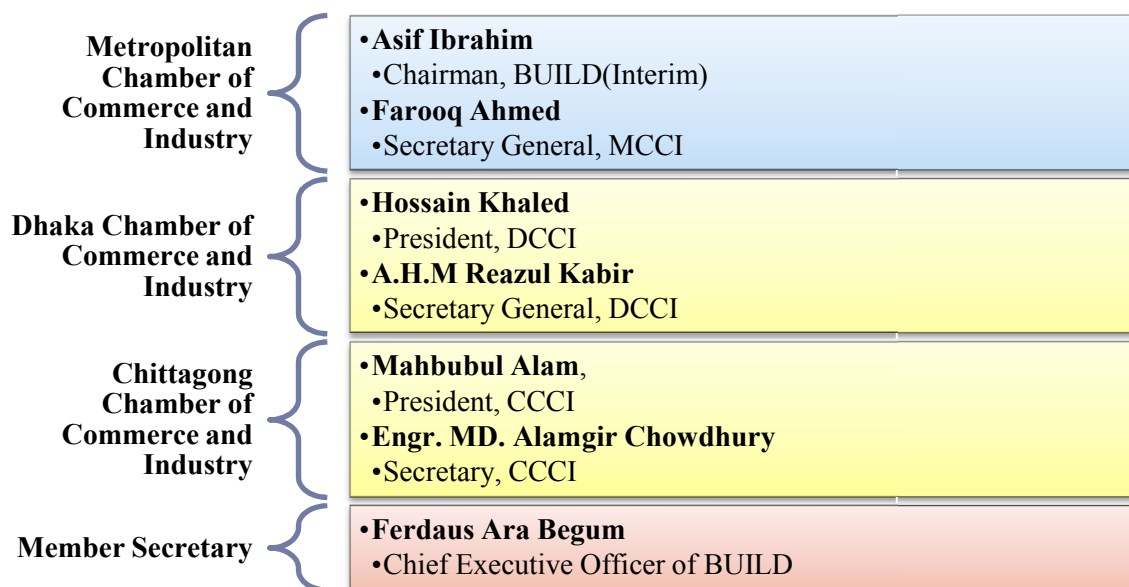


Figure 1: BUILD Trustee Board

## 1.9 BUILD Organogram



Figure 2: BUILD Secretariat

## 2 Job Part

|                        |                                                        |
|------------------------|--------------------------------------------------------|
| Department             | Research Wing                                          |
| Area                   | Financial Sector Development                           |
| Working Committee (WC) | Financial Sector Development Working Committee (FSDWC) |
| Designation            | Research Associate                                     |
| Report to              | Chief Executive Officer                                |
| Duration               | November 2014 to till date                             |

## 2.1 Actual Task part

In the period of my Job a Research Associate of Research Wing, I have got a position and some duties in BUILD. My observation and responsibilities are in Financial Sector Development Working Committee (FSDWC). From November, 2014 to till now I am working for this Department and did several reform policy paper under its working committee meeting.

## 2.2 Task Area

In BUILD my position is as Research Associate under FSDWC. The hierarchy is given below:

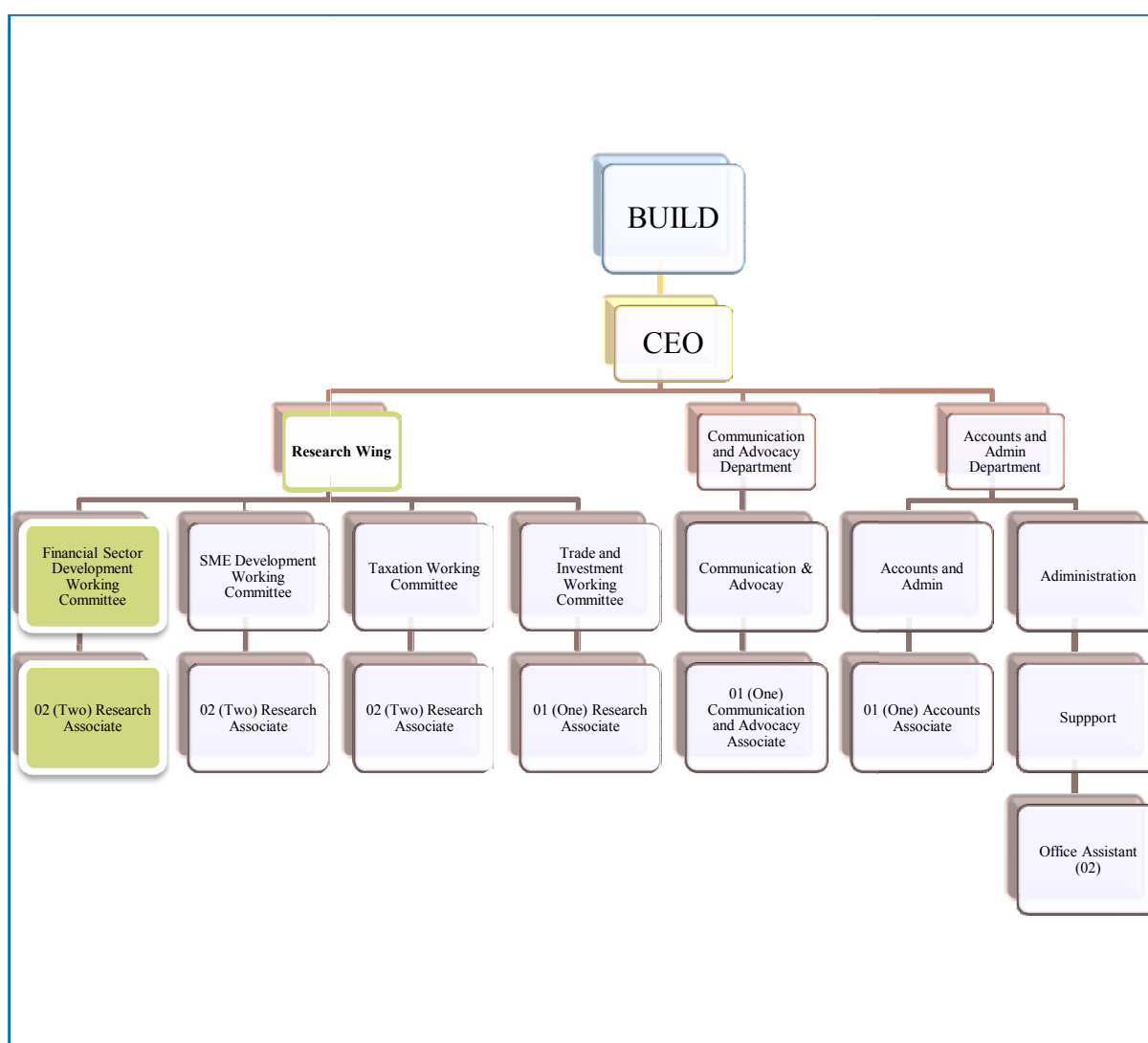
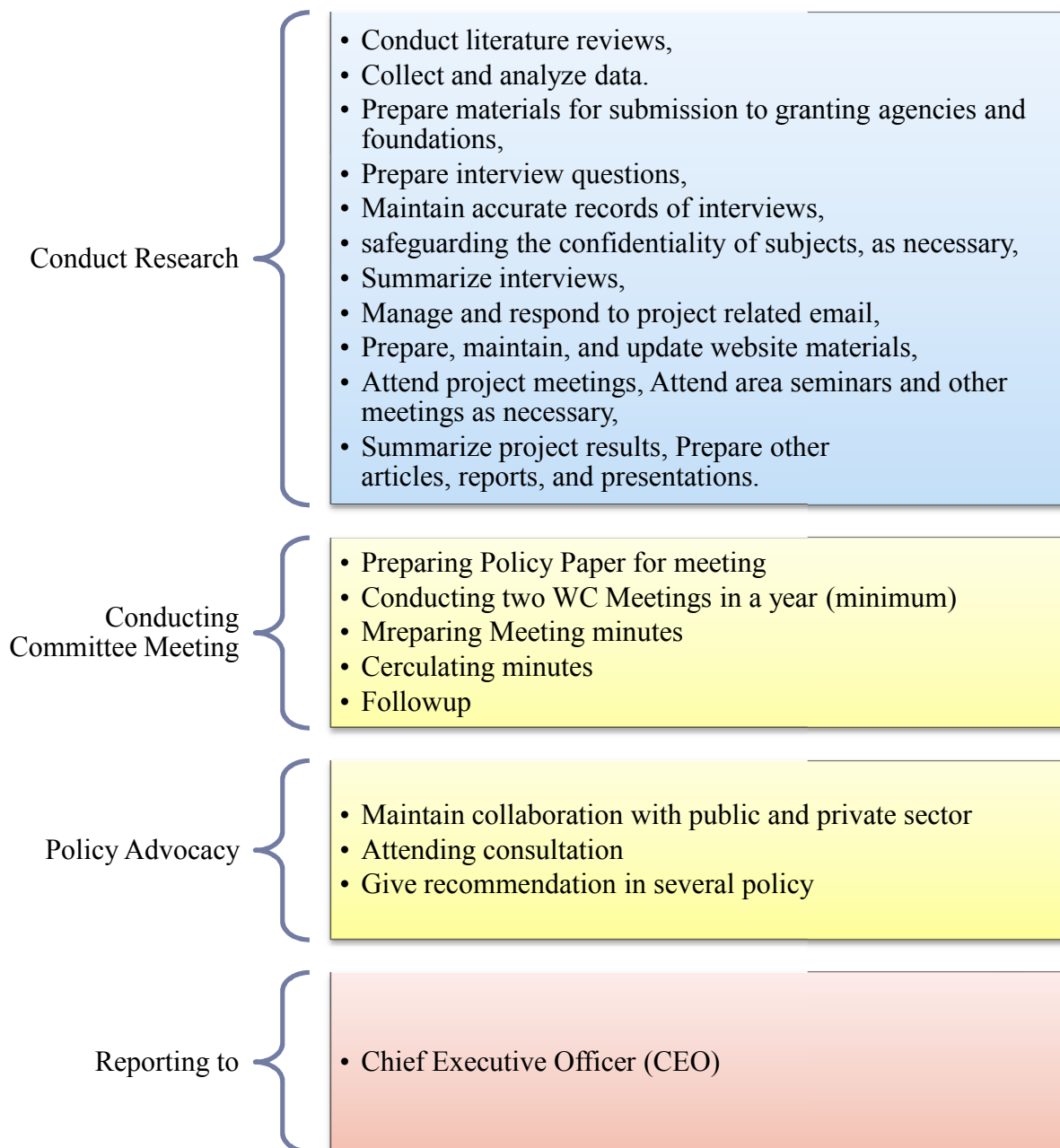


Figure 3: Task Area at BUILD

## 2.3 Job Responsibility



## **2.4 Financial Sector Development Working Committee (FSDWC)**

The financial sectors have been categorized as formal, informal and semi-formal sectors in accordance with the degree of regulation. The financial system of an economy provides the medium of exchange, allocates resources, provides a return on and affects the level of savings. It also pools, transforms and distributes risks as an important locus of implementation of development policy of a country. Real economic growth goes hand in hand with an increasing amount and diversity of activity of financial institutions, market and instruments.

Financial Sector Development Working Committee of BUILD aims to hear from private sector and demonstrate the financial sector with the commitment to provide a conducive business environment. Financial Sector Reform is a continuous process comprising policy reforms and basic institutional changes. FSDWC endeavors to meet the needs of an evolving financial sector in the country. The target of Sixth Five Year Plan is to reduce poverty by stimulating average GDP growth of 7.3 percent per year and in this regard financial sector can play a great role. As banks, non-bank financial institutions etc. are contributing to financial sector development; BUILD's FSDWC team aims to facilitate them through undertaking dynamic research for monitoring different regulations, making recommendations for reform in order to overcome the constraints to financial sector growth.

## **2.5 Why do we need a FSDWC?**

The Government of Bangladesh has thus far taken several commendable initiatives to provide a business enabling environment. This includes recent initiative to automate the Registrar of Joint Stock Companies and Firms, efforts to amend the Companies Act and initiative to automate tax payments. These efforts must be commended, as they demonstrate the Government's interest and commitment to improve the climate for investment in Bangladesh. However, there remains a wide range of areas that need to be addressed to unlock investment in Bangladesh and thereby create the jobs necessary to make Bangladesh a middle income country.

## 2.6 Objective of the Committee

The committee has set the following objectives-

- Improve access and affordability of banking & other financial services;
- To improve savings mobilization by creating the appropriate environment, for the development of long-term financial tools and an efficient capital market for private sector expansion;
- To develop an effective reform policy, legal and regulatory framework for the financial sector;
- Address governance issues in the financial sector;
- Simplifying financial transaction procedures for ease of business;
- To establish, expand and modernize the bond market in Bangladesh.

## 2.7 Scope of FSDWC

- The scope of FSDWC formal sector of Financial Sector is mainly covered by FSDWC. The formal sector includes all regulated institutions like Banks, Non-Bank Financial Institutions (FIs), Insurance Companies, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc.; Micro Finance Institutions (MFIs) so the stakeholders are from both private and public sector



## 2.8 Formation of FSDWC

In light of the above, BUILD has kept Financial Sector Development as one of its thematic areas. FSDWC has one Co-Chair from public and private sector each. Deputy Governor of Bangladesh Bank and President of Dhaka Chamber of Commerce & Industry (DCCI) is the Co-Chair the FSDWC. In addition, the committee also has the option to co-opt new members as and when required based on their knowledge and expertise. The Financial Sector Development Working Committee of BUILD is co-chaired by:

| Public Sector                        | Private Sector                                    |
|--------------------------------------|---------------------------------------------------|
| Deputy Governor-1<br>Bangladesh Bank | President<br>Dhaka Chamber of Commerce & Industry |

So far, representatives of the following organizations have been a part of this committee-

| Public Sector                  | Private Sector                   |
|--------------------------------|----------------------------------|
| • 5 members from public sector | • 12 members from private sector |

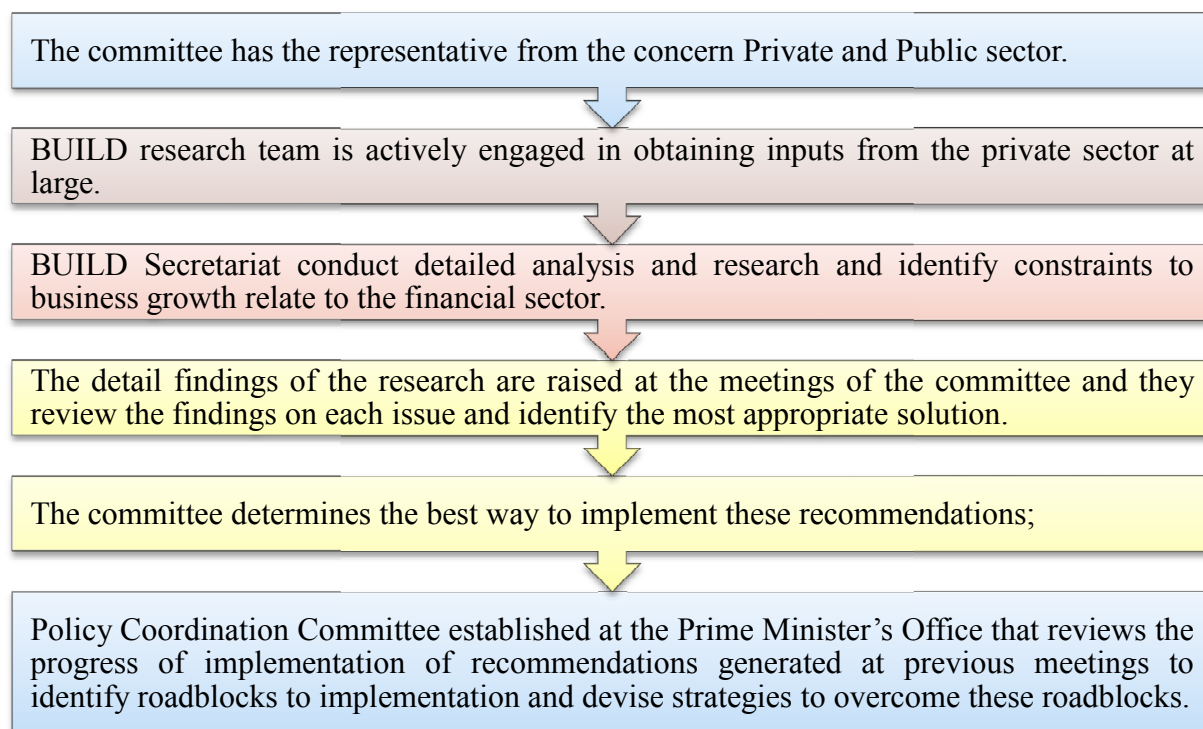
#### Invitee:

Different invitee and representative are come as per the requirement of the issue deal with committee.

