

Case Study on Greening Readymade Garments Sector: Incentive Analysis of Various Stakeholders

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Macro Scenario from 2009 to 2016

Indicators	2009-2010	2011-2012	2012-2013	2014-2015	2015-2016
GDP (crore Tk.)	6,90,571	9,14,754	10,37,987	15,13,600	17,29,567
GDP Growth (%)	5.57	6.52	6.01	6.51	7.05
Inflation (%)	7.3	10.3	7.5	6.55	6.0
Export (Billion \$)	16.2	24.3	27.0	31.2	34.24
Remitt. (Bln. \$)	11	12.8	14.5	15.30	14.93
Reserve (Bln. \$)	10.7	10.4	15.3	25.0	30.13 (June 16)
Investment (% of GDP)	26.25	28.26	28.39	28.89	29.38
Food Production (M MT)	35.8	36.8	37.2	38.4	39.0

Background

- Reconciling the economic and the environmental pillars will be a major challenge for Bangladesh, especially if we want to ensure the sustainability of current pace of economic growth.
- In the private sector, the concept of green growth is getting popular
- The policy frameworks acknowledge the significance of green growth.
- The recently enacted Industrial Policy has a separate chapter on environment friendly Industries which is a significant development considering that the previous policies mainly focused on compliance.
- However, no concrete action plan exists as of now.
- Under these circumstances, the current study is extremely important and timely.

Research Questions

- How do the actors related with RMG sector and the policy makers define green growth? What is their current state of understanding regarding the concept?
- Why do the industries want to go green? What types of incentive structures are at place?
- What actions can be taken to make the existing incentive structure more effective and useful? How can the public sector help, i.e. what types of incentives can the policy makers offer?

Methodology

- Purposive sampling aiming at understanding the motivations of those factories that have at least applied for LEED certification.
- A list was collected and 25 factory owners and BGMEA leadership was contacted
- Out of these 25, 12 responded to our request for In-depth interviews
- Data was also collected from interviewing the business leaders including the President and Vice-President of BGMEA
- To understand the perception of the public sector, efforts have been taken to collect information from the national level policy makers
- Primary data for this purpose were collected using qualitative tools like Key Informant Interviews (KIIs) and FGDs

LEED Certification and Bangladesh's RMG Sector

- LEED certification is usually considered as an important, if not the most important, indicator of green growth.
- Devised by the United States Green Building Council (USGBC), LEED is a rating system that evaluates the "...environmental performance of a building and encourage market transformation towards sustainable design".
- A credit-based system that allows the projects to earn points if they employ environmentally friendly actions while constructing and using the builds.
- Even though it is a voluntary program, obtaining LEED certification reflects a positive environmental image.
- As of May, 2016, 28 factories have achieved LEED certification.
- 100 more factories have already applied for LEED certification.

Type of Certification	Number
Platinum	06
Gold	14
Silver	05
Certified	03
Total	28

Findings of the Research Study

When it Comes to Green Growth, Ignorance is NOT Bliss

What do the Policy Makers Think?

- **Defining Green Growth**

- The policy makers try to define green growth while keeping in mind the broader context of the Sustainable Development Goals (SDGs)
- The 7th five year plan, the SDG action plans and the recently formulated Industrial Policy acknowledge the importance of environment-friendly industries

- **“Existing policies provide the foundation”**

- However, there is no specific strategic action plans to promote green growth
- We still need specific rules and regulations

Ignorance is NOT Bliss...

- *How the RMG Sector Defines Green Growth*
 - **Clear understanding about complying with the guidelines and regulations developed by the Ministry of Environment**
 - Green Growth is more than that
 - **“Green Growth is all about attaining LEED Certification”**: For a number of factory owner and officials, green growth means achieving LEED certification.
 - **Building industries with green materials**: All the interviewees have pointed out that one important ingredient of green growth is the use of environment-friendly material to build the garment factories.
 - **Focus on energy and water efficiency**: “to me, the definition of green growth for my sector is pretty simple. It means adopting building techniques that would reduce environmental degradation and ensure economic benefits.”.
 - **“Green Growth is, in effect, a new and comprehensive business model”**: For few industry leaders, attaining LEED certification is a mean to an end
 - creates the foundation of a green business model where in addition to economic and environmental benefits, focus is also on ensuring social benefits and employee welfare.

Ignorance is NOT Bliss...

- All in all, there is a clear idea about green growth
- There is enthusiasm and interest within the policy circle about the concept
- How to transform the policy guidelines into specific rules, regulations and specific actions remains a challenge
- **There is a scope for evidence-based policy making**
 - Identification of possible fiscal and policy incentives to encourage the whole RMG sector

Motivation Behind Going Green

- Internal competition at the domestic level encouraged a few large-scale producers towards green growth which eventually made them competitive at the global market
- The experiences of these factories trigger the “going green” movement in Bangladesh
- ***Building an image and reputation:*** For a number of factory owners, even though going green does not allow any significant benefit at this very moment, this allows them to build an image which, according to them, is consequential for the future.
 - Has not resulted in an increase of price range but ensured continuous in-flow of orders which had the potential of long-term benefits
 - Attract reputable retailers to place orders

