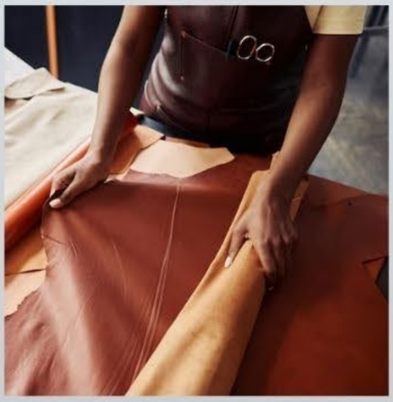
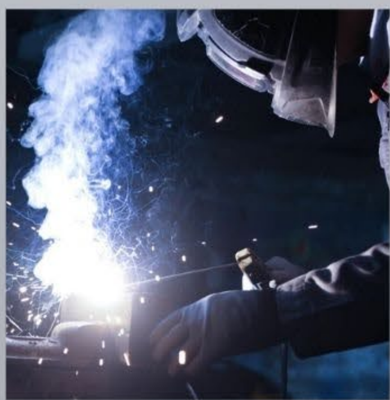
Institutionalised Exclusion

Bonded Warehouse Policy & SME Export Competitiveness in Bangladesh

Prepared by: Business Initiative Leading Development (BUILD)

June 2026





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FINAL STUDY REPORT

Institutionalised Exclusion:

Bonded Warehouse Policy and SME Export Competitiveness in Bangladesh

Study and National Conference on SME Competitiveness and Export Growth
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Contact:
Business Initiative Leading Development (BUILD)
DCCI Building
9th Floor, 65-66 Motijheel Commercial Area
Dhaka-1000, Bangladesh
Phone: +880 1675 481 544
Email: ceo@buildbd.org, info@buildbd.org
Website: www.buildbd.org

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List of Abbreviations

Abbreviation	Full Form
ADB	Asian Development Bank
AEB	Autonomous Emergency Braking
AME	Average Marginal Effect
BAPA	Bangladesh Agro-Processors' Association
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BPGMEA	Bangladesh Plastic Goods Manufacturers and Exporters Association
BSW	Bangladesh Single Window
BTTC	Bangladesh Trade and Tariff Commission
BUILD	Business Initiative Leading Development
BW	Bonded Warehouse
CBIC	Central Board of Indirect Taxes and Customs (India)
CBMS	Customs Bond Management System
CBWH	Central Bonded Warehouse
CDP	UN Committee for Development Policy
CFC	Common Facility Centre
CMSME	Cottage, Micro, Small and Medium Enterprise
COGS	Cost of Goods Sold
CPD	Centre for Policy Dialogue
CRR	Component Retention Ratio
CIUP	Cluster Infrastructure Upgradation Plan
DFAT	Department of Foreign Affairs and Trade (Australia)
DC	Deputy Commissioner
DEDO	Duty Exemption and Drawback Office
EBA	Everything But Arms (EU preference)
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
EU	European Union
FGD	Focus Group Discussion
FY	Fiscal year
GDP	Gross Domestic Product
GSP+	EU Enhanced GSP
GVC	Global Value Chain
IFC	International Finance Corporation
ILO	International Labour Organization
IT	Information Technology
KII	Key Informant Interview
KMO	Kaiser-Meyer-Olkin Measure
LDC	Least Developed Country
LNG	Liquefied Natural Gas
MoC	Ministry of Commerce
MoI	Ministry of Industries
MOOWR	Manufacture and Other Operations in Warehouse Regulations (India)

MFN	Most Favoured Nation
MSME	Micro, Small, and Medium Enterprises
NBR	National Board of Revenue
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
PCA	Principal Component Analysis
PEL	Partial Exporter Licence
PRI	Policy Research Institute
R&D	Research and Development
RM	Raw Material
RMG	Ready-Made Garments
RQ	Research Question
SAFTA	South Asian Free Trade Area
SCM	Subsidies and Countervailing Measures (WTO Agreement)
SMEs	Small and Medium Enterprises
SRO	Statutory Regulatory Order
TFA	WTO Trade Facilitation Agreement
UBID	Unique Business Identification Number
UCC	Union Customs Code (EU)
UD	Utilisation Declaration
UP	Utilisation Permit
UNCTAD	UN Conference on Trade and Development
US	United States
USD	United States Dollar
VAT	Value Added Tax
WBG	World Bank Group
WTO	World Trade Organization

Abstract

This study diagnoses the institutional origins of Bangladesh's small and medium enterprise (SME) export marginalisation, arguing that the bonded warehouse (BW) regime — designed to enable the readymade garment sector's global success — now functions as a structural filter that systematically excludes non-RMG manufacturing SMEs, particularly partial exporters who combine domestic and export sales. Drawing on a mixed-methods design incorporating a structured survey of 107 manufacturing SMEs, four key informant interviews with customs, central bank, and export promotion officials, and focus group discussions in two major industrial clusters (home textiles in Kumarkhali, Kushtia, and furniture in Chokoria, Cox's Bazar), the study generates original firm-level evidence on BW awareness, utilisation barriers, perceived export obstacles, cost structures, and latent export supply. A Validation Workshop of 17 May 2026 — convened with government agencies, sector associations, industry cluster representatives, and development partners — further enriched the findings and produced a validated, consensus-based reform agenda.

The findings reveal a stark institutional paradox. Only 13.1 per cent of firms in the sample export; none of the 107 surveyed enterprises has ever used a bonded warehouse; awareness of SRO-384 (the September 2025 partial-exporter alternative) stands at 1.87 per cent; and the double non-awareness rate is 82.2 per cent. Administrative complexity (85 per cent), limited access to finance (65 per cent), and high raw material dependence and tariffs (64 per cent) dominate perceived export obstacles. Firm size is the dominant predictor of export participation — small firms have 14.1 times the odds of exporting relative to cottage enterprises ($p = 0.032$), while BW awareness exerts no independent effect once size is controlled. Factor analysis identifies three underlying obstacle dimensions — Compliance/Regulatory, Market Knowledge/Linkage, and Infrastructure/Finance — explaining 50.1 per cent of variance. Nearly half of non-exporting firms (48.4 per cent) indicated they would attempt to export with duty-free access and simplified compliance. Qualitative and workshop evidence confirms an exclusionary governance equilibrium driven by administrative risk aversion, asymmetric stakeholder influence, and path-dependent policy lock-in — consistent with isomorphic mimicry (Pritchett, Woolcock, and Andrews, 2013).

International comparative analysis — India's MOOWR, Vietnam's compliance-tiered system, the EU's Type D shared warehouse model, and Singapore's TradeFIRST — demonstrates that inclusive, risk-managed duty-suspension regimes are technically feasible and fiscally sound. Against Bangladesh's LDC graduation backdrop (WTO estimates over 14 per cent export loss risk, equivalent to USD 8 billion annually), the study proposes a differentiated, cluster-led reform roadmap anchored in three pillars: legal recognition of partial exporters with pro-rata duty suspension; establishment of Common Facility Centres integrating shared bonded infrastructure, utility support, and capacity building; and governance reform through compliance tiering, CBMS integration, tax rationalisation, and women's skills development. The reform is framed not as a technical adjustment but as a strategic imperative for Bangladesh's post-LDC export diversification, with Kumarkhali as the recommended Phase 1 pilot.

Keywords: bonded warehouse; SME export competitiveness; partial exporters; Common Facility Centre; trade facilitation; Bangladesh; LDC graduation; duty suspension; institutional reform; isomorphic mimicry; anti-export bias; women workers.

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We hope that the findings and recommendations of this research will contribute meaningfully to fostering a more inclusive, competitive, and export-oriented environment for SMEs in Bangladesh.

Executive Summary

Context and Motivation

Bangladesh's four decades of export-led growth — anchored in RMG, which now generates over 82 per cent of merchandise export earnings — represent a genuine development success. Yet this success conceals a structural paradox: small and medium enterprises, which account for over 90 per cent of industrial establishments, a quarter of GDP, and 7.8 million jobs, the contribution of non-RMG SMEs remains marginal in the export economy. This study argues that the paradox is institutionally produced: the bonded warehouse regime, built for RMG, has become a structural filter excluding non-RMG manufacturing SMEs, particularly the partial exporters who dominate this segment. Bangladesh's LDC graduation (November 2026) — with the WTO estimating potential annual export losses exceeding USD 8 billion — transforms this design flaw from a chronic concern into an acute emergency.

Key Findings at a Glance

0/107 firms ever used a BW	**1.87%** SRO-384 awareness	**82.2%** double non-awareness	**48.4%** latent export supply
13.1% firms export at all	**14.1×** small-firm odds vs cottage	**1.2%** median gross margin	**~40%** yarn duty cost premium

Seven Critical Findings

FINDING 1

Export participation is marginal, indirect, and size-dependent — not productivity-driven

Only 14 of 107 firms (13.1%) export; just 2 do so directly. None are fully export oriented. Small firms (26–120 workers) have 14.1 times the export odds of cottage firms ($p=0.032$). Labour productivity does not significantly differ between exporters and non-exporters ($t=-0.013$, $p=0.989$). The barrier is institutional, not productive.

FINDING 2

Bonded warehouse utilisation is zero and awareness is low

None of the 107 surveyed firms has ever used a BW. SRO-384 awareness: 1.87% (2 firms). Double non-awareness (unaware of both BW and SRO-384): 82.2%. The September 2025 partial-exporter notification (SRO No 384/AIN/2025/106/Customs), which allows duty-free import of raw materials for export against a 100% bank guarantee, is operationally irrelevant for 98% of its intended beneficiaries.

FINDING 3

Institutional and regulatory barriers dominate export obstacles

Administrative complexity (85%), limited finance (65%), raw material tariffs (64%). Three significant exporter-vs-non-exporter differentials: export regulations (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%, $p=0.007$). Factor analysis: three dimensions, 50.1% variance explained.

FINDING 4

Profound sectoral heterogeneity demands differentiated policy

Home Textile paradox: highest export rate (38.1%) with highest obstacle burden (mean 10.62). Furniture: zero exporters despite skilled craftsmanship. Plastic-packaging & agro:

52.2% BW awareness but only 8.7% export rate. Kruskal-Wallis: $p=0.0001$. Each cluster needs a tailored response, not a uniform solution.

FINDING 5

Cost competitiveness structurally undermined through 100% intermediary dependence

Every importing firm uses commercial traders; zero direct importers. Duties are permanently embedded in input prices. For the median yarn-importing home textile firm, duties (~40% of input cost) exceed annual net profit. IFC (2019): effective BW access = USD 1.5bn/year additional non-RMG export potential.

FINDING 6

Vast latent export supply suppressed by institutional design

Strong intent to export: 48.4% of non-exporters would attempt to export with duty-free access and simplified compliance. Capacity utilisation: 83%. The binding constraint is institutional architecture, not entrepreneurial intent or productive capacity.

FINDING 7

Isomorphic mimicry sustains the exclusionary equilibrium

NBR acknowledges instruments are 'too rigid for partial exporters' yet 2024 Rules tightened eligibility. Customs Bond Management System (CBMS) rollout digitalises restriction rather than expanding access. RMG incumbents enjoy institutionalised compliance; key non-RMG clusters have no associations. Validation workshop confirmed consensus on diagnosis and reform direction.

Validation Workshop: What Stakeholders Said (17 May 2026)

The BUILD Validation Workshop of 17 May 2026 brought together representatives from Ministry of Commerce, Bangladesh Bank, EPB, BTTC, SME Foundation, sector associations (BPGMEA, BAPA), cluster entrepreneurs (Kumarkhali, Chokoria, Bhairab), and development partners. Five additional reform imperatives emerged that this report fully integrates:

- Common Facility Centres (CFCs): Stakeholders across sectors called for CFCs that bundle shared bonded infrastructure, modern shared machinery, quality testing labs, and training — not merely BW reform in isolation. The Bhairab footwear cluster offered land. The WBG had planned CFCs but did not establish them; this study recommends reviving the model with a Phase 1 pilot in Kumarkhali.
- Tax rationalisation on raw materials: Home textile entrepreneurs confirmed the 40% yarn duty makes them uncompetitive against India, China, and Vietnam. BAPA documented an effective VAT burden of ~195% on agro-processed exports. Sector-specific tax reduction is as urgent as BW access reform.
- Training for women workers: The Bhairab footwear cluster data — 40% women workers earning BDT 3,000–4,000/month, trainable to BDT 16,000–20,000 — illustrates the human capital opportunity. All CFCs should include women's training centres with day-care and stipends.
- Bangladesh Bank schemes remain inaccessible: The BB representative confirmed only 18% SME lending against a 25% target. Schemes exist but access is blocked by collateral, informality, and documentation. BB needs deep operational reform beyond scheme design.
- Utility support — captive power: Kumarkhali's absence of industrial gas forces wood-fired dyeing, compromising quality and competitiveness. Facilitating captive power generation is the immediate solution, with long-term gas pipeline and solar mini-grid development.

Reform Architecture: Three Pillars, Phase 1 in Kumarkhali

The reform roadmap is differentiated, cluster-led, and phased:

- **Pillar 1 — Institutional-Legal Reform**: Partial Exporter Licence with pro-rata duty suspension (25% export intensity threshold); amend 2024 BW Rules; reduce yarn duty to 5%; automate duty drawback in 30 days; sector-specific VAT rationalisation.
- **Pillar 2 — Shared Infrastructure and Capacity**: CFC in Kumarkhali (Phase 1) integrating shared bonded warehouse, captive power, digital printing, quality lab, women's training with day-care and stipends. Expand to Chokoria (furniture) and Bhairab (footwear) in Phase 2; Bogura (light engineering) and Gazipur (agro-processing) in Phase 3.
- **Pillar 3 — Governance, Finance, and Metrics**: Green/Yellow/Red compliance tiering; cluster credit scoring; CBMS integration; revised NBR performance metrics; Bangladesh Bank partial credit guarantee; dedicated SRO for SME capital machinery.

Strategic Recommendations at a Glance

Institution	Priority Recommendation	Evidence Base	Timeline
NBR	Partial Exporter Licence pilot; amend 2024 Rules; reduce yarn duty; CBMS-BW integration; revised metrics; SME helpdesk	0% BW use; 40% yarn duty; CBMS live Jan 2026	Phase 1 (0–18 mo)
MoC / EPB	Champion amendments; SRO-384 campaign (1.87% aware); scale trade fairs; one-stop export support	48.4% latent supply; buyer linkage gap	Phase 1–2
Bangladesh Bank	Partial credit guarantee; cluster credit scoring; enforce 25% SME target; simplify documentation	Finance chokehold; only 18% SME lending	Phase 1–2
MoI / SME Foundation	Establish Kumarkhali CFC; cluster associations; captive power subsidy; women's training centres	Zero associations; 100% trader reliance; Kumarkhali & Bhairab evidence	Phase 1
Development Partners (DFAT)	Fund CFC pilot & evaluation; CBMS TA; study tours; gender-disaggregated impact assessment	Risk aversion needs demonstrated evidence	All phases

Chapter 1. Introduction
The SME Export Paradox in a Time of Transition

1.1 Background and Context

Bangladesh's economic transformation over four decades stands as one of the most compelling development success stories of the modern era. Sustained growth in manufacturing exports — driven overwhelmingly by the readymade garments (RMG) sector — has underpinned rapid GDP expansion, large-scale employment creation, significant poverty reduction, and deepening integration into global value chains (World Bank, 2019; UNCTAD, 2023). The country has risen to become the world's second-largest apparel exporter, with merchandise exports accounting for over one-fifth of national income. This export-led model has powered Bangladesh's qualification for graduation from Least Developed Country (LDC) status, scheduled for November 2026 — a milestone confirming decades of sustained economic and social progress, and one that Bangladesh's interim government confirmed in early 2026 it intends to proceed with.

Beneath this aggregate success lies a structural paradox with growing strategic consequences. Small and medium enterprises — which account for approximately 90 per cent of all industrial establishments, contribute roughly one-quarter of GDP, and employ close to 7.8 million workers — remain strikingly marginal in the export economy. As of FY2022–23, RMG alone generated over 82 per cent of merchandise export earnings — one of the highest levels of sectoral concentration globally. Policy Research Institute analysis confirms non-RMG product categories face an average anti-export bias (AEB) ratio of 1.303, with the nominal protection rate approximately 27.9 per cent in FY2026 (Business Desk, 2026 and Sattar, 2026). The IFC (2019) estimated that effective BW access for non-RMG exporters could have boosted non-garment shipments by approximately USD 1.5 billion per year, and that Bangladesh lost up to USD 8 billion in cumulative exports over five years due to BW unavailability for non-RMG products.

Bangladesh's LDC graduation amplifies this structural vulnerability acutely. The EU's Everything But Arms (EBA) preferences — under which over 90 per cent of Bangladesh's EU exports currently enter duty-free — will phase out following a three-year transition from November 2026. Bangladesh must qualify for GSP+ or face MFN tariffs of 9–12 per cent from November 2029. The WTO estimates preference erosion could reduce merchandise exports by approximately 14 per cent, equivalent to USD 8 billion annually (Razzaque, Dey, and Rabi, 2024). India market access losses are estimated at approximately USD 764 million (CDP, 2025). Diversification into non-RMG manufacturing is not a long-term aspiration — it is an immediate strategic necessity.

1.2 SME Competitiveness and SME Export Competitiveness: A Critical Distinction

This study focuses on SME export competitiveness — a concept that is related to, but analytically distinct from, general SME competitiveness. The distinction matters for both diagnosis and policy design.

SME competitiveness in the general sense refers to the ability of an SME to produce goods and services that meet the needs of domestic and international buyers at costs that allow the firm to survive and grow over time. It encompasses productive efficiency, factor productivity, quality management, managerial capacity, access to finance and technology, and skills development. This is a broad, multidimensional concept anchored in the firm's internal capabilities and the general business environment.

SME export competitiveness is a more specific concept: the ability of an SME to produce for international markets at competitive prices while maintaining quality levels. SMEs need to conserve delivery terms that are attractive to foreign buyers, while generating sustainable returns. Export competitiveness depends on general competitiveness as a necessary condition — but not a sufficient one. A firm may be highly productive and competitively positioned domestically, yet be unable to export profitably because trade-specific institutional costs (customs procedures, compliance requirements, duty burdens on imported inputs, working capital constraints) raise the effective cost of accessing export markets beyond the firm's threshold.

The relationship between the two concepts is therefore asymmetric and interactive. General competitiveness is a foundation layer: without it, export competitiveness cannot be built. But export competitiveness also requires a second layer of trade facilitation architecture that is proportional, accessible, and aligned with the SME's business model. It is this second layer that is the primary subject of this study.

CONCEPTUAL DISTINCTION

General SME Competitiveness: productive efficiency, quality, managerial and digital capacity, finance access, skills. These are the foundations that make a firm potentially export capable.

SME Export Competitiveness: the additional capacity to participate profitably in international markets — which depends on trade facilitation architecture, duty-free input access, export working capital, buyer linkage, and compliance institutions that are designed to accommodate the SME's business model.

This study's central finding: many non-RMG SMEs in Bangladesh are domestically competitive but export-in competitive — not only because of internal capability deficits but also because of the institutional architecture of export facilitation was built for a different sector and systematically excludes them.

