

*Quarterly Review on RMG: July-September FY17*¹



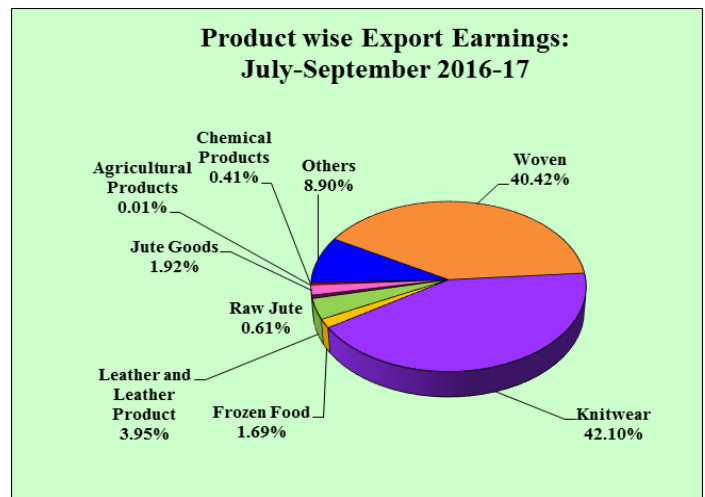
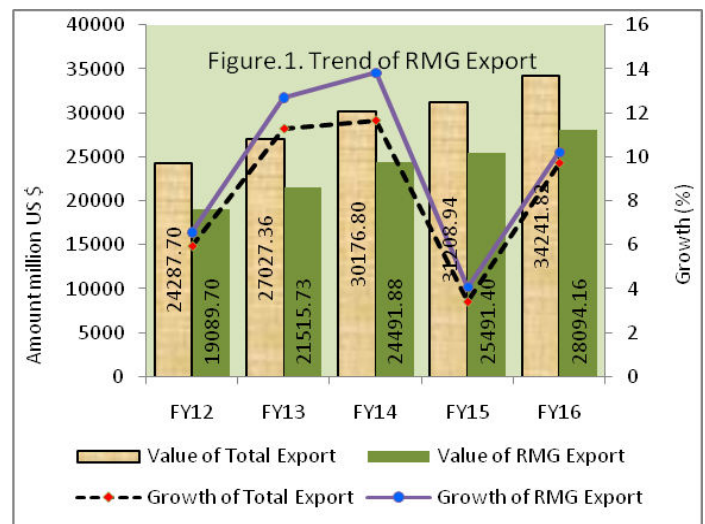
Bangladesh Bank
Research Department
External Economics Division

¹Comments on any aspects of the report are highly welcome and can be sent to Ms. Zahira Hasin, Joint Director, Research Department, Bangladesh Bank. E-mail: zahira.hasin@bb.org.bd.

Introduction

Bangladesh, the southern Asian country with approximately 164 million population and its economy is significantly dependent on agriculture. However, it's a great satisfaction for the country that, Readymade Garments (RMG) sector of Bangladesh has raised as the biggest earner of foreign currency. This sector creates about 4 million employment opportunities and contributes significantly to the GDP. Readymade garments (RMG) of Bangladesh is powered by young workers, where most of them are women.

Country's total export earnings has increased over the time with the same fashion of RMG (Figure.1). The RMG sector of Bangladesh has earned USD 28,094 million in FY16 with a 10.21% growth from the previous fiscal year (data from Export Promotion Bureau). Exporters and analysts have attributed the growth to political quietness during the year, increased productivity, entrepreneurs' resilience and improvement of workers' safety standards in factories. The data also showed that the total export earnings has also exceeded the target (USD 27,371 million) set for the year. Of the total earnings, woven garments and knitwear constituted USD 14738.74 million and USD 13,355.42 million respectively. Bangladesh received more than three fourth (about 83%) of total export



