

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



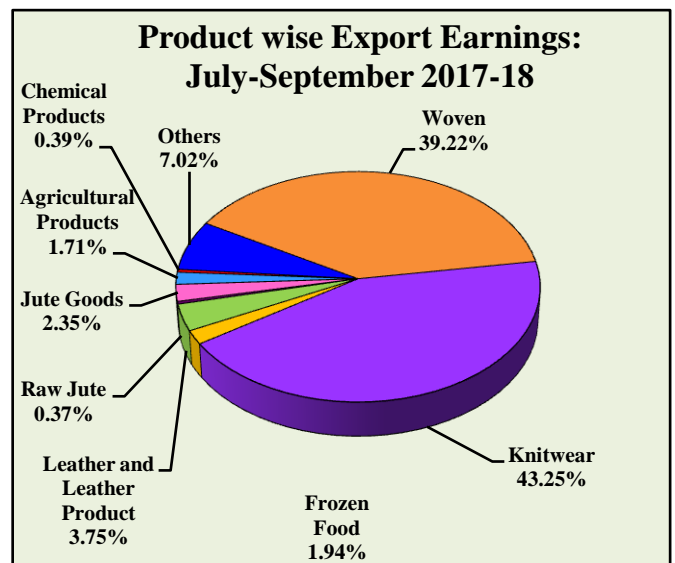
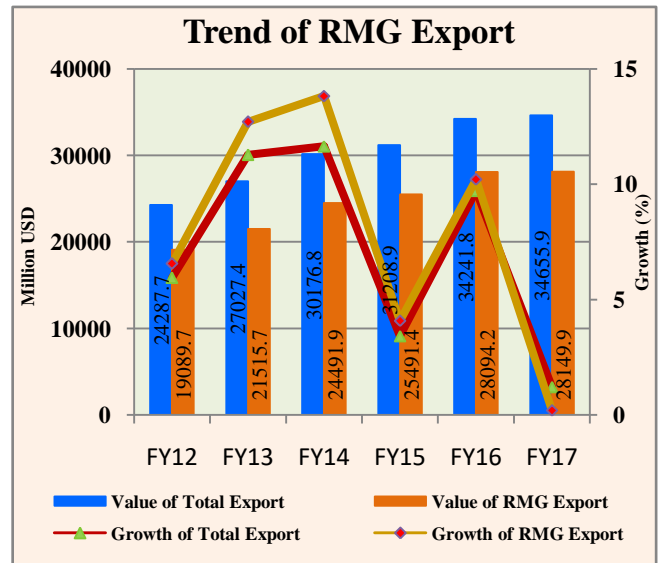
Bangladesh Bank
Research Department
External Economics Division

¹ Comments on any aspects of the report are highly welcome and can be sent to Mr. Md. Syedul Islam, Deputy General Manager, Research Department and Ms. Shampa Chakraborty, Joint Director, Research Department, Bangladesh Bank. E-mail: syedul.islam@bb.org.bd and shampa.chakraborty@bb.org.bd.

Introduction

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

Country's total export earning has increased over the time with continued high share of RMG (Figure.1). The RMG sector of Bangladesh has earned USD 28,149.9 million in FY17 with 0.2 percent growth from the previous fiscal year (data from Export Promotion Bureau). Despite high price decline in international market, exporters and analysts have attributed this growth to political calmness during the year, increased productivity, entrepreneurs' resilience and improvement of workers' safety standards in factories. Of the total earnings, woven garments and knitwear constituted USD 14392.59 million and USD 13757.3 million respectively in FY17. Bangladesh received more than three fourth (about 82%) of total export earnings from Readymade garments (Woven and Knitwear) during the first quarter of FY18. Total export earnings from



