CURRENT DEVELOPMENT OF MIRCO INSURANCE IN INDONESIA

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Viability Demands of Micro Insurance in Indonesia

Indonesian population:
257.62 million ppl

Indonesian Labor Force:
127.67million ppl

51.9 percent of those labor force falls within the informal sector

potential target market for micro insurance products in Indonesia.

Source: Statistics Indonesia, 2016

Viability Demands of Micro Insurance in Indonesia

81.5% of Indonesians is low-income segments

(KPMG, 2015)

32% of Indonesians (±70 million people) do not have adequate saving or insurance to protect against risk

57% of Indonesia GDP generated from 56 million Micro and Small Medium Enterprises (MSME)

IFSA (2016)

Micro Insurance Product have a huge potential growth in Indonesia

Viability Demands of Micro Insurance in Indonesia

Level of Inclusion of Financial Products and Services in Each Financial Industry Sector

Products and Services	Level of Inclusion
Banking	57.28 %
Insurance	11.81 %
Financing	6.33 %
Pawn shop	5.04 %
Pension fund	1.53 %
Capital market	0.11 %

Indonesian insurance market in general is very attractive since the level of inclusion of financial products and services in insurance sector is only 11.81 percent

Source: Financial Service Authority, 2014

Policy in Microinsurance

Legal entities started to offer micro insurance products through third parties

The regulatory framework (Law on Insurance 1992) is too restrictive to allow innovation and product development

In 2013, Financial Service Authority (FSA) or Otoritas Jasa Keuangan (OJK) launched **Grand Design** to support the marketing and implementation of micro insurance across Indonesia

Grand Design (1)

- ✓ Regulatory framework and reference for insurance players, regulators and all stakeholders in developing micro insurance in Indonesia

Premium must not exceed IDR 50,000 (USD 4.4) and its benefit may not surpass IDR 50 million (USD 3,846) per customer

- **Simple**
- **Easy**
- **Economical**
- **Immediate**

Source: IFSA (2016)

Grand Design (2)

1. Cover one or more of the following risks: losses, damage, costs, losses of profit, liabilities to third parties, or failure by the insured to meet its obligations to third parties (surety ship)

2. Cover risks of death (including life annuity)

3. Cover one or more risks associated with human health

4. Cover one or more risks accidents

5. At least provide risks of death coverage and financial investment benefits derived from especially established pools of funds (investment-linked-products)

- **General Insurance: 1, 3, 4**
- **Life Insurance: 2, 3, 4, 5**
- **Micro Insurance: 1, 3, 4**

Expectation

A new insurance product must be submitted to the IFSA approval, except standard insurance products

Increased financial sector diversification through development of non-bank financial institutions

- The strengthened legal basis of micro finance institution development
- Increased availability of micro insurance products in the market through an enhanced and enabling regulatory environment

Short-term indicator

- Insurance gross premium has increased by at least 20% year of year

Source: World Bank (2014)

Marketing/Promotion Channels

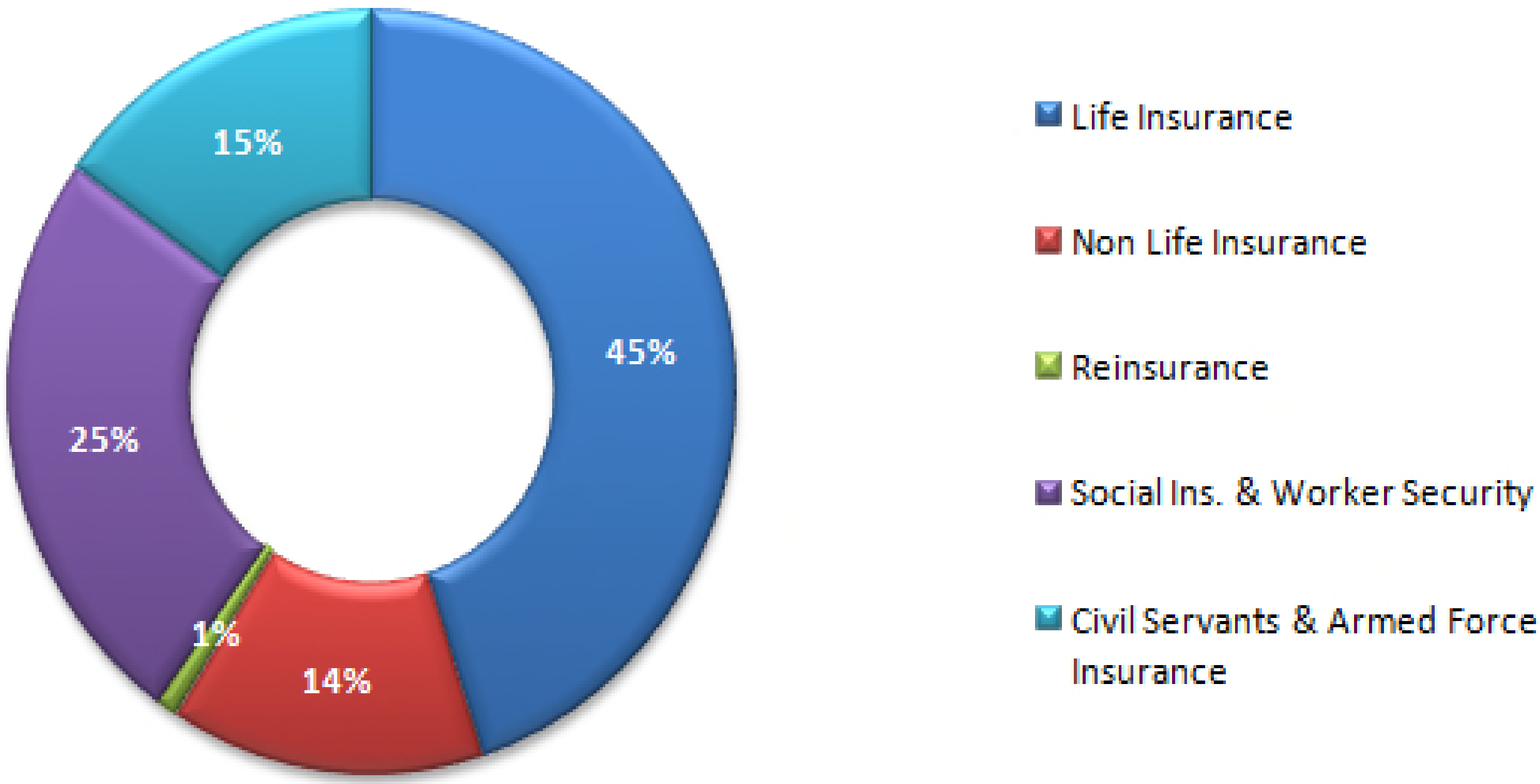
Indonesian licensed insurance companies permitted to remote marketing with communication media through insurance marketing channels

- Direct marketing
- Insurance Agents
- Bancassurance
- Business entities other than Banks

Relevant marketing materials contain information regarding

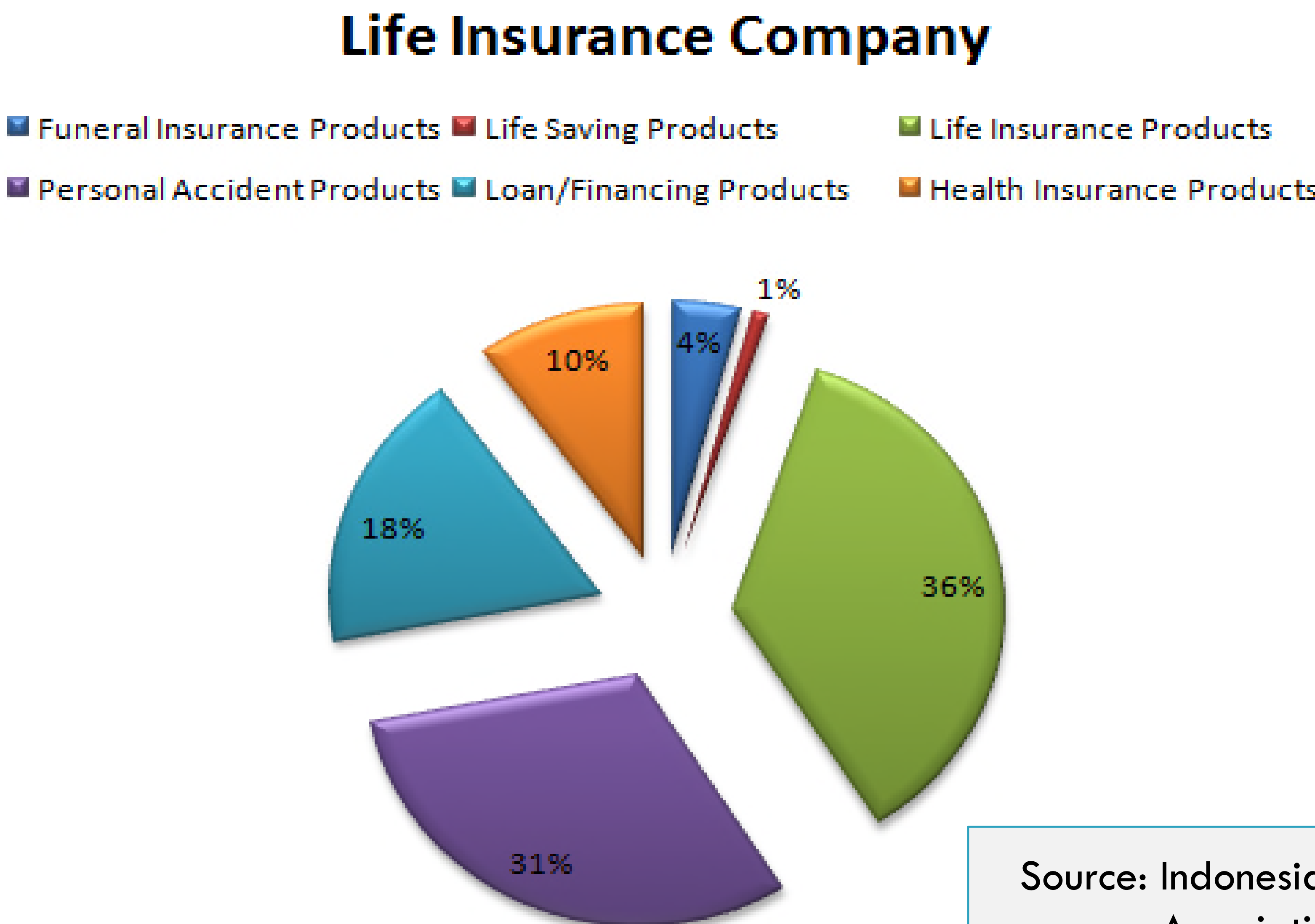
- Insurer's identity
- Offered products
- Policy's terms and conditions

Data: Insurance Company



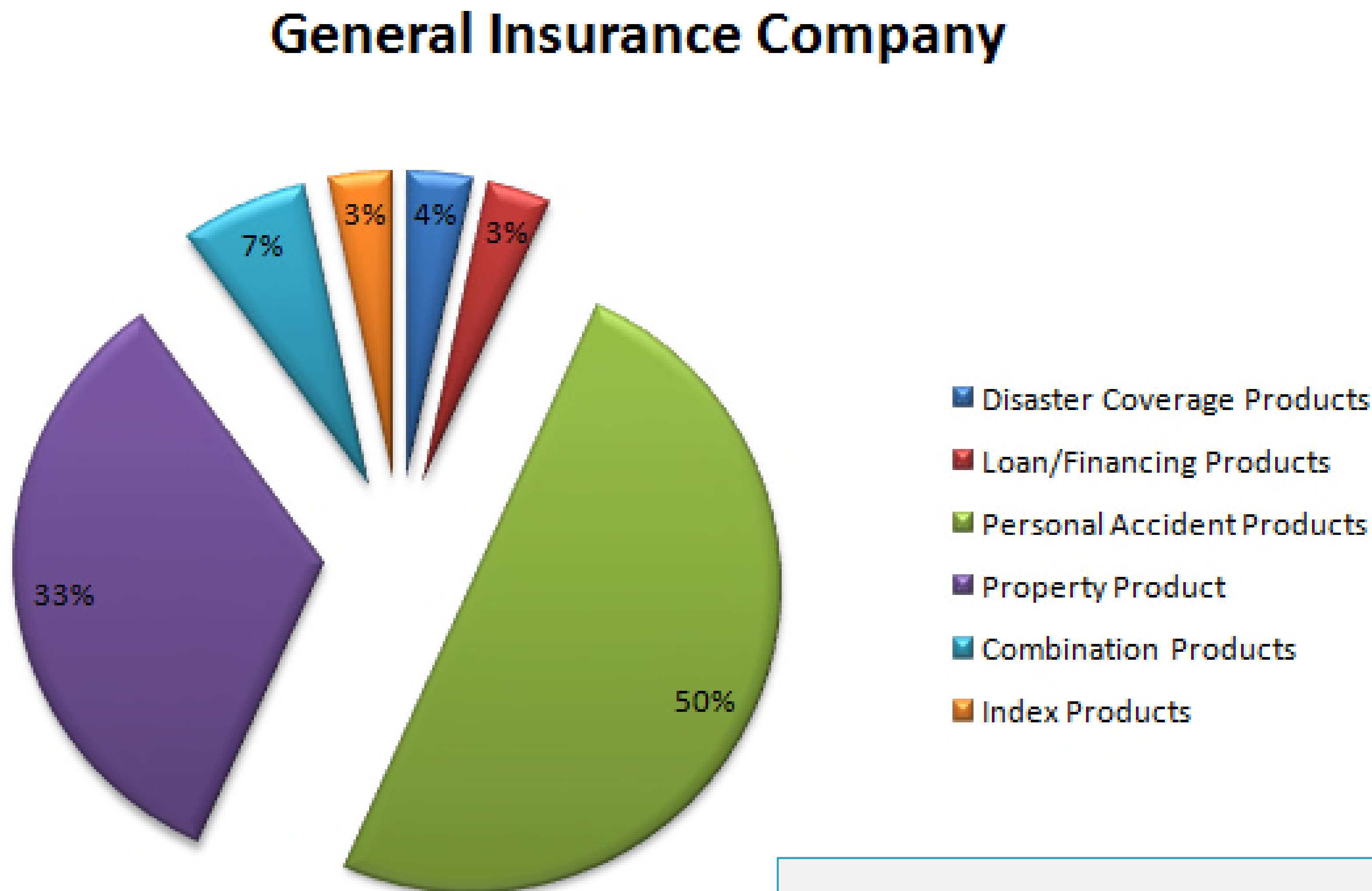
Source: IFSA (2016)

Data: Micro Insurance Product Sold in the Market



Source: Indonesian Micro Insurance Association (2016)

Data: Micro Insurance Product Sold in the Market



Source: Indonesian Micro Insurance Association (2016)

Data: Micro Insurance Providers

According to the data from IFSA (2016), there are 25 insurance companies: 14 Life and 11 Non-Life provides micro insurance products

- PT Asuransi Central Asia (ACA)
- PT Asuransi Allianz Life Indonesia
- PT Asuransi Kredit Indonesia (Askrindo)
- PT Asuransi Jiwasraya

Reason that motivates companies market micro insurance products

- Obligation to conduct CSR
- Obligation by law or government authority
- Business expansion by entering new market

Data: Potential Partners of Micro Insurance Providers

- People's Credit Banks (BPRs)
- Commercial banks
- Microfinance providers (MFPs) in rural area
- Locally registered village banks
- International NGO such as Mercy Corps
- National Family Welfare Program

Demand Factor (1)

- Education Endowment
- Retirement Endowment
- Health Insurance
- Life and Accident Insurance

Source: Allianz AG, GTZ, and UNDP, 2006

Demand Factors (2)

There are other demands factors come into play when people decided to buy micro insurance products, including:

Product Attributes	Microinsurance products offered should have the characteristic **simplicity.**
Accessibility	the providers should ensure that the target market would have **easy access to the product**
Timeliness, convenience, and **fast processing of claims**	the timeliness of claim payments, convenience with **minimal paperwork and minimal bureaucra**cy are vital for product adoption (Llianes, 2008).
Affordability	insurance providers should take into account the "by-piece" retail culture among **low-income target markets.**
Market awareness	the insurance providers should **create awareness** and develop insurance culture among the target market.

Source: Llianes, 2008

Market Awareness (1)

Level of awareness of Micro Insurance product among poor population is still low. However, Indonesian FSA launched **Indonesia's National Strategy on Financial Literacy in 2014.**

- Conducting micro insurance road show in 16 provinces in 2015, and FSA will conduct another road show in 2nd semester of 2016
- Holding marketplace events (Indonesian Micro Insurance Market (PASMINA) 1 & 2
- Published brochure, jingle, logo, and other marketing communication tools (e.g. animated e-book about micro insurance) to increase awareness of market
- Creating dedicated website at www.asuransimikroindonesia.org.

Source: Muchlasin, 2016

Market Awareness (2)

Some of micro insurance providers (e.g. Allianz, Prudential) also have consumer education programs to increase the financial literacy of the market.

there is a big chance that **market awareness will improve in the future** due to strong commitment of government officials and insurance companies to educate the market about financial products and services

Success Factors

- Flexible and simple products
- Educated and experienced staff and sales agents
- Fast claim management and easy premium payment processes
- Matching the product with the real demand of the market
- Build relationship with (potential) partners

The Future of Micro Insurance Industry

The distribution channel will shift in a mobile platform

Product innovation will also on the rise (e.g. Micro takaful/Islamic Insurance)

The culture of purchasing insurance in the lower income will significantly increase

Conclusion

- Conventional insurance is hardly affordable for low-income population in Indonesia.
- Many insurance providers should provide several kind of products. There are also potential demand from low-income market for insurance products.
- The products, market strategy, and also market education will help develop the demand of micro insurance products in the future.

Recommendation

Increase Consumer Research and Education

Consumer research >> to get better assessment of consumer perception and consumer needs, allows company to improve products.

