

# **Transformation in the RMG Sector in Post-Rana Plaza Period: Findings from CPD Survey**

**30 August, 2018**

**Opening Session**

Presentation by

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# Acknowledgements

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  - Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Dhaka
  - The Royal Netherlands Embassy, Dhaka
  - The Embassy of Sweden Dhaka
- BGMEA, BKMEA and representatives of a number of workers organizations

# Discussion Points

1. Background of the Study
2. Highlights of the Study
3. Developed a Comprehensive Analytical Frame for the Study
4. Preparing a 'Data Universe' of RMG Enterprises
5. Sampling Frame Identified Nationally Representative Sample Enterprises and Workers
6. Developed a Comprehensive Index for Benchmarking Enterprise Level Upgrading
7. Micro-level Variations in Efficiency is Measured by High Frequency Data Survey
8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises
9. Conclusion

## **CPD-RMG Study Team**

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# 1. Background of the Study

- Bangladesh's RMG sector has passed over five years since the Rana Plaza tragedy
  - Performance of the RMG sector in terms of macro data shows a mixed scenario
  - Performances at the enterprise level are largely unknown
- Enterprise level performances are increasingly sought to appreciate the impact and implications of various initiatives undertaken over the years
  - CPD-RMG Study has provided that opportunity
- CPD has conducted a nationally representative enterprise survey to appreciate level of upgrading
- Necessary cooperation has been extended by Ministry of Labour and Employment (MoLE), Associations such as BGMEA and BKMEA and trade union leaders
  - The study has been carried out in collaboration with FES Bangladesh, GIZ Dhaka Office, the Royal Netherlands Embassy and the Embassy of Sweden
- A 15-member Advisory Committee headed by Honb'le Secretary, MoLE provided necessary guidance to the study team
  - Overall guidance and advice have been kindly extended by Professor Rehman Sobhan, Dr Debapriya Bhattacharya and Professor Mustafizur Rahman
  - A panel of reviewers from globally renowned universities/institutes reviewed working papers.

## 2. Highlights of the Study

- Following are the areas where the study made substantive contribution:
  1. A comprehensive analytical frame has been used to cover three types of upgrading in RMG enterprises – social, economic and gender embedded upgrading
  2. Prepared a ‘data universe’ of RMG enterprises of Bangladesh based on available datasets
  3. Identified a nationally representative samples to conduct enterprise level survey under six different modules
  4. Developed a comprehensive index for benchmarking of level upgrading for each enterprise
  5. A high frequency data survey has conducted to collect data for estimating line and worker level efficiency
  6. Major findings of the study highlighted on key issues and concerns related to overall upgrading, ownership, management, technology, decent work, workers’ rights and gender related issues
  7. Prepared a number of case studies to address a number of relatively less addressed issues: relative performance of EPZ vs DTA enterprises, subcontractee enterprises, relative performance of WPCs and trade unions
  8. A broad-based consultation with stakeholders had been made at different stages of the study

### 3. Developed a Comprehensive Analytical Frame for the Study

- The issue of social upgrading along the value chain while ensuring economic upgrading, is quite a recent phenomenon
  - Literature doesn't shed light on how social upgrading as a whole affects profitability and productivity, and how it helps in firm's growth (Table)
- Firms have to tackle competing pressures of maintaining high quality while lowering costs
  - Suppliers can choose between a 'low road', characterized by economic upgrading and social downgrading and a 'high road', involving economic and social upgrading;
- Those taking a high-road approach have the fear of losing price competitiveness (Barrientos, Gereffi and Rossi, 2010).
  - This creates pressure on firms to take the 'low road' of industrialization, creating various problems for workers.

#### Recent Studies on Social and Economic Upgrading

Positive Association between Social and Economic Upgrading	Negative Association between Economic and Social Upgrading	No/Ambiguous Association between Economic and Social Upgrading
Funcke et al (2014); Ahmed and Nathan (2014); Sarkar et al (2013); Staritz and Morris (2013); Verhoogen (2007)	Coe and Hess (2013); Bhaskaran et al (2013); Barrientos et al. (2011); Carr and Chen (2004); Chen et al. (1999); Collins (2003); Hale and Wills (2005); Knorrinda and Pegler (2006); Oxfam International (2004); Raworth and Kidder (2009); Standing (1999)	Evers, Amoding and Krishnan (2014); Evers et al (2014); Maree et al (2013); Plank and Staritz (2013); Barrientos and Visser (2012); Locke et al (2007); Plank, Rossi and Staritz (2014);

### 3. Developed a Comprehensive Analytical Frame for the Study

- Taking the ‘high road’ approach, this study considered three types of upgrading and examined their interaction on suppliers
  - **Economic Upgrading:** It is defined as the process through which firms move from low-value added to high-value added activities (Gereffi, 1999)
  - **Social Upgrading:** It refers to the improvement in the rights and entitlements of workers, which is related with four pillars that include employment, standards and rights at work, social protection and social dialogue (ILO, 1999).
  - **Gender Embedded Upgrading:** This is a special case of social upgrading, where the gender equality in employment, standards, rights and social protection are to be ensured.
- Three hypotheses are tested are
  - **Hypothesis 1:** Higher social upgrading levels lead to higher productivity and profitability
  - **Hypothesis 2:** Higher economic upgrading levels lead to higher social upgrading levels
  - **Hypothesis 3:** Higher economic upgrading leads to higher gender embedded social upgrading



## 4. Preparing a 'Data Universe' of RMG Enterprises

- After harmonising datasets of nine different public and private organisations collected in 2016, CPD prepared a 'data universe' of RMG enterprises.
- The newly created database include 3856 enterprises and 3.6 million workers. Of these, 98.5 per cent of enterprises are located in domestic tariff areas (DTAs). Using a revised enterprise classification, 48.9 per cent enterprises are found 'small', 42.5 per cent are 'medium' and only 7.4 per cent are 'large'.

