

Blended Finance: How It Can Transform the MSME Landscape in Bangladesh



Table Of Contents

1	Acronyms	03
2	Executive Summary	04
3	MSME Landscape in Bangladesh - At a Glance	05
4	Access to Finance: A Huge Pain Point for Sustainable MSME Ecosystem Development	06
5	Blended Finance Programs Open Up New Growth Opportunities for MSMEs	10
6	What is LightCastle Doing in Blended Finance?	17
	→ Overview	
	→ Project Deep-dives	
	→ Lessons Learned	
7	Special Feature	34



Acronyms

BDS Business Development Services

BNPL Buy Now Pay Later

CAGR Compound Annual Growth Rate

CBO Community Building Organization

DFI Development Financial Institution

GFF Global Financing Facility for Women, Children and Adolescents

FnF Friends and Family

IRMF Impact Ready Matching Fund

MFI Micro-Finance Institution

MNCH Maternal, Neonatal and Child Health

MSME Micro, Small and Medium Sized Enterprises

NBFI Non-Bank Financial Institution

NPO Non Profit Organization

PPDP Public-Private Development Partnership

ROI Return On Investment

SAFE Simple Agreement for Future Equity

SDG Sustainable Development Goals

SIINC Social Impact Incentives

USAID United States Agency for International Development



Executive Summary

In Bangladesh, access to finance is a major impediment to MSME growth.

As a result, MSMEs are frequently forced to operate in an ecosystem that is distinct from that of other types of businesses. Despite the fact that Bangladesh has nearly 60 banks, 34 NBFIs, 760 MFIs, and 17 alternative investment companies, MSMEs face significant challenges in attracting capital that aligns with their needs and characteristics, and they are quite often prevented from developing to their full potential.

Currently, early-stage enterprises, such as MSMEs, require patient or risk capital given the status of the ecosystem.

Unfortunately, these possibilities are currently limited. Institutional frameworks are not aligned in terms of patient or risk capital, hence the range of financing options is mostly limited to leverage choices.

Blended Finance can play a pivotal role in addressing this major gap in the market.

By utilizing market-correcting strategies and cutting-edge financial tools to persuade capital providers to take on greater risks and achieving sustainable development through private investment, blended finance is poised to be the future of global development. Blended finance allows organizations with different objectives to invest alongside one another while achieving their own goals (whether financial return, social impact, or a blend of both).

At LightCastle Partners, we have been working to strengthen the MSME ecosystem through Blended Finance.

Through our projects, we have mobilized over BDT 5.68 Mn+ in investments for 45+ enterprises across 17+ sectors. Together, with our development and financial partners, we have strived to achieve significant advancements. We have sought to offer unique equity and impact-linked instruments and effectively implemented 6+ investment models in our investment deals so far, in an effort to address the issue of MSMEs' lack of access to finance. Our efforts have aided businesses in growing and have produced eight or more instances for further capital raising. Our work has been anchored around creating sustainable growth for enterprises through lasting financial and social impact.



There are more than 7.5 Million MSMEs in Bangladesh

Contributing over 27% towards overall GDP



7.8 Mn+

MSMEs in Bangladesh

83%

MSMEs as a percentage of all economic enterprises

35.49%

MSMEs' share of total employment

40%

MSMEs' contribution to total manufacturing output

27%

MSME contribution towards overall GDP

35%

MSME contribution towards overall GDP by 2030

75%

MSMEs' contribution to total exports

9.5%

CAGR of MSME exports

19%

Proportion of all commercial loans disbursed to MSMEs

\$2.8 Bn+

Total financing gap in the MSME Sector

\$1.9 Bn+

Loan disbursement target for FY22

9.45%

Drop in loan disbursement during Q2 FY22



Bangladesh's MSMEs

are failing to realize their full potential due to inadequate financing

01| Many MSMEs appear to be either too small/risky for commercial lenders or too large for MFIs

02| Collateralized lending and/or high interest rates come off as typical barriers for growth

03| Insufficient knowledge and ability to document financials render them more vulnerable to availing finance

Access to finance is one of the most challenging factors for MSMEs

The need for alternative financing solutions is immediate and pressing

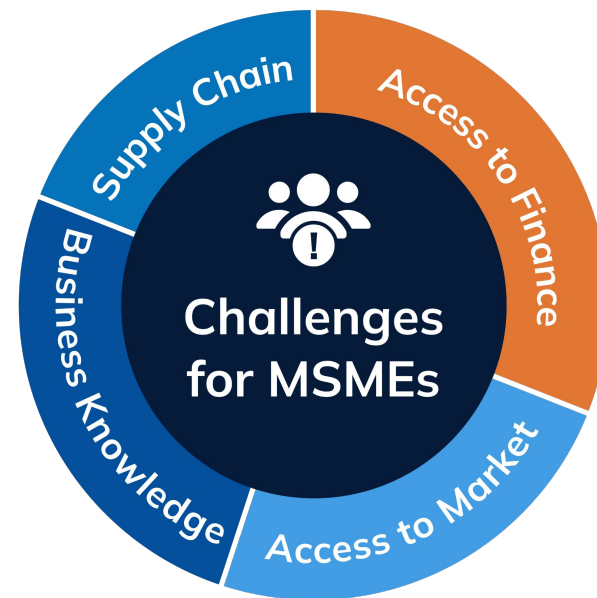
Context and Purpose

In Bangladesh, access to finance is a major impediment to MSME growth. MSMEs typically face greater uncertainty due to: **(i) potential instability, ii) cater to more difficult target client groups, and (iii) are forced to overcome infrastructure barriers that stifle their growth.** As a result, MSMEs are frequently forced to operate in an ecosystem that is distinct from that of other types of businesses.

Despite the fact that Bangladesh has nearly **60 banks, 34 NBFIs, 760 MFIs, and 17 alternative investment companies,** MSMEs face significant challenges in attracting capital that aligns with their needs and characteristics, and they are quite often prevented from developing to their full potential. Characterized with inadequate revenue generation and high lending risks, the vast majority of MSMEs are deemed unbankable by financial institutions and as a consequence are excluded from traditional financing even though this is the only form of financing these MSMEs are qualified for. Additionally, the MSMEs that do have access to funding are mainly restricted to microfinance and leverage.

Such financing options expose businesses to a slew of operational risks. Assets purchased with such financing options may lose value quickly, and financial losses may increase as financial leverage grows. Furthermore, such funds have very high associated costs and necessitate frequent cash payments, which may not correspond to the cash cycle of the enterprise. Agent banks are also currently more focused on deposit mobilization than credit disbursement.

Given the current state of the ecosystem, early-stage businesses such as MSMEs require patient or risk capital; however, such options are scarce at the moment.



Source: LightCastle Partners



Key factors hindering financing growth of MSMEs

Leading to a widening gap of the “Missing Middle” of finance



Lending Interest Rate Cap

MSMEs are the most vulnerable to **default risk** when compared to other types of businesses. With the Bangladesh Bank capping **lending interest rates at 9%**, banks avoid lending to MSMEs with risk profiles that exceed the cap. However, possibility of the lending cap being revoked is on the cards.



Collateral Requirements

When providing enterprise financing, Bangladesh's banking system places **high importance on collateral**. While this measure is intended to reduce default risk, heavy reliance on collateral often creates a **scarcity of high-quality collateral**. MSMEs are often **denied financing** as they are unable to satisfy the collateral requirements imposed by banks.



Supply-Demand Parity of Financial Instruments

While there are many financing options available for economic enterprises, the majority of these products **do not meet the desired financing requirements** of MSMEs. This supply-demand parity has resulted in a **significant financing gap** in the market.



Poor Knowledge and Documentation

An **overwhelming majority** of MSMEs **lack technical education**. Due to a lack of knowledge of the financial system, MSMEs frequently provide **woefully inadequate documentation**. As a consequence, many MSMEs fail credit assessments and are **unable to obtain funding** from financial institutions.

