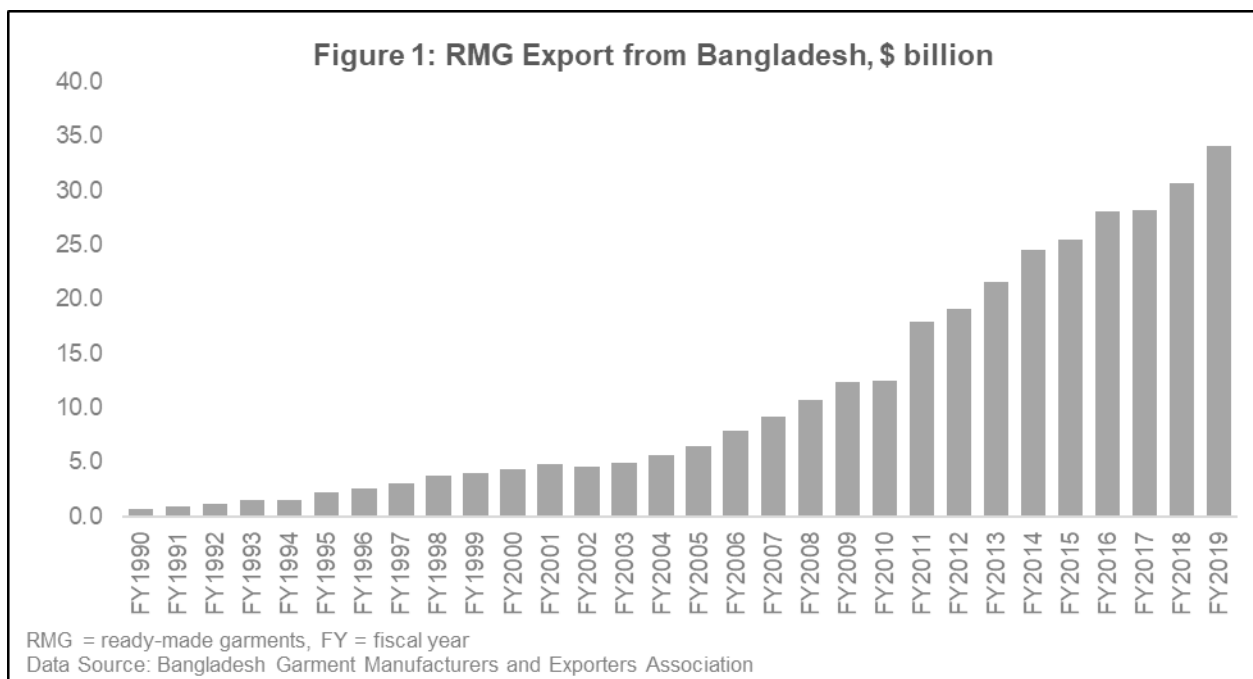


COVID-19 AND THE READY-MADE GARMENTS INDUSTRY IN BANGLADESH

1. **Ready-made garments (RMG) industry in Bangladesh economy.** The Bangladesh economy remains highly dependent on the ready-made garments industry for manufacturing employment, foreign reserve, and women empowerment. The industry contributes 11.2% to the gross domestic product of the country.¹ More than 4,600 RMG factories constitute the largest industrial sector in the country and contribute to 36% of manufacturing employment engaging 4.1 million workers.² Industrious, disciplined and low-cost women workers are the backbone of this industry. With 61% women employment, the RMG industry has played a crucial role in women empowerment and gender equity.³

2. Bangladesh's market share in global RMG trading is circa 6.5%, and the country consistently remained the second largest exporter after the People's Republic of China.⁴ Bangladesh primarily exports to the European Union (62%) and the United States of America and Canada (21%). Over the last three decades, the RMG exports have registered a cumulative average growth of 14.8% per annum reaching \$34.2 billion in FY2019 which is 84.2% of the country's total exports.⁵ Figure 1 shows the growth of the RMG industry since 1990 defying all regional and international crises, however, the industry is now at the crossroads due to COVID-19 fallouts.



3. **COVID-19's impact on the RMG industry.** The RMG sector is on the verge of an unprecedented humanitarian and business catastrophe. To flatten the coronavirus spread curve, the government declared nation-wide holidays up to 25 April 2020 and business and industrial activities have come to a grinding halt except emergency services. Many international buyers are cancelling or postponing confirmed procurement orders as their retail outlets are substantially

¹ Textile Focus. 2020. Review and Outlook, 2020 Bangladesh Garments and Textile Industry.