## 2.9 Meetings conducted by FSDWC so far

| Name of the Meeting                    | Co-chaired by Public Sector                                 | Co-chaired by Public Sector                                                        | Date                 |
|----------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------------------|----------------------|
| <b>1<sup>st</sup> Meeting of FSDWC</b> | Mr. Md. Abul Quasem<br>Deputy Governor-1<br>Bangladesh Bank | Asif Ibrahim<br>President, Dhaka Chamber of<br>Commerce & Industry (DCCI)          | February<br>15, 2012 |
| <b>2<sup>nd</sup> Meeting of FSDWC</b> | Mr. Md. Abul Quasem<br>Deputy Governor-1<br>Bangladesh Bank | Mr. Md. Sabur Khan<br>President, Dhaka Chamber of<br>Commerce & Industry (DCCI)    | April 11,<br>2013    |
| <b>3<sup>rd</sup> Meeting of FSDWC</b> | Mr. Md. Abul Quasem<br>Deputy Governor-1<br>Bangladesh Bank | Mr. Mohammad Shahjahan Khan<br>President, Dhaka Chamber of<br>Commerce & Industry. | February<br>04, 2014 |
| <b>4<sup>th</sup> Meeting of FSDWC</b> | Mr. Md. Abul Quasem<br>Deputy Governor-1<br>Bangladesh Bank | Mr Humayun Rashid<br>Acting President<br>Dhaka Chamber of Commerce &<br>Industry   | December<br>29, 2014 |
| <b>5<sup>th</sup> Meeting of FSDWC</b> | Mr. Md. Abul Quasem<br>Deputy Governor-1<br>Bangladesh Bank | Mr. Shoaib Chowdhury<br>Vice President<br>Dhaka Chamber of Commerce &<br>Industry  | June 24,<br>2015     |

## 2.10 How FSDWC work



## 2.11 Financial Sector Development Issues Dealt by committee:

The following research has been conducted for review and implementation:

|                    |                                                                                                                                                                                                            |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2nd Meeting</b> | <ul style="list-style-type: none"> <li>• Foreign Supplier's Credit Report</li> <li>• ICT Financing: EEF and other Issues</li> <li>• Bangladesh Automated Clearing House (BACH)</li> </ul>                  |
| <b>3rd Meeting</b> | <ul style="list-style-type: none"> <li>• Foreign Exchange Policies for Pharmaceutical Sector</li> <li>• Export Development Fund (EDF)</li> </ul>                                                           |
| <b>4th Meeting</b> | <ul style="list-style-type: none"> <li>• Tea Sector Policy Reform</li> <li>• Bank Overhead</li> </ul>                                                                                                      |
| <b>5th Meeting</b> | <ul style="list-style-type: none"> <li>• CSR Policy for Bank and Financial Institution</li> <li>• Large Loan Restructuring</li> <li>• Bond Market Expansion</li> <li>• Service Charges in Banks</li> </ul> |

## 2.12 Major Achievements

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Foreign Supplier's Credit Report Requirement as per Foreign Exchange Guideline</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <ul style="list-style-type: none"> <li>• Each bank needs to manage a single database internally</li> <li>• Increasing the minimum threshold amount that necessitates credit report to any LC/contract amount below USD 15,000 against proforma invoices issued directly by the foreign suppliers.</li> <li>• Increasing the minimum threshold amount that necessitates credit report to any LC/contract amount below USD 25,000 against proforma invoices issued by the local agents of the suppliers.</li> <li>• Include more accredited agencies in FEG as providers of Supplier's credit report.</li> </ul> |
| <b>Imposing charge on Bangladesh Automated Clearing House (BACH)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <ul style="list-style-type: none"> <li>• Cheques below the Amount BDT 50000 (Regular Value Cheque) should not be imposed by this Charge.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Policy Simplification for Financing Tea</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <ul style="list-style-type: none"> <li>• Supplementary Duty at the rate of 20% should be imposed on Importing Tea</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Simplification of Policies for Administrative Expenses to Establish a New Branch of a Bank</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <ul style="list-style-type: none"> <li>• ATM Booth can be established as per guidelines of Bangladesh Bank without imposing additional restrictions</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

## 2.13 Achievements Summary at a glance

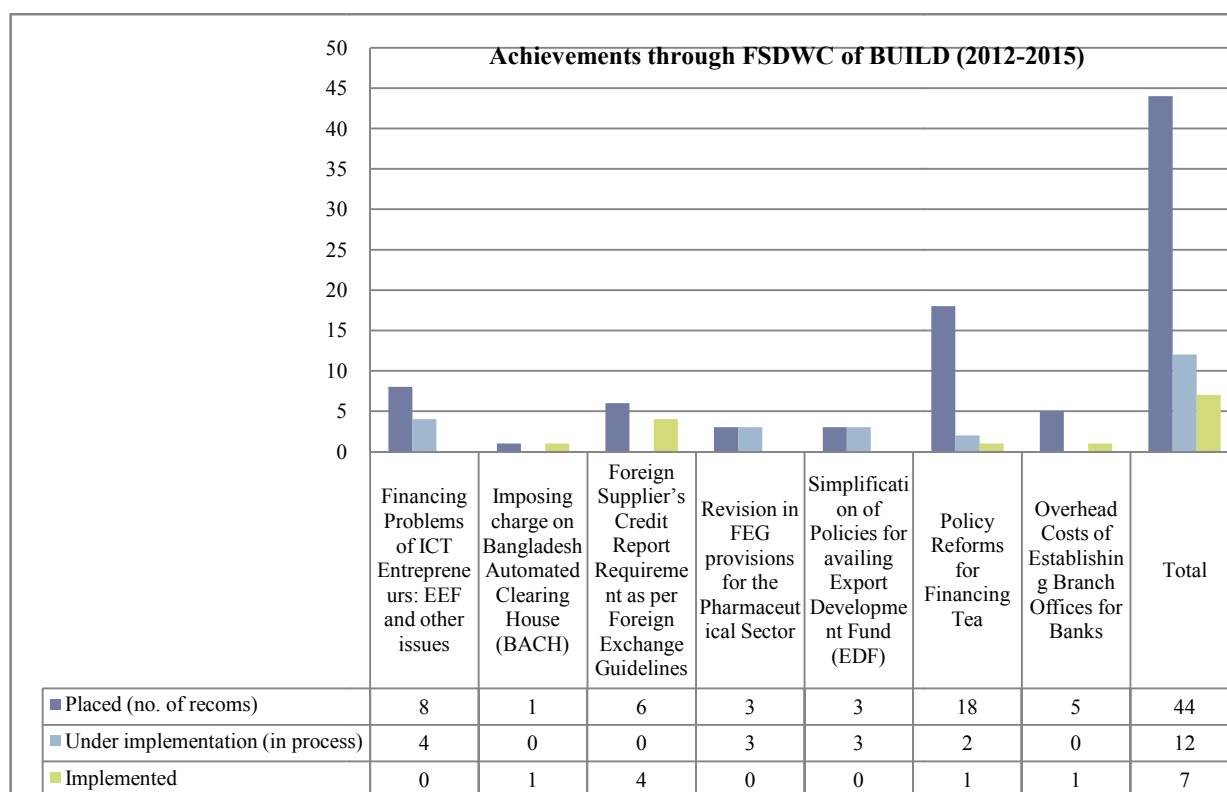


Figure 4: Achievements through FSDWC of BUILD (2012-2015)

### 3 Project Part



**“Effectiveness of  
Alternative Investment  
towards Financing  
Environment: the  
adoption of Present  
Rules in terms of  
Entrepreneur, Venture  
Capital Firms and  
Investors  
Perspectives”**

### 3.1 Summary of the Project

Bangladesh, with its 160 million inhabitants, could've simply become the next vision endpoint in the frontier marketplaces for the venture capitalists. Whereas many Asian and South Asian have efficaciously engrossed trillions of dollars in VC with the authorized procedure, startup ecosystem, and skilled human resources to backing venture capital contracts, Private-Sector needs some policy support and for this strong research for bridging macro and micro policy gap is very important. A growth in VC investments is allied with a growth in GDP, and the effect of early-stage finance of SMEs has an even more pronounced impact. Supporting venture capital can thereby drive the real economy of a country. The 7<sup>th</sup> 5 year plan (2016-2020) announced recently with an investment outlay of BDT 31.9 trillion Taka of which 78% is supposed to come from private sector and thus private sector needs simplified policy so that taking benefit out of it they can be competent in this integrated business world.

It is encouraging, though, that the Bangladesh Securities and Exchange Commission by a notification on June 22, 2015 familiarized the Rule. Before there was no rule concerning Private Equity and Venture Capital funding in Bangladesh. Alternative Investment Fund has created numerous opportunities for new entrepreneur throughout the world. This new announced rule impacts investors and the venture capital organization as this new in this country so some limitation and simplification required by the investors and also the stakeholders related to it. The purpose of this paper is to examine the extent to which investors and the venture capital firms are satisfied with this new announced investment option and which simplification and reforms encourage adoption.

The paper found comprehensiveness and relevance to be the most effective components of the argument quality construct of the research methodology, making them key influencers of effectiveness measure and suggested some recommendation to remove challenges to policy maker for effective investment for investors. This research will enhance this new Alternative Investment concept to the investors to make investment climate of Bangladesh effective for our country and encourage innovative and potential business entrepreneur for their startup.

## 3.2 Objective of the Project

This Research is mainly to focus on to find the way for effectiveness of the Alternative Investment initiative in Bangladesh to maintain the growth of investment of the new and innovative business sector so the present system can be highlighted and some effective measure may come out for the simplification so that the investors are more involved and encouraged to finance new entrepreneur.

### 3.2.1 Broad Objective

The broad objective is to identify the area of challenges in terms of alternative financing specially in Venture capital and Private Equity in Bangladesh and recommends some areas of improvement in present Alternative Rule so that the beneficiaries can benefited from it and adapt the rules easily.

### 3.2.2 Specific Objective

Some specific objectives that come out from this research are given bellow:

- To establish a model for effective financing environment for Alternative Financing and quick adaption of new rule
- To identify the real beneficiary of the Alternative investment Rule
- To address the present need VC investment so that financing facilities of new and potential sector can be increased.
- To find out the area of improvement of present rule
- To find the way how the private sector can involve with Public sector in term of policy formalization and finalization

## 3.3 Scope of the Report

The scope of the research is based on preset announced Alternative Investment Rule specially in Venture Capital financing for SMEs and the recommendation is based on the survey of investors and Venture capital firm to find out adoption of the Rules and effectiveness of this type of financing in Bangladesh.

### 3.4 Methodology

In this project at first analysis theoretical review the present Alternative investment Rules and practice in Bangladesh. Then this knowledge will apply to development a clear picture of the present investment environment and then compare with the practice with other countries practices to simplifying the present rules and recommended some simplification in view of the investors so that the investors are interested and the beneficiaries can serve at its best. The research will be tested empirically using a sample of 51 investors, Alternative fund management organization and related stakeholders who had experience with this business. People were required to complete a survey regarding the effectiveness, impact and challenges of the present rules for their business and investment .There are some observation data also this research is based on qualitative data.

#### 3.4.1 Beneficiary of this Report

This report will be benefited for both directly and indirectly to the economy. The beneficiary list has given bellow:

| Direct Beneficiary                                                                                                                                                                     | Indirect Beneficiary                                                                                                                                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Public Sector: Policy Revise and simplification</li> <li>• Policy Maker</li> <li>• Related Government Agency</li> <li>• Researcher</li> </ul> | <ul style="list-style-type: none"> <li>• Private Sector: For adaption of present rules and information</li> <li>• VC Firms</li> <li>• Entrepreneurs</li> <li>• SMEs</li> <li>• Investors</li> <li>• Fund Manager</li> <li>• Trustee to a Fund</li> <li>• Financial organizations</li> </ul> |

Figure 5: Research Beneficiary

### 3.4.2 Research Model

This paper sought to explore the motivations behind adoption of Rules in a country. The research model is built on the theoretical model of information adoption by Sussman and Siegal (2003). Resulting relationships between Information adoption, Usefulness, Policy Formation, Policy Feature are discussed in the following section. In this study, we clearly find that policy usefulness and simplification had a strong and significant impact on people decision to adopt policy within a country. This study also investigated the precursors to policy usefulness (Policy Formation, Policy Feature).<sup>34</sup>

| Effectiveness of Alternative Investment towards Effective Financing Environment                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Independent Variable                                                                                                                 | Dependent Variable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <ul style="list-style-type: none"> <li>• <b>Policy usefulness and effectiveness for Alternative Financing Environment</b></li> </ul> | <ul style="list-style-type: none"> <li>• <b>Policy/ Rules Feature</b> <ul style="list-style-type: none"> <li>• <i>Developing Policy goals</i></li> <li>• <i>Involve stakeholders and served national interest</i></li> <li>• <i>Simplified entry, exit and Risk assessment Mechanism</i></li> </ul> </li> <li>• <b>Policy/ Rules Formation</b> <ul style="list-style-type: none"> <li>• <i>Appropriate policymakers and decision makers</i></li> <li>• <i>Public Private Engagement in policy</i></li> </ul> </li> </ul> |

Figure 6: Dependent and Independent Variable

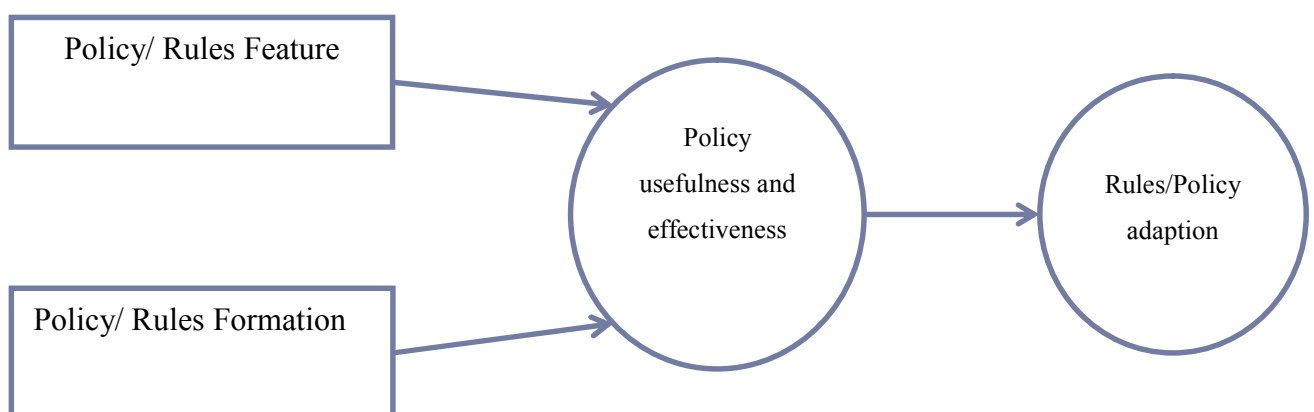


Figure 7: Research Model

<sup>3</sup>A Framework for Mobilizing Communities to Advance Local Tobacco Control Policy: The Los Angeles County Experience URL: <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3484784/>

<sup>4</sup> Testing Competing Explanations for Policy Adoption: Municipal Solid Waste Recycling Programs, URL <http://prq.sagepub.com/content/46/2/399.short>

### **3.4.3 Population and Sample**

Type of research is exploratory research and total Population is almost 120 investors VC Firms and entrepreneur who seek those funds. The total sample size is selected 50 and some Policy Maker that is not selected yet.

#### **3.4.3.1 Population definition**

- Type of research: Exploratory.
- Population: Total 250 Population. 200 SMEs, Investors, New Entrepreneurs and 55 VC firm and concern related with Alternative Investment
- Elements: SMEs, New Entrepreneur, Students, Investment and Finance related people, VC firms and Investors within Dhaka region
- Extent: Dhaka based VC Firm, Students from Finance Background both public and private university
- Duration: 15<sup>th</sup> March 2016 – 30<sup>th</sup> April 2016

#### **3.4.3.2 Sampling Plan**

- Sample Unit: People from selected area
- Sampling Size: 51 people who directly or indirectly related with Alternative finance activities
- Sampling Procedure : Probability Sampling (Simple Random Sampling)

### **3.4.4 Data Collection**

#### **3.4.4.1 Primary Data**

Most of the data is collected by the primary data with a survey of open ended and close ended questions. Questionnaires with Structure question by the survey of different organization and individual with online form.

#### **3.4.4.2 Secondary Data**

Some secondary data is collected from different documents like

- Alternative Investment Rules, 2015
- Finance Act, Monetary Policy, SRO, Economic Review Some Investment Guide, and International Act from different countries.
- Different countries Venture Capital policy

The data presented here were collected 15 March 2016 – 30 April 2016. The data can be updated annually to capture changes and evolutions in practice for future development of

this research. The Effectiveness of Alternative Investment towards Effective Financing Environment project is new in Bangladesh. There may be nuances in practice that this project may failed to capture in the data collection. If you believe the content presented for your jurisdiction is not fully correct, or if you have questions about the project, please contact me at [rawshon2010@gmail.com](mailto:rawshon2010@gmail.com)

#### **3.4.5 Research Approach**

- Survey

#### **3.4.6 Research Instrument**

- Questionnaires with Structure question
- 5 personal Question with MCQ
- 10 Liker Scale Question
- 5 MCQ Question

#### **3.4.7 Contract Method**

- Questionnaire Survey via google form URL: <http://goo.gl/forms/NUIsxOA2IY> and some telephonic interview

#### **3.4.8 Data Analysis**

- Result Findings: MS Excel

For analysis of data Microsoft Word, Microsoft Excel, different tables and graphs were used to make the data meaningful.

#### **3.4.9 Data collection process**

This questionnaire was sent to more than 250 people who working different organization and involved in Alternative investment. For 250 experts from private sector contributed to the data collection. For 250 populations 51 samples has been recorded here for result analysis. The questionnaires were sent electronically. A form was developed by Google form and circulated through Gmail, yahoo, LinkedIn, Facebook and Tweeter to the respondent A majority of the private sector respondents were entrepreneur, SMEs middle level investors and some VC firms; however, respondents also included Business people, employee of different financial institution and some students and researchers. Where necessary, this survey was conducted extensive follow-up by phone and email to clarify and confirm the data through direct communication.

### 3.4.10 Data Compilation

Given that the availability of Alternative finance data is limited in Bangladesh, the launch of a new mechanism of financing so the data platform in the region is a tough challenge.

