SECTOR OVERVIEW

Economic Overview

1. Bangladesh is a low-income country, with gross national income per capita of $900.00 in 2013, significantly less than the South Asian average of $1,473.50. Bangladesh's economy has expanded at an average rate of more than 5.7% since 1995, while the real gross domestic product (GDP) per capita has grown at a rate of 4.2% during the same period. While growth has been slower than in its neighboring countries, it has resulted in poverty declining from 70.2% in 1992 to 43.3% in 2010.[1] Since 2006, real GDP has grown at an average rate of 6.2%, with sectors such as manufacturing (growth of 9.0%) and financial intermediation (growth of 9.8%) being the top performers.[2]

2. Economic activity in Bangladesh was disrupted by political unrest and uncertainty in the run-up to the January 2014 general elections. However, macroeconomic stability was maintained and international reserve buffers continued to be built up. As calm returned following the elections and activity normalized, economic growth recovered. GDP growth in fiscal year (FY) 2014 was slightly higher (6.1%) than in FY2013 (6.0%). Before political unrest began again in January 2015—the anniversary of national elections that the opposition boycotted—the economy had been expanding briskly for 6 months, indicating good growth prospects for FY2015. Despite political unrest and actions to shut down transportation in the first 5 months of 2015 that negatively affected private investment and export activity, GDP is still expected to grow by 6.1% in FY2015, driven by strong performance by large and medium-sized industrial firms and continued resilience in services sector growth and inward remittances.

3. Bangladesh's economy is dominated by the services sector, which accounted for 54.1% of GDP in FY2014, followed by industry (29.6%) and agriculture (16.3%). Manufacturing, a subsector of the industry sector, accounted for 19.5% of GDP. GDP growth is driven primarily by the industry sector, with average growth of 9.2% during FY2012–FY2014 and is projected to grow at 8.5% in FY2015 as unrest affects exports, small-scale manufacturing, and construction. In FY2016, industry growth is projected to rise to 9.0% because of better prospects for the ready-made garment (RMG) industry, aided by improvement in safety and compliance standards as well as stronger external demand.[3] In a country where two-thirds of the 156.6 million population live in rural areas and are directly or indirectly dependent on the agriculture sector,[4] and with 2.0 million people joining the labor force every year, manufacturing growth is critical for employment generation and moving workers away from low-productivity informal economic activities.

4. Bangladesh is currently rated Ba3 (foreign currency) by Moody's Investor Service, and BB– by both Standard and Poor's and Fitch Ratings.

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1 World Bank. 2014. *World Development Indicators.* Washington, DC. Percentage of population earning less than $1.25 a day at 2005 international prices.
2 Bangladesh Bank. 2014. *Annual Report 2013–2014*. Dhaka.
3 Asian Development Bank. 2015. *Asian Development Outlook 2015*. Manila.
4 World Bank. 2014. *World Development Indicators.* Washington, DC.

1. Finance Sector

5. The finance sector in Bangladesh is underdeveloped. Total credit by financial intermediaries represented only 53.6% of GDP in FY2014, while credit to the private sector represented 42.7% of GDP.[5] The sector comprises 56 scheduled banks, 31 nonbank financial institutions, and approximately 742 microfinance institutions (MFIs). The banks had a total of 8,794 branches at the end of FY2014, with the private and foreign banks concentrating on urban areas. With a network of over 17,200 branches (FY2013), primarily in rural areas,[6] MFIs play an active role in improving access to finance. Nevertheless, with more than 68,000 villages in the country, penetration of financial services remains low, with only 31% of adults having an account with a financial institution.[7]

6. Despite the lower number of branches, the finance sector is dominated by the banks, which accounted for 89.6% of the private sector credit, while nonbank financial institutions accounted for 6.3% and MFIs 4.1% in FY2014. The banking system is well diversified with the four state-owned commercial banks (SCBs) holding 26.4% of banking sector assets, four state-owned development finance institutions holding 5.7%, 39 private commercial banks (PCBs) (all domestically owned) 61.9%, and nine branches of foreign commercial banks (FCBs) 6.1% as of the end of 2013.

7. Bangladeshi banks implemented Basel II in 2010 and must have a minimum total capital adequacy ratio (CAR) of 10.0% of risk-weighted assets or Tk4.0 billion ($51.4 million) in capital, whichever is higher. At the end of FY2014, the CAR for the banking industry stood at 10.7%, driven down primarily by the poor performance of development finance institutions (–13.7%) and SCBs (8.7%). As of December 2013, five scheduled banks failed to maintain the total CAR of 10.0% because of high nonperforming loans (NPLs) and deteriorating profits (footnote 2). The central bank (Bangladesh Bank) injected $519 million to recapitalize the four state-owned banks in December 2013 and also took steps to implement the bank resolution and lender of last resort frameworks. The gross NPL ratio for the banking industry improved from 11.9% in FY2013 to 10.8% in FY2014, while the net NPL ratio improved from 4.4% to 3.9%. The gross NPL ratio remained quite high for SCBs (23.2% in FY2014), while it was more manageable for PCBs (5.7%) and FCBs (6.2%). Provision coverage remains high, especially amongst the PCBs (net NPLs of 1.2%) and FCBs (–0.2%) (footnote 5). The performance of the state-owned banks continues to be dismal against the backdrop of rising NPLs between January and September 2014.[8]

8. The profitability of the banking industry has deteriorated since FY2013 on the back of poor performance by SCBs. The return on assets for the banking industry fell from 0.90% to 0.61% in FY2014. The return on assets of SCBs fell to –0.09% from 0.59% in FY2013, while the return on assets for PCBs fell from 0.95% to 0.78% (footnote 5).

