SECTOR OVERVIEW

A. Economic Overview

1. Bangladesh is a low-income country, and its gross national income per capita of $1,190 in fiscal year 2015 (FY2015; the fiscal year in Bangladesh ends on June 30) was significantly below the South Asian average of $1,533. Annual economic growth averaged 5.6% during FY1996 – FY2015, and real gross domestic product (GDP) per capita grew at a rate of 4.0% a year during the same period. This growth was slower than the rates in neighboring countries, but it nonetheless reduced the incidence of poverty from 72.2% in the 1992 to 43.7% in 2010.[1] Real GDP growth during FY2006 – FY2015 averaged 6.2% per year. Manufacturing (9.1%) and services (5.9%) were the fastest growing sectors.

2. Economic activity rebounded in 2015 after political unrest and uncertainty that followed a January 2014 general election slowed the economy for the year overall. Despite a short period of political protest in January 2015 that disrupted transport and services, real GDP expanded at the rate of 6.6% in FY2015, up from 6.1% during the previous year. The growth was led by manufacturing for the domestic market and construction, which pushed the industry sector expansion rate to 9.7% from 8.2% in the preceding year. Services growth increased slightly to 5.8% from 5.6%, while agriculture growth slowed to 3.3% from the previous year's 4.4%. [2]

3. The Bangladesh economy is dominated by the services sector. It accounted for 56.3% of GDP in FY2015, followed by industry (28.1%) and agriculture (15.5%). Manufacturing, a subset of the industry sector, accounted for 17.6% of GDP. Based on a steady expansion in garment exports and rising private consumption, GDP growth is expected to edge up and reach 6.7% in FY2016 and 6.9% in FY2017. Industry is expected to be the driver and expand by 9.8% in FY2016 and 10.0% in FY2017. The industry sector's growth will be led primarily by the ready-made garments (RMG) industry, which will benefit from an improvement in its safety and compliance standards and stronger external demand (footnote 2). Two-thirds of the country's 161 million people live in rural areas and are directly or indirectly dependent on the agriculture sector, and 2 million people join the labor force every year (footnote 1). This makes growth in manufacturing critical to providing employment and moving workers away from informal economic activities with low productivity.

4. As of October 2016, Bangladesh had a Ba3 (foreign currency) rating from Moody's Investor Service and ratings of BB– from both Standard and Poor's and Fitch Ratings.

B. Finance Sector

5. Bangladesh has an underdeveloped financial sector. Total credit by financial intermediaries represented only 59.7% of GDP in FY2015, while credit to the private sector accounted for only 43.9%.[3] The sector comprises 56 scheduled banks, 31 nonbank financial institutions (NBFIs), and 682 microfinance institutions (MFIs). The banks had 9,418 branches as of April 2016 (footnote 3), and private and foreign banks were concentrated in urban areas. With

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[1] World Bank. 2016. *World Development Indicators.* Washington. The poverty rate is defined as the percentage of the population earning less than $1.90 a day at 2011 international prices.

[2] Asian Development Bank. 2016. *Asian Development Outlook 2016, Asia's Potential Growth.* Manila.

[3] Bangladesh Bank, 2016. *Monthly Economic Trends—June 2016.* Dhaka.

their 16,991 branches as of FY2014 located mostly in rural areas,[4] the MFIs play an important role in providing wider access to finance. Nevertheless, access to financial services remains low in the country's more than 68,000 villages. Only 31.0% of all adults had an account with a financial institution.[5]

6. The banks have fewer branches than the MFIs but dominate the sector. They accounted for 89.8% of the private sector credit at the end of 2015, compared with the 7.0% share of the NBFIs and the MFIs' 3.2%. The 39 private commercial banks (PCBs)—all domestically owned—accounted for 71.3% of the total loans outstanding as of the end of 2015. They were followed by the 6 state-owned commercial banks (SCBs) at 20.3%, 9 foreign commercial banks (FCBs) at 6.6%, and the 2 specialized banks at 1.7%.[6]

7. The country's banks implemented Basel II standards in 2010. They 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 2015, the banks' average overall CAR was 10.8%, down from 11.4% in 2014. The decline was due mainly to the poor performances of the specialized banks, which had a CAR of –32.0% and the SCBs (6.4%). The average CAR for private banks remained stable at 12.4% at the end of 2015, compared with 12.5% one year prior. The average foreign bank CAR rose to 25.6% from 12.7%. During the same period, the banking sector's gross nonperforming loans (NPL) ratio improved from 9.7% to 8.8%, and the net NPL ratio dropped from 2.7% to 2.3%. The PCBs gross NPL ratio improved marginally to 4.9% from 5.0%, and that of the FCBs rose to 7.8% from 7.3%. The recovery was supported by the slight change in the gross NPL ratio of SCBs to 21.5% in 2015 from 22.2% in 2014 and a major improvement for the specialized banks—23.2% in 2015, compared with 32.8% in 2014. Provision coverage remains high, especially among the PCBs and FCBs, with net NPL ratios of 0.6% and 0.2%, respectively.

