Recovery of the apparel sectors of Bangladesh and Sri Lanka: is a value-chain-based solution possible?

Presentation by
Dr Khondaker Golam Moazzem, CPD
Mr Kithmina Hewage, IPS

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Study team

Dr. Khondaker Golam Moazzem, CPD

Dr. Fahmida Khatun, CPD

Mr. Kithmina Hewage, IPS

Mr. Tamim Ahmed, CPD

Ms. Anjana Sandeepani, IPS

Special Thanks to

Mr Avra Bhattacharjee, CPD

Ms Ayesha Zuhair, IPS

Discussion Points

1. Why this study?
2. What is meant by ‘value-chain based solution?’
3. Five key findings
4. Identifying framework of cooperation in the value chain

1. Why this study?

Inadequate short-term measures at the national level

Fiscal constraints prevent provision of adequate support to workers

Medium-term recovery measures implemented by market players aren’t impactful across the value chain

- *inventory smoothening*
- *reshoring*
- *alternate location strategy*

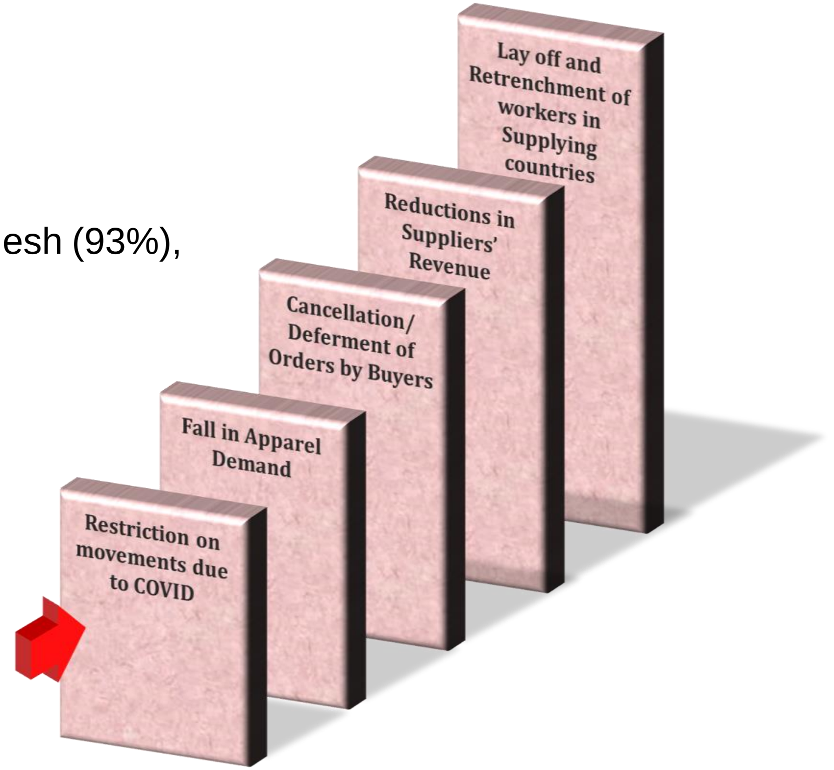
2. What is meant by ‘value-chain based solution?’

Collective action by market players who will explore solutions enabling key stakeholders to cope with the crisis, to rebound and recover, and to be resilient.

3. Five Key Findings

1 Lack of preparation for an unprecedented global crisis and limited resilience capacity intensified suppliers' challenges during the pandemic

- Domino effect
- Sale of US clothing stores declined by 79% in April 2020
- 76% of suppliers had to reduce export orders
- Highest proportion of order reductions in: Bangladesh (93%), Vietnam (80%), China (74%) and India (61%)
- "Price effect" + "volume effect"



3. Five Key Findings

2 Fiscal constraints of Bangladesh and Sri Lanka squeezed domestic capacity to support the apparels sector during the crisis period; initiatives of sourcing countries were inadequate

Bangladesh

US$1.2 billion subsidised credit to RMG enterprises disbursed in the form of workers' wages

extension of LC usance

waiver interest of loans

increase in the export development fund

temporarily defer the loan payment

Subsidised credit support has not been received by all factories; Laid-off or retrenched workers (about 0.36 million, as of October 2020) did not get the due benefit in most cases

