

Ready-made Garments: Challenges in Implementing a Sector Strategy

The Ready Made Garments (RMG) sector plays a pivotal role in the economy of Bangladesh. This sector accounts for approximately 76% of the total export earnings and nearly 10% of GDP. At present there are about 4,000 garments factories employing approximately 2.5 million people, among which 80% are women.

Recognizing the growth potential of this sector, the growing international competition, and the current constraints, the South Asia Enterprise Development Facility of the IFC (SEDF) has designed a sector strategy to

- Safeguard and increase global market sales of the RMG sector by strengthening market linkages,
- Increase productivity, and
- Increase adherence to social and environmental compliance standards.

Results to date suggest that the SEDF interventions have resulted in positive outcomes for assisted firms, particularly in reducing “re-works” and production lead times, but also highlight the challenges for firms in Bangladesh in reaching standards achieved by international competitors.

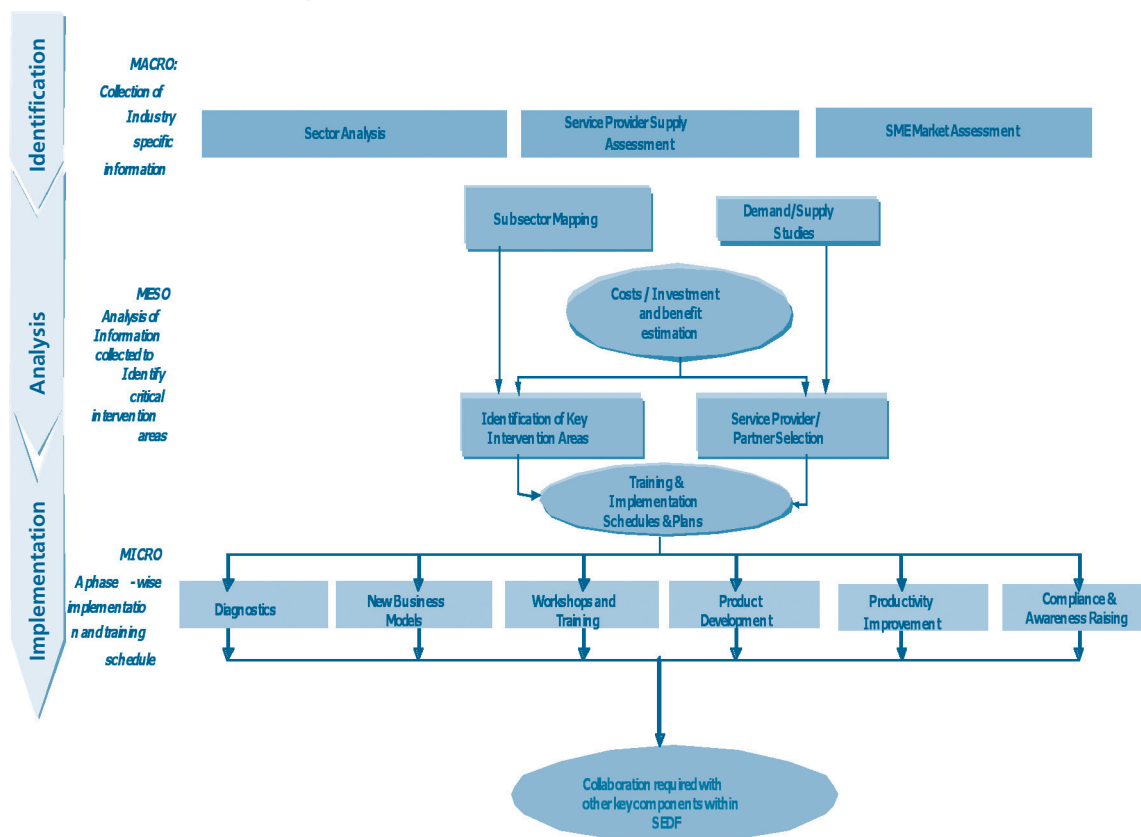
Interventions Designed to Improve the Competitiveness of the RMG Sector

Figure 1 highlights the approach of the sector strategy. Primary interventions include (1) strengthening market linkages by building the capacity of trade associations to participate in trade fairs and providing them with skills and tools to communicate more effectively to their customers (2) enhancing productivity improvement by developing a viable market for productivity improvement services (3) improving compliance with standards by building the capacity of the two leading trade associations—Bangladesh Garment Makers and Exporters Association (BGMEA) and Bangladesh Knit Makers and Exporters Association (BKMEA)—to provide compliance-related services. Additionally, brand-name international buyers (including The Gap, Wal-Mart, and H&M) have formed a group called the Buyers’ Forum, to try to replicate a previous successful experience of

IFC’s assistance in Cambodia. This group works towards developing common industry standards among the brand-name buyers.

