



# RESEARCH BRIEF

August 2020

MiB Research on

## Impacts of Coronavirus on Non-member RMG Factories in Bangladesh

*A Rapid Survey jointly conducted by BRAC University's CED and JPGSPH*

*Atonu Rabbani and Fahim S. Chowdhury*



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# Impacts of Coronavirus on Non-member RMG Factories in Bangladesh: A Rapid Survey Jointly Conducted by Brac University's CED and JPGSPH

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## Background

The ready-made garment (RMG) sector of Bangladesh has been adversely impacted with the ongoing Covid-19 pandemic since March 2020. The government announced “general holidays” (basically lockdown measures) closing operations of all private and public offices across the country, except emergency services, from March 26, 2020<sup>1</sup> and has been extended seven times before it was ended on May 30, 2020<sup>2</sup>.

The RMG sector has been one of the major contributors to the country's economy as well as the employment generation since the 1980s. Facing collapse in demand at the retail level<sup>3</sup>, the buyers either cancelled orders or postponed shipment of finished products from the sourcing countries, including Bangladesh.<sup>4,5,6</sup>

The closure and collapse in demand from the buyers put the factories between a rock and a hard place. Many factories kept the workers on their payrolls to avoid mass lay-offs even though the factories production was at halt. The bailout package<sup>7</sup> declared by the Government of Bangladesh was somewhat of a relief; however, the support was limited to the factories that are export oriented and members of the two apex trade bodies of the country<sup>8</sup>.

The impacts of the pandemic have, however, not been limited to the member factories only. The factories that are not members of the apex trade bodies have also been adversely and severely affected. The non-member factories include factories who export directly as well as indirectly to other countries by supporting local outsourcing to the member factories and also cater to the domestic apparel market. Indirectly exporting factories are

mostly factories who perform subcontracting for other directly exporting factories.

While the government and researchers have always focused mainly on the member factories, the status, state, and conditions of the non-member factories are severely under-explored. Despite their contribution to the country's economy and employment, very little initiatives have been taken keeping them in mind; furthermore, very limited research activities have been carried out keeping them in mind.

## Objective and scope

The study focuses on the impact of the Coronavirus or Covid-19 pandemic on the non-member readymade garments factories of Bangladesh. Non-member factories refer to those factories that are neither members of BGMEA nor BKMEA. We targeted all 555 such non-member factories included in the Mapped in Bangladesh (MiB) project database (data collection period: Dhaka: May 7, 2018 - Aug 2, 2018, Gazipur: August 1, 2018 - November 8, 2018, Narayanganj: April 6, 2019 - July 30, 2019, and Chattogram: Dec 23, 2019 - Mar 20, 2020). Data for the current survey was collected through phone calls during June 9-19, 2020.

The current research brief will focus on the status and dynamics of non-member factory operations by factory types and geographic locations as well as the roles the new orders have played to sustain factory operations and employment. The study focuses on the number of factories that were operational at the time of the survey (i.e., June 2020), capacity at which the factories are operating, number of workers currently working, number of days the factories were operational (in March, April, and

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<sup>1</sup> The Dhaka Tribune. Coronavirus: Bangladesh declares public holiday from March 26 to April 4. Published on March 23rd, 2020. Link: <https://bit.ly/2DIuRia>

<sup>2</sup> The Business Standard. Govt decides not to extend general holidays further. Published on May 27th, 2020. Link: <https://bit.ly/31sBUDG>

<sup>3</sup> According to the title of an article in the *Sourcing Journal*, the US apparel sector can shrink by 50%. See <https://bit.ly/3gJtuym>

<sup>4</sup> Bloomberg. European Retailers Scrap \$1.5 billion of Bangladesh Orders. Published on March 23, 2020. Link: <https://bloom.bg/3agJgOL>

<sup>5</sup> Business & Human Rights Resource Centre. Major apparel brands delay & cancel orders in response to pandemic, risking livelihoods of millions of garment workers in their supply chain. Link: <https://bit.ly/3fOjhQ4>

<sup>6</sup> The Daily Star. Is foul play the new normal? Published on June 26, 2020. Link: <https://bit.ly/2DDEdfg>