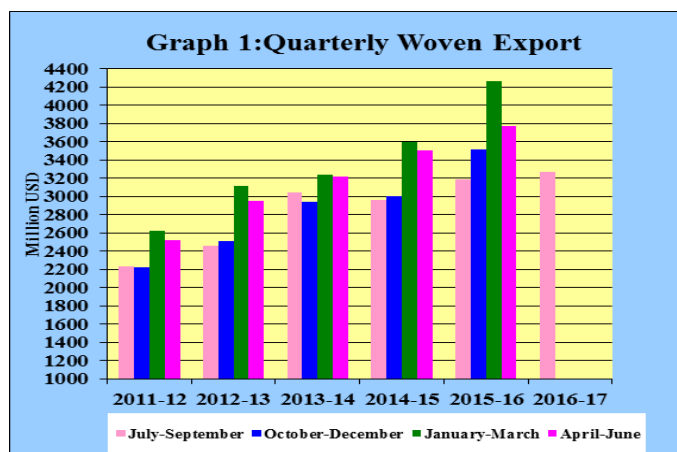
earnings from Readymade garments (Woven and Knitwear) during the first quarter of FY17 (July-September FY17). Total export earnings from Readymade Garments during July-September FY17 decreased by 10.6 percent compared to the previous quarter, which is 3.5 percent higher than the corresponding quarter of previous fiscal year. The decrease in RMG

export in July-September, FY17 was mainly driven by the decrease of Knitwear garments export. Besides, total export of RMG against the target has declined by 9.3 percent in July-September FY17. Data on product wise export earnings showed that 43.0 percent and 39.0 percent of total export earnings were received from woven garments and knitwear respectively in FY16. In FY15, the shares of these products were 41.9 percent and 39.8 percent respectively.

Quarterly Performance of RMG: July-September FY17

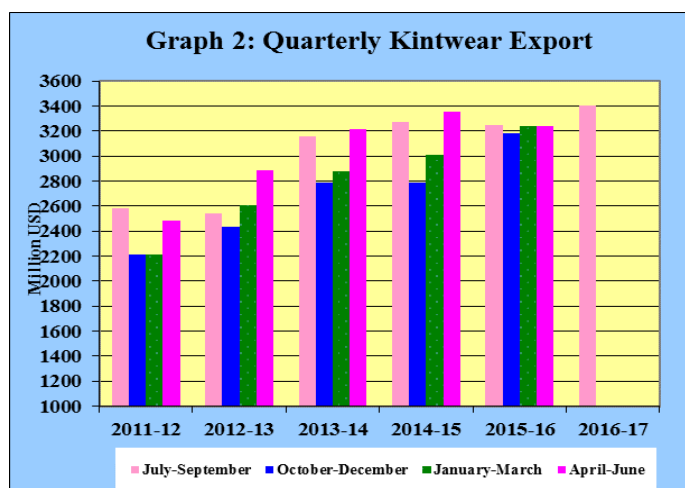
Woven Garments

Export earnings from woven garments stood at USD 3265.11 million during the first quarter of FY17, which is 13.5 percent and 16.7 percent lower than previous quarter and the export target for the quarter respectively. On the other hand, it is 2.4 percent higher than the same quarter of previous fiscal year (Table-1). Quarterly export earnings of woven garments are depicted in Graph-1.



Knitwear Garments

Export earnings from knitwear garments stood at USD 3400.79 million during the first quarter of FY17, which is 7.6 percent and 0.7 percent lower than the previous quarter and the export target for that quarter respectively. On the other hand, it is 4.6 percent higher than the corresponding quarter of previous fiscal year (Table-1). Quarterly export earnings of Knitwear garments are shown in Graph-2.



