Lack of funding slows SME policy implementation

Dhaka chamber calls for reforms in the new scheme

STAR BUSINESS REPORT

Various refinancing and credit guarantee schemes should be introduced for small and medium enterprises on the basis of their needs and nature, said an expert. PHOTO: STAR

A lack of necessary funding and coordination among the affiliated organisations has been one of the main reasons for the slow implementation of the SME Policy 2019, leaving many provisions unrealised, said Ashraf Ahmed, president of the Dhaka Chamber of Commerce and Industry (DCCI).

The goals and objectives of the SME policy should be determined in conjunction with the industrial policy and the five-year plan should be set targeting the future goals of the entire industrial sector, he said.

The SME Policy for 2019 expired in June this year and the latest policy should be included in the budget and work plan formulation activities of different organisations, the Dhaka chamber president said.

He made the comments at an event, titled "Reform of SME Policy-2019 for Sustainable Growth and Innovation", at its office in the capital's Motijheel yesterday.

An agro-based economy will not alone be sustainable for the overall economy, rather the country should go for industrialisation, he said.

Service sector export should also be enhanced, he added.

It will not be possible for many SMEs to survive without increasing the flow of liquidity, Ahmed said.

He also highlighted new models of financing, such as electronic nano-financing, electronic channelling, automation of licensing and its renewal, availability of high-level skills, intellectual property protection, and high-speed broadband internet for the development of the SME sector.

Moreover, he suggested a comprehensive database of SMEs so that the informal sector can be brought into the formal sector.

There is a lack of coordination among government agencies, said Mirza Nurul Ghani Shovon, president of the National Association of Small and Cottage Industries of Bangladesh.

If the government does not arrange the required funds for the implementation of the new SME Policy, it will remain unimplemented again, he said.

He also suggested keeping the arbitration system and bringing the informal SME sector under the new SME policy, he said.

The government is trying to formulate an SME policy of global standards and for that cooperation from all stakeholders will be needed, said Salim Ullah, an additional secretary for policy, law, and international cooperation of the industries ministry.

All the shortcomings of the previous policy will be addressed, and the new one will try to reflect the requirement of all stakeholders for the betterment of the SME sector, he said.

There is a need to have various refinancing schemes and credit guarantee schemes because there are different types of SME entrepreneurs, and their needs are also different, said Nawshad Mustafa, director of the SME and special programmes department of the Bangladesh Bank.

He also stressed the need for having a common facility centre to promote small and cottage entrepreneurs across the country. Anwar Hossain, vice chairman of the Export Promotion Bureau (EPB), reiterated the importance of automation in all client service activities of the government.

The EPB is also trying to make its services automated soon, he said, adding that the backward linkage industry should be strengthened, especially the SME sector.

The National Board of Revenue (NBR) should consider introducing a simplified tax filing process, especially for the cottage, micro, small and medium enterprises (CMSMEs), as too much documentation process is a burden for them, Hossain said.

The SME sector will not develop without the government's patronisation, said Mosharref Hossain, associate professor at the Bangladesh Institute of Bank Management.

He suggested establishing an SME innovation lab where small innovators will get a place to flourish.

The SMEs should also get easy access to finance and the government should have a separate seed fund or venture capital or startup fund for the SME entrepreneurs, he said.

A roadmap is also needed to implement the policies, Hossain added.

Strong institutions a prerequisite for successful reforms

MAMUN RASHID

This year's Nobel Prize in economics has been awarded to British-Americans Simon Johnson and James Robinson and Turkish-American Daron Acemoglu, whose work and research in economics have been to explain how some countries manage to stay ahead of the curve while others fail to do so.

Their most influential book, Why Nations Fail: The Origins of Power, Prosperity, and Poverty, outlines a comprehensive theory that attributes the prosperity of nations to the strength and inclusiveness of their political and economic institutions. According to their research, nations that have developed inclusive institutions allowing broad participation in economic and political activities tend to achieve sustained economic growth.

In contrast, countries with extractive institutions that concentrate power and wealth in the hands of a few elites often experience stagnation or decline.

Their analysis challenges the traditional economic notion that geography or culture alone can explain why some nations are wealthier than others. Instead, they argue that political and economic institutions shape the incentives for innovation, investment, and growth.

