THE IMPACT OF THE COVID PANDEMIC ON THE COST OF PRODUCTION AND ORDERS IN BANGLADESH

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RESEARCH | KNOWLEDGE | DEVELOPMENT

FAIR WEAR

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Contents

Executive Summary

The Covid-19 pandemic has exposed, and exacerbated, the power imbalance along the value chain between the producers of the global south and the buyers of the global north. The Ready-Made Garment (RMG) industry of Bangladesh is of no exception. The Covid pandemic caused an array of social and economic crises worldwide, which triggered a decline in consumption of western markets, and the subsequent cancellation of orders from global brands to Bangladeshi RMG producers. This study aims to uncover the impact the Covid pandemic has had—and is still having—on this already strained industry. It looks at the efficacy and adequacy of the Bangladeshi government's measures and subsidies, investigates the inequalities between the buyer and seller, and will help bring to light the full effect the pandemic has had on the workers—and the industry itself—due to the decline in global demand for ready-made garments.

The main approach for attaining data to be used in this study is through questionnaires through interviews. These interviews came in the form of both written and verbal and was spread over multiple sub-categories of the industry:

- **Region: Dhaka, Gazipur, Narayanganj, and Chittagong**
- **Size: Large, and MSMEs (Micro, Small and Medium-sized enterprises)**
- **Product Type**: Knitwear, and Woven

The study aimed to reach out and collect data from a range of workers within these sub-categories. This database of relevant participants focused on—but was not limited to—staff engaged in the management of the factories. It was compiled through the means of a thorough desk review and utilised the lists available on the websites of the Bangladesh and Garment Manufacturers Exporters Association (BGMEA), the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), the Dhaka Chamber of Commerce and Industry (DCCI), and other relevant stakeholders, as well as the previously constructed database of enterprise surveys conducted by SANEM.

The questionnaire aimed to acquire information related to Covid's impact on production costs within the RMG sector. Comparisons between the pandemic period and the 'normal' pre-pandemic period constituted the main angles of the questions. Respondents were asked about the fluctuations in the cost of production components, in the volumes of orders and sales, and pricing since the beginning of the pandemic. Taking into consideration the sensitivity of the financial information and the hesitancy

such inquiries may elicit in the respondents, the questionnaire allowed space for discussions on relative changes in values of interest. The questionnaire also explored the perception of the respondents regarding the efficiency of the production unit and the state of the business. These responses complemented the findings of the rest of the study and helped paint a more comprehensive picture.

The survey shows that expenditures for firms within the RMG industry—be it production costs, overhead costs, share of labour costs, operational costs, and transportation costs—have all risen over the Covid period. There lies a variance between how each sub-category has been affected and these increased costs can, in part, be attributed to a number of factors, which include (i) The implementation of Covid precautionary measures and government restrictions; and (ii) Order cancellations and global decrease in orders and demand. With increased costs at almost all levels of production and extra cost for health protocols, per-unit cost has increased on average, yet conversely, per-unit price has decreased.

Furthermore, the survey indicates that all firms, regardless of their size and locations, have taken some degree of measures in response to the health risk created by the Covid pandemic. These measures include social distancing in factory floors, multiple/additional working shifts with fewer workers, installation of sanitary entrances and plastic dividers in factory floors, distribution of soaps, masks, face shields, PPE and other sanitary products among workers and refitting of factory buildings. Accordingly, almost all firms have reported that the implementation of these safety measures has increased their production costs.

The research also shows that the Covid pandemic resulted in lower unit prices, smaller order sizes/values, downward pressure on factories' mark-up, cancellation of orders and delay in buyers' payments. The situation appears particularly difficult for factories that produce woven items, which reflects the change in consumer behavior that is brought about by the Covid pandemic.

Considering these increased costs and coupled with the wave of order cancellations and the decrease in demand for RMG products, it is unsurprising that the workers within this industry have been among the hardest hit. The reduction in production and the closing down of factories have directly contributed to a decrease in work hours, cuts in bonus payments and widespread lay-offs and retrenchments. A proportion of workers have been forced to look elsewhere for a source of income and the machine to labour ratio has, invariably, increased or stayed the same. In this, the MSME's have been more affected when compared to the large firms.

Furthermore, the fall in average number of employed workers in micro-sized firms indicates the difficulty the pandemic posed for workers of these firms. The average number of employed workers in November 2020 was less than that of November 2019 for all, except small firms. Moreover, almost a two-fold increase in share of severance pay for large firms has been observed.

Introduction

The power imbalance along the value chain between the producers of the global south and the buyers of the global north has been exposed and exacerbated by the Covid pandemic. The Ready-Made Garment (RMG) industry of Bangladesh is of no exception. In response to the economic crises created by the pandemic and the subsequent fall in consumption in western markets, global brands started to cancel orders placed on Bangladeshi RMG producers during the early days of March 2020. Not only did the strong objection of the RMG stakeholders go unheeded, buyers soon started withholding payments due for orders already delivered. Additionally, responding to the pandemic situation at home generated a special set of challenges for the RMG industry. The implementation of a country-wide lockdown resulted in a complete halt of production and the dual disruption in both production and demand pushed many firms to the brink of bankruptcy.

The overall management of the pandemic put the country's RMG sector in a disadvantageous position as, quite rapidly, competitors in Vietnam and China, started to benefit. This was, in part, due to their impressive pandemic management, revived production, revamped trade, and general response to the increase in procurement orders that came from the U.S. and Europe. With the world economy gradually opening up and lockdown at home being relaxed, Bangladesh's RMG sector is starting to adjust to the new normal but finds itself in a rather uncomfortable situation as it has been forced into conceding to buyers' demands for price reductions of their products while at the same time production costs are increasing due to the effects of the pandemic. The implementation of health protocols added to the cost as the procurement of sanitation products and setup of safety mechanisms became a priority. In many cases, maintaining social distancing along the production lines was a challenge, even with factories operating well below capacity. Both safety checks and the absence of a proportion of workers have contributed to delays in unit production and the increasing of the overall cost. The cost of transportation of raw materials, finished products and labour has also increased. The factors that contributed to the increased production costs were both direct and indirect results of the Covid pandemic.

To effectively address this issue, the factors have to be defined and specified. Each individual factor causes different implications in the production process and supply chain. The RMG sector's reaction to the ongoing crises, the response of its socio-political agencies and behaviour patterns of stakeholders are significant parameters that illustrate the state of the sector as a whole.

Accounting for the employment of four million people and 84% of export earnings of Bangladesh, the RMG sector has been a crucial lifeline and a reliable growth driver for the last four decades. In recent years, the sector has contributed as much as 11% to the country's GDP. Owing to low labour cost, preferential access to overseas markets and consistent policy support at home, the RMG sector has flourished. Now only second after China, the industry has maintained an upward growth tendency; in 2018-2019 it grew 11.49%. However unprecedented and extraordinary the trajectory of the sector may seem; it has always been riddled with internal issues ranging from labour unrest to workplace safety. Moreover, lack of product diversification, lack of flexibility to adopt cutting-edge technologies and inefficient management have significantly impeded its growth and blunted its competitive edge. According to grey literature[1] from the pre-Covid situation, RMG factories employing between 500 and 2,000 workers—termed informally as MSME's (Micro, Small and Medium Enterprises)—which are more than 1,000 in number, were facing challenges. For example, 50 such factories have ceased operations since April 2019, as suggested by a newspaper article published in September 2019, and one of the primary causes of struggle was the 'low negotiating skills' of firms. In a McKinsey's biannual Chief Purchasing Officer (CPO) survey, dating back to 2011, a high share of European CPOs strongly emphasised the advantages of sourcing in Bangladesh due to the "favourable trade agreement" (Berg et al., 2011). With the emergence of new regional competitors like Vietnam and the loss of preferential market access in the US market that was awarded to Bangladesh under its General System of Preferences (GSP) programme, concerns about the sector's future reverberated across policymakers' and stakeholders' offices.

The materialisation of the new model caused, in part, by the U.S.-China trade war, brought into effect advantageous conditions for the country's RMG sector, which immediately started capitalising on it. New dimensions in the global supply chain in the last couple of years proved to be quite beneficial for the sector and, accordingly, expectations rose. It is at that moment that the Covid Pandemic began, and the resiliency of Bangladesh's RMG sector has been put to the test since. The cancellation of orders worldwide, disruption in product shipment and extensive lockdown at home all contributed to

[1] materials and research produced by organizations outside of the traditional commercial or academic publishing and distribution channels. Common grey literature publication types include reports, working papers, government documents, white papers and evaluations. (source: Wikipedia)

exacerbate the structural weaknesses that plague the sector. It is in this situation of confusion that stakeholders of the RMG sector learned that, while integration in the global supply chain can yield high profit, the plight of those at the bottom of the global production pyramid may go unheard.

As large fashion brands started refusing to pay, even for the already shipped products, the RMG stakeholders found themselves in a precarious position and realised they had little leverage, in terms of negotiating. With the world economy gradually opening up and lockdown at home being relaxed, the RMG sector is readjusting back to its normal routine but with a loss in employment and depleted capital. The situation has been somewhat brought to order through government fiscal intervention. The government of Bangladesh announced a stimulus package worth $588 million for the RMG sector to aid the factories and cover the wages and allowances of workers, however, the impact of the stimulus on the suffering sector is yet to be fully assessed.

