

CPD-BGMEA Discussion Meeting  
BGMEA Regional Office, Chittagong; 15 May 2017

## Introduction to CPD RMG Study

“New Dynamics in Bangladesh Apparels Enterprises: Perspectives on  
Restructuring, Upgradation and Compliance Assurance”

Dr Khondaker Golam Moazzem

Centre for Policy Dialogue (CPD)

## Discussion Points

1. Major Changes and Challenges Faced by Bangladesh's Apparels Sector since 2013
2. Limited Understanding on the Future Trajectory of Bangladesh's Apparels Sector
3. CPD-RMG Study 2016: Exploring the Sustainability of the Apparels Enterprises
4. Enterprise Survey and Others
5. Conducting Enterprise Survey
6. Final Words

# 1. Major Changes and Challenges Faced by the Apparels Sector since 2013

- Bangladesh's apparels sector has passed a turbulent period over the last 4 years
  - Challenges for reinstating Bangladesh's brand image
  - Difficulty in maintaining growth momentum
  - Challenges of survival of a section of enterprises
  - Pressure in working in an environment with constant watch of global stakeholders
- Entrepreneurs have shown their courage to take those challenges and risks
  - Allowing brands/private initiatives to inspect their factories
  - Getting better understanding about problems of physical compliance of the factories
  - Initiating remediation works as per 'corrective action plans (CAPs)'
  - Taking the pain of additional investment for remediation in order to make the factories compliant

## 2. Limited Understanding on the Future Trajectory of Bangladesh's Apparels Sector

- Future trajectory of apparels sector is not very clear due to limited knowledge about risks caused due to
  - Enterprise level challenges
  - Sectoral challenges
  - Global challenges

### **Enterprise level challenges**

- Following incidences have possible impact on enterprise's profit, loss and investment
  - Whether firms' profit/loss and rate of return on investment will change owing to additional investment for remediation related works?
  - Do we know under the changing business environment, which factories will survive and upgrade? Which factories will shut-down?
  - Do we know the reasons behind differences in productivity between factories?

## 2. Limited Understanding on the Future Trajectory of Bangladesh's Apparels Sector

### Enterprise level challenges

- Do we fully realize how much additional profit/return received by a firm due to higher-productivity?
- Do we know the reasons behind differences in capacity utilization of firms?
- Do we know why firms in China and Vietnam are more productive than that of Bangladesh? What kinds of changes require in the production process and technology to upgrade productivity of local firms towards the level of competing countries?
- Do we know the extent of gap in management level efficiency between local firms? Do we realize how those differences in management skills impact on firms' productivity, efficiency and overall return?
- Do we know how far behind management skills of apparels enterprises of Bangladesh vis-à-vis those of competing countries including China and Vietnam?

## 2. Limited Understanding on the Future Trajectory of Bangladesh's Apparels Sector

### Enterprise level challenges

- Will enterprises be able to retain their profit margin in the future by practising existing production processes, technologies, labour management, gender practices and environmental pollution management?
- If not, what kinds of changes will be required in order to retain the profit and expand the market share?
- To what extent local firms are able to offer new design to buyers in order to get better margin? What kinds of investment is required for developing that capacity?
- What kinds of changes will come in the future in buyers' marketing strategy? How firms are setting strategy in this regard?
- Are firms happy with their existing 'product basket'? If not, what kinds of effort and initiative are required to diversify 'product basket'?
- What are the potential products for diversifying your export base?

## 2. Limited Understanding on the Future Trajectory of Bangladesh's Apparels Sector

### Enterprise level challenges

- How could the relationship between employers and workers at the factory level be improved? What additional efforts are required both from employers' and workers' level to make the relationship 'sustainable'?
- What is the sustainable form of 'social dialogue' between employers, workers and government?
- How enterprises could address the demand for having 'living wage' for workers in the future?
- How efficiently entrepreneurs are handling inter-generational challenges? Are the changes introduced by new generation entrepreneurs 'sustainable' for the enterprises?

## 2. Limited Understanding on the Future Trajectory of Bangladesh's Apparels Sector

### Sectoral challenges

- Following incidences have possible impact on enterprise's profit, loss and investment
  - How local entrepreneurs are planning to diversify their investments in the coming years both within the apparels sector and in other sectors? Or, in outward FDI ventures?
  - How attractive local apparels market for investment by the entrepreneurs?
  - Will more foreign investment in garments sector take away our market? What should be our strategy?
  - How far the prospect of strengthening backward and forward linkage industries of apparels value chain by local entrepreneurs?
  - How far apparels enterprises diversify their market base in non-traditional markets? What are the potential markets for Bangladesh?