This distinction has a direct empirical counterpart in the study's findings. *Labour productivity shows no statistically significant difference between exporters and non-exporters in the sample* ($t = -0.013$, $p = 0.989$), confirming that the export gap is not driven by productivity differences — firms that export are not more internally capable than firms that do not. What distinguishes them is their size (which affects their capacity to absorb fixed institutional compliance costs) and their location (which determines their administrative proximity to BW infrastructure). *The barriers are trade-facilitation-specific, not general-competitiveness barriers.*

1.3 The Bonded Warehouse Regime and the SME Competitiveness Paradox

Bonded warehousing allows exporters to import raw materials duty-free, conditional on export of finished goods — directly neutralising the anti-export bias of import tariffs and easing working-capital constraints (De Wulf and Sokol, 2005; WTO, 2019). In Bangladesh, this instrument was instrumental to RMG's global ascent: introduced in the early 1980s, formalised by the BW Rules of 2008, and refined through decades of incremental rulemaking embedding BGMEA-based association guarantees, continuous bonding, and simplified audits tailored to large, fully export-oriented garment factories.

Over time, the BW regime evolved into a system highly selective in operation. Access has become effectively restricted to large, fully export-oriented, geographically concentrated firms. The regime's binary classification — recognising only 100 per cent export-oriented firms or purely domestic firms — is fundamentally misaligned with the dominant non-RMG SME business model of partial exporting, which combines domestic and export sales to manage risk, smooth cash flow, and build export capability incrementally. The absence of a legal category for partial exporters forces an impossible choice: commit to an unrealistic 100 per cent export orientation to access duty-free inputs or absorb import duties of 25–65 per cent on raw materials, permanently crippling price competitiveness.

Key Regulatory Development: 2024 BW Rules and May 2025 Amendment
The Customs (Bonded Warehouse) Rules, 2024 (S.R.O. No. 209-Ain/2024/61/Customs) introduced CBMS-based online applications and extended licence validity from two to three years — but simultaneously raised entry barriers:
• Minimum factory/warehouse floor area: 5,000 square feet
• Paid-up capital: Tk 1 crore (limited companies); annual turnover Tk 30 lakh (sole proprietorships)
• General Bond: Tk 3 crore (direct exporters); Tk 1 crore (deemed exporters)
• Detailed financial solvency certificates and wealth statements (Rules 16–17)
SRO No. 231-Law/2025 (29 May 2025) extended compliance deadlines and set bonding capacity at 50% of annual import entitlement. From 1 January 2026, CBMS is mandatory for all BW licence holders.
Critical assessment: Procedural modernisation without structural inclusion — a textbook case of isomorphic mimicry (Pritchett, Woolcock, and Andrews, 2013).

1.4 LDC Graduation: From Chronic Concern to Acute Emergency

LDC graduation triggers three material consequences. First, tariff exposure: EU EBA preferences phase out by November 2029 unless Bangladesh qualifies for GSP+ (requiring implementation of 32 international conventions); negotiations are ongoing following 2024–25 ILO convention ratifications. Second, India market access: Bangladesh loses duty-free SAFTA preferences, with estimated losses of USD 764 million (CDP, 2025). Third, systemic risk amplification: with RMG at 82 per cent of export earnings, any external demand shock transmits directly to the entire export economy. The WTO's USD 8 billion annual preference-erosion estimate is not a marginal projection — it is equivalent to eliminating four years of Bangladesh's average export growth.

Diversification into non-RMG sectors where SMEs are already active is the primary structural hedge. Yet the BW regime raises the effective cost of imported inputs for non-RMG exporters — a distortion decisive in determining whether an export order is commercially viable. The Validation Workshop of 17 May 2026 confirmed this diagnosis across government, industry, and development partner representatives, who reached consensus on both the urgency of reform and the broad contours of the required response.

1.5 Research Objectives, Questions, and Validation

This study pursues three objectives: a diagnostic objective (analysing how BW regime design generates cost asymmetries); an empirical objective (documenting, through firm-level survey evidence, the cost and behavioural effects of exclusion); and a policy objective (developing grounded, politically informed, and administratively feasible reform pathways, validated through stakeholder engagement). Five research questions guide the enquiry:

1. RQ1: What institutional and regulatory features of Bangladesh's BW regime create barriers to SME access, and how have they evolved?
2. RQ2: What is the level of BW awareness and utilisation among non-RMG SMEs, and what factors explain observed patterns?
3. RQ3: What are the perceived obstacles to exporting, and what underlying constraint dimensions emerge?
4. RQ4: How does BW exclusion affect SME cost structures, working capital, and export behaviour — and what is the magnitude of suppressed export supply?
5. RQ5: What design principles from international experience can inform a more inclusive, risk-managed duty-suspension regime?

The findings were presented to and validated by a multi-stakeholder workshop on 17 May 2026, which enriched the empirical diagnosis with cluster-specific evidence and institutional commitments, and produced the consolidated reform agenda reflected in Chapters 9 and 10.

1.6 Scope, Contributions, and Organisation

The study focuses on non-RMG manufacturing SMEs across six sectors and five geographic clusters. Three contributions stand out. Empirically: the first firm-level survey evidence on BW awareness, utilisation, exclusion mechanisms, cost structures, and counterfactual export intentions for non-RMG SMEs in Bangladesh, validated by a national stakeholder workshop. Analytically: a three-layer institutionalised cost asymmetry framework that extends heterogeneous firm trade theory to incorporate policy-manufactured export-specific fixed costs. The framework distinguishes general SME competitiveness from SME export competitiveness, explaining how productive firms can be export-uncompetitive. Prescriptively: a differentiated, cluster-led reform roadmap that addresses all three framework layers, incorporates five export pathways, and integrates the full set of validation workshop imperatives. It translates diagnostic evidence and international comparative learning into a phased, context-sensitive reform roadmap.

The report is organised as follows: Chapter 2: Literature review and conceptual framework. Chapter 3: Research methodology. Chapter 4: BW regime institutional evolution. Chapter 5: Survey findings on export profile, BW awareness, and obstacles. Chapter 6: Cost structures and latent export supply. Chapter 7: Governance and political economy. Chapter 8: International benchmarks. Chapter 9: Reform roadmap (differentiated, cluster-led, incorporating validation workshop findings). Chapter 10: Conclusions and strategic recommendations. Appendices provide Survey questionnaire, statistical tables, KII and FGD protocols, regulatory timeline, glossary, and validation workshop summary.

Chapter 2. Literature Review and Conceptual Framework

This chapter develops the analytical foundation. Section 2.1 examines the determinants of SME export competitiveness. Section 2.2 analyses trade facilitation as an institutional domain. Section 2.3 examines bonded warehousing as a competitiveness instrument. Section 2.4 synthesises these strands into the study's integrated three-layer framework.

2.1 The Determinants of SME Export Competitiveness

2.1.1 Beyond Productivity: Policy-Induced Trade Costs

The dominant theoretical model of export participation — the heterogeneous-firm trade framework of Melitz (2003), extended by Bernard et al. (2007, 2018) — explains SMEs' limited export participation as a function of their lower average productivity. Firms below a critical productivity threshold cannot profitably absorb the fixed costs of entering export markets. From this perspective, supporting SME export capability requires primarily productivity enhancement.

A substantial body of subsequent scholarship has complicated this picture by demonstrating that a significant share of trade costs is policy-induced — embedded in customs procedures, regulatory compliance, documentary requirements, and administrative delays (Djankov, Freund, and Pham, 2010). Djankov, Freund, and Pham (2010) estimate each additional pre-shipment day reduces trade by over 1 per cent — equivalent to distancing a country from its trading partners by 70 kilometres. Hummels and Schaur (2013) show each day of transit delay is equivalent to an ad valorem tariff of 0.6–2.1 per cent. Critically, compliance costs are often regressive: they consume a disproportionately large share of smaller firms' turnover, managerial time, and working capital (Hoekman and Shepherd, 2015).

Hossen (2023) provides directly relevant Bangladesh-specific evidence: pre-shipment costs and export frequency are significantly negatively correlated, with the burden falling most heavily on smaller, less experienced exporters. This finding corroborates the study's central argument: policy-induced components of trade costs manufacture export barriers that would not exist in a neutral policy environment, selectively excluding the firms that diversification strategies aim to promote.

2.1.2 Supply-Side Constraints

Supply-side constraints on SME export capability operate across five dimensions. Managerial capacity limits strategic planning, regulatory engagement, and market development, concentrating operational and compliance burdens on single decision-makers (Bloom et al., 2013). Digital literacy gaps increase reliance on costly intermediaries and prevent effective use of digital customs platforms (OECD, 2021). Access to finance is perhaps the most pervasive constraint: Chaney (2016) demonstrates that liquidity constraints can prevent even productive firms from entering export markets; Manova (2013) shows credit constraints disproportionately affect sectors with high upfront costs; Besedeš, Kim, and Lugovskyy (2014) find financial constraints reduce not only export entry but survival of export relationships. Skilled labour shortages constrain quality consistency (World Bank, 2019). Low R&D investment restricts product differentiation (Griffith, Redding, and Van Reenen, 2004).

For Bangladesh SMEs, financing constraints are severe. The SME financing gap is estimated at approximately 19 per cent of GDP. Collateral requirements typically range from 100 to 200 per cent of loan value. These constraints interact directly with BW exclusion: firms without duty-free access must pay import duties upfront, locking up scarce working capital; those relying on duty drawback face refund delays exceeding six months, effectively imposing a short-term forced loan to the government.

Constraint Dimension	Mechanism of Impact	Key Literature
Managerial capacity	Limits strategic planning, regulatory engagement, market development	Bloom et al. (2013); Bruhn, Karlan, and Schoar (2018)
Digital literacy & technology	Increases intermediary reliance; raises compliance error risk	OECD (2021)
Access to finance & liquidity	Constrains upfront investment; amplifies duty payment burdens	Chaney (2016); Manova (2013); Beck and Demirgüç-Kunt (2006)
Skilled labour & technical expertise	Limits quality, consistency, and technology adoption	World Bank (2019); Rahman et al. (2020)
R&D, innovation & diversification	Restricts movement beyond price-based competition	Griffith, Redding, and Van Reenen (2004)

Table 2.1: Supply-Side Determinants of SME Export Competitiveness — Key Literature

2.2 Trade Facilitation as an Institutional Domain

2.2.1 The WTO TFA and Bangladesh's Progress

The WTO Trade Facilitation Agreement (TFA), which entered into force in 2017 — ratified by Bangladesh in September 2016 — institutionalised the shift from tariff-centric to procedure-centric trade policy, committing signatories to customs simplification, electronic single windows, and risk-based inspection. Bangladesh has made significant progress: the National Single Window was launched in January 2025 (with seven of 19 customs agencies integrated initially), and CBMS was made mandatory for all bonded warehouse holders from January 2026. Moïsè and Sorescu (2019), using OECD Trade Facilitation Indicators across 160+ countries, find improvements in trade facilitation are associated with significant trade cost reductions, often comparable to tariff liberalisation. Yet Bangladesh's average sea-cargo release time remains approximately 11 days (NBR Time Release Study, 2022), versus a 3–5-day regional average.

2.2.2 The Regressive Nature of Compliance Costs

A critical analytical point, often overlooked, concerns the distributional effects of trade facilitation instruments. Many measures — authorised economic operator programmes, bonded warehousing, simplified procedures — require compliance capacity through sophisticated record-keeping, financial guarantees, and internal control systems. These are largely fixed costs that large firms amortise over high export values, while SMEs face per-unit compliance costs that can eliminate already thin margins (Grainger, 2014). Volpe Martincus, Carballo, and Graziano (2015) find that customs modernisation primarily benefited large and experienced exporters in Latin America; Hoekman and Shepherd (2015) document that gains disproportionately accrue to larger firms unless reforms include explicit proportionality mechanisms. Bangladesh's BW architecture exhibits precisely this regressive pattern.

2.2.3 The Political Economy of Trade Facilitation

Institutional political economy provides a powerful explanatory framework for why trade facilitation instruments so often assume forms that disadvantage smaller firms. North (1990) argues that institutions evolve through path-dependent processes shaped by initial conditions, power asymmetries, and self-reinforcing feedback loops. Tirole (1994) analyses why bureaucratic incentives tend toward low-powered, control-oriented behaviour: the multiplicity of goals, difficulty of measuring facilitation outcomes, and heterogeneity of political principals push agencies toward procedures that minimise observable failures — revenue leakage — even when imposing substantial unmeasured costs on firms.

Pritchett, Woolcock, and Andrews (2013) provide the most directly applicable concept: isomorphic mimicry, in which organisations adopt the outward forms of functional institutions elsewhere without changing what they actually do. Applied to Bangladesh's BW regime, this concept precisely describes the 2024 Rules: digital application formats and standardised documentation — visible markers of modern customs administration — introduced while the underlying exclusionary logic remained unchanged or was tightened. This study demonstrates that reform proposals must be evaluated by their functional effect on the allocation of access, not their procedural form.

2.3 Bonded Warehousing: Economic Logic, Governance Challenge, and International Models

2.3.1 Economic Logic of Duty Suspension

Bonded warehousing directly addresses two binding export competitiveness constraints: high input costs from tariff protection, and working capital shortages from upfront duty payments. By deferring or eliminating duties on exported output, it neutralises the anti-export bias created by import tariffs and lowers unit export costs (De Wulf and Sokol, 2005). When access is broad-based, it supports new export sectors and encourages incremental export experimentation. When restricted, it becomes a mechanism for conferring competitive advantage on a narrow class of firms — manufacturing asymmetries that are institutional rather than market-driven.

2.3.2 The Governance Challenge

Effective bonded warehousing is administratively demanding. Customs authorities must trace inputs from import through production to export, detecting diversion into the domestic market. Where institutional capacity is limited, administrations face a difficult trade-off: invest in risk-based post-clearance verification (requiring resources and political will), or rely on procedural controls as a substitute — restrictive eligibility, high guarantees, frequent audits (De Wulf and Sokol, 2005). The latter significantly raises fixed participation costs, effectively filtering out smaller firms. This creates a selective institutional filter: bonded warehousing, designed as a neutral facilitation tool, operates as a mechanism for allocating competitive advantage to firms that already possess compliance capacity.

2.3.3 Duty Drawback as an Imperfect Substitute

Duty drawback — the refund of customs duties paid on inputs subsequently used in exported goods — is frequently presented as a BW alternative. In theory, the economic outcome is identical. In practice, drawback systems in developing countries are characterised by documentation complexity, lengthy delays, incomplete refunds, and administrative discretion (World Bank, 2019). For SMEs, refund delays of six months or longer convert duties into short-term forced government loans, locking up working capital that small firms cannot afford. In Bangladesh, the drawback system's limitations are further compounded by the VAT and Supplementary Duty Act 2012: the DEDO can refund only customs duty and regulatory duty, while VAT, supplementary duty, advance tax, and advance income tax must be recovered through separate, time-consuming processes.

2.3.4 International Models: Design Principles

Four international models demonstrate that inclusive duty suspension is feasible:

India's MOOWR (CBIC, 2019, 2023) represents a paradigm shift: any manufacturer may import duty-free, with duties payable only on domestic-market clearances. Critically, there is no export obligation, no minimum investment threshold, and no geographic restriction —

explicitly MSME-friendly per CBIC guidance. Single-point Commissioner approval with unlimited licence validity dramatically simplifies access. Revenue protection is through bonds, digital inventory tracking, and post-clearance audit. MOOWR is WTO-compatible as a non-export-contingent scheme — critical for Bangladesh post-LDC graduation when export-linked subsidies face greater scrutiny under the SCM Agreement. India's number of exporting MSMEs grew from 52,849 (2020–21) to 1,73,350 (2024–25).

Vietnam's risk-based, compliance-tiered customs system classifies firms by compliance history and financial transparency, irrespective of size. The World Bank evaluates Vietnam's e-customs as 'the first and most significantly successful project towards digitalising and modernising the administrative system in Vietnam' — enabling automated risk profiling and post-clearance audit as the primary enforcement mode. SME export participation increased approximately 18 per cent within three years without revenue leakage.

The EU's Type D public customs warehouse model permits a licensed professional operator to manage a bonded facility used by multiple firms, with public warehouses usable by 'any person' (European Commission, 2020). This shared-infrastructure approach dramatically reduces the fixed compliance costs prohibitive for individual SMEs — directly applicable to Bangladesh's traditional cluster model.

Singapore's TradeFIRST employs algorithmic risk scoring for holistic firm evaluation, illustrating the frontier of digital risk management. For Bangladesh, the CBMS and National Single Window provide the technical infrastructure for a similar transition; the challenge is institutional will to use this infrastructure for expanded access, not merely digitised restriction.

2.3.5 Bangladesh in the Literature

Bangladesh's BW system has generated substantial analysis. Rahman and Bari (2019) identify path dependence as the central dynamic: early success created administrative specialisation and a powerful beneficiary coalition. BUILD (2023) documents the specific procedural barriers — 22 documents, 14 steps. The IFC (2019) estimated USD 1.5 billion/year additional non-RMG export potential from inclusive BW access. A critical gap remains: there is no systematic firm-level quantitative evidence on how BW exclusion affects SME cost structures, compliance burdens, and the latent export supply that might be unlocked through reform. This study directly addresses that gap.

2.4 Beyond Direct Exports: Multiple Pathways of SME Export Participation

The conventional narrative on SME export participation focuses narrowly on direct exporting – firms selling finished goods directly to foreign buyers. However, the empirical evidence from this study and the broader literature reveals a far more complex and multi-layered reality. SMEs contribute to export earnings through at least five distinct mechanisms, each with different institutional requirements, cost structures, and policy implications. Recognising these pathways is essential for designing reforms that unlock the full export potential of Bangladesh’s SME sector.

Direct Exporting occurs when an SME sells its finished goods directly to a foreign buyer, importer, or end-user without intermediary involvement. This is the most visible form of export participation and the one that dominates trade statistics. Direct exporters are typically larger, more formalised, and possess greater managerial capacity, digital literacy, and access to trade finance. In this study, only 2 out of 107 firms (1.9%) were direct exporters – a stark indicator of the institutional barriers that block this pathway. To enable direct exporting, SMEs need duty-free access to imported raw materials, simplified customs procedures, export working capital, market intelligence, and quality certification support.

Indirect Exporting is the dominant mechanism for SME export participation in Bangladesh. SMEs sell their products to domestic intermediaries – export houses, buying houses, trading companies, or larger manufacturers – who then export the goods under their own name. The SME never directly engages with customs or foreign buyers. In this study, 12 of 14 exporters (85.7%) were indirect exporters. The Kumarkhali cluster's largest enterprise has supplied an intermediary exporter for decades but has never exported directly. This model offers a low-risk entry point but makes the SME invisible in export statistics. Policy support for indirect exporters requires duty-free raw material access and simplified compliance for their sales to intermediaries, but not necessarily direct customs clearance capacity.

Backward Linkage to Export-Oriented Large Manufacturers is a third, often overlooked mechanism. SMEs supply intermediate goods, components, or services to large export-oriented manufacturers (primarily in RMG, but also in leather, plastics, and electronics). These SMEs are not exporting directly or even indirectly; they are upstream suppliers in a value chain that ends in exports. Studies estimated that SMEs account for up to 80% of export value through such supply chains – approximately USD 39.3 billion of USD 48.34 billion total exports – yet they are statistically invisible. These SMEs face a critical constraint: they must import raw materials at full duty, while the large manufacturer imports finished products duty-free, creating a perverse cost asymmetry. Policy must recognise backward-linkage SMEs as de facto export contributors and extend pro-rata duty suspension to the share of their production sold to verified exporters.

Deemed Exports are a specific category of domestic transactions treated as exports for fiscal and trade policy purposes. When goods are supplied to a foreign-owned or export-oriented enterprise operating in an EPZ, bonded warehouse, or other designated area, the supply may qualify as a "deemed export" and receive duty drawback or tax rebates. In Bangladesh, this concept is narrowly applied and poorly understood. To activate deemed exports, NBR should issue a clear, simplified SRO defining eligibility for SMEs supplying to any registered export-oriented manufacturer, allow self-declaration with post-clearance verification, and extend the Partial Exporter licence to cover deemed exports.