Despite government support, production cost has increased to an extent that the sector has stopped absorbing labour force in the manner it was pre-pandemic, as is evident in the observed urban to rural reverse-migration trend. The layoff of workers, as a response to the lockdown and discontinuation of production, involved severance payments. Nevertheless, complaints have been made by several trade unions that labour law has been contravened in this regard. The Covid pandemic has aggravated the underlying, pre-existing fault lines of the financial sector. It is yet to be assessed how the slow growth of credit in the private sector and a volatile financial market have impacted the RMG industry in terms of capital formation, depreciation costs and investment. Reliance on fiscal support, during times of crises, brings to light the state of the foundations of the sector and addressing these issues might also be useful in identifying any structural weaknesses.

The Research Study

OBJECTIVES

The Covid pandemic, and the policies undertaken worldwide to tackle it, have created a downward trend in the global demand for garment products and disrupted the international supply chain of raw materials. Implementation of health protocols in production units, along with the implications on the demand and supply side, has created serious constraints for the garments sector of Bangladesh. In this context, the objective of the study is to:

1. Understand the impact of the pandemic on production;
2. Evaluate the associated cost due to the emergence of new health and safety measures; and
3. Quantify the impact of Covid on the costs of production in the RMG sector.

STUDY METHODOLOGY

The enterprise survey has been carried out on a sample that is based on several categories such as region, size, and product type. According to Moazzem et al. (2018), about 98% of RMG enterprises are located in four districts of Bangladesh, namely, Dhaka (38%), Gazipur (28.9%), Chittagong (16.1%) and Narayanganj (14.7%). Fifty-two or more observations are needed as the sample size to maintain a confidence level of 85% with an error margin of 10%, given that the number of RMG factories is around 5,000 (3,856 according to Moazzem et al., 2018[2]).

SURVEY SAMPLE

The sample size for this survey had been designed in accordance with three categories:

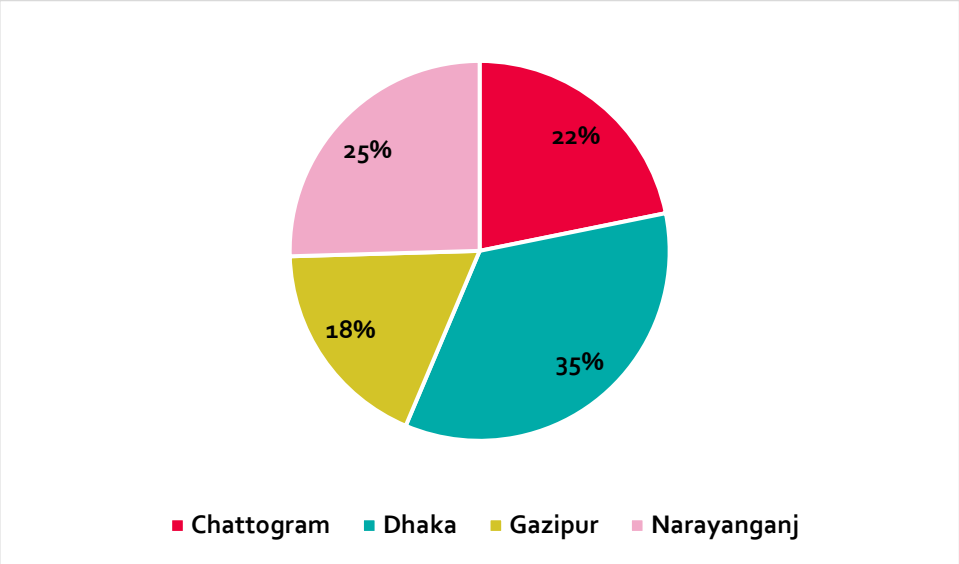
- **Region:** Dhaka, Gazipur, Narayanganj, and Chittagong
- **Size:** Large, and MSMEs
- **Product Type:** Knitwear, and Woven

Regional distribution

[2] Transformation in the RMG Sector in Post-Rana Plaza Period: Findings from CPD Survey, Dr Khondaker Golam Moazzem, Project Director, CPD-RMG Study and Research Director, CPD

The survey collected data from 55 firms within the RMG sector from the four major production hubs located in two divisions (Figure 1).

Figure 1: Regional distribution of the survey



Firm Size

The majority of the surveyed firms were large (82%), while the remaining were MSMEs (18%). The large firms are, comparatively, easier to access for surveys due to the stronger resilience over the period compared to their smaller counterparts. In other words, smaller firms, which are on the brink of closing or have already closed, cannot be accessed. Moreover, the capacity to respond to most of the questionnaire, including the human resources to do so, is more likely to be present in the large firms, which was a limitation of this survey. The firm sizes have been determined from the following definition:

Table 1: Firm size categories according to Total Persons Engaged (TPE)

Firm Size	Manufacturing sector (TPE)
Micro firms	Less than 30
Small firms	Between 31 and 120
Medium firms	Between 121 and 300
Large firms	More than 300

Source: National Industrial Policy, 2016

Product Type

Most of the selected factories were knitwear factories (64%), while the rest were woven factories (36%). Considering that product specialisation is essential for the sectoral discussions, the following definitions were strictly followed while targeting firms for the survey.

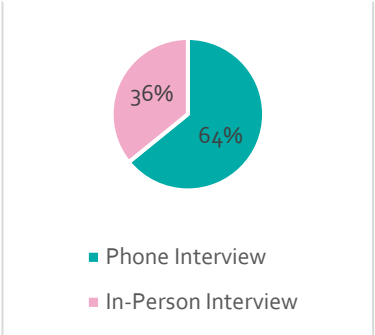
Table 2: RMG product type

Knitwear	Woven
Garments made from knitted fabrics are known as knitwear garments. Garments such as sweaters, t-shirts, polo shirts and inner wear are examples of knitted garments.	Garments that are made from woven fabrics are woven garments. Formal shirts, trousers, denim jeans, suits, chiffon, and georgette dress are examples of woven garments.

METHODOLOGY OUTLINE

A thorough desk review was conducted to build a database of contact information of relevant staff engaged in the management of enterprises located in the four regions. Lists available on the websites of the Bangladesh and Garment Manufacturers Exporters Association (BGMEA), the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), the Dhaka Chamber of Commerce and Industry (DCCI), and other relevant stakeholders, as well as the previously constructed database of enterprise surveys conducted by SANEM, were used in this regard. These lists were then categorised in terms of region. Given the lack of relevant data and the changing nature of factory sizes in some cases, the size of the enterprises could only be determined after the interviews had taken place. Two teams, one consisting of six enumerators and the other of seven, surveyed in two phases from 25 November 2020 till 23 December 2020.

Figure 2: Interview collection method



Interviews were conducted both in-person and over the phone where the ratio of phone interviews to in-person interviews reflected the pandemic situation (Figure 2). The reluctance of the enterprises and relevant associations in co-operating with the researchers is testament to the RMG stakeholders' lack of trust regarding empirical research commissioned by third parties. Additionally, the consequential deterioration of 'negotiating skills' due to the unclear responsibilities of the parties involved in the supply chain in mitigating the impact of the pandemic, was a factor in this regard. The timeline of the survey was extended as a result of this factor.

QUESTIONNAIRE AIMS

The questionnaire aimed to acquire information related to Covid's impact on production costs within the RMG sector. Comparisons between the pandemic period and the 'normal' pre-pandemic period—taken as November 2019 and November 2020 in this case—constituted the main angles of the questions. Respondents were asked about the fluctuations in the cost of production components, in orders, sales, and pricing since the beginning of the pandemic. Taking into consideration the sensitivity of the financial information and the hesitancy such inquiries may elicit in the respondents—most of whom are mid-level business executives—the questionnaire allowed space for discussions on relative changes in values of interest.

The questionnaire also explored the perception of the respondents regarding the efficiency of the production unit and the state of the business. These responses complemented the findings of the rest of the study and helped paint a more comprehensive picture. It should be noted that due to the difference in understanding of industry vernacular, a variety of responses to similar questions were observed. However, data has been cleaned and analysed with those caveats in mind.

Broad Themes covered by Survey:

- Fixed and variable costs; for Covid precautionary measures
- Labour costs; including Severance pay
- Efficiency levels; in the factory
- Free on Board (FOB) prices; for different products after taking into consideration additional costs
- Order scenario: sizes and prices

Main Findings

INTRODUCTION

Reportedly, as of 18 April 2020, international buyers have either cancelled or suspended $3.16 billion worth of shipments involving 1,142 factories affecting 2.26 million workers[3]. More than a million Bangladeshi garment workers have been sent home without pay or have lost their jobs after brands cancelled or suspended $3.33 billion of existing orders due to the pandemic, according to data from the BGMEA, who have termed the impact of the cancellations as "catastrophic". This includes nearly $1.8 billion of orders that were already in production or had been completed[4]. The BGMEA has appealed to the international buyers to accept already produced orders and pay just the wages for the orders under production[5].