8. Profitability in the banking industry deteriorated in FY2015. The performance by the SCBs improved, but they continued to show losses. The return on assets (ROA) in the banking sector strengthened from 0.64% in FY2014 to 0.77%. The PCB ROA was 1.00%, compared with 0.99% the previous year. The FCBs' ROA declined to 2.92% from 3.38%. During this same period, the return on equity (ROE) of the banking industry improved from 8.1% to 10.5% and that of the PCBs from 10.3% to 10.8% (footnote 6).

9. The compounded annual growth rate of private sector credit was 16.2% during FY2010–FY2015 but fell to 12.1% during FY2012–FY2015 due to political instability and the slowdown in economic activity (footnote 6). However, year-on-year credit growth was 15.7% as of 30 April 2016.[7] The banking sector is expected to continue its strong growth along with the projected fast expansion in the nominal GDP.

C. Textiles and Garments Sector

10. The importance of the textiles and garments sector, which has played a key role in the Bangladesh economy for many years, has been growing. The sector expanded at a compound

[4] Microcredit Regulatory Authority. 2014. *An Overview of Microcredit in Bangladesh*. Dhaka
[5] World Bank. 2014*. The Global Financial Inclusion (Global Findex) Database.* Washington*.*
[6] Bangladesh Bank. 2015. *Quarterly Report September—December 2015*. Dhaka.
[7] Bangladesh Bank. 2016. *Monthly Economic Trends —June 2016.* Dhaka.

annual growth rate of 12.7% during FY2006–FY2015, compared with an overall manufacturing sector rate of 9.1%. It now accounts for about 15% of the country's GDP. Bangladesh is the world's second largest exporter of textiles and RMGs. The sector accounted for 82.0% of total merchandise exports in FY2015 and employs 4 million workers, of whom almost 80.0% are women. The industry's importance to jobs for women is illustrated by the fact that their participation in the labor force overall is only 57.4% (compared with 84.1% for men) with a large majority of them (68.1%) being employed in agriculture.

11. In 2013, after Bangladesh suffered a factory fire in 2012 and a building collapse in 2013—disasters in which more than 1,000 RMG workers died and thousands more were injured——the Bangladesh government, the European Union, the United States (US), and the International Labor Organization (ILO) engaged in a joint initiative to promote continuous improvements in labor rights and factory safety. [8] This compact aims through short- and long-term actions to strengthen: (i) respect for labor rights, (ii) the structural integrity of buildings and occupational safety and health; and (iii) responsible business conduct. A 2015 study by the European Commission found that Bangladesh had made much progress in this regard since the start of the joint initiative in protecting labor rights and improving building and workplace safety..[9]

12. The country's labor act was amended in 2013 to strengthen overall protection of worker rights in Bangladesh. The government has strengthened its capacity to inspect factories through greater funding, the hiring of more than 200 additional inspectors, and increased inspection training. It has taken concrete action to improve building and work place safety.

13. Bangladesh and international businesses involved in the textile and garment trade have undertaken innovative initiatives and made a positive difference in the area of building and worker safety. This has been achieved under the 2013 Accord on Fire and Building Safety in Bangladesh (accord) and the 2013 Alliance for Bangladesh Worker Safety (alliance). The ILO has also launched a similar initiative along with the Government. Based on a standard for inspections agreed between ILO, accord and alliance, the three initiatives had inspected 3,582[10] of the 3,778 targeted export-oriented factories[11] as of 16 March 2016. The inspections have resulted in the closing of 39 factories and the partial close-down of 42 others.

14. Bangladesh has made considerable progress toward achieving the objectives of pillars two and three of the Compact through the accord and the alliance. The accord is a five year legally binding agreement signed in 2013 by more than 200 apparel corporations from 20 countries, two global trade unions, and numerous domestic trade unions. The participants include four nongovernment organization witness signatories and the ILO acts as the independent chair. The alliance is a similar five year initiative and was established in 2013 by a group of North American apparel companies. The alliance members account for the overwhelming bulk of North America's RMG imports from Bangladesh and are supplied by more than 790 of Bangladesh's textile and garment factories. The alliance board is chaired by a

[8] The initiative is known as Compact for Continuous Improvements in Labour Rights and Factory Safety in the Ready-Made Garment and Knitwear Industry in Bangladesh, or Bangladesh Sustainable Compact.

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

[10] Department of Inspection for Factories and Establishments. *Status of Building Safety Assessment.* http://database.dife.gov.bd/ *(accessed 16 March 2016)*.