Participation in Global Supply Chains (GVCs) is the most sophisticated mechanism, with the highest value-added potential. SMEs become tier-1 or tier-2 suppliers to multinational corporations' global production networks, exporting intermediate components or sub-assemblies. This requires just-in-time delivery, strict quality consistency, traceability, and compliance with international labour and environmental standards. The barriers are high: certification costs, advanced digital inventory systems, and long payment cycles. Bangladesh's non-RMG SMEs are almost entirely absent from GVCs. Policy interventions require shared quality testing centres (CFCs), training on GVC compliance standards, matchmaking with lead firms, pre-shipment finance, and a regulatory environment that recognises GVC supply relationships as qualifying for pro-rata duty suspension.

The five mechanisms are not mutually exclusive. A single SME might simultaneously use several of them. The current bonded warehouse regime recognises none of these hybrid models. Its binary classification – 100% export-oriented or purely domestic – actively penalises the most common and most rational SME business strategies. The Partial Exporter licence proposed in this study is designed to accommodate all five mechanisms, with eligibility based on a minimum export intensity threshold that can be met through a combination of direct exports, indirect exports, backward linkage sales (verified by the buyer's export documents), deemed exports, and GVC supply contracts. The following empirical chapters demonstrate how the current regime blocks each pathway, and the reform roadmap operationalises their inclusion.

2.5 The Three-Layer Conceptual Framework: Institutionalised Cost Asymmetry

Integrating these literatures, this study develops a three-layer framework that distinguishes general SME competitiveness (primarily Layer 1) from SME export competitiveness (primarily Layers 1 and 2) and explains the governance dynamics that sustain institutional exclusion (Layer 3).

Layer	Concept	Key Mechanisms	Empirical Operationalization
Layer 1 Supply-Side Firm Capabilities	Managerial capacity, digital literacy, finance access, skills, R&D — the general competitiveness foundation	Determine baseline productive capacity; interact with Layer 2 (amplified or mitigated by institutional design). A necessary but insufficient condition for export competitiveness.	industry_cat_n, skill_ratio, has_bank, keeps_records, firm_age; BB KII on collateral; generic capability gaps confirmed by validation workshop
Layer 2 Institutional-Structural Factors	BW eligibility design, binary export obligation, geographic thresholds, compliance architecture, duty drawback effectiveness, five-pathway recognition	Create export-specific fixed costs that are regressive with respect to firm size. These are the primary determinants of SME export competitiveness beyond the general competitiveness foundation.	aware_BW, aware_SRO, Q19_1 non-use reasons, obstacle_count, factor analysis; EPB on backward linkage invisibility; 320 SROs (248 unrecorded)
Layer 3 Governance & Political Economy	Administrative risk aversion, asymmetric stakeholder influence, path-dependent lock-in, isomorphic mimicry	Explain why the exclusionary equilibrium persists despite its costs — sustaining both the export-competitiveness deficit and the general competitiveness gaps that institutional reform could address.	KII: NBR, Bangladesh Bank, EPB, BAPA; FGD: Kumarkhali, Chokoria; 2024 Rules as isomorphic mimicry; validation workshop commitments as reform entry points

Table 2.2: The Three-Layer Framework. The distinction between Layers 1 and 2 operationalises the conceptual distinction between general SME competitiveness (Layer 1) and SME export competitiveness (Layers 1+2). Reform must address all three layers simultaneously.

The framework's central claim is that Bangladesh's SME export marginalisation is institutionally produced through the interaction of three analytical layers.

Layer 1 — Supply-Side Capacity: The internal characteristics of SMEs that determine baseline productive capacity, cost structure, and competitiveness. Includes managerial capacity, digital literacy, access to finance, skilled labour, and innovation investment. These are genuine constraints, but they are not the primary explanation for the export participation gap documented in the survey (labour productivity does not significantly differ between exporters and non-exporters).

Layer 2 — Institutional-Structural Factors: The formal rules, procedures, and administrative practices governing BW and duty drawback. These factors do not operate neutrally: they systematically magnify Layer 1 constraints, transforming manageable internal limitations into binding barriers. The binary export-orientation classification, geographic restrictions, high fixed compliance costs, and ineffective duty drawback are the key institutional filters. The Policy Research Institute study confirms that non-RMG products face an Anti-Export Bias (AEB) ratio of 1.303, situating the BW exclusion within a broader policy architecture systematically biased against exporting (Business Desk, 2026).

Layer 3 — Governance and Political Economy: Administrative risk aversion (bureaucratic preference for ex-ante control), asymmetric stakeholder influence (RMG incumbents versus fragmented SME constituencies), and path dependence (self-reinforcing institutional dynamics). Together these produce a stable but inefficient exclusionary equilibrium. The isomorphic mimicry dynamic (Pritchett, Woolcock, and Andrews, 2013) — reforms adopting the form of modern administration without its substance — explains why successive reform cycles have failed to achieve structural inclusion.

The framework specifies a clear causal pathway: supply-side constraints define SMEs' baseline capabilities; institutional-structural factors can either mitigate or magnify these constraints; governance dynamics determine which institutional design is adopted and sustained. The policy implication is equally clear: effective reform must address all three layers simultaneously. Technical fixes to Layer 2 will fail without also addressing Layer 3 governance incentives; Layer 1 capacity building without Layer 2 reform merely prepares firms for a door that remains locked.

2.5.1 Gender and the Framework

A dimension requiring explicit acknowledgement is gender. While both male- and female-owned SMEs are affected by BW exclusion, barriers may be differentially severe for women entrepreneurs, who face compounding disadvantages in access to finance (property-based collateral systems disadvantage women's ownership patterns), administrative navigation (customs environments where women may face informational barriers), and access to the networks through which bonded access is often informally managed. The SME Foundation's cluster financing provisions and Bangladesh Bank's dedicated targets for women entrepreneurs represent necessary but insufficient institutional responses.

Chapter 3. Research Methodology

3.1 Research Design: Sequential Explanatory Mixed Methods

This study investigates a multi-layered institutional problem requiring a research approach capable of capturing formal rules and procedures, firm-level cost structures and behavioural responses, and administrative logics and power dynamics. A sequential explanatory mixed-methods design (Creswell and Plano Clark, 2017) is appropriate: quantitative methods document and measure the economic-competitiveness effects of BW exclusion, while qualitative methods explain the institutional-structural and governance-political economy dynamics that produce and sustain those effects. The two components are analytically integrated at the interpretation stage, with each body of evidence used to contextualise, elaborate, and challenge the other.

3.2 Quantitative Component: The SME Survey

3.2.1 Sampling Strategy

The sample was purposive and analytically informative rather than statistically representative of the entire SME population. The sampling frame was constructed in collaboration with the SME Foundation, drawing on its registry of active manufacturing enterprises and sector-specific business association lists. The frame was restricted to firms in five non-RMG manufacturing sectors: footwear, light engineering, plastic packaging & agro, home-textile and furniture. Firms were stratified along three dimensions: export status, firm size (consistent with national SME definitions), and geographic location across major industrial clusters. The achieved sample comprised 107 firms. Figure 3.1 illustrates the geographic distribution of the sampled firms across Bangladesh, with each district highlighted to indicate the areas from which the data were collected.

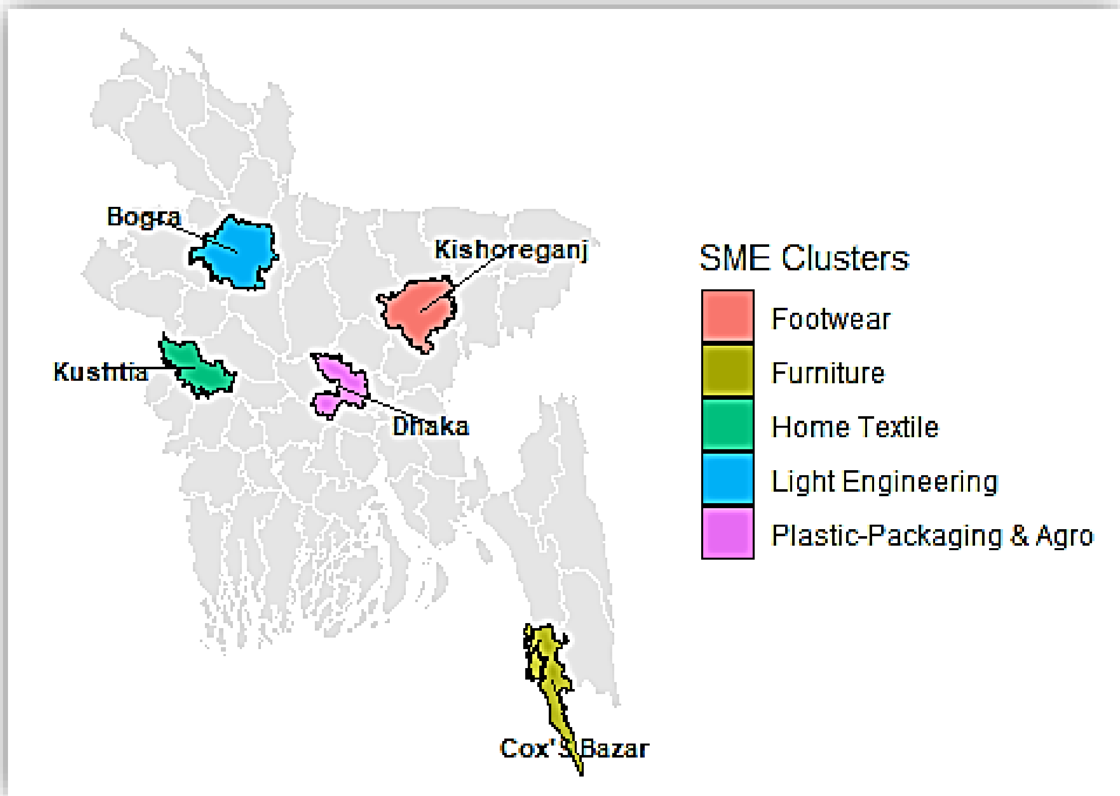

Figure 3.1: Data Collection Location Across Bangladesh.

3.2.2 Field Implementation

Data collection was conducted from 12 – 23 April 2026 under continuous BUILD supervision. Five trained enumerators were deployed, with cluster-level identification facilitated by SME Foundation-appointed cluster leaders. The survey was administered through computer-assisted personal interviewing (CAPI) via KoboToolbox on tablet devices, with built-in validation checks and daily quality reviews by BUILD, flagging inconsistencies for follow-up. This concentrated collection period minimised temporal variation.

3.2.3 Instrument Design

The final instrument comprised 41 main questions in six modules: Module A (enterprise identification and basic profile); Module B (financial practices and employment); Module C (export participation and BW engagement — the core module); Module D (export obstacle battery — 15 items); Module E (fixed assets, employment structure, and costs); and Module F (production, sales, and capacity). Supporting repeating groups captured product-level and worker-type data.

3.2.4 Derived Variables and Data Processing

Following collection, the dataset underwent cleaning, consistency checking, and variable derivation. Key derived variables include: export status (exporter, direct exporter, indirect-only, export intensity, partial exporter flag); BW indicators (awareness, utilisation, SRO-384 awareness); obstacle indices (additive count; three factor scores from PCA); financial performance indicators (COGS, gross margin, labour productivity, capacity utilisation, import duty as percentage of imported raw material value); and import structure (imported RM share in COGS, direct importer flag). For robustness check, all continuous financial variables were winsorized at the 5th and 95th percentiles to reduce outlier influence.

3.3 Qualitative Component

3.3.1 Key Informant Interviews

Four key informant interviews were conducted with senior officials of BAPA (Bangladesh Agro-Processors' Association), 27 April 2026; Bangladesh Bank, SME and Special Programmes Department, 5 May 2026; Export Promotion Bureau (EPB), 7 May 2026, and Customs Wing, National Board of Revenue, 7 May 2026.

Semi-structured protocols explored: perceived effectiveness of current BW instruments; sources of administrative risk aversion; feasibility of expanding SME access; and institutional obstacles to reform. Interviews were audio-recorded with consent, transcribed, and subjected to two-cycle thematic analysis (Braun and Clarke, 2006).

3.3.2 Focus Group Discussions

Two FGDs were conducted:

- Kumarkhali home textile cluster, Kushtia — 16 April 2026 — 14 participants including the owner of Bulbul Textile (>100-year-old enterprise)
- Chokoria furniture cluster, Cox's Bazar — 15 April 2026 — 16 participants

Both FGDs were conducted in Bangla, facilitated by BUILD researcher, audio-recorded with participant consent, and translated into English. Thematic analysis used Braun and Clarke's (2006) two-cycle framework: descriptive codes (first cycle) and pattern codes aligned with the three-layer analytical framework (second cycle).

3.4 Desk-Based and Comparative Analysis

The desk review encompassed: primary legislation and subordinate regulations (Customs Act 2023; Bonded Warehouse Rules 2008; Bonded Warehouse Licensing Rules 2024; S.R.O. No. 209-Ain/2024/61/Customs; SRO-384; SRO No. 231-Law/2025); policy documents (National Budget Speeches FY2023–26; National Tariff Policy 2023; Export Policy 2021–24; Smooth Transition Strategy for LDC Graduation); and academic and policy literature from the World Bank, ADB, UNCTAD, OECD, WTO, CPD, IFC, PRI, and BUILD. Four international comparator cases were purposively selected: India (MOOWR), Vietnam, EU (Type D), and Singapore (TradeFIRST).

3.5 Data Analysis Strategy

Survey data were analysed in Stata 17 using: descriptive statistics; bivariate comparisons (t-tests, chi-square); principal-component factor analysis with varimax rotation of the 15-item obstacle battery; logistic regression for binary export participation (with odds ratios and average marginal effects); OLS regression for continuous outcomes; and financial analysis including counterfactual simulation of cost reductions under hypothetical duty-free access. All regressions employed heteroskedasticity-robust standard errors.

Quantitative and qualitative evidence are integrated at the interpretation stage: survey findings establish the empirical landscape; qualitative evidence explains the institutional mechanisms, administrative reasoning, and coping strategies that produce the patterns observed in the data. Apparent contradictions between evidence sources are treated analytically rather than resolved by suppressing one source.

3.6 Ethical Considerations and Limitations

All participants received information on the study's purpose, voluntariness, and confidentiality safeguards. Informed consent was obtained before data collection. Survey data were anonymised at entry. The study has several limitations: the sample is purposive and not statistically representative; the very small number of direct exporters (n=2) constrains sub-group statistical analysis; financial data are self-reported; the cross-sectional design precludes dynamic analysis; and international comparison serves a heuristic, principle-extraction purpose rather than rigorous evaluation. These limitations are transparently acknowledged throughout. The study's strength lies in evidence triangulation and analytical coherence across diverse evidentiary sources within a clearly specified framework.

Chapter 4. The Bonded Warehouse Regime: Institutional Evolution and Structural Exclusion

This chapter analyses the bonded warehouse regime's institutional evolution, its current dualistic architecture, the anti-export bias it embeds, and why successive reform cycles have produced procedural modernisation without structural inclusion.

4.1 Origins: RMG-Centric by Design

Bangladesh's bonded warehouse system was introduced in the early 1980s as a targeted industrial policy instrument to support the nascent RMG sector. Garment manufacturers faced prohibitive tariffs on imported fabrics and accessories with no adequate domestic substitute. The BW regime allowed duty-free importation conditional on export of finished goods, directly neutralising the anti-export bias for RMG. The Bonded Warehouse Rules of 2008 formalised this orientation, embedding sector-specific facilitation: BGMEA-based association guarantees, continuous bonding arrangements, simplified audit procedures, and longer audit cycles — all tailored to the operational characteristics of large, homogeneous, fully export-oriented garment factories (NBR, 2008; Rahman and Bari, 2019).

The regime's effectiveness in propelling RMG to global prominence is beyond question. What is analytically significant is how this success became institutionally self-reinforcing. The administrative specialisation, sectoral facilitation mechanisms, and powerful beneficiary coalition that emerged from RMG's success created a path-dependent architecture — one that subsequent reforms have reinforced rather than corrected (North, 1990; Rahman and Bari, 2019).

4.2 A Dualistic and Exclusionary Architecture

The current BW architecture is dualistic. RMG exporters benefit from: streamlined BGMEA-facilitated processes; collective bonding arrangements; simplified audits; exemption from the annual entitlement process for direct exporters; permission for multiple premises under a single licence; and a cooperative, institutionalised relationship with customs that dramatically reduces transaction costs. Non-RMG firms — to the extent they engage at all — face a dense procedural architecture:

- Firm-specific licensing and bonding requirements with high fixed costs
- Export orientation thresholds of 80–100% of sales — excluding partial exporters by definition
- Ex-ante approval of Utilisation Declarations (UD) and Utilisation Permits (UP) for each import consignment
- Fixed input-output coefficients and rigid wastage norms determined by NBR technical committees
- Frequent physical audits and annual licence renewal procedures
- High bank guarantee requirements immobilising working capital
- Minimum 5,000 sq ft premises and Tk 1 crore paid-up capital (2024 Rules)

The NBR Customs KII directly acknowledged this dualism: existing instruments are 'perceived as too rigid for partial and small exporters,' and 'cluster-based eligibility and shared warehouse management models are not yet incorporated.' This is a remarkable concession from the regulatory authority responsible for the regime's administration.

Recent studies claimed that 39% of non-RMG products are globally competitive but face a policy-induced anti-export bias (Business Desk, 2026 and Sattar, 2026). The estimated average anti-export bias ratio 1.303 indicate a policy environment systematically favouring domestic sales over exporting. RMG operates within a de facto free trade enclave; most other industries face a multi-layered regime of customs duties, regulatory duties, supplementary duties, VAT, advance income tax, and other para-tariffs. The bonded warehouse exclusion exemplifies an acute institutional manifestation of a systemically anti-export trade policy architecture. Firms that lack BW access do not merely pay a tariff — they face the full combined effect of tariff protection, para-tariffs, and working capital immobilisation that the BW system was designed to neutralise for RMG but leaves fully operative for everyone else.

The Architecture of Exclusion: Five Institutional Filters

The regime crystallised into a multi-layered structure that produces systematic exclusion of non-RMG SMEs through five interacting filters:

- **F1.** Binary Export Obligation: The regime recognises only fully export-oriented and purely domestic firms — no legal category for partial exporters. All 14 exporters in this study's sample are partial exporters; none are fully export oriented. To access duty-free inputs, an SME must commit to commercially infeasible 100% export orientation.
- **F2.** Procedural Complexity: Non-RMG applicants navigate approximately 22 documents across 14 procedural stages. Approximately 320 SROs govern the BW regime, of which 248 are unrecorded (NBR Customs KII), most designed for RMG — creating an inherently more complex environment for other sectors.
- **F3.** Capital-Intensive Guarantee: SRO 384's 100% bank guarantee on imported input value is inaccessible to asset-poor SMEs. Collateral requirements of 100–200% of loan value and the banking system's 30.6% NPL rate (December 2025) make formal guarantee provision practically unavailable.
- **F4.** Geographic and Physical Thresholds (2024 Rules): The Bonded Warehouse Licensing Rules 2024 (SRO 209-Law/2024/9/Customs) imposed financial and physical thresholds producing a pronounced spatial filter. This represents isomorphic mimicry (Pritchett et al., 2013): procedural digitalisation without structural inclusion.
- **F5.** Duty Drawback Trap: For firms without BW access, drawback processing remains "lengthy; exporters often face significant delays" (NBR Customs KII), forcing firms to finance duty payments at 7–15% interest during the refund period — transforming a theoretically neutral mechanism into a competitive penalty.

