# National Conference on

# Small & Medium Enterprises Competitiveness & Export Growth in Bangladesh

Institutionalized Exclusion:
Bonded Warehouse Policy and SME Export Competitiveness in Bangladesh

*Presentation by*: .

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**Date:** 13th June 2026

**Venue:** Centre on Integrated Rural Development for Asia and the Pacific (CIRDAP)

# CONTEXT &
# THE EXPORT PARADOX

*Bangladesh's structural challenge at the LDC graduation threshold*

# Bangladesh's Export Economy — A Success Built on a Single Foundation

**4**

**DECADES**

of export-led manufacturing growth

**2nd Largest Apparel Exporter**

**>20% of GDP from merchandise exports**

SMEs: 90% of industries
7.8M workers, ~25% of GDP

## The Structural Paradox

RMG generates >82% of merchandise export earnings — one of the highest sectoral concentrations of any major emerging economy. Non-RMG SMEs remain strikingly marginal.

## LDC Graduation Amplifies the Risk

The estimated Annual preference-erosion risk is significant: USD 8 bn (WTO) to USD 17.5 bn (GoB).

## The Strategic Imperative

Diversification into non-RMG sectors — where SMEs are already active — is the primary structural hedge. Yet the institutional architecture actively blocks this pathway.

# Two Related but Distinct Concepts: A Foundational Distinction

*Understanding why general SME support is necessary but insufficient*

## SME COMPETITIVENESS (General)

The ability to survive and grow in ANY market — domestic or international

- ✓ Productivity & cost efficiency
- ✓ Product quality & consistency
- ✓ Managerial capacity
- ✓ Technology adoption
- ✓ Access to inputs and finance

*General competitiveness policies (training, finance, technology) address these dimensions.*
*They are NECESSARY but NOT SUFFICIENT for export market success.*

➕ INSTITUTIONAL BRIDGE NEEDED

## SME EXPORT COMPETITIVENESS

The additional capacity to compete in INTERNATIONAL markets

- ✓ Price competitiveness at international levels
- ✓ Compliance with international quality & standards
- ✓ Export logistics & documentation capability
- ✓ Trade finance access for export cycles
- ✓ Foreign buyer relationships & market intelligence

*BW regime converts domestically competitive firms into internationally uncompetitive ones — by imposing a POLICY-MANUFACTURED cost asymmetry of 25–65% on raw material imports.*

**GENERAL COMPETITIVENESS is necessary but NOT SUFFICIENT for export competitiveness.**

# The Bonded Warehouse Regime: From Strategic Enabler to Structural Filter

## 1980s

### RMG-Centric Design

BW regime designed for RMG: duty-free fabrics, BGMEA collective guarantees, scale-enabling.

## 2008

### Rules Formalised

BW Rules 2008 embed RMG-specific associations, coefficients, and audit procedures.

## 2024

### Digital + Tighter Rules

CBMS-online application. But: 5,000 sq ft minimum, Tk 1cr capital, Tk 3cr bond. Isomorphic mimicry.

## Sept 2025

### SRO-384: Partial Fix

Partial exporters may import duty-free via 100% bank guarantee. But: 1.87% awareness. Prohibitive.

## FIVE INSTITUTIONAL FILTERS

**F1**

Binary 100% export obligation

**F2**

Procedural complexity: 22 documents, 14 stages, 320 SROs

**F3**

100% bank guarantee barrier

**F4**

Financial/physical thresholds (2024)

**F5**

Duty Drawback Trap: 6+ month drawback delays

*"Existing instruments are perceived as too rigid for partial and small exporters."* — NBR KII

# ANALYTICAL FRAMEWORK & STUDY DESIGN

*The three-layer institutionalised cost asymmetry model*

FRAMEWORK

# The Three-Layer Institutionalised Cost Asymmetry Framework

**LAYER 3**

Governance & Political Economy

- Administrative risk aversion (Tirole 1994)
- Asymmetric stakeholder influence: RMG vs. fragmented SMEs
- Path-dependent institutional lock-in
- Isomorphic mimicry (Pritchett et al., 2013)

**WHY the equilibrium persists**

**LAYER 2**

Institutional-Structural Factors

- Binary 100% export obligation
- Geographic/physical thresholds (2024 Rules)
- High fixed compliance costs (22 docs, 14 stages)
- Ineffective duty drawback (6+ months)

**HOW access is blocked — PRIMARY LAYER**

**LAYER 1**

Supply-Side Firm Capabilities

- Managerial capacity · digital literacy
- Finance access · skilled labour · R&D
- NECESSARY but NOT SUFFICIENT for export competitiveness

**WHAT firms bring to the table**

***Reform must address all three layers simultaneously · Layer 3 shapes Layer 2 → Layer 2 amplifies Layer 1 constraints → combined effect = institutionalised exclusion***

# Research Design — Sequential Explanatory Mixed Methods

## 📊 107-Firm Survey

*April 2026, 5 clusters (Kumarkhali, Bogra, Dhaka, Chokoria, Bhairab)*

- 6 non-RMG sectors · 5 geographic clusters
- CAPI via KoboToolbox; BUILD quality monitoring
- Stratified: export status, size, geography

## 🎤 4 Key Informant Interviews

*April–May 2026*

- NBR Customs Commissioner
- Bangladesh Bank DG (CMSME)
- BAPA Secretary General
- EPB Additional Director

## 👥 2 Focus Group Discussions

*April 2026*

- Kumarkhali Home Textile (N=14)
- Chokoria Furniture, Cox's Bazar (N=16)
- Audio recorded, Bangla, thematic coding (κ=0.76)

## 🌍 Validation Workshop

*17 May 2026*

- ~45 participants: NBR, MoC, BB, EPB, SME Foundation
- Industry clusters, development partners (DFAT)
- Produced 5 reform imperatives + 5 commitments

***Integration: Survey data establish the 'what' · Qualitative evidence illuminates the 'why' · Validation Workshop produces the consensus reform agenda***