Available financing opportunities are mostly leverage

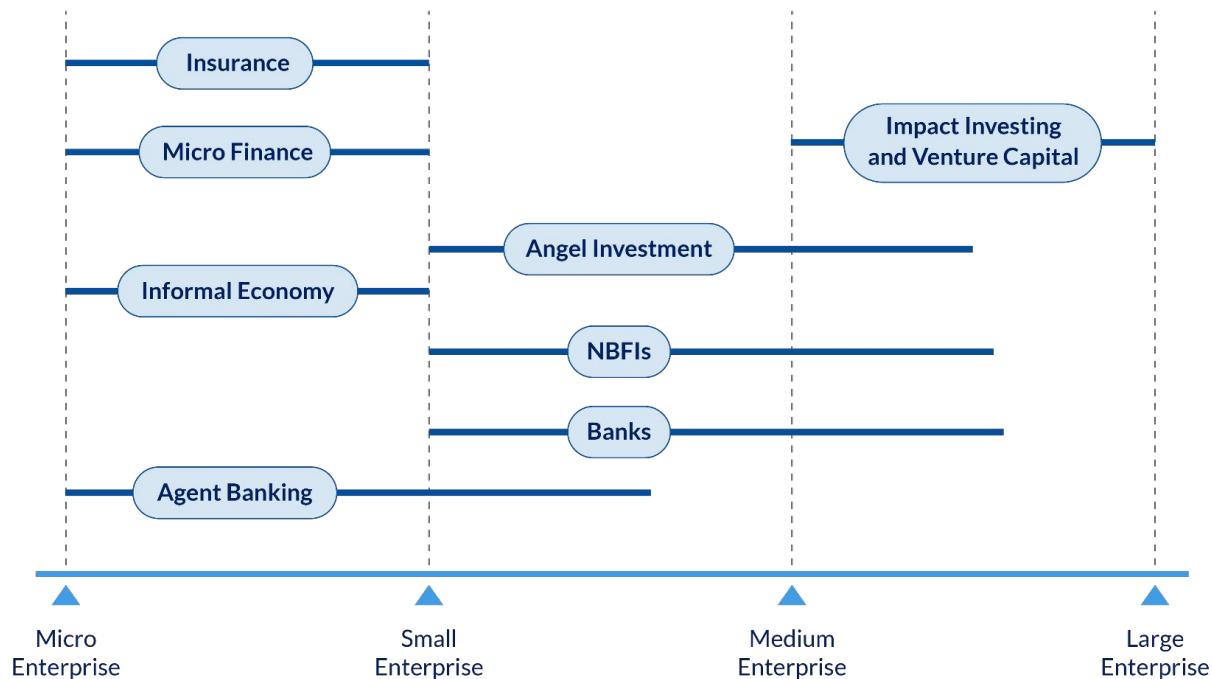
As a result, MSMEs struggle to move up the ladder

Institutional structures are not aligned in terms of patient/risk capital investment.

It is **difficult to go downstream** and invest in early-stage companies due to infrastructure constraints.

Absence of interoperability between a variety of financial institutions.

Financing opportunities for MSMEs are mostly leverage and **have high cost of funds**





Blended Finance

Can be pivotal in addressing the key gap in the market

- 01| Applying market correcting & innovative tools to incentivize capital providers take on additional risks
- 02| Working within the spectrum of different types of financing options
- 03| Mobilizing private investment for sustainable development

Blended finance is a structuring approach

Enabling organizations with diverse goals to invest together

Introduction to Blended Finance

Blended finance is the future of global development. It addresses the two main barriers that investors face when investing in developing countries: high risk and a low return relative to risk. The presence of a blended instrument helps curtail the associated risk for investors by improving the risk-return ratio.

While different people define it differently, at its core, blended finance is a structuring approach that allows organizations with different objectives to invest alongside one another while achieving their own goals (whether financial return, social impact, or a blend of both).

Simply put, **Blended Finance is a combination of government/non-profit grants, equity instruments, and debt instruments infused in a business.** If executed properly and to the extent it matches an enterprise's desired requirements, this can work as a powerful tool to pave the way for the next wave of sustainable development of the entrepreneurship ecosystem in Bangladesh and beyond.

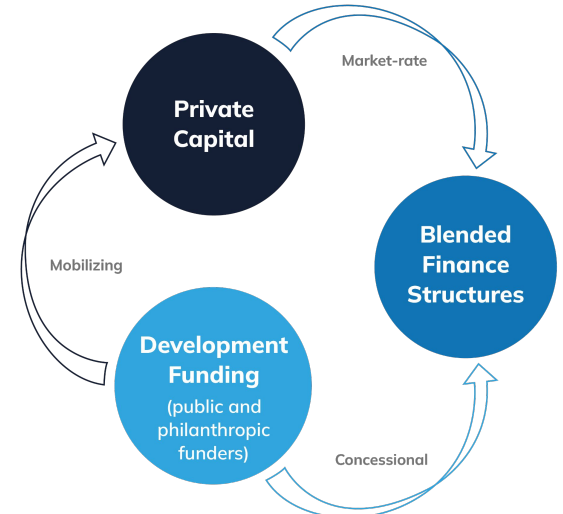
However, it is important to note that the concept of Blended Finance is not an investment strategy, instrument, or solution in and of itself. **Blended finance and impact investing are two different things.** Impact investing is a type of investment strategy, and impact investors often adopt blended finance structures.

While the potential of blended finance is rousing, such instruments could turn out to be quite complex in nature. Several guiding principles need to be considered while structuring any deals, including, but not limited to, **anchoring blended finance to development rationale, mobilizing private capital, tailoring market correcting tools in line with the local context, forming effective partnerships, and ensuring deal's relevance and transparency.**

3 Main Characteristics of Blended Finance



Conceptualization of Blended Finance



Source: Convergence, 2020

Blended finance is a structuring approach

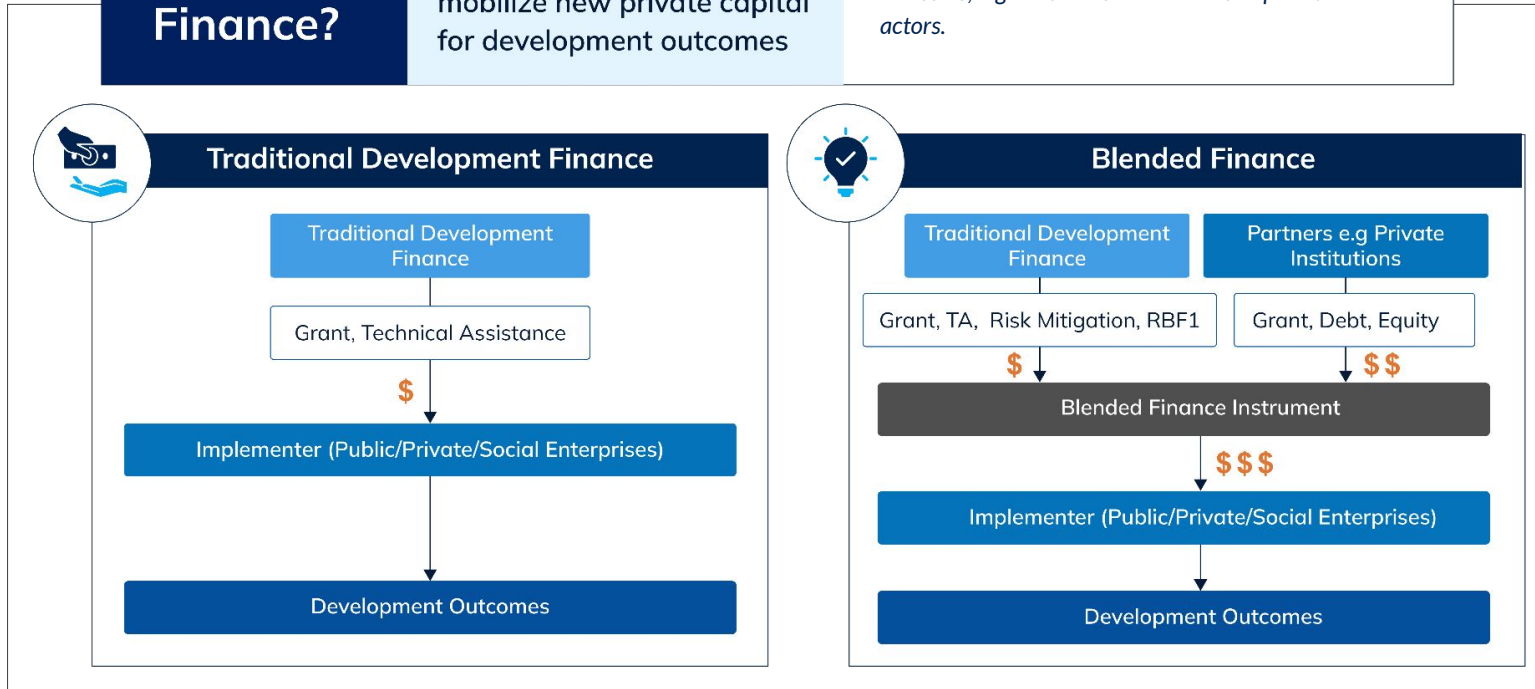
Enabling organizations with diverse goals to invest together



What is Blended Finance?