4.3 The 2024 Rules: Procedural Modernisation Without Structural Inclusion

The Customs (Bonded Warehouse) Rules, 2024 (S.R.O. No. 209-Ain/2024/61/Customs) replaced the earlier Licensing Rules of 2008. The headline changes — online application through CBMS and extended licence validity from two to three years — represent genuine procedural improvements. However, the new rules simultaneously introduced tighter entry requirements:

- Minimum factory/warehouse floor area: 5,000 square feet — excluding the vast majority of SME operations
- Paid-up capital: Tk 1 crore for limited companies; annual turnover of Tk 30 lakh for sole proprietorships
- General Bond: Tk 3 crore for direct exporters; Tk 1 crore for deemed exporters
- Detailed financial solvency certificates and wealth statements under Rules 16–17

The May 2025 amendment (SRO No. 231-Law/2025, 29 May 2025) extended compliance deadlines and set bonding capacity at 50 per cent of annual import entitlement — a modest easing. From 1 January 2026, CBMS became mandatory for all bonded warehouse holders for all Utilisation Permission issuance across the three Customs Bond Commissionerates. The transition to digital UP issuance — eliminating paper-based applications and in-person visits — is a meaningful administrative improvement. However, it digitises an existing exclusionary eligibility regime rather than expanding the universe of eligible firms.

A non-RMG applicant must still navigate approximately 22 documents across 14 procedural stages, with processing delays often extending months (BUILD, 2023).

The FY2025–26 budget proposed a Central Bonded Warehouse (CBWH), currently limited mainly to US yarn imports. The NBR Customs KII confirmed 'strong potential for cluster-based SME exporters if eligibility is broadened,' but cautioned that 'current premises, ownership, and management conditions could limit SME participation unless reforms are introduced.' This tension — between recognition of potential and persistence of restrictive conditions — precisely illustrates the isomorphic mimicry dynamic.

4.4 The Partial Exporter Dilemma: The Structural Core

At the heart of SME exclusion lies the partial exporter dilemma. The BW regime's binary logic — export-only versus domestic — is fundamentally misaligned with the predominant non-RMG SME business model of serving both domestic and export markets. This hybrid model is rational: it manages demand volatility, smooths cash flow, builds export experience incrementally, and hedges against the risks of initial market entry. Requiring 100 per cent export orientation as a precondition for duty-free access penalises precisely the most prudent and sustainable form of export market development.

The September 2025 NBR notification (SRO-384) represents official acknowledgement of this dilemma, allowing partial exporters to import raw materials duty-free against a 100 per cent bank guarantee. As documented in Chapter 5, however, only 1.87 per cent of surveyed firms are aware of SRO-384, and the 100 per cent bank guarantee requirement — with collateral typically at 100–200 per cent of loan value, as confirmed by the Bangladesh Bank KII — remains prohibitive for SMEs lacking fixed-asset collateral.

4.5 The Isomorphic Character of BW Reform: A Theoretical Assessment

The evolution of the BW regime from 2008 to 2026 exhibits a pattern of isomorphic mimicry that is analytically important and practically consequential. Each reform cycle has introduced visible markers of modernisation — digitised forms, standardised documentation, online platforms, extended validity, mandatory CBMS — while leaving the functional architecture of exclusion intact or making it more restrictive. The 2024 Rules are the clearest recent example: digital infrastructure deployed in the service of a more restrictive eligibility regime.

This pattern has a precise institutional explanation rooted in Tirole's (1994) analysis of bureaucratic incentives. NBR officials are evaluated primarily on revenue protection metrics. Expanding access to SMEs introduces perceived fiscal risk (potential leakage) and administrative complexity (monitoring a larger, more heterogeneous bonded population). The costs of expanded access are borne by NBR; the benefits (export diversification, employment creation, latent export supply) accrue to the economy broadly. Without a fundamental revision of performance metrics to include trade facilitation outcomes, this asymmetric incentive structure will continue to generate isomorphic reform — the appearance of modernisation without its substance. Chapter 7 develops this governance analysis in detail.

> *"We are not choosing to export. We are choosing not to destroy our business. Committing 100% to export means losing our domestic customers, our cash flow stability, and our ability to pay workers when export orders are delayed. The bonded warehouse is for firms that can afford to live on export orders alone. We cannot."*
>
> *— Kumarkhali Home Textile Entrepreneur, FGD April 2026*

Chapter 5. SME Export Profile, BW Awareness, and Perceived Obstacles: Survey Evidence

This chapter presents the core empirical findings from the 107-firm survey: the profile of surveyed firms, export participation patterns, bonded warehouse awareness and non-utilisation, the structure of perceived export obstacles, and the cluster-level qualitative evidence that contextualises these patterns.

5.1 Profile of Surveyed Firms

Table 5.1 presents the key sample characteristics. Cottage firms (≤15 workers) constitute 65.4 per cent of the sample; micro (16–25) 17.8 per cent; small (26–120) 15.9 per cent; and one medium firm (121–999 workers) 0.9 per cent. Mean employment is 19.14 (median 11), indicating a right-skewed distribution dominated by very small units. Average firm age is 19.15 years. Formalisation indicators are mixed: 67.3 per cent maintain a bank account; 62.6 per cent keep financial records. Most firms are sole proprietorships (88.8 per cent). Critically for the BW analysis, 100 per cent are located outside EPZs or industrial parks.

Variable	Value	Percentage
Firm Size (Employment)		
Cottage (≤15 workers)	—	65.4%
Micro (16–25 workers)	—	17.8%
Small (26–120 workers)	—	15.9%
Medium (121–999 workers)	—	0.9%
Mean employment	19.14	—
Median employment	11	—
Location		
Outside designated zones	—	100%
Firm Characteristics		
Mean firm age (years)	19.15	—
Has bank account	—	67.3%
Maintains financial records	—	62.6%
Sole proprietorship	—	88.8%

Table 5.1: Sample Characteristics (N = 107)

5.2 Export Participation: Marginal, Indirect, and Size-Dependent

Only 14 of 107 firms (13.1 per cent) are exporters. Of these, just 2 are direct exporters; the remaining 12 export exclusively through intermediaries. None are fully export oriented. This marginal and intermediary-mediated export profile is the baseline against which the BW regime's impact must be assessed.

Export Status	Frequency	Percentage
Non-exporter	93	86.9%
Direct exporter	2	1.9%
Indirect only (via intermediaries)	12	11.2%
Total	**107**	**100.0%**

Table 5.2: Export Status (N = 107)

Labour productivity does not differ significantly between exporters and non-exporters ($t = -0.013$, $p = 0.989$), confirming that the export gap reflects institutional barriers rather than productive capacity. Record-keeping and bank account holding are positively associated with export status ($p = 0.055$ and $p = 0.029$, respectively), reflecting the mutually reinforcing relationship between formalisation and export market engagement.

5.2.1 The Dominance of Indirect Exporting and the Invisibility of Backward Linkage

The survey data reveal that indirect exporting is the primary mode of SME export participation: 12 of the 14 exporting firms (85.7%) rely entirely on intermediaries, and none of the 14 are fully export-oriented. This pattern is not a preference; it is a structural outcome of institutional exclusion. Direct exporting requires navigating bonded warehouse procedures, securing bank guarantees, maintaining ex-ante Utilisation Declarations and Permits, and absorbing the fixed costs of customs compliance – all of which are prohibitive for SMEs operating at thin or negative margins. Indirect exporting allows SMEs to avoid direct engagement with customs, but at the cost of permanently embedded import duties in trader prices and a loss of the intermediary’s profit margin.

Critically, the survey captures only direct and indirect exports. It does not capture **backward linkage** – SMEs supplying components, packaging, or services to RMG or other export-oriented manufacturers. Literature estimates that such supply chains may represent up to 80% of Bangladesh’s export value (approximately USD 39.3 billion), yet these SMEs are statistically invisible and receive no trade facilitation benefits. The 100% reliance on commercial traders documented in Section 6.1 is one indicator of this invisibility: SMEs that supply large exporters often purchase imported inputs through traders because they cannot access duty-free import schemes, even though their output is embodied in exports.

The implication for policy is direct. Any reform that limits duty-free access only to direct or even indirect exporters will miss the vast majority of SME contribution to exports. The Partial Exporter licence must therefore recognise backward linkage as a qualifying pathway, using buyer export declarations as evidence of export intensity. Without this, the 48.4% latent export supply documented in Section 6.4 will remain unrealised for the many SMEs that produce for domestic intermediaries who then export.

5.3 Bonded Warehouse Awareness and the Zero-Utilisation Crisis

Bonded warehouse awareness is limited to 17.8 per cent (19 firms) and is strongly concentrated: only 8.6 per cent of cottage firms are aware, compared to 47.1 per cent of small firms (chi-squared = 18.81, $p < 0.001$). Sectorally, plastic-packaging & agro leads at 52.2 per cent, followed by home textile (28.6 per cent); footwear (4.8 per cent), light engineering (0.0 per cent), and furniture (0.0 per cent) show near-zero awareness.

The Zero Utilisation Finding
None of the 107 surveyed firms — including all 19 BW-aware firms — has ever used a bonded warehouse facility.
This is the single most dramatic finding of the study. It demonstrates a complete disconnect between formal policy knowledge and operational access, confirming that the binding constraints are institutional — not informational.
Awareness of SRO-384 (the September 2025 partial-exporter notification requiring a bank guarantee rather than a BW licence) is even more limited: only 2 of 107 firms (1.87%).
The 'double non-awareness' rate — firms unaware of both BW and SRO-384 — is 82.2% (88 of 107 firms). The September 2025 partial-exporter notification is operationally irrelevant for 98% of its intended beneficiaries.

	Non-exporter	Exporter	Total
Aware of BW	13 (13.9%)	6 (42.9%)	19 (17.8%)
Not aware of BW	80 (86.1%)	8 (57.1%)	88 (82.2%)
Ever used BW	0 (0.0%)	0 (0.0%)	0 (0.0%)
Aware of SRO-384	2 (2.2%)	0 (0.0%)	2 (1.9%)

Table 5.3: Bonded Warehouse Awareness and Utilisation by Export Status

Analysis of open-ended responses from the 19 BW-aware firms identifies the following primary reasons for non-utilisation, each mapped to the three-layer analytical framework:

- No direct importing capability (21.1%): 'Because we do not import raw materials directly' — a Layer 2 institutional barrier preventing BW system engagement
- Never exported (15.8%): 'Never engaged in exporting' — a Layer 1 supply-side constraint compounded by the perverse incentive to avoid export commitment without duty-free access
- Procedural complexity (15.8%): 'Many conditions to fulfil, complexity in maintaining official formalities' — Layer 2 barrier
- Licensing barriers and geographic exclusion (combined 21.0%): 'Complexity in obtaining licence'; 'Enterprise located outside industrial area' — Layer 2 barriers
- Lack of government support (5.3%) and financial incapacity (5.3%) — Layer 3 and Layer 1 constraints respectively

Layer 2 institutional barriers dominate (over 60 per cent of stated reasons), precisely mirroring the three-layer framework's causal logic.

5.4 Perceived Export Obstacles: Frequency, Exporter Differentials, and Factor Structure

5.4.1 Obstacle Frequency

Table 5.4 presents frequencies for the 15-item obstacle battery by export status. Administrative complexity tops the list at 85.0 per cent overall. Limited access to finance (65.4 per cent) and high raw material dependence and tariffs (63.6 per cent) follow closely. Three obstacles show statistically significant differences between exporters and non-exporters, consistent with an 'exporter awareness' hypothesis:

Obstacle	All firms (%)	Non-exporters (%)	Exporters (%)	p-value
Administrative complexity	85.0	84.9	85.7	0.940
Limited access to finance	65.4	65.6	64.3	0.924
Raw material dependence/tariffs	63.6	62.4	71.4	0.511
Buyer linkage gaps	57.9	53.8	**85.7**	**0.024**
Ignorance of export regulations	55.1	49.5	**92.9**	**0.002**
Lack of policy support	52.3	47.3	**85.7**	**0.007**
Customs / port complications	47.7	45.2	64.3	0.182
Skilled labour shortages	41.1	40.9	42.9	0.887
Digital skills gap	34.6	32.3	50.0	0.193
Technology capacity	31.8	29.0	50.0	0.116
Mean obstacle count	**6.50**	**6.2**	**8.2**	**0.036**

Table 5.4: Export Obstacle Frequency by Export Status (%). Bold teal = significant difference ($p < 0.05$). Pearson chi-square.

The mean obstacle count is significantly higher for exporters (8.2 vs 6.2, $p = 0.036$), supporting the exporter awareness hypothesis: firms that enter export markets become acutely aware of regulatory and market-access barriers that non-exporters have not yet encountered. This is an important interpretive point: the relatively low overall BW awareness rate may partly reflect the fact that most firms have not yet confronted the institutional barriers that become visible only on attempting to export.

5.4.2 Factor Analysis: Three Underlying Obstacle Dimensions

Principal-component factor analysis with varimax rotation of the full 15-item obstacle battery (N = 107) yields a three-factor solution explaining 50.1 per cent of total variance. KMO = 0.72; Bartlett's chi-squared (105) = 506.53, p < 0.001.

Obstacle	Factor 1 Compliance/ Regulatory	Factor 2 Market Knoeledge / Linkage	Factor 3 Infrastructure / Finance	Uniqueness
Transport/logistics	**0.50**	−0.0004	0.13	0.73
Policy support	**0.73**	0.10	0.02	0.45
Technology capacity	**0.79**	0.05	−0.10	0.36
Export regulations	**0.66**	-0.008	0.14	0.54
Quality/compliance	0.46	-0.29	0.10	0.68
Customs/ports	**0.73**	0.26	-0.03	0.40
Digital skills gap	**0.62**	0.19	**-0.46**	0.36
Buyer linkage gaps	**0.56**	**-0.62**	−0.20	0.25
Skilled labour shortages	**0.6767**	0.06	0.18	0.51
Product Diversification	**0.53**	**−0.02**	−0.23	0.66
Raw material/ High tarrifs	0.37	**0.74**	0.13	0.29
Finance access	0.05	0.16	**0.83**	0.29
Admin Complexity	−0.06	−0.26	**0.41**	0.76
Intl. market knowledge	**0.43**	**0.47**	**-0.33**	**0.49**
% Variance	**29.0**	**11.5**	**9.6**	50.1%

Table 5.5: Rotated Factor Loadings (Varimax). KMO = 0.72; Bartlett's $\chi^2(105) = 506.53$, p < 0.001. Loadings ≥ |0.40| in bold.

Factor 1 (Compliance /Regulatory— 29.0% of variance) is dominated by technology capacity, policy support, customs/ports and skilled labour. This dimension captures the institutional and regulatory barriers that intensify once firms attempt to export. Factor 2 (Market Knowledge /Linkage— 11.5%) reflects information asymmetries and supply-chain constraints, characterised by raw material dependence and a strong negative loading on Customs/port complications. Factor 3 (Infrastructure /Finance— 9.6%) is primarily driven by limited finance access and High tarrifs

5.5 Sectoral Heterogeneity: The Home Textile Paradox and the Plastic Puzzle

Obstacle perception varies dramatically across sectors (Kruskal-Wallis chi-squared(4) = 66.06, p = 0.0001). Table 5.6 presents the sector breakdown.

Sector	N	Export Rate (%)	BW Awareness (%)	Mean Obstacles	Key Pattern
Home Textile	21	**38.1**	28.6	**10.62**	Highest export & highest burden — the paradox
Plastic-packaging & agro	23	8.7	**52.2**	7.78	Highest awareness, lowest export: info ≠ access
Footwear	21	14.3	4.8	4.76	Moderate export; near-zero BW awareness
Furniture	21	**0.0**	0.0	6.00	Zero exporters despite skilled craftsmanship
Light Engineering	21	4.8	0.0	3.19	Low obstacles; near-zero BW engagement
TOTAL	**107**	**13.1**	**17.8**	**6.50**	Sectoral differentiation demands targeted policy

Table 5.6: Sector Distribution by Export Rate, BW Awareness, and Mean Obstacles

The Home Textile paradox is analytically significant: the sector with the highest export participation (38.1 per cent) also reports the highest obstacle burden (mean 10.62) — consistent with the sector's heavy reliance on imported yarn, on which total tax incidence add approximately 40 per cent to input costs, and the working capital burden of upfront duty payments. The paradox demonstrates that institutional barriers are binding even for firms that have overcome the initial export entry threshold; the constraint does not dissipate with export experience.

The Plastic-packaging & agro sector presents the inverse pattern: 52.2 per cent BW awareness but only 8.7 per cent export participation. This is among the most important findings in the study: it definitively demonstrates that awareness is a necessary but far from sufficient condition for export participation. Even firms that know about bonded warehousing cannot access it — because of eligibility barriers, geographic restrictions, and financial requirements that awareness cannot overcome.

Furniture presents the starkest case: zero exporters despite established productive capacity and skilled craftsmanship. The Chokoria FGD documented that participants can 'produce any design if materials and specifications are provided' — productive potential is not the binding constraint. The constraints are entirely institutional: prohibitive unofficial transport costs, licensing bottlenecks, and complete absence of export market knowledge and linkages.

5.6 Qualitative Evidence: Cluster-Level Institutional Realities

5.6.1 Kumarkhali Home Textile Cluster

The Kumarkhali cluster, with approximately 50 enterprises and a 200-year history, illustrates the layered institutional constraints that characterise even the most export-engaged non-RMG SME clusters. The cost structure is dominated by imported yarn — primarily from China — on which import duties add approximately 40 per cent. The cluster lacks industrial gas supply, forcing reliance on wood-fired heating for dyeing, compromising cost efficiency, colour consistency, and the possibility of adopting digital printing. Bulbul Textile, among the oldest enterprises, supplies an intermediary exporter but has never directly exported — a direct consequence of the procedural and financial barriers to BW access.

> *"Exporting is not the problem. Paying duty first and waiting months to get it back — that is what kills us. For a small order, it is simply not worth the headache."*
> *— Kumarkhali home textile entrepreneur, FGD, 16 April 2026*

Participants were explicit that the single most impactful intervention would be duty-free import of yarn — directly confirming that BW exclusion is the binding constraint, not productive capability, managerial capacity, or market demand. FGD participants also requested 'a planned industrial estate with reliable gas and electricity' — recognising that location-based barriers are outside individual firms' control and require collective institutional solutions.

5.6.2 Chokoria Furniture Cluster, Cox's Bazar

The Chokoria furniture cluster emerged in the 1990s and comprises skilled craftspeople producing high-quality furniture. No firm exports directly. The cluster's constraints are predominantly institutional: obtaining a sawmill licence takes approximately one year and costs BDT 5 lakh; Forest Department approval for wood procurement adds another six months and BDT 1 lakh. Unofficial payments to local and highway police of BDT 30,000 per truck 'make the product uncompetitive in the national market,' let alone internationally.

> *"They can produce any kind of furniture if design and raw materials are supplied. The problem is not quality — we have no awareness of export procedures, documentation, pricing, or international buyer linkages."*
> *— Chokoria furniture FGD participant, 15 April 2026*

The Chokoria evidence exemplifies Layer 1–Layer 2–Layer 3 interaction in its purest form: productive capacity (Layer 1) is not the binding constraint; institutional barriers (Layer 2 — licensing, transport costs, export procedures) are; and these persist because the cluster lacks an organised association to collectively advocate for their removal (Layer 3 — asymmetric stakeholder influence).

