

*Quarterly Review on RMG: October-December FY17*¹



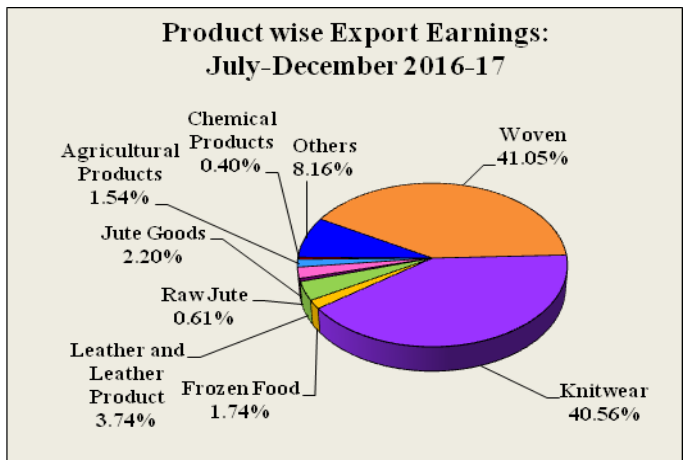
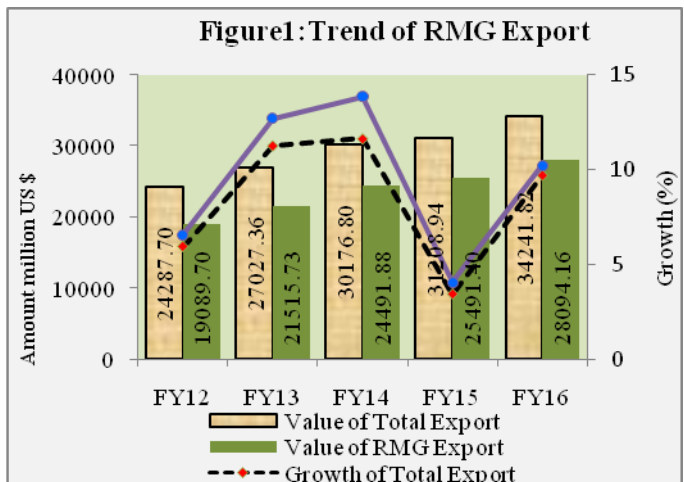
Bangladesh Bank
Research Department
External Economics Division

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

Introduction

Bangladesh is a southern 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 biggest 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 the same fashion of RMG (Figure.1). The RMG sector of Bangladesh has earned USD 28,094 million in FY16 with 10.21% growth from the previous fiscal year (data from Export Promotion Bureau). Exporters and analysts have attributed the growth to political calmness during the year, increased productivity, entrepreneurs' resilience and improvement of workers' safety standards in factories. The data also showed that the total export earning has also exceeded the target (USD 27,371million) 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 81%) of total export earnings from Readymade garments (Woven and Knitwear) during October-December FY17. Total export earnings from Readymade Garments during October-December FY17 increased by 5.67 percent compared to the previous quarter, which is 5.19 percent higher than the corresponding quarter of previous fiscal year. The increase in RMG

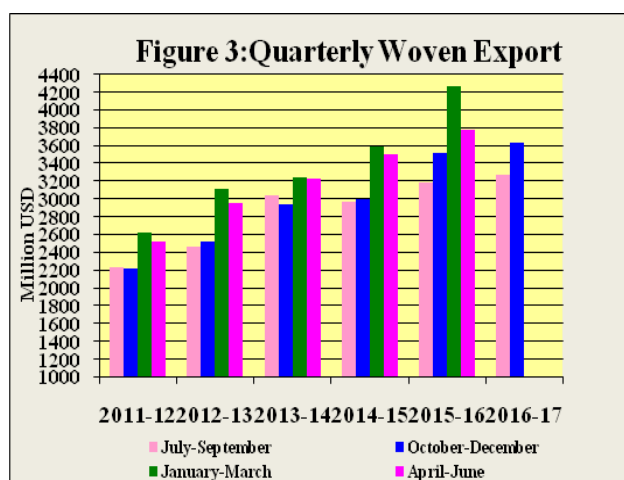


export in October-December, FY17 was mainly driven by the increase of both Knitwear and woven garments export. Besides, total export of RMG against the target has 1.88 percent higher in October-December FY17. Data on product wise export earnings showed that 43.0 percent and 39.0 percent of total export 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: October-December FY17