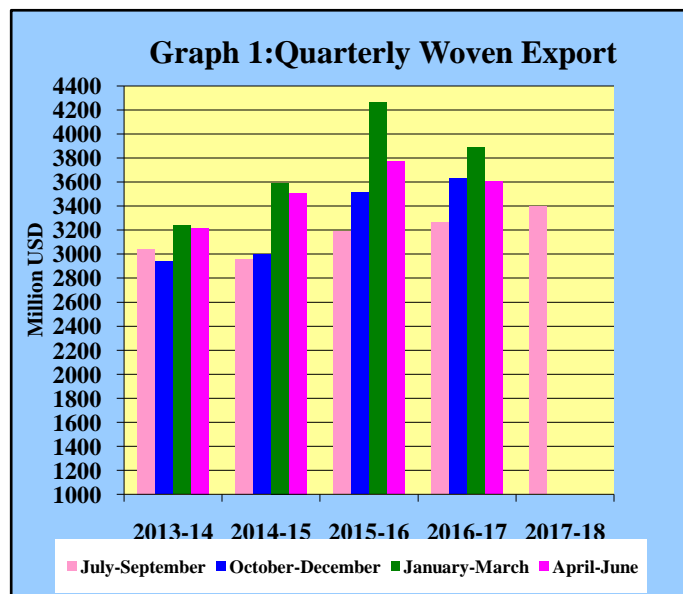
Readymade Garments during July-September FY18 slightly decreased by 1.07 percent compared to the previous quarter, which is also 7.17 percent higher than the corresponding quarter of previous fiscal year. The total export of RMG against the target has 0.37 percent

lower in July-September FY18. Data on product wise export earnings showed that 39.22 percent and 43.25 percent of total export earnings were received from woven garments and knitwear respectively in FY18. In FY17, the shares of these products were 41.53 percent and 39.70 percent respectively.

Quarterly Performance of RMG: July-September FY17

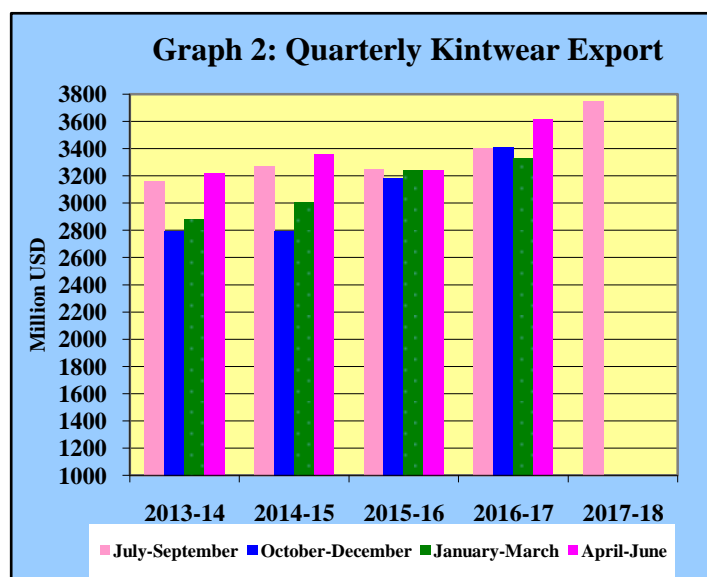
Woven Garments

Export earnings from woven garments stood at USD 3397.17 million during the first quarter of FY18, which is 5.8 percent lower than previous quarter as well as 4.0 percent higher than the same quarter of previous fiscal year and 5.12 percent lower than export target for the quarter respectively (Table-1). Quarterly export earnings from woven garments are depicted in Graph-1.



Knitwear Garments

Export earnings from knitwear garments stood at USD 3746.95 million during the 1st quarter of FY18, which is 3.7 percent higher than the previous quarter. On the other hand, it is 10.2 percent and 4.4 percent higher than the same quarter of previous fiscal year and the export target for the quarter respectively (Table-1). Quarterly export earnings from Knitwear garments are shown in Graph-2.