Government Involvement

The amount of profit in MI market is not going to be as much as profit in conventional insurance. Thus, it might discourage companies if they have to incur both cost to educate market and innovate product.

Build long-term relationship with customer and expand product range

By building long-term relationship, company will win low-income population loyalty when they move to a higher economic level in the coming years.


Thank You!

Micro insurance for Low Income Indonesian: Current Development and Future Expansion

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Abstract

In 2013, Indonesian Financial Service Authority (FSA) has launched Grand Design to support the marketing and implementation of micro insurance across Indonesia. According to the Grand Design, micro insurance is a risk management product that has been designed for low income Indonesians with features that are easy to understand. The number of micro insurance customers in Indonesia reached 22.8 million at the end of 2015 and there are currently 65 companies that sell micro insurance products, according to Financial Service Authority which constantly working to penetrate insurance product to low-income people. Moreover, FSA revealed that 32% of Indonesians (±70 million people) do not have adequate saving or insurance to protect against risk. From these data, it can be inferred that micro insurance market has been growing in Indonesia and there is an untapped market for further expansion. This paper aims to analyze the development of micro insurance in Indonesia. First, an overview of Indonesian micro insurance industry is provided. Furthermore, the current micro insurance policies and implications of those policies for micro insurance providers in Indonesia are also explained. Specifically, this paper highlights both the supply side and demand side in Indonesian micro insurance industry; including overview of micro insurance providers, micro insurance products that is offered to Indonesian low-income earners, analysis of potential target market, and types of product in demand. Some of the micro insurance's market strategies, including key success factors as well as its distribution channel are also investigated. Finally, the future of Indonesia micro insurance along with some recommendation is discussed in depth at the end of this paper.

Keywords: *microinsurance; insurance; microfinance; Indonesia*

1. Background

Indonesia is a populous country with huge number of low-income segment, accounted for 203 million people or approximately 81.5% from its total population. Financial Service Authority (FSA) revealed that 32% of Indonesians (±70 million people) do not have adequate saving or insurance to protect against risk. Previous study identified the top five risks associated with low-income earners, such as serious illness, education of children, poor harvest, death of relative, and social obligations. Whereas these segment have generated a quite big proportion to Indonesia GDP, notably 57%

accumulated from 56 million Micro and Small Medium Enterprises (MSME) in 2013, these segment is vulnerable to risks that eventually can hamper the economic growth of Indonesia in the future. From these phenomena, it can be inferred that microfinance products have a huge potential growth in Indonesia.

According to The Asian Development Bank, microfinance is defined as the provision of financial services includes deposits, loans, payment services, money transfers, and insurance to poor and low-income earners and micro businesses. In general, there are three types of microfinance products, such as *micro credit* (i.e. very small loans, in Indonesia less than IDR 20 million (USD 1,538) with no collateral often repayable within six to 12 months, *micro savings* (i.e. very small deposits, accounted for less than IDR 20 million (USD 1,538), and *micro insurance* (in Indonesia a premium of under IDR 50,000 (USD 3,80)).

The history of microfinance institutions in Indonesia has surpassed relatively long episodes. Starting from 1895, Bank Rakyat Indonesia (BRI) established a first rural bank that expanded operations to farmers and rural areas. Then, in 1990s Village credit institutions or Badan Kredit Desa (BKD) has been promoted as part of the ethical colonial policy. It was known as the pioneers of microfinance in Indonesia and the forerunners of today's rural banks since it provided savings and loans facilities for rice farmers. In 1970s, Village funds and credit institutions or Lembaga Dana Kredit Pedesaan (LDKP) was established. LDKP was a government-sponsored scheme, which encouraged the establishment of Micro Finance Institutions (MFIs) across Indonesia. In 1978, Bank Indonesia introduced rural banks or Bank Perkreditan Rakyat (BPR) to designate licensed rural banks recognized under the 1992 banking law. In 1992, the new banking law extended formal recognition to licensed BPRs, as distinct from commercial banks. At that time, BPRs operated under specific limitations and were only permitted to accept savings and provide loans. Microfinance product have a potential growth in Indonesia, however the strict regulations and high-interest rates have deterred the development of microfinance and enforcing poor people trapped by unscrupulous moneylender. To that end, in November 2014 FSA issued 20 new and revised regulations related to microfinance law, aiming to provide basic banking insurance services to low income Indonesians in remote area. It is expected that the new regulations eventually can help the government nurturing economic growth and reducing poverty in Indonesia.

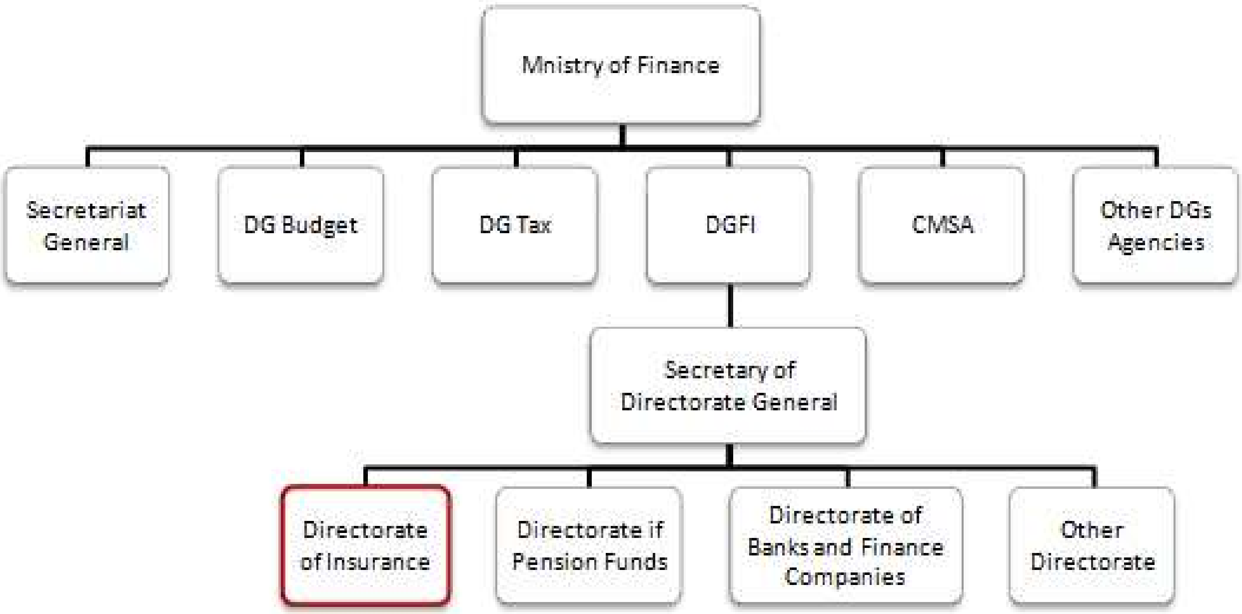
Micro insurance, in particular, have a significant role in combating poverty (Huber, 2012). An anecdotal story reported by Huber (2012) highlights why micro credit alone cannot achieve sustainable poverty alleviation. It was illustrated that one customer of the Grameen Bank in Bangladesh was able –with the help of the loan– to start a successful rice threshing and betel nut shop. However, after a devastating cyclone in 2007, she lost her productive assets while still responsible to pay an outstanding loan of USD 900. She had lost her capability to repay the loan and was even poorer than before. In this case, micro insurance would have helped her to gain back her assets and improve her family's economic condition. This simple example illustrates the importance of micro insurance especially for low-income segment. In its essence, micro insurance is a risk management product that has been designed for low-income segment with features that are easy to understand. Previous study also found that the access to micro insurance by the low-income segment could eliminate the extreme poverty and hunger, promote gender equality as well as develop a global partnership for development. However, to capitalize on the poverty alleviating potential of micro insurance, involved parties have to fully understand the legal environment as well as the supply and demand side of micro insurance industry

This paper aims to analyze the development of micro insurance in Indonesia. First, an overview of Indonesian micro insurance industry is provided. Furthermore, the current micro insurance policies and implications of those policies for micro insurance providers in Indonesia are also explained. Specifically, this paper highlights both the supply side and demand side in Indonesian micro insurance industry; including overview of micro insurance providers, micro insurance products that is offered to Indonesian low-income earners, analysis of potential target market, types of product in demand, and problems, obstacles, also opportunities in micro insurance industry. Some of the micro insurance's market strategies, including key success factors as well as its distribution channel are also investigated. Finally, the future of Indonesia micro insurance along with some recommendation is discussed in depth at the end of this paper.

2. Micro Insurance Policy in Indonesia

Between period of 1945-1991, Staatsblad Year 1941 Number 101 guided insurance industry in Indonesia. During that period, there was no formal supervisor agency that specifically governed insurance industry. This condition encouraged the government to issue Law on Insurance No. 2 Year 1992 which stated that the insurance industry in Indonesia was under the control of Ministry of Finance with Director of Insurance acting as Supervisor.

Figure 1. The Structure of Ministry of Finance and Directorate of Insurance



Source: Indonesian Insurance Committee (2013)

According to the Law on Insurance No. 2 Year 1992, the legal entities that are allowed to offer insurance products are Stock Company (or PT), Cooperatives, and Mutual Company. However, the Insurance Law did not specifically regulate micro insurance. This is primarily because at that time micro insurance was not seen as significantly different from the traditional insurance. Despite the absence of specific law or regulation on micro insurance, certain legal entities offered micro insurance products. These entities offered micro insurance products through third parties, such as rural banks and Cooperatives or/and others. A number of insurance companies also have offered micro insurance products, such as Allianz Indonesia, Wahana Tata, Bumi Putera, Takaful, etc.

At that time, micro insurance development in Indonesia requires a substantially revised regulatory framework to develop effectively. The regulatory framework is too restrictive to allow innovation and product development. Micro insurance products are treated the same way as conventional insurance products. In addition, it was found that the absence of protection against financial loss during perils significantly influence low income household, left those affected-family in poorer and desperate condition. Therefore, there is an urgent need to have a specific regulatory framework for micro insurance products to help spur the growth of this specialized market.

The process of formulating the specific rules, regulations, and procedures related to micro insurance finally has been initiated. In 2013, Indonesian Financial Service Authority (FSA) or known as Otoritas Jasa Keuangan (OJK) has launched Grand Design to support the marketing and implementation of micro insurance across Indonesia. This document serves as regulatory framework and reference for insurance players, regulators and all stakeholders in developing micro insurance in Indonesia. The blueprint was launched in partnership with the Life Insurance Companies Association (AAUI); Sharia Insurance Companies Association; State Banks (Bank Mandiri, BRI, BNI, BTN); state postal firm PT Pos Indonesia; state pawn shop PT Pegadaian; and state financing firm for micro, small and medium business PT Permodalan Nasional Madani (PNM). The launch required all parties' associations, banks, Pos Indonesia, Pegadaian and PNM' sign various memorandum of understandings (MoU), in which they agreed to join forces in marketing the products at their branch offices or sales outlets.

The Grand Design stipulates that a micro-insurance premium must not exceed IDR 50,000 (USD 4.4) and its benefits may not surpass IDR 50 million (USD 3,846) per customer. In addition, the characteristics of micro insurance product have to be simple, easy, economical and immediate. With the issuance of Grand Design, there is now a clear product distinction between each line of insurance business, due to introduction of the following categories of insurance product:

1. Insurance products that cover one or more of the following risks: losses, damage, costs, losses of profit, liabilities to third parties, or failure by the insured to meet its obligations to third parties (suretyship);
2. Insurance products that cover risks of death (including life annuity);
3. Insurance products that cover one or more risks associated with human health;
4. Insurance products that cover one or more risks accidents; and
5. Insurance products that at least provide risks of death coverage and financial investment benefits derived from especially established pools of funds (investment-linked-products)

General insurance companies can only market insurance products in categories (1), (3), and (4) above. Life insurance companies can only market insurance products in categories (2), (3), (4), and (5), as well as micro insurance products for these category, except life annuity products and investment-linked-products.

A new insurance product must be submitted to the OJK approval, except standard insurance products. Insurers are prohibited from marketing insurance products that have not been approved by the OJK. Criteria for new insurance products are as follows:

- A product that has not been marketed by the relevant insurer;
- An amendment to a product that has been marketed, including changes on: (i) risks covered, including exemption and limitation of risk causes; (ii) premium or contribution formula; (iii) change of risk category; (iv) assumptions for premium and/or contribution formula; and/or (v) cash value calculation method

Indonesian licensed insurance companies are now expressly permitted to remote marketing with communication media through insurance marketing channels (i.e., direct marketing, insurance agents, bancassurance, and/or business entities other than banks). That all relevant marketing materials contain information regarding (a) the insurer's identity; (b) the products offered; and (c) the policy's terms and conditions.

An insurance company must have a development and marketing plan for insurance products that is set by the board of directors, as a part of the company's business plan. Elaboration on development and marketing plans will be stipulated in a separate OJK circular letter.

An insurance company's actuary must monitor the insurance products periodically in accordance with standard practices and code of ethics of the Indonesian association of the actuarial profession. Based on the evaluation, the company's actuary can give a recommendation to (a) continue the marketing of an insurance product; (b) change the assumptions that are used in an insurance product; or (c) cease marketing of an insurance product.

The OJK can instruct an insurer to cease marketing an insurance product if the marketed insurance product: (a) is different from the product approved by the OJK; and/or (b) is no longer in accordance with laws and regulations. Insurers must report to the OJK on cessation of product marketing within 10 days of cessation

The issuance of Grand Design is a significant development. Given the more comprehensive provisions provided in Grand Design, insurance companies now have clear limitations and requirements in creating more sophisticated insurance products. The expected result from this policy area will be increased financial sector diversification through development of non-bank financial institutions. This will include:

1. The strengthened legal basis of micro finance institution development
2. Increased availability of micro insurance products in the market through an enhanced and enabling regulatory environment.

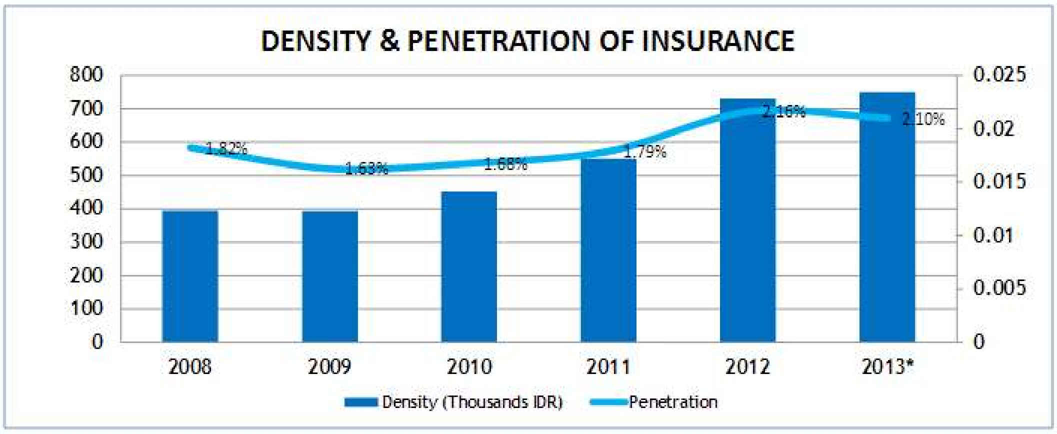
Although the Microfinance law is a significant reform, its impact will only be seen on the sector in the medium term, once it has been implemented. Thus, in the shorter term, the outcome indicator for this pillar will focus on the insurance sector. The enactment of the micro insurance Grand Design is expected to encourage the development of the micro insurance sector through market promotion and outlining approaches and industry standards. In the short term, this is expected to lead to a growth of insurance industry and the number of tailored insurance products available to the poor. The outcome indicator is the insurance gross premium has increased by at least 20 percent year of year as of May 2015 according to OJK (baseline 10.3 percent as of December 2012).

3. Micro Insurance: Supply Side in Indonesia

3.1 Overview of Indonesia Micro Insurance Industry

Insurance density and insurance penetration are two key indicators that can be used to observe the development of insurance in Indonesia. Insurance density is a measure of the annual value of insurance premiums per capita. This is an important measure of insurance activity because it limits the distortion that population might cause in comparing insurance premium activity. Insurance penetration is an insurance premiums as a percentage of GDP. It can be used as an indicator to measure the strength of the insurance market. The graph below plots insurance density and penetration of Indonesia. According to the graph, the growth of insurance sector Indonesia has shown upward trend for the last five years, however its share to GDP are still relatively small. These small values reflect a significantly underdeveloped insurance market with huge potential for growth.

Figure 2. Density and Penetration of Insurance Industry in Indonesia



Source: OJK, 2016

According to the data from Micro Insurance Monitoring and Evaluation in Indonesia, half of life insurance companies that have not yet participated in marketing micro insurance are planning to involve in micro insurance while all general insurance companies that have not involved are not planning to involve.

Despite having involved in marketing micro insurance products, nearly all insurance companies consider micro insurance difficult to market. The low access to information on insurance consider to be the main reason for the difficulties. In addition, citizen's inadequate understanding about insurance hindered the development of insurance industry in Indonesia. Especially for micro insurance, that targeting low income segment.