# SURVEY EVIDENCE
# SEVEN KEY FINDINGS

*What 107 firms, four KIIs, two FGDs, and a validation workshop reveal*

FINDINGS AT A GLANCE

# The Numbers That Define the Problem

**0**

of 107 firms ever used a BW

**13.1%**

Export participation

**1.87%**

SRO-384 awareness

**82.2%**

Double non-awareness

**48.4%**

Latent export supply suppressed

**14.1×**

Small-firm export odds

**1.2%**

Median gross margin

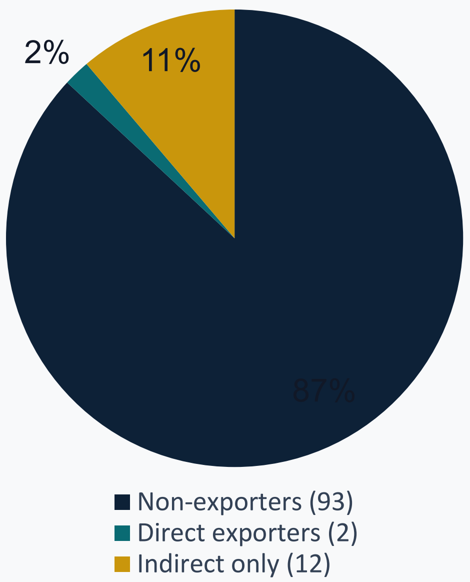
**~40%**

Yarn duty cost premium

FINDING 1

# Export Participation — Marginal, Indirect, and Size-Dependent

Export Status (N=107)




**13.1%**

of firms export at all

**12 / 14**

Export only via intermediaries

**14.1×**

Small vs. cottage export odds (p=0.032)

**p = 0.989**

Labour productivity diff. exporters vs. non-exporters
→ Gap is institutional

EVIDENCE

13.1% export participation; 12 of 14 use intermediaries; labour productivity differences p=0.989.

**Policy Implication**: The export gap is institutionally manufactured, not productivity-determined. Structural institutional reform — not productivity enhancement alone — is the prerequisite.

# FINDING 2 — Zero BW Utilisation and Near-Zero SRO-384 Awareness

**0**

**of 107 firms have EVER used a bonded warehouse**

*including ALL 19 BW-aware firms*

**107**
Total firms surveyed

**19 (17.8%)**
Aware of BW

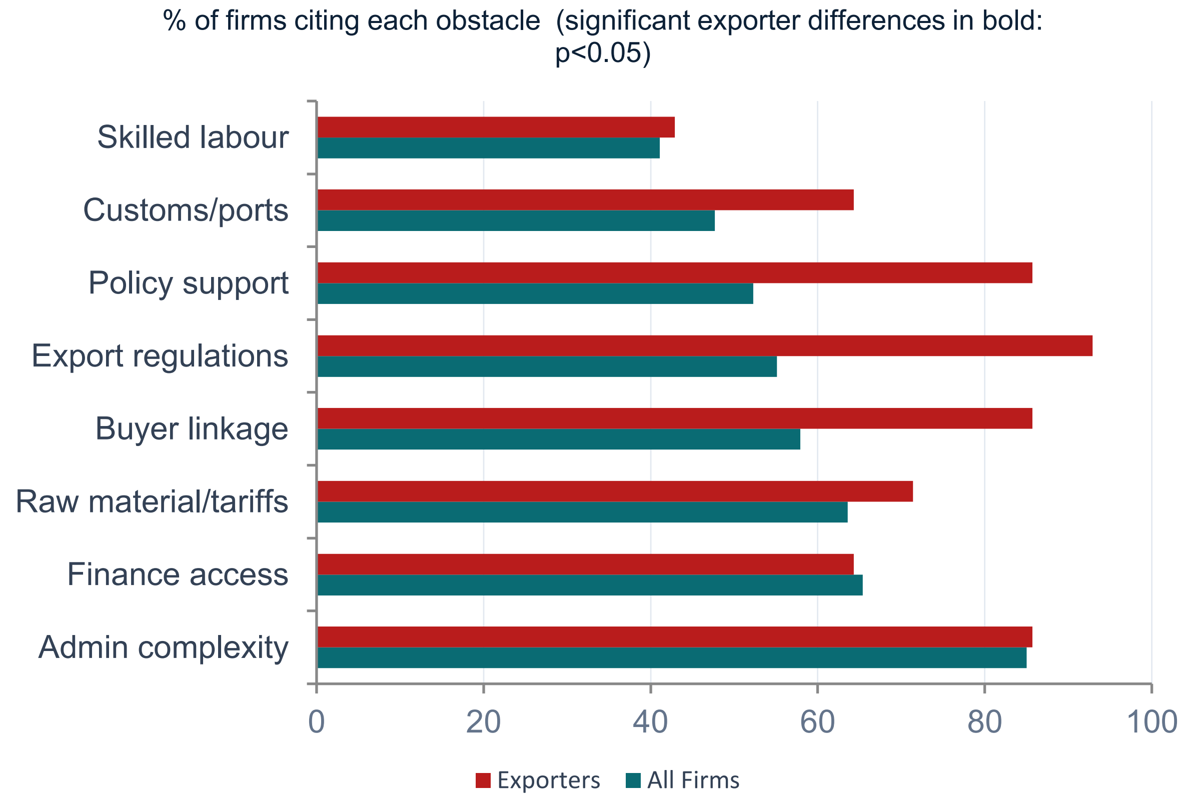
**2 (1.87%)**
Aware of SRO-384

**0 (0%)**
Ever used a BW

"Double non-awareness": 82.2% of ALL firms unaware of both BW and SRO-384
→ September 2025 SRO-384 notification is operationally irrelevant for 98% of intended beneficiaries

FINDING 3

# Export Obstacles — Institutional Barriers Dominate; Exporters Feel Them Most




### Exporter Awareness Effect

Exporters perceive MORE barriers:

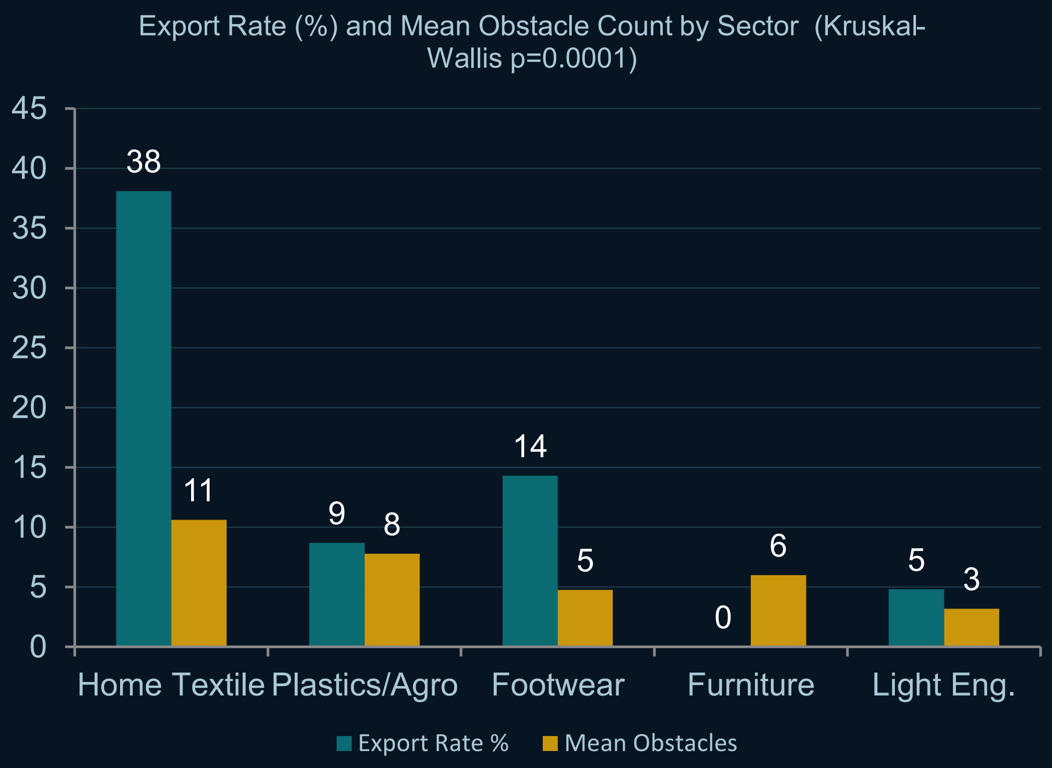
- Export regs: 92.9% vs 49.5% ($p=0.002$)
- Buyer linkage: 85.7% vs 53.8% ($p=0.024$)
- Policy support: 85.7% vs 47.3% ($p=0.007$)
- Mean count: 8.2 vs 6.2 ($p=0.036$)

### Factor Analysis (PCA Varimax)

KMO=0.72 ✓ | Bartlett $p<0.001$ ✓
3 factors → 50.1% total variance

Factor 1 (29.0%): Compliance/Regulatory
Factor 2 (11.5%): Market Knowledge/Linkage
Factor 3 (9.6%): Infrastructure/Finance

# FINDING 4 — Sectoral Heterogeneity: The Home Textile Paradox




### THE PARADOX

Home textile: HIGHEST export rate (38.1%) + HIGHEST obstacle burden (10.62).

Barriers bind even for firms that have crossed the export entry threshold — because cotton/yarn duties add ~40% to input costs on every order.

### THE PUZZLE

Plastics/agro: HIGHEST BW awareness (52.2%) but only 8.7% export rate.
Proves: information ≠ access.
Barriers are structural — not informational.

**Kruskal-Wallis H(4)=66.06, p=0.0001 — dramatic sectoral differences demand differentiated reform, not uniform solutions**

FINDING 5

# Cost Structure — 100% Intermediary Dependence and the Yarn Duty Arithmetic

**100%**

**of importing firms use commercial traders**

*Zero firms import directly*

Median imported RM share in COGS: 32.2%
Median gross margin (winsorised): 1.2%
Yarn duty rate: 25–40% → upfront outlay Tk 386k–619k
For median firm = multiple years of net profit locked up

## HOW DUTIES BECOME PERMANENT COSTS

Trader pays duty on import

↓

Embeds duty + margin in price to SME

↓

SME pays duty-inclusive price

↓

**Duties become PERMANENT, irrecoverable cost**

Three-mechanism chokehold: (1) Upfront duty payment locks working capital · (2) 100% guarantee barrier (collateral 100–200% of loan) · (3) Drawback delays 6+ months at 7–15% interest

FINDING 6

# Five Export Pathways — All Blocked by the Current BW Architecture

| | Pathway | Solution |
|---|---|---|
| 1 | **Direct Exporting**<br>Evidence: Only 2 of 107 (1.9%) — blocked by binary 100% obligation | → Partial Exporter Licence; simplified BW |
| 2 | **Indirect Exporting**<br>Evidence: 12 of 14 exporters (85.7%) use intermediaries — forced, not chosen; 40% duty embedded permanently | → Duty-free RM access for intermediary-channel SMEs |
| 3 | **Backward Linkage**<br>Evidence: SMEs may = ~80% of export value (USD 39.3bn) through supply chains — STATISTICALLY INVISIBLE, zero BW benefit | → Buyer-attributed export intensity; deemed exporter SRO |
| 4 | **Deemed Exports**<br>Evidence: Zero firms use deemed export provisions; awareness near-zero; narrowly limited to EPZ suppliers only | → Simplified SRO; any registered exporter manufacturer |
| 5 | **GVC Participation**<br>Evidence: Entirely absent for non-RMG SMEs — no shared quality testing, certification, or GVC matchmaking | → Common Facility Centres (quality labs, certification) |

FINDING 7

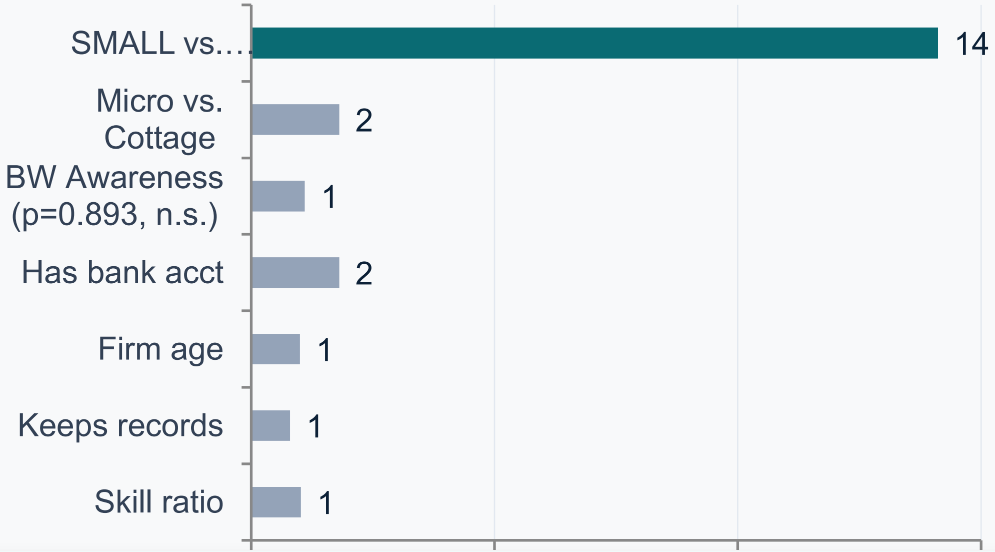
# 48.4% Latent Export Supply Suppressed — and What Actually Predicts Exporting

**48.4%**

of non-exporters would attempt exporting with duty-free access + simplified compliance

IFC (2019): Effective BW access → +USD 1.5bn/year non-garment exports.
45 potential new exporters in this sample alone at 15% median export intensity.