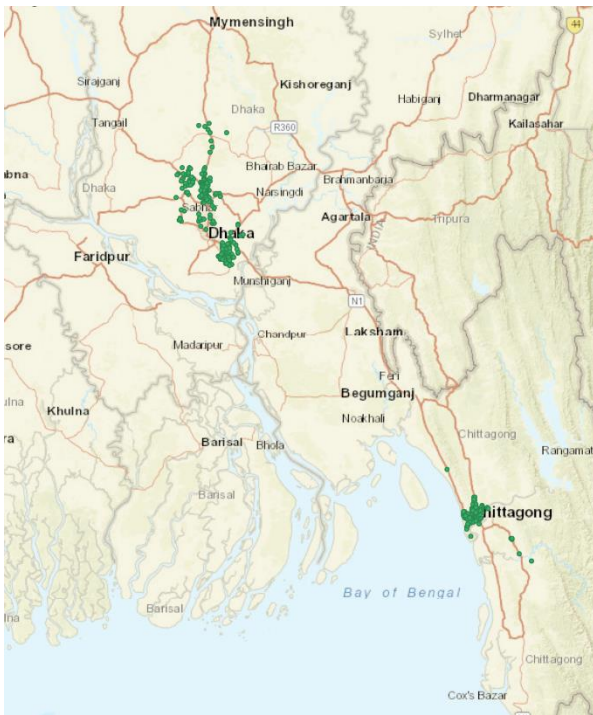
<sup>7</sup> Bdnews24. Bangladesh will extend Tk 50bn coronavirus relief package to exporters as bank credit. Published on April 01, 2020. Link: <https://bit.ly/2PD2g0q>

<sup>8</sup> Namely, Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA)

May 2020), workers lay-off, status of orders in pipeline and attitude towards Covid-19 containment policies.

### Sampling distribution

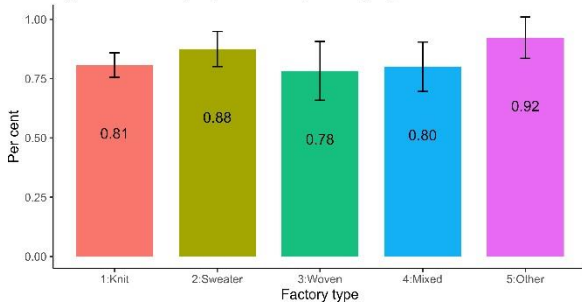
The total sample size for the survey was 555 factories from Dhaka, Gazipur, Narayanganj and Chattogram districts of Bangladesh, of which 448 non-member factories participated in the survey. As we can see, majority of the factories were from Chattogram and Narayanganj (see the map). Knit, sweater, and woven factories comprised most of the sample.



## Findings

### Currently Operational Factories

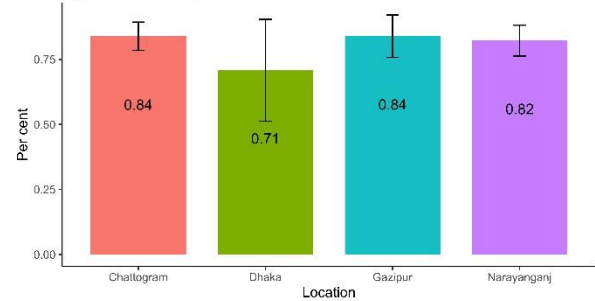
Figure 1: Currently Operational by Factory Type



Out of the 448 factories which participated in the survey, 83 percent were operational at the time of the survey i.e., during mid-June 2020. Among the surveyed sweater factories, 87.5 percent reported were operational during the survey period; which was 80.0 percent for both Knit and mixed (Woven and Knit) factories, and 78.3 percent for Woven

factories. When we see the operational factories by their location, we see that the incidence of operational factories was highest in Chattogram and Gazipur (84 percent), while it was the lowest in Dhaka where 71 percent of the surveyed factories said that they were operational. This trend indicates that even though all the economic activities of the country was put into standstill since the government imposed lockdown from March 26, 2020 till May 30, 2020, the factories gradually opened up and resumed operations.

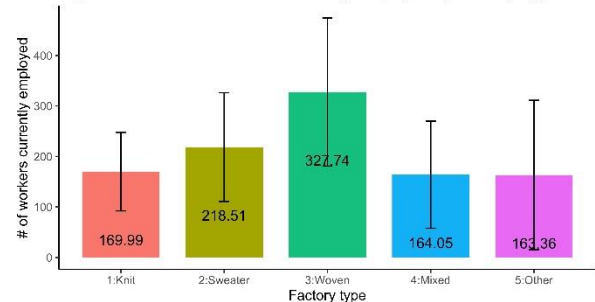
Figure 2: Currently Operational by District Location



### Number of Workers Currently Working

Number of workers currently working in the factories ranged from 4 – 7,000 workers. On average 234 workers were working at the time the survey was conducted in the factories that were operational. On average Woven factories were utilizing more workers (328 workers) than other factories, while the factories from the "Other" category were utilizing lesser workers (163 workers) compared to other types of factories.

