Research Brief

Impacts of COVID19 on the RMG Backward Linkage Factories in Bangladesh: *Insights from Anecdotal Evidence*

A Rapid Survey Conducted by the 'Mapped in Bangladesh' Project

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Introduction

In the context of the global reach and size of the Bangladeshi ready-made garment (RMG) industry, the backward linkage factories that support the industry is playing a vital role. The competitive pricing and delivery of finished goods to the international buyers within lead time is being achieved to a large extent owing to the existence of this large, various and efficient backward linkage industry (Mohibullah and Takebira, 2016).

It is well known that the RMG industry is the key contributor to the economy of Bangladesh, but it is not well-publicized that the sector also largely depends on an upstream supply chain of backward linkages that supply it myriad items that include, to name just a few significant ones, textile, dyeing, packaging, trim and accessories, apparel labels, and services such as washing, printing, and embroidery.

Despite being a large employer of skilled and semi-skilled labor, and playing a pivotal role in the sustenance of the RMG sector, and the growth of the economy, the backward linkage industries do not enter national debate and media coverage in the same way that the RMG sector does. That is why the consequences of national emergencies or contingencies on the backward linkages of RMG do not receive due attention from the government or international agencies, as does the RMG sector.

The COVID19 pandemic in its wake has brought to the fore this issue of neglect and disregard as thousands of manufacturing units and service providers representing the backward linkage sectors remain out of the coverage of government economic packages and financial incentives, while the RMG sector commands all the attention.

According to Bangladesh Garments Accessories & Packaging Manufacturers & Exporters Association (BGAPMEA), there are currently 1733 registered members in their trade body. These include a good range of manufacturing and service outfits (as depicted in the pie-chart below):

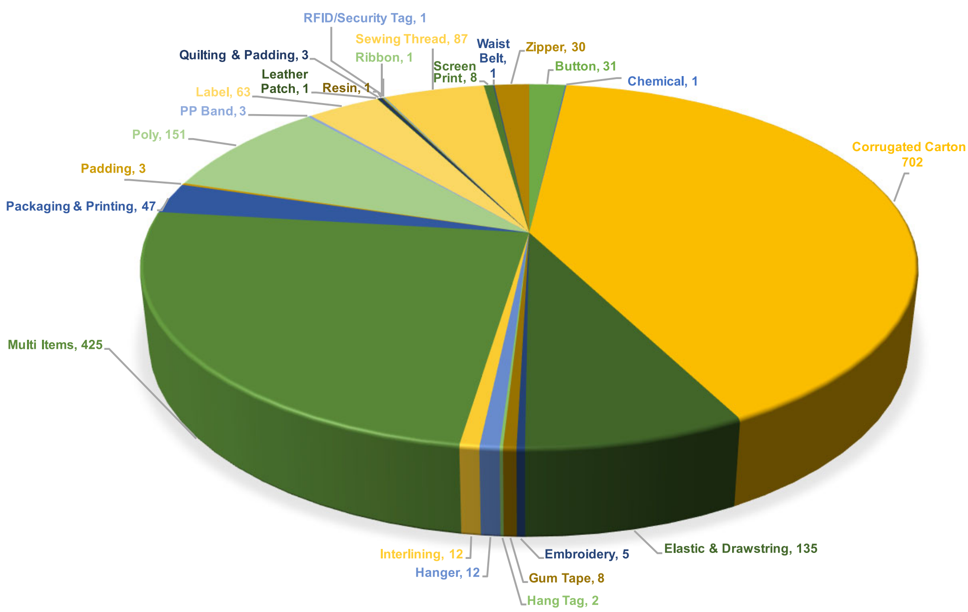

Figure 1: Membership Distribution of BGAPMEA according to Product/Item Produced
(Source: BGAPMEA Website)

The officials of BGAPMEA state that there are many non-member operators in the area, and therefore the actual size of the industry in terms of employment and value addition, and contribution to the economy are greater than what is captured in statistics. The sector also provides livelihood to independent traders who do not own a manufacturing outfit, but act as suppliers to the RMG factories.

The other portion of the backward linkage area that is playing a pivotal role is represented by the Bangladesh Textile Mills Association (BTMA). According to BTMA, the following number and range of manufacturing operations constitute their membership registrer:

Figure 2: Number and range of manufacturing operations constitute their membership registrer (source: BTMA)

As can be seen from the above that there are 2800 non-member factories in the sector. Therefore, the contribution of the textile and cognate manufacturing operations to the economy is quite significant. By some estimation, the size of the backward linkages industry is USD 5.1 billion in Bangladesh, and it employs a workforce of 5.5 million.