Odds Ratios — Binary Export Participation (★ p=0.032; AME = +34.7 pp)




**EVIDENCE**

48.4% latent supply; BW awareness OR=1.10 (p=0.893) — no independent effect; small-firm OR=14.1× (p=0.032, AME=+34.7pp). Capacity utilisation 83.8%.

**POLICY IMPLICATION**

Awareness campaigns alone will not unlock latent supply. The constraint is structural — the eligibility architecture, not knowledge of the scheme.

# Administrative Risk Aversion — Isomorphic Mimicry in Action

“

*The current instruments — the Bonded Warehouse Licensing Rules 2024, the Entitlement Policy 2024, and SRO-384 — are perceived as too rigid for partial and small exporters. Cluster-based eligibility and shared warehouse management models are not yet incorporated.*

*— NBR Customs Wing KII, 7 May 2026*

## ISOMORPHIC MIMICRY (Pritchett, Woolcock & Andrews, 2013)

### Outward Form ✓ (Visible Modernisation)

✓ CBMS-online applications

✓ 3-year licence validity

✓ Standardised documentation

✓ National Single Window launched Jan 2025

### Functional Reality ✗ (Structural Exclusion Unchanged)

✗ 5,000 sq ft minimum floor area

✗ Tk 1 crore capital requirement

✗ Tk 3 crore general bond

✗ 80.4% of SMEs excluded geographically

***Tirole (1994): NBR evaluated on revenue protection → rational preference for restrictive gatekeeping over risk-based facilitation.***

# Asymmetric Stakeholder Influence — The Political Economy of Inaction

## RMG Sector (BGMEA/BKMEA)

- Dedicated customs liaison offices within BGMEA
- Collective bonding arrangements (pooled guarantee)
- Streamlined audit cycles calibrated to RMG
- Exemption from annual entitlement process
- Sustained high-level political access
- Institutionalised cooperative compliance

**vs.**

## Non-RMG SMEs

- Kumarkhali: 200-yr cluster, NO formal association
- Chokoria: NO organised advocacy capacity
- No customs liaison, no collective guarantee
- Zero coordinated presence in policy dialogue
- "Minimal government engagement" — BAPA KII
- Fragmented across many sectors

**RESULT: Cooperative, low-cost, institutionalised access**

**RESULT: Zero political cost for maintaining status quo**

*Self-Reinforcing Cycle: BW exclusion → suppressed margins → no collateral → banks deny credit → informality perpetuates → exclusion deepens*

# THE REFORM ROADMAP
# LINKING EVIDENCE TO POLICY

*Three pillars · Phased implementation · Linking evidence to recommendations*

# Four Proven Models — Inclusive Duty Suspension Works

## IN India — MOOWR (2019)

★ **No export obligation; any manufacturer eligible; MSME-friendly**

Single-point approval, unlimited validity, post-clearance audit. Exporting MSMEs: 52,849 (2021) → 1,73,350 (2025). WTO-compatible as non-export-contingent scheme.

**→ Directly resolves the partial exporter dilemma**

## VN Vietnam — Compliance Tiering

★ **+18% SME export participation in 3 years**

Firms classified by compliance history (not size). Green tier = expedited clearance. Post-audit model. No revenue leakage reported (World Bank).

**→ Template for Green/Yellow/Red tiering**

## EU EU — Type D Shared Warehouses

★ **Any person can use a licensed operator's facility**

Licensed operators manage bonded facility for multiple SME users. Fixed compliance costs distributed → variable costs for each user. Directly applicable to Bangladesh cluster model.

**→ Template for Kumarkhali CFC design**

## SG Singapore — TradeFIRST

★ **Algorithmic risk scoring; end-to-end digital facilitation**

Automated risk profiling replaces manual gatekeeping. Bangladesh's CBMS (mandatory Jan 2026) + National Single Window provide the technical backbone.

**→ Digital risk management = CBMS integration**

# Three Cross-Cutting Design Principles for Bangladesh Reform

## I PROPORTIONALITY

*Requirements reflect assessed risk — not firm size or export exclusivity*

Pro-rata duty suspension linked to actual export intensity. Reduced guarantee scaled to imports × export ratio. Eligibility based on compliance record, not geography or capitalisation.

*Models: India (MOOWR) + Vietnam*

*Addresses:*
*Layer 2 — Redesign eligibility architecture*

## II POST-CLEARANCE VERIFICATION

*Enforce via digital audit — not ex-ante gatekeeping*

Enable duty-free access upfront. Verify compliance via CBMS digital inventory reconciliation. Risk-based selectivity replaces uniform physical audits.

*Models: India + Vietnam + Singapore*

*Addresses:*
*Layer 2+3 — Rebuild the compliance trust model*

## III SHARED INFRASTRUCTURE

*Licensed operators distribute fixed compliance costs*

A licensed operator (SME Foundation / cooperative) manages bonded facility used by 50 enterprises. Transforms prohibitive fixed overheads into affordable variable costs per user.