5.6.3 KII Evidence on Regulatory Obstacles

The BAPA KII highlighted restrictive export packaging rules — the prohibition on including aromatic rice in mixed-product packages — as an example of regulations that 'reduce product diversification and allow competitors from India and Pakistan to capture market share.' This represents a Layer 2 regulatory barrier in a sector with demonstrable export potential.

The EPB KII provided the institutional context: 'Multiple ministries and agencies implement fragmented initiatives with little alignment, resulting in policy measures that fail to address SME realities.' The NBR Customs KII acknowledged that 'complex compliance procedures, excessive documentation, and limited awareness constrain SME access to existing support mechanisms' confirming that officials understand the problem even as the regime's structural features remain unchanged.

Chapter 6. Cost Structures, Competitiveness Effects, and Latent Export Supply

6.1 The Direct Import Void: 100% Intermediary Dependence

Among the 65 firms using imported raw materials, not a single firm imports directly. Every importing firm in the sample relies entirely on commercial traders — a complete absence of direct importing that is itself the most direct measurable consequence of the BW regime's inaccessibility.

The implications are fundamental. When commercial traders import on behalf of SMEs, they pay import duties — and embed these duties, along with their own margins, into the prices they charge SME buyers. While only 31 firms reported paying customs duties directly (median rate: 0 per cent; mean: 1.5 per cent), this does not indicate that duties are not being paid. Rather, duties are invisible to the SME — embedded in higher input prices — and become a permanent, irrecoverable cost rather than a potentially refundable working capital advance. The Bangladesh Bank KII confirmed: 'Without affordable trade finance, the working-capital burden of upfront duties is magnified.'

This finding also has a critical competitive implication: every Bangladeshi non-RMG SME using imported inputs is structurally subsidising its BW-access competitors. The permanent duty cost embedded in SME input prices is a policy-manufactured competitive disadvantage that operates continuously, regardless of the SME's own efficiency, innovation, or quality investments. The IFC (2019) estimated that effective BW access for non-RMG exporters could have boosted non-garment shipments by approximately USD 1.5 billion per year — an estimate consistent with the scale of suppressed potential documented in this survey.

6.2 Financial Performance: Operating at the Margin

Table 6.1 presents financial performance indicators. Total sales are highly skewed: mean Tk 39.6 million, median Tk 8.0 million. Labour productivity averages Tk 1.66 million per worker with no significant difference between exporters and non-exporters ($t = -0.013$, $p = 0.989$). Capacity utilisation averages 83.8 per cent (median 83 per cent), confirming that physical production capacity is not the primary binding constraint. After winsorizing at the 5th and 95th percentiles, median gross margin is 1.2 per cent .

Variable	Mean	Median	Key Implication
Total sales (Tk million)	39.6	8.0	Highly right-skewed; median firm is a micro enterprise
Labour productivity (Tk million/worker)	1.66	0.77	No significant exporter premium — barrier is not productivity
Capacity utilisation (%)	83.8	83.0	Physical capacity is not the binding constraint
Imported RM share in COGS (%)	31.8	32.2	Substantial duty exposure for most firms
Gross margin, winsorized (%)	-9.28	1.2	Thin but positive before overhead allocation

Table 6.1: Financial Performance Indicators (N = 107, winsorized at 5th/95th percentiles)

The Yarn Duty Calculation: Quantifying the Competitiveness Penalty
For the median home textile firm importing yarn:
• Median raw material cost ≈ Tk 4.8 million
• Imported share in COGS ≈ 32.2% → Tk 1.55 million in imported inputs
• Import duty on yarn ≈ 25–40% → upfront outlay of Tk 386,000–619,000
This is the arithmetic of BW exclusion at the firm level. A single import consignment of yarn at standard duty rates imposes a cash-flow burden equivalent to multiple years of net profit — not because the firm is inefficient, but because the policy environment systematically requires it to fund a cost that its RMG competitors never incur.

6.3 The Working Capital Chokehold

Three mechanisms interact to create a self-reinforcing finance-capacity chokehold for partial exporters excluded from bonded access:

First, the SRO-384 guarantee requirement. The September 2025 notification allows partial exporters to import duty-free against a 100 per cent bank guarantee. The Bangladesh Bank KII confirmed: 'Collateral requirements typically range from 100 to 200 per cent of loan value, effectively excluding firms that lack land or property as collateral.' Only 1.87 per cent of surveyed firms are aware of SRO-384 — but even universal awareness would leave the majority ineligible due to the collateral requirement.

Second, upfront duty payment lock-up. For the median firm with Tk 4.8 million in raw material costs and 32.2 per cent imported input share, import duties of 25–65 per cent imply an upfront payment of Tk 375,000–975,000 — a substantial sum for enterprises with median total sales of Tk 8.0 million . Smaller firms for whom this lock-up is most burdensome are also least likely to meet BW eligibility conditions — a textbook instance of regressive compliance cost structure.

Third, duty drawback delays. The NBR Customs KII confirmed that 'the drawback process remains lengthy; exporters often face significant delays in receiving refunds.' These delays force firms to borrow at commercial rates of 7–15 per cent during the refund period, converting a temporary liquidity strain into a permanent financing burden. The Kumarkhali FGD confirmed: 'We pay duty first and wait months to get it back — for a small order, it is simply not worth the headache.'

The combined effect is a self-reinforcing cycle: BW exclusion suppresses margins → firms cannot build the formality and collateral that BW eligibility requires → banks deny credit without collateral → firms remain trapped in intermediary reliance and informality → exclusion perpetuates. This cycle cannot be broken at any single point; structural reform must address the institutional entry conditions simultaneously.

6.4 Latent Export Supply: Suppressed Entrepreneurial Intent

Among 93 non-exporting firms with usable responses, 45 (48.4 per cent) stated they would 'definitely' or 'probably' attempt to export if granted access to duty-free import schemes with simplified compliance procedures. .

Counterfactual Simulation: Potential Export Gains from Inclusive BW Access
Conservative illustrative estimate (stated-intention basis):
• 48.4% of 93 non-exporters → ~45 potential new exporters
• 45 firms × median sales Tk 8M × 15% export intensity (median for indirect exporters) ≈ Tk 54 million additional export sales from the survey sample alone

• Extrapolated to the national non-RMG manufacturing SME population: aggregate suppressed export supply is very substantial
The IFC (2019) provides a macroeconomic corroboration: effective BW access for non-RMG products could have boosted non-garment shipments by approximately USD 1.5 billion per year.
Caveat: This is a stated-intention measure and an upper-bound indicator. It should not be interpreted as a precise forecast. Actual export entry would depend on the specific design parameters of a reformed facility, external market conditions, and firm-level capability development. However, even at a fraction of the stated intention, the latent supply is commercially and policy-analytically significant.

6.5 How the Current BW Regime Blocks Each of the Five Export Pathways

The five export pathways identified in Section 2.5 are not merely theoretical categories; they are empirically observable in the survey and FGD data. The current BW regime blocks each pathway through specific institutional mechanisms.

Direct exporting is blocked by the binary classification that requires 100% export orientation. None of the 14 exporting firms in the sample is fully export-oriented; all are partial exporters. To access duty-free inputs for the export portion of their production, they would need to commit to an unrealistic 100% export orientation, which would destroy their domestic market buffer and cash flow stability. The 100% bank guarantee requirement under SRO-384 – even for partial exporters – is equally prohibitive, as confirmed by the Bangladesh Bank KII and the 98.1% non-awareness rate.

Indirect exporting is not blocked outright, but it is made inefficient and costly. Because SMEs cannot import directly, they rely on commercial traders (100% of importing firms). Traders embed import duties and their own margins into prices, making the SME's products more expensive than if the SME had direct duty-free access. The Kumarkhali FGD quantified this as a 40% cost penalty on yarn inputs. This penalty is not a market outcome; it is a policy-manufactured transfer from SMEs to privileged BW-access competitors.

Backward linkage is entirely unrecognised. SMEs that supply components or packaging to RMG exporters cannot access duty-free inputs because their sales are domestic, even though their output is embodied in exports. There is no legal mechanism to attribute the export intensity of the buyer to the supplier. The survey did not directly measure backward linkage, but the EPB KII and the prevalence of commercial trader reliance both indicate that this pathway is suppressed. The absence of a "deemed exporter" status for upstream SMEs means they pay full duties on inputs, raising costs for the entire export value chain.

Deemed exports exist in regulations but are operationally inaccessible. The current deemed export provisions are narrowly limited to EPZ suppliers and require complex documentation. None of the 107 surveyed firms reported using deemed export provisions, and awareness is likely near zero. The Chokoria furniture cluster's potential to supply raw materials to EPZ-based furniture manufacturers is unrealised because the pathway is institutionally invisible.

GVC participation is blocked by multiple missing enablers. SMEs cannot meet quality, compliance, and traceability requirements because they lack shared testing facilities (CFCs), certification support, and training on GVC standards. The Bhairab footwear cluster's request for a Common Facility Centre and the Kumarkhali cluster's request for digital printing equipment both reflect this gap. Without duty-free input access and quality infrastructure, GVC participation remains aspirational.

The cumulative effect is that the current regime channels SMEs into low-value, inefficient coping strategies – margin compression, intermediary reliance, export avoidance, and informal finance – while blocking the very pathways that could lead to productivity upgrading and diversification. The Partial Exporter licence, combined with shared infrastructure and compliance tiering, is designed to unblock all five pathways simultaneously.

6.6 Regression Analysis: Firm Size Dominates; BW Awareness Is Irrelevant

Table 6.2 presents logistic regression results for binary export participation. Firm size is the overwhelmingly dominant predictor. Small firms (26–120 workers) have 14.1 times the odds of exporting relative to cottage firms in the simple model ($p=0.032$), and 4.21 times in the extended model ($p = 0.541$). The average marginal effect is a 34.7 percentage-point increase in predicted export probability for small versus cottage firms(simple model) — a remarkably large effect for a single categorical variable.

Variable	Simple OR	p	Extended OR	p	AME
BW Awareness	1.10	0.893	1.81	0.546	+4.15 pp (n.s.)
Total worker	1.01	0.784	1.06	0.371	+0.46 pp (n.s.)
Size: Micro vs Cottage	1.81	0.539	1.54	0.746	+3.04 pp (n.s.)
Size: Small vs Cottage	**14.11×**	**<0.032**	4.21×	0.541	+9.97 pp(n.s.)
Obstacle count	1.16	0.082†	1.094	0.318	+0.62 pp
Firm age / bank acct / records	—	—	All n.s.	n.s.	—
Model diagnostics	N=106	Pseudo R^2=0.256	Wald χ^2=17.97	p=0.003	
Extended model	N=95	Pseudo R^2=0.387	Wald χ^2=30.66	p=0.0003	

Table 6.2: Logistic Regression of Export Participation. Corrected ORs; robust SEs. † p < 0.10. Medium firm category omitted (perfect predictor). AME = Average Marginal Effect.

The null effect of BW awareness on export participation is analytically crucial. In the current institutional regime, knowing about bonded warehouses confers no independent advantage for export market entry. This confirms that the barrier is not informational — it is institutional. Information campaigns, standing alone, will not solve the problem. The binding constraint is the regime's eligibility architecture, not firms' knowledge of its existence.

The dominance of firm size reflects not inherent productivity differences — which do not significantly differ — but the cluster of capabilities (access to finance, managerial resources, compliance capacity, market intelligence) that larger firms possess and that are themselves partly determined by the institutional environment. Reform that addresses the institutional entry conditions (Layer 2) will, over time, expand the distribution of firm sizes able to participate in export markets (Layer 1 upgrading), creating a virtuous cycle to replace the current vicious one.

Chapter 7. Governance, Political Economy, and the Persistence of Exclusion

This chapter examines why an exclusionary equilibrium that imposes evident economic costs on firms, sectors, and the national export basket persists despite stated commitment to diversification. The analysis draws on the four key informant interviews, the two focus group discussions, and the desk-based institutional review, structured through the framework's Layer 3 dynamics: administrative risk aversion, asymmetric stakeholder influence, and path-dependent institutional lock-in.

7.1 Administrative Risk Aversion: The Isomorphic Reform Cycle

NBR Customs KII provided the clearest evidence of administrative risk aversion as a governance dynamic. Officials acknowledged that existing instruments are 'perceived as too rigid for partial and small exporters' and that 'cluster-based eligibility and shared warehouse management models are not yet incorporated.' This recognition, notably, co-exists with a reform record (the 2024 Rules, the 2025 amendment, the January 2026 CBMS rollout) that has tightened or left unchanged the eligibility conditions that generate this perception.

> *"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*

This pattern is precisely what Pritchett, Woolcock, and Andrews (2013) characterise as isomorphic mimicry: organisations adopt the outward forms of functional modern institutions — digitised applications, standardised documentation, extended licence validity, mandatory CBMS — without changing what they actually do in terms of the functional allocation of access. The 2024 Rules represent the most recent iteration: a genuine technical improvement (CBMS integration, three-year validity) deployed in the service of a more restrictive eligibility regime (5,000 sq ft premises, Tk 1 crore capitalisation, Tk 3 crore general bond).

Tirole's (1994) analysis of bureaucratic incentive structures explains the mechanism: NBR officials are evaluated primarily on revenue protection — the prevention of leakage from the bonded system. Expanding access to SMEs increases the administrative burden of oversight (monitoring a larger, more heterogeneous bonded population) while introducing perceived fiscal risk (potential diversion of duty-free inputs to the domestic market). These costs are borne directly by NBR. The benefits — export diversification, employment creation, unlocked latent export supply — accrue to the economy broadly and are not reflected in any current NBR performance metric. Without explicitly revising performance metrics to include trade facilitation outcomes, this asymmetric incentive structure will continue to generate reform cycles that are procedurally visible but functionally exclusionary.

The mandatory CBMS rollout from January 2026 exemplifies this dynamic most clearly. The CBMS is a genuine technical achievement — a digital infrastructure that could, in principle, enable automated risk profiling, real-time inventory tracking, and post-clearance audit of a much larger bonded population. The NBR Customs KII confirmed that the Bangladesh Single Window is operational and that CBMS is fully mandated for bonded holders. Yet the system is currently deployed to automate a restrictive eligibility regime, not to expand it. The missing ingredient is not technical capacity but institutional will to use available digital infrastructure in the service of inclusive access.

7.2 Asymmetric Stakeholder Influence: RMG Incumbents vs. Fragmented SMEs

The political economy of BW reform is characterised by stark asymmetries in organisational capacity, political access, and advocacy coherence. The RMG sector, represented by BGMEA and BKMEA, has institutionalised a cooperative compliance relationship with customs over decades. This relationship encompasses: dedicated customs liaison offices within BGMEA; in-house legal departments capable of navigating complex regulatory changes; collective bonding arrangements that dramatically reduce per-firm compliance costs; streamlined audit procedures calibrated to the RMG production model; exemption from the annual entitlement process for direct exporters; and permission for multiple premises under a single licence. These facilitation perks are the cumulative product of sustained, organised advocacy.

Non-RMG SMEs present a contrasting picture. The Kumarkhali home textile cluster, despite approximately 50 enterprises and a 200-year history, 'lacks a formal industry association, limiting collective advocacy and coordinated support' — confirmed by the FGD. The Chokoria furniture cluster similarly has no organised association capable of advocating for sawmill licence reform or transport cost reduction. The BAPA KII noted that government agencies 'have minimal engagement in regular capacity-building for agro-processing SMEs' and that training programmes are 'infrequent and insufficient' — a reflection of the sector's limited organised presence in policy dialogue.

This asymmetry produces a low-pressure reform environment. Policymakers face no meaningful political cost for maintaining the status quo: RMG incumbents have every reason to protect their facilitation arrangements, and potential SME beneficiaries of reform lack the organisational capacity to credibly demand change. The NBR Customs officials' expressed openness to 'cluster-based eligibility and shared warehouse management models' suggests that bureaucratic allies exist and that the problem is not a shortage of reform ideas but a shortage of organised demand for their implementation.

The Stakeholder Asymmetry: RMG vs. Non-RMG SMEs
RMG Sector (BGMEA/BKMEA):
• Dedicated customs liaison offices within sector associations
• In-house legal and compliance departments
• Collective bonding arrangements reducing per-firm costs dramatically
• Streamlined audit procedures calibrated to RMG production model
• Sustained, high-level political access; institutionalised cooperative compliance
Non-RMG Manufacturing SMEs:
• No formal association in Kumarkhali (200-year-old cluster) or Chokoria
• No customs liaison capacity; no collective guarantee mechanism
• Minimal engagement from government agencies (BAPA KII)
• Fragmented across many sectors with limited pooled advocacy resources
Policy implication: Supporting the formation of cluster associations is not merely a capacity-building activity — it is a precondition for the political sustainability of BW reform, transforming the stakeholder balance that currently sustains the exclusionary equilibrium.

7.3 Path-Dependent Policy Lock-In and Coordination Failure

The BW regime's dualistic architecture has been self-reinforcing since the early 1980s. Administrative specialisation within NBR for RMG-specific procedures has created institutional knowledge and workflows that presuppose the RMG model. The elaborate infrastructure of BGMEA-based guarantees, input-output coefficients for garment inputs, and sector-specific wastage norms are optimised for large-scale, standardised production — not for the heterogeneous, batch-oriented, partially domestic production model of non-RMG SMEs. Each incremental reform cycle has worked within this existing infrastructure, adding digital layers while preserving the underlying operational logic.

The EPB KII identified the inter-agency coordination failure that sustains this lock-in:

> *“Multiple ministries and agencies implement fragmented initiatives with little alignment, resulting in policy measures that fail to address SME realities.”*
> *— Export Promotion Bureau, KII, 7 May 2026*

NBR controls BW eligibility and compliance; the Ministry of Commerce oversees export promotion; Bangladesh Bank governs SME financing; the SME Foundation manages cluster development. None of these agencies individually has the mandate or leverage to redesign the BW regime comprehensively. Reform requires coordinated action across at least four government bodies — a significant collective action problem in any institutional context, and particularly challenging in an environment characterised by siloed planning and fragmented implementation.

7.4 The Bangladesh Bank Credit Market Equilibrium

The Bangladesh Bank KII revealed a parallel governance dynamic in the financial sector. Despite regulatory mandates requiring 25 per cent of commercial bank credit portfolios to be allocated to SMEs:

> *“Banks often perceive SMEs as high-risk borrowers due to informality, weak financial documentation, and high default rates. Without affordable trade finance, the working-capital burden of upfront duties is magnified.”*
> *— Bangladesh Bank, SME and Special Programmes Department, KII, 5 May 2026*

This collateral-based lending equilibrium is a Layer 3 dynamic with direct Layer 2 consequences: SMEs lacking collateral cannot access the bank guarantees that SRO-384 requires; they therefore cannot access duty-free imports; their consequent thin margins and informality make them appear riskier to banks; the risk perception is perpetuated. The CMSME Master Circular (March 2025) introduced cluster-based financing — targeting groups of at least 30 homogeneous enterprises within a 5-kilometre radius — and collateral-free loans up to BDT 5 lakh for online businesses with UBID registration. The Chokoria FGD, however, revealed that 'enterprise identification remains problematic because many SMEs lack trade licences or UBIDs,' creating a circular dependency: firms need formal identification to access formal finance, but formal finance is a prerequisite for the formalisation that enables identification.

7.5 SME Coping Strategies: Economically Inefficient but Individually Rational

The FGDs documented a range of coping strategies that, while individually rational given the institutional constraints, collectively perpetuate a low-productivity equilibrium. Four patterns are especially significant.

Margin compression: In Kumarkhali, entrepreneurs absorb the approximately 40 per cent duty-induced cost increase on imported yarn rather than attempting to navigate BW procedures. The expected cost of engaging with customs — time, documentation, licensing fees, and a high probability of rejection — exceeds the expected duty saving for small order volumes. This rational calculation has irrational aggregate consequences: it entrenches firms in a cost structure that permanently limits their international price competitiveness.