Table 1. Micro Insurance in Other Countries

Uganda	AIG Uganda (group insurance), has been developed since 1997
Philippine	Life and personal accident insurance managed by CARD MBA (Center for Agriculture and Rural Development Mutual Benefit Association), has been developed since 1994
Guatemala	COLUMNA life insurance, distributed through CU, has been developed since 1994
India	VimoSEWA insurance, micro insurance for women entrepreneur (member of SeWA) has been developed since 1992
Vietnam	Micro insurance for women group from middle to lower income household, has been developed since 1996

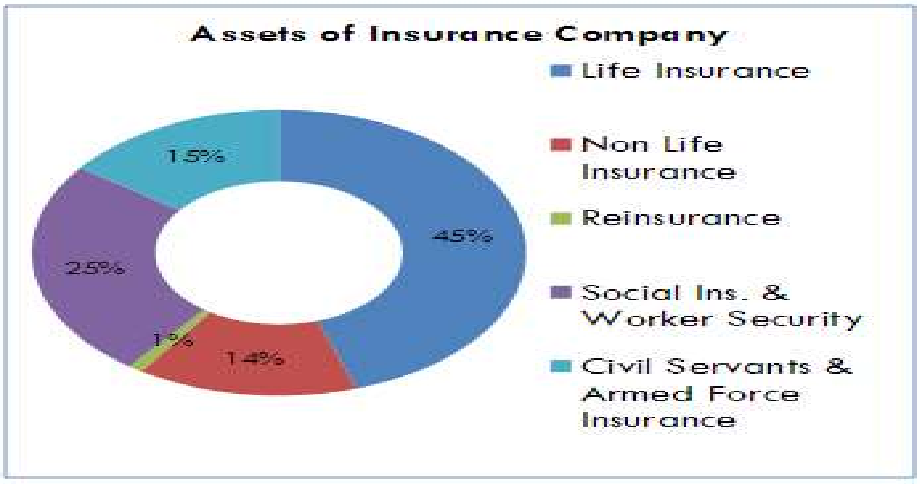
As compared to micro insurance practice in other countries, the development of micro insurance in Indonesia has high potential. The current development is still on the initial stage, the generic products offered are also still limited only to basic products such as life insurance, general insurance and sharia/takaful insurance.

3.2 Micro Insurance Providers

According to the data from OJK (2015), there are 25 insurance companies – comprised of 14 Life and 11 Non-Life– provides micro insurance product, notably PT Asuransi Central Asia (ACA); PT Asuransi Allianz Life Indonesia; PT Asuransi Kredit Indonesia (Askrindo); and PT Asuransi Jiwasraya. Pos Indonesia also started selling micro insurance products since 2008 and it currently collaborated with three general insurance firms, including ACA. It is found that Pos Indonesia has more than 4,000 branches across the country, represents a huge market opportunity in the future.

From the pilot study conducted by Asuransi Mikro Indonesia (2016), it was found that up to know, there are three main reasons that drives companies market micro insurance products. At first, they want to do business expansion by entering new market, especially the untapped lower income population. Second, is due to the obligation to conduct Corporate Social Responsibility (CSR). Lastly, is due to the obligation by law or government authority. Based on the data from OJK (2015), life insurance company dominates insurance industry. Around 45% of total insurance assets are owned by life insurance company. The figure below depicts the asset of insurance company in Indonesia as of March 2014,

Figure 3. Total Assets of Insurance as of March 2014



Source: OJK, 2016

In line with the issuance of Grand Design, currently all insurance providers have to be licensed or subject to a registration process. Insurance agent, broker, and domestic banks, which sell insurance product, also subject to a registration process.

Micro insurance providers may have some potential partners, such as:

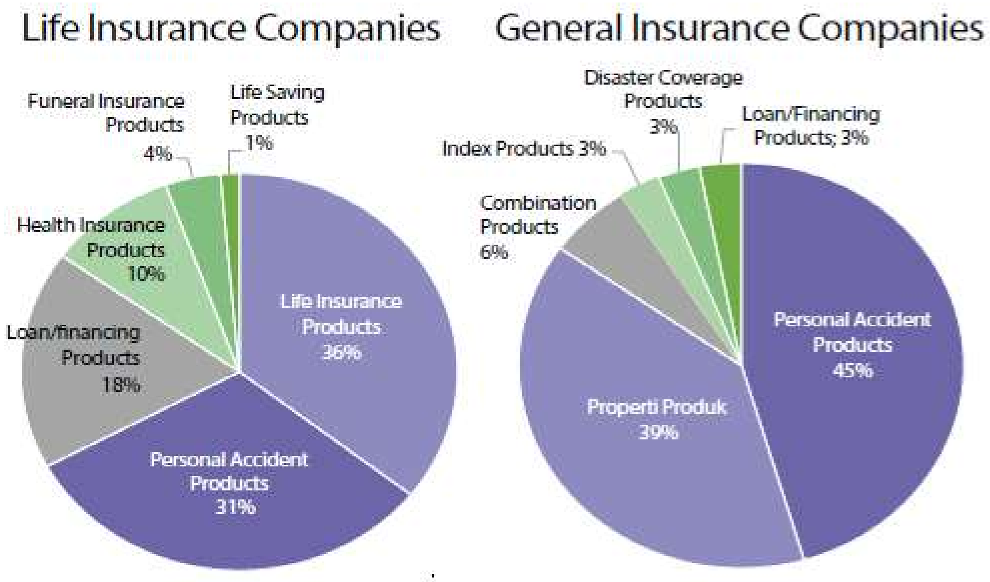
- People's Credit Banks (BPRs), which have a wide network on the low-income market;
- Commercial banks such as Bank Niaga and Bank Permata that offer access to the low-income market, as well as potentially efficient mechanisms for collecting premiums;
- Microfinance providers (MFPs) such as Diman and Ganesha with clients that are already used to financial products and have a wide rural network;
- Locally registered village banks (LDPs) in Bali that represent an efficient channel to low-income people that could be used to sell and service life policies;
- Mercy Corps in Aceh, one of the few organizations in that area able to do substantial and effective microfinance work;
- BKKBN (National Family Welfare Program), which supports thousands of women's self-help and income-generating groups (UPPKS)
- Perbarindo, a training and advocacy organization (not for product distribution)

3.4 Microinsurance Products in Indonesia

According to OJK, micro insurance products are specifically provided for low income people which is simple in both features and administration, easy to get or bought, affordable, and immediate claim payment. The benefit must be paid in lumpsum, although indemnity might be allowed. The membership proof can be formed via written policy, certificate, scratch-card or SMS notification. Maximum contribution for three months' coverage is IDR 50,000

According to the data from Indonesian Micro Insurance Association (2016), the type of micro insurance product sold by the companies are mostly life insurance, personal accident, property, and health insurance.

Figure 4. Micro Insurance Product Sold in the Market



Source: Indonesian Micro Insurance Association (2016)

Table 2. Micro Insurance Providers in Indonesia

No	Company Name / Product	Premium	Benefit	Administration Fee/Other Information
1.	**Allianz Life** (Multinational Life & Non-Life Insurance Company) - Payung Keluarga or Family Umbrella (Micro-Life Insurance)	0.1 % of loan principal x Number of Months or 1.2% of loan principal per annum	**Death Benefits:** - Waive of outstanding loan; - 2 x loan principal in lump sum	- Admin fee: 22% - Profit sharing 20:80 Allianz: MFI at the end of the year
2.	**Askrinda** (National Life Insurance) - Credit-Life Insurance	0.4% per annum for loan higher than IDR 1 millions for age up to 55 years. Above 55 other rates are applied	**Death Benefit:** Full coverage of initial loan amount	- Admin fee: 25% of collected monthly premium at the end of the year - No profit sharing
3.	**Bringin Life Syariah** (National Life Insurance)	Profit Sharing, equivalent to 1.7% to 2.7% of financing at a minimum of IDR	**Death Benefit:** - Full coverage on initial loan amount	Dissemination through e.g. arural bank; Bank Perkreditan Rakyat (BPR) or

No	Company Name / Product	Premium	Benefit	Administration Fee/Other Information
	- Life Insurance and Pension Fund for employee	3 millions loan according to the two different benefits	- Coverage only on outstanding loan	People Credit Bank
4.	**Jiwasraya** (National Life Insurance) - Life Insurance	3% per 1 millions loan for one year loan given	**Death Benefit:** Full coverage of outstanding loan	
5.	**Jasa Raharja** (National Non-Life Insurance) - Motorbike Lost – Asset Insurance	IDR 25,000 annually for two years period	Payment of the motorbike price	
6.	**Wahana Tata** (National Non-Life Insurance) - Alert 1 Manggarai Protection Card	One card costs IDR 50,000	Provides one-off payment of IDR 250,000 if the water rises to or above 950 cm (Alert 1) at the Manggarai Water Gate Jakarta	The first indexed-based micro insurance flood product worldwide
7.	**Bumi Putera** (national Life Insurance) - Life Insurance \\ - Credit Life Insurance - Old Age Insurance Endowment Policy	- IDR 560,000 per six months - Vary, depending on the age of borrower and tenor of loan - Pay premium for 14 years; IDR 300,000 per three months	- **Death and Accident Benefit:** IDR 50 millions coverage –for husband only - **Death Benefit:** Full coverage on initial loan amount - **Retirement Policy:** IDR 35 millions coverage –for husband only	Admin Fee: 15% of collected premium per month

No	Company Name / Product	Premium	Benefit	Administration Fee/Other Information
		- IDR 153,000 per three months - IDR 450,000 per three months 139,000 per three months for seven years' period	- Policy covers oldest child with IDR 7 millions; when child graduated from pre-school, they received IDR 500,000 - Policy covers second child with IDR 10 millions Payment of IDR 7 millions when the oldest children enters university	
8.	**Takaful** (National Life, Non-Life, and Takaful Insurance) - Life Insurance - Health Insurance - Takaful Ukhuwah (Credit Life Takaful Insurance)	IDR 6,000 annually for IDR 1 millions loan. For other tenor and loan, amount is adjusted in prorated basis - Adult: IDR 175,000 annually - Child: IDR 90,000 annually Single Premium of IDR 50,000	**Death Benefit:** Full coverage of outstanding loan **Package – Treatment:** - Non ICU per days: IDR 100,00, max 360 days - ICU room a day 200,000 (max 15 days) - **Death Benefit:** IDR 5,000,000 - **Accidental Death:** IDR 25,000,000	Annually (end of year) under a certain computation (depending on amount of the claim and collected premium)

4. Viability Demands of Microinsurance in Indonesia

4.1 Potential Market

Total of Indonesian population in February 2016 estimated at 257.62 million people[1], with the number of economically active population (labor force) amounted to 127.67 million people. Based on February 2015 data, it is estimated that 51.9 percent of the labor force population falls within the informal sector. Those in informal sector are characterized as economically disadvantaged because they have non-regularity income and irregular cash flow (Llanes, 2008). Moreover, the employer in informal sector usually offers minimum protection towards the labor force, and thus the labor force that works in informal sector has inability to cope with various risks. This labor force, with its large number of probable policyholders, is a potential target market for microinsurance products in Indonesia.

Furthermore, there is also evidence that Indonesian insurance market in general is very attractive since the level of inclusion of financial products and services in insurance sector is only 11.81 percent (table 3). Therefore, there is high potential to improve the utilization of insurance products and services, especially in low-income population.

Table 3. Level of Inclusion of Financial Products and Services in Each Financial Industry Sector

Products and Services	Level of Inclusion
Banking	57.28 %
Insurance	11.81 %
Financing	6.33 %
Pawn shop	5.04 %
Pension fund	1.53 %
Capital market	0.11 %

Source: OJK, 2014

[1] based on the projected population of 2010-2035 (Indonesian Central Bureau of Statistics, 2016)

4.2 Types of Microinsurance Products in Demand

The main intention of microinsurance is to protect low-income people from risks. For low-income groups in Indonesia, risks can be categorized into four main groups (Allianz AG, GTZ, and UNDP, 2006):

1. **Life cycle risks** are events that happen in the course of lifetimes and require a big sum of money, such as wedding and birth;
2. **Business risks** are risks that happen because of business-related activities;
3. **Environmental risks** are related to physical environment and climate, such as flooding and earthquake;
4. **Social and cultural risks** are risks related to social obligations such as demand to provide support or reciprocal gifts to family, neighbors, and community members.

Specifically, research conducted by Allianz AG, GTZ, and UNDP in 2006 revealed the top 10 risks identified among Indonesian low income group[2] are: serious illness, education of children, poor harvest, death of a relative, social obligations, marriage of children, business loss, accident, lack of business capital, and inflation.

To mitigate such risks, most people rely on informal coping strategies, such as self-insurance and savings, *arisans*[3], savings with assets, and gifts from relatives and children. Only a minority of people has access to formal insurance. Therefore, microinsurance would be a reliable mitigating vehicle for low-income group in the face of risks. Aside form the identified risks above; there are four types of product in demand in Indonesian market [4]:

1. Education endowment

   For this type of product, all families with children from newborns up to 18 years old would be the potential market, since they will be interested to insured the education of their children. Furthermore, the annual increase of school enrollment rates indicates that there is also an increase in education awareness

[2] Study conducted using microfinance clients as a respondents
[3] Informal community-based self-help groups mainly concerned with rotating savings and credit funds, but also with wider responsibilities of mutual help (see
[4] Based on research conducted by Allianz, GTZ, and UNDP in 2006

among Indonesian. This may be a microinsurance market in the future, as more parents want to send their children to get better education.

2. Retirement endowment

   This type of product could assist individual to save for old age. For low-income people, they often could not afford formal insurance or they do not have access to company retirement plans to cover expenses when they are retired. Therefore, the need for this type of product will be strongest among people who work in informal sector, and more so for households in which neither spouse work in formal sector. The demand will also come from people who are 40 years old and above, in which the children are already out of school (Allianz AG, GTZ, and UNDP, 2006).

3. Health insurance

   In the paragraph above, it is already mention that serious illness is one of the most significant risks identified. Thus, health insurance is type of product which will help low income households cover the cost hospitalization and avoid them to take a stressful loss management technique, such as selling their house or borrowing from money lenders (Allianz AG, GTZ, and UNDP, 2006). However, the demand for this type of products will not be as strong as the demand for education insurance, since low-income people often perceive serious health problems to be rare events, and they do not feel the urge of having health insurance unless they have experience the crisis following a serious illness.

4. Life and accident insurance

   According to report by Allianz AG, GTZ, and UNDP (2006), the demand for this type of product is still unclear. However, if there is any, life microinsurance that provides a benefit for surviving family members, rather than just covering funeral expenses, would be more valuable for low-income households and possible will be higher in demand.

Identifying the risks and type of insurance products in demand is the first to gauge what microinsurance products needed in the market. However, there are other demands factors come into play when people decided to buy microinsurance products. These factors need to be considered by insurance providers in order to create products suitable for the market, and hence increasing the possibility of microinsurance products penetration (Llianes, 2008). These factors including:

- Product attributes

  It is important for insurance providers to understand the market needs and translate those needs into actual products. The product attributes that needs to be identified including type and amount of coverage, exclusions, delivery models, premium amounts, premium payment options, premium collection procedures, and claim procedures (Llanes, 2008). Microinsurance products offered should have the characteristic simplicity. The product should not have detailed and complicated requirements as required in commercial insurance. It also has to be designed in simple way and simple to understand (Simanjuntak, 2013).

- Accessibility

  The ease of accessibility is a vital for insurance products, since it is a product that is sold and not bought (Llianes, 2008). That means, the providers should ensure that the target market would have easy access to the product. They should not go far away to access the products. A slight difficulty in accessing the product would make the target market lost interest in the product (Llianes, 2008).

- Timeliness, convenience, and fast processing of claims

  For low-income people, the timeliness of claim payments, convenience with minimal paperwork and minimal bureaucracy are vital for product adoption (Llianes, 2008).

- Affordability

  The premium must be affordable by low-income population. Clearly, low income population are in great needs of insurance products since they have no means or access to formal-type of insurance. Nevertheless, this need do not automatically lead into demand if the price is too high for them. In addition, insurance providers should take into account the "by-piece" retail culture among low-income target markets. They are usually prefer to buy products in smaller quantities rather than buy products in bulk. Therefore, the premium that they offer should be divided into smaller portion so that it would be more affordable to them.

- Market awareness

To gain acceptability, the insurance providers should create awareness and develop insurance culture among the target market. It is imperative for the target market to understand what microinsurance is. Therefore, they will know the importance of having insurance eventually willing to adopt the products.

4.3 Indonesian Market Awareness towards Microinsurance

Market awareness is an important driver in the adoption of new products. Therefore, this particular topic needs to be addressed in order to assess the awareness of insurance products among the poor in Indonesia. Indonesia is a potential market for insurance products, and yet the level of awareness of such product among poor population is still low. Moreover, low-income population usually perceived the procedure of insurance is too complicated, that it is expensive and not easy to make a claim and get money back. This fact presents a challenge for microinsurance providers to educate market so that they get the right information about microinsurance.

However, Indonesian FSA also takes this matter seriously by launched Indonesia's National Strategy on Financial Literacy in 2014. In general, this campaign intends to enhance society's literacy that may bring positive impact to efforts of improving the utilization of financial products and services. Specifically, they provide several programs that intend to educate people about microinsurance products and services. Some of the programs including (1) conducting microinsurance road show in 16 provinces in 2015, and FSA will conduct another road show in 2nd semester of 2016, (2) holding marketplace events (Indonesian Microinsurance Market (PASMINA) 1 & 2, (3) published brochure, jingle, logo, and other marketing communication tools (e.g. animated e-book about microinsurance) to increase awareness of market, (4) creating dedicated website at www.asuransimikroindonesia.org. Other than market awareness campaign, FSA also conduct several capacity building activities that intend to disseminate information about microinsurance such as workshop on actuarial, distribution channel, and product feature, hosting international microinsurance conference, and hosting micro takaful conference Indonesia (Muchlasin, 2016).

Furthermore, some of microinsurance providers (e.g. Allianz, Prudential) also have consumer education programs to increase the financial literacy of the market. For example, Allianz creates financial literacy trainings both to their business partners (Training on Trainers) and to their final consumer (Training of Community) (Yuliawan, 2013), and Prudential also provide support to its partners and consumers through financial education (Prudential, 2013). Therefore, even though the current financial literacy among Indonesian is still low, there is a big chance that this number will improve in the future due to strong commitment of government officials and insurance companies to educate the market about financial products and services.