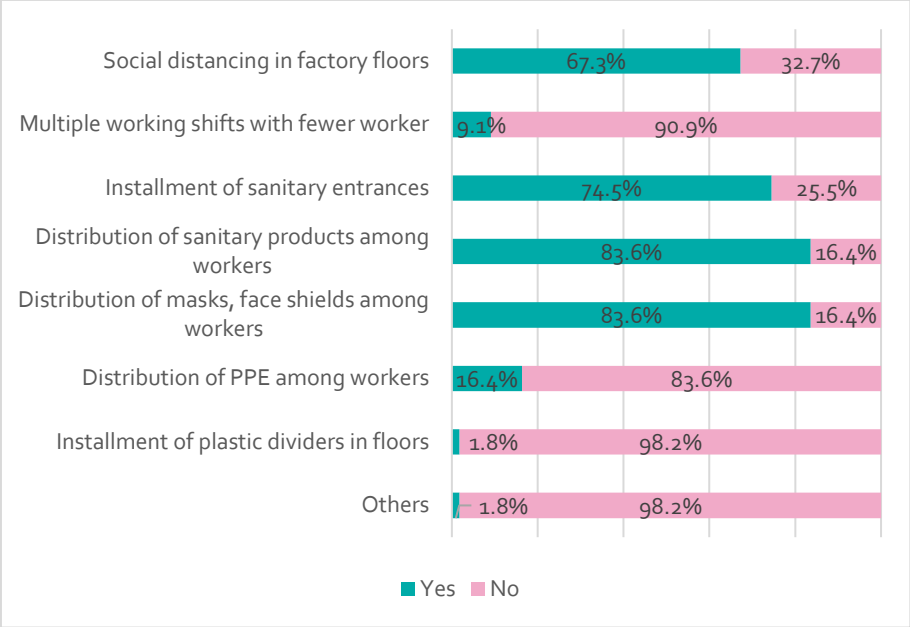
According to the Export Promotion Bureau (EPB), although the sector faced a -3.44% change of export performance during July 2020 - January 2021 (compared to the same period of the previous year), woven firms faced a disproportionately higher drop in growth compared to their knitwear counterparts (10.85% and 3.84% negative growth, respectively)[6]. A recent analysis of government import data for U.S. and European markets identified a $16 billion deficit in clothing imports for 2020, largely due to cancelled orders[7]. According to the CGWR survey of 316 suppliers, 98% of buyers refused to contribute to the cost of partial wages for furloughed employees[8].

COST OF PRODUCTION

Almost all firms had taken some form of measures against Covid, among which, social distancing on the factory floors was most prevalent (Figure 3). These measures took the form of either multiple working shifts or alternate workdays, or a reduced number of workers compared to pre-Covid.

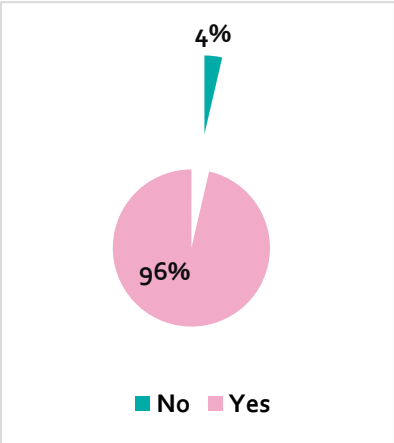
[3] https://www.adb.org/sites/default/files/linked-documents/54180-001-sd-04.pdf
[4] https://www.theguardian.com/
[5] https://www.youtube.com/watch?v=LmhbW9DO40sandfeature=youtu.be
[6] http://epb.gov.bd/site/view/epb_export_data/-
[7] https://www.theguardian.com/global-development/2020/dec/03/garment-workers-going-hungry-as-fallout-from-cancelled-orders-takes-toll-report
[8] https://www.npr.org/sections/coronavirus-live-updates/2020/04/03/826617334/1-million-bangladeshi-garment-workers-lose-jobs-amid-covid-19-economic-fallout

Figure 3: Measures taken due to Covid pandemic



The production costs, due to the effect of the Covid pandemic, has increased for most of the firms (Figure 4).

Figure 4: Increase in production costs due to Covid measures



Along with the pandemic's effect on orders and prices, the firms' Covid precautionary measures have contributed to pushing overhead costs up (Figure 5 and Figure 6). However, most of the firms have experienced up to a 10% increase in this regard (Figure 7), and the analysis represents the increase in overhead costs are due primarily to the precautionary measures.

Figure 5: Increase in overhead costs by firm size

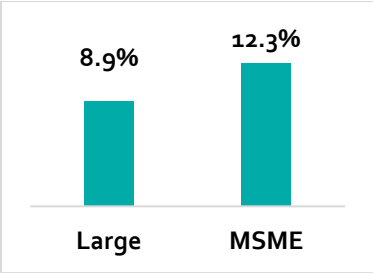


Figure 6: Increase in overhead costs by subsector

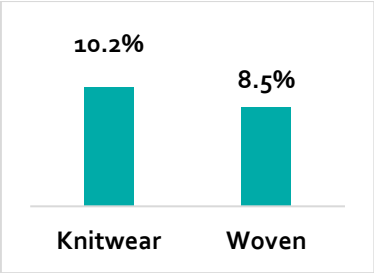
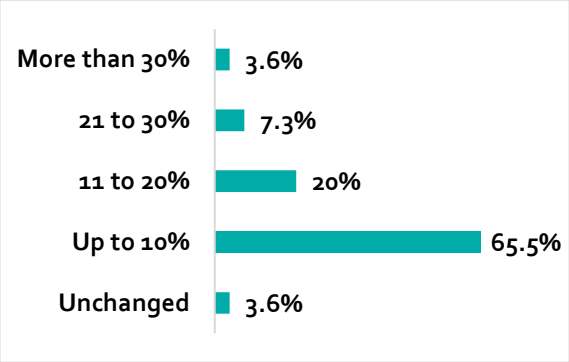


Figure 7: Share of firms experiencing classification of percentage increase in overhead costs



The share of labour cost for firms has increased slightly over the last six months for the MSMEs while decreased on average for the large firms (Table 3). Intuitively, in case of experiencing a larger increase in overhead costs, labour costs or operational costs for a longer period are more difficult for MSMEs. In the case of subsectors, both woven and knitwear firms experienced a decrease in the share of labour cost, although woven firms faced a larger decline compared to knitwear sector.

Table 3: Average share of labour cost by subsector and firm size (%)

Share of labour cost	Knitwear	Woven	Large	MSMEs
November 2020	49.7%	59.8%	55.8%	40.4%
Previous six-month's average	49.5%	59.1%	54.9%	42.5%

Notably, during the pandemic, there has been a significant increase in operational costs along with overhead costs and labour costs (Figure 8). An increase in the average share of severance pay in comparison with November 2019 indicates a higher proportion of workers being laid-off, whereas a decrease in festival bonus is also a negative impact of the Covid situation (Figure 9).

Figure 8: Change in operational costs, overhead costs, raw materials costs, and labour cost due to Covid measures

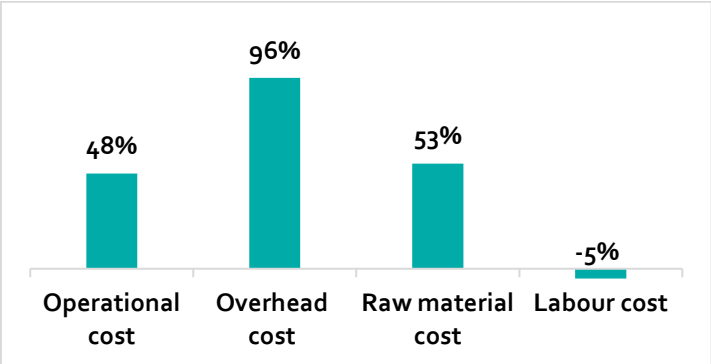
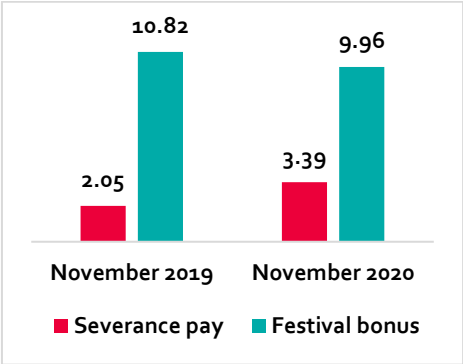


Figure 9: Average share of severance pay and festival bonus in total operational cost



Cancellation of orders, the decline in sales and factory workforce efficiency has led to a significant drop in output per month, as only a few firms reported that their output per month either stayed the same or increased (Figure 10). Nonetheless, Figure 11 shows that the firms are running below the optimum output level.

Figure 10: Change in output per month

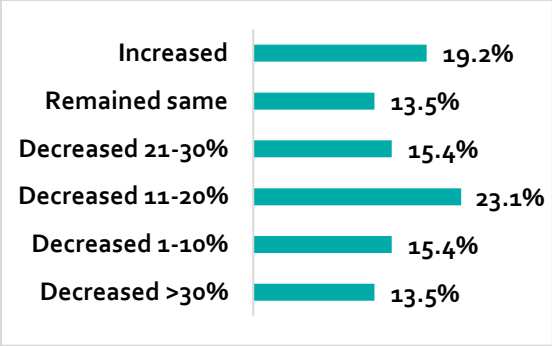
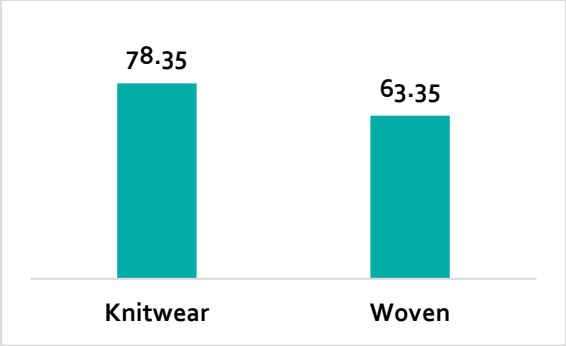


Figure 11: Total output as share of total capacity



The average share of the cost of raw materials has risen regardless of firm size or product type (Figure 12), and the added financial pressure on the firms is evident from the responses (Figure 13).