Sri Lanka

debt moratorium of six months for interest and capital

short-term working capital loans at 4% interest

Most factories availed themselves of the working capital loans made available

3. Five Key Findings

3 The dismal state in the world of work could not be lessened through limited effort of the governments and suppliers

Bangladesh

as of October 2020, over 360k workers lost jobs

only 14% of laid-off/retrenched workers received their dues

58% workers were in financial difficulties

82% saw a deterioration in their food intake

Sri Lanka

substantial impacts on workers' incomes and livelihoods: debt increase, assets sold, savings spent

limited financial support for workers

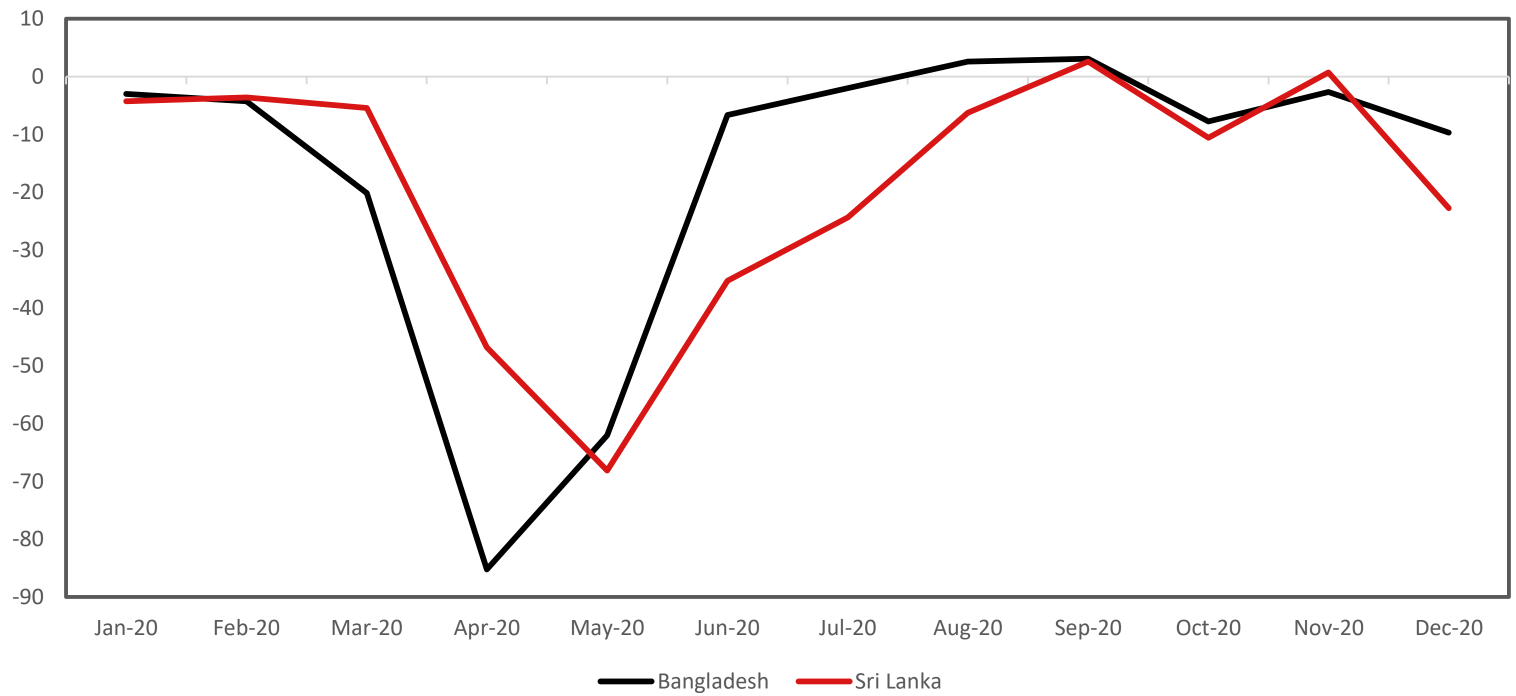
disproportionate negative impact on female workers

regularity issues regarding inspection, workers’ wages

3. Five Key Findings

4 Medium-term recovery challenges will be extended with the COVID-19 pandemic during the second wave

Changes (%) in RMG export of Bangladesh and Sri Lanka (in 2020)