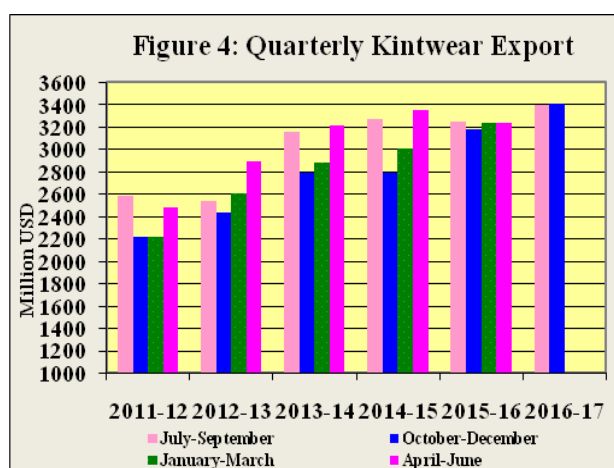
Woven Garments

Export earnings from woven garments stood at USD 3631.01 million during the first quarter of FY17, which is 11.21 percent and 3.31 percent higher than previous quarter and the same quarter of previous fiscal year respectively. On the other hand, it is 1.58 percent lower than the export target for the quarter (Table-1). Quarterly export earnings of woven garments are depicted in Graph-1.



Knitwear Garments

Export earnings from knitwear garments stood at USD 3412.79 million during the first quarter of FY17, which is 0.35 percent and 7.26 percent higher than the previous quarter and the corresponding quarter of previous fiscal year respectively. Additionally it is 5.83 percent higher than the export target for the quarter (Table-1).



Quarterly export earnings of Knitwear garments are shown in Graph-2.

**Table-1: Export of Readymade Garments
(From FY10 to FY16 and October-December 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
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
Oct-Dec 16	8719.28	3689.30	3631.01	3224.79	3412.79	7043.80	41.64	39.14	80.78

Source: Export Promotion Bureau, Bangladesh.

Employment and Industries in RMG Sector

About 4 million of total manpower is working in 4328 garments factories of Bangladesh, of which 85 percent is women (source: BGMEA). In RMG sector only 30 percent capacity is unutilized due mainly to lack of labor efficiency. Since FY05 employment in RMG sector increased 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).

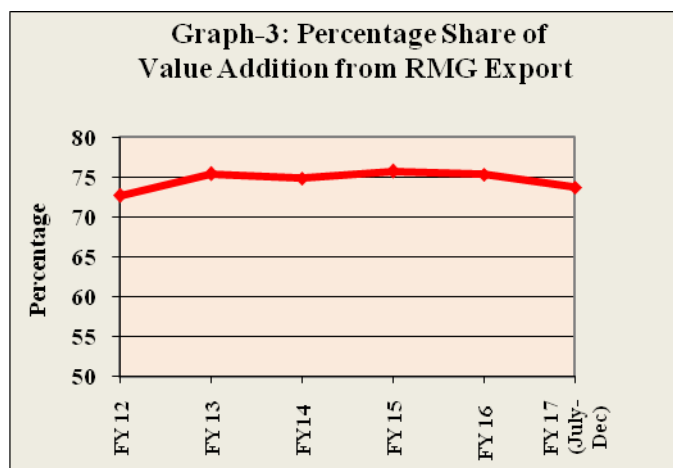
Table-2 Number of Factories and Employed Manpower

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-December of FY17, import price of raw materials stood at USD 3609.75 million through back-to-back L/C, which is 26.3 percent of total RMG export value. Thus, the gross value addition from this sector stood at 73.7 percent, which is 0.8 percentage points lower than the July-December FY16 (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-December)	16798.10	13709.70	3609.75	26.33	73.67