5. Market Strategy for Indonesian Microinsurance

5.1 Distribution Channel

In Financial Services Authority (FSA) regulation, insurance companies could distribute their microinsurance product through distribution channels as follows (Financial Services Authority (OJK), 2015):

1. Direct marketing
2. Insurance agent
3. Bancassurance
4. Other business entity other than bank
5. Microinsurance sales force

In this context, distribution of micro insurance products in the market often uses several approaches (Allianz AG, GTZ, and UNDP, 2006).

- Direct marketing

  Companies could distribute their products through direct marketing, such as general agents or company's branch office. Nonetheless, distributing microinsurance products using this type of distribution channel has had very limited success because this type of channel incur a great cost to the company. To keep the operation costs at a minimum, company should not spend such a lot of money for paying an incentive to their agents.
- Insurance agent

  Distributing the products using an insurance agent has been very popular in Indonesia. In this model, insurance company works directly with third parties that have large outreach to low-income market. Several network used in this type of distribution channel including microfinance institutions (MFI), *arisans* (social gathering) and cooperatives.
- Marketing through Islamic organization

As one of the biggest Muslim country in the world, it is not surprising that microinsurance also offers a sharia product. In fact, it is a necessity if companies want to reach an even bigger Muslim market. To distribute sharia products, Islamic organizations and leaders need to be addressed in such a way that the market will understand the benefits and opportunities of insurance under Islamic law (Allianz AG, GTZ, and UNDP, 2006). By educating the leaders with the benefit of insurance, they would speak and transfer the knowledge to their congregations and encourage them to protect themselves using insurance. Companies could also use Sharia Council, which approves Sharia-compliant products and institutions, to advocate the benefit of insurance.

- Other business entity other than bank
  To reach rural market, it is beneficial for the company to use business entity such as post office, cooperatives, and pawnshop as their distribution channel. This type of channel might be very suitable for an archipelagic country, such as Indonesia. The reason is post office is available in almost every region across Indonesia, even the remote one. Thus, by distributing through this channel, it increases the probability of the company to reach Indonesian market without exception. Moreover, FSA also sign a memorandum of understanding (MoU), in which parties such as Pos Indonesia, Pegadaian, and Permodalan Nasional Madani (PNM) agreed to join forces in marketing microinsurance products in their sales outlets.

In the field, third party agents such as MFI emerge as an important distribution channel used by the insurance companies to sell their products. This is because MFI usually has a good prior experience with low-income market. They provide several financial services to low-income market before, and thus they have an established market to sell microinsurance products. Usually, MFIs offer microinsurance in bundle with microloans to their consumer.

5.2 Marketing Strategy of Microinsurance

To be successful in marketing microinsurance product, the first thing that insurance providers should do is educating their customer. The nature of insurance product is sold and not bought, that is why in this industry, the producers need to “sold” their products by executing a more personal marketing strategy which aims to educate consumer about their products.

1. Relationship with customer

   The sales of microinsurance products might be successful if the insurance agents had already trusted by the consumer. A trusted relationship will influence the level of comfort of consumers toward the insurance products that they want to buy. The agents should also give a detail explanation regarding the products.

   To ensure the accessibility of their products, some companies have also marketed their products by going door to door. This method appears to have had mixed results since there is a probability of hit-or-miss of finding people at home (Allianz AG, GTZ, and UNDP, 2006). Therefore, many insurance providers now use third party as an agent to sell their products. This third party is usually an organization that has solid reputations in the communities they serve. So, it is easier for them to earn a trust of so called low-income target market and eventually selling or bundling the products to that target market.

2. Other strategies that effective

   Other than building a personal relationship to build consumer trust, marketing microinsurance mostly a task of consumer education. Some methods have proven effective include (Allianz AG, GTZ, and UNDP, 2006):

- Posters with mostly illustrations and little text so that consumers can understand quickly the information
- Brochures that contains information about the products
- Marketing indirectly through trainings or workshop (e.g. using their products as an example could increase the awareness or the level of understanding towards the product)
- Demonstration effect. When people see that insurance actually does pay claims, this will enhance the interest of target market
- Home service distribution, strategy in which all aspects of insurance provision (sales, premium collections, claims verification, etc) are performed by “roaming” agent who visits consumer in their homes

5.3 Success Factors of Microinsurance in Indonesia

From the discussion above, there are several things that need to be emphasized as a key success factors that could help insurance providers succeed in microinsurance market in Indonesia.

1. Flexible and simple products

   Having flexible and simple products could help companies offer customized products for different segments in their target market. Moreover, a simple yet flexible product will come handy when the company decided to acquire a new intermediaries partners/agents. Moreover, one of Allianz's product, Payung Keluarga, achieve significant growth after they re-designed their products using modular approach (Allianz AG, GTZ, and UNDP, 2006).

2. Educated and experienced staff and sales agents

   Consumer understanding towards the products is the key that will determine the product adoption and customer satisfaction. Therefore, an educated and experienced sales agent will ease the company's way in marketing their products to target market and minimize the risk of complains from consumers.

3. Fast claim management and easy premium payment processes

   For low-income market, they do not have the money or other resources to go through such a complicated process. Insurance company has to ensure that there are no complicated documents for enrollment and claims in order to attract and retain consumer. A consumer might see this "speedy service" as company's added value that differentiates them with other insurers.

4. Matching the product with the real demand of the market

   Insurance companies need to make sure from the beginning the type of risks they want to cover in their products and which scheme is suitable for their target market. This is because trying to change the product later might be very hard since MFIs (the selling agent/ partner) are often reluctant to change their well-running system. Moreover, Indonesian market is so diverse, that makes the characteristics applied in one area might not be the same in other areas. Insurance companies need to take consideration these differences between culture and areas across Indonesia geographic.

   It is also worth mentioning that in Indonesia, it is increasingly important to offer products that respond to Islamic customs and rules. This type of products will create a new demand among Indonesian Muslim market.

5. Build relationship with (potential) partners

To some extent, many insurance providers using a third party as a selling agent. Consequently, they have to build a long-term relationship with the partners to ensure the continuity of their products and to keep partner's loyalty to the company.

6. The Future of Microinsurance Industry

In the future, we might expect the increasing growth of Indonesian Microinsurance industry. The effort from the government to increase the level of financial inclusion and the participation of insurance providers to offer microinsurance products will be the driver of growth in the industry. We also expect that the behavior of consumers will start to change. As market will be accustomed with digital experienced offered by companies such as Google and Facebook, there is a chance that insurance providers will start to shift the distribution channel in a mobile platform. This makes sense in a way that company will seek a more cost-effective way to offer the products (Pricewaterhouse Coopers (PwC), 2016). By moving their operation online, company will cut several costs such as claim verification labor costs, commission costs to agents, etc.

Furthermore, product innovation will also on the rise. Micro takaful, an insurance products based on Islamic rule, is also expected to rise. Even though it is not easy to develop a standardized takaful product that can be mass-sold, governments of Indonesia are now working towards it. The government included micro takaful in the grand design of microinsurance, and so they have a plan to make a big effort to raise awareness of this product. If the government provides industry with funding for socialization and education, then it will be more attractive for insurance providers to enter micro takaful market (Islamic Finance News, 2014).

Both life insurance and general insurance industries see the positive light of the future development of micro insurance. This can be seen from their agreement toward several projections regarding the development of micro insurance in Indonesia. Based on the pilot study conducted by Indonesian Micro Insurance Association (2016), it was found that more than 50 percent of life insurance industry agree that the culture of purchasing insurance in the lower income will significantly increase in the next three years. In addition, they also agree that the growth of micro insurance business will exceed 10% by 2016 (see figure 5 and figure 6).

Figure 5. Life Insurance Company Survey Results

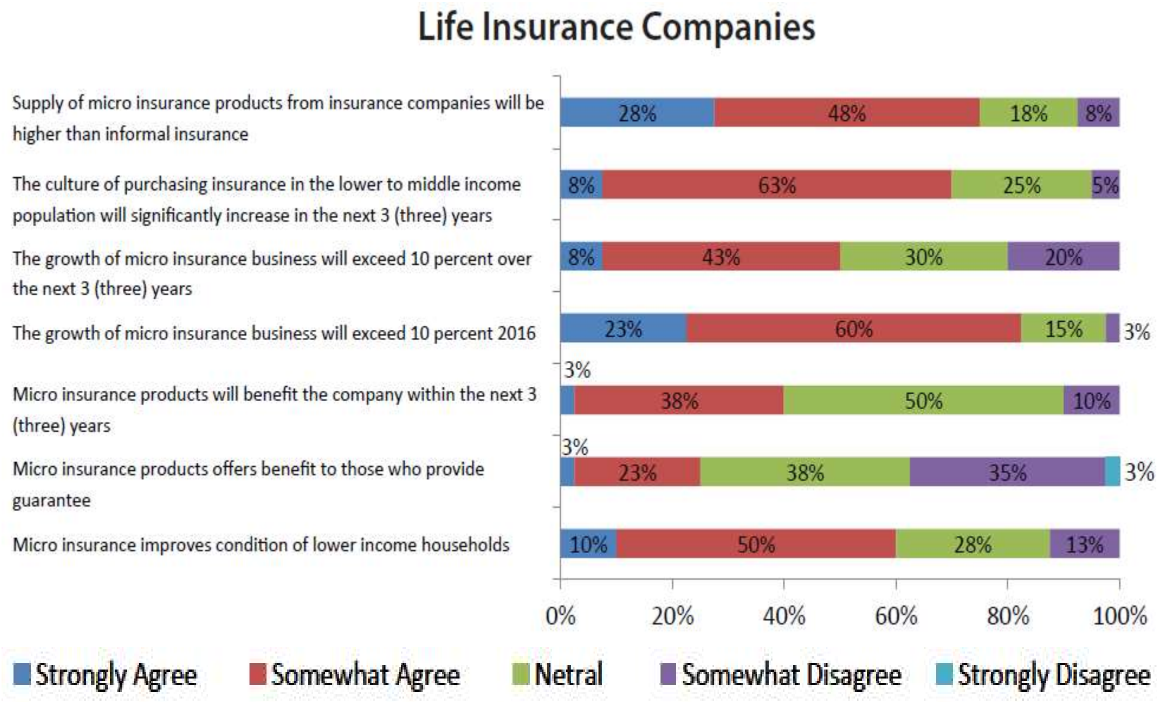
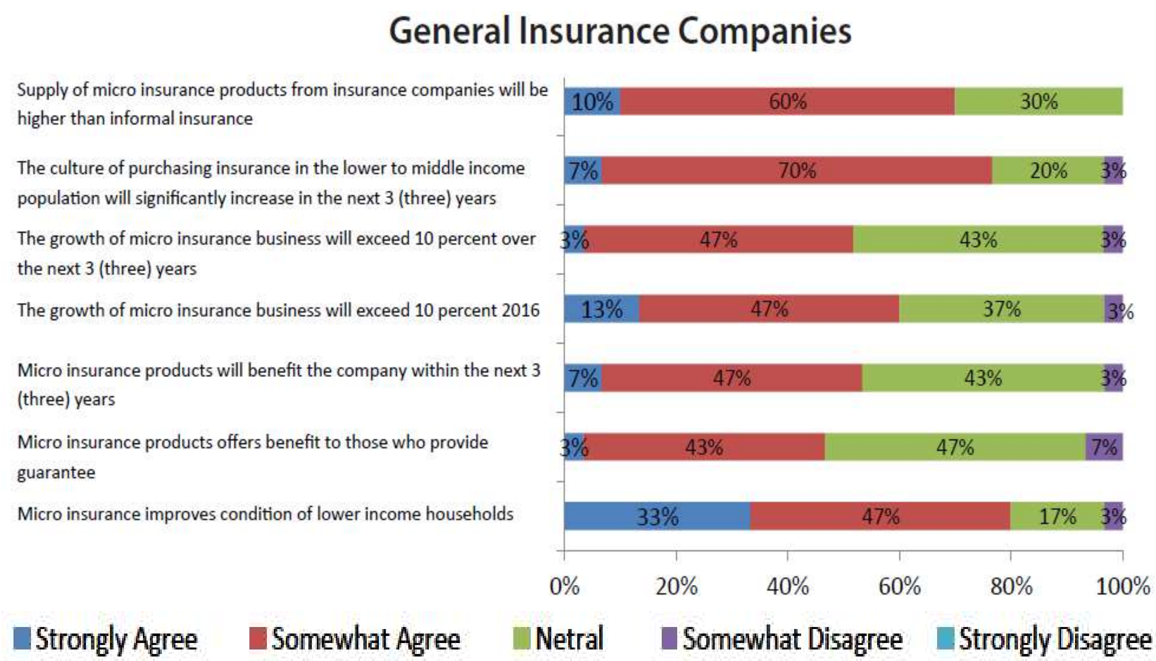


Figure 6. General Insurance Company Survey Results



7. Conclusion and Recommendations

7.1 Conclusion

Low-income population number in Indonesia is still high among other countries. Conventional insurance is therefore hardly affordable for those people. Microinsurance will play a crucial role in helping that low-income population to protect themselves from various risks and eventually microinsurance will help those people fight against poverty.

From the supply side, there are a lot of companies that already participate in microinsurance market by providing several kind of products, either life or non-life insurance. From the demand side, the data shows a potential demand from low-income market for insurance products such as education endowment, retirement endowment, health insurance, and life and accident insurance. To achieve this potential, there is still a room for insurance companies to grow. They must developed products specifically tailored to the needs of low-income markets, and take into consideration of product characteristics demanded by this market such as simplicity, accessibility and affordability.

Insurance providers must also consider the best distribution channel and marketing strategy for their products. In Indonesia, using MFIs as intermediate agents is common practice among insurance providers, since MFIs has build long-term trust with low-income market. Moreover, company must educate their market about the products that they offer to alter consumer attitudes towards the product and minimize complains in the future.

The products, market strategy, and also market education will help develop the demand of microinsurance products in the future, and it should also have powerful impact on low-income population quality of life by providing tools that will protect them from risks.

7.2 Recommendations

There are several recommendations to further improve the growth of microinsurance industry in Indonesia:

1. Increase Consumer Research and Education

   Consumer research should be done to get a better assessment of consumer perception and consumer needs towards insurance products. Consumer satisfaction research should also be done regularly to better understand whether current company's products already meet the demand of the consumer, and further allows company to improve the products. Product testing should be conducted before the company officially lunches the products to the market.

   In terms of consumer education, it also needs to be done to promote an understanding of insurance market in low-income population. It is better if all the organization involved in microinsurance industry initiate a more active collaboration to increase consumer insurance literacy.

2. Government Involvement

   Government involvement is crucial in ensuring the development of microinsurance industry. Even though microinsurance provides a large market for insurance providers, the amount of profit is not going to be as much as profit in conventional insurance. Thus, it might discourage companies if they have to incur both cost to educate market and innovate product. It is only realistic if government take an active measure by provide insurance companies with an education programs for low-income population.

   Moreover, government should also support the development of this industry by creating a regulation needed.

3. Build long-term relationship with customer and expand product range

   With the Indonesian economy steadily growing, many of low-income people will advanced economically in the coming years. By building long-term relationship with microinsurance consumer, company will win their loyalty when they move to a higher economic level. Hence, company should monitor their customer along the journey and ready with other kind of insurance products that consumer could purchase once they have more money to spend on insurance.

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FINANCIAL COOPERATION AND DEVELOPMENT FOR THE EMERGING ECONOMY: BANGLADESH PERSPECTIVE

A Paper Prepared for the
IAFICO Conference
SKK University, Seoul, Korea
November 4-5, 2016

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November 4-5, 2016

Emerging Economies in 2016

- ✓ Emerging economies are playing an increasingly important role on the global arena
- ✓ Their relatively faster development since the eruption of the global financial crisis in 2008 has drawn widespread attention
- ✓ The emerging economies are being highlighted for the potential investors from the developed countries
- ✓ The BMI research (Business Monitor International) in light of this situation has identified the "10 emerging markets of the future"
  - ✓ The countries are set to become new drivers of economic growth over the next decade
- ✓ BMI estimates that these countries will cumulatively add $4.3 trillion to global GDP by 2025 — roughly equivalent of Japan's current economy.

