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Myanmar garment sub-sector value chain analysis



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Executive summary

Following the repeal of European and American export sanctions on Myanmar, the country's garment sector is now experiencing new levels of growth. The Myanmar Garment Manufacturers Association (MGMA) reports that new garment factories are opened every week, and the number of workers involved in the industry is forecasted to grow from the current 260,000 employees to 600,000¹ in the next three years.

While growing, the sector is still in its early stages and most of the manufacturers active in the country are operating on a Cut, Make and Package (CMP) production system, whereby producers are only responsible for the pure production of the garments, and not involved in the design and/or input sourcing processes.

International brands

International brands are interested in Myanmar, which features as its strength a sizeable low-wage workforce, despite being largely untrained and unskilled. While other countries in the region (i.e. Bangladesh, Cambodia, Vietnam, China) are more advanced than Myanmar in the production of garments, there

International brands are interested in Myanmar, which features as its strength a sizeable low-wage workforce, despite being largely untrained and unskilled.

are opportunities for Myanmar to gain more of the regional production share, as some of these countries are seen as "controversial" (Bangladesh) or increasingly expensive (Vietnam, Cambodia, China).

As the country is unable to produce inputs like zippers, buttons, fabrics and others at the quality standards of international brands, most of the inputs necessary to the garment sector are imported from abroad. This study found that only a

few inputs are produced and sourced locally, like packaging materials (cardboard boxes and polybags) and hangers. While produced locally, the raw materials necessary to manufacture these inputs are not available in Myanmar at the level of quality necessary, and local manufacturers and input producers must import materials (paper and plastic granulate).

Recommendations

After carrying out an overview of the garment sector and two of its input supplies (packaging materials and hangers), EMC designed potential interventions, which are divided into three groups: near-term, year-long, and policy interventions.

Near-term interventions include improving the linkages within the sector or increasing the amount of information available to all stakeholders. Strengthening the sector linkages could occur through workshops between international buyers and local manufacturers, mini trade fairs to put local garment manufacturers in connection with local and international input suppliers, and by including local and international banks within the sector.

Year-long interventions would see the ILO getting involved in improving the capabilities of one or more training providers in the country. EMC recommends focusing on management trainings that might aid the industry in moving from the current CMP production system towards the higher value added FOB model. Technical trainings (sewing, quality control, etc.), while being identified as a need in the industry, did not appear as a viable intervention area for the ILO in the short term. Until now, uptake has been low and developing the technical capacity of workers and supervisors would require a longer time frame.

Finally, policy recommendations align with three objectives that are already part of the Myanmar Ministry of Commerce's (MOC) national garment and textile export strategy. The MOC is planning to create an inter-ministerial steering committee to jointly design the future national strategic policies for the garment sector. The ILO could support this process, already within the government's plans and serve as a technical advisor to create guidelines for labour laws and working conditions, and making sure that these issues are being included. Additionally, the ILO could support the MGMA in its future strategy to create a system of production standards.

¹ National Export Strategy, Myanmar Ministry of Commerce and International Trade Center, 2014

Project background

The International Labour Organization (ILO), building on the removal of restrictions on ILO cooperation with the Government of Myanmar in 2012, is implementing the Decent Work Framework, to support the development of Myanmar’s garment sector through a range of different strategies and interventions. The garment sector has the potential for large-scale employment, as well as to reach the largely female workforce. With the sector in its infancy, it is a crucial moment for development partners to work to mitigate the considerable social and environmental risks to growth the industry faces. One particular intervention is the promotion of responsible business practices that create economic and employment growth. With funding from DANIDA, the ILO aims to contribute to decent work opportunities for women and men in garment sector value chains, while ensuring the main actors targeted within these chains work towards following responsible business practices.

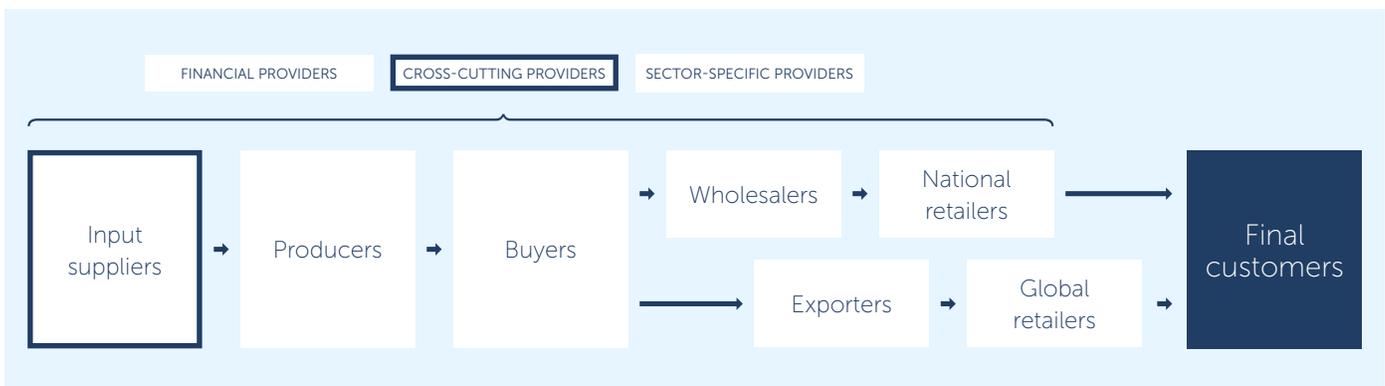
In particular, the ILO is interested in helping the Myanmar garment sector capture a larger part of the global value chain. Garment pricing in Myanmar is currently on a CMP basis (cut, make, and pack), whereby manufacturers in Myanmar negotiate fees only for the assembly labour performed on garments, not for the full value of the garments. It is therefore a priority to strengthen Myanmar’s garment sector input value

chains. Preliminary input value chains of interest include fabrics, weaving, and dyeing operations, as well as trims, zippers, buttons, Kimball tags, pattern papers, vacuum tables,

If the Myanmar garment sector can move from a CMP to an FOB production system, the country could capture higher margins

and DKT sheets. If domestic capacity in these areas can be strengthened, the Myanmar garment sector could move to an FOB basis for pricing (whereby international buyers pay Myanmar garment factories for the full value of the completed clothes as they are loaded “on board” shipping vehicles), putting Myanmar in a stronger negotiating position to capture more margin in country, and subsequently increasing opportunities for factories to provide decent employment to workers.

FIGURE 1 Research focus



Methodology

The aim of this study was to examine the sector, and all relevant market components, by following the “Making Markets Work 4 the Poor” (M4P) approach. As Figure 2 depicts, the M4P approach recommends focusing on three areas to understand a market:

Core function value chain

Investigating the business operations of all stakeholders involved in the chain (international brands, garment manufacturers, and selected input suppliers), as well as the linkages between them.

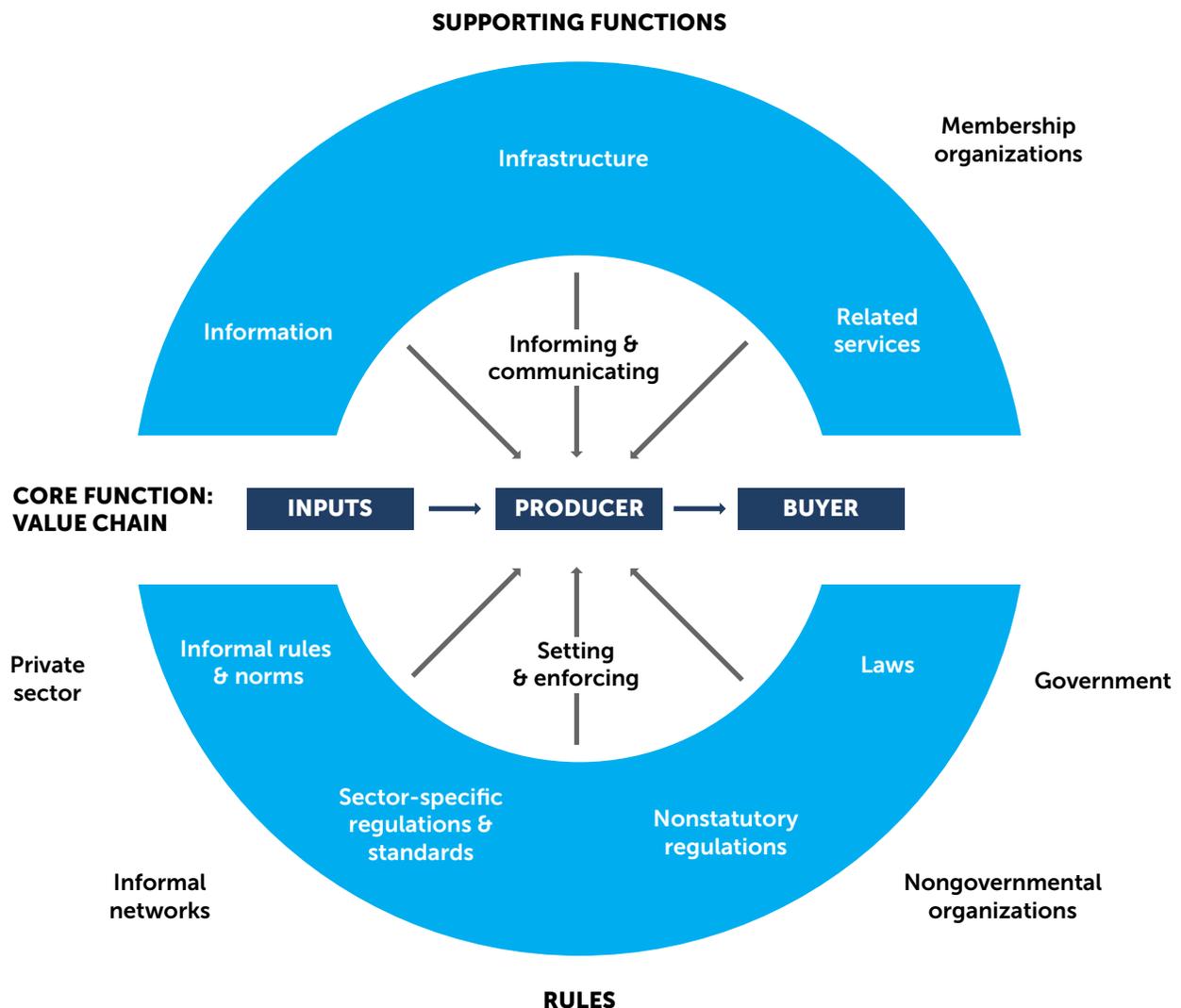
Supporting functions

Understanding the enabling environment supporting the garment sector, including service providers, available infrastructure, and information channels.