- ***The Global Competitiveness:*** A number of our interviewees told us that in the very competitive market, there is actually no other alternative available to the RMG sector of the country than going green.
- ***There is Something for Everyone:*** Whereas the global demand and push for survival may encourage a number of industries to move towards green growth, for a number of factory owners, the drive for going green should come from inside.
 - Allow the sector to thrive as a number of factories aim for high-end markets
 - The new comers in case of going green will not be missing out as they will fill out the space left behind by the achievers

Barriers for Going Green: Fiscal Barriers

- The well-established factories focused on green growth without relying on any fiscal incentive
- The prospect of long-term benefits and the possibility of attracting reputable retailers have been the main motivating factors
- However, without adequate fiscal incentive, it will be difficult to encourage the whole sector to embrace green growth
- **Lack of fiscal incentive from the buyers**
 - Our study shows that at present the buyers are not interested in providing any specific fiscal incentive in the short run
 - For the new comers, waiting for long term benefit is not an option

The Barriers for Going Green: Policy Barriers

- **The Absence of Specific Policy Guidelines:**

- Whereas the policy makers are enthusiastic about green growth, there is no specific policy guideline for green industrialization in the context of Bangladesh.

- **Lack of Multi-Sectoral Approach in promoting green growth:**

- A concerted effort is necessary for promoting green growth
- Policy guideline should be developed to outline how different ministries including but not limited to the Ministry of Environment, Ministry of Industries, Ministry of Land and Ministry of Water Resources can work together in developing specific action plans.

- **Policies Related with Green Financing**

- Even though there are specific policies developed by BB to provide green financing, it has a number of limitations.

- **Lack of finance in building green factories: “What we have is not enough”**
 - Setting up green factories mean spending extra money and compared to the traditional factories, green factories cost 10 to 20 percent more.
 - The government does not have any strategic action plans to promote green industries
 - No fiscal incentives to import equipment from outside the country
 - Revolving Refinancing Scheme developed by the Bangladesh Bank is not adequate enough
 - “Bangladesh Bank provides this fund through commercial banks and these banks charge 4% interest. In addition to that, BB also charges 5% interest of which 1% is collected for the Bank and the remaining 4% for the Ministry of Finance. This essentially means that the overall interest rate in this particular case is 9%”.

Barriers for Going Green: Capacity Constraint

- To achieve and maintain international standard in case of green growth, performance of the factories requires continuous evaluation
- Special environmental auditors are required for this
- Expertise is also required for conducting feasibility studies
- The country does not have adequate capacity to support the industries

The Overall Analysis: Where You Stand Depends on Where You Sit

Types Indicators	New Comers	Middle of the Road	High Achievers
Defining Green Growth	Focus is on LEED certification	Emphasis is on attaining LEED certification and achieving energy and water efficiency	Concentrates on developing a green business model
Perception about green growth	A new fad, unlikely to add any significant value	Necessary for survival in the global market	Necessary for thriving in the global market
Motivation	Following the others	Image and reputation building, global competition	Self-actualization
Market Access	Low-end markets	Low-end but trying to make a transition	High-end markets
Level of Certification	Applied/certified	Silver and certified	Gold and Platinum
Barriers	Financial (mostly)	Financial and policy	Policy
Support required	Fiscal and policy incentive	Fiscal and policy incentive	Policy incentive

Analyzing the Current State of the RMG Sector: A SWOT Analysis

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • A vibrant sector playing the most important role for the economic growth of the country (reputation) • Growing interest within the sector for going green • Presence of a strong coordinating leadership body (BGMEA) • Presence of successful examples (High Achievers) • Presence of specific guideline to follow (LEED Certification) 	<ul style="list-style-type: none"> • Lack of adequate understanding about green growth • Inadequate financing opportunities • Focus on non-existent short-term benefits instead of long-term benefits (fiscal incentive from the buyers) • Absence of policy support/guidelines at the national level • Lack of technical expertise at the national level
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Increasing demand of green industries, green growth and green products in the global market • The interest of the national level policy makers in green growth • The presence of a vibrant civil society to assist 	<ul style="list-style-type: none"> • Global competition and actions taken by other countries • Failure of the international buyers to compensate adequately

Possible Actions for the Future

- Few key questions to be considered by the policy makers
 - How to transform the interest in green growth into actual rules, regulations and actual action plans?
 - How to inspire more factories to embrace the going green initiatives
 - Do we need a “Green Industrial Policy” in Bangladesh?
- Need to focus on multi-sectoral consultation to find out areas of intervention (fiscal incentives)
- Should identify types of financial support required by different industries and providing that support
- More public private dialogue to devise specific plans for a “Green Industrial Policy” in Bangladesh
- Efforts should be taken to enhance local capacity to support the industries that are moving towards green growth
- The success of the green factories should be promoted worldwide by the government to attract future investments

Possible Actions for the Future...

- What the RMG sector can do
 - The sector has been promoting green growth without relying on any external support
 - Succeeded in raising awareness about the necessity of green growth
 - However, sector-wide success would not be possible without support from the government or other actors
 - Focus should be on working with the government in helping them to identify areas where financing is required
 - Should work with the civil society organizations to raise awareness within the sector about long-term economic benefits of going green
 - Should share the success stories extensively
 - Emphasis should be placed on working in collaboration with research and educational institutions (DU, BUET) to build the necessary capacity to support green growth

Thank You