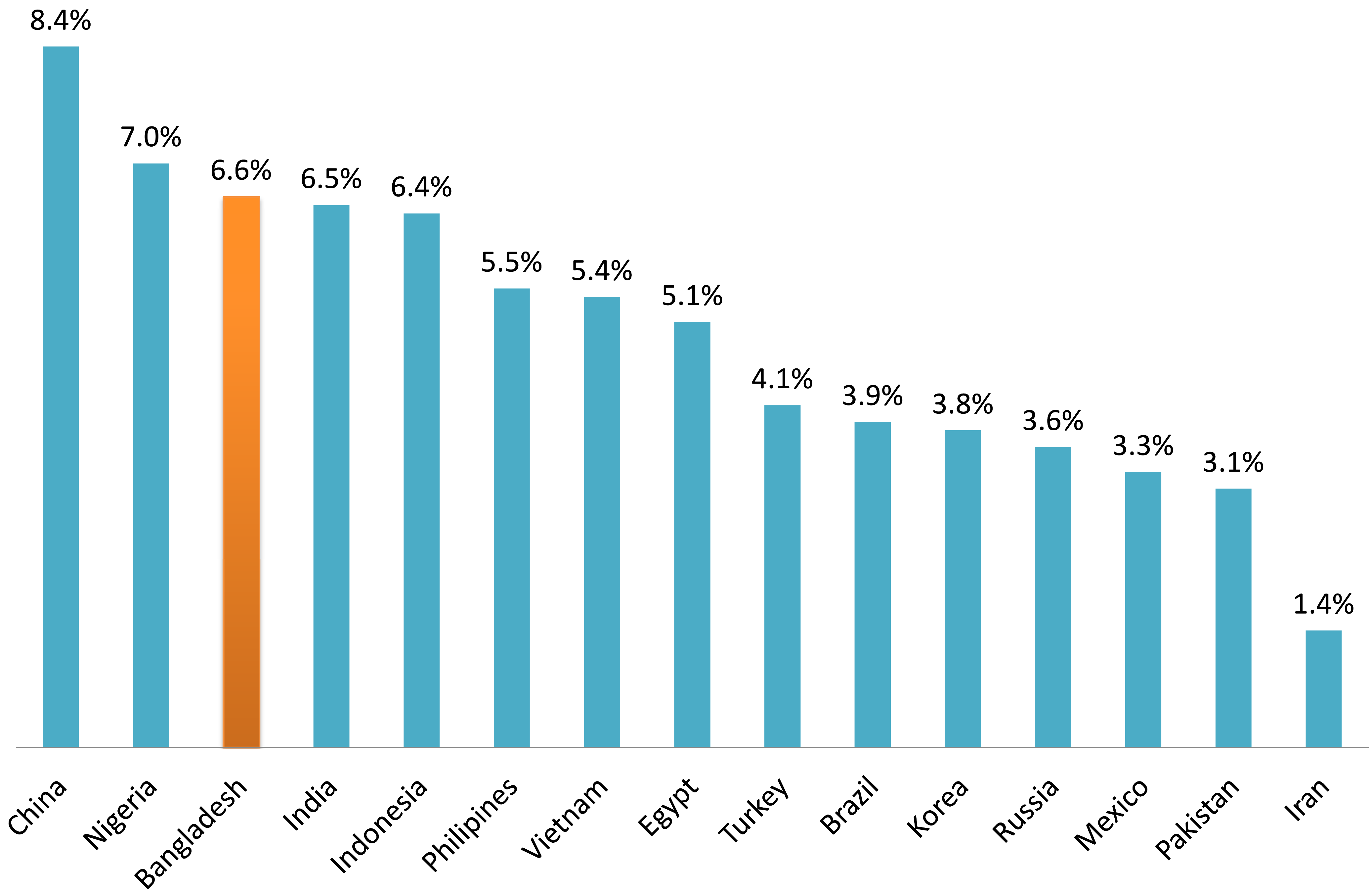
Bangladesh as an Emerging Economy

- ✓Bangladesh a country surrounded by India (mostly), Myanmar & Bay-of-Bengal in South Asia
- ✓A country filled with hopes and dreams of 160 mn people (8th largest country in terms of population) spanning over 147,540 sq. km.
- ✓Bangladesh has surfaced as one of the most prominent, lucrative investment frontiers in the world
- ✓Despite its myriad challenges, it has shown remarkable resilience to register a steady economic growth between 6-7% in the last decade
- ✓This significant growth has resulted in a massive change in the composition of the workforce, as well as consumerism

Bangladesh as an Emerging Economy (Cont.)

- ✓ Compared to BRICS (Brazil, Russia, India and China, South Africa) countries, as well as, other emerging economies, Bangladesh has shown a promising position which acts as a solid stepping stone for the investors who are looking for the next best alternative.
- ✓ Projections made by the IMF for 2013-2018 show Bangladesh with a GDP growth of 6.6%, which is just behind China and Nigeria in the estimates.

GDP Growth Rate: 2013 - 2018 Estimates of the World

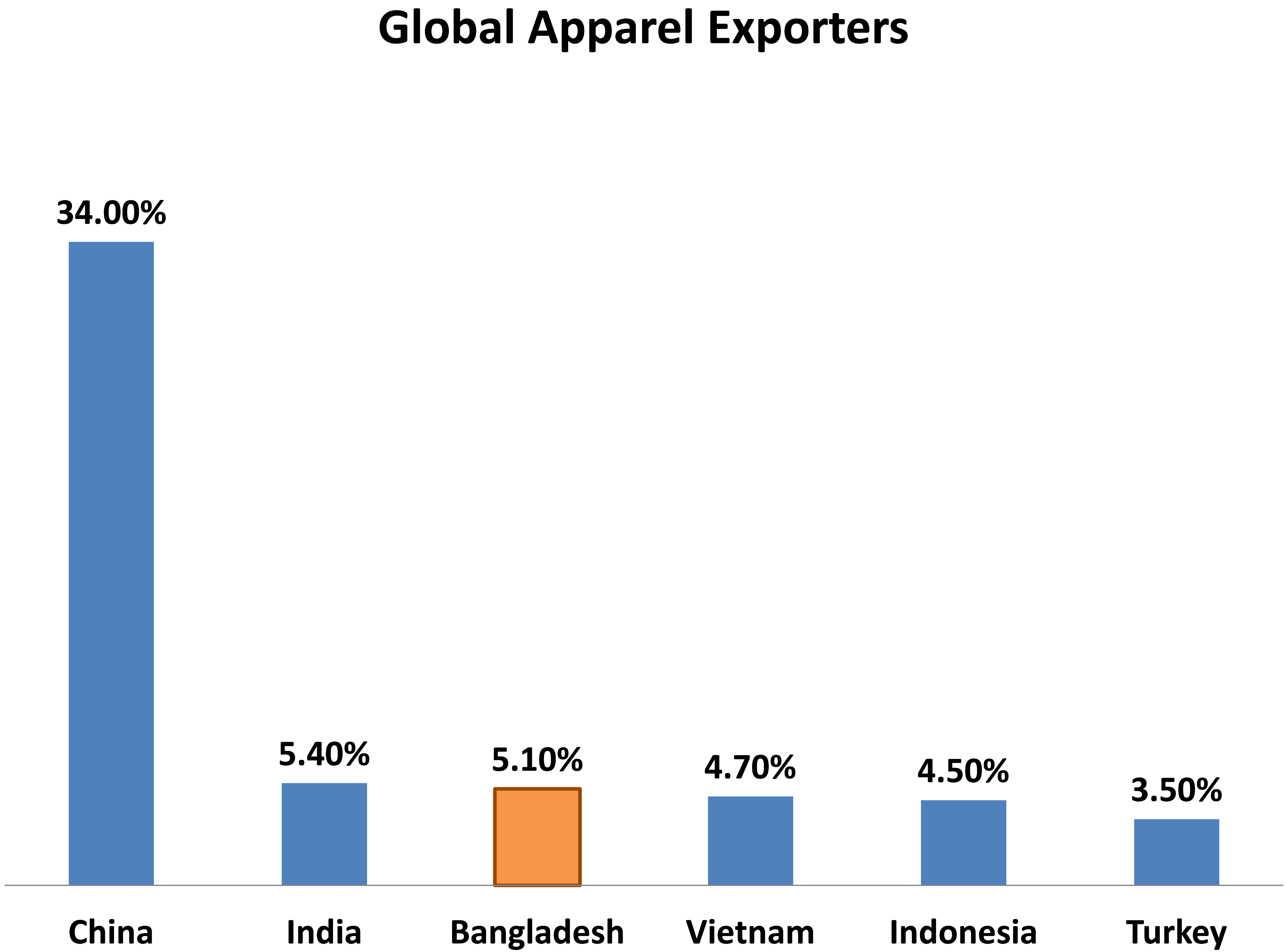


Potential Sectors for Development & Financial Co-Operation

- ✓ To come up as a potential Emerging Economy which investors will invest and see as a scope for synergy is essential to mark
- ✓ The leading sectors at a glance:
  - ✓ The Apparel Export Industry (RMG)
  - ✓ The Power Infrastructure
  - ✓ Leather & Footwear
  - ✓ Information Technology
  - ✓ Pharmaceutical
- ✓ There is scope for other emerging sectors as well as the stability of the capital market as well as the implementation of government policies

Bangladesh Apparel Export Industry – Keeping the Pace

- ✓ The export oriented RMG sector in Bangladesh started its modest journey as a small non-traditional sector of export in late 1970s
- ✓ Within three decades, RMG has transformed itself as the country's highest revenue generating sector, contributing 81% ($ 24.49 billion in FY 13-14) of country's total export
- ✓ Bangladesh's RMG sector has a bright future as close competitors like China are moving up the value chain, leaving value apparel manufacturing to cost effective players like Bangladesh
- ✓ Mckinsey, a leading consulting firm, has testified Bangladesh's RMG sector's growth potential of USD 36 billion export by 2020

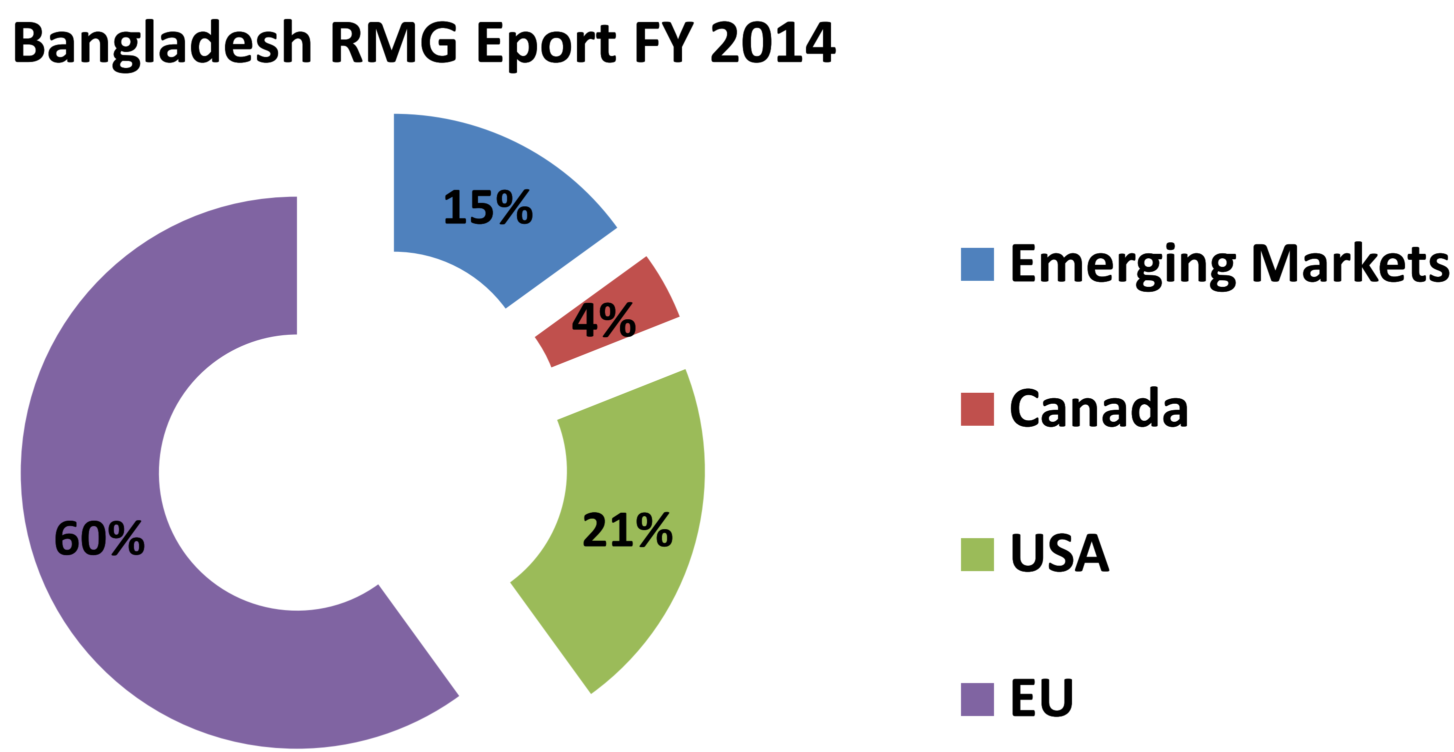

Global Apparel Exporters
34.00%
5.40%
5.10%
4.70%
4.50%
3.50%
China
India
Bangladesh
Vietnam
Indonesia
Turkey

Bangladesh Apparel Export Industry – Keeping the Pace

- ✓ Out of the total Global Apparel Exporters, the lion's share of exporting is still captured by China
- ✓ Bangladesh is not that far behind India and will move up the quo due to
  - ✓ GSP facility in EU
  - ✓ duty free access to Canada and Japan
- ✓ Bangladesh is benefitting from competitive cost advantages which have translated into higher export revenue

RMG: Emerging Markets for Bangladesh Apparel

- ✓ Bangladesh's largest RMG export destination is EU (60% of total export) followed by US (21%).
- ✓ Bangladesh has recently diversified into emerging export markets including Australia, Brazil, China, Japan and South Africa accounting for 15% of total export.



RMG: Further Growth with Renewed Compliance

- ✓ The RMG sector has undergone upheaval in 2013 due to a series of industrial accidents & political unrest
  - ✓ had a crippling effect on the sector
  - ✓ brought international attention towards factory compliance issues
- ✓ Amid pressure from international retailers, Bangladeshi factories have undergone structural changes for strict compliance norms
- ✓ Despite the double whammy, RMG export has managed to register growth (10%), both in the last quarter of 2013 and first half of 2014
  - ✓ indicates the resilience of the sector
  - ✓ buyer's continued trust in Bangladesh's RMG export
- ✓ Bangladesh has recently signed the TICFA agreement with US & talks are underway to revive GSP facilities.
- ✓ The new GSP deal may also include tariff & quota free access of Bangladeshi apparel, missing in the previous GSP agreement

The Power Infrastructure - Lighting the Way

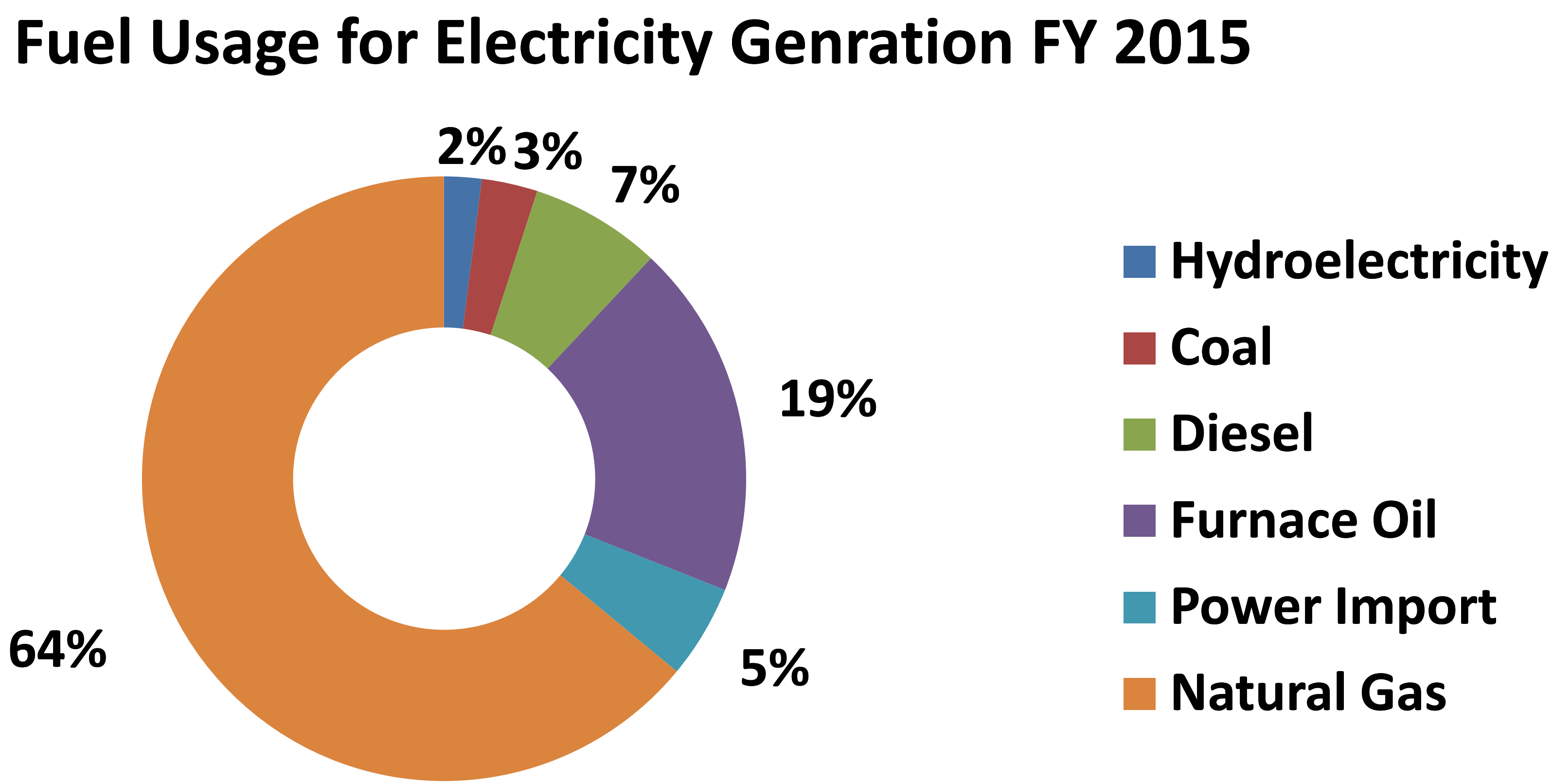
- ✓ **Bangladesh's annual economic growth of 7% calls for the scalability of its power infrastructure to keep up with the demands of industry and increased urbanization.**
- ✓ **Heavy investment in energy infrastructure has made improvements but by 2030 Bangladesh's power demand may well reach 34,000 MW.**
- ✓ **Meeting this increase will create a multibillion dollar opportunity for investment.**
- ✓ **The current demand in the country is around 6,264 MW with maximum demand having hit 8,250 MW in April 2013.**
- ✓ **The electricity demand is set to grow at 11% in the 2015-2020 period (PSMP 2010) and the installed capacity was 10,213 MW as of November 2013.**

The Power Infrastructure - Lighting the Way

- ✓ However, there is a shortfall due to mismatch between fuel mixes and plant types.
- ✓ Moreover, 62% of the population is currently covered by the electricity grid with the rest of the population set to come online in the near future.
- ✓ This represents a still untapped market of 61 million people who will be connected to the national grid in the coming years as Bangladesh continues its growth trajectory out of the LDC category.
- ✓ The power industry is unique in the fact that overhauling it can impact all components across the vertical production chain.
- ✓ This presents ample opportunity for investment in areas ranging from electricity generation to distribution channels in the fuel sourcing function.