<http://textilefocus.com/review-outlook-2020-bangladesh-garments-textile-industry/>

² Quarterly Labor Force Survey Bangladesh (2015–16).

³ Centre for Policy Dialogue. 2018. Dialogue on Ongoing Upgradation in RMG Enterprise: Results from a Survey. Dhaka.

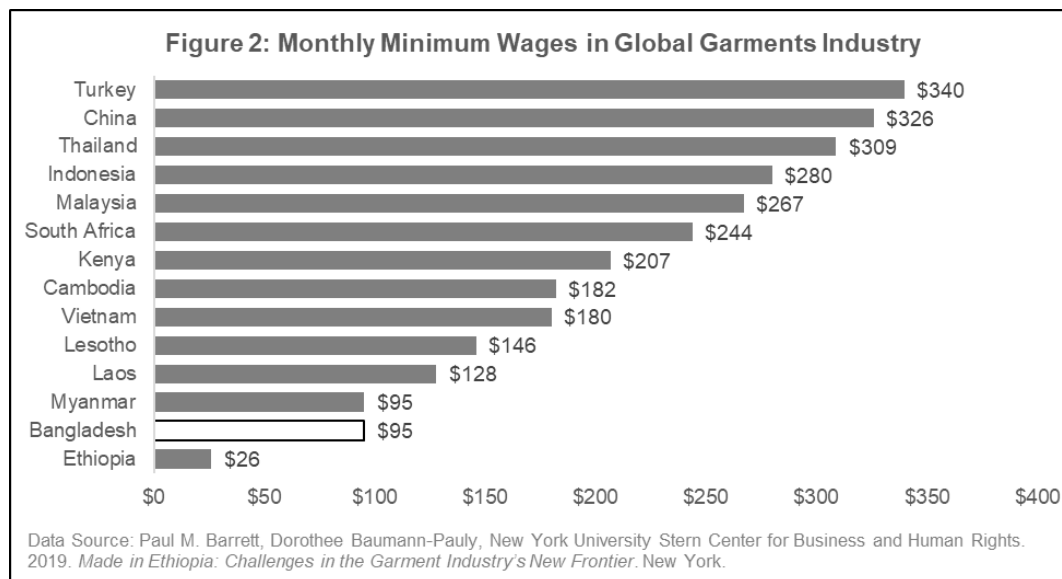
⁴ The Textile Today. 7 August 2018. *Bangladesh remains 2nd largest RMG exporter accounting 6.5 percent market share.*

⁵ Bangladesh Export Promotion Bureau. http://epb.gov.bd/site/view/epb_export_data/2018-2019/July-June

closed in Europe, North America, Asia and elsewhere.⁶ According to Bangladesh Garment Manufacturers and Exporters Association (BGMEA), international buyers have either cancelled or suspended \$3.16 billion worth of shipments involving 1,142 factories affecting 2.26 million workers as of 18 April 2020.⁷ Millions of workers stare at joblessness as new orders dried up given the collapse in global demand for apparels. Reportedly, 1 million workers have already been fired or furloughed.⁸ According to a survey conducted by the BRAC University, 47% RMG workers reported not receiving their wages and felt uncertain about their current job status with their respective employers.⁹ Defying government lockdown, thousands of RMG workers have demonstrated on the streets throughout the country demanding arrear wages.¹⁰

4. A report by New York University Stern Center for Business and Human Rights observes that though Bangladesh has seen its apparel exports grow impressively, the industry generally has not progressed beyond cutting and sewing basic items to which relatively little value is added and from which profits are modest. Bangladesh's garment industry has created jobs, offered a degree of independence to rural young women, and helped prop up the country's shaky economy. But it has not made the same progress in terms of the quality of those jobs, the value added to exports, or increases to workers' real wages.¹¹

5. With a monthly minimum wage of Tk 8,000 (\$95)—one of lowest wages in the global garments supply-chain—the sector requires \$470 million, at a minimum, to pay wages every month to the workers (Figure 2). The BGMEA President has appealed to the international buyers to take delivery of the goods already produced and pay just the wages for the goods under production.¹² Apart from direct humanitarian and business impact, there will be significant reduction of foreign exchange inflows creating external sector vulnerabilities. The workers need urgent cash support for subsistence livelihood and the industry requires medium-term liquidity support for subsequent revival.