Rules

Investigating the legal and regulatory environment surrounding the garment sector.

FIGURE 2 Market environment



The project was designed to carry out an assessment with the participation of the sector's private and development stakeholders. For this reason, activities were broken down into multiple phases (Figure 3).

After carrying out a desk review of the relevant secondary literature available on the garment sector in Myanmar, the team carried out in-depth interviews with garment manufacturers in both Yangon and Mandalay, to investigate their production capacities, workforce abilities, the general business environment, the origin of their input supplies, as well as their perceived needs and constraints in growing their businesses.

The results of this initial analysis were presented to key sector stakeholders in a participatory workshop. After being presented with the initial value chain findings, participants were asked to collaboratively engage in a participatory discussion and to select sub-sector input supplies and services on which the research should focus. The selection was guided by two sets of selection questions, related to the relevance of the sectors to the growth of the garment industry and the potential for those inputs to be supplied within the market in the short to medium term. Through this exercise, two input supplies (hangers and packaging materials) and one service area (trainings) were identified for deeper sub-sector analysis.

At the start of the second phase of study, the research team participated in a 2-day workshop organized by the MGMA, Coats, Pyoe Pin, the ILO, and BIF, which hosted representatives of the garment sector. Following the workshop, the research team contacted 63 firms, and visited 14 garment factories, 9 packaging producers, and 1 hanger producer. Additionally, the team met with stakeholders including the Myanmar Garment Manufacturers Association, the Myanmar Pulp and Paper Association, SMART, and Pyoe Pin.

Though the textile industry was not identified as a top priority for workshop participants, (which might be a result of the perception that as an input, textiles may not offer immediate benefit), the research team did do some preliminary analysis while in Mandalay. Based on observations and discussions with the local manufacturers, it appears that the textile industry is facing many challenges, including high levels of under-aged workers, low productivity, low occupational health and safety standards, and contributions to environment degradation. The industry remains small and is lacking linkages to the Yangon market, where the majority of the value chain activities take place. No further assessment was undertaken during the study due to the priorities chosen during the workshop. However, it may be worthwhile for ILO to further explore this as a result of the concerns of working conditions and occupational and environmental safety observed by the research team and outlined above.

In the second workshop, EMC presented the preliminary findings from the research process and asked participants to confirm and elaborate on the initial analysis. Participants were then asked to collaboratively engage in a participatory discussion to identify potential interventions that they believed would promote the growth of the garment industry and selected sub-sectors. Feedback from this workshop was combined with previous analysis in order to develop this final report.

The report starts by giving an overview of the Myanmar garment sector and of primary and secondary findings that were collected during the research process. The subsequent sections give an overview of the selected inputs supplies: packaging materials, hangers and textiles. Finally, the last section presents a list of recommendations categorized as near-term interventions, year-long interventions, and policy recommendations.

FIGURE 3 Primary project components

1	2	3	4	5	6
Secondary research	Garment sector high level value chain analysis	Sub-sector selection workshop	Sub-sector value chains	Value chain interventions workshop	Report writing

The Myanmar garment sector

The garment sector has proven itself to be a driver of economic and occupational growth in many Asian economies. Myanmar started on a similar trajectory in the early 1990s, but then experienced stagnation during the years of the international trade sanctions on the country. Toshihiro Kudo, in his assessment of the Myanmar garment sector, breaks down its evolution into five phases: a Pioneer Period (1990 – 1993), a Steady Growth Period (1994 – 1997), a High Growth Period (1998 to 2001), a Stagnation Period (2001 to 2005), and a Recovery Period (2006 – 2011). The U.S. and European economic sanctions imposed on Myanmar in the early 2000's drastically impacted the sector. Export decreased until 2005, when a shift occurred: Eastern countries like Japan and Korea began to increase

imports from Myanmar, as illustrated in Figure 5. The overall total value of exports managed to grow from 2005, even if the growth levels have not yet reached the pre-sanctions period. Growth excelled again in 2011 when Myanmar began to liberalize its economy. As Western international brands turn their attention to the country once more, a number of local and international entrepreneurs are seeing investment opportunities in the sector.

Figure 4 below shows how the structure of the sector has evolved responding to both internal political changes and to the international reactions that followed.

FIGURE 4 Myanmar garment sector evolution phases²

	1990 - 1993 Pioneer Period	1994 - 1997 Steady Growth	1998 - 2001 High Growth Period	2002 - 2005 Stagnation Period	2006 - 2011 Recovery Period
Major Player	JVs between state-owned and military-related enterprises and Korean and Hong Kong firms.	JVs between state-owned and military-related and Korean and Hong Kong firms; 100% foreign-owned firms	Domestic private firms; "Spin out" Korean and Hong Kong Businesses; Taiwanese buyers	Foreign-affiliated firms; Widening disparity among firms	Foreign-affiliated firms
Policy Environment	Virtual Prohibition of 100% foreign ownership; Monopoly of quotas by state-owned and military-related enterprises.	Monopoly of quotas by state-owned and military-related enterprises. Lifting of prohibition on 100% foreign ownership	Allocation of quotas to private firms; Expansion and misuse of CMP; Privileges of MIC approved firms; Import of equipment by deferred payment.	Obligation to register with MIC; Tightening of regulation and taxation	Obligation to register with MIC; Tightening of regulation and taxation
Global Economic Environment	MFA regime, no sanctions by US and EU	MFA regime, no sanctions by US and EU	MFA regime; Brisk markets in US and EU; Worsening trade relations with US and EU; ILO warning for sanctions	Slow down of US market; Abolition of MFA regime (Jan 2005). US economic sanctions (from Jul 2003). Disappearance of major EU buyers	No access to US market. China plus orders from Japan and Korea
Export by Type of Firm	State-owned and military-related JVs 95% 100% foreign-owned 0% Domestic private 5%	State-owned and military-related JVs 90% 100% foreign-owned 5% Domestic private 5%	State-owned and military-related JVs 15% 100% foreign-owned 20% Domestic private 65%	State-owned and military-related JVs 10% 100% foreign-owned 25% Domestic private 65%	State-owned and military-related JVs 10% 100% foreign-owned 25% Domestic private 65%

² Source: Toshihiro Kudo, How has the Myanmar Garment Industry Evolved, 2011

Myanmar garments' total value of production has only recently grown back to its 2003 values. In 2000, 55% of the exports were shipped to the United States and 38% were shipped to Europe, while the remaining 7% was destined to other countries. In 2012, 16% was sent to the EU, 50% to Japan, 33% to Korea and 1% to others.

Garment factories worldwide can be summarized into four main categories⁴, according to their business models:

1. Cut, Make, and Package (CMP)

This system is usually the entry stage for a manufacturer in the garment value chain. Inputs are entirely or almost entirely supplied, along with product specifications, by the client to the manufacturer, who focuses on production alone. Garment factories operating with this production system are found in Cambodia, Sub-Saharan Africa, the Caribbean, Vietnam and Myanmar.

2. Original Equipment Manufacturer (OEM)

This system represents the first stage of functional upgrading toward value added production. The supplier is given clear specifications on raw materials to be used and design to be followed, but enjoys a wider freedom in manufacturing related functions, such as sourcing inputs, product finishing, and packaging to the retail outlet. On occasion, the supplier might be entitled to take on outbound distribution, **Freight on Board** (FOB). Countries whose garment factories operate following this production system include Bangladesh, Indonesia, Sri Lanka and Mexico.

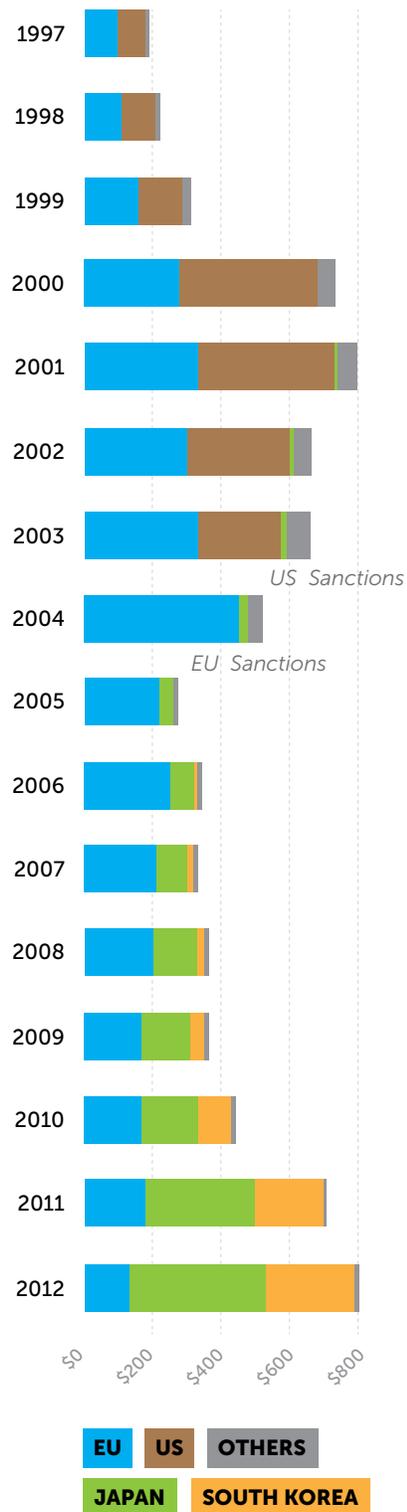
3. Original Design Manufacturer (ODM)

In this production system, the supplier acts as a "full package garment supplier," which includes pre-production processes (design in collaboration with the client) and the overall production process (input purchase, cutting, sewing, trimming, packaging, and distribution). Garment factories operating with this production system are found in Turkey, the EU, India, and China.

4. Original Brand Manufacturing (OBM)

In this production system, the supplier has post-production responsibilities and can develop its own brand, either in collaboration with the original client (for a specific target market) or independently.

FIGURE 5 Myanmar Garment Exports³, USD Millions



³ Source: Comtrade Database

⁴ Source: Gereffi, Gary, Frederick, Stacey, The Global Apparel Value Chain, 2010

⁵ Source: Project Support for the Myanmar Garment Sector Development Programme, Pyoe Pin, 2014

⁶ Generalised Scheme of Preferences (GSP), namely the Everything but Arms (EBA) scheme. The Everything But Arms scheme gives the 50 Least Developed Countries duty free access to the EU for export of all products, except arms and ammunition.