The Power Infrastructure - Lighting the Way

- ✓ The power plants are heavily dependent on natural gas which is only enough to meet the power demands until 2019.
- ✓ The Government's master plan lays out a roadmap to reduce dependence on natural gas and move towards coal-based plants to generate 50% of total electricity by the year 2030.



The Power Infrastructure: Investment Potential & Way Forward

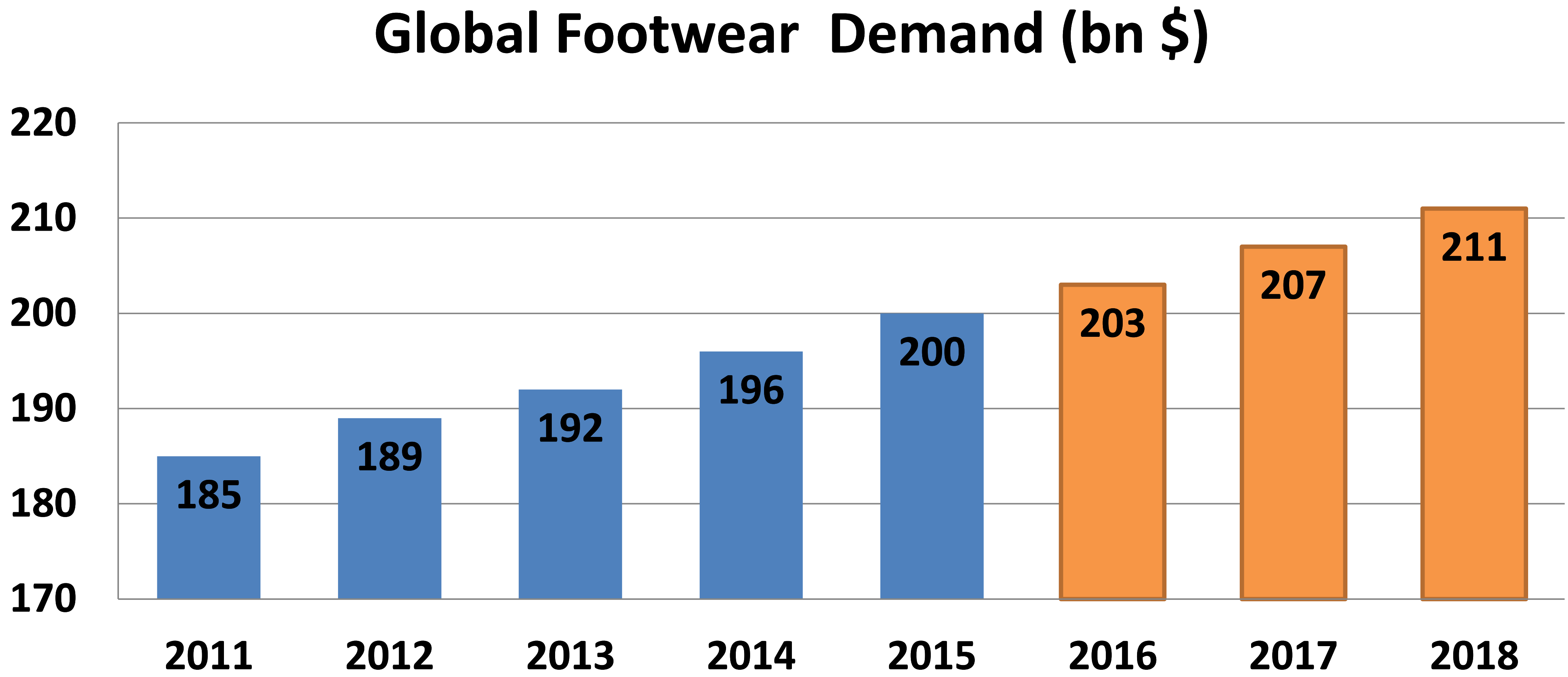
- ✓ **Potential Projected Power demand is set to hit roughly 34k MW by 2030. Total investment in the sector over the next 15 years is estimated at USD 70.5 bn.**
- ✓ **Keeping pace with the level of economic growth in Bangladesh, the power authorities in the country have devised a master plan through the PSMP 2010 to upgrade the linkages in the sector and reach the optimum fuel mix.**
- ✓ **In addition, there have been major developments in the sector to ensure that demand is met adequately in the near future.**
- ✓ ***Renewable Energy (Solar)***
  - ✓ **Bangladesh has successfully managed to implement one of the biggest Solar Home System (SHS) projects.**
  - ✓ **Almost 3 million SHSs having being installed to date with a targeted installation base of 6 million by 2015.**
  - ✓ **Currently renewable energy makes up 2% of the total electricity generation.**

The Power Infrastructure: Investment Potential & Way Forward

- ✓ ***Wind Energy***
  - ✓ **Having a 710 km coast line, Bangladesh is yet to take full advantage of wind turbines; upsides from this sector can be extensive.**
- ✓ ***LNG Import Facilities and Offshore Gas Reserves***
  - ✓ **Liquefied Natural Gas (LNG) can augment the country's energy needs by allowing for import of liquefied natural gas and subsequent gasification on landing and distribution.**
  - ✓ **The groundwork has been laid to construct Bangladesh's first floating LNG terminal at Moheshkhali which is going to have a capacity to handle 5 million MT/year of LNG.**
  - ✓ **The infrastructure that is going to be set up for this purpose will also act as a platform for offshore power exploration as well as subsequent extraction and transfer.**
  - ✓ **Bangladesh has substantial reserves of untapped gas in its offshore wells.**

Footwear Sector – Bangladesh's Next Export Tiger

- ✓ **Bangladesh export basket is heavily skewed towards RMG export**
- ✓ **Yet several new sectors have cropped up over the last decade.**
- ✓ **E.g., Footwear:**
  - ✓ **tremendous potential to significantly boost country's export**
  - ✓ **diversify the economy's export basket**
- ✓ **Global Footwear Industry is currently maintaining a upward trend**
  - ✓ **The global demand for footwear is expected to reach $ 211 bn by 2018**
- ✓ **Bangladesh has the potential to tap into the growing market by offering quality output**
- ✓ **Local Footwear Market is Growing**
  - ✓ **Bangladesh's footwear export has doubled during 2010 -13**
  - ✓ **Bangladesh is involved in export of components at various stages of footwear value chain, e.g., raw materials, soles, finished goods like shoes**



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Footwear Sector – Eyeing the Global Leather Market

- ✓ The sector has been growing over the last 5 years
  - ✓ exports increasing by 46% in 2011 followed by healthy 25% growth in 2013.
- ✓ Recently, total export has exceeded $ 1 billion mark for the leather sector
  - ✓ due to rising global demand
  - ✓ renewed interest amongst local entrepreneurs for manufacturing footwear
- ✓ Some international investors have forayed in the sector setting up factories in local Export processing Zones (EPZs).

Footwear Sector – Leather Sourcing as a Competitive Advantage

- ✓ **The annual production of leather hovers around 250 million square feet each year**
  - ✓ **The supply peaks during a religious festival**
- ✓ **In 2013 the supply of raw hide stood around 7 million pieces with the tanneries struggling to keep up with the supply.**
- ✓ **Bangladesh produces superior quality leather from local livestock,**
- ✓ **which is subsequently processed by tanneries concentrated around the capital city.**
- ✓ **These inputs are then transformed into final products including footwear whose exports stood at USD 419 Million as of 2013.**

Footwear Sector – Presence of Robust Backward Linkages

- ✓ **In Bangladesh, incoming raw hides are sorted and processed in tanneries that are concentrated in the outskirts of the capital in Hazaribagh. These entities have come under criticism for being environmentally unfriendly prompting the government to build a 200 acre Leather Industrial Park in Savar at a cost of USD 60 Million. The park will include state of art Effluent Treatment Plants (ETPs) to treat the waste generated while processing the leather in the tanneries.**

Footwear Sector – The Asian Market as a Demand Driver

- ✓ **The domestic market in Bangladesh has potential for growth**
  - ✓ **This is due to rising per capita income which has recently passed the USD 1,300**
  - ✓ **The economic condition of the countries in this region is changing rapidly**
    - ✓ **increasing economic growth translating to higher per capita income**
    - ✓ **more purchasing power**
- ✓ **All these going to pull the demand for footwear products upward as they move from being a necessity to a more brand and status oriented product**

Bangladesh Pharmaceutical Industry

- ✓ **The pharmaceutical sector in Bangladesh is one regarded as one of the thrust sectors and plays a vital role for the country's economy.**
- ✓ **The sector utilizes highly skilled manpower along with advanced machinery for manufacturing high quality generic medicines and vaccines for local and international markets at competitive prices.**
- ✓ **Currently, the market consists of around 150 pharmaceutical companies, out of which top 20 companies control 85% of the market share.**
- ✓ **The local manufacturers cater to 97% of the country's consumption with a market size of USD 1.2 billion and are continuously expanding their reach in the global arena.**

Bangladesh Pharmaceutical Industry

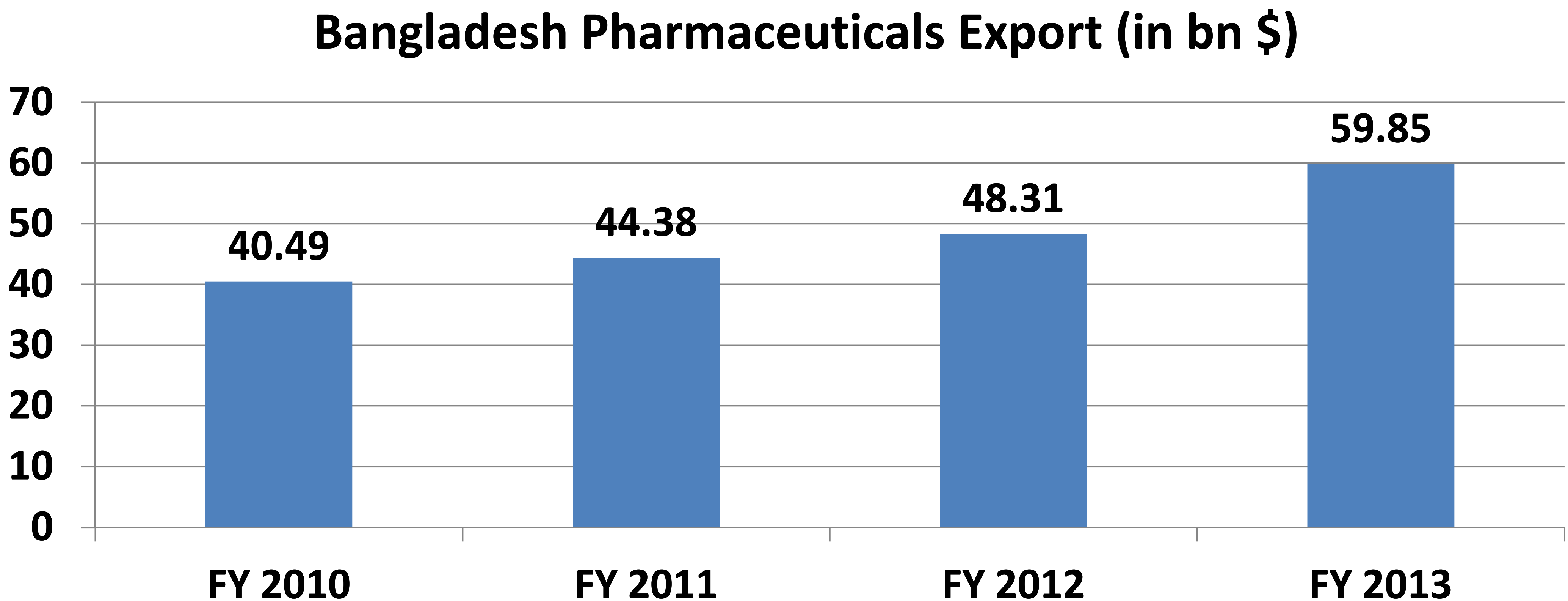
- ✓ **It is projected that the global pharmaceutical market to reach USD 1.135 trillion from USD 953 billion at a compound annual growth rate (CAGR) of 3-6% during 2013-2017.**
- ✓ **Led by China, the BRICS countries (account for almost 70% of all pharmaceutical market sales.**
- ✓ **Parallel to the global picture, the emerging countries show a positive growth trend, where Bangladesh is one of the Tier 3 *pharmerging* countries that is forecasted to contribute to this industry growth by 6–9% between 2013–2017**

Bangladesh Pharmaceutical Industry

- ✓ The local market demand in Bangladesh differs significantly from the international market; about 85% of the drugs sold are generics and 15% are patented drugs.
- ✓ The market comprises of 83 active pharmaceutical companies, out of which top 20 companies control 85% of the market share. The local market size currently rests at USD 1.2 billion
- ✓ At present pharma companies' exports to 85 countries in Europe, Asia, Africa and Latin America with export standing at USD 60 million in 2013.
- ✓ Due to the rise in demand in Southeast Asia, Asia Pacific and Africa, the pharmaceuticals exports recorded a rise of 23.9% in FY 2012-13.

Bangladesh Pharmaceutical Industry

- ✓ **Leading companies have already obtained accreditation from USFDA, UKMHRA, TGA and GCC and are endeavoring to penetrate into USA and other EU based markets**



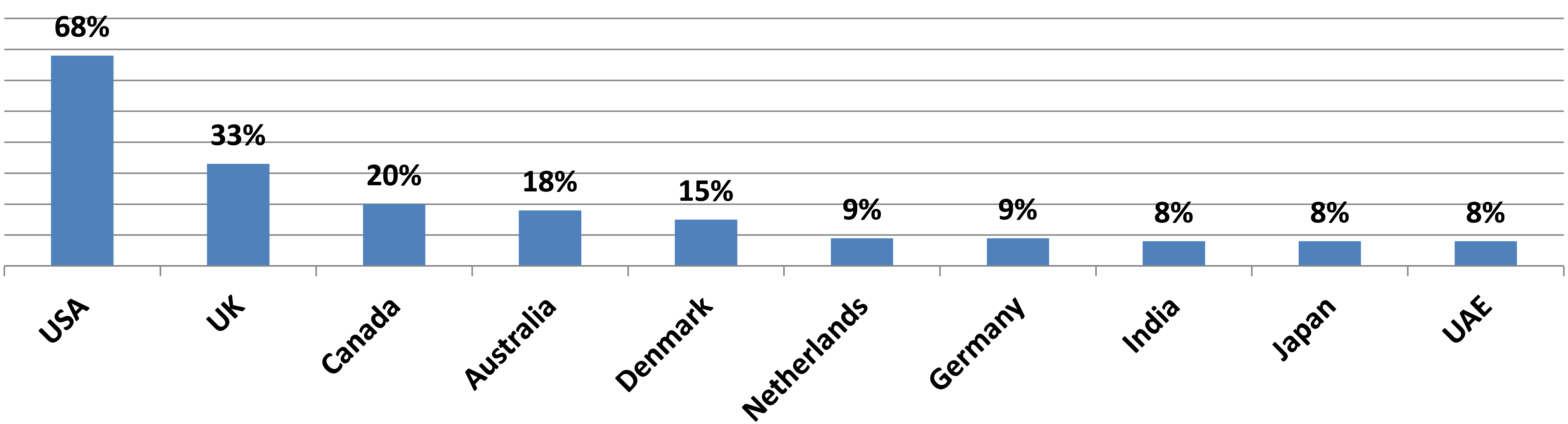
IT SECTOR – A NEW GATEWAY

- ✓ Over the last decade, a proliferic IT ventures earning foreign currency reserves for the nation
- ✓ The lack of adequate infrastructure and training facilities have added to the slow and erratic progress of this sector
- ✓ The government undertook several development measures for improving overall infrastructure which resulted in more reliable and cheaper internet connectivity while ensuring training facilities for budding IT professionals
- ✓ Around 200 Bangladeshi ICT companies are serving international markets offering outsourcing services and project delivery models

IT SECTOR – A NEW GATEWAY

- **Dominating export destinations include mainly North America (Canada and the US), but some European countries like UK, Denmark, the Netherlands and Germany have emerged as major export destinations**
- **There are over 10,000 ICT freelancers active in Bangladesh, billing a total export revenue of nearly $ 200 million in last couple of years**

Top IT Export Destinations of Bangladesh



Big Names are Taking Notice

- ✓ **Bangladesh's prospects have been identified by several global ICT companies. E. g.,**
  - ✓ **Samsung has opened a high-end R&D center in Bangladesh employing over 250 engineers**
  - ✓ **VizRT, a Norwegian company that creates content production tools for the digital media industry, is building captive centers following acquisitions of ICT production companies in Bangladesh**
  - ✓ **Other global IT companies like AMD, LG and IBM are currently in the process of setting up either their captive R&D or support centers in Bangladesh**