⁶ CNBC. <https://www.cnbc.com/world/?region=world>

⁷ Bangladesh Garment Manufacturers and Exporters Association. <https://www.bgmea.com.bd/>

⁸ Lauren Frayer. 3 April 2020. *1 Million Bangladeshi Garment Workers Lose Jobs Amid COVID-19 Economic Fallout*. NPR.

⁹ The Daily Star. 19 April 2020. *Brac Rapid Survey: 47pc garment workers yet to be paid*. Dhaka.

¹⁰ The Dhaka Tribune. 15 April 2020. *RMG workers take to streets in Dhaka, Gazipur, Chittagong for salaries*. Dhaka.

¹¹ Paul M. Barrett, Dorothee Baumann-Pauly, New York University Stern Center for Business and Human Rights. 2019. *Made in Ethiopia: Challenges in the Garment Industry's New Frontier*. New York.

¹² BGMEA President's appeal to the International Buyers. <https://www.youtube.com/watch?v=LmhW9DO4os&feature=youtu.be>.

6. **COVID-19's impact on RMG's supply chain.** The impact on the RMG industry will not be limited to itself and might have grave repercussions on other industrial, consumer and service sectors. The value addition in the RMG industry has increased gradually and stands at 63.2% as backward-linkage industries developed.¹³ At an investment of \$6 billion, a large capital-intensive textile industry has been established for supplying yarn and fabric to the export-oriented RMG industry.¹⁴ Presently, there are 1,461 manufacturing units in the textile-value chain, of which 425 are in yarn manufacturing, 796 in fabric production and 240 in dyeing-printing-finishing operations. There is also a large number of accessories suppliers, mostly small and medium enterprises (SMEs), who are providing buttons, zippers, hangers, threads and other accessories.

7. The RMG industry is a key contributor to other economic sectors, such as, banking, insurance, real estate, packaging, hotels, recycling, consumer goods, utility services and logistics. A World Bank survey revealed that 98% of RMG factories are clients of commercial banks. All machines and plants are insured with insurance companies and, additionally, 87% importers and 15% exporters get their imports/exports insured with insurance companies. It is estimated that port usage fees earned from the RMG sector account for more than 40% of the income of the port authority.¹⁵ The 4.1 million workers in the industry have also created a large demand for low-cost consumer goods, such as cosmetics, dresses, footwear, utensils and other products. The looming crisis in the RMG industry will have a multiplied chain reaction on the whole economy and salvaging this industry will be beneficial to other sectors as well.

8. **Role of RMG in urban poverty reduction.** During 2010–2016, poverty in Bangladesh has decreased from 31.5% to 24.3%, predominantly driven by a reduction in rural poverty by 8.5-percentage points to 26.4%. During this timeframe, urban poverty has reduced by 2.4-percentage points to 18.9%, which slowed down the overall country-wide poverty reduction momentum.¹⁶ According to the World Bank's Bangladesh Poverty Assessment report, more than half of Bangladesh's poor households will live in urban areas by 2030. The continued reduction in urban poverty is primarily driven by the industrial sector, in general, and the RMG sector in particular. The RMG industry has been playing a predominant role in reducing urban poverty and compensating the slow progress of other sectors. During 2010–2016, RMG sector's urban poverty level has declined from 25% to 16%, while poverty alleviation in other major sectors remains largely stagnant (Table 1).¹⁷

Table 1: Urban Poverty Reduction Across Sectors

Sectors	2010	2016
Industry	26%	19%
Garment Sector	25%	16%
Other Manufacturing	23%	20%
Construction	44%	33%
Services	17%	17%
Agriculture	35%	33%
Not Employed or Sector Data Missing	10%	15%

Source: World Bank. 2019. *Bangladesh Poverty Assessment: Facing old and new frontiers in poverty reduction*. Washington.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ International Journal of Textile Science. 2016. *Role of Textile and Clothing Industries in the Growth and Development of Trade & Business Strategies of Bangladesh in the Global Economy*. Pages 39-48.

¹⁶ Bangladesh Bureau of Statistics. 2019. *Final Report on Household Income and Expenditure Survey 2016*. Dhaka.

¹⁷ World Bank. 2019. *Bangladesh Poverty Assessment: Facing old and new frontiers in poverty reduction*. Washington.