The core message of their work underscores the significance of building strong, inclusive institutions that foster participation and equal opportunities. Bangladesh's journey from being one of the poorest nations at its inception in 1971 to becoming one of the fastest-growing economies in Asia is a testament to its resilience.

However, the lack of strong institutions in Bangladesh has manifested in various ways that have hampered its development. One of the conclusions drawn by the Nobel laureates is that authoritarian governments might succeed in the short run through exploitation of natural resources, however, in the long run, democracies flourish because of their institutions' ability to foster innovation.

Despite being democratic on paper, in recent years, Bangladesh has failed to create an environment of innovation stemming from authoritarian bureaucracy, inconsistent and contradictory policy-making as well as policy ambiguity and corruption.

While overemphasising on GDP growth rate may draw a satisfying picture of the country's progress, in the long run, it has no value if not coupled with growth in entrepreneurship and innovation to solve societal problems. Besides, it may also warrant building social capital and ensuring distributive justice.

As the research of Acemoglu, Johnson, and Robinson highlights, these efforts are crucial for long-term prosperity. Strong institutions build trust, reduce uncertainties, and create an environment where businesses can thrive, investments can grow, and societies can prosper with extended comfort at the bottom of the pyramid.

However, things won't change within a fortnight. Institution building might be the key to transparency, anti-corruption, and improved governance.

However, quick reforms aimed to rapidly bear the fruits of institution building proposed by Acemoglu, Johnson and Robinson may not lead to sustainable changes if they are not carefully planned and implemented.

Institution building is a gradual process that involves creating a stable framework where rules, norms and practices are accepted and embedded within society and may also be its changing values.

Rapid, top-down interventions can sometimes lead to unintended consequences that undermine long-term goals. If these actions are not part of a broader, well-thought-out strategy, they may result in temporary compliance or superficial changes that don't last.

Ultimately, the success of institutional reforms depends on building consensus, involving stakeholders, and ensuring that changes are systematically integrated into everyday practices. This process requires patience, consistent effort, and often incremental progress. While rapid actions can signal a commitment to change, they must be backed by long-term strategies that address the root causes of institutional weaknesses to be truly effective.

It also calls for acceptance by the broader stakeholders along with implementation with precision.

Strong, transparent, and accountable institutions can only safeguard transformation and sustainable reform. Too politicised and susceptible to pressure institutions may always work as the last nail in the coffin.

The writer is the chairman of Financial Excellence Ltd

US budget deficit widens to $1.8tn, third highest on record

AFP, *Washington*

The United States on Friday reported a budget deficit of $1.8 trillion for the past year, widening from 2023's level on greater spending, including for interest on the public debt.

The overall deficit expanded by $138 billion for the year ending September 30, said the Treasury Department. The nation's debt remains a key concern for voters ahead of November's presidential election.

This year marks the third highest US deficit, behind 2021 and 2020, according to the Treasury.

In the 2020 budget year, the deficit hit a record of $3.1 trillion as spending soared to help the economy weather the Covid-19 pandemic.

In the latest fiscal year, there was a near 30 percent rise in spending on interest on the public debt, largely due to higher interest rates, the Treasury noted. It topped $1 trillion.

PHOTO: AFP/FILE

But the department added that the widened deficit overall was partly due to a reversal of over $330 billion in costs last year, when President Joe Biden's student loan forgiveness program was struck down by the Supreme Court.

The latest fiscal year also saw an increase in Social Security spending and that on defense.

The rise in receipts, meanwhile, was mainly due to increases in the amount of individual and corporate income tax collected, among other areas.

Although receipts rose from fiscal year 2023, "they remain below historical averages as a share of GDP," said the Treasury and Office of Management and Budget (OMB).

As a percentage of GDP, the deficit was 6.4 percent, up from 6.2 percent in the fiscal year of 2023.

Following the report, a White House official pointed to Congressional Republicans for "tax cuts that led to low revenue levels that increased the debt."

In announcing the latest budget figures, Treasury Secretary Janet Yellen noted that the US economy remained resilient in 2024.

Shalanda Young, director of the OMB, added that the Biden administration has maintained "a commitment to fiscal responsibility."

Both agencies noted that total federal borrowing from the public grew by $2.0 trillion during the latest fiscal year, to $28.2 trillion.

The rise in borrowing included funds to finance the deficit. As a percentage of GDP, borrowing from the public rose from 96 percent to 98 percent.