Figure 12: Change in the average share of the cost of raw materials in total cost by firm size (%)

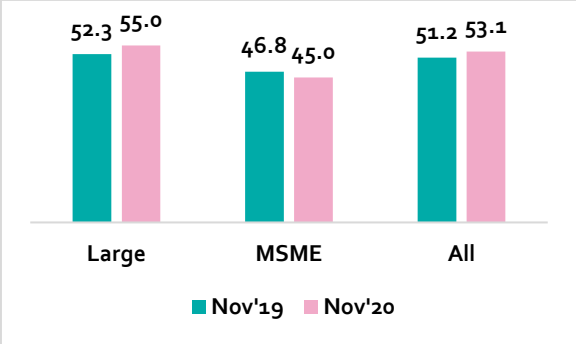
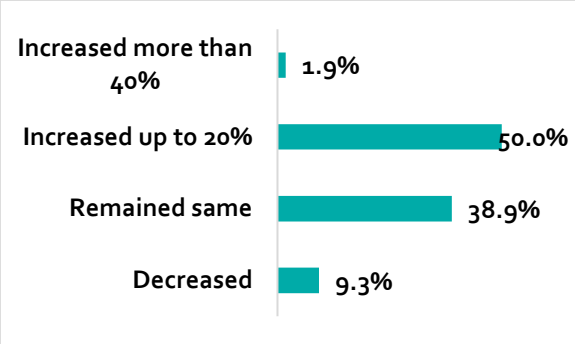
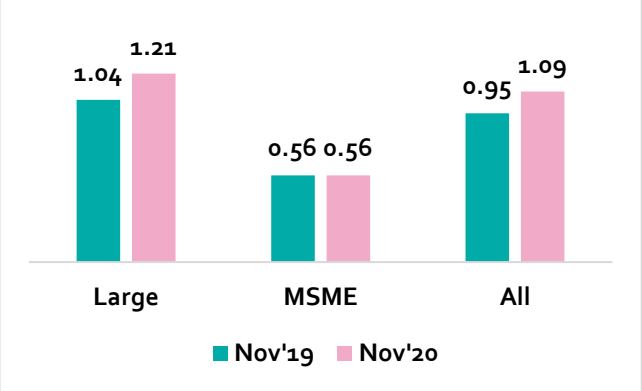


Figure 13: Change in share of the cost of raw materials (%)



Transportation cost has also increased causing further financial burden for the firms (Figure 14). One of the reasons for such may be the added precautions required in the transportation process of the workers.

Figure 14: Change in average share of transportation cost in total cost by firm size



With increased costs at almost all levels of production and extra cost for health protocols, per unit cost has increased on average (Figure 15 and Figure 16).

Figure 15: Change in average cost per unit by firm size (BDT)

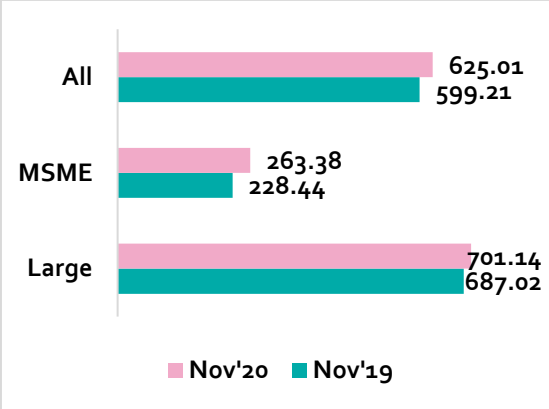
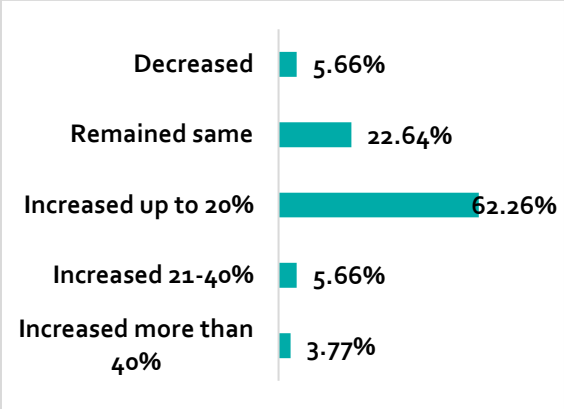


Figure 16: Percentage change in per-unit cost



ORDERS AND SALES

The survey provides further evidence regarding the unprecedented loss in orders, as both large and MSME firms reported a significant loss in sales and/or orders since the pandemic (Figure 17). A substantial portion (41.8%) reported at least a 21%-40% percent drop in sales or orders (Figure 19). However, the sectoral disaggregation maintains the scenario that woven firms are more affected (Figure 18).

Figure 17: Average loss in percentage of sales or orders by firm size

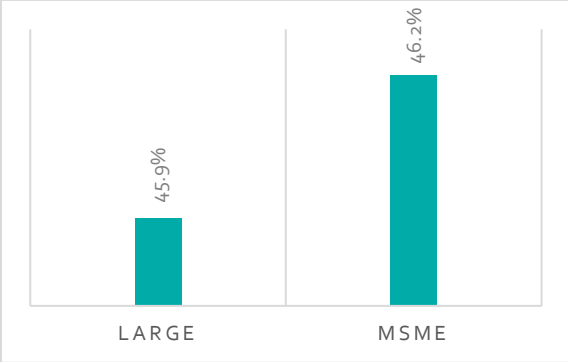


Figure 18: Average loss in percentage of sales or orders by subsector

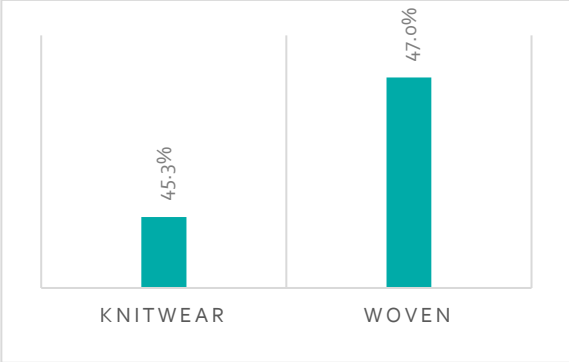
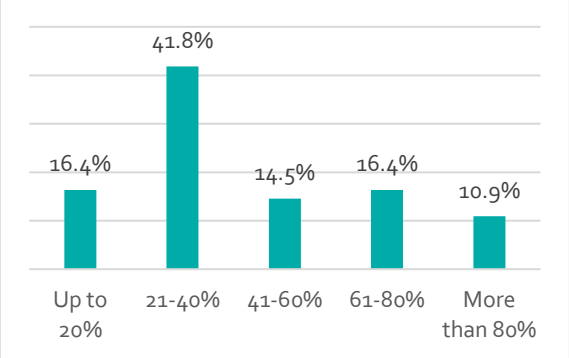


Figure 19: Percentage of firms experiencing loss of sales or orders



The previous scenario is further supported by Figure 20, which depicts that MSMEs faced more order cancellations compared to large firms. However, as shown by Figure 21, for more than half of the firms, the number of cancelled orders is relatively modest (up to 20%).

Figure 20: Average percentage of cancelled orders by firm size

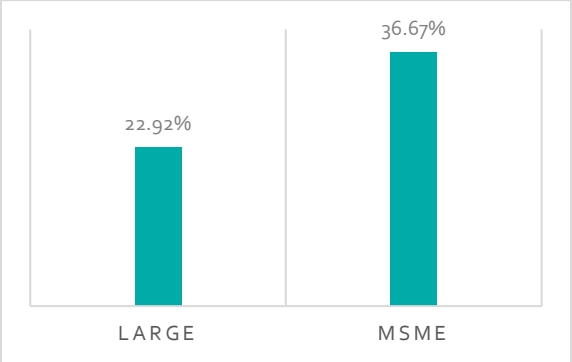
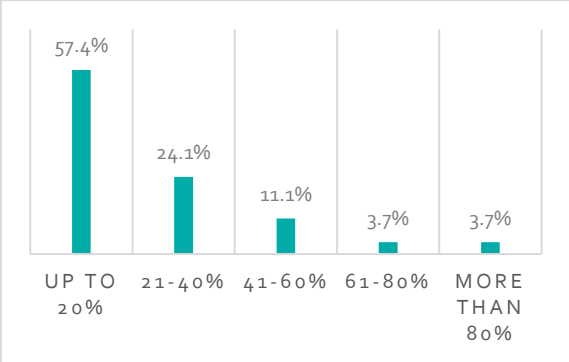


Figure 21: Percentage of firms experiencing cancelled orders



Decrease in sales indicates that the perception of the suppliers, although seemingly pessimistic, is not far from the reality (Figure 22 and Figure 23).

Figure 22: Average decrease in percentage of sales (value) by sector

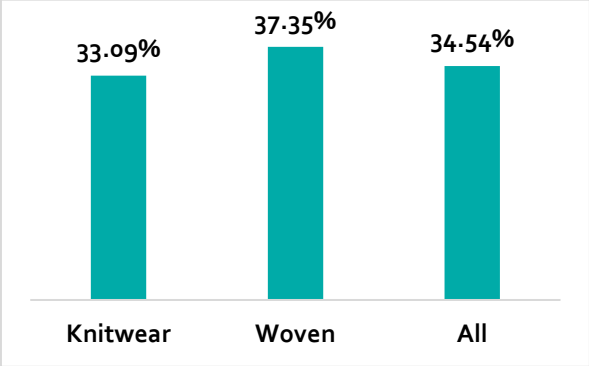
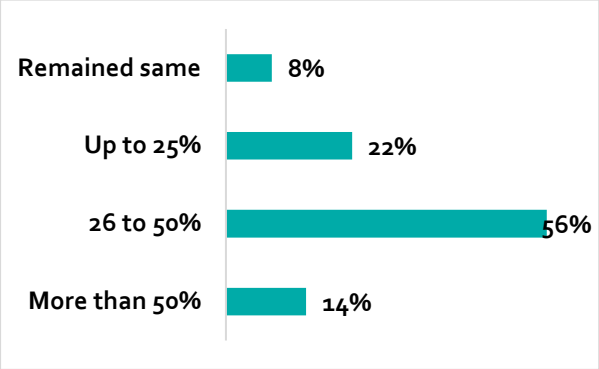


Figure 23: Percentage decrease in sales



Delay in payments demonstrates further the buyers' incapacity or unwillingness to observe fair trade terms and practices. Among 30 firms, 7 responded that more than 3 months will be required for full payment, 14 responded that up to 3 months will be needed while 9 responded that up to 1 month will be needed.

