How can Bangladesh's micro, small and medium businesses thrive?

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BUSINESS is booming for Chaldal.

The Bangladeshi online grocery supplier delivers over 1,500 orders per day, serves more than 20,000 families across Dhaka, and claims 90 percent of the market share. Between 2016 and 2017 alone, its revenue more than doubled from Tk 180-380 million.

Given Chaldal's exponential growth, it's easy to overlook its humble origins.

The company began as a small enterprise just six years ago, with a team of only five people. Chaldal owes much of its success to investing in innovative practices such as using software to monitor wastage, predict when time-sensitive items will sell, and track deliveries.

Innovation led to growth and attracted investment, including from the International Finance Corporation (IFC), the World Bank's arm that supports private investments.

Unfortunately, success stories like Chaldal are rare in Bangladesh as most micro, small, and medium enterprises (MSMEs) struggle to get funding for their different business needs and achieve any growth at all.

MSMEs are crucial to Bangladesh's financial and economic development. According to the recent World Bank report, close to 99 percent of non-farm enterprises in the country are MSMEs. In 2013, they created over 20 million jobs for Bangladeshi workers.

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A small business woman making handmade Pappor (deep-fried bread) in Dinajpur.

While bank lending to MSMEs has tripled between 2010 and 2016, the large majority of MSMEs have limited access to formal finance. The gap between the funds they have and what they require to run operations and grow is about $2.8 billion.

Thus far, Bangladesh has been a leader of the global microcredit revolution, which targeted microentrepreneurs.

At the other end of the spectrum, medium-sized enterprises have been increasingly courted by banks and were able to receive some financing, albeit short-term. This leaves small enterprises behind, altogether.

One alternative for MSMEs to obtain funds is to tap into private capital. However, several challenges affect MSMEs' ability to raise adequate funding.

Moving forward, policy and institutional reforms in these areas can be the low hanging fruits in improving access to finance for MSMEs in Bangladesh.

First, challenges that begin at the institutional level can be addressed by promoting the use of a unified definition for MSMEs. This would help make policy more targeted.

The establishment of a central coordinating body with an overall strategic vision and harmonized approach to support MSMEs' growth is needed.

For instance, state-owned institutions that lend money to MSMEs should clarify their long-term goals and mandates and the various subsidized financing schemes be better targeted to maximize impact.

Second, strengthening Bangladesh's financial infrastructure can make accessing credit easier for MSMEs (in 2018, the Doing Business survey ranked Bangladesh at 159 –out of 190 countries on "access credit").

To improve credit information, credit bureaus should be given greater reach and consider all commercial loans, regardless of their value or the originating, when assessing the credit rating of MSMEs.

Third, loans in Bangladesh are secured primarily through property-based collaterals. Expanding the collateral registry to include movable collaterals would help MSMEs access more finance.

Additionally, setting up a small claims courts could improve the settlement of disputes MSMEs may face.

Last, technology can provide innovative ways to make payments that can benefit MSMEs, including by creating a "digital footprint" that can be useful to assess credit worthiness.

But while financial institutions are adopting digital payment systems and mobile financial services, legal and regulatory structures have not followed suit and continue to hamper their widespread use.

Mobile payment systems, for instance, are restrictive because regulations only allow for a bank-led model.

Moving towards digitization of the economy (digital identification, internet connectivity, infrastructure, etc.) would help create an ecosystem that can more effectively gain from the advantages of fintech in the provision of a range of (digital) financial services.

Granted, not all of Bangladesh's MSMEs can achieve Chaldal's success.

Yet, re-examining the outdated policies and lifting institutional hurdles that impact MSMEs can undoubtedly give Bangladesh's small businesses a welcome jolt—and clear the way for more and better jobs across the country.

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German recession looms as industrial orders drop more than expected

Reuters, *Berlin*

GERMAN industrial orders fell more than expected in August on weaker domestic demand, data showed on Monday, adding to signs that a manufacturing slump is pushing Europe's largest economy into recession.

Contracts for 'Made in Germany' goods fell 0.6 percent from the previous month, with demand for capital goods down 1.6 percent, the Economy Ministry said. The overall fall compared with a Reuters consensus forecast for a drop of 0.3 percent.

"The German economy is in the midst of a recession. Today's data make that clear again," said Thomas Gitzel, economist at VP Bank Group.

The economy shrank by 0.1 percent in the second quarter, and recent data have pointed to continued weakness in manufacturing in the third quarter. Most economists define a recession as two straight quarters of contraction.

"The German government will probably come under growing pressure to give up its strict budget policy," added Gitzel.

The government has so far stuck to its balanced-budget policy, despite pressure from economists and other governments to spend more to boost flagging demand.

Finance Minister Olaf Scholz said last week that Germany would be able to cope with an economic crisis but added that he did not expect a downturn to be as bad as it was in 2008/2009.