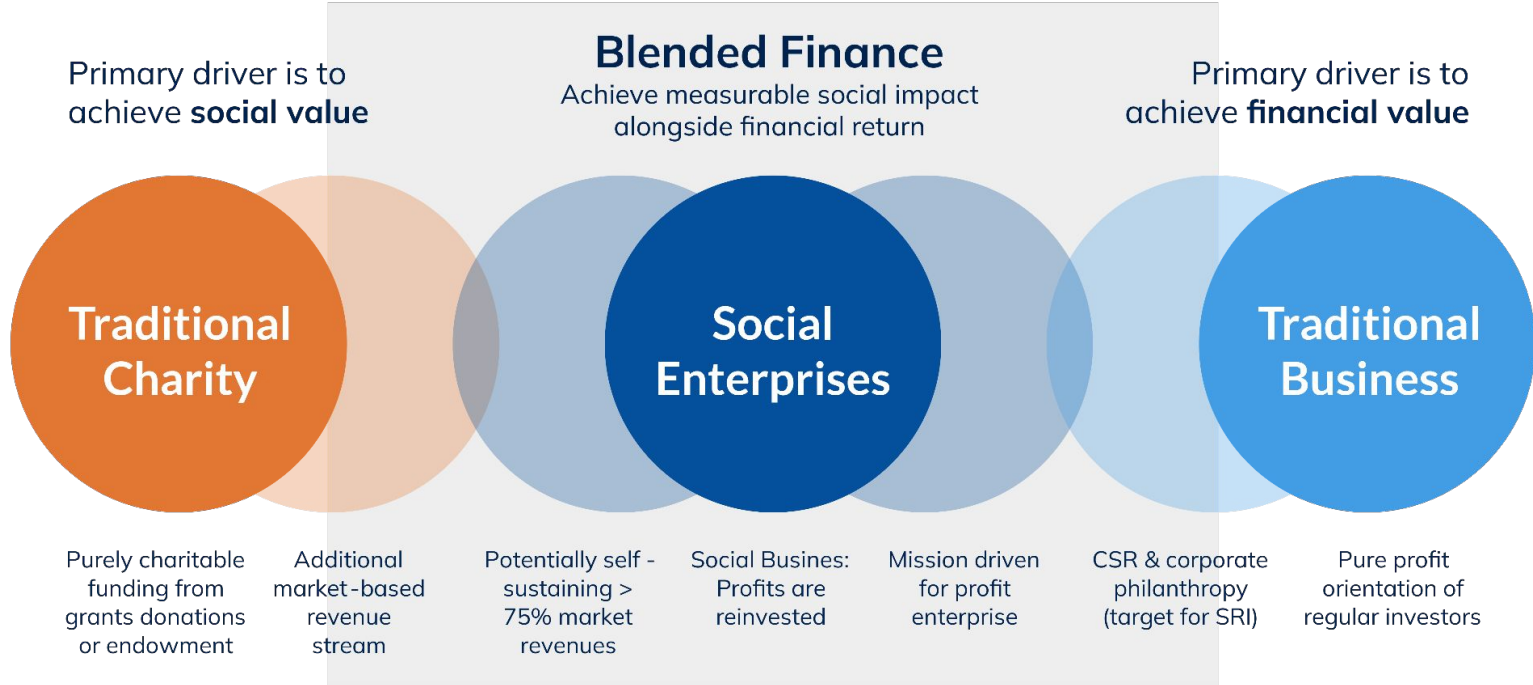
Blended finance is the strategic use of public or philanthropic resources to mobilize new private capital for development outcomes

In Bangladesh, private capital could be in the form of new funding, or in-kind investments from one or multiple sources of banks, NBFIs, MFIs, impact investors, high net-worth individuals or private actors.



Blended finance is a structuring approach

Enabling organizations with diverse goals to invest together



Various types of innovative blended finance instruments

Can be applied depending on relevant context and investor expectations

Equity Alternatives and Convertibles	Catalytic Impact-Linked Finance Instruments	Other Impact Linked Finance Instruments	Other Catalytic Funding Instruments	Results-Based Finance Instruments
For Private and Institutional Investors	For DFIs* or Donors	For Institutional Investors, DFIs* or Donors	For DFIs* or Donors	For Institutional Investors, DFIs*, NPOs** or Donors
<ul style="list-style-type: none"> I. SAFE (Simple Agreement for Future Equity) II. Convertible Note III. Revenue Share Agreement (Debt-Based) IV. Revenue Share Agreement (Equity Based) V. Asset-Based Financing 	<ul style="list-style-type: none"> I. SIINC (Social Impact Incentives) II. Reimbursable and Convertible SIINC III. IRMF (Impact Ready Matching Fund) 	<ul style="list-style-type: none"> I. Impact-Linked Loan II. Impact-Linked Convertible Note 	<ul style="list-style-type: none"> I. (Partial) Guarantee II. Subordinated Loans (acting as Catalytic First-Loss Capital with Equity) 	<ul style="list-style-type: none"> I. Social/Development Impact Bond II. Performance-Based Contract

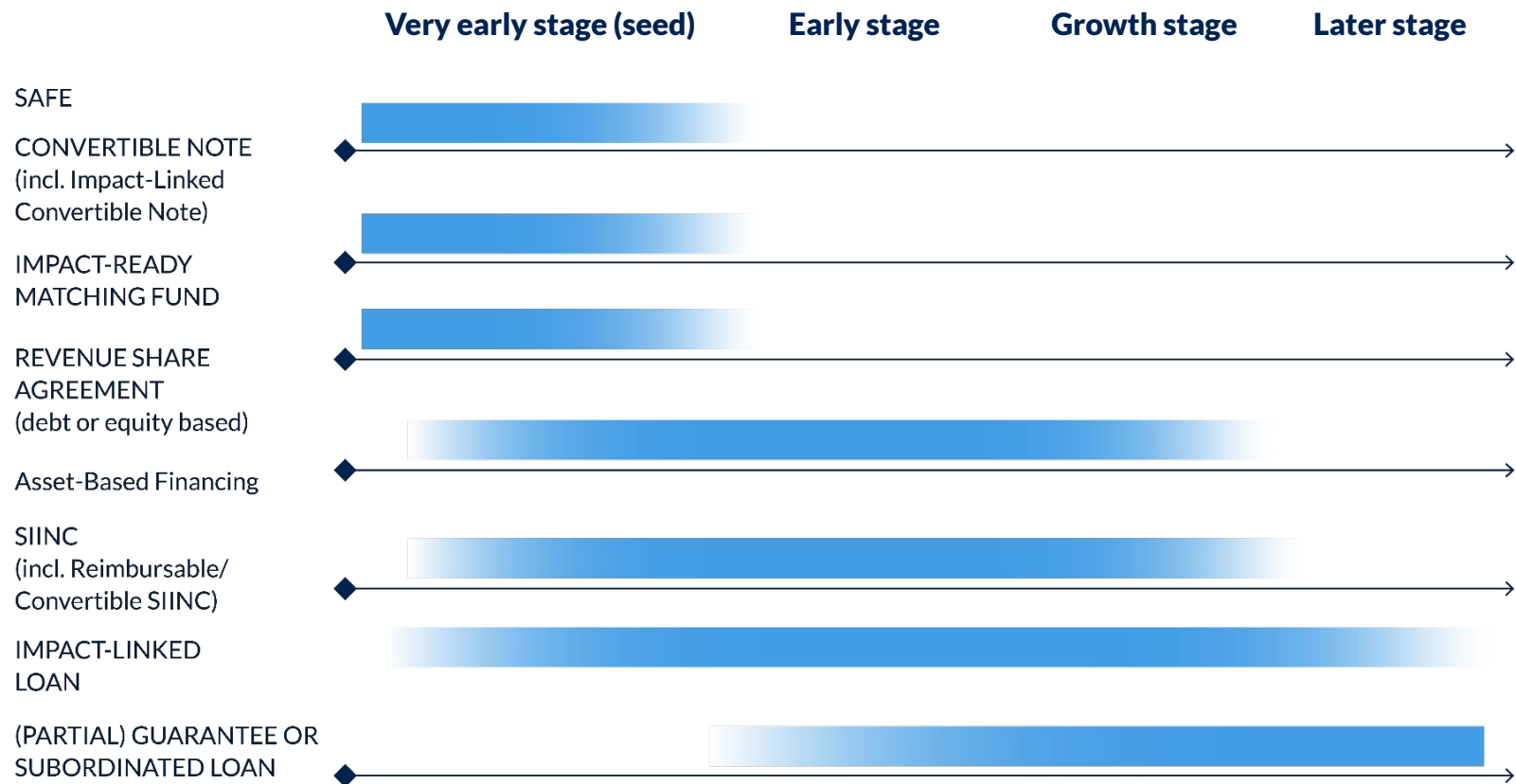
* Development Finance Institutions or Donor i.e. Development Bank/Agency