**Table-1: Export of Readymade Garments
(From FY10 to FY16 and July-September FY17)**

(Million USD)

FY	Total Export	Woven Garments		Knitwear		Total RMG (Woven + Knitwear)	Percentage Share of Export (%)		
		Target	Received	Target	Received		Woven Garments	Knitwear	Total
1	2	3	4	5	6	7	8=(4÷2)	9=(6÷2)	10=(8+9)
FY10	16204.65	6687.92	6013.43	7297.21	6483.29	12496.72	37.11	40.01	77.12
FY11	22924.00	6614.77	8432.4	7131.62	9482.06	17914.5	36.78	41.36	78.15
FY12	24287.70	9559.98	9603.34	10800.1	9486.39	19089.7	39.54	39.11	78.60
FY13	27027.36	10927.37	11039.85	10610.89	10475.88	21515.73	40.85	38.76	79.61
FY14	30176.8	12571.46	12442.07	11575.85	12049.81	24491.88	41.23	39.93	81.16
FY15	31208.94	13681.77	13064.61	13215.61	12426.79	25491.40	41.86	39.82	81.68
July-Sept 15	7758.99	3411.83	3189.12	3208.84	3250.11	6439.23	41.10	41.89	82.99
Oct-Dec 15	8324.91	3268.24	3514.51	3073.80	3181.94	6696.45	42.22	38.22	80.44
Jan-Mar 16	8871.27	3609.73	4262.13	3394.96	3242.27	7504.40	48.04	36.55	84.59
April-June 16	9286.65	3815.62	3772.98	3588.61	3681.10	7454.08	40.63	39.64	80.27
FY 2016	34241.82	14105.42	14738.74	13266.21	13355.42	28094.16	43.04	39.00	82.05
July-Sept 16	8078.82	3919.32	3265.11	3425.83	3400.79	6665.90	40.42	42.10	82.51

Source: Export Promotion Bureau, Bangladesh.

Employment and Industries in RMG Sector

About 4 million of manpower is working in 4328 garments factories of Bangladesh, of which 85 percent is women (source: BGMEA). Where only 30 percent capacity is unutilized due mainly to lack of labor efficiency. Since FY05 employment in RMG sector increases from 2 million to 4 million in FY12 and remained unchanged until FY16, where the number of factories declined from 5876 in FY12 to 4382 in FY16 (Table-2).

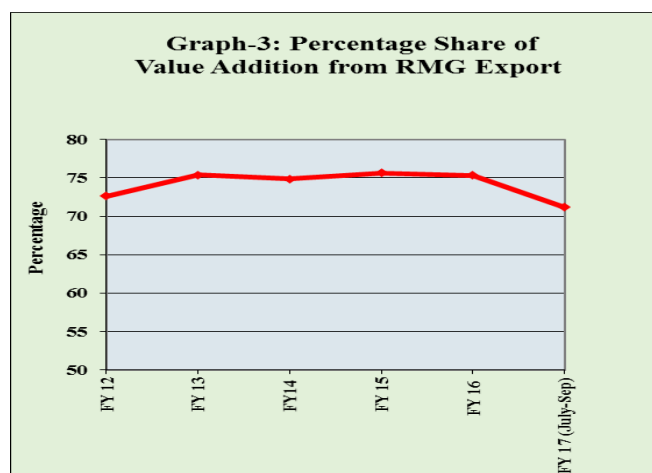
Table-2 Number of Factories and Employed Manpower

FY	Number of Factory* (Cumulative)	Employed Manpower (Cumulative) (In Million)
2004-05	4107	2.00
2005-06	4220	2.20
2006-07	4490	2.40
2007-08	4743	2.80
2008-09	4925	3.50
2009-10	5063	3.60
2010-11	5150	3.60
2011-12	5876	4.00
2012-13	5600	4.00
2013-14	4222	4.00
2014-15	4296	4.00
2015-16	4328	4.00

Source: BGMEA Website. * Including BGMEA Member List.

Import of Raw Materials

In July-September of FY17, import price of raw materials stood at USD 1921.84 million through back-to-back L/C, which is 28.8 percent of total export value of RMG. Thus, the gross value addition from this sector stood at 71.2 percent, which is 2.8 percentage points lower than the July-September FY17 (Table-3). The yearly data on RMG export and back-to-back raw



materials import shows that the average value addition from FY10 to FY16 through export of RMG is almost 75.0 percent (Graph-3).