⁷ Source: Kunzli, Raps, Bals, Wichate, Discovering Myanmar as Manufacturing Country, 2014

Myanmar garment manufacturers are currently operating under a CMP production system within the international value chains, although in some instances garment producers are operating under an OBM system for the local market. The international brands are largely drawn to the country as a production hub for its low cost of labour, its status as a duty-free exporter under the E.U. Generalized Scheme of Preference (GSP)⁶, and its potential to become more competitive than its neighbouring countries. Bangladesh's appeal to international brands has diminished due to worker safety issues, while countries like China and Vietnam have exhibited wage and production cost increases that are progressively making them less appealing. The CMP model, which is usually the first step in the development of a national garment sector, is characterized by buyers whose main decision driver is price. This constitutes a "Buyer Driven Value Chain"⁷, where international brands work with

local suppliers either directly, or through local/regional agents managing their orders.

Interviews with garment producers in Myanmar have indicated that even when they are dealing directly with an international brand, they often still have to resort to a regional agent with offices outside of Myanmar, to be able to manage international banking transactions. The current banking conditions in the country pose large problems and delays to manufacturers in receiving payments, especially when dealing with Western brands whose countries still maintain strict banking sanctions on Myanmar. Having to rely on this external agent for their payments not only involves delays in receiving payments, but also requires substantial handling fees that can reach 10% of the total amount transferred.

FIGURE 6

Regional comparison of garment Sectors, Pyoe Pin, 2014⁵

Metric	Myanmar	Bangladesh	Cambodia	China
Export Values	\$500 Million	\$19.9 Billion	\$4.445 Million	\$153.219 Billion
Capacity: Number of factories	210	3200	447	100,000
Assortment of Product Availability	High tech sportswear, formal suits and shirts	Knitwear, Denim, Kidswear	Shirts, footwear	All types of products
Export Locations	Global, Japan 45.5% and Korea 30.3%	Global	Global	Global
Worker Availability	Good availability	Workers available in abundance with basic skill	Limited pool of workers due to population size	Difficult to attract workers to the garment industry
Labour rates – Minimum Wage	No set wage. Current estimate of \$60/month including overtime	\$68 (5300Tk) basic rate	\$80	1200-1400RMB (\$195-228 USD) basic
Shipping times to UK	30 days (+/- 10 days)	30-35 days	28 days	35 days
Compliance Risk	Extremely High – implementation on labour law is weak and factories are not familiar with standards	High – factories are aware of codes of conducts, but are not implemented.	Medium to High	Medium to High
Quality Capacity	There are low quantities of skilled middle management	Abundance of middle managers, but skill is relatively low	Most of the skilled management is foreign	High skill level, good availability

Foreign Direct Investment (FDI), either in the form of Wholly Foreign-Owned Enterprises (WFOEs) or Joint Ventures, has driven much of Myanmar’s recent garment sector growth. The director-general of the Directorate of Investment and Company Administration (DICA) estimates that most of the incoming manufacturing FDI is directed at the garment sector, and that it mostly originates from East Asian countries like Japan, Korea, and China.

According to MGMA estimates, the sector employs nearly 260,000 workers, or 1% of the country’s working population. Most of this estimated⁸ workforce is unskilled youth, especially young women, migrating from rural locations to Yangon where 95% of the garment sector is located. This workforce is expected to grow to 600,000 over the next three years, and to start attracting a more skilled migrating workforce (who previously emigrated to countries like Thailand) back into the country.

Garments are currently the fourth most important export in Myanmar. The national export strategy developed by the Ministry of Commerce plans to capitalize on the momentum enjoyed by the sector and work to increase competitiveness by:

- Supporting strategies that will help local manufacturers evolve from CMP producers to FOB producers so they are able to capture a higher value for their products.
- Increasing the quality of production by establishing a set of national quality standards in compliance with international criteria.
- Developing the currently insufficient export infrastructure (deep sea ports) as well as production locations (sector-dedicated economic zones).
- Developing a regulatory and legal framework to protect workers’ and producers’ rights.

Looking at the market through the lens of Porter’s five forces, the Myanmar garment sector is growing, but remains in a weak power position. Bargaining power of buyers is high, as international brands have multiple regional options (high threat of substitutes). These brands would choose Myanmar as a pro-

duction hub likely for its low labour cost, or in the event that other production hubs are too busy to accommodate the company. This leaves Myanmar’s garment sector with little bargaining power. Given that local manufacturers operate on a CMP production system, which does not require significant capital investment to launch operations, threat of new entrants in the market is high, both from domestic and international companies (high levels of rivalry).

While the Myanmar Garment Manufacturers Association reports approximately 300 exporting garment factories in Myanmar, the number of actual active export-oriented producers is estimated to be closer to ~210⁹. A study carried out by Impactt and Pyoe Pin in 2013 divides locally operating factories into three main categories – Leaders, Hopefuls, and Locally Owned. “Leaders” are larger organizations, usually with over 1,000 workers, either 100% foreign-owned or operating through joint ventures (JV). These factories are considered to be local industry leaders in terms of machinery, production quality, management, and labour conditions. Estimated at around 20 factories, they have the capacity to operate on an FOB. The second identified group, called “Hopefuls” is also a small group (30 factories). These factories are owned locally or through JVs and they typically retain a workforce between 500 and 1,000 workers. While they show limited quality and innovation in their machinery capital, lower labour conditions and management skills, they have exhibited growth potential on all fronts. The third and largest group (160 factories), the “Locally Owned,” is characterized by a smaller workforce, lower than 500 employees, local ownership, inadequate machinery, and low management skills.

FIGURE 7 Average factory workforce size, number of employees (14 factories)



⁸ National Export Strategy, Myanmar Ministry of Commerce and International Trade Center, 2014

⁹ Source: Toshihiro Kudo, How has the Myanmar Garment Industry Evolved, 2011

¹⁰ Note: percentages rounded up to the highest number

¹¹ National Export Strategy, Myanmar Ministry of Commerce and International Trade Center, 2014

<p>Labor</p> <ul style="list-style-type: none"> • Lower wages than many regional competitors • Large unskilled trainable available workforce • Currently relatively low number of disruptions (strikes) <p>Free trade agreement with the EU</p> <p>Low tax regimen</p>	<p>Skill level for mid- to high-skill tasks</p> <p>Low production quality, quality controls, technicians due to lack of current experience</p> <p>Infrastructure: Transport, Electricity, and Communications</p> <p>Limited access to: raw materials and inputs in country, land ownership, legal protection, and finance</p> <p>Banking system: Payment systems, LCCs</p> <p>Tax system incentivizing CMP over FOB</p>
<p>Buyers interest</p> <ul style="list-style-type: none"> • Asian buyers are a source of revenues and training • European and American buyers can be a source of reform in the sector <p>Neighbouring countries</p> <ul style="list-style-type: none"> • Vietnam, Cambodia and China are more expensive • Bangladesh is seen as risky by brands <p>Potential for specialization in woven items</p>	<p>Wage competition over workers with foreign investors in the sector and other industries</p> <p>Neighbouring countries</p> <ul style="list-style-type: none"> • Higher quality production, experience and labour skills, higher efficiency and productivity • Competition from upcoming economies in Africa with FDI attractiveness incentives <p>Buyers are still testing concept; no consistent orders</p>

FIGURE 8 Myanmar garment sector SWOT analysis

During the course of the study, 52 garment sector stakeholders were interviewed, and invited to the participatory workshops organized by the team. This research team carried out in-depth interviews with 14 local garment producers. These included both smaller locally owned and large internationally owned factories. The largest garment producer interviewed was 100% foreign-owned (Japan), and had a workforce of over 1,000 employees. Across the sample, interviews have indicated growth in the number of workers employed in the last three years, from an average of 606 workers per factory in 2011 to an average of 670 workers per factory in 2013. A garment factory's workforce is typically distributed as follows: 54% are operators at the sewing stations, 11% work at the cutting stations, 11% at finishing stations, 7% is in charge of quality control, while about 18%¹⁰ of the workforce performs support activities as helpers, guards, cleaners, and cooks.

The average basic wage paid to the staff, excluding bonuses and overtime, varied from factory to factory. Interviews indicated that the minimum average monthly salary is approximately USD 72 for entry positions (helpers), USD 116 for operators (including finishing, cutting, and QC), USD 260 for supervisors, and USD 443 for managers. It is worth noting that studies carried out by the Ministry of Commerce identified the average basic salary of garment sector workers as USD 90¹¹.

Interviewees were asked to share with the team their perception of the Myanmar garment sector, and they indicated that a large workforce is indeed a strength of the sector. A large number of workers are available for wages that are very low compared to competing countries. This large workforce, however, is largely unskilled. This has a substantial effect on the productivity and quality of local manufacturing. Garment manufacturers have indicated the need to train the workforce, but are not necessarily willing to pay for it. Interviews indicated that garment producers, while recognizing the need for better-trained staff, seemed concerned with investing in trainings; some suggested that skill development was the responsibility of organizations like the MGMA, who should provide trainings free of charge. Others expressed satisfaction with the current trainings provided to them by their international buyers, or that they were not willing to send staff for trainings, as workforce turnover is too high. Manufacturers' reluctance is due to the fact that workers will easily move from one garment manufacturer to another without any notice, for a salary increase of USD 10.

One indicator of the strength of the industry is the reported growth of new factories opening in Myanmar, which was described anecdotally by the MGMA as four to five factories per week¹². This business growth, if accurate, signifies an overall strong opportunity for the sector. Other strengths highlighted included the free trade agreement with the E.U., as well as the low tax regimen producers are subject to.

Respondents stated that one of the major weaknesses of the sector, and a key constraint to its growth toward a FOB production system, lies in the lack of locally available input supply. The local tax system, while supporting CMP-oriented producers with tax free imports and exports for good to be exported, does not provide the same tax incentives to FOB producers, limiting the incentives for manufacturers to transition to FOB, as they would not be able to source their inputs locally. While producing on a CMP basis, some respondents revealed that international buyers would be willing to allow them more freedom in sourcing their inputs, if the quality of local production allowed for it. Interviews established that almost all inputs – buttons and trims, chemicals, machinery – are en-



The sector is also suffering from infrastructural limitations. Producers in Yangon experience on average 3 to 4 electricity outages a day, leading to loss of production time. In most cases, factories own a diesel generator, which allows them to work through the outage, but it usually takes at least ten minutes to get the machinery working again, leading to a loss of 40 minutes to 2 hours for factories lacking a generator. In addition, the generator produces significant smoke, which makes the work environment less safe for employees. For cost comparison, electricity costs USD 0.04 to 0.09 cents / kWh when receiving electricity from the grid, while the cost can go up to USD 0.3 to 0.4 / kWh when using an average diesel generator¹³.