Figure 1: Distribution of Factories and Workers under Different Categories

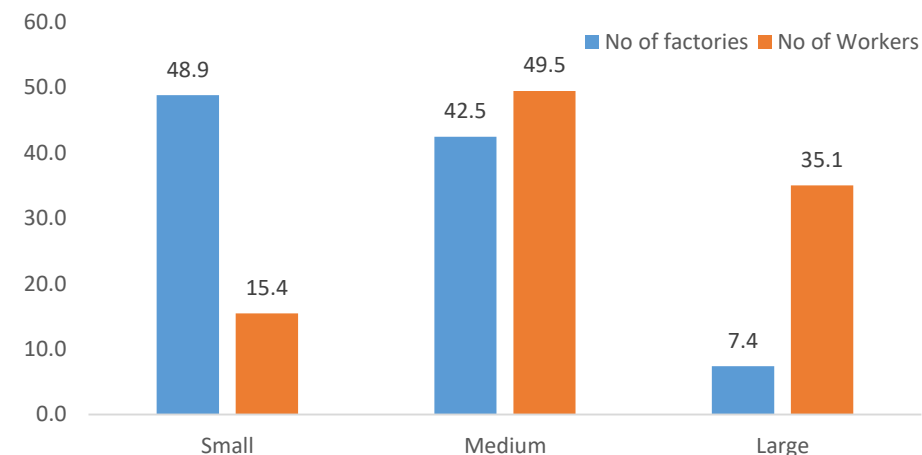


Table 1: Available information in each dataset (percentage of total number of factories)

Databases	Data available on (% of total number of enterprises)								
	No. of factories	Size (no. of employee)	Location at EPZ	Products produced	Production capacity	State of operation	Status of inspection	Existence of TU/WPC	BGMEA/ BKMEA reference no.
BGMEA	4,329	100%		99.2%	95.6%	57.9%			100%
BKMEA	2,085	16.4%		10.6%	9.30%	40.4%			100%
Accord I	1,608	78.8%					100%		
Accord II	1,466						100%		
Alliance I	862	75.1%					100%		
Alliance II	649						100%		
NI	1,549						100%		100%
DIFE	4,808	72.2%	99.9%	99.5%			55.1%		67.5%
DoL								100%	

## 4. Preparing a 'Data Universe' of RMG Enterprises

- Data universe comprises a total of 3,856 factories with about 3.6 million workers
  - About 53 per cent are female and 47 per cent are male.
  - Over 98 per cent of these enterprises are in four districts: Dhaka (38.0 per cent), Gazipur (28.9 per cent), Chittagong (16.1 per cent) and Narayanganj (14.7 per cent) because of their better infrastructural facilities, access to major trade routes for import and export, logistic and banking facilities as well as a more readily workforce.
  - Only 1.5 per cent enterprises are located in EPZs
- In the process of harmonising datasets, three major weaknesses of existing databases are observed.
  - 1) incomprehensiveness, 2) incompleteness and 3) inconsistencies.
  - These weaknesses may partially be addressed in the ongoing initiatives of database development
- RMG sector needs a comprehensive database with information on
  - Ownership, management, production, technologies, department wise professionals and staffs, contractual arrangement with buyers/brands, sourcing of raw materials, export destinations, status of physical, social and environmental compliances, grade wise distribution of workers, their wages and other payments, training facilities, workers' qualification and workers' associations.

## 5. Sampling Frame Identified Nationally Representative Sample Enterprises and Workers

- CPD RMG study intended to collect data on multiple sub-indicators from the sampled factories
- This study has applied a stratified multistage sampling procedure.
  - In each stage, the sampling unit would be different.
- In the first stage, the primary sampling units are RMG factories.
  - The population is divided into three sub-populations: small, medium and large factories.
- In the second stage, the sampling units are workers, and workers from each factory are randomly selected.
  - Using 95 per cent confidence interval with 2 per cent margin of error and a population proportion of 33 per cent (as before)
  - The minimum number of workers required in the sample is 2122 (given a total population of 2,629,298 workers of the whole data universe).

$$n = \frac{\frac{z_{\alpha/2}^2 P(1-P)}{2}}{e_0^2 + \frac{z_{\alpha/2}^2 P(1-P)}{2N}}$$

where,

N= population size = 3596

P = population proportion = 0.33 or 33%

$e_0$  = desired level of precision = 0.05

1-  $\alpha$  = confidence interval = 90%

$z_{\alpha/2}$  = z-value corresponding to a level of significance in two-tailed test = 1.96

## 5. Sampling Frame Identified Nationally Representative Samples

**Distribution of Sample Enterprises**

Size	Population		Stratified Sampling	
	Frequency	Percent	Frequency	Percent
Small	1739	48.36	109	48.36
Medium	1592	44.27	100	44.27
Large	265	7.36	17	7.36
Total	3596	100	226	100

**Distribution of Sample Workers**

Size	Population (No. of Workers)		Sample (No. of Workers)		No. of Factories	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Small	669403	19.1	408	19.2	109	48.36
Medium	1868020	53.3	1131	53.3	100	44.27
Large	963800	27.5	584	27.5	17	7.36
Total	3504728	100	2123	100	226	100