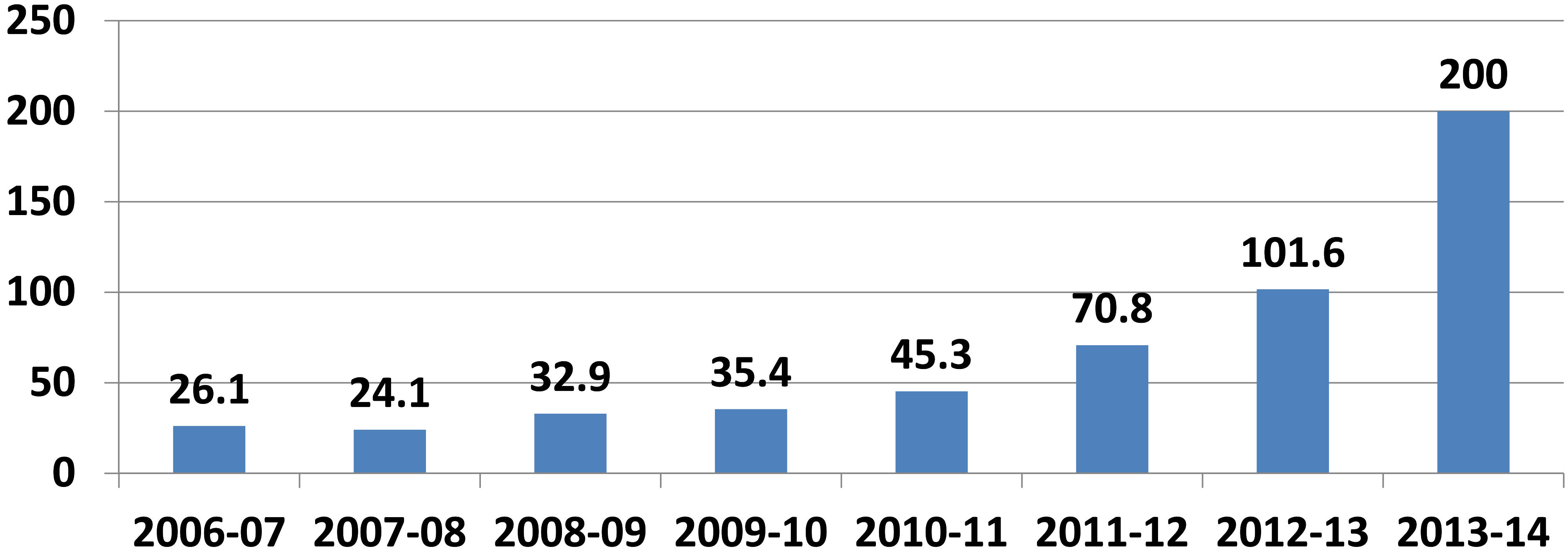
Government is Backing the IT Sector

- **The Bangladesh Government's "Digital Bangladesh" initiative**
  - **assisted in increasing export revenues in the IT sector from $ 35 million to $ 200 million over the last five years**
  - **helping to set up infrastructure for enhanced connectivity, ICT based citizen service delivery and ICT based Education system, multiple internet connectivity**
- **Initiatives like Digital World and BASIS Softexpo**
  - **building awareness and promoting IT sector to both domestic and the international market**
- **Internet connectivity has been vastly enhanced over the country**

An Optimistic IT Sector Outlook

- ✓ With cooperation and support from both Government & the private sector; the sector is expected to reach export earning of $ 1 billion within the coming decade from the European and the US markets

Annual IT Exports (in USD bn)



COMING UP AS PART OF THE "NEXT 11" & BEYOND

- ✓ The "next eleven" are the 11 countries having a high potential of becoming, along with the BRICS countries, among the world's largest economies in the 21st century
  - ✓ identified by Goldman Sachs investment bank and economist Jim O'Neill
  - ✓ Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea & Vietnam
- ✓ Attractiveness of Bangladesh as an investment destination has increased manifold, especially due to the country's preferential trade status in major international markets, inexpensive labor & proximity to China &India.

COMING UP AS PART OF THE "NEXT 11" AND BEYOND

- ✓ **Increasing labor costs in China has further precipitated a shift of investment to neighboring regions.**
- ✓ **Given the backdrop, Bangladesh government is keen to attract investment not only to positively tilt the balance of payment position, but to further rejuvenate the economy through employment generation and GDP growth.**

FINAL THOUGHTS

- ✓ **Bangladesh's potential for development and financial co-operation is only as strong as the country's capacity to contain the investor's interests**
- ✓ **When government policies, investment climate, and economic stability finally align, we can expect the investors to gear up and ease into this "Dazzling Delta" to for mutual growth and benefit**
- ✓ **The scope for Bangladesh to improve the conditions is within reach**
- ✓ **We can only expect that this country, once a fully agro-based economy now drift into the 21st century economy with the right balance of agriculture, production and service as one of the Benchmark Emerging Economies**

THANK YOU

FINANCIAL COOPERATION AND DEVELOPMENT FOR THE EMERGING ECONOMY: BANGLADESH PERSPECTIVE

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1.0 EMERGING ECONOMIES

Emerging economies have played an increasingly important role on the global arena since the beginning of this century. In particular, their relatively faster development since the eruption of the global financial crisis in 2008 has drawn widespread attention from the world. (The Boao Forum for Asia, 2010)

As 2016 is nearing its final quarter, the emerging economies are being highlighted for the potential investors from the developed countries. The BMI research (Business Monitor International) in light of this situation has identified the "10 emerging markets of the future" — the countries that are set to become new drivers of economic growth over the next 10 years. BMI estimates that these countries will cumulatively add $4.3 trillion to global GDP by 2025 — roughly the equivalent of Japan's current economy.

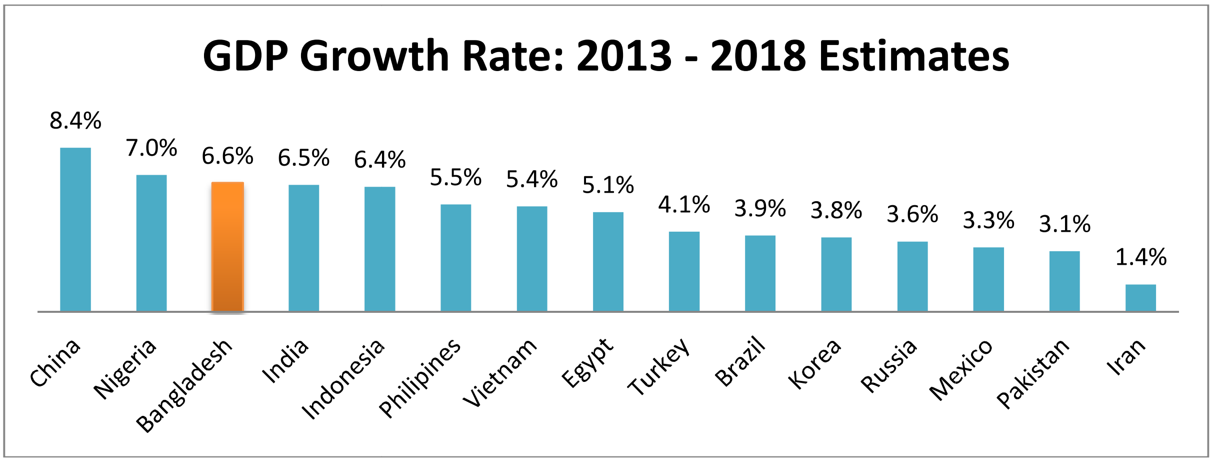
In general, manufacturing and construction are the sectors that will drive the economies. BMI reports that new manufacturing hubs are set to emerge in Bangladesh, Myanmar, and Pakistan, and that these countries will see particularly strong growth in exporting manufacturing industries. And construction growth is going to be widespread throughout all the countries — partly to facilitate increases in urban populations and partly to help develop the manufacturing sector. On the other hand, extractive industries — like mining, oil, and gas — are going to play a far smaller role in driving growth than they have the past 15 years.

While it might provide bright spots for some countries, the report states, "the ubiquitous commodity-driven growth model that was derailed by the 2012-2015 collapse in commodity prices is not coming back." (Pfeiffer, 2016)

2.0 BANGLADESH AS AN EMERGING ECONOMY

Investors over the years have seen Bangladesh as a country nestled between India and Myanmar in South Asia– a country filled with hopes and dreams of 160 mn people (8th largest country in terms of population) and spanning 147,540 sq. kilometers. Geological placement aside, Bangladesh has surfaced as one of the most prominent, lucrative investment frontiers in the world. Despite its fair share of myriad challenges, the country has shown remarkable resilience to register a steady economic growth of > 6% in the last decade, an accomplishment to take pride in. This significant growth has resulted in a massive change in the composition of the country's workforce today, as is evidenced by the rise of consumerism.

Compared to the other BRIC (Brazil, Russia, India and China) countries as well as other emerging economies, Bangladesh has shown a promising position which acts as a solid stepping stone for the investors who are looking for the next best alternative. Projections made by the IMF for 2013-2018 show Bangladesh with a GDP growth of 6.6%, which is just behind China and Nigeria in the estimates.



Source: IMF

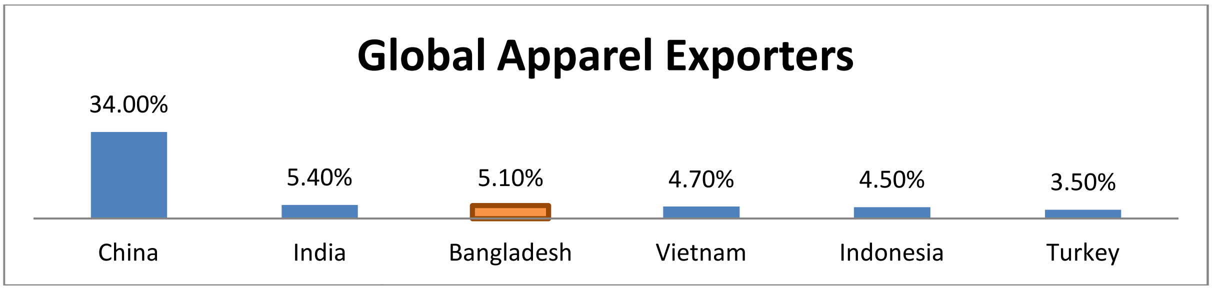
3.0 BANGLADESH: POTENTIAL SECTORS FOR DEVELOPMENT & FINANCIAL CO-OPERATION

To come up as a potential Emerging Economy which investors will not only invest in but see as a scope for synergy, it is essential to mark the key sectors that hold the most potential. The leading sectors at a glance are: *The Apparel Export Industry*, *The Power Infrastructure Sector*, and *Leather & Footwear Sector*.
Of course there is scope for other emerging sectors as well as the stability of the capital market as well as the the implementation of government policies. Viewing these mentioned sectors one by one will reveal the possible potentials.

3.1 Bangladesh Apparel Export Industry – Keeping the Pace

The export oriented readymade garments (RMG) sector in Bangladesh started its modest journey as a small non-traditional sector of export in late 1970s. Within three decades, RMG has transformed itself as the country's highest revenue generating sector, contributing 81% (USD 24.49 billion FY 13-14) of country's total export. (LightCastle Partners, 2015)

Bangladesh's RMG sector has a bright future as close competitors like China are moving up the value chain, leaving value apparel manufacturing to cost effective players like Bangladesh. Mckinsey, a leading consulting firm, in their recent report on Bangladesh's RMG sector, has testified to RMG sector's growth potential. According to the report, RMG export is set to grow to USD 36 billion by 2020.

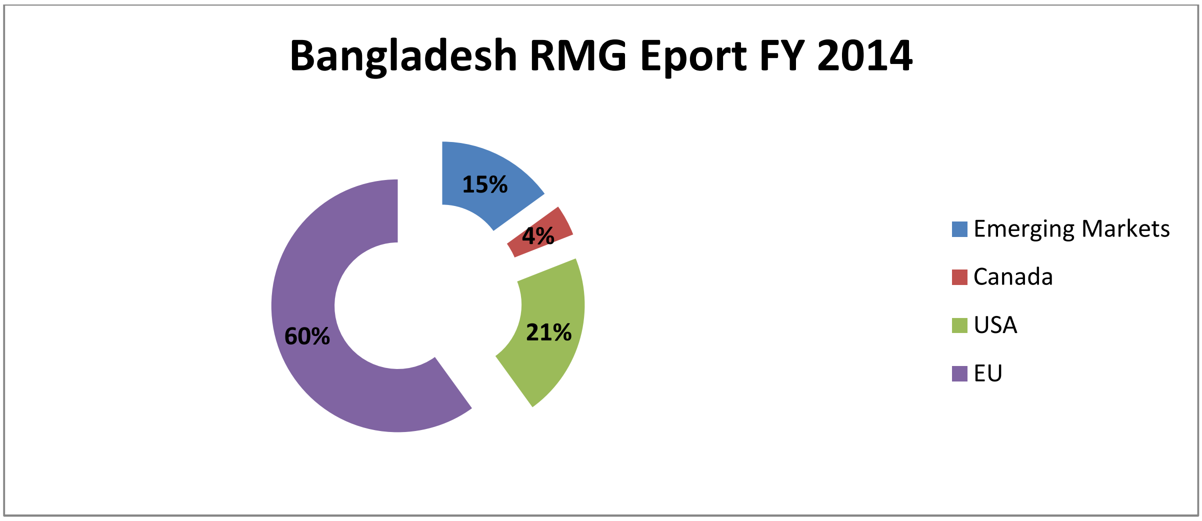


Source: United States International Trade Commission (2014)

Out of the total Global Apparel Exporters, the lion's share of exporting is still captured by China, but Bangladesh is not that far behind India and will move up the quo thanks to GSP facility in EU and duty free access to Canada and Japan. Bangladesh is benefitting from competitive cost advantages which have translated into higher export revenue.

3.1.1 Emerging Markets for Bangladesh Apparel

EU is Bangladesh's largest RMG export destination constituting roughly 60% of total export followed by US market with export of 21%. Bangladesh has recently diversified into emerging export markets including Australia, Brazil, China, Japan and South Africa accounting for 15% of total export. (BGMEA)



Source: BGMEA

3.1.2 Way Forward for Further Growth with Renewed Compliance

The RMG sector has undergone upheaval in 2013 mainly due to a series of industrial accidents which brought international attention towards factory compliance issues. Amid pressure from international retailers, Bangladeshi factories have undergone structural changes for adhering to strict compliance norms. Meanwhile, political unrest in the latter half of 2013 had a crippling effect on the sector. Despite the double whammy, RMG export has managed to register growth (10%), both in the last quarter of 2013 and first half of 2014. This indicates the resilience of the sector and buyer's continued trust in Bangladesh as an RMG export destination. Bangladesh has recently signed the TICFA agreement with US and talks are underway to revive GSP facilities. The new GSP deal may also include tariff and quota free access of Bangladeshi apparel, which was missing in the previous GSP agreement (LightCastle Partners, 2015).

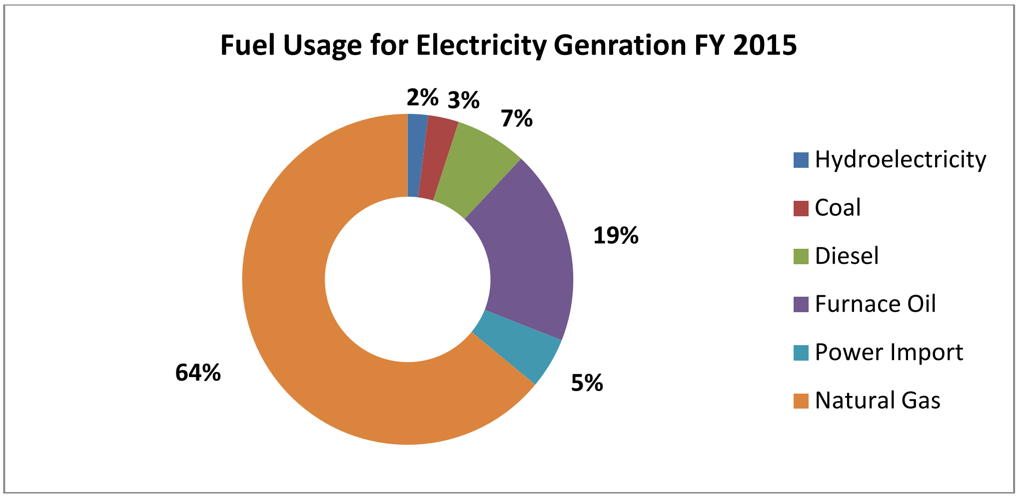
3.2 *The Power Infrastructure - Lighting the Way*

Bangladesh's annual economic growth of 7% calls for the scalability of its power infrastructure to keep up with the demands of industry and increased urbanization. Heavy investment in energy infrastructure has made improvements but by 2030 Bangladesh's power demand may well reach 34,000 MW. Meeting this increase will create a multibillion dollar opportunity for investment.

Current Status Quo: The current demand in the country is around 6,264 MW with maximum demand having hit 8,250 MW in April 2013. The electricity demand is set to grow at 11% in the 2015-2020 period (PSMP 2010) and the installed capacity was 10,213 MW as of November 2013. However, there is a shortfall due to mismatch between fuel mixes and plant types. Moreover, 62% of the population is currently covered by the electricity grid with the rest of the population set to come online in the near future. This represents a still untapped market of 61 million people who will be connected to the national grid in the coming years as Bangladesh continues its growth trajectory out of the LDC category. The power industry is unique in the fact that overhauling it can impact all components across the vertical production chain. This presents ample opportunity for investment in areas ranging from electricity generation to distribution channels in the fuel sourcing function (LightCastle Partners, 2015).

3.2.1 Insights on Fuel Sources

The fuel mix of the power plants are heavily dependent on natural gas which is only enough to meet the power demands of the country until 2019. The power developments board's master plan lays out a roadmap to reduce dependence on natural gas and move fuel priority towards coal with plans to generate 50% of total electricity using it by the year 2030. (Bangladesh Power Development Board)



Source: *BPDB*

3.2.2 Investment Potential & the Way Forward

Potential Projected Power demand is set to hit roughly 34k MW by 2030. Total investment in the sector over the next 15 years is estimated at USD 70.5 bn.

Keeping pace with the level of economic growth in Bangladesh, the power authorities in the country have devised a master plan through the PSMP 2010 to upgrade the linkages in the sector and reach the optimum fuel mix. In addition, there have been major developments in the sector to ensure that demand is met adequately in the near future.

3.2.3 Renewable Energy (Solar)

Bangladesh has successfully managed to implement one of the biggest Solar Home System (SHS) projects. Almost 3 million SHSs having being installed to date with a targeted installation base of 6 million by 2015. Currently renewable energy makes up 2% of the total electricity generation.

