

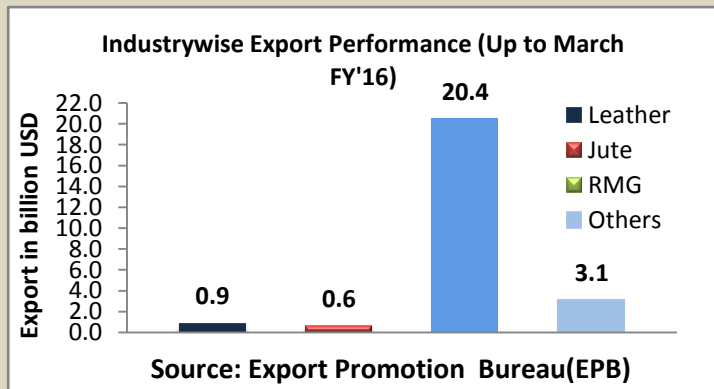
Leather Industry of Bangladesh: A new hope for export diversification



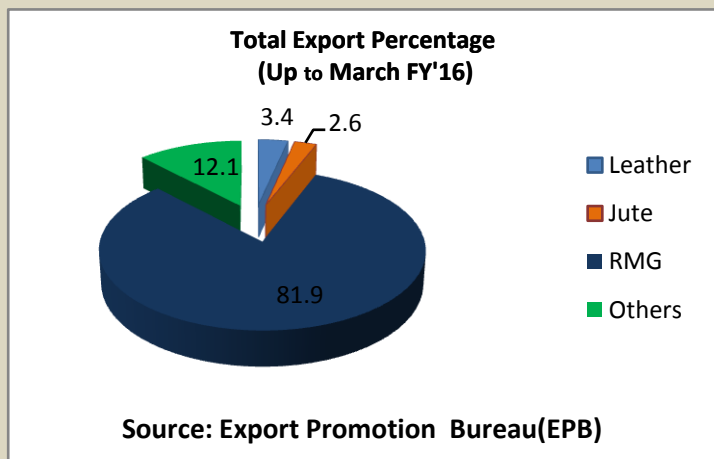
Emerging Credit Rating Limited

Shams Rangs, House 104, Park Road
Level-A1, A2 & A5
Baridhara, Dhaka-1212
Tel: +880 2 986 0911, +880 2 986 0897
Fax: +880 2 986 0828

Although Leather Sector represents the second largest export sector of Bangladesh, its export share is significantly lower than RMG. So, Ready Made Garment sector has a strong dominance over the countries total export.



Bangladesh's export basket is heavily concentrated on one product that is the readymade garments. With about four million workers and 81.9 percent of total export earnings, a lot of the country's fate depends on a single sector. High export concentration on the garment sector can make the economy vulnerable to shocks. Export diversification through leather sector also increases the employments.



In the FY16 up to March, it has been seen that RMG accounting for more than 80 percent of the total exports in the country. After RMG Leather sector holds the percentage of more than 3 percent of the total country's export. Among the total export of USD25 billion in FY16 (up to March) only three sectors (RMG, Leather & Jute) individually accounts for more than USD600 million . Therefore to slackening the pressure on the balance of payment & to participate effectively in the global trading system export diversification is mandatory for the economy at this stage.

New hope for the leather sector after RMG because of the world's largest footwear manufacturer China is shifting focus away from this sector.

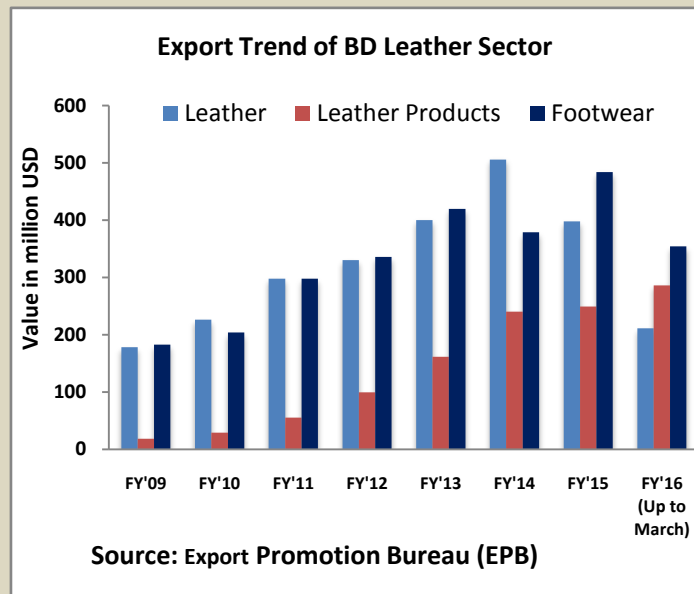
As a consequence of plus one strategy recently China is withdrawing them from the global market. According to a report on China's leather footwear industry, it has been shown that their production had been dropped by 5.29% in 2012 & 7.45% in 2013. Although according to a survey of Euro Monitor International, it has been seen that for the next few years China's footwear market will continue to grow at a rate exceeding 9%. But the recent policy (Plus one strategy) may hamper this growth.

