BANGLADESH INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

Government of the People's Republic of Bangladesh

UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

ADB TFP
TRADE FINANCE PROGRAM

Special Publication



The Asia-Pacific Conference on Financing inclusive and Sustainable Development

10-12 December 2019
InterContinental Hotel
Dhaka, Bangladesh

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ICC@Bangladesh 25years



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National Secretariat
ICC Bangladesh, Suvastu Tower (6th Floor)
69/1 Panthapath, Dhaka-1205, Bangladesh
Tel: +880-2-9676698, 9641286
E-mail: info@iccbangladesh.org.bd
Web: www.iccbangladesh.org.bd

International Headquarters
33-43 Avenue President Wilson
75116 Paris, France
Tel: +33 (0) 1 49 53 28 28
Fax: +33 (0) 1 49 53 28 59
Website: www.iccwbo.org

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Foreword

BANGLADESH INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

The global economy is currently facing a slowdown, though after a long period of stagnation it was strengthening, even enjoyed a mini-boom between the end of 2016 and early 2018. Disruptive forces like protectionism and populism are sweeping the world economy, creating trade disputes and geopolitical tensions. The impacts of climate change are growing more widespread and severe.

A dynamic and inclusive global economy is fundamental to delivering the ambitious targets of the 2030 Agenda for Sustainable development: economic, social and environmental goals of the tomorrow. The world has made significant strides towards lifting people out of poverty across the globe, but inequality persists and disparities remain regarding access to health, educational services and other assets. Climate change presents the single biggest threat to sustainable development everywhere. So in the face of the economic, social and environmental challenges, policymakers must address the short-term challenges, while advancing a longer-term development strategy relying on multilateral and cooperative approach.

Financial inclusion is as an enabler of other developmental goals in the 2030 Sustainable Development Goals, where it is featured as a target in eight of the seventeen goals. Digital finance alone could benefit billions of people by spurring inclusive growth that adds $3.7 trillion to the GDP of emerging economies within a decade, according to a recent report by the McKinsey Global Institute. The UN includes financial inclusion high in its agenda and is advocating to advance universal access to and responsible usage of affordable, and safe financial services that help families and small business owners generate income, invest in opportunities, and work their way out of poverty.

Financial system is an enabling infrastructure, the nerve system of an economy; therefore ensuring that it is inclusive is of prime importance in the process of creating a more equal and peaceful society. Thus financial inclusion is, after all, not a goal in itself but the means to many ends.

It is my firm belief, with a very strong dialogue and partnership between governments, international organizations and the private sector; it would be possible to transform them in instruments that would allow increased well-being of the people around the world.

I consider the Asia-Pacific conference on Financing Inclusive and Sustainable Development is very much befitting in the context of the present world scenario.



Mahbubur Rahman
President



بسم الله الرحمن الرحيم

PRESIDENT
PEOPLE'S REPUBLIC OF BANGLADESH
BANGABHABAN, DHAKA

Message

25 Agrahayan 1426
l0 December 2019

I am pleased to know that International Chamber of Commerce, Bangladesh is organizing 'The Asia-Pacific Conference on Financing inclusive and Sustainable Development' in Dhaka on 10-12 December 2019. The focus of the conference is Exploring a New Financial Landscape for Asia and the Pacific.

The present government under able leadership of Prime Minister Sheikh Hasina has pulled Bangladesh from low income to a middle income country and has embarked upon a remarkable journey towards development and prosperity. The country has turned into one of the fastest growing economies of the Asia-Pacific region. Our economic challenges of transformation from least developed to developing country need to be kept in mind and initiatives should be taken to make this transformation sustainable and public oriented. ICC Bangladesh can play a catalytic role in achieving development goals by generating employment, endorsing innovative ideas and pushing forward the development pace of the country steering the Sustainable Development Goals (SDGs) agenda by 2030.

Challenges and uncertainties of global economy are best felt in the business world. ICC Bangladesh has invited the best set of policy makers, experts, business professionals to address this during the three day Conference in Dhaka. I am sure the Conference would be a very useful platform that will offer the best policy guidelines and pragmatic recommendations in achieving SDGs in the Asia-Pacific Region.

I am happy to know that International Chamber of Commerce, The world business organization is observing its worldwide 'Centenary Celebration' in 2019. I also congratulate ICC Bangladesh on its completion of 25 years of service to the country and the business community. I wish the Asia Pacific Conference a grand success.

Khoda Hafez, May Bangladesh Live Forever.

Md. Abdul Hamid
President
People's Republic of Bangladesh



بسم الله الرحمن الرحيم

PRIME MINISTER
GOVERNMENT OF THE PEOPLE'S
REPUBLIC OF BANGLADESH

Message

25 Agrahayan 1426
10 December 2019

I am happy to know that International Chamber of Commerce (ICC)-Bangladesh is organizing 'The Asia-Pacific Conference on Financing inclusive and Sustainable Development' in Dhaka on 10-12 December 2019 in order to celebrate ICC's Global Centenary and Silver Jubilee of ICC Bangladesh. I extend my heartfelt congratulations to both ICC Global and its Bangladesh chapter on this occasion.

The theme of this year's conference 'Exploring a New Financial Landscape for Asia and the Pacific', I think, is a time-befitting one. ICC-Bangladesh has organized the conference in association with the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Asian Development Bank (ADB), The London Institute of Banking and Finance (LIBF) with the support of the Ministry of Finance, Government of Bangladesh.

At the United Nations Sustainable Development Summit on 25 September 2015, world leaders adopted the 2030 Agenda for Sustainable Development, which includes a set of 17 Sustainable Development Goals (SDGs) to end poverty, fight inequality and injustice, and tackle climate change by 2030.

We are committed along with the world leaders to achieving sustainable development in economic, social, and environmental dimensions in a balanced and integrated manner. Meaningful partnership and cooperation are equally essential, both at the local and global level for attaining SDGs. Exchange of ideas would enhance our understanding of the development journey and it will also assist us in replicating the best practices with our own context. I am confident that the conference will offer proper policy recommendations that can be tailored to country specific conditions in achieving SDGs in the Asia Pacific Region. I am sure that together we can bring the benefits of the SDGs to most marginalized people often at the bottom of the society.

I wish every initiative of the conference a grand success.

Joi Bangla, Joi Bangabandhu

May Bangladesh Live Forever.

Sheikh Hasina
Prime Minister
Government of the People's Republic of Bangladesh



Message

MINISTER
MINISTRY OF FINANCE
GOVERNMENT OF THE PEOPLE'S REPUBLIC
OF BANGLADESH

I am very happy to learn that the Bangladesh National Committee of the International Chamber of Commerce (ICC) - The world business organization, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Asian Development Bank (ADB) and The London Institute of Banking and Finance (LIBF), UK are going to organize The Asia Pacific Conference on Financing inclusive and Sustainable Development under the patronage of the Ministry of Finance; in Dhaka on l0-12 December 2019. My heartiest Congratulation to International Chamber of Commerce (lCC) for its 'Centenary Celebration' globally and 'Silver Jubilee Celebration' of ICC Bangladesh.

In 2015 world leaders agreed upon a set of global goals for sustainable development. By committing to the Sustainable Development Goals (SDGs), the member states of the United Nations have agreed to an agenda which is a plan of action for people, planet and prosperity. It also seeks to strengthen universal peace in larger freedom. Eradicating poverty in all its forms, including extreme poverty, is the greatest global challenge and an essential requirement for sustainable development.

The major challenge to achieve the 2030 UN Agenda for Sustainable Development Goals (SDGs) is mobilizing sufficient financing. Although interests in inclusive and sustainable financing are growing from both public and private sectors, the most needed investment for SDGs related projects remain underfunded. Under this background, the United Nations has sounded the alarm that unless we revamped both national and international financial systems to be in line with inclusive and sustainable development, we will fail to accomplish the SDGs fully.

I am hopeful that the Conference which is a public-private collaboration of the Asia-Pacific Region, will be able to come up with a "Road Map" for the partners to create policies that are consistent and gives a direction to the countries to realize their roles and responsibilities on financing of inclusive and sustainable development so that no one is left behind.

I wish the Conference all success.

A H M Mustafa Kamal, FCA, M.P.
Minister
Ministry of Finance
Government of the People's Republic of Bangladesh



Message

MINISTER
MINISTRY OF FOREIGN AFFAIRS
GOVERNMENT OF THE PEOPLE'S REPUBLIC
OF BANGLADESH

I am pleased to learn that International Chamber of Commerce (ICC), Bangladesh, is going to organize The Asia-Pacific Conference on Financing inclusive and Sustainable Development in Dhaka on 10-12 December 2019. The event simultaneously marks the centenary celebration of International Chamber of Commerce (ICC) and silver jubilee of its Bangladesh chapter.

The greatest Bengalee of all time Father of the Nation Bangabandhu Sheikh Mujibur Rahman struggled throughout his life for establishing a poverty-free, hunger-free "Sonar Bangla". Following his footprint, his able daughter Hon'ble Prime Minister Sheikh Hasina has been successfully steering the country on the "Pathway to Prosperity". Under her visionary leadership, "Economic Diplomacy" has been identified as the overarching goal of Bangladesh's foreign relations. Due to her pro-people policy interventions, we attained the key Millennium Development Goals way before the deadline and have been pursuing the Sustainable Development Goals (SDGs) with the same vigour.

Bangladesh is on the right track to graduate into a developing country by the year 2021 and a developed country by 2041. Our annual GDP growth rate has increased from 4.5 percent in 2006 to 8.13 percent last year. Below poverty level decreased almost half with a reduction from 42 percent in 2006 to 21.3 percent in 2018. We have elevated ourselves from the status of an LDC to that of a lower middle-income country.

The investment regime in Bangladesh is one of most friendly among the competing nations. Thanks to the Government's revolutionary initiatives, the power sector capacity has been enhanced remarkably over the last one decade; the percentage of people having access to electricity has gone up to 94% in 2019 from 47% in 2010. The Payra deep-sea port started basic operation in August 2016. The country's road infrastructure has also been broadened and modernized in the last one decade. The Dhaka metro rail project is expected to kick off from next year. The government mulls to set up one of the most modern large-scale international airport for which site has already been designated.

Bangladesh has the advantage of youth bulge. The fresh university graduates are IT literate, proficient in English and fast learners. The IT sector has been enjoying the advantage of a thrust sector for a long period of time. Bangladesh has all the prospects to emerge as an IT hub in the region. We seek investment in the Special Economic Zones and hi-tech parks.

I hope that the ICC event would be a great success in terms of projecting Bangladesh as a trade and investment destination.

I wish the Conference a grand success.
Joy Bangla! Joy Bangabandhu!

Dr. A K Abdul Momen M.P.
Minister
Ministry of Foreign Affairs
Government of the People's Republic of Bangladesh



Message

MINISTER
MINISTRY OF PLANNING
GOVERNMENT OF THE PEOPLE'S REPUBLIC
OF BANGLADESH

On the auspicious occasion of 100 years of International Chamber of Commerce, The world business organization in 2019, it is very welcome news that International Chamber of Commerce (ICC) - Bangladesh has organized The Asia-Pacific Conference on Financing inclusive and Sustainable Development in Dhaka on 10-12 December 2019 focusing on the theme of Exploring a New Financial Landscape for Asia and the Pacific.

We know International Chamber of Commerce headquartered in Paris was established in 1919 in the backdrop of devastating post World War I. We have always appreciated the global role this unique organization has played since its very inception.

We are aware of the current global concerns of multilateral trade where fair international competition is hindered by continuing high barriers and lesser state support, and also of areas where trade rule-making has not kept pace with changes to the global economy. We also know that market distortions remain significant barrier in the key areas of global trade.

We appreciate the ICC identified intervening areas namely reliable and cost-effective sources of financing, effective regulations to allow business to contribute to economies and societies, increasing dependence on information and communication technologies (ICTs), economic and social benefits of diversity, role of business in global governance, innovation and intellectual property (IP) systems, counterfeiting and piracy, trade and investment and overall responsible business.

Under the historic and visionary leadership of Prime Minister Sheikh Hasina, we, in the Ministry of Planning are working dedicatedly to translate her visions into reality and assist various ministries of the government in appropriate planning of their activities to reach the target of Sustainable Development Goals.

ICC Bangladesh, now in its journey for a quarter of century, has been playing a significant role since its inception in the development and the growth of external trade and investment of the country.

The conference on Financing inclusive and Sustainable Development organized by ICC Bangladesh will address many of the emerging issues and challenges.

I strongly believe that this conference of the prominent personalities of the business world will be of practical use in our collective efforts in achieving SDGs in the Asia Pacific Region.

I wish the conference a success.
Joy Bangla! Joy Bangabandhu!

M.A. Mannan M.P.
Minister
Ministry of Planning
Government of the People's Republic of Bangladesh



Message

MINISTER
MINISTRY OF COMMERCE
GOVERNMENT OF THE PEOPLE'S REPUBLIC
OF BANGLADESH

It's good to know that International Chamber of Commerce (ICC), The world business organization is having its Centenary Celebration worldwide this year. ICC Bangladesh is also celebrating 25 years of its presence in Bangladesh.

I happy to learn that, on this occasion, ICC Bangladesh has organized The Asia-Pacific Conference on Financing inclusive and Sustainable Development in Dhaka on 10-12 December 2019.

Bangladesh stands to capitalize on smart improvements it has made to bolster e-commerce-friendly infrastructure. Our commercial activities are going to be digital and all current business laws, regulations and policies are being made compatible with the global wave of digital commerce revolution. Bangladesh is also being seen as next South Asian ICT destination.

Under the able leadership of Prime Minister Sheikh Hasina, we, in the Ministry of Commerce are making integrated efforts in achieving Sustainable Development Goals and bringing an end to poverty and inequality.

I praise the initiative of ICC Bangladesh in organizing this Conference jointly with United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP), Asian Development Bank (ADB), The London Institute of Banking and Finance (LIBF) under the patronage of the Ministry of Finance, Government of Bangladesh.

I hope the deliberations during the 3-day Conference will help in imitating a road-map for achieving the SDGs by 2030.

I wish the conference to be a splendid success.
Joy Bangla, Joy Bangabandhu.

Tipu Munshi, M.P.
Minister
Ministry of Commerce
Government of the People's Republic of Bangladesh



UNITEDNATIONS NATIONS UNIES

THE SECRETARY-GENERAL
UNITED NATIONS

Message

I congratulate the International Chamber of Commerce in Bangladesh on the anniversaries you are observing on this occasion.

Thank you for your commitment to the Sustainable Development Goals. Despite considerable advances, we are not on track to achieve them by 2030.

That is why I have called for a Decade of Action.

Financing is essential, and requires deep changes in both the public and private sectors. It is crucial to align global economic policies and financial systems with the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change.

We need to scale up climate finance and invest in climate resilience.

We must also harness new technologies to provide equitable financial access for all, especially women and micro, small and medium-sized enterprises.

With adequate and innovative financing, we can build an inclusive and sustainable future for all.

Thank you.

António Guterres



8TH SECRETARY-GENERAL
UNITED NATIONS

Message

I am happy to know that the International Chamber of Commerce (ICC)-Bangladesh, The world business organization,is organizing The Asia-Pacific Conference on Financing inclusive and Sustainable Development in Dhaka from10-12 December 2019. This year, the International Chamber of Commerce (ICC), headquartered in Paris, is having its Centenary celebration worldwide and ICC Bangladesh isalso celebrating its Silver Jubilee in Bangladesh.

Current global financial assets are sufficient to meet the financing needs of the 2030 Development Agenda.However, the challenge is how to channel them into SDG sectors, enhance the risk-return profiles of new and sometimes vulnerable investments, and generate sustained impact on the ground in order to leave no one behind.

The United Nations seeks to galvanize action on financing for the SDGs by bringing together governments, the private sector, and civil society.

The 2030 Agenda and the Paris Agreement on climate change provide a viable and necessarypathway for a more prosperous, equitable, and sustainable future. Financial inclusion is positioned prominently as an enabler of other developmental goals in the 2030 Sustainable Development Goals, where it is featured as a target in eight of the seventeen goals. Additionally, there is growing academic evidence that financial inclusion models can support overall economic growth and the achievement of broader development goals.

Investments in sustainable development are growing in some areas and countries, and there is ample evidence that investing in the SDGs simply makes economic sense.Indeed, currentestimates highlight that achieving the SDGs could open up US$ 12 trillion of market opportunities and create 380 million new jobs, and that action on climate change would result in savings of about US$ 26 trillion by 2030.

In this regard, I firmly believe that public and private sector efforts to broaden access to financial services in Asia and the Pacificare vital to advance poverty reduction,spur inclusive growth, and combat and adapt to climate change. In addition to making economic sense, there is also a moral imperative to do so.

I am confident thatthe Conference willserve as a very useful platformto help synergize the best policy guidelines and pragmatic recommendations forachieving SDGs in the Asia Pacific Region.

I take this opportunity to thank ICC Bangladesh once again for the efforts in this regard, and I extend my best wishes for a successful Conference.

Ban Ki-moon
8th Secretary-General of the UN



Message

UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

UNDER SECRETARY-GENERAL OF THE UNITED NATIONS

AND EXECUTIVE SECRETARY OF UNESCAP

Since the adoption of the Addis Ababa Action Agenda (AAAA) of the Third International Conference on Financing for Development in 2015, Asia and the Pacific has faced several emerging issues that are reshaping the financing for development landscape. They include rising trade protectionism, widening socio-economic disparities and increasing climate change related natural disasters. All have an adverse impact on socio-economic development of the region.

New strategies for accelerating financing for development are required more than ever. During the High-level Dialogue on Financing for Development at the 74th Session of the United Nations General Assembly in September 2019, world leaders re-emphasized the importance of mobilizing financial resources to achieve the Sustainable Development Goals (SDGs). The United Nations Secretary-General António Guterres has outlined a three-year Roadmap for Financing the 2030 Agenda for Sustainable Development that could serve as a blueprint for the advancement of the regional Financing for Development strategies. The four areas of the roadmap are aligning the international financial system behind the SDGs; supporting individual countries in mobilizing domestic resources for sustainable development; addressing exclusion from financial services; and enhancing international cooperation. These four areas, combined with the national, subregional and regional actions, will be at the heart of the Financing for Development issues on which we are committed to working with all relevant stakeholders.

UNESCAP estimates that Asia-Pacific developing countries must invest an additional US $1.5 trillion per year, or 5 percent of their combined GDP, to achieve the SDGs fully by 2030. While the Asia-Pacific region has been the engine of economic growth in the world, it is high time we align socio-economic policy making with inclusive development, poverty reduction and climate-smart growth in the region. In this vein UNESCAP can provide various assistance to its member States for achieving the SDGs in the region.

UNESCAP has played an active role in building consensus and articulating the views of the region on Financing for Development issues by organizing high-level regional fora. The fora have provided a regional platform for multi-stakeholder dialogues to identify priority Financing for Development issues and to bring regional policy issues to the global arena on Financing for Development. Graciously hosted by Bangladesh, UNESCAP is proud to hold the fifth session of the dialogue entitled "The Asia-Pacific Conference on Financing Inclusive and Sustainable Development: Exploring a New Financial Landscape for Asia-Pacific," which is being held in Dhaka on 10 to 12 December 2019. UNESCAP is very grateful to the National Organizing Committee, which comprises the Ministry of Finance of Bangladesh, the International Chamber of Commerce Bangladesh, The World Business Organization (ICC Bangladesh), the Asian Development Bank, London Institute of Banking and Finance (LIBF), UK and other governmental, non-governmental and business agencies, for their significant contribution to this year's forum.

I wish the Asia-Pacific Conference on Financing Inclusive and Sustainable Development successful deliberation.

Armida Salsiah Alisjahbana
Under Secretary-General of the United Nations
and Executive Secretary of UNESCAP



WORLD TRADE ORGANIZATION

DIRECTOR GENERAL
WORLD TRADE ORGANIZATION

Message

The 2030 Agenda and the Sustainable Development Goals represent the global community's pledge to build a more inclusive, sustainable and prosperous world. Trade has an important role to play in making this vision a reality. Trade was crucial for achieving the Millennium Development Goals. Now we must ensure that trade and the World Trade Organization contribute as much as possible to the SDGs.

At the same time, we must also ensure that everyone has the means to implement the SDGs across the board. This is why events like the Asia Pacific Conference on Financing Inclusive and Sustainable Development are very important, putting this issue at the center of the debate.

I congratulate the Bangladesh National Committee of the ICC for the leadership in organizing this important initiative. It is a fitting addition to the celebrations of the ICC's Global Centenary and the Silver Jubilee of ICC Bangladesh, as well as testimony of ICC's commitment to ensure that global growth and development walk hand in hand.

Roberto Azevêdo
Director General
World Trade Organization



INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

Message



Paul Polman
Chair
International Chamber of Commerce

John W.H. Denton AO
Secretary General
International Chamber of Commerce

Congratulations to ICC Bangladesh and members on your Silver Jubilee— a milestone of particular significance in ICC's Centenary year.

For 25 years, ICC Bangladesh has played a formidable role in our global institution, contributing to ICC's development across South Asia and making our solutions and services ever more accessible to the Bangladeshi private sector.

With your diverse membership of leading companies, chambers of commerce and business associations, ICC Bangladesh has built strong ties that reinforce our unrivalled position when it comes to delivering global business views and demonstrating business contributions to people and planet on the world stage.

As the International Chamber of Commerce prepares to face the next 100 years of making business work for everyone, every day, everywhere, we look forward to the continued support of ICC Bangladesh and thank Mr. Mahbubur Rahman for his spirited leadership.

Your contributions to enabling business to secure peace, prosperity and opportunity for all are invaluable to our institution, and we wish you every success as we build on your achievements of the last 25 years together.

With kind regards,

Paul Polman
Chair
International Chamber of Commerce

John W.H. Denton AO
Secretary General
International Chamber of Commerce



Message

The London Institute of Banking & Finance

CHIEF EXECUTIVE
THE LONDON INSTITUTE OF BANKING & FINANCE

Congratulations to ICC Bangladesh for organising and hosting The Asia-Pacific Conference on Financing inclusive and Sustainable Development.

There has never been a more opportune time to discuss the themes of this important conference. ICC Bangladesh is celebrating 25 years since its inception. The ICC was founded exactly 100 years ago following the end of World War l. The London Institute of Banking & Finance is 140 years old this year. 2019 could be a landmark year for sustainable finance and development.

I know that the conference will be a resounding success and I am confident that every delegate will leave a far greater understanding and appreciation of the issues.

Alex Fraser
Chief Executive
The London Institute of Banking & Finance



Message

FUNG GLOBAL INSTITUTE

CHAIRMAN
FUNG GROUP

FORMER CHAIRMAN
INTERNATIONAL CHAMBER OF COMMERCE

Since the inception in 2015 of the 2030 Sustainable Development Goals (SDGs), great efforts have been made towards achieving the goals so that all people could live in peace and prosperity on a healthy planet. Although great progress has been made, there still exist considerable gaps to fully achieve the SDGs by the year 2030, which is only a decade away.

Financing for development remains one of the major challenges. Policy makers have become increasingly concerned about how to mobilise and utilise the substantial financial resources from both public and private sectors that are critically needed for success. Thus the Asia-Pacific Conference on Financing Inclusive and Sustainable Development being held in Dhaka is particularly timely.

I congratulate ICC Bangladesh, under the remarkable leadership of Mr. Mahbubur Rahman, on its 25th anniversary. I further congratulate ICC Bangladesh for the collaboration with the Government of Bangladesh, UNESCAP, and the Asian Development Bank to organise this important conference as an ICC celebratory centenary event in the region.

I wish ICC Bangladesh, the conference organisers and all participants a productive and fruitful discussion, great success and long-term impact.

Victor K. Fung
Chairman, Fung Group
Former ICC Chairman



Message

BANGLADESH INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

PRESIDENT
INTERNATIONAL CHAMBER OF COMMERCE BANGLADESH

In 1919, in the aftermath of World War 1, a group of business leaders from Belgium, Italy, France, the UK and the USA, met in Atlantic City, New Jersey, USA and established the International Chamber of Commerce (ICC). They identified themselves as 'Merchants of Peace' and adopted the motto 'world peace through world trade.' The following year, under the aegis of the French statesman and entrepreneur Etienne Clemental, ICC established its headquarter in Paris, where it has remained ever since.

ICC with members in more than 100 countries, represents 45 million companies and more than 1 billion workers worldwide. One in every three workers depend on ICC members for their livelihood globally. ICC represents both the developed and the developing world, bringing a unique and diverse perspective to global discussions.

In December 2016, ICC, the only private sector non-sovereign organization was given the United Nations Permanent Observer Status by the General Assembly. The new role for ICC means that business will, for the first time, have direct voice in the UN system.

Bangladesh National Committee of ICC, established in 1994, is comprised of major Chambers of Commerce & Industry, Business Associations, Stock Exchange, Banks, Non-banking Financial Institutions, Insurance Companies, Trans-national companies, Law Firms and large Corporate Houses having significant interest in international trade.

The activities of ICC Bangladesh include promotion of foreign trade and investment, trade policy reviews, business dialogues, seminars & workshops both at home and abroad on related policy issues, harmonization of trade law & rules, legal reforms, updating businesses with the ICC rules & standards for cross border business transactions.

ICC Bangladesh has been holding international conferences in Dhaka on various issues. It has so far organized six such international events.

This is a proud privilege for International Chamber of Commerce (ICC) Bangladesh to host The Asia-Pacific Conference on Financing Inclusive and Sustainable Development 2019, the year that marks the glorious centenary celebration of International Chamber of Commerce (ICC) and Silver Jubilee celebration of International Chamber of Commerce-Bangladesh. The conference will focus on Exploring A New Financial Landscape for Asia and Pacific.

The global economy has suffered several costly financial crises over the last three decades. Plunging assets, major bouts of exchange, market volatility and crisis in emerging markets and collapse of several major financial institutions in both developed and emerging markets, and on-going economic crises in some countries underscore weaknesses of the globalization process.

The globalization of economies poses challenges both for the developed and developing countries. It has created some inevitable governmental, social and ethical pressure on the business sector in most countries that have embraced trade liberalization as an effective measure.

The conference 2019 will address many of these issues including Inclusive Financing for SDGs in Asia Pacific and Public-Private Cooperation through Global Initiatives. I strongly believe that this conference will bring together highly efficient policy makers, planners, business leaders and experts from home and abroad. It is expected that they will deliver appropriate strategy and provide convincing road maps towards achieving SDGs in the Asia Pacific Region.

We cordially welcome our esteemed delegates from home and abroad and wish them a very fruitful experience from this conference.

Mahbubur Rahman
President
ICC Bangladesh

Speaking About ICC Bangladesh



Asia Pacific Business Forum 2017: Opening Session was Inaugurated by H.E. Mr. Md. Abdul Hamid, Hon'ble President of the People's Republic of Bangladesh (7th from left). The inaugural session was also attended by: H.E. Mr. Abul Maal Abdul Muhith, M.P., Minister for Finance, Bangladesh (6th from Left); H.E. Mr. Tofail Ahmed, M.P., Minister for Commerce, Bangladesh (5th from right); H.E. Prof. Gowher Rizvi, Adviser to the Hon'ble Prime Minister for International Relations, Bangladesh (3rd from Left); H.E. Mr. Rishad Bathiudeen, Minister of Industry and Commerce, Sri Lanka (4th from left); H.E. Mr. Romi Gauchan Thakali, Minister for Commerce, Nepal (2nd from right); Dr. Shamshad Akhtar, UN Under Secretary General and UNESCAP Executive Secretary (5th from Left); ICC Bangladesh President Mahbubur Rahman (4th from right); Dr. Wencai Zhang, Vice-President (Operations), Asian Development Bank (extreme left); Dr. Victor K. Fung, Former Global Chairman of ICC and Chairman of Fung Group (3rd from right); Mr. Latifur Rahman, ICC Bangladesh Vice President (2nd from right) and ICC Bangladesh Vice President Mrs. Rokia Afzal Rahman (extreme right). ICC Bangladesh Executive Board Members are also seen standing at the back.

Bringing world expertise to the local business, facilitating legal reforms and harmonizing trade law and rules, Bangladesh National Committee of International Chamber of Commerce (ICC) continues to provide business organizations with the support they need to grow in the local and international arena. With a view to take priority issues of national concern to the global forum for expansion of trade and investment, ICC Bangladesh was established in 1994 and is comprised of major Chambers of Commerce, Business Associations, Stock Exchange, Banks, Non-Banking Financial Institutions, Tarns-national Companies, Law and Accounting Firms and large Corporate Houses having interest in international business. This year ICC Bangladesh is marking its 25th anniversary.

ICC Bangladesh works to promote foreign trade and investment, legal reforms, review trade policies, update businesses with the ICC rules and standards for cross-border business transactions.

It helps business houses adapt to the challenges in today's rapidly changing global economy holding policy reviews, business dialogues, seminars and workshops on issues related to foreign trade and investment, market access as well as concerns of Bangladesh business at the international conference, debates and dialogues including forums through ICC sponsored meetings of multilateral agencies.

Since its inception, the National Committee works closely with the government in reforming laws and rules that govern business and liberalizing trade to integrate Bangladesh with the global market place. The organization has also been actively engaged in legal and policy reforms including: Information Technology (IT) Act, modernization of Arbitration Act, modernization of Tax Laws & Customs Act, introduction of ATA Carnet System in Bangladesh, development of Bangladesh Foreign Trade Institute (BFTI) and establishment of Bangladesh International Arbitration Centre (BIAC).

In 2000, ICC Bangladesh hosted a 2-day ICC Asia Conference in Dhaka attended by policymakers, business leaders, economists and professionals from twenty-five countries representing Asia, Australia, Middle East and Europe.

In celebrating its 10th Anniversary, ICC Bangladesh organized an International Business Conference on Global Economic Governance and Challenges of Multilateralism in Bangladesh joined in by a galaxy of leaders including heads of governments & ministers from both developed, developing and least-developed countries and heads of multilateral organizations including WTO and EU.

In 2005, ICC Bangladesh organized a Regional Seminar on Capital Market Development: Asian Experience. The activities ICC Bangladesh initiated in the following years included workshops, seminars and dialogues on topics like UCP, credit risk management, Treasury Management, Factoring & Forfeiting, Transport Documents, new UCP 600, Incoterms 2000, and International Trade Payment Methods in Bangladesh.

In 2009, ICC Bangladesh celebrated its fifteenth anniversary hosting a conference titled Energy for Growth which was attended by the then ICC Global Chairman Dr. Victor K Fung.

Marking its twentieth year, ICC Bangladesh organized an international conference on "Global Economic Recovery: Asian Perspective" in Dhaka where world leaders, business experts, chalked out an integrated, inclusive and sustainable global strategy for sustaining the world's economic growth for the moment.

In 2015, for the first time in its history, ICC Bangladesh organized a trade finance seminar in Kuala Lumpur Malaysia, jointly with ICC Malaysia where bankers from Bangladesh and Malaysia joined in. The same year, a 3-day workshop on International Trade Finance was organized in Sri Lanka.

ICC Bangladesh actively engaged in carrying out skill development programs in collaboration with IFC, EBSI, IFS, and ICC. A knowledge centre has been established to provide services to trade professionals of Bangladesh. Also, for keeping up to date with the global business scenario, a news bulletin is published quarterly.

ICC Bangladesh publishes annual reports every year covering the activities of the organization throughout the year. In every international conference, ICC publishes a souvenir regarding the particular theme of that event. ICC Bangladesh, with the permission of ICC Services, prints the latest ICC publications in Bangladesh for the local users.

ICC Bangladesh participates in World Chamber Congress, WTO ministerial meetings, UNESCAP meetings and ICC regional consultative group meetings held both at home and abroad.



The Asia-Pacific Conference on Financing inclusive and Sustainable Development

About The Asia-Pacific Conference on Financing inclusive and Sustainable Development

I. Background

Mobilizing sufficient financing remains the major challenge to achieve the 2030 Agenda for Sustainable Development or the Sustainable Development Goals (SDGs). Although interests in inclusive and sustainable financing are growing from both public and private sectors, the most needed investment for SDGs related projects remain underfunded. Systemic risk is also rising amidst uncertainty about the global economy from increasing debt burdens and trade policies towards protectionism. Under this background, the United Nations has raised the alarm that unless we revamped both national and international financial systems to be in line with inclusive and sustainable development, we will fail to fully accomplish the SDGs.

With the present and clear challenges in Asia and the Pacific, developing countries must mobilize more resources in financing the 2030 Agenda by increasing domestic resources, partnering with the private sector, and enhancing international development cooperation. In this context, it is recommended that the countries undertake innovative approaches in achieving the SDGs through strengthening and diversifying financial flows that may mobilize through taxation and fiscal management, ODA, commercial banking, capital markets, non-bank financial schemes, climate finance, small business and supply chain financing and remittance as well as FinTech solutions and STI finance. The change of investment mindset from short-term to long-term is also crucial to enhance inclusive and sustainable development in the countries.

In the region, UNESCAP has estimated that financing SDGs would require an additional investment of $1.5 trillion per year or an average of 5% of GDP. For least developed countries (LDCs) in the region, the challenge is even bigger as it requires 16% of GDP to finance the SDGs. This clearly suggests that in addition to national efforts, the region needs to strengthen its regional cooperation to facilitate the achievement of the SDGs through adequate financial resource mobilization among all countries in the region. Financing SDGs would also need unprecedented coordination and cooperation between the public and private sectors, facilitated by multilateral development banks (MDBs). It may also require significant efforts to reform global financial frameworks eventually, perhaps covering both domestic regulations and international rules as well as the roles of financial institutions, with strong commitment from all stakeholders.

The Asia-Pacific Conference on Financing inclusive and Sustainable Development tries to bring together policymakers, private business and financial sectors, MDBs, international organizations, civil society organizations and all other relevant stakeholders to discuss pressing issues on financing for inclusive and sustainable development. The dialogue will not only enhance sharing knowledge and best practices among the participants to facilitate SDG funding but also ignite the discussions on new policy and cooperation frameworks at the regional level to facilitate financial resource mobilization to achieve the 2030 Agenda for Sustainable Development.

II. Goals and Objectives

The main objective of the conference is to discuss on how to scale up investment and international development cooperation and adequately finance the 2030 Agenda for Sustainable Development in Asia and the Pacific. The conference will discuss the following topics:

- New and innovative policy and regulatory options to enhance domestic and external resources to finance SDG projects;
- Financing infrastructure development in a context of efficient governance, breakneck urbanization and public-private partnerships (PPPs);
- Private financing enhancement through developing robust business models with environmental, social and economic impact assessment;
- Awareness raising on climate finance for climate change mitigation and adaptation;
- Capital market development to close financing gaps through sovereign/corporate green/blue bonds, infrastructure funds and blended finance instruments;
- Proper policy and regulatory approach for Fintech evolution to protect consumers and avoid financial stability risk;
- Financing for micro, small and medium-sized enterprises (MSMEs);
- Supply chain financing to enable LDCs' participation in international trade and investment;
- Financing schemes to spur the development on science, technology and innovation (STI); and
- Scaling up effort for international development cooperation through official development assistance (ODA) and south-south cooperation.

III. Organization and Participants

International Chamber of Commerce Bangladesh (ICC Bangladesh), United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) & Asian Development Bank (ADB) under the patronage of the Government of Bangladesh has organized "The Asia-Pacific Conference on Financing inclusive and Sustainable Development" at InterContinental Hotel in Dhaka on 10-12 December 2019. ICC Bangladesh will celebrate its Silver Jubilee and Global Centenary of ICC during the Gala Event.

The Conference will bring together policymakers, private business and financial sector, international organizations, civil society organizations and other relevant stakeholders. This meeting will include over 600 participants from throughout Asia and the Pacific and other regions. Other key partners apart from the above co-organizers will include the Asian Development Bank Institute (ADBI), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), the Alliance of Financial Inclusion (AFI), the Economic Research Institute for ASEAN and East Asia (ERIA), the Organization for Economic Co-operation and Development (OECD), United Nations Capital Development Fund (UNCDF), the Asian Infrastructure Investment Bank (AIIB), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Global Compact (UNGC), the United Nations Office of the High Representative for the Least Developed Countries (UN-OHRLLS), the United Nations Office for South-South Cooperation (UNOSSC), the World Bank/ International Finance Cooperation, the World Trade Organization (WTO) and other relevant agencies. The UNESCAP Sustainable Business Network (ESBN) and its Task Force on Banking and Finance will provide critical inputs to the conference.

BANGLADESH INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

Financing for inclusive and Sustainable Development



In 1919, in the aftermath of World War 1, a group of business leaders from Belgium, Italy, France, the UK and the USA, met in Atlantic City, New Jersey, USA and established the International Chamber of Commerce (ICC). They identified themselves as 'Merchants of Peace' and adopted the motto 'world peace through world trade.' The following year, under the aegis of the French statesman and entrepreneur Etienne Clemental, ICC established its headquarter in Paris, where it has remained ever since.

ICC with members in more than 100 countries, represents 45 million companies and more than 1 billion workers worldwide. In December 2016, ICC, the only private sector non-sovereign organization was given the United Nations Permanent Observer Status by the General Assembly. The new role for ICC means that business will, for the first time, have direct voice in the UN system.

Bangladesh National Committee of ICC, established in 1994, is comprised of major Chambers of Commerce & Industry, Business Associations, Stock Exchange, Banks, Non-banking Financial Institutions, Insurance Companies, Trans-national companies, Law Firms and large Corporate Houses having significant interest in international trade.

The Asia-Pacific Conference on Inclusive and Sustainable Development 2019, the year that marks the glorious centenary celebration of International Chamber of Commerce (ICC) and Silver Jubilee celebration of International Chamber of Commerce-Bangladesh. The conference will focus on Exploring A New Financial Landscape for Asia and Pacific.

The main objectives of the Conference will be to discuss on how to scale up investment and international development cooperation and adequately finance the 2030 Agenda for Sustainable Development in Asia and the pacific. The Conference will discuss the following topics:

-New and innovative policy and regulatory options to enhance domestic and external resources to finance SDG project; Financing infrastructure development in a context of efficient governance, breakneck urbanization and public-private partnerships; Private financing enhancement through developing robust business models with environmental, social and economic impact assessment; Awareness raising on climate finance for climate change mitigation and adaptation; Capital market development to close financing gaps through sovereign/ corporate green/blue bonds, infrastructure funds and blended finance instruments; Financing for micro, small and medium-sized enterprise; Supply chain financing to enable LDC's participation in international trade and investment; Financing schemes to spur the development on science, technology and innovation; Proper policy and regulatory approach for Fintech evolution to protect consumers and avoid financial stability risk and Scaling up effort for international development cooperation through official development assistance (ODA) and south-south cooperation.

Introduction:

The global economy has suffered several costly financial crises over the last three decades. Plunging assets, major bouts of exchange, market volatility and crisis in emerging markets and collapse of several major financial institutions in both developed and emerging markets, and on-going economic crises in some countries underscore weaknesses of the globalization process.

Over the last three decades the world has made significant strides in reducing poverty:, more than one billion people have lifted themselves out of extreme poverty. Yet the income share of the poorer half of humanity has barely shifted over this period, despite global economic output more than tripling since 1990. Inequalities undermine economic progress, which in turn exacerbates the social divides that inequalities create.



Inequalities driven by income, geography, gender, age, ethnicity, disability, sexual orientation, class and religion determining access, opportunities and outcomes continue to persist, within and among countries. In some parts of the world, these divides are becoming more pronounced. Meanwhile, gaps in newer areas, such as access to online and mobile technologies, are emerging.

The global economic context and its implications for Sustainable Development

Global growth remains steady, but is projected to have now peaked, with economic activity expected to continue expanding at about 3 per cent per year. Global growth is projected to remain uneven across regions and countries. There are some good news: investment has gained strength in some countries and regions, particularly in East and South Asia, which also have large populations of poor people; inequality within many developing countries is declining; and prices on carbon markets are slowly recovering due to policy changes.

There is also growing interest in sustainable and impact investing. Yet, financial markets are volatile, the trade system is in crisis, wage shares are declining which is linked to economic concentration increasing, and risks of debt distress have increased. Carbon emissions have also begun to rise again. At this trajectory, Member States of the United Nations will not be able to meet the aspirations of the 2030 Agenda for Sustainable Development, with many being left behind.



Integrated national financing frameworks for sustainable development

The Sustainable Development Goals (SDGs) are comprehensive, complex and interrelated. Because of their synergistic nature, implementation of the 2030 Agenda for Sustainable Development has revived interest in national development strategies. However, most national strategies do not spell out in detail how they will be financed. Mobilizing sufficient resources remains a key challenge.

Integrated national financing frameworks are a tool to implement the Addis Ababa Agenda at the national level. There are several benefits to an integrated approach. By connecting financing and related policies with longer-term objectives, integrated financing frameworks can help overcome short term oriented decision-making. They allow policy makers to exploit synergies and manage possible trade-offs across different policies. They help countries manage an increasingly complex financing landscape, and help mobilize different types of financing appropriate for country specific characteristics and risks.

Adopting integrated national financing frameworks is a challenging endeavour. In many countries, capacities are limited and policy reform is costly; long "to-do" lists of needed reforms will therefore not be helpful. Existing financing policies may be misaligned due to underlying political constraints, which cannot be ignored. Yet, many elements exist that countries can build on.

All countries have a variety of financing policies in place. If they have already begun implementing a national sustainable development strategy, they should also have governance and coordination mechanisms in place. The integrated financing framework will not need to reinvent the wheel; it is a tool to identify and implement targeted policies and reforms to increase their effectiveness, coherence and alignment with sustainable development. There is clearly scope to do so in both developed and developing countries.

Domestic and international private business and finance

The private sector represents the largest part of the economy in most countries. It is thus promising that a growing number of investors have expressed interest in taking social and environmental issues into account in their investment decisions. Yet, the impact of this growing interest in sustainable development is unclear, in part because of confusion regarding what sustainable investment means and a lack of consensus on how to measure its impact. Through its analytical work, the Inter-agency Task Force on Financing for Development could help create greater global consensus on the definition of sustainable



investment and the measurement of investment impacts, building on both public and private efforts.

Policymakers should capitalize the growing interest in sustainable investing. Capital markets are a powerful vehicle for promoting alignment with sustainable development, provided the right incentives are in place for all market participants. The Addis Ababa Action Agenda underscores the role of capital markets and calls on Governments to design policies that "promote incentives along the investment chain that are aligned with long term performance and sustainability indicators, and that reduce excess volatility".



Many countries are making strides towards building sustainable financial systems; lessons learned can be shared through international platforms to find synergies and strengthen policy frameworks. Governments can help create incentives to foster greater sustainable investing, including pricing externalities, requiring more meaningful disclosure by corporations on social and environmental issues, and clarifying fiduciary duty and asset-owner preferences (e.g., through incorporating sustainability preferences into required investor profiles). They can also promote long-term investing by supporting efforts to build longer-term indices or encouraging longer-term investment horizons in credit ratings, as well as through regulatory frameworks.

Over the last three decades, the share of wages in total income has declined versus the share of capital. Market concentration in certain sectors raises concerns for its role in worsening income distribution and calls for competition policies that reflect the changing global environment and the growing role of technology, both at the national and the international levels, and for better monitoring market concentration trends.

Addressing Systemic issues

The global economy is facing heightened risks and financial volatility, with global growth likely to have peaked. Geopolitical factors, trade disputes, financial market volatility and non-economic factors, such as climate change, risk further impeding growth, stability, and development, as well as worsening poverty, inequality and vulnerabilities. There is increased urgency to address the systemic economic and financial risks and architectural gaps that threaten implementation of 2030 Agenda for Sustainable Development.

Weaknesses in the global financial system could pose heightened risks to achieve the Sustainable Development Goals (SDGs). These risks include: the volatility of international capital flows, resulting from the short-term nature of many elements of international capital markets; persistent global imbalances; debt sustainability challenges in the public and private sector; and growing monopoly power and less effective competition policies. High debt levels in public and private entities including through highly leveraged financial market derivatives raise vulnerabilities and feed boom-bust cycles. The compression of the wage share of income has exacerbated inequality. The rapid pace of technological change, while possibly providing new remedies, can also exacerbate global systemic risks.

To achieve sustainable development, the international community should continuously examine whether its institutions are sufficient and remain fit for purpose. This reflection has begun—for example, within the Group of Twenty (G20)-but the global implications warrant wider, open and inclusive discussions. As noted in the Addis Ababa Action Agenda, this should be complemented by efforts to increase the coherence of the global system and improve the inclusivity of global economic governance.

At the national level, countries should incorporate strong macro-prudential regulations and capital account management techniques when needed into integrated national financing frameworks, as called for in the Addis Ababa Agenda, to ensure coherence across national policies. In the medium to longer term, shifts in the



international monetary system, including those related to external adjustment and global imbalances, could increase financial volatility, particularly in a period of political uncertainty. This underscores the importance of strengthened international cooperation and of ensuring adequate resources and comprehensive coverage in the global financial safety net.

Under the current financial architecture, currency risk associated with welcome international financing is often borne by those in developing countries least able to manage it. The international community should develop better mechanisms to help address currency risk in developing countries, including through a greater use of currency risk diversification, as called for in the Addis Ababa Agenda. Similar to some other insurance mechanisms, international entities are well placed to manage such risks globally.