## 6. Developed a Comprehensive Index for Benchmarking Enterprise Level Upgrading

- A comprehensive index for benchmarking enterprise level upgrading has been developed
  - Measured each enterprises level of upgrading in different components of upgrading
  - Detail of each indices and sub-indices are available in the *CPD Working Paper 121*
- **Economic Upgrading Index (EUI):**  $EUI = PrSI + PSI + FSI$ 
  - $PrSI = \text{Average price of products (Pavg)} + \text{Involvement in product development (V)}$
  - $PSI = \text{Sales per Worker} + \text{Use of IE Department (N)}$
  - $FSI = G_w + G_m + F_b + X$
- **Social Upgrading Index (SBI):**  $(SBI) = \text{Employment sub-index (ESI)} + \text{Standard sub-index (SSI)} + \text{Rights sub-index (RSI)} + \text{Non-Discrimination Index (NDI)}$ 
  - $ESI = \text{Employment Security Index (ESel)} + \text{Work Security Index (WSI)} + \text{Human Resource Development Enterprise Index (HRDEI)}$
  - $StSI = \text{Electrical Safety Index (ElSI)} + \text{Fire Safety Index (FSI)} + \text{Structural Safety Index (SSI)}$
  - $RSI = \text{Economic Democracy Index (EDI)} + \text{Economic Equity Index (EEI)}$
  - $NDI = R_s + T_s + FWC + D$

## 6. Developed a Comprehensive Index for Benchmarking Enterprise Level Upgrading

- Gender Embedded Social Upgrading Index ( $SBI_{GE}$ ) =  $ESI_{GE}$  +  $RSI_{GE}$  + NDI
  - **Gender Embedded Employment Sub-Index ( $ESI_{GE}$ )** =  $HRDEI_{GE}$  +  $WSI_{GE}$  +  $EmSI_{GE}$
  - **Gender Embedded Rights Sub-Index ( $RSI_{GE}$ )** =  $EEl_{GE}$  +  $EDI_{GE}$
  - **Non-Discrimination Sub-Index (NDI)** =  $R_s$  +  $T_s$  + FWC + D

## 7. Micro-level Variations in Efficiency is Measured by High Frequency Data Survey

- A high frequency data survey has conducted to collect data for estimating line and worker level efficiency
- Data is collected from a selected set of enterprises of different categories.
  - Senior management officials of the selected enterprises have been asked to identify at least two production lines in the sewing/knitting sections where the works of same production orders will continue for next consecutive days (at least three to five days).
  - A baseline dataset is created on different issues related to control variables for the workers working in the specific production lines.
  - Afterwards, line-wise data of each worker on their production has been collected.
- Efficiency have been measured by using the following the formula
  - $\text{Efficiency} = (\text{Output} * \text{SMV} * 100) / (\text{No. of worker} * \text{working hour} * 60)$
  - $\text{SMV} = \text{Basic Time (BT)} + \text{Allowance}$
  - $\text{BT} = \text{Observed Time (OT)} * \text{Observed Rating (OR)} / 100$

## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

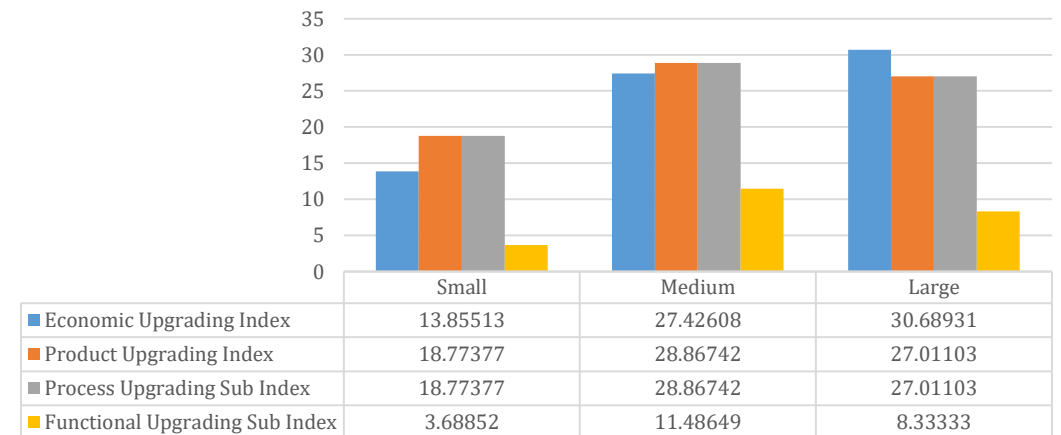
### 8.1 Average Level of Economic Upgrading in Apparel Enterprises is Remain in Poor State

- The benchmark level of economic upgrading of different firms are still lagging -21.1 out of 100 (Table).
  - Firms are relatively better in process upgrading (average score is 31.66) followed by product upgrading (23.79) and lastly functional upgrading (7.21)
  - There is not much variation among the firms indicating that the low economic upgrading level is an issue for all factories across the board.
- The average score of product, process and functional upgrading is the highest in large enterprises
  - Followed by medium and small enterprises (Figure)
- Even if we look at the percentage distribution of factories according to economic upgrading
  - The overall low scoring picture is still predominant here.

