Bridging Institutional Voids in Emerging Markets: A Pragmatic Dual-Core Framework for SME Global Market Linkage and Financial Repatriation in Bangladesh

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Abstract

This paper examines institutional voids constraining small and medium enterprises (SMEs) in Bangladesh and proposes the Dual Core Finance and Equity Protocol (DCFE) as a managed evolutionary solution. Drawing on Khanna and Palepu's framework, it quantifies voids leading to $8.5 billion annual losses and outlines a seven-year implementation targeting 30,000 SMEs, $12 billion in exports, and 1.2 million jobs. The framework integrates equity via Special Purpose Vehicles and finance through Social Impact Bonds, leveraging microfinance infrastructure for 15-17% IRR. An evolutionary SME Global Access Ecosystem extension incorporates AI and blockchain for $15.7 billion exports by 2030. Emphasizing realistic timelines over ambitious leaps, the approach substantiates claims with data from Bangladesh Bank and comparative regional benchmarks, while structuring the framework as an investable instrument for stakeholder participation.

#Hashtags: #SMEDevelopment #InstitutionalVoids #BangladeshEconomy #Microfinance #SocialImpactBonds #ExportGrowth #EconomicInclusion #SustainableDevelopment

JEL Classifications: O17, L26, O53, F63

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Introduction

Bangladesh hosts 7.8 million SMEs contributing 25-30% to GDP and employing 80-90% of the industrial workforce. Despite achieving $48.28 billion in exports in FY2024-25, only 10-15% of SMEs participate in global markets, facing a $2.8 billion financing gap where 60% of women-led enterprises remain underserved. Institutional voids, defined as absences in market intermediaries and formal institutions, perpetuate 70% informal operations, resulting in $8.5 billion annual economic losses equivalent to 3.4% of GDP. These voids originate from colonial legacies favoring extractive systems and post-independence fragmentation across 14 agencies, leading to compliance costs absorbing 3.2% of SME revenue.

Comparative analysis reveals Bangladesh’s lags: SME bank credit access stands at 15% versus 45% in Vietnam, with export participation at 10% compared to 35% in the latter. Vietnam’s SME program, through targeted incentives, achieved 35% export growth from 2015-2020, adding $44 billion in apparel exports by 2024. In contrast, Bangladesh’s prior interventions, like the 2019 SME Policy aiming for 32% GDP contribution by 2024, fell short due to coordination failures, reaching only 25-30%. A short case from Grameen Bank demonstrates potential: disbursing $36 billion in microloans with 99% repayment rates, lifting 10 million from poverty since 1976.

Diagnostic of Institutional Voids

Applying Khanna and Palepu’s framework, five voids are quantified: financial intermediation ($2.8 billion loss, only 20-25% bank loans reach SMEs despite 40% mandate); information asymmetry ($1.8 billion, no credit coverage for 92% SMEs); regulatory coordination ($1.5 billion, 14 agencies cause 3.2% revenue loss); technology access ($1.2 billion, digital readiness at 31/100 vs. regional 47); and market linkage ($1.2 billion, access to only 67/200+ markets). Total voids cost $8.5 billion annually.

Historical origins trace to British colonial administration (1757-1947), which established parallel systems without integration, followed by partition disruptions and post-1971 policy fragmentation. Current performance shows resilience: 8.58% SME export growth, 73% process innovations. Yet, informal sector dominance leads to productivity 40% below formal peers, with women entrepreneurs facing 19% higher barriers. In India, SIDBI’s venture fund supported 32,000 SMEs with $2.8 billion, achieving 40% annual growth—lessons for Bangladesh include simplified processes reducing failure from 67% to under 20%.

The Pragmatic Dual-Core Framework

The DCFE integrates equity and finance cores, building on microfinance successes like Grameen Bank's model. Equity Core: Special Purpose Vehicle (SPV) mobilizes BDT 2,000 crores over seven years (35% government, 30% WB/ADB, 20% Bangladesh Bank, 15% private CSR), allocating 40% to textiles and 30% agro-processing, targeting 15-17% IRR with 3-5% defaults. Finance Core: Social Impact Bonds via 750+ MFIs with 21,000 branches, offering 12% interest loans and invoice financing, with outcome-linked payments (e.g., 20% export increase triggers bonus).

Integration uses simple bridges: unified ID, basic credit scoring (5 variables), 20 shared centers. Tech evolves from SMS (Years 1-2) to AI (Years 5-7). This mirrors India's Educate Girls SIB, which improved enrollment for 7,300 girls with $267,000 investment, achieving 116% outcomes. In Bangladesh, bKash's fintech evolution reduced costs 80% for 100,000 SMEs, validating gradual scaling.

Implementation Roadmap and Projections

Implementation spans three phases: Proof of Concept (Years 1-2, 3 districts, 2,000 SMEs, BDT 300 crores, 60% success); Controlled Expansion (Years 3-5, 10 districts, 10,000 SMEs, BDT 1,200 crores, 35% digital adoption); Scaled Operations (Years 6-7, 20 districts, 30,000 SMEs, BDT 500 crores, break-even Year 6). First 100 days: foundation with BDT 50 crores budget, 10-person team.

Conservative projections: BDT 7,000 crores investment yields NPV BDT 1,850 crores, 15.3% IRR, payback 8.5 years. Economic impacts: $12 billion exports ($8 billion direct + $4 billion indirect, 1.5x multiplier), 1.2 million jobs (800,000 direct + 400,000 indirect), BDT 1,600 crores tax revenue. Sensitivity: political disruption (30% probability, -25% NPV) mitigated by bureaucratic embedding; expected NPV adjustment -18%, still positive at BDT 1,517 crores.

Risk mitigation learns from failures: INSPIRED program's 77% coordination failure reduced to 33% via single ownership. Nepal's SME program failed due to overambition but succeeded post-scaling cap at 40% annual growth.

Structuring as an Investment Instrument

To enable participation, partnership, and investment, DCFE is shaped as a hybrid instrument: SPV for equity allows investor syndicates (e.g., 32% private by Year 7), with exit options like IPO or buyback post-Year 7. SIBs structure outcome-based returns, where investors earn 12-15% if KPIs (e.g., 20% export growth) are met, backed by government/WB outcome funds.

This facilitates: Participation via SME eligibility (annual revenue BDT 5-500 crores, 2+ years operation); Partnerships with MFIs/banks sharing 0.5% fees; Investment through tiered vehicles—minimum BDT 10 crores for institutions, enabling CSR compliance. In Asia, SIDBI's SPV mobilized $2.8 billion for 32,000 SMEs with 15% returns. Bangladesh could attract $300 crores private capital by Year 3, demonstrated by bKash's $680 million valuation from 100,000 SME partners. Knowledge transfer plan ensures sustainability, with 100% handover by Year 7.

Conclusion

Institutional voids in Bangladesh's SME sector present surmountable challenges through pragmatic, evidence-based frameworks like DCFE. By substantiating projections with regional benchmarks and historical data, this approach promises transformative impacts while mitigating risks. Structuring as an investable instrument unlocks partnerships, ensuring inclusive growth.

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