Agreed regulatory reforms need to be fully, consistently and transparently implemented, but they alone are not enough to create sustainable and stable financial systems. Outside the traditional regulatory perimeter, technology companies and non-bank financial institutions are intermediating growing shares of credit. Technology companies often blur the lines between software, settlement, and financial intermediation. There are concerns about increasing risk-taking in credit markets with deteriorating underwriting standards, such as leveraged loans packaged into collateralized loan obligations.

Conclusion:

Mobilizing sufficient financing remains a major challenge in implementing the 2030 Agenda for Sustainable Development. Despite signs of progress, investments that are critical to achieve the Sustainable Development Goals (SDGs) remain underfunded. Interest in sustainable financing is growing, but the sustainability transition in the financial system is not happening at the required scale. Systemic risks are rising and parts of the multilateral system are under strain.

However, the world is being changed by rapid shifts in geopolitics, technology, climate, and other factors. There are some encouraging signs. Extreme poverty continues to decline and inequality between countries has fallen. Investment in some countries and regions has strengthened after a period of slow growth. Carbon prices are slowly recovering and there is growing interest in sustainable investing. World economic growth remains steady at around 3 per cent, but has likely peaked. More than half a trillion dollars' worth of goods are subject to trade restrictions, 7 times more than a year ago.



Achieving sustainable development requires: multilateral action to address global challenges; revisiting the global institutional architecture; and strengthened regional and national action, including adjusting policies to the changing global landscape.

This article is based on United Nations Financing for Sustainable Development Report 2019

INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

Achieving SDGs requires annual investment of up to US$7 trillion. How can greater levels of finance be mobilised?

In the face of pressing global challenges, the United Nations Sustainable Development Goals (SDGs) provide a unified framework for building a more sustainable, inclusive and prosperous world.

Adopted in 2015, the SDGs call on governments, business and civil society to undertake transformative measures that will affect how we produce, consume and even invest.

Reports indicate that realizing the SDGs would unlock up to US$12 trillion in market opportunities in sectors such as food, energy, health and cities – which means the SDGs can be great for business.

Support for the SDGs within the private sector is increasing with the recognition that the business will be essential to driving meaningful progress.

Yet recent data reveal slow progress toward SDG implementation and, in some cases, widening gaps in investment that belie the abundance of goodwill to achieve these Global Goals by 2030.

To reverse this worrying trend, countries must mobilise greater levels of financing in areas such as clean energy, health, education and infrastructure. Private finance will be especially critical tobridging funding gaps globally.

There has been encouraging momentum of late – including the proliferation of innovative financial products such as green bonds –but the deployment of private capital for sustainable finance remains relatively limited as a share of the total stock of global assets.

Further scaling this investment will require a re-alignment of financial markets to better support the SDGs.

We must work toward a long-term action agenda with concrete outcomes to enable the financial system to address global sustainability challenges – most notably the growing climate emergency.



As the institutional representative of 45 million companies worldwide, ICC has identified 10 potential areas for policy change that could shift financial flows to better serve the SDGs and society:

1. Broaden the scope of central bank and regulatory mandates
2. Align prudential regulation frameworks with sustainability risks
3. Establish sustainable finance taxonomies
4. Embed sustainability in credit ratings and credit pricing
5. Clarify fiduciary duties
6. Standardize sustainability disclosures
7. Establish sustainable finance standards for "transition" projects
8. Empower consumers
9. Unlock dormant assets
10. Promote sustainable finance partnerships and accelerate the deployment of public-private investments.

ICC is now urging policymakers to consider how this proposed agenda can be advanced at the global level, including through the United Nations and the Financial Stability Board. We must continue to call for more ambitious national measures within the parameters of existing international and regional frameworks.

As an enabler for business to secure peace, prosperity and opportunity for all, ICC will continue to mobilise its global network to help realize the potential of the SDGs.

Many companies are already showing impressive leadership and vision by integrating the SDGs within their business operations. With long-term vision and the right policy frameworks in place, we know we can do more.

Visit iccwbo.org for more details about our 10-point recommendations to unleash SDG financing.



Dr. Mirza Azizul Islam
Former Adviser to the Caretaker Government,
Ministries of Finance and Planning
Professor, BRAC University

Inclusive Financing for Achieving SDGs in Asia-Pacific

The backdrop

In September 2015, 193 member states of the United Nations adopted a Declaration containing 17 goals designated as sustainable development goals (SDGs). Embedded in these goals are 169 targets. The Declaration is considered to be "a historic decision on a comprehensive, far-reaching and people-centered set of universal and transformative goals and targets". The member countries also resolved "to create conditions for sustainable, inclusive and sustained economic growth, shared prosperity and decent work for all, taking into account different levels of national development and capacities".

There are many areas in which the financial system can promote the achievement of SDGs both positively by way of encouraging certain activities and negatively by way of discouraging certain activities. Given the sheer number of goals and associated targets as well as their multi-dimensional nature, this paper cannot be comprehensive; selected elements will be highlighted.

In this context it is useful to recall some important functions of the financial systems. The financial system serves as intermediaries between savers and investors. It mobilizes savings from the members of the public in the form of deposits and make these savings available to those who are willing and able to make investment in the real sectors of the economy or to engage in trade which serves as the conduit for distribution of the produced goods and services to consumers and users of these goods and services. The second function involves maturity transformation. The financial system accepts deposits a large part of which have to be returned immediately on demand or at short notice. But these deposits are used for giving loans and advances for investments which have longer gestation periods. The third function has to do with credit allocation. In granting loans and advances, financial system determines allocation of credit by sectors, regions and groups of populations.

The author is a former Adviser to the Caretaker Government, Ministries of Finance and Planning and presently a Professor in BRAC University.

Areas of positive contribution by the financial system

The following paragraphs identify some important indicators and the relevant goals to which the financial system can make a positive contribution.

- Ensuring access of all men and women, in particular the poor and the vulnerable, to financial services (Indicator 1.4 under goal 1 relating to poverty)
- Mobilization of resources to implement programs and policies to end poverty in all its dimensions (Indicator 1.6)
- Ensuring equal rights for women to economic resources including financial services (Indicator 5.6 under goal 5 relating to gender equality and empowerment of women and girls).
- Sustain per capita economic growth, achieve higher level of productivity through diversification, technological upgrading (including through focus on high value added and labor- intensive sectors), encourage the growth of micro and small and medium enterprises, including through access to financial services (Indicators 8.1, 8.2 and 8.3 under goal 8 relating to growth and employment).
- Increase the access of small scale and other enterprises to financial services (Indicator 9.3 under goal 9 relating to inclusive and sustainable industrialization).

Activities to be discouraged

As mentioned before, the contribution of the financial system to achievement of SDGs also involves discouraging certain activities. Some of these are listed below:

- Should not finance tobacco cultivation in order to strengthen the implementation of WHO framework Convention on tobacco control (Indicator 3.10 under goal 3 relating to ensuring healthy lives)
- Should not finance activities which involve dumping and release of hazardous chemical and materials into water bodies (Indicator 6.3 under goal 6 relating to availability and sustainable management of water and sanitation for all).
- Should not finance enterprises which use forced labor or worst forms of child labor and do not ensure safe and secure working environment for all workers (Indicator 8.7 and 8.8 under goal 8).
- Should not finance activities which cause deforestation (Indicator 15.2 under goal 15)

The concept of financial inclusion[1] and its implications for SDGs

Financial inclusion has been defined by some authors as the process of ensuring access to financial services and timely and adequate credit to the vulnerable and low income groups at an affordable cost. Others expressed the view that financial inclusion refers to a process that ensures ease of access, availability and usage of the formal financial system for all members of an economy. Financial inclusion means inclusion of all sections of populations which do not have much access to financial product. More broadly, it refers to a movement that envisions a society in which as many poor people as possible have permanent access to an appropriate level of high

quality financial services, including savings, credit and money transfer. In other words, this would include:

- Easy and safe access to bank accounts;
- Timely and cheap credit for poor and low income households and small entrepreneurs.

SDGs incorporate the concept of inclusive growth. According to UNSECAP [2] the concept of inclusiveness should focus on people's wellbeing which involves (a) increasing the average standard of living of the population (captured by average real income per capita); (b) reduction of inequality; (c) reducing levels of extreme poverty and (d) expanding and broadening equality in opportunities, such as access to public goods. It is obvious that access to financial services is a crucial input for making progress in these areas. This UNESCAP study notes that there has been mixed progress in Asia-Pacific countries in respect of inclusive growth. The rates of extreme poverty have declined in most economies. However, there are large divergences within countries, usually across genders and as between rural and urban areas. At the same time, it is noticeable that increases in the levels of income have not been distributed evenly within countries. Income inequality has increased in many countries of the region.

In most countries economic growth has not resulted in commensurate employment growth. There are also inequalities in respect of access to quality education and health care services. Broadening of access to financial services, particularly to rural areas and small and medium sized enterprises (SMEs) is suggested as one of the important policy actions needed to enhance progress towards achieving SDGs.

A study by Asian Development Bank (ADB)[3] finds strong correlation between financial access and poverty rates. It also provides evidence that financial inclusion lowers inequality of income distribution in developing Asian countries.

Challenges for inclusive finance

There are both demand and supply side problems in enhancing inclusiveness of finance. On the supply side information asymmetry discourages financial institutions from extending credit as they are not sure of the revenue streams from the implementation of loan proposals. Among other supply side problems are high transaction cost associated with disbursement of large number of small loans, small capital base of SMEs, their low managerial capacity and perceived lack of transparency in their management. On the demand side, constraints arise from inability to find guarantors and provide collaterals, cumbersome application forms and high interest rates charged on small loans.

Bangladesh scenario

A large number of initiatives are being implemented in Bangladesh with a view to enhancing financial inclusion. A year-wise lending target for SMEs was first introduced in 2010 for banks and non-bank financial institutions. In addition to this regular financing, banks and non-bank financial institutions are also providing loans to SMEs through refinance schemes of Bangladesh Bank (the central bank). At present more than ten such funds are being operated. Karmasangsthan Bank provides loans to the youths with a view to involving them in productive and income generating activities. This bank has 246 branches across the country. Palli Karma Sahayak Foundation (PKSF) provides financial assistance to different sectors through various partner organizations, nearly 91% of the members of their partner organizations are female. Many non-government organizations (NGOs) execute micro credit programs, mainly for poverty alleviation, health, education and human resource development. A particular mention should be made of BRAC which is the largest NGO in the World. Grameen Bank also administers a large micro credit program. In addition, several Ministries and Divisions of the Government operate micro credit programs. Furthermore, mobile banking has contributed to expansion of financial inclusion.

Despite, the aforementioned initiatives Bangladesh has a long way to travel to achieve desired level of financial inclusion. For example, during the period 2016-2018, SMEs owned by women received only 3% of total loans received by all SMEs. An overwhelming proportion of bank loans accrues to loan sizes of more than 1 million taka. Generally, loans of larger sizes are charged lower interest rates. Such discriminatory practice adversely affects the relatively poor. There is substantial inequality in financial access due to excessive geographical concentration of loans in Dhaka and Chattogram. Loans to rural areas fall considerably short of deposits mobilized from those areas.

In view of the above, it is no wonder that in spite of stellar performance in respect of growth of gross domestic product (GDP), the country faces formidable challenges in achieving SDGs. The challenges arise from:

- Declining employment elasticity with respect to growth of GDP;
- Declining real wages;
- Continuing increase of inequality of income. Gini coefficient rose from 0.458 in 2010 to; 0.483 in 2016. Income share of 5% top households rose from 24.6% to 27.9% and the share of the lowest 5% households fell from 0.78% to 0.23%.
- The average annual reduction of poverty alleviation was 1.8% between 2000 and 2005, 1.7% between 2005 and 2010, and 1.2% between 2010 and 2018;
- The proportion of population below poverty line is considerably higher in rural areas;
- There is also significant geographical disparity in respect of poverty: in 2016 the percentage of population below poverty line was 16% in Dhaka Division whereas it was as high as 47.2% in Rangpur Division;
- There are also inequalities in respect of health and education as between males and females and as between rural and urban areas.

Concluding Observations

It is evident that expansion of financial inclusion will have to receive urgent attention of policy makers in order to meet the challenges noted above. I am not suggesting that financial inclusion alone will be sufficient to achieve sustainable development goals which are bound by the thread of "no one will be left behind". Supportive macroeconomic policies as well as efforts to improve investment climate for the private sector will have to complement greater financial inclusion.

[1] Based on "Financial Inclusion- A Gateway to Sustainable Development for The Impoverished" by Kartick Das in Journal of Rural Development, Vol: 31 No. 1 (January-March, 2012)

[2] UNESCAP, Economic and Social Survey of Asia and the Pacific 2015- Part I.

[3] ADB, Economics Working Paper Series No. 426, (January 2015)



Dr. Victor K Fung
ICC Past Chair and
Chairman, Fung Group

Towards a New Century of Sustainable, Inclusive Trade: A Rallying Call for the Merchants of Peace

Introduction

Since its founding, ICC has been a tireless champion of international trade and an open world economy to advance peace and prosperity. Building on that foundation, ICC has adapted, evolved and gone from strength to strength. We are particularly fortunate to have Paul Polman and John Denton leading ICC through these times of change.

I fully agree with ICC for putting digital first for its internal transformation as we transition, at an unprecedented pace, from an analogue to a digital world. Everything is being digitalized. This trend can only accelerate.

Against the backdrop of the digital revolution, I wish to share some thoughts on the new landscape emerging from the global shifts that are transforming our world, and on the potential economic consequences of the current trade tensions in the world. We can view these developments as daunting challenges or as once-in-a-lifetime opportunities to design the future we want. As an optimist, I see aspects of both.

New landscape

When ICC was established 100 years ago, the economic center of the world was still Great Britain and Continental Europe even as it began to shift to the US. Asia and the rest of the world were, for the most part, poor and not particularly relevant to the global economy. This is no longer true.

A map published by McKinsey shows shifts in the world's economic center of gravity from 1 AD, projected out to the year 2025. The map shows that the center was stable in the East between 1AD to 1000, then it started a slow shift Westward until 1950, when the trajectory began to reverse back to the East. What is remarkable is not so much the reversal but its speed. It took almost 1,000 years for the economic center of gravity to shift from East to West, but it is taking less than 100 years for the reversal. The stunning speed makes this the most significant shift in the history of mankind.



An Asian Development Bank study has projected that, by 2050, an additional 3 billion Asians could enjoy living standards resembling those of Europe today, and the region could account for over half of global output. In fact, according to the Financial Times, the Asian economies will be larger, on a purchasing power parity basis, than the rest of the world combined in 2020.

Clearly, Asia is set to regain its position at the center of the global economic stage. Asia-based consumers are becoming the new market force, driven by retail growth rates that are double those of the rest of the world. This emerging purchasing power can give new impetus for sustainable and inclusive growth, to create prosperity for the entire world.

The re-balancing has only just begun. For decades, consumer goods flowed in one direction - from factories in Asia to the West. Now we are seeing the reverse flow. Western products, brands and services are in high demand in Asia which today houses 4.6 billion people, 60 percent of the world's population. Demand from Asia's new consumers is not limited to low-end goods or services. China is the world's largest market for Western luxury goods, accounting for one-third of the global luxury market.

Technology is accelerating this tectonic shift. Having rapidly embraced the digital revolution, Asian economies are using technology to leapfrog development and fuel rising prosperity. This trend will continue.

US-China trade war

Many countries contributed to this shift back to Asia, including Japan and South Korea in the early stages and now ASEAN and India. But, today, China is at its core. While concerns over China's return to the world stage may be a contributing factor to US-China tensions, we should see the current trade war in a broader context.

The global environment for trade is changing. Protectionism is rising, and the rules-based multilateral system that spread prosperity for decades is being steadily eroded. The WTO's centrality to multilateral trade is under challenge from a proliferation of trade agreements at regional, sub-regional and bilateral levels.

It is nearly 18 months since the start of what is now the US-China trade war. After negotiations broke down earlier this month, they each announced significant tariff hikes, with still more threatened by the US. The US has also taken steps that make it difficult for leading Chinese technology companies to do business in the US. I fear that the world needs to brace for the tensions and rhetoric to rise.

While I fully expect the two countries will eventually make a trade deal, deeper structural economic issues and ongoing strains over technology and security are likely to impair the US-China relationship for a considerable time to come. That is the New Normal and, unfortunately, the entire world will have to adjust to this new reality.

Consequences of trade wars

Trade wars have consequences. The Smoot-Hawley Tariff Act of 1930 shows us that. Tariffs raised under the Act, followed by retaliatory tariffs by America's trading partners, were major factors that reduced by half the country's international trade and exacerbated the Great Depression. Times have changed but the consequences of a trade war remain just as serious.

The tariffs the US and China have imposed on each other place a burden on ordinary people. For example, the annual cost to the typical US household of the 10 percent tariffs the US imposed last year on $200 billion of Chinese imports was estimated to be $419 by economists writing on the Federal Reserve Bank of New York's blog. With the new rate of 25 percent on $200 billion of Chinese imports they estimate it to be $831.

IMF economists are concerned that the latest escalation in the tariff war "could significantly dent business and financial market sentiment, disrupt global supply chains, and jeopardize the projected recovery in global growth in 2019."

Meanwhile, any slowdown in China impacts everyone. According to the World Bank, China has been the largest single contributor to world growth since the global financial crisis of 2008. There is an additional risk that, as in the 1930s, some countries may find protectionism appealing and erect their own trade barriers to protect domestic companies and markets.

Uncertainties surrounding the US-China trade tensions are already impacting global trading patterns. Lower-value supply chains have been exiting China for almost a decade because of rising labor costs and China's push to upgrade its industrial base. With the trade war, global companies are accelerating their efforts to diversify supply chains or, at least, to shift parts of their production out of China. But, finding alternatives to China is not easy.

Our family business is in the thick of these shifts. My grandfather started an export trading business in Canton in 1906. In ICC parlance, you could say I am a third generation "merchant of peace". For more than a century, our business was to source mainly in Asia and sell to the West. Today, we are perhaps a microcosm of the new global trader, offering retailers and brands multiple sourcing options through strengthened supplier networks across the world, and developing the next generation of digitalized global supply chains.

Looking ahead

As the global business landscape changes fundamentally, we are all challenged to move with the times. Once more, we can draw inspiration from ICC founders. In the chaotic



aftermath of World War One, they saw an opportunity to act based on their conviction that stronger commercial relations between nations would reduce the risk of armed conflict.

I share that conviction. I also see opportunities for us to act, now, in ways that can help set ICC's direction for the next 100 years while contributing to peace and prosperity. I would like to make some observations.

First, we can speak up louder, on the pressing need to reform and renew the multilateral system, with a revitalized WTO at its core. I say this with passion as a lifelong multilateralist who remembers how, a decade ago - in 2009 - international trade kept the wheels of the global economy turning during the darkest days of the global financial crisis. Now, trade is in trouble which cannot bode well for the overall health of the real economy, and for achieving the goals of the UN Sustainable Development Agenda.

Second, we need a roadmap for the next 100 years, and I commend the ICC leadership for issuing at this centenary event the ICC declaration on the next century of global business, which enshrines its guiding principles for the 21st century. I could not agree more with the direction set.

At a turning point in history the ICC's Merchants of Peace came together around a shared vision and agenda formed in discussions before and after the Great War. They founded ICC to implement their shared vision that trade can drive development, peace and prosperity. And as any good business person would do, they agreed an agenda to realize that shared vision.

Their agenda was pragmatic and based on sound business practices and experience. They identified the need for agreement on rules for international commercial transactions, and for standards. This contributed to the eventual introduction of International Commercial Terms (Incoterms), and the creation of the International Organization for Standardization (ISO). Their agenda also included the promotion of a multilateral approach to trade negotiations which, after World War Two, helped lay the foundations for the GATT (which became the WTO).

That, for me, remains the mission of ICC: to agree a global agenda for business action around a shared vision. Reprising its historic role, ICC is now challenged to devise and promote an agenda for peace and prosperity in the 21st Century. This agenda has to integrate the realities of our new age of shifts in geopolitics and the global economy; the emergence of a digitalized world; environmental concerns and action; and new dimensions of innovation. This new age needs new rules, regulations, practices and institutions adapted to the times.

With everything it has learned and all it has accomplished, I believe ICC- with its constituency of 45 million enterprises across the world - can, and will, lead the international business community through the disorder, challenges and opportunities of the next 100 years. It is, indeed, time once again to rally ICC's Merchants of Peace.

In these turbulent times, and as global citizens, we cannot rely only on governments, multilateral institutions, or somebody else to shape our future. We must all become activists on the issues we care deeply about. We must mobilize to engage constructively in designing and creating a better century for all. And, for the sake of future generations, we must seize the moment.



Dr. Salehuddin Ahmed
Former Governor, Bangladesh Bank
Professor, BRAC University

Development Agenda and Global South Cooperation

1. Introduction

There is an increasing awareness to enhance South-South cooperation among the least developed and developing countries to achieve sustainable development and promote faster economic growth with equity. UN adopted 8 Millennium Development Goals (MGDs) with 21 targets and sixty indicators for the period from 1990 to 2015. Several countries are evaluating their respective performances. In September, 2015 the UN adopted post 2015 development agenda which is incorporated in Sustainable Development Goal (SDGs) to be achieved by the year 2030. The 17 goals and 169 targets of SDGs have to be achieved in the context of complex relationship between the state and the market within the economy and the also the relationship with the other countries located in both North and South of the globe.

The Heads of State and Government and the High representatives who gathered in Addis Ababa in Ethiopia in July 2015, reaffirmed that a global framework for financing development in the poor countries has to be formulated with strong political commitment. The South-South and Triangular cooperation is needed to encourage global partnership and solidarity to transform the conditions of the least developed countries (LDCs), land locked developing countries (LLDC), small island developing states (SIDS). A vast majority of the world's poor live in Asia. A substantial amount of poor people also live in pacific island nations termed as SIDS. The emergence of globalization has increased the openness of the world economy, which has resulted in greater cooperation among nations, donors, international financial institutions, multinational corporations, private entrepreneurs and non-government organizations. The countries however, have not benefited uniformly; some even suffered negative "backwash effect" of global development. The countries of south are specifically lagging behind; except few big ones like China, India, Brazil, and South Africa.



The list of "least developed countries" applied for 48 countries according to the United Nations with some that are categorized into the landlocked developing countries and the Small Island Developing States. In Africa 34 countries, in Asia 9 countries, Oceania 4 countries and in Americas one country.

Since the LDC category was initiated, only four countries have graduated to developing country status. The first country to graduate from LDC status was Botswana in 1994. The second country was Cape Verde, in 2007. Maldives graduated to developing country status on 1 January 2011, while Samoa graduated in 2014. It is anticipated that Equatorial Guinea and Vanuatu will be the next countries to be promoted from LDC status. At the UN's fourth conference on LDCs held in May 2011, delegates endorsed a goal targeting the promotion of at least half the current LDC countries within the next ten years.

There are three countries which presently meet the criterion for LDC status, but have declined to be included in the index, questioning the validity or accuracy of the UN data: Ghana, Papua New Guinea, and Zimbabwe

The post-2015 agenda should include some explicit accountability mechanisms for the relevant stakeholders. Within the agenda, specific goals should form part of a conceptual framework for development for the post-2015 period. These require considerable thought and appropriate responses which meet the political and technical needs of the multiple actors in global development.

2. Channels of Cooperation

In the context of globalization, some of the major challenges of cooperation are trade, foreign direct investment, credit flows, equity flows, and sale of bonds in the international capital markets. The important field of cooperation amongst Asian countries is through exports and imports. The protagonist of development argue in favor of trade rather than aid, because experiences of aid from developed countries and international organizations have not been very encouraging, especially in achieving equitable development and poverty eradication. The performances of Asian countries have been shown in Table 1, 2, 3 & 4 which depict the situation of some developing countries

in the fields of trade and development. The tables give a mixed picture. In table 1, ten countries suffer a decline in exports as proportion of GDP in 2012 compared to 2007. There were modest increases in some countries including Bangladesh. Only the Republic of Korea achieved significant increases in exports. In terms of imports six countries achieved increases including Bangladesh, while nine countries suffered decline in imports. All countries except Lao PDR and Pakistan witnessed considerable increase in FDI in absolute value (Table: 2). Table 3 shows as many as eight economies including the major ones (China and India) achieved lower growth rates in every year during the period 2011 to 2014, compared to the periods before the global financial crisis. The major challenge faced by the developing countries is enhancing experts. Despite increase in trade in these countries the major destinations of exports are developed countries. In the context of low growth of the developed countries, the challenges of the developing countries are to increase trade among these countries and improve their growth performances. The flow of foreign direct investment from the developed countries may suffer a setback because of slow recovery of these countries from global crisis and from the present turmoil in the financial sector especially in Europe. The situation analyzed here points to the need for greater South-South (SS) Cooperation to enhance the development pace of the countries in the South.

Table 1. Trade as % of GDP

	Exports		Imports	
	2007	2012	2007	2012
Bangladesh	20	23	27	32
Cambodia	65	54	73	60
China	42	27	32	25
India	21	24	24	31
Indonesia	29	24	25	26
Korea	46	56	45	54
Lao, PDR	37	36	53	48
Malaysia	110	87	90	75
Nepal	13	10	31	34
Pakistan	14	12	21	20
Philippines	43	31	42	34
Singapore	231	195	202	173
Sri Lanka	29	23	40	36
Thailand	73	75	66	74
Vietnam	77	80	90	77

Sources: World Bank, World Development Indicators, 2009 and 2014

Table 2. Foreign Direct Investment

	2007($Millions)	2012
	($ Millions)	% GDP
Bangladesh	653	1258	1.1
Cambodia	867	1557	11.1
China	138413	295626	3.6
India	22950	23996	1.3
Indonesia	6928	19618	2.2
Korea	1579	9496	0.8
Lao, PDR	324	294	3.1
Malaysia	8456	9734	3.2
Nepal	6	92	0.5
Pakistan	5333	859	0.4
Philippines	2928	3215	1.3
Singapore	24137	61160	21.3
Sri Lanka	603	941	1.6
Thailand	9498	10692	2.9
Vietnam	6700	8368	5.4

Sources: World Bank, World Development Indicators, 2009 and 2014

Table 3. GDP growth (Annual Percentage Change)

	2005-2007	2011	2012	2013	2014	2015*
Bangladesh	6.3	6.7	6.2	6	6.1	6.4
Cambodia	11.4	7.1	7.3	7.6	7.2	-
China	12.7	9.3	7.7	7.7	7.5	7.4
India	9.5	6.7	4.5	4.7	5.5	6.3
Indonesia	5.8	6.5	6.2	5.8	5.4	5.8
Korea	4.8	3.7	2.3	3	4	3.8
Lao, PDR	7.7	8.3	8.3	8.2	7.5	-
Malaysia	5.9	5.1	5.6	4.7	5	5.3
Nepal	3.2	3.8	4.5	3.6	4.5	-
Pakistan	7.2	3.6	3.8	3.7	4.1	4.2
Philippines	5.8	3.6	6.8	7.2	6.7	6.4
Singapore	7.8	5.2	1.9	3.9	3.5	3.9
Sri Lanka	6.9	8.2	6.3	7.3	7.6	7.5
Thailand	4.9	0.1	6.5	2.9	2.2	4.5
Vietnam	8.4	6.2	5.2	5.4	5.7	5.7

Sources: U.N. ESCAP, Economic and Survey of Asia and the Pacific, 2014

*Asian Development Bank, Asian Development Outlook, 2014 (update)

Trade and investment policies play a crucial role in improving the prospects of LDCs in taking advantage of globalization and free trade. The countries of Asia-Pacific can derive huge benefits by mitigating their development disadvantages arising from their small domestic markets, insufficient capital, and lack of efficiency in meeting international standards. During the past three decades, global value chains (GVCs) have played a dominant role in globalization. GVC refers to a full range of cross-border, value-added business activities that are required to bring a product or service from conception, design, sourcing raw materials and intermediate input stages to production, marketing, distribution and supplying to final consumers. Table 4 gives a picture of GVC in various developing countries. GVC participation rate defined by UNCTAD, refers to the extent to which a country's exports incorporate inputs with foreign value added (the upstream component), and the extent to which its exports contribute value added to other countries' exports (the downstream component).

Table 4: Global Value Chains: Participation rate of various countries

Singapore	82%	Vietnam	48%
Hong Kong, China	72%	Indonesia	44%
Malaysia	68%	Mexico	44%
Korea	63%	Peru	42%
South Africa	59%	Turkey	41%
China	59%	Pakistan	40%
Tunisia	59%	Argentina	39%
Philippines	56%	Macao, China	38%
Thailand	52%	Brazil	37%
Egypt	50%	India	36%
Morocco	48%	Bangladesh	36%
Chile	48%	Colombia	26%

Source: UNCTAD, World Investment Report 2013. Global Value Chain: Investment and Trade for development, Geneva

Although the opportunities for GVC differ among these countries, they have some common disadvantages arising from small domestic markets and from being less connected to regional markets and already developed production networks. According to the survey by OECD-WTO (2013), of the main obstacle that LDCs face in connecting to value chains, more than half of domestic firms identified inadequate infrastructure as the foremost issue, followed by access to trade finance and compliance with technical standards.

Removing those constraints will require massive investment for infrastructure development, reforms in educational and skill development systems, and provision of financial and technical assistance to small and medium enterprises (SMEs). Given the limited availability of capital and technical capacity in LDCs, financial and technical assistance from partner countries through "Aid for Trade" programmes, knowledge and technology transfers from lead firm of GVCs, and support from international organizations could play an important role.

3. Areas for Action

To promote South-South (SS) cooperation the following areas should be given priorities:

1. Domestic resource mobilization: Broadening tax bases, enhancing efficiency of the tax collecting authority, ensuring transparency, reducing discretionary power of tax officials. However, strategy for domestic financing should be determined by the national governments. It should be pointed out that domestic resource mobilization should not be taken as the pretext by the developing countries to reduce the relevance of official development assistance (ODA).
2. Strengthening regulatory regime and creating enabling environment for private sector investment including FDI: Laws related to land registration, contract enforcement, to be made more relevant in the present context.
3. Strengthening the financial sector: Banks, non-bank financial institutions, insurance companies, capital market should promote private sector investment, financial inclusion and gender equality.
4. Roles of Policies: Along with fiscal and monetary policies, other policies like industrial policy, export policy, financial inclusion policy that hold out the promise of ensuring sustainable and inclusive growth should be introduced by the respective government.
5. Stronger and better-coordinated South-South cooperation in dealing with security issues has the potential to dramatically reduce international and civil conflicts, especially if drug trafficking and the global black market are collectively targeted for elimination.
6. South-South cooperation that aims to address humanitarian and social ills in Latin America and the Caribbean may be emulated to accelerate economic growth pursued with prudential measures to reduce inequalities, prevent social unrest and promote social cohesion.
7. As individual organizations of the United Nations system adopt strategic approaches to South-South cooperation in their policies and programmes, additional measures should be taken enabling

agencies with similar expertise to pool or systematize their support to efforts of developing countries in priority areas such as the enhancement of productive capacities and the establishment of regional and global value chains that are essential to job creation and poverty eradication.

8. The most radical implications of information and communication technologies have not been realized yet, especially in enabling new financing, management and marketing arrangements that will render obsolete the hierarchical, top-down organization of corporations. The ability to target niche markets cheaply will make artisanal and/or rural production competitive if the capacity to use off-grid renewable energy is better utilized for small-scale, high-quality industrial production in rural areas across the South.

9. The numerous contributions of the private sector and civil society to South-South cooperation should be better harnessed through stronger public-private partnerships that are systematically forged to address priority development needs through investments in science, technology and innovation, as well as in other fields where non-State actors have high levels of expertise and resources.

10. The export sector of developing countries can increasingly participate in global value chains (GVC) which will spread benefits within and across countries. Programmes for increasing GVC can be tied with post-2015 SDGs.

4. Conclusion

The post-2015 development agenda for the less developed countries needs to recognize the complex relationship between the state and the market, the nature of which is mostly complementary. Moreover, it is important to recognize the changing role of both state and market with time and specific country situation and the need to adapt to one another. The success in the past has come in countries which succeeded in bringing the right blend of the roles of the state and the market especially in ensuring investments in infrastructure and social sectors and promoting employment-creating and inclusive growth and development. There should be a clear message that achieving the MDGs and delivering on the post 2015 SDG agenda is not optional, since the agenda involves an essential investment for a safer, more human and prosperous world. The goals are not just an 'aid obligation' but the basis for political and economic strategies that will benefit all the world's citizens, and not just the least fortunate.





Muhammad A (Rumee) Ali
CEO
Bangladesh International Arbitration Centre

Building Financial Inclusivity for MSMEs through Technology & Innovations

The financial world has witnessed a quantum growth in access to information with advent of 4G mobile technology. The reason is the handheld device which morphed from being just a voice communication device to a 'phone' with formidable computing power. Here is quote that may surprise many of you:

"The Orion spaceship, which NASA launched this week as a first step on a mission to take astronauts to Mars, has a less powerful computer than your smartphone. It's widely known that today's smartphones have more computing power than all of NASA did when it started sending astronauts to the moon." (Dec 6, 2014, Matt Rosoff, Business Insider)



We now have in our hands a device that can communicate both data and voice. These are the two enablers we need to create the environment for innovation that can and will change the way we do business in every segment of the economy. The only thing that may stand in the way is investment and fear of disruptions to existing economic and market structures.

Mobile technology fast tracks empowerment of people by giving them access to areas that have been the preserve of few. Take the case of the information revolution. Today, access to information and knowledge is an immense leap from where we were, only three decades earlier. The journey from handwritten books which were understood and read only by a privileged few, to almost a universal access to information would not have been possible without the emergence of a device we call 'smartphone' and internet. And as the price of the device came down and the internet is becoming more accessible, we are seeing a growth of enterprises by using mobile based technology at a dizzying pace. Indeed it is the access to technology that has created the enabling environment for innovation. Innovations that used to be the preserve of R&D Division of large corporations and government research institutions, now is within the reach of a few young people with creative minds, firm commitment and persistence to create a 'game changing' application that could potentially change the way we do business.

This game changing application we call "disruptive technology" in reality, simply a better, cheaper and a more effective way of doing business. The only thing that often stops these from happening is vested investments in the prevalent technology or simply cultural mindset. The push back "Uber" received from many regulators was precisely because of the "disruption" it caused to the existing commuting businesses. The coinage of the word "disruptive" which has negative connotations emerges from this mindset. It is interesting to note that George Stephenson's steam engine wasn't described as "disruptive".

It is the ability of the technological innovation that mobile technology has made possible that will enable inclusivity. Inclusivity whether in health, education or in finance has been a victim of the existing cost structures created by vested investments that make universal access to these services uneconomical from the neo liberal 'market economics' point of view. No matter how we may feel about it from the socio-political point of view the emergence of neo liberal economics as the dominant policy plank and the main driver of resource allocation globally, market sustainability definitely is the main determinant of survival of a business.

In such a scenario the only way a sustainable model can be created is by harnessing the technology driven economies in the distribution structure. This will enable access to financial services possible, at a lower entry cost.

Personally, I have seen this happen first hand when we set up bKash (I was the founding chairman from inception to 2015). I had mentioned earlier about entrenched vested investments, but in the case of Bangladesh, the advent of

bKash was not challenged by the banking industry because they were not interested in the market that bKash targeted, the MSME. This allowed bKash to overcome the challenge of 'scaling up' and it was also able to overcome the other hurdle, cultural mindset.

I was asked a few years back, what to my mind, was the single most important achievement of bKash. I still think it is changing the mindset in a matter of time people are usually very conservative. bKash was able to change the concept of mobile phone being just a 'phone' to a device they could 'trust' for financial transactions.

The 'trust' is a 'public capital' this fintech startup has contributed to the future growth of Fintech industry in Bangladesh. The country has become a global force in Mobile Financial Services in a matter of few years and at a critical time in its economic journey towards becoming a middle income country. It is this capital that will be the building block for applications that will innovate different business models to create inclusive financing of MSMEs.



What does 'inclusive financing' mean? I would like to suggest that "inclusive" presupposes "access to finance". To answer the question what is "access" for a firm or an entity? I define access as:

"Engagement of the firm with the formal financial sector that establishes the conditions necessary to buy or sell financial products and services in a market usually on the basis of recognition of mutual benefits derived by the two parties. It is important because it signals the reliability of the firm to other stakeholders and creates the enabling environment for the firm to finance its growth and sustainability."

Therefore, the major drivers of creating a meaningful engagement and access are:

- Recognition of mutual benefit leading to;
- Financing of present and future requirements;
- Ensuring financial viability and sustainability of the firm.

If we go by this definition then the situation today, falls short of "sustainable access".

This is because the condition of "mutual benefit" is predicated by subsidy which financial institutions receive for their participation from the government. While this is necessary at the initial growth stages but sustainability has to be built on a market driven model. Fintech innovations so far, have been limited to 'payments' only which cannot be considered 'inclusivity', just the first step in the right direction. It has not been able to resolve issues of creating effective, useful and workable liability and loan products due to lack of application of data analytics either by the state players or the private sector ones.

If we are to create an effective access leading to inclusivity, we will have to necessarily harness technology in general and mobile technology in particular, to create a sustainable business model for MSME financial services enterprise. This model will be based on products (both loan and savings) which will be modeled on automated risk analysis based on risk parameters derived from data analytics. The overall Asset/Liabilty Management too has to be automated and be a part of the software core banking system.

This will bring costs down in this volume-driven-retail-banking model with a mobile phone based distribution. There will be at least initially a need for minimally staffed agents to meet the 'last mile/cash' needs. Here the existing MFS operators can have synergies or may be able to take over this function on an outsourced basis.

The most important benefit this model will potentially have is a far reaching one. It will create the basis for the central bank to gradually roll out digital currency and integrate the dispersed and uneconomic and inefficient financial system.

To some all this may sound unrealistic but how many of us actually expected the quantum impact mobile technology will have, not only as a communication tool but as an instrument of change in our socio-economic-political ethos.



Zahid Hussain
Former Lead Economist
The World Bank, Bangladesh

Reducing Inequalities: Progress and Challenges

Inequality refers to how unevenly ownership of and access to resources and opportunities are distributed within and across countries. The Sustainable Development Goal10 aims to reduce inequality within and among countries by 2030. The Agenda calls for a "just, equitable, tolerant, open and socially inclusive world in which the needs of the most vulnerable are met." Ten targets specifying the goals and 11 Indicators representing the metrics have been defined to track progress. The targets capture multiple drivers of inequality to ensure that no group or individual is left behind. Three targets aim to reduce inequality among countries with attention to cross-border flows of finance and people and the distribution of voice in global institutions. Four targets address within country inequality across social, economic and political dimensions aiming to expand prosperity, inclusion, and social protection. The other three targets focus on the means of implementation for attaining greater equality by directing resource flows toward those most in need.

What were the initial conditions against which we can assess progress on this goal? Thomas Blanchet and Lucas Chancel report in their "The Elephant Curve of Global Inequality and Growth" (2016), that North Americans enjoyed an income three times higher and Europeans two times higher and China slightly lower than the average per adult national income at the global level in 2015. The preceding four decades displayed very different national pathways reflecting the criticality of political and institutional factors in shaping the distribution dynamics. Overall, income inequality within countries increased sharply, but the situation more or less stabilized beginning in the early 2000s.

Global Trends

According to the Report of the Secretary-General, Special edition: progress towards the Sustainable Development Goals 2019, inequality within and among nations remains a significant concern despite progress in narrowing disparities of opportunity, income and power. Income inequality has increased in many parts of the world, even though the income of the bottom 40 percent of the population in many countries had positive growth rates. In 69 countries, income of the poorest 40 percent grew, but with large variations among countries. In 50 of those 69 countries, income growth in the poorest 40 percent of the population was faster than the national average. However, the bottom 40 percent still received less than 25 percent of overall income.



Most of the recent reduction in global inequality derives from the convergence of income between countries largely because of the rapid growth in China and India. Despite some longitudinal decline, inequality remains unacceptably high: the Gini exceeds 50 in several countries, and, in Haiti and South Africa, it even exceeds 60. The share of the income distribution going to the top 1 percent is known to have increased wherever information is available, regardless of aggregate trends worldwide.

Broadening social inclusion to reduce inequality is a key development objective for many countries. Policies promoting equality and inclusivity have universal relevance since income inequality is not strongly correlated with either poverty or affluence. One indicator of relative poverty and inequality is the share of people living below 50 percent of the median income level. Data from 110 high- and low-income countries show that the median country had 14 percent of the population with income levels below that threshold. The most unequal country had 26 percent below that threshold, and the most equal country had 3 percent.

The extent to which increased national income leads to improved living standards depends on its distribution across labor as well as owners of capital and land. The share of labor in total national income indicates whether economic growth is trickling down to workers over time. Globally, the share of national income going to labor has been trending down since 2004. Central and Southern Asia and Europe and Northern America were the main drivers of the declining global labor share. Between 2004 and 2017, the adjusted labor share of GDP decreased from 51.2 to 45.8 percent in Central and Southern Asia and from 59.6 to 57.6 percent in Europe and Northern America. The exceptions were Latin America and the Caribbean where the labor income share increased from 48.4 to 50.5 percent during the same period. The decrease in labor share was temporarily reversed during the global financial crisis of 2008–2009 due to a sudden contraction in GDP.

Migration of labor internationally is a key to reducing inequality between countries. Moving to a new country often triples the wages of migrants enabling them to escape poverty and support relatives at home through remittances. Countries receiving migrants can also benefit



by filling gaps in skills. Policies to promote cooperation and partnerships and to facilitate safe, orderly and regular migration are the most widespread, with more than three quarters of countries reporting a wide range of such measures. Migrants numbered more than 250 million in 2017, constituting 3.4 percent of the global population, an increase from 2.8 percent in 2000. Half were living in high-income countries, where they made up 14 percent of the population, compared with 9.6 percent in 2000. However, the largest policy gaps are in areas pertaining to migrant rights and socioeconomic well-being. There is also a backlash. In the U.S. and Europe, concerns that migrants are stretching local services and disturbing order have been harnessed by nativist politicians embracing tighter controls.

There remain formidable barriers for people to migrate because of insufficient action to ease the movement of people across borders. Additional and more widespread national and global efforts to reduce recruitment and remittance costs, recognize the skills that migrants bring, enhance the portability of social security coverage, and remove restrictions on access to paid work for displaced people warrant greater consideration. The global average cost of sending remittances has declined in recent years although rates are still more than double SDG targets. The recent adoption of the Global Compact for Safe, Orderly and Regular Migration is a significant step in this direction.

Tariffs faced by small island developing States and least developed countries have been falling. Coverage of duty-free treatment of LDCs increased by 5.5 percentage points between 2016 and 2017, reaching 65.6 percent of all LDC products exported. Improvements in the treatment of LDCs were primarily due to growing duty-free access for agricultural and industrial products. Beyond LDCs, about 51 percent of exports from developing regions are now eligible for duty-free treatment. This progress has been mixed across countries and regions. Moreover, such access for LDCs and other developing countries is not automatic at customs checkpoints. Exporters need to comply with rules-of-origin certification processes to benefit from preferential treatment.

Data gaps continue to inhibit tracking of progress. Indicators attached to five of the targets in SDG 10 fall under Tier III status, meaning that regular reporting against these indicators is not yet fully developed and tracking of progress at global, regional and national levels is limited. This includes indicators for monitoring discrimination and disaggregated income deprivations which are important for informing inclusive policies. For a long time, the debate about inequalities has focused on those at the bottom of the income pyramid. It is therefore noteworthy that the Secretary General's report lists the increasing income concentration at the level of the top 1 percent of earners as a significant concern. Rising income inequalities in high- and middle-income countries is also listed as a challenge in the independent 2019 Sustainable Development Report. Data on income growth for different subsets of the population is lacking in many countries in Africa and South Asia. Progress on improving data collection and statistical capacity-building, especially in the poorest countries, is modest at best.

Trends in Bangladesh

Progress on reducing inequality in Bangladesh has been somewhat mixed. Although GDP growth accelerated between 2010 and 2016 compared to years before 2010, household survey data show consumption growth has slowed. The share of private consumption in total GDP declined from 74 to 69 percent between 2010 and 2016, while investment increased by 3.4 percentage points. Average consumption growth fell from 2.2 percent in 2000 to 2005 to 1.8 percent in 2005 to 2010 and 1.4 percent from 2010 to 2016. Consumption growth has also become more unequal over time. Poorer households experienced slower consumption growth (1.3 percent among the bottom 40 percent) than richer households (1.4 percent among the top 60 percent).

Consumption growth had been higher among poorer households from 2000 to 2005, compared with growth from 2010 to 2016. During the latter period, consumption growth was highest for people in the 40th to 75th percentiles. It was lower for the poorest and for the richest, particularly those in the top third of the urban distribution. Consumption growth was highest for the most well-off rural households. As a result, although Bangladesh recorded healthy consumption growth among the bottom 40 percent, it did not fare well on measures of equality and shared prosperity.