** Non-Profit Organisation



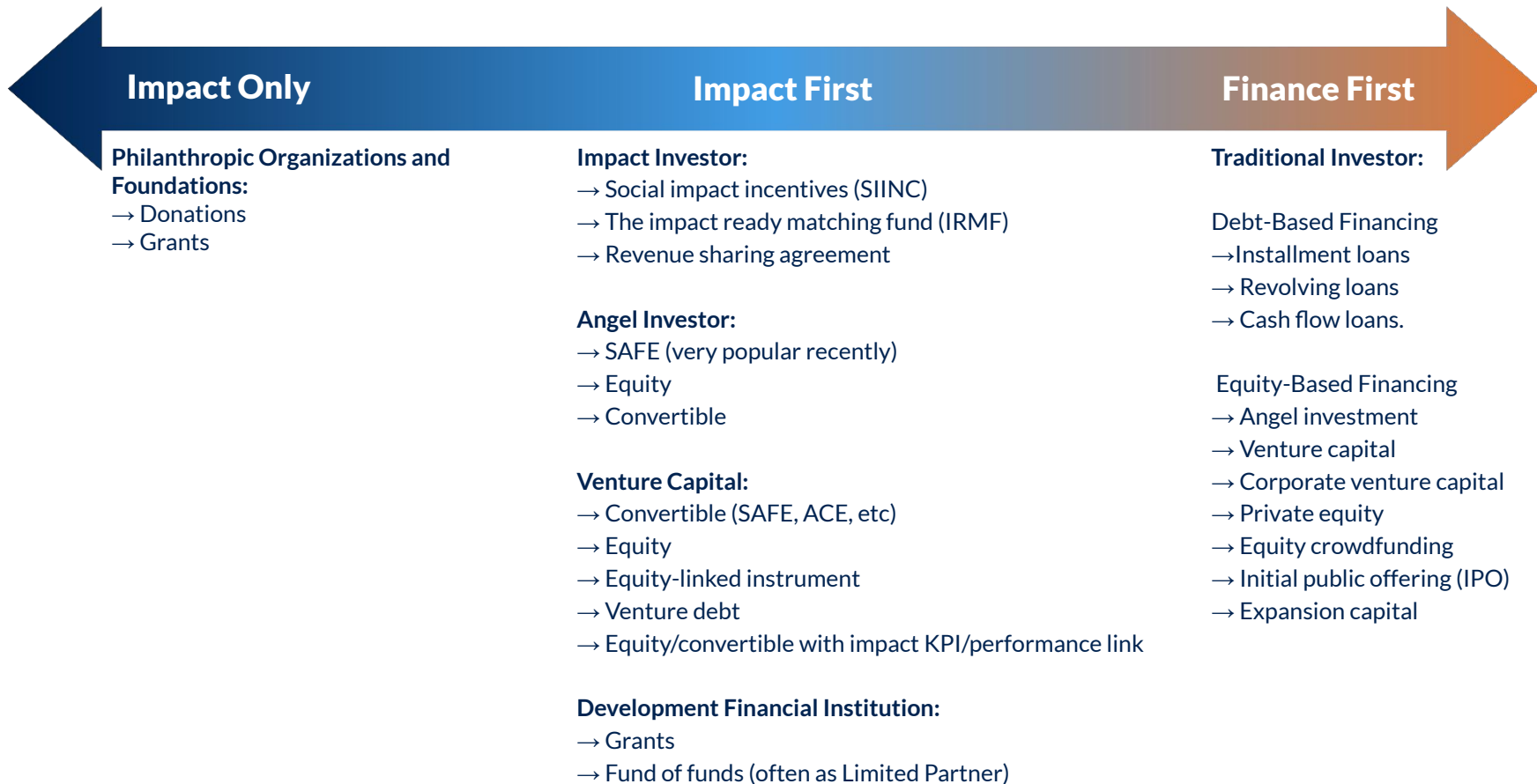
Various types of innovative blended finance instruments

Can be applied depending on relevant context and investor expectations



Various types of innovative blended finance instruments

Can be applied depending on relevant context and investor expectations





Our Work in Blended Finance

Aiming to break the barriers, promoting sustainable MSME ecosystem

- 01| Collaborating with development and capital partners to create transformative changes
- 02| Introducing innovative equity-linked instruments, adapting to the local contexts
- 03| Generating both financial and social impact

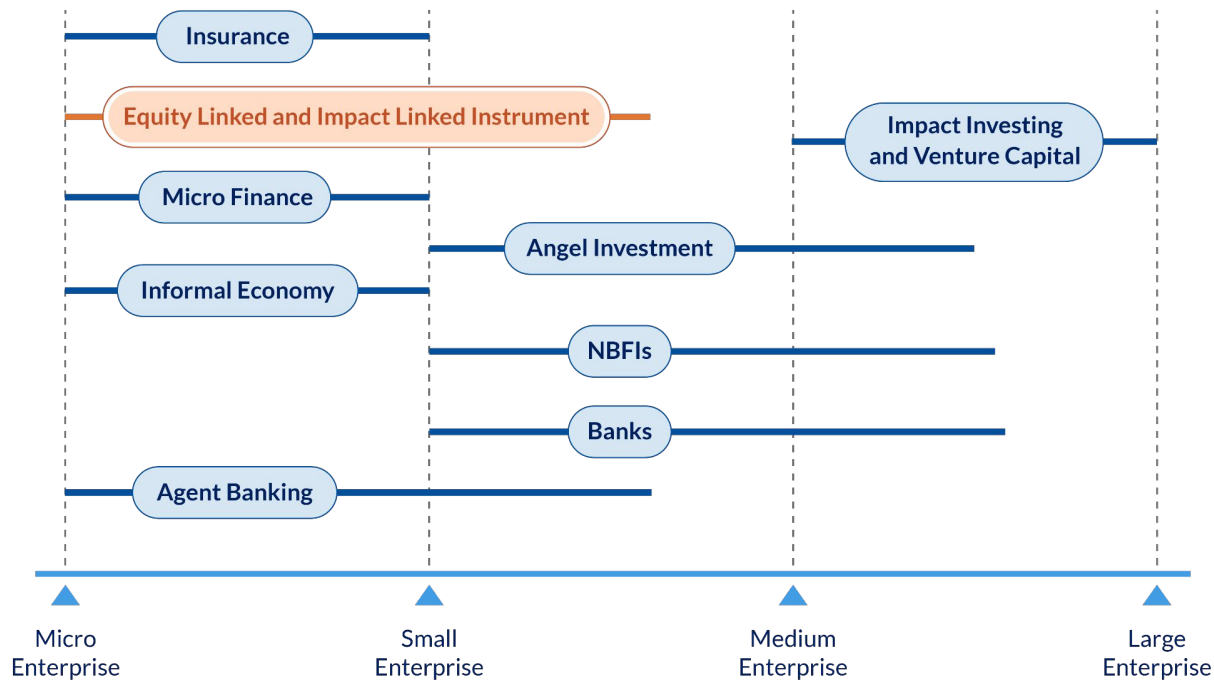
LightCastle's blended finance programs

Are attempting to create a sustainable growth trajectory for the MSME ecosystem

Introduction of tailor-made **equity-linked instruments and/or impact linked instruments** can serve as a powerful tool to aid the MSMEs move up the ladder