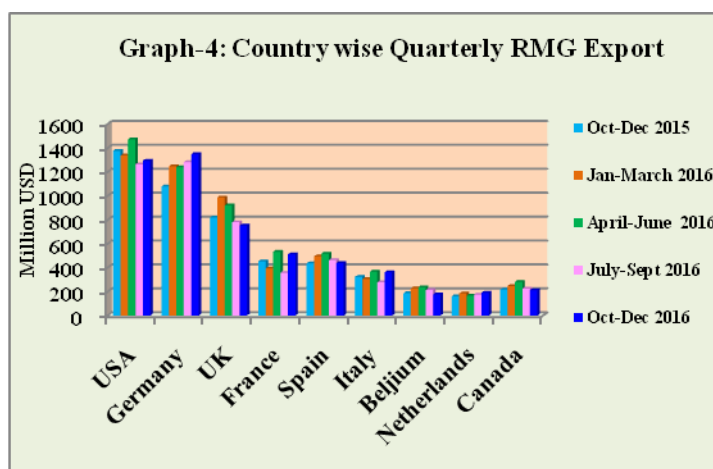
Source: A / Export Promotion Bureau.

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 October-December of FY17, total export to these nine countries stood at USD 5834.94 million, of which 90.7 percent or USD 5289.45 million is from the RMG



(woven 47.9% and knitwear 42.7%) export (Table-4). During the quarter under report, RMG export to these nine countries increased by 5.0 percent and by 4.7 percent compared to the previous quarter and the corresponding quarter of previous fiscal year respectively (Table-5).

Table-4: Country wise RMG Export in October-December 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	1457.87	983.21	310.92	1294.13	67.44	21.33	88.77	11.23
Germany	1442.96	630.04	719.95	1349.99	43.66	49.89	93.56	6.44
UK	822.03	356.43	395.95	752.38	43.36	48.17	91.53	8.47
France	543.60	204.63	307.49	512.12	37.64	56.57	94.21	5.79
Spain	472.00	184.92	253.24	438.16	39.18	53.65	92.83	7.17
Italy	395.41	136.6	226.26	362.86	34.55	57.22	91.77	8.23
Belgium	227.63	83.44	93.83	177.27	36.66	41.22	77.88	22.12
Netherlands	229.9	91.33	99.26	190.59	39.73	43.18	82.90	17.10
Canada	243.54	126.8	85.15	211.95	52.07	34.96	87.03	12.97
Sub-Total	5834.94	2797.4	2492.05	5289.45	47.94	42.71	90.65	9.35
Others	2884.34	833.61	920.74	1754.35	28.90	31.92	60.82	39.18
Total	8719.28	3631.01	3412.79	7043.80	41.64	39.14	80.78	19.22

Table-5: Country wise Comparative Statistics of RMG Export

(Million USD)

Countries	Oct-Dec 15	Jan-March 16	April-June 16	July-Sep 16	Oct-Dec 16	Quarterly Growth (%)	Yearly Growth (%)
USA	1377.40	1338.00	1473.32	1263.20	1294.13	2.45	-6.05
Germany	1080.29	1248.48	1240.51	1282.11	1349.99	5.29	24.97
UK	818.43	986.67	920.30	780.53	752.38	-3.61	-8.07
France	453.33	393.69	533.92	356.79	512.12	43.54	12.97
Spain	436.00	495.08	518.00	462.39	438.16	-5.24	0.50
Italy	323.18	304.56	367.68	277.40	362.86	30.81	12.28
Belgium	186.63	226.51	236.06	213.90	177.27	-17.12	-5.02
Netherlands	160.76	184.17	165.84	173.84	190.59	9.64	18.56
Canada	215.67	246.62	280.91	225.83	211.95	-6.15	-1.72
Sub-Total	5051.69	5423.78	5736.54	5035.99	5289.45	5.03	4.71
Others	1644.76	2080.62	1717.54	1629.91	1754.35	7.63	6.66
Total	6696.45	7504.40	7454.08	6665.90	7043.80	5.67	5.19

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 543factories 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 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 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).

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.

Conclusion

RMG is the major item of exportable, which is 80.8 percent of our total export and 84.1 percent of industrial products export during October-December, FY16. In July-September, the shares were 82.5 percent and 85.6 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 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.

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