Intermediary reliance: The survey's finding that 100 per cent of importing firms use commercial traders is not a preference — it is a coping strategy imposed by the inaccessibility of direct importing. The permanent competitiveness penalty embedded in trader prices is the price SMEs pay for procedural simplicity. Every import consignment thus involves an implicit subsidy from the SME to its BW-access competitors.

Export avoidance: The Chokoria FGD documented complete absence of export knowledge — 'no awareness of export procedures, documentation, pricing, or international buyer linkages.' This is not a reflection of low entrepreneurial ambition (participants are skilled, experienced craftspeople) but a rational response to prohibitive fixed costs of export market development when operating at negative margins and without duty-free input access.

Informal finance: The Bangladesh Bank KII confirmed that 'many SMEs operate entirely outside the banking system, relying on high-cost NGO loans.' These informal borrowing costs — typically 15–20 per cent annually — further compress margins and prevent the accumulation of credit histories that would qualify firms for formal banking facilities.

7.6 Summary: A Three-Layer Exclusionary Equilibrium

The governance analysis confirms the three-layer framework's causal pathway with precision. Layer 1 constraints (limited managerial capacity, informality, skills gaps, no credit history) define SMEs' baseline capabilities. Layer 2 factors (binary classification, geographic restrictions, high guarantees, complex procedures, ineffective drawback) systematically magnify these constraints, creating institutionally manufactured competitive asymmetries. Layer 3 dynamics (administrative risk aversion generating isomorphic reform; RMG incumbents' asymmetric political influence; fragmented SME voice; coordination failure across NBR, Ministry of Commerce, Bangladesh Bank, and SME Foundation; and path-dependent institutional lock-in) explain why this exclusionary equilibrium persists despite its evident economic costs and stated diversification commitments.

The stability of this equilibrium should not be mistaken for optimality. It is stable because each actor within it faces incentives that individually favour the status quo, even when the aggregate outcome is suboptimal. Breaking this equilibrium requires changing the incentive structure — through revised performance metrics (addressing Layer 3/NBR), organised SME advocacy (addressing Layer 3/stakeholder asymmetry), piloted shared facilities that demonstrate feasibility (addressing Layer 3/administrative risk aversion), and reformed eligibility conditions (addressing Layer 2/institutional design). This is precisely what the reform roadmap in Chapter 9 proposes.

Chapter 8. International Benchmarks: Design Principles for Inclusive Duty Suspension

This chapter extracts transferable design principles from four international comparator cases — India's MOOWR, Vietnam's compliance-tiered customs system, the EU's Type D shared warehouse model, and Singapore's TradeFIRST framework. Each case is analysed through the three-layer analytical framework, with attention to how the model addresses the specific features of Bangladesh's exclusionary equilibrium.

8.1 India: MOOWR and the Paradigm Shift Away from Export Obligation

India's Manufacture and Other Operations in Warehouse Regulations (MOOWR), introduced in 2019 under the Customs Act 1962, represent the most directly applicable international model for Bangladesh. MOOWR enables any manufacturer to import inputs duty-free, with customs duties payable only on finished goods cleared to the domestic market. Four design features are of critical relevance:

- No export obligation: Duty suspension is decoupled from export exclusivity. Firms serving both domestic and export markets can access the facility without committing to any export percentage — directly resolving the binary classification problem at the core of Bangladesh's SME exclusion. This is the design innovation that most directly addresses the partial exporter dilemma.
- No minimum investment threshold, no geographic restriction: CBIC guidance explicitly designates MOOWR as 'MSME-friendly' (CBIC, 2019, 2023). Any person undertaking manufacturing operations can apply, without the floor area, capitalisation, or zone requirements that Bangladesh's 2024 Rules impose. This directly resolves Bangladesh's geographic exclusion problem.
- Single-point approval: The jurisdictional Commissioner of Customs is the single point of approval, with a combined application-cum-approval form and unlimited licence validity once granted. No annual renewal. This contrasts sharply with Bangladesh's 22-document, 14-stage, annually renewed process.
- Post-clearance audit as primary risk management: Revenue protection is achieved through bonds, digital inventory tracking via ICEGATE (India's customs IT platform), and risk-based post-clearance audit — not through ex-ante restriction on eligibility. This directly addresses Bangladesh's Layer 3 dynamic of administrative risk aversion by demonstrating that revenue integrity can be maintained through post-clearance verification rather than restrictive gatekeeping.

India's MSME export performance in the MOOWR era has been striking: the number of exporting MSMEs grew from 52,849 (2020–21) to 1,73,350 (2024–25), and MSME exports rose from Rs 3.95 lakh crore to Rs 12.39 lakh crore over the same period (Ministry of MSME, 2024). While MOOWR is one component of a broader MSME promotion ecosystem, its design principles are transferable. Critically, MOOWR is WTO-compatible: as a non-export-contingent duty deferment scheme (duties are payable on domestic clearances, not waived conditional on export), it does not constitute an export subsidy under the SCM Agreement. This is a material consideration for Bangladesh post-LDC graduation, when export-linked subsidies face greater international scrutiny.

8.2 Vietnam: Compliance Tiering and Trust-Based Facilitation

Vietnam's risk-based, compliance-tiered customs system classifies firms into facilitation tiers based on historical compliance, financial transparency, and recordkeeping quality — irrespective of firm size. The World Bank (2014) evaluates Vietnam's e-customs implementation as 'the first and most significantly successful project towards digitalising and modernising the administrative system in Vietnam.' The governance philosophy underpinning this system is explicitly trust-based: businesses are permitted greater operational freedom — faster clearance, less frequent inspection, longer audit cycles — but must meet clearly defined standards and remain subject to post-clearance inspection and accountability.

Three features address Bangladesh's specific constraints. First, behaviour-based risk assessment replaces categorical size- or sector-based exclusion. New entrants begin at a standard tier and graduate to higher facilitation levels by building a compliance record — directly addressing the Layer 3 dynamic of administrative risk aversion by providing graduated risk-management tools rather than binary exclusion decisions. Second, the post-audit model reverses the current Bangladeshi presumption: rather than requiring pre-approval of each import consignment (ex-ante UD and UP), firms are permitted to operate and are audited ex-post. Third, SME export participation increased approximately 18 per cent within three years of implementation without evidence of increased revenue leakage (World Bank, 2014) — providing the empirical demonstration that Bangladesh's NBR officials require to justify reform.

For Bangladesh, the Vietnamese model provides the template for converting administrative risk aversion from an obstacle into a feature of reformed design: a Green/Yellow/Red tiering system that gives NBR officials the graduated risk management tools they need while opening access to SMEs that can build a compliance record.

8.3 European Union: Shared Infrastructure and Licensed Operators

The European Union's Type D (public) customs warehouse model, governed by the Union Customs Code (UCC), permits a licensed professional operator to manage a bonded facility used by multiple firms. Public warehouses can be used 'by any person' (European Commission, 2020), while private warehouses are restricted to a single authorised entity. Under this model, compliance responsibilities — inventory tracking, customs declarations, guarantee management, audit coordination — are concentrated with the licensed operator rather than distributed among individual SME users. This shared-infrastructure approach transforms prohibitive fixed compliance costs into variable costs distributed across multiple users.

The model is directly applicable to Bangladesh's traditional SME cluster structure. The Kumarkhali home textile cluster, with approximately 50 enterprises geographically concentrated in a single area, is an ideal candidate: a single licensed operator (potentially the SME Foundation or a sectoral cooperative) could manage a shared bonded store from which member firms draw yarn inputs, with the operator handling all customs formalities. Participants in the Kumarkhali FGD explicitly identified bonded warehouse access as 'the single most impactful policy intervention' — suggesting that demand exists and that the barrier is institutional supply, not entrepreneurial will.

The Chokoria furniture cluster presents a similar opportunity, with the additional benefit that shared bonded access to imported hardwood inputs could directly address the import cost constraint currently addressed through informal means. The FY2025–26 budget's CBWH proposal provides a policy anchor; its scope should be expanded beyond US yarn to include the inputs relevant to each pilot cluster.

8.4 Singapore: Trade FIRST and the Digital Risk Management Frontier

Singapore's TradeFIRST (Trade Facilitation and Integrated Risk-based System) employs algorithmic risk scoring for holistic firm evaluation, assigning facilitation levels based on automated assessment of compliance history, financial robustness, and operational practices with annual comprehensive reviews. End-to-end digital integration — from pre-arrival processing through automated risk profiling to post-clearance audit — means that compliance costs are not merely reduced but fundamentally transformed: from paper-heavy, contact-dependent, discretion-prone processes to automated, transparent, rule-based systems.

For Bangladesh, TradeFIRST illustrates the destination rather than the next step. The CBMS (mandatory from January 2026) and the National Single Window (launched January 2025, seven agencies integrated initially) provide the technical infrastructure for digital risk management. The challenge is not technical capacity but institutional will to use available infrastructure for expanded access rather than digitised restriction. The NBR Customs KII confirmed that 'risk-based inspections are being adopted under the TFA' — indicating that the governance philosophy is shifting, even if implementation remains partial.

8.5 Cross-Cutting Design Principles and Bangladesh Application

Principle	Definition	Comparator Models	Bangladesh Application
I. Proportionality	Compliance requirements reflect actual assessed risk, not firm size or export exclusivity	India MOOWR; Vietnam tiering	Pro-rata duty suspension linked to actual export intensity; reduced bank guarantee commensurate with real import volume; eligibility based on compliance record, not geography or capitalisation
II. Post-Clearance Verification	Shift from ex-ante gatekeeping to ex-post digital audit; duty-free access upfront, verified via automated inventory reconciliation	India, Vietnam, Singapore	Integrate CBMS with BW operations; mandate digital inventory tracking; develop risk-based selectivity criteria using existing CBMS infrastructure; post-clearance audit as primary revenue protection mechanism
III. Shared Infrastructure	Collective compliance through licensed operators distributing fixed compliance costs across multiple SME users	EU Type D warehouses; India MOOWR clusters	Pilot cluster-based shared warehouses (Kumarkhali yarn store; Chokoria hardwood facility); expand CBWH scope; enable sectoral SME associations as group guarantors analogous to BGMEA model

Table 8.1: Cross-Cutting Design Principles from International Experience

These three principles are mutually reinforcing, not alternatives. A reformed Bangladeshi BW regime should combine all three: a Partial Exporter licence that decouples duty suspension from 100 per cent export obligation (proportionality); supported by digital inventory tracking and post-clearance audit via CBMS (post-clearance verification); and implemented through licensed shared warehouse operators in major SME clusters (shared infrastructure). The WTO compatibility of this design — as a non-export-contingent, risk-managed facilitation instrument — is an additional consideration that strengthens the case for prioritising MOOWR-inspired reform over traditional export-linked bonded warehousing, particularly given Bangladesh's post-LDC graduation trajectory.

Chapter 9. Policy Options and a Phased, Differentiated, Cluster-Led Reform Roadmap

9.1 Reframing the Reform Objective: From Uniform Rules to Differentiated, Cluster-Led Transformation

The survey, FGDs, and validation workshop confirm a central conclusion: the BW regime cannot be repaired by marginal adjustments to universal eligibility rules alone. Its exclusionary architecture reflects four decades of institutional lock-in, and the firms it excludes are not a uniform category. A home textile cluster that relies on imported yarn and wood-fired dyeing has different needs from a furniture cluster that requires hardwood, sawmill licences, and transport logistics reform. A light engineering firm with some digital literacy faces different barriers from a footwear cluster where most workers are unskilled women.

Yet beneath this diversity lies pervasive, cross-cutting deficits that the survey quantified: 85 per cent cite administrative complexity; 65 per cent cite limited access to finance; only 34.6 per cent have digital skills; and 62.6 per cent keep financial records. The validation workshop confirmed that many SMEs operate entirely outside the banking system, with no credit history, reliant on high-cost NGO loans. These generic constraints cannot be addressed by infrastructure alone; they require systematic, sustained investment in managerial, digital, and financial literacy.

The validation workshop of 17 May 2026 reinforced and sharpened this diagnosis. Entrepreneurs from Kumarkhali, Chokoria, Bhairab, and other clusters did not ask for uniform solutions. They asked for targeted interventions: a shared BW for yarn; gas for dyeing; a Common Facility Centre for training women workers; digitised sawmill licensing; interest rates matching regional competitors; and tax rationalisation making their products competitive against India and Vietnam. Government representatives acknowledged the gaps and committed to action. The Bangladesh Bank Executive Director immediately instructed that SRO-384 and BW awareness be incorporated into all SME training programmes from the next day.

The recommendations presented in this chapter are guided by three principles.
First, reforms must recognise the diversity of SME export pathways. The traditional assumption that export participation occurs primarily through direct exporting no longer reflects economic reality. SMEs contribute to export earnings through multiple channels, including indirect exports, backward linkage relationships, deemed exports, and participation in global value chains.

Second, reforms must reduce the fixed costs of participation. The evidence presented in earlier chapters demonstrates that many barriers arise not from variable costs but from compliance costs, administrative requirements, and capital commitments that are largely independent of firm size. These costs disproportionately affect SMEs and must therefore be addressed directly.

Third, reforms must move beyond isolated regulatory adjustments. Improving export competitiveness requires simultaneous action across multiple domains, including customs administration, infrastructure, finance, enterprise capability, and governance. Bonded warehouse reform is necessary, but it is not sufficient.

The roadmap proposed below is therefore intended not as a standalone customs reform programme but as part of a broader strategy for SME export development in the post-LDC era. The reform roadmap is therefore phased, cluster-led, and differentiated, structured around three reform pillars with Phase 1 centred on a single pilot in Kumarkhali — the cluster with the highest export participation, the most acute single constraint (40 per cent yarn duty), and the most validated demand for specific interventions.

9.2 Pillar 1: Institutional-Legal Reform — Recognising Partial Exporters and Rationalising Taxes

9.2.1 Recommendation 1: Create a Formal Partial Exporter Licence

The single most consequential reform is the creation of a formal Partial Exporter Licence that decouples duty suspension from the 100% export obligation. The licence must explicitly accommodate all five export pathways identified in Section 2.4:

PARTIAL EXPORTER LICENCE — Design Parameters
Eligibility: Minimum 25% export intensity, meeting threshold through any combination of:
(a) Direct exports (verified by customs export declarations)
(b) Indirect exports (verified by contracts with registered export intermediaries)
(c) Backward linkage (verified by buyer's export declarations — buyer attributes export intensity to supplier)
(d) Deemed exports (verified by supply to EPZ/bonded zone operator)
(e) GVC supply contracts (verified by lead firm purchase orders and traceability)
Duty suspension: Pro-rata, covering inputs attributable to export-qualifying share of production
Bank guarantee: Reduced value scaled to actual imports × export ratio (not 100% flat)
Compliance: Post-clearance audit via CBMS digital inventory reconciliation — not ex-ante UD/UP
Flexibility: Firm-specific or cluster-specific utilisation declarations based on actual records
No floor area, capitalisation, or geographic restrictions

The backward linkage provision deserves particular emphasis. SMEs supplying at least 50% of their output to registered export-oriented manufacturers should be eligible for the Partial Exporter Licence using the buyer's export declarations as evidence. NBR should issue a specific SRO defining this "indirect input supplier" status, with quarterly digital reconciliation between the SME's sales invoices and the buyer's export records through the Bangladesh Single Window and CBMS. This directly addresses the EPB's finding that SMEs may account for up to 80% of export value through supply chains yet receive no trade facilitation benefits.

WTO Compatibility Note
A pro-rata duty deferment that is not conditional on export — duties are deferred proportionally and payable on domestic clearances — is consistent with the SCM Agreement's prohibition on export subsidies, unlike traditional bonded warehousing tied to export obligation.
This is critical for Bangladesh post-LDC graduation, when export-contingent subsidies face greater international scrutiny. India's MOOWR (2019) provides the direct operating precedent for a WTO-compatible, non-export-contingent duty-suspension scheme open to all manufacturers regardless of export share.

Rationale: The binary classification is the single most consequential exclusionary feature. All 14 exporting firms in the survey are partial exporters; the hybrid business model is the only commercially rational option for most SMEs; and the regression confirms that BW awareness confers zero independent benefit under the current architecture. The Partial Exporter Licence resolves this dilemma without rebuilding the entire regime.

9.2.2 Recommendation 2: Amend the BW Licensing Rules 2024

Three specific amendments are required: (a) remove or substantially relax the 5,000 sq ft minimum floor area and Tk 1 crore capitalisation thresholds — these have no plausible revenue-protection rationale proportionate to their exclusionary effect; (b) introduce cluster-based and shared-warehouse eligibility, enabling a licensed third-party operator to hold the BW licence on behalf of multiple SME users; and (c) formalise reduced-value guarantee provisions for partial exporters. The Partial Exporter Licence should allow firm-specific or cluster-specific utilisation declarations based on actual production records, not pre-determined input-output coefficients calibrated to RMG. Reconciliation should occur through post-clearance audit of CBMS inventory data, not ex-ante approval of each consignment. One alternative of the input-output coefficient is to use the minimum value addition criteria for determining the eligibility to BW facilities.

9.2.3 Recommendation 3: Sector-Specific Tax Rationalisation on Raw Material Inputs

The validation workshop made clear that tax burdens vary dramatically by sector and cannot be resolved by a single policy. Specific, differentiated measures are required:

Sector-Specific Tax Rationalisation: Workshop-Validated Measures
• Home Textile (Kumarkhali): Reduce import duty on raw yarn from the current 25–40% band to a uniform 5% for all SMEs — not only bonded licence holders. This single measure eliminates the 40% cost penalty making direct exporting unviable. Validation workshop confirmed: ~200,000 weaving units in Kumarkhali could become a major export strength.
• Agro-Processing: Rationalise effective VAT from ~195% to a maximum 7.5% through a simplified, refundable VAT mechanism for exported products. Current system forces SMEs to pay VAT upfront and navigate separate refund processes with multiple commissionerates — a burden most absorb permanently.
• Light Engineering: Introduce a tax refund mechanism on imported raw materials analogous to China's VAT rebate for exporters, with refunds issued within 30 days of export verification — directly addressing the 14.5% vs. 4% interest rate disadvantage raised at the workshop.
• General (all sectors): Automate the duty drawback system to cover customs duty, regulatory duty, VAT, advance tax, and advance income tax in a single, time-bound process (target: 30 days). The current parallel processes are administratively impossible for SMEs to navigate.
These measures are grounded in direct workshop testimony from BAPA (195% VAT burden), Kumarkhali cluster representatives (40% yarn duty), and representative from the light engineering sector (interest rate disadvantage and demand for China-style tax refund mechanism).

9.3 Pillar 2: Economic Competitiveness - Shared Infrastructure, Common Facility Centres, and Utility Support

9.3.1 Recommendation 4: Establish Common Facility Centres as the Integrated Infrastructure Vehicle

The validation workshop's most consistent cross-sector demand was for Common Facility Centres (CFCs) that bundle multiple binding constraints into a single, manageable intervention unit. The World Bank Group had planned CFCs for Bangladesh's SME clusters but was unable to establish them. This study recommends reviving the CFC model, with the

Kumarkhali home textile cluster as the Phase 1 pilot, for the following reasons: it has the highest export participation among surveyed sectors (38.1 per cent); the most acute single constraint (40 per cent yarn duty); a geographically concentrated cluster of approximately 50 enterprises; a 200-year manufacturing history; and explicit, validated demand from cluster entrepreneurs confirmed at the workshop.