9. During FY2010–FY2014, private sector credit expanded at a compound annual growth rate of 17.0%, higher than the nominal GDP growth rate of 14.0% during the same period. The banking industry is expected to continue its strong growth with private sector credit expanding at

[5] Bangladesh Bank. 2014. *Quarterly Report April–June 2014*. Dhaka.
[6] Microcredit Regulatory Authority. 2013. *An Overview of Microcredit in Bangladesh*. Dhaka.
[7] World Bank. 2014. *The Global Financial Inclusion (Global Findex) Database.* Washington, DC.
[8] *Dhaka Tribune*. 2014. State banks' performance getting worse. 18 December. http://www.dhakatribune.com/banks/2014/dec/18/state-banks%E2%80%99-performance-getting-worse

a higher rate than the nominal GDP growth of 13.6% in FY2015-FY2019, as forecasted by the International Monetary Fund.

2. Textiles and Garments Industry

10. The textiles and garments industry has played an important role in the Bangladesh economy for many years. Its importance has grown in the last few years, with the sector growing at a compound annual growth rate of 12.7% since FY2006, while the overall manufacturing sector grew by 9.0% during the same period. It now accounts for nearly 20% of the GDP of the country. Bangladesh is the world's second-largest exporter of textiles and RMGs, and the industry accounted for 83% of total merchandise exports in FY2014. The industry employs 4.2 million workers, of which nearly 80% are women. The importance of the industry for female employment can be gauged from the fact that labor force participation in the country amongst women is only 57.4% compared with 84.1% amongst men, and a significantly higher portion of women (68.1%) are employed in agriculture.

11. After suffering two major disasters—the 2012 Tazreen factory fire and the 2013 Rana Plaza building collapse—the Government of Bangladesh signed the Bangladesh Sustainability Compact with the European Union, the United States, and the International Labour Organization (ILO). The compact is built on short- and long-term commitments related to three interlinked pillars: (i) respect for labor rights, (ii) structural integrity of buildings and occupational safety and health, and (iii) responsible business conduct. A recent study by the European Commission found that Bangladesh has made much progress since the launch of the compact.[9] The Bangladesh Labor Act was amended in 2013 to improve overall labor rights protection, and the government has strengthened its capacity to inspect factories by increasing funding, hiring more than 200 additional inspectors, and boosting training. There have also been concrete improvements with regard to building and workplace safety. Based on a commonly agreed standard for inspections, private and public initiatives had inspected 2,783 factories out of a total of 3,508 targeted export-oriented factories as of 20 April 2015.

12. Under the second and third pillars of the compact, considerable progress has been achieved under the innovative responsible business conduct initiatives through the Accord on Fire and Building Safety in Bangladesh and the Alliance for Bangladesh Worker Safety. The accord is a 5-year, independent, legally binding agreement signed by more than 200 apparel corporations from 20 countries, two global trade unions, and numerous Bangladeshi trade unions. It has four nongovernment organization witnesses and the ILO as the independent chair. The alliance is a similar 5-year initiative founded by a group of North American apparel companies and whose members represent the overwhelming majority of the North American imports of RMGs from Bangladesh, produced at more than 700 factories. The board of the alliance is chaired by a former member of the US congress and other board members come from large brands, nongovernment organizations, industry associations, and engineering firms. Both the accord and the alliance are funded by contributions from their members. The accord has an annual budget of close to $10.0 million, while the alliance had collected revenues of $13.6 million as of 30 June 2014.

13. Under the accord and the alliance, qualified consultants have been engaged to carry out inspections of RMG factories for fire, electrical, and structural safety. The consultants of the accord were selected through competitive bidding from more than 20 international consultancy

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[9] European Commission. 2015. *Bangladesh Sustainability Compact. Technical Status Report (24 April 2015)*. Brussels.

firms, and include four engineering firms recognized as leading experts in each field. The qualified assessment firms of the alliance are recommended by the alliance committee of experts and are approved by the alliance board of directors. By April 2015, the accord and the alliance had inspected all 1,900 factories under their remit, which resulted in the closure of 31 RMG factories and partial closure of 16 factories. Summary inspection reports are made public in a searchable database, thus bringing more transparency to the garment supply chain. A corrective action plan (CAP) with implementation timeline is prescribed based on the findings of the initial inspection and, for factories that need structural changes, a detailed engineering assessment has been carried out.