For the last twenty years, those western companies invested in china have drawn themselves due to rising of production cost & other business challenges. Now they are looking for other growing Asian markets both to hold down costs and to reduce overdependence on China.

In both cases here is a potentiality to attract foreign investor in this sector in Bangladesh as because of low labor cost, availability of rawhide, leather processing infrastructure & some government incentives including duty-free machinery imports. According to LGFMEA (Leather Goods and Footwear Manufacturers and Exporters Association), more than 51 foreign companies have expressed their interest to establish joint-venture footwear units in Bangladesh. If the opportunity is gripped, it has been expected that annual \$ 1.13 billion leather industry of Bangladesh may grow to a \$15-billion sector within a few years.

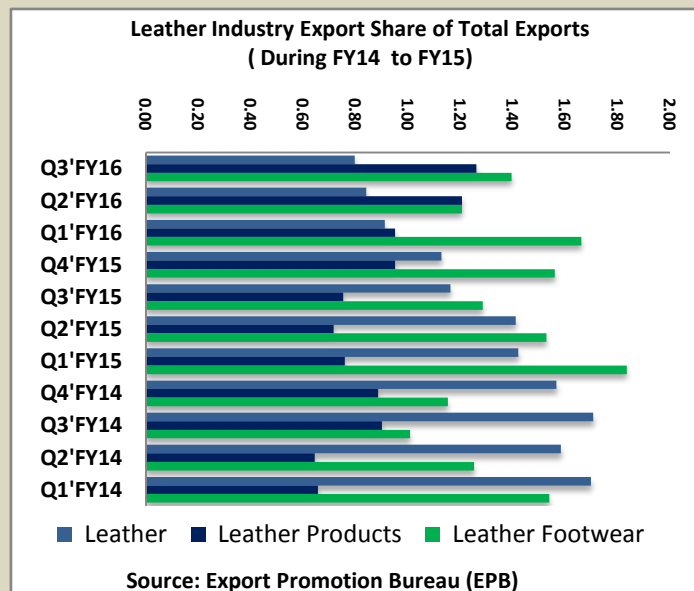
In FY15, Bangladesh earned US \$ 1.13 billion from the export of leather, leather goods & leather footwear. Comparing to the FY14 it was a growth of 0.5%.

According to Export Promotion Bureau (EPB) Bangladesh earned total USD851.33 million from leather Export in July-March, 2015-16. Among them USD354.02 million is from exporting footwear, USD286.14 million is from exporting Leather products & USD211.17 million is from exporting Raw Leather. In the FY15, earnings from leather footwear, leather products & leather were USD483.81 million, USD249.16million, and USD397.4 million respectively.



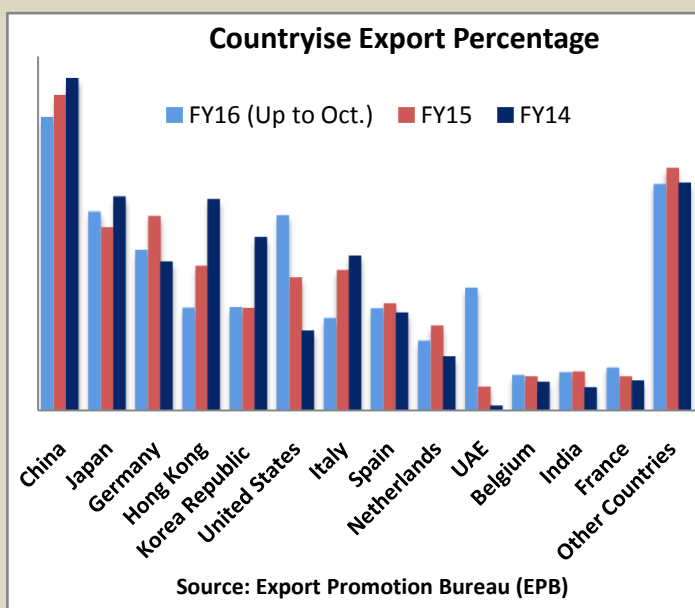
The leather industry of Bangladesh suffer a big blow as demand in major international markets has been dropping amid serious concerns over the environmental hazard created by the country's leather industry.