Since the backward linkages industry is connected with the RMG sector, it is evident that the impact of COVID19 will fall beyond the RMG to these industries (ADB, 2020). In the wake of the COVID19 crisis and the economic downturn, it precipitated the Government of Bangladesh (GoB) to declare an economic stimulus package of BDT 956 billion (USD 11.2 billion).

According to an ADB report: "BDT 50 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 USD 3.5 billion to USD 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 USD 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 USD 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 (ADB, 2020)."

Our flash research concurred with the ADB estimation, and additionally found out that the stimulus package was designed and directed only to provide recourse and sustenance to the large businesses and operations in the backward linkages sector and did not account for the numerous small and midsize firms which constituted it.

The COVID19 pandemic has placed the smaller factories of the industry in imminent risk of completely shutting down their operations as orders are being cancelled, new businesses are not materializing, and funds are drying up.

Methodology

By conducting very open-ended and lengthy telephone interviews, we dredged up information and anecdotal evidence that led us to certain findings, which will be found below.

The COVID19 pandemic precluded the possibility of doing fieldwork at site and conducting interviews of the factory owners or officials at their premises. The enquiry was also limited to a certain number of factories (only 8) or operation types representing the backward linkages of the sector.

Research into urgent problems can often be done by evaluating anecdotes. A number of research showed that “anecdotal evidence does not benefit from the inclusion of statistical evidence or its intrinsic quality.” Anecdotal evidence had been utilized in research during the 2008 financial crisis and the ensuing austerity measures that impacted livelihoods (Hornikx, 2017).

The study conducted on the number of factories utilized the anecdotes, as was narrated by the respondents through open-ended in-depth interviews. Questions regarding the pandemic, its effects, the ground realities of the factory (unit of response) in the aftermath of the lockdown, the relation of businesses vis-a-vis the RMG factories, and employee morale were asked.

None of the factories in the anecdotes that follow have been named to preserve anonymity, and also as a safeguard against compromising their firms’ competitive advantage.

The Anecdotes

1. Circular Knit Factory in Chattogram

A small circular knit factory in Chattogram with seven (7) knitting machines and 22 employees are passing idle time. Prior to the pandemic, per day production was 5.5 Metric tons of fabric.

During the pandemic at the time they were interviewed, they reported that in the previous month (April 2020), they received an order totaling to 3.5 Metric tons of fabrics. This significant dwindling in orders did not improve by any additional orders in the month of May 2020. The factory owner was a Japanese individual who confirmed that he would keep all his workers and staff for the next one year, even without any new business along the horizon. This singular act was deemed to be an unusual but great gesture from an employer.

2. Dyeing Factory in Narayanganj

The owner of a dyeing factory slowly built his factory with his own funds and without any bank loans. With investments of BDT 80 million he was about to begin production after waiting more than eight years for a viable source of energy: a natural gas connection for his factory; as other sources of fuel are not competitive for this type of industry.

After spending an additional BDT 6 million for maintenance and salaries for security guards during these years, he received a gas connection. With financial support from bank, he opened a letter of credit (LC) in December 2019 for his last machine (Calender), which is needed to finish woven fabric, and the plant was scheduled to start dyeing fabric in March 2020. He thought his perseverance would pay off, but COVID19 completely shattered his dream project. Now, every month he is incurring huge expenses such as rent, salaries, and utilities, including bank interests with no hope for launching the factory wheel in the near future.

3. Two Printing Factories in Gazipur

“If the COVID19 prevails, not only us but also many factories will have to shut down”, the owner mentioned. In his factory, he has seven printing tables and employs 27 workers. Per day production capacity is between 5,000 pieces and 10,000 pieces depending on the design. The smaller the design, the higher the number produced. During a normal month, he has an expenditure of over BDT 1-1.2 million. The factory owner could not meet the salary expenses of March 2020 as he did not receive any payment from the RMG factory whose works he did. In his view, there were faint hopes for future orders anytime soon. Apart from his operational expenses, he has a loan with Brac Bank. He is not able to pay the installments in the current situation. The owner finally uttered, “I don't think about it anymore. I left it to the mercy of Allah. I will go where the situation takes us. I have no future plans”.