Most measures of inequality increased from 2000 to 2016, particularly in rural areas. The Gini coefficient increased by one percentage point. Increased inequality was particularly pronounced in the rural areas. The rural Gini increased from 0.27 to 0.29 because the bottom 10 percent of households in rural areas did not fare well and because rich rural households experienced higher consumption growth. Inequality in urban areas fell because of the low growth of consumption at the top end of the consumption distribution. Poverty would have fallen by an additional percentage point had consumption growth been distributed equally. Of the 8.5 percentage points of poverty reduction

from 2005 to 2010, 6.2 percentage points can be attributed to the overall growth in consumption and 2.3 percentage points can be attributed to the fact that consumption grew faster among poorer households. In contrast, all of the 7.2 percentage points of poverty reduction from 2010 to 2016 can be attributed to growth in average consumption. Inequality in the growth of consumption reduced the overall rate of poverty reduction.



Apart from inequality concerns, long-term economic growth and social stability are important for policymakers to focus on raising inter-generational mobility by equalizing opportunities. Inequality of opportunity that leads to lower inter-generational mobility is damaging to a country's long-term growth prospects due to the wasted human potential it implies. There is evidence that inequality in human development among children belonging to different socio-economic groups leads to lower economic growth. While inequality produced by rewards to differences in effort can raise economic growth by creating the right incentives for work, innovation and human capital investments, inequality attributable to an individual's circumstances at birth could have an opposite effect, by discouraging effort and education.

Breaking the cycle of low mobility and high inequality will require expanding and equalizing opportunities, to remove the disadvantages that certain segments of society face due to their pre-determined circumstances. In SDG 10, the international community has certified that inequality still persists and large disparities remain in access to health and education services and other assets. The focus is on selected interventions on which a body of rigorous evidence has been accumulated, including evaluation evidence, thereby allowing lessons to be laid out with confidence. The specific interventions needed are in the following areas: Early Childhood Development (ECD), including breastfeeding; universal health care coverage; good-quality education; conditional cash transfers; investments in rural infrastructure, electrification; and income and consumption taxes.

There is growing consensus that economic growth is not sufficient to reduce poverty if it is not inclusive and if it does not involve the three dimensions of sustainable development – economic, social and environmental. The policy areas relevant in the effort to reduce inequality, alongside macroeconomic management, steady growth, and well-functioning labor markets are human capital accumulation, investments in infrastructure, and progressive fiscal policies subject to environmental sustainability constraints.

The stability of a country's financial system is key to efficiently allocating resources, managing risks, and ensuring that macroeconomic objectives that benefit all are met. One measure of financial stability is the share of non-performing loans in relation to total loans to depositors in a banking system. An analysis of 138 countries from 2010 to 2017 showed that, in half of the countries, non-performing loans made up less than 5 per cent of total loans. In 2017, more than one quarter of the countries showed a higher percentage of non-performing loans (10 percent or more), and four countries showed a proportion higher than 30 percent. In Bangladesh, this is now 11.7 percent, according to official measures. A high proportion of non-performing loans usually affects profitability and undermines the broader business environment, which can have consequences for economic growth, unemployment and other factors affecting inequality. Recent work in the finance literature has emphasized the importance of the formal financial system in affecting the degree to which economic opportunities are defined by talent rather than by parental wealth and social connections.

Moving forward

The World Bank's Inequality and Shared Prosperity Update 2019 observes that the world will not be able to end extreme poverty by 2030 without a significant reduction in inequality, especially in countries with high poverty and inequality. The increasing share of income going to the top 1 percent is of great concern in far too many places. A stronger focus on faster inequality reduction, especially in countries with high inequality and large numbers of poor people, will enhance the power of economic growth to translate into poverty reduction and better opportunities for all.

High and sustained economic growth will remain critical for reducing inequality in low and low middle-income countries in Asia and Africa. In his book Global Inequality (2016), Blanco Milanovic notes that "a fine balancing act must be done between three variables: growth rates of poor (and populous) countries, migration, and environmental sustainability. Migration and the development of poor countries are, from the point of view of global poverty and inequality reduction, equivalent: poor people would become richer, either in their own countries or somewhere else. Politically, of course, they are not equivalent. But this worthwhile objective of increasing people's income has to be balanced by making sure that it is ecologically sustainable. That would, in principle, require the largest sacrifices from the rich."



Naser Ezaz Bijoy
Chief Executive Officer
Standard Chartered Bank Bangladesh

The Middle-income Conundrum

The world as we know it is changing, and it is changing rapidly.

It has been 48 years since introduction of the Least Developed Countries (LDC) classification. Only five countries have previously left the list. Now, on the back of a decade of growth led by frontier and emerging markets, 10 or even more countries, including Bangladesh, are set to graduate by 2024. These are heady times for these emerging economies, set in the backdrop of a developed world that is still feeling the aftershocks of the 2008 financial crisis, and a continuing wave of protectionist fervour. The question now is: how do we keep up the growth momentum?

Because the new reality of these growth hotspots will come with its own set of challenges. As they lose their concessionary trade agreements and official development assistance (ODA) are recalibrated towards nations with more pressing needs, these new graduates must find new avenues for resource mobilization and must do so fast. These resources will not only feed the voracious appetite of these economies, but would also be required in meeting their growing responsibilities towards sustainable environmental and social priorities, as set out in the Sustainable Development Goals (SDGs) roadmap.

The growth of these burgeoning economies will naturally develop a deeper pool of domestic resources, which will be supported by improvements in their capacity to develop sound social, environmental and economic policies, good governance and enhanced revenue administration. Yet, with the United Nations estimating that developing countries face an annual funding gap of USD2.5 trillion in meeting the SDGs, mobilizing domestic resources alone would not be enough.

Aligning private sector incentives with public goals will be a key piece of the puzzle. Policies and regulatory frameworks that encourage the adoption of sustainable practices, and enable long-term quality investment can harness the potential of the private sector to be an engine of sustainable development. Developing efficient, well-regulated domestic capital markets, especially developing the bond markets will be an important step in harnessing the full potential of the power of the private sector as an essential building block in sustainable development. This will require developing the market and governance framework of debt capital markets, and facilitating the growth of domestic investor base with long term investment horizon (e.g. insurance companies, pension funds etc). As the graduates continue to attract rising foreign direct investment through improvements in ease of doing business and optimizing legal and regulatory framework, it will also be important to maximize positive spillovers such as know-how and technology, and greater integration of local enterprise into global value chains.

Private capital or an individual investor can have a sizeable say in our sustainable growth journey. Standard Chartered's recent survey across the global financial hubs of Singapore, Hong Kong, the UAE and UK[1], revealed two things. First, there is significant interest among affluent and high-net-worth investors to put their savings towards key SDGs. Second, the size of wealth pool held by affluent and high-net-worth individuals in Singapore, Hong Kong, the UAE and UK alone is USD 5.4tn, of which only 17 percent is currently channelled towards sustainable investing.

Financial institutions have an important role to play in using their capabilities to promote sustainable development through financing and financial instruments. Emerging markets banks such as Standard Chartered, have been leveraging their global networks to get financing for sustainable development from where it exists to where it matters most. Green, social and sustainability bonds have been issued to finance emerging markets for some time now. Recently, Standard Chartered has launched the world's first sustainable deposit – a product for corporate clients, the funds from which will be used to finance projects aligned to the SDGs in emerging markets, such as infrastructure and power.

The potential is obvious, but there is a caveat. Research Standard Chartered carried out in 2018 have shown us that 84 percent of investors in Asia engage in some form of sustainable investing. While these investors currently allocate 16 percent of their wealth to philanthropy, eight out of 10 of them are willing to shift some of this capital towards sustainable investing, if standardised impact measurement can be provided. Data from the Global Impact Investing Network shows that 59 percent of impact investors set targets to measure their progress on SDG indicators. This

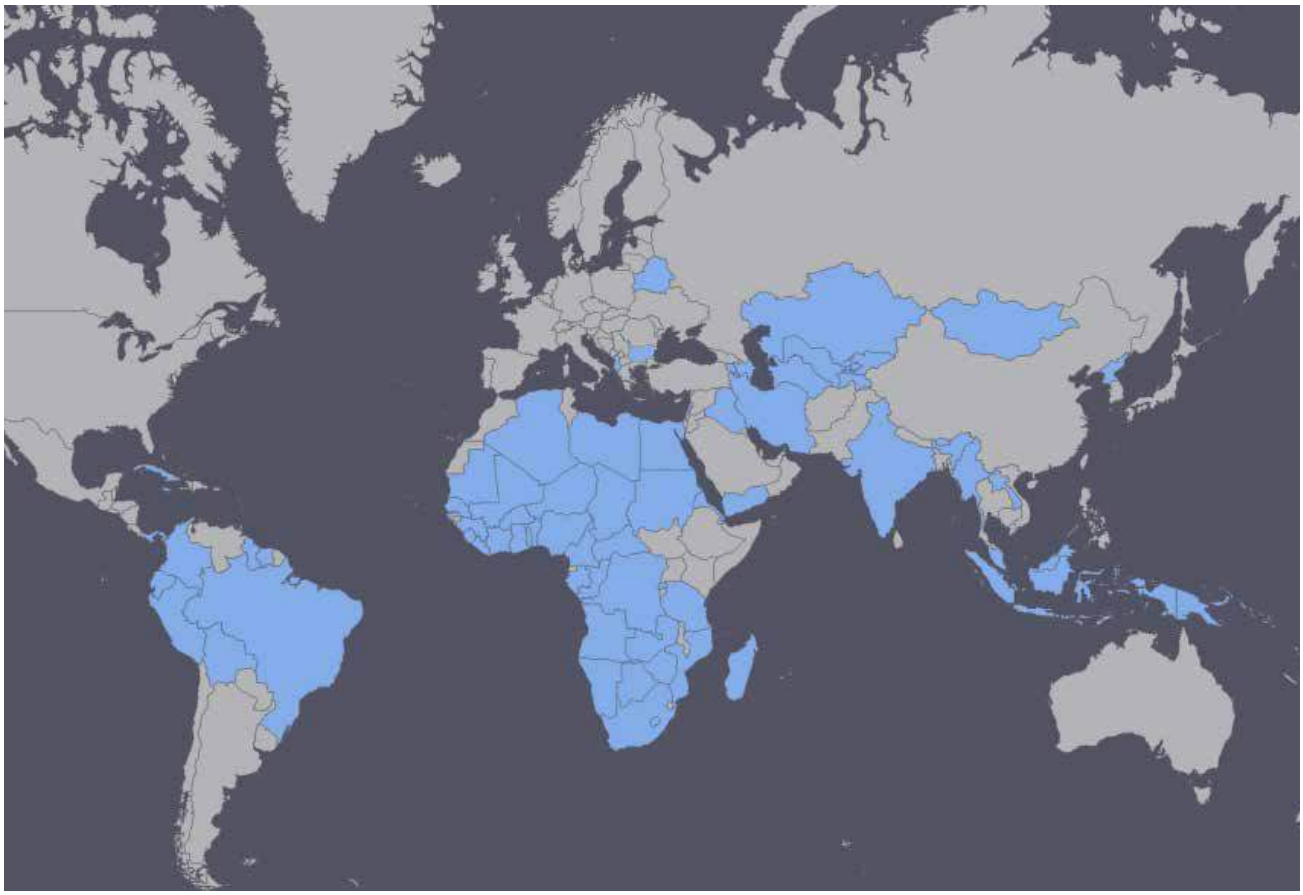
[1] *https://www.sc.com/en/grow-your-wealth/sustainable-investing/*

is corroborated by our own survey: investors are looking for specific measurement indicators and want to see them improve through their sustainable investment. As the LDC graduates move up the development ladder, further development of national statistical systems will have a central role in generating, disseminating and administering high-quality data, which will strengthen domestic capacity, transparency and accountability in global partnerships.

Yet, the private sector alone cannot be expected to fuel sustained growth. To put the gargantuan size of the challenge ahead, consider this: the Asian Development Bank estimates that Asia, a hotbed of growth, will require infrastructure investment of USD 26 trillion from 2016 to 2030, or USD 1.7 trillion per year to maintain its growth momentum, tackle poverty and respond to climate change. Both public and private investment have key roles to play in addressing this gap. Blended finance, which combines concessional public finance with private finance and expertise from both the public and private sectors, enabled by a network of development banks, development finance institutions and tools and mechanisms such as public-private partnerships, will be an important approach and shine a light on how these two sectors can effectively collaborate towards the common goal of sustainable development.

All this is not to say official development assistance (ODA) has lost its relevance for LDC graduates. ODA, with its capacity to catalyse additional resource mobilization, unlock additional finance through blended or pooled financing and risk mitigation, fostering enabling domestic environments and build essential public services remain as important as ever. Ongoing assistance, in the form of grants, loans, or risk participation of development partners, will depend on enhancement of institutional capacity, the holistic effectiveness of the utilization of funds (e.g. social and financial returns), and maintaining political stability.

But the facts of the matter remain: concessional finance is reduced as countries' incomes grow, and middle-income countries still face significant challenges in mobilizing resources for sustainable development. Finding the right solutions to the diverse and complex needs of the emerging middle-income nations can provide the roadmap for the new growth spurt of the world economy. This is where regional cooperation can play a key role – by harmonizing cross border trade arrangements and reducing transaction cost, through integration of financial markets to expand investor base and expanding blended finance/public private partnerships beyond geographic boundaries, enhancing connectivity across regions to facilitate freer movement of people, goods, information, and energy – by aligning the efforts to develop both hard and soft infrastructure.



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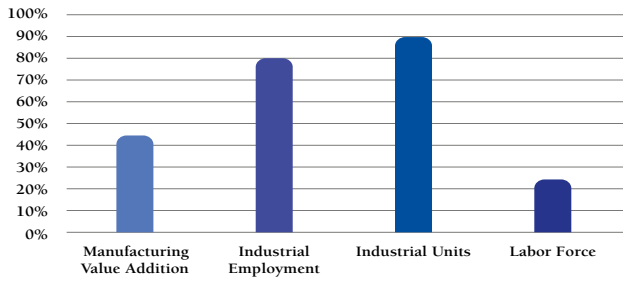
ORJON: Spreading Unbound Smiles: A Success Story Of Financing MSMEs Through Technology

ORJON is a Digital Supply Chain Platform developed by IPDC Finance Limited (IPDC) in technological partnership with IBM by using blockchain technology. It is designed and implemented by IPDC for promotion of financial inclusion of MSMEs by providing easy access to low-cost credit in the form of Supply Chain Finance in collaboration with corporate bodies through creating an ecosystem first ever in Bangladesh for end-to-end supply chain management.

Supply Chain Financing (SCF) execution involves a lot of manual process that includes collection of bill/ invoices, lifting orders, work orders etc. verification and authentication of the same and ensuring collection of repayments. Often SCF are of high cost, inappropriately structured, complex in process and does not adequately support the growth aspiration on MSMEs. It requires significant operational resources of the financing Banks/FIs to effectively mitigate the operational risk involved in the process resulting in slow penetration in Bangladesh market in absence of a digital ecosystem.

As such, IPDC took the initiative to digitalize the processes which eliminates the physical movement of the documents required for SCF execution and collection of repayments. The process involves development of a secured system which involves the borrower, its debtors and the financier be in the same digital platform. This system is coined as the Digital Supply Chain Platform, and for it to be secured, IPDC in partnership with IBM, introduced blockchain technology, first ever in Bangladesh.

MSME Contribution in Bangladesh Economy



MSMEs are playing a vital role for the country's accelerated industrialization, economic growth, employment generation and reducing poverty. They account for about 45% of manufacturing value addition, about 80% of industrial employment, about 90% of total industrial units and about 25% of the labor force. Their total contribution to export earnings varies from 75% to 80%. The industrial sector makes up 31% of the country's gross domestic product (GDP), most of which is coming from MSMEs.

The 2003 Private Sector Survey estimated that there are about 6 million micro, small and medium enterprises, with fewer than 100 employees. About 60% to 65% of all MSMEs are located outside the metropolitan areas of Dhaka and Chattogram. The country's MSME sector has created 15 lakh jobs between 2009 and 2014.

MSMEs often complain that the lack of finance stops them from growing and fully exploiting profitable investment opportunities. This gap between the finance available to

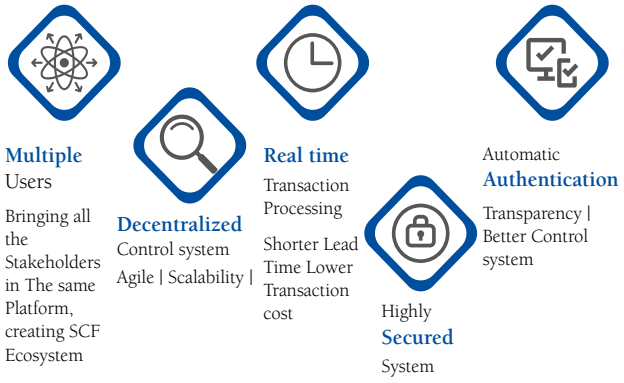
Drawbacks of Manual SCF System

Challenges	Outcomes
Manual Stakeholder coordination	• Communication Gap • Lack of Authentication & Transparency
Limited Business expansion	• Lack of resource & supplier option for corporations • Limited service commitment
Higher Operational cost	• Longer processing time • Increasing opportunity cost
Poor Networking	• Lack of collective effort • Idiosyncratic approach towards market economy

MSMEs and the finance that they could productively use is often known as the 'funding or financing gap'. The MSME sector tends to suffer because MSMEs are viewed as a less attractive investment opportunity than many others due to the high levels of uncertainty and risk they are perceived to have. This perception of risk is due to several reasons including MSMEs often have:

- Limited transaction record
- Non-existent or very limited internal controls
- Few external controls. For instance, they are unlikely to be abiding by the rules of any stock exchange
- One dominant owner-manager whose decisions may face little questioning
- Few tangible assets to offer as collateral

As a result of the above, financiers are less confident investing in MSMEs as they are concerned with how their funds might be used and the returns that they might get. Hence, the easiest thing for financiers is to decline any opportunity to invest in a MSME. Counterbalancing these uncertainties of utilization of funds, credit risks and absence of collateral, IPDC Finance Limited (IPDC) for the first time in Bangladesh implemented ORJON: integrated digital platform developed by using block chain technology for supply chain management including financing module, made available to the MSMEs and Corporates thus building an ecosystem.



The use of the blockchain technology enables all parties in a supply chain to act on a single shared ledger. A supplier (MSME) and buyer (Corporate), along with every other participant will solely update their parts of the transaction, enabling efficiency and an unprecedented level of trust and transparency on a ledger record that is immutable. The ecosystem ensures MSMEs get direct access to Corporates for their product/service delivery eliminating the mid-tier(s). This will foster faster growth for MSMEs and hence generate employment.

Products offered through ORJON:

Factoring/ Bill Discounting	This source of finance effectively let MSME to raise finance against the security of their outstanding receivables. As MSME grows, their outstanding receivables grow and the amount they can borrow from invoice discounting also grows. Hence, factoring limit grows automatically as the business grows.
Work Order Financing	MSMEs who supply goods and/or services to large corporate entities on a recurring basis, often find their working capital trapped, limiting the volume of new work orders. Under the circumstances, MSMEs can avail financing against multiple work orders from multiple buyers simultaneously through the platform.
Distributor Financing	Distributor Finance is the provision of financing for a distributor of a large manufacturer to cover the holding of goods for re-sale and to bridge the liquidity gap until the receipt of funds from receivables following the sale of goods to a retailer or end-customer.

IPDC aims to eventually open up the platform for other Banks/FIs to use for the supply chain finance with a revenue sharing model, which has the potential to be a 'game changer' in fostering the MSME finance in Bangladesh.

SPREADING UNBOUND SMILES THROUGH ORJON:

a. **SMILES THROUGH CREATION OF EMPLOYMENT:** Every year about 2 million young people join the country's workforce. Bangladesh has not yet displayed adequate performance in large-scale industries that are predominantly owned and operated by public bodies, the country can solve its unemployment situation by encouraging MSMEs. Seasonal and disguised unemployment can also be solved to a substantial extent by MSMEs. ORJON ensures liquidity and financing opportunities in a secured, fast and collateral free manner that create jobs and thus creates entrepreneurs.

b. **UNBOUND SMILES IN EVERY CORNER OF THE COUNTRY:** Through creation of employment and entrepreneurs, ORJON reduces the urban migration in the capital and other major cities. ORJON supports increased cash flow in the rural areas and thereby enhance the standard of living of the rural people.

MSMEs are widely distributed all over the country which means ORJON plays a major role in bridging the urban-rural income gap.

c. **ENSURING INCLUSIVE GROWTH:** The target of achieving double-digit GDP growth rate hinges largely on the performance of the micro, small and medium enterprises. In a labor surplus country like Bangladesh, MSMEs play a substantial role in providing the impetus to the development of the modern manufacturing sector and the job creation outside the agriculture and informal sectors and contribute towards inclusive growth.

d. **PARTNERS OF EFFICIENCY:** One of the major benefits of ORJON include the ability to manage cash flow more effectively as invoices may be paid on time through the platform by IPDC. Reconciliation and management information can also be enhanced since ORJON provides consistent information on funds being credited creating efficiency for the corporate bodies and MSMEs.

   a. **EVERYBODY IS A WINNER:** ORJON ensures a "win-win" scenario as there are opportunities for corporate bodies/anchor to achieving better commercial terms without negatively impacting on buyer-supplier relationships and ensuring they remain financially viable.

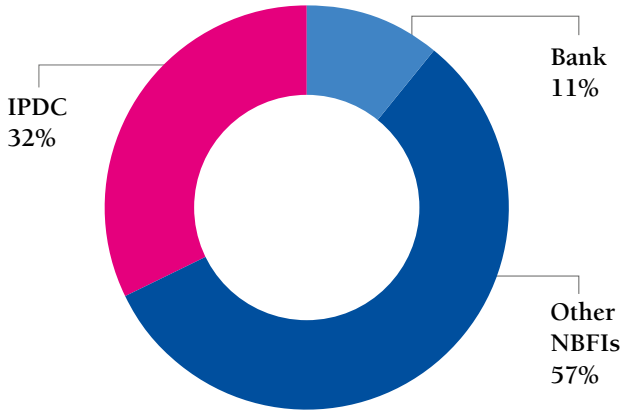
   b. **FRIEND IN NEED:** ORJON assures timely supply of required goods/services to manufactures by ensuring liquidity to its suppliers (MSMEs). As such, during uncertain times ORJON is a friend in need. This is particularly important when buying from only one source.

   c. **ORJON CREATES VALUE:** ORJON through streamlined end to end supply chain management provided operational improvements that help lowering supplier queries and associated costs.

AIMING TO CREATE SUCCESS STORIES

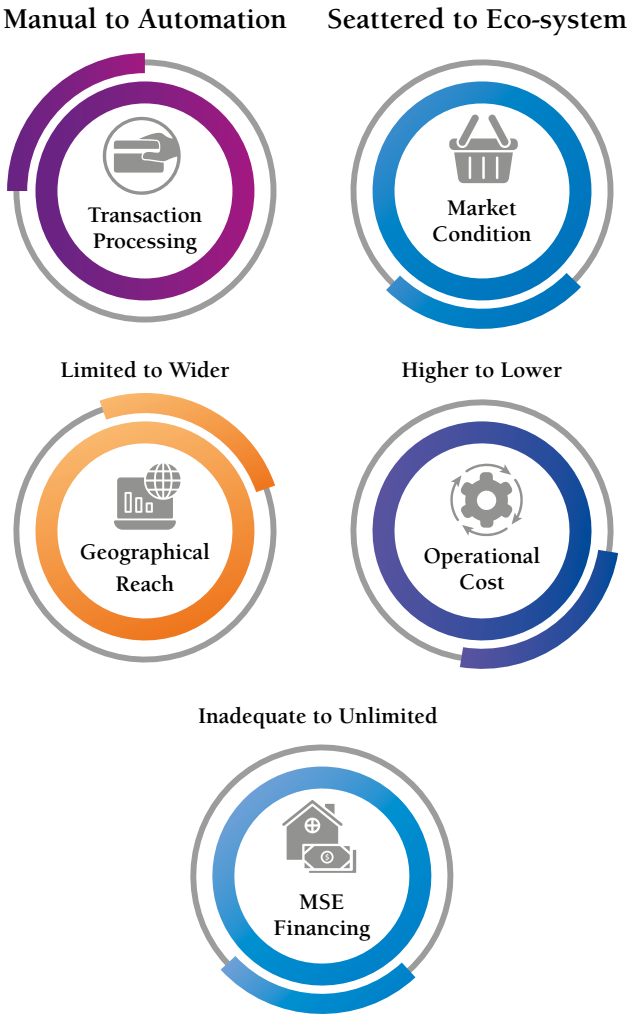
As per research report of Bangladesh Institute of Bank Management (BIBM), current SCF market size in Bangladesh is approximately USD 100 million and 89% of it are held by Non-Bank Financial Institutions (NBFIs) while Banks contribute to only 11% approximately. IPDC is already the market leader in SCF financing in Bangladesh holding approx. 32% of the total market pie. However, a lot of the MSMEs are still outside of SCF opportunities due to not having the required documentation required by traditional banking system.SCF market pie

SCF market pie



With the implementation of the ecosystem, whereby credit line would be easily determined through examining the transaction history recorded in the platform, IPDC is confident to reach a larger number of MSMEs through easy access to finance with no collateral.

Innovation of ORJON



Innovation of ORJON

IPDC has already on boarded 2,000 plus MSMEs and 11 plus corporates/enterprises within the first year of launching the system. ORJON is helping the MSMEs acquire new businesses as well as leverage their existing strength. It's helping the market to shift from traditional supply chain finance to highly secured automated environment. This innovation made it possible to minimize the geographic barriers. All the parties from different locations can have the access to the ecosystem. This minimizes the data or clerical issues usually encountered in manual processes. The technology, via automation of processes and protocols will remove middlemen. Companies and businesses will be benefited with lower cost fund and reduced transaction costs.

IPDC envisions on boarding 5,000 MSMEs over the next two years through ORJON. Because of the necessity, demand, and inbuilt features of ORJON, IPDC is targeting to serve at-least 25,000 MSMEs over the next 5 years with more than USD50 billion of disbursement through this platform. IPDC also plans to develop a consortium of Banks and financial institutions through ORJON to serve larger number of MSMEs. Other Banks and Financial institutions will be able to use ORJON to serve their clients, creating a secured ecosystem. IPDC also envisions spreading smiles by creating 200,000 employment within the year 2024.

ORJON is in the verge of creating a revolution by development of an eco-system than not only will ensure financial inclusion but also will make a secured, transparent, reliable marketplace and create collaboration of all the value chains connecting all the dots required for efficient, optimized, sustainable economic growth.





Professor Dr. Sharifah Sabrina
CEO, BNG Global Holding Malaysia
Chairman, Jhilmil Residential Park Bangladesh

Leveraging Private Investment Through New PPP Modalities

In simple terms leveraging refers to the process by which private sector capital is mobilized as a consequence of the use of public sector finance and financial instruments. There is no uniform methodology to calculate leverage ratios of public to private finance, and different financial institutions report this ratio in different ways. Sometimes leverage ratios are expressed as the ratio of total funding to public funding; the ratio of private funding to public funding; or the ratio of specific public climate finance to broader public and private finance flows.

In general, leverage means positional advantage, power to act effectively. In financial usage it means the "use of credit to enhance one's speculative capacity". It is the usage of one's ability to borrow to take greater risks, expecting greater returns, but potentially incurring losses.

In a broader sense it is "the ability of a public financial commitment to mobilise some larger multiple of private capital for investment in a specific project or undertaking."

Measuring leverage

In developing Financing Strategies for Public Private Partnerships (PPP), in particular for infrastructure financing and the development of capital markets, there are no agreed measures, but leverage is usually expressed as a ratio, though there are different ways of defining leverage ratios. The one most commonly used by the Bank, is:

Public or publicly backed investment: private investment OR
Grant element of public investment: overall investment

In general, PPPs consist of both public and private sector. While the public sector will prioritise the social return of investment "SROI", the private sector presumably will evaluate its participation based on the financial ROI of the project. Thus, soliciting investments for such partnerships, blending the financial means from the stakeholders, and attracting capital for their activities can all be quite challenging.

However, it provides opportunities for an array of innovative funding mechanisms provided that good risk management is evident in the project.

Methods of leverage

The different types of financial leverage are largely already in use at the World Bank Group. They can be divided into three types:



Loans, Equity Investments, Grants (Donations, Transfers, Subsidies). The former two can be categorized as repayable funding with the difference being loans are structural and fixed where else equity provides ownership of the project and is result based, entitling a portion of profits to the respective stakeholders.

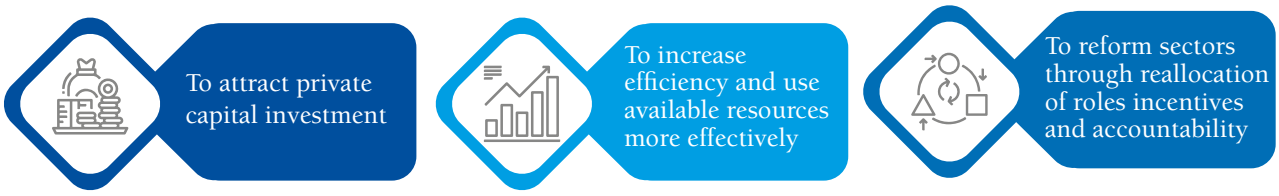
In attracting private investments for PPP, while it may seem to present an opportunity of being able to tap into multiple number of financing sources, where the combination of the government and the private sector would expand the funding options, but in reality many see such partnerships as complex and making it difficult to establish investments. In our experience, the situation becomes even more challenging when the prospective investors have poor knowledge of the development of the country in question.

It is through such a learning curve that we in the private sector will work hand-in-hand with the public sector in devising instruments which would enable us to attract innovative financing for the PPP projects.

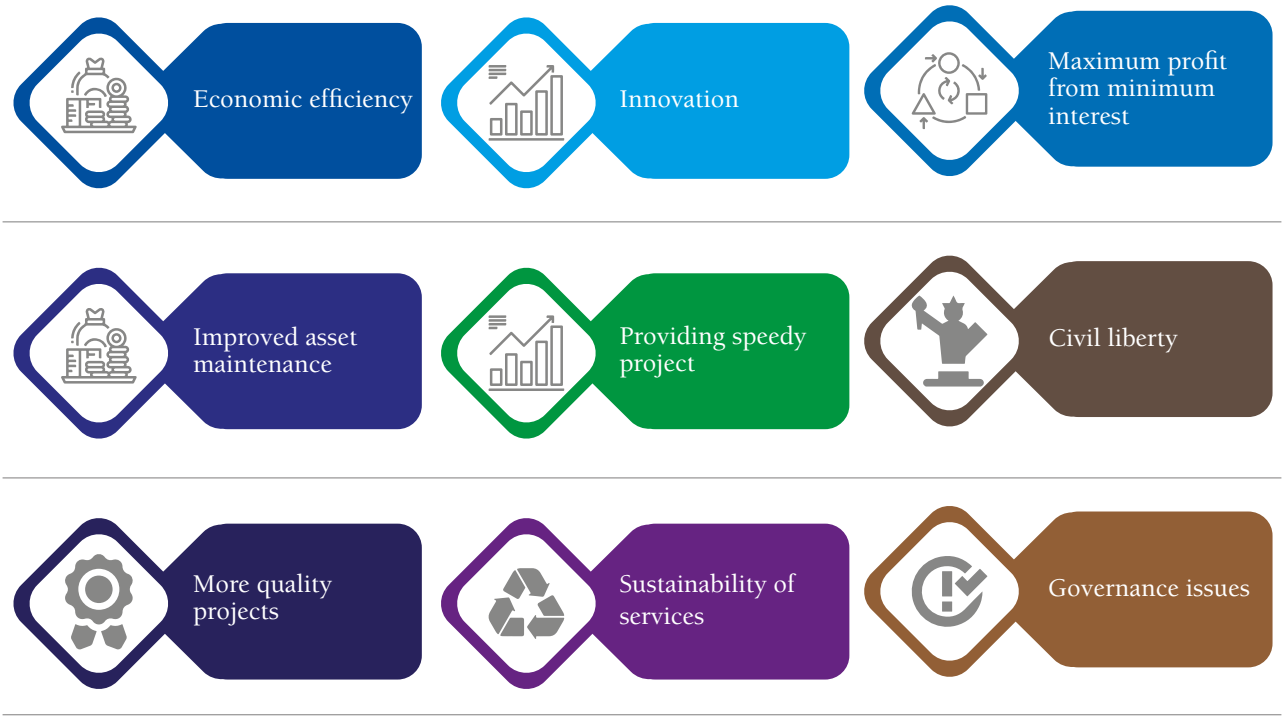
BLENDED FINANCE

Blended finance offers countries such as Bangladesh a vital opportunity to mobilise additional financial resources to address the complex development challenges set out in the 2030 Agenda for Sustainable Development. As a lower-middle-income country, Bangladesh will increasingly experience the reduction of available concessional financing for development. In this scenario, blended finance has the potential to attract investment in areas and sectors that are critical for the attainment of the Sustainable Development Goals in Bangladesh

Basically there are 3 major need that attracts governments to accept the PPPs as an option. They are :



In addition to this some other options that encourage government to accept PPP as an option are:



The ongoing paradigm shifts in the world economy, the emergence of new global concerns over recent decades, and the magnitude of the economic and financial crisis which begun in 2008-2009 have further challenged traditional views of the role of the state, the private sector, civil society and community organizations as well as traditional models for cooperation between them. In industrialized countries, the economic and financial crisis and the subsequent eurozone debt crisis have led to one of the worst economic depressions in recent history, placing increasing pressure on public finances and job markets and further questioning the sustainability of traditional welfare models. By contrast, between 2008 and 2012, the countries of the global South – particularly China and the other BRICs (Brazil, Russia, India and China, taken together) and rapidly growing emerging economies – emerged as key drivers of global growth. These trends, together with the dynamism of South-South trade and cooperation, have contributed to a relative shift in traditional balances of power and centres of wealth.

Public-Private-Partnerships (PPPs) are medium or long term contracts between the public and private sector for delivery of a public service or infrastructure project. The



main innovation is that the public sector defines what it wishes to achieve and the private sector is given some freedom to come up with how it will meet this expectation. In addition, some of the risk in terms of delivery is transferred from the public sector to the private sector. This method fits between traditional procurement and full privatisation of services or works.

Today Bangladesh is a developing country with the vision of becoming a middle-income country by the year 2021. The development of a number of infrastructure projects in Bangladesh represents a positive shift in the country's future progress. Having surpassed the lower middle-income threshold in July 2015, Bangladesh seeks to build on the economic gains it has reaped over the past decades to achieve sustainable growth and attain upper middle-income status. Therefore, it is pertinent for Bangladesh to focus on infrastructure, logistics, research and development, and industrial diversification to remain competitive in a changing economic landscape.

The development agenda underlying the current development plans, including the Seventh Five-Year Plan and Perspective Plan, is consistent with the rapid economic growth and poverty reduction, employment generation, broadbased strategy of inclusiveness and a sustainable development pathway with appropriate measures for protection of the environment. The country needs to implement policy reforms to improve the business environment, reduce the cost of doing business, and diversify its industrial base. Exploiting the full potential of the country's various regions and finding new sources of growth will be critical for Bangladesh to embark on and sustain a higher growth trajectory. Thus, Bangladesh needs a holistic development strategy. Inviting private sector to complement this growth trajectory alone would not suffice. It needs to be accompanied with a positive public sector rationale.

PPPs have traditionally been seen as tools to provide powerful leverage to carry out large projects, chiefly in the area of infrastructure development and also in encouraging long-term productive and export development strategies. In the case of infrastructure, the long-term nature of the investments and the risks involved, means that success is contingent on collaboration between public and private stakeholders. In various innovative success stories, the state has been a powerful driver and risk taker at the early stages of development. Bangladesh has to take a more serious look at this hand holding with the private sector.

So far, total 41 PPP projects have been completed in Bangladesh with total investment value of US$ 3.933 billion, and another 70 projects are in the national PPP pipeline.

Leveraging Private Investments for PPP - Moving Forward

Given the complex nature of the PPP framework, with multiple stakeholders throughout the value chain added with criticisms of lacking in transparency and accountability, innovative finance mechanism, it becomes necessary for Blended Financing, in order to improve efficiency in delivering the development objectives.

Overall, the main issue here is transparency, which is a cause of concern for all the stakeholders involved in the project. But this cannot be a justification for the government to forego such instruments as realistically, blended finance is critical in leveraging private investments.

With the advent of technology, in particular block-chain based applications could mitigate the concerns often related to blended finance.

A glance at the experience of Malaysia and its neighbors

Malaysia has one of the highest quality of infrastructure amongst the ASEAN countries. In a study by Goldman Sachs Global Economics, Malaysia ranked one of the highest in 'quality score' at 5.1 compared to South Korea (5.9), Thailand (4.6), Indonesia (3.8) and Philippines (3.2). In the latest report by Asian Development Bank (ADB), Malaysia has one of the highest road densities (km per 1000sqkm of land area) in the region. Income growth and urbanisation in the country will continue to drive infrastructure demand particularly in power, roads, airports and water.

Malaysia's high quality infrastructure has mainly been due to the government's unwavering commitment to its five-year economic plans (known as Malaysia Plans) to implement the many infrastructure projects. A key factor for the successful implementation of the country's infrastructure projects is the adoption of public-private partnership (PPP) in the early 1980's. PPP allowed the government to launch more infrastructure projects by sharing the burden of funding these projects with the private sector. This, in turn, has made the private sector an important engine of national growth. Infrastructure development is one of the main drivers in the National Transformation Programme (NTP) of Malaysia. The government saw the need to transform both the economy and how the government was to deliver public services. In 2010, the government unveiled the New Economic Model (NEM) which aimed to transform Malaysia into a high-income nation by 2020.

PPP projects in Malaysia are typically funded using non-recourse project-financing methods. These projects have, in the past, helped Malaysia to establish itself as a world leading issuer of Sukuk or Islamic bonds.

A Secretariat responsible for monitoring and implementing PPP projects was set up for the government's projects in the five dedicated economic corridors. It also oversees the Facilitation Fund from the national budget which is used to help bridge the viability gaps of PPP projects. A One Stop Centre was thus established to enable the smooth facilitation of all relevant documentations, tax waivers, immigration formalities, fund management, processing of approvals etc. needed by the private partners.

In Asia as a whole, many developing countries have glaring infrastructure deficits in electricity, transport, and water and sanitation. It is estimated that annual investments of $1.7 trillion, including for climate mitigation and adaptation, will be needed across developing Asia by 2030 to maintain the region's growth momentum, eradicate poverty which is the region's main unfinished development agenda. Weak governance in many developing Asian countries can make PPPs less attractive, and may discourage private sector investment in infrastructure PPPs.

PROPOSALS

a. Blockchain (A Catalyst for PPP Financing)

Blockchain applications such as smart-contract, smart-escrow should be considered as an instrument that could play a pivotal role in attracting investments from institutional investors for PPP infrastructure projects. Among the salient features blockchain would be able to achieve in this context includes:

- Smart-Escrow Payment Automation Cross Borders
- Secured and Accurate Reporting / Record Keeping
- Transparent in Duties / Transactions / Tax Collection
- Consistent, Empirical Data Provides Accountability For Respective Stakeholders

The prospect of blockchain based instruments in attracting investments for PPP investments is promising. It would address most of the concerns surrounding innovative finance such as blended finance, and also reduce the cost and time usually associated when devising such a framework. However, much research would still need to be undertaken owing to the fact that blockchain is relatively in its infancy stage and is still evolving. Added to that, there will certainly be complexities in setting up the right structure. However, the growing number of adoption of such applications by governments across the world makes it imperative for Bangladesh to consider

It is argued that public private partnership is one of the best alternative modes of development because it draws upon the strengths of both the public and the private sectors and at once contributes to the elimination of weaknesses of both the sectors. Viewed thus, in fairly recent years, PPP approach is being tried out in Bangladesh following the showcase examples particularly in East Asian countries.

In order to achieve 8-10 percent growth, rate of investment needs to increase from 24-25 percent of GDP to 35-40 percent of GDP. A lot of resources are required to raise rate of investment to 35-40 percent of GDP, which is today being remarkably noticed. It is challenging for the government to arrange such huge resources. Under the PPP initiative, infrastructure development especially power and energy, telecommunication and port development are assigned the highest priority by the government. In addition, government welcomes infrastructure development through PPP initiative in housing to elevate a middle income standard, education, tourism, industry, information technology, health and sanitation, etc. Government can play a supportive role by providing incentives, inducing ideas and setting the initiatives in motion.

Conclusion

In conclusion it is evident that Public Sector funds alone are often insufficient to provide the facilities for housing, infrastructure and other key areas. The key is that if public resources are used strategically, governments in the developing world can leverage existing budgets into larger pools of financing by attracting Commercial Lenders and the Private Sector to participate in Infrastructure Projects. Technical expertise and knowledge, often not available within the government staff, hinders the progress or launch of infrastructure projects. Therefore technical assistance from Developed countries or Established organizations can be used and leveraged to go forward in an organized way. Government should not hesitate to issue bonds that mature with attractive returns to be used for launch and completion of infrastructure projects. Often governments hesitate to embark on large infrastructure projects due to knowledge constraints in the introductory stage. The UN at their various meetings and symposiums has made governments worldwide aware of the Millennium Development Goals in all areas of infrastructure development that includes a myriad of activities. Therefore governments must proactively step into incentivize financial institutions to play a key role in providing funding and the know how in the various sectors of infrastructure; to systematically go forward with the development goals.

b. National Infrastructure Fund as a Public Private Initiative Fund

The infrastructure gap is the result of both a lack of financial resources and innovative and efficient channels to mobilize resources for desired development outcomes. It is therefore imperative to set up a National Infrastructure Fund as a Public Private initiative Fund.

If Public resources are used strategically, government can leverage existing budgets into larger pools of financing by attracting Commercial Lenders and the Private Sector to participate in infrastructure Projects

The Policy Intervention required for such an initiative together with the Rationale and the Relevant agencies to be involved are tabled below

Ref	Policy Interventions Required	Rationale	Relevant Agency
1	Tax relief under Investment Allowance during based on investment amount during lock in period (similar to tax relief on savings certificate)	At initial investment there will be no returns as projects will not be in operation. Investment allowance relief will offset the lack of revenues and incentivise investors.	NBR
2	Exemption from Income Tax on interest income/coupon	In order to incentivise investors the Fund should be a fully tax exempt vehicle.	NBR
3	Exemption from Capital Gains Tax on transfer of instrument	In order to incentivise investors the Fund should be a fully tax exempt vehicle.	NBR
4	Exemption from Advance Income Tax	In order to incentivise investors the Fund should be a fully tax exempt vehicle.	NBR
5	VAT waiver on services such as fees, for e.g. security agent fees, arranger fees etc.	VAT waiver will increase the return on investment and therefore make the fund more attractive to investors.	NBR
6	Stamp duty	Stamp duty waiver will help to increase liquidity of the Fund by reducing transaction costs by at least 2%.	NBR
7	Transfer tax waiver	Transfer tax waiver will help to increase liquidity of the Fund by reducing transaction costs.	NBR
8	Waiver from Market Exposure Cap imposed on Banks by Bangladesh Bank (BB)	As the Fund provides loans, it will be subject to BB regulations, which restricts lending limits. Exemption will be required to take into account that these are PPP projects with government guarantees (and thus lower credit risk)	Bangladesh Bank
9	Waiver on IDRA restrictions on investments by insurance Companies as the Projects will be partially guaranteed by government	Waiver is required as it will restrict the ability of institutional investors to invest in the Fund	IDRA
10	Approval under Labor Act to allow Pensions Funds to invest in this Fund as the Project will be partially government guaranteed.	Waiver is required as it will restrict the ability of institutional investors to invest in the Fund	
11	First loss guarantee from the govt. capped to a fixed percentage of the Funds individual project investments	To enhance the credit rating of the Fund and to reduce rate at which loans are offered for projects	Finance Division
12	Liquidity guarantee permitting a certain percentage of funds to be withdrawn every year after a lock-in period at par	To enhance the liquidity of the Fund, and allow the institutional investors to access funds to meet their cash flow requirements	Finance Division
13	Waiver from exchange control restriction for foreign investors	To open up opportunities to overseas investors and reduce delays in repatriation	Bangladesh Bank



Alex Fraser
Chief Executive
The London Institute of Banking & Finance

The Importance of Education to the growth in Sustainable Finance

Our rapidly changing climate poses irreversible threats to habitats and economies around the world.

It is, beyond doubt, the defining issue of today and tomorrow and how we address the issue will define all of us.

Financial institutions the world over are all scrambling to take advantage of what has been described as the biggest investment opportunity in history.



They have taken up the cause of responsible economic growth and have ambitions to be leading players in the complex transition to a low-carbon world. Banks are committed to reducing their own exposure to new fossil fuel extraction and are being very wary about lending to customers whose businesses rely on such extraction. There is a big rush to become clean lenders and, at the same time, there is a strong and very welcome commitment to increased transparency.