**Table-1: Export of Readymade Garments
(From FY10 to FY17 and July-September FY18)**

(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 |
| FY 16 | 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 |
| Oct-Dec 16 | 8719.28 | 3689.30 | 3631.01 | 3224.79 | 3412.79 | 7043.80 | 41.64 | 39.14 | 80.78 |
| Jan-Mar 17 | 9147.92 | 4268.93 | 3889.16 | 3731.43 | 3329.97 | 7219.13 | 42.51 | 36.40 | 78.92 |
| April-June 17 | 8709.9 | 4332.45 | 3607.31 | 3786.95 | 3613.75 | 7221.06 | 41.42 | 41.49 | 82.91 |
| FY17 | 34655.92 | 16210 | 14392.59 | 14169.0 | 13757.3 | 28149.89 | 41.53 | 39.70 | 81.23 |
| July-Sept 18 | 8662.73 | 3580.67 | 3397.17 | 3590.18 | 3746.95 | 7144.12 | 39.22 | 43.25 | 82.47 |

Source: Export Promotion Bureau, Bangladesh.

Employment and Industries in RMG Sector

About 4 million of total manpower is working in 4482 garments factories of Bangladesh. Employment in RMG sector increased from 2 million to 4 million in FY12 compared to FY05 and remained unchanged until FY17, where the number of factories declined from 5876 to 4222 in FY14 compared to FY12 (Table-2). But the number of factories increased from 4296 to 4482 in FY17 compared to FY15.

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 |
| 2016-17 | 4482 | 4.00 |

Source: BGMEA Website. * Including BGMEA Member List.

Import of Raw Materials

During the first quarter of FY18, import price of raw materials stood at USD 1870.03 million through back-to-back L/C, which is 26.18 percent of total RMG export value. Thus, the gross value addition from this sector stood at 73.82 percent, which is 1.26 percentage points lower than the previous quarter (Table-3). The yearly data on RMG export and back-to-back raw materials import shows that the average value addition from FY10 to FY17 through export of RMG is almost 75.0 percent (Graph-3).

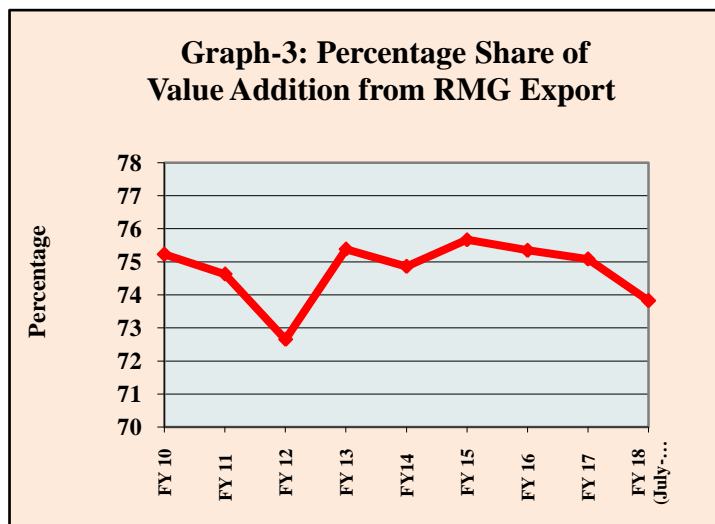


Table-3: Trends of Value Addition from RMG Export in context of Raw Materials Import (Million USD)

| 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 | 34655.92 | 28149.89 | 7014.22 | 24.92 | 75.08 |
| FY 18 (July-Sep) | 8662.73 | 7144.12 | 1870.03 | 26.18 | 73.82 |

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, Germany, UK, France, Spain, Italy, Belgium, Netherlands and Canada (Graph-4). During July-September of 2017, total export to these nine countries stood at USD 6057.64 million, of which 88.5 percent or USD 5360.84 million is from the RMG (woven 43.8% and knitwear 44.7%) export (Table-4). During the quarter under report, RMG export to these nine countries slightly decreased by 1.8 percent compared to the previous quarter and 6.5 percent higher than the corresponding quarter of previous fiscal year (Table-5).