"The weakness in demand in industry continues," the Economy Ministry said in a statement accompanying Monday's data. "The industrial sector remains subdued for the time being."

Germany's export-reliant manufacturers are suffering from a slowing world economy and business uncertainty linked to a trade dispute between the United States and China as well as Britain's planned but delayed exit from the European Union.

Monday's weaker-than-expected data added to the sense of gloom around the German manufacturing sector.

A survey released last Tuesday showed the manufacturing recession deepened in September, with factories recording their weakest performance since the world financial crisis a decade ago.

Last Wednesday, leading economic institutes slashed their growth forecasts for the economy for this year and next, blaming weaker global demand for manufacturing goods and increased business uncertainty linked to trade disputes.

The institutes also called on Chancellor Angela Merkel's coalition government to ditch its budget policy of incurring no new debt if the growth outlook deteriorates. It has so far refused to do so.

Merkel's government has managed to raise public spending without incurring new debt since 2014, thanks to an unusually long growth cycle, record-high employment, buoyant tax revenues and the European Central Bank's bond-buying plan.

But with the economy slowing and tax revenues waning, the fiscal room to counter a recession is getting smaller. At the same time, Germany's borrowing costs have turned into premiums, which means investors are actually willing to pay the state a bonus for being able to lend it billions of euros.

REUTERS/FILE

German carmaker Porsche hosts a photo tour showing the production and the manufacturing of the new Macan in Leipzig, Germany.

US economists wrestle with how to help 'left behind' areas

Reuters, *Boston*

BOSTON Federal Reserve officials have a pretty good idea what helped the ailing industrial town of Lawrence, Massachusetts, start to make a turnaround, including a state takeover of the public school system and a focused effort to lift job options for working parents.

Would the same strategies apply in Smith County, Kansas, where the population has been declining since 1900 and now includes twice the proportion of senior citizens as the United States as a whole?

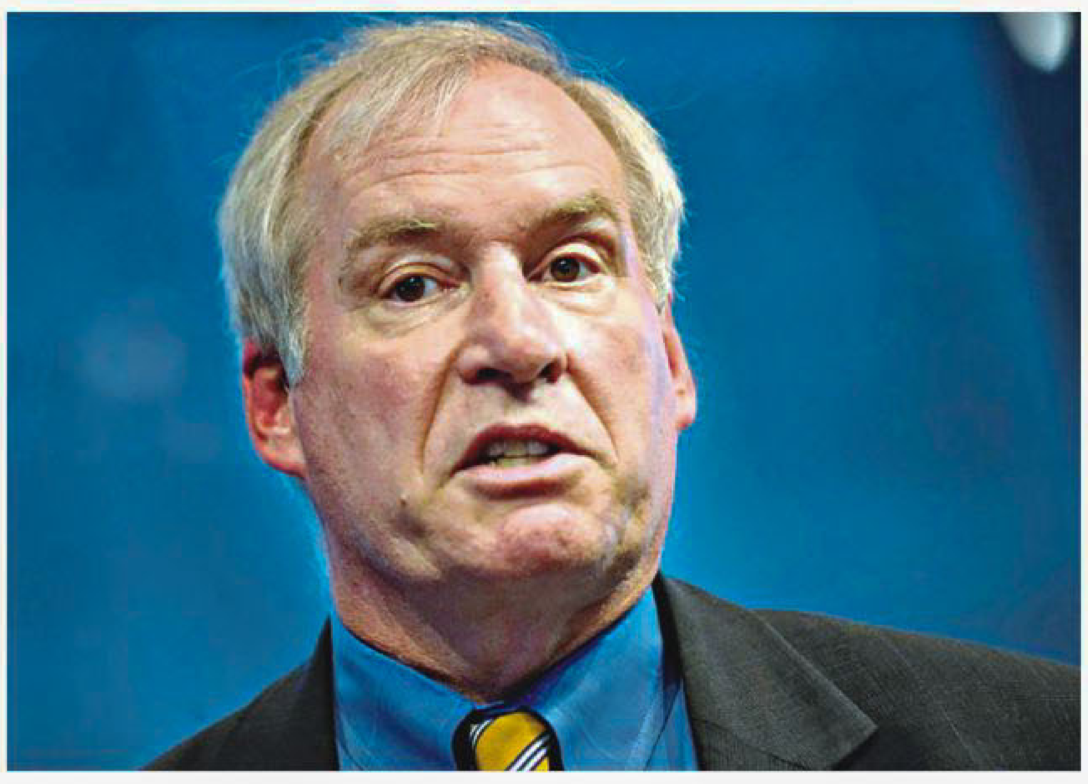
That's the dilemma economists have begun wrestling with as they debate whether "place based" economic strategies, often seen as a path to pork barrel spending under the good intent of creating local jobs, may now be the only way to reverse the separation of the country into areas that are doing well and those that are treading water or slipping behind.