**Table: Economic Upgrading Score**

	Mean (Out of 100)	Std. Err.	95% Confidence Interval	
Economic Upgrading Score	21.12564	1.566112	18.01889	24.23238
Product Upgrading Sub Index	23.78775	2.31743	19.19113	28.38436
Process Upgrading Sub Index	31.66	1.89863	27.90584	35.41417
Functional Upgrading Sub Index	7.20593	1.11104	5.00934	9.40252

**Figure: Economic Upgrading Scores (according to Size)**





## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

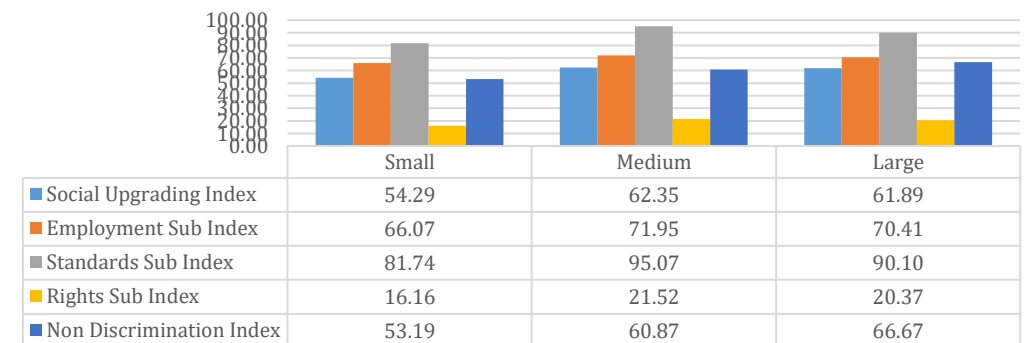
### 8.2 Majority of Enterprises Attained Moderate Level of Social Upgrading

- The factories have a social upgrading score of around 59, with heteroskedastic robust standard errors of around 0.6. This indicates little variation in the score across the board.
- The higher score in social upgrading can be attributed to high scores in the Standards Sub Index, which measures progress in remediation activities for improvement of workplace safety.
  - The average score of Non-Discrimination Index (57.58), which measures the level of equality among different workers in terms of working conditions and other issues, is also statistically significant.
  - But we find that progress in the Rights Sub Index is below par with a mean of 18.76.

**Table: Average Score of Social Upgrading Index**

	Mean	Std. Err.	95% Confidence Interval	
Social Upgrading Index	58.42709	0.545345	57.35192	59.50227
Employment Sub Index	68.75739	0.99023	66.80517	70.70962
Standards Sub Index	88.26677	1.20705	85.887	90.64653
Rights Sub Index	18.76925	0.82134	17.14999	20.38851
Non Discrimination Index	57.58149	0.90759	55.79218	59.3708

**Figure: Component-wise Average Score of Social Upgrading Index**



## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

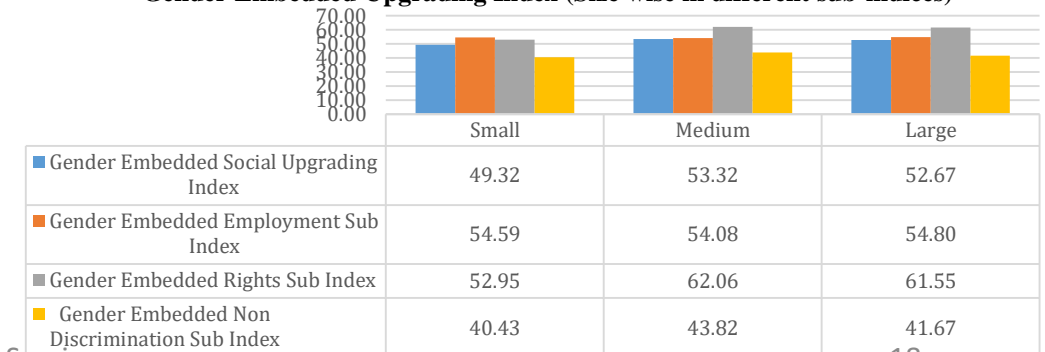
### 8.3 Gender embedded upgrading levels are lower for all averages than social upgrading scores

- The average score of the gender embedded social upgrading index is about 51, which is less than the average score of social upgrading in general (59).
  - It also indicates that half of the criteria of gender embedded upgrading remains unfulfilled.
  - Surprisingly, the rights sub-indices have very high average values, while the non-discrimination index has low average values.
- Medium factories have higher average scores (51.28) than small and even large enterprises
  - Difference between large and medium enterprises is significant.

Average Score of Gender Embedded Upgrading Index

	Mean	Std. Err.	95% Confidence Interval	
Gender Embedded Social Upgrading Score	51.34206	0.584695	50.18889	52.49524
Gender Embedded Employment Sub Index	54.37833	0.67697	53.04318	55.71349
Gender Embedded Rights Sub Index	56.89417	0.97057	54.98102	58.80731
Gender Embedded Non Discrimination Index	41.96012	1.07278	39.8455	44.07474

Gender Embedded Upgrading Index (Size wise in different sub-indices)



# 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

## 8.4 Woven enterprises are more upgraded than knit enterprises

- Woven enterprises have higher scores in economic upgrading than any other category of factories.
  - This can be attributed to the scores of the process upgrading
  - Functional upgrading is low for all categories of enterprises
- In case of social upgrading, there is not much variation among the types of factories with respect to their average scores.
  - For all types of factories, the area of concern is the Rights Sub Index, which has the lowest average scores.
- The situation is similar for gender embedded upgrading.