On the investment side, demand, particularly from the younger generations, for sustainability-related products soars, leading to a proliferation in green and sustainability bonds. There is also a significant increase in the number of funds which focus on specific sustainable themes such as water, health and waste.

There are major challenges. Data is still very patchy and disclosure is still inconsistent. How do we dig beneath the hype commonly found on websites and find out what is really going on? The numerous think tanks and well-informed pressure groups are all too ready to call out inconsistent behaviour amongst the financial services community. For institutions, having emerged seriously damaged from the dark days of the financial crisis, this could be the next feeding frenzy.

It is not enough to talk the talk, financial institutions have to walk the walk too. If they say that they are demanding better disclosure from investee companies, then they had better make it stick. If they say that they are expanding sustainable investment products, then they had better be able to prove it. If they are still investing in new fossil fuel extraction, then they should at least explain why. The transition to a low carbon economy is complex and the industry is at the start of a corrective turn, not yet fully set on a new course. I believe that organisations can mitigate the risk of reputational damage by improving the quality of the conversation with their stakeholders rather than preaching at them.

Education will play a hugely important part during the transition. The London Institute of Banking & Finance is supporting the agenda both through our educational programmes and through our thought-leadership. With strong backing from our partner in the UAE, Abu Dhabi Global Market, we have recently launched our Certificate in Sustainable Finance which will allow those working in Financial Services to build knowledge and expertise in this important and rapidly-evolving area. This Certificate features topics such as risk, investment strategy and policy and will be a blend of academic theory and real-life case studies, delivered by academic and practitioners. Our Centre for Sustainable Finance is a hub for discussion and debate. We will take every opportunity to engage with other academic institutions, public bodies and financial institutions around the world. This is a global challenge and our work at The London Institute of Banking & Finance as educators needs to reflect this.

ICC Bangladesh, in its Asia-Pacific Conference on Financing inclusive and Sustainable Development, is playing a significant part regionally and internationally; bringing together high-level presenters and delegates to listen and discuss the key issues affecting these vital topics is a fantastic initiative. Shared knowledge and experience will undoubtedly help to facilitate progress.

My personal thanks go to everyone attending the conference. In particular may I express my sincere gratitude to ICC Bangladesh for organising and hosting this important event. I am certain it will be a great success.



Dr. Paul Fisher
Chair, The London Bullion Market Association

Sustainable Finance: Risks and Opportunities

Climate change does not recognise political boundaries. But whilst its consequences affect everyone, the poorest countries – and the poorest people within countries – are always going to suffer more: in particular they are much more likely to be affected by physical risks – droughts, floods, storms, extreme heat - which they cannot insure against or adapt to. The great coastal cities of Asia are particularly at risk from rising sea levels.



It has been predicted that some rich countries – e.g. in northern Europe – could even experience climatic improvements on average. But that could be dangerously complacent. We do not know how the world's ecosystem will actually change. Just as we do know that changes in global temperature and damaging weather events do not happen smoothly over time – more frequent extreme weather events will impact everyone.

Apart from physical risks, national economies will be subject to transition risks. Economies will change to reflect the shifts in the structure of demand and supply for goods and services that will result from the transition to emitting fewer greenhouse gases (and ultimately net negative emissions). And they will need to adapt to global warming and rising sea levels. The change to cars being powered by renewable, electric energy is just one of the changes that are already under way. A further part of the transition risk is from public policy changes- for example, those that are taken to meet the 2015 Paris Agreement.

Legal action against carbon emitting businesses seems likely, as does legal action against those in authority who don't take appropriate action. All these factors will affect economic activity and financial asset prices globally.

Sustainable finance is about the use of financial resources to help mitigate or adapt to climate change – and to deal with other social issues which are not sustainable. It is about the use of money, not the source or the technical methods employed. Climate change generates both upside opportunities to make money by financing the adaption and transition … and downside risks from continuing to finance greenhouse gas emitting sectors which will come under increasing economic pressure.

One might think that combating climate change is a social, ethical, moral or even a political issue. And it is. But, perversely, thinking of it that way seems to prevent business people – and some public bodies - from taking appropriate action. Arguably, businesses – especially financial firms – need to understand that financing the transition is the main way they will make money in coming decades. On the other side, supporting greenhouse gas emissions is likely to risk losing a lot of money. For the public sector, almost every agency of government will find its objectives seriously impacted and therefore have a duty to facilitate and support the transition.

This is not mere speculation, but observed reality – examples can be found in the collapses of Peabody Energy and Pacific Gas and Electric in the US; RWE in Germany and insurance losses from major climate-related events around the world. We are building up an impressive case load of examples where investors have lost money by being surprised by both physical risks and transition effects.



The immediate challenge facing the financial world is not sourcing the supply of finance as one might expect. It is the lack of investable projects coming forwards. We need to identify those areas where investment is needed to reduce carbon emissions or adapt to climate change. Profitable projects can benefit from the wall of savings already orchestrated to invest. If such projects are not profitable, but have a significant positive impact, then governments need to intervene to make them happen – whether with subsidies, part-ownership or guarantees. The financial sector will mobilise because it is in financial self-interest to do so. But it won't be sufficient if governments don't intervene where appropriate.



Marc Auboin
Counsellor for Trade and Finance
World Trade Organization

"Mind The Trade Finance Gap: The WTO Partners With Other International Institutions to Address It"

Access to affordable trade finance is a condition of success in international trade, to the same extent as rapid clearance of customs and efficient transportation. For decades, successful companies in developed countries have benefitted from the existence of mature financial industries distributing high volumes of finance and guarantees at low rates. Trade finance is normally a high volume and low-cost source of finance, because the risk of default is small, with a global average of 0.2%, and little difference across countries.

Still, production and trade are reaching countries which have a comparative advantage to produce goods but relatively young financial sectors which are not always able to support all such new trade, at least at affordable cost. The result is the emergence of significant gaps between supply and demand. According to a study by the Asian Development Bank (ADB), the current trade finance gap is estimated at $1.5 trillion in 2018, mostly in developing countries: half of the gap is in developing Asia, Africa and Latin America. The smaller enterprises are hit the hardest. In view of this persistent and large global trade finance gap, trade finance has become a policy issue flagged in paragraph 81 of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development (so-called Sustainable Development Goals).[1]

The ADB study looks at the reasons why trade finance requests in developing countries are more likely to be rejected: recognition of firm's creditworthiness is more difficult, hence the demands for collateral are prohibitive; locally, traders also face more selective and perhaps less advanced local financial industries, as skills in handling complex products and risks are less developed. Moreover, since the great financial crisis of 2008, international banks have been shrinking their network of correspondent banking relationships, mainly in developing countries, reducing their ability to clear transactions with the rest of the world.

Without loans and guarantees, many entrepreneurs, mostly cash-less ones, cannot trade and compete. Hence lack of trade finance can be a major obstacle in accessing global markets, and in ensuring that trade plays its full role in promoting growth, development, and job creation. WTO Members repeatedly flagged the need to address trade finance gaps.



For several years now, the WTO has built a strong coalition of institutions to try address problems and call the attention of the international community over trade finance shortages. The strategy of the WTO Director-General has pointed to three directions:

1. Supporting multilateral development banks' trade finance facilitation programmes by way of advocacy and mobilization;
2. Reducing the knowledge gap regarding trade finance products, by encouraging our partners to increase their training programmes;
3. Opening a dialogue with trade finance regulators.

Progress has been achieved in each of these areas. Multilateral development banks have stepped up their financing and guarantees (from so-called trade finance facilitation programs) in the poorest parts in the world. In 2018, these programmes supported over $25 billion in trade transactions in low income countries, with a special

1. *"We acknowledge that lack of access to trade finance can limit a country's trading potential and result in missed opportunities to use trade as an engine for development. We welcome the work carried out by the WTO Expert Group on Trade Financing, and commit to exploring ways to use market-oriented incentives to expand WTO-compatible trade finance and the availability of trade credit, guarantees, insurance, factoring, letters of credit and innovative financial instruments, including for micro, small and medium-sized enterprises in developing countries. We call upon the development banks to provide and increase market-oriented trade finance and to examine ways to address market failures associated with trade finance".*



focus on SMEs. For example, in the context of its trade finance facilitation programme, the Asian Development Bank doubled the number of trade transactions supported involving SMEs in just two years. The African Development Bank and African Import and Export Bank are doing likewise in Africa. The Director-General has been encouraging multilateral development banks to work closely together to provide better coverage. In July 2017, the Islamic Trade Finance Corporation and IFC met at the WTO and signed a memorandum of understanding to pursue joint financing in Africa. Such joint collaborations help leverage the resources of international agencies. Importantly, trade finance facilitation programs help local and international institutions to gain experience in dealing with one another, so that future transactions be handled independently.

The second area was addressing knowledge gaps in local financial institutions. The WTO, multilateral development banks and the International Chamber of Commerce have been supporting the creation and operation of the International Chamber of Commerce e-Academy, based in Singapore. The ICC Academy delivers certifying courses to trade finance professionals. Multilateral development banks also deliver on-site training on trade finance, be it the European Bank for Reconstruction and Development, the Asian Development Bank, the International Finance Corporation, the Islamic Trade Finance Corporation and the African Import and Export Bank. Lately, the WTO has been partnering with the Financial Stability Board to add regulatory issues to the training on trade finance, in particular workshops on anti-money laundering and know-your-customer. In 2019, the WTO directly participated in such workshops organized by the IFC in Rwanda, Madagascar, Zimbabwe and Zambia; by the Afreximbank in Morocco; and by the EBRD in Bosnia and Herzegovina and in Greece.

The third area is to increase dialogue with regulators. The Director-General has been reaching out to the heads of the FSB and IMF, with a view to developing practical steps to help trade finance providers come to grips with regulatory demands. Progress are being made in the adoption of the legal entity identifier and in the development of information repositories for due diligence.

Finally, the WTO Secretariat is currently examining the possibility of integrating more systematically trade finance in diagnostic trade integration studies (DTIS) of the Enhanced Integrated Framework. This had been done successfully on a one-off basis in recent DTIS of Myanmar and Cambodia, but a more systematic approach is envisaged, with a largest number of countries, which might include Bangladesh.

The WTO, along with partner institutions, also looks carefully at how the progress of technology may yield benefit for the supply and distribution of trade finance. While Blockchain and FinTechs may facilitate supply in mature markets, the ADB study warns that new technology in-take in least developed countries is low, and that local banks consider, for the time being, that the cost-to-benefit analysis of adopting them is not positive.

The WTO's silent work, which aims at improving the capacity of local financial sectors to respond to growing demand for trade finance, will continue in the coming months, as there is no quick fix to closing trade finance gaps.





Tientip Subhanij, UNESCAP **Rui Almeida, UNESCAP**

Uncovering the Role of Fintech in Remittances for Sustainable Development

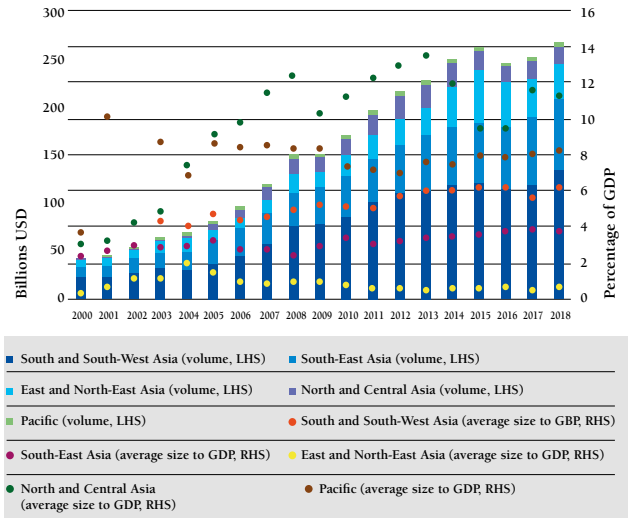
Despite its often-forgotten role in international capital flows, very soon remittances will become the largest source of external financing to low and middle-income countries worldwide. It is worth nothing that in 2019, projections show that they will reach as much as $550 billion, well above foreign direct investment, debt and equity portfolio flows and official development assistance (World Bank, 2019). Interestingly, these estimates are only based on officially recorded data. Therefore, if we take into account informal transactions, the actual size of remittance flows would be even bigger.

The distinctive feature of remittances is that they flow directly to households instead of governments or businesses. They play, therefore, a crucial role in financing the development of local communities. Remittances are found to alleviate poverty and ensure better access to healthcare and education. At the macro level, they are important in boosting private consumption and stabilizing economic output in times of crisis, such as in the aftermath of natural disaster. Furthermore, remittances can encourage entrepreneurship by providing funds to support small businesses. They are, in short, an important means to achieve the Sustainable Development Goals (SDGs).

Over the years, Asia-Pacific has been the region mobilizing the largest volume of remittances, motivated by rising levels of emigration, among others. In 2018, countries in Asia-Pacific attracted over 40 percent of total remittances received worldwide, followed by Europe (24 per cent) and Latin America and the Caribbean (14 per cent). As a result, the number of households in the Asia-Pacific region depending on these flows was also remarkably high. Estimates predict that 400 million individuals are recipients of remittance transactions, which corresponds to 10 percent of the total population in the region (IFAD, 2018).

Across Asia and the Pacific, South and South-West Asia and South-East Asia were the two subregions that recorded the highest levels of remittances received in 2018 (figure 1). These figures derive mainly from the numbers seen in India and the Philippines, the two top recipients in the whole Asia-Pacific region. However, when we analyse this scenario in relative terms, the landscape changes drastically. Countries in North and Central Asia and in the Pacific are the most remittance-dependent when looking at the size of their economies. Tonga, Kyrgyzstan and Tajikistan, for instance, received remittances in an amount exceeding 30 percent of their GDP. We should not overlook the fact that most countries in these two subregions face severe challenges arising from their landlockedness or remoteness.

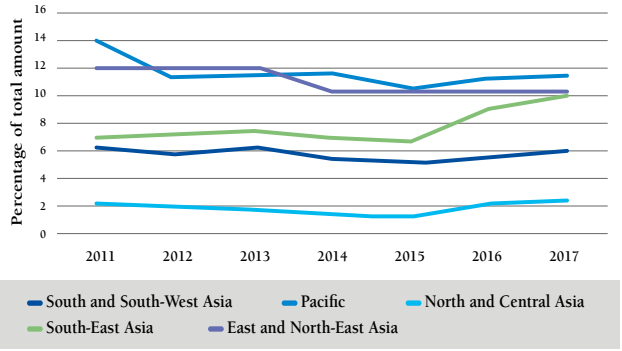
Figure 1: Remittances received in Asia-Pacific, 2005-2018



Source: World Development Indicators database, accessed 10 November 2019.

Particularly striking is the transaction costs borne by remitters. While SDG 10 calls for transaction costs not higher than 3 percent of the total amount transferred, the regional average was still as high as 6.6 percent from 2011 to 2017 (figure 2). Especially affected were the Pacific small island developing States (SIDS), which registered an average of 11.6 percent for the same period. On the contrary, North and Central Asian countries seem to be on track to meeting the objective set by the 2030 Agenda for Sustainable Development, registering transaction costs of about only 3 percent.

Figure 2: Average transaction cost of sending remittances to Asia-Pacific, 2011-2017



Source: World Development Indicators database, accessed 10 November 2019.
Notes: In East and North-East Asia, only data for China is available.

In light of this scenario, policy action in Asia-Pacific is needed in two fronts. First, given the great significance of remittance flows to some countries, especially in North and Central Asia, efforts should be made to potentiate the positive impacts caused by these capital flows on economies and societies. While it is true that remittances are an increasingly important source of financing for development, they can also trap countries in a spiral of economic stagnation and high emigration levels (Chami et al., 2018). On the one hand, the flood of foreign exchange through remittances makes imports more attractive, possibly discouraging domestic production. On the other hand, remittance inflows might also place an upward pressure on domestic prices due to increasing levels of private consumption. This rising cost of living could in turn encourage migration, fueling the diaspora of qualified labor and hence hurting the economy's productivity.

To free countries from the 'remittance trap', a central emphasis should be put on enhancing governance and business environment. Large inflows of remittances often make politicians' job easier, as families' increased economic power means that governments can slack on providing better welfare support. Also, remittances contribute to increased fiscal revenues through taxes on consumption, thereby benefiting political agendas. Some administrations have even actively promoted emigration, hoping to increase the numbers of remitters. Furthermore, governments could focus on stimulating a dynamic business environment, to ensure that the 'brain and muscle drain' does not affect a country's entrepreneurial activity or its productive capacity.

Second, high transaction costs need to be addressed, especially in the Pacific SIDS, if we are to promote financial inclusion and economically empowered remittance-dependent households. Meeting the target of more affordable remittance transactions would mean that families around the globe could save an additional $20 billion annually (IFAD, 2017). Costly remittance corridors are a consequence of several factors, including de-risking practices imposed by global financial institutions and high physical operational costs.

De-risking issues were mostly felt in the Pacific SIDS through the large-scale withdrawal of correspondent banking relationships. This was mainly motivated by new cost/benefit considerations which made small countries with limited financial markets look less attractive. Also, the financial reputation of some Pacific countries has also been hurt by the increasing concerns related to tax transparency, especially after the recent unmasking of offshore investments in the region. As a result, regulatory action is essential to achieve improved anti-money laundering and combating of financing of terrorism (ALM/CTF) regimes. There is the need for clearer AML/CTF obligations and the role of external organizations in enhancing capacity. During 2018, dialogues between banks, money transfer operators and regulators were held in the Pacific SIDS in cooperation with the International Monetary Fund and the Asian Development Bank. In these discussions, parties agreed to pursue a number of strategies such as better information sharing and a focus on automation and technology to improve customer due diligence.

Operating in the Pacific can be very costly for remittance service providers (RSPs) due to the islands' small size and infrastructure gaps. As a consequence, distribution channels are very expensive, and economies of scale are hard to achieve. The small and widely dispersed populations of the Pacific SIDS also make it non-attractive for companies to operate, generating little supply of these services. In the Solomon Islands, for instance, unbanked individuals live on average 6 hours away from the nearest bank branch (Central Bank of Solomon Islands, 2015). In an attempt to deal efficiently with the costs brought about by the SIDS geographical and infrastructural constraints, some companies started combining innovative business models and modern digital and online technology. Some examples of fintech RSPs include online platforms and mobile-money providers. Research shows that fintech companies have indeed significantly lowered the cost of remittance transactions (Hahm, Subhanij and Almeida, 2019). In 2018, for instance, traditional services were on average 1.8 times more expensive than fintech in the Pacific SIDS.

In order to promote the adoption by remitters of fintech services, we believe that a number of conditions must



first be met: availability, accessibility, awareness, literacy and trust. First, fintech RSPs need to be operating in both the country of origin and destination of the money being sent. Supporting an innovative business environment is crucial to this point, and a focus could be placed on solutions that utilize blockchain technology. Second, there should not be any constraints preventing fintech services from being readily accessible, both in terms of network and device ownership. To this end, investing in ICT infrastructure is essential, especially in the rural areas. Third, to ensure that individuals know about the existence of these innovative services, companies should tailor their marketing campaigns to reach the target audience. Fourth, people must be educated on how to properly use these services and what advantages they bring. Financial education campaigns should therefore include a digital services component. Fifth, it is essential that potential customers perceive the mechanisms and their providers as trustworthy, which is often undermined by a strong cash culture. To overcome this, governments could promote digital social transfers, for instance.

To conclude, we must not overlook the power of remittances to finance sustainable development. They play an increasingly important role for Asia-Pacific developing economies, and therefore should be leveraged to accelerate the progress towards the 2030 Agenda. To achieve this, we must be aware of the threats they can pose in terms of reduced domestic production capacity and high transaction costs. We must adopt a holistic approach to address these issues, as they generate positive effects in many dimensions of our societies.

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Beini Liu
Researcher at the Financing for Development Section of UNESCAP



Masato Abe
Economic Affairs Officer
UNESCAP

Public-Private Partnership in Bangladesh's Power Sector

1. Introduction

There is no doubt that robust infrastructure is fundamental for sustained economic growth and improved standards of living. Well-developed infrastructure services can not only enhance local investment but also attract potential foreign direct investment to the country. To meet the current and future needs for infrastructure investment, emerging economies like Bangladesh have always been facing a scarcity of their own financing capacity (Pargal, 2017). Hence, the private sector participation in infrastructure investment becomes increasingly important, and public private partnership (PPP) as a credible financing mechanism to engage the private sector is gaining more attention than ever.

The concept of PPP is not new but has not yet defined uniformly. Broadly, PPP is a contractual arrangement between public and private entities through which the assets, skills and financial resources of each sector are allocated in a complementary manner, to aim at expanding and improving infrastructure services with shared risks and benefits (ADB, 2018; World Bank, 2016). The interest of PPP is growing at both public authorities and private investors in terms of service quality, procurement efficiency, risk minimization, and the combination of adequate managerial and technical capabilities (Rashed, et al., 2017).

Nevertheless, there are also a few critiques of PPP projects. Even though the private sector is encouraged to invest infrastructure development projects more under the PPP modalities, the government still has to play a major role to ensure the economic and financial viability of such projects and their efficient and transparent implementation (ADB, 2017). Poor PPP implementation caused by weak procurement practice, moral hazard and a bias for optimism is most likely to increase the risk of infrastructure projects and to require establishing concrete regulatory and monitoring frameworks (Rashed, et al., 2017).

While the Government of Bangladesh has addressed the issues of PPP, until 2018 the nation completed more than 40 PPP projects with a total investment value of nearly three billion US dollars (Rashed, et al., 2017). With this significant progress, PPP has been recognized as an effective way to attract private investment in Bangladesh particularly in the power sector.

2. Overview of PPP in Bangladesh

Under the 'Bangladesh Vision 2021', the Government of Bangladesh aims to reach a middle-income country status by 2021, and the government promising to raise the real GDP growth rate to 10 percent by 2021 (CPD, 2007).To achieve the growth rate, it is estimated that the investment-to-GDP ratio needs to be raised to 35-40 per cent, but the current ratio is only slightly above 30 percent and private investment to GDP is 23 percent (Bangladesh Bureau of Statistics, 2019). Looking back to the last decade, the private investment to GDP ratio in Bangladesh has been stuck at 21 to 23 percent (Bangladesh Bureau of Statistics, 2019). Thus, to stimulate the private sector engagement in Bangladesh, PPP has been considered as a key route to meet the investment gap and unlock the country's growth potential.

The Government of Bangladesh has shown its commitment to PPP through a series of initiatives. The Government established the Public Private Partnership Authority (PPPA) under the Ministry of Finance in 2010 and made an allocation of 357 million US dollars under a PPP fund in the 2009-2010 fiscal year (Rashed, et al., 2017). Moreover, to strengthen regulatory and institutional PPP frameworks, the Government passed the PPP Act in 2015, the Policy for Implementing PPP Projects through G2G Partnership in 2017 and the Procurement Guideline for PPP Projects in 2018 (PPPA, 2019a).

PPPA has been playing a crucial role in infrastructure development in Bangladesh. Since its inception, PPPA

has led the development of PPPs in Bangladesh with the technical assistance of both ADB and the World Bank. Comparing to only a few projects at its start, PPPA is now supporting and implementing more than 70 PPP projects nationwide with a capital value of several billion US dollars (PPPA, 2019b). Amongst all the PPP projects that have been implemented, the power sector has enjoyed large scale investment (table 1).

Sector	Project Name	Capacity	Investment (USD Million)
Power	CDC Meghnaghat Ltd.	450 MW	300
	CDC Haripur Ltd.	360 MW	183
	Khulna Power Company Ltd.	110 MW	110
	Haripur El Paso Barge Mounted Power Plant	115 MW	115
	Westmont Baghabari Power Barge	130 MW	16.2
	BEPZA Power Plant at CEPZ	40 MW	28
	BEPZA Power Plant at DEPZ	35 MW	23
	Power Plant at Savar	44 MW	30
	Power Plant at Narsingdi	35 MW	23
	Power Plant at Comilla	25 MW	17
	Small Power Plants (10 to 22 MW) -- 12 stations	230 MW	115
	Captive Power Generation (many plants)	1200 MW	500
Telecom	Banglalink	34	123
	GrameenPhone	448	500
	Pacific Bangladesh Telecom Limited	65	118
	TM International (Bangladesh) Ltd.	25	366
	Warid Telecom	N/A	N/A
	Bangladesh Rural Telephone Network	123	150.4
	Public Switched Telephone Network (PSTN) Fixed Line Providers (Many)	N/A	172.5
	PGCB's Optic Fiber Cable (Phase-I) (Dhk-Ctg)	STM 64	1.2
	PGCB's Optic Fiber Cable (Phase-II) (Ctg-Cox'bzr)	N/A	11
	License for International Gateway Services	N/A	N/A
	License for Interconnection Exchange (ICX) Services	N/A	N/A
	License for International Internet Gateway Services	N/A	N/A
Port	Land Port at Sonamasjid	N/A	2.2
	Land Port at Banglabandha	N/A	1
	Land Port at Hili	N/A	2.2
	Land Port at Birol	N/A	0.71
	Land Port at Bibirbazar	N/A	0.71
	Land Port at Teknaf	N/A	4
Roads	Gulistan-Jatrabari Flyover	Toll road of 7 km from Gulistan to Jatrabari	108
	Dhaka Elevated Expressway	N/A	N/A
	Jamuna Bridge toll management contract	5	N/A
	Shah Amanat International Airport	1	N/A

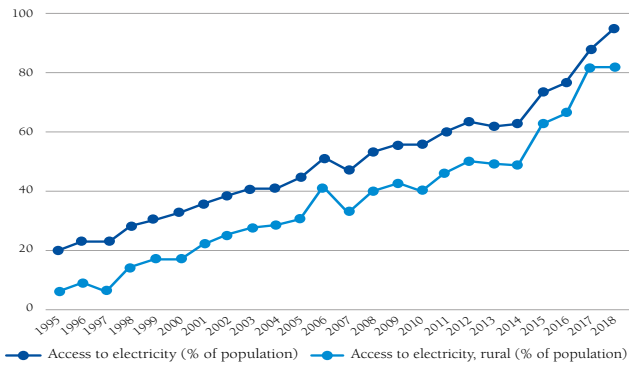
Source: IIFC (2019)

3. PPP in the power sector: a brief update

Bangladesh was one of the pioneers in introducing private power generation back to the 1990s, and PPP has worked effectively in Bangladesh. PPPs in Bangladesh's power sector have been typically carried out in a form of independent power producer (IPP). An IPP, which normally sells power to either government-owned or private utilities under the power purchase agreement (PPA), plays a major role in supporting needed capacity for electricity generation (World Bank, 2019b). The Government of Bangladesh has also liberalized the power sector by adopting open bidding exercises for projects under the IPP contracts, in order to lessen the Government's investment burden in building power plants to meet the rising demand in the country (Khan, et al., 2012).

The private investment through the PPP modalities has made a significant contribution to the power sector in Bangladesh. The growth of electricity capacity increased from 4.5 gigawatts (GW) in 2007/08 to 17.3 GW in 2017/18 – an increase of 280 percent (BPDB, 2019). Back to 2014, the country had the lowest rural electrification rate in South Asia that nearly 60 million people in Bangladesh rural areas had no access to electricity (UNESCAP, 2017). However, in 2018, Bangladesh achieved 95 per cent of the electrification rate overall and 82 percent in the rural area (figure 1). The private sector has generated about a half of the total installed capacity, which has been increased by more than 20 percent compared to a decade ago (BPDB, 2019; Khan, et al., 2012).

Figure 1: Access to electricity, Bangladesh



Source: World Bank (2019a)

To keep up the momentum, the Bangladesh Government has planned to generate 24 GW electricity by 2021 to sustain its annual 7 percent of economic growth rate. The progress Bangladesh has made in the power sector is remarkable after a decade of development. The credit goes to the progressive efforts of policymakers, financial and technical supports from multilateral development banks (MDBs), and effective PPP project implementation by both public and private sectors.

Box 1: Meghnaghat 450MW Power Plant

The Meghnaghat Power Plant is a gas-fired combined-cycle power plant and operated in southeast Dhaka, on the northern bank of Meghna River in Meghnaghat, Bangladesh. The entire power plant was completed at the cost of 295 million US dollars, financed by 220 million US dollars in debt and 75 million US dollars in equity. The Bangladesh Power Development Board (BPDB) supervised the construction with ADB's assistance. The project adopted a build-own-operate (BOO) scheme with 22 years of operating period and provision for three additional years. At the end of 2000, the total amount of loan approved by the Board of Directors of ADB was 130 million US dollars, and a political risk guarantee (PRG) of 70 million US dollars was approved for this project later. This power plan development project was described as "the least-cost IPP in Asia", which costed 290 million dollars in total, around 10 million US dollars less than the initial cost estimation.

From the start of commercial operation until the end of 2007, the power plant had supplied over 14,875 GW of electricity in total, and offered the lowest electricity price in the world at that time. It effectively improved the electricity access rate nationally at an affordable price. The Meghnaghat Power Plant project as one of the first major private sector IPPs successfully implemented in Bangladesh, not only serves as a model for other IPP projects, especially in project selection, screening and execution, but also plays an important role in attracting domestic and international investment.

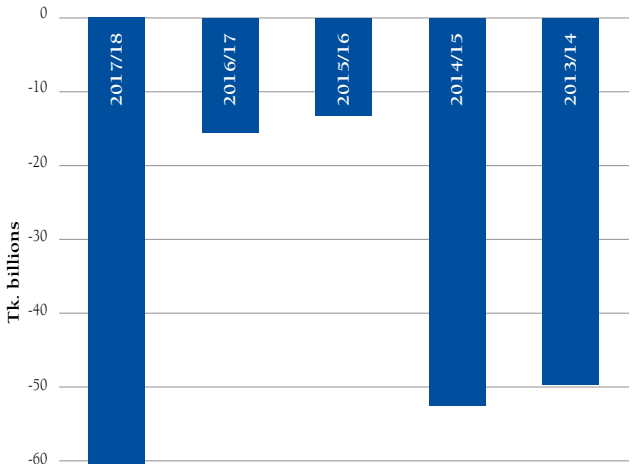
Source: ADB (2008; 2009).

4. Potential challenges

The Government of Bangladesh should acknowledge the remaining challenges in the PPP frameworks of the power sector. First of all, the risk premium for private financing in the power sector is high and continually increasing. The current risk premium is relatively high in Bangladesh especially for the new investors regarding the credibility of the long-term IPP contracts, due to the increasing deficit of the key bulk buyer of power – BPDB, which run a deficit at TK 62 billion[2] in 2017/18 fiscal year (BPDB, 2018). As figure 2 shows, BPDB is suffering from continual losses that have discouraged both domestic and foreign investment to some extent, since private investors would have a negative perception of the future viability and confidence of BPDB

and its profitability. Institutional investors such as banks and other financial institutions may also take BPDB's deteriorating financial condition into account by adding an implicit risk premium to the loan to new IPP power projects for which the buyer is BPDB, thereby resulted in higher financing cost (Khan, 2013). To ease the current high-risk premium and enhance PPP investment, BPDB has to reverse its vulnerable financial position through reforming price schedule, which goes beyond just meeting its working capital needs and encompasses further PPP investments.

Figure 2: BPDB operating losses, Fiscal 2013-2018



Source: BPDB (2018)

Secondly, the lack of transparency is always been problematic during the PPP procurement process in Bangladesh. Contrary to countries like India, whose weakness often stims to the distribution stage, in Bangladesh, the major financial leakage occurs at the procurement stage of power sector projects. There is criticism about some IPPs as their close relationship with the Government may lead to favouritism and less competition in the market. The limited number of bidders and nepotism may not only create a less transparent market, but also contradict to the concept of an IPP, which is mitigating monopoly through fair competition between bidders. Irregularities, corruption and prolonged delays in the PPP procurement process can easily discourage the private sector's participation in the power sector. Empirical evidence shows that corruption significantly drives the capital cost up in the power sector by analysing over 60 planned and operating power plants in Bangladesh (Biswajit and Monjur, 2018). It is vital for the Government to review and monitor the procurement process, conduct due diligence of establishing power plants and implement a more transparent system to increase efficiency.

Thirdly, a transformation to renewable energy is essential to address climate change mitigation and adaptation in Bangladesh, since the power sector is on the frontline of climate concerns. With regard to PPP, renewable energy investment or climate finance is at an early development stage in Bangladesh. Although Bangladesh with the assistance of the World Bank has established a solar power programme that serves one-tenth of the country's population (World Bank, 2019c), there is a lack of contribution from other renewable energy solutions such as wind power, bio-mass gasification, and landfill gas energy. A holistic approach for PPP projects is necessary to make such sustainable power initiatives in Bangladesh. Mobilization of private finance, realization of a niche market for renewable energy and reinforcing appropriate policy frameworks and institutional settings to implement sustainable energy development are the potential paths to support this issue (Uddin and Taplin, 2006).

5. Looking forward

PPPs have become a more prominent approach to engage private investment. In Asia and the Pacific, Bangladesh has successfully demonstrated its PPP schemes, particularly in the power sector over the last decades. The future for PPP in Bangladesh seems very promising if the Government can address the underlying challenges properly.

IPP will play a major role continuously in the power sector in Bangladesh, but affordable private finance for various large PPP projects must be backed by comprehensive risk mitigation mechanisms and security arrangements from the Government of Bangladesh. Thereby, to create more successful IPP projects, tailored policy strategies based on different projects and effective implementation mechanisms are necessary for their long-term sustainability. Furthermore, assistance from international organisations such as UNESCAP, ADB, and the World Bank, in terms of capacity building, field study event, policy learning and showcases of successful projects and methods can strengthen the development of PPP in Bangladesh to a great extent.

The power sector has to play a key role for Bangladesh's sustainable development and will need to go through a great transformation towards low-carbon, non-polluting energy, with increased energy efficiency (UNESCAP, 2017). Strategically, Bangladesh will need a national level policy approach to comprehensively address foreseen climate-related risks and move toward clean energy solutions. Furthermore, policies and regulations should support projects that can maximize the potential use of renewable energy sources. Given the current low levels of energy generation from renewables, concrete national strategies will encourage sustainable power generation by offering low-risk PPP projects to attract more private investment in the power sector in Bangladesh.

2. *62 billion Bangladeshi Taka ≈ 732 million US dollars*



Vincent O'Brien
Member, Executive Committee, ICC Banking Commission
Vice Chair, Banking Commission of
ICC United Arab Emirates
Associate Director, Institute of International Banking Law and Practice (IIBLP)

Supply Chain Finance for Bangladesh…we are now at the tipping point!

As we come towards the end of 2019, trade between buyers and sellers in different countries is facing unprecedented challenges.

With uncertainty and instability being compounded by factors such as Brexit and notable trade protectionism by some of the world's most powerful nations, we are edging towards a tipping point for globalisation of trade and it is looking like the balance for globalisation may well tip in the wrong direction. Let us evaluate some of the key indicators that support this narrative.

Firstly, The ADB tells us that we have a Trade Finance gap of USD1.5 trillion, which is most acute in Africa and Asia. The 2018 ICC Banking Commission Global Survey on Trade Finance highlights that half of MSME requests for trade finance are rejected. This is putting a stranglehold on trade as MSMEs provide the economic fabric for trade development in so many countries, especially emerging markets such as Bangladesh.

Secondly, there is too much liquidity in financial markets but not enough money to support the supply chain in emerging markets. Money, which was born as a medium of exchange for the supply of goods and services.

Meanwhile, across the emerging world, debt expansion has not, in recent times, financed any significant increase in new investment. Many economists maintain investment is a precursor to trade – I do not! Having developed trade in the poorest of emerging markets, I have seen first-hand that it is the other way round. Trade is the precursor to investment. Trade builds trade connections, trade grows with partnerships and investment follows. Bangladesh is a good example of this.

Bangladesh has made huge progress in developing trade and the benefits are incredibly visible. The Bangladesh economy is expected to achieve the third highest growth in the world in 2019 driven by exports, overseas workers remittances and manufacturing sector, according to the most recent report of the International Monetary Fund. The GDP of Bangladesh is projected to grow at 7.8 percent this calendar year, as per the IMF's World Economic Outlook (WEO) report.

Bangladesh provides us with one of the best examples in the world of where Documentary Letters of credit evolved as independent payment and finance undertakings to secure trading operations between Bangladesh and other nations. Guarantees and later standbys evolved in Bangladesh to secure financial and performance risk promoting further trade and now the moderate but increased investment we are seeing in the country.

Trade finance instruments underpinned by the rules of the International Chamber of Commerce, especially UCP 600 have played a critical role in supporting positive trade development in Bangladesh. These instruments with back up support from Multilateral Development Bank programs such as the ADB TFP, have played and will continue to play a mission critical role in keeping trade moving forward.

Figures from SWIFT evidence that Bangladesh is now the country that issues more Documentary Letters of Credit than any other country in the World and the numbers are increasing – that is more than China where the numbers are decreasing. It is estimated that more than 85% of trade into and out of Bangladesh is undertaken based on Documentary Letters of Credit.

These headline figures are true but mask severe challenges facing the banking sector where liquidity or funding for trade finance is coming under significant strain. Without trade and supply chain finance the expansion of imports but especially exports will be severely constrained. Exports are slowing and the number of working people travelling abroad will decrease and high levels of non-performing loans are not only an impairment for state owned banks but also banks in the private sector.

With this backdrop, Banks wishing to provide trade finance supports to expanding customers are facing an uphill challenge. The appreciation of the Taka and higher interest

rates will compound these challenges going forward. How will Bangladesh thrive in such a challenging environment? What is the solution? In my opinion, Bangladesh can adapt and overcome through adopting proven strategies utilized by other nations and also through continuing to innovate.

Despite the waning trade growth and the unpredictable nature of the current global trade environment the potential for a positive impact of supply chain finance on the trade balance in Bangladesh is enormous. With US and China Trade uncertainty, we are seeing re-direction of trade with countries such as Vietnam being beneficiaries in the short term. Supply chain finance techniques can be a significant part of the solution, if implemented correctly. Vietnam for example is already making significant headway with supply chain finance structures.

What has Supply Chain Finance to offer Bangladesh at this point in time?

The answer is – everything!

Everything – as the time is right for Bangladesh to evolve the traditional trade finance environment and advance the use of supply chain finance to further propel trade, particularly on the export side and especially for MSMEs. The key word here is 'evolution' not 'revolution'. The skills, expertise and controls that have evolved in Bangladesh using traditional trade finance instruments can be honed and extended into the realm of supply chain finance with tangible benefits for the trade performance of the country.

With Supply Chain Finance techniques, the basic needs remain the same as for traditional trade finance instruments, that is, to cover risk and provide money for ongoing trade to fund the modern supply chain.

The factoring models, when implemented and monitored correctly have performed exceptionally well in many countries, both in terms of growth and more importantly in terms of low loss levels sustained when compared to conventional lending.

Supply chain finance has many variances but for practical purposes all are close relatives to the basic core concepts of factoring and the now fast expanding reverse factoring models which tends to be referred to more frequently these days as payables finance.

On the innovation front, we are hearing prospects of Fintech revolutionising the World of Trade Finance but the evidence of tangible results are yet to be seen in mainstream trade and supply chain finance. Banks in Bangladesh have grasped the challenge of automation and innovation, clearly seen in retail and now corporate banking, but not so much in trade.

On one hand, the Foreign Exchange Regulations of Bangladesh may not be of cutting edge, but on the other hand, it needs to be acknowledged that the same controls



played an important role in protecting the country in the midst of the financial turbulence after the global financial crisis of ten years past. The Central Bank has played a very important role in protecting the foreign exchange reserves of Bangladesh and taken some innovative steps in the advancement of trade. In terms of compliance and fighting financial crime, real progress is being made and we are seeing increased connectivity and sharing of mission critical data between the key stakeholders. Commendable progress has been made but more needs to be done.

However, as we step forward into 2020 we are now at a tipping point for Bangladesh.

Trade bankers in Bangladesh are now at an exceptionally high level of competence in traditional trade finance. They understand the business, the trade cycle, the risks, and they understand the products. They know what needs to be done, we just need to create the environment for advancement of common objectives and then facilitate the implementation of supply chain finance in Bangladesh.

Despite the challenging international trade environment, Bangladesh continues to remain competitive but in my view there remains a widening trade finance gap. This gap can be narrowed significantly using supply chain finance techniques. This remains a real challenge but through collaboration, connectivity and innovation using supply chain finance techniques, this challenge can be turned into a real opportunity for Bangladesh. Supply chain finance based on the credit status and funding costs of the buyer can open up new lines of finance for expanding exporters in Bangladesh. Funding that is directly associated with specific verifiable trade transactions.

It is no longer a question of traditional trade finance (TTF) versus supply chain finance (SCF) – the solution is like the modern supply chain itself in that it is must be multidimensional.

In Bangladesh, there is no need to reinvent the wheel– It just needs to be fitted with new and better tyres.





Syed Munir Khasru
Chairman
Institute for Policy Advocacy and Governance (IPAG)

Kazi Golam Tashfiq
Research Associate
Institute for Policy Advocacy and Governance (IPAG)

Implications for SDG Financing in the Context of LDC Graduation: Brief Overview of the Challenges & Opportunities for Bangladesh

Abstract

Bangladesh, leaving its successful footprints on its MDG journey, is now approaching towards the horizon of its SDG achievement timeline. As the SDG journey of the economy coincides with its walk towards LDC graduation, it has profound implications for Bangladesh from the perspective of SDG financing. The paper provides a brief overview to the challenges of LDC graduation of Bangladesh from the view point of SDG financing and outlines some of the available policy responses for Bangladesh to address them. Analysis shows that placing SDGs at the center of the trade and development cooperation will be conducive to the achievement of the SDGs and also ensure a smoother LDC graduation for Bangladesh economy.

The development trajectory of Bangladesh over the last two decades has been a unique success story compared to many other Least Developed Countries (LDCs) in the Asia Pacific region. The country has maintained a sustained growth momentum along with macroeconomic stability which had taken the economy to the verge of LDC graduation. The economy with a noteworthy track record in its MDG journey has been vying to achieve the Sustainable Development Goals (SDGs) by 2030. As the world aspires to attain the SDG Agenda by 2030, policy relevance of SDG financing in the context of LDC graduation remains high for countries like Bangladesh.

The Economic Development Trajectory

Bangladesh became eligible for LDC graduation in recent past (2018) satisfying the three criteria namely, Gross National Income (GNI) per capita, the Economic Vulnerability Index (EVI) and the Human Assets Index (HAI) at the triennial review of the Committee for Development Policy (CDP) (UN DESA, 2018). However,



Bangladesh requires to meet its eligibility criteria at two consecutive triennial reviews to graduate successfully from the LDC group in 2024 being granted for three years of transition period. While graduation from the LDC status will validate the sustainable development process of Bangladesh in the international community, the rise comes with a price in the context of financing the SDGs by 2030 for the economy.

According to the estimation (2017) of General Economics Division (GED) of Bangladesh, Bangladesh economy will need an additional synchronized cost equivalent to USD 928.5 billion (at constant prices) which is 19.8% of the consolidated GDP during the period FY 2017– 2030 under the 7th Five Year Plan extended growth scenario.[i] While, SDG 8: Decent work and economic growth will incur the highest cost of implementation, the least cost will be incurred for implementation of SDG 17: Partnership for the goals. The potential sources of financing the resource gap include the public sector, private sector, Public-Private Partnership (PPP), external resources (e.g. development assistance, foreign direct investment, etc.), and non-governmental organizations (NGO) (GED, 2017).

Implications of LDC graduation for SDG financing in Bangladesh

The LDC graduation of Bangladesh will coincide with its journey of graduating to middle-income country (MIC). This double graduation will eventually lead to an increased cost of borrowing for Bangladesh. Currently, Bangladesh receives concessional foreign aid of International Development Association (IDA) type due to its LDC status, that enables the economy to finance its development at a favorable cost. As the country makes LDC graduation, it will experience a gradual shift from concessional foreign aid (IDA type) to blended and, subsequently, non-concessional finance (IBRD type) which is of higher interest rate along with tougher terms and conditionalities.

Although Bangladesh's ODA dependence remains as low as 1.51% of GNI (approx.), the growth story of the country reveals that, ODA had been an integral part of its development finance since independence when it comes to health, education, infrastructure sectors and humanitarian response mechanism (Rahman & Bari, 2018). ODA has not only contributed financing manifold development projects of Bangladesh historically, but also mobilized additional private and public resources in the economy (Islam, 1999). Provided that, external financing has been identified as one of the key sources and leverages of SDG financing, this implication of LDC graduation might put the economy under significant challenges from the standpoint of financing sustainable development.