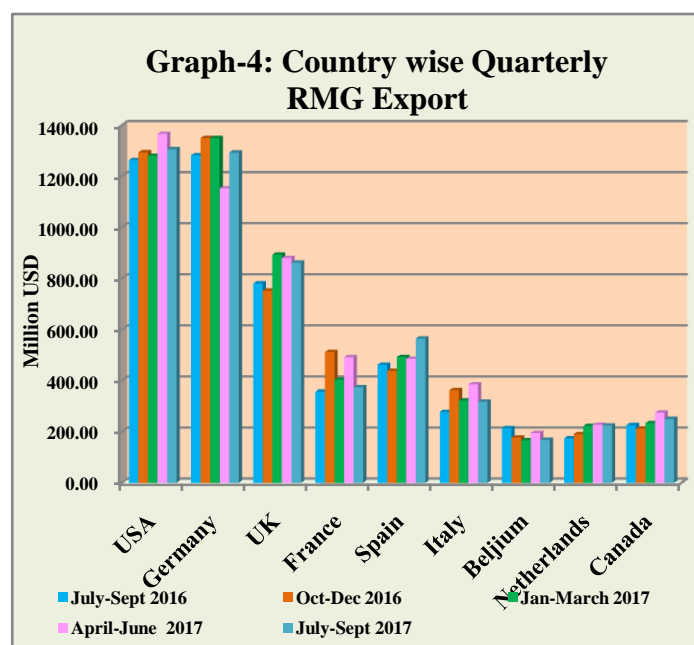


Table-4: Country wise RMG Export in July-September 2017

(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 | 1453.61 | 938.85 | 367.53 | 1306.38 | 64.59 | 25.28 | 89.87 | 10.13 |
| Germany | 1386.07 | 486.94 | 806.15 | 1293.09 | 35.13 | 58.16 | 93.29 | 6.71 |
| UK | 1031.81 | 432.93 | 429.35 | 862.28 | 41.96 | 41.61 | 83.57 | 16.43 |
| France | 408.14 | 143.98 | 230.13 | 374.11 | 35.28 | 56.39 | 91.66 | 8.34 |
| Spain | 611.03 | 258.16 | 307.07 | 565.23 | 42.25 | 50.25 | 92.50 | 7.50 |
| Italy | 344.59 | 85.47 | 231.93 | 317.40 | 24.80 | 67.31 | 92.11 | 7.89 |
| Belgium | 220 | 79.42 | 88.63 | 168.05 | 36.10 | 40.29 | 76.39 | 23.61 |
| Netherlands | 319.05 | 96.37 | 127.73 | 224.10 | 30.21 | 40.03 | 70.24 | 29.76 |
| Canada | 283.34 | 131.63 | 118.57 | 250.20 | 46.46 | 41.85 | 88.30 | 11.70 |
| Sub-Total | 6057.64 | 2653.75 | 2707.09 | 5360.84 | 43.81 | 44.69 | 88.50 | 11.50 |
| Others | 2605.09 | 743.42 | 1039.86 | 1783.28 | 28.54 | 39.92 | 68.45 | 31.55 |
| Total | 8662.73 | 3397.17 | 3746.95 | 7144.12 | 39.22 | 43.25 | 82.47 | 17.53 |

Table-5: Country wise Comparative Statistics of RMG Export

(Million USD)