The short answer: It won't be easy, and after decades of decline in some places it may require a fairly tough set of decisions about which ones have a credible chance to rebound.

"You can't do this for every community," Boston Fed president Eric Rosengren said after a two-day conference the bank sponsored here on the geographic divisions that have split the United States into largely coastal boomtowns that are increasing their share of national jobs and wealth, and evidence of stagnation in many other places.

"Not every community has social cohesion. Not every community has a good leader," Rosengren said as he outlined the qualities the Boston Fed used in a competition to select towns for economic development grants, one of which helped Lawrence move 200 working parents into new or better jobs, and set up a system for more to follow.

"We were looking for communities that had the highest



REUTERS/FILE

The Federal Reserve Bank of Boston's President and CEO Eric S Rosengren speaks at an event in New York.

probability of success," he said.

It is not a new idea that geography shapes a country's economy. Natural features such as rivers and the Great Lakes helped the US industrial heartland thrive in its heyday. But until recently "place" was not seen as a constraint on individual success: if jobs and opportunity were inadequate in one town, it was assumed people would move, providing a built-in source of adjustment across the American economy.

A growing body of research, however, shows that is no longer the case. People are moving less, incomes across regions are no longer growing closer, and the opportunities in the "superstar" places may be growing out of reach for the less educated. Places that lag in job growth are less likely to catch up; kids born in poor neighborhoods are more likely to be poor as adults.

While chronic joblessness is a well-recognized problem in ailing cities such as Baltimore and Cleveland, and in some of the country's remote rural corners, the election of Donald Trump in 2016 focused attention on the fact that it existed across a broad swath of small town America — and was hardening attitudes among parts of the white working class. The unemployment rate among job seekers may be low, but larger numbers of working age men in particular have simply stopped looking for work at all.

"There is a plausible view that in the long run all local low skilled employment will be in services," said Edward Glaeser, a Harvard University economics professor. New technologies such as ridesharing platforms "will be able to generate jobs for less skilled people in Boston. What are they going to do in eastern Tennessee? That seems the central question... for American employment policy in the 21st century."

Over two days of discussion there was no clear answer.

Trump's election drew attention to the problems of working age men displaced from blue collar jobs. But should they be encouraged to move, retrain as computer coders, or make what may require a cultural leap and join the boom in jobs caring for the elderly?

What about a separate suite of longer standing issues, such as the state of urban school systems still lagging under the legacy of segregation? Beyond Medicaid, food stamps and other programs that funnel tax dollars to individuals, should national policy be used more aggressively to subsidize education, services or jobs in low income areas?

"There is strong consensus there is a problem...We don't know quite what to do about it," said David Autor, a Massachusetts Institute of Technology labor economist whose research on the "China shock" helped frame debate about the disproportionate impact China's rise had on US manufacturing hubs.

Some large national efforts have been proposed or are already underway.

Unilever pledges to halve its use of new plastic by 2025

Reuters, *London*

CONSUMER goods giant Unilever vowed to halve the amount of new plastic it uses over the next five years, by shifting to more recyclable and alternative materials and refillable options to meet consumer demand for less waste.

The company, which sells Ben & Jerry's ice cream, Dove soap and Knorr soup, said it would achieve this target by cutting its use of plastic packaging by over 100,000 tonnes and accelerating its use of recycled plastic.

The Anglo-Dutch firm currently uses more than 700,000 tonnes of virgin plastic - created using raw materials instead of recycled materials - each year and expects to halve that usage by 2025.

"This demands a fundamental rethink in our approach to our packaging and products. It requires us to introduce new and innovative packaging materials and scale up new business models, like re-use and re-fill formats, at an unprecedented speed and intensity," Chief Executive Officer Alan Jope said in a statement.

The company also promised to help collect and process more plastic packaging than it sells through investments and partnerships in developing waste management facilities in many of the markets that it operates. It set a target of collecting and processing around 600,000 tonnes of plastic annually by 2025.

Unilever joins other companies tackling plastic use as consumers become increasingly concerned about the amount of waste and the danger of plastic pollution to marine life.

Britain's second-biggest supermarket chain Sainsbury's promised to halve its plastic packaging by 2025 last month, while rival Tesco said it would ban brands that use excessive packaging from its stores next year.

Hamburger chain Burger King also announced in September that it would stop handing out plastic toys in its children's meals in its British restaurants, saving an estimated 320 tonnes of single-use plastic each year.

For Unilever, the moves announced on Monday are part of its commitments to make all of its plastic packaging reusable, recyclable or compostable by 2025.

Some of the changes made to its product portfolio as part of that effort include introducing refill concentrates in its Cif brand so that spray bottles can be reused and removing wrappers in multi-packs of its Solero ice-cream lollies.

It is also testing refill stations for shampoo and laundry detergent in shops, universities and mobile vending machines in South East Asia.