The owner of another printing factory of Gazipur said that, “I have a small factory in my own building. My factory has been closed since lockdown, and I had to let go of the factory workers without any salary. In fact, the businesses for which I worked for are also closed, so I am also keeping my factory closed”. He used to work for P.N. Composite, Alima Textile and M. N. Garments, such large operations. He had 30 to 35 workers with 5,000 pieces daily production capacity. The factory has seven printing tables. Last three months, he had little work. While he produced one hundred and fifty thousand pieces per month, he had produced only a total of one hundred thousand pieces in the last three months. These factories normally receive payment against back to back letter of credits (LCs), but if the order is small and the amount is less than USD 5000, payment is given in cash. Many garment factories did not clear their amount, and accounts receivables (A/R) that are unpaid are accumulating in small operations.

4. An Embroidery Factory in Dhaka

“I have a total of 40 workers with five (5) computerized embroidery machines. I bought two new ones for BDT 5 million and three old machines for BDT 3 million. When we started, we invested BDT 10 million in this business.” At present, there are unrealized dues worth BDT 10 million in the market. Owing to the severe shrinking of orders, the owners will have to cut short to running the factory in one shift, and most of the machines and workers will stay idle while bank interest, rent, workers’ salary will continue to pile up. He has yet not received any support or cooperation from the government or any other organization. There has been no work order for the last two months, and the future is uncertain. He could not make payments to his suppliers and also did not receive any payment from the RMG factories where he supplied. Most of the factories he worked for are now closed. He continues saying that he cannot explain what a bad situation he is in. If this situation prevails, he has to close the factory, or sell his machines and pay the debts.

5. A Washing Factory in Chattogram

Four industrial washing machines and four industrial dryers make up the equipment of this factory. Due to the current pandemic situation, fewer workers are working. Earlier, there were 35 workers. A total of 15,000 pieces per day production capacity is not being utilized for the last 2 months, and now they have been producing only 5,000 pieces per day. The factory was closed for a month. Current work orders are too low. The owner laments, “I don't have any land to sell for repaying the loan. Initially, I had invested BDT 15 million. Now, without any government support or a substantial bank loan, say BDT10 million, it would be difficult to run the factory again.”

6. A Trimming Factory in Dhaka

“My factory produces thread and elastics for a garment factory with thirty-five (35) workers. But now my factory is closed. I will be able to re-open the factory if the RMG factories where we supplied clear all the dues; otherwise, I have to borrow money from another source to run the operation. Electricity bills are due for the last three months! I could not pay the workers’ salary in full. I have a shortage of capital, which is the result of unpaid accounts receivables with the RMG factories I work with. Without additional money from external sources, it would be difficult for me to start all over again.

7. A Packaging and Accessories Factory in Gazipur

Maruf Ahmed (disguised name) owner of KK (disguised name) Packaging and Accessories Limited is based in Surabari, Kashimpur, Gazipur. He has been in this business for many years. He has a production capacity of 3000 cartons per day with two machines and 26 workers. Currently, he is supplying to only one RMG producer as others are neither clearing receivables nor giving new orders. The raw material is still available as it was before COVID19 and as they received the order a week before the shipment. He says “In such a situation, there is no chance of cancellation of the order, but all the parties to whom we have receivables have not been paid. New orders have not been received either. We don't want to get into trouble by obtaining government loans which are being given in the name of incentives, what is the benefit if it has to be refunded again?”

Major Observations

Currently, a sense of despair and hopelessness have been characterising the backward linkage industry. Some of the key issues that need to be resolved are the following:

a. As some of the RMG factories could not pay the outstanding invoices to the backward linkage factories, it may put drastic impact or even damage some of the businesses of the backward linkage.

b. The practice of not providing local LCs for orders worth less than USD 5,000 has led to a great many numbers of outstanding accounts receivables (A/R) which the RMG factories are not paying.

c. There seems to be no alternatives available to the backward linkage players to recover the accounts receivables during this crisis. No provision in the government’s incentive gives any solution to such issues either.

d. Most factories are underutilized or about to be shutdown, especially as there are limited or no orders during this crisis period of COVID19 pandemic. While the orders of the RMG factories are being re-negotiated at their international buyers' level, no such deal or negotiation is underway for the local suppliers of the backward linkage.

e. Unemployment and non-paid workers are crucial for the sector now. But, as yet, no mechanism or government incentives have been declared targeting these small factory workers in the backward linkage. These issues can create dissatisfaction and unrest amongst the workers.

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