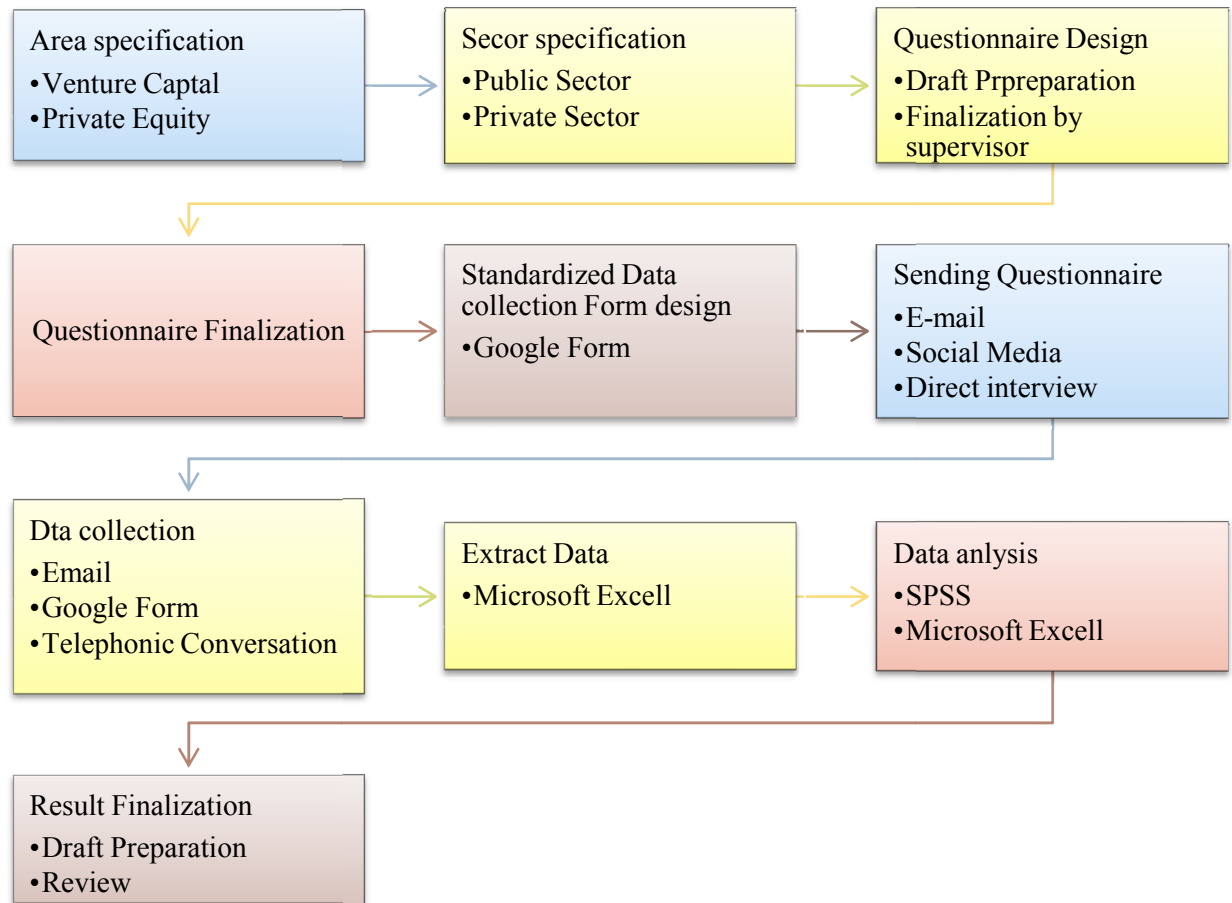


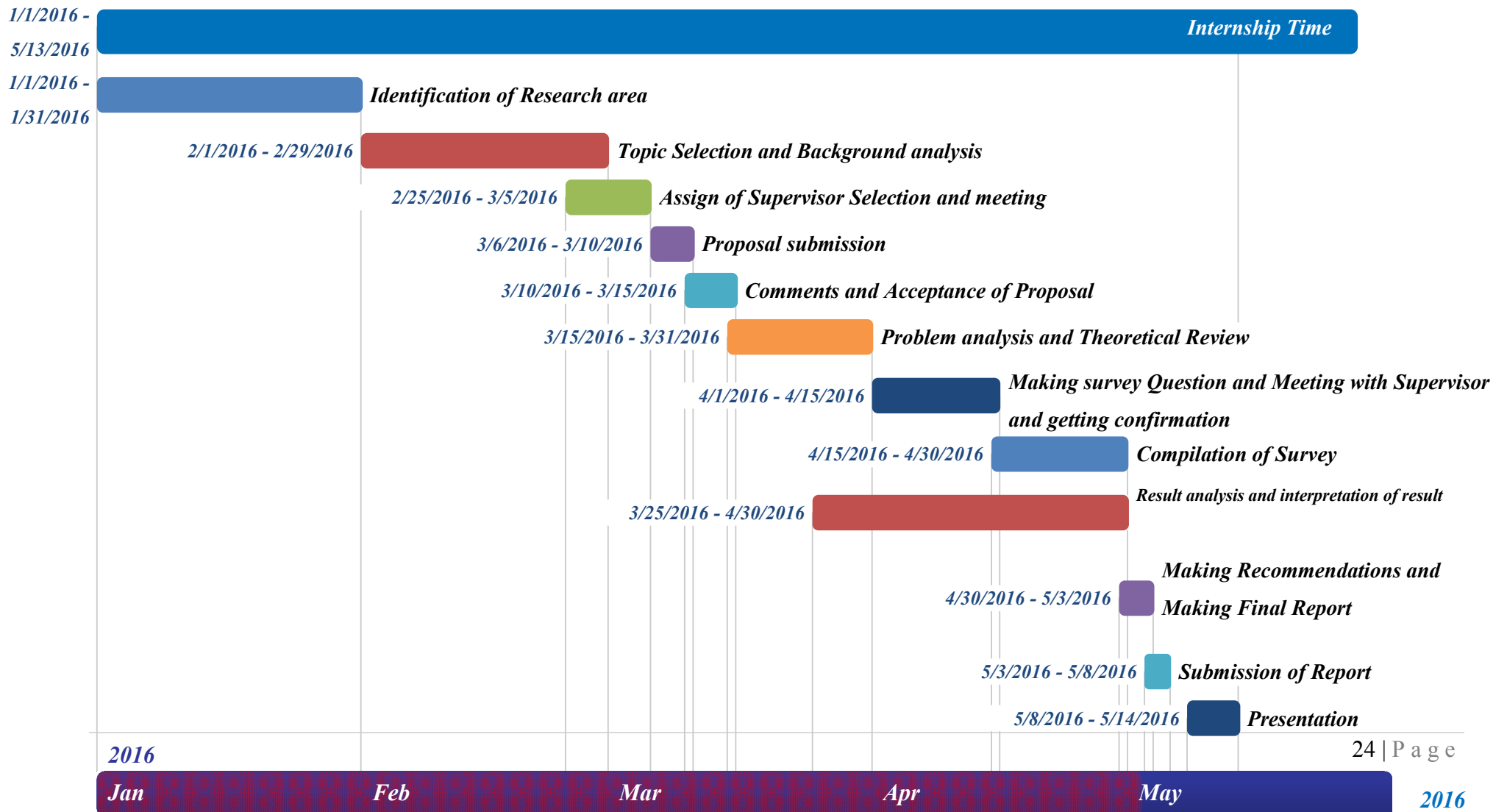
Figure 8: Data Compilation Flow

### 3.4.11 Data presentation Analysis

To analysis the problem a survey with different questionnaires will be made. This paper analysis those data with Excel, SPSS and compare with different variable with some statistical tools. This project is mainly evaluation based analysis. All the data are used here by the interview with survey. They people engaged here investors and Alternative Fund Organization who are working in Bangladesh and some international observation through social media. The data presented are what respondents reported as happening in actual practice. Contributors were also asked about legal requirements for publication, consultation and impact assessment. On some case, the text responses have been edited slightly to ensure readability and compliance with some standards. However the meaning remains intact.

### 3.5 Project Timeline

Total Duration of this Research Paper is 1<sup>st</sup> February 2016 – 15<sup>th</sup> May 2016. In this project the total timeline is given below:



### 3.6 Limitation of the Project

While this Alternative investment effectiveness project under my internship course project measures the practice of Present rule adoption and impact assessment among entrepreneur, investors, VC firm and somewhat general public, it does not capture the quality of such engagement and assessment of respondent and the quality of rule of present financing. Further investigation is needed to for a full understanding of the quality of the regulatory practices for each Rule and its practice.

In addition, the data collected here apply specifically to regulation affecting business activities. We know that many departments of organization and government ministry have different levels of transparency and engagement for different types of rulemaking.

This report seeks to portray those diverse practices in a specific present rule where possible, but that depiction may be incomplete. Data coverage will expand in scope in future data collection cycles to cover additional areas of good regulatory practices, including regulatory planning and the accessibility of texts for laws and regulations already in force in future. To test any Rule effectiveness it may help to identify the area of rulemaking effectiveness but it need to be test several times.

### 3.7 Chapter 1: Introduction

In 7th 5 year plan (2016-2020) announced recently with an investment outlay of BDT 31.9 trillion Taka of which 78% is supposed to come from private sector and thus private sector needs simplified policy so that taking benefit out of it they can be competent in this integrated business world. The key challenge for implementing seventh FYP will be to increase the rate of investment from 28.9% of GDP in FY2015 to 34.4% of GDP by the end of the plan in FY2020. For this, it requires balanced efforts to further reduce inflation to 5.5% by FY2020.<sup>5</sup>

#### 3.7.1 Financial System of Bangladesh

In present the financial system of Bangladesh is comprised of three broad fragmented sectors: Formal Sector, Semi-Formal Sector, Informal Sector.

**Formal Sector:** The sectors have been categorized in accordance with their degree of regulation. The formal sector includes all regulated institutions like Banks, Non-Bank Financial Institutions (FIs), Insurance Companies, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc.; Micro Finance Institutions (MFIs).

**Semi-Formal Sector :** The semi formal sector includes those institutions which are regulated otherwise but do not fall under the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions like House Building Finance Corporation (HBFC), Palli Karma Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank etc., Non Governmental Organizations (NGOs and discrete government programs.

**Informal Sector:** The informal sector includes private intermediaries which are completely unregulated.<sup>6</sup>

**Nonbank Sector:** Nonbank Financial Institutions (NBFIs), mainly comprising microcredit companies, pawn enterprises, financial leasing companies, and venture capital companies, have become more important vehicles among SMEs as alternative funding sources.<sup>7</sup>

<sup>5</sup> Dhaka Tribune, URL: <http://www.dhakatribune.com/bangladesh/2015/oct/21/seventh-five-year-plan-approved>

<sup>6</sup> Bangladesh Bank, URL: <https://www.bb.org.bd/fnansys/index.php>

<sup>7</sup> ADB Asia SME Finance Monitor, 2015, URL: <http://www.adb.org/sites/default/files/publication/173205/asia-sme-finance-monitor2014.pdf>

### 3.7.2 Need for Alternative Financing

The most of the funding in Bangladesh has allowed large group financing but for early stage investment or for SMEs there is little option for funding. Bank and FIs are not allowed to give financing to the business entrepreneur in the immature or early stage. Small business and entrepreneurship form an integral part of a healthy national economy. The valuable contributions of small businesses are widely recognized by all sectors of society, as can be seen by the many efforts to aid small businesses taking place at the federal, state, and local level. Yet, in spite of this increased awareness access to capital continues to be the most difficult challenge for small business owners.<sup>8</sup>

According to ADB the need for Alternative Financing is needed because financial infrastructure needs to be developed to expand financial outreach to a larger number of SMEs. Limited access to bank credit is a structural problem in the ASM region. Bank loans to SMEs made up averages of 11.6% of GDP and 18.7% of total bank lending in the region, with a decreasing trend of the latter since the 2008/09 global financial crisis. Comparing SME access to bank credit relative to the income level of the countries in which they operate, bank credit reaches out to a larger number of SMEs (with a relatively low ratio of nonperforming loans) as the country's economy becomes more advanced. This suggests that further policy support for SME finance is needed in low-income and lower middle-income countries. In particular, a set of financial infrastructure—such as credit bureaus, collateral registries, and credit guarantees—needs to be developed in low-income countries.<sup>9</sup>

Basel III may negatively affect bank lending attitudes to SMEs. There are some concerns about the impact of Basel III (an international regulatory framework for banks) on SME lending. There may be a negative effect on banks' lending attitudes toward SMEs in countries that have decided to introduce Basel III. These countries include the People's Republic of China, India, Indonesia, and the Republic of Korea. Basel III has adopted new rules—liquidity frameworks and leverage ratio frameworks—to strengthen the risk management of banks, as well as introducing strengthened capital requirements. These new measures may constrain banks from providing long-

<sup>8</sup>A Guide to Finding Business Information at the Library of Congress, Financing Small Business Enterprises: Sources of Information, URL: <https://www.loc.gov/rr/business/guide/guide3/guide3.html>

<sup>9</sup>ADB Asia SME Finance Monitor, 2015, URL: <http://www.adb.org/sites/default/files/publication/173205/asia-sme-finance-monitor2014.pdf>

term credit for enterprises, and may limit financing options for SMEs, including trade finance availability<sup>10</sup>

### 3.7.3 Venture Capital Financing and SME's Challenges before Alternative Investment Rule

To address the importance of funding of SMEs and new and innovative entrepreneur, worldwide alternative investment has already been established. Venture capital is generally suited to the emerging sectors that have high potential and need nourishment in addition to partnership financing. Due to the information technology (IT) boom in the USA, most of the IT and IT-related companies like Facebook, Google, Amazon.com, etc.<sup>11</sup> have succeeded in the hands of venture capitalists. In Bangladesh, there is much scope for more small and medium enterprises (SMEs) to emerge in different sectors, including the agro-based industry. Days are coming when the educated youth would tend to take entrepreneurial leadership rather than focusing only on jobs. Capital may not be a cause of concern because of being venture capitalist beside them. In spite of being late, Venture Capitalists started operation in Bangladesh. Venture Capitalists may be very trusted good partners of them registering success history through equity investment. Venture Capitalists can prove that capital is not a problem where entrepreneurial leadership is strong and effective towards an innovative expected goal.

- Corporate legal structure

Most of the SMEs are either proprietorship or partnership. As equity investment is not fit with this legal structure, such enterprise needs to avail investment under mezzanine or quasi-equity investment model (a hybrid of equity and debt) or be registered with Registrar of Joint Stock Companies and Firms (RJSCF) as limited company (private or public) to avail equity either as ordinary or preference shares. Entrepreneurs do not show very positive interest to incorporate as limited company with RJSCF. They have tendency to avoid registration as limited company as they do not want to be complaint with regulators by submitting the related documents or return of income from business or do not feel comfort to have any new institutional investor as influencing or controlling

<sup>10</sup> ADB Asia SME Finance Monitor, 2015, URL: <http://www.adb.org/sites/default/files/publication/173205/asia-sme-finance-monitor2014.pdf>

<sup>11</sup>The Financial Express, Venture capitalists have a big scope in SMEs sector, URL: <http://print.thefinancialexpress-bd.com/old/print.php?ref=MjBfMTJfMDNfMTJfMV8yN18xNTE4MjQ=>

authority over their business. They expect easy loan and repayment thereof, instead of sharing of their profit with investors controlling their business.

- Lack of operational & financial credibility

The entrepreneurs have tendency to hide operational efficiency and hence, the operational result presented in the financial statements does not show a true and fair view. They do not like to be transparent to lender or investors as well as to regulators to avoid repayment of investments and taxes on income. At the initial level or expansion level i.e. at start up or growth stage, when Venture Capitalists' financial & technical support are essential, entrepreneurs must be transparent in presenting the financial statements for continuous growth of the company with a view to obtaining supports of venture capitalists. Venture capitalists do not dare to invest in the form of ordinary equity under the scenario of having lack of operational & financial credibility due to fear of losing money unduly.

- Lack of entrepreneurial leadership:

Most of the sponsors/promoters in our country tend to involve with a business seeing others in hot business in spite of having no or a few business knowledge. Sometimes it is observed that sponsors expressed their willingness to undertake the business in the sector where investors make investment or feel comfort to invest. Sponsorship and entrepreneurship are completely different from each other. Entrepreneurship is an innovative approach for a new product & market. Entrepreneurial leadership means actions to managing resources towards a success with a new innovative ideas or concepts or research findings. Unless the sponsors are found strong and technical enough in entrepreneurial leadership, the business may be shutdown or may not be a success one in most of cases and the venture capitalists will not go for equity investment.

- Lack of source of fund of venture capitalists

The source of fund of venture capitalists is a big challenge. Borrowing fund from banks and financial institutions will not be fit being

- higher cost of fund
- repayment mismatch because of immediate regular payment of installments of loan availed from banks where harvest from equity investment is always deferred, irregular and not specific
- tremendous risk associated with SMEs and equity investments accordingly. Private equity management against fee could be good source of fund. Private Equity Fund management system, other than mutual fund to be traded in capital market, has not

been introduced due to lack of skill and experiences, legal framework and sponsors from development partners/ agents, local pension fund, insurance companies etc.

- Non-compliance with laws & regulations by investee

Non-compliant organizations record their lack of integrity and sometimes bring risk of operations and investor may not be interested to invest. As equity represents ownership, the equity investors take full risk & reward of organization and hence, they need to be compliant with all applicable laws and regulation to keep their investment safe for return as well as exercising safe exist strategy. We are hardly careful in respect of laws and regulation particularly in such SME level.

- Lack of high technical professional VC team

To conduct due diligence, structure investment deal and monitor investment, the venture capitalists should have a high technical professional team. As VC is a very new model of investment in Bangladesh, it is very hurdle to get such experienced technical team. Those who are experienced in this sectors working outside the country deserve a high pay and the new set up venture capitalist may not have financial capability to pay such compensation package unless private equity comes under management.

- Indifference of social and environment Impact

Compliance is significant factor to attract development partners/ agents. An entity should work for profit, people and planet (3Ps). Most of the entrepreneurs do not care of planet and peoples, i.e. the social and environment compliance. As such, it is hurdle to get private equity from development partners/agents. A lot of SMEs in Bangladesh can avail foreign equity fund from development partners/agents being complied with social and environment indicators. Those development partners/agents may be sponsors for SMEs equity fund managed by venture capitalist or invest directly in equity form if entrepreneurs are meticulously compliant to ensure positive impact of social and environment indicators.

- Lack of Government focus

India has identified the most vibrant sectors to ensure access to finance and other support from Govt., development partners and venture capitalists especially through Foreign Direct Investment (FDI). We should have identified such sectors to attract venture capitalists in investing. The focused sectors become organized and, have more growth potential and Govt. support to emerge where venture capitalists can invest in the form of equity in a safer way.

- Tax exemption and incentives

Venture capitalists support emerging sectors in all stages even as seed or early growth. So, their investment may become bad and lost fully sometimes when the investment does not click to be success one. There is a very common characteristic that 1/3 investment of venture capitalists may be bad fully that impact profit of them. As it is very early stage of venture capitalists in Bangladesh and SMEs market is not organized or structured with form, requirement of supports, laws, policies, tax supports etc., the investment loss may be more and as such, they need tax exemption facilities from income. To support emerging SMEs tax efficient equity investment is necessary. At present, the income of venture capitalists is taxable 35.5% for non listed public limited company that make them discouraged to work in the so risky SMEs to emerge.

- Access to report of Credit Information Bureau (CIB) on Investee

Venture capitalists should not invest any investee financially default with any bank and financial institutions. To uphold the financial discipline, the venture capitalists should have the power and authority to access to report of CIB on investee so that investment does not go to a bad pocket.

- Waiver from default status for venture capitalists

Venture capitalists may want a board seat of the investee company. If the investee company becomes classified or loan defaulter, the venture capitalists would be defaulter as well being the director of the investee company. The Investee Company may be defaulter but the venture capitalists should be waived from default status for their borrowing from banks and financial institutions or managing fund from them and conducting a smooth operation without any legal hassle.