3.2.4 Wind Energy

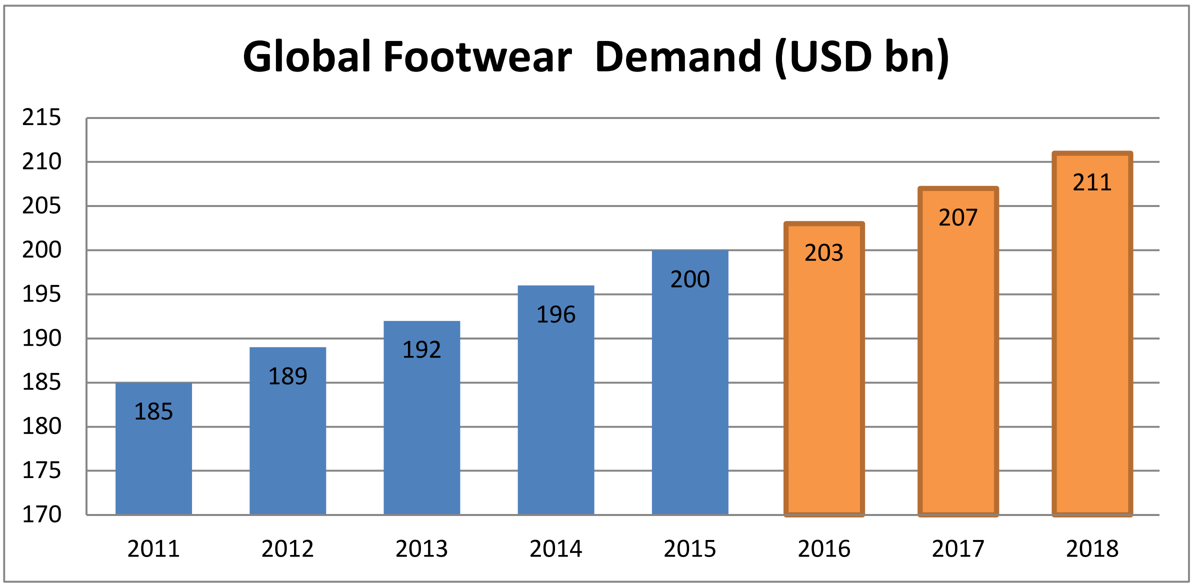
Having a 710 km coast line, Bangladesh is yet to take full advantage of wind turbines; upsides from this sector can be extensive.

3.2.5 LNG Import Facilities and Offshore Gas Reserves

Liquefied Natural Gas (LNG) can augment the country's energy needs by allowing for import of liquefied natural gas and subsequent gasification on landing and distribution. The groundwork has been laid to construct Bangladesh's first floating LNG terminal at Moheshkhali which is going to have a capacity to handle 5 million MT/year of LNG. The infrastructure that is going to be set up for this purpose will also act as a platform for offshore power exploration as well as subsequent extraction and transfer. Bangladesh has substantial reserves of untapped gas in its offshore wells. (LightCastle Partners, 2015)

3.3 *Footwear Sector – Bangladesh's Next Export Tiger*

Although the Bangladesh export basket is heavily skewed towards RMG export, several new sectors have cropped up over the last decade. Footwear is one such sector which has tremendous potential to significantly boost country's export while diversifying the economy's export basket. Global Footwear Industry is currently maintaining a upward trajectory, the rising global demand for footwear which is expected to reach USD 211 Billion by the end of 2018 proves it. (Transparency Market Research)



Source: Transparency Market Research

Bangladesh has the potential to tap into the growing market by offering quality output Local Footwear Market is Growing Bangladesh's footwear export has doubled during 2010-13 and continues to rise further as illustrated below. Bangladesh is involved in export of components at various stages of footwear value chain ranging from raw materials to work-in-progress such as soles and finished goods like shoes.

3.3.1 Eyeing the Global Leather Market

The sector has been growing over the last 5 years with exports increasing by 46% in 2011 followed by healthy 25% growth in 2013. Recently, total export has exceeded USD 1 billion mark for the leather sector which has been due to rising global demand and renewed interest amongst local entrepreneurs for manufacturing footwear. Some international investors have forayed in the sector setting up factories in local Export processing Zones (EPZs). (Export Promotion Bureau, Bangladesh)

3.3.2 Leather Sourcing as a Competitive Advantage

Bangladesh produces superior quality leather from local livestock, which is subsequently processed by tanneries concentrated around the capital city. These inputs are then transformed into final products including footwear whose exports stood at USD 419 Million as of 2013. (Export Promotion Bureau, Bangladesh)

The annual production of leather hovers around 250 Million square feet each year with supply peaking during the religious festivals of Eid. In 2013 the supply of rawhide stood around 7 Million pieces with the tanneries struggling to keep up with the supply.

3.3.3 Presence of Robust Backward Linkages

In Bangladesh, incoming raw hides are sorted and processed in tanneries that are concentrated in the outskirts of the capital in Hazaribagh. These entities have come under criticism for being environmentally unfriendly prompting the government to build a 200 acre Leather Industrial Park in Savar at a cost of USD 60 Million. The park will include state of art Effluent Treatment Plants (ETPs) to treat the waste generated while processing the leather in the tanneries.

3.3.4 The Asian Market as a Demand Driver

The domestic market in Bangladesh has potential for growth as well. This is due to rising per capita income which has recently passed the USD 1,000 mark. In addition, the economic condition of the countries in this region is changing rapidly- with increasing economic growth translating to higher per capita income and in turn, more purchasing power. This is going to pull the demand for products such as footwear upward as they move from being a necessity to a more brand and status oriented product. (LightCastle Partners, 2015)

3.4 *Bangladesh Pharmaceutical Industry*

The pharmaceutical sector in Bangladesh is one regarded as one of the thrust sectors and plays a vital role for the country’s economy. The sector utilizes highly skilled manpower along with advanced machinery for manufacturing high quality generic medicines and vaccines for local and international markets at competitive prices. Currently, the market consists of around 150 pharmaceutical companies, out of which top 20 companies control 85% of the market share. The local manufacturers cater to 97% of the country's consumption with a market size of USD 1.2 billion and are continuously expanding their reach in the global arena.

It is projected that the global pharmaceutical market to reach USD 1.135 trillion from USD 953 billion at a compound annual growth rate (CAGR) of 3-6% during 2013-2017. Led by China, the BRIC countries (Brazil, Russia, India, and China) account for almost 70% of all pharmaceutical market sales. Parallel to the global picture, the emerging countries show a positive growth trend, where Bangladesh is one of the Tier 3 *pharmerging* countries that is forecasted to contribute to this industry growth by 6–9% between 2013–2017. (LightCastle Partners, 2015)

The local market demand in Bangladesh differs significantly from the international market; about 85% of the drugs sold are generics and 15% are patented drugs. The market comprises of 83 active pharmaceutical companies, out of which top 20 companies control 85% of the market share. The local market size currently rests at USD 1.2 billion.

At present pharma companies' exports to 85 countries in Europe, Asia, Africa and Latin America with export standing at USD 60 million in 2013. Due to the rise in demand in Southeast Asia, Asia Pacific and Africa, the pharmaceuticals exports recorded a rise of 23.9% in FY 2012-13. (Export Promotion Bureau, Bangladesh)

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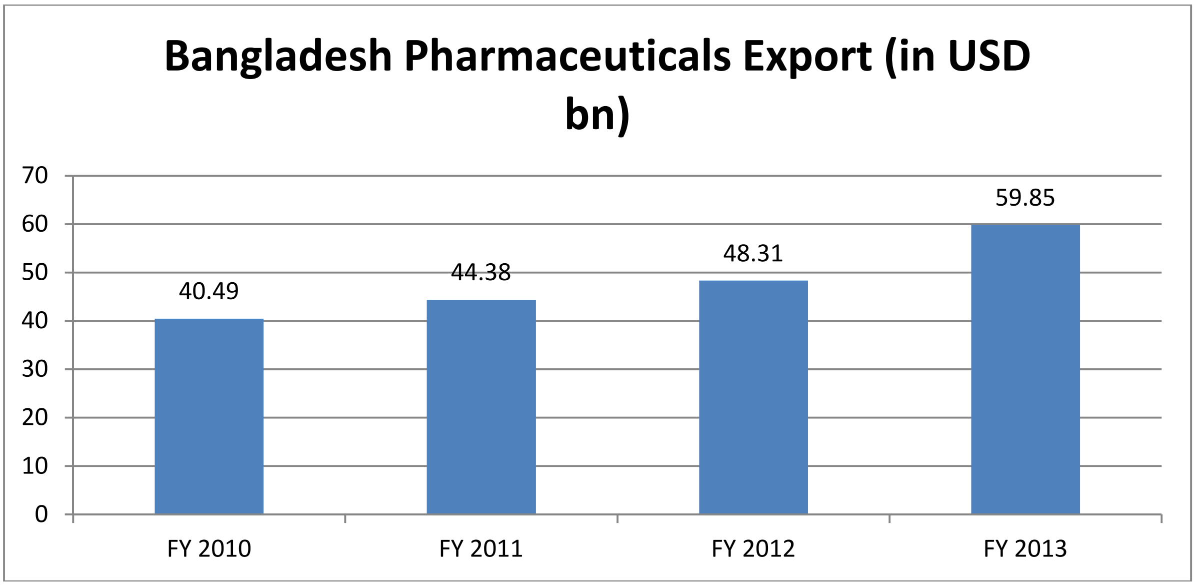


Source: EPB

3.4.1 Growth Incentives and Benefits

Healthy growth trajectory is boosting the pharmaceutical manufacturers towards R&D for newer generics with global standards in place. The DGDRA Bangladesh is playing the key role in inspecting the WHO, GMP and SOP of the pharmaceutical manufactures and enrolling the certifications for subsequent two years validity from the date of inspection. At the moment companies import 80% of their raw materials (APIs) from India and China which significantly escalates the cost of production. However, currently 15 Bangladesh companies (such as Beximco, Square and Opsonin) are manufacturing active pharmaceutical ingredients (API). The government is taking significant steps to implement API Industries Park at Munshiganj, 40 km from the capital. About 40 industries will be established at the plant, which will include a central effluent treatment plant incinerator. Building this backward-integration is a giant leap for this sector as it will eventually give the local pharmaceutical manufacturers price competitiveness in the global arena. Furthermore, to meet the staggering local and international demand, the government has extensively imposed lower or zero import duty and VAT for certain raw materials/ items and certain capital machineries, and also allowed tax holidays of four to six years to investors in this sector. (LightCastle Partners, 2015)

3.4.2 Sustainable Rapid Growth

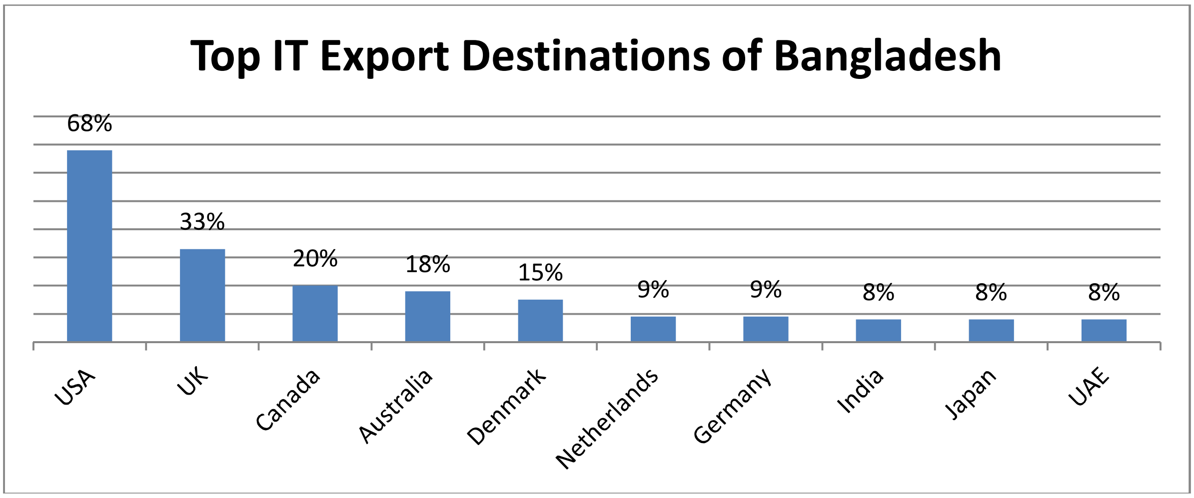
The Bangladeshi pharmaceutical market is growing at a fast pace and has a promising future. According to Business Monitor International's latest report, Bangladesh has moved one step upward to occupy the 14th position amongst 17 regional markets. This sector offers an enormous investment opportunity and has the potential to export alongside the RMG sector in terms of value, catering to increasing consumption worldwide. (LightCastle Partners, 2015)

3.5 IT SECTOR – A NEW GATEWAY

Over the last decade, there has been a proliferation of IT ventures earning foreign currency reserves for the nation However, the lack of adequate infrastructure and inadequate training facilities have added to the slow progress of the IT sector. To counter this, the government undertook several development measures for improving overall infrastructure which resulted in more reliable and cheaper internet connectivity while ensuring training facilities for budding IT professionals.

3.5.1 Prospect of Outsourcing is Positive

The ITC estimates that around 200 Bangladeshi ICT companies are serving international markets offering outsourcing services and project delivery models. In terms of export destinations, North America (Canada and the US) dominates, whereas European countries like the UK, Denmark, the Netherlands and Germany have emerged over the last few years as major export destinations. According to the ITC Exporter Directory there are over 10,000 ICT freelancers active in Bangladesh as of 2014, billing a total export revenue of nearly USD 200 million. (Bangladesh Association of Software & Information Services)



Source: BASIS

3.5.2 Big Names are Taking Notice

Bangladesh's prospects have been identified by several global ICT companies. For example, the Korean technology firm Samsung has opened a high-end Research and Development (R&D) center in Bangladesh employing over 250 engineers.

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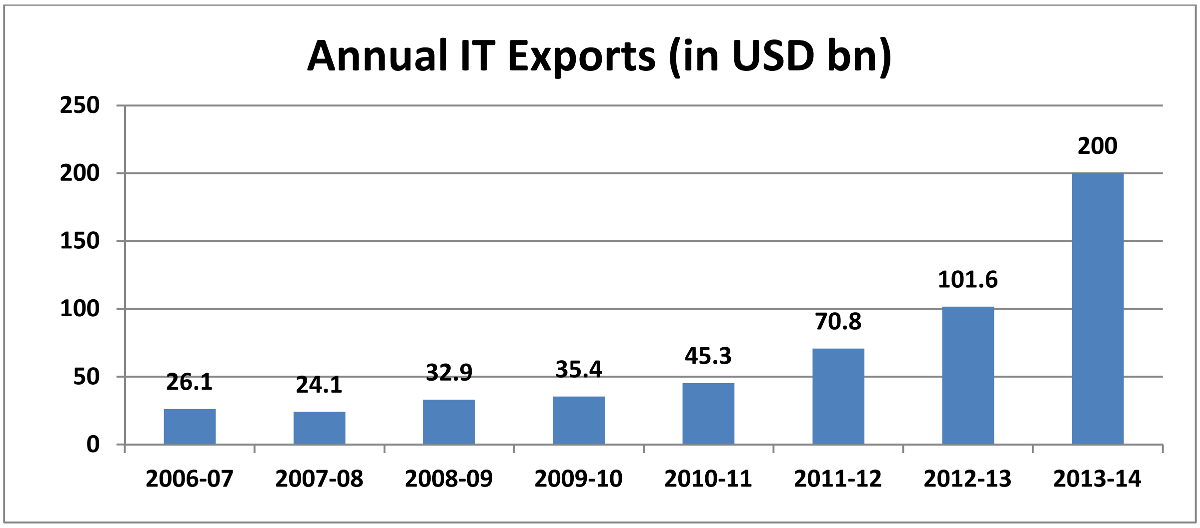
3.5.3 Government is Backing the IT Sector

The Bangladesh Government's "Digital Bangladesh" initiative has assisted in increasing export revenues in the IT sector from USD 35 million to USD 200 million over the last five years and also helping to set up infrastructure for enhanced connectivity, ICT based citizen service delivery and ICT based Education system, multiple internet connectivity. Initiatives like Digital World and BASIS Softexpo are playing a positive role in building awareness and promoting IT sector to both domestic and the international market. Internet connectivity has been vastly enhanced over the country. (LightCastle Partners, 2015)

3.5.4 An Optimistic Sector Outlook

With cooperation and support from both Government & the private sector; the sector is expected to reach export earning of USD 1 billion within the coming decade from the European and the US markets. (Bangladesh Association of Software & Information Services)



Source: BASIS

4.0 COMING UP AS PART OF THE "NEXT 11" AND BEYOND

The Next Eleven are the eleven countries – Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea and Vietnam – identified by Goldman Sachs investment bank and economist Jim O'Neill in a research paper as having a high potential of becoming, along with the BRICS countries, among the world's largest economies in the 21st century. (Eric Martin, 2012)

Recently, attractiveness of Bangladesh as an investment destination has increased manifold, especially due to the country's preferential trade status in major international markets, inexpensive labor and proximity to China and India. Increasing labor costs in China has further precipitated a shift of investment to neighboring regions. Given the backdrop, Bangladesh government is keen to attract investment not only to positively tilt the balance of payment position, but to further rejuvenate the economy through employment generation and GDP growth. (LightCastle Partners, 2015)

5.0 ENDING THOUGHTS

Bangladesh's potential for development and financial co-operation is only as strong as the country's capacity to contain the investor's interests. Only when government policies, investment climate, and economic stability finally align, we can expect the investors to gear up and ease into this "Dazzling Delta" to for mutual growth and benefit. Of course the scope for Bangladesh to improve the conditions is within reach. We can only expect that this country, once a fully agro-based economy now drift into the 21st century economy with the right balance of agriculture, production and service as one of the Benchmark Emerging Economies.

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