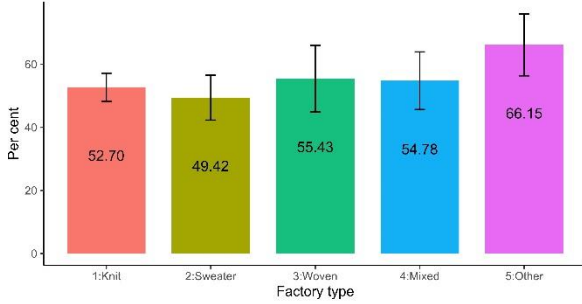
Figure 3: Number of Workers Currently Employed by Factory Types



### Capacity Utilization

For the whole sample (n = 448), the average capacity utilization was 53.8 percent and about 65.2 percent conditional on being open (n = 370) at the time of the survey. Overall, the capacity utilization did not vary much by factory types (see Figure 4). However, conditional being open at the time of the survey, woven factories exhibited higher level of capacity utilization (about 70.8 percent) compared to knit (about 65.2 percent) and particularly sweater factories (about 56.5 percent).

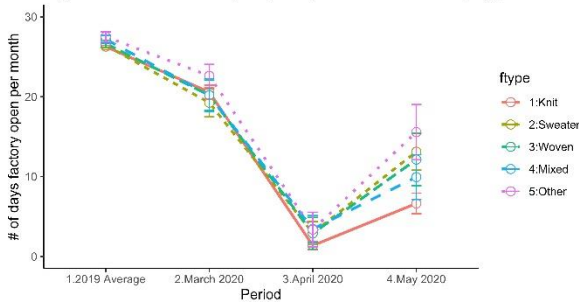
Figure 4: Percent Operational by Factory Types



**Number of days factory was operational**

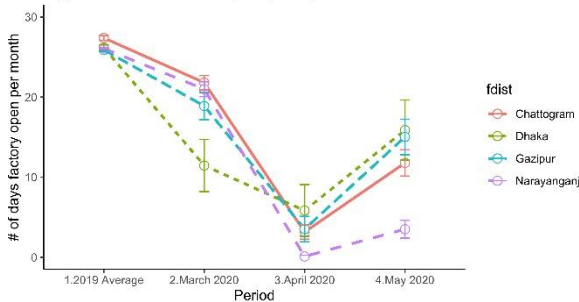
Typical RMG factories work about 26 days per month (see Figure 5). Even though the general holidays were announced in the end of March, factories already lost six-day worth of work. In April, the factories were open on average for only 2.3 days. By May, they slowly started to open and worked for about 9.6 days (note, again, the general containment measures were relaxed on May 30, 2020). The trends do not vary a lot by factory types. However, knit factories lagged behind factories of other types as they were open for only 6.7 days in May 2020.

Figure 5: Number of Days Open by Months and Factory Types



There are some variations across locations as well. Initially, in March (i.e. before the initial formal containment policies), the factories in Dhaka were the hardest hit as average number of days open fell to 11.5 days. By April, all factories kept closed most of the time. Interestingly, the factories in Narayanganj trailed behind other areas in May when the industry started to open up.

Figure 6: Number of Days Open by Months and District Locations

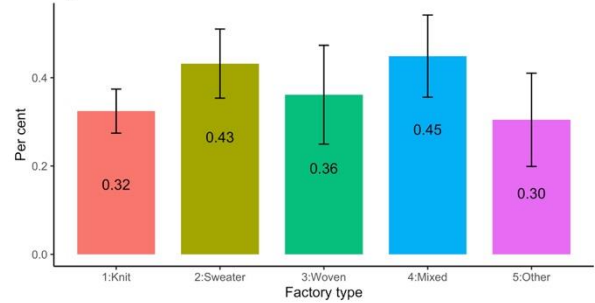


**Employment and Worker Lay-offs**

Both employment and job losses have flow components. At the time of the survey, the surveyed factories employed about 87 thousand

workers up by about 21 thousand workers from about 66 thousand workers employed in the baseline. Since the onset of the pandemic crisis the factories in total laid off about 58 thousand workers, the average was 226 workers per factory. This also suggests laid off workers to be about 37 percent of the total workers. This varied somewhat by different types of factories, with about 32 percent and 36 percent for knit and woven respectively, and about 43 percent for the sweater factories.