- Exit process

Exist process including drag, tag, public offering etc. are merely standard in theory but enforcement is a big challenge. The Company can enter into IPO when the company's total capital structure including capital market portion is BDT 300.00 million and where, sponsors capital will be 30% thereof. In most cases, the companies where venture capitalists invest cannot raise the required minimum capital from sponsors. To exercise both drag along and tag along rights in a straight way may be difficult due to lack of entrepreneurial leadership, philosophy and integrity. The whole exist process may be

really stressful to get back the amount as due for recovery or to harvest the best return as the investors entitled thereto.<sup>12</sup>

#### **3.7.4 Introduction of Alternative Investment Rule 2015**

It is encouraging, though, that the Bangladesh Securities and Exchange Commission by a notification on June 22, 2015 familiarized the Rule. Before there was no rule concerning Private Equity and Venture Capital funding in Bangladesh. The rules called Alternative Investment Rules, 2015 (the Rules) became effective from June 22, 2015. The rules cover private equity fund and venture capital fund which will be operated by a fund manager through a registered trust. Alternative Investment Fund has created numerous opportunities for new entrepreneur throughout the world.

The fund managers will raise capital from eligible investors, who may be institutions, high-net-worth individuals and foreign fund managers. The funds cannot be raised through public issue or initial public offering; it can be raised only through private placement and it will not be listed or traded on the stock exchanges like other mutual funds. According to the rules, venture capital fund could be invested primarily in non-listed equity and equity-linked securities of start-ups with less than two years' of operational history or green field companies or emerging early-stage undertakings mainly involved in new products, services, technologies or intellectual property rights based activities or new business models.<sup>13</sup>

This new announced rule impacts investors and the venture capital organization as this new in this country so some limitation and simplification required by the investors and also the stakeholders related to it. The purpose of this paper is to examine the extent to which investors and the venture capital firm are willing to accept and adopt the new announced rules and which simplification and reforms encourage adoption.

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<sup>12</sup>theguardianbd.com, Venture capitalists: Challenges of equity investment in Bangladesh, URL: <http://www.theguardianbd.com/venture-capitalists-challenges-of-equity-investment-in-bangladesh/>

<sup>13</sup>resource.ogrlegal.com URL: <https://resource.ogrlegal.com/bangladesh-gets-first-private-equity-venture-capital-financing-regulations/>

### 3.8 Chapter 2: Theoretical Review

#### 3.8.1 Alternative Investment

According to Investopedia, Alternative Investment An investment that is not one of the three traditional asset types (stocks, bonds and cash). Most alternative investment assets are held by institutional investors or accredited, high-net-worth individuals because of their complex nature, limited regulations and relative lack of liquidity. Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives contracts.

##### 3.8.1.1 Breaking down Alternative Investment

According to Investopedia Many alternative investments also have high minimum investments and fee structures compared to mutual funds and ETFs. While they are subject to less regulation, they also have less opportunity to publish verifiable performance data and advertise to potential investors.

Alternative investments are favored mainly because their returns have a low correlation with those of standard asset classes. Because of this, many large institutional funds such as pensions and private endowments have begun to allocate a small portion (typically less than 10%) of their portfolios to alternative investments such as hedge funds.

While the small investor may be shut out of some alternative investment opportunities, real estate and commodities such as precious metals are widely available.<sup>14</sup>

##### 3.8.1.2 Alternative Investment Fund definition in Bangladesh Prospective

According to Bangladesh Securities and Exchange Commission (Alternative Investment) Rules, 2015“Alternative Investment Fund” or “fund” means any fund established or constituted in Bangladesh in the form of a trust which,

- i. is a “private equity fund” or a “venture capital fund” or an “impact fund” or any other type of fund as declared by the Commission as alternative investment fund from time to time;
- ii. is a privately pooled investment vehicle which collects funds from eligible investors for investing in accordance with a defined investment policy for the benefit of its investors;

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<sup>14</sup> Alternative Investment Definition: Investopedia, URL: [http://www.investopedia.com/terms/a/alternative\\_investment.asp#ixzz3xl3RO52B](http://www.investopedia.com/terms/a/alternative_investment.asp#ixzz3xl3RO52B)

- iii. is a closed end fund with specific tenure;
- iv. Collect subscription by way of private placement only and does not offer its units for public subscription; and
- v. is not covered under the Bangladesh Security and Exchange Commission Guideline (Mutual Fund) 2001, or any other Rules of the Commission to regulate fund formation and management activities;

Category of the Alternative Investment Fund shall be Private Equity (PE)/Venture Capital (VC)/Impact Fund.

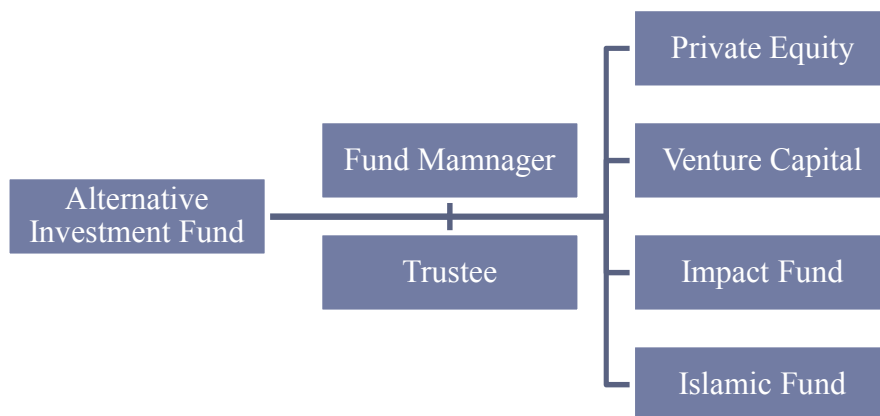


Figure 9: Alternative Investment Fund Formation and Type

Alternative investment Fund should be regulate by Fund Manager and this Fund should regulate by a Trustee

- Fund Manager
- Trustee to a Fund

There are four fund allowed in Alternative investment Rule those are:

- Venture Capital Fund: “venture capital fund” means an alternative investment fund which invests primarily in non-listed equity and equity linked securities of start-ups with less than 02 (two) years’ operational history or green field companies or emerging early-stage undertakings mainly involved in new products, services, technologies or intellectual property rights based activities or new business models.
- Private Equity Fund: “private equity fund” means an alternative investment fund which invests primarily in equity and equity linked instruments of potentially high growth non-listed portfolio companies with minimum 02 (two) years’ operational

history or to conduct buyouts of companies according to the stated objectives of the fund;

- Islamic Fund: “Islamic fund” means a fund which invests in Shariah compliant securities/companies/instruments, in response to the needs of investors who want to make Shariah compatible investments;
- Impact Fund: “Impact Fund” means an alternative investment fund which invests in equity and equity linked instruments of such companies, organizations, and funds which are engaged in activities with the intention to generate a measurable and beneficial social or environmental impact in addition to financial returns, as justified with internationally recognized criteria;<sup>15</sup>

In our Country the most effectively using the Venture capital and the private equity Fund. In different country they have different way to establish and maintaining VC firm.

### 3.8.2 Venture Capital

Venture capital funds are operators that provide mostly equity finance to businesses that are generally very small, in the initial stages of their development, but often innovative and demonstrating a strong potential for growth and expansion.<sup>16</sup> Many defining firms of the last three decades including 3Com, Amgen, AMD, Compaq, Cisco, Federal Express, Genetech, Intel, Oracle, and Sun Microsystems were first funded by venture capitalists. The SMEs that relies on venture capital financing fare better than those that receive no venture capital backing.<sup>17</sup> Venture capital financing, coupled with a stable legal environment seems a recipe conducive to boosting growth, jobs and innovation. An increase in venture capital investments is associated with an increase in GDP, and the impact of early-stage funding of SMEs has an even more pronounced impact. Supporting venture capital can thereby drive the real economy of a country.

Venture Capital (VC) acts as a mechanism to facilitate new and innovative start-ups and accelerates economic development. VC transformed the innovative practices into providing funds and support to the high technology businesses. VC is the innovative source of start-up money provided by institutional investors that played a critical role in supporting the overall economic development, sustainability, Gross Domestic

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<sup>15</sup> Alternative Investment Rule 2015

<sup>16</sup> proposal for a regulation of the European parliament and of the council, URL: <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2018499%202011%20ADD%202>

<sup>17</sup> Scattering Geese: The Venture Capital Industries of East Asia: A Report to the World Bank, URL: <http://www.brie.berkeley.edu/publications/wp146.pdf>

Product (GDP) growth, employment and productivity by providing expertise, experience, and skills to entrepreneurs in their respective fields. Various empirical evidences have provided that VC accelerates the innovative activities. High-potential firms, especially those in the knowledge economy and having the capability to excel were particularly affected by various boom and bust situations. This study makes an attempt to examine the impact of the Global financial crisis on the VC firms, which is the source of innovative funding.<sup>18</sup>

### *3.8.2.1 Previous process of Venture Capital in Bangladesh*

No definition of venture capital is present in Bangladesh, so there is no criteria of becoming a venture capital firm. As no regulatory framework and regulation are present, VC firms are facing problems in running business operation. To start business, the VC firms take No Objection Certificate (NOC) from Bangladesh Bank (BB) first which assures that VC firms will not get engaged in banking or financial products. Then, they take NOC from Securities and Exchange Commission (SEC). After that, they register with Registrar of Joint Stock Companies and Firms (RJSCF). VC firms can't do any fund raising activity. For business purposes, VC firms use Contract Act 1872, Negotiable Instrument Act 1881.

As venture capital firms take NOC from BB, it can't collect public money and raise capital like banks. So they run business by their own money. Also investment by the foreign investors is not allowed. So many foreign individuals have showed their interest to the present Bangladeshi VC providers, but this is not possible to bring their money because of restriction.

PE Investors are not encouraged by policies as like as Eligible Institutional Investors (EII) Bangladesh Security Exchange Commission(BSEC) categorizes Eligible Institutional Investors (EII), under Securities and Exchange Commission (Public Issue) Rules 2006, includes the following stakeholder groups (clause 6b of BSEC Notification dated October 5, 2011); Merchant Bankers, Commercial Banks, Asset Management Companies, Non-Banking Financial Institutions (NBFIs), Insurance Companies, Stock Dealers.

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<sup>18</sup>Venture Capital: An innovative source of financing business (An Empirical Evaluation of Impact of Global Financial Crisis on Indian Venture Capital Firms). Available from: [https://www.researchgate.net/publication/274312226\\_Venture\\_Capital\\_An\\_innovative\\_source\\_of\\_financing\\_business\\_An\\_Empirical\\_Evaluation\\_of\\_Impact\\_of\\_Global\\_Financial\\_Crisis\\_on\\_Indian\\_Venture\\_Capital\\_Firm](https://www.researchgate.net/publication/274312226_Venture_Capital_An_innovative_source_of_financing_business_An_Empirical_Evaluation_of_Impact_of_Global_Financial_Crisis_on_Indian_Venture_Capital_Firm) [accessed May 7, 2016].

According to clause 14 of the same Amendment<sup>i19</sup> to Public Issue Rules 2006, Lock in period for EIIIs is four months, compared to 3 years for PE Investors. “Clause 14: Lock in- There shall be lock-in of 4 (four) months from the first trading day on the security issued to the eligible institutional investors.”

Many countries within the region have eased this provision for PE investors, to encourage strategic investors who were previously deterred by lengthy lock-in periods. In Sri Lanka there is One year Lock-in period for the sales of shares held by Private Equity investors, from the date of allotment of such shares. In India, One year Lock-in period for all PE investors, compared to 3 years lock-in period applicable for other promoters, Lock-in period of 6 months for pre-IPO investors provided they adhere to a set of conditions In Hong Kong, In China, One year Lock-in period for investors that buy stakes in companies up to 12 months before flotation.

The rule (of imposing a lock-in period) does not address the differences in objectives and operations of promoters and equity investors. And given how regulators are keen to stop unscrupulous cash-in from IPOs, there should be policies and legal mechanism in place to identify the PE funds or their investments as separate from the overall capital market (like EIIIs).

Classifying all types of investors under one roof does not provide equity investors suitable grounds for exercising IPO as an exit route. Provisions could be made to segregate PE Investors from general sponsors of a private limited company, so that they are not subjected to the lock-in of 3 years<sup>20</sup>.

### ***3.8.2.2 Present process of Venture Capital as a Alternative Financing in Bangladesh***

In exercise of the power conferred by section 24(1) of the Bangladesh Security and Exchange Commission Act 1993 (15 no Act 1993) read with section 33 of the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) and in pursuance of section 32 of the said Ordinance, the Bangladesh Securities and Exchange Commission hereby makes, after prior publication, the Bangladesh Securities and Exchange Commission (Alternative Investment) Rules, 2015 that has been announced on June 22, 2015 under

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<sup>19</sup>Amendment to the Securities and Exchange Commission (Public Issue) Rules 2006, through BSEC Notification dated October 5, 2011

<sup>20</sup>In-house research of BUILD

Bangladesh Securities And Exchange Commission Notification No. BSEC/CMRRCD/2015-343/171/Admin/59.

### 3.8.2.3 VC financing in Different countries

The business objective of venture capital fund as an investor is to steer its portfolio companies towards a profitable sale and thereby realize a profit that should considerably exceed the investments made to the company throughout fund's time of engagement in it.

Table 2: Definitions in various countries

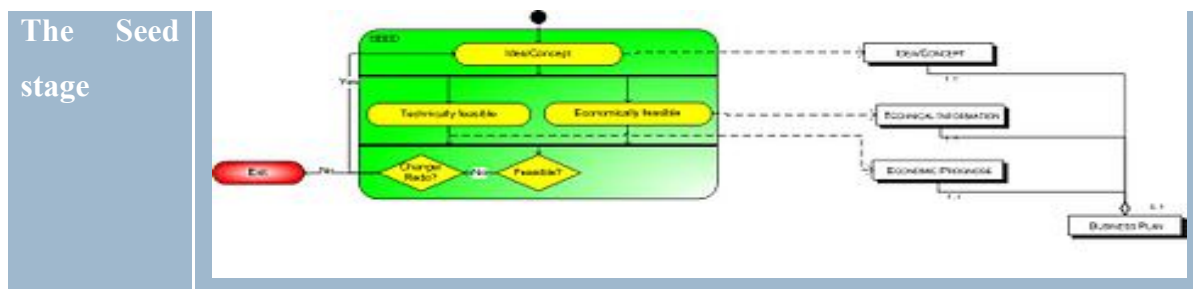
| Country         | Definition and Scope of VC                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>India:</b>   | <p>Venture capital fund is a fund formed as a trust or a company under the regulations which</p> <ul style="list-style-type: none"> <li>- Has dedicated pool of capital</li> <li>- raised in the specified manner and</li> <li>- invested in venture capital undertaking</li> </ul> <p>Venture Capital undertaking is domestic company,</p> <ul style="list-style-type: none"> <li>- whose shares are not listed</li> <li>- which is in the business for providing services, production or manufacturing of articles which are not in the negative list.</li> <li>- Each scheme launched or fund set up by a venture capital fund shall have firm commitment from the investors for contribution or an amount or at least Rupees five crores before the start of operations by the venture capital fund</li> </ul> <p>Negative list covers following activities:</p> <ul style="list-style-type: none"> <li>- Non-banking financial services [excluding those Non – Banking Financial companies which are registered with Reserve Bank of India and have been categorized as Equipment Leasing or Hire Purchase companies.</li> <li>- Gold financing [excluding those companies, which are engaged in gold financing for jewellery.</li> <li>- Activities not permitted under the Industrial Policy of Government of India</li> <li>- Any other activity which may be specified by the SEBI.</li> </ul> |
| <b>UK</b>       | <p>Venture capital includes the business of carrying</p> <ul style="list-style-type: none"> <li>- Investing in, advising on investments which are, venture capital investment</li> <li>- managing investments which are, arranging transaction in, venture capital investments.</li> <li>- Advising on investments or managing investments in relation to portfolios or establishing, operating or winding up collective investment schemes invests only in venture capital investments</li> <li>- Any custody activities as related to above.</li> </ul> <p>Venture Capital Investment is investment which at the time of investment is made, is,</p> <ul style="list-style-type: none"> <li>- in a new and developing company</li> <li>- in a management buy out or buy-in or</li> <li>- Made as means of financing the invitee Company or venture and accompanied by a right of consultation.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Malaysia</b> | Venture capital company (VCC) and Venture Capital Management Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

|               |                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|               | <p>(VCMC) means a corporation that deals in investments of securities of venture companies and are registered as VCC or VCMC under the guidelines:<br/>         Venture company means a company which utilizes seed-capital, start-up and early stage financing and,</p> <ul style="list-style-type: none"> <li>- in relation to VCC is not listed and</li> <li>- in relation to VCMC is not listed at the point of first investment by such VCMC.</li> </ul> |
| <b>Taiwan</b> | <p>Venture capital investment enterprise is a Company limited by shares, which,</p> <ul style="list-style-type: none"> <li>- engages in venture capital investment business under the approval of Ministry of Finance,</li> <li>- specializes in the investments either in foreign or domestic technological enterprises assist the management and supervision of such enterprise</li> </ul>                                                                  |
| <b>China</b>  | <p>Foreign invested venture capital investment (FIVCEI) means foreign invested enterprise established within the territory of China by foreign investors or foreign investors with Companies and established under Chinese Law.<br/>         Venture capital investment means a type of investment activity pursuant to which equity investment are injected mainly into high and new-tech enterprises that have not been publicly listed</p>                 |

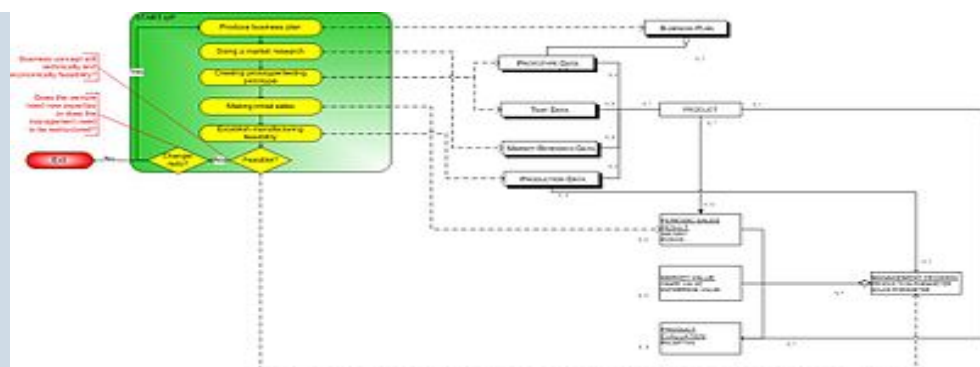
#### 3.8.2.4 Stages of Venture Capital Financing

There are five common stages of venture capital financing. The following schematics shown here are called the process data models. All activities that find place in the venture capital financing process are displayed at the left side of the model. Each box stands for a stage of the process and each stage has a number of activities. At the right side, there are concepts. Concepts are visible products/data gathered at each activity. This diagram is according to the modeling technique developed by SjaakBrinkkemper of the University of Utrecht in the Netherlands.