As of December 2006, 128 companies have received various types of services primarily through service providers supported by SEDF. Approximately 29% of these companies participated in trade fairs, 11% participated in the Bangladesh Buying Trip, 34% participated in training, 4% participated in BIFT Job Fairs, and 21% received advisory services including productivity improvement and restructuring. The service providers include two institutions (Bangladesh University of Engineering and Technology, BUET and BGMEA Institute of Fashion Technology, BIFT), one business association (BGMEA) and three consulting firms (KSA, LCMI and Briddhi). Ten international buyers were also brought in to enhance the quality of the products and compliance of the companies.

Figure 1.—SEDF Interventions in the RMG Sector



Bangladesh RMG Sector Results Highlights (2006)

Total program cost: US\$ 1,043,665

Client contribution towards costs: 25%

Average cost of assistance per client: \$9,643

Sales generated: USD 182.5 million in 97 companies

Jobs created: 20,457

Program costs/sales ratio: 1:54

In the following section we report the results of a quasi-experimental evaluation that compares the performance of SEDF-assisted firms and non-assisted firms. The survey was carried out by an external firm.

Tables 1 and 2 shows the comparison between assisted and non-assisted firms and a few international benchmarks are presented in Table 2. In general, the SEDF assisted firms have outperformed the non-assisted (control) firms in terms of rejection rates, plant efficiency, labor turnover, and number of women hired, but no substantial differences were noted in terms of labor costs.

The production efficiency (actual line production relative to line capacity) increased by 2-4% per annum for both assisted and non-assisted companies between 2003 and 2005 (against the target of a 3-5% increment). However, between 2004 and 2005 this increase was 2.6%

for non-assisted companies and 3.1% for the assisted companies. In terms of re-work, assisted companies have performed better than the control group in terms of minimizing re-works (the number of pieces of finished products which need to be corrected due to defects). In 2003-2004 both groups experienced an increase in re-work rate, but in 2004-2005, the assisted firms managed to reduce the re-work rate by 15% while the control group maintained the same level of re-works as the previous year.

However, in comparison to other international competitors, the data clearly show that firms in the RMG sector in Bangladesh have a long way to go in terms of increasing overall competitiveness.

Table 1: Outcome Comparators for SEDF-Assisted and Non-Assisted Firms

Outcome Indicators		Year		
		2003 (baseline)	2004 (change in value)	2005 (change in value)
Actual line production relative to line capacity	Non-Assisted	77%	1.7%	2.6%
	Assisted	80%	1.9%	3.1%
Re-work reduction	Non-Assisted	32 pcs.	+3%	0%
	Assisted	16 pcs.	+14%	-15%
Production-lead time	Non-Assisted	31 days	0 days	-1 day
	Assisted	28 days	-1 day	-1 day

Table 2: Comparators of SEDF-Assisted vs Control Firms and International Comparators

	SEDF Assisted	B'desh Baseline	Reference Country Benchmark				Global Benchmark
			Sri Lanka	China	Vietnam	Cambodia	
Process Benchmarks							
Labor Turnover/Year (%)	11	15	7	6	7	7	5.5
Rejection Ratio	8	10	3	0.5	3	5	1
Plant Efficiency (%)	44	30	65	80	70	60	75
Financial Benchmarks							
Labor Cost (US\$/Operator Hour)	0.37	0.3	0.46	0.5	0.3	0.04	
Sector Performance Benchmark							
Return on invested Capital (Knit) (%)	18	15	18	25	20	18	
Social/Environmenta Benchmarks							
Women I Supervisory Positions (%)	1.5	0.5	40	70	60	65	40

Table 3: Overall Program Impacts

Impact Indicators	Companies	Year		
		2003 (baseline)	2004 (change in value)	2005 (change in value)
Total average exports/sales turnover	Non-Assisted	US\$3,984,043	(6%)	(8%)
	Assisted	US\$4,184,706	(9%)	(14%)
Sales Value per sewing machine	Non-Assisted	US\$ 12,521	4%	5%
	Assisted	US\$ 12,265	2%	6%
Partner service provides' income from training and consultancy to RMG sub-sector			14%	180%
Staff turnover	Non-Assisted	80 no.	90 no. (13%)	98 no. (9%)
	Assisted	77 no.	85 no. (11%)	74 no. (-13%)