Global uncertainties drive gold above $2,700

REUTERS

Gold surged above the historic threshold of $2,700-per-ounce on Friday, powered by escalating tensions in the Middle East, uncertainties around the US elections and relaxed monetary policy expectations that pushed the metal into uncharted territory.

Spot gold was up 1 percent at $2,720.05 per ounce by 02:58 p.m. ET (1858 GMT) and has risen 2.4 percent so far this week.

US gold futures settled 0.8 percent higher to $2,730.

"With the conflict intensifying – particularly following Hezbollah's announcement to escalate the war with Israel – investors are flocking to gold, a traditional safe-haven asset," said Alexander Zumpfe, a precious metals trader at Heraeus Metals Germany.

Pledges from Israel and its enemies Hamas and Hezbollah to keep fighting in Gaza and Lebanon dashed hopes that the death of a Palestinian militant leader might hasten an end to escalating war in the Middle East.

Rising geopolitical tensions prompt investors to seek safe-haven assets like gold, driven by risk aversion

PHOTO: AFP/FILE

and concerns over global market instability.

"Adding to the momentum, concerns around the US presidential election and anticipation of looser monetary policies have further fuelled the rally," Zumpfe added.

Gold shattered records multiple times this year as expectations of more rate cuts by central banks and geopolitical uncertainties boosted prices by more than 30 percent so far this year, its best annual growth since 1979, as per LSEG data.

China posts slowest growth in over a year

AFP, *Beijing*

China posted its slowest growth in a year and a half on Friday, underlining the deep economic woes the country faces as its central bank launched a new bid to boost markets and hinted at a further rate cut in coming months.

Investors are eagerly awaiting more detailed plans from Beijing, which has in recent weeks unveiled a slew of stimulus measures to reignite the world's number two economy.

Chinese leaders are targeting annual growth of five percent this year, but that goal is being challenged by sluggish consumption and a prolonged and debilitating debt crisis in the country's colossal property sector.

After a blistering market rally fuelled by hopes for a long-awaited "bazooka" stimulus, optimism has tapered as authorities refrained from providing a specific figure for the bailout.

On Friday, Beijing's National Bureau of Statistics (NBS) said the economy expanded 4.6 percent year-on-year in the third quarter, down from 4.7 in the previous three months and the slowest since early 2023, when China was emerging from its strict zero-Covid policy.

The NBS acknowledged a "complicated and severe external environment... as well as new problems of domestic economic development".

Still, figures showing a forecast-beating rise in September retail sales -- a gauge of consumer activity -- provided a ray of light after a string of below-par readings on a range of indicators including inflation, investment and trade.

They came as China's central bank on Friday launched a swap facility for funds and insurers with an "initial application quota exceeding 200 billion yuan" ($28.1 billion), state media said.

The mechanism implemented by the People's Bank of China (PBoC) will provide greater liquidity for capital markets, which policymakers hope will offer support for the wider economy.

And in a possible sign of more relief to come, PBoC chief Pan Gongsheng said Friday that officials were considering a further cut to the amount commercial lenders must hold in reserve before the end of the year.

State media said just before Friday's GDP data release that the country's top banks had cut interest rates on yuan deposits for the second time this year as part of a move to boost lending.

People walk on a pedestrian street surrounded by shops in Huangpu district in Shanghai. The Chinese economy expanded 4.6 percent year-on-year in the third quarter. PHOTO: AFP/FILE

Beijing has said it has "full confidence" in achieving its annual growth goal of five percent, but economists say more direct fiscal stimulus is needed to revive activity and restore business confidence.

"The will-they-won't-they of announcements has made the process a rollercoaster for markets," said Harry Murphy Cruise, Economist at Moody's Analytics.

He added that the latest data and new measures likely keep this year's growth target "within reach". "But more is required if officials are to address the structural challenges in the economy."

Recent weeks have seen authorities unveil a raft of measures to funnel cash into the economy including a string of rate cuts and loosened restrictions on home-buying.

The recent raft of announcements is a move "in the right direction", said Benson Wu, China and Korea economist at Bank of America Global Research.

"That said, the size and the form of fiscal supports are still unclear," Wu told AFP. One major headache facing the economy has been a prolonged crisis in the property sector, which has long been a key driver of growth but is now mired in a sea of debt.

On Thursday, officials said they would boost credit available for unfinished housing projects to more than $500 billion, a move intended to boost activity in the property sector.