Kumarkhali CFC: Phase 1 Integrated Package
• Shared bonded warehouse for duty-free yarn storage, operated by a licensed third-party provider (SME Foundation or cooperative). Transforms prohibitive fixed compliance costs into variable costs shared across 50 firms.
• Gas connection and captive power: CFC will have its own gas connection (or LNG virtual pipeline). Until the main gas line reaches Kumarkhali, the government should facilitate captive power services for the cluster. Fast-track grid connectivity through a single-window clearance involving SME Foundation, Power Division, and Ministry of Industries.
• Digital printing and dyeing equipment: Shared modern machinery enabling higher value-added production and meeting international quality standards for colour fastness and chemical compliance.
• Quality testing laboratory: For colour fastness, tensile strength, and chemical compliance (including OEKO-TEX certification), currently unavailable in the cluster.
• Women's training centre: Three-month modules on machine operation, digital printing, quality control, export documentation, and basic English for trade. Day-care facilities attached. BDT 5,000 monthly stipend for six months for women who complete training and secure employment in export-oriented production, covering the opportunity cost of training and incentivising participation.
Operational model: Public-private partnership with the SME Foundation as institutional anchor; licensed operation contracted to a third-party provider. The FY2025–26 CBWH budget proposal provides the policy anchor; its scope should be expanded to cover cluster inputs beyond US yarn.

9.3.2 Recommendation 5: Sector-Specific Studies to Design CFCs for Subsequent Phases

The Kumarkhali pilot is not a template to be replicated mechanically. The dramatic sectoral heterogeneity documented in Chapter 5 — in production technology, cost structure, regulatory requirements, input profiles, skills base, geographic footprint, and forward-backward linkage structures — means that each subsequent CFC must be tailored to the specific binding constraints of its cluster and sector. For example,

- Chokoria Furniture Cluster, Cox's Bazar: The binding constraints are sawmill licensing (one year, BDT 5 lakh), Forest Department approval (six months, BDT 1 lakh), and unofficial transport costs (BDT 30,000 per truck). The reform package should include: digitised, time-bound sawmill licensing (30 days maximum); a shared bonded facility for imported hardwood and hardware fittings; a CFC with CNC routers, edge banding machines, and finishing units; and inter-agency coordination between the Ministry of Commerce and the Home Ministry to eliminate unofficial transport levies.
- Bhairab Footwear Cluster: The dominant constraint is unskilled labour — 40 per cent women workers earning only BDT 3,000–4,000 per month. Training can raise earnings to BDT 16,000–20,000. The CFC must focus on pattern making, lasting, finishing, and quality testing for EU buyers. The cluster has offered land; the government should accept it and co-finance the centre through the SME Foundation and development partners.

- Bogura Light Engineering: Key issues are high interest rates (14.5% vs. 4% in China), electricity shortages, and lack of standardisation. Reforms must include targeted refinancing, captive power subsidies, and a CFC for metrology and certification.
- Gazipur Agro-Processing: Critical barrier is the 195% effective VAT. Reform must simplify VAT refunds and establish a CFC for food safety testing, packaging, and cold-chain facilities.

Before designing CFCs for subsequent phases, the government and development partners should commission sector-specific in-depth studies for each priority sector. These studies should examine, for each sector: the primary binding constraints on export competitiveness (distinguishing general competitiveness gaps from export-specific institutional barriers); the specific production technology and input requirements that determine bonded warehouse design (input-output coefficients, storage conditions, processing requirements); the regulatory environment including sector-specific licensing, safety, environmental, and quality certification requirements; the geography of existing clusters and their proximity to customs infrastructure; the workforce skills profile and training needs, with specific attention to women's employment conditions; and the forward-backward linkage structure (who supplies to whom, through which channels, at what margins). The sector-specific studies will inform differentiated CFC designs, tax rationalisation packages, and regulatory simplification measures for Phase 2 and beyond.

PHASE 2 AND BEYOND — SECTOR-SPECIFIC STUDY APPROACH

Rather than naming specific sectors for the next pilot at this stage, the reform roadmap commits to: (1) commission in-depth studies for four to six priority sectors during Phase 1 (months 6–18); (2) use the Kumarkhali pilot's first-year evidence to refine the CFC model before scaling; (3) select the Phase 2 cluster(s) based on the sector studies, the Phase 1 evaluation results, and available land/infrastructure (noting that the Bhairab footwear cluster has already offered land for a CFC, which the government should register as an indication of intent for Phase 2 subject to the sector study); and (4) design each Phase 2+ CFC as a differentiated response to sector-specific needs — not as a copy of Kumarkhali.

This approach respects the study's core finding that heterogeneity demands customisation, avoids premature design commitments, and builds the evidence base for sustainable scaling.

9.3.3 Recommendation 6: Enable Sectoral Associations as Group Guarantors

The BGMEA model — in which a sector association manages collective bonds and compliance on behalf of member firms, dramatically reducing per-firm fixed costs — should be adapted for non-RMG SME clusters. The SME Foundation should fund the formation and initial capacity-building of cluster associations in Kumarkhali and Chokoria as a precondition for group-based facilitation. The Bangladesh Bank's CMSME Master Circular (March 2025) provision for cluster-based financing — groups of at least 30 homogeneous enterprises within a 5-kilometre radius — provides a complementary institutional vehicle.

The formation of cluster associations serves a dual purpose: it is a precondition for group-based bonded warehouse access (operational necessity) and the mechanism for correcting the asymmetric stakeholder influence that sustains the exclusionary equilibrium (political sustainability of reform). Building SME cluster associations is simultaneously a trade facilitation intervention and a political economy intervention — arguably the most high-leverage single action in the enabling measures portfolio.

9.3.4 Recommendation 7: Build Generic Capabilities Systematically

Beneath all sector-specific constraints lie pervasive deficits that shared infrastructure alone cannot address. The survey quantified these: 85 per cent cite administrative complexity; 65 per cent cite limited finance access; only 34.6 per cent have digital skills; 62.6 per cent keep financial records. The validation workshop confirmed near-zero knowledge of export procedures, CBMS usage, or trade finance instruments.

- Managerial capacity: Structured training at CFC level on strategic planning, export compliance, customs procedures, and supply chain management. Dedicated export facilitation desk in each CFC with a full-time trainer. All materials in Bangla, cluster-specific.
- Digital literacy: Basic digital skills — online customs forms, digital inventory tracking, email communication with buyers — integrated into CFC training. A 'digital helper' service (shared across each cluster) to assist firms during the transition to CBMS-based compliance.
- Financial literacy: Workshops on loan documentation, interest calculations, collateral requirements, and credit scoring — delivered by bank officers in the cluster using simplified Bangla materials. Linked directly to the cluster credit scoring mechanism (Recommendation 8 below).

9.4 Pillar 3: Governance Reform, Financial Inclusion, and Performance Metrics

9.4.1 Recommendation 7: Introduce Compliance-Tiered Access (Green/Yellow/Red)

Drawing on Vietnam's model, NBR should introduce a Green/Yellow/Red compliance tiering system for BW access. New entrants begin at Yellow tier: simplified application through CBMS, reduced documentation, moderate audit frequency, quarterly inventory reconciliation. After 18 months of clean compliance, firms graduate to Green tier: longer audit cycles, reduced inspection frequency, extended declaration periods. Red tier triggers intensive risk-based inspection. Tier graduation criteria should be published transparently and applied algorithmically through CBMS, eliminating administrative discretion and the compliance uncertainty deterring SME applications. This mechanism converts administrative risk aversion from an obstacle into a feature of reformed design.

9.4.2 Recommendation 8: Deepen Financial Inclusion Through Cluster Credit Scoring

The validation workshop revealed a paradox: Bangladesh Bank offers refinancing at 7 per cent (CMSMEs), 5 per cent (women), 4 per cent (start-ups), and 1.5 per cent (Export Development Fund) — yet SME loan disbursement was only 18 per cent of total lending and is declining. The problem is not lack of schemes; it is lack of access. Collateral requirements of 100–200 per cent of loan value exclude most SMEs.

- Partial credit guarantee for BW/SRO-384 participation: Bangladesh Bank should design a guarantee covering 70 per cent of the bank guarantee value required for duty-free imports. Issue through the SME Foundation (not individual banks) to reduce bank risk aversion. Eligibility requires minimum 25 per cent export intensity and association membership.
- Cluster credit scoring: For clusters where firms have no formal credit history, Bangladesh Bank should authorise a one-time 'cluster credit score' based on association membership, utility bill payments, trader references, and CFC usage records. This score serves as a substitute for individual credit history for the first two loan cycles — directly breaking the circular dependency between formality and finance.

- Real-time monitoring of SME lending: Banks must report quarterly on SME lending to each cluster. The 25 per cent portfolio target should be enforced with penalties for non-compliance (higher CRR requirements) and rewards for exceeding targets (lower CRR). Cluster-level lending data should be published publicly to create accountability.
- Simplified loan documentation: For loans linked to BW/SRO-384, accept association membership certificate and cluster credit score in lieu of individual trade licences and audited financial statements for the first two years.

9.4.3 Recommendation 9: Accelerate CBMS Integration with BW Operations

The January 2026 mandatory CBMS rollout provides the technical foundation for a post-clearance audit model. Three integration steps are required: (a) mandate real-time digital inventory tracking for all bonded inputs and products; (b) integrate CBMS inventory data with the National Single Window for automated cross-referencing of import declarations and export shipments; and (c) develop risk-based selectivity criteria within CBMS to replace uniform physical audit requirements with risk-scored inspection triggers. The existing infrastructure — CBMS, National Single Window (launched January 2025) — is sufficient; what is needed is institutional will to use it for expanded access rather than digitised restriction.

9.4.4 Recommendation 10: Revise Customs Performance Metrics

As Tirole (1994) demonstrates, bureaucratic behaviour is shaped by performance metrics. Current NBR metrics focus overwhelmingly on revenue collection and leakage prevention, producing precisely the administrative risk aversion documented in the NBR Customs KII. NBR's performance dashboard should be revised to include: (a) number of new BW licences issued to non-RMG SMEs; (b) processing time from application to grant; (c) number of new exporter firms in the bonded system; (d) duty drawback processing time; and (e) post-clearance audit coverage rate. These should be published quarterly and used in Bond Commissionerate staff evaluations. Additionally, NBR should issue a dedicated SME-focused SRO covering duty-free capital machinery with exemptions from supplementary duty, advance tax, and advance income tax — as recommended by NBR officials themselves.

9.4.5 Recommendation 11: Gender-Sensitive Training and Support

The Bhairab footwear evidence — 40 per cent women workers earning BDT 3,000–4,000 per month, trainable to BDT 16,000–20,000 — is not an isolated case. In Kumarkhali, women are employed in weaving, dyeing, and finishing but lack skills for higher-value tasks. The survey's female employment share averaged 21.3 per cent, but skill levels are low across sectors. Gender-sensitive interventions must be built into the reform architecture from the start, not added later:

- Attach a women's training centre to every CFC from Phase 1, offering three-month modules on machine operation, digital printing, quality control, and export documentation
- Provide BDT 5,000 monthly stipend for six months to women who complete training and secure employment in export-oriented production
- Attach day-care facilities to all CFCs, funded through the SME Foundation and development partners — a precondition for women's sustained participation
- EPB to continue its policy of allowing women-led SMEs to participate in international trade fairs without trade licences, and expand this to include BW-related training and compliance support
- Bangladesh Bank to actively promote the 5 per cent refinancing rate for women entrepreneurs through CFC-linked outreach, with simplified application processes

9.5 Phased Implementation Roadmap

Phase	Timeframe	Core Actions	Responsible Agencies	Key Milestones
Phase 1 Foundation & Kumarkhali Pilot	0–18 months	Legal amendment for Partial Exporter Licence; backward linkage SRO; reduce yarn duty to 5%; establish Kumarkhali CFC (shared BW, gas/captive power, digital printing, quality lab, women's training with day-care); launch SRO 384 awareness campaign; implement cluster credit scoring; NBR SME helpdesk; Bangladesh Bank partial credit guarantee guidelines; commission sector-specific studies for four to six sectors	NBR, MoC, SME Foundation, Bangladesh Bank, EPB, MoI, Power Division	CFC operational; yarn duty reduced; 100 women in first training cohort; 500+ SMEs aware of SRO 384; first Partial Exporter Licences issued; cluster credit scoring live; sector studies commissioned
Phase 2 Differentiated Scaling	18–42 months	Design and establish CFCs for 2–3 additional clusters based on sector studies and Phase 1 evaluation; introduce Green/Yellow/Red tiering; CBMS real-time inventory tracking for Partial Exporters; association-based group guarantees formalised; automate duty drawback (30-day target); sector-specific tax rationalisation packages; independent Phase 1 evaluation published	NBR, Bangladesh Bank, SME Foundation, EPB, MoC, sector-specific agencies	2–3 additional CFCs operational (sector-specific designs); tiering live; drawback automation live; 500 additional women trained; pilot evaluation report published
Phase 3 Nationalisation	42–60 months	National rollout of Partial Exporter	NBR, MoC, Bangladesh	National coverage;

& Mainstreaming		Licence; expand CIUP to all priority clusters; institutionalise post-clearance audit across all commissionerates; tripartite review mechanism (government-private sector-academia); comprehensive impact assessment with gender-disaggregated data	Bank, SME Foundation, academic partners	revenue neutrality demonstrated; tripartite body operational; 2,000+ women trained across clusters; final impact assessment published

Note: Cross-cutting actions across all phases: NBR SME helpdesk, SRO 384 awareness campaign, cluster association building, and independent impact evaluation

Table 9.1: Phased Reform Implementation Roadmap (incorporating Validation Workshop outcomes, May 2026)

Chapter 10. Conclusions and Strategic Recommendations

10.1 Summary of the Study's Analytical Argument

This study has demonstrated that Bangladesh's SME export marginalisation is not a failure of entrepreneurship, productive capacity, or market development. It is an outcome of institutional design — specifically, a bonded warehouse regime built for a single dominant export sector over four decades, which now functions as a structural filter that systematically excludes non-RMG manufacturing SMEs, particularly partial exporters.

The three-layer framework validated by this study locates the binding constraint at the institutional level (Layer 2) while explaining its persistence through governance dynamics (Layer 3), and distinguishes export-specific institutional barriers from the general competitiveness deficits (Layer 1) that both constrain SMEs and interact with institutional exclusion to create self-reinforcing cycles of low productivity and informality. This distinction between general SME competitiveness and SME export competitiveness is the study's central conceptual contribution: it explains why firms that are domestically established and capable are export-in competitive — and why the solution lies in trade facilitation reform, not only in productivity enhancement.

The survey data quantified the exclusion: zero BW utilisation; 1.87% SRO 384 awareness; 82.2% double non-awareness; 13.1% export participation; 1.2% median gross margin; 48.4%latent export supply. The validation workshop of 17 May 2026 added sector-specific granularity — home textile's 40% yarn duty burden, agro-processing's VAT maze, furniture's licensing and transport barriers, footwear's unskilled women workforce, light engineering's financing and energy costs — confirming that the reform must be differentiated and cluster-led, not uniform and top-down.

10.2 Seven Empirical Findings That Demand Action

FINDING 1: Export Participation Is Marginal, Indirect, and Size-Driven

Evidence: 13.1% of firms export; 12 of 14 rely solely on intermediaries; none are fully export oriented. Small firms (26–120 workers) have 14.1× the odds of exporting vs. cottage firms ($p<0.032$; AME = +34.7 pp). BW awareness has no independent effect (AME = +1.0 pp, $p = 0.893$). Labour productivity: no significant difference between exporters and non-exporters ($p = 0.989$).

Policy implication: *The export gap is institutionally manufactured, capability determined. Productivity enhancement alone cannot increase SME export participation without simultaneous institutional reform.*

FINDING 2: Zero BW Utilisation — Even Among Aware Firms

Evidence: Not one of 107 firms has ever used a bonded warehouse, including all 19 BW aware firms. Dominant non-use reasons: cannot import directly (21.1%); procedural complexity (15.8%); licensing barriers (10.5%); geographic exclusion (10.5%). All primary barriers are Layer 2 institutional — not Layer 1 capability deficits.

Policy implication: *Information campaigns and awareness programmes alone will not increase BW utilisation. Structural institutional reform of eligibility, procedures, and guarantee requirements is the prerequisite.*

FINDING 3: SRO 384 Is Operationally Irrelevant

Evidence: Only 1.87% of firms are aware of SRO 384 (the September 2025 partial exporter notification). The "double non-awareness" rate is 82.2%. Even the two aware firms identified the 100% bank guarantee requirement as prohibitive. The SRO represents a conceptual advance without operational impact.

Policy implication: *Awareness campaigns targeting SRO 384 are urgently needed — but must be accompanied by structural reform of the guarantee requirement (70% partial credit guarantee) and by the Partial Exporter Licence as the substantive institutional reform.*

FINDING 4: Institutional Barriers Dominate — and Exporters Feel Them Most

Evidence: Administrative complexity (85.0%), finance access (65.4%), and raw material tariffs (63.6%) dominate. Factor analysis identifies three dimensions explaining 50.1% of obstacle variance. The "exporter awareness effect": exporters perceive significantly more barriers (export regulations: 92.9% vs. 49.5%, $p=0.002$; buyer linkage: 85.7% vs. 53.8%, $p=0.024$; mean obstacle count: 8.2 vs. 6.2, $p=0.036$).

Policy implication: *Export market entry reveals Layer 2 institutional barriers invisible to non-exporters. The Compliance/Regulatory factor (Factor 1, 29.0% of variance) is the primary target for reform — and it intensifies precisely at the point of export engagement.*

FINDING 5: The Home Textile Paradox — Barriers Bind Even for the Most Export-Engaged Sector

Evidence: Home textile has the highest export rate (38.1%) AND the highest obstacle burden (mean 10.6; Kruskal-Wallis $H(4) = 66.06$, $p=0.0001$). Imported yarn duties add ~40% to input costs. The median gross margin is 1.2%. 100% of firms rely on commercial traders for imported raw materials — duties permanently embedded in input prices, not recoverable through drawback or BW access.

Policy implication: *BW exclusion is most damaging for the most export-engaged sectors. Yarn duty reduction to 5% is the single most impactful measure for home textile — higher leverage than any other reform for this sector. The Kumarkhali pilot CFC is the right Phase 1 priority.*

FINDING 6: SMEs Contribute to Exports Through Five Pathways — All Are Blocked

Evidence: Direct (1.9% direct export rate — near-zero); Indirect (85.7% of exporters use intermediaries); Backward linkage (literature estimates that SMEs may contribute ~80% of export value, ~USD 39.3 billion, yet receive no BW benefits); Deemed exports (zero awareness, zero use); GVC participation (entirely absent for non-RMG SMEs).

Policy implication: *The Partial Exporter Licence must recognise all five pathways. Backward linkage SMEs — the largest suppressed category by economic significance — must be eligible through buyer-attributed export intensity, using buyer export declarations as verification.*

FINDING 7: 48.4%Latent Export Supply Suppressed by Institutional Design

Evidence: 48.4%of non-exporters (45 of 93) would attempt exporting with duty-free access and simplified compliance. 68% of partial exporters would increase volumes. IFC (2019): effective BW access could boost non-garment exports by USD 1.5 billion per year nationally. The binding constraint is institutional design — not entrepreneurial incapacity.