The banking system and access to credit have been identified as one of the major constraints to the growth of the garment sector. Manufacturers have difficulty accessing lines of credit or financing due to banks' requirements of large collateral. As well, interest rates can reach 12%, even if the official interest rate specified by Myanmar's central bank is 10%. Letters of Credit (LCs) remain another impediment for manufacturers. LCs are crucial to the sector, as they allow manufacturers to shift part of the risk of trade to the issuing banks. State owned banks like MFTB and MICB do offer LCs to importers and exporters, but these are not internationally recognized. As a result, manufacturers either have to own an office in Singapore to access LCs from foreign banks or they need to obtain them through foreign agents, and both options entail large additional costs.

Respondents indicated that a major weakness of the sector, and a key constraint to its growth towards FOB, lies in the lack of locally available input supply.

tirely imported, as these inputs are unavailable in the country. Thread is either imported raw from China and Korea then dyed in Myanmar, or sourced entirely from abroad.

Garment manufacturers stated that they cannot rely on the fabrics sourced in Myanmar to produce for international brands, as the quality is not high enough, and the reliability, timing, and scale of local production is insufficient.

¹² EMC interview with Myanmar Garment Manufacturers Association

¹³ Source: Harvard Kennedy School, ASH Center, Electricity Demand and Supply in Myanmar, 2012

Garment input sub-sectors

As stated before, one of the constraints to growth of Myanmar's garment sector is a lack of locally available input supplies. While a few embroidery facilities, and label and pattern paper suppliers are available in Myanmar, most manufacturers obtain pre-embroidered fabrics from their buyers. Dyeing, washing, and printing facilities are also available in the country, but these do not meet required standards. Garment manufacturers indicated that they do source part of their packaging materials and hangers locally.

The table below shows the full list of inputs considered during the initial phase of the research. Seven characteristics were considered for each sub-sector: current production in country, availability of raw materials in country, level of technology necessary, its importance to the garment sector, the feasibility of interventions within five years' time, the levels of training needed and the level of financing required. The colour coding represents the initial estimation of how each characteristic makes each input either attractive ✓, neutral ⊖ or not attractive ✗ to the industry.

FIGURE 9 input selection process

Inputs	Currently produced/ processed in country	Raw materials available in country	Level of technology needed	Importance to garment sector development	Interventions feasible within 5 years	Level of training needed	Level of financing needed
Thread	⊖	⊖	⊖	✓	⊖	⊖	⊖
Fabric	⊖	⊖	⊖	✓	⊖	⊖	✗
Buttons	✗	✗	✗	⊖	✗	✗	✗
Embroidery	⊖	⊖	⊖	⊖	✓	✓	✓
Chemicals	✗	✗	✗	✗	✗	✗	✗
Dyeing	⊖	✗	⊖	✓	⊖	⊖	✓
Washing	⊖	✗	⊖	✓	⊖	⊖	✓
Machinery	✗	✗	✗	✓	✗	✗	✗
Pattern Paper	⊖	⊖	⊖	⊖	⊖	✓	✓
Printing	⊖	⊖	⊖	✓	⊖	✓	⊖
Labels	⊖	⊖	⊖	⊖	⊖	✓	⊖
Zippers	✗	✗	✗	⊖	✗	✗	✗
Hangers	✓	⊖	✓	⊖	✓	✓	✓
Weaving	⊖	⊖	⊖	✓	⊖	⊖	⊖
Packaging materials	✓	⊖	✓	⊖	✓	✓	✓

Sub-sector selection workshop

These initial findings were presented in a half-day workshop in Yangon, where participants from the garment sector were asked to share their views on the growth, opportunities, and key constraints of the garment sector. During the participatory section, stakeholders were asked to help the research team identify garment sector inputs and service areas that should be further investigated. The research team, in cooperation with the ILO, facilitated the selection. Participants were presented with initial findings on fifteen input supplies. As depicted in Figure 10, the first screening was based on whether production or processing was available in Myanmar and what private sector interviews had identified as most needed. The second screening considered whether it was potentially feasible and interesting to invest in these sub-sectors in the next five years. This screening was carried out by the research team and participants indicated they agreed with the selection. Finally, par-

ticipants were presented with a shorter list of inputs to discuss: Packaging Materials, Hangers, Woven Fabric, Dyeing, Embroidery, Labels, Printing and Knitted Fabric.

Participants, divided into groups, were asked to screen the list of eight inputs and to shortlist up to three, based on four dimensions: highest need for the garment sector, inputs currently available and reliable in country, feasibility of improving the sub-sector within five years, and its needs. This process led to the selection of packaging materials (including both cardboard boxes and polybags) and hangers. The same groups were asked to discuss services necessary to the garment industry and to select one of them, also on four dimensions: need of the garment sector, feasibility of interventions within five years, sub-sector needs, and the potential to create better jobs. The result of this process was the selection of training providers.

FIGURE 10 Services selection process

Key decision criteria

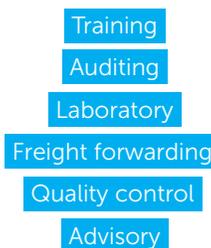
Which of these services does the garment sector need the most?

Is it possible to substantially improve and expand local production in the next five years?

What would it take to improve the services?

Creation of better jobs

Services considered



Final selection

Training

FIGURE 11 Input supplies screening process

1st screening

Is production or processing of the inputs already available within the country?

What would the private sector prioritize, and via which actions?

2nd screening

Is it possible and attractive to intervene in this sub-sector and see the results in the next five years?

Which inputs require technical assistance to improve efficiency, quality and productivity?

Final decision criteria

Which of these inputs does the garment sector need the most?

What is the current quality and reliability of production?

Is it feasible to substantially improve and expand local production in the next five years?

What would it take to improve the sector (machinery, skill sets, training)?

Inputs considered

Machinery | Pattern paper | Washing | Labels | Zippers | Printing
 Buttons | Woven fabric | Thread | Chemicals | Dyeing | Weaving
 Packaging materials | Hangers | Embroidery | Knitted fabric

Inputs considered

Woven Fabric | Thread | Dyeing
 Hangers | Knitted fabric | Weaving
 Embroidery | Washing
 Packaging materials | Labels

Final input selection

Woven fabric | Dyeing
 Hangers | Knitted fabric
 Embroidery | Washing
 Packaging materials | Labels

Final selection

Packaging materials
 Hangers

SWOT analysis

While the following sections dive deeper into packaging materials and hangers, it is worth mentioning that many of the characteristics of the business environment previously identified for the garment sector also apply to input supply sub sectors.

The country's recent economic growth is transforming Myanmar into a desirable business destination for foreign investors in different sectors, including sectors in their "infancy," which are drawing foreign investors willing to seize an opportunity. The low salary levels of a large available workforce make Myanmar an attractive business destination, especially when compared to regional neighbours, such as Vietnam and China, which are becoming higher-cost producers.

The garment sector also suffers weaknesses. While production in neighbouring countries might be higher-cost, they also offer high-skilled workers and higher quality production. The Myanmar workforce remains untrained, and employee turnover is a concern as workers are known to switch to new jobs for marginal salary increases. Access to raw materials, further discussed below is a large constraint on both packaging materials and hanger production, as it affects costs and lead times. The business-enabling environment also poses challenges, as electricity provision is limited and access to capital hard for small and medium enterprises.

FIGURE 12 Sub-sectors SWOT analysis

<p>Labour</p> <ul style="list-style-type: none"> • Lower wages than many regional competitors • Currently low numbers of disruptions (strikes) <p>Low tax regimen</p>	<p>Low skill Level for mid-high skill tasks</p> <p>Low production quality, quality control, technicians due to lack of current experience</p> <p>Access to: raw materials and inputs in country, land ownership, legal protection, and finance</p> <p>Infrastructure (Transport, Electricity, and communications)</p> <p>Financing</p>
<p>International Interest</p> <p>Lower cost of production in comparison with neighbouring countries</p> <ul style="list-style-type: none"> • Vietnam, Cambodia and China are more expensive <p>Myanmar economic growth</p>	<p>Wage competition over workers</p> <p>Neighbouring countries</p> <ul style="list-style-type: none"> • Higher quality production, experience and labour skills, higher efficiency and productivity

Packaging materials

Production of packaging equipment is happening at small scale in the country. More complicated boxes and polybags are imported from abroad, while a few local producers offer lower quality and less resistant packaging materials, mostly used in the domestic market. There are sixty-three companies officially registered as suppliers of packaging materials¹⁴ to the garment industry in the Myanmar textile directory, only a few of them were carrying out their own production but were instead acting as importers and retailers. From conversations with local producers, EMC estimates that between 30 of these companies actually cater to the garment sector.

The garment sector needs two main packaging items: cardboards and polybags, and if the manufacturer is export oriented, both need to meet the strict specifications of the international clients. International brands can either indicate “designated suppliers”. Most production of packaging materials in Myanmar falls short of international standards, and thus supplies need to be imported.

FIGURE 13 Packaging sector simplified supply chain: boxes



Cardboard boxes

One of the key inputs for cardboard boxes is paper. The Myanmar Pulp and Paper Industry Association states that six of its members are paper mills¹⁵ (all government owned), while its remaining eighteen members are locally-owned paper manufacturers. In addition, EMC identified one Korean garment manufacturing company that vertically integrated production of cardboard boxes for its own three garment factories, and is currently expanding to sell boxes to the rest of the garment sector. There is also a large Japanese¹⁶ paper manufacturer that is currently building a facility in Myanmar to produce packaging materials and plans to begin commercial operations in the second half of 2015. The actual size of the industry is opaque. Sources like the Myanmar Pulp and Paper Industry Association indicate over 20 producers of cardboard boxes in the country, while sources like the Myanmar Textile Directory indicate a much larger number of suppliers. However, not all identified by the former are able to produce at the standards required by the export oriented garment industry, while those identified by the latter are not actual producers, but suppliers importing boxes from abroad. The biggest interviewed cardboard producer in the country, Myanmar Yes Co. Ltd., had a total production capacity of up to 400 tons/month, and employed 250 workers. The smallest identified was able to produce up to 60 tons/month and employed 100 workers. The research team noticed large differences in the factory and working conditions among cardboard producers, from more modern producers with proper working standards to smaller factories characterized by sub-standard conditions. Further research in this area should be carried out with the support of a labour conditions expert. Supply of locally produced cardboard boxes does not seem to meet the demand, as a large number of packaging suppliers are not producers but importers. The current market demand for cardboard boxes in Myanmar is estimated to be >3,000 tons / month, of which 70% is produced locally by private factories, while the remaining 30% is imported or produced by state owned companies¹⁷. While all garment manufacturers interviewed indicated that they purchase cardboard boxes locally, not all of it is locally produced.