Figure 1: Economic Upgrading Averages according to Type of Factory

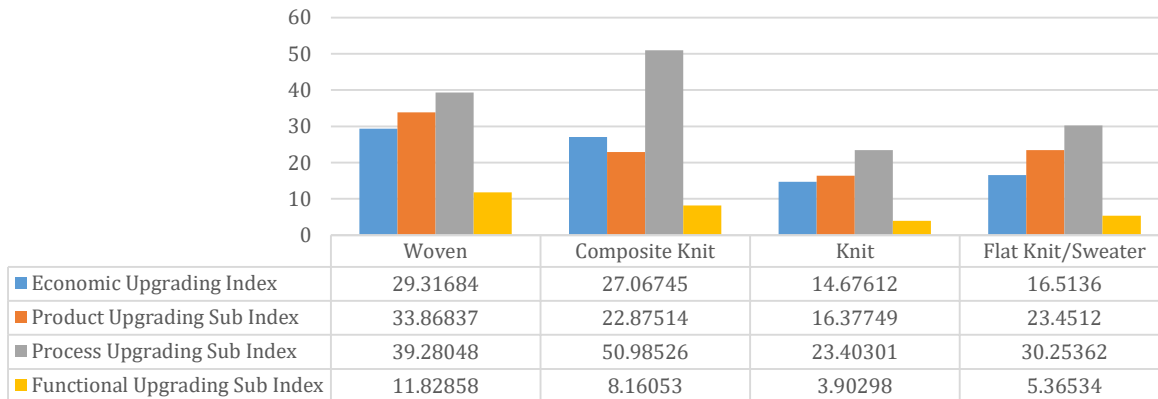
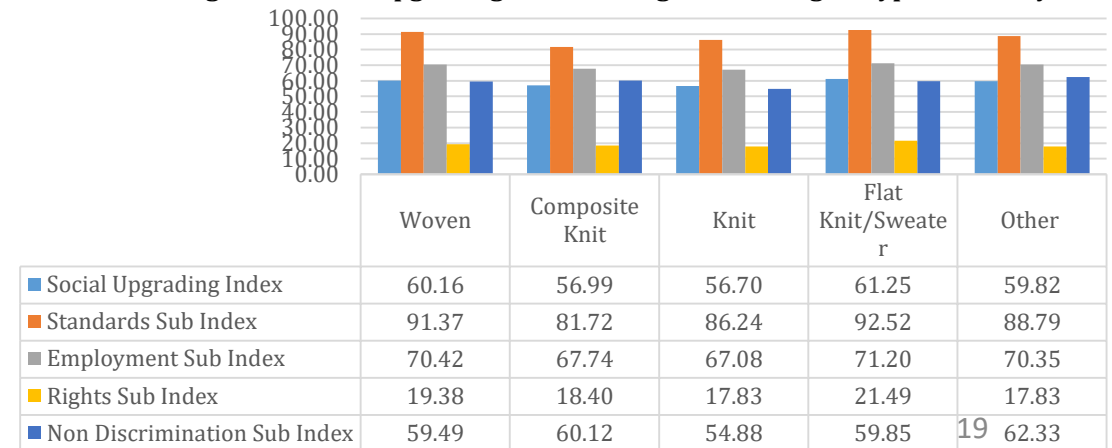


Figure 2: Social Upgrading Score Averages according to Type of Factory



## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

### 8.5 Enterprises Working with Brand/Buyers are More Upgraded

- Firms interacting with buyers via buying houses have lower average economic upgrading scores than firms who communicate with brands directly.
  - This is reflected in very high average scores in product and process upgrading (Fig.1)
  - But the functional upgrading sub index remains poor, which similar across all categories.
- In almost all the components of social upgrading, brand and buyer influence is evident, as the average scores are higher for almost all the sub-indices than any other factory (Fig. 2)
  - This can be credited to the strict compliance codes adhered by the brands and buyers as part of their corporate governance initiatives.
  - The results of gender embedded upgrading scores are also mixed

Figure 1: Economic Upgrading Scores

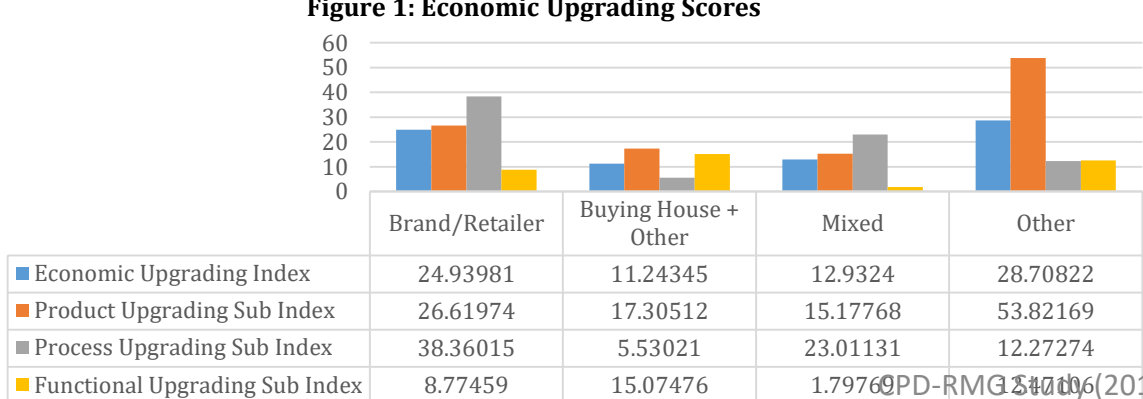
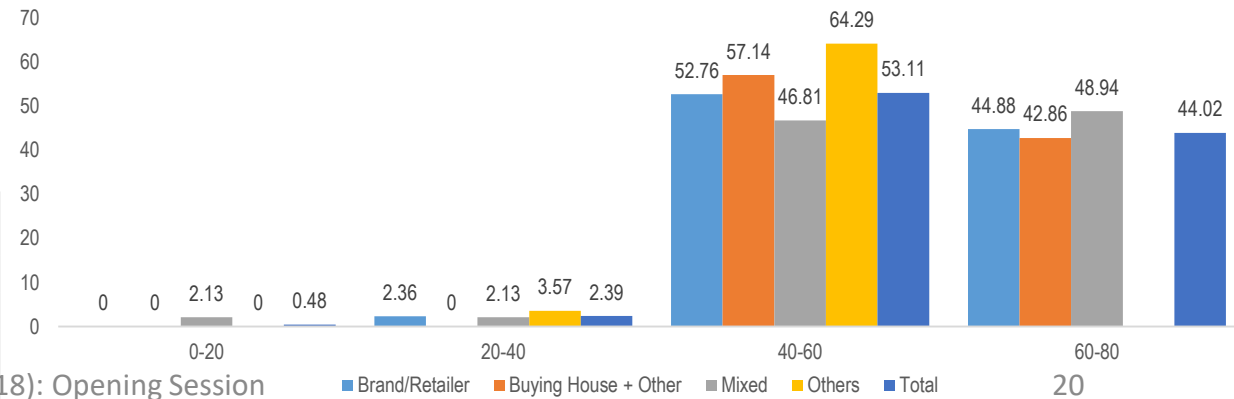