Table-3: Trends of Value Addition from RMG Export in context of Raw Materials Import
(Million USD)

FY	Total Export ^{A/}	RMG Export	Back to Back Raw Materials Import ^{B/}	Back to Back Raw Materials Import as percentage of total RMG Export	Value Addition (Percentage Share)
FY 10	16204.65	12496.72	3095.91	24.77	75.23
FY 11	22928.22	17914.46	4545.26	25.37	74.63
FY 12	24287.66	19089.73	5221.22	27.35	72.65
FY 13	27027.36	21515.73	5296.41	24.62	75.38
FY 14	30176.80	24471.88	6152.08	25.14	74.86
FY 15	31208.94	25491.40	6201.80	24.33	75.67
FY 16	34241.82	28094.16	6925.69	24.65	75.35
FY 17 (July-September)	8078.82	6665.90	1921.84	28.83	71.17

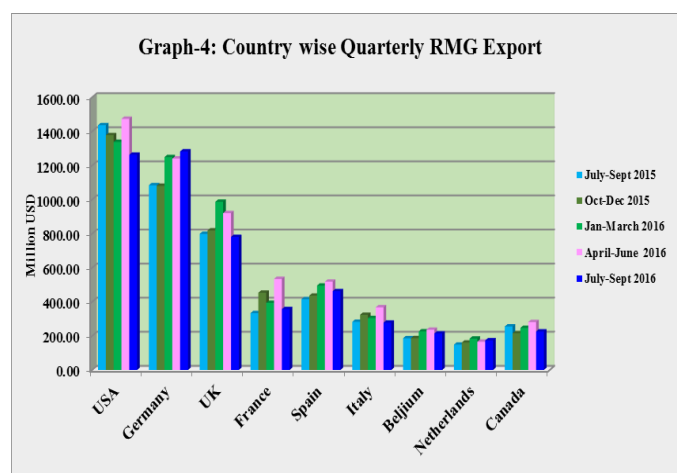
Source: A / Export Promotion Bureau.

Source: B/ Foreign Exchange Operation Department, Bangladesh Bank.

B/ Amount of L/C Settlement under back to back import.

Destination of RMG

The major importer countries of Bangladeshi RMGs are USA, UK, Germany, France, Spain, Italy, Belgium, Netherlands and Canada (Graph-4). During the first quarter of FY17, total export to these nine countries stood at USD 5542.13 million, of which 90.9 percent or USD 5035.99 million is from the RMG (woven 45.6% and knitwear



45.3%) export (Table-4). During the quarter under report, RMG export to these nine countries declined by 12.2 percent compared to the previous quarter and increased by 2.0 percent than the corresponding quarter of previous fiscal year (Table-5).

Table-4: Country wise RMG Export in July-September 2016-17

(Million USD)

Countries	Total export	Woven Garments	Knitwear	Total RMG (Woven + Knitwear)	Woven Garments (%)	Knitwear (%)	Percentage Share of RMG in Total Export (%)	Others (%)
1	2	3	4	5	6=(3÷2)	7=(4÷2)	8=(6+7)	9
USA	1399.19	921.60	341.60	1263.20	65.87	24.41	90.28	9.72
Germany	1374.59	528.56	753.55	1282.11	38.45	54.82	93.27	6.73
UK	843.78	348.59	431.94	780.53	41.31	51.19	92.50	7.50
France	384.31	131.93	224.86	356.79	34.33	58.51	92.84	7.16
Spain	491.81	197.52	264.87	462.39	40.16	53.86	94.02	5.98
Italy	307.00	92.45	184.95	277.40	30.11	60.24	90.36	9.64
Belgium	253.53	109.41	104.49	213.90	43.15	41.21	84.37	15.63
Netherlands	237.92	73.48	100.36	173.84	30.88	42.18	73.07	26.93
Canada	250.00	124.40	101.43	225.83	49.76	40.57	90.33	9.67
Sub-Total	5542.13	2527.94	2508.05	5035.99	45.61	45.25	90.87	9.13
Others	2536.69	737.17	892.74	1629.91	29.06	35.19	64.25	35.75
Total	8078.82	3265.11	3400.79	6665.90	40.42	42.10	82.51	17.49