*Models: EU Type D warehouses*

*Addresses:*
*Layer 1 — Address fixed-cost regressivity*

**These three principles are mutually reinforcing — Bangladesh's reformed regime must incorporate all three simultaneously**

# Reform Architecture: Three Pillars — From Diagnosis to Action

*Pillar 1: Institutional-Legal · Pillar 2: Shared Infrastructure · Pillar 3: Governance & Finance*

## PILLAR 1
### Institutional-Legal Reform

**R1** — R1: Partial Exporter Licence
(all 5 pathways; 25% export intensity threshold; pro-rata duty suspension; reduced guarantee; post-clearance audit via CBMS; no floor area, capitalisation, or geographic restrictions)

**R2** — R2: Amend BW Licensing Rules 2024
(remove 5,000 sq ft & Tk 1 crore thresholds; cluster eligibility; shared-warehouse model)

**R3** — R3: Tax Rationalisation by Sector
(yarn duty → 5%; agro VAT → max 7.5%; 30-day drawback automation; cross-wing NBR task force)

## PILLAR 2
### Shared Infrastructure & CFCs

**R4** — R4: Kumarkhali CFC — Phase 1
(shared bonded warehouse for cotton yarn; captive power 30% capex + 15% fuel subsidy; digital printing; quality lab with OEKO-TEX; women's training + BDT 5,000 stipend + day-care)

**R5** — R5: Sectoral Feasibility Studies
(NO premature Phase 2 designation; dedicated in-depth studies on production technology, regulatory environment, linkages, geography, skills — BEFORE CFC design)

**R6** — R6: Cluster Infrastructure Plan
(CIUP: gas pipeline, solar mini-grids, dedicated power feeders, environmental clearance single-window for 5 clusters)

## PILLAR 3
### Governance, Finance & Metrics

**R7** — R7: Green/Yellow/Red Compliance Tiering
(CBMS-based algorithmic graduation; Yellow tier for new entrants; Green tier after 18 months clean compliance; Red for risk-flagged firms)

**R8** — R8: Cluster Credit Scoring + 70% Partial Guarantee
(association membership + utility bills + CFC usage as credit proxy; BB partial credit guarantee through SME Foundation; 30% women-led SME target)

**R9** — R9 & R10: CBMS Integration & Revised Metrics (real-time inventory tracking; risk-based selectivity; quarterly public dashboard: new SME licences, processing time, drawback turnaround, exporter entry rates)

# The Partial Exporter Licence: Evidence-Based Design

## THE EVIDENCE DEMANDING THIS REFORM

- ✗ All 14 exporters are partial exporters (0% full export orientation)
- ✗ Binary classification forces commercially infeasible 100% obligation
- ✗ SRO-384 guarantee = prohibitive (collateral 100–200% of loan)
- ✗ BW awareness has ZERO independent effect (OR=1.10, p=0.893)
- ✗ 48.4% would export with duty-free + simplified compliance

→

## PARTIAL EXPORTER LICENCE — KEY DESIGN PARAMETERS

- ✓ Min. 25% export intensity (any five-pathway combination)
- ✓ Pro-rata duty suspension on export-attributable inputs
- ✓ Guarantee scaled to actual imports × export ratio
- ✓ Post-clearance CBMS audit — NOT ex-ante UD/UP
- ✓ No floor area, capitalisation, or geographic restriction
- ✓ WTO-compatible: non-export-contingent (India MOOWR precedent)

## FIVE-PATHWAY ELIGIBILITY — Export intensity = sum of:

| Direct exports (customs decl.) | Indirect exports (intermediary contracts) | Backward linkage (buyer export decl.) | Deemed exports (EPZ/BW supply) | GVC supply (purchase orders) |
|---|---|---|---|---|

### EVIDENCE

All 14 exporters are partial; binary obligation commercially infeasible; BW awareness null effect; 48.4% latent supply.

### POLICY IMPLICATION

Create a legal category for partial exporters. This single reform unlocks more suppressed export supply than any other measure.

# Sector-Specific Tax Rationalisation — Evidence to Policy

## HOME TEXTILE (Kumarkhali)

Yarn/cotton duty 25–40%
→ adds ~40% to input costs
→ makes export unviable

*Evidence: Median gross margin 1.2%*
*Duty outlay > years of net profit*
*Kumarkhali FGD unanimous confirmation*

**→ Reduce import duty on raw yarn/cotton to 5% for all SMEs — not only BW holders**

## AGRO-PROCESSING

Effective VAT burden very high
Multi-commissionerate refund process impossible for SMEs

*Evidence: BAPA KII: confirmed high level of VAT burden*
*Forces SMEs to absorb as permanent cost*

**→ Rationalise to max 7.5% via simplified, refundable VAT mechanism for exported products**

## LIGHT ENGINEERING

Interest rate: 14.5% (BD) vs. 4% (China)
→ cost of finance disadvantage

*Evidence: Workshop testimony from Bogura cluster representatives*
*electricity shortages compound*

**→ 30-day tax refund on imported raw materials (China VAT-rebate model)**

## ALL SECTORS (General)

Parallel multi-agency drawback process: customs duty + VAT + AIT via separate offices

*Evidence: NBR KII: 6+ month delays*
*Kumarkhali FGD: 'not worth the headache'*

**→ Automate duty drawback in single 30-day process covering ALL taxes and duties**

# Kumarkhali CFC — Phase 1 Pilot: Why This Cluster, Why Now

## WHY KUMARKHALI?

| | |
|---|---|
| **Highest export rate:** | 38.1% — the most export-engaged non-RMG sector |
| **Most acute constraint:** | 40% yarn duty → single most impactful fix |
| **Clear demand:** | FGD: 'BW = single most impactful intervention' |
| **Scale:** | ~50 enterprises geographically concentrated |
| **History:** | 200-year manufacturing legacy |
| **Workshop validated:** | Entrepreneurs ready; institutional commitments made |
| **No formal association:** | First step: cluster association formation |

## INTEGRATED CFC PACKAGE

### 🏭 Shared Bonded Warehouse

Licensed third-party operator. Transforms 40% duty burden → recoverable working capital.

### ⚡ Captive Power + Gas

Gas connection / LNG pipeline; Facilitating Captive power Wood-fired dyeing → modern process.

### 🖨 Digital Printing + Quality Lab

Shared modern machinery; OEKO-TEX testing. Enables international quality standards.

### 👩‍🏭 Women's Training Centre

3-month modules; BDT 5,000/month stipend; day-care attached. Skills → earnings BDT 3,000 → BDT 16,000+.