Policy implication: *The reform case is not only about efficiency — it is about unlocking a proven, large-scale expansion of export capacity that the current institutional architecture is actively suppressing. The urgency compounds with each year of delay before LDC preferences lapse.*

10.3 Immediate Follow-Up Commitments from the Validation Workshop (17 May 2026)

Institution	Commitment	Deadline	Verification
Bangladesh Bank	Immediately integrate SRO 384 and BW awareness into all SME training modules	Immediate (within 30 days)	BB circular; BUILD monitoring

	across Bangladesh Bank's training infrastructure, in coordination with the NBR and SME Foundation		of training materials
Ministry of Industries	Submit workshop recommendations for inclusion in draft SME Policy 2025 currently awaiting cabinet approval	Before next cabinet review cycle	SME Policy draft; MoI communication to BUILD
Ministry of Commerce	Convey study recommendations to the Secretary; provide formal government support for CFC model for the piloting and Partial Exporter Licence	Within 60 days	MoC internal note; formal communication to NBR
SME Foundation	Submit SME dedicated BW SRO proposal to Ministry of Industries to operationalise the partial exporter notification	Within 45 days	SME Foundation proposal document; MoI response
Bhairab Footwear Cluster (Cluster Representatives)	Formal land offer for CFC for the cluster; cluster readiness assessment commissioned	Within 30 days	Land deed; readiness assessment TOR

Table 10.1: Validation Workshop Commitments. Source: Workshop proceedings, 17 May 2026.

10.4 Strategic Recommendations by Institution — Priority Actions with Deadlines

The following accountability-focused priorities distil Chapter 9's design-detailed recommendations to the most time-sensitive actions. Design parameters and sector-specific measures are in Chapter 9.

10.4.1 National Board of Revenue

- **P1.** Within 6 months: Issue legal instrument for Partial Exporter Licence (pro-rata, five-pathway eligible, post-clearance audit). Pilot in Kumarkhali.
- **P2.** Within 6 months: Reduce import duty on raw yarn to 5% for all manufacturing SMEs.
- **P3.** Within 6 months: Amend BW Licensing Rules 2024 — cluster-based eligibility; remove de facto geographic filter; issue backward linkage SRO.
- **P4.** Within 12 months: Extend CBMS to Partial Exporter Licence holders; introduce Green/Yellow/Red tiering.
- **P5.** Within 3 months: Launch SME helpdesk; revise performance metrics to include facilitation outcomes (published quarterly).

10.4.2 Ministry of Commerce and EPB

- **P1.** Immediately: Champion Partial Exporter Licence legal amendment; form inter-agency working group (NBR, BB, EPB, SME Foundation, MoI).
- **P2.** Within 3 months: Launch targeted SRO 384 awareness campaign in all six study sectors using SME Foundation focal persons.
- **P3.** Within 6 months: Commission to sector-specific in-depth studies for four to six priority sectors to design Phase 2 CFC interventions.
- **P4.** Within 12 months: Issue SRO defining deemed export eligibility broadly; develop registry of large exporters willing to certify SME suppliers.

10.4.3 Bangladesh Bank

P1. Immediately: Implement validation workshop commitment — integrate SRO 384 and BW awareness into all SME training modules in coordination with the NBR and SME Foundation.

P2. Within 6 months: Design and issue partial credit guarantee (70% coverage) for BW/SRO 384 participation through SME Foundation.

P3. Within 6 months: Authorise cluster credit scoring for Kumarkhali pilot; issue simplified loan documentation guidelines for BW-linked lending.

P4. Within 12 months: Enforce 25% SME lending target with quarterly cluster-level reporting and graduated CRR incentive structure.

10.4.4 Ministry of Industries and SME Foundation

P1. Within 9 months: Establish Kumarkhali CFC with all integrated components (shared BW, captive power, digital printing, quality lab, women's training).

P2. Within 6 months: As formal cluster association is a prerequisite for group guarantees and CFC management; members of Kumarkhali Cluster must form an association. Cluster lead can take initiatives in this regard.

P3. Within 6 months: **Accept** and register Bhairab cluster land offer.

P4. Within 12 months: Deliver first cohort of structured compliance, digital, and financial literacy training at Kumarkhali CFC.

10.4.5 Development Partners (including DFAT)

P1. Fund design, implementation, and independent evaluation of Phase 1 pilot (Kumarkhali CFC, Partial Exporter Licence pilot) with gender-disaggregated data.

P2. Fund sector-specific studies for Phase 2 CFC design.

P3. Provide technical assistance for CBMS-BW integration, automated drawback, and customs metric reform; fund study tours to India (MOOWR) and Vietnam.

P4. Support cluster associational capacity building as a political economy intervention — fund association secretariats, advocacy training, CFC management.

10.5 Responsibility Matrix

Action	Lead Agency	Supporting Agencies	Timeline	Success Indicator
Partial Exporter Licence — legal instrument	NBR	MoC, Ministry of Law, Justice and Parliamentary Affairs	0–6 months	Instrument gazette-notified
Yarn duty reduction to 5% from current range of 15% - 73.74%	NBR	MoC, Finance Division	0–6 months	SRO issued
Kumarkhali CFC — establish	SME Foundation	MoI, Ministry of Power, Energy & Mineral Resources, NBR, BB	0–9 months	CFC operational
Women's training centre — Kumarkhali	SME Foundation	EPB, NGOs, Development Partners	0–9 months	100 women in first cohort
Facilitating Captive power — Kumarkhali	Power Division	MoI, SME Foundation	0–6 months	Subsidy circular issued
Partial credit guarantee (70%)	Bangladesh Bank	SME Foundation	0–6 months	Guarantee scheme operational
Cluster credit scoring — Kumarkhali	Bangladesh Bank	SME Foundation, BB branches	0–9 months	First cluster scores issued
SRO 384 awareness campaign	EPB + SME Foundation	NBR, MoC	0–3 months	500+ SMEs reached
Sector-specific studies for Phase 2	MoC + EPB	SME Foundation, DFAT, BUILD	6–18 months	Studies published
Green/Yellow/Red tiering	NBR	CBMS team, BSW	12–18 months	Tiering criteria published
Automated duty drawback (30 days)	NBR	IT Division	18–42 months	Processing time published
Phase 1 independent evaluation	BUILD + DFAT	Academic partner	12–18 months	Evaluation report published
Phase 3 national rollout	NBR + MoC	All agencies	42–60 months	National coverage achieved

10.6 Concluding Reflection: From Diagnosis to Differentiated Action

Bangladesh stands at a structural inflection point. The LDC graduation process — whether completing in 2026, 2029, or later — will eventually remove the preferential market access that has sustained the RMG-driven export model. The bonded warehouse regime — one of the very instruments that enabled RMG's global success — has become the institutional filter that prevents non-RMG SMEs from building the export base that post-graduation diversification and resilience demand.

But this study has shown that the exclusion is not inevitable. The evidence is unambiguous: zero utilisation, 1.87% awareness, 82.2% double non-awareness, 1.2% median gross margin, 48.4% latent export supply. The validation workshop demonstrated that stakeholders across government, industry, and development partners agree on the diagnosis and the broad contours of reform. Institutional commitments were made. The Kumarkhali pilot offers a precisely scoped, low-risk, high-learning starting point — a cluster with proven export engagement, an acute and well-defined input-cost constraint, a validated FGD demand for shared facilities, and entrepreneurs ready to export if the institutional barriers are removed.

The study's central finding is not about the inadequacy of Bangladesh's SMEs. It is about the inadequacy of an institutional architecture designed for a different sector in a different era. Entrepreneurs in Kumarkhali understand precisely why they cannot compete: they are paying a 40% duty their RMG competitors do not pay. They are not asking for subsidies; they are asking for equal access to an instrument that was designed — and works — when calibrated to their needs.

The reform proposed in this study — a Partial Exporter Licence that recognises all five export pathways, a Kumarkhali CFC that addresses multiple binding constraints simultaneously, sector-specific studies that design differentiated solutions for subsequent phases, and governance reforms that change the metrics and incentives of the customs administration — is technically feasible, fiscally sound, and politically supported. The validation workshop has established the institutional foundation. What remains is the political will to implement the first phase, learn from it, and scale with the differentiation that Bangladesh's diverse and capable non-RMG manufacturing SME sector deserves.

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. The bonded warehouse reform proposed here is the foundation for that future.

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Appendix A: Validation Workshop Summary

A Validation Workshop was convened on 17 May 2026 at the BUILD Conference Room, Dhaka Chamber Building. It brought together representatives from the Ministry of Industries, Ministry of Commerce, Bangladesh Bank, Export Promotion Bureau, SME Foundation, Bangladesh Trade and Tariff Commission (BTTC), BPGMEA, BAPA, entrepreneurs from Kumarkhali, Chokoria, and Bhairab clusters, and development partners.

A.1 Key Institutional Commitments Made at the Workshop

- Bangladesh Bank: Immediately instructed that SRO-384 and BW awareness be incorporated into all SME training programmes from the next day — the most concrete institutional commitment from the workshop.
- Ministry of Industries: Confirmed draft SME Policy 2025 is awaiting cabinet approval and that workshop recommendations will be considered for inclusion.
- Ministry of Commerce: Committed to conveying workshop issues to the Secretary of the Ministry; supported the CFC model.
- SME Foundation: Confirmed a proposal for a dedicated BW SRO for certified SMEs has been submitted to the Ministry of Industries; agreed to include all sectors in the revised SME Policy.
- Bhairab Footwear Cluster: Formally offered land for a Common Facility Centre.

A.2 Five Key FGD-Derived Recommendations Validated at the Workshop

- 1. Common Facility Centres: Endorsed across all cluster representatives and government participants. WBG had planned CFCs but did not establish them; the workshop produced consensus to revive the model with Kumarkhali as Phase 1.
- 2. Tax rationalisation on raw materials: Yarn duty (Kumarkhali, 40% → 5% requested), agro-processing VAT (~195% → maximum 7.5% recommended), light engineering tax refund mechanism.
- 3. Training for women workers: Bhairab evidence confirmed — 40% women workers, trainable from BDT 3,000–4,000 to BDT 16,000–20,000/month. Stipends and day-care needed.
- 4. Bangladesh Bank scheme utilisation: Only 18% SME lending against 25% target; declining. The problem is access, not scheme design. Deep operational reform needed: cluster credit scoring, simplified documentation.
- 5. Utility support via captive power: Gas absence in Kumarkhali forces wood-fired dyeing, compromising quality and competitiveness. Captive power subsidy (30% capital, 15% fuel/five years) as immediate solution; long-term gas pipeline and solar mini-grid development.

Appendix B: Survey Questionnaire Module Structure

Module	Title	Questions	Key Variables
A	Enterprise Identification and Basic Profile	Q1–Q9	Sector, size, legal form, location, registration, firm age, ownership
B	Financial Practices and Employment	Q10–Q12	Bank account, recordkeeping, employment count by type and gender
C	Export Participation and BW Engagement (Core)	Q13–Q20	Export status, channels, BW awareness, utilisation, SRO-384, reasons for non-use, latent export intent
D	Export Obstacle Battery (15 items)	Q17	15-item barrier assessment; mean obstacle count; factor scores
E	Fixed Assets, Employment Structure, and Costs	Q21–Q36	Fixed assets, wage bill, raw material cost, imported share, COGS, duty payments, capacity utilisation
F	Production, Sales, and Capacity	Q37–Q41	Annual sales, export value, export destination, production volume, capacity utilisation

Table A.1: Survey Instrument Module Structure

Appendix C: Key Informant Interview Protocols — Summary

Semi-structured protocols were developed for each KII, tailored to the institutional mandate of each respondent. Common thematic areas across all protocols:

- Assessment of the current BW regime's effectiveness and accessibility for non-RMG firms
- Identification of the primary administrative and institutional barriers to SME access
- Perceptions of the risk environment for expanding BW eligibility
- Familiarity with international models (MOOWR, Vietnam, EU Type D)
- Assessment of administrative and political feasibility of proposed reforms
- Identification of inter-agency coordination challenges

KII	Organisation	Date	Duration	Key Themes Covered
KII 1	BAPA	27 April 2026	75 minutes	Agro-processing sector constraints; packaging regulations; training gap; buyer linkage
KII 2	Bangladesh Bank — SME & Special Programmes Dept.	5 May 2026	80 minutes	Collateral barriers; SME credit market equilibrium; CMSME Master Circular; cluster financing
KII 3	EPB	7 May 2026	65 minutes	Inter-agency coordination failure; SRO-384 awareness; trade fair programmes; export diversification strategy
KII 4	NBR Customs Wing	7 May 2026	90 minutes	BW Licensing Rules 2024; CBMS rollout; CBWH proposal; SRO-384; cluster eligibility; performance metrics

Table C.1: Key Informant Interview Summary

Appendix D: Focus Group Discussion Protocols — Summary

FGD	Location / Cluster	Date	N Participants	Duration	Key Themes Emerging
FGD 1	Kumarkhali, Kushtia — Home Textile	16 April 2026	14	120 minutes	Cotton duty burden; no direct export; gas infrastructure; no association; BW as priority intervention; industrial estate request
FGD 2	Chokoria, Cox's Bazar — Furniture	15 April 2026	16	105 minutes	Sawmill licensing; unofficial transport costs; zero export knowledge; productive capacity confirmed; no credit history; NGO reliance

Table D.1: Focus Group Discussion Summary

Appendix E: Key Statistical Tables

Variable	Mean	Median	Key Implication
Total sales (Tk million)	39.6	8.0	Right skewed; median firm is micro enterprise
Labour productivity (Tk million/worker)	1.66	0.77	No significant exporter premium
Capacity utilisation (%)	83.8	83.0	Physical capacity is not binding
Imported RM share in COGS (%)	31.8	32.2	Substantial duty exposure
Gross margin, winsorized (%)	−9.28	1.2	Thin median; mean distorted by outliers
Obstacle count (0–15)	6.50	6.0	Factor structure: 3 dimensions, 50.1% variance
Firm age (years)	19.15	15.0	Established firms; not start-up problem

Table E.1: Descriptive Statistics (N=107, winsorized at 5th/95th percentiles)

Variable	Simple OR	p	Extended OR	p	AME
BW Awareness	1.10	0.893	1.81	0.546	+4.15pp (n.s.)
Micro vs Cottage	1.81	0.539	1.54	0.746	+3.04pp (n.s.)
Small vs Cottage	**14.11×**	**0.032**	4.21×	0.541	**+34.7pp*****
Obstacle count	1.16	0.082†	1.094	0.318	+0.62pp
Model: N=106, Pseudo R^2=0.256, Wald χ^2=17.97, p=0.003					

Table E.2: Logistic Regression of Export Participation. † p<0.10; *** p<0.001. AME = Average Marginal Effect.

Appendix F: Regulatory Timeline

Year	Instrument	Key Change	Assessment
1980s	Initial BW policy	BW for RMG; duty-free fabric/yarn imports	Designed for RMG; partial exporters not recognised
2008	BW Rules 2008	Formalised BGMEA guarantees, continuous bonding	RMG-centric architecture institutionalised
2019–23	Budget proposals	Repeated proposals for non-RMG BW expansion	No implementation; isomorphic mimicry begins
Sept 2025	SRO-384	Partial exporters: duty-free import vs 100% bank guarantee	Awareness: 1.87%; guarantee prohibitive
2024	BW Licensing Rules 2024	CBMS application; 3-year validity; higher financial/physical thresholds	Procedural modernisation + structural tightening
May 2025	SRO No. 231-Law/2025	Extended deadlines; bonding at 50% import entitlement	Marginal easing; binary classification unchanged
Jan 2026	CBMS mandatory rollout	All BW holders must use CBMS for UP issuance	Digital infrastructure available; used to automate existing exclusion
May 2026	Validation Workshop	Multi-stakeholder consensus on diagnosis and reform direction	BB immediate commitment; Ministry Policy openings

Table F.1: Regulatory Timeline — Bangladesh Bonded Warehouse Regime

Appendix G: SME Export Participation - From Binary to Multi-Pathway

The conventional narrative on SME export participation focuses narrowly on direct exporting. However, the empirical evidence from this study and the broader literature reveals a far more complex reality. SMEs contribute to export earnings through five distinct mechanisms, each with different institutional requirements, cost structures, and policy implications. The current BW regime's binary classification blocks all five. The following Table E1 provides a structured summary.

Export Pathway	Definition	Evidence in This Study	Key Policy Enabler
Direct Exporting	SME sells finished goods directly to foreign buyers; full customs clearance	Only 2 of 107 firms (1.9%) — starkest indicator of institutional barriers	Partial Exporter License; simplified BW access; export working capital
Indirect Exporting	SME sells to domestic intermediaries (buying house, trading firm) who export under own name	12 of 14 exporters (85.7%) not a preference, a structural outcome of institutional exclusion	Duty-free RM access for SME sales to intermediaries; BW benefit transfer
Backward Linkage	SME supplies components/intermediates to large export-oriented manufacturers (RMG, leather, electronics)	EPB: SMEs may contribute ~80% of export value (USD 39.3bn) through supply chains — statistically invisible	Buyer-attributed export intensity in licence; deemed exporter SRO; CBMS reconciliation
Deemed Exports	Supply to EPZ/bonded zone operator treated as export for duty/tax purposes	Zero firms use deemed export provisions; awareness near-zero	Simplified SRO defining eligibility; self-declaration with post-clearance verification
GVC Participation	SME becomes tier-1/tier-2 supplier to multinational global production network	Entirely absent for non-RMG SMEs — blocked by missing quality infrastructure and certification	Common Facility Centres (testing, certification); pre-shipment finance; GVC matchmaking

Table G.1: Five Export Pathways and Their Policy Enablers. Source: Study synthesis based on survey evidence, EPB KII, and comparative literature. See Section 6.5 for the specific mechanisms by which the current BW regime blocks each pathway.

The Partial Exporter Licence proposed in Chapter 9 defines export intensity broadly to include contributions from all five pathways — with eligibility based on a minimum 25% export intensity threshold met through any combination of direct exports, indirect exports, backward linkage (verified by buyer export declarations), deemed exports, and GVC supply contracts. This eliminates the binary classification that currently forces SMEs into an impossible choice.

Appendix H: Glossary

Term	Definition
Anti-Export Bias (AEB)	Policy environment ratio systematically favouring domestic over export sales. AEB ratio >1 = policy discriminates against exporters.
Bonded Warehouse (BW)	Licensed facility for storing/processing imported goods without paying duties, conditional on subsequent export of finished goods.
CBMS	Customs Bond Management System — mandatory for all BW holders from January 2026.
CFC (Common Facility Centre)	Shared infrastructure facility bundling multiple cluster services: bonded warehouse, shared machinery, quality lab, training centre, and utility support.
Cluster Credit Scoring	One-time credit proxy score based on association membership, utility bills, trader references, and CFC usage records — substitute for formal credit history.
Isomorphic Mimicry	Adopting the outward forms of functional institutions without changing underlying functional behaviour (Pritchett, Woolcock, and Andrews, 2013).
LDC Graduation	Graduation from UN Least Developed Country status, triggering withdrawal of trade preferences including EU EBA.
MOOWR	Manufacture and Other Operations in Warehouse Regulations (India, 2019) — duty suspension without export obligation; explicitly MSME-friendly.
Partial Exporter	Firm combining domestic and export sales — the dominant non-RMG SME model. Currently has no legal category within Bangladesh's BW regime.
Pro-Rata Duty Suspension	Duty suspension calibrated to actual export intensity, not requiring 100% export orientation — the core of the Partial Exporter Licence design.
SRO-384	September 2025 NBR notification allowing partial exporters to import duty-free against a 100% bank guarantee. Awareness: 1.87%.

Table H.1: Glossary of Key Terms

Appendix I: Photo Glimpse

Picture 1 Validation Workshop 17 May 2026

Picture 2 FGD Preparatory Meeting at Kumarkhali

Picture 3 FGD at Bulbul Textile, Kumarkhali

Picture 4 KII with DG, EPB

Picture 5 Field Survey at Chakaria