The present survey findings also find that cancelled orders have affected the turnover regardless of firm size or subsector, although at differing rates, maintaining the tendency from the previous sections (Figure 24 and Figure 25).

Figure 24: Average loss of turnover by firm size (%)

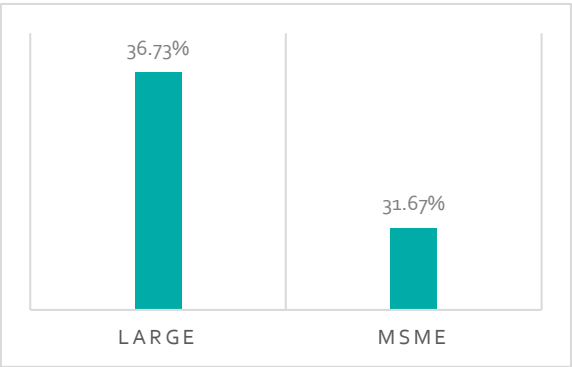
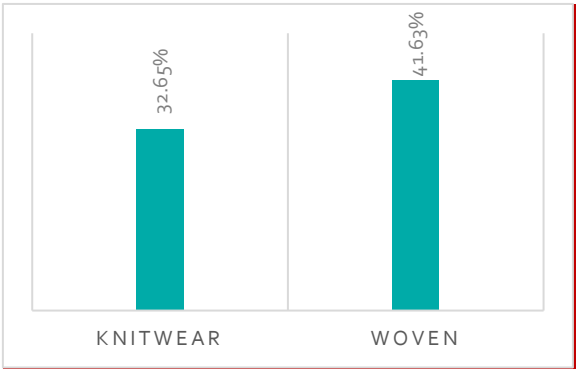


Figure 25: Average loss of turnover by subsector (%)



Compared with the pre-pandemic period, there has been a drastic fall in orders (Figures 26, 27, 28 & 29). Such a fall, accompanied by a decreased mark-up price, is alarming but expected due to the pandemic.

Figure 26: Average number of orders decreased in comparison with Nov'19

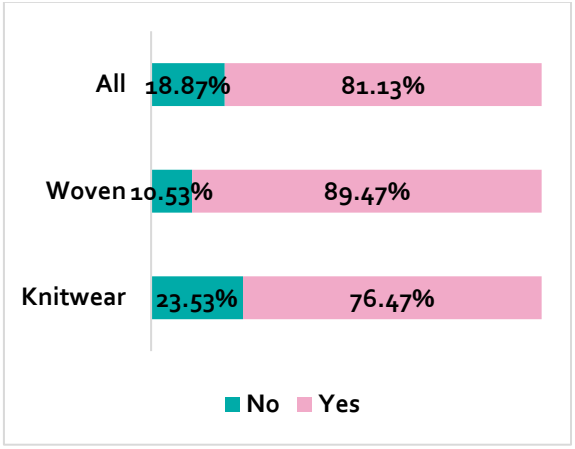


Figure 27: Change in average order size (in pieces) by firm size

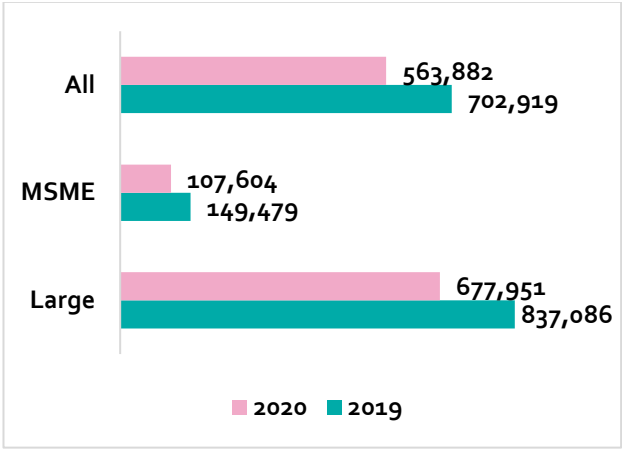


Figure 28: Percentage decrease in average order size (in pieces) in comparison with Nov'19

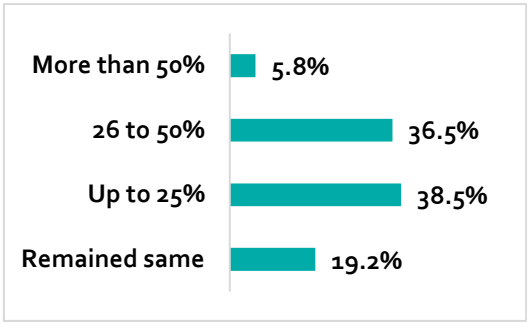


Figure 29: Average decrease in order size (in pieces) by firm size

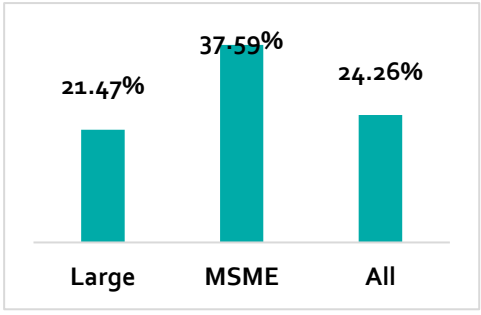


Figure 30 shows how the brunt of the pandemic has been felt by the entire sector, which has also been apparent in previous sectoral analyses. Consequently, the perception of sales is also mostly bleak (Figure 31).

Figure 30: Average decrease in percentage of size of an order by sector

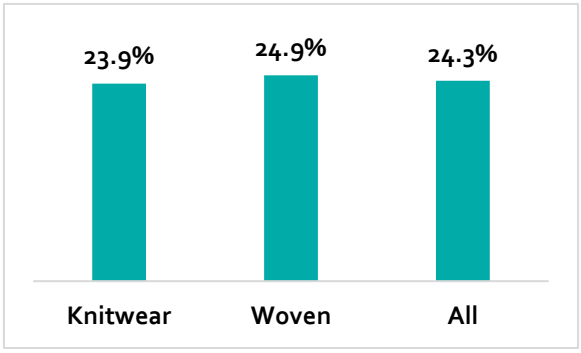
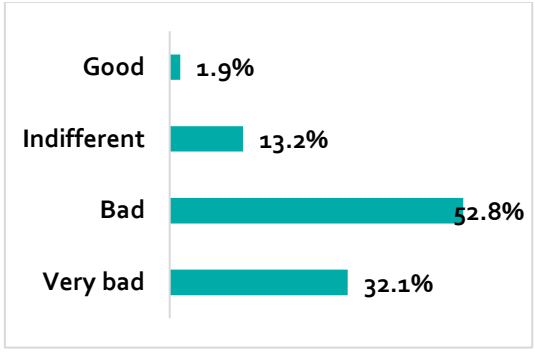


Figure 31: Perception of sales during pandemic



IMPACT ON UNIT PRICES

The per-unit price has not kept pace with the increased per unit cost, further exacerbating the firms' situation (Figure 32 and Figure 33).

Figure 32: Change in average price per unit by firm size ($)

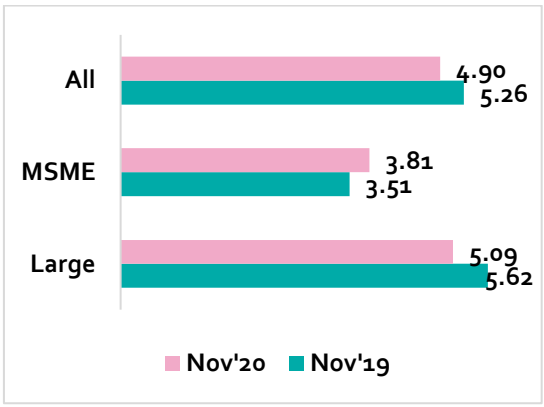
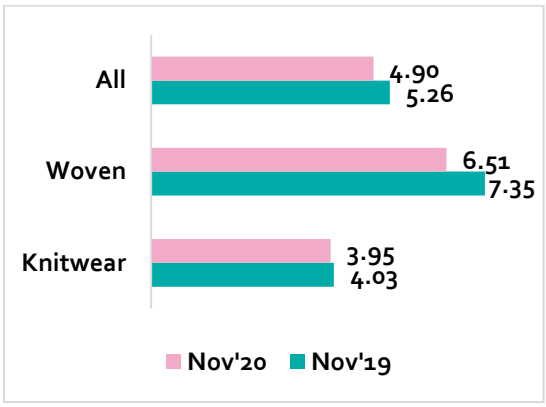
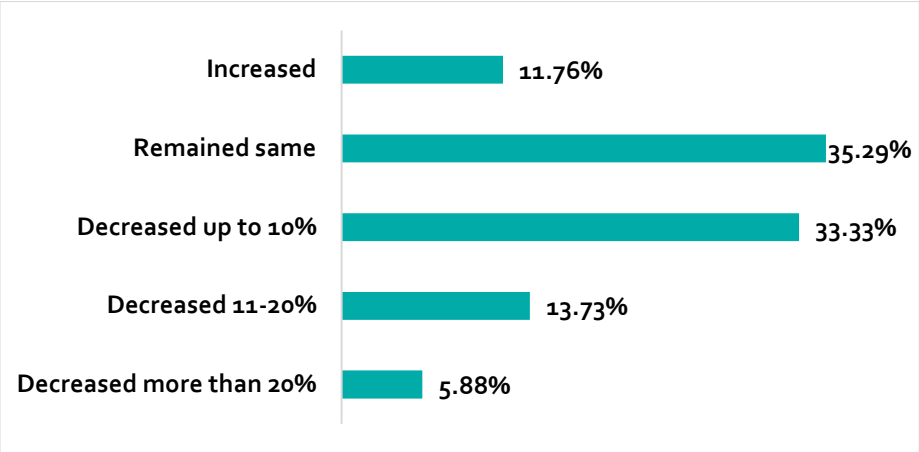