### 📚 Export Facilitation Desk

*Operational model: PPP with SME Foundation as anchor · Licensed operator contracted · FY2025-26 CBWH budget as policy vehicle (scope expanded beyond US yarn)*

# Sector-Specific Studies to Design Phase 2+ CFCs — Heterogeneity Demands Customisation

## WHY THE REFORM ROADMAP DOES NOT NAME SPECIFIC SECTORS FOR PHASE 2 AT THIS STAGE

Sectoral heterogeneity in production technology, regulatory environment, input profiles, skills, forward-backward linkage structures, and geographic footprint is profound. A pre-committed Phase 2 sector design risks replicating Kumarkhali's solution where it does not fit — wasting resources and undermining reform credibility.

## SECTOR-SPECIFIC IN-DEPTH STUDIES — SIX ANALYTICAL LENSES

### 1 Binding Constraints

Primary barriers to export competitiveness — distinguishing general competitiveness gaps from export-specific institutional barriers (the Layer 1 vs Layer 2 distinction)

### 2 Production Technology & Input Requirements

Input-output coefficients, storage conditions, processing requirements → determine BW design

### 3 Regulatory Environment

Sector-specific licensing, safety, environmental, quality certification requirements → shape compliance cost burden

### 4 Workforce Skills Profile

Skills composition, gender dimensions, training needs → determine CFC training module design

### 5 Forward-Backward Linkage Structure

Supply chain relationships, intermediary channels, GVC potential → shape PEL eligibility design

### 6 Geography & Cluster Proximity

Location relative to customs infrastructure, transport costs, cluster concentration → determine CFC viability

# Governance Reform, Financial Inclusion, and Performance Metrics

**R7**

## Green/Yellow/Red Compliance Tiering

New entrants enter at Yellow tier with simplified requirements; graduate to Green after 18 months of clean compliance (expedited clearance, reduced audit). Converts administrative risk aversion into a graduated risk management tool — giving NBR officials what they need to expand access without perceived fiscal risk.

*Evidence basis:*
*Vietnam model · CBMS backbone available from Jan 2026*

**R8**

## Partial Credit Guarantee + Cluster Credit Scoring

BB: 70% guarantee on bank guarantee value required for BW/SRO-384. Issued via SME Foundation. Cluster credit score (association membership, utility bills, CFC records) substitutes for individual credit history for first two loan cycles. Breaks the circular dependency between formalisation and finance access.

*Evidence basis:*
*BB KII: 18% SME lending vs 25% target · finance chokehold documented*

**R9**

## CBMS Integration + NBR SME Helpdesk

Mandate digital inventory tracking for all bonded inputs; integrate CBMS with National Single Window for automated reconciliation; risk-based selectivity replaces uniform physical audits. Dedicated SME helpdesk: Bangla materials, cluster-specific guidance.

*Evidence basis:*
*CBMS mandatory Jan 2026 — infrastructure exists; needs institutional will*

**R10**

## Revised NBR Performance Metrics

Current metrics: revenue collection and leakage prevention only. Revised metrics: (i) new SME BW licences issued; (ii) application processing time; (iii) drawback turnaround (target: 30 days); (iv) new exporter entry rates. Published quarterly. Change what is measured → change what is managed (Tirole, 1994).

*Evidence basis:*
*NBR officials' incentives shaped by revenue metrics — change the metrics*

*Pillar 3 addresses the WHY of exclusion — changing the incentive structures and institutional dynamics that sustain the exclusionary equilibrium*

# Women, Skills, and the Human Capital Opportunity

## THE EVIDENCE

| | |
|---|---|
| 21.3% | Average female employment share across surveyed firms |
| BDT 3,000–4,000 | Women workers' current monthly earnings (Bhairab footwear) |
| BDT 10,000 + | Potential earnings post-skills training |
| 40% | Female employment share in Bhairab footwear |
| 0 | CFCs currently in operation anywhere in Bangladesh |

*"Skills training can multiply women's earnings 4–5× — the highest-return investment in cluster competitiveness and social sustainability."*

## GENDER-SENSITIVE CFC PACKAGE — Built In From Phase 1

### 📚 3-month training modules

Machine operation · digital printing · quality control · export documentation · basic trade English. In-CFC, in Bangla.

### 💰 BDT 5,000/month stipend (6 months)

Covers opportunity cost of training. Ensures participation regardless of household income. For women who complete training and secure employment.

### 🧒 Day-care facilities attached

Precondition for sustained women's participation. Funded through SME Foundation + development partners. Non-negotiable from Phase 1.

### 📈 EPB: women-led SMEs

Continue and expand policy of trade fair access + BW compliance support without individual trade licence requirement.

### 🏢 Bangladesh Bank: 5% refinancing

Actively promote women entrepreneur rate through CFC-linked outreach, simplified application, and cluster credit scoring.

# Evidence-to-Policy Linkage — Every Recommendation Has a Direct Evidence Base

| Finding / Evidence | Mechanism (Framework Layer) | Direct Policy Response | Institution |
|---|---|---|---|
| 0/107 BW utilisations; binary classification bars all 14 partial exporters | Layer 2: Binary export obligation | R1: Partial Exporter Licence (pro-rata, five-pathway) | NBR |
| 1.87% SRO-384 awareness; 100% guarantee prohibitive | Layer 2+3: Info gap + access barrier | R1 + R2: Reduce guarantee; awareness campaign; R3: helpdesk | NBR · EPB · BB |
| 40% yarn duty cost premium → 1.2% median margin → export unviable | Layer 2: Input duty burden on partial exporters | R3: Reduce cotton/yarn duty to 5% for all SMEs | NBR · MoC |
| 100% firms use commercial traders; zero direct import | Layer 2: Import cost permanently embedded | R1: Duty-free RM for five-pathway exporters | NBR |
| EPB: SMEs = ~80% export value via supply chains, invisible | Layer 2: Backward linkage unrecognised | R1 + SRO: Buyer-attributed export intensity; deemed exporter | NBR · MoC · EPB |
| 48.4% latent supply; capacity util. 83%; p=0.989 productivity | Layer 2: Institutional entry costs, not capability gap | R4: Kumarkhali CFC; R1: PEL; R3: Tax reform; R6: CIUP | SME Foundation · NBR |
| BB: 18% SME lending vs 25% target; collateral 100–200% | Layer 3: Finance-capacity chokehold | R8: 70% guarantee; cluster credit scoring | Bangladesh Bank |
| Bhairab women: BDT 3,000 → BDT 16,000 post-training potential | Layer 1: Skills deficit, gender barriers | R11: Women's training centre + stipend + day-care in all CFCs | SME Foundation · EPB |
| NBR: CBMS mandatory Jan 2026; BSW operational; digital infra ready | Layer 3: Digital infrastructure exists; not used for access | R9: CBMS integration; R7: Green/Yellow/Red tiering | NBR |
| Isomorphic mimicry: 2024 Rules tighter while appearing modern | Layer 3: Revenue-centric NBR metrics | R10: Revised metrics include facilitation KPIs (quarterly) | NBR |