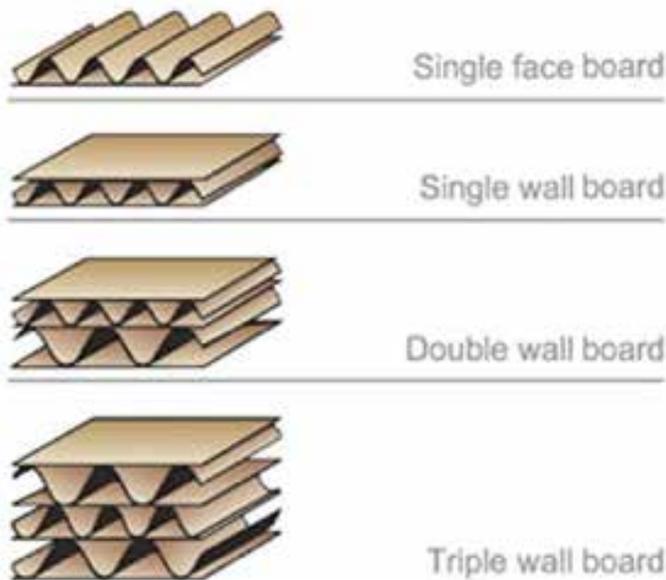
One key finding from conversations with cardboard producers was that they did not perceive the garment sector as a growing business opportunity, highlighting a lack of linkage and infor-

¹⁴ Source: Myanmar Textile Directory

¹⁵ Research was not carried out with government-owned paper mills

¹⁶ Oji Paper company, <http://asia.nikkei.com/Business/Companies/Oji-Holdings-building-new-plants-in-Vietnam-Myanmar>

¹⁷ Pulp, Paper and Packaging Industry of Myanmar

FIGURE 14 Main types of cardboard produced

mation sharing between the two sectors. Instead, packaging producers seemed focused on the packaged food and seafood products industry, where they have more contracts. Producers were not willing to share details of their profit margins or sale prices for different industries, but highlighted varied box quality requirements across sectors and stronger ties to certain industries as reasons for current relationships with garment factories.

Paper for cardboard boxes in Myanmar is either purchased locally or imported, depending on the quality requirements. The vast majority of paper is imported (The Myanmar Pulp and Paper Association estimates that 97% is imported) from Thailand and from other countries like Indonesia and China. Cardboard producers can purchase locally from two sources: one of the six existing paper mills in Myanmar, or from recycling plants that purchase scrap paper from informal collectors. Interviewees reported that the local paper quality is not high enough for producing international export quality packaging.

The cost of locally produced, virgin paper is USD 410 / metric ton, while the cost of locally produced recycled paper is USD 370 / metric ton. Interviews indicated that the cost of imported paper from Thailand can vary, but it is on average USD 40 / metric ton higher than the cost of locally sourced paper.

One of the interviewed factories reported that they recycle their own paper, and that they are able to use this to produce paper tissues or low quality paper for the internal parts of pack-

aging materials. In other instances, informal garbage collectors deliver paper and other materials to sorting facilities, who then resell the scrap paper to local manufacturers for USD 144 / ton.

Paper is purchased in the form of rolls of kraft paper. These rolls differ in quality and width, and are placed on rolls to stretch and dry it. One section will be shaped into sheets of straight paper that will form the outer layer of the box (higher quality, thicker imported paper), while another will be corrugated. Corrugation is the process whereby the paper is run through a machine featuring heavy rolls blowing steam that will shape the paper into a continuous S-shape. These corrugated sheets will be used for the internal layers of the boxes. Figure 14 represents the main types of cardboard that can be produced, differing by number of layers and carrying capability: Single Faced Board, Single Wall Board, Double Wall Board, and Triple Wall Board. These are then cut into sheets that are finally glued together into cardboard box fitting the requirements of the client.

Local cardboard producers, as well as the Myanmar Pulp and Paper Association, agreed on the major needs of the local paper industry as:

Input supplies

The quality of locally produced paper is not high enough, and the industry is continuously forced to import from abroad.

Machinery

The level of machinery currently utilized by most of the industry does not allow for higher quality production. Local manufacturers can only produce cardboard sheets that are up to 140 grams/square meter, while the garment industry would need double that capacity.

Workforce skills

The initial process of working the pulp/paper onto the rolls to obtain thick paper sheets requires an able workforce.

Electricity

As an intensive machinery industry, the production of cardboard boxes is heavily afflicted by the electricity shortages in the country.

The ability of the garment sector to source locally is an important step in their move from CMP to FOB. Buyers allow manufacturers freedom in sourcing inputs in controlled phases, starting with less critical inputs such as boxes. If cardboard producers were able to source locally produced, higher quality paper, they would be able to reduce lead times and they would ensure that manufacturers (garment and others) would be able to rely completely on them. The estimated cost savings from increasing the percentage of locally produced boxes up to 100% is estimated to be USD 5 Million / year, across all sectors purchasing boxes¹⁸.

Improving the quality of paper recycled in the country does not seem to be a strategically beneficial option for an ILO intervention for several reasons. First, it would not decrease the need of the sub-sector for imported paper, which is the main growth constraint. Second, collection and recycling are carried out by informal workers in low working conditions; while these jobs represent an important potential target for job improvement, the current timeframe and resources make it unlikely that a successful intervention might be implemented. However, it would be suitable for future research and project design to investigate and address the needs of these workers.

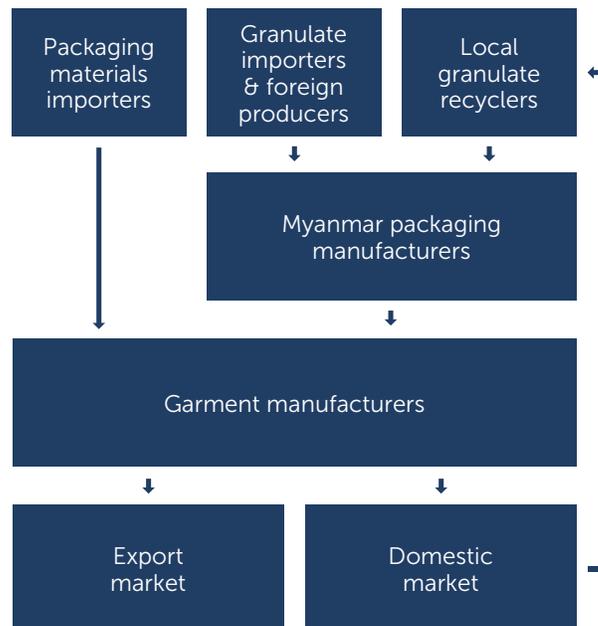
Polybags

The main input needed to produce polybags is granulate with the addition of a small number of other chemicals. There are 60 plastic product manufacturers in Myanmar. From conversations in the sector, it is estimated that 20 of them are producing polybags of different types (garment, food, others). Production of polybags is not labour intensive, and factories of this sort employ on average 20 to 30 operational staff. Local producers of polybags have two options for input supplies: import virgin granulate from abroad or purchase locally recycled granulate, which does not meet the requirements of international brands.

FIGURE 15 Polybag production process

1	2	3	4
Material blending	Extruding	Printing	Finishing

FIGURE 16 Packaging sector simplified supply chain: polybags



The polybags production process can be broken down into four main phases:

MATERIAL BLENDING: The granulate resin is mixed in a blending machine with additives.

EXTRUDING: The hot molten mix is then blown with a hot air stream into a film that is then run through large pressure rolls to give it a flat bag shape. Simple transparent packing bags are produced this way, while more complicated ones are subject to additional production printing steps. The majority of polybags used in the garment sector are these simple bags.

PRINTING: Some polybags are then imprinted with the desired logo or message.

FINISHING: The last phase includes cutting, sealing, and folding.

¹⁸ Pulp, Paper and Packaging Industry of Myanmar

The virgin inputs necessary are imported into Myanmar from Thailand and China, as the country does not have a developed petro-chemical industry. The sector is characterized by a need for high-level skills necessary to operate the machinery, and polybag factories are not labour intensive but instead are machine intensive. A few workers can run the main machinery at full capacity, while the only labour intensive activities are packaging the product, and transporting the inputs to the machinery.

In terms of sourcing the inputs, the local factories indicated that given the constraints on sourcing granulate from abroad, they have started recycling plastic to obtain an additional source of granulate. However, the quality of recycled granulate in Myanmar is extremely low due to poor practices such as the use of multiple types of plastics and to the lack of proper machinery to clean and process the plastics. This process does not allow for the production of transparent, fully recyclable polybags, which are required by international garment clients. For this reason, polybags produced from recycled plastics are only used in the domestic market, while those produced from internationally sourced virgin materials are used for exported products. However, international petrochemical companies have recently confirmed their commitment to launch operations into the country. The French multinational Imerys, operating in industrial minerals, is currently considering entry in Myanmar. This would represent the beginning of a petrochemical industry in the country. In a recent update, the Myanmar Investment Commission (MIC) stated that in January 2015, twenty licenses were approved for foreign and JV enterprises that were assigned to operate in different sectors, including a few producers that will focus on the production of bags and polybags. However, information about these enterprises is not public at the moment.

The main need of the sub-sector revolves around the ability to easily, quickly, and cheaply source granulate. The entry of international plastic producers might reduce the cost of granulate for plastic manufacturers, as well as speed up the of sourcing the inputs. This would translate into cost and time savings for the garment sector, but would not result in substantial job creation, as the production of polybags is not labour intensive. Therefore, investing in improvement of polybag production utilized in the local market should not be a point of intervention for ILO.

FIGURE 17 Simplified hanger supply chain



¹⁹ EMC Interview with MGMA and discussions with producers during workshops

Hangers

Interviews with two international garment buyers indicated that they would be very interested in the possibility of local manufacturers being able to source hangers locally. Shipping hangers are expensive for producers working on a CMP system, as it entails a large waste of space when shipped in containers.

Almost 90%¹⁹ of the garment production of Myanmar is shipped folded in boxes, while only up to 10% is shipped hanged. While local production of hangers would benefit the sector, the substantial capital requirement poses a critical limitation to the current growth potential of the sector.

Hanger production for the garment sector is a machinery intensive and expensive process. While the production of plastic hangers used in retail shops and for domestic purposes is a rather simple process, consisting of one operator working a heat press that moulds the plastic into a fixed shape, producing metal and plastic hangers that fit to the specifications of international garment clients is much more complicated.

This research identified only one producer (Proven Technology Industry) in the country who currently has the capacity to manufacture hangers for the garment sector. Proven Technology Industry is a large producer of automotive batteries established in 1996. In 2011, they started producing hangers in partnership with MHL Industries, a large regional producer of hangers. Though each garment client has specific requirements regarding the shape, size, and weight of the hangers they need, through the partnership, Proven Technology Industry has access to the large stock of moulds owned by MHL. This reduces the need for large capital investments. All the inputs necessary for hanger production, which are mainly granulate and metal, are imported from abroad, as Myanmar does not have a developed petro-chemical industry.