Figure 33: Change in average price per unit by sector ($)



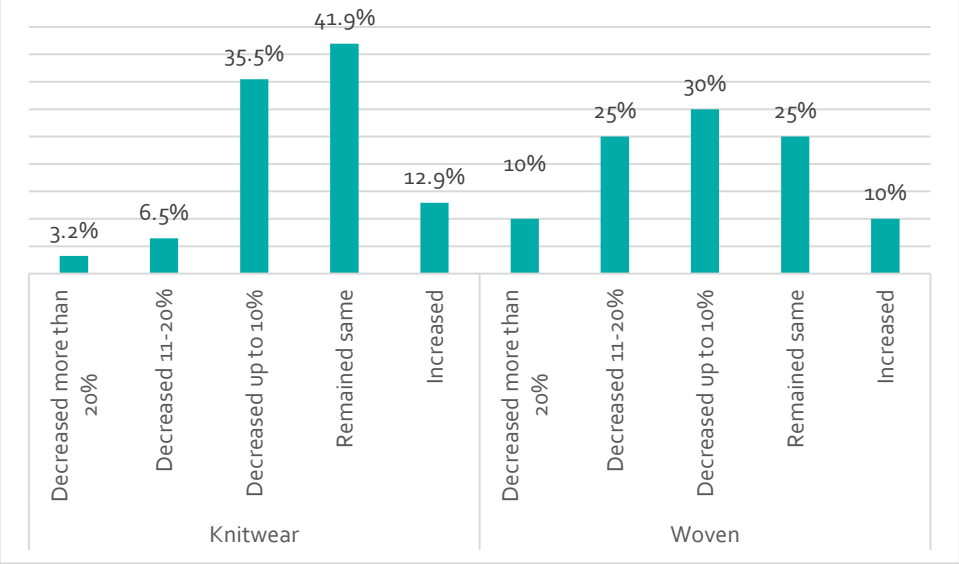
Despite the augmented cost per unit, the price per unit has largely decreased and in some cases remained the same (Figure 34).

Figure 34: Percentage change in price per unit



The sectoral disaggregation of data provides further insight (Figure 35). The explanation behind the disproportionate degree of the per-unit price drop in the woven and knitwear sectors has been inferred by the sector insiders as '...the demand for clothing for home use and the peak season of sweaters that ended in September'[9]. Whether this varied degree of resilience will continue or not, and what the determining factors are behind such a differentiation, requires further rigorous inspection.

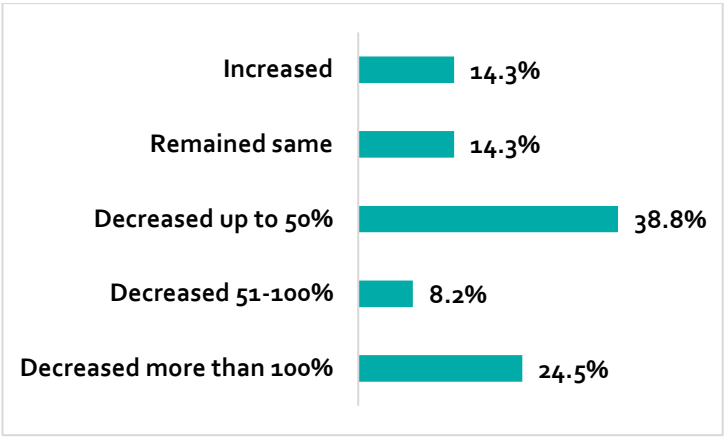
Figure 35: Change in price per unit



The majority of the firms have experienced changes in mark-up price as high as 50%, which again reiterates the necessity for a stronger support system such as effective stimulus packages and stronger accountability of all parties involved to assure the survival of the MSMEs and the sector as a whole (Figure 36).

[9] https://www.textiletoday.com.bd/knitwear-export-shows-positive-sign-for-bd-appar

Figure 36: Percentage change in per unit mark-up



The inordinate fall in mark-up confirms this picture (Figure 36 and Figure 37).

Figure 37: Change in average per unit mark-up by firm size

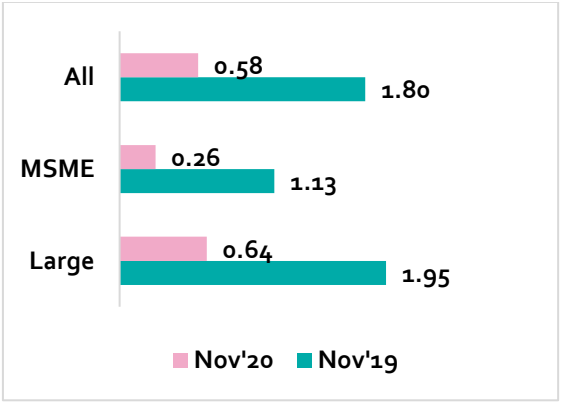
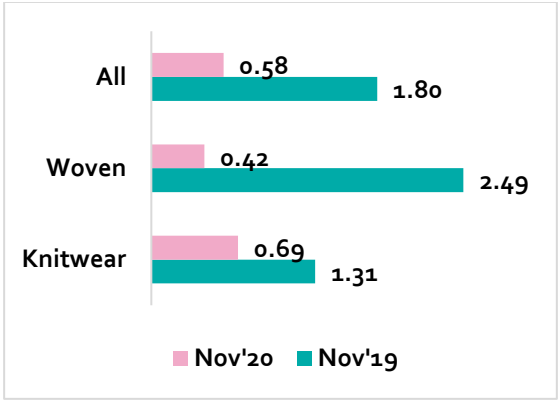


Figure 38: Change in average per unit mark-up by sector



IMPACT ON WORKERS

According to the Center for Global Workers' Rights (CGWR), from 21 March 2020 – 25 March 2020, 58% of interviewed factories reported having to shut down most, or all, of their operations[10].
As suspected by the sector specialists, sectoral insiders, and policy experts[11], the operation of MSMEs, in comparison with large firms, have been affected more due to the countrywide lockdown (Figure 39). The majority of firms (more than 70%), however, had to close down for at least one

[10] https://www.npr.org/sections/coronavirus-live-updates/2020/04/03/826617334/1-million-bangladeshi-garment-workers-lose-jobs-amid-covid-19-economic-fallout
[11] https://sanemnet.org/sanem-netizen-forum-on-covid-19-pandemic-14-april-2020/

month during the unofficial lockdown period (general holiday declared by the government)[12] (Figure 40).

Figure 39: Days closed due to the pandemic

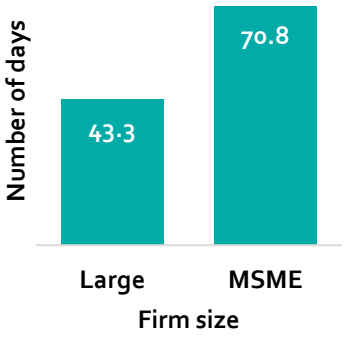
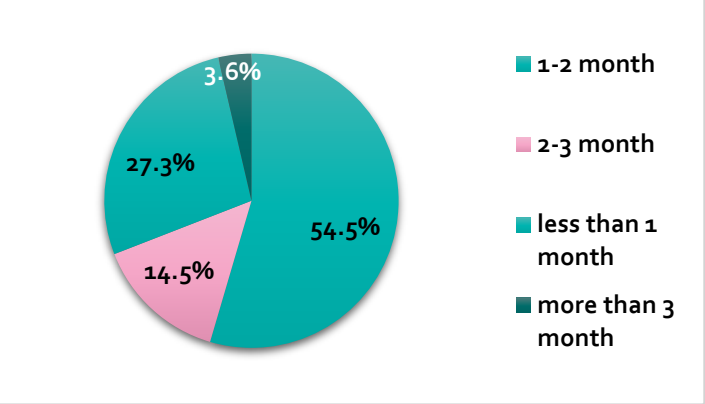
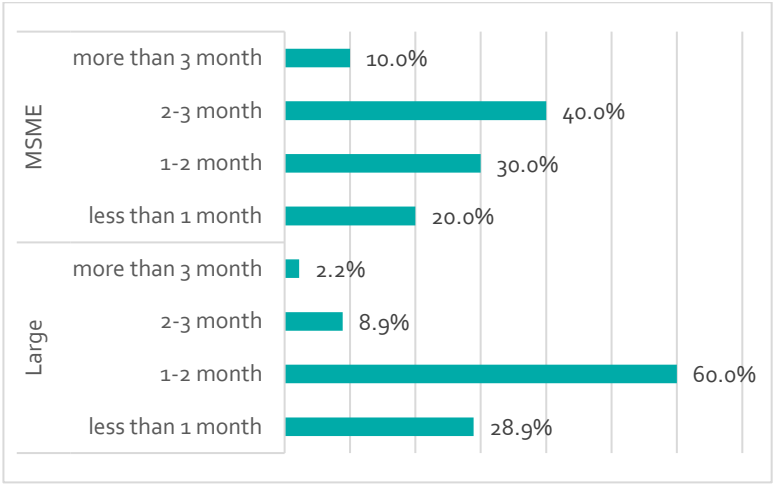


Figure 40: Length of the closed-down period



Among the surveyed firms, the lockdown effect has been different across the various firm sizes, and the aggregate picture does not reflect the differentiated impact experienced by large firms and MSMEs (Figure 41). A larger sample may give more in-depth information regarding the relationship between firm size and length of the closed down period.