## 2. Limited Understanding on the Future Trajectory of Bangladesh's Apparels Sector

### Global changes

- What are the possible impact on enterprise's production, investment and profit/loss because of following incidences
  - How the competitiveness of Bangladesh apparels sector be affected in UK and EU after the operationalisation of 'Brexit'?
  - Will enterprises retain their competitiveness after Bangladesh will graduate from the LDC category in 2024?
  - Can enterprises will be able to comply all 27 conditionalities to be imposed on Bangladesh in order to avail the GSP plus facility in the EU after it graduates from the LDC category?
  - Is there any country which have the potentiality to overtake Bangladesh in global apparels market in the next decade?

### 3. CPD-RMG Study 2016: Exploring Sustainability of the Apparels Enterprises

- In view of this shifting dynamics, Bangladesh apparel sector needs to reach a 'new equilibrium' within a foreseeable future.
  - This will need to be informed by higher productivity, greater competitive capacity and better physical and social compliance
- CPD has initiated a study 2016 titled "New Dynamics in Bangladesh's Apparels Enterprises: *Perspectives on Restructuring, Upgradation and Compliance Assurance*"
  - Supported by the Embassy of Sweden, the Embassy of Netherlands, GIZ and the FES
- The objectives of the study is
  - to assess the capacity of apparels enterprises to undertake economic transformation as well as to upgrade physical and social compliances and thereby to continue maintaining its competitiveness in the global market.
- Three issues to be examined
  - Social upgrading; Economic upgrading; Gender embedded upgrading

### 3. CPD-RMG Study 2016: Exploring Sustainability of the Apparels Enterprises

- **Social Upgrading:** Social upgrading indicates a process of improving rights and entitlements of workers in the production process (Barrientos, Gereffi & Rossi, 2011).
  - Social upgrading considers not only the issues of access to better work but also ensuring better working condition, improving workers' protection and rights.
- **Hypothesis:** Additional investment for upgraded social and physical compliance will change firms' return on investment. Given the diverse structure of cost and return, not all firms will be able to make additional investment and therefore a part of firms will exit from the market.
- Firm's social benchmark level will be calculated through a composite index of three key sub-index.
  - Firms' Social Benchmark Level Index = Employment sub-index (ESI) + Standard sub-index (SSI) + Rights sub-index (RSI) + Non-Discrimination Index (NDI)

### 3. CPD-RMG Study 2016: Exploring Sustainability of the Apparels Enterprises

- **Economic Upgrading:** Economic upgrading is reflected through different forms -product, process and functional upgrading.
  - Different forms of upgrading depend on firm's level of development in the production system
- **Hypothesis:** Transformation of the apparels industry will be reflected in firms' upgrading capacity in the production process by enhancing their growth further in the lower-end segment of the product market and their ability to enter and grow in the upper-end segment. Not all firms will be able to upgrade in full due to differences in cost and return, level of productivity, product specialization, net asset and nature of contractual arrangement.
- A comprehensive index has been developed in order to estimate its benchmark condition
  - Firm's benchmark level of economic upgrading = Weighted index of process upgrading sub-index+ Weighted index of product Upgrading sub-index+ Weighted index of functional upgrading sub-index + Management sub-index

### 3. CPD-RMG Study 2016: Exploring Sustainability of the Apparels Enterprises

- **Gender Embedded Upgrading:** Economic transformation through economic and social upgrading cannot be gender neutral.
  - A gender embedded social upgrading indicate improvement of rights and entitlements of both male and female workers in the production process.
- **Hypothesis:** Given the presence of gender inequality in the apparel sector value chain, economic and social upgrading of apparel enterprises will not be able to reduce the gap between male and female workers both within and across enterprises in terms of entitlements, rights, access to employment and safety and security and job hazards including sexual harassment etc.
- Gender embedded social benchmark of surveyed enterprises will be estimated.
  - Firms' Gender Embedded Social Benchmark Level Index = Gender Embedded Employment sub-index (GEESI) + Standard sub-index (GESSI) + Gender Embedded Rights sub-index (GERSI) + Non-Discrimination Index (NDI)

## 4. Enterprise Survey and Others

- Enterprise survey will be the core of the study
  - Two surveys will be carried out: a) Baseline survey b) High Frequency Panel Data Collection Survey.
  - A number of focus group discussions (FGDs) on different topics and several case studies on specific issues will be carried out.
- CPD prepared a 'population universe' based on the available data of different public and private sources
  - Ministry of Labour and Employment (MoLE), DIFE, DoL, ILO, BGMEA, BKMEA and BEPZA.
  - CPD identified a total of 3648 factories in the population universe.
- Based on the population, a total of 400 factories have been identified for base line survey.
  - Covers all categories of factories including small (factories having workers less than 500), medium (workers between 500-2500), large (workers over 2500), located in Dhaka and Chittagong regions, woven and knit factories and EPZ factories.

