The Business Innovation Facility (BIF) is a five–year (2014–2019) DFID–funded market systems development programme that aims to improve the lives of the poor in Myanmar, Malawi and Nigeria.
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# BIF Garment Market Strategy

BIF's vision for the Myanmar garment market is to see a significant increase in the number of high quality jobs for workers in Myanmar. This can be achieved through rapid market growth of an industry with access to EU and US markets, driven by local companies that are committed to improved worker welfare, and well served by skilled productivity and HR consultancy services.

An important element of BIF's strategy is that the garment market can grow in a way which allows it not only to provide more jobs for Myanmar's workers, but also to provide better quality jobs. BIF's focus is to support upgrading of the existing industry and promote sector growth by addressing two fundamental areas of constraint:

- Factory inability to provide "better jobs". Apparent inability of factories to generate enough margin to pay workers a higher core wage, reduce overtime, improve health and safety, remove low paid below age workers and invest in worker welfare.
- Industry inability to grow to provide a higher number of quality jobs. The Myanmar industry is still small and, despite apparent potential, growth and capacity in the market is insufficient to be a significant global and regional competitor, attracting significant new commercial investment and business opportunities.

## BIF interventions

Understanding that it is a highly complex and rapidly evolving market, BIF support to the garment market followed a phased approach, focussing on three core, linked interventions. Interventions were designed to achieve significant change within individual businesses, and also to support long–term, systemic change in the market. BIF was careful to avoid developments that might displace garment sector jobs from other developing countries such as Bangladesh — although market research and the projected growth of the market indicates this is low risk as the region is characterised by labour shortages in the garment industry.

***Intervention A*** — Productivity and HR upgrading support to select pilot factories to develop a detailed business case around the commercial link between better worker welfare and improved productivity and profitability.

### Fundamental constraint being addressed

Factory inability to provide "better jobs". Apparent inability of factories to generate enough margin to pay workers a higher core wage, reduce overtime, improve health and safety, remove low paid below age workers and invest in worker welfare.

### Market challenges and opportunities

Currently the garment industry in Myanmar is characterised by below average performance in terms of factory productivity, quality and worker welfare including health and safety and other ethical labour standards. The factories face a number of issues relating to productivity and labour that reinforce each other. Productivity is low which means workers have to work long hours and pay is low and can be unpredictable. Low productivity means that factory supervisors and managers are always encouraging workers to do more and work more quickly which can become aggressive and lead to shouting and other unpleasant working conditions for employees. These factors lead to high worker turnover and absenteeism which reduces the availability of trained staff and further reduces productivity. Given that productivity is low, profitability is also low so factory owners are unable to invest in their factories in terms of physical working conditions and staff training on technical and management skills.

At the same time, accessing skilled management and technical staff or consultants, or training for these staff is difficult as these services are not readily available in Myanmar. The management and supervisory staff in factories often learn on the job, rising through the factory ranks, and have little opportunity to improve their skills. Whilst factory owners surely see the potential benefits of improving productivity, they do not always understand or see the associated benefits of improving worker welfare and that this is crucial to support productivity improvements. In turn there is therefore uncertain demand or channels for consultancy services and little local evidence of an alternative way of working to incentivise change.

The combination of low productivity and poor worker management and labour standards, reinforced by inexperienced factory management, means that the Myanmar garment sector is not an attractive sourcing location for buyers from the EU and US. This reduces the potential customer base and growth potential for the Myanmar industry.

### Market change — what we anticipate

Factory owners and managers in Myanmar are committed to improving productivity and worker welfare in their factories based on an understanding that improving worker welfare supports productivity, and that this is good for business on a number of levels including the potential to attract new customers. Evidence is available from Myanmar and other countries that demonstrates the case for change and creates demand in the market for consultancy services in HR, technical engineering and production skills. Factories in Myanmar will become more productive and efficient with labour standards that comply with international policies, reducing the risk of doing business in Myanmar. For the workforce there will be a significant improvement in their work and pay conditions as well as job security and better job satisfaction.

### Overview of intervention

Intervention A focused on developing a robust business case around the commercial benefits of improving productivity and worker welfare. It has been applied across four interconnected elements:

1. Support for 12 garment factories on productivity and HR upgrading.
2. Collection and analysis of commercial and social data from partner factories to demonstrate the impact of BIF support for productivity and HR upgrading.
3. Research into how factory owners and agents in Myanmar work with and learn from each other in order to guide the design of dissemination strategies and market facilitation activities around the business case.
4. Dissemination of the business case and wider learnings from the factory work.

## *Intervention B* — Stimulation of management, HR and industrial engineering consultancy service provision in the Myanmar garment market.

### Fundamental constraint being addressed

Factory inability to provide “better jobs”. Apparent inability of factories to generate enough margin to pay workers a higher core wage, reduce overtime, improve health and safety, remove low paid below age workers and invest in worker welfare.

### Market challenges and opportunities

Myanmar’s garment industry faces significant skills gaps around management and HR skills as well technical skills around production and industrial engineering. The result is that factories are unable to access the skills and experience to improve their productivity and labour standards.

There are several reasons for this skill gap in the market. Training and education programmes in Myanmar are not set up to produce people with these types of skills. The consultancy market is highly under–developed with few domestic consultancies in business, and few international business consultancies working in Myanmar focusing at the garment sector. In short, the necessary management and HR expertise is not readily available either in–house or externally. Continuing poor management skills exacerbate productivity and compliance issues, prevents business growth and reduces profitability.

### Market change — what we anticipate

With factories in Myanmar demanding services to help alleviate management and HR inadequacies, local training and technical consultancy providers establish a local presence to meet the demand. Local and international consultancies, or individual consultants, see the Myanmar garment industry as a potential client and develop training and technical assistance programmes to meet the factories development requirements. These services are locally available, visible and affordable to factory owners. Factory owners receive support from brands and other market players to access these services in the short to medium term.