The Leather industry export of Bangladesh has fallen in the first quarter of FY16, where highest fall was in raw leather by 24.4 percent. One of the main reasons of deteriorating export was EU & USA buyers have reduced their purchases from Bangladesh amid concerns over the environmental hazards of leather production. EU & USA are the biggest markets for Bangladeshi leather products. Other reason could be that china is one of the main buyers of our rawhide & skins were not performing well in footwear manufacturing in recent times.



Within the total size of USD215 billion of global leather market Bangladesh now exports only 0.5 percent of the global leather and leather goods market.

Bangladesh earned the major portion of export revenue from the leather sector by exporting raw hides & skins to China. Other major countries for leather exports are Japan, Germany, Hong Kong, USA, Spain, Italy, Korea Republic and Netherland. In FY15 China contribute to leather export 17.7 percent of total leather export. After China, Germany & Japan contribute 10.3 & 10.9 percent respectively.



Growth in Leather Footwear Industry Growth /Trend

According to BBS Survey of manufacturing industries at 2011-12, the total number of leather firms are 930, among them 23 units are categorized as a large firm, 100 are medium , 274 are small & 533 are micro firm. It is likely an eleven percent increased within five years comparing to the 2005-06 BBS Survey Reports. But this trend of growth decreases in recent years because of lower earnings of some firms & due to higher Competition among the firms. As per SMI 2011-12 total person engaged in leather firms are almost seventy-six thousand, Among them fifty thousand are male & rest are female. They earned 8380 million TK as their salary & wages benefit. Their gross output is almost seventy-seven thousand million TK.

According to BBS number of the person engaged in Leather industry of Bangladesh faced a yearly compound growth of 22.4 percent during 2001-02 to 2011-12, although at the same period value added per worker declined at a yearly compound rate of nearly five percent .This is because average employment size declined at a yearly compound rate of almost 12 percent during 2001-02 to 2011-12. The average employment size declined because of technological development of leather industry reduced the dependency over labor force.

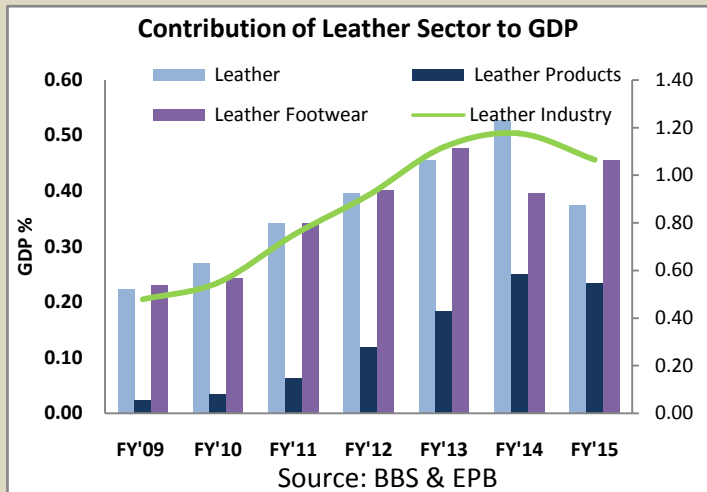
Table1: Growth of Leather industry of Bangladesh

| Growth in Leather Footwear Industry Growth /Trend | | | | | |
|---|---------------------------------------|---------|---------|-------------------|----------|
| Description | (Enterprises with 10 or more workers) | | | Yearly Growth (%) | |
| | 1991-92 | 2001-02 | 2011-12 | 2001-02 | 2011-12 |
| Number of establishment | 77 | 35 | 930 | Negative | Positive |
| Number of persons engaged | 5302 | 10005 | 75524 | 6.6 | 22.4 |
| Average employment size | 69 | 286 | 81 | 15.3 | -11.8 |

| | | | | | |
|---|------|------|-------|------|------|
| Value added (Million Tk. in 1995-96 price) | 1124 | 4712 | 22180 | 15.4 | 16.8 |
| Share in Manufacturing Value Added (%) | 1.4 | 2.0 | 1.4 | 3.6 | -3.4 |
| Source: BBS, Census of Manufacturing Industries 1991-92 , 2001-02 & 2011-12 | | | | | |