# Phased Implementation — Three Phases Over 60 Months

## Phase 1

0–18 months — Foundation & Kumarkhali Pilot

- Legal instrument: Partial Exporter Licence
- Yarn duty → 5%
- Kumarkhali CFC: shared BW + captive power + quality lab + women's training
- SRO-384 awareness campaign (500+ SMEs)
- BB partial credit guarantee + cluster credit scoring
- NBR SME helpdesk + performance metric revision
- Sector-specific studies commissioned

✓ CFC operational; first PEL licences issued; 100 women in training

→

## Phase 2

18–42 months — Differentiated Scaling

- 2–3 additional CFCs (sector-study driven; NOT pre-determined)
- Green/Yellow/Red tiering operational
- CBMS real-time inventory for Partial Exporters
- Association-based group guarantees formalised
- Automated duty drawback (30-day target)
- Sector-specific tax rationalisation packages
- Phase 1 independent evaluation published

✓ 2-3 CFCs operational; tiering live; drawback automated

→

## Phase 3

42–60 months — Nationalisation & Mainstreaming

- National rollout of Partial Exporter Licence
- Post-clearance audit across all commissionerates
- Cluster Infrastructure Upgradation Plan for all priority clusters
- Tripartite review mechanism
- Comprehensive gender-disaggregated impact assessment

✓ National coverage; revenue neutrality demonstrated; 2,000+ women trained

# From Diagnosis to Commitment — FIVE FGD-DERIVED REFORM IMPERATIVES (VALIDATED BY WORKSHOP)

**1 Common Facility Centres**
Cross-sector consensus: CFCs bundling bonded warehouse + machinery + quality lab + training. WBG had planned CFCs — never established. Workshop: revive model; Kumarkhali Phase 1.

**2 Sector-Specific Tax Reform**
Kumarkhali: 40% yarn duty → 5%. BAPA: agro VAT → 7.5%. Light engineering: China-model tax refund. General: 30-day automated drawback.

**3 Women's Training with Support**
Bhairab: 40% women at BDT 3,000-4,000 → trainable to BDT 16,000-20,000. Stipends + day-care essential. Every CFC must include this from Phase 1.

**4 Bangladesh Bank Operational Reform**
18% SME lending vs 25% target. Schemes exist; access does not. Cluster credit scoring + simplified documentation + real-time monitoring.

**5 Utility Support — Captive Power**
Kumarkhali: no industrial gas → wood-fired dyeing → quality compromised. Short term: facilitate captive power. Long-term: gas pipeline + solar.

## INSTITUTIONAL COMMITMENTS MADE

- **Bangladesh Bank: Immediately integrate SRO-384 into ALL SME training modules**
- **MoI: Submit recommendations for SME Policy 2025**
- **MoC: Convey to Secretary; support CFC + PEL model**
- **Bhairab Cluster: Formal land offer for CFC registered**
- **SME Foundation: Submit dedicated BW SRO to the MoI**

# Strategic Recommendations: Five Institutions, Coordinated Action

*The evidence is assembled. The consensus is established. What remains is action.*

### National Board of Revenue

- Gazette Partial Exporter Licence within 12 months — all 5 pathways including backward linkage
- Reduce cotton yarn duty to 5%; automate drawback in 30 days; cross-wing tax task force (3 months)
- Amend 2024 Rules: remove thresholds, enable cluster eligibility
- Publish quarterly performance dashboard (new SME licences, processing time, drawback, exporter entry rates)
- Establish dedicated SME helpdesk by December 2026

### Ministry of Commerce & EPB

- Champion Partial Exporter Licence amendments; lead cross-ministerial BW reform working group
- Launch SRO-384 awareness campaign: target ≥30% cluster awareness by December 2026
- Develop backward linkage registry: large exporters certifying SME suppliers via Bangladesh Single Window
- Scale trade fair support for home textile, footwear, furniture, and agro-processing clusters

### Bangladesh Bank

- Issue partial credit guarantee circular (70%); ensure 30% women-led SME beneficiaries
- Authorise cluster credit scoring within 18 months — pilot in Kumarkhali
- Enforce 25% SME lending target with quarterly monitoring, public cluster-level data, penalties
- Integrate SRO-384 and BW awareness into all SME training programmes (committed: 18 May 2026)

### MoI & SME Foundation

- Establish Kumarkhali CFC within 18 months: shared BW + captive power + digital equipment + quality lab + women's training
- Commission sectoral feasibility studies for Phase 2-3 clusters — DO NOT specify designs before studies complete
- Develop CIUP for Kumarkhali; secure Phase 1 gas and power upgrade funding
- Register Kumarkhali cluster association within 12 months

### Development Partners (including DFAT)

- Fund Kumarkhali CFC pilot: design, implementation, independent evaluation — gender-disaggregated data
- Technical assistance: CBMS-BW integration, automated drawback, customs metric reform, study tours to Vietnam & India
- Fund sectoral in-depth feasibility studies for Phase 2-3 clusters — include backward linkage and gender assessment
- Advocate inclusion of Partial Exporter Licence and CFC provisions in draft SME Policy 2025 (pending cabinet approval)

# Conclusion — The Strategic Imperative for Bangladesh's Post-LDC Future

## Institutionally Produced — Not Market-Driven

SME export marginalisation reflects institutional design, not only capability deficit. Labour productivity is identical between exporters and non-exporters ($p=0.989$). The BW regime that enabled RMG's success now blocks the diversification that post-graduation resilience demands.

## Feasible and Fiscally Sound

India (MOOWR), Vietnam, EU, Singapore demonstrate inclusive risk-managed duty suspension without revenue leakage. Bangladesh's CBMS and National Single Window provide the digital backbone. The reform is technically available — what remains is political will.