3. Five Key Findings

4 Medium-term recovery challenges will be extended with the COVID-19 pandemic during the second wave

- medium-term challenges will closely correlate with the extent to which the virus is contained
- second wave of COVID-19 in prominent markets such as the USA, UK, and EU significantly reduced demand
- despite uncertainty, brands are confident that Bangladesh will remain a major source of apparels in the coming months
- China's return to relative normalcy has released pressure on supply chains

3. Five Key Findings

5 Limited initiatives undertaken across the value chain would delay the recovery process

Bangladesh

Action, Collaboration and Transformation (ACT)

commitment to ensure a living wage for RMG workers

supporting suppliers with accessing finance through banks by acting as an "informal guarantor"

ILO has extended support to the DIFE in developing safety protocol and guidelines

EU has extended support for workers' unemployment insurance

Sri Lanka

increased responsibility with the relevant country team

reduced dependence on a large central team at its headquarters

expansion of online platforms and online sales

diversification of locations, markets & products

sourcing initiatives / capacity development initiatives

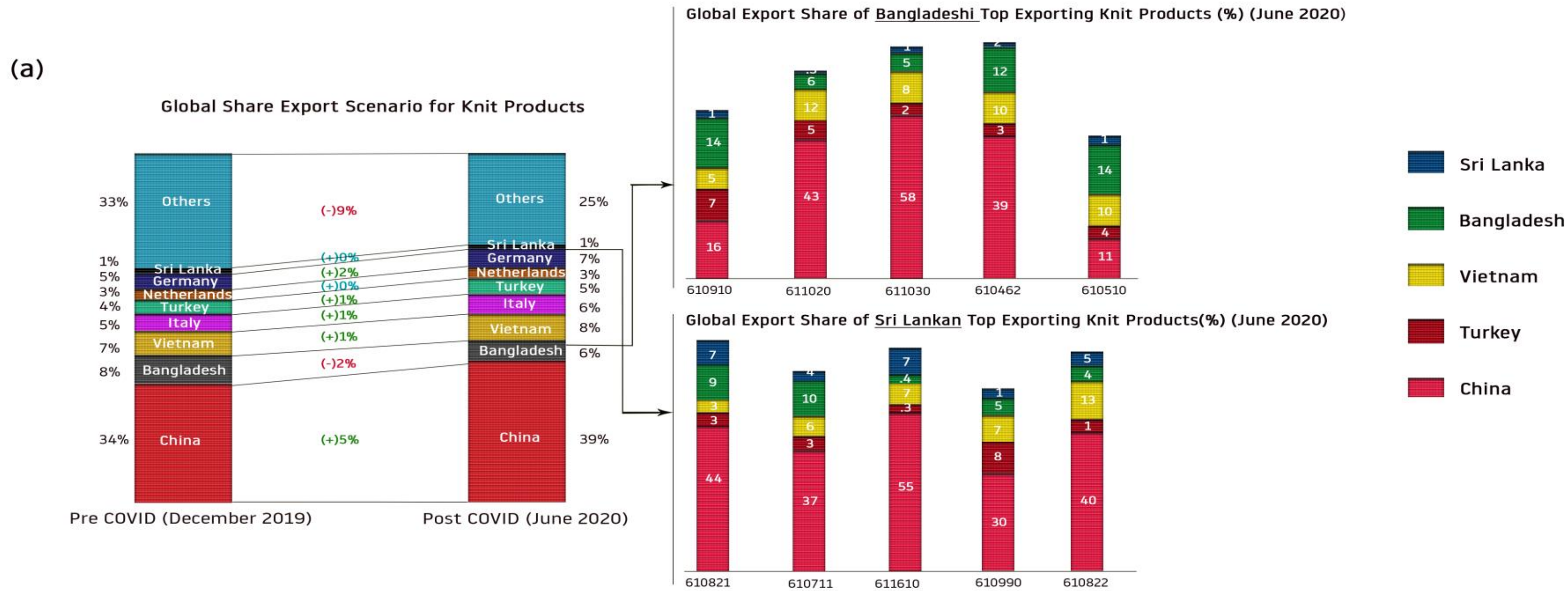
4. Identifying framework of cooperation in the value chain