| Countries | July-Sep 16 | Oct-Dec 16 | Jan-March 17 | April-June 17 | July-Sept 17 | Quarterly Growth (%) | Yearly Growth (%) |
|--------------------|-------------|------------|--------------|---------------|----------------|----------------------|-------------------|
| USA | 1263.20 | 1294.13 | 1280.60 | 1366.07 | 1306.38 | -4.37 | 3.42 |
| Germany | 1282.11 | 1349.99 | 1349.77 | 1153.15 | 1293.09 | 12.14 | 0.86 |
| UK | 780.53 | 752.38 | 893.11 | 880.48 | 862.28 | -2.07 | 10.47 |
| France | 356.79 | 512.12 | 403.88 | 491.85 | 374.11 | -23.94 | 4.85 |
| Spain | 462.39 | 438.16 | 492.22 | 485.97 | 565.23 | 16.31 | 22.24 |
| Italy | 277.40 | 362.86 | 322.66 | 385.66 | 317.40 | -17.70 | 14.42 |
| Belgium | 213.90 | 177.27 | 166.82 | 195.17 | 168.05 | -13.90 | -21.44 |
| Netherlands | 173.84 | 190.59 | 222.56 | 227.35 | 224.10 | -1.43 | 28.91 |
| Canada | 225.83 | 211.95 | 233.77 | 274.75 | 250.20 | -8.94 | 10.79 |
| Sub-Total | 5035.99 | 5289.45 | 5365.39 | 5460.45 | 5360.84 | -1.82 | 6.45 |
| Others | 1629.91 | 1754.35 | 1853.74 | 1760.56 | 1783.28 | 1.29 | 9.41 |
| Total | 6665.90 | 7043.80 | 7219.13 | 7221.01 | 7144.12 | -1.06 | 7.17 |

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. These commitments include 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 has 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 gained 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 712factories; ALLIANCE of 543 factories and National Initiative of 1549factories) 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 15thMarch 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 been 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 been adopted with the assistance of ILO. To implement the Plan of Action a sixteen members Tripartite Committee headed by Ministry of Labour & Employment Secretary 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, several 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 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 Honourable 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 have 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 Defence: The Ministry of Home Affairs has approved in principle the proposal of establishing nine new fire stations for Department of Fire Service & Civil Defence. The number of inspectors has been increased from 50 to 268 in the Department of Fire Service and Civil Defence 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) have 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 of 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 Fund¹: With a view to develop the work environment of RMG employees the SME and Special Programmes 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 may also 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 instalments subject to the availability of certificates from the engineers of Public works Department (PWD) and Participating Financial Institutions (PFI).

¹ SMESPD Circular Letter No. 02/2013, Date 22 October, 2013, SME and Special Programmes Department.

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 is expected that having a better situation in the RMG sector through increasing working inspiration will result in increased productivity of labour.

14. *The Step Up project:* A workshop on 'Practical Aspects of Productivity Improvement' was organized by Reed Consulting Bangladesh Ltd. at a hotel in Dhaka on 19 January 2017. In the workshop BGMEA signed a MoU with Dansk Fashion and Textile to improve CSR and productivity in the value chain alongside improving working and living conditions of workers in the Bangladeshi garment and textile sector through a pilot project named “The Step Up”.

15. *Cheques handover:* BGMEA on January 10 2017 handed over the cheques of group insurance to the nominees of 13 workers of RMG factories who died during their service.

16. Chittagong BGMEA Institute of Fashion and Technology (CBIFT) and Sri Lanka Institute of Textile and Apparel (SLITA) signed a memorandum of understanding (MoU) for academic collaboration and affiliation between them.

17. During the FY2017-18, to encourage the country’s export trade, export subsidies or cash incentives have given for some export items to be effective from 1 July 2017 to 1 June 2018. Such as: 4%, 4% and 3% cash incentives have fixed for export oriented garments sector, small & medium industry of garments sector and to help for expand the new market or new items of garments sector (excluded USA, Canada, UAE) respectively and 2% cash incentive determined for the exporters of garments sector of EURO zones etc. .

18. Export oriented composite garments’ production industries must be submitted a recommendation letter on behalf of BTMA to getting cash incentive. It must be mentioned in the recommendation letter that production industries don’t receive any cash incentive for yarns of those composite garments.

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 the first quarter of FY18. In April-June 2017, the shares were 82.91 percent and 84.44 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 a number of measures for ensuring securities and modernization of the RMG Sector, to engage strong lobbyist in different RMG markets in the USA in order to encourage favorable treatment of the US administration for Bangladeshi RMG import. And build up good relationship between the employer and the employees.

Through all these initiatives stated above, it is expected that the RMG sector will be able to make a significantly higher contribution to our GDP with a boost in export.