Table-5: Country wise Comparative Statistics of RMG Export

(Million USD)

Countries	July-Sep 15	Oct-Dec 15	Jan-March 16	April-June 16	July-Sep 16	Quarterly Growth (%)	Yearly Growth (%)
USA	1436.20	1377.40	1338.00	1473.32	1263.20	-14.26	-12.05
Germany	1083.85	1080.29	1248.48	1240.51	1282.11	3.35	18.29
UK	798.38	818.43	986.67	920.30	780.53	-15.19	-2.24
France	333.37	453.33	393.69	533.92	356.79	-33.18	7.03
Spain	414.96	436.00	495.08	518.00	462.39	-10.74	11.43
Italy	282.65	323.18	304.56	367.68	277.40	-24.55	-1.86
Belgium	186.13	186.63	226.51	236.06	213.90	-9.39	14.92
Netherlands	148.78	160.76	184.17	165.84	173.84	4.82	16.84
Canada	255.24	215.67	246.62	280.91	225.83	-19.61	-11.52
Sub-Total	4939.56	5051.69	5423.78	5736.54	5035.99	-12.21	1.95
Others	1499.67	1644.76	2080.62	1717.54	1629.91	-5.10	8.68
Total	6439.23	6696.45	7504.40	7454.08	6665.90	-10.57	3.52

Measures taken by Government

The Government has taken various steps to improve overall workplace safety and compliance, as well as made some commitments to international community, which includes adoption of a National Tripartite Plan of Action by the constituents, implementation of the Sustainability Compact, and the US Action Plan focusing on legislation and policy reform, administration and practical actions.

Amendment of Labour Law: The Bangladesh Labour Act, 2006 has been amended on 16th July 2013 to ensure workers' safety, welfare and rights and promoting trade unionism and collective bargaining. In line with this, the National Occupational Health and Safety Policy have been adopted by the Government in 2013. During amendment of Labour Law total of 76 sections were amended and 8 new sections were incorporate in the Act.

Trade union registration: After amendment of Labour Act, 2006 trade union registration situation in the RMG sector has got a momentum. For example, after amendment of Labour Act a huge number of new trade unions have been registered in the RMG sector. ILO has started training program for the office bearers of newly formed unions.

Publicly Accessible Database: The Department of Inspection for Factories and Establishment (DIFE) with support of ILO, has developed a publicly accessible database of 3746 export -oriented RMG factories on 30 March 2014 . The database is available at the website of the DIFE (<http://database.dife.gov.bd/>). It includes related information of all export-oriented RMG factories including names and addresses, number of workers etc. It also includes summary safety assessment reports for 2804 factories (ACCORD of 712 factories; ALLIANCE of 543 factories and National Initiative of 1549 factories) which may be viewed at the website of DIFE (<http://database.dife.gov.bd/reports/safety-assessment-reports>)

Hot line (help line): With the Department of Inspection for Factories & Establishments a help line, on pilot basis, has been established in RMG prone area at Ashulia , Dhaka on 15th March 2015. The number of the help line is 0800-4455000.

Minimum Wages: The Government has declared the minimum wages for the workers of the readymade garments industry with an increase of 77% from the previous one. It has been implemented since 01 December 2013. Now the minimum wage of garments workers is Tk 5300/- which is about US\$68.

Inspection Plan and Inspection Policy: Annual inspection plan for 2015 for the DIFE has developed and formulation of inspection policy is underway.