Although higher cost of borrowing remains one of the critical factors for LDC graduation of Bangladesh, it does not limit itself to financial implications only. As the LDC graduation approaches, the economy will also face challenges in market access which will eventually affect the SDG financing through the channels of increased trade cost at global level. Presently, Bangladesh economy is privileged through the LDC specific preferential treatments namely, duty free quota free (DFQF) market access and favorable rules of origin (RoO) in its major export destinations which will no longer be applicable once the country graduates from LDC status (Ahmed, 2019). For instance, Bangladesh currently exports its products to European Union (EU) under EU's special preferential arrangement (namely, EBA) which grants the country DFQF market access for everything but arms and ammunition (EBA). This current regulation of EU will expire in 2023 which is prior to Bangladesh's prospective LDC graduation timeline. This implication is imperative in the context of growing protectionist regime around the globe because, preference erosion in market access may well increase the cost of trade causing a diversion of resources from inclusive and sustainable development of Bangladesh.

Bangladesh also enjoys the advantage of special and differential treatment (S&DT) from the World Trade Organization (WTO) conditional upon its LDC status which will no longer be applicable in post-graduation period (Kleen & Page, 2005). For example, pharmaceutical industry has been recognized as one of the prospective exporting industries for Bangladesh and presently, Bangladesh being an LDC enjoys waivers from several stringent obligations in this industry in the areas of trade related intellectual property rights (TRIPS). Besides, the country also will no longer be qualified for certain dispute settlement facilities offered by WTO in international sphere after its graduation. While these have indirect effect on financing the SDGs in Bangladesh, the country's erosion of preferential access in several international development funds and banks have direct implications.

At present, Bangladesh have the preferential access to the LDC Fund (LDCF) for climate change financing which will expire right after its graduation (Ahmed, 2019). However, Bangladesh will have its access to Green Climate Fund (GCF), conditional upon reform policies to strengthen its institutional capacity. Aside LDCF, Bangladesh will also lose its access to LDC Technology Bank which aims to strengthen the LDC economies technologically. This will have profound implications for the country to finance a wide array of SDGs particularly SDG 2, 7, 8, 9 and 13.

Moreover, after graduating from the LDC group, Bangladesh will no longer be benefitted from the ceilings and discounts for contribution to budgets of the United Nations (UN) system (CDP, 2019). For instance, after LDC graduation, Bangladesh will be obliged to an increased financial contribution of additional USD 5-5.5 million annually considering current scenario. This might have detrimental effect on the fiscal stability of the economy

from SDG financing perspective given that, the economy's revenue mobilization capacity has not been very promising. In fact, the revenue-GDP ratio of Bangladesh had been on a continuous decline since 2012 (CPD, 2019).

The Challenges and Strategic Response

As the bigger picture reveals, Bangladesh has implications of its prospective LDC graduation in three broad areas namely, cost of borrowing, preference erosion in international trade and development cooperation (Rahman & Bari, 2018). As far as the cost of borrowing is concerned, Bangladesh has to undertake policy reforms to enhance its domestic resource mobilization capacity as revenue mobilization falls in stark contrast with the economic growth. Another way of addressing the challenge is to leverage the financing opportunities unlocked by the emergence of major Southern development partners like, China, India, etc. as opposed to traditional Organization for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) partners. Besides, the country also needs to incentivize its private sector through Public Private Partnership (PPP) and new innovative financing modalities like blended finance to mobilize resources in pursuit of financing SDGs locally (Rahman, Khan, & Farin, 2019). In this regard, Bkash is a notable example of how private sector can get engaged feasibly in local Bangladesh and eventually enable massive financial inclusion of the economy.

Regarding the challenges posed by the preference erosion and elimination of S&DT in the international trade landscape, Bangladesh needs to effectively renegotiate its regional trading agreements (RTAs) and its conditionalities especially in the areas of TRIPS. Simultaneously, the country also needs to diversify its export basket as a buffer to the repercussions it might face in its specific exporting industries due to preference erosion in international markets. With regards to the implications in the conditionalities of development cooperation, Bangladesh needs to strengthen its institutional capacity by undertaking complementary reform policies to unlock new sources of financing the SDGs at national level.

Way forward

Given that, the implications of the prospective LDC graduation of Bangladesh are appropriately recognized in the context of financing the SDGs, the policymakers need to strongly emphasize on domestic resource mobilization to realize the untapped potential of public-private collaboration for tackling the challenges of the evolving development cooperation architecture. While, policymakers should consider leveraging the wide array of emerging financing sources, it should also concentrate on export diversification and trade related reforms required to overcome the impending adversities of preference erosion in post LDC graduation period. Above all, putting sustainable development at the core of the international trade and development cooperation will not only ensure a smoother LDC graduation for Bangladesh economy but also complement the achievement of SDGs by the country by 2030.

i. *Under the 7th Five Year Plan extended growth scenario it is projected that, the Bangladesh economy will grow at a rate of 9% by the year of 2030.*

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Professor Shah Md. Ahsan Habib, PhD
Director [Training], Bangladesh Institute of Bank Managemnt [BIBM]

Md. Mostafizur Rahman Sarder
General Manager
Bangladesh Bank [BB]

Sustainable Finance: Challenges for the Banking Industry of Bangladesh and the Way Forward



'Sustainable Development' targets beyond growth and results in enriched human wellbeing and social equity while significantly minimizing environmental risks. Today's macro sustainability movement is very much within the broader scope of sustainable development goals (SDGs) of the United Nations (UN) that are expected to address and integrate all the three dimensions of sustainable development i.e. environmental, economic and social, and their inter-linkages in a balanced way. To attain that banks have a great role to play and the sustainable action by banks goes beyond profitability. Alongside targeting profitability, through sustainable financing activities a bank or financial institution aims at addressing qualities of profitability in economic, social and environmental fronts.

Historically, it has not been easy to push commercial banks to go beyond profitability. Thus, policymakers of developed and developing countries have been engaged in promoting different innovative and smart approach to inspire banks for undertaking sustainable banking activities. Sustainable banking models commonly satisfy certain generic criteria such as ensuring wider outreach and access; addressing vulnerable sections; safeguarding consumer protection; addressing energy sustainability, environmental degradation, and safety concerns; and ensuring cost effectiveness and financial viability. In recent years, technology came up strongly to support sustainable banking movements in a big way.

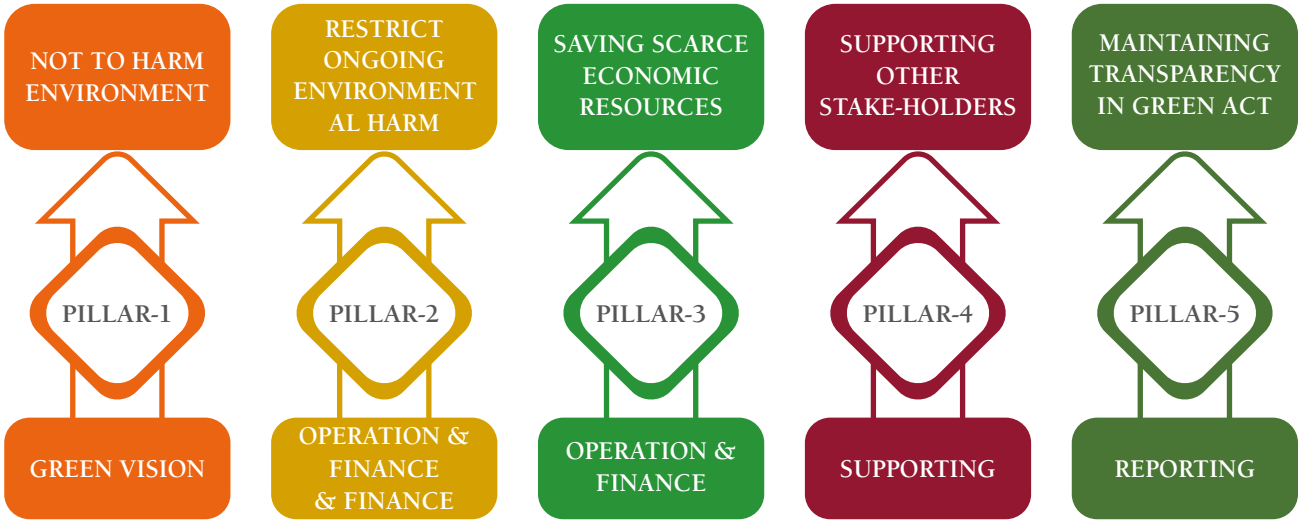
As in the most developing countries, policymakers and banks in Bangladesh are pursuing sustainable banking activities and development agendas. As a torch bearer, Bangladesh Bank (BB) has brought in a paradigm shift with multiple approaches of inclusive financing, green banking, women empowerment financing, corporate social responsibility, small enterprise financing, and consumer protection measures to attain certain marks through banking channel. Especially, certain green ventures of the banking industry opened up avenues for addressing environmental risk through alternative energy use and a few other green financing products in line with the macro goal of green growth. The objective of the paper is to discuss sustainable banking ventures in Bangladesh and the associated challenges and opportunities related to environmental degradation. Based on published information, the paper recommended for some specific initiatives to streamline green banking activities in the country.

Banking and financing activities that targets green growth by addressing environmental degradation is popularly called as 'Green Finance or Green Banking'. As a visible change, green growth strategies are expected to bring improvement in production, consumption and livelihood in the form of promoting green production, green consumption, and better livelihood.[1] It is well recognized that banks and financial institutions can influence

1. *Habib, Shah Md. Ahsan (2019) Green Finance for Green Growth, Keynote presented in the Seminar on 'Green Banking and Sustainable Growth' organized by Nordic Chamber of Commerce on September 18, 2019*

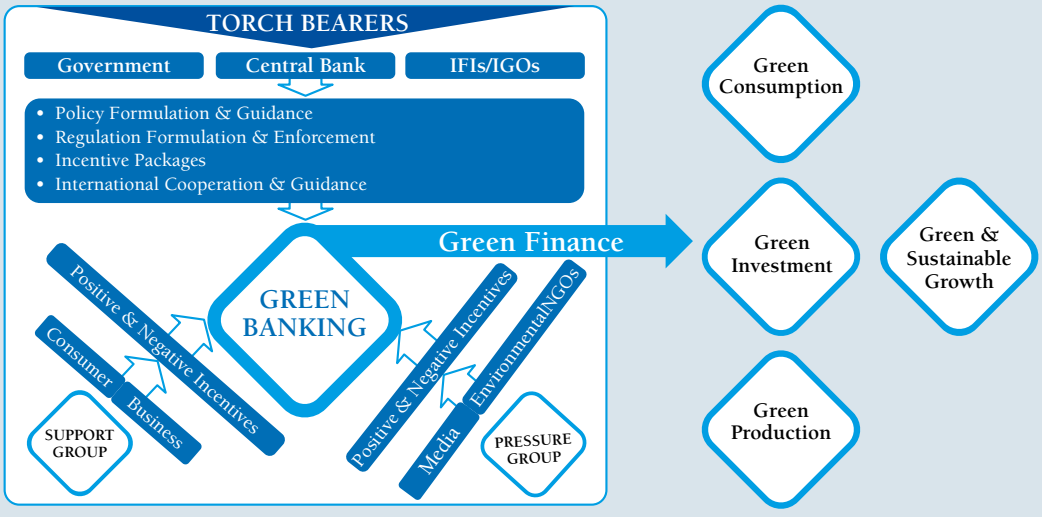
productions, businesses, and other economic activities through their financing activities. Through green financing banks do not only improve their own standards but also influence socially responsible behavior of other businesses. Broadly, green banking rests upon five pillars (Figure 1). First one is related to the 'green vision' of a bank. It is the basic principle. Practically, activities and operations of banks cannot completely remove environmental harm but in most cases can minimize harm. Second and third pillars are connected with a bank's green efforts to minimize environmental risks in financing and saving scarce resources. Fourth pillar is concerned with supporting other stakeholders and cooperation. Transparency, the fifth pillar, is concerned with providing relevant information and reporting. All these pillars are integrated and crucial to ensure sustainable green financing.

Figure 1: Five Pillars of Green Banking/Finance[2]



What are the economic and social agents that may contribute to green and sustainable growth through green finance? Practically, fruitful green finance needs support of other several stakeholders [Figure-2] to contribute, and the contributions are channeled through green investment, green production and green consumption (figure 2).

Figure 2: Stakeholders of Green Finance: the Agents of Change for Green Growth[3]



2. *Habib, Shah Md. Ahsan (2011). Environmental Responsibilities by Banks in Bangladesh, Post-Doctoral Thesis pursued in Syracuse University, USA, published by Lap Lambert Publishers, Germany.*

3. *Habib, Shah Md. Ahsan et al. (2013). An Evaluation of the Green Financing by Banks in Bangladesh, Sustainable and Green Banking, BIBM.*

The Perspective Plan of Bangladesh 2010-2021 provided the road map for materialization of the national goals of attaining the sustainable development agenda in the Vision 2021, and it is recognized in Bangladesh's development strategy that the goal of sustainable development would not be possible to attain if environmental issues cannot be handled effectively. Especially, in recent years, activism increased remarkably at the public forums and amongst policy makers. The development approach of the Seventh Five Year Plan (7th FYP) is consistent with the global agenda for higher growth in developing countries with appropriate measures to protect environment.

Considering the severity of potential adverse impact of environmental degradation and climate change, the responses of the policy makers and the key stakeholders are crucial.[4] In response to the policy initiatives, Bangladesh made progress towards environmental sustainability by integrating the principles of sustainable development into country's policies and programs to reverse the loss of environmental resources. In 2015, the honourable Prime Minister of Bangladesh has been announced as one of the winners of the UN highest environmental accolade, in recognition of Bangladesh's far-reaching initiatives to address environmental issues.[5]

Though, 'environmental risk management' or 'green finance' as titles came up only in recent years in the circulars of BB, several earlier circulars of the Central Bank clearly identified some relevant concerns.[6] Green financing received significant impetus in the country following the issuance of two key circulars in 2011 by the BB: 'Policy Guidelines for Green Banking'[7] and 'Guideline on Environmental Risk Management (ERM)'[8]. In 2017, BB redesigned ERM and named Environment and Social Risk Management Guideline (ESRM) which covered both social and environmental risk issues.

Green products introduced in the country so far are policy driven. BB introduced refinance schemes[9] for renewable energy, energy efficiency and some other green schemes in 2010 that has been made available through Islamic banks since 2014.[10] There are also several special loan funds supported by donor agencies to address environmental and safety issues.[11] BB's CSR related initiatives may also be tagged with the promotion of green financing.

Banks and NBFIs responded to the policy and regulatory initiatives to a great extent, though outcome has not always been up to the level of expectation. As per BB requirement, banks and NBFIs have established 'Sustainable Finance Unit', and all have their approved Green Banking Policy and Green Office Guide. The data on disbursement of green finance by banks and NBFIs show increasing trends. During the January-March, 2019, 48 banks out of 58 and 11 FIs out of 34 have had exposure in green finance.[12] The exposure however remained low (less than 2%), and the most credit facilities are disbursed in the areas of renewable energy, energy efficiency, alternative energy, waste management and green establishment. Of the NBFIs, the contribution of IDCOL[13] is particularly noteworthy. Efficiency and grant based and concessional donor funds helped IDCOL developing an effective product design that has already received recognition. Green financing is complementing government's efforts to attain other development goals.[14] Responses of a good number of industrial units and business houses are also encouraging.[15]

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4. *Habib, Shah Md. Ahsan and Antara Zareen (2014) Climate Change and Banking Sector of Bangladesh, Green and Sustainable Banking in Bangladesh, BIBM, Dhaka.*
5. *The award 'Champion of the Earth' recognizes visionary policy leaders who have demonstrated and inspired global political will in promoting inclusive and sustainable growth (http://web.unep.org/champions/about).*
6. *Banks and NBFIs were advised to take steps in financing to control environmental pollution back in 1997 (BB BRPD Circular No-12, October 08, 1997; BRPD Circular No-21, November 10, 1999).*
7. *BB BRPD Circular No-2, February 27, 2011.*
8. *BB BRPD Circular No-1, January 30, 2011.*
9. *BB SFD Circular No-3, dated march 16, 2017.*
10. *BB GBCSRD Circular-No 6, 2014.*
11. *For example, government constituted a loan fund to support the RMG and other export oriented factories through medium to long term finance under the 'Program to Support Safety Retrofits and Environmental Upgrades' that offered pre-finance for disbursing the credit to eligible industrial units (SMESPD Circular No- 01, March 31, 2019).*
12. *BB (2019) Review Report on Green Banking Activities of Banks and NBFIs, January-March, 2019.*
13. *In 2015, Bangladesh received USD 3.56 million Carbon Credit from UNFCCC for its fast growing SHS. Bangladesh is the first country to receive funds from UN for SHS. The fund has been given through Infrastructure Development Company Ltd (IDCOL) and Grameen Shakti.*
14. *For example, government is working to implement National Financial Inclusion Strategy (NFIS) which is clearly aligned with the goals of sustainable and green finance.*
15. *The country now has 108 green factories and establishments, of which 95 are in RMG and textile sector; and of the top 10, six are in the country. Green factories are also getting popularity in shipyard, shoes and electronic industries (Prothom Alo, September 02, 2019).*



Green financing activities of banks and NBFIs brought remarkable business and development opportunities. However, potential opportunities can be materialized if certain associated challenges can be effectively addressed.

Connecting demand and supply side and addressing underutilization of the available green finance are critical challenges. The current green financing market has distorting components. Some NBFIs have relatively better access to the concessional and donor funds for on-lending. It is good for the economy; however, for ensuring wider participation of banks and NBFIs, right market segmentation could handle the matter. For making refinancing attractive, BB may think of introducing a system of qualification based criteria for getting access to the fund at a reasonably low interest rate. Donors are expected to contribute with the marketing, awareness and capacity development program. Regarding green financing targets, BB may think of fixing different targets of green loan disbursement for different banks/NBFIs with the tagged incentives.

As the financing models, direct bank/NBFI lending to the end users does not seem feasible in all scenarios. In several instances, using intermediary is offering better outcomes. Linkage approaches with NGOs/MFIs might be preferred model for certain products and areas; however, for banks/NBFIs it is not always easy to identify the right intermediary. BB may think of enlisting some local level capable NGOs/MFIs to do the job as intermediaries of banks/NBFIs. Quality of equipment and capable technical service providers are required to be ensured for effective delivery of certain green products. In case of renewable energy financing, SREDA might play roles for ensuring quality equipment and enlisting technical service providers.

Limited knowledge, awareness, and capacity on the green products are notable challenges. As part of risk management, banks must have efforts to gather reliable data on borrower; and bankers especially that are engaged at the branch/field level and the intermediaries/suppliers of support services need motivation and exposure on the use, benefits and technical aspects of green products.

In spite of some remarkable changes and improvements in certain areas, several areas of green financing remained untouched. Some of these are relevant from the point of view of green growth. Areas like waste management, bio-diversity, and green transportation should get due emphasis to obtain required benefits in near future. Probably, for green banking market in Bangladesh, it is now right time of transformation from 'Regulatory Approach' to 'Collaborative Approach' for ensuring ownership of market participants and giving the right kind of push to sustainable and green banking. 'Adoption of a set of Sustainable Banking Principles' by the associations of bankers/banks might be useful in initiating the collaborative approach. Ideally, a well-coordinated national green strategic structure should serve and be participated by the stakeholders-BB, concerned ministries and departments, special economic zone authorities, banks and financial institutions, academicians, researchers, and trade/business associations; and green finance intervention should be seen as a key part of the comprehensive whole.



Mohammed Sohail Mustafa
Associate Professor
Bangladesh Institute of Bank Management (BIBM)

Blended Finance: A New Modality of PPP to Achieve SDGs 2030

1. Blended Finance – An Overview

In September 2015, the United Nations General Assembly established a vision for 2030 by adopting the 17 Sustainable Development Goals (SDGs). The SDGs are a comprehensive set of objectives that aim to globally end poverty, ensure that basic needs of all people are fulfilled, and the planet and the environment are protected. The 17 Goals have been linked with 169 measurable targets, and if all are reached, the 2030 Agenda would see a just, peaceful and sustainable world free of poverty, hunger and discrimination. However, there is currently an annual shortfall of USD2.5 trillion in developing countries (despite the combined amount of private capital flows, personal remittances, official development assistance (ODA) and private grants), which could work against achieving the SDGs in these countries.

Blended finance has proven to be a possible solution to this problem. Blended finance has quickly become a key instrument to catalyze investments towards the SDGs. It enhances the concept of partnership between the public and private sector by maximizing synergies and leveraging the contributions of these two groups of investors, while setting clear impact targets in terms of improving people's lives, and the planet they live in. Consequently, blended finance is increasingly being recognized by the international development community as one of the ways to solve this financial disparity. The clear fit between the "new" funding structure of blended finance products and the mission pursued by its sponsors brings an impact dimension into financial space. This unique relationship contributes to the realization of the SDGs.

"Blending" in development finance has been on the rise since 2008, as a result of the financial crisis and the abrupt lack of liquidity for many private sector investors. A considerable amount of literature has been published on blended finance since then. However, even after 10 years, there is no uniform understanding and definitions of blended finance vary across sectors and actors. Stakeholders such as the Organization for Economic Co-operation and Development (OECD) and Convergence, a global networking platform for blended finance, have led the way in establishing and standardizing a comprehensive understanding of the terminology and framework in the emerging blended-finance field.

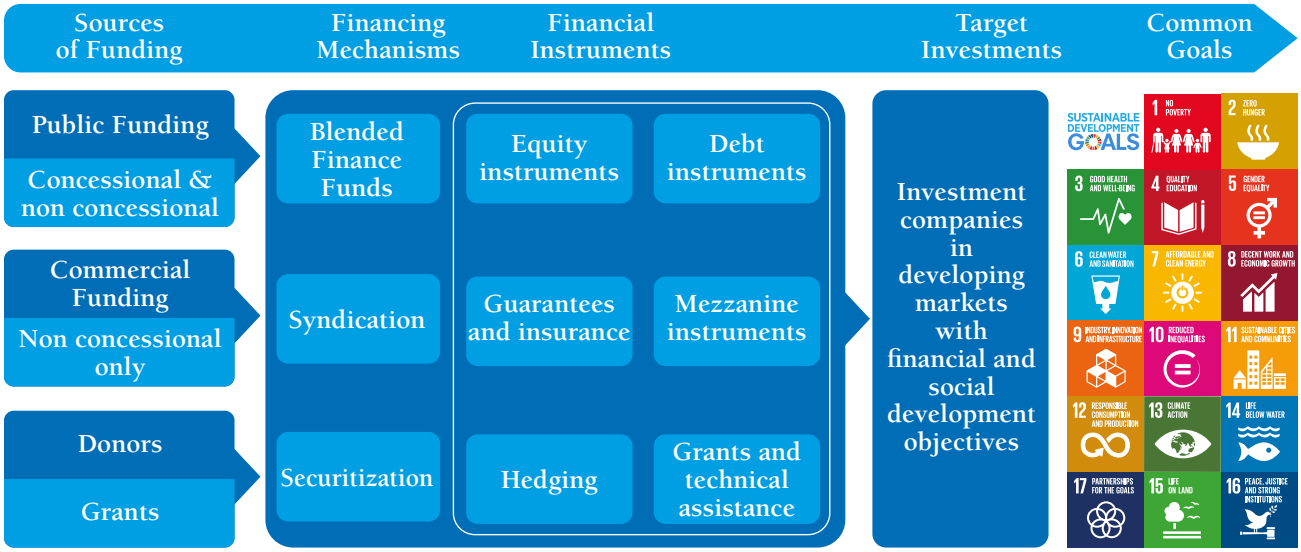


Figure: 1 Components of Blended Finance

Based on reviewing different literature on blended finance, we define blended finance as:

"Funding by development finance institutions (DFIs), multilateral development banks (MDBs), bilateral governments, and foundations (e.g. endowments and philanthropists) in de-risking instruments (e.g. guarantees, first loss or risk sharing capital, technical assistance and capacity building) to crowd in private capital in frontier and emerging markets in order to accelerate the achievement of the SDGs by scaling-up activities."

2. The 5 Ps of Blended Finance

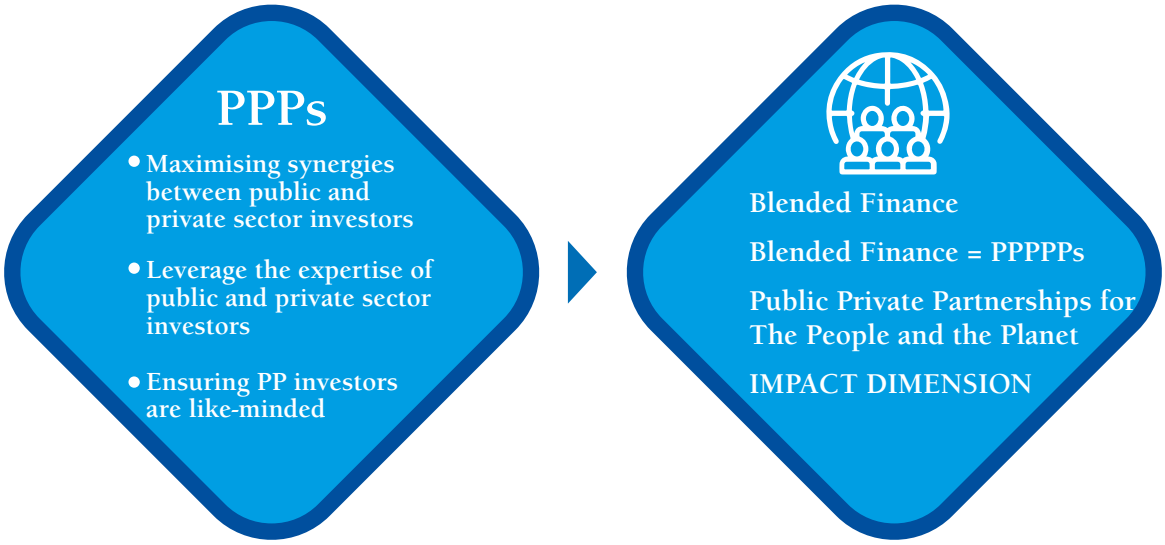


Figure: 2 The 5 Ps of Blended Finance

In our experience and understanding blended finance constitutes an impact driven extension of Public-Private Partnerships (PPPs). The novelty in blended finance is the expansion of traditional PPPs by two further "Ps": People and the Planet (see Figure 2). Blended finance is therefore an advancement, aligning investors and investment instruments for a common set of financial and impact objectives in line with the guiding principles set by the SDG framework.

3. Some Key Findings on Blended Finance Based on Different Global Research Initiatives

3.1 Each $1 of MDB and DFI invested mobilizes on average $0.75 of private finance for developing countries, but this falls to $0.37 for LICs, $1.06 in lower-middle-income countries (LMICs) and $0.65 in upper-middle-income countries (UMICs). Expectations that blended finance can bridge the SDG financing gap are unrealistic: 'billions to billions' is more plausible than 'billions to trillions'. There is much talk by policy makers of the potential of blended finance to mobilize significant sums of private finance. High financial leverage ratios are at the core of their arguments for investing ODA in blended finance, but research shows that real leverage ratios are actually very low. Leverage ratios are generally low across sectors, with a slightly higher ratio in the social sectors and the lowest ratios in LIC and middle-income country (MIC) infrastructure.

3.2 We need to better understand the poverty and development impact of blended finance, as well as its true costs, to ensure value for money and effective policy-making and allocation of ODA. We need to better understand the development impact of blended-finance investment and the value for money of official 'subsidies' if we are to understand their comparative value over other forms of development financing. Low leverage ratios suggest ODF will have to play a major role in blended-finance investment. The estimates suggest that the public sector (the MDBs and DFIs) has on average picked up 57% of the cost of blended-finance investments to date and as much as 73% of the cost in LICs. Given that the public sector picks up much of the cost, and that often blended finance does not mitigate risk but merely transfers it from the private to the public sector, we need to understand better the development impact and value for money of investing ODA in blended finance.

3.3 The potential of blended finance in LICs is hindered by factors such as poor investment climate, lack of investable opportunities, lack of tailored approach and low risk appetites of MDBs and DFIs. Private commercial finance will not flow freely to countries where the investment climate is challenging, markets are not functioning and the risk-adjusted rate of return is uncompetitive. In fact, IFC estimates that 96.3% (June, 2019) of private finance mobilized through blended finance flows to countries with a credit rating, which most LICs do not have. Blended finance may tip the balance, but it will not work if the economic fundamentals are not in place. So, the push for blended finance should not eclipse the need for grants to boost local investment environments. Using concessional finance to blend can help pioneer and create new markets, foster innovation and invest at the earliest stages of projects, when risk levels are at their highest and when private investors need a greater degree of risk mitigation. The data suggest, however, that MDBs and DFIs are primarily using less risky senior debt rather than instruments that are more risk appreciative to take on early-stage or 'pioneer' risk, such as subordinated debt, equity, risk-sharing facilities, guarantees or grants. The data also show very little variation in the instruments used in different country income groups. This suggests that the current blended finance approach in LICs is not tailored to the risk requirements of private investors, which may limit the potential of blended finance to mobilize private finance in LICs.

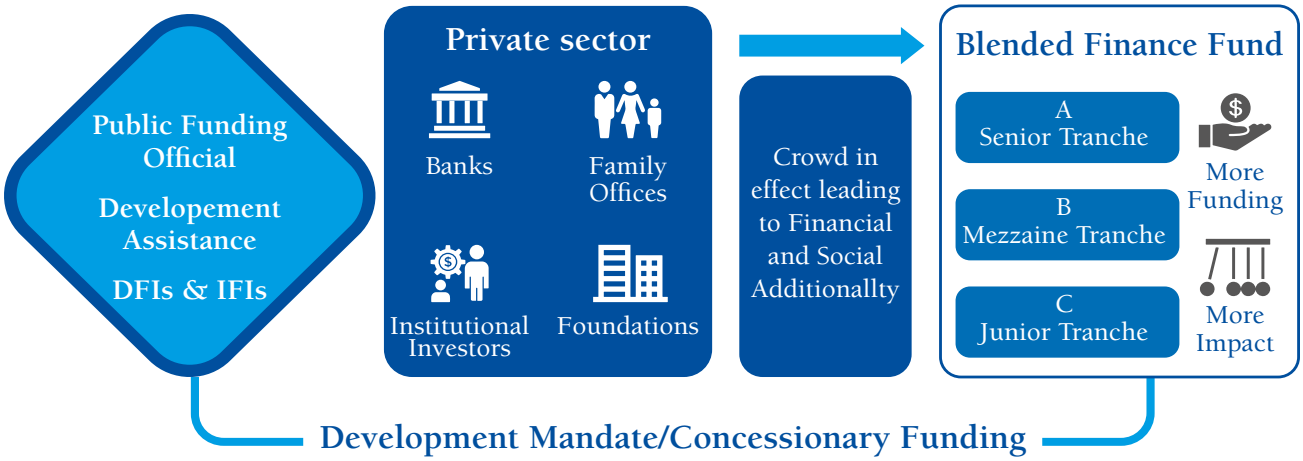


Figure: 3 Financial & Social Additionality

3.4 The big push for blended finance risks skewing ODA away from its core agenda of helping eradicate poverty in the poorest countries. ODA per capita is higher in LICs than other countries, but the opposite is true for blended finance. Changing policy incentives at the bilateral and multilateral levels to encourage greater use of ODA to mobilize private finance means we will see increased investment of ODA in blended finance. But it is easier to mobilize private finance in MICs and in 'hard' economic sectors. So, it is not surprising that blended finance is heavily concentrated in MICs and flows predominantly to the 'hard' economic sectors (infrastructure, banking and financial services), with very little to social sectors (health, education, social protection).

3.5 Effective policy-making has been thwarted by the lack of a common official blended finance framework and poor data availability, hindering transparency and accountability, and undermining public trust in this approach. A lack of transparency and accountability undermines official efforts to build the case for more investment of ODA in blended finance, denting public trust. This is at odds with the blended-finance principles agreed by the international community (DFI Working Group, 2017; OECD, 2018b). There is a clear disconnect between high-level political commitments to transparency and accountability and operational policies and rules.

4. Recommendations & Policy Implications

4.1 If blended finance is to be scaled up, MDBs and DFIs will need to get better at using blending to mobilize private finance while managing the higher level of

risk this implies. If blended finance is to be scaled up, leverage ratios will need to increase significantly. MDBs and DFIs will need to make fundamental changes to their business models and take on riskier projects. Changes could include:

- Making more use of concessional finance and subordinate instruments to meet the risk mitigation needs of the private sector in LICs;
- Using more concessional finance to fund project preparation and early-stage project development, as well as to foster the use of more innovative risk-appreciative instruments;
- Revisiting the required rates of return on concessional resources used in blending and the 'hurdle rates' of bilateral DFIs: in other words, accepting higher levels of financial risk;
- MDBs assessing capital adequacy in a more uniform way, allowing greater transparency of scope to take on risk and incorporate callable share capital into capital adequacy models.

4.2 Donors need to think carefully about the allocation of ODA and the risks and trade-offs of investing ODA in blended finance. There may be other public policy interventions that are more transparent and effective in achieving development objectives than providing a direct subsidy to the private sector. For example, MDBs, DFIs and donors could make greater use of grant finance to strengthen the investment climates of LICs, focusing on country-led programs of policy reform, financial-sector development and capacity building. Given that blended finance has not targeted well the poorest countries, and is not used equally in all sectors, donors need to manage the risk that increased investment of ODA in blended finance could further exacerbate the poor targeting of ODA, neglecting the countries and sectors that need it most.

4.3 There is an urgent need for better data and transparency. Efforts should be made to align and harmonize the OECD and MDB blended-finance frameworks. All institutions should publish disaggregated project-level data. The OECD Development Assistance Committee (DAC) needs to resolve outstanding issues on the treatment of private sector instruments in the modernization of ODA and make efforts to publish the 'grant equivalent' of blended-finance transactions to the OECD Creditor Reporting System (CRS). This should be disclosed publicly at a semi-aggregated level to overcome the commercial confidentiality concerns of MDBs, DFIs and donors.

Acknowledgement: Due to the page limitations, the detail references are not provided in the paper & the references are available upon request. The author is indebted to World Bank, IMF, ADB, OECD, IFC, and UNESCAP for their several publications on PPP, SDG, and Blended Finance.

Annexure

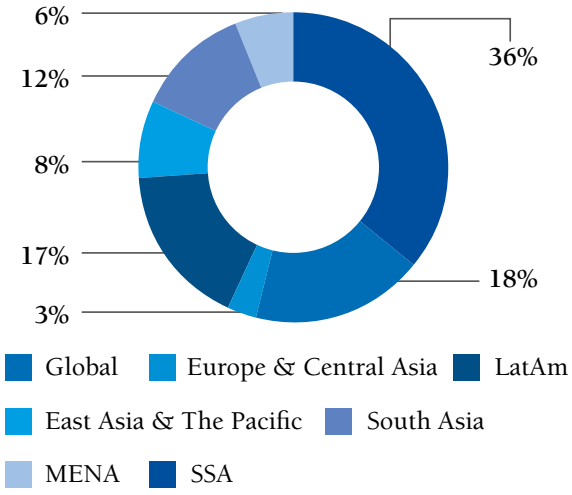


Figure: A Deals by Region

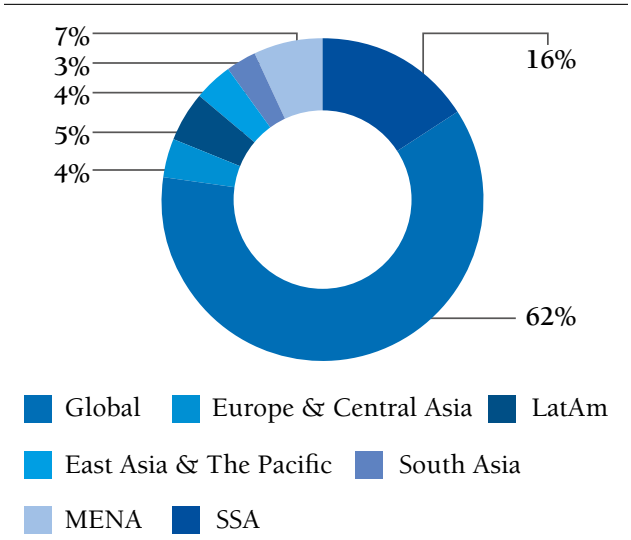
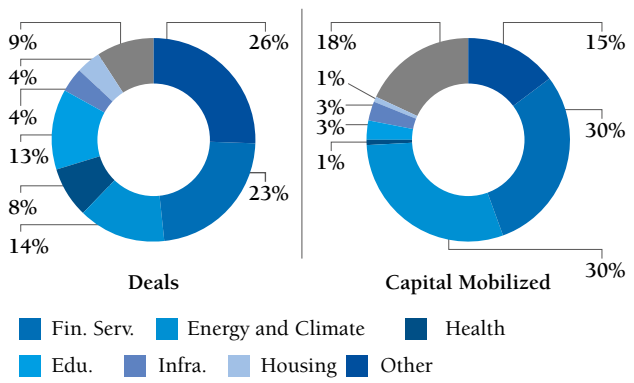


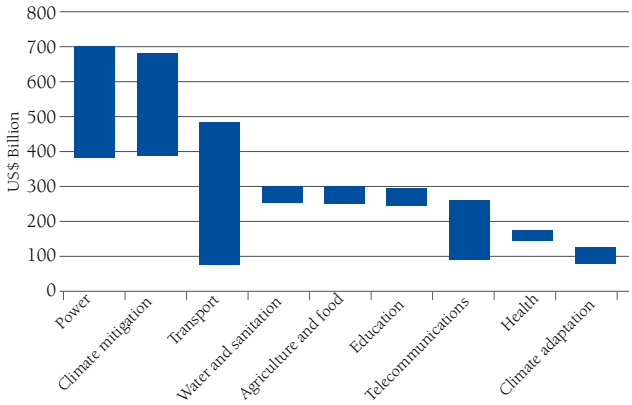
Figure: B Capital Mobilized by Region

Source: cf. Convergence and Business & Sustainable Development Commission. The State of Blended Finance. Pg. 5



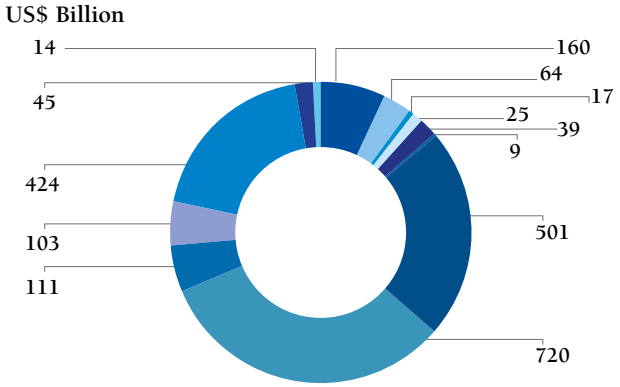
Source: cf. Convergence and Business & Sustainable Development Commission. The State of Blended Finance. Pg. 5

Figure: C Number of Blended Finance Deals and Capital mobilized by Sector



Source: Development Initiatives based on UNCTAD 'World Investment Report 2014'.

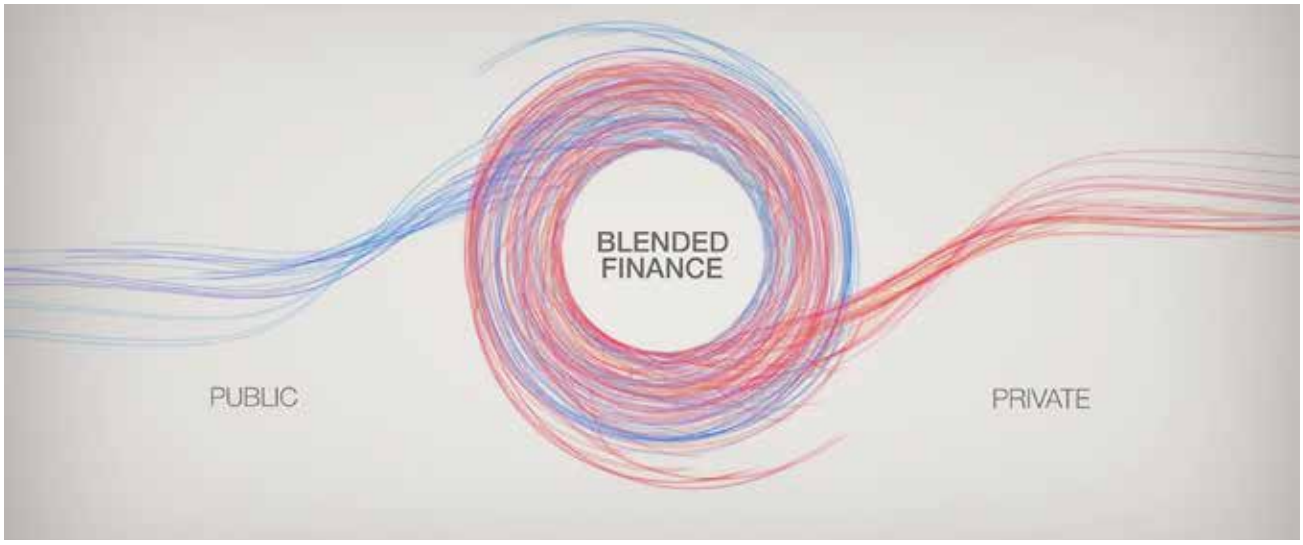
Figure D Sectoral Funding Gap Required to Achieve SDG

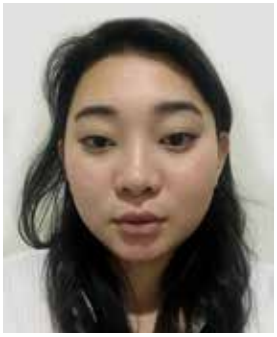


- ODH -72%
- Other offical flows (OOFs) - 2.9%
- Long-term debt (official) - 0.8%
- Other providers of development cooperation - 1.1%
- Development finance institutions (DFIs) - 1.8%
- Peacekeeping - 0.4%
- FDI - 22.4%
- Loan-term debt (net) - 5.0%
- Short-term debt (net) - 5.0%
- Portfolio equity (net) - 4.6%
- Remittances - 19.0%
- Private development assistance (PDA) -2.0%
- Private finnce mobiliwsed via belnding - 0.6%

Sources: Development Initiatives based on data included in Investments to End Poverty (ITEP) 2015 and on OECD DAC, SIPRI Yearbook 2014, UN Conference on Trade and Development (UNCTAD), World Bank World Development Indicators (WDI), World Bank International Debt Statistics (IDS), World Bank Migration and Remittances database and OECD survey 'Amounts Mobilized from the Private Sector by Official Development Finance Interventions'.

Figure: E Contribution of Blended Finance as Compared to other Mode of Finance in Developing Countries





Yeshay Pelmo D Thaye
Researcher at the Financing for Development Section of UNESCAP

Bhutan's Hydropower Development: A Case Study of Financing for Development

1. Successful hydropower development in Bhutan

Bhutan is endowed with abundant freshwater resources. Located in the high eastern Himalayas, the steep gradient of Bhutan's mountainous topography and its fast-flowing rivers provide an ideal environment for harnessing its hydropower potential - estimated at about 30,000 MW of which 23,760 MW is commercially feasible. So far, Bhutan has just about tapped into 10 percent of this potential or 2,300 MW and plans are to build up an installed capacity of over 10,000 MW within the decade.



The development of hydropower potential has been a major driver for Bhutan's economy over the last three decades and a key reason for its rapid socio-economic development. With technical and financial assistance from India - the main purchaser for the surplus power – this has helped Bhutan rise up from among a group of the worlds' poorest and least developed to a medium human development state. Even though hydropower's role in the economy is declining in terms of its share of the GDP, the sector will continue to provide the impetus for economic growth for the foreseeable future. In addition to export revenues, hydropower has facilitated the growth of a vibrant industrial sector and the availability of cheap power will continue to provide competitive advantage for Bhutanese industry. As various policy documents reflect, the country's economic future will be rooted in and driven by hydro-power based investments. Thus, Bhutan's experience with hydropower development can be thought of as a success story for financing for development.

2. Issues and challenges in financing for Bhutan's hydropower development

While Bhutan's hydropower growth has been viewed as an enormous success story and the single most important factor that led to its rapid socio-economic development, this narrative is being questioned in recent times. Several of these pertinent issues that are part of the public discourse in Bhutan are discussed below.

Electricity tariff

The electricity tariff for all of Bhutan's inter-governmental hydropower projects are based on the cost-plus method wherein the tariff is generally determined based on a formula that factors in production cost, operation and maintenance expenses and a fixed return on equity. On the basis of this cost-plus formula, the tariff for Chukha hydro-project today after revisions is sold at Nu.2.55 per unit while the recently commissioned Mangdechhu's tariff has been set at Nu. 4.12 (Kuensel, 2018). However, there is widespread public perception that the electricity tariff is more favorable to India than Bhutan. A study in 2015 on the export price of electricity by Sangey Chophel suggests that the cost-plus method undervalues the total cost of the project and that hydropower debt would not be self-liquidating without optimal tariff for electricity. Several media reports also highlight the issue of the low export price of electricity, particularly in comparison

to most Indian hydropower projects like the Alkanad in Uttarkhand and Subansiri in Arunachal Pradesh.