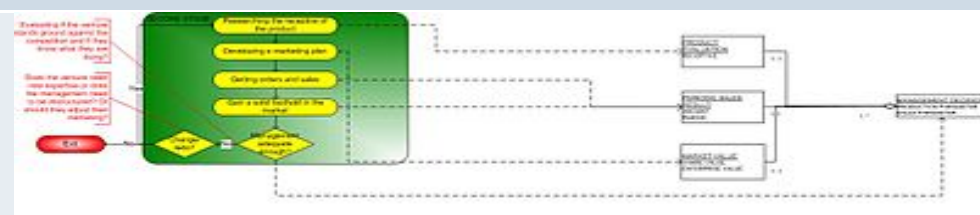
Table 3: Stages and modeling technique of VC



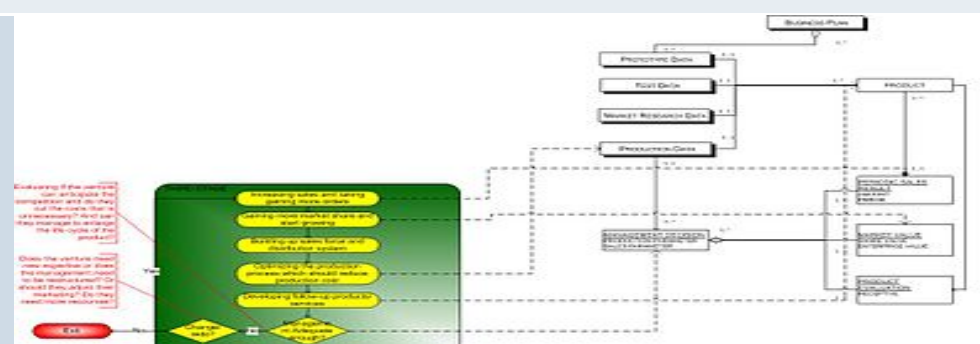
## The Start-up stage



## The Second stage



## The Third stage



## The Bridge/Pre-public stage

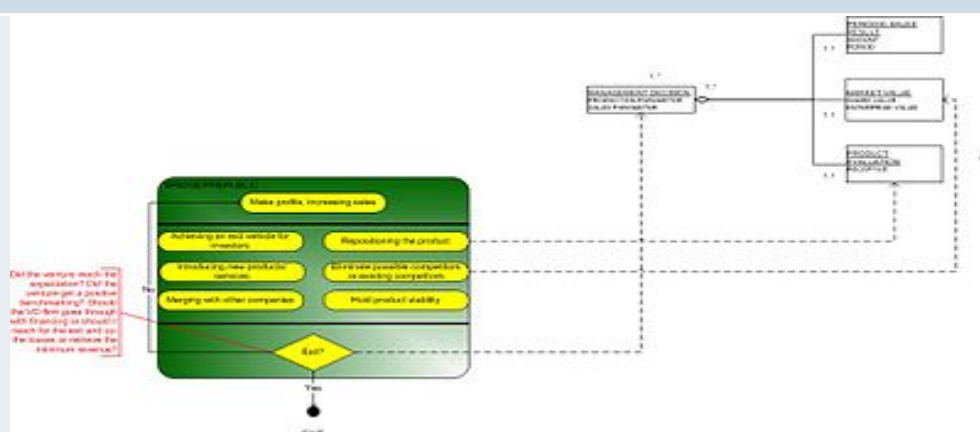


Table 4: Stage at which investment made Risk and causation stage

| Stage at which investment made     | Risk of loss | Causation of major risk by stage of development |
|------------------------------------|--------------|-------------------------------------------------|
| <b>The Seed-stage</b>              | 66.2%        | 72.0%                                           |
| <b>The Start-up Stage</b>          | 53.0%        | 75.8%                                           |
| <b>The Second Stage</b>            | 33.7%        | 53.0%                                           |
| <b>The Third Stage</b>             | 20.1%        | 37.0%                                           |
| <b>The Bridge/Pre-public Stage</b> | 20.9%        | 33.0%                                           |

### 3.8.2.5 Present Procedure of Alternative Investment (VC/PE) Licensing as per Rule

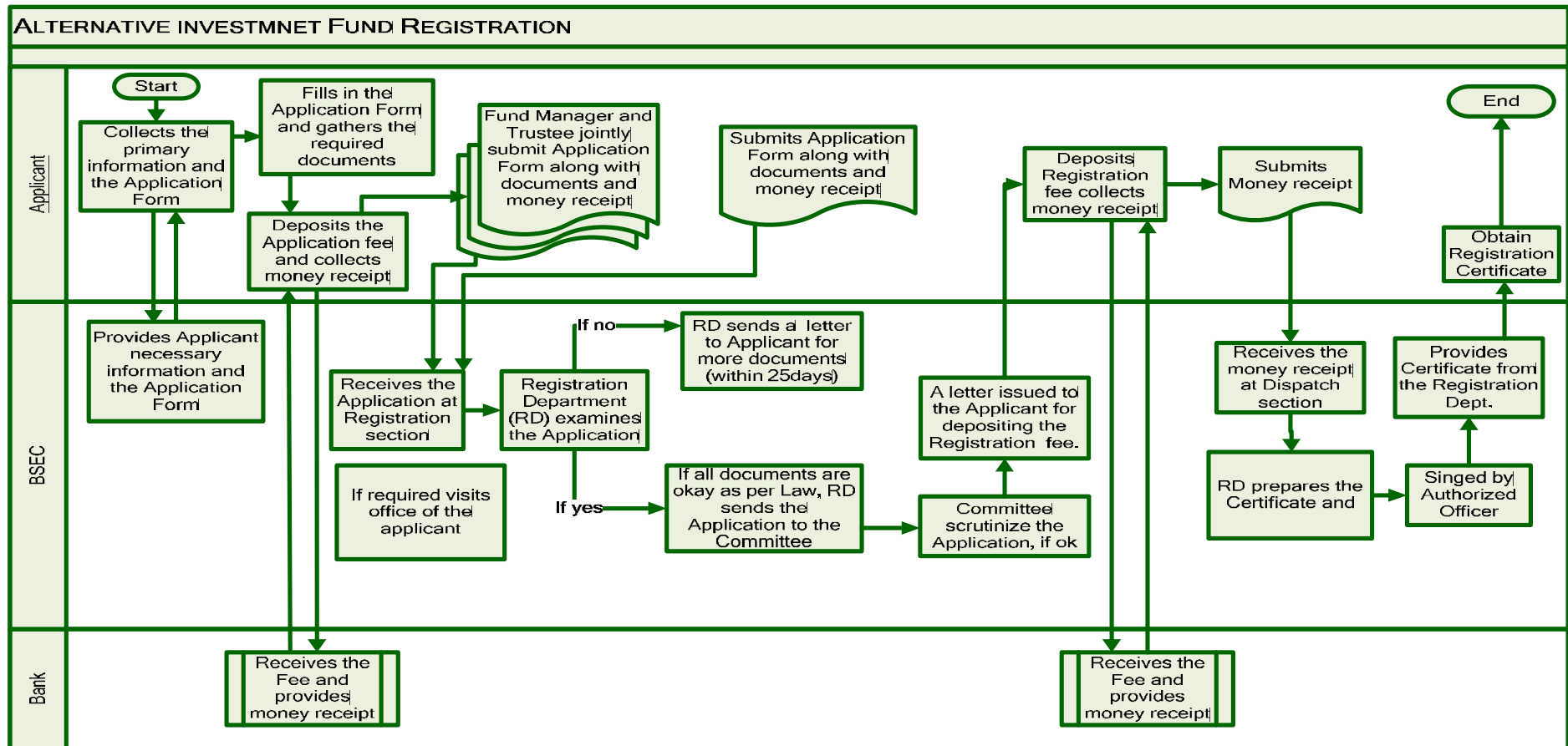


Figure 10: Process Map of Alternative Investment (VC/PE) Licensing in BD

### 3.8.3 Present Practice of Alternative Investment in Bangladesh

An increase in entrepreneurship is theoretically the most encouraging trend in Bangladesh over the past decade. Entrepreneurship is fundamental in the creation of small and medium enterprises, which increases economic activity, grows employment and overall renovates the economy. Additionally, it provides scope for revolution, as entrepreneurship is the best platform for creative individuals to instrument their ideas. There are more and more people opting out of a conventional life with a concrete source of payment, and choosing the risky life of an entrepreneur. However, any business requires a viable business model in order to endeavor in an economical ecosystem, and adequate capital is always the most significant obligation in reaching that goal.

According to one article in lightcastle bd Venture Capital (VCs) financed businesses have higher risk profile but with the potential for high returns. The capital that is provided by Venture Capitalists is referred to as “Seed capital/ Series-A/Series-B”, since it helps in starting or growing the business. It is important to note the definition of “start-up” is not the same for all VCs. For some, it might be the very inception of a business, while for others; it may be the beginning of a new operation. If a venture capital firm finds a business proposal to be profitable, it can invest in that idea. However, time value of money is certainly considered by VCs. They will not invest unless the expected rate of return is greater than that of alternative sources of investment or the market interest rate. This investment comes in two forms:

- The firm can either be a shareholder of the firm, and claim ownership over the company. This may or may not encompass the right of making decisions for the business.
- The firm can also give convertible loans. These are debt securities that can later be converted to equity. Since stock valuation is quite difficult in the initial stages of a company, it makes sense to start off with a loan, and eventually convert that into stock.<sup>21</sup>

Alternative sources of funds available to an entrepreneur are either difficult to attain, or are insufficient to support a competitive business model. Personal equity is generally insufficient, since personal savings are not substantial enough to start a company from scratch. Potential entrepreneurs tend to be young, and are even more unlikely to have cash stacked in their pillowcases. Friends and family members might be unwilling to invest as

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<sup>21</sup><http://www.lightcastlebd.com/blog/2014/05/potential-venture-capitalists-bangladesh>

well. Lastly, banks loans are certainly not an option. Thanks to low credit ratings, banks are unwilling to give loans to new entrepreneurs. Even if a loan is provided, a high rate of interest is attached to it, which makes the loan extremely expensive- something a start-up business cannot afford. Therefore, the existence and support of venture capitalists can pioneer the start-up scene in Bangladesh.<sup>22</sup>

### 3.8.3.1 Present operation of Venture capital and Private equity financing of Bangladesh

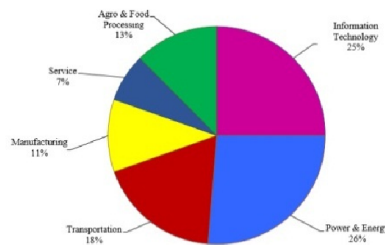
There are several organization who are doing AI business in Bangladesh formally and informally. Some recognized AI organizations list and their information has been given bellow:

Table 5: Present operation of Venture capital and Private equity financing in BD

| S.L | Name of the organization                                                  | Website                                                             | Area of funding                                                                   | Year of Establishment |
|-----|---------------------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------|
| 1   | BD venture                                                                | <a href="http://www.bdventure.com/">http://www.bdventure.com/</a>   | 1. Doctorola Limited<br>2. Eon Foods Limited<br>3. Sustainable Power Limited      |                       |
| 2   | Fenox Venture Capital                                                     | <a href="http://www.fenoxvc.com/">http://www.fenoxvc.com/</a>       | 1. Sohoz.com<br>2. Priyo.com<br>3. Handy Mama                                     | 2015                  |
| 3   | Asian Tiger Capital Partners (BD) Limited                                 | <a href="http://www.at-capital.com/">http://www.at-capital.com/</a> | N/A                                                                               |                       |
| 4   | Bangladesh Venture Capital                                                | <a href="http://www.venture.com.bd/">http://www.venture.com.bd/</a> | N/A                                                                               |                       |
| 5   | Industrial Promotion and Development Company of Bangladesh Limited (IPDC) | <a href="http://www.ipdcbd.com/">http://www.ipdcbd.com/</a>         | N/A                                                                               | 1981                  |
| 6   | Venture Investment Partners Bangladesh                                    | <a href="http://vipblimited.com/">http://vipblimited.com/</a>       | 1. M/s. Saker Ali Motshokhamar<br>2. Devnet<br>3. Cosmic Chemical Industries Ltd. |                       |

<sup>22</sup><http://www.lightcastlebd.com/blog/2014/05/potential-venture-capitalists-bangladesh>

|   |                                    |                                                                         |                                                                  |      |
|---|------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------------|------|
|   |                                    |                                                                         | 4. Zanala Bangladesh Ltd.<br>5. M/A Poultry<br>6. M/s Sohel Auto |      |
| 7 | Strategic Equity Management Ltd.   | <a href="http://www.strategic-bd.com/">http://www.strategic-bd.com/</a> | N/A                                                              | 2007 |
| 8 | SEAF Bangladesh Ventures (SEAF BV) | <a href="http://seafbv.com/">http://seafbv.com/</a>                     |                                                                  | 2010 |



From the above analysis Most VC firms have a limited scope of company types in their portfolio. One firm may invest only in mobile consumer while another invests only in health tech, for example. They do this for several good explanations including that it allows them to develop an expertise in a category so they can better add value and spot winners. It also meets the needs of their Limited Partners who are looking to diversify their investments by placing their money in different buckets, not by having the VC firms they invest in choose a hodgepodge of investment types.

So if any organization fall outside the investment movements and a firm is not actively looking for businesses that do what they do, in the point that that organization in, and other may struggle to discover a fit. Add additional difficulties such as a mature seasonal business or a lack of personal access to venture capitalists, and it will be a challenge.

### 3.8.3.2 Problem in Alternative Financing Rule

After doing the secondary data analysis from different public and private sector the general problem that faced by the stakeholders are given bellow:

1. Registration
  - a. Process of Registration from BSEC under present rule of registration as fund manager and trustee
2. Lock in period is high
  - a. All investments in a fund shall be locked in for a period of 03 (three) years from the date of issuance of units
3. Dual Taxation

- a. The company and the investors both are taxed as per Income Tax
- 4. Offshore investment
- 5. Listing with Capital Market
- 6. Complicated Exit policy
- 7. Life of the fund.
  - a. A fund shall be established for a specific period from 05(five) to 15 (fifteen) years which shall be disclosed in the constitutive documents

### 3.9 Chapter 3: Engagement of Public in Policy Making Bangladesh

Private sector is ready and usually interacts with the Government to put forward their opinions while Govt. seeks inputs from the private sector while preparing any national policy/acts/notification. Budget of every year is one of the stunning examples when private sector representative organizations such as Chambers/ Associations/Think Tanks/ Professional organization put forward their suggestions and advocate for implementation of their own proposals. At different meetings and discussion business community spends a significant amount of time to negotiate and raise their concerns with the public sector. There are chambers in 60 districts and a number of associations represent private sector to put forward input in all other important national policies as and when requested by the government.

The draft policy even posted in the website and available for certain time to gather opinions from all related stakeholders. Valuable inputs from individual and professionals are also encouraged. It is of course true that government is not bound to listen all the suggestions and proposals submitted and raised by the private sector and show any justified argument to the private sector for un-acceptance of proposals. There is as such no Advocacy Policy to bridge the gaps between submitted and accepted proposals. But it happens usually that if a coordinated voice of the business community is raised, government usually listens to their concerns if it is justified.

Government is also ready to engage private sector and interact with them regularly and had trust and understanding with the private sector. In the 7th FYP, total investment outlay is BDT 31.9 trillion of which 90.4% will be collected from the domestic sources and BDT 24.64 trillion(77.3%) will come from the private sector. Investment and expansion of business is the main priority to generate domestic resources. The policies should be investment friendly and a trust between private and public sector has to be established so that an enabling business environment can be created in the country.

Government is now bound to engage private sector through Consultation as per their commitments to the international communities. Constructive dialogues are required to understand private sector needs. For all national policies government usually move for several consultations to gather opinions from the private sector and all related stakeholders. Government understands the challenges and competition faced by the private sector, the nature of business has been becoming difficult day by day, the compliances are

costly and burdening the private sector. Government looks for the private sector innovation to sustain and for this government needs resources. Government has now willingness and capacity to implement public –private projects, PPP office under the PMO is working successfully. Public Private Dialogue (PPD) is an inclusive way helps private sector to participate in the development agenda. Market transformation requires an open and inclusive dialogue to provide right mix of all policies.

**Table 6: Space for multi-stakeholder dialogue on national development policies**

| Index                               | Country Ranking | Number of Countries | Rationalized score (out of 10) | Year    | Source                           | Source score |
|-------------------------------------|-----------------|---------------------|--------------------------------|---------|----------------------------------|--------------|
| Public Engagement in Budget Process | 31              | 102                 | 5.6                            | 2015    | Open Budget Survey               | 56.00        |
| Voice and Accountability            | 138             | 212                 | 4                              | 2013    | World Wide Governance Indicators | -0.42        |
| Rule of Law                         | 164             | 212                 | 3                              | 2013    | World Wide Governance Indicators | -0.83        |
| Control of Corruption               | 167             | 210                 | 3                              | 2013    | World Wide Governance Indicators | -0.89        |
| Citizen Engagement in Rulemaking    | 146             | 186                 | 0                              | 2014-15 | World Bank Group                 | 0.00         |

Source: GP Monitoring Survey 2015<sup>23</sup>

### 3.9.1 The Citizen Engagement in Rulemaking

The Citizen Engagement in Rulemaking project is an initiative of the World Bank's Global Indicators Group, which produces a range of datasets and benchmarking products on regulations and business activity around the world.

The Citizen Engagement in Rulemaking project assesses the transparency of rulemaking processes and the ease with which different stakeholders can give input into the formulation of those regulations. It does this by charting the experience of citizens and firms worldwide in learning about new business regulations and engaging with the government on the content of those regulations. The initiative also measures how

<sup>23</sup> GP Monitoring Survey 2015

governments assess the possible impact of new regulations in their country – including administrative, economic, social and environmental perspectives.<sup>24</sup>

The Citizen Engagement in Rulemaking project charts the experience of citizens and firms worldwide in learning about new business regulations and engaging with the government in developing those regulations done by World Bank. It also measures how governments assess the possible impact of new regulations in their country. In one-fourth of the economies measured, governments do not give notice of proposed regulations, publish draft texts nor engage with the general public before implementing new rules. Few low income countries assess the economic, social or environmental impacts of proposed regulations. The data cover five areas in 185 economies. There are five areas for evaluation

- Gives notice of proposed regulations to the general public.
- Publishes the text of proposed regulations.
- Requests comments on proposed regulations from the general public.
- Reports on the results of the consultation on proposed regulations.
- Provides an assessment of the impact of proposed regulations.<sup>25</sup>

The report shows that poorer countries have significantly less transparent and consultative rulemaking processes than richer counterparts. Only 27% of low income economies measured give notice of proposed business regulations to the general public and publish draft texts in a place where stakeholders can view them (for example, on websites or in the federal register). This is compared to 78 percent of high income economies. Where poorer countries do engage the public for feedback before passage, they tend to do so through low-cost methods like public meetings (for example, Niger, Afghanistan and Sierra Leone) rather than websites (Myanmar).