Tripartite National Plan of Action: A Tripartite National Plan of Action on Fire Safety and Structural Integrity in the RMG Sector has adopted with the assistance of ILO. To implement the Plan of Action a sixteen members Tripartite Committee headed by Secretary Ministry of Labour & Employment has been formed. In line with the Plan of Action ILO has been implementing a project "Improving Working Condition in the RMG Sector of Bangladesh" of \$24.5 million under the Ministry of Labour & Employment. The following areas of intervention have been identified in the project:

- (a) Verification of building and fire safety of the factories;
- (b) Strengthening inspection activities;
- (c) Training on Occupational Safety and Health;
- (d) Rehabilitation of the disabled and injured persons;
- (e) Implementation of Better Work Program.

Training activities by Directorate of Labour : Under a project on "Promoting Fundamental Principles and Rights at Work in Bangladesh (FPRW)" funded by USDoL and implemented by the ILO training programmes have been conducted for the workers, trade union leaders and employers for capacity building of trade union representatives and employers' organizations and promoting effective labour-management relations. The Government is working to raise awareness of the employers and workers regarding the trade union rights and responsibilities by organizing training and education programme through 4 Industrial Relations Institutes (IRI) under the Department of Labour.

Cooperation agreement with Germany: A cooperation agreement has been signed on 9 December 2014 among Bangladesh Labour Welfare Foundation (BLWF) of Ministry of Labour & Employment, The Deutsche Gesetzliche Unfallversicherung (DGUV) of Germany and The Deutsche Gesellschaft für Internationale Zusammenarbeit Bangladesh (GIZ) to establish a legal framework on National Employment Injury Insurance System in Bangladesh.

Cooperation agreement with Sweden: A cooperation agreement has been signed on 26 September 2015 at New York between the Government of Peoples Republic of Bangladesh and the government of Sweden and the International Labour Organization on developing and launching a project entitled 'Promoting Social Dialogue and Harmonious Industrial Relations in Bangladesh Ready -Made Garments Industry'.

Measures taken by Government, Bangladesh Bank and other relevant stakeholders:

1. Sustainability Compact: Bangladesh, European Union, United States of America and International Labour Organization (ILO) have jointly adopted „Sustainability Compact“ with a view to take joint initiatives to improve labour welfare and safety of working environment in the RMG sector. A stock taking meeting held on 30th October 2014 in Brussels to review the progress of Sustainability Compact.

2. Bangladesh Action Plan: Bangladesh Action Plan 2013 proposed by United States of America to improve building and fire safety and working environment ILO, Development Partners and the foreign buyers have jointly taken the following initiatives:

- (i) Accord on Fire and Building Safety in Bangladesh signed by European buyers;
- (ii) Bangladesh Safety Alliance signed by North American buyers;
- (iii) Improving working conditions in the Ready-Made Garments Sector Project of \$24.5 million proposed by ILO;
- (iv) A project of Tk. 100 crore of JAICA for factory building inspection and relocation;
- (v) 205 million project of the United State of America to ensure workers right and improve fire safety;
- (vi) A project by GIZ to rehabilitate the disabled workers affected by Rana Plaza collapse.

3. Cabinet Committee on Garments Sector: Government formed an eleven member „Cabinet Committee on Garments Sector“ headed by the Honorable Minister, Ministry of Labour & Employment. The committee has formed 2 Task Forces named „Task Force in Building and fire safety in Ready Made Garments Industry“ and „Task Force on Expansion and Simplification of related laws of Ready Made Garments Industry“.

4. Committee on RMG factory improvement: An eighteen-member committee headed by Honorable Minister for Jute & Textile has submitted their report with recommendation to protect safe working environment, prevention of accidents and ensure labour welfare in the RMG factories. Government has already taken steps to implement the recommendations of the committee.

5. Tripartite Standing Committee : A tripartite standing committee headed by the Secretary, Ministry of Commerce to provide all out support to the Cabinet Committee on Garments Industry was also formed.