Electricity tariff negotiations between Bhutan and India have so far not been a major issue due to their close and friendly relations but may prove more intractable in the future. This is compounded by the fact that state electricity boards in India run huge daily losses due to power theft and political giveaways that undermine their capability to pay for power purchased. That India is emerging as a power surplus state and developing its own mega hydropower projects like Dibang (2,880MW), Upper Siang (10,000 MW) and 42 other such hydro schemes in Arunachal Pradesh and the Teesta IV (520 MW), Teesta V (510 MW) and Teesta VI (500MW) in Sikkim is another dimension to consider that could undermine Bhutan's hydropower competitiveness.

Cost overruns, growing debt and resource constraints

Recently, the cost overrun for several projects due to prolonged delays have raised concerns over the commercial viability of hydropower projects. The 1,200 MW Punatsangchhu I hydropower project that has been delayed by more than 8 years due to geological "surprises" involved a huge cost escalation with its initial budget of Nu. 35 billion revised to Nu. 94 billion. This could even be costlier by the time of completion. There were also cost overruns for the 720 MW Mangdechhu and the 1,020 MW Punatsangchhu as reflected in table 1. The national exchequer also stands to lose millions every day from revenues forgone. An upside that protects Bhutan from the high cost overruns is the cost-plus formula that will see the power tariff for the long delayed Punatsangchhu I and II at much higher price points than existing tariffs.

Table 1: Cost overruns for Bhutan's hydropower projects

Hydropower project	Capacity	Cost overruns (as of 2017)	Project delay in years	Initial cost in billions	Final cost in billions
Mangdechhu	720	40%	2	28.9	48.0
Punatsangchhu I	1,200	166%	8	35.1	93.8*
Punatsangchhu II	1,020	93%	4	37.8	72.9*

*Source: Bhutan Electricity Authority (2017). *Approved Estimates as of 2015. Likely to be much higher. Report on Hydropower Project Cost Overrun*

Bhutan's accelerated hydropower development plans were so ambitious that it distorted the fiscal budgets of both Bhutan and India and were kept off-budget for Bhutan. The resources required for the mega hydropower projects in the immediate pipeline run upwards of several billions of US dollars. Moreover, the financing modalities now have larger loan components and smaller grant portions with commercial banking interests applied. This has placed a higher debt burden and debt servicing obligation that has spooked the Bhutanese public who have increasingly questioned the self-liquidating hydropower debt situation.

While hydropower debt has increased in absolute terms, the country has so far managed its debt servicing ratios comfortably. The Rupee debt for hydropower is at 1.7 billion US dollars (from a total of 2.6 million US dollars) and constitutes about 72.6 per cent of GDP. Additionally, the loans of the hydropower projects commissioned have been liquidated within the stipulated period of 12 to 15 years. As such, the hydro debts may be large and growing but appear to be sustainable and self-liquidating. The World Bank suggests that Bhutan's debt build-up has been high with debt ratios breaching country specific indicative thresholds, but that debt risk was moderate due to the commercial viability of the hydropower projects that are expected to "bring strong economic dividends in the long term" and boost GDP growth and exports.

Bhutan simply does not have the resources to finance any of the capital expenditures of its hydropower development at least not for the mega projects. While Bhutan has been gradually becoming more self-reliant, it is still highly reliant on external aid to meet its capital expenditures. India too faces considerable budgetary challenges to come up with the immense resources required for sustaining hydropower investment in Bhutan. The success story of hydro-development in Bhutan has moreover fueled a clamor in the Indian Northeastern states for investments that will further strain available resources. Additionally, even as Bhutan remains the top recipient of Indian aid, recent trends reflect that in both percentage and absolute terms these resources are declining and their terms less favorable. Securing alternative financing from World Bank and other donors for the mega hydropower projects face difficulties in securing power purchase agreements from India.



Environmental and social costs on hydrology

The widespread aphorism is that Bhutan's hydropower projects provide clean and renewable energy and are environmentally friendly as they are run of the river schemes that help offset pollution in India without requiring large inundation of riverine ecosystems or displacement of populations. However, rising concerns about their negative impact cannot be dismissed summarily and recent studies reveal some impact on the environment - albeit small.

A national report on the socio-environmental impacts of hydropower determined that the biggest risk from hydropower was on the impact on aquatic diversity as such activities invariably affect river flow and aquatic connectivity. The study also admitted the possibility of Bhutan's biodiversity being affected in protected areas and biological corridors but assessed this impact was likely to be very small. An unusual finding that stands out is that a 50 percent increase in installed capacity increases encroachment in protected areas by over 400 percent. With regard to displacement of populations, the report indicates this to be minimal as the project's footprints have been small and mainly in uninhabited areas.

A recent study using optical remote sensing technology in 2019, revealed the impact on forest cover loss due to hydropower projects. The study estimates that forest cover loss per megawatt at 0.5 ha and indicates that more forest cover is lost from the construction of transmission lines than from the construction of infrastructure and roads within project sites. Another relevant finding was that forest cover loss was more prominent when hydropower projects were constructed in broad-leaf forests. While this may be deemed acceptable collateral damage, the report relevantly points out the constitutional mandate of maintaining 60 percent forest cover for posterity.

There is an even more pressing concern in Bhutan about the threat of climate change affecting hydrology and their consequences for hydropower schemes as electricity generation is completely dependent on predictable runoff patterns. The rapid meltdown of glaciers in the Himalayas would lead to reduced meltwater contribution to rivers and streams that could change hydrology patterns and consequently affect revenue generation. This could impact Bhutan's hydro revenue. Additionally, the melting of glaciers has resulted in more glacial lakes forming that could ultimately break their banks and spill over resulting in devastating glacial lake outburst floods. Bhutan has some 2,700 high elevation meltwater lakes that are growing rapidly of which 25 lakes could burst in the near future. Most of Bhutan's productive infrastructure (hydropower plants, road network, airport), fertile agriculture land, and over 70 per cent of human settlements are located along the main drainage basins that are at risk of major flooding and destruction.

Policy implications

Bhutan has benefitted immensely from hydropower development. It is an excellent case study of financing for development and mutually beneficial cooperation. As Bhutan continues its progress, hydropower will continue to be immensely relevant and perhaps, relatively green and clean. However, a doubt emerges if there will be diminishing marginal returns to capital investment in hydropower. While electricity tariff pricing could be fairer to Bhutan, there is a need to consider that India is emerging as a power surplus nation and that the price point of Bhutanese electricity may not be as competitive as before.

The harsh realities of high project cost overruns, hydro debt, mobilizing resources and their related public sentiments further add to the challenges of maintaining a sustainable path as before. There is clearly a need to source out diverse financing modalities and electricity markets. The development of a regional cross-border power trading mechanism with the Bangladesh, Bhutan, India and Nepal (BBIN) subregion holds immense prospects. Additionally, the success of green bonds for financing renewable energy provides an alternative option of financing to ease resource constraints even as this will be challenged in securing power purchase agreements from India.

There are also issues about socio-environmental costs that may have been marginal in the past, but could emerge more contentiously with further expansion in capacity. Bhutan also needs to look at climate change impact on hydrology that could impact electricity generation and revenue streams. All of these challenges may suggest the need to rethink the policy push for accelerated hydropower development and perhaps the need to pace it out at the least.



Sushama Sharma
Founder President
Women CAN, Nepal

Effects of Climate Change in Himalayas of Nepal

The Federal Democratic Republic of Nepal is a landlocked country in South Asia. It is located mainly in the Himalayas, but also includes parts of Indo-Gangetic Plain, with an estimated population of 2.8 million. It borders China and India in the south, east and west while Bangladesh is located within only 27 km of its southernmost tip and Bhutan is separated from Indian state of Sikkim. Nepal has a diverse geography, including fertile plains, subalpine forested hills, and eight of the world's ten tallest mountains, including Mount Everest the highest point on Earth.

Nepal experiences a warm spring between March and May, monsoons that last from June to September, and largely dry winters. Average annual temperature is about 27°c, varying by region and altitude.

Nepal is one of the victims of climate change. Due to low level development, complex topography, and variability in climate and micro-climate within shorter distance makes it vulnerable to climate change. In recent years, Nepal, the home to the Himalayas, is increasingly exposed to the negative effects of climate change, particularly the poor, disadvantaged groups including women and marginalized communities have disproportionally borne the brunt of the climate change effects (UNDP).

The negative effects of climate change are the major challenges in Nepal. Climate change have adversely impact upon water resources and other sectors of Nepal. Due to climate change, snow has been retreating from the Himalayas of Nepal and its consequences have been facing by the people who live in the downstream. One of the main consequences is flood due to which many people have lost their lives and properties. The retreat of the Himalayan ice is the clear sign of global warming. The average increase of temperature in the country is 0.06°c per year. Furthermore, landslides, water induced disasters, high wind velocity storms, drying up of soil-moisture and soil degradation including loss of fertility of the top-soil have led to decrease in food production, and thus resulted in food insecurity.



Receding Imja Glacier in Everest region of Nepal

Source: Google

The rapidly retreating glaciers (average retreat of more than 30 m/year), rapid rise in temperature (>0.06°C), erratic rainfalls and increase in frequency of extreme events such as floods and drought like situation are some of the effects Nepal is facing during the last few years. Most of the big rivers of Nepal are glacier-fed and its main resources of water and hydroelectricity will be seriously affected due to the ongoing changes in glacier reserves, snowfall and natural hazards.

Climate changes have been alarming in the context of global warming. The consequences of global warming have had most impact in developing and mountainous countries like Nepal, which has high intensity rainfall during the rainy season. It has resulted in heavy floods, landslides and soil erosion. It is also common to find drought in many parts of Nepal as the consequences of climate change and impacts sectors like forest, water resources, agriculture, human health and biodiversity.

Nepal is considered to be 4th most vulnerable country to climate change. Land use changes due to mass-migration to urban areas. Consequently, it has to strip town developments, over-crowding and environmental pollution in urban centers with its concomitant social distresses including spike in new and return of traditional diseases such as dengue, inter alia. Some other impacts of climate change that may happen in future if the current trend remains constant are:



Emission of smoke from the Brick Industry

More than 1.9 million people are estimated to be highly vulnerable, another 10 million exposed to increasing risk.

- Snow and glacier melt might increase water in Nepal's system -5.7% till 2030, decreased by 28% by the end of this century.
- Economic loss is expected to be 1,208 million per year.
- Loosing of traditional livelihoods in high mountains.
- Climate induced disasters in the mid-mountain and Churia-Terai regions, could force more people, mostly male, to migrate in search of work leaving behind women, children and the elderly to look after the farm.

The current indications of climate change trend show that the mountain regions are more vulnerable. These alarming trends not only make Nepal's major sectors of economy such as agriculture, tourism and energy more vulnerable but also endanger the health, safety and wellbeing of Nepali people.

It is all about setting up systems in full-fledged condition as well as research and education center can help society to identify and develop solution measures in the case of unprecedented natural events. Similarly, mass media should be well-equipped to provide information during emergency. Education system must be upgraded to a level, where young could learn about nature and its sustainable usage and can safeguard it. Transportation and logistics network should be built in a way which could function on extreme events also. In this way, every platforms of public interest have to be upgraded.

Climate-induced hazards that are expected to increase in the future include more erratic rainfall, flash flooding, drought, forest fire, and landslides. Adaptation is now recognized as an essential part of the global response to climate change. Development actors are increasingly promoting a community based approach that recognizes the unique risks faced by poor and marginalized people, and an ecosystem based approach that has evolved to use biodiversity and ecosystem services as a part of an overall adaptation strategy to help vulnerable people to adapt. CARE and WWF have been pioneering an integrated approach that combines both ecosystem and community-based approaches to adaptation, and this is being piloted by the Hariyo Ban Program.

To address climate change related risks and vulnerabilities, a set of mutually integrated strategies are necessary at different sectors and levels. Adaptation actions are diverse and largely depend on the context and resources required and available. Therefore, adaptation needs to be innovative and flexible to improve and incorporate new technologies, approaches, skills and resources warranted by the changing context brought about by the uncertain level and timing of climate change.(Regmi & Bhandari, 2013)

The primary thrust of the International Centre for Integrated Mountain Development (ICIMOD) on energy has always been to promote access to clean energy services for meeting the needs of dispersed rural mountain communities by way of the sustainable development of decentralized renewable energy options (such as biomass conversion, biogas, wind power, solar power, and mini/micro-hydro power, among others) that promote economically and environmentally sound livelihood options, reduce pressure on forests, reduce drudgery, and health hazards for women by acting as both a mitigation and an adaption response to the effects of climate change.

The knowledge, learning and pilot nature of ICIMOD's research and action, should be applied in large scale in Nepal in order to institutionalize climate change related adaptation measures at systematic scale. It should be integrated at local and national level following a framework of social, economic and environmental inter-play at all levels.

Conclusions

The warming in the Himalayas is having great impact on the glaciers. There is an overwhelming evidence of rapid deglaciation in the Himalayas. As glaciers are an important source of water to the rivers of Nepal, as well as India, especially during dry seasons, widespread deglaciation is certain to have an impact on a regional scale on water resources. As run-off variation is directly related to glacier conditions, continued deglaciation is certain to have an multiple organizations seem to have been working to minimize the impacts of climate change in Nepal, it is of paramount need such organizations need to come together to give guidelines on policy formation and implementation in national level by sharing common vision on climatic issue. Sustainable strategies should be adopted to cope the challenges. Policies should be made which recognized the issues at a national level. The government along with private sector should separate the budget for green development which minimizes the damages to the ecosystem during development phase. The budget should be implement in such a way that the developmental works should be done without harming any natural resources. Together with relevant policies, programs and process, the country needs to operationalize building capacity of its human resources such that able and competent people, young professionals and community members come forward to implement programs and projects in the future. Therefore, financial resources, knowledge, competence and human resources go hand in hand in order to implement climate change related adaptation efforts.

"Let's focus on maintaining healthy wealthy, clean mountain environment by all of us"

Sources ICIMOD/ UNDP/Google



Dr. Pinki Shah
Professor, University of Liberal Arts Bangladesh (ULAB)

Promoting Clusters For Sustainable MSME Financing

1. Background

Financial institutions, geared towards serving larger urban businesses, are in general neither motivated nor well equipped to serve Micro, Small and Medium Enterprises (MSMEs) in discrete locations. This is mainly because of the involvement of high risk, and high supervision and administrative cost of financing to the MSMEs. In these circumstances MSMEs find it difficult to get credit for inputs procurement and to meet other expenses. Practically, MSME financing remained a critical challenge to the financial and banking industries of the developing countries. Considering the importance MSMEs for growth in developing and low income countries, policymakers have been undertaking strategies to promote SME clusters most of which are industry focused. Especially, in the context of the manufacturing MSMEs, it is claimed that in clusters' geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions compete and cooperate, and grow faster (Schoenmker, 2017). According to Simic (2019), financing to the excluded section of enterprises, mostly in the category of MSME, is crucial to reach the unbanked, to help eliminate poverty, create jobs, and promote gender equality. MSMEs (including women entrepreneurship financing) can contribute in rural development, gender equality and poverty reduction (Habib, *et al, 2019*).

Developing countries around the world have been trying to address the issues of financial exclusion through various innovative models with varying degree of success (IFC and SBN, 2017). Some developing countries have noteworthy experiences in designing and implementing inclusive products that offers invaluable lessons and information. Several models for promoting small savings worked perfectly in many instances. However, real challenges are associated with credit services. In few cases some innovative models are working. Especially, cluster based financing is contributing in several developed and developing countries in addressing the credit challenges of MSMEs (Yagci, 2018). Germany, US, India, Italy, Chile, Hong Kong, Colombia, South Korea and Sri Lanka have been able to establish globally competitive industrial clusters in textiles, software and computing, agricultural and seafood processing and financial services (box 1).

Box 1: SME Cluster becoming Important Tool for Sustainable Financing to MSMEs

Considering the benefits, cluster development is getting importance day by day. In the context of different global economies, the approach and status of MSME clusters are not very similar, and thus their importance and benefits appeared to be different. However, there are significant beneficial impact of MSME clusters on the bank financing through cooperation, linkages, inter-person relationship and inter firm relationship. In China, though clusters are important, they differ from the way in which the western world understands them. In recent time, China has introduced a specialist division within local government. In India, the Ministry of Micro, Small and Medium Enterprises runs programs to address common issues such as improvement of technology, skills, market access and access to finance and provides support by setting up facility centers and by providing access to banks and credit agencies. Clusters are important in India as they are seen as a way of developing skills collectively and demonstrating the country's competitiveness internationally. Clusters are growing trends in a few African countries are seen as a way of building competitive advantage and ensuring access to small enterprises. A very recent report (May 2019) provides an overview of national and regional cluster support in Europe as well as a selection of non-European countries, based on information on cluster policies and cluster program or other interventions to support cluster activities. Even though cluster support has different rationales, visions and characteristics in the countries and regions analyzed, it can be shown to be a crucial instrument for economic development.

Note: based on Habib et al, 2019; EU, 2019.

Currently, Bangladesh government is working for the enforcement of 'Financial Inclusion Strategy', where several targets have found place that are related to MSME financing. Considering the need of supporting small enterprises, government formulated and adopted country's first separate policy for SMEs in 2005. Subsequently, the government also established the 'SME Foundation' in 2006 as an apex institution for SME sector, and approved the 'SME Policy 2019' that focuses on six key areas: financing, technology and innovation, access to markets, education and training, trade support, and access to information. It also includes the creation of a 'Credit Guarantee Fund', which is expected to allow MSMEs to get funds on easy conditions and low interests without any mortgage.

Recognizing the importance of MSMEs, Bangladesh Bank (BB) established a new department named 'SME & Special Program Department, in December, 2009. The department is dedicated for the MSME development by improving the existing environment in the banking sector through regulatory and policy interventions. BB is working to facilitate and introduce e-KYC relevant for certain clients and small enterprises. For e-KYC, the thumb print would serve as the digital signature. Digitally signed e-KYC data are machine readable, meaning the service provider can directly store it as customer record in their database for purpose of service and audit etc. Banks are now allowed to verify the national identity card of their clients through using the NID database. The server, porichoy.gov.bd is connected with the Election Commission's national database, that helps public and private organizations provide services by verifying NID of their subscribers. With this, banks can get NID verification results automatically by connecting to the gateway. To ensure loan facility for the women entrepreneurs, at least 15 percent of total BB refinance fund for SME sector has been allocated at a reduced interest rate. Banks and financial institutions may sanction loan up to BDT 2.5 million to women entrepreneurs without collateral but against only personal guarantee under refinance facilities provided by BB. In order to include a large number of micro women entrepreneurs in the SME credit facilities, a policy of group-based lending of up to BDT 50 thousand or above has been initiated. Regarding clusters, banks and financial institutions are advised to adopt cluster development policy. BB has already undertaken various initiatives for identifying different clusters around the country and is encouraging all stakeholders for further development of such clusters.

Several banks and financial institutions (NBFIs) have allocated notable importance in financing to MSMEs. However, a globally popular model i.e. cluster approach in SME financing is practically absent (though it is claimed). However, banks' solar irrigation financing has components of cluster financing (box 2).

Box 2: Solar Irrigation Financing offered Valuable Lesson for Cluster Financing

The farmers of a village in a northern district in Bangladesh have been benefited tremendously by the cluster approach. The village is situated in a remote area where electricity has not reached yet. In late 2009, green energy changed the picture of the village. In group lending approach, farmers got loan for crops, pump for irrigation and drainage. A private commercial bank helped to form this cluster. First of all, the bank organized the farmers and conducted feasibility study in order to know the potentials of production. Then, farmers were asked to form a cooperative which usually consists of 30 – 35 farmers. This cooperative then gets a legal entity by registering with the appropriate authority. After forming cooperative, they applied for bank loan. Bank offered Tk.30 lac for irrigation solar pump for 10 years which was owned by cooperative. Cooperative offered guarantee to the bank. The Bank helped in procuring solar by contracting suppliers and ensured service facility including installation. Banks also made expenditure to prepare water distribution system. However alongside benefits, farmers identified some challenges.

Source: Based on Habib, et. al, 2019

Key challenges of MSMEs might be addressing through cluster development. Banks face a number of barriers in lending to MSMEs; and the most pronounced being information asymmetry. Banks/NBFIs do not have the requisite information and systems in place to quantify risk. This has resulted in tightened credit terms and in the inefficient allocation of resources. Another factor is the issue of moral hazard, wherein MSMEs are perceived to take higher risks than larger companies. Banks are also known to demand large amounts of collateral from MSMEs as safeguards for risk exposure. A number of these challenges might be handled by using cluster approach in MSME financing. In spite of huge potential, true cluster approach are hardly followed in SME financing in the country (box 3)

Box 3: Challenges and Potentials of Cluster Based MSME Financing

A generic MSME strategy would not work for sustainable cluster development. The identification of clusters based on geographical proximity of SMEs of all sectors is only a primary job. The country requires an in-depth analysis of the relevant information on small manufacturing clusters of the country. This would be true background for undertaking effective cluster development strategies in different regions of Bangladesh. As per the draft Industrial Policy, Government is in favor of creating cluster villages for running industrial enterprises in special economic zones for a number of industries. For effective intervention, a cluster mapping for identification of potential cluster with their current status, performance and levels is the precondition.

Most of the MSME clusters of the country are immature clusters as observed in the study. The clusters are generally featured by low level of cooperation and sharing; lack of linkages; absence of the use of modern technology; absence of supply chain; absence of the involvement of universities and research organizations; and absence of expenditures on research and development. In most clusters, middlemen are taking advantages of the products from the markets. Extensive support to these clusters can bring notable change. There are huge potentials of developing clusters like light engineering, leather, plastic etc. It is not generic MSME strategy, but MSME cluster development strategy can offer a big push to these geographically concentrated small manufacturing units.

Source: Based on Habib et al., 2019

In spite of notable improvements in the MSME sector, effective financing mode needs to be streamlined. Especially, cluster financing approach could be an alternative channel for effective MSME financing. Though banks have finances in the MSME clusters (in terms of geographic proximity), but true cluster approach is missing. It is possible to use cluster approach by forming groups and thus ensure access of MSMEs. In addition, 'Credit Registry Bureau' or 'Micro Credit Information Bureau' might be contributory. Complete enforcement of e-KYC might bring remarkable positive benefits in giving a big push to the MSME financing. However, probably the most crucial task should be to focus on cluster development first for effective cluster MSME financing in near future. Bangladesh Bank has significantly expanded its CSR activities in recent years, with pledging financial support to a number of projects. To support cluster financing, involvement of banks' additional costs (not the financing part) could be considered or counted as their CSR activities. This may be an encouraging factor for banks to undertake cluster promotion and financing. The development of collaborative and sustainable clusters may be a way to stimulate innovations, manage resources efficiently, and can help financial inclusive challenges.

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Farhanullah Faizi
Researcher at the Financing for Development Section of UNESCAP



Masato Abe
Economic Affairs Officer
UNESCAP

What is Islamic Finance? Opportunities and Challenges

Introduction

Islamic finance is one of the fastest growing sectors in the global financial industry although it has yet to achieve its full potential. The rapid growth of Islamic finance reflects both supply-push and demand-pull factors, including development of core Islamic markets, intensifying competition, and regulatory advancement and refinement. The authorities have seen Islamic finance as an effective system to deepen financial markets and improve financial inclusion through offering new modes of finance and appealing to the "unbanked" populations. Islamic finance's potential contribution to the United Nation's Sustainable Development Goals (SDGs) is also likely to help the system to expand in the coming years.



Islamic finance is a financial system with unique characteristics and products as it stresses on the importance of social justice and has a strong preference for profit sharing or equity-like modes of financing (Komijani & Taghizadeh-Hesary, 2018). Islamic finance also emphasizes risk sharing and is generally less leveraged than conventional finance (IMF, 2018).

Modern Islamic financial services emerged in some Muslim majority countries back in the 1960s. Since then, Islamic finance has made significant progress both theoretically and practically in various financial fields such as banking, capital markets, and insurance. This paper explores the unique characteristics of Islamic finance, its present status, and its challenges and opportunities.

The transformation of the Islamic financial system began in the late 19th century when protests against the payment of interest gained momentum. In the 1890s, Barclays Bank, a UK bank, opened a branch in Cairo, Egypt, to finance the construction of the Suez Canal. The establishment of an interest-based western bank in a Muslim majority country awakened opposition and led some jurists to declare in 1903 that the interest paid to depositors in the post office contradicted Islamic rules and values. Based on these developments, Islamic scholars started designing alternatives to conventional banking by extracting Islamic law-compliant contracts. Due to the growing demand for Islamic law-compliant banking services, many Islamic banks were established in the Middle East and parts of Asia starting from the 1960s, including Malaysia (1963), United Arab Emirates (1975), Bangladesh (1983), and Indonesia (1991). The Islamic Development Bank (IsDB) was also founded in 1975 as a regional development bank that aims at promoting the economic development of Muslim countries through providing Islamic law-compliant finance (Komijani & Taghizadeh-Hesary, 2018).

Islamic finance takes its roots from Quran (religious text of Islam) and Shariah (Islamic religious law) with the objective to ban the payment and receipt of Riba (interest) in the Islamic community. The motivation for using Islamic finance is that, by demonstrating compliance with the principles of the Shariah law, borrowers and issuers of Islamic debt can gain access to Islamic institutions and individuals and thereby attract a much wider base of investors. The rapid growth of Muslim population with improved living standards, especially in South-East Asia,

has enhanced the popularity of Islamic finance as a strong alternative to conventional financial schemes. Moreover, Muslim investors from Asia and the Middle East are increasingly seeking to invest in products that are in line with their religious principles (Komijani & Taghizadeh-Hesary, 2018).

Islamic finance must reflect the principles of the Islamic worldview and ethics. Some of the main Islamic and Shariah rules regarding banking and finance include the following (IMF, 2017):

1. Money does not have any intrinsic value and is used merely as a medium of exchange and a tool for preserving and assessing the value of goods, services, and properties;
2. Activities that are considered socially destructive such as the trade of alcohol, tobacco pornography, weapons, and gambling are prohibited;
3. Riba (interest) is prohibited;
4. Excessive Gharar (ambiguous and risky transactions) is prohibited;
5. There is a strong emphasis on activities in the real economy and the sharing of risk and reward;
6. Maysir (gambling) is prohibited; and
7. It is obligated to have real assets underlying all financial transactions;

Table 1 provides the definitions for some of key Islamic terms

Quran	The sacred and central religious text of Islam which Muslims believe to be the verbatim word of God.
Shariah	The fundamental religious concept of Islam based on the teaching of Quran and the traditions of Prophet Muhammad.
Riba	It literally means an increase, addition or growth. Technically, it refers to the "premium" that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or an extension in its maturity.
Sukuk	Certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activities
Takaful	Islamic insurance based on principles of mutuality and cooperation, encompassing the elements of shared responsibility, joint indemnity, common interest, and solidarity.
Gharar	The ambiguity and ignorance that prevails regarding the price and delivery time of the assets that back derivatives such as forwards, futures, options, and swaps.
Maysir	It literally means gambling and refers to the easy acquisition of wealth by chance, whether or not it deprives the other's right.

Source: Komijani & Taghizadeh-Hesary (2018).

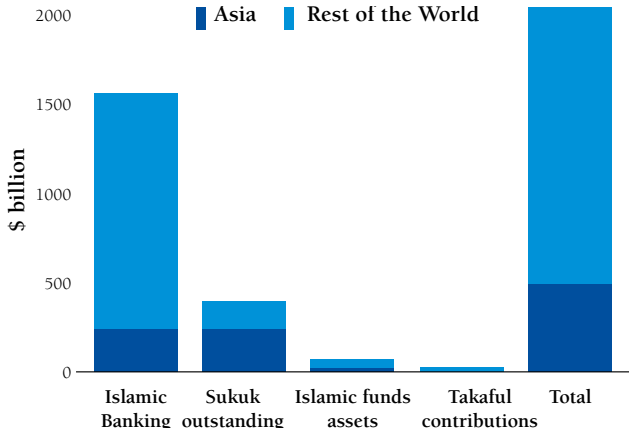
Growth in Islamic finance

Islamic finance has grown substantially in the last two decades, especially in Asia. The global Islamic finance industry grew at a rate of 8.3 percent with total assets of US$ 2.05 trillion in 2017 and over 1,300 financial institutions of over 50 Organizations of Islamic Cooperation (OIC)[2] countries. In 2017 Islamic banking experienced a 4.3 percent growth in assets to reach approximately US$ 1.56 trillion (see figure 1). One of the main growth drivers was Sukuk (Islamic equivalence of bonds) issuances by sovereign and multilateral financial institutions. The

2. *The Organization of Islamic Cooperation (OIC) is an alliance of currently 56 countries mainly located in Western Asia and Western Africa with a collective population of 1.82 billion people (WorldData, 2019).*

volume of Sukuk outstanding grew by 25.6 percent and assets of Islamic funds (funds which comply with Islamic principles) grew by nearly 19.0 percent in 2017. Takaful (Islamic equivalence of insurance) contributions were increased by 4 percent in the same year, and they are expected to grow steadily in the coming years (Islamic Financial Services Board, 2018). It is forecasted that Islamic finance assets will reach total value of US$ 3.8 trillion in 2022.

Figure 1: Total worth of Islamic financial services, 2017



Source: UNESCAP, based on the Islamic Financial Services Board (2018).

Islamic finance for the Sustainable Development Goals: Sukuk and Takaful

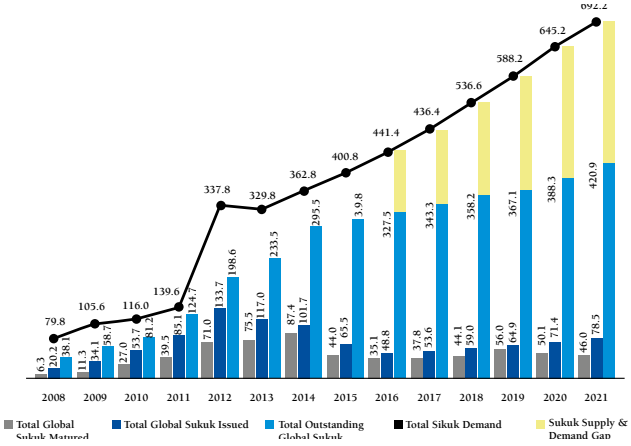
Islamic finance can play a crucial role in supporting the implementation of the Sustainable Development Goals (SDGs) of the United Nations. In the face of significant financial needs for achieving SDGs, Islamic finance provides untapped potential as a substantial and non-traditional source of financing for the SDGs (Alawode, Abdul Aziz, & Aviles, 2018). The SDGs focuses on addressing the global challenges we face, including those related to poverty, inequality, climate, prosperity, and peace and justice. The SDGs have also attracted the attention of Islamic scholars because the goals are perfectly aligned with the philosophy of Islamic finance with its emphasis on inclusiveness, equality and social benefit (Gettu, 2018). Innovative financial instruments based on Islamic finance's profit-loss sharing arrangement, solidarity-based feature for poverty alleviation, and use of Shariah-compliance resource mobilization can potentially be a valuable financial alternative in the context of SDGs. Sukuk and Takaful are such instruments that are paving the way towards more climate friendly and inclusive investments.

Sukuk is debt securities or bonds with the backing of Islamic assets and could be a new source of financing for SDGs which requires large capital outlays with long implementation periods (World Bank, 2017). The main difference between conventional bonds and Sukuk is that the first is securities in the form of debt while the latter means the ownership of an asset. The value of Sukuk can change accordingly when there is an increase or decrease in the value of the assets backing it. The sale of Sukuk is the sale of ownership of the assets backing it, while the sale of the conventional bond is the sale of debt. Sukuk offers a hybrid

profile between pure equity and debt and are thus attractive to a wide range of investors and finance seekers, again with a positive potential for shared prosperity. Sukuk has appeared in various schemes in Malaysia, Indonesia, the Islamic Republic of Iran, Pakistan, United Arab Emirates, and other Islamic financial centres.

Sukuk issuance has increased steadily for the last decade. Global Sukuk outstanding is expected to reach US$ 420.9 billion in 2021 (Aassouli, et al., 2018). Figure 2 shows the evolution of demand for and supply of Sukuk since 2008, with projections through 2021.

Figure 2: Demand for and supply of Sukuk, 2008–21



Source: Aassouli, et al. (2018).

One of the biggest challenges Sukuk faces is the lack of liquidity through active secondary markets in key Islamic financial centers, which limits the investor's ability to trade Sukuk instruments. Currently, only Malaysia and the Islamic Republic of Iran have a fully functioned Islamic capital market with an active secondary market. Promoting and establishing secondary Sukuk markets in Muslim majority countries is crucial for Sukuk's growth in the future (Komijani & Taghizadeh-Hesary, 2018).

Green Sukuk (green Islamic bond) is a climate finance instrument that has the potential to channel the US$ 2 trillion Islamic finance market toward funding of green and sustainable investment projects. Green Sukuk allows sovereigns, cities and municipalities, financial institutions, and firms to mobilize resources for low-carbon infrastructure, energy efficiency, and clean energy development projects. It also provides an opportunity to

the private sector to participate in SDGs without sacrificing financial returns. In this sense, green Sukuk can bring more investors from western countries with sustainable investment mandates into the Islamic capital markets (World Bank Group, 2019). It is critical for an issuer of green Sukuk to disclose the issuer's overall objective, strategy, policy and process relating to environmental sustainability and green standards or certifications. Annual green Sukuk issuance in the world grew to more than US$ 170 billion in 2017.

Takaful (insurance) is another Islamic financial instrument with significant growth capacity. The concept of Takaful traces its origins back from 1400 years ago. Takaful extends to various walks of life including

sea trade in the second century of Islamic era when Arab Muslims expanded their trade to Asia. They formed a pool of money in which all the policy members contribute to any member in case of loss. Later, the system led to the foundation of various categories of Takaful or insurance agreements. Takaful shares the risk factor among policy members and Takaful operator, while conventional insurance risk is transferred from policy members to the insurance operator. Takaful totally excludes interest, uncertainty and gambling elements which make conventional insurance unlawful under Shariah (Ali Hassan, Khawar Abbas, & Zainab, 2018).

The global Takaful contributions have continuously grown rapidly (e.g., by 13.0 percent and 12.5 percent in 2015 and 2016, respectively) to reach a total asset value of US$ 26 billion. The four largest Takaful markets are Saudi Arabia (38 percent of global Takaful contributions), the Islamic Republic of Iran (34 percent), Malaysia (7 percent) and the United Arab Emirates (6 percent). General Takaful (primarily for health and motor insurance) is the dominant segment of the market (particularly in the member States of the Gulf Cooperation Council (GCC)[3] and Middle East and North Africa (MENA)[4] with a share of 88 percent of total global Takaful contributions (Islamic Financial Services Board, 2018).

Success of Islamic finance in Malaysia, Indonesia and Pakistan

This section explores the development of Islamic finance in three select Muslim countries in South-East Asia and South Asia: Malaysia, Indonesia and Pakistan. Malaysia is largely seen as a global leader in Islamic finance and has a strong agenda for green and climate-friendly investments. Indonesia is the world's most populous Muslim country but the emergence of the Islamic finance market has come somewhat late in the country. Pakistan as a country with the second largest Muslim population has fostered its Islamic financial and banking system with significant efforts of the central bank, the industry as well as the academia in improving product diversification and awareness.

In Malaysia, Islamic banking accounted for 7.1 percent of Malaysia's financial sector in 2008. The figure soared to 28 percent in 2016, and the Malaysian Government aims to increase it over 40 percent by 2020. Malaysia has issued more than 60 percent of the world's infrastructure Sukuk which makes it a global leader in leveraging Islamic finance for infrastructure development. Islamic banking practitioners in Malaysia have expanded and diversified their Islamic financial products and services in the markets. Malaysia has also taken an innovative approach to develop green Sukuk for climate friendly investment. In 2017, a Malaysian company issued a green Sukuk of US$ 59 million to finance a 50-megawatt solar photovoltaic plant, making green Sukuk as a new tool for sustainable development (Kwakwa, 2017). The reasons of Malaysia's success in Islamic finance are summarized as follows (Allawala, 2018):

1. Standardization: Malaysia's central bank has standardized Shariah contracts. Such standardization impacts almost all retail and corporate financial products, requiring detailed gap analysis, documentation changes, and system modifications;
2. Regulatory support: Malaysia's central bank has not only developed a roadmap for the growth of Islamic finance but also works closely with development and commercial banks as well as other financial institutions through enforcing appropriate regulations and policies;
3. Industry engagement: The Association of Islamic Banks in Malaysia has provided an effective framework for promoting Islamic finance in consultation with the central bank and other regulatory bodies.

Only in the 1990s, Indonesia established its first Islamic bank, namely the Bank Muamalat Indonesia. The demand on Islamic finance largely came from the public, which wanted to eliminate Riba (interest) from their financial transactions. Although its market share captured is relatively small, the growth of Islamic finance has been quite impressive in Indonesia. The total assets of Islamic banking industry in Indonesia reached IDR 356 trillion in 2015 compared with IDR 145 trillion in 2011. Some of the reasons for the rapid growth of Islamic finance in Indonesia can be attributed to increasing number of financial institutions that provide Islamic financial services (COMCEC, 2017). The Islamic financial market in Indonesia is currently dominated by

3. *Gulf Cooperation Council (GCC), a political and economic alliance of six Middle Eastern countries—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.*
4. *Middle East and North Africa (MENA) comprises Algeria, Bahrain, Egypt, the Islamic Republic of Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates, and Yemen.*



sovereign Sukuk that provides alternate financing and investment for the Indonesian Government, firms, and public at large. In 2019, Indonesia issued the world's first sovereign green Sukuk with an amount of US$ 1.25 billion in cooperation with the World Bank. This sovereign green Sukuk consists of state-owned assets including land and buildings (51 percent) and project assets which are under construction or to be constructed (49 percent). It will be used for the development projects of renewable energy, energy efficiency, sustainable transport, sustainable natural resource management and other highly essential climate related projects (World Bank Group, 2019).

Pakistan has 2,075 branches of Islamic banks nationwide with their banking assets to approximately US$ 17.7 billion with a 11.7 percent of market share. Shariah-compliant investment funds in Pakistan has increased demand for Sukuk, giving local firms new funding options while strengthening Islamic pensions in other Muslim majority countries. There has been a concerted effort by the regulatory authorities in Pakistan to promote Islamic finance. Pakistan joined the global Sukuk market with issuance of its first international sovereign Sukuk of US$ 600 million in 2005 and first domestic Sukuk a year later. Since then, four international Sukuk amounting to US$ 3.6 billion and 107 domestic Sukuk amounting to PKR 1,204.28 billion (or US$ 9.9 billion) have been issued (Deloitte, 2018).

Policy recommendations and conclusions

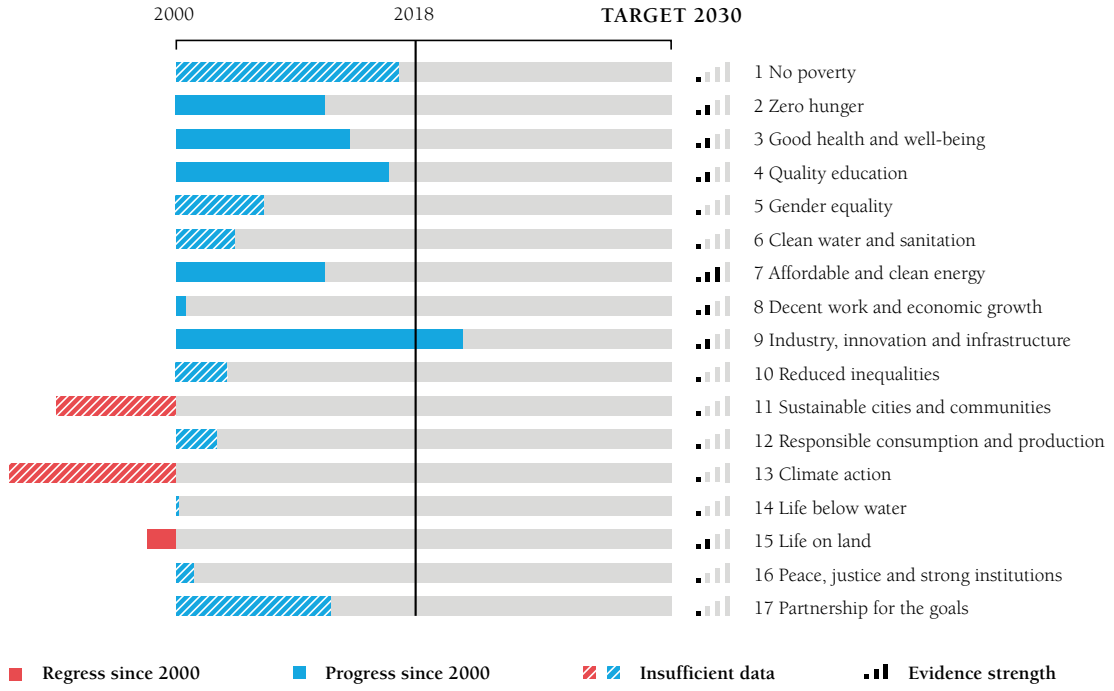
Islamic finance has experienced significant growth in the past decades. The development towards more risk sharing instruments from the traditional risk transfer and risk shifting instruments will provide an unprecedented opportunity to Islamic financial institutions in Muslim majority countries and other countries. To contribute to the growth of Islamic finance, the following actions are recommended to be undertaken (COMCEC, 2017):

1. Creation of an enabling environment by developing consistent regulations and standards to promote risk sharing;
2. Introduction of more diversified risk-sharing products and services;
3. Expansion of Islamic finance's reach to the lower income group of society;
4. Development of human capital and literacy in Islamic finance;
5. Development of vibrant capital markets with appropriate incentive schemes and transparent and efficient asset pricing to encourage risk sharing through Sukuk and Takaful;
6. Tax neutrality for Sukuk and Takaful;
7. Development of laws that allow for establishment of Sukuk and Takaful companies; and
8. Expansion of cross-border Sukuk and Takaful.

Islamic finance can play a crucial role in the implementation of SDGs and has untapped potential as a substantial and non-traditional source of financing for SDGs. Islamic finance emphasizes on creating the conditions for social balance through the fair distribution of wealth and thus it is an economic model oriented towards social responsibility. In addition, the principles and values of Islamic finance have universal appeal and can also be attractive to non-Muslims.