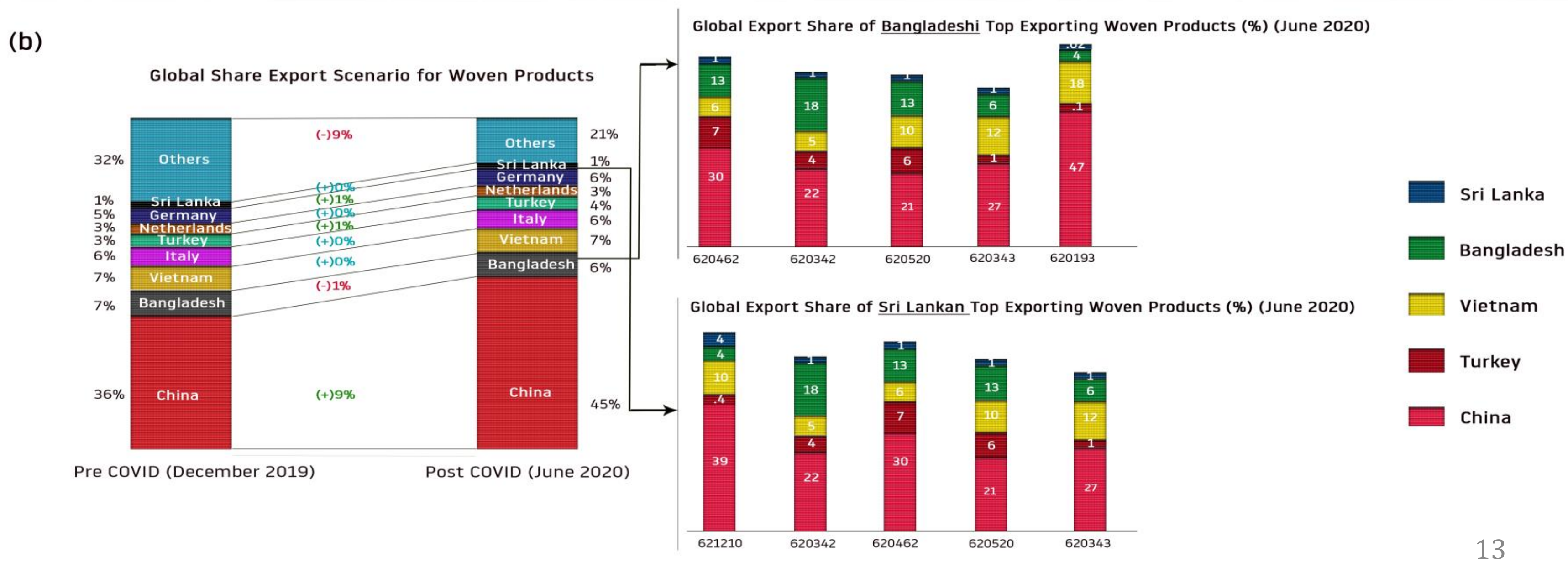
Value chain level initiatives indicate whether a better distribution of orders would better contribute to the recovery process

market share of knit (HS code 61) and woven (HS code 62) products

- significant changes between pre-COVID (December 2019) and post-COVID (June 2020) period
- highest rise in market share observed in China, followed by Vietnam, Germany, Italy, Turkey, Netherlands, Belgium and France
- Bangladesh and Sri Lanka lost their shares during the COVID period

Market Share of Knit and Woven Products of Major Supplying Countries during Pre-covid and covid Period





4. Identifying framework of cooperation in the value chain

Value chain level initiatives indicate whether a better distribution of orders would better contribute to the recovery process

Reshoring and alternate strategies followed by buyers in placing orders in adversely affected poor developing countries

- If buyers and brands maintained their market share of export orders with the largest supplier - China - during the COVID-19 pandemic period, an additional USD 2 billion worth of orders could be distributed to other traditional supplying countries
- Analysis shows that both Bangladesh and Sri Lanka have the capacity to supply products that are supplied by China

4. Identifying framework of cooperation in the value chain

Value chain level initiatives indicate whether a better distribution of orders would better contribute to the recovery process

Brands and buyers based in Europe, USA and other major sourcing countries could undertake a joint commitment

- to ensure a gradual return to pre-COVID market shares of import orders to traditional supplying countries
- product-wise analysis of Bangladesh and Sri Lanka indicates such distribution is feasible even within the product basket of these supplying countries

Suppliers of developed and developing countries which received a higher share of export orders during this period:

- have benefitted through additional orders
- are well-positioned to support their industries and workers under their social support and other schemes