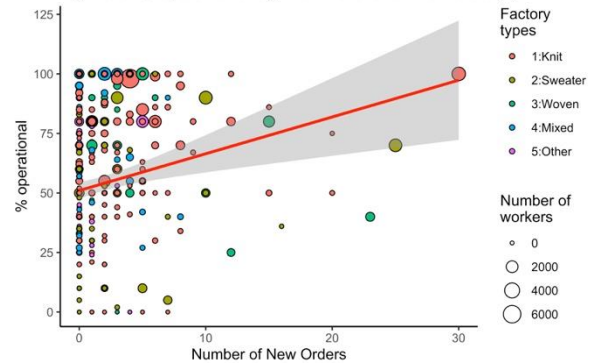
Figure 7: Laid-off workers as % of Total Workers



**Status of new orders in the pipeline**

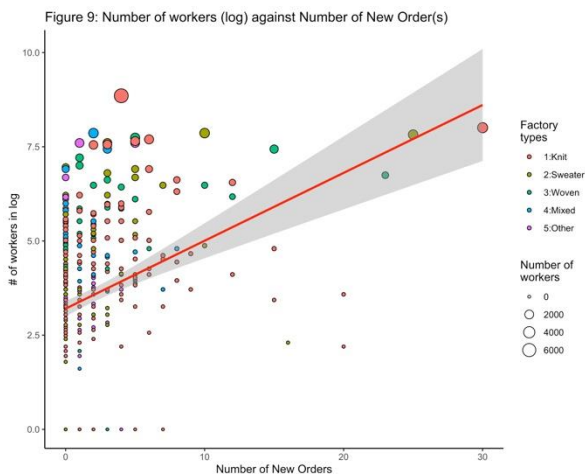
About 240 factories reported not having any orders in the pipeline. The factories on average reported having two new orders. Among the 208 factories that reported having orders in the pipeline, 61 percent said that the orders were still valid, 36 percent said that they were still in negotiation with the buyers, and only 2.9 percent said that the orders were cancelled. Irrespective of the factory type, we note that cancelled orders in pipeline was very low. However, 6.7 percent of the Sweater factories reported that their orders in pipeline were cancelled. On the other hand, 39.3 percent of the Knit factories reported that the orders they had in pipeline were still in negotiation with the buyers/customers.

Figure 8: % Operational against Number of New Order(s)



Even when factories were open, they reported not working in their full capacities (see Figure 4). We explore how important having new orders is for factories' capacity utilization. Figure 8 allows us to look at that, where we find a positive association between the number of new orders and percent capacity utilization. A more sophisticated

econometric model suggests each new order add about two percentage points in capacity utilization.



We can see the same pattern for number of workers (we use a log scale here, see Figure 9). We again find a positive association between number of workers and number of new orders. In terms of magnitude, using a similar econometric model, we find that each new order is associated with 16.5 percent higher employment. In other words, additional 10 percent more new orders can provide employment for about 2,600 workers.

#### *Attitude towards Covid-19 containment policies*

Among all the surveyed factories, 95.1 percent said that they were open to government’s policy or directives to combat Covid-19. This was highest for Sweater factories (97.5 percent) and factories from the “Other” type category (97.4). This is a notable finding, depicting that the factories wish to continue their regular operations and keep the factories running, and at the same time follow the policy and directives as advised by the government to reduce the risk and spread of Covid-19 among their staff, employees and workers.

## Discussion

In this research brief, we present some preliminary findings from a rapid survey on 448 non-member factories. The factories often provide important services to the mainstream factories through local outsourcing. While small both in terms of average size and their contribution to the whole industry, it is also important to acknowledge their presence in the economy and important and possibly specific roles they play for the industry in general.

When the survey was carried out in June 2020, we found that most of the non-member factories were already open (about 82%), however, average capacity utilization was about half compared to their full potentials. Factories also failed to accommodate about one-third of their regular workforce. While June is certainly too early to

understand the longer-term prospect for the non-member factories or the RMG industry, lack of capacity utilization and underemployment will be important issues for the industry and the economy in general.

While there has been some lockdown measures, currently Bangladesh is following a more cautious zonal approach, with varied degrees of implementation successes. The testing capacity remains questionable, and there is a greater push to restore the economy. The government has also taken measures to provide consumption support for the citizens. However, the main challenge will be to provide decent work opportunity for the employees, particularly the low skilled ones.

In this backdrop, demand for outsourcing through continuation of new orders will play a big role and our findings also support that. The collapse of the retail services in the developed countries and more strict lockdown measures had a ripple effect through the global supply chain, resulting in factory closure, under-capacity utilization and underemployment. Public policies at both national and global levels need to address this massive demand-side shock and take necessary steps.

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