Training services

The interview process indicated that the Myanmar garment sector and its input suppliers lack skills in both technical production and managerial practices. During the research process, workshop participants confirmed that while the availability of

a sizeable low-wage workforce is a strength of the garment sector, workers are still largely untrained and in need of productivity, efficiency, managerial and other types of trainings. Currently, training opportunities are limited in Myanmar.

Technical trainings

The technical training needs of the industry can be divided into those directed at workers, supervisors and, managers.

WORKERS' TRAININGS would strengthen the skills of operators in garment factories. These include trainings to expand workers' skills in sewing, quality control, and finishing. Specific examples of these trainings modules include:

- **Fabric use** Improving use of cutting plans to increase utilization of fabric, increasing efficiency and reducing costs related to waste.
- **Quality control** Targeting specific workers who check products for defects and errors, to improve the factory's efficiency and reduce waste.
- **Model verification** Strengthening systems of cooperation between management, who decides production of a new model, supervisors, who design how line production system will function, and workers, who will have to carry out production.
- **Work-in-progress** Strengthening procedures for handling each bundle, choosing ancillary equipment for internal transport, and ensuring ease of passage of the bundles from one operator to the next.
- **Waste reduction** Improving use of fabric and production items.
- **Housekeeping** Improving procedures for housekeeping, vacuum cleaning, and waste handling.

SUPERVISOR TRAININGS aim to provide supervisors with a better understanding of production techniques, as well as implementing productivity and efficiency systems and avoiding passive or authoritarian styles of leadership. These trainings could include:

Production line design

- Preparing and designing product and technical verification sheets including measurements, type of fabric and other inputs.
- Designing individual workstations to simplify procedures as much as possible. This should encompass work performed directly at the single station (i.e. cutting or sewing) as well as work conducted around the station (i.e. delivery of inputs, transport of worked items to the next station).
- Estimating and reducing waste from production, which in the garment sector mostly stems from improper fabric cutting
- Optimizing the production line and process of each type of garment, by studying the best layout and workflow for each product.

Monitoring

- Workers' performance in terms of time worked, number of pieces produced, number of pieces with defects, delays, etc.
- Quality controls to verify which types of garments and which steps of the production lines produce the highest number of mistakes, and how to fix the most recurring ones.

- Ability of supervisors to use these monitoring systems not only as a way to penalize inefficient production, but to reward the best operators with salary increase recommendations as well as promotions.

Machinery

- How to regularly monitor machinery, and how to keep well organized tracking of when a machine last received maintenance or when in the future it should be checked.

MANAGEMENT TECHNICAL TRAININGS seek to foster the ability to obtain the highest amount of information from factory's supervisors and to apply it to management decision-making regarding production. Direct examples of related training modules include:

Organizational

- Ability to design the factory's organizational chart with clear job descriptions to avoid misunderstandings between different workers' groups.
- Ability to design a system of salaries, benefits, and incentives that is understood throughout the factory so that workers are informed of their potential for promotion and salary increases.

Production planning

- Ability to work hand in hand with factory supervisors to ensure that the factory's capacity and available labour are taken into account when contracting delivery quantities and dates, as well as sourcing the necessary production inputs.

Machinery

- Ability to work with supervisors to monitor the condition of the available machinery, to be able to plan for costs of maintenance and replacement for better machinery
- Technical knowledge of the availability, cost and potential benefits of new and improved machinery, from increased production capacity, to energy savings and environmental impact.

Available Providers

In this still early stage of the re-birth of the sector, the availability of the enabling service provider, while needed, is still somewhat limited. This is due both to the decreased growth experienced by the country during the era of economic sanctions, as well as to the lack of willingness to invest in trainings by garment producers. The current CMP system of production dominating the market, with its focus on cost rather than high quality, has not created a solid system of incentives for manufacturers to invest in trainings as a way to improve quality and efficiency. The main providers of technical trainings available within the Myanmar garment sector are described below.

The **MGMA**, with funding and equipment provided by Japanese International Cooperation Agency (JICA), runs a training school for the garment sector. The school is located in a building belonging to the Ministry of Commerce, and is set up with 120 working stations where garment manufacturers can send their workers to be trained. The facility is called the Myanmar Garment Human Resources Development Center (MGHRDC), and offers two courses, free of charge: a 10-day basic sewing training and a 10-day supervisor-training course. According to our research, the institution does not appear to be running at full capacity. Due to the lack of full time trainers, who are usually provided by JICA, the courses appear to run only three to four times per year.

The SMEs for Environmental Accountability, Responsibility and Transparency Project (**SMART**) was founded by the European Union starting in 2013 and with a time frame currently spanning until 2015. The program offers tailored improvement programs for 15 factories. The modules related to Corporate Social Responsibility (CSR), quality control, productivity, health and safety, and working conditions. These trainings are run in the factory and classrooms. The program partners with the German Textile Federation and the Dutch organization CBI (a subsidiary of the Dutch Ministry of Economic Affairs), which deliver additional training on export promotion, and arrange trips to Europe to participate in trade fairs and meet potential buyers.

Impactt Ltd provides a range of trainings tailored to garment factories that include training for board directors, commercial teams, and auditors, and focus on CSR, supplier management, and site management. Impactt is active in China, Bangladesh, India, Thailand, and Turkey and is currently entering Myanmar. To do so, they have recently partnered with Hamsa Hub to deliver trainings to the factories within the program they run with the Business Innovation Facility (BIF). At the moment,

Impactt is working with two factories, though they have eight more confirmed to join in 2015 and plan to reach a total of 16.

Additionally, **international buyers** offer trainings to the garment factories that they develop longer business relationships with, to improve their capacity, quality, and efficiency. The content of these trainings usually focus on technical assistance, tailored to the specific need of the receiving factory. Buyers provide these trainings either by sending one of their internal technicians or by contracting international experts who are then sent to the selected factories. Marks & Spencer provide a good example of this type of training. They send technical experts to their supplying factories to improve production lines, efficiency, and quality.

Finally, garment factories, though rarely, do directly hire **international expert** consultants to travel to Myanmar and train their staff. This remains infrequent as garment producers still lack either the willingness or the necessary capital for this expense, the cost of which can vary between USD 1,500 and USD 2,000 / month, plus travel allowances. It was also reported that a few garment factories hired these experts not just as trainers, but also as full-time managers, to improve the activities of the factory over a longer period of time. However, it was noted that language and cultural barriers were problematic.

FIGURE 18
Summary of technical training providers

Training provider	Funded by	Training offer	Limitations
MGMA	JICA	<ul style="list-style-type: none"> • Sewing • Supervisor Training 	Only being run 3 or 4 times per year, due to lack of foreign expert trainers, usually provided by JICA
SMART	EU	<ul style="list-style-type: none"> • CSR • Productivity • Quality control 	Time limited (2 year program). Currently limited number of factories
Impactt	In cooperation with BIF and HamsaHub. <i>Impactt's plan is to receive factories that pay for the services themselves</i>	<ul style="list-style-type: none"> • Productivity • Human resources 	Currently limited number of factories
International buyers' trainings	International buyers	<ul style="list-style-type: none"> • Quality control • Productivity • Efficiency 	Based on the existence of a lasting or growing relationship between international brands and garment producers
International experts	Local garment factories	<ul style="list-style-type: none"> • Productivity • Management 	<ul style="list-style-type: none"> • Expensive • Limited willingness to pay from garment factories

Managerial skills trainings

In addition to technical trainings, the garment sector of Myanmar also lacks managerial skills that would increase its potential to grow from the current CMP production system toward an FOB structure. While this move is very much in line with national strategies and the sector's interest, managerial skills are needed to run these more complex systems, which will entail increased responsibility among managers. This new role includes sourcing inputs independently, accounting for a more complicated system of expenses, as well as increasing the level of social compliance to mirror the needs of international brands. The training modules that would cover the current managerial needs of the Myanmar garment sector include:

- **Supply chain & sourcing** Locating the best suppliers, coordinating the delivery of inputs, reducing lead times, as well as managing shipping times and separate contracts.
- **Human resources management** establishing internationally recognized working conditions, work times, as well as strategic HR practices to improve retention and staff development.
- **Cash flow management** Monitoring, analysing and adjusting the companies' cash flow, to avoid cash shortages hindering growth.
- **Accounting and book keeping** Keeping track formally of all expenses and revenue, as well as purchase orders, sales orders, inventory, payroll, bank reconciliations, and bill of materials.
- **Business planning** Clearly defining the enterprise's potential to grow, strategy, objectives, as well as capital and physical requirements for success.
- **Marketing and sales to international buyers** Designing compelling marketing and sales tools for garment manufacturers to reach out to international buyers with presentations and catalogues highlighting product and labour capabilities of the factory.
- **Occupational safety and health** Building on the existing Better Work modules, the ILO might introduce a training directed at improving the knowledge of managers and supervisors of temperature, ventilation, chemical hazards, fire, and electrical safety.
- **Preventing and addressing sexual harassment** Building on the already existing Better Work modules, the ILO might introduce information and trainings to middle and senior management on how to identify harassment, how to conduct interviews and impartial investigations respecting confidentiality issues.

Two institutions were identified as the most reputable and capable of performing these trainings within the country:

- **Myanmar Human Resource Institute** Active in Yangon, Mandalay and Bago, it offers management courses, as well human resources to both public and private sector clients.
- **Strategy First Institute** This company is a for-profit, world-class learning centre of business management, specializing in corporate strategy, entrepreneurship, and marketing.

Recommendations

The following section will walk through the potential interventions that might be considered by the ILO, broken down into three categories:

Near-term

a set of interventions that the ILO might develop and implement in the short term (within three to six months)

Deepen sector linkages

with buyer-led workshops, trade fairs, and strengthening linkages to banks

Information sharing

with business directories and white papers

Year-long

a set of interventions that would take longer to design, and that ILO might develop, launch and complete within the span of one year

Skill development

Technical skills
Management skills

Policy

A set of interventions to consider for advocating and promoting the law and regulation country policies

Working toward national strategy goals

Safety and working conditions
Industry production standards
Steering committee for strategic policies

Near-term interventions

The study highlights potential for interventions to be launched and implemented in the short term. The first set of near-term suggested interventions revolves around deepening the **sector linkages** between value chain actors, while the second one revolves around improving the level of available information and knowledge resources in the sector.

Deepen sector linkages between value chain actors

Buyer-led workshops

The relationship between international brands and local garment manufacturers is lacking in strength and depth, and EMC recommends the ILO design and facilitate a series of workshops to improve these linkages.