9. **RMG industry and gender equity.** Despite limitations, the RMG industry made a profound impact on women empowerment in Bangladesh. By employing women in formal income-generating activities, the industry has facilitated better status of women in the family, reduced vulnerability, and provided decision making authority in family affairs. Expansion of women's employment has contributed positively to the improvement of savings behavior.¹⁸ A survey revealed that about 90% women workers reported increased income and savings, 77% reported increased livelihood status, 73% reported improved medical facilities. Moreover, 70%, 66% and 74% women workers reported improved lifestyle, better sanitation and housing facilities, respectively, than before.¹⁹ Women workers in the RMG industry are mostly young women with very little or no formal education or vocational training. These young female workers start their career as helpers and are promoted to the level of machine operators usually after 3-6 months once they acquire the requisite skills.²⁰ The previously mentioned survey found only 75% women workers completed primary education and none above secondary education level. Overall, the RMG industry empowered women socially and economically with significant changes in the socioeconomic condition and livelihood pattern.²¹

10. **Environmental and social concerns in the RMG industry.** Workplace safety in the Bangladesh RMG industry improved significantly in recent years. Following the fire incident at Tazreen Fashions in 2012 and the Rana Plaza Building collapse in 2013, the government, with the assistance of the European and North American retailers' initiatives (known as Accord and Alliance respectively), have implemented massive remediation programs. Overall, the remediation efforts have enhanced workplace safety significantly in RMG factories.

11. Currently, the total number of Leadership in Energy and Environmental Design (LEED) certified green garment factories in Bangladesh is 91, which is the highest in the world. Bangladesh is also home to the highest number of platinum-rated garment factories in the world. Twenty-five Bangladeshi factories have achieved the highest certificate provided by the US Green Building Council (USGBC) with six out of the top 10 LEED certified factories worldwide in Bangladesh. Around 500 more RMG factories have been registered with the USGBC for the LEED certification.²² It is highly unlikely that ADB's support initiatives might get hindered because of environmental and social concerns.

12. **Government's response.** To fight COVID-19's unfolding fallouts, the government announced a stimulus package of Tk956 billion (\$11.2 billion), or 3.3% of GDP to revive the economy, by strengthening the social safety net, export sectors, SMEs and other priority sectors. The package allocates Tk50 billion for RMG and other export-oriented industries which could only be used for paying salaries and allowances to workers and employees. The size of the Export Development Fund has been increased from \$3.5 billion to \$5.0 billion which provides short-term facilities for importing raw materials for export-oriented industries. Out of this package, the central bank will institute a \$600 million Pre-Shipment Credit Refinance Scheme for RMG and other export-oriented industries. This highly welcomed package, though significant, will meet only a fraction of the massive requirements of the sector, which needs at least \$470 million to pay wages every month. The country requires more support for the basic subsistence of the workers and to keep the industry alive.

¹⁸ Ibid.

¹⁹ Afsana Mustafa, M. Serajul Islam, Saiful Islam, and Mahfuja Khatun, *Impact of RMG Sector on Livelihood Change of Women Employees of Bangladesh*. Social and Economic Geography, vol. 2, no. 1 (2016): 1-10. doi: 10.12691/seg-2-1-1.

²⁰ Sanjida Shahab Uddin. 2015. *An Analysis of the Condition of Bangladesh Female RMG Workers*. South Asia Journal.

²¹ Ibid.

²² The Daily Star. 2019. *Bangladesh Leads World in Green RMG Production*. Dhaka.

13. **ADB and RMG industry.** ADB has been supporting the government in upskilling the manpower in the RMG industry. Under the Skills for Employment Investment Program, ADB has supported training of 62,834 personnel in this sector as of March 2020.²³ In the backdrop of industrial accidents in 2012-2013, PSOD approved \$50 million intermediary loans to Eastern Bank and BRAC Bank, two private sector commercial banks for financing RMG and textile factories for complying with safety standards. Apart from enhancing compliance standards, PSOD's assistance has helped in introducing high-value products, such as blazers, in the industry.

14. **Conclusion.** The impact of COVID-19 has just started to unfold and will evolve fast. The full impact will be more visible in the next few months or beyond. In order to mitigate the impending economic and potential social crisis, it is needed to stay ahead of the curve and get ready with appropriate emergency assistance and post-crisis assistance in different forms as appropriate. It may be needed to sequence ADB's sovereign and nonsovereign operations for better effectiveness and sustainability in a risk-measured manner. Obviously, the impact of COVID-19 extends well beyond the RMG industry to other economic sectors. Assistance to the RMG industry, which is the largest contributor to urban poverty reduction, may help other associated sectors in the supply chain and normalize the economy significantly and faster.

²³ Skills for Employment Investment Program. <http://seip-fd.gov.bd/statistics/>