## 48.4% Latent Supply Awaiting Institutional Reform

Nearly half of non-exporters are ready to export with duty-free access. Capacity utilisation is 83%. IFC: +USD 1.5bn/year potential. The binding constraint is institutional architecture, not entrepreneurial ambition. The Kumarkhali pilot is the entry point.

## The Window Is Real and Narrowing

LDC graduation — whenever it is finalised — will withdraw the preferences sustaining a structurally concentrated export basket. Each year of delay in reforming the BW regime is a year of suppressed export capacity, foregone employment, and unrealised diversification.

**The post-LDC era will be defined not by how Bangladesh manages the loss of preferences for its existing exports — but by how many new exporters it creates. Bonded warehouse reform is one of key foundations for that future.**

# What Changes With Reform — The Before and After

| Dimension | WITHOUT Reform (Status Quo) | WITH Reform (Three Pillars) |
|---|---|---|
| BW access for partial exporters | None — binary classification bars all 14 exporters | Pro-rata Partial Exporter Licence; 5 pathways eligible |
| Geographic eligibility | De facto EZ-only; 80.4% of firms excluded | Cluster-based nationwide eligibility |
| Compliance model | 22 documents, 14 stages, ex-ante gatekeeping | Risk-tiered, post-clearance CBMS audit |
| Bank guarantee burden | 100% flat; prohibitive for most SMEs | Scaled to export ratio × imports; 70% BB guarantee |
| Yarn import duty | 25–40%; adds ~40% to input costs | 5% for all manufacturing SMEs |
| SRO-384 awareness | 1.87% — operationally irrelevant | Targeted campaign: 500+ SMEs in Phase 1 |
| Backward linkage SMEs | Unrecognised; no BW benefit despite 80% of export value | Eligible via buyer-attributed export intensity |
| Women's earnings in clusters | BDT 3,000–4,000/month; skills-constrained | BDT 16,000–20,000/month post-CFC training |
| Export participation (illustrative) | 13.1% — institutionally suppressed | 48.4% latent supply + USD 1.5bn IFC estimate unlocked |

**Bonded warehouse reform is not an administrative adjustment — it is one of the strategic foundations for Bangladesh's export diversification in the post-LDC era.**

## STUDY AT A GLANCE

| | |
|---|---|
| 107 | non-RMG SMEs<br>6 sectors, 5 clusters |
| 0 | BW utilisations<br>(of 107 firms) |
| 1.87% | SRO-384 awareness |
| 48.4% | Latent export supply suppressed |
| 14.1× | Small-firm export odds vs. cottage |

# Thank You

Questions & Discussion

**Institutionalised Exclusion: Bonded Warehouse Policy and SME Export Competitiveness in Bangladesh**

Dr Wasel Bin Shadat & BUILD Research Team
Supported by DFAT Australia | June 2026

*Full report, appendices, and survey data available from BUILD upon request*
*ceo@buildbd.org | www.buildbd.org*

# Reform Vision: Three Pillars Addressing All Three Framework Layers

## PILLAR 1

### Institutional-Legal Reform

*Layer 2 — redesign eligibility architecture*

- Partial Exporter Licence (five-pathway eligible, pro-rata)
- Amend BW Licensing Rules 2024
- Yarn duty → 5%; VAT rationalisation
- Automate duty drawback in 30 days
- Backward linkage SRO (SME supply chain sellers)

**0–18 months (Phase 1)**

## PILLAR 2

### Shared Infrastructure & Common Facility Centres

*Layer 1 — address fixed-cost regressivity*

- Kumarkhali CFC — Phase 1 anchor pilot
- Shared BW · Captive power · Quality lab
- Women's training centre + day-care + stipends
- Sector-specific studies for Phase 2+ design
- Cluster association formation (group guarantor)

**18–42 months (Phase 2)**

## PILLAR 3

### Governance Reform, Finance & Metrics

*Layer 3 — change incentives and access*

- Green/Yellow/Red compliance tiering (Vietnam model)
- 70% partial credit guarantee (BB → SME Foundation)
- Cluster credit scoring (substitute credit history)
- Revised NBR performance metrics (facilitation KPIs)
- CBMS-BW integration; NBR SME helpdesk

**18–60 months (Phases 2–3)**

# Responsibility Matrix: Who Does What, by When

*Accountability for the 17 key reform actions — Phase 1 (0–18 months)*

| Reform Action | Lead Agency | Start | Deadline | KPI / Success Indicator |
|---|---|---|---|---|
| Partial Exporter Licence — legal instrument gazetted | NBR Chairman | M1 | M12 | SRO gazetted; firms enrolled; backward linkage SRO issued |
| Cotton yarn duty reduced to 5% | NBR Member (Customs) | M1 | M12 | SRO issued; home textile firms confirm cost reduction |
| BW Rules 2024 amendment (thresholds; cluster eligibility) | NBR Member (Customs) | M1 | M12 | Amended rules gazetted; CFC operator licence template issued |
| Kumarkhali CFC — fully operational | SME Foundation DG | M3 | M18 | CFC open; 20+ firms using shared BW; 100 women trained |
| Captive power subsidy — Kumarkhali CFC | Power Division Secretary | M3 | M12 | Notification issued; first CFC generator installed |
| Cluster credit scoring — pilot in Kumarkhali | BB Deputy Governor (CMSME) | M6 | M18 | Scores issued to 50+ firms; first loans disbursed |
| Partial credit guarantee scheme (70% coverage) | BB Executive Director | M6 | M12 | Circular issued; first guarantees disbursed; 30% women-led target set |
| SRO-384 awareness campaign (target ≥30% cluster awareness) | EPB Director General | M1 | M12 | 500+ SMEs reached; awareness survey confirms ≥30% |
| Green/Yellow/Red compliance tiering — CBMS module live | NBR Member (Customs) | M6 | M18 | Module live; first Yellow-to-Green graduations confirmed |
| Revised customs metrics — quarterly dashboard published | NBR Chairman | M3 | M12 | Dashboard published; new SME BW licences tracked from M1 |
| Automated duty drawback (30 days) — pilot sectors | NBR DEDO | M6 | M24 | Average processing ≤30 days for home textile and footwear |
| Sectoral in-depth feasibility studies (Phase 2-3 design) | SME Foundation DG | M6 | M24 | Studies published; Phase 2 CFC designs commissioned |

*M = Month from report publication · Full matrix in Chapter 10, Table 10.2*