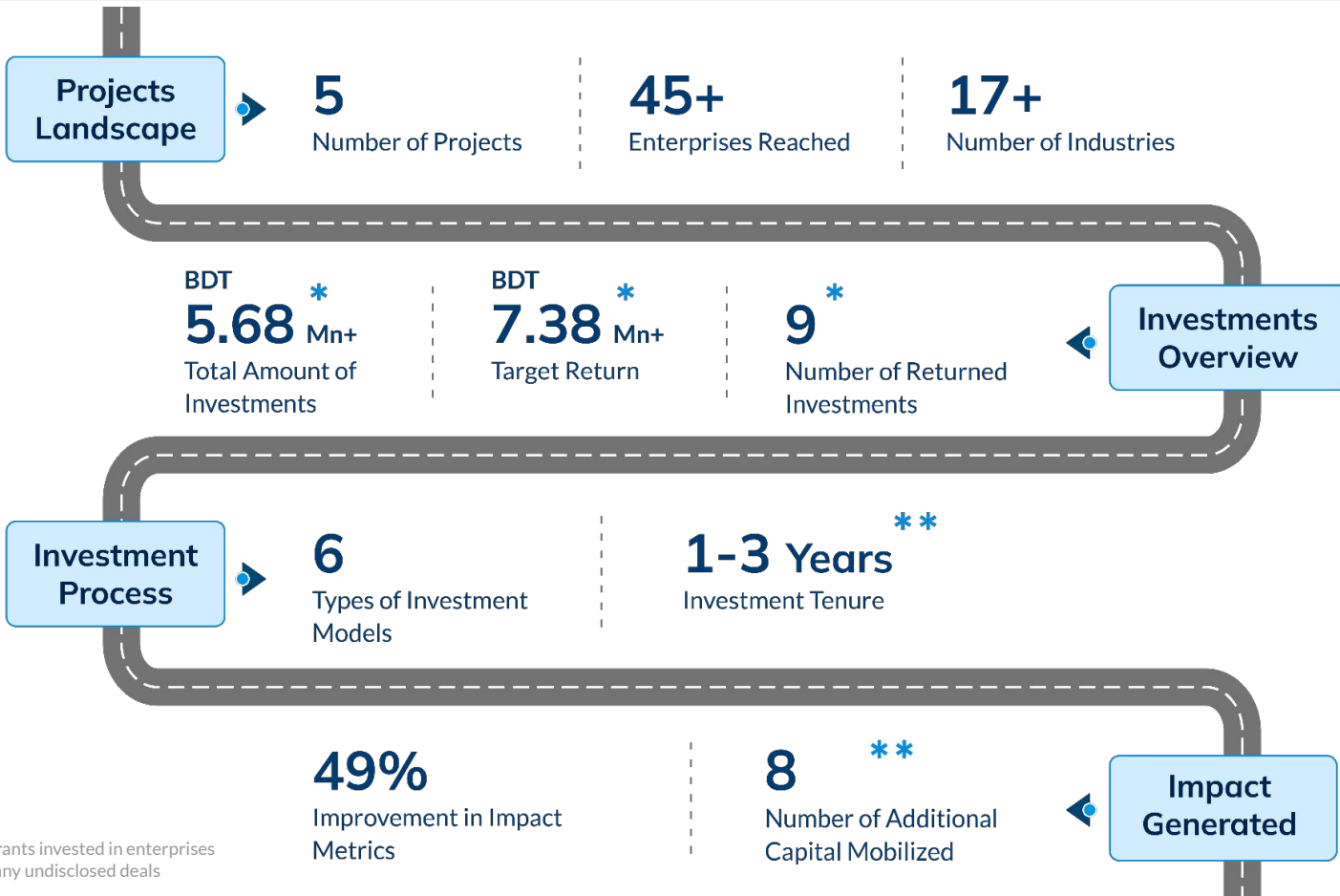
Blending both equity and debt finance can **diversify the risk** for investors and financial institutions.

With the right proportion of capital allocation, **sustainable growth can be achieved** in the entrepreneurship ecosystem.



Project statistics

By the numbers



* Exclusive of grants invested in enterprises

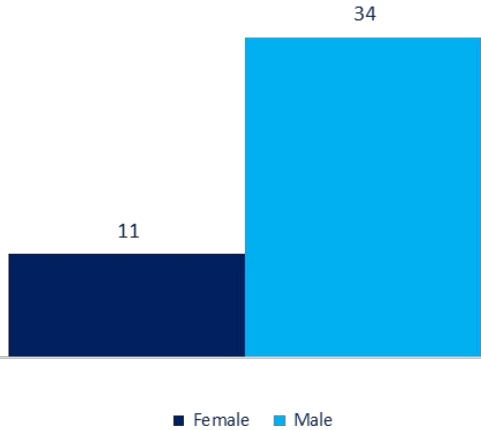
** Exclusive of any undisclosed deals

Project statistics

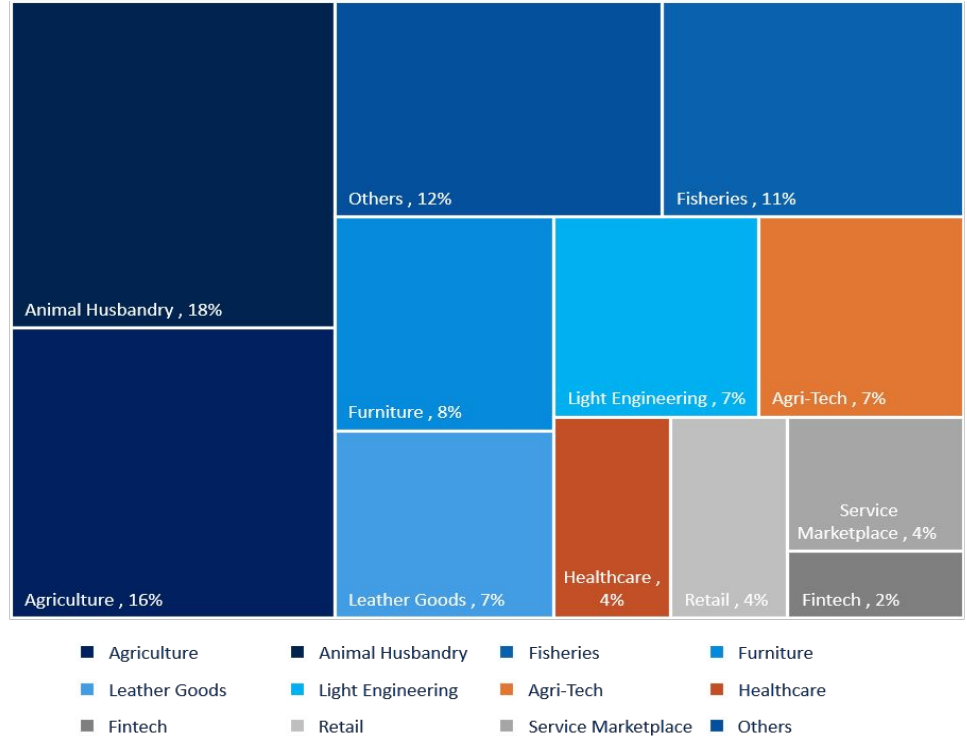
By the numbers

- 45+ investments
- 17+ sectors
- 24% female-led enterprises

Gender-Wise Breakdown of Investees




















Industry-Wise Breakdown of Investees



Blended finance initiatives

Experimenting with contextualized market-driven initiatives

Project Name	Client	Blended Finance Instrument	Sector
Empower Youth for Work	 OXFAM	<ul style="list-style-type: none"> → Quasi Equity → Revenue Share Agreement 	 Agriculture  Services  Construction
Setting Oxfam's Footprint in the Bangladesh Ecosystem	 OXFAM	<ul style="list-style-type: none"> → Asset-Backed Equity Financing → Profit Share Agreement 	 Cattle Rearing & Dairy
Income, Diets and Empowerment through Aquaculture	 WorldFish	<ul style="list-style-type: none"> → Grants → Revenue Share Agreement 	 Fisheries
Building Skills for Unemployed and Underemployed Labor	 swisscontact	<ul style="list-style-type: none"> → Asset-Backed Equity Financing → Patient Capital → Social Impact Incentive (SIINC) 	 Leather Goods  Furniture  Light Engineering
Biniyog-Bridhhi	 Roots of Impact  Supported by Switzerland	<ul style="list-style-type: none"> → Impact Ready Matching Fund (IRMF) → Social Impact Incentive (SIINC) 	 Fintech  Healthcare  Agri-tech



Empower Youth for Work

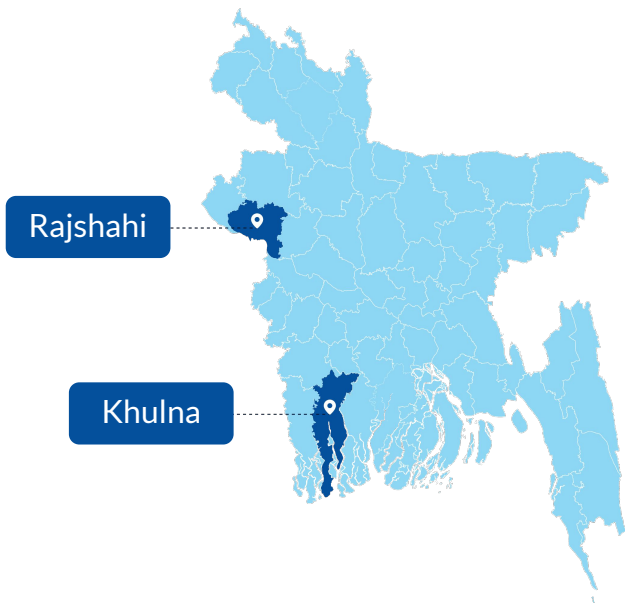
Empowering youth entrepreneurs through micro equity financing

Investments Deployed
BDT 1.5 Mn

Total Investees
15

Investment Tenure
2-3 years

Expected ROI
30%



The Opportunity:

As part of Oxfam's Empower Youth for Work project, we collaborated to identify key sectors that were most conducive to empowering the youth in Khulna and Rajshahi through economic possibilities and supporting practices that were climate resilient. While doing so, we discovered a substantial gap in the availability of financing for MSMEs that were plaguing their growth. Realizing an enormous potential for leveraging impact-linked quasi-equity instruments, we formed a partnership to create the first **Oxfam-LightCastle SME Impact Fund**, a pioneering impact investment fund for MSMEs, aiming to positively affect Oxfam's impact indicators and SDG targets, while empowering youth-led MSMEs to fulfil their entrepreneurial dreams.

Approach Highlights:

- Collaborated with local partners in Khulna and Rajshahi for sourcing solid, viable youth-led enterprises, resulting in 50 applications
- Screened the applications based on our proprietary weighted scoring rating model, factoring both quantitative and qualitative metrics, arriving at **15 investees**
- Provided patient capital of **BDT 1 lacs** to each enterprise and calculated return projections based on last three years' of CAGR
- Enterprises didn't need to start repaying until the first six months; the fund was aimed at helping the entrepreneurs catalyze revenue collection from their clients
- Revenues were expected to arrive by six months, after which they would pay us back a % **of the investments across a 3 year period, capped at 1.5x the initial investment**
- Deployed a proprietary mobile application, **Soluta**, to track current financial data and inventory records of MSMEs, improving transparency throughout the investment period

Impact Generated:

Till date, **25%** of the fund's overall investment portfolio has been recovered



Empower Youth for Work

Case Study: Jhorbhanga Vermicompost

Tanwi Golder

Age: 26

Location: Khulna



BDT 1 Lac

Investment

2 Years

Tenure

RSA Debt Based

Instrument

At the age of just 22, Tanwi Golder founded her composting facility, which produces high-quality compost that boosts crop health and productivity. She made the decision to start producing vermicompost with the encouragement and cooperation of the Assistant Secretary of the Department of Agricultural Extension in the Khulna district.

Tanwi's vermicompost received a lot of criticism in the early days of her business. People had a negative attitude toward vermicompost because the primary component is multiple kinds of worms. Her goal was to show farmers that her vermicompost could be a safer and more sustainable alternative to the current market alternatives.

However, she was unable to produce on a sustainable scale because she lacked sufficient knowledge as well as capital. Her efforts to market her products had been futile.

LightCastle was first introduced to Tanwi while working on another project, however when the Empower Youth for Work project came along, we felt that this would be a tremendous opportunity for us to help Tanwi overcome the challenges she was facing. And so, we encouraged Tanwi to join the program. Through the program, She was able to learn how she could efficiently set up her business. She realized the significance of maintaining financial records, developing proper packaging methods, and learned how to effectively market her products.

Additionally, LightCastle invested BDT 1 Lac to finance her working capital needs. The use of a micro equity instrument allowed us to structure the deal in a way that ensured flexible terms for Tanwi. This aided in increasing production, which increased her profitability.

Currently, she maintains a network of 150 female vermicompost suppliers. All her products are sold directly to farmers and local shops around the region.

“Blended Finance met my most pressing needs by providing me with financial assistance which I wouldn’t have been able to obtain from traditional financial institutions. It assisted me and my business by combining financial assistance with capacity-building services.”



Setting Oxfam's Footprint in the Bangladesh Ecosystem

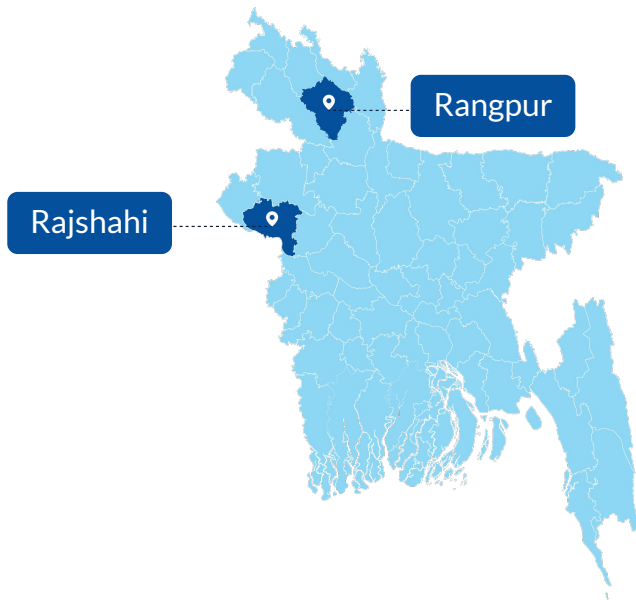
Patient capital through asset-based equity financing

Investments Deployed
BDT 0.5 Mn

Total Investees
5

Investment Tenure
3-12 Months

Expected ROI
30%



The Opportunity:

As a part of Oxfam's project titled, "Building Oxfam's Footprint in Bangladesh Entrepreneur Ecosystem," we collaborated to manage an innovative fund, in addition to providing advisory and capacity development support towards MSMEs in Oxfam's Community Building Organizations (CBO) network. The ultimate aim was to improve the productivity and competitiveness of the MSMEs.

Approach Highlights:

- Collaborated with Oxfam's local offices to source high-performing MSMEs within their CBO network
- Conducted needs analysis with select groups of entrepreneurs to identify growth areas
- Ran an accelerator program to develop business capacity, provide market development and facilitate linkages with different financial institutions such as local banks and MFIs
- Deployed **BDT 5 lacs (timeline: 3-12 months)** under the program; financing agreements were designed to provide financing to **5 MSMEs** in the form of patient capital
- Purchased the assets (cattle) on behalf of the MSMEs and monitored maintenance of the asset; profit-sharing agreements were made between the entrepreneurs and us - **2/3rd profits to be retained with the investees; 1/3rd profit to be shared with LightCastle.**
- Kept the return rates market-driven and variable, allowing for the MSMEs to reap the maximum return under the present market conditions

Impact Generated:

40% success rate within **3 months** of initial investment



Setting Oxfam's Footprint in the Bangladesh Ecosystem

Case Study: Zorina Begum

Zorina Begum

Age: 38

Location: Rangpur



BDT 1 Lac

Investment

3 Months

Tenure

Asset-Backed Equity

Instrument

Zorina Begum hails from Kaunia, Rangpur; a remote village in the northwest region of Bangladesh that still has not seen signs of significant development apart from electrification and road connectivity. A self-dependent widow who has held the reins of her family single-handedly after the demise of her husband, Zorina is an ordinary Bangladeshi villager dependent on agriculture for her family's sustenance.

Experienced in chili and corn cultivation with over a decade of involvement in this field and like most other village households, Zorina is also involved in

animal husbandry at a small scale within her house. She wanted to expand her cow farm and slowly move to a commercial scale, but this was quite challenging for her due to the scarcity of capital.

Zorina participated in LightCastle's MSME business incubation program (SMARTCAP) with the hopes of finding a solution to the problems she was facing. The program covered critical business concepts such as business model canvas (BMC), management, accounting & bookkeeping, and financial management along with investment raising.

After the capacity development phase, LightCastle invested BDT 1 lac into her business through an asset-based equity financing model. The deal was structured as a profit-sharing scheme, whereby Zorina will retain 2/3rd of the net gain, and repay LightCastle the remaining 1/3rd. She received her choice of cattle from the local haat (cattle market) upon investment. The purchased cattle were then taken by her to their cattle shed; she bore all associated costs of raising the cattle for the investment duration.

At the end of the investment period, upon striking a good deal with price verification from the market, the cattle was sold - enabling her to make a 25% net profit from the trade.

"Blended finance goes beyond financial interventions to provide financial and non-financial support for entrepreneurs like me. I look forward to partnering with LightCastle again in the future."



Income, Diets and Empowerment Through Aquaculture

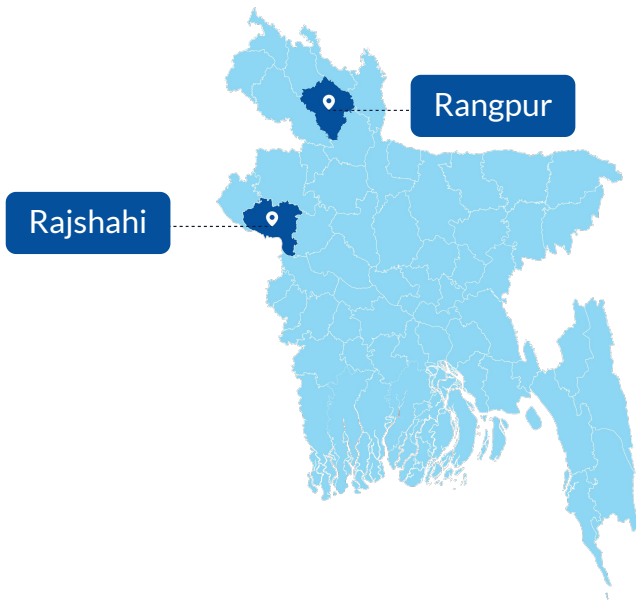
Growth financing through seed investments

Investments Deployed
BDT 0.1 Mn

Total Investees
2

Investment Tenure
1 Year

Expected ROI
30%



The Opportunity:

As part of WorldFish: SmartCap Accelerator Program, LightCastle was tasked to provide scale up growth-oriented aquaculture MSMEs capacity development, market linkages, and access to finance.

SMARTCAP business incubator combines three critical components that are designed in conjunction to help propel the growth trajectory of the aquaculture entrepreneurs in Bangladesh.

Approach Highlights:

- Collaborated with WorldFish to identify growth-oriented MSMEs in their network
- Conducted needs analysis with select groups of entrepreneurs to identify growth areas
- Ran an accelerator program to develop business capacity, provide market development and facilitate linkages with different financial institutions such as local banks and MFIs
- Deployed **BDT 1 lac (timeline: 1 year)** under the program; investments worth **BDT 50 thousand** were provided to **2 MSMEs** in the form of growth capital
- The fund acted as an incentive for the entrepreneurs to focus on long-term growth
- Apart from the 2 investees, 14 other participants from the accelerator were able to secure financing from banks and MFIs

Impact Generated:

2 of the investees were able to **lease additional ponds** which helped improve their production capacity



Income, Diets and Empowerment Through Aquaculture

Case Study - Shilpi Motsho Farm

Shilpi Akter

Age: 37

Location: Gaibanda



BDT 50 Thousand

Investment

2 Years

Tenure

Seed Funding

Instrument

Aquaculture has always been a male-dominated industry, and more often than not, farmers are unwilling to allow women to oversee fish farms. Shilpi Akter's tale, however, dispels myths and paves the way for progress. She has demonstrated that, despite the most difficult circumstances, anyone can become a successful entrepreneur with true grit and determination.

Shilpi, however, had to overcome several challenges in order to get to where she is now. The biggest of which being insufficient business understanding and growth cash post COVID-19.

Furthermore, she felt that the repayment structures of the financial products that were available for her were more of a barrier to progress than an enabler.

It was around this time Shilpi decided to participate in the Income, Diets and Empowerment through Aquaculture program by WorldFish and LightCastle. Through the program, she gained business skills and support for market expansion. She was also able to establish connections with several financial institutions through the program, including local banks and MFIs.

Shilpi was chosen to receive a BDT 50,000 seed investment from LightCastle as a result of her business acumen and tenacity. With the funds, she was able to lease additional ponds, boosting her capacity for production.

Now, she has been able to expand her business to the degree where she could secure institutional financing at highly advantageous terms by utilizing the funds and information she had acquired from LightCastle. She now has aspirations to expand her company even more. She is a source of inspiration in her community, where she has contributed to the growth of aquaculture. To emulate Shilpi's success, other women have started their own fish farms in her region.

“With the help of LightCastle's blended finance instrument, periodic consultations, and market linkage assistance, entrepreneurs such as myself are able to grow sustainably.”



Building Skills for Unemployed and Underemployed Labor

SMART blended finance program for propelling MSMEs

Investments Deployed
BDT 3.55 Mn

Total Investees
10

Investment Tenure
2-3 Years

Expected ROI
23.33%



The Opportunity:

LightCastle was mandated with increasing the productivity and competitiveness of MSMEs across three high-value sectors (Leather Goods, Light Engineering and Furniture Making) through business development support (BDS) services as part of Swisscontact's B-SkillFUL Programme, supported by the Embassy of Switzerland. With the goal of improving access to finance and access to market opportunities of MSMEs while positively needling social impact metrics, we developed a SMART blended finance program that not only aimed at addressing financial challenges, but also provided them with additional BDS.

Approach Highlights:

- Sourced **100+ MSMEs** in 2 phases across 5 regions. Ran detailed needs analysis and credit scoring to determine financing and market-related support services
- Ran accelerator programs to provide tools and mentorship to make 100 enterprises investment ready. Developed **10+ market partnerships** and **1 digital marketplace** to drive sales for selected MSMEs
- Shortlisted **10 enterprises** viable for investment following a four-step rigorous due diligence process
- Created an **impact fund of BDT 60.5 lacs**, combining **BDT 30 lacs** (micro equity and asset backed equity investments) from **LightCastle**, **BDT 5.5 lacs** from **Dana Fintech** (buy now pay later against a flat service fee of 6%), and **BDT 25.05 lacs** from MSMEs (collated from various sources including FnF, self finance, other financial institutions)
- Deployed various instruments including micro-equity, asset backed equity financing through the lens of a social impact incentive scheme
- Tied investments with ensuring application of transversal themes in enterprises such as decent working conditions and gender inclusion
- Linked other potential non-investees with NBFIs, banks and impact investors for ensuring deeper financial inclusion


Impact Generated:

Reports from the first month indicate a **75% success rate**



Building Skills for Unemployed and Underemployed Labor

Case Study - Pure Wood Furniture



Faruque Hossain
Lintu

Age: 40
Location: Rangpur

BDT 5.5 Lacs

2 Years

Growth Financing & BNPL

Investment

Tenure

Instrument

Faruque Hossain Lintu is a native of Rangpur, Bangladesh, a small region in the country's northwest. 10 years ago, he started his entrepreneurial journey by selling timber and other similar raw materials, but he soon realized that he would always have supplies on hand that he couldn't sell. That's when he had the notion to start making furniture with the resources he was being left with, and thus Pure Wood Furniture was formed.

Since its inception, Pure Wood Furniture grew at least 4 to 5 times. Even though his revenues were not all that high, the business was able to achieve remarkable growth. From production to operations, every aspect of the enterprise grew by leaps and bounds.

However, the COVID-19 pandemic threatened to destroy everything Faruque had built in a single stroke. He hadn't received a single order for months and as a consequence, he was compelled to close both his production and his showroom as a measure of cost containment.

At this juncture, Faruque made the decision to approach Swisscontact and LightCastle for assistance through the B-SkillFUL Program. Through LightCastle's SMART Blended Finance program, Pure Wood Furniture has been able to boost their revenue by establishing a forward market partnership with Savoir BD in which Pure Wood Furniture will become an enlisted supplier for Savoir. LightCastle also guided Pure Wood Furniture in developing digital marketing strategies that allowed for increasing revenues through additional marketing channels.

LightCastle has also offered consultation services on how to optimize the layout of his factory for maximum productivity. Additionally, LightCastle and Dana Fintech have together invested BDT 5.5 lacs under a customized framework incorporating both asset-backed equity investment and BNPL model. The deal was structured as a mixture between debt and micro equity so that he can have more breathing space for the business to grow. With the right amount of investment, Pure Wood Furniture plans to set up a treatment plant that will aid in reducing raw material wastage and increase efficiency..

Faruque now hopes to grow his business and become one of the leading furniture manufacturers across the region and beyond.

"Getting associated with LightCastle Partners through the B-SkillFUL project was truly a blessing for me. With the help of their investment and their consultation support, I have been able to speed up the post-pandemic recovery of my business."



Biniyog Briddhi (B-Briddhi)

Scaling impact enterprises in Bangladesh

The Opportunity:

Biniyog Briddhi (B-Briddhi) is a multi-year programme dedicated to supporting a thriving ecosystem where impact enterprises of Bangladesh can grow and scale their impact. Set up as a public private development partnership (PPDP) between the Embassy of Switzerland in Bangladesh, Roots of Impact and LightCastle Partners, the programme strives to improve the financial, social and environmental performance of impact enterprises by helping them to master investment readiness and impact management and get ready to access innovative finance to scale. The programme united many important stakeholders such as investors, private sector organizations, incubators, accelerators, support organizations and advocated for impact enterprises.



Approach Highlights:

- Capacity Building to incubators, accelerators and service providers to promote investment readiness and strengthen impact monitoring mechanisms
- Provide Impact Ready Matching Fund (IRMF) to business angel investments in impact enterprises
- Provide Social Impact Incentives (SIINC) to enable high-tech impact enterprises attract impact investments
- Advocacy for impact investing in Bangladesh
- Mobilized investments for 13+ tech-enabled impact enterprises in Bangladesh



For Entrepreneurs



For Incubators



For Investors

B-Briddhi addresses the most critical elements of the supply and demand side of the ecosystem:

- Supply: build a healthy pipeline of investment-ready impact enterprises
- Demand: facilitate impact investing with the introduction of catalytic funding instruments and create growth-conducive investment environment

Impact Generated:

- Completed Capacity Building for three cohorts of incubators and accelerators since 2020 (Bangladesh Angels Network, Truvalu, Turtle Ventures, BRAC SIL, BetterStories Ltd)
- Provided catalytic financing to 4 tech-enabled impact enterprises through Social Impact Incentives (SIINC) deals
- Deployed grants to 9 tech-enabled impact enterprises through an Impact Ready Matching Fund (IRMF)

Biniyog Briddhi (B-Briddhi)

Scaling impact enterprises in Bangladesh



Social Impact Incentives (SIINC):

Social Impact Incentives (SIINC) reward high-impact enterprises with premium payments based on the social outcomes that they generate. In this way, impact is incentivized and increases the enterprise's profitability and attractiveness for investors.



Premium payments
for social outcomes



Impact
Enterprise

Investment*



Repayment



Investor

Impact Ready Matching Funds (IRMF):

The Impact Ready Matching Fund (IRMF) is non-repayable funding that will match seed investment 1:1. The B-Briddhi IRMF rewards early stage impact enterprises for building up their impact management systems and match a seed investment.



IRMF payments
conditions met*



Impact
Enterprise

Investment*



Repayment



Investor

* Investment and grant sums are equal and contracts are mutually closing

Biniyog Briddhi (B-Briddhi)

Scaling impact enterprises in Bangladesh



Apon Wellbeing Ltd.- the world's first retail network for industrial workers



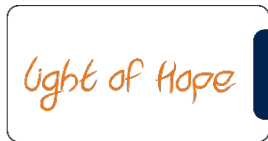
Hello Task – Number One Helpers Sourcing Platform in Dhaka



iFarmer - Democratizing Agriculture Financing and Supply Chain



JOIKKO – The social franchise for farmers in Bangladesh



Light of Hope – An alternative learning solution for children



Romoni – The top brand for on-demand beauty service



Reverse Resources – Platform for MAPPING AND TRACKING OF TEXTILE WASTE



Safewheel Limited. – Moving wheels, Saving lives



Shuttle – Offering Safe and Affordable Transportation



SOLshare - Creating a network by providing sufficient and affordable electricity supply

To view the full B-Briddhi Dealbook: [Click Here](#)

The future looks promising with blended finance

However, certain steps must be taken to ensure impactful growth

- **Asset-based investments are safer for MSME financing:**

We have discovered that asset-based deals are significantly safer than other instruments when investing in MSMEs after experimenting with various structures for our investments. Asset-based transactions are structured to secure the investment with the asset because they depend on the investor buying an asset for the investee as the form of investment. This reduces the risk of non-repayment because the investor has the option of reclaiming the asset in the event of non-repayment. The investor's risk of loss is greatly decreased by this.
- **Constantly evolving lens for MSME selection:**

We have discovered that we cannot solely rely on objective criteria like the company's financials when deciding whether to invest in an MSME. We must take into account subjective indicators while assessing the MSMEs in order to take into account the varied sectoral and regional contexts. In addition to the conventional due diligence, evaluating an MSME requires us to use a subjective lens that is continuously changing.
- **Agriculture based investments need to be long-term:**

Through our investments, we have observed that deals primarily focused on the agriculture industry must be structured for longer time periods than deals in other industries. Agriculture businesses have a lengthier business cycle, thus it takes longer for these MSMEs to see a return on their investments. Investments should therefore be structured to account for the disparity.
- **More emphasis should be given to investment readiness and digital inclusion:**

Our monitoring reports have showed that since MSMEs frequently fail to maintain accurate financial records, there is a need for stronger investment readiness initiatives for them. We have observed that while introducing Soluta as a tool for MSMEs to track financial data and inventories, MSMEs have struggled to use the application effectively. Transparency during the investment period deteriorates as a result. We also think that more work has to be done to increase digital literacy alongside investment readiness in order to ensure effective use of such technologies.

Special Feature

LCMA Ventures joins 10 Minute School on its mission



With more than **4.2 million** app users and more than **31 million** social media subscribers, **10 Minute School** has grown to be one of Bangladesh's largest education technology enterprises over the past eight years. They work with more than **250** educators and instructors and teach **millions** of students every day across all of their platforms.

Through **LCMA Ventures**, **LightCastle Partners** recently invested in **10 Minute School**, one of the leading edtech platforms in Bangladesh.

LCMA Ventures comprises credible partners, including **Mr. Sajid Rahman**, Managing Partner of **MyAsiaVC**, **The Legal Circle**, **LightCastle Partners**, and **Bangladesh Youth Leadership Center (BYLC)**.

"10 Minutes School has established itself as a premier Edtech in Bangladesh, having a tangible impact on the education landscape. LightCastle's investment reflects our belief in 10 Minute School's ability to generate value by transforming the way people learn."

Zahedul Amin, Director, Finance, Strategy and Consulting Services, **LightCastle Partners**

Authors



Author | Mrinmoy T. Sobhan
Business Consultant
mrinmoy.sobhan@lightcastlebd.com



Editor | Ivdad Ahmed Khan Mojlish
Managing Director
ivdad.ahmed@lightcastlebd.com



Author | Ilham Hasan Chowdhury
Business Consultant
ilham.hasan@lightcastlebd.com



Advisor | Bijon Islam
Chief Executive Officer
biion.islam@lightcastlebd.com



Design | Asif Imran
Data Visualization Expert
asif.imran@lightcastlebd.com



Advisor | Zahedul Amin
Director, Finance, Strategy & Consulting Services
zahedul.amin@lightcastlebd.com





At LightCastle, we take a data-driven approach to create opportunities for growth and impact. We consult and collaborate with development partners, public sector and private organizations to promote inclusive economic growth that positively changes the lives of people at scale.

Till date, we have consulted for **150+** development partners & private organizations on **250+** projects, collaborated with **650+** SMEs & startups, mobilized **USD 150 million+** in investments and supported **40+** accelerator/ incubator programs across Bangladesh. LightCastle also hosts the largest market and industry datasets in Bangladesh across **30+** industries.

Learn more @ www.lightcastlebd.com



THANK YOU!

LightCastle Partners

Level 5, House 10/12, Road 1, Block B, Niketan,
Gulshan 1, Dhaka – 1212, Bangladesh

Email: info@lightcastlebd.com

Mobile: +88 01747 353 438, +88 01711 385 988

Web: www.lightcastlebd.com

Data on Demand Platform: www.databd.co