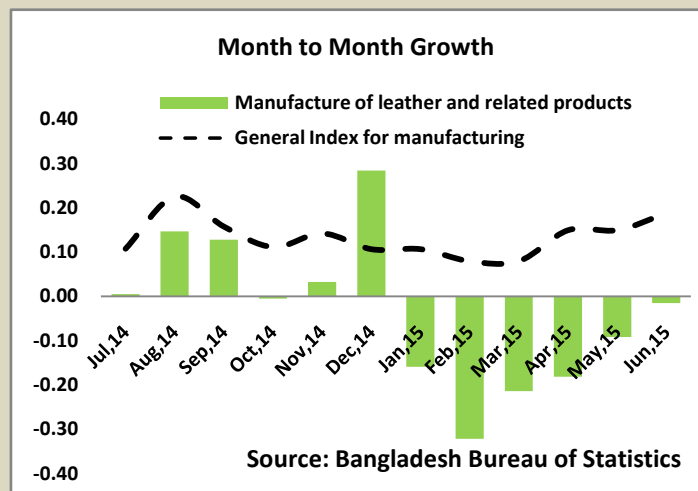
The contribution of the leather sector to GDP has been increased year on year. So it has been expected within few years it will become an emerging sector of the economy of Bangladesh.

In FY15 it has been seen that the contribution of the leather sector to GDP is 1.06 percent of the total value of GDP at the terms of constant price, where leather footwear added major portion. But in FY14 it was 1.18 percent in terms of total value of GDP.



Manufacture of leather and related products are in a position of a slump over the last 6 months likely due to the political crisis from the beginning of this year.

Leather manufacturing and processing in Bangladesh is mostly export oriented. When export order declined production will also decline. From the beginning of the year 2015, the country faced political crisis and Hartal was the daily routine of that time. Due to Hartal, all manufacturing firms faced a critical business crisis especially leather industry. This industry faced a negative growth in production, though there was a potential demand in export in the international market.

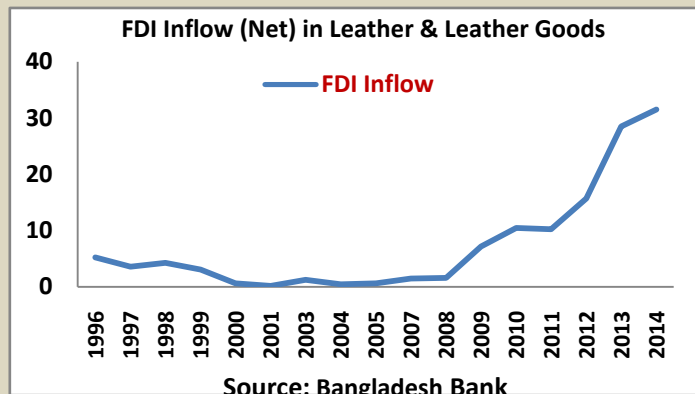


On January 2015 production growth was negatively 16 percent and on February production growth jumped negatively to 32 percent. It is noticeable that, Export killer Hartal may be the big reason for the negative growth in production of leather and leather related goods. After February 2015, Production growth is gradually coming to the positive horizon most likely due to the opposition political parties are giving a negative eye to Hartal.

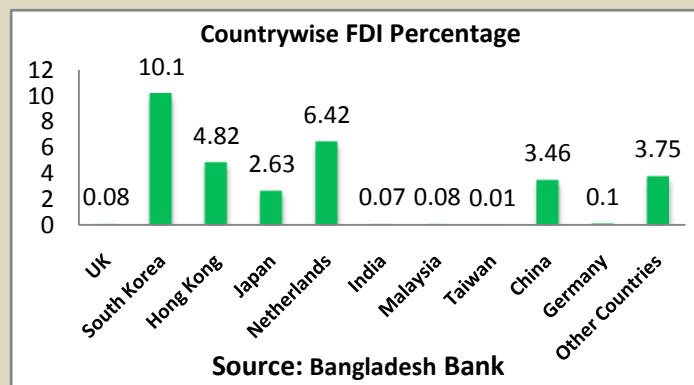
Eid ul Adha (Feast of Sacrifice) is the time when the raw hide is available in Bangladesh and production of leather and leather related goods is supposed to accelerate at that time. But

this year production growth was not at its expected level and the trade of rawhide was almost in a slump position. This situation was created most likely due to negative growth in production that causes ability in rawhide for production. So willingness to pay for rawhide got down.