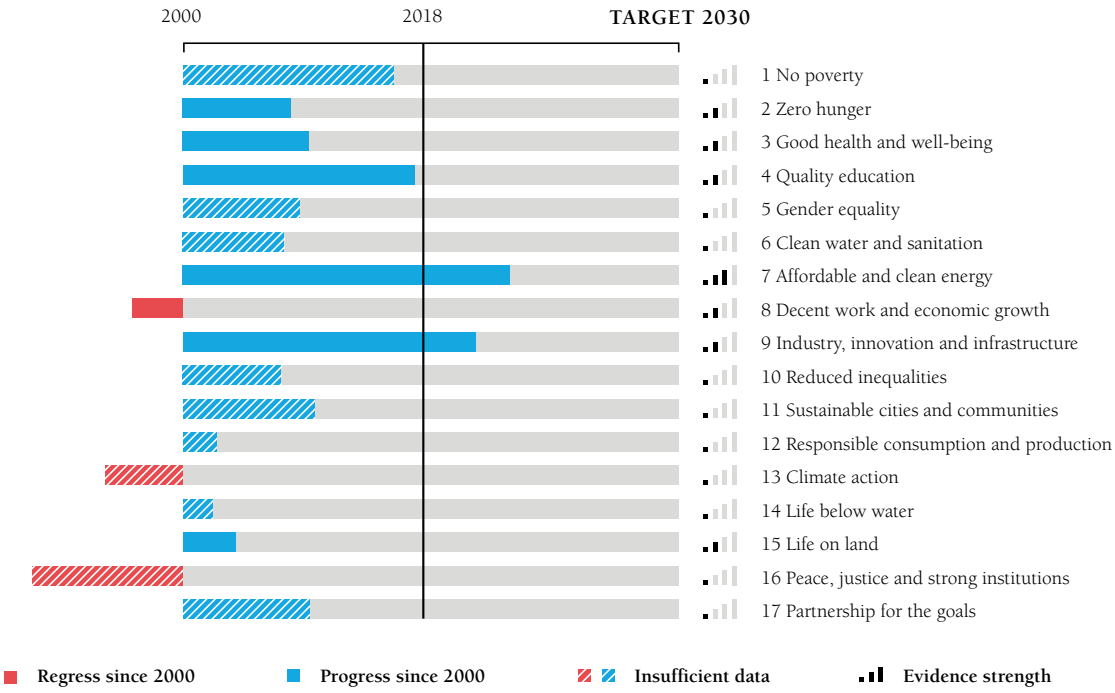
SDG Progress Across Asia-Pacific By Subregion

East and North-East Asia



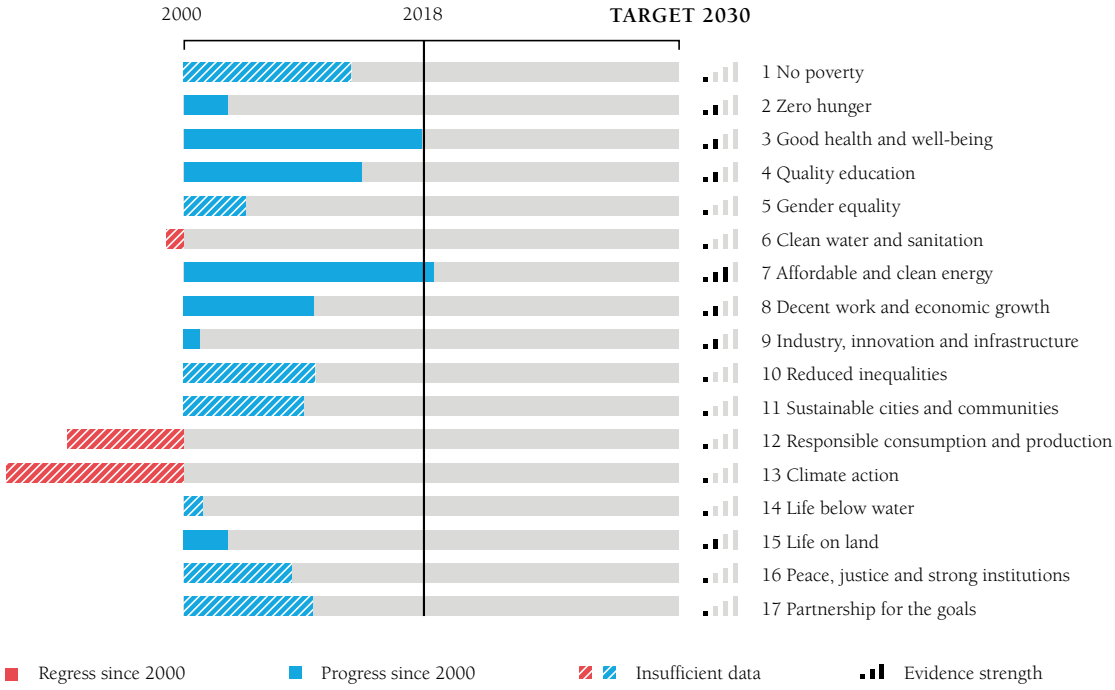
Snapshot of SDG progress in 2018: East and North-East Asia

South-East Asia



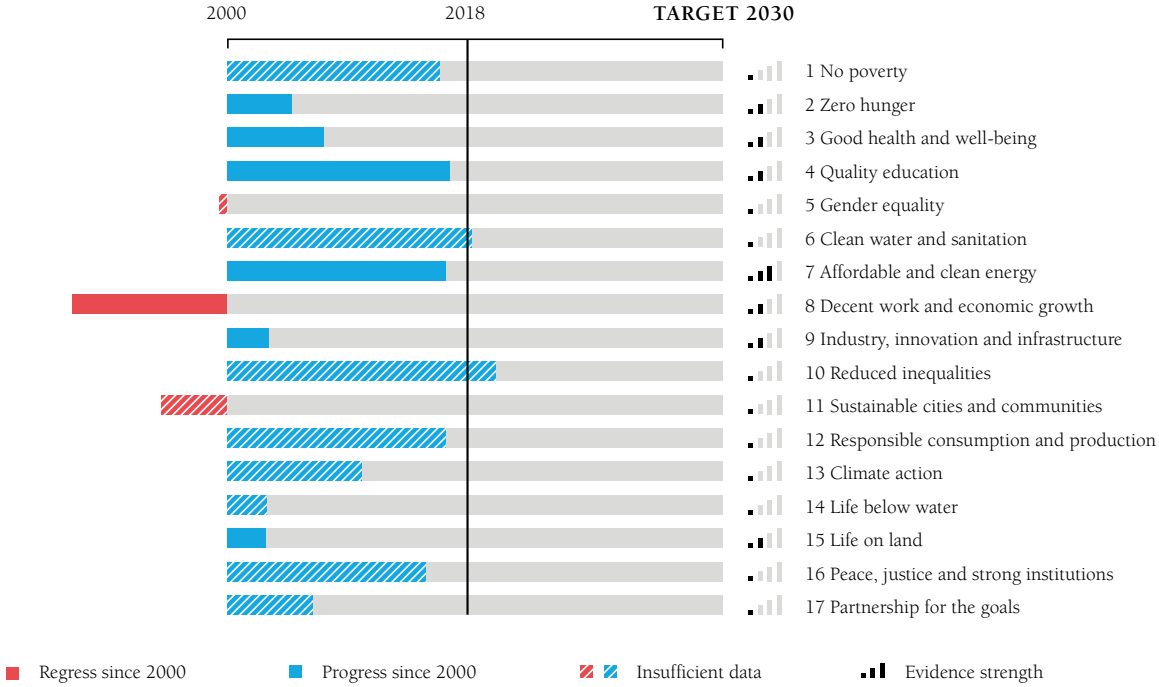
Snapshot of SDG progress in 2018: South-East Asia

South and South-West Asia



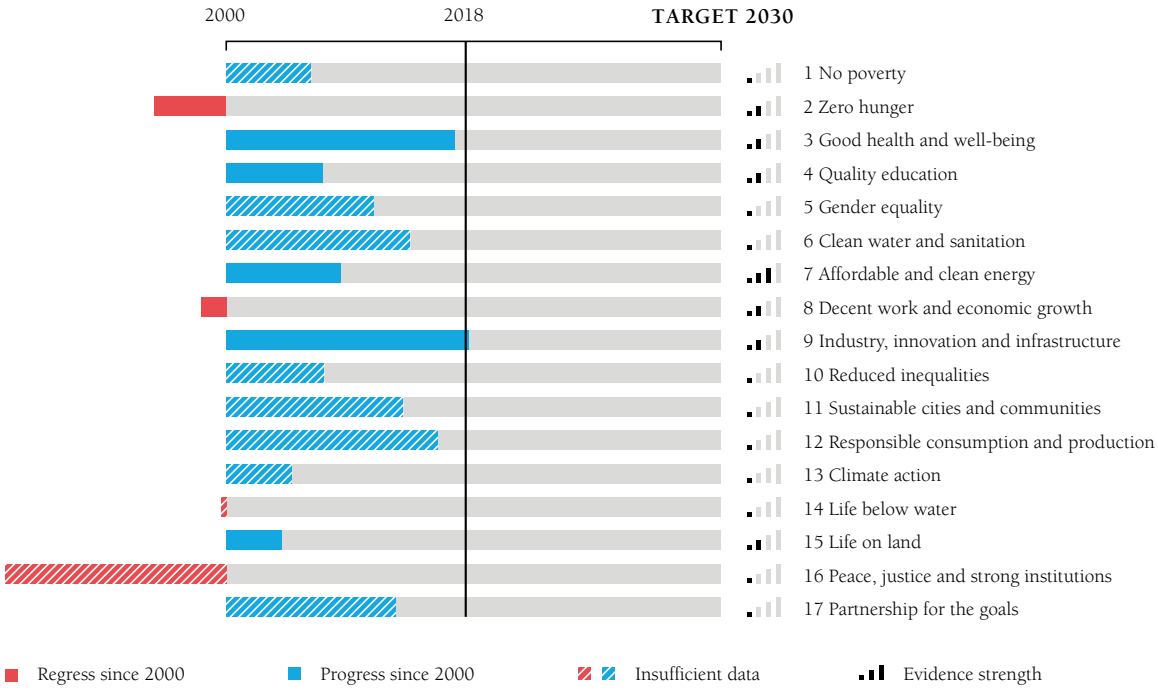
Snapshot of SDG progress in 2018: South and South-West Asia

North and Central Asia



Snapshot of SDG progress in 2018: North and Central Asia

The Pacific



Snapshot of SDG progress in 2018: Pacific

ICC Bangladesh Presidency



Mahbubur Rahman
President

Mr. Mahbubur Rahman, Chairman and CEO of ETBL Holdings Ltd., Eastland Insurance Company Ltd; International Publications Limited (Publishers: The Daily Financial Express).

Mr. Rahman is also the Chairman of Bangladesh International Arbitration Centre (BIAC), Member of the Business Advisory Council (BAC); United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Bangkok and Member of Bangladesh Foreign Trade Institute (BFTI).

Apart from his business undertakings, Mr. Mahbubur Rahman has been active in various other fields. He represented Government of Sri Lanka in Bangladesh from 1972-'79, prior to the establishment of their Resident Diplomatic Mission in Dhaka.

Mr. Rahman has been associated with a number of trade bodies, educational institutions and international bodies. He was member of ICC World Council and Executive Member of International Chamber of Commerce (ICC), Paris for 1997-99.

He was the President of FBCCI (1992-94), DCCI (1985-86 & 1991-92); Founder Vice President of SAARC Chamber of Commerce & Industry (SCCI); Vice President of Islamic Chamber of Commerce, Industry and Commodity Exchange (ICCICE) for 1993-95, Member, Board of Directors of Biman Bangladesh Airlines Limited (2008-2009) and Member, Board of Directors of Dhaka Stock Exchange Ltd. (DSE) during 2007- 2010 among others.



Latifur Rahman
Vice President
Chairman and CEO of Transcom Group

Mr Latifur Rahman is the Chairman and CEO of Transcom Group, with annual turnover of around US$520 million, employing over 13 thousand people. The business originated with tea plantations in 1885.

Group companies dealing with beverages, electronics, pharmaceuticals, fast food, snacks and breakfast cereals, distributions, newspapers, radio and tea plantations, include, Transcom Beverages, Transcom Electronics, Eskayef Bangladesh, Transcom Foods, Transcom Distribution Company, Transcom Consumer Products, Mediastar, Mediaworld and Tea Holdings. Major stakeholder in Reliance Insurance and National Housing Finance.

He is Chairman of Nestle Bangladesh, Holcim Cement (Bangladesh) and National Housing Finance & Investments. He is a member of the Governing Body of BRAC, the world's largest NGO. Mr Rahman is currently the Vice President of ICC — Bangladesh. From 1st July 2014, Mr. Rahman has also been elected as a Member of the Executive Board of International Chamber of Commerce, Paris for a 3-year term.



Rokia Afzal Rahman
Vice President
Chairman, Arlinks Limited

Mrs. Rokia Afzal Rahman started her career in a commercial bank in 1962 when very few women had entered banks universally. She became the first woman bank manager of the country in 1964. She later became a sponsor Director in Midas Financing Limited, Director in Reliance Insurance Ltd. Mrs. Rahman served as a Director in the Central Bank of Bangladesh as a member of the board for three years.

In 1980 Mrs. Rahman ventured into her own agro based industry. RR Cold Storage Limited dealing with potatoes imports-exports and storage of seed and table potatoes. She expanded her business manifold. Subsequently she bought another agro industry. As Chair and CEO of two agro industries Mrs. Rahman works with 15000 small farmers who need support during harvesting season. She facilitates loans to farmers by standing as guarantor to a commercial bank taking loans for them and retailing the loan to them. Her business has given her widespread appreciation. She has received several awards from Banks and chambers.



Ataur Rahman
Secretary General

Mr. Ataur Rahman started his career in 1975 with Bangladesh Institute of Development Studies (BIDS) as In-charge of the Training Unit and organized various training programme jointly with the Economic Development Institute (EDI) of the World Bank. Prior to joining BIDS, he worked with the Press Foundation Asia, Manila, The Philippines for two years. He worked at the Centre on Integrated Rural Development for Asia and the Pacific (CIRDAP), a regional inter-governmental organization with its headquarter in Dhaka from 1980-1997. Before joining ICC Bangladesh in January 2005, he worked with the Bangladesh Silk Foundation as General Manager and Managing Director. Mr. Rahman obtained his B.Com (Honours) degree and completed M.Com (Management) from the University of Dhaka in 1969 and 1970 respectively. He obtained his M.B.A Degree from the De La Salle Graduate School, Manila, The Philippines in 1973. Mr. Rahman is a Fellow of the EDI, World Bank.

BANGLADESH
INTERNATIONAL
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ICC Bangladesh Executive Board



Latifur Rahman
Vice President
Chairman and CEO
Transcom Group



Mahbubur Rahman
President
Chairman and CEO
ETBL Holdings Limited



Rokia Afzal Rahman
Vice President
Former President, MCCI, Dhaka
Chairman, Arlinks Limited



A. K. Azad
Managing Director
Ha-Meem Group



A. S. M. Quasem
Former President, DCCI
Chairman and CEO, Newage Group



Aftab ul Islam
Chairman
IOE (Bangladesh) Limited



Kutubuddin Ahmed
Chairman
Envoy Group



Mahbubul Alam
President, CCCI



Anwar-Ul-Alam Chowdhury (Parvez)
Managing Director, Evince Group



Rupali Chowdhury
President, FICCI



Md. Fazlul Hoque
Managing Director, Plummy Fashions Ltd



Mir Nasir Hossain
Managing Director, Mir Akhter Hossain Ltd.



Sheikh Fazle Fahim
President, FBCCI



Rubana Haque
President, BGMEA



Sheikh Kabir Hossain
President, BIA



Syed Mahbubur Rahman
Managing Director and CEO
Mutual Trust Bank Limited



Tapan Chowdhury
Managing Director
Square Textiles Limited

The Executive Board

President

Mr. Mahbubur Rahman
Chairman & CEO
ETBL Holdings Limited
Suvastu Tower (9th Floor),
69/1, Panthapath, Dhaka -1205
Tel.: 9641283-4
E-mail: chairman@etbl.org, info@etbl.org;
president@iccbangladesh.org.bd

Vice Presidents

Mr. Latifur Rahman
Chairman & Managing Director
Transcom Limited
Gulshan Tower (11th Floor), Plot No. 31
Road No. 53, Gulshan North C/A, Dhaka - 1212
Tel.: 58814662-3
E-mail: fhn@transcombd.com

Mrs. Rokia Afzal Rahman
Chairman
Arlinks Limited
Red Crescent Concord Tower, (11th Floor)
Suite-B, 17, Mohakhali C/A, Dhaka-1212
Tel.: 9888517, 9850254-7
E-mail: arlinks@arlinks.org,
rokiarahman@hotmail.com

Members

Mr. A K Azad
Managing Director
Ha-Meem Denim Ltd.
407, Tejgaon I/A, Dhaka-1208
Tel.: 8170592-93, 8170564
E-mail: azad@hameemgroup.com

Mr. A. S. M. Quasem
Chairman & CEO
Newage Garments Limited
42/I Indira Road, Dhaka-1208
Tel.: 9126535
E-mail: quasem@newage-group.com

Mr. Aftab ul Islam
President & CEO
IOE (Bangladesh) Limited
Wali Center, 74, Gulshan Avenue(4th Floor)
Dhaka-1212
Tel.: 984 21 74, 984 63 19
E-mail: aftab@ioe.com.bd; iaftabul@gmail.com

Mr. Kutubuddin Ahmed
Chairman
Envoy Garments Limited
Envoy Tower, 18/E Lake Circus Kalabagan, Dhaka
Tel: 9102583-90
E-mail:qahmed@bangla.net

Mr. Mahbubul Alam
President
Chittagong Chamber of Commerce & Industry (CCCI)
Chamber House, Agrabad C/A, Chittagong
Tel.: 713366-9, 711355, 711356
E-mail: info@chittagongchamber.com

Mr. Anwar-Ul-Alam Chowdhury (Parvez)
Managing Director
Evince Group
Lotus Kamal Tower, (level-7&12),
57, Joar Sahara C/A, Nikunja-2,
New Airport Road, Dhaka-1229
Tel: 9020491-5;
E-mail: evince@evincebd.com
Web: www.evincegroup.com

Mr. Shehzad Munim
President
Foreign Investors' Chamber
of Commerce & Industry
Shama House, Apt #C-3, House # 59, Road #01,
Block # 1, Banani, Dhaka - 1213
Tel.: 9892913,9893049;
E-mail: shehzad_munim@bat.com

Members

Mr. Md. Fazlul Hoque
Managing Director
Plummy Fashions Limited
Flat 502, Concord Tower,
113, Kazi Nazrul Islam Avenue, Dhaka-1000
Tel.: 8317240, 9346944,
E-mail: fhoque@bangla.net

Mr. Mir Nasir Hossain
Managing Director
Mir Akhter Hossain Limited
Red Crescent Borak Tower,
Level-7, 71-72 Old Elephant Road,
Eskaton Garden, Ramna, Dhaka-1000
Tel.: 55138533-35
E-mail: mirakter@citechco.net
nasir@mirtelbd.com

Mr. Sheikh Fazle Fahim
President
The Federation of Bangladesh Chambers
of Commerce & Industry (FBCCI)
Federation Bhaban, 60, Motijheel C/A, Dhaka-1000
Tel.: 9560102-3, Direct-9560589
E-mail: fbcci@bol-online.com
sheikhffahim@gmail.com
Web : www.fbcci-bd.org

Dr. Rubana Huq
President
Bangladesh Garment Manufacturers &
Exporters Association (BGMEA)
BGMEA Complex, House 7/7A, Sector 17,
Block H-1, Uttara, Dhaka – 1230
E-mail: info@bgmea.com.bd
Web: www.bgmea.com.bd

Mr. Sheikh Kabir Hossain
President
Bangladesh Insurance Association (BIA)
116, Naya Paltan, Hossain Tower (9th floor)
Box Culvert Road, Dhaka-1000
Tel.: 9330179
E-mail: bia@bdcom.com;
sk_kabirbd@yahoo.com

Mr. Syed Mahbubur Rahman
Managing Director
Mutual Trust Bank Limited
71, Purana Paltan Lane, Kakrail, Dhaka-1000
E-mail: Syed.mahbubur@dhakabank.com.bd

Mr. Tapan Chowdhury
Managing Director
Square Textile Mills Limited
48, Mohakhali C/A, Dhaka-1212
Tel: 8833047-56
E-mail: info@squaregroup.com;
verlin@squaregroup.com;
antony@ squaregroup.com;

Secretary General

Mr. Ataur Rahman
Secretary General
ICC Bangladesh
Suvastu Tower (6th floor)
69/1, Pantha Path, Dhaka-1205
Tel: 9641286, 9676698
Fax: 9641287
E-mail: arahman@iccbangladehsh.org.bd

ICC BANGLADESH MEMBERS

Trade Organizations

1. **Sheikh Fazle Fahim**
   President
   The Federation of Bangladesh Chambers
   of Commerce & Industry (FBCCI)
   Federation Bhaban, 60, Motijheel C/A, Dhaka-1000
   Tel.: 9560102-3, Direct-9560589
   Fax: 9576261, 9560588
   E-mail: fbcci@bol-online.com
   Web: www.fbcci-bd.org

2. **Mr. Osama Taseer**
   President
   Dhaka Chamber of Commerce & Industry (DCCI)
   DCCI Building, 65-66, Motijheel C/A, Dhaka-1000
   Tel.: 9552562, 9560732
   BUILD: 9561388,9569961
   Fax: 9550103
   E-mail: president@dhakachamber.com
   secretary.general@dhakachamber.com
   info@dhakachamber.com
   Web: www.dhakachamber.com.org

3. **Ms. Nihad Kabir**
   President
   Metropolitan Chamber of Commerce & Industry (MCCI)
   Chamber Building,122-124
   Motijheel C/A, Dhaka-1000
   Tel.: 9574129-31, 9565208-10
   Chamber-58151535
   Fax: 9565212, 9565211
   E-mail: sg@mccibd.org
   Web: www.mccibd.org

4. **Mr. Mahbubul Alam**
   President
   Chittagong Chamber of Commerce & Industry (CCCI)
   WTC Building,102/3 Agrabad, C/A, Chittagong
   Tel.: 031-713366-9, 031-711355, 031-711356
   Fax: 031-710183
   E-mail: info@chittagongchamber.com
   Web: www.chittagongchamber.com

5. **Mr. Shehzad Munim**
   President
   Foreign Investors' Chamber
   of Commerce & Industry (FICCI)
   Shama Homes, Apt #C-3, House # 59,
   Road # 01, Block # i, Banani, Dhaka-1213
   Tel.: 9892913, 9893049
   Fax: 9893058
   E-mail: info@ficci.org.bd
   Web: www.ficci.org.bd

6. **Mr. Md. Nazrul Islam Mazumder**
   Chairman
   Bangladesh Association of Banks (BAB)
   Jabber Tower (16th floor), 42, Gulshan Ave.
   Road # 135, Gulshan -1, Dhaka-1212
   Tel.: 9853478, 9859885, 9848629
   Fax: 9851015,9860301
   E-mail: bab.secretariat@gmail.com

7. **Mr. Sheikh Kabir Hossain**
   President
   Bangladesh Insurance Association (BIA)
   Hossain Tower, 9th floor, 116, Naya Paltan,
   Box Culvert Road, Dhaka - 1000
   Tel.: 9346378, 9330179,
   Fax: 9346378
   E-mail: bia@bdcom.com
   Web: www.bia-bd.org

8. **Dr. Rubana Huq**
   President
   Bangladesh Garment Manufacturers &
   Exporters Association (BGMEA)
   BGMEA Complex
   House-7/7A, Sector-17,
   Block- H-1, Uttara, Dhaka-1230
   Tel.: +88 01730442211
   E-mail: info@bgmea.com.bd, president@bgmea.com
   Web: www.bgmea.com.bd

9. **Mr. A. K. M. Salim Osman**
   President
   Bangladesh Knitwear Manufacturers &
   Exporters Association (BKMEA)
   233/1, B.B. Road, Press Club Bhaban
   (1st Floor & 3rd floor), Narayangonj–1400
   Tel.: 58615910
   Fax: 9673337
   E-mail: bkmea@bangla.net
   Web: www.bkmea.com

Corporate Bodies: Banks

10. **Mr. Tarique Afzal**
    President & Managing Director
    AB Bank Limited
    BCIC Bhaban, 30-31, Dilkusha C/A, Dhaka-1000
    Tel.: 9560312, MD-9564125 (Chairman ext-217)
    Fax: 9564122, 9564123
    E-mail: info@abbl.com;
    Web: www.abbl.com.bd

11. **Mr. Mohammad Shams-Ul Islam**
    Managing Director & CEO
    Agrani Bank Ltd.
    9/D, Motijheel C/A, Dhaka-1000
    Tel.: 9566153-4,MD-9585748, 9585749
    Fax: 9562346
    E-mail: mdagrani@agranibank.org;
    companysecretary@agranibank.org
    Web: www.agranibank.org

12. **Mr. S.A.A Masrur**
Country Head
Bank Alfalah Limited
168, Gulshan Avenue, Gulshan 2, Dhaka-1212
Tel.: 9860939
Fax: 9896782,9886743
E-mail: information@bankalfalah.com.bd
farhana.rahman@bankalfalah.com.bd
Web: www.bankalfalah.com

13. **Mr. Md. Rafiqul Alam**
Managing Director
BASIC Bank Limited
Sena Kalyan Bhaban (6th Floor)
195, Motijheel C/A, Dhaka-1000
Tel.: 9568190, 9564830, 9590548,9556616
Fax: 9564829, 7115612
E-mail: basicho@basicbanklimited.com
Web: www.basicbanklimited.com

14. **Mr. Selim R F Hussian**
Managing Director & CEO
BRAC Bank Limited
Anik Tower, 220/B, Tejgaon Gulshan Link Road
Tejgaon, Dhaka 1208
Tel.: 8801301-32, 9888807, 9884292-2668
Fax: 9898910, Md-9841867,
E-mail: patriciae.dsilva@bracbank.com;
mdsoffice@bracbank.com;
selimrfhussain@bracbank.com;
Web: www.bracbank.com

15. **Mr. N Rajashekaran**
Managing Director &
Country Business Manager –Bangladesh
Citibank N.A, 8, Gulshan Avenue,
Gulshan, Dhaka – 1212
Tel.: 09666991000, 8833567
Fax: 9899126
E-mail: laila.akhter@citi.com,
bangladesh.citiservice@citi.com
Web: www.asia.citibank.com/bangladesh/corporate

16. **Mr. Mashrur Arefin**
Managing Director & CEO
The City Bank Limited
City Bank Center, 136, Gulshan Avenue
Gulshan-2, Dhaka-1212
Tel.: 02 58813483, 58814375, 58813126, D: 9897785
Fax: 02 58814231, 9884446
E-mail: info@thecitybank.com;
corres.bank@thecitybank.com;
Web: www.thecitybank.com

17. **Mr. Varuna Kolamunna**
Country Manager
Commercial Bank of Ceylon PLC
Hadi Tower, NW(K)-1, Road-50
Kemal Ataturk Avenue, Gulshan-2, Dhaka-1212
Tel.: 48810010,9896054,48810025
Fax: 4881022
E-mail: varunakolamunna@combankbd.com
email@combankbd.com;
Web: www.combank.net

18. **Mr. Emrulul Huq**
Managing Director (C. C)
Dhaka Bank Limited
71, Purana Paltan Lane, Kakrail, Dhaka-1000
Phone: 58314424-30,Direct-58314417,
Fax: 5831 4419
Email: info@dhakabank.com.bd
Web: www.dhakabankltd.com

19. **Mr. Ali Reza Iftekhar**
Managing Director
Eastern Bank Limited
100 Gulshan Avenue, Dhaka–1212
Tel.: 9556360, 9562348, 9558390
Fax: 9562364, 9554610
E-mail: info@ebl-bd.com,
ariftekhar@ebl-bd.com;
anwara.khalil@ebl-bd.com
Web: www.ebl.com.bd

20. **Dr. Mohammed Haider Ali Miah**
Managing Director
Export Import Bank of Bangladesh Ltd.
Symphony, Plot SE(F) 9, Road #142,
Gulshan Ave. Gulshan -1, Dhaka-1212
Tel.: 9889363, D-9889556, 9889484,
DMD-Bari-9889363, 9889370-Ext-110
Fax: 9889358
E-mail: haider@eximbankbd.com;
Web: www.eximbankbd.com

21. **Mr. Syed Waseque Md. Ali**
Managing Director
First Security Islami Bank Limited
House No-SW(I) 1/A, Road -08,
Gulshan -1, Dhaka-1212
Tel.: 9888446, Direct--9887224
Fax: 9891915
E-mail: info@fsiblbd.com

22. **Mr. Francois de Maricourt**
Chief Executive Officer
The Hongkong and Shanghai Banking Corporation Ltd.
Shanta Western Tower (L-4)
186, BirUttam Mir Shawkat Ali Road
(Gulshan Tejgaon link Road)
Tejgaon Industrial Area, Dhaka-1208
Tel.: 09666331000
Fax: 8878864-65
E-mail: hsbc@hsbc.dhaka-bd.net;
contact@hsbc.com.bd;
Web: www.hsbc.com.bd;

23. **Mr. M. Shah Alam Sarwer**
Managing Director
IFIC Bank Limited
IFIC Tower, 61 Purana Paltan, Dhaka-1000
Tel.: MD-9559647, 09666716250
Fax: 9563237
E-mail: sarwar.shah@ificbankbd.com;
samir@ificbankbd.com;
Web: www.ificbankbd.com

24. **Mr. Md. Mahbub-ul-Alam**
Managing Director & CEO
Islami Bank Bangladesh Ltd.
Islami Bank Tower, 40,
Dilkusha C/A, Dhaka-1000
Tel.: PS-9569416, 9567173,
Fax: 9564532
E-mail: info@islamibankbd.com
md@islamibankbd.com
mizan8535@islamibankbd.com
Web: www.islamibankbd.com

25. **Mr. Md. Abdus Salam Azad**
Managing Director
Janata Bank Ltd.
110, Motijheel C/A, Dhaka-1000
Tel.: 9587639, PS -9567477
Fax: 9560869
E-mail: md@janatabank-bd.com;
Web: www.janatabank-bd.com

26. **Mr. Syed Mahbubur Rahman**
Managing Director & CEO
Mutual Trust Bank Limited
MTB Centre, 26 Gulshan Avenue
Plot -5, Block- SE(D), Gulshan -1, Dhaka -1212
Tel.: MD-9884922, 984 6966, 9842429,
Fax: MD-9884921
E-mail: info@mutualtrustbank.com
Web: www.mutualtrustbank.com

27. **Mr. Choudhury Moshtaq Ahmed**
Managing Director
National Bank Limited
18, Dilkusha C/A, Dhaka-1000
Tel.: 9563081-5, MD- 9513232
Fax: 9569404, 9563953
E-mail: mdnbl@bol-online.com
cmahmed@nblbd.com
Web: www.nblbd.com

28. **Mr. Mosleh Uddin Ahmed**
Managing Director & CEO
National Credit & Commerce Bank Ltd.
13/1, 13/2 Toyenbe Circular C/A,
Motijheel C/A, Dhaka-1000
Tel.: 9561902-4, 9566283, 9563981-3
MD: 9558882
Fax: 9566290
E-mail: nccbl@bdmail.net;
md@nccbank.com.bd;
Web: www.nccbank-bd.com

29. **Mr. M. Fakhrul Alam**
Managing Director
One Bank Limited
HRC Bhaban (3nd Floor),
46, Karwan Bazar C/A, Dhaka-1215
Tel.: 9118161, 9141397
Fax: 9134794
E-mail: obl@onebankbd.com;
MD-m.fakhrul.alam@onebank.com.bd
Web: www.onebankbd.com

30. **Mr. Rahel Ahmed**
Managing Director
Prime Bank Limited
Adamjee Court Annex Building-2
119-120, Motijheel C/A, Dhaka-1000
Tel.: 9567265, 9570747-8, 9564677,
Fax: 9560977, 9567230
E-mail: info@primebank.com.bd;
Web: www.primebank.com.bd

31. **Mr. Md. Abdul Halim Chowdhury**
Managing Director & CEO
Pubali Bank Limited
26, Dilkusha C/A, Dhaka-1000
Tel.: 9551614, D-9563094, 9562166
Fax: 9585785
E-mail: mdnceo@pubalibankbd.com;
pubali@bdmail.net, info@pubalibankbd.com;
mailbox@pubalibankbd.com
Web: www.pubalibangla.com

32. **Mr. Muhammed Shahidul Islam**
Managing Director
Shahjalal Islami Bank Limited
Shahjalal Islami Bank Tower Plot No: 4
Block-CWN(C) Gulshan Avenue, Dhaka-1212
Tel.: 9893189,9845457, D-9886026
Fax: 9844009, 9844015 (MD-Fax)
Email: sblho@shahjalalbank.com.bd;
md@sjiblbd.com
Web: www.shahjalalbank.com.bd

33. **Mr. Md. Ataur Rahman Prodhan**
Managing Director & CEO
Sonali Bank Ltd.
35-44, Motijheel C/A,
Dhaka-1000
Tel: 9550426-34, PS-9565944 HR-9550653
Fax: 9561410, 9561409
E-mail: ceosbl@sonalibank.com.bd
Web: www.sonalibank.com.bd

34. **Mr. Naser Ezaz Bijoy**
Chief Executive Officer
Standard Chartered Bank
SCB House, 67, Gulshan Avenue, Dhaka-1212
Tel: 8833003, 8833004
Fax: 9894445,9890013
E-mail: ceo.scbbd@sc.com;
customer.inquries@sc.com
Web: www.standardchartered.com

35. **Mr. Dr. Prakash Chand Saboo**
Country Head
State Bank of India
128 Navana Pristine Pavilion
Level-12. Gulshan Avenue, Circle-2, Dhaka-1212
Tel: 9889152, Fax: 9894526
E-mail: ch@sbibd.com; estb.co@sbibd.com
sbiaudit@sbibd.com
Web: www.sbibd.com

36. **Mr. Faruq Mainuddin**
Managing Director
Trust Bank Limited
Shadhinata Tower
Bir Shrestho Shaheed Jahangir Gate,
546, Dhaka Cantonment, Dhaka 1206
Tel: 9850635,9850638, D-9850709
Fax: 9850651
E-mail: info@trustbanklimited.com
faruq@tblbd.com
Web: www.trustbank.com.bd

37. **Mr. Mohammed Shawkat Jamil**
Managing Director
United Commercial Bank Limited
Bulus Center, Plot - CWS- (A)-1
Road No – 34, Gulshan Avenue, Dhaka-1212
Tel.: 88-02-8852500, 55668070, 09611999999
Fax: 88-02-8852504
E-mail: info@ucbl.com; md@ucb.com.bd
Web: www.ucbl.com

Non-Banking Financial Institutions: Leasing & Investment

38. **Mr. Arif Khan**
CEO & Managing Director
IDLC Finance Limited
Bays Galaria (1st Floor),
57, Gulshan Avenue, Dhaka-1212
Tel.: 8835885, 8834990-4
Fax: 8834377, 8835887
E-mail: mailbox@idlc.com;
asadia@idlc.com;
Web: www.idlc.com

39. **Mr. Md. Matiul Islam**
Chairman
Industrial and Infrastructure
Development Finance Co. Ltd. (IIDFC)
Chamber Building (6th Floor)
122-124, Motijheel C/A, Dhaka-1000
Tel.: 9559311-2, 9553254, 9553387, 9553090
Fax: 9568987
E-mail: md@iidfc.com; chairman@iidfc.com
info@iidfc.com;
Web: www.iidfc.com

40. **Mr. Mominul Islam**
Managing Director
IPDC Finance Ltd.
Hosna Centre (4th Floor)
106, Gulshan Avenue, Dhaka-1212
Tel.: 09612-885533,55068931-36
Fax: 9885529, 9885532
E-mail: email@ipdcbd.com, ceo@ipdc.com
Web: www.ipdcbd.com

41. **Mr. Rashedul Haque**
Managing Director
International Leasing and Financial Services Limited
DR Tower (13 floor), 65/2/2 Bir Protik Gagi Golam Dastagir
Road, Purana Paltan, Dhaka-1000
Tel.: 9559639,9586671-75
Fax: 9559640
E-mail: md@ilfsl.com, info@ilfsl.com
Web: www.ilfsl.com

42. **Mr. Md. Khalilur Rahman**
Managing Director
National Housing Finance and Investments Limited
Corporate Head office
Gulshan Branch
Concord Baksh Tower(7th floor),
Plot: 11-A, Road: 48, Block: CWN(A),
Gulshan-2, Dhaka-1212
Tel.: 09609200555, 9614480, 9670612-4
Fax: 58811652, 9671016
E-mail: info@nationalhousingbd.com;
khalil@nationalhousingbd.com;
Web: www.nationalhousingbd.com

43. **Dr. S. M. Akbar**
Managing Director
The UAE-Bangladesh Investment Company Limited
Erectors House (5th Floor)
18, Kemal Ataturk Avenue,
Banani C/A, Dhaka-1213
Tel.: 9888203
Fax: 58810718
E-mail: ubico@dhaka.net
Web: www.ubinco.com

44. **Mr. Rashid-ul Hasan**
Chairman
Uttara Finance and Investments Limited
Uttara Centre (11th Floor), 102, Shahid Tajuddin Ahmed
Sarani, Tejgaon, Dhaka-1208
Tel.: 8170281-5,8142680
Fax: 8170277
E-mail: info@uttarafinance.com;
Web: www.uttarafinance.biz

Non-Banking Financial Institutions: Insurance

45. **Mr. Ahmed Saifuddin Chowdhury**
Managing Director
Bangladesh General Insurance Co. Ltd.
42, Dilkusha C/A, Dhaka-1000
Tel.: 9555073-4, P.S. to MD-9550379
Fax: 9564212
E-mail: bgicinsurance@yahoo.com; ceo@bgicinsue.com
Web: www.bgicinsure.com

46. **Mr. Mohammad Haroon Patwary**
Managing Director
Eastern Insurance Company Limited
44, Dilkusha C/A,(2nd floor), Dhaka-1000
Tel.: 9563033-4, 9564246-8
Fax: 9569735
E-mail: eicl@dhaka.net
Web: www. easterninsurancebd.com

47. **Mr. Arun Kumar Saha**
Managing Director
Eastland Insurance Company Limited
13, Dilkusha C/A, Dhaka-1000
Tel.: 9564600, D-9562710
Fax: 9554569, 9565706 , 9556115
E-mail: info@eastlandinsurance.com,
aksaha@eiclbd.com
admin@eastlandinsurance.com
Web: www.eastlandinsurance.com

48. **Ms. Farzanah Chowdhury**
Managing Director and CEO
Green Delta Insurance Co. Ltd.
Green Delta Aims Tower,
51/52 Mohakhali, Dhaka-1212
Tel.: 9851902,9851170, D-9853078
Fax: 9851124
Hotline: 01730074299
E-mail: Farzana@green-delta.com;
gdic@bol-online.com; nasir@green-delta.com;
info@green-delta.com;
Web: www.green-delta.com

49. **Mr. Md. Manirul Islam**
Managing Director
Pioneer Insurance Company Limited
Rangs Babylonia (5th Floor),
246, BirUttam Mir Shawkat Sarak,
Tejgaon, Dhaka-1208
Tel: 8878901(Hunt), 8878910
Fax: 8878913, 8878914
E-mail: piclho@pioneerInsurance.com.bd;
manir.md@pioneerinsurance.com.bd
Web: www.pioneerinsurance.com.bd

50. **Mr. Md. Rezaul Karim**
Managing Director
Pragati Insurance Limited
PragatiBhaban (16th Floor)
20-21, Kawran Bazar, Dhaka – 1215
Tel.: 9133680-2
Fax: 55013694
E-mail: info@pragatiinsurance.com
Web: www.PragatiInsurance.com

51. **Mr. Md. Khaled Mamun**
Managing Director & CEO
Reliance Insurance Limited
Shanta Western Tower (Level-5)
186, Tejgaon I/A, Dhaka-1208
Tel.: 8878836-44
Fax: MD- 8878831-4
E-mail: ceo@reliance.com.bd
info@reliance.com.bd
Web: www.reliance.com.bd

52. **Mr. Arijit Chowdhury**
Managing Director
Sadharan Bima Corporation
33, Dilkusha C/A, Dhaka-1000
Tel.: 9572277,9552070
Fax: 9564197
E-mail: sbc@bttb.net.bd
Web: www.sbc.gov.bd

53. **Mr. Khawza Manzer Nadeem**
Managing Director
United Insurance Company Limited
Camelia House, 22, Kazi Nazrul Islam Ave., Dhaka-1000
Tel.: 9663372, 58611720-2
Fax: 58614475
E-mail: info@unitedinsurance.com.bd
Web: www.unitedinsurance.com.bd

Law Firms

54. **Mr. Ajmalul Hossain QC**
Senior Advocate
Bangladesh Supreme Court
A. Hossain & Associates
3B Outer Circular Road
Maghbazar, Dhaka-1217
Tel.: 8311492, 8322935
Fax: 9344356
E-mail: enquiry@ahossainandassociates.com

55. **Dr. Kamal Hossain**
Senior Advocate
Bangladesh Supreme Court
Dr. Kamal Hossain & Associates
MCCI Building, 122-124, Motijheel C/A, Dhaka-1000
Tel.: 9564954, 9552946, 9560655
Fax: 9564953
E-mail: khossain@citechco.net

56. **Mr. Fida Mohammad Kamal**
Barrister-at-Law, Senior Advocate
Supreme Court of Bangladesh
Fida M. Kamal & Associates
(Barristers & Advocates)
64, PuranaPaltan (3rd floor)
Motijheel C/A, Dhaka-1000
Tel.: 9567646, Ext-101, 9565618
9559450 (Resident & Chamber), 9567530 (S.C)
Fax: 9567641
E-mail: kamalfida7@gmail.com

57. **Mr. Rokanuddin Mahmud**
Senior Advocate
Bangladesh Supreme Court
Rokanuddin Mahmud and Associates
House-21, Road-07, Block-F
Near Banani Thana, Banani, Dhaka-1213
Tel.: 9822317,9822315
Fax: 9822319
E-mail: rumahmud@gmail.com;

58. **Ms. Nihad Kabir**
Senior Partner
Syed Ishtiaq Ahmed & Associates
Concord Ovilash (1st Floor)
House No. 62, Road No.11A
Dhanmondi, Dhaka-1209
Tel.: 58151535
Fax: 58151136
E-mail: nihad@siaalaw.com, info@sialaw.com
accounts@sialaw.com

National Companies

59. **Mr. A.S.M. Mainuddin Monem**
Deputy Managing Director
Abdul Monem Limited
Monem Business District
111, Bir Uttam C.R. Dutta Road
(Sonargaon Road) Dhaka – 1205
Tel.: 9632011-13,9632304-10
Fax: 9632315
E-mail: asmhbs@citechco.net, info@amlbd.com;
Web: www.amlbd.com

60. **Mr. Salahuddin Kasem Khan**
Managing Director
A. K. Khan & Company Ltd.
Bay's Gallerea, 2nd Floor,
57 Gulshan Avenue, Gulshan -1 ,Dhaka-1212
Tel.: 8833510, 8833521, 8833578, 8833540
Fax: 9895930
E-mail: akkhan.corporateoffice@akkhan.com;
Web: www.akkhan.com

61. **Mr. Abul Kasem Khan**
Managing Director
A. K. Khan Telecom Ltd.
57 & 57A Uday Tower (9th floor)
Gulshan-Avenue, Gulshan -1 , Dhaka-1212
Tel.: 8833873,9892169,9887485
Fax: 8833872
E-mail: akkhan.abulkasemkhan@gmail.com;
Web: www.akkhan.com

62. **Mr. A. Ahmed Yusuf**
Chairman
Alpha Tobacco Manufacturing Co. Ltd.
Jatiya Scout Bhaban, 70/1,
PuranaPaltan Line Kakrail, (9th floor), Dhaka
Tel.: 8315072, D-8313553; Fax: 8315335
E-mail: erba@bdmail.net

63. **Mr. Syed Manzur Elahi**
Chairman
Apex Footwear Limited
House - 06, Road - 137, Block - SE(D),
Gulshan-1, Dhaka-1212
Tel.: 55044841 Ext-402,
Fax: 55044843
E-mail: info@apexfootwearltd.com;
smelahi@apexfootwearltd.com;
maqsuda@apexfootwearltd.com;
nasim@apexfootwearltd.com
Web: www.apexfootwearltd.com

64. **Mrs. Rokia Afzal Rahman**
Chairman
Arlinks Limited
Red Crescent Concord Tower
(11th Floor) Suite-B
17, Mohakhali C/A, Dhaka-1212
Tel: 9888517, 9850254-7
Fax: 9888388
E-mail: arlinksgroup@yahoo.com;
rokiarahman@hotmail.com;
Web: www.arlinksgroup.com

65. **Mr. Z.A. Chowdhury (Jonny)**
Chief Executive Officer
ASM Chemical Industries Limited.
240 Tejgaon I/A, Dhaka-1208
Tel: 8879178 - 80
Fax:8879184
E-mail: rjm@azizgroup.com;
azizgroupbd@bol-online.com;
azizgroupbd@operation.asmchemical.com

66. **Mr. Mohammad Fazlul Azim**
Managing Director
Azim Group
Scout Bhaban (3rd Floor)
70/1, Inner Circular Road, Kakrail, Dhaka-1000
Tel: +8802-9332339, 02-9331119, 02-48317798
Fax: +8802-8312964, 02-48312964
Email: sayedabu@azimgroup.com
Web: www.azimgroup.com

67. **Mr. Sayem Sobhan**
Managing Director
Bashundhara Paper Mills Ltd.
125/1, Block-A, Bashundhara R/A, Dhaka-1219
Tel.: 8431024-8, 8432008-17
Fax: 8431085, 8431611
E-mail: bgc@bdcom.com;
Web: www.bashundharagroup.com

68. **Mr. Asif A. Chowdhury**
Managing Director
Bay Consolidation (Pvt.) Limited
Chowdhury Centre, 23/KA, New Eskaton Road
Dhaka-1000
Tel.: 48318763, Fax: 9355229
E-mail: bcldhaka@chowdhurygroup.com ;
Web: www.chowdhurygroup.com

69. **Mr. R. Maksud Khan**
Chairman
Bengal Fine Ceramics Limited
HH Bhaban (4th Floor)
52/1, New Eskaton, Dhaka-1000
Tel.: 9343948
E-mail: maksudkhan@dhaka.net;
Web: www.bfcl.net

70. **Mr. Md. Abdul Jabbar**
Managing Director
DBL Ceramics Ltd.
Capita South Avenue Tower (6th Floor)
House-50, Road-3, Gulshan Avenue, Gulshan-1
Dhaka-1212
Tel.: 9127574
Fax: 8140214
E-mail:info@dbl-group.com
Web: www.dbl-group.com

71. **Mr. Abdul Matin Patwary, FCMA**
Managing Director
Dhaka Stock Exchange Ltd.
9-F, Motijheel C/A, Dhaka-1000
Tel.: 9564601, 9576210-18
Fax: 9564727
E-mail: dac@bol-online.com
dse@bol-online.com
Web: www.dsebd.org

72. **Mr. Md. Feroz Ahmad**
Chairman
Elite Group of Industries
South Avenue Tower (2nd floor)
House No. 50, Road No. 3, 7 Gulshan Avenue Gulshan-1,
Dhaka-1212
Tel: 9859998
Fax: 9883681
Email: elite@citechco.net;
shayaanseraj@elitegroup-bd.com
Web:www.aquapaints.com