The countries that do not give notice of proposed regulations, share draft texts or request comments from the general public are: Algeria, Angola, Antigua and Barbuda, Argentina, Bahrain, Bangladesh, Belize, Brunei Darussalam, Burkina Faso, Cabo Verde, Central African Republic, Chad, Congo, Dem. Rep., Djibouti, Eritrea, Fiji, Gabon, Ghana, Grenada, Haiti, Honduras, Iran, Islamic Rep., Iraq, Kiribati, Kuwait, Libya, Malawi, Mali, Mauritania, Mongolia, Nepal, Oman, Qatar, Samoa, Saudi Arabia, Seychelles, South

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<sup>24</sup>Citizen Engagement in Rulemaking: URL: <http://rulemaking.worldbank.org/about-us>

<sup>25</sup><http://rulemaking.worldbank.org/data/topicdata>

Sudan, Sri Lanka, St. Kitts and Nevis, St. Vincent and the Grenadines, Sudan, Suriname, Swaziland, Syrian Arab Republic, Vanuatu, West Bank and Gaza, Zimbabwe.<sup>26</sup>

**Table 7: Bangladesh Position in Citizen Engagement in Rulemaking**

| Index                            | Country Ranking | Number of Countries | Rationalized score (out of 10) | Year    | Source           | Source score |
|----------------------------------|-----------------|---------------------|--------------------------------|---------|------------------|--------------|
| Citizen Engagement in Rulemaking | 146             | 186                 | 0                              | 2014-15 | World Bank Group | 0.00         |

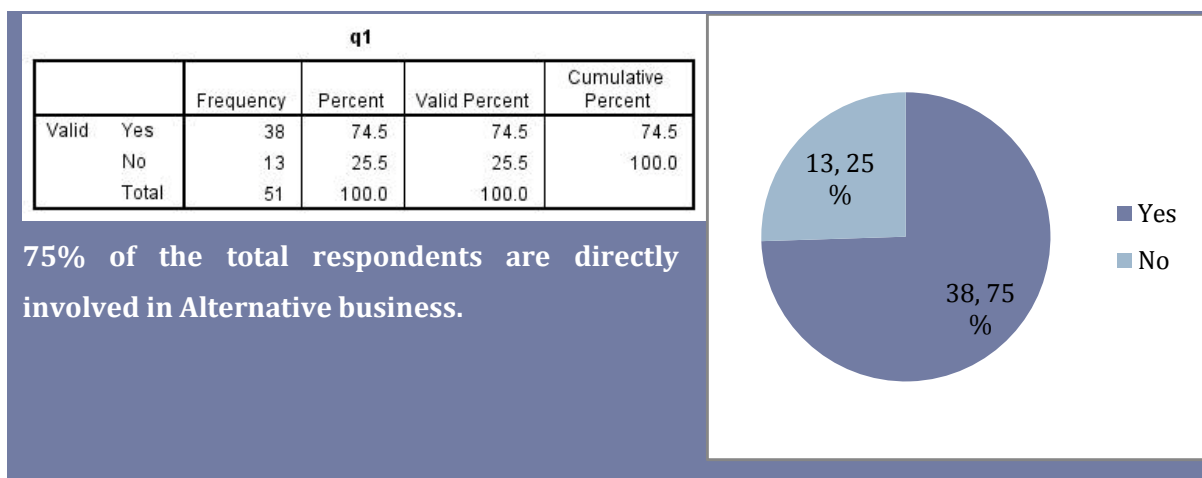
<sup>26</sup><http://rulemaking.worldbank.org/key-findings>

### 3.10 Chapter 4: Data Analysis and Findings

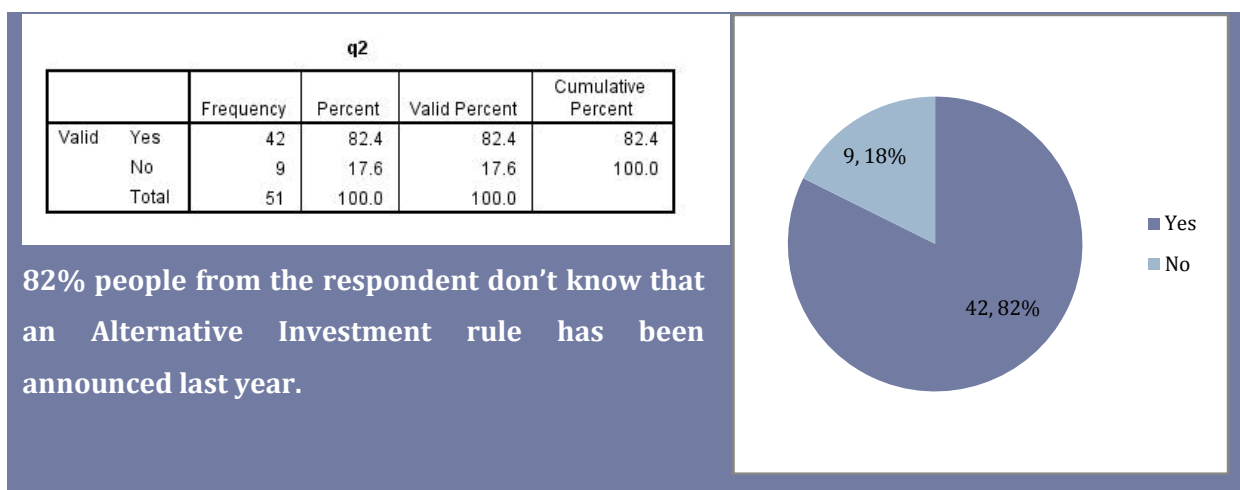
#### 3.10.1 Data Analysis

Findings from the Survey of Effectiveness of Alternative Investment towards Effective Financing Environment: the adoption of Present Rules in terms of Entrepreneur, Venture Capital Firms and Investors Perspectives with 51 sample size duration from March 15-April30, 2016.

Q1.Do you involved with Alternative Investment



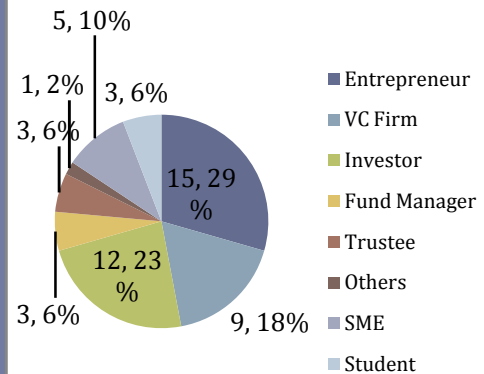
Q2.Do you know about the Alternative Investment Rule 2015?



### Q3. Which Profession you belong to?

| q3    |              |           |         |               |                    |
|-------|--------------|-----------|---------|---------------|--------------------|
|       |              | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Entrepreneur | 15        | 29.4    | 29.4          | 29.4               |
|       | VC Firm      | 9         | 17.6    | 17.6          | 47.1               |
|       | Investor     | 12        | 23.5    | 23.5          | 70.6               |
|       | Fund manager | 3         | 5.9     | 5.9           | 76.5               |
|       | Trustee      | 3         | 5.9     | 5.9           | 82.4               |
|       | Other        | 1         | 2.0     | 2.0           | 84.3               |
|       | SME          | 5         | 9.8     | 9.8           | 94.1               |
|       | Student      | 3         | 5.9     | 5.9           | 100.0              |
|       | Total        | 51        | 100.0   | 100.0         |                    |

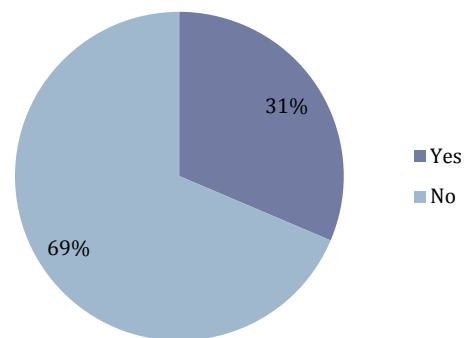
From the majority of the respondents 33% are investors and 15% are from New Entrepreneur



### Q4. Are you applied for any license from govt?

| q4    |       |           |         |               |                    |
|-------|-------|-----------|---------|---------------|--------------------|
|       |       | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Yes   | 16        | 31.4    | 31.4          | 31.4               |
|       | No    | 35        | 68.6    | 68.6          | 100.0              |
|       | Total | 51        | 100.0   | 100.0         |                    |

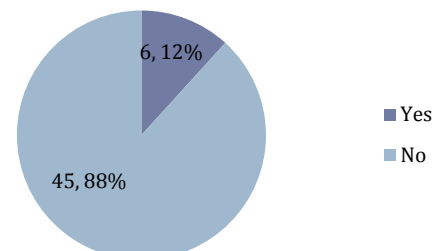
31% respondents (16 people) have already applied for license to BSEC



### Q5. Have you have a license from Bangladesh Security and Exchange Commission (BSEC)?

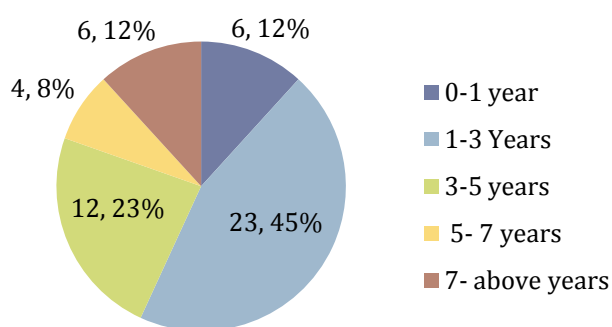
| q5    |       |           |         |                    |
|-------|-------|-----------|---------|--------------------|
|       |       | Frequency | Percent | Cumulative Percent |
| Valid | Yes   | 6         | 11.8    | 11.8               |
|       | No    | 45        | 88.2    | 100.0              |
|       | Total | 51        | 100.0   |                    |

46 respondents do not have the license from BSEC so here 88% are still remain lack to get license.



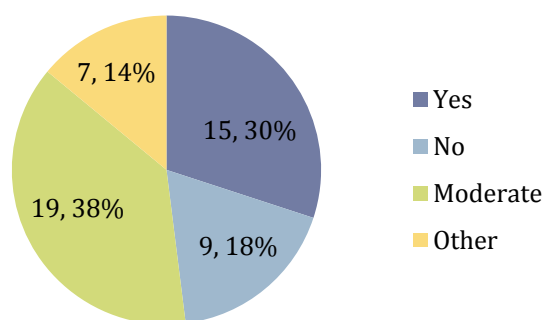
### Q6. Year of experience in Alternative Financing

Majority of the respondent's year of experience is 1-3 years. 45% respondents are involved in this business last 3 years.



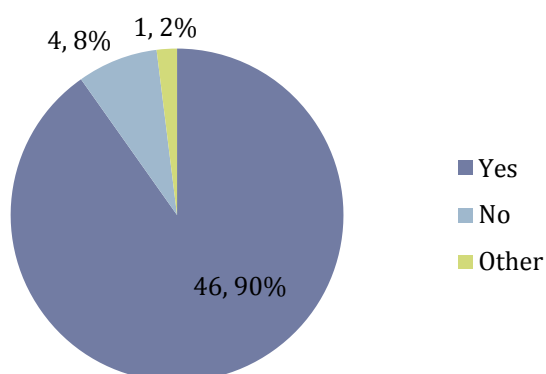
### Q7. Do you think Present Rules is effective for establishing Alternative Investment environment in Bangladesh?

38% of the respondents think that Present Rules is more or less effective for establishing Alternative Investment environment in Bangladesh but at the same time 18% of them think is not effective.



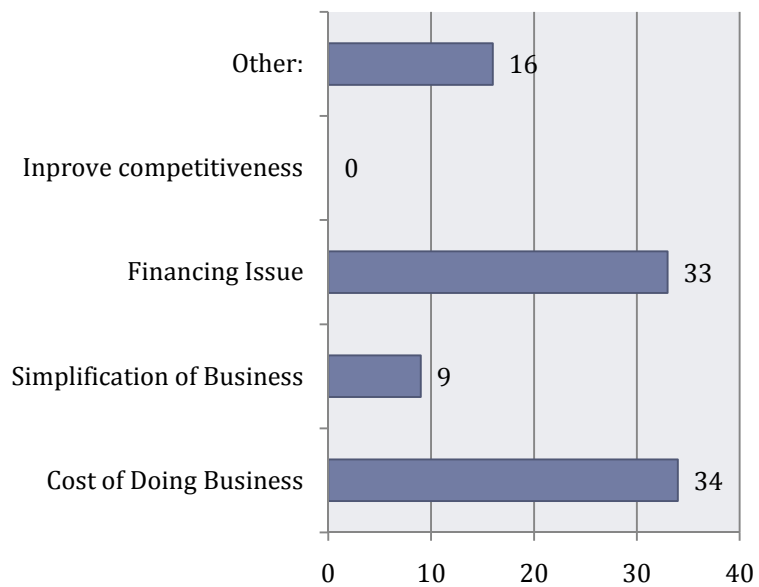
### Q8. Do you think the stakeholder consultation and multiple FGD and opinion from private and public sector is necessary to finalize any rule/act/policy?

90% of the respondents think the stakeholder consultation and multiple FGD and opinion from private and public sector is necessary to finalize any rule/act/policy



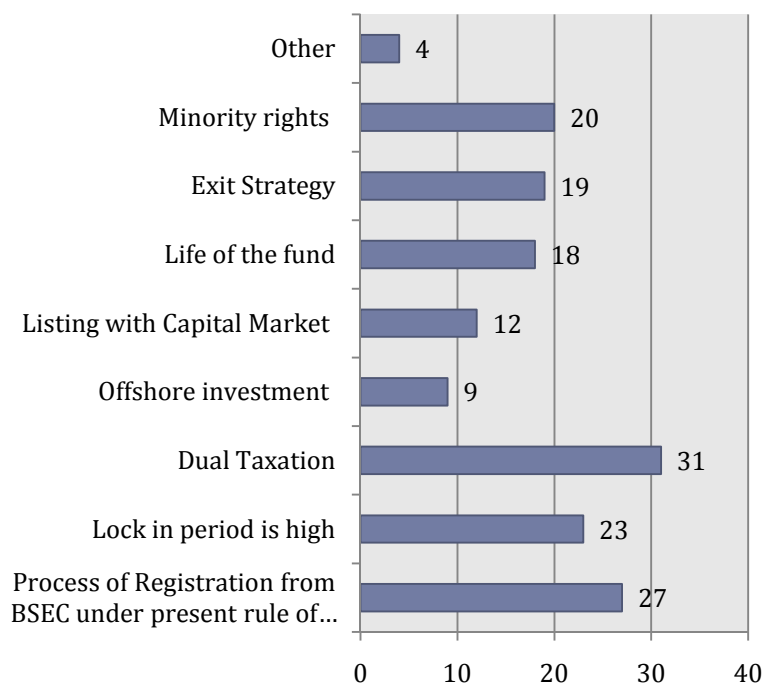
Q9.How this Rule affect to you?

34 respondents think that cost of Doing Business is a main factor for this rule and also same time 33 respondents think that Financing issue affect more



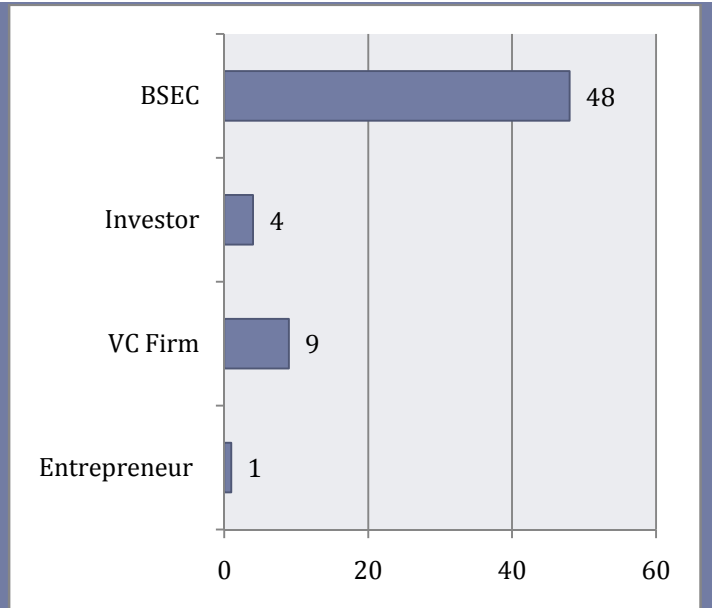
Q10. What Type of Problem you face to invest as investors/VC/Entrepreneur in present Rule of Alternative Investment in Bangladesh?

Problem faced by investors/VC/Entrepreneur in present Rule of Alternative Investment in Bangladesh 27 said Registration process, 31 said dual taxation and 23 also said high lock in period of investment



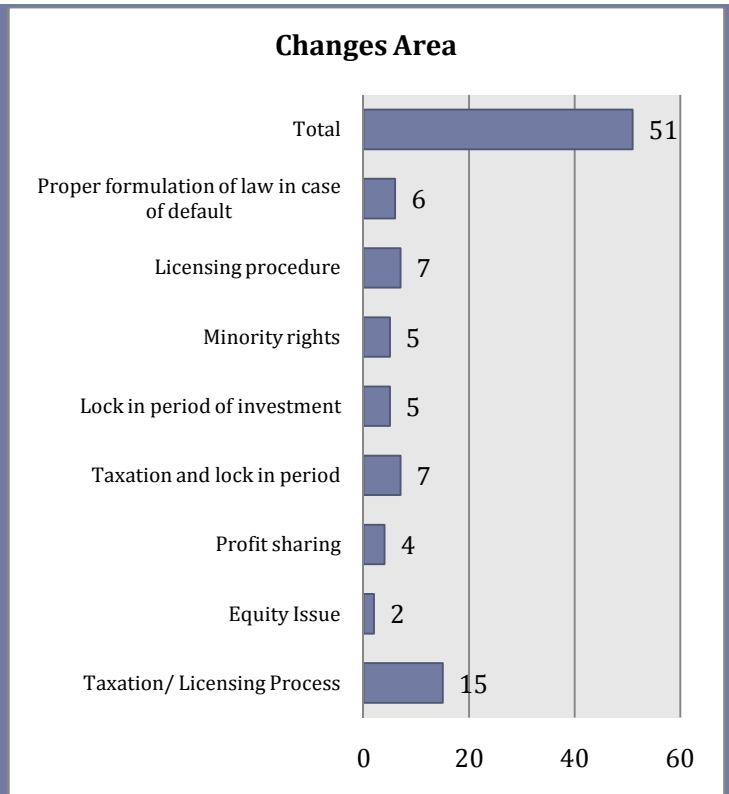
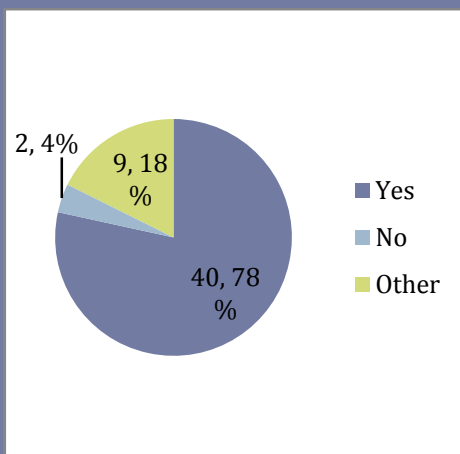
Q11. Which Agency can play role for improvement of present system of Alternative Investment?