Figure 41: Closed-down period by firm size



The stimulus package allocated BDT 50 billion for RMG (and other export-oriented industries) to go towards helping to pay the salaries of the workers. Moreover, from the extended Export Development Fund, a $600 million Pre-Shipment Credit Refinance Scheme for RMG (and other

[12] https://www.dhakatribune.com/bangladesh/2020/05/27/state-minister-update-of-lockdown-coming-soon

export-oriented industries) was also allocated. Even though the size of the stimulus package is significant, it still only provides a fraction of the massive requirements of the sector, which needs at least $470 million every month to pay wages[13].

All but a few of the firms that received the stimulus package reported it to be insufficient, again bringing into question the effectivity of the stimulus package. Interestingly, the perception of sufficiency depicts a different picture for the firms surveyed, where larger firms are less satisfied compared to the smaller ones (Figure 42). The explanation might lie in the reality where the obtaining of the stimulus package is itself tougher for the smaller firms, hence the receiving firms feeling satisfied when comparing themselves to the other small firms without such an 'opportunity'. For instance, a significant proportion of the firms reported that they did not receive any stimulus package, most of which are MSMEs (Figure 43).

Figure 42: Percentage of firms (by size) having received stimulus packages

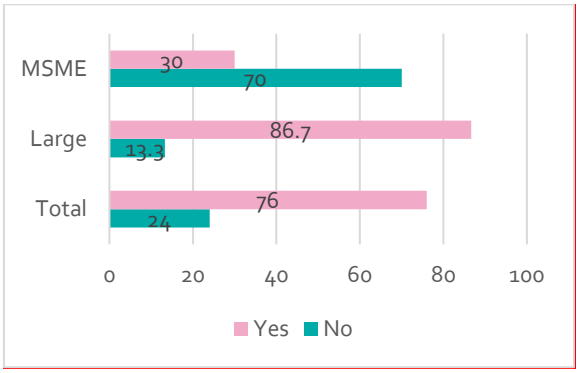
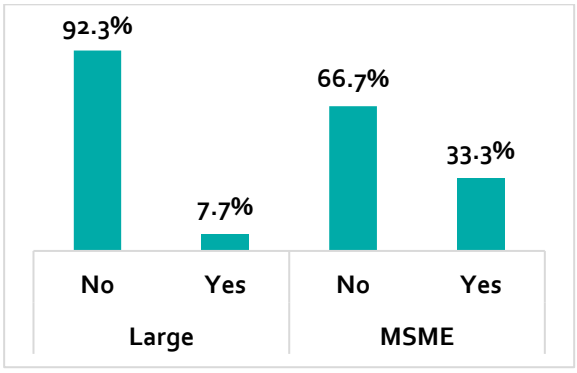


Figure 43: Perception of sufficiency by firm size



This exposes the flaws in the stimulus package distribution mechanism, where smaller factories, who may need it the most, are not being able to access the necessary support. The firms, regardless of size, were not able to retain all their staff with the stimulus package (Figure 44), and the scenario is, once again, dire for the MSMEs (Figure 45 and Figure 46). Social safety net and stimulus packages are state-based initiatives which are supposed to act as a safeguard against vulnerability. The presence of which requires strong revenue support from the economic sectors, such as RMG, where, according to Mark Anner;

'...decades of low prices by the buyers have left many suppliers with minimal capital and mounting debts. Years of low wages with no savings and little hope of sustained government support will leave workers in dire situations, and chronic low tax revenues from buyers have left exporting-

[13] https://www.adb.org/sites/default/files/linked-documents/54180-001-sd-04.pdf

country governments with weak social safety nets to assist workers in this time of crisis' (Anner, et al., 2008).

Were you able to retain all your staff with the stimulus package?

Figure 44: Overall average

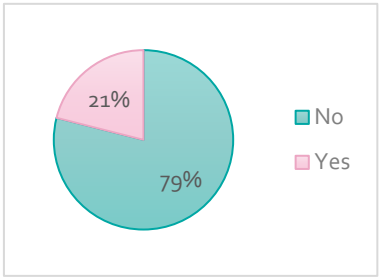


Figure 45: Large

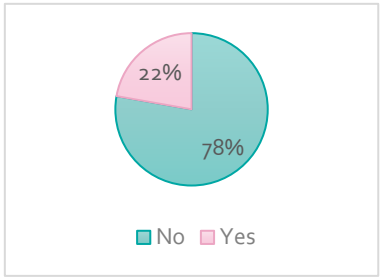
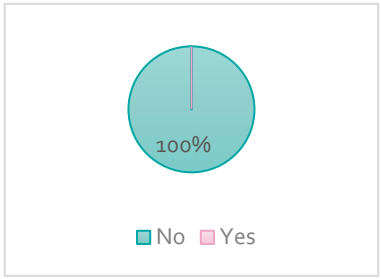


Figure 46: MSMEs



The average number of work hours dropped across all categories (Figure 47), however, in some cases, the number of workers increased (Figure 48).

Figure 47: Change in average number of work hours

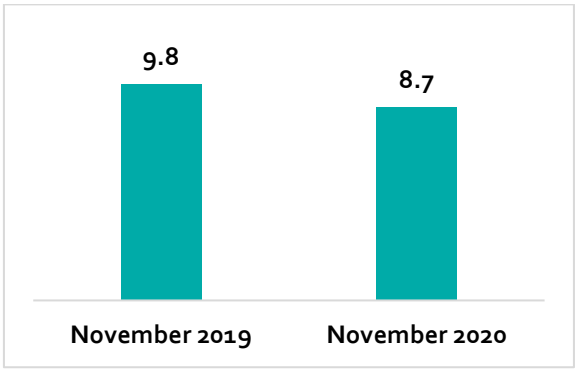
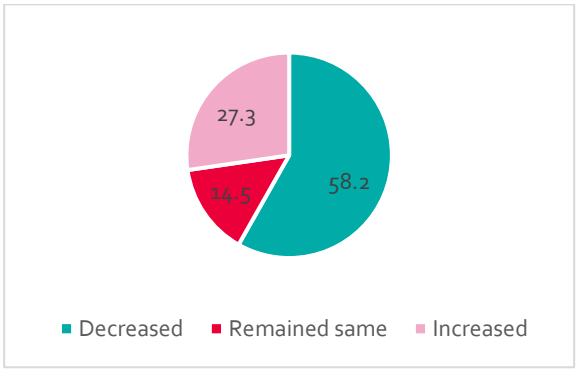


Figure 48: Percentage of firms with changed number of workers



The pandemic has caused an absence of skilled workers (Figure 49), which could be a cause for the declining efficiency of the firms (Figure 50).

Figure 49: Absence of skilled workers

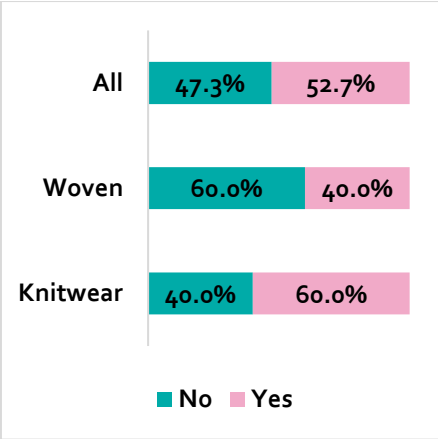
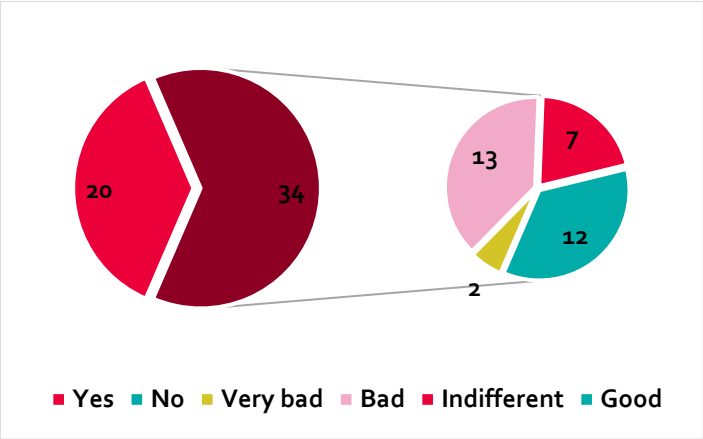


Figure 50: Perception of efficiency among firm management



The decrease in the number of permanent employees in both knitwear and woven firms, in comparison with the pre-pandemic period, is indicative of the reduction of firms' operations (Figure 51). Firm size affects the change in the number of permanent employees, and smaller firms are being disproportionately affected, compared to their larger counterparts (Figure 52). The ability to employ permanent employees can be considered a sign of the financial stability of a firm, where being able to keep the employee number unchanged during a pandemic may also signal resilience, especially for large firms. From a sectoral disaggregation, a relatively similar proportion of knitwear and woven firms faced a decrease in the number of permanent employees, while an increase in number of permanent employees have been reported by relatively more knitwear firms (31.4%) compared to woven ones (15%). This again reiterates the scenario within the industry, of knitwear firms performing better compared to woven ones.