73. **Mr. Kutubuddin Ahmed**
Chairman
Envoy Garments Limited
Envoy Tower
18/E Lake Circus Kalabagan,
West Panthapath, Dhaka-1205
Tel.: 9102583-90, ,
Fax: 7214193, 9102849,9130162
E-mail: kutub.ahmed@envoytextiles.com
kohinoor.begum@ envoytextiles.com
Web: www.envoygroup.com

74. **Mr. Kutubuddin Ahmed**
Chairman
Envoy Textiles Limited
Envoy Tower
18/E Lake Circus Kalabagan
West Panthapath, Dhaka-1205
Tel.: 9102583-90,
Fax: 9102849, 9130162,
E-mail: info@envoytextiles.com
Web: www.envoygroup.com

75. **Mr. Mahbubur Rahman**
Chairman & CEO
ETBL Holdings Limited
Suvastu Tower (9th Floor)
69/1, Panthapath, Dhaka-1205
Tel.: 9641283-4
Fax: 9641285
E-mail: etbl@bdmail.net, info@etbl.org

76. **Mr. Rizwan-Ur Rahman**
Managing Director & CEO
ETBL Securities & Exchange Ltd.
Suvastu Tower (9th Floor)
69/1, Panthapath, Dhaka-1205
Tel.: 9641351-4
Fax: 9641285
E-mail: info@etblsecurities.com
Web: www.etbl securities.com

77. **Mr. Anwar-Ul-Alam Chowdhury (Parvez)**
Managing Director
Evince Group
Lotus Kamal Tower, (level-7&12)
57, Joar Sahara C/A, Nikunja-2,
New Airport Road, Dhaka-1229
Tel.: 8900066-7, 8900696
Fax: 8900897
E-mail: evince@evincebd.com;
Web: www.evincegroup.com

78. **Mr. Md. Asifuzzaman**
Chairman
Financial Excellence Limited (FinExcel)
House - 16, Road - 23, Block - B
Banani, Dhaka - 1213
Tel: 55033759, 55033760
Fax: 55033761
E-mail: info@finexcelbd.org
Web: www.finexelbd.org

79. **Mr. Tanvir Ahmed**
Managing Director
Green Textile Limited
House-17, Road-15, Sector-3,
Rabindra Sarani, Uttara, Dhaka
Tel: 09611008899, MD-01975109018,
Fax: 892070
Email: tanvir696@hotmail.com
Web: epichk.com

80. **Mr. Sayeed Hossain Chowdhury**
Chairman & CEO
HRC Syndicate Limited
11/F HRC Bhaban, 46
Kawran Bazar C/A, Dhaka-1215
Tel.: 9115183-4, 9133418-22
Fax: 9128991-2, 8110993
E-mail: hrc@hrcbd.com; cm@hrchq.com;
syndicate@hrcbd.com;
Web: www.hrcbd.com

81. **Mr. A.K.Azad**
Managing Director
Ha-Meem Denim Ltd.
387, Tejgaon I/A, Dhaka-1208
Tel.: 8170592-93, 8170564,
Fax: 8170623,8170583
Email: rafiq@hameemdenim.com
faruqe@hameemgroup.com
frontdesk@hameemgroup.com
lopa@hameemgroup.com

82. **Mr. Mahbub Jamil**
Chairman
ICE Technologies Limited
Apt –A3-B3, House -10, Road-2/A,
Sector-11, Uttara, Dhaka-1230
Tel: 9899042, 9899479
Email: icecorp@icebd.com
info@icebd.com

83. **Mr. Abdul Muktadir**
Managing Director
Incepta Pharmaceuticals Ltd.
40, Shahid Tajuddin Ahmed Sarani
Tejgaon I/A, Dhaka-1208
Tel.: 8891688-703
Fax: 8891190-91
E-mail: incepta@inceptapharma.com;
Web: www. inceptapharma.com

84. Mr. Zafar Osman
Managing Director
International Trade Connection (Pte) Ltd.
Arcadia Grove Apartment
House # 06, Apt No-5A3, Road No-15(New), 28(Old),
Dhanmondi R/A, Dhaka-1209
Tel: 8825801, 01711402727788
Email: zosman@itcbd.net ;osm@itcbd.net

85. Mr. Aftab ul Islam
Chairman
IOE (Bangladesh) Limited
Wali Center (3-5th Floor),
74, Gulshan Avenue, Dhaka-1212
Tel: 9842174, 9846319, 9845134
9846298, 9845013
E-mail :aftab@ioe.com.bd; iaftabul@gmail.com
info@ioe.com.bd
Web: www.ioe.com.bd

86. Mr. Mohammed Naser
CEO
Jaroms Consultants Ltd.
BCIC Bhaban (3rd floor)
30/31 Dilkusha, Dhaka-1000
Tel.: 9570299, 9561289, 9580056.
Fax: 9564366
E-mail: aacano120@gmail.com
Web: www.jaroms bd.com

87. Mr. Md. Habibullah Monju
Chief Financial Officer
Karnaphuli Fertilizer Co. Ltd. (KAFCO)
IDB Bhaban (13th Floor), E/8-A, Rokeya Sharani,
Sher-e-Bangla Nagar, Dhaka-1207
Tel.: 9183141-42, 9183139, 9183420
Fax: 9183140
E-mail: info@kafcobd.com;
Web: www.kafcobd.com

88. Mr. Mohammad Hatem
Managing Director
MB Knit Fashion Ltd.
B/164-166 & B/185-187
BSCIC Industrial Estate,
Fatullah, Narayanganj-1420
Tel.: 47671112-3
E-mail: hatem@mbknit.com
hatem.mbknit@gmail.com
Web: www.mbknit.com

89. Mr. Mostafa Kamal
Managing Director
Meghna Group of Industries
House No-15, Road No-34
Gulshan-1, Dhaka-1212
Tel.: 9887545, 9889490, 9884791
Fax: 9884896, 9889361
E-mail: info@meghnagroup.biz
Web: www.meghnagroup.biz

90. Mr. Mohd. Arshad Ali
Managing Director
The Merchants Limited
Merchants House, House No. 5/C
Road No. 13, Sector-3, Uttara, Dhaka-1230
Tel.: 58953645-9, 01711522258
Fax: 58950379
E-mail: arshadali@themerchantsltd.com
Website: www.themerchantsltd.com

91. Mr. Mir Nasir Hossain
Managing Director
Mir Akhter Hossain Limited
Red Crescent Borak Tower
Level-7,71-72 Old Elephant Road,
Eskaton Garden, Ramna, Dhaka-1000
Tel.: 55138533-35
Fax: 55138530
E-mail: mirakter@citechco.net
nasir@mirtelecom-bd.com; info@mirakhter.net
Web: www.mirakhter.net

92. Dr. Rubana Huq
Managing Director
The Mohammadi Limited
Lotus Kamal Tower-1, Level-10
57, Zoar Shahara, Nikunjo-2 (North), Dhaka-1229
Tel.: 880 2 48952704
Fax: 880 2 48959254
E-mail: info@mohammadigroup.com;
Web: www.mohammadigroup.com

93. Mr. Shafiul Islam
Chairman & Managing Director
Navana Limited
House-16/B, Road-93, Gulshan-2, Dhaka -1212
Tel: 9895714 ,9883321
Fax: 8832980
E-mail: navana@bangla.net
Web: www.navana.com

94. Mr. A. S. M. Quasem
Chairman
Newage Garments Ltd.
42/I, Indira Road, Dhaka-1215
Tel: 912 6535, 88-09612639243
Fax: 8113518
E-mail: quasem@newage-group.com;
Web: www.newage-group.com

95. Mr. Asif Ibrahim
Vice Chairman
Newage Textiles Ltd.
42/I, Indira Road, Dhaka-1215
Tel: 8153204, 88-09612639243
Fax: 8113518
E-mail: asif@newage-group.com;
Web: www.newage-group.com

96. Mr. Mohammad Samsul Alam Mallick
Managing Director
New Zealand Dairy Products Bangladesh Limited
Shanta Western Tower
O/S-801, Level-8, 186 Tejgaon Industrial Area
Tejgaon, Dhaka - 1208
Phone.: +88028878701-03, +88028878705-09
Fax: +88028878704
Mobile: +8801951454545, +01713014818
E-mail: samsul.mallick@newzealanddairybd.com
Website: www.newzealanddairybd.com

97. Mr. Md. Fazlul Hoque
Managing Director
Plummy Fashions Limited
Flat-502, Concord Tower
113, Kazi Nazrul Islam Avenue, Dhaka-1000
Tel.: 48317240,09611522522
E-mail: fhoque@bangla.net;
Web: www.plummyfashions.com

98. Mr. M. A. Awal
Chairman
Prime Textile Spinning Mills Limited
Sena Kalyan Bhaban (8th Floor)
195, Motijheel C/A, Dhaka-1000
Tel.: 9564851-2, 9564856, 9590546,9590570,9590698
Fax: 9564857, 9590421
E-mail: info@primegroup.com.bd;
chairman@primegroup.com.bd;
Web: www.primegroup.com.bd

99. Mr. Md. Muin Uddin Mazumder
Managing Director
Sanofi Bangladesh Limited
6/2/A, SegunBagicha, Dhaka-1000
Tel.: 8809678000777
Fax: 9550009,
E-mail: sanofi.bd@sanofi.com
Web: www.sanofi.com.bd

100. Mr. Syed Maher Murshed
Chairman
Scholastica Limited
House # 3/D, Road # 2/A,
Block # J, Baridhara, Dhaka-1212
Tel.: 58956053, 58950488, 48952207, 58963663
Fax: 58950443
E-mail: info@scholasticabd.com;
Web: www.scholasticabd.com

101. Mr. Samuel S. Chowdhury
Chairman
Square Pharmaceuticals Limited
48, Mohakhali C/A, Dhaka-1212
Tel.: 8833047-56, 9859007
Fax: 9834941,9848768,
E-mail: info@squaregroup.com;
Web: www.squarepharma.com.bd

102. Mr. Tapan Chowdhury
Managing Director
Square Textiles Limited
48, Mohakhali C/A, Dhaka-1212
Tel.: 8833047-56 Ext-262
Fax: 9828768, 9848609
E-mail: verlin@squaregroup.com;
antony@squaregroup.com
Web: www.textiles.squaregrp.com

103. Mr. Aziz-Al-Kaiser
Managing Director
Star Particle Board Mills Ltd.
Shanta Western Tower (Level-13)
186, Tejgaon I/A, Dhaka-1208
Tel.: 8878800-11
Fax: 8878815
E-mail: mail@psgbd.com;
Web: www.partexstargroup.com

104. Mr. Mohammad Shahjahan Khan
Managing Director
S. S. Shipping & Trading Ltd.
Symphony (7th floor), Plot-SE(F)9, Road-142,
South Avenue, Gulshan-1, Dhaka-1212
Tel.: 9885397
Fax: 9860676
E-mail: mskhan1950@yahoo.com,
chartering@mskshipmanagement.com

105. Mr. Anisul Islam Mahmud
Chairman
Shasha Denims Ltd.
House -23, Road -129, Gulshan-01, Dhaka-1212
Tel.: 9850548, 9854679, 9855263
Fax: 9851698
E-mail:parveenmahmud55@gmail.com
Web: www.shashadenim.com

106. Mr. Abdul Hai Sarker
Chairman & CEO
Shohagpur Textile Mills Limited
Richmond Concord (5th floor),
68 Gulshan Avenue,
Gulshan-1, Dhaka-1212
Tel : 9845205,
Fax: 58817567
Email : asharker@purbanigroup.com
Web: www.purbanigroup.com

107. Mr. Tanvir Ahmed
Director
Sheltech Ceramics Limited
Sheltech Tower, 60 Sheikh Russel Square,
55 Lake Circus Kalabagan, West Panthapath, Dhaka
Tel: +88029121571
Email: info@sheltechceramics.com
Web: www. sheltechceramics.com

108. Mr. Syed Ali Jowher Rizvi
Managing Director
Summit Alliance Port Limited
The Alliance Building, 63 Pragati Sarani,
Baridhara, Dhaka-1212
Tel: 55048284
Fax: 55048450
Email: rizvi@ahlbd.com
Web: www.saplbd.com

109. Mr. Ragib Ali
Chairman & Managing Director
The Sylhet Tea Company Limited
67, Motijheel C/A (2nd Floor), Dhaka-1000
Tel.: 9554349, 9552001
Fax: 9568865
E-mail: thesylhettea@gmail.com;

110. Mr. Khurshid Irfan Chowdhury
Managing Director & CEO
Transcom Beverages Limited
Gulshan Tower (10th Floor), Plot No.31,
Road No. 53, Gulshan North C/A, Dhaka-1212
Tel.: 9898131,9862220
Fax: 8834584
E-mail: khurshid@tbl.transcombd.com;
Web: www.transcombd.com

111. Mr. Latifur Rahman
Chairman & Managing Director
Transcom Limited
Gulshan Tower (11th Floor), Plot No.31
Road No. 53, Gulshan North C/A, Dhaka-1212
Tel.: 58814662-3
Fax: 9887376, 9887373
E-mail: fhn@transcombd.com;
Web: www.transcombd.com

112. Mr. M. Ghaziul Haque
Chairman
Transmarine Logistics Ltd.
Jahangir Tower, 6th floor
10, Kazi Nazrul Islam Avenue
Kawran Bazar, Dhaka-1215
Tel.: 9125792-96, D-9130641
Fax: 8127901
E-mail: m.ghaziul.haque@mghgroup.com;
info@mghgroup.com;
Web: www.mghgroup.com

113. Mr. Mohd. Noor Ali
Managing Director
Unique Hotel & Resorts Ltd.
Plot No. 01 CWN(B), Road - 45,
Gulshan Avenue - 2, Dhaka - 1212
Tel: 9885116-23, 9854893(D)
Fax: 9854894
Email: info@uhrlbd.com

114. Mr. Fazlur Rahman
Managing Director
Van Ommeren Tank Terminal Bangladesh Ltd.
North Potenga, Chittagong-4000
Tel.: 741858, 741884, 740921
Fax: 741514
E-mail: vott@globalctg.net

Multinational Companies

115. Mrs. Rupali Chowdhury
Managing Director
Berger Paints Bangladesh Limited
Berger House, House No. 8, Road No. 2
Sector-3, Uttara Model Town, Dhaka-1230
Tel.: 48953665
Fax: 48951350, 8951350
E-mail: info@bergerbd.com; iris@bergerbd.com;
rupali@bergerbd.com
Web: www.bergerbd.com

116. Mr. Shehzad Munim
Managing Director
British American Tobacco Bangladesh Co. Ltd.
New DOHS Road, Mohakhali, Dhaka-1206
Tel.: 9842791-95, Direct-9842791-Ext-325
Fax: 9842786
E-mail: Shehzad_munim@bat.com
Web: www.batbangladesh.com

117. Dr. A. Qayyum Khan
Managing Director
Bureau Veritas (BIVAC) Bangladesh Ltd.
84, Kazi Nazrul Islam Avenue, Farmgate, Dhaka-1215
Tel.: 9129723-4, 9127714
Fax: 9126486,8117891
E-mail: bivac.dhaka@bd.bureauveritas.com
qayyum.khan@bd.bureauveritas.com
Web: www.bureauveritas.com

118. Mr. Md. Miarul Haque
Country Manager
DHL Worldwide Express (Bangladesh) Pvt. Ltd.
Molly Capita Centre (Level 4 & 5)
76 Bir Uttam Mir Showket Road
Gulshan 1, Dhaka -1212
Tel.: 55668101, 9895810
Fax: 9841692
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md.miarul.haque@dhl.com
Web: www.dhl.com

119. Mr. Imran Ahmed
Managing Director
Duncan Brothers (Bangladesh) Limited
Camelia House, 22, Kazi Nazrul Islam Avenue,
Dhaka-1000
Tel.: 9661397-8, 58611720-2
Fax: 58613576
E-mail: imranahmed@duncanbd.com;
duncan_corp@duncanbd.com
Web: www.duncanbd.com

120. Mr. Syed Ershad Ahmed
CM & Managing Director
Expeditors (Bangladesh) Ltd.
South Bridge Square, Level-4
52 Gulshan Avenue, Dhaka 1212
Tel: 9890594-6
Fax: 9890775,8822887
Email: ershad.ahmed@expeditors.com
Web: www.expeditors.com

121. Mr. Rahul Dhand
Vice President-Operation Support Group
Li & Fung Bangladesh Limited
ABC Heritage , Plot-2 & 4
Jashim Uddin Avenue, Sector-3,
Uttara Model Town, Dhaka-1230
Tel: 55669922 Ext-8170
Fax: 8931036
E-mail: rahuldhand@lfsourcing.com
Web: www. lifung.com

122. Mr. Mohsin Uddin Ahmed
Managing Director
Linde Bangladesh Limited
285, Tejgaon I/A, Dhaka-1208
Tel.: 8870322-27, 8870341-45
Fax: 8870365, 8870336
E-mail: info.bd@linde.com
Web: www.linde.com.bd

123. Mrs. Rachel Wu
Managing Director
LSI Industries Ltd.
Suhrawardy Avenue, Baridhari Diplomatic Zone, Dhaka
Tel : 9883525, 9883526
Email: rachelwu@lsitwn.com
racheldhk2014@gmail.com
Web: www.lsitwn.com

124. Mr. Deepal Abeywickrema
Managing Director
Nestle Bangladesh Limited
Nina Kabbo, Level-4, 227,Tejgaon I/A,
Gulshan Link Road, Dhaka-1208
Tel.: 09609609222
Fax: 9887453,9896570
E-mail: tahia.asad@bd.nestle.com
deepal.abeywickrema@bd.nestle.com
Web: www.nestle.com

125. Mr. Tareq Rahman
President
Nordic Chamber of Commerce and Industry (NCCI)
C/O: Graphic People Ltd.
3rd Floor, Plot 76/A, Road 11,
Block M, Banani, Dhaka 1213
Tel.: 01777700752
E-mail: info@nccib.com
Website : www.nccib.com

126. Mr. Roger Hubert
Chief Representative
Puls Trading Far East Ltd
House no. NW(K) 8/A, Road No. 50
Gulshan-2, Dhaka-1212
Tel.: 09609000466 (Ext.- 5510)
Fax: 9885378, 9863032
E-mail: basirun.nabi@hm.com;
mohammad.yeasin@hm.com
Web: www.hm.com

127. Mr. Mahtab Uddin Ahmed
Managing Director
Robi Axiata Limited
53 Gulshan South Avenue, Dhaka-1212
Tel.:09609000888, 018177180017
Fax: 9885463
E-mail: raz.shahjamal@robi.com.bd
mahtab@robi.com.bd
Web: www.robi.com.bd

128. Mr. Prabal Bose
Managing Director & CEO
Siemens Bangladesh Limited
8 Gulshan South Ave., Laila Tower,
7th & 8 Floor, Gulshan-1, Dhaka-1212
Tel.: 9893536
Fax: 9893597
E-mail: Florence.mitali@siemens.com;
Web: www.siemens.com.bd

129. Mr. M.H.M. Fairoz
Managing Director & CEO
Singer Bangladesh Limited
House-5B, Road No. 126
Gulshan-1, Dhaka-1212
Tel.: 58815797
Fax: 9858247, 9857624
E-mail: info@singerbd.com
secy.md@singerbd.com
Web: www.singerbd.com

130. Mr. Kedar Lele
CEO & Managing Director
Unilever Bangladesh Limited
Z.N. Tower, Plot-2, Road-8,
Gulshan-1, Dhaka-1212
Phone: 9888452
Fax: 8811560
Email: kedar.lele@unilever.com

131. Mr. Maxim Lobachev
Managing Director
United Dhaka Tobacco Company Limited
Level-9,10,11,12 Rangs RD Centre,
Plot-SE(F)3, Gulshan Avenue, Dhaka-1212
Phone: 8809612115500
Email: kazi.rubaiyaislam@jti.com

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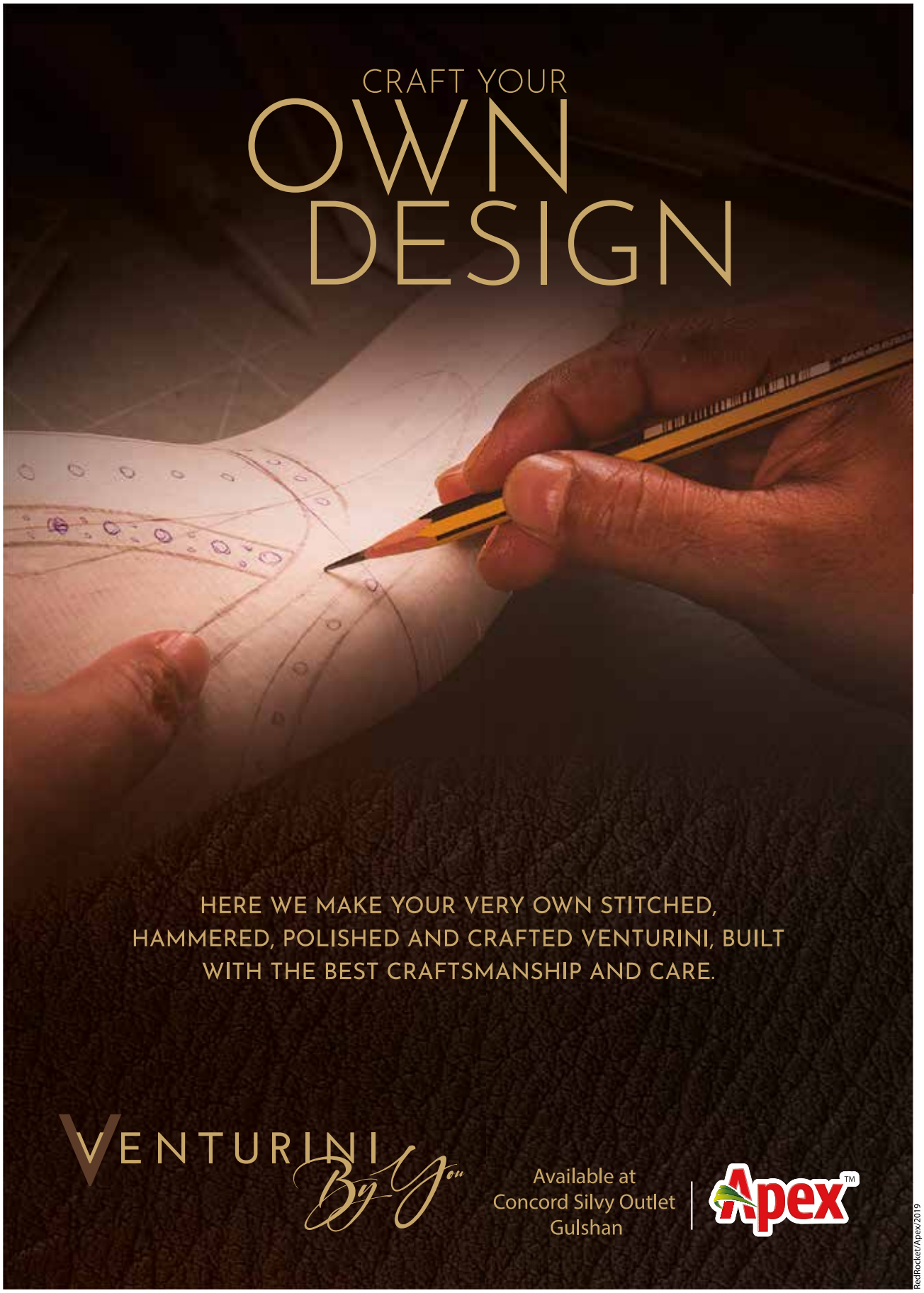
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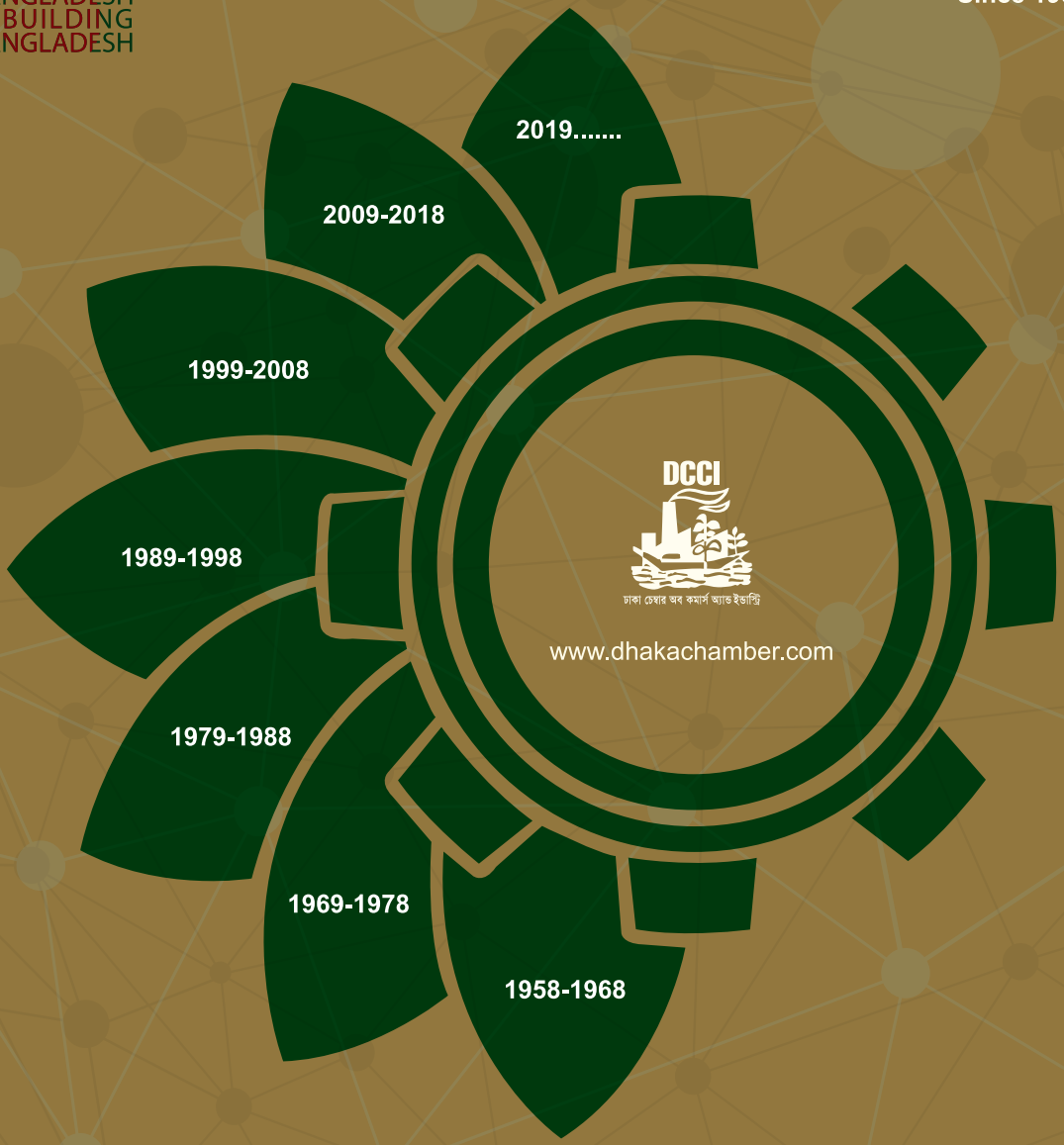
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Envoy Textiles Limited is the largest denim manufacturer of Bangladesh, a LEED Platinum certified company by U. S. Green Building Council which is the highest worldwide recognition for Leadership in Energy & Environmental Design. Envoy Textiles Limited is the first to score `LEED Platinum' among all Denim Mills in the WORLD.

Energy Saving | Water Saving | Sustainable Material

CLEAN PRODUCTION

As an ardent supporter and believer in sustainability, in addition to the LEED, Envoy Textiles Limited (ETL) has running an Effluent Treatment Plant and has complied with various standards on environmental sustainability issues, like, PaCT, HiGG Index, BEPI and CPI2 for Carbon Footprint. On the other hand, ETL also has adopted some unique technologies like Ozone Finishing, Aero Finishing and Advance Denim Dyeing. Moreover, ETL is using Liquid Indigo and following ZDHC chemical guidelines in the dying process to minimize the impacts in ecology and in human health.

RESPONSIBLE SOURCING

ETL is engaged with different project to play its role as a responsible sourcing company. It procures cotton with complete traceability and prioritizing to source BCI Cotton, CIMA Cotton, Organic Cotton and other materials which are sustainable and environment friendly.

CORPORATE OFFICE: Envoy Tower, 18/E, Lake Circus, Kalabagan, West Panthapath, Dhaka-1205, Bangladesh
FACTORY: Jamirdia, Bhaluka, Mymensingh, Bangladesh
HONG KONG OFFICE: Flat H, 16th Floor, King Palace Plaza, 55 King Yip Street, Kwun Tong, Kowloon, Hong Kong
www.envoytextiles.com | info@envoytextiles.com

COMPANY FEATURES

- Started commercial operation in 2008
- Listed in stock exchange 2012
- 1st Denim Mill in Bangladesh with 'Rope Dye' Technology
- 50 million yards per annum capacity
- State-of-the-art technology
- Lab Accredited by LEVI'S, DEBENHAMS, VF, H&M and TEMA
- AERO Fabric Finishing Machine for high performance bi-stretch products
- Advanced Ozone machine for reduced chemical and water consumption
- Built on 55 acres of land



AWARDS

- 7 times winner of National Export Trophy by Bangladesh Government
- 2 times received President's Award for Industrial Development'
- Winner of National Productivity & Quality Excellence Award by Bangladesh Govt.
- 3 times winner of ICSB National Award by Institute of Chartered Secretaries of Bangladesh
- 2 times winner of ICMAB Best Corporate Award by Institute of Cost & Management Accountants of Bangladesh
- HSBC Export Excellence Award
- TAX Payer Award by National Board of Revenue
- CPI2 Factory Award for Carbon Performance Improvement Initiative
- Highest Regular Electric Bill Payer Award by Bangladesh Rural Electrification Board
- LEED Green Factory Award by Bangladesh Garments Manufacturers and Exporters Association

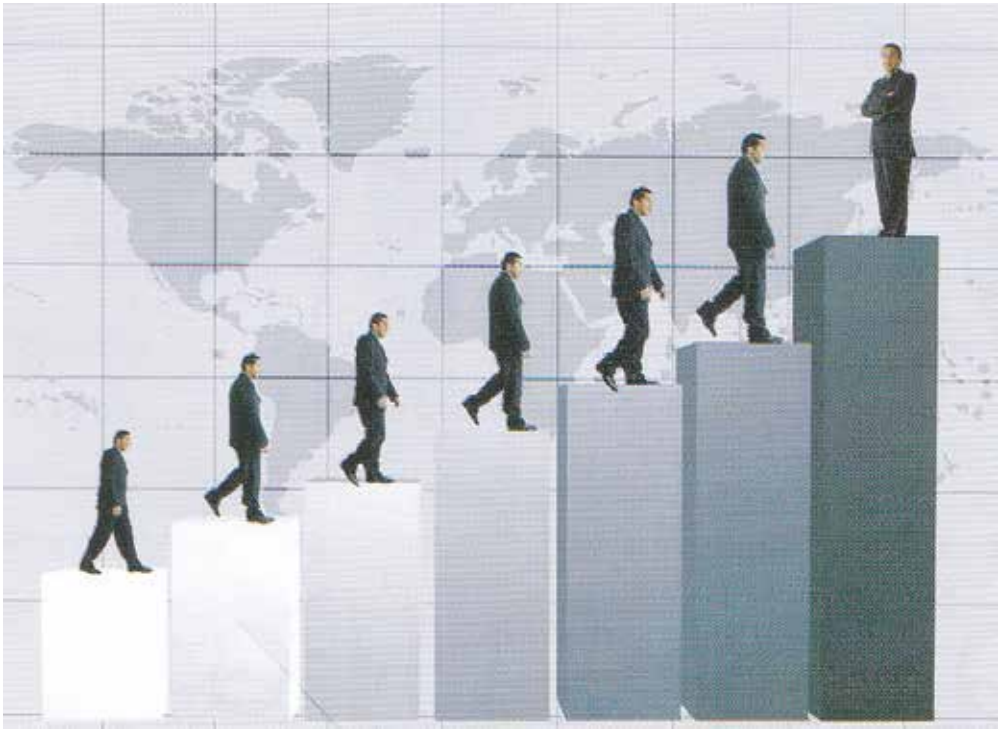


EMPLOYEE WELFARE & CORPORATE SOCIAL RESPONSIBILITY (CSR)

- More than 35 schemes for employee welfare, such as, Profit Sharing, Provident Fund, Medical Bill Reimbursement, Scholarship for employee's children, Medical Center, 24-hour convenient shop, In-House bakery and so on
- Set Up and Maintenance of a Pediatric HDU at Burn Unit of Dhaka Medical College Hospital
- Priority appointments to people with disability
- Paying Salaries of deceased victims of other company through BGMEA
- Continuing salaries for permanently disabled people as a regular employee
- Financial Contribution for different natural accidents, etc

ETBL

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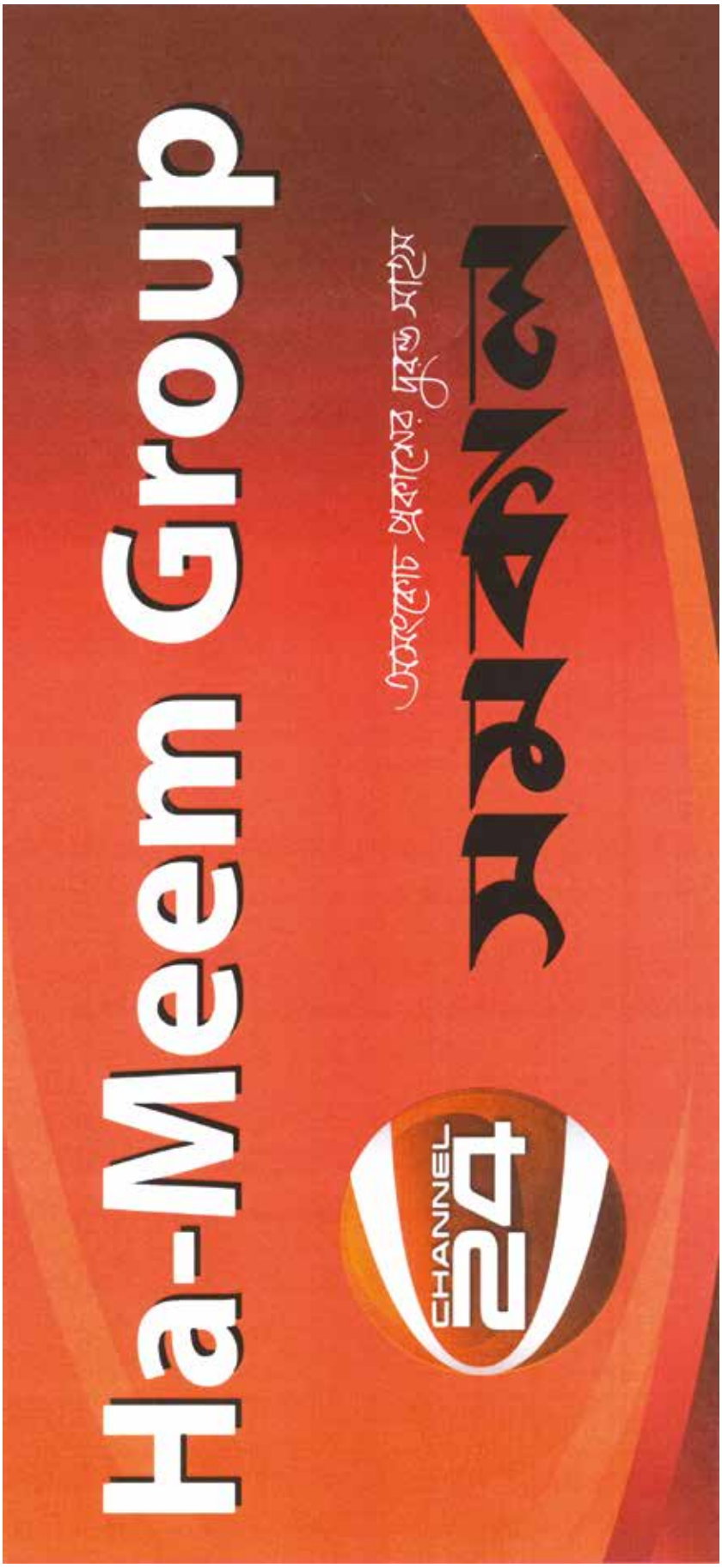
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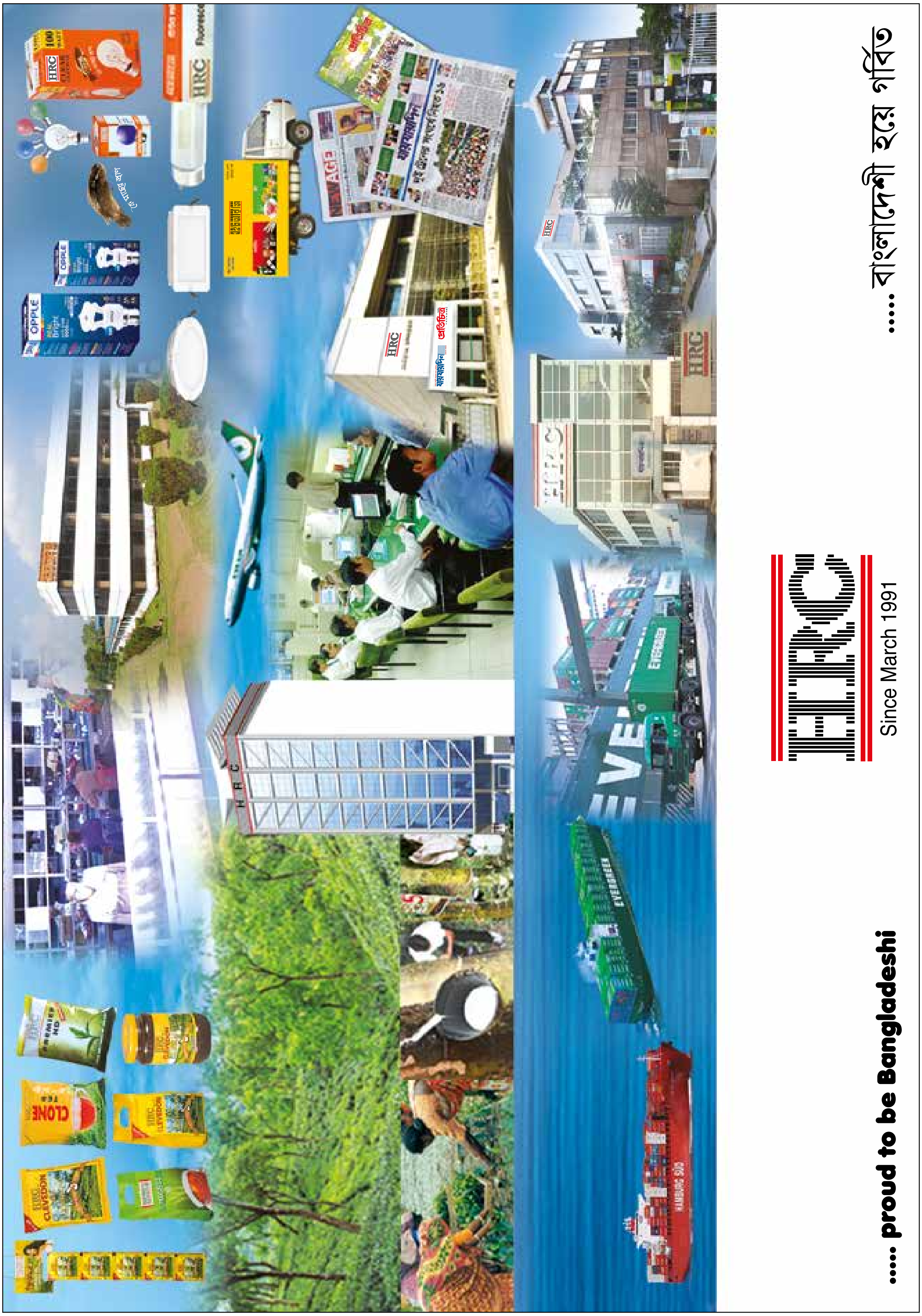
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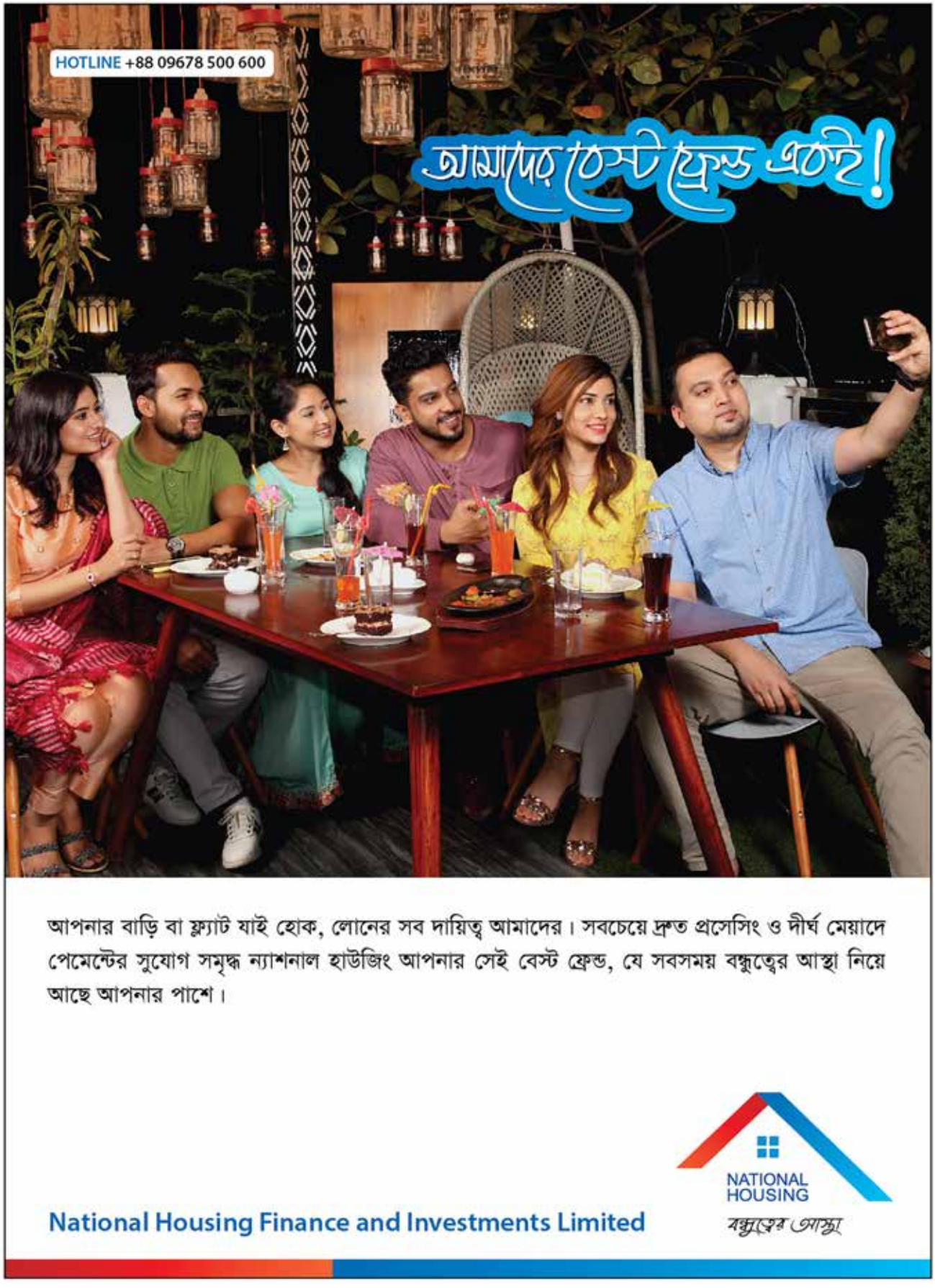
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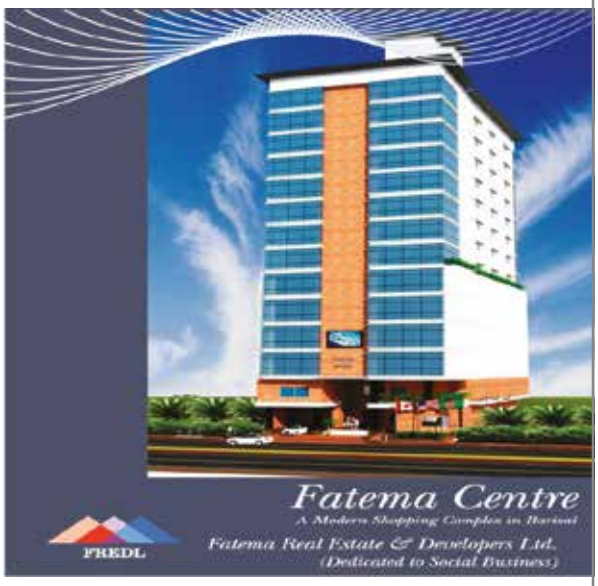
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