[11] International Labor Organization and International Finance Corporation. 2016. *Remediation Financing in Bangladesh's Ready Made Garment Sector—June 2016.* Geneva and Washington, DC. The study estimated the number of RMG factories in Bangladesh at 4,296.

former member of the US Congress and comprises representatives of major RMG brand firms, nongovernment organization, industry associations, and engineering firms. The accord has an annual budget of almost $10.0 million. The alliance had collected revenues of $13.6 million as of 30 June 2014. Both are funded by their signatories and members.

15. The accord and the alliance have engaged qualified consultants to inspect RMG factories for fire, electrical, and structural safety. The accord consultants were selected through competitive bidding from more than 20 international consultancy firms and include four engineering firms recognized as leading experts in each of these three safety fields. The firms chosen by the alliance have been recommended by its committee of experts and approved by its board of directors. As of March 2016, accord and alliance inspections had been carried out at 2,197 factories, or 95.4% of the factories covered under their remit (footnote 11).[12] Summary inspection reports have been made public in a searchable database to make the safety conditions on the Bangladesh-sourced RMG supply chain more transparent. A corrective action plan (CAP) with an implementation timeline is prepared based on the findings of an initial inspection and for factories that need structural changes, a detailed engineering assessment (DEA) is carried out. Factories which fail to comply with the CAP are dropped as suppliers to the accord and alliance members.

16. The lists of factories under the accord and alliance change as new factories supplying to the member firms and brands are constructed and others are dropped because they fail to comply with the CAP or stop supplying the member companies. Any new factory must undergo an accord or alliance inspection after completion to qualify for either of the lists. In practice, accord or alliance engineers often provide informal guidance during candidate factory construction to minimize the need for corrective work after completion.

17. Accord and alliance staff inspectors carry out the follow-ups to monitor a factory's progress on implementing the CAPs. The accord has a full-time staff of more than 80, including 16 employees to deal with remediation in complaint cases, 12 electrical safety engineers, 13 fire safety engineers, and 14 structural safety engineers. The period for each follow-up inspection is eight months on average with up to 200 factories visited per month. The alliance has 39 full-time staff members and a remediation team that is headed by a chief safety officer and includes three safety case managers and 18 engineers. The remediation team undertakes three follow-up visits 6, 12, and 36 weeks after the scheduled starting date of CAP implementation and prior to a final inspection and the issuance of a compliance report by the assessment firms if the required actions have been taken.

18. The accord and alliance provide capacity building through health, fire, and general safety training for RMG workers. For example, the alliance has supported the provision of fire safety training to more than 1.1 million workers. The two organizations have helped establish occupation safety and health committees of worker and management representatives. These committees monitor the health and safety matters in their factories on a-day-to-day basis. This bottom-up, participatory approach is expected to become a key element of RMG factory safety programs after the accord and alliance agreements expire in 2018. The two organizations have set up confidential worker helplines to enable factory workers to report on their safety and health concerns without the risk of reprisal.

[12] Both the total number of factories and the factories inspected include some common factories between the Accord and the Alliance.

19. Under the first pillar of the Compact, the ILO has played a major role in training and capacity building. The ILO's international training center and the government's department of inspection of factories and establishments have provided training to all the government's labor inspectors on proper inspection of working conditions, fundamental principles and rights of workers, occupational safety, the identification and risk assessments of health and other hazards, and the investigation of work accidents. The ILO is also helping to enhance the abilities of the department of inspection of factories and establishments and the fire service, civil defense department, and capital development authority to establish internal management processes and effectively follow up on the findings of fire and structural inspections of factories in a systematic, comprehensive, and transparent manner. In collaboration with several partners, the ILO has carried out several education and training programs for various stakeholders on fundamental principles and rights at work. It is supporting ongoing capacity building at employment and workers' organizations on occupational safety and health. A toll-free hotline was launched by ILO last year to allow for the reporting of fire safety concerns or other safety issues in the factories.

20. Under the second pillar of the Compact, the ILO is responsible for managing the safety inspections of the export-oriented RMG factories not covered by the accord and the alliance. These fall under a national action plan (NAC). Beginning in 2013, the NAC inspections were carried out by the Bangladesh University of Engineering and Technology. In January 2015, after progress had been slow, two private sector inspection companies were engaged to complete the remaining inspections. The firms had previously been employed by the accord and the alliance organizations. As of 16 March 2016, 1,549 factories covered by the NAC have been inspected, exceeding the initial target of 1,500.

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

22. The cost of remediation to meet the requirements of the CAPs will be $100,000–$250,000 at close to four-fifths of the factories, according to the ILO and International Finance Corporation study on RMG remediation finance. Most of the costs will go to improving electrical and fire safety (footnote 11). Those factories requiring structural retrofitting will face costs as high as $1.5 million. The total cost of remediation for existing factories—i.e., excluding any new factories under construction or to be built in the future—is expected to be $929 million, of which about $300 million has already been spent.