If Bangladesh focuses on environmental issues and attracts investors by providing them with land and capital at affordable rates, the sector is forecasted to become the second-largest earner of foreign currency after readymade garments.



FDI inflows (net) in leather and leather goods has been increasing for the last six years in Bangladesh which results from different pragmatic initiatives of the Government. In 2014, highest investment (10.1 billion) came from South Korea while 6.42 and 4.82 billion came from Netherlands and Hong Kong respectively.



The condition of most of the tanneries of Bangladesh is dissatisfying. Very often it is seen that trimmed leather, pieces of flash from cow and buffalo hides, hair, liquid and solid wastes generated at different stages of production are spread and piled all over the place in the tannery.

Workers in the tanneries usually do not wear protective masks. A large number of tannery workers are suffering from adverse health conditions such as prematurely aged, discolored, itchy, peeling, acid-burned, and rash-covered skin; fingers corroded to stumps; aches, dizziness, and nausea; and disfigured or amputated limbs.

In Hazaribagh, liquid wastes of the tanneries go into the Buriganga River and causes serious harm to the fish and other species living there. Harmful materials in liquid waste seep into the surrounding cropland and underground water levels and in this way the tannery waste poisons the soil, water, and air of the area.

Initiatives for Relocating Leather Industry:

- In June 2009, the High Court asked the Government to relocate the tanneries from Dhaka to a proposed leather estate at Hemayetpur, Savar by February 2010.
- The movement to the relocation of tanneries from the capital to Savar was suspended for a long time due to disagreements between authorities and tannery owners over who should bear the cost of the move.
- On October 13, a MoU was signed between Bangladesh Small and Cottage Industries Corporation (BSCIC), Bangladesh Tanners' Association (BTA) and Bangladesh Finished Leather, Leathergoods and Footwear Exporters Association (BFLLEA).

As per the agreement, the Government will offer a compensation package worth Tk. 2.5 billion to 155 factories and assign Tk. 6.39 billion for the installation of the central water treatment plant (CETP) - a must for red-category factories discharging toxic chemicals.

About ECRL

Emerging Credit Rating Limited (from now on referred to as ECRL) began its journey in 2009 to deliver credible superior & quality credit rating opinions in various industry segments around Bangladesh. ECRL obtained a credit rating license from Bangladesh Securities and Exchange Commission (BSEC) in June 2010 as per Credit Rating Companies Rules 1996 and received Bangladesh Bank Recognition as an External Credit Assessment Institution (ECAI) October 2010. Our drive to deliver the promised quality has helped ECRL complete **15950 rating assignments** from the time of inception to **Aug 25, 2019**.

Emerging Credit Rating Limited's team is oriented towards the continuous improvement of processes, striving for an essential role in the leadership of the business world. Every individual in ECRL is committed to providing the topmost ingenious Credit Rating Services and Comprehensive Research Services in Bangladesh.

ECRL's rating services and solutions reflect independence, professional, transparency, and impartial opinions, which assist businesses to enhance the quality of their decisions and help issuers, access a broader investor base. Even smaller known companies approach the money and capital markets. The Credit Rating process is an informed, well-researched and intended opinion of rating agencies on the creditworthiness of issuers or issues in terms of their/ its ability and willingness to discharging its financial obligations promptly. Issuers, lenders, fixed-income investors use these risk assessments for lending to or investment in a corporation (such as a financial institution, an insurance company, a non-banking corporation, or a corporate entity) as well as evaluating the risk of default of an organization's financial obligations in terms of loan or debt.

Dhaka Office

Shams Rangs, House 104, Park Road
Level-A1, A2 & A5
Baridhara, Dhaka-1212
Tel: +880 2 986 0911, +880 2 986 0897
Fax: +880 2 986 0828
Email: info@emergingrating.com
Web: www.emergingrating.com

Chattagram Office

Al Madina Tower, 6th Floor
88-89, Agrabad C/A, Chittagong
Tel: +880 1833 330056, +880 1833 330061
Email: chittagong@emergingrating.com
Web: www.emergingrating.com

Khulna Office

Mollick Shopping Complex
99 Khan -a- Sabur Road,
Khulna - 9100
Tel: +880 1833 330060
Email: khulna@emergingrating.com
Web: www.emergingrating.com