Table 4: Other Sector Efficiency Indicators

Indicators	Assisted		Non-assisted	Benchmark	
	Unit	2005	2005	Standard ^a	Bangladesh average
Total lead time	days	93	100		90-120 ^b
Operator per sewing machine		1.5	2.1		2.7 ^b
Production area per machine	sq ft	47	55	45-50	34 ^c
Export growth in US\$		14%	8%		Woven:2% Knit:31% Both: 13% ^d
Outreach: no. of countries	no.	6.7	6.1		6.5 ^c

a. Source: KSA Benchmark Report (Countries include Bangladesh, India, Pakistan, Sri Lanka, China, Cambodia, Vietnam, Malaysia and Indonesia).

b. Source: KSA.

c. SDBS Baseline Survey, 2005.

d. BGMEA 2004/2005.

Finally, as shown in tables 3 and 4, assisted companies have a lower total lead time (93 vs 100 days), lower operators per sewing machine (1.5 vs 2.1), more efficient space utilization for production (47 vs 55) and higher export growth (14% vs 8%) relative to non-assisted companies. There is no significant difference in terms of country outreach between assisted and non-assisted firms.

Lessons Learned

As suggested by the international benchmarks, the RMG sector in Bangladesh is clearly not out of the woods yet and defining the correct market intervention to address the market failures and improve competitiveness is no easy task. The interventions have clearly demonstrated that they have met with some early success, and further impact analysis will be needed to demonstrate sustainability. International benchmarks are proving to be a useful motivating tool to encourage firms to enhance productivity. The sector based strategy employed by SEDF in the RMG has yielded some valuable lessons for sector interventions, some of which are discussed below.

Scoping—There is a clear need for good scoping to determine the true underlying market failure and entry point in the sector. A well done value chain analysis of the sector as part of the sector scoping exercise provided invaluable information to determine the point of intervention.

Cost-sharing ensures strong market demand. All parties benefiting from advisory services must contribute. Requiring significant participant contribution ensures all parties are investing in the initiative. This is difficult when subsidies are present, but still imperative.

Sector development needs financial and enabling-environment support. Success of a sector based strategy is contingent on the provision of good financial services where firms are constrained by access to finance, and a sound business enabling environment. SEDF worked closely with the leading Trade Organization – BGMEA to push for the new Trade Bill Act in the US so that all less developed countries are granted the same access as Sub-Saharan African countries. Since Bangladesh currently leads exports among the less developed countries, the Trade Bill will facilitate additional exports of \$2-3 billion to the US.

Social issues should be integrated into competitiveness strategies and services. Efforts to advance social issues such as environmental protection, fair labor practices, gender equity, or anti-poverty strategies are effective and sustainable when integrated into overall sector competitiveness strategies.

Assessment, monitoring, documentation, learning, and training should be incorporated throughout the project cycle. Integrating these activities into regular program management provides a good feedback mechanism to improve chances of success. The program has been continuously monitored and changes implemented in response to outcomes.

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The change process should be approached gradually. Build on the core competency of the organization, subtly introducing new elements in often-imperfect ways and documenting results. The time to announce the new strategy more aggressively may be only after early results become apparent.

Sector development requires the strong support of well developed Business Development Services (BDS). Well-functioning support markets enable firms not directly participating in the program to access similar services. An integral part of the SEDF implementation has been building the capacity of local BDS providers, to increase outreach for provision of services. With SEDF assistance, partner service providers income from training and consultancy more than doubled and number of product offerings increased by a third over a 3 year period.

Five to ten years is an appropriate program time frame. “Light touch” strategies achieving systemic change are no longer relevant. Markets contain entrenched practices, relationships, power structures, and cultures that are difficult to penetrate and change. Building deep partnerships based on mutual investment and trust, instituting changes that will have an impact in the wider market take time.

Challenges that need to be addressed

- **Specificity of interventions.** Each target sector and support market demands a different approach and strategy, which makes implementation difficult, requiring sector-specific training, staff communication, logical frameworks, and performance targets etc. This limits scalability, replicability and may be expensive.
- **Coordination among integrated elements.** Coordinating activities across sectors and support markets, financial services, and business-enabling environment components, is a complex and requires co-ordination among implementation units as well as amongst players within markets.
- **Market distortions.** Significant subsidies by various donors still play a role in target sectors, and many market development initiatives still consider it appropriate to offer advisory services at no cost. This is in direct conflict with the SEDF business model of client contribution towards costs for services.
- **Slow private sector response.** Although the program has a longer time frame than many initiatives and can be renewed, private sector change is slow and culture change takes time.