## 4. Enterprise Survey and Others

**Table 1: Distribution of factories according to Workers Size**

Workers Size	No. of Factories	Percentage
Small (Between 50 to 500)	143	35.8
Medium (Between 501 to 2500)	143	35.8
Large (Over 2501)	74	18.5
EPZ	40	10.0
Total	400	100.0

**Table 2: Distribution of factories according to Location**

Location	No. of Factories	Percentage
Dhaka	156	39.0
Chittagong	77	19.3
Narayanganj	55	13.8
Gazipur	105	26.3
Mymensingh	4	1.0
Manikganj	2	0.5
Tangail	1	0.3
Total	400	100.0

**Table 3: Distribution of factories according to membership**

Membership	No. of Factories
BGMEA	283
BKMEA	47
Both	37
Not defined (incl. BEPZA)	33
Total	400

## 4. Enterprise Survey and Others

- CPD developed enterprise level questionnaire. Questionnaire has 6 modules.
  - **Module 1:** Management of the factory (CEO, MD, GM or ...)
  - **Module 2:** HR and social compliance
  - **Module 3:** Production and marketing
  - **Module 4:** Remediation progress
  - **Module 5:** Revenue and costs
  - **Module 6:** Worker related issues
- We understand the sensitivity of different information to be provided for the survey.
  - We will maintain the confidentiality of the data/information provided by you
  - We are ready to provide 'non-declaration undertaking' to ensure secrecy of the data to be collected



## 4. Enterprise Survey and Others

- We have a plan to undertake 'High Frequency Panel Data Collection Survey'
- Different issues will be focused through those surveys on limited number of sample firms
  - Line wise productivity
  - Production target
  - Nutrition and productivity
  - SMV
  - Cost and return of firm
  - WPC and Trade union
  - Machinery and productivity
  - Capacity utilization

## 4. Enterprise Survey and Others

- A number of case studies will be carried out on different issues
  - Sub-contracting operation
  - Gender related issues
  - Environmental issues and concern
  - Pollution management
  - Trade union related issues
  - Mid-level management
  - Skill gap and demand for foreign workers/professionals

## 5. Conducting Enterprise Survey

- CPD has recruited 15 field investigators for conducting the survey
  - Each team comprises four field investigators (including one female investigator)
  - Each team will visit a sample factory
- Since factory management often found in pressure of managing time
  - Please indicate possible date for conducting the survey (fill up the form in your folder)
  - CPD team will contact with the 'focal person' of each sample factory
  - CPD team intends to work separately to different points of information at the factory (e.g. GM, PM, HR and workers)
  - Workers to be selected randomly (please provide information in the form)
  - Expected time for survey will be 1.30-2.00 hours
  - The team would like to cause least trouble to your regular work.

## 5. Conducting Enterprise Survey

- As part of preparatory works, CPD in association with BGMEA has organized a lunch meeting in Dhaka on 4 March, 2017
  - The meeting was jointly chaired by Executive Director, CPD and Vice President, BGMEA
- The meeting was attended by 57 participants of different RMG factories including owners and senior officials of respective factories
  - Issues discussed: challenges of competitiveness due to number of emerging issues (e.g. declining price, high remediation cost and less orders), and comparison of competitiveness with other countries
  - Productivity-efficiency gap between different countries
  - Living wage issues in the RMG sector
  - Participation of increasing number of stakeholders
  - Regulatory issues related to management professionals of the RMG sector

## 5. Conducting Enterprise Survey

- After the meeting, the survey has been started.
  - CPD team have received positive response and cooperation from the owners and factory management of the surveyed factories
- Till date, 54 factories and 678 workers have been surveyed
- The survey on factories owned by BKMEA members and those located in EPZ areas will be conducted soon.

**Status of Sample Survey (as of 9 May, 2017)**

List of Sample Enterprises - 226		Surveyed Enterprises- 54		
Categories	No. of Factories	Categories	No. of Factories	No. of Workers
Small	68	Small Factory	12	96
Medium	98	Medium Factory	29	348
Large	60	Large Factory	13	234
<b>Total</b>	<b>226</b>	<b>Total</b>	<b>54</b>	<b>678</b>

## 6. Final Words

- CPD RMG Study will be based on data collected from your factories
  - Your cooperation is very important to successfully complete the study and to provide suggestions for future directions of the apparels sector of Bangladesh
- There are sensitive issues regarding business operation which need careful handling
  - We assure 'full confidentiality' of the data
- We believe that a knowledge-based strategic thinking is highly critical for sustainable development of the RMG sector
  - This study is expected to fulfill that need
- Need your fullest cooperation to attain that objective.

Thank you.

<moazzemcpd@gmail.com>