ACTORS These workshops should be led either by an international consultant or workshop organizing firm (the person or firm engaged would need to manage relationships with foreign brands). The key presentation at workshops would be conducted by international brands or by regional agents sourcing for these brands. Participants of these events should be primarily garment manufacturers as well as willing and interested input suppliers (both local and international). These workshops should be large enough to ensure a networking function, and small enough to guarantee that the events will remain participatory in nature, with good interaction between buyers and garment manufacturers. The suggested size for each of these events would be for 20 to 30 companies per event.

CONTENTS Each brand should present their company overview, requirements for garment production including technical specifications, required product lines, as well as one additional topic. Some topics could include: quality management, volume management, workflow improvements, the strengths and weaknesses of the Myanmar garment sector, access to trade finance, managing labour issues, or a case study of working with a new production partner through collaboration.

TIMELINE EMC recommends that these events should take less than half a day to avoid participation fatigue and should be organized quarterly or bi-annually, to avoid over committing invitees, and to allow for sufficient planning.

CHALLENGE

WEAK VALUE CHAIN LINKAGES

Strengthen linkages between **international brands** and **garment manufacturers**

ACTIVITY Workshops led by buyer or regional agent

BENEFICIARIES Garment manufacturers and international brands

BUSINESS MODELS

The ILO could initially sponsor the organization of workshops conducted by representatives of either international brands or of regional agents procuring on behalf of international brands. These could become a business activity or marketing activity for the organizer in the future. On these occasions, the buyers could come and present to suppliers their needs and interest in the market.

One crucial point of each of these workshops would be for buyers to present what they need from producers (perhaps to help them move towards produce as FOB), increasing the knowledge of the sector.

Additionally, it would allow for networking between buyers and suppliers.

PARTNERS AND IMPLEMENTERS The ILO could involve international brands that have either already expressed interest in the market or that have representatives in nearby countries (Vietnam, Cambodia). Brands with interest in the market and a strong CSR commitment like TESCO, H&M, Marks & Spencer, and GAP are ideal partners. Additionally, this could be an opportunity to cooperate with JICA or JETRO to engage a Japanese brand. The MGMA would represent a good partnership in involving locally operating garment sector producers. It is imperative that the invited manufacturers are a good poten-

tial partner for the presenting buyer in terms of product and capacity. The ILO might consider using the services of a consulting company or a workshop company like “Myanmar Promotional Services,” which specializes in organizing business events, such as large workshops and trade fairs.

Small scale garment trade fairs for input suppliers

Given the weak linkages between garment producers and input suppliers, it would be beneficial to the sector if the ILO could facilitate the growth of these relationships. Local producers might also be interested in entering joint ventures with foreign producers who have the technical knowledge and the capital necessary to improve their production. The development of the relationship between foreign and local producers would benefit the sector.

During the research, input suppliers often were not available for a meeting, potentially indicating that they do not see large business potential in the garment sector. Therefore, it might be challenging to engage with these actors. EMC recommends organizing a small trade fair, focused on building linkages with

a few inputs suppliers (both local and international) necessary to the garment sector. This would allow the ILO to gauge interest from the input suppliers for future involvement. If the first event is successful, this model could be replicated in the future, or combined with larger trade fairs already in existence.

ACTORS Targets of these events should not be limited to local input producers, but to the wider net of input suppliers that could service the garment industry. This would include local producers, local importers of foreign inputs, as well as international distributors and producers willing to service and enter the Myanmar market. Local garment manufacturers, both foreign and locally owned, should be also involved.

TIMELINE The ILO could organize two of these events in a one-year time frame, coordinated with the buyer workshops described above to ensure attendance fatigue is considered.

PARTNERS AND IMPLEMENTERS The MGMA is a natural potential partnership in reaching out to garment manufacturers to ensure their participation in the fairs. The Myanmar Textile Directory (mentioned below) would represent a good link to reach out to input suppliers active in the country, however individual invitations would need to be made in order to get attendance from a number of input suppliers. Utilizing the services of a consulting company or event organizing company would again be beneficial in this instance. It could be advantageous to partner with the UMFCCI and the MGMA to reach out to garment input suppliers as well, on top of garment manufacturers. Two additional channels for reaching input suppliers include the Myanmar Plastic and the Myanmar Paper and Pulp associations.

CHALLENGE

WEAK VALUE CHAIN LINKAGES

Strengthen linkages between garment manufacturers and input suppliers

ACTIVITY Mini-trade fairs

BENEFICIARIES Garment manufacturers and input suppliers

BUSINESS MODELS

Given the currently low strength of the linkages between garment manufacturers and input suppliers, organizing trade fairs specifically targeted at the wider net of input suppliers to the garment sector would allow a first step towards the strengthening of the linkage.

The ILO could organize these fairs, involving:

- Garment manufacturers
- Input suppliers
 - Input producers
 - Local producers
 - International and regional producers
 - Input dealers and importers

This larger net would allow for the growth of the linkage without restricting it to the still nascent input supply sector in the country.

Linkages with the banking system

Sector interviews to both garment and input manufacturers have indicated that access to growth and working capital poses an important limitation in their development. Banks are currently lending in the sector, but loan terms are not attractive for long-term investments or working capital management (e.g. loan terms of 12 months). The ILO could act as a facilitator in creating awareness between banks, government ministries, and garment manufacturers.

Building bank awareness

While growing rapidly, the garment sector might not have yet caught the interest of local banks, or alternatively local banks might not have enough information for their credit departments to accurately assess the relevant financial risk. Developing a presentation showing the key facts (such as estimated NPLs), growth and potential of the sector, and key financial growth needs (investment lending and trade lending) would be a starting point in raising the awareness of lending institutions.

CHALLENGE

WEAK VALUE CHAIN LINKAGES

Strengthen linkages between garment manufacturers and banks

ACTIVITY Facilitating meetings or workshops

BENEFICIARIES Garment manufacturers and banks

BUSINESS MODELS

BUILDING BANK AWARENESS: While growing fast, the garment sector might not yet be seen as interesting by local banks. Developing a presentation showing the key facts, growth and potential of the sector would be a starting point in raising the awareness of lending institutions.

CREATING LINKAGE BETWEEN BANKS AND THE GARMENT SECTOR: If the results of direct meetings with the management of local banks are fruitful, the next step would involve creating a connection between manufacturers and the banks. This could be done by organizing a participatory workshop where garment manufacturers would discuss their capital needs and banks would present to manufacturers their requirements in terms of business planning, accounting practices and collateral.

Strengthening linkages between banks and the garment sector

If the results of direct meetings with the management of local banks are fruitful, the next step involve creating a connection between manufacturers and the banks. This could be done by organizing a participatory workshop where one to two garment manufacturers can present and discuss their capital needs and three to five banks could also present to manufacturers their requirements in terms of lending application, business planning, accounting practices and collateral. This type of activity has been proven successful in other emerging markets.

PARTNERS: PUBLIC SECTOR On the public sector side, the ILO might consider partnering with:

IFC – through its Trade Finance Program in cooperation with CB bank. IFC also provides credit lines to Yoma Bank and Myanmar Oriental Bank to support lending to SMEs.

IMF – is working with CBM on pushing financial sector reforms as well as collecting and providing reliable sector statistics.

UNCDF – is working on a roadmap to address the constraints to financial inclusion and promoting private sector growth.

GIZ – is working on a Technical Assistance program devoted to supporting three banks in Myanmar.

PARTNERS: PRIVATE SECTOR On the private sector side, the ILO should try to include:

The largest non-state-owned banks – Kanbawza Bank, Co-operative Bank, Myawaddy Bank, Myanmar Apex Bank, Ayeyarwady Bank, Asia Green Development Bank, United Amara Bank, Yoma Bank and SMIDB.

Foreign banks who were already granted licenses to operate in Myanmar – Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group and Mizuho Financial Group (Japan), UOB and OCBC (Singapore), ICBC (China), Bangkok Bank (Thailand), Maybank (Malaysia) and ANZ (Australian/New Zealand).

Information sharing

There is a lack of available information and knowledge resources in the sector, at all levels of the value chain. This report will be a valuable addition to the sector analysis; however, international brands and buyers have indicated they need better access to market specific information (manufacturers, production volume, quality metrics, workforce information, regulatory framework).

Business directory

To support the ease of access of different actors to other market actors' information, the ILO might sponsor the creation of a business directory. This would consist of lists of:

- Local garment manufacturers, their workforce, production lines, ownership and direct contact information.
- Input suppliers, importers, distributors as well as manufacturers, including production items, capacity and direct contact.

- Service providers to the sector: legal firms, freight forwarders, JV consulting agencies, training organizations, regional buyer agents, and banks.

The directory should not just list size and names of businesses (which has been done by Pyoe Pin in collaboration with the MGMA), but provide an easily accessible tool for the selection of business partners. A model for consideration might be the business directory produced in various countries by business chambers. This directory is available online, as well as published yearly and sold in for a fee (e.g. the American Chamber of Commerce charges 30 USD for their directory in Thailand).

The ILO might subsidize the development of the first edition in cooperation with the MGMA or UMFCCL, and test its reception in the market place. If the uptake of the directory is satisfactory, the next editions could be sold for a full fee.

CHALLENGE

ACCESS TO INFORMATION AND KNOWLEDGE RESOURCE INTERVENTIONS

Access to **information** about operations, finance, active companies.

ACTIVITY Business directory

BENEFICIARIES Garment manufacturers, input suppliers, international brands and service providers

BUSINESS MODELS

The sector would benefit from a series of business directories made easily available to the sector stakeholders.

- List of local garment manufacturers, their workforce, production lines, ownership and direct contact information
- List of input suppliers as well as manufacturers, including production items, capacity and direct contact.
- List of service providers to the sector: legal firms, freight forwarders, JV consulting agencies, training organizations, regional buyer agents, and banks.

ACTIVITY White papers to be presented at industry events

BENEFICIARIES Garment manufacturers, input suppliers, international brands and service providers

BUSINESS MODELS

Sector stakeholders have indicated a lack of knowledge and transparency on key features of the market. The ILO could sponsor the creation of a series of freely downloadable white papers on a list of topics, of interest to a number of stakeholders.



FIGURE 19 Example of a business directory

PARTNERS AND IMPLEMENTERS The MGMA website would be an efficient distribution point to disseminate these lists, which could be also shared on the ILO Myanmar website, as well shared with other development stakeholders and associations. The existence of this directory could be presented and sold at sector events to ensure that stakeholders are informed. ILO staff may develop these directories internally or may rely on external consulting firms such as Thura Swiss, and Hamsa as well as individual consultants.