48 respondent said that BSEC play vital role for improvement of present system of Alternative Investment

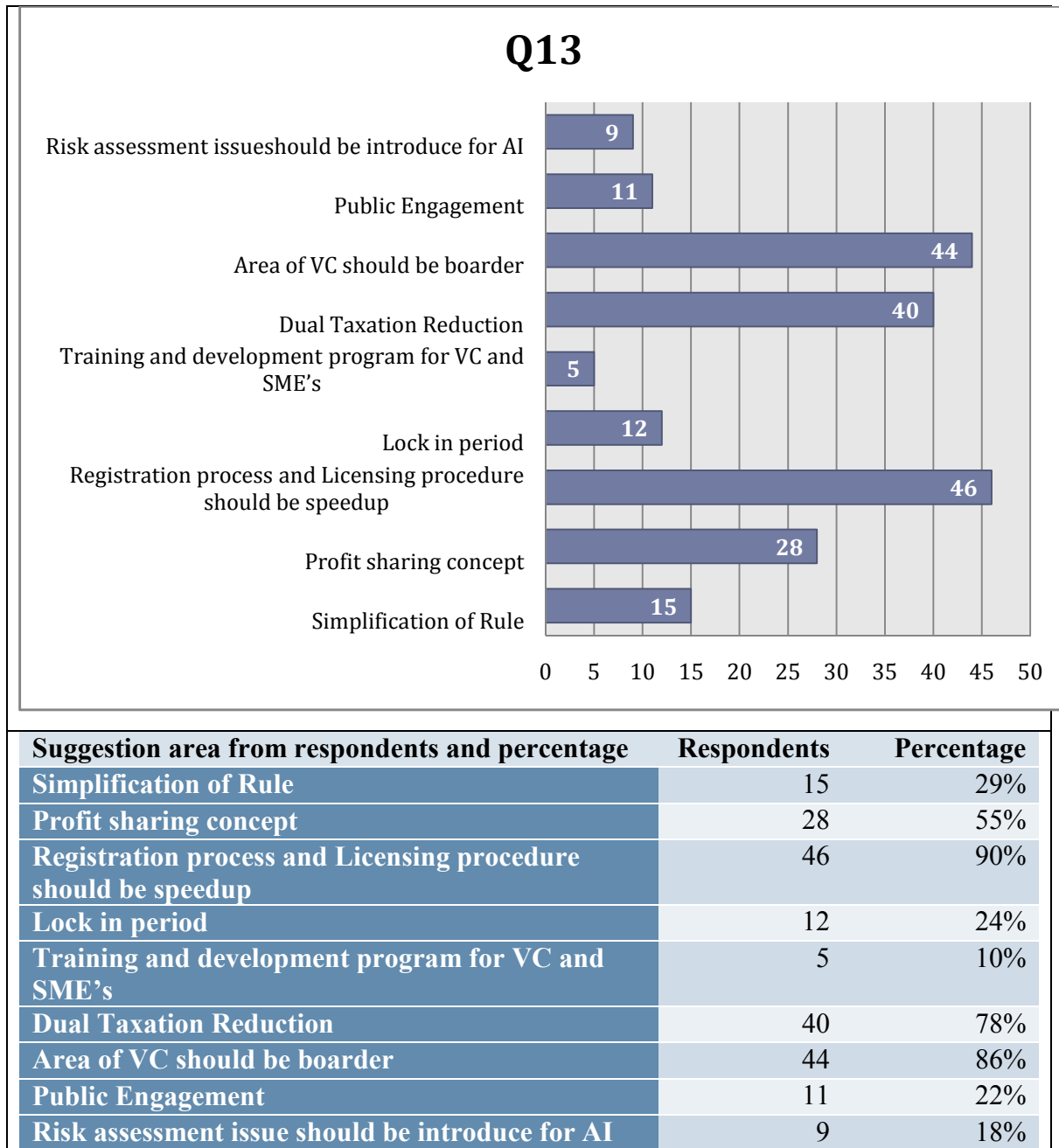


Q12. Do you think there need to be a significant changes/reform in of present system of Alternative Investment?

40 people that counted 78% think there need to be a significant changes/reform in of present system of Alternative Investment and the area stated by them



Q13. What is your suggestion for present system of Alternative Investment reform and existing way of investment environment in Bangladesh?

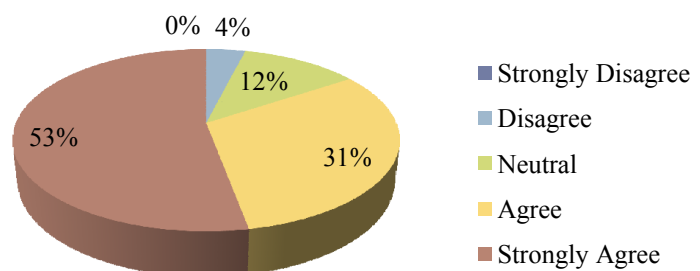


**q14**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Disagree       | 2         | 3.9     | 3.9           | 3.9                |
|       | Neutral        | 6         | 11.8    | 11.8          | 15.7               |
|       | Agree          | 16        | 31.4    | 31.4          | 47.1               |
|       | Strongly Agree | 27        | 52.9    | 52.9          | 100.0              |
|       | Total          | 51        | 100.0   | 100.0         |                    |

**53% respondent strongly Agreed that Developing Rule goals using international standard is very important for useful and effective Rule**

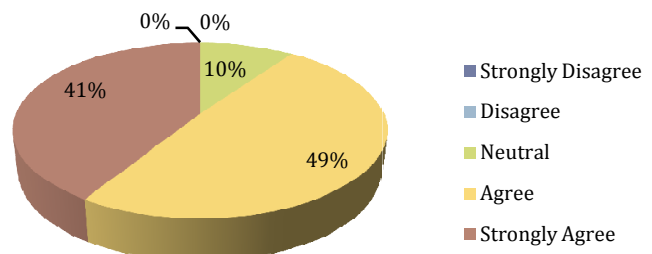
**Developing Rule goals using international standard is very important for useful and effective Rule**

**q15**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Neutral        | 5         | 9.8     | 9.8           | 9.8                |
|       | Agree          | 25        | 49.0    | 49.0          | 58.8               |
|       | Strongly Agree | 21        | 41.2    | 41.2          | 100.0              |
|       | Total          | 51        | 100.0   | 100.0         |                    |

**49% respondent Agreed that Involve stakeholders and served national interest is very important for useful and effective Rule**

**Involve stakeholders and served national interest is very important for useful and effective Rule**

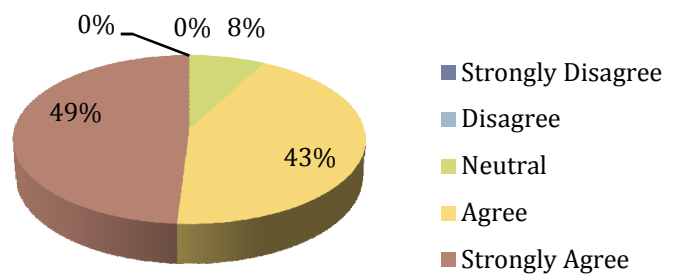


**q16**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Neutral        | 4         | 7.8     | 7.8           | 7.8                |
|       | Agree          | 22        | 43.1    | 43.1          | 51.0               |
|       | Strongly Agree | 25        | 49.0    | 49.0          | 100.0              |
|       | Total          | 51        | 100.0   | 100.0         |                    |

**49% respondent strongly Agreed that Simplified entry, exit Policy, Taxation and Risk assessment Mechanism system is very important for useful and effective Rule**

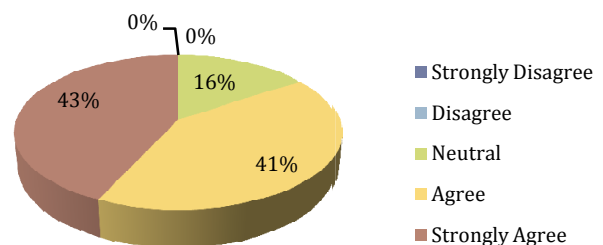
**Simplified entry, exit Policy, Taxation and Risk assessment Mechanism system is very important for useful and effective Rule**

**q17**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Neutral        | 8         | 15.7    | 15.7          | 15.7               |
|       | Agree          | 21        | 41.2    | 41.2          | 56.9               |
|       | Strongly Agree | 22        | 43.1    | 43.1          | 100.0              |
|       | Total          | 51        | 100.0   | 100.0         |                    |

**43% respondent strongly Agreed that Speedup of License giving procedure is very important for useful and effective Rule**

**Speedup of License giving procedure is very important for useful and effective Rule**

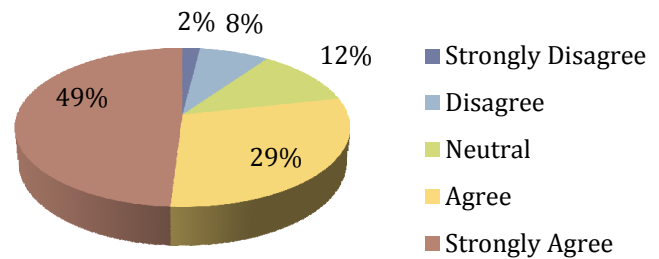


**q18**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | Strongly Disagree | 1         | 2.0     | 2.0           | 2.0                |
|       | Disagree          | 4         | 7.8     | 7.8           | 9.8                |
|       | Neutral           | 6         | 11.8    | 11.8          | 21.6               |
|       | Agree             | 15        | 29.4    | 29.4          | 51.0               |
|       | Strongly Agree    | 25        | 49.0    | 49.0          | 100.0              |
|       | Total             | 51        | 100.0   | 100.0         |                    |

**49% respondent strongly Agreed that Investor's and Lender assessment is a key area for improvement to make useful and effective of the Rule**

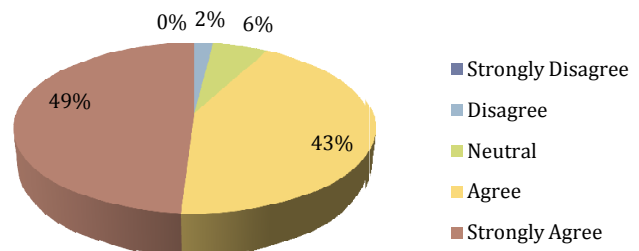
**Investor's and Lender assessment is a key area for improvement to make useful and effective of the Rule**

**q19**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Disagree       | 1         | 2.0     | 2.0           | 2.0                |
|       | Neutral        | 3         | 5.9     | 5.9           | 7.8                |
|       | Agree          | 22        | 43.1    | 43.1          | 51.0               |
|       | Strongly Agree | 25        | 49.0    | 49.0          | 100.0              |
|       | Total          | 51        | 100.0   | 100.0         |                    |

**49% respondent strongly Agreed that Public Private and stakeholder Engagement is very important to make useful and effective Rule**

**Public Private and stakeholder Engagement is very important to make useful and effective Rule**

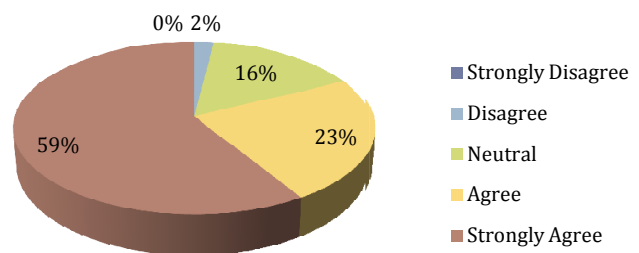


**q20**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Disagree       | 1         | 2.0     | 2.0           | 2.0                |
|       | Neutral        | 8         | 15.7    | 15.7          | 17.6               |
|       | Agree          | 12        | 23.5    | 23.5          | 41.2               |
|       | Strongly Agree | 30        | 58.8    | 58.8          | 100.0              |
|       | Total          | 51        | 100.0   | 100.0         |                    |

**59% respondent strongly agreed that Equity distribution concept is very important to make useful and effective Rule**

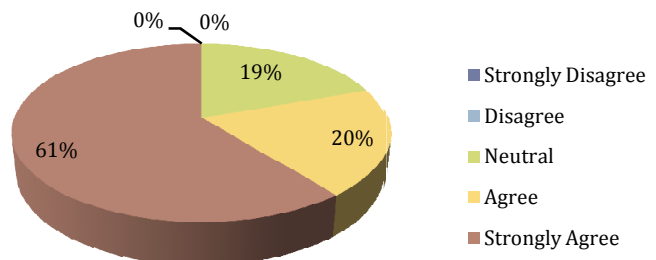
**Equity distribution concept is very important to make useful and effective Rule**

**q21**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Neutral        | 10        | 19.6    | 19.6          | 19.6               |
|       | Agree          | 10        | 19.6    | 19.6          | 39.2               |
|       | Strongly Agree | 31        | 60.8    | 60.8          | 100.0              |
|       | Total          | 51        | 100.0   | 100.0         |                    |

**61% respondent strongly agreed that Lock in period reduction and Present Existing Rule implementation is highly important to make useful and effective Rule**

**Lock in period reduction and Present Existing Rule implementation is highly important to make useful and effective Rule**

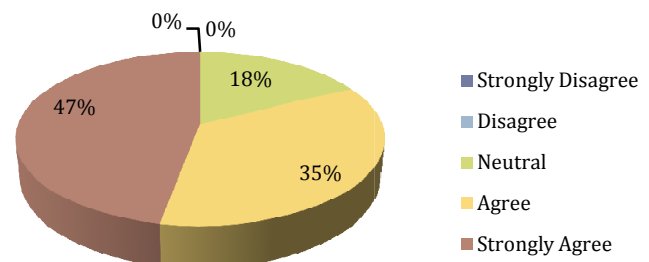


q22

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Neutral        | 9         | 17.6    | 17.6          | 17.6               |
|       | Agree          | 18        | 35.3    | 35.3          | 52.9               |
|       | Strongly Agree | 24        | 47.1    | 47.1          | 100.0              |
|       | Total          | 51        | 100.0   | 100.0         |                    |

**47% respondent strongly agreed that Present Policy Simplification regarding Taxation, Exit Policy, Lock in Period is helpful for new Rule Adoption**

**Present Policy Simplification regarding Taxation, Exit Policy, Lock in Period is helpful for new Rule Adoption**



### 3.10.2 Results and Discussion

#### Primary Research

After doing the survey of 51 respondents from 250 population size who are directly or indirectly connect with Alternative Investment. From the respondents answers the findings are stated bellow:

1. **38** people out of **51** from the survey where **75%** are involved with Alternative Investment whom the survey conducted.
2. **75 %** who involved with Alternative Investment among them 82% people from the respondent know about the Alternative Investment Rule 2015
3. **33%** of the respondents are investors and 15% are from New Entrepreneurs
4. **31%** respondents have already applied for license to BSEC
5. Respondents who applied for license among them **88%** still do not to get license.
6. Majority of the respondents **45%** are involved in this business last 3 years.
7. **38%** of the respondents said that Present Rules is moderate effective for establishing Alternative Investment environment in Bangladesh
8. **90%** of the respondents think the stakeholder consultation and multiple FGD and opinion from private and public sector is necessary to finalize any rule/act/policy
9. **33-34** respondents think that cost of Doing Business Financing issue affect more by this Alternative Investment rule
10. **Problem faced by investors/VC/Entrepreneur** in present Rule of Alternative Investment in Bangladesh
  - **27** said Registration process;
  - **31** said dual taxation ;
  - **23** also said high lock in period of investment.
11. **48** Respondent out of **51** said that BSEC have the right agency for taking the measures to solve those issue regarding Alternative investment
12. **40** people that counted **78%** think that there need to be a significant changes/reform in of present system of Alternative Investment and the area stated by them :

Table 8: Changes area from respondents

| Changes area from respondents                | Percentage |
|----------------------------------------------|------------|
| Taxation/ Licensing Process                  | 29%        |
| Equity Issue                                 | 4%         |
| Profit sharing                               | 8%         |
| Taxation and lock in period                  | 14%        |
| Lock in period of investment                 | 10%        |
| Minority rights                              | 10%        |
| Licensing procedure                          | 14%        |
| Proper formulation of law in case of default | 12%        |

13. Respondents suggestion in the present Alternative Investment system how can the barrier may recover and help to financing new entrepreneur and SME's

Table 9: Suggestion area from respondent's percentage

| Suggestion area from respondents                               | Percentage |
|----------------------------------------------------------------|------------|
| Simplification of Rule                                         | 29%        |
| Profit sharing concept                                         | 55%        |
| Registration process and Licensing procedure should be speedup | 90%        |
| Lock in period                                                 | 24%        |
| Training and development program for VC and SME's              | 10%        |
| Dual Taxation Reduction                                        | 78%        |
| Area of VC should be boarder                                   | 86%        |
| Public Engagement                                              | 22%        |
| Risk assessment issue should be introduce for AI               | 18%        |