6. 3+5 Committee : Three secretaries of Commerce Ministry, Labour Ministry and Foreign Ministry and five ambassadors/high commissioners of USA, Canada, EU, UK and the Netherlands constituted 3+5 Committee . The committee holds regular meetings to assess the progress of the Government's commitment in improving working conditions and labour welfare in Bangladesh.

7. Garments Industry Village: A committee headed by a Director General of the Prime Minister's office is functioning to establish a „Garments Industry Village“ on 530 acres of land at Baushia under Gajaria upazilla in Munshiganj district.

8. Activities of Department of Fire Service & Civil Defense: The Ministry of Home Affairs has approved in principle the proposal of establishing nine new fire stations for Department of Fire Service & Civil Defense. The number of inspectors has been increased from 50 to 268 in the Department of Fire Service and Civil Defense by the Ministry of Home Affairs.

9. Increase of Inspectors of RAJUK and CDA: Two different proposals to increase the number of inspectors in the Rajdhani Unnayan Kartipakshya (RAJUK) and Chittagong Development Authority (CDA) has been approved by Ministry of Housing & Public Works. Recruitment of 91 new inspectors and related engineers in RAJUK is at final stage.

10. Reduction of Tax & Duty : A minimum rate of tax was settled by the Govt. regarding import of fire extinguishing equipments in the fiscal year 2013-2014. Government has also made provision for duty free import of prefabricated building materials, fire resistant doors, sprinkler system and equipments, emergency light with exit sign double head etc.

11. Study by BIDS: A study has been conducted by BIDS with government financing under the Ministry of Labour & Employment to determine the number of factories on the basis of locality, the number of workers and employees working and to identify the existing problem and measures to promote this sector further in the coming year. The Government is taking steps to implement the recommendations in the study.

12. Housing Loan: A Memorandum of Understanding has been signed between Housing Fund of Bangladesh Bank & BGMEA to provide loan at the rate of 2% interest from the fund to the owners of the RMG factories for construction of Dormitory for the workers.

13. Two Step Loan Fund: With a view to develop the work environment of RMG employees the SME and Special Programms Department of Bangladesh Bank has initiated a project titled "RMG sector Safe Working Environment Program " under the MoU signed by JICA, Bangladesh Bank, BGMEA, BKMEA and Ministry of Housing and Public Works. Under this MOU, the RMG factories with 100-2000 labours, which are the members of BGMEA and BKMEA and have ownership of the factory building by the entrepreneur, may take a credit facility up to Tk 10 crore for rebuilding or re-establishment of the building. They also may avail 100 percent sub-loan as Pre-finance from Two Step loan (TSL) fund under FSPDSME project.

Selected RMG and Knitwear sector will get the pre-finance facility in three installments subject to the availability of certificates from the engineers of Public works Department (PWD) and Participating Financial Institutions (PFI).

After implementation of these activities, the situation of working environment in RMG and Knitwear sector will be improved and labour unrest will be minimized. Consequently, it has expected that having a better situation in the RMG sector through increasing working inspiration will be resulted in increased productivity of labour.

Conclusion

RMG is the major item of exportable, which is 82.5 percent of our total export and 85.6 percent of industrial products export during July-September, FY16. In April-June, the shares were 80.3 percent and 83.6 percent respectively. In context of several recent disasters in RMG factories, USA and EU countries have shown their reservation to import from Bangladesh as well as for some cases imposed various RMG factories and labor securities related rules and instructions. The Government and the BGMEA have signed various contracts with some international organizations and taken some measures for ensuring securities and modernization of the RMG Sector. To engage strong lobbyist in different RMG markets in the USA for creating favorable treatment of the US administration for Bangladeshi RMG import. Build up good relationship between the employer and the employees.

Through all these initiatives stated above, it is expected that the RMG sector may be able to make a far-reaching contribution to our GDP with more and more export.

**** SMESPD Circular Letter No. 02/2013, Date 22 October, 2013, SME and Special Programs Department.**