Figure 2: Social Upgrading Scores



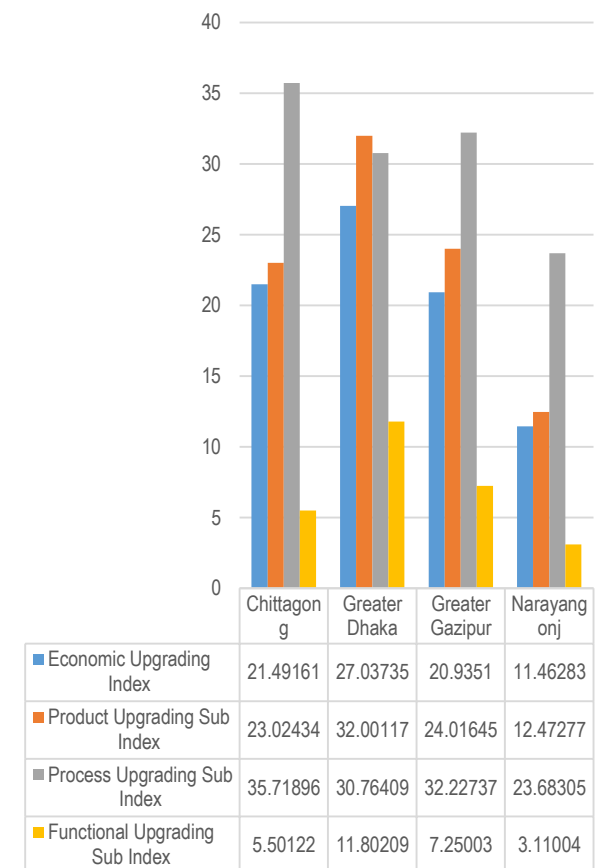
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## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

### 8.6: Effect of Location on Upgrading: Narayanganj is Behind on Economic Upgrading

- Most studies support the fact that there is a significant impact of location of firms on firm performance (Stephan, 2009).
  - The enterprises in the sample have been divided into four broad zones: greater Dhaka, Chittagong, greater Gazipur and Narayanganj.
- We find that there are differences in the average scores of economic upgrading with Greater Dhaka having the highest economic upgrading score on average, followed by Chittagong, greater Gazipur and Narayanganj
- The study shows Dhaka leading in product and functional upgrading sub-indices, while Chittagong is slightly ahead in process upgrading. However, the functional upgrading scores are overwhelmingly low for enterprises in all areas.
- It is a similar case for gender embedded upgrading scores, although the average score is slightly higher in Narayanganj than other locations, followed by Chittagong, greater Dhaka and greater Gazipur respectively (Figure 5.23).