### Measuring Effectiveness of Alternative Rule (14-22)

Table 10: Measuring Effectiveness of Alternative Rule (Values in number)

|                                 | Q1<br>4 | Q1<br>5 | Q1<br>6 | Q1<br>7 | Q1<br>8 | Q1<br>9 | Q2<br>0 | Q2<br>1 | Q2<br>2 |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| A)Strongly Disagree(1)          | 0       | 0       | 0       | 0       | 1       | 0       | 0       | 0       | 0       |
| B) Disagree(2)                  | 2       | 0       | 0       | 0       | 4       | 1       | 1       | 0       | 0       |
| C)Neither Agree nor Disagree(3) | 6       | 5       | 4       | 8       | 6       | 3       | 8       | 10      | 9       |
| D)Agree(4)                      | 16      | 25      | 22      | 21      | 15      | 22      | 12      | 10      | 18      |
| E)Strongly agree(5)             | 27      | 21      | 25      | 22      | 25      | 25      | 30      | 31      | 24      |
| Total                           | 51      | 51      | 51      | 51      | 51      | 51      | 51      | 51      | 51      |

Table 11: Measuring Effectiveness of Alternative Rule (in percentage)

| SL  | Question                                                                                                                     | Scale <sup>27</sup> |    |     |     |     |
|-----|------------------------------------------------------------------------------------------------------------------------------|---------------------|----|-----|-----|-----|
|     |                                                                                                                              | 1                   | 2  | 3   | 4   | 5   |
| 14. | Developing Rule goals using international standard is very important for useful and effective Rule                           | 0%                  | 4% | 12% | 31% | 53% |
| 15. | Involve stakeholders and served national interest is very important for useful and effective Rule                            | 0%                  | 0% | 10% | 49% | 41% |
| 16. | Simplified entry, exit Policy, Taxation and Risk assessment Mechanism system is very important for useful and effective Rule | 0%                  | 0% | 8%  | 43% | 49% |
| 17. | Speedup of License giving procedure is very important for useful and effective Rule                                          | 0%                  | 0% | 16% | 41% | 43% |
| 18. | Investor's and Lender assessment is a key area for improvement to make useful and effective of the Rule                      | 2%                  | 8% | 12% | 29% | 49% |
| 19. | Public Private and stakeholder Engagement is very important to make useful and effective Rule                                | 0%                  | 2% | 6%  | 43% | 49% |
| 20. | Equity distribution concept is very important to make useful and effective Rule                                              | 0%                  | 2% | 16% | 24% | 59% |
| 21. | Lock in period reduction and Present Existing Rule implementation is highly important to make useful and effective Rule      | 0%                  | 0% | 20% | 20% | 61% |
| 22. | Present Policy Simplification regarding Taxation, Exit Policy, Lock in Period is helpful for new Rule Adoption               | 0%                  | 0% | 18% | 35% | 47% |

<sup>27</sup>1=Strongly Disagree, 2=Disagree, 3= Moderate, 4 =Agree, 5 =Strongly Agree

## 4 Recommendations and Conclusion

## 4.1 Recommendations

After doing the survey I have tried to find out the probable solution of the bubble problem. That's why I recommend the followings for reducing the bubbling problem from their panel:

1. Simplification of Alternative Investment Rule
  - a. New rules have many rules and regulation which makes impossible to invest.
  - b. Waiver from default status for venture capitalists should be established
  - c. Venture capitalists may want a board seat of the investee company. If the investee company becomes classified or loan defaulter, the venture capitalists would be defaulter as well being the director of the investee company. The Investee Company may be defaulter but the venture capitalists should be waived from default status for their borrowing from banks and financial institutions or managing fund from them and conducting a smooth operation without any legal hassle.
2. Profit sharing concept should introduce in present rules
  - a. Mindset of lender should be changed in terms of equity financing and profit sharing
  - b. In rules some indication should be stated in terms of profit sharing
3. Registration process and Licensing procedure should be speedup
  - a. The implementation of existing rule to give the license to the VC organization should be speedup.
  - b. So far only one organization got license from BSEC for VC operation. The concern agency said more licenses are waiting but sue to paper gaps and unable to fulfillment of the requirements they cannot precede those licenses.
  - c. Time minimization for getting license
  - d. Documents minimization for getting license
  - e. One Stop service at BSEC for helping stakeholder related to AI
4. Lock in period minimization
  - a. All investments in a fund shall be locked in for a period of 03 (three) years from the date of issuance of units
  - b. Lock in period of investment should be minimized. Should be effective for SME Finance

- c. Different countries lock in period started from 6 month to 5 year based on investment type and amount of
- 5. Training and development program for VC and SME's should for identified and risk management training may introduce for them
  - a. Professional program for developing high technical professional VC team
  - b. Introduce training course and professional program for developing high technical professional VC team
    - i. To conduct due diligence, structure investment deal and monitor investment, the venture capitalists should have a high technical professional team. As VC is a very new model of investment in Bangladesh, it is very hurdle to get such experienced technical team. Those who are experienced in this sectors working outside the country deserve a high pay and the new set up venture capitalist may not have financial capability to pay such compensation package unless private equity comes under management
- 6. Dual Taxation Reduction
  - a. Dual Taxation system should be erased form present taxation policy
  - b. Taxation system of VC /PE fund and Investors should be introduced in present taxation policy for Alternative Financing
- 7. Area of VC should be boarder for encouraging SMEs
  - a. Seed Money, Leasing, Venture Capital and Investment Funding
    - i. There is a need for improving different aspects of financial services of SMEs, such as seed money, leasing, venture capital and investment funding. There is a lack of long-term loans; interest rates are high, Guarantee/Security issues, exchange risks etc. All these limit the development of SMEs. Finance, both short and long term, should be provided at market cost of capital. Fund should be made available through encouragement for setting up 'Venture Capital' organization in Bangladesh. The concept of venture capital (VC) has successfully operating in the USA, EU countries, and Canada
  - b. Venture capital concept should be changed and board so that the access to finance to the new sector can encouraged.
  - c. Mindset of lender should be changed in terms of equity financing
  - d. Venture capital concept should be changed and board
  - e. It should reflect whole financing system

- 8. Public Engagement for making Rules/Policy**
  - a.** Rule should be placed to public before finalization
  - b.** Rule should be useful for SME and new entrepreneur and relevant stakeholders
  - c.** Consultation with SME and make the process simplified
  - d.** Government should publicize their policy to the people so that they may know the policy and can follow that.
- 9. Venture Capital and Investment Funding should be effective for beneficiary**
  - a.** Private sector initiative for making Alternative financing Association
  - b.** Alternative financing institute should make an Association for better research and collaboration so that this sector can flourish.
  - c.** Association may help SME's and related organizations can help the direct beneficiaries for identified potential areas for investment so that the investment can take place and entrepreneurs can benefited.
- 10. Risk assessment issue for avoiding Non-compliance with laws & regulations by investee**
  - a.** Financial reporting for VC should be establish to encourage the external investors
  - b.** Policy simplification for Potential Investor generation
- 11. Non-compliance with laws & regulations by investee**
  - a.** Non-compliant organizations record their lack of integrity and sometimes bring risk of operations and investor may not be interested to invest. As equity represents ownership, the equity investors take full risk & reward of organization and hence, they need to be compliant with all applicable laws and regulation to keep their investment safe for return as well as exercising safe exist strategy.
  - b.** AI is still at nascent stage in Bangladesh and from the context of Bangladesh;
  - c.** AI would be very challenging for the potential investors.
  - d.** Regulations regarding AI must be tailored in accordance to the investment scenario of the country and each parties involved i.e. investors, investee must have sufficient safety cushion provided by the regulatory authority.

## 4.2 Conclusion

This report depicts the Effectiveness of Alternative Investment towards Effective Financing Environment: the adoption of Present Rules in terms of Entrepreneur, Venture Capital Firms and Investors Perspectives. It provides present situation of Alternative Investment in Bangladesh and find out some challenges of present policy of financing in this area in the view of Entrepreneur, Venture Capital Firms and Investors how policy makers simplified in some of the area of new announced rule so that the financiers and SME entrepreneurs could enhance access to finance This to be the first report of its type that provides an overview of the specific Alternative Finance financial area, covering only Venture capital financing in details but rest of the Alternative Financing sources in brief. The report goes beyond national boundaries regarding secondary data collection, to look at financial products, requirements, constraints and opportunities in the Venture capital financing for new entrepreneur and SME;s Financing. The analysis will be helpful for anyone operating in the financial sector in Bangladesh especially in Alternative Financing, or supporting SMEs to access finance. The main findings from the report are the main problem in this rule is dual taxation, registration process and lock in period. People respond that the rule should be previously discussed with the stakeholder for feedback. The main idea of this report is to identify the bottle neck of present policy from the stakeholder point of view that was fully done by the survey. Stake holder and Policy maker also may benefit from this in terms of Policy suggestions that come from the field level Entrepreneur, SME's, Venture Capital Firms and Investors. The Bangladesh example, where Alternative finance is a priority and yet constraints remain, will also be a useful contribution to international understanding of Alternative finance. SME and new entrepreneurs may find interest and may benefit directly or indirectly to receive a clear and a picture of Bangladesh present Alternative Financing announced rule.

### 4.3 Suggestions for future research

Apart from these outcomes, some queries and grounds remain unknown that provides great prospects for further research in developing areas. There is scope for researchers to explore in-depth knowledge in this areas like whether investment patterns can be highlighted and effective for SMEs and new entrepreneur using this alternative financing vehicle. Observation of Policy maker's opinion and observation regarding VC/PE rules in terms of public engagement in rulemaking in Bangladesh.

- Do similar effects exist in all regions?
- Is there any difference between city and rural cities for policy announcement?
- What are the selection criteria of potential VC for getting licenses?
- What is the role of government policies during critical market conditions for SME Finance?
- What are the challenges faced by start-up firms to raise finance and how do they respond to these crises with present Rule?

In a nutshell, VC acts as an important instrument or tool for innovation and technology-driven start-ups. Though the VC organization faced dramatic fluctuations before the announcement of the Alternative Investment Rule 2015, it has been able to establish and work itself to a great extent with this announced rule but it need time for popularize this financing method and it take long time to make faith on VC firm.

A model has been developed in this research sot his model may be tested within the country for future rule adaption in this field. People are very much keen to make their comments on policy making so government can take their feedback so the rule will be effective and the people can easily adapt the rule.

This research may take a small initiative in this area of Alternative Financing sector it may go beyond if the people and policy maker work on those are so that the real beneficiary can take proper benefit from this rule.

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## Appendix

### Alternative Investment Rule 2015

Full Law available at BSEC website<sup>28</sup>

রেজিস্টার্ড নং ডি এ-১

বাংলাদেশ



গেজেট

অতিরিক্ত সংখ্যা  
কর্তৃপক্ষ কর্তৃক প্রকাশিত

সোমবার, জুন ২২, ২০১৫

[বেসরকারি ব্যক্তি এবং কর্পোরেশন কর্তৃক অর্থের বিনিময়ে জারীকৃত বিজ্ঞাপন ও নোটিশসমূহ]

#### BANGLADESH SECURITIES AND EXCHANGE COMMISSION

#### NOTIFICATION

June 22, 2015

**No. BSEC/CMRRCD/2015-343/171/Admin/59**—In exercise of the power conferred by section 24(1) of the বাংলাদেশ সিকিউরিটিজ অ্যান্ড এক্সচেঞ্জ কমিশন আইন, ১৯৯৩ (১৯৯৩ সনের ১৫ নং আইন) read with section 33 of the Securities and Exchange Ordinance, 1969 (Ordinance No. XVII of 1969) and in pursuance of section 32 of the said Ordinance, the Bangladesh Securities and Exchange Commission hereby makes, after prior publication, the following Rules, namely:—

#### CHAPTER I PRELIMINARY

##### 1. Short title and commencement.—

- (1) These Rules may be called the “Bangladesh Securities and Exchange Commission (Alternative Investment) Rules, 2015”.
- (2) These Rules shall be applicable for the registration and regulation of alternative investment funds, fund managers and Trustees of such funds and for matters connected therewith and incidental thereto.
- (3) These Rules shall come into force on the date of publication in the official Gazette.

( ৪৬১৩ )

মূল্য : টাকা ৪০.০০

<sup>28</sup> [http://www.secbd.org/BSEC%28Alternative%20Investment%29%20Rules,%202015\\_22.06.2015.pdf](http://www.secbd.org/BSEC%28Alternative%20Investment%29%20Rules,%202015_22.06.2015.pdf)

## Survey Questionnaire

### Survey Questionnaire : "Effectiveness of Alternative Investment towards Financing Environment: the adoption of Present Rules in terms of Entrepreneurs, Venture Capital Firms and Investors Perspectives"

This is Shahriar Rawshon, ID # 13264078 student of MBA program under BBS of BRAC University is going to conduct an intern report the name of the topic is "Effectiveness of Alternative Investment towards Effective Financing Environment: the adoption of Present Rules in terms of Entrepreneur, Venture Capital Firms and Investors Perspectives". What I need to do this for my intern purpose and the fulfillment of this course.

So I need your co-operation to do the survey. This Survey will take 15 min (Max) to answer.

\* Required

1. 1. Do you involved with Alternative Investment? \*

*Check all that apply.*

- ☐ NO
- ☐ YES (If yes than go for question 2)
- ☐ Other: \_\_\_\_\_

2. 2. Do you know about the Alternative Investment Rule 2015? \*

*Mark only one oval.*

- ☐ No
- ☐ Yes
- ☐ Other: \_\_\_\_\_

3. 3. which Profession you belong to? \*

*Mark only one oval.*

- ☐ a)Entrepreneur
- ☐ b)VC Firm
- ☐ c)Investor
- ☐ d) Fund Manager
- ☐ e) Trustee
- ☐ Other: \_\_\_\_\_

**4. 4. Are you applied for any license from govt? \***

*Mark only one oval.*

- ☐ a. YES
- ☐ b. NO
- ☐ Other: \_\_\_\_\_

**5. 5. Have you have a license from Bangladesh Security and Exchange Commission (BSEC)? \***

*Mark only one oval.*

- ☐ a.YES
- ☐ b. No
- ☐ Other: \_\_\_\_\_

**6. 6. Year of experience in Alternative Financing \***

*Mark only one oval.*

- ☐ a) 0-1 year
- ☐ b) 1-3 Years
- ☐ c) 3-5 years
- ☐ d) 5- 7 years
- ☐ e) 7- above years
- ☐ Other: \_\_\_\_\_

**7. 7. Do you think Present Rules is effective for establishing Alternative Investment environment in Bangladesh? \***

*Mark only one oval.*

- ☐ a) Yes
- ☐ b) No
- ☐ c) Modarate
- ☐ Other: \_\_\_\_\_

**8. 8. Do you think the stakeholder consultation and multiple FGD and opinion from private and public sector is necessary to finalize any rule/act/policy? \***

*Mark only one oval.*

- ☐ Yes
- ☐ No
- ☐ Other: \_\_\_\_\_

**9. 9. How this Rule affect to you? \***

*Check all that apply.*

- ☐ Cost of Doing Business
- ☐ Simplification of Business
- ☐ Financing Issue
- ☐ Improve competitiveness
- ☐ Other: \_\_\_\_\_

**Problems/Facts and Challenges regarding the Alternative Investment Rule 2015**

**10. 10. What Type of Problem you face to invest as investors/VC/Entrepreneur in present Rule of Alternative Investment in Bangladesh? \***

*Check all that apply.*

- ☐ Process of Registration from BSEC under present rule of registration as fund manager and trustee
- ☐ Lock in period is high
- ☐ Dual Taxation: the company and the investors both are taxed as per Income Tax
- ☐ Offshore investment
- ☐ Listing with Capital Market
- ☐ Life of the fund
- ☐ Exit Strategy
- ☐ Minority rights
- ☐ Other: \_\_\_\_\_

**11. 11. Which Agency can play role for improvement of present system of Alternative Investment? \***

*Check all that apply.*

- ☐ a) Entrepreneur
- ☐ b) VC Firm
- ☐ c) Investor
- ☐ d) BSEC

**12. 12. Do you think there need to be a significant changes/reform in of present system of Alternative Investment \***

*Mark only one oval.*

- ☐ a. Yes (If Yes mention the area)
- ☐ b. No
- ☐ Other: \_\_\_\_\_

13. 13. What is your suggestion for present system of Alternative Investment reform and existing way of investment environment in Bangladesh? \*

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## Measuring Effectiveness of Alternative Rule

14. 14. Developing Rule goals using international standard is very important for useful and effective Rule \*

Mark only one oval.

|                     | 1                     | 2                     | 3                     | 4                     | 5                     |                   |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 1=Strongly Disagree | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5 =Strongly Agree |

15. 15. Involve stakeholders and served national interest is very important for useful and effective Rule \*

Mark only one oval.

|                     | 1                     | 2                     | 3                     | 4                     | 5                     |                   |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 1=Strongly Disagree | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5 =Strongly Agree |

16. 16. Simplified entry, exit Policy, Taxation and Risk assessment Mechanism system is very important for useful and effective Rule \*

Mark only one oval.

|                     | 1                     | 2                     | 3                     | 4                     | 5                     |                   |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 1=Strongly Disagree | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5 =Strongly Agree |

17. 17. Speedup of License giving procedure is very important for useful and effective Rule \*

Mark only one oval.

|                     | 1                     | 2                     | 3                     | 4                     | 5                     |                   |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 1=Strongly Disagree | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5 =Strongly Agree |

18. **Investor's and Lender assessment is a key area for improvement to make useful and effective of the Rule \***

*Mark only one oval.*

|                     | 1                     | 2                     | 3                     | 4                     | 5                     |                   |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 1=Strongly Disagree | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5 =Strongly Agree |

19. **Public Private and stakeholder Engagement is very important to make useful and effective Rule \***

*Mark only one oval.*

|                     | 1                     | 2                     | 3                     | 4                     | 5                     |                   |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 1=Strongly Disagree | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5 =Strongly Agree |

20. **Equity distribution concept is very important to make useful and effective Rule**

*Mark only one oval.*

|                     | 1                     | 2                     | 3                     | 4                     | 5                     |                   |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 1=Strongly Disagree | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5 =Strongly Agree |

21. **Lock in period reduction and Present Existing Rule implementation is highly important to make useful and effective Rule \***

*Mark only one oval.*

|                     | 1                     | 2                     | 3                     | 4                     | 5                     |                   |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 1=Strongly Disagree | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5 =Strongly Agree |

22. **Present Policy Simplification regarding Taxation, Exit Policy, Lock in Period is needed and helpful for new Rule Adoption \***

*Mark only one oval.*

|                     | 1                     | 2                     | 3                     | 4                     | 5                     |                   |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 1=Strongly Disagree | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | 5 =Strongly Agree |

## Personal Information

23. **Name:**

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24. **Organization:**

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25. **Mobile:**

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26. **Email:**

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27. **Nature of your Business:**

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28. **Which Country you form? \***

*Check all that apply.*

☐ Bangladesh

☐ If other go please answer next question

☐ Other: 

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29. **Which Rule your Country follow regarding Alternative Investment?**

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