Figure 51: Change in the number of permanent employees, by product type

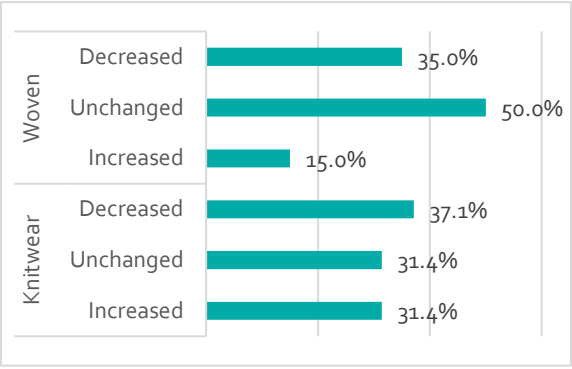
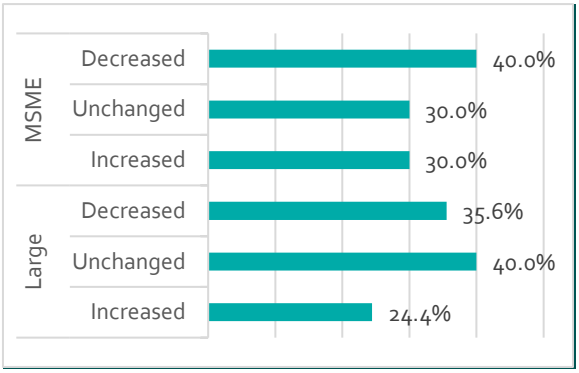


Figure 52: Change in the number of permanent employees, by firm size



Firms have been reluctant to share details regarding the number of workers laid off since the beginning of the pandemic. However, data available indicates a dire situation for the workers (Figure

53) and, as anticipated, workers working in the MSMEs are more prone to lay-offs (Figure 54). The fact that MSMEs have laid-off more workers once again re-affirms the vulnerable position of MSMEs in the context of the pandemic. An interesting observation from surveyors, collected from the interviewees was that the workers move from factory to factory for various reasons, and firms keep allowing workers to go and hiring new ones. In the context of the pandemic, firms have stopped new hiring processes due to the uncertainty of orders and the other reasons explained in this study. On the other hand, the machine to labour ratio has largely increased or remained unchanged (Figure 55).

Figure 53: Average number of workers laid off by firm size

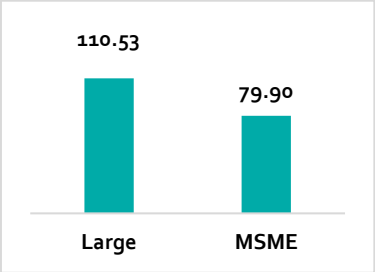


Figure 54: Workers laid off by firm size

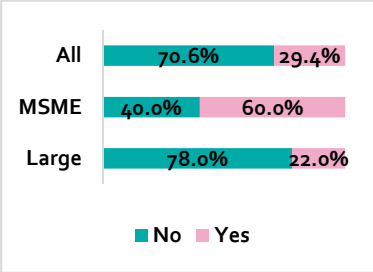
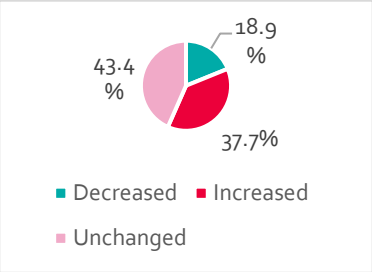


Figure 55: Machine to labour ratio



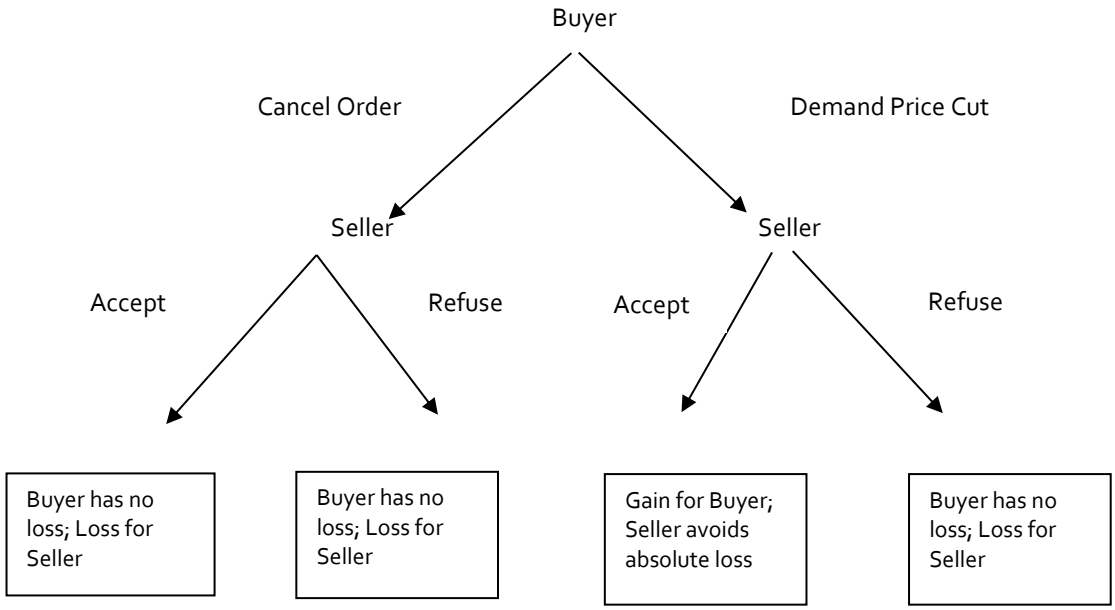
Conclusions

The fact that RMG producers of Bangladesh were forced to comply with the buyers' demands of a price cut or accept abrupt cancellation and delay in payment of orders already delivered, highlights the power imbalance between brand and factory and the producers' lack of leverage in negotiating fairer trade terms during the pandemic. The intensifying competition in the global RMG market and absence of an effective international regulatory authority with the capacity to oversee and enforce deals among parties are two factors which have contributed to the capitulation of producers. Combination of these two factors and the economic crisis prompted by the Covid pandemic has therefore induced a zero-sum game where the buyers hold all the advantages.

Faced with a drastic decline in sales, buyers/brands opted for the cancellation of orders or the deferring of payments to producers, as a way of minimizing their own losses. It has been a feasible option for buyers/brands since, in the case of the cancellations of orders or delays in payments, they would not be held accountable by any authority. These responses from the brands/buyers caused a predicament for the RMG producers who had no leverage, and no means of appeal, to enforce the terms of the deals they had negotiated earlier. Thus, the producers had to either accept complete loss or settle for a price termed by the brands/buyers.

Notably, for both the buyers and the producers, a decrease in price is a fair concession for both of their situations; the buyer gets to maintain the supply flow of products while the producer gets to avoid complete shutdown and just manages to keep their business afloat. Thus, the equilibrium price stands equal to shut down price which denotes a situation where average revenue (AR) is less than average variable cost (AVC). The survey data supports this analysis, as it can be seen that firms across sizes and regions have experienced both a fall in revenue and a rise in costs. The buyers' and sellers' responses can be charted through the following game tree depicted in Figure 56:

Figure 4: Buyer/Seller game tree in the RMG sector



Both buyer and seller are aware of their options (and probable strategies) and, in this situation, the buyer has a natural first mover's advantage in this sequential game. Examination of the payoffs for both parties shows that the buyer stands to gain or avoid loss in all cases while the seller stands to lose in all except one scenario. Therefore, to the buyer's demand for a price cut, the seller's only rational response is to accept the deal, due to the lack of any other viable alternatives. Hence, the seller can either sell it or keep it unsold. In case of not selling, the seller loses everything they could have earned, which could have had partially paid the wages for his workers or cover the loan repayment.

The survey indicates that all firms, regardless of their size and locations, have taken some degree of measures in response to the health risk created by the Covid pandemic. These measures include social distancing in factory floors, multiple/additional working shifts with fewer workers, installation of sanitary entrances and plastic dividers in factory floors, distribution of soaps, masks, face shields, PPE and other sanitary products among workers and refitting of factory buildings. Accordingly, almost all firms have reported that the implementation of these safety measures has increased their production costs.

Furthermore, the fall in average number of employed workers in micro-sized firms indicates the difficulty the pandemic posed for workers of these firms. The average number of employed workers

in November 2020 was less than that of November 2019 for all, except small firms. Moreover, almost a two-fold increase in share of severance pay for large firms has been observed.

The research also shows that the Covid pandemic resulted in lower unit prices, smaller order sizes/values, downward pressure on factories' mark-up, cancellation of orders and delay in buyers' payments. The situation appears particularly difficult for factories that produce woven items, which reflects the change in consumer behavior that is brought about by the Covid pandemic.