4. Identifying framework of cooperation in the value chain

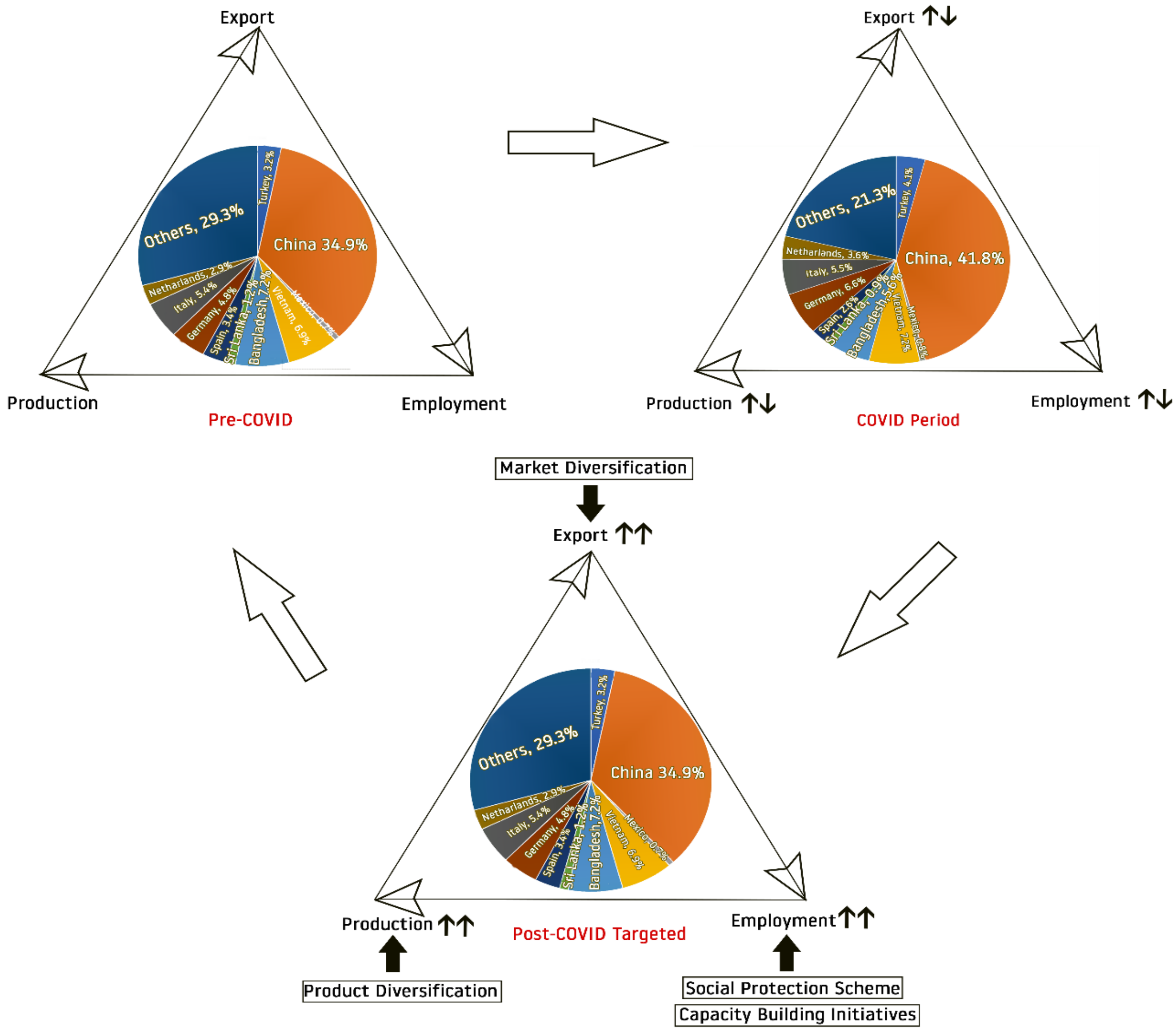
Value chain level initiatives indicate whether a better distribution of orders would better contribute to the recovery process

Proposed redistribution

- extension of existing initiatives undertaken by major brands, buyers and sourcing countries
- extension of what is currently being implemented under the buyers’ platform as well as under the ILO led global call for action
- part of responsible business practices (RBPs) and thereby able to ensure workers' well-being

Governments of sourcing countries as well as brands and buyers could extend their long-term support in developing the social insurance schemes targeting workers of the apparels sector.

Proposed framework of cooperation in the global apparel value chain



Thank you.