14. The accord and the alliance mobilize their own staff to carry out follow-up inspections to monitor the implementation progress of the CAPs. The accord has more than 80 full-time staff, including 16 remediation complaints case handlers, 12 electrical safety engineers, 13 fire safety engineers, and 14 structural safety engineers. The period for each follow-up inspection is 8 months on average, with up to 200 factories visited per month. The alliance has 39 full-time staff including a remediation team, which is headed by the chief safety officer and includes three safety case managers and 18 engineers. The remediation team will have three follow-up visits after CAP approval (after 6, 12, and 36 weeks) and prior to final inspection and issuance of a compliance report by the external qualified assessment firms.

15. The accord and alliance are also engaged in capacity building by providing health and safety training to workers and helping set up occupational safety and health committees comprising worker and management representatives. These committees monitor the health and safety aspects on a day-to-day basis. Worker helplines have also been set up where factory workers can confidentially report safety and health concerns. Workers are also offered training on fire safety; under the alliance more than 1.1 million workers have been trained in basic fire safety. This bottom-up participatory approach is expected to become a key element of the RMG factory safety program in the future, particularly after the 5-year accord and alliance agreements end.

16. Under the first pillar of the compact, the ILO has played a major role in providing training and capacity building. The ILO International Training Centre and the Department of Inspection of Factories and Establishments have provided training to all labor inspectors on a variety of issues, including inspection of working conditions, fundamental principles and rights, occupational safety and health, hazard identification and risk assessment, and investigations of work accidents. The ILO is also providing support to build capacity of the Department of Inspection of Factories and Establishments, the Fire Service and Civil Defence Department, and the Capital Development Authority to establish internal management processes to effectively follow up on the findings of fire and structural inspections in a systematic, comprehensive, and transparent manner. In collaboration with a variety of partners, the ILO has also carried out several education and training programs on fundamental principles and rights at work. In addition, there is ongoing capacity building of employment and workers' organizations on occupational safety and health. A toll-free hotline was launched on 15 March 2015 to allow for the reporting of fire safety concerns or other safety issues in the factories.

17. Under the second pillar of the compact, the ILO is responsible for managing safety inspections of other export-oriented factories not covered by the accord and the alliance and thus falling under the National Action Plan (NAC). In the initial phase, inspections were carried out by the Bangladesh University of Engineering and Technology. After progress was slow, two private sector inspection companies previously used by the accord and the alliance were engaged from January 2015 by the ILO to complete the remaining inspections under the NAC.

As of 31 March 2015, 652 factories under the NAC had been inspected and inspections of the remaining 952 factories were ongoing or pending.

18. The international retailers and apparel companies have also increased the capacity of their corporate social responsibility (CSR) teams in Bangladesh. For example, Inditex, a large European apparel company, has built a CSR team of 7 staff and 38 external consultants in Bangladesh. Together with staff from the CSR departments at the headquarters, they conduct regular social audits to ensure suppliers' compliance with labor law and core labor standards, and also carry out health and safety inspections on factories.

19. **Water pollution**. Water pollution by industry is a serious problem in Bangladesh. The principal polluting industries are textiles (dyeing and printing), tanneries, and paper and pulp. [10] It is a legal requirement in Bangladesh for all red category factories (dying and tanning) to establish effluent treatment plants (ETPs). However, because existing laws are poorly enforced, many factories still operate without an ETP, and some ETPs are either not operating at all or not operating as they should because of lack of technical expertise. An early study conducted by the Centre for Water Policy and Development quoted an estimate that less than 10% of industries in Bangladesh have an effluent treatment plant (footnote 10). Experts estimate that only 30% of the dyeing and printing units have installed ETPs. Further, the textiles industry is estimated to consume around 300 liters of groundwater per kilogram of fabric compared with global standards of 100 liters per kilogram of fabric.[11]

20. The discharge of large amounts of untreated effluent has a dramatic impact on the aquatic environment, leading to high pH levels, high sulphide levels, high chemical oxygen and biological oxygen demand, and in some cases no detectable dissolved oxygen in local wetlands and rivers. About 68% of the country's 157 million people are rural, and many rely on surface water sources for washing, bathing, irrigation, and fishing. As fish supply 63% of the animal protein in people's diet on average, so the negative impacts of water pollution go far beyond aquatic ecology. Further, the urban poor are also victims of industrial pollution. Most slum developments are located adjacent to industrial areas, and Dhaka alone has more than 2 million slum dwellers. Water pollution significantly reduces the chances of achieving the Millennium Development Goal of significantly improving the lives of at least 100 million slum dwellers by 2020.

10 A semi-automated composite textile plant of 10 tone capacity produces 1250 cubic meters of effluent each day, which contains an assortment of chemicals including salts, dyes, and bleaches. Centre for Water Policy and Development. 2004. *Managing pollution from small-scale industries in Bangladesh*. Leeds.

11 *The Financial Express.* 2015. Textiles identified as major environ, water polluter. 22 March. http://www.thefinancialexpress-bd.com/2015/03/22/85979.