## Overview of intervention

BIF's intervention directly supports the development of new consultancy skills and capabilities in the market through the development of local consultancies as well as encouraging more regional and international consultancies to offer locally based services in Myanmar. By working alongside international experts, BIF supports capacity development of local consultants who are able to carry on future management and HR skills development for garment factories. This includes bringing in junior consultants to stimulate the market and sustain supply of trained people.

For consultancies that show interest in entering the Myanmar garment sector BIF provides business planning and service development advice, as well as marketing support making these consultancies visible to the factory owners.

Engagement with brands, and the improvements required from factories who wish to produce for the EU or US markets, further supports the entry of new consultancies into the local market. These could be new local consultancies or new branches or offerings from existing regional consultancies.

***Intervention C* — Facilitate relationships between international buyers and factories in Myanmar such that there is a greater incentive for factories to improve labour standards and develop specialised services to support industry development and growth.**

## Fundamental constraint being addressed

Industry inability to grow to provide higher numbers of quality jobs. The Myanmar industry is still small and, despite apparent potential, growth and capacity in the market is insufficient at present to be a significant global and regional competitor and thus attract significant new commercial investment and business opportunities.

## Market challenges and opportunities

The current relationship between buyers, in particular those serving EU and US markets, and factories in Myanmar are non–existent for most factories and very weak for others. It is accepted that opening up EU and US markets is essential if Myanmar is to become a large scale supplier. If Myanmar can break into the EU and US markets, countless new jobs will be created.

At the moment the garment industry in Myanmar is reliant on orders from Korean and Japanese buyers; the current supply to markets in Europe and America is negligible. Where there is some export, agents and other supply chain intermediaries play a leading role in getting orders. These intermediaries may not be incentivised, or have the capacity, to transmit to the factories what brands in the EU and US require in the way of labour standards and technical skills. This results in factories not meeting the ethical, quality or production standards required by these customers. In turn, potential customers do not see a local industry prepared to make changes to meet their needs. Factories do not understand that meeting labour standards, and also developing a specialisation in a small range of garments types, will open the way for significant new commercial opportunities allowing them to grow in turnover and profitability by:

- Increasing their sales volume to the very large markets that the EU and US offers.
- Developing long term relationships with brands which will lead to the creation of new jobs.
- Benefiting from the practical support that the brands and their supply chain partners are willing to offer. This can range from training in labour standards to help in developing new technical capabilities and understating design trends in the user markets. Currently there is no market actor with the capacity to

act as a facilitator for developing these relationships. Each brand or buying party is faced with having to carry out their own scoping to try and find suitable factories to procure from. Many brands are put off by apparent risk and high transaction costs of sourcing from Myanmar, as well as the relative unknown of entering a new market about which there is little information.

There are two major risks if under–performance is not addressed:

- The Myanmar garment sector will not grow as fast as it could — regardless of the fact that it presents a significant opportunity as the next major sourcing location for buyers.
- New market entrants will dominate the industry quickly, providing significant competition to the existing factories in Myanmar and removing local participation in the market. Despite this, consultations show that potential new entrants will often prefer to have local partners.

Addressing these risks are essential for the market to grow and create hundreds of thousands of quality jobs.

## Market change — what we anticipate

Brands and buyers serving the EU and US who are wishing to procure from Myanmar will increase the effectiveness and efficiency of their dialogue with Myanmar industry players. They will develop commercial relationships with individual factories and offer to help factories in upgrading productivity and standards. They will encourage their supply chain partners and other intermediaries to offer help, and to reinforce the understanding of the product quality and HR requirements that the brands have. This will underline the need for compliance with international labour standards. More factories will take these issues seriously and invest in systems and infrastructure to eliminate underage employees and make the workplace safe, meet quality and production standards. Confidence in Myanmar as a potential sourcing destination for major, large scale brands will grow and more will be encouraged to seek out factory partners, leading to rapid growth and new employment opportunities for the Myanmar labour force. Factories that benefit from supportive relationships will develop specialisations, making them even more attractive to brands, becoming even more profitable and expanding, and in turn creating more, high value, high wage jobs.

## Overview of intervention

This intervention has ensured that a coordination function is in place for brands and buyers seeking to develop relationships with Myanmar factories, and acts as an information hub attracting new brands to Myanmar as a sourcing destination. BIF has accomplished this by setting up and coordinating activities directly, and then handing over this function to a local market player. This coordinating function will:

- Provide an information brokering service to companies that are interested in Myanmar by collecting and disseminating useful experience, and directing them to other sources of information and programmes.
- Convene private sector players, and bringing together Western buyers and brands with the Myanmar garment industry to foster closer working relationships and develop mutual understanding and commitment on what is needed to move the industry forward in terms of production and compliance.
- Help the MGMA, the government and buyers to manage the transaction burden and costs of engaging multiple brands by providing a common voice for brands. Share information about MGMA and government strategy, plans and vision with brands and allow industry players a forum to comment.
- Provide a common forum for brands and customers of the Myanmar garment industry to raise issues and support the MGMA to lobby for changes on such issues as duties, taxes and regulation.
- Provide coordination of support provided from different industry players including brands, buyers, supply chain players and donors to align to existing activities, plans and programmes that are ongoing in Myanmar.
- Provide a forum for collaboration and sharing lessons learnt about doing business in Myanmar's garment industry.
- Help brands to measure the impact of their support in term of how well the industry is progressing towards achieving their vision, and in improved capacity at the factory level.
- Provide funds to industry players who may wish to innovate in support of the wider garment sector vision — this may include seed funding or co–funding for private sector led initiatives.

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