White papers

To aid the dissemination of business and technical information in the sector, the ILO could sponsor and lead the development of a series of research-based white papers on specific issues. Themes covered should include topics of interest to a variety of stakeholders:

Garment manufacturers:

- Case study on successful garment sector growth in similar countries
- FOB requirements, opportunities and challenges
- Overview of the banking sector requirements for the garment sector (including banking Letters of Credit system, locally and internationally)
- Cross-border trade practices
- Joint Ventures legal requirements, opportunities and challenges

Government:

- Overview of the garment sector, and key challenges to growth (taxes, banking, etc.)

For banks:

- Overview of the garment sector, and key challenges to accessing finance

PARTNERS AND IMPLEMENTERS Similarly to the business directories, these papers could be presented at industry events, as well as shared for free on the ILO and MGMA websites. The ILO could choose to develop them internally or contract external parties such as Thura Swiss, Hamsa, and Emerging Markets Consulting

Year-long interventions

The research identified a number of critical constraints in the sector, including workforce skill level, but suggests that the ILO is well positioned to contribute to skill development.

Skills development

Technical production skills

As previously mentioned, interviews indicated that garment and input manufacturers have gaps in their production skills that can be addressed through the provision of trainings.

Trainings are currently being provided, to a limited extent, in the two areas most needed by the garment sector:

WORKERS' TRAININGS The MGMA and SMART offer trainings in these areas. Additionally, international brands (e.g., Marks & Spencer and other brands), working with manufacturers send technical experts to train the workers if the company sees the potential in cultivating a longer-term relationship.

SUPERVISOR TRAININGS Trainings are directed at improving the technical skills of factory. The MGMA is currently offering a 10-day supervisory training to the industry.

Though these trainings are already being provided, the volume of trainings could be increased.

However, EMC would recommend the ILO not to enter in a service area that is already being covered by other providers. While the sector's need for technical training is not fully covered, there are issues with the demand. Manufacturer interviews have not indicated the existence of a sustainable willingness to pay to train their factory workers. While they are receiving free trainings from providers and international buyers, it does not seem likely that they will be willing to sustain the risk of training their workers, given the high turnover rate characterizing the sector.

Garment input suppliers also have technical skill gaps that need to be addressed. Cardboard producers mostly need technical trainings in the areas of paper and pulp processing to increase

production quality, strengthen paper recycling practices, and to enhance efficiency practices to reduce production waste (which is important given the high reliance on imported input supply). Polybag producers would benefit from trainings on granulate recycling production efficiency practices. However, targeting both of these groups would require the procurement of experts from abroad. Given the nascent phase of the industry, and the low number of workers required to operate the machinery, EMC would not recommend developing new trainings for these sub-sectors. Additionally, while there are technical skill gaps among input suppliers, the key needs for growth of the sector is the ability to source locally produced, cheap, and quality inputs (namely paper and granulate). Even if technical efficiency can be improved at this stage, intervening in this area will not drastically contribute to the growth of the sub sectors.

Management skills

Trainings aimed at supervisors and managers should foster competency in effective leadership techniques, as well as the capacity to implement productivity and efficiency systems. For the garment sector to be able to evolve from the current production systems towards FOB, factory management requires strengthened skills for planning and preparing for growth, specifically in the following areas: supply chain management, cash flow management, accounting, business planning, marketing, OSH, and sexual harassment prevention.

Instead of providing the training to manufacturers, the ILO should focus developing the capacity of existing training providers. The ILO might launch an open bidding process, where the service providers would prove their capacity and sector knowledge. After selecting the best candidate, the ILO should help them develop the training modules by providing technical knowledge of internal staff or an external expert. Once the



modules are designed, the service provider would be in charge of marketing the modules and finding attendees, while the ILO could subsidize the training fees for companies either active in the garment sector, or connected to it. The ILO could set its training goal for the year at subsidizing five training modules for enterprises active in the garment sector²⁰, with ten participants per module. Once these five modules are completed, the service provider will be responsible for continuing to offer these trainings to the sector. This would entail marketing and finding clients, who will now have to pay full price. The uptake of trainings in the first (subsidized) phase, and in the follow up (paid) phase, will represent a direct indication of the success of the intervention. EMC recommends that when scouting for the right service provider to partner with, the ILO should consider the most reputable institutions for management training in Myanmar:

- **MYANMAR HUMAN RESOURCE INSTITUTE** Active in Yangon, Mandalay and Bago, it offers management courses, as well human resources to both public and private sector clients.
- **STRATEGY FIRST INSTITUTE** This company is a for-profit, world-class learning centre of business management, specializing in corporate strategy, entrepreneurship, and marketing.

EMC recognizes that one of the challenges in facilitating management trainings to group of managers from competing factories is that there might be a reluctance to share information and knowledge. In the longer run, and depending on the uptake of the trainings, the ILO might consider sponsoring the development of a one-on-one advisory consulting service where business experts would advise factory managers on strategies for improving systems and operations.

²⁰ EMC recognizes that this might constitute for the ILO a pre-able to testing market demand for the ILO's Better Work program

CHALLENGE

MANUFACTURERS / SUPPLIERS' CAPACITY

Management capabilities of input suppliers and manufacturers

ACTIVITY Supply chain & sourcing trainings
Cash flow management trainings
Accounting trainings
Business planning trainings

BENEFICIARIES Garment manufacturers, input suppliers and service providers

BUSINESS MODELS

The ILO could:

1. Identify a local or international service provider offering management trainings to Small and Medium Enterprises, whether they currently offer these trainings or not.
2. Get a technical expert to design the desired training modules.
3. Support the training provider. ILO can provide a specialist trainer, and/or finance the first few rounds of trainings, to jump-start the uptake of the modules.
4. After the initial round of subsidized trainings, the aim of the program should be for SMEs to pay for the service, ensuring sustainability. The uptake of training after the free round is completed will act as an indicator of effectiveness.

Technical capabilities of garment manufacturers

ACTIVITY Operators' trainings
Productivity trainings
Supervisory skills trainings
Quality control trainings

BENEFICIARIES Garment manufacturers

BUSINESS MODELS

These trainings are already available in Myanmar. Additionally, with increasing buyer/manufacturers relationships, international brands will provide more technical trainings to the factories they choose and trust.

Technical capabilities of input suppliers

ACTIVITY Trainings for cardboard producers

- Paper and pulp processing
- Paper recycling
- Efficiency trainings

Trainings for polybags producers

- Granulate recycling

BENEFICIARIES Input suppliers

BUSINESS MODELS

While EMC would not recommend pursuing this line of trainings, the ILO might provide technical experts to train willing input suppliers among input producers:

- Pann Thazin Tissue Factory
- Myanmar Yes
- Grand Harvest Enterprises
- Diamond Island
- Tun Tauk Plastic
- Japan Carton Box (JCB)
- Pack Express

The Myanmar Pulp and Paper Industry Association, with its 24 members, would be a great partner in further identifying the training needs of their members, as well as promoting the program among them. The Myanmar Plastic Industry Association would be a potential partner as well, when targeting manufacturers of hangers and polybags.

Policy related recommendations

Advocacy and policy guidance

While the country has embarked on a series of liberalization reforms, and the garment sector has shown promising growth, there are still vast legal and regulatory gaps that hinder the development of the sector. With regulations development as one of its key aims, the ILO is in a unique position to aid, support, and incentivize policy development in a number of different areas. To provide ILO with recommendations on which policy areas to focus on, EMC consulted the National Export Strategy for the Textile and Garment Sector developed by the Ministry of Commerce. The areas of intervention (originating from objectives of the National Export Strategy) that would most benefit the Myanmar garment sector have been identified and subsequently evaluated based on two criteria: Pertinence to ILO’s mission and capacity, and the feasibility of producing relevant impact in a 12-month framework (a full review of objectives can be found in the annex).

Among the objectives and sub-objectives included in the national strategy, EMC believes the following to be the most relevant to the garment sector’s growth, as well as within the ILO’s mission and with the potential to be successfully launched and results achieved within the next twelve months:

OBJECTIVE (4.3.1): The Ministry of Labour (MoLESS) is looking for technical assistance to develop a clear set of guidelines to limit human exposure to harmful **working conditions**. These efforts could also include INGOs, NGOs, the Ministry of Information (Mol), the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), MGMA, the Ministry of Commerce (MoC), and the Ministry of Health (MoH).

OBJECTIVE (2.3.1): The MGMA is looking for technical assistance to support the development of the official Myanmar set of production **standards** for the garment sector. These efforts could also include the Myanmar Scientific and Technological Research Department, Mol, MoC, the Myanmar Engineering Society, MoLESS and UMFCCI.

OBJECTIVE (1.1.3): The Ministry of Commerce is looking for technical assistance to develop a high-level **steering committee** to coordinate the efforts of a group of ministries to design future strategic policies to support the growth of the garment and textile sector. The other participating bodies included in the strategies are: MNPED, Mol, Ministry of Agriculture and Irrigation, Customs, UMFCCI and MGMA.

FIGURE 20

Ranking of the potential policy interventions

Alignment with ILO’s Mission and Capacity



The matrix depicted in Figure 20 represents EMC's perception of the three identified policy options in terms of their relevance to the ILO's mission, as well as their potential impact in the next twelve months.

EMC recommends the ILO focus its activities on the creation of better jobs by expanding the contents of **Objective 4.3.1** and by acting on two levels.

On the first level, the ILO could build upon the objective stated in the national strategy, and act as a **technical advisor** to create a clear set of guidelines regulating not only safe working conditions, but also total amount of working hours, contract enforcement, and the payment of over time. In this capacity, the ILO could engage the targets identified by the national strategy. Similarly to the ILO's eight clusters of indicators for the Better Work, the ILO might split these guidelines into two groups: labour laws adhering to international standards, and labour laws adhering to local law.

Additionally, the ILO could become a **focal point** of engagement with two other sets of stakeholders. On the one hand, the ILO can work with the MGMA to gather inputs on labour law and working conditions from garment manufacturers and their workers. The proposed guidelines could be introduced during the development phase to factory owners and workers separately to get their specific feedback.

Alternatively, the ILO can work with individual international buyers and/or groups of international buyers. At this level, the ILO would first seek to gather a clear idea of what each buyer's supply chain compliance needs are (safety, working hours, etc.) and make sure that they are communicated to the rest of the industry. Secondly, and more long term, the ILO would work with international buyers to try to develop a single common framework of compliance for garment manufacturers.

If the ILO were to focus on **Objective 2.3.1**, to support the MGMA in creating a system of production **standards**, the ILO would have to work at two levels. First, the ILO would have to provide technical support in the form of an international garment expert. This expert would have to carry out an assessment of the technical production ability of garment manufacturers and the process for equipping MGMA to become a certifying body. Second, the ILO could work as a focal point for the inclusion of international buyers in the discussion of production standards, to ensure that these