Average Scores for Factories in Different Locations

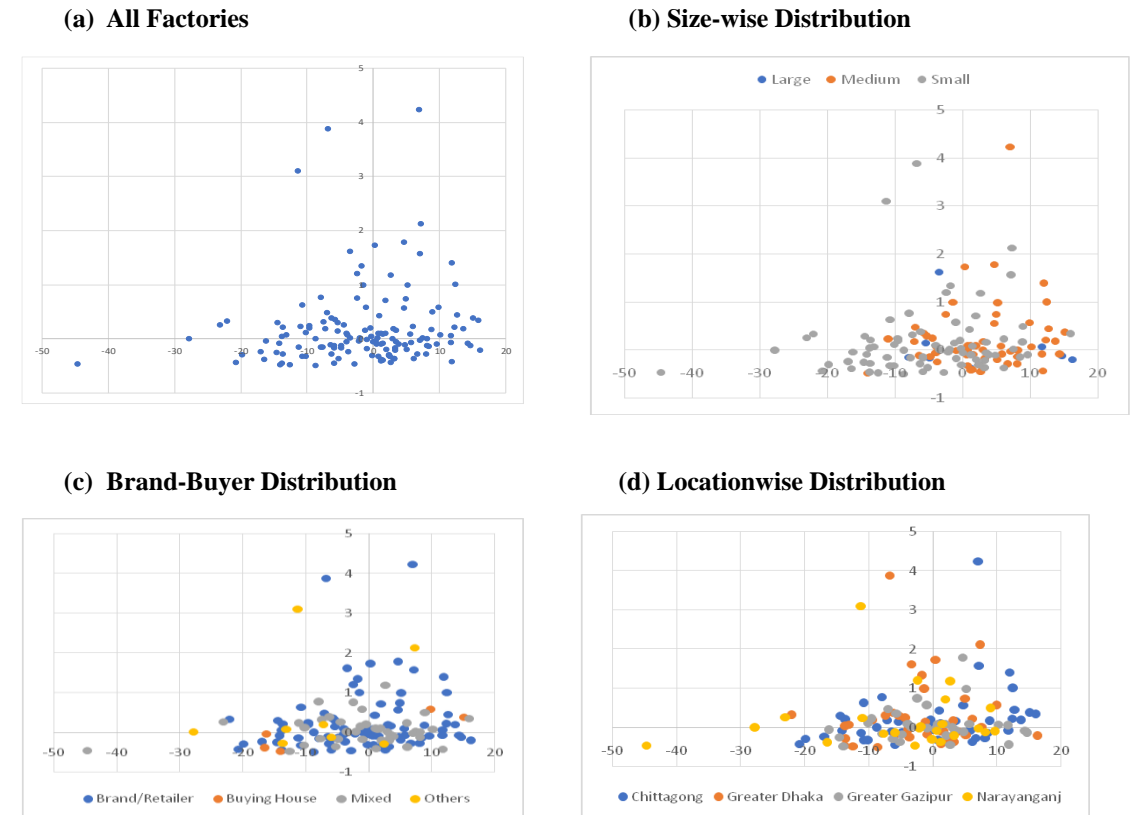


# 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

## 8.7 Economic and Social Upgrading: The Relationships

- The scatter diagram shows no clear direction in terms of the relationship between productivity and social upgrading
  - Productivity has been measured by sales/worker and social upgrading has been measured by social upgrading index.
- The natural assumption would be that if there is a positive relationship among social upgrading and productivity, higher than median scores of social upgrading would be accompanied with higher than median productivity values.
  - But the figure clearly shows no pattern in the relationship, indicating that while some firms have experienced productivity rises with social upgrading, other firms have experienced productivity falls with social upgrading as well.

Figure 13.25: Relationship between Social Upgrading And Sales/Worker



Source: Based on CPD-RMG Survey 2018

## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

### 8.8 Testing Hypotheses

- **Testing Hypothesis 1:** This implies that factories with a higher level of social upgrading have a higher average productivity, and the statistical significance is also quite robust.
  - In other words, enterprises with higher than median social upgrading have higher productivity values on average, which, in turn, could lead to the conclusion that higher social upgrading can actually lead to higher sales generated through increased confidence of buyers.
- **Test of Hypothesis 2:** Testing reverse causality, i.e. whether higher economic upgrading translates into higher social upgrading, leads to the same conclusion as before.
  - It shows no specific direction in the relationship. Factories with higher than median economic upgrading scores have higher mean social upgrading scores, but the difference is not significant.

Table 13.8: Testing Hypothesis 1

Group	Mean	Std. Err.	95% Confidence Interval	
Group 1	18.9385	2.188618	14.54253	23.33447
Group 2	20.61911	2.286708	16.02835	25.20987
Pr(T < t) = 0.2983				

Source: Based on CPD-RMG Survey 2018

Table 13.9: Comparing Average Productivity

Group	Mean	Std. Err.	95% Confidence Interval	
1	80.32258	5.140067	70.04438	90.60078
2	92.32308	3.949386	84.43327	100.2129
Pr(T < t) = 0.0333				

Source: Based on CPD-RMG Survey 2018

Table 13.13: Test of Hypothesis 2

Group	Mean	Standard Error	95% Confidence Interval	
0	56.58312	1.470025	53.63192	59.53431
1	57.97249	.9554834	56.07366	59.87131
Pr(T < t) = 0.2150				

## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

### 8.8 Testing Hypotheses

- **Test of Hypothesis 3:** Finding any sort of relationship among gender embedded upgrading and productivity is quite difficult, as there is no clear direction of the relationship.

Table 13.14: Comparing Mean Gender Embedded Upgrading

Sale / Worker	Mean	Std. Err.	95% Confidence Interval	
Group 1	632454.1	88355.56	456143.3	808764.9
Group 2	712079.8	85682.39	541057	883102.5

Pr(T < t) = 0.2594

Source: Based on CPD-RMG Survey 2018

- **Multivariate Regression Analysis:** The regression model has been run on panel data consisting of two years: 2012 and 2016. Random effects model has been used here, after applying the Hausman test.
  - The results indicate that in some specifications, remediation cost is positive and statistically significant, while in others it is negative and significant.
  - There is an indication of a non-linear relationship of remediation costs with net revenue and sales revenue, indicated by the significance of the squared term.
  - Wage cost is also found to be statistically significant in some specifications, while insignificant in others.
  - There is also a significant role of the debt variable in some specifications, which primarily measures the total liabilities of the factory. However, the exact direction of relationship is still not discernible.



## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

### 8.9 Management Practices of RMG Enterprises are in Two Streams

- In one stream there are enterprises with ‘advanced management practices’ which include group-based, private companies, contract with brands, foreign staff oriented, experienced and trained GM based factories.
- In another stream there are enterprises with ‘moderate or less advanced management practices’ which include small, less educated GM, no-training and remotely located.
- Identifying factors responsible for management practices through regression analysis reveal that
  - Enterprises which are subsidiaries of group of companies, have trained human resource managers as well as foreign staffs working in factories made significant contribution to the management practices of RMG enterprises.
- In a regression, it is revealed that better quality management such as trained mid-level management professionals and foreign staffs in the enterprise made significant contribution to employers’ margin.

## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

### 8.10 Efficiency Level is Improving

- Analysis of efficiency data reveals that sample enterprise's line level efficiency is 58.7 percent (0.587 with a standard deviation of 0.225).
- This portrays an improvement of line efficiency of RMG enterprises over time although the efficiency is lower compared to that in Vietnam and China. BGMEA enterprises are more efficient compared to that of BKMEA ones (4.3 per cent more efficient) which indicate their comparative advantage in terms of using technology, better management and other issues.
- The females are ahead of males in terms of level of efficiency (by about 0.60 per cent).

Worker Efficiency Analysis

Efficiency	Sample size	Mean	SD
Overall	2025	.587	.225
BGMEA	1443	.5945	.2305
BKMEA	582	.5701	.2215

## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

### 8.11 Progress in Decent Work Agenda has been Confined in Workplace Safety

- While decent work in the workplace is linked with four pillars and ten different elements, the progress in most of the pillars and elements during post-Rana Plaza period is less satisfactory; the progress is mostly confined in workplace safety.
- The female-led characteristics of the garment industry has been fading away in recent years with declining share of female workers mainly in knit and sweater factories.
- A growing share of workers working in lower-middle grades is reflective of the rise in skill composition of workers in the RMG enterprises.
- Female workers are still lag behind male workers in the upper grades mainly because of their poor educational attainment, low level of skill orientation as well as various social obligations.
- Workers organizations continue to remain in either weak or non-functional state-trade unions in garment factories are almost non-existent – 97.5 per cent factories do not have trade unions.

## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

### 8.12 Female Workers are Behind in Operating Multiple Machines

- Female workers are specialized in operating limited number of machines such as single needle sewing machine, double needed sewing machine and over lock machine. They have limited knowledge in operating other machines such as single needle edge cutter, flat lock machines, button attach, button hole, bar track and blind stitch etc.
- Wage differentials between female and male workers is still a concern although the difference has narrowed down compared to the earlier years.
- Sexual Harassment Has Reduced but Work related Pressure and Harassment May Remain in Large Number
- Incidence of sexual harassment is less in the workplace in the RMG enterprises. Over 93 per cent workers mentioned that sexual harassment did not take place at the factory premises.

## 8. Major Findings Highlighted Key Issues and Concerns of RMG Enterprises

### 8.13 Distribution of Margin in the Value Chain Remain Unchanged

- Distribution of margin in the value chain remain the same as observed earlier.
- There is huge difference in the margin received by buyers and suppliers.
- There is considerable difference between suppliers' mark up in small, medium and large scale enterprises which also have implications on buyers' margin as well.
- Investment in social upgrading by sample enterprises appear to have limited implications on the final settled price as well as their mark up and labour costs.
- It is to be noted that a portion of products is sold below the tagged price
- Buyers' margin includes their costs for forward and backward linkage activities

**Distribution of Margin between Buyers and Suppliers in the Value Chain**

	Overall	Small	Medium	Large
Price Tag	21.3	21.9	21.5	20.1
% of tagged price	100.0	100.0	100.0	100.0
Buyer's Margin	78.9	82.2	77.8	72.4
Suppliers' Margin	21.1	17.8	22.2	27.6

Source: CPD-RMG Survey, 2018

## 9. Conclusion

- Based on the above, the sector needs medium to long term strategies for upgrading and sustainable development.
- First, an institution-driven upgrading targeting social issues which had been undertaken over the last five years have yet to establish its natural link with economic upgrading and less so with gender related upgrading.
  - In that consideration, an unbalanced upgrading has been taken place with limited focus on economic and technological issues, particularly those in small and medium enterprises.
- Such an unbalanced growth is likely to have limited positive implications in the long run particularly in terms of firm's overall competitiveness especially those which are behind. RMG enterprises need to make substantive investment for economic upgrading
  - In terms of using advanced machineries, design and product development, introducing new departments, non-cotton textiles and IT based marketing facility.
  - A 'technology upgrading' fund could be developed which facilitate enterprises in undertaking those measures.

## 9. Conclusion

- Second, both economic and social upgrading in RMG enterprises are not necessarily location-neutral.
  - There is spatial variation in case of upgrading – enterprises located in clusters like Chittagong and Narayangonj are found to be behind in economic upgrading and partially in social upgrading compared that of other clusters such as Gazipur, Savar and Dhaka etc.
  - Third, an enterprise development initiatives are required for those located in backward clusters such as Chittagong and Narayangonj. Such initiatives should focus on management, technology, employability, skill development, networking with brands and buyers etc.
- Third The structure of RMG enterprises give an indication that a sizable share of enterprises have the potentials to ‘take off’ provided they could improve in terms of technological readiness, improved management practices, further improvement of workers skill particularly that of female workers etc.
  - At the same time, there is apprehension that without ensuring a balanced level of upgrading, a section of enterprises (small and enterprises outside the group) would find difficult to maintain their competitiveness.
- Fourth, brands, buyers, government and development partners should provide necessary assistance for their upgrading in order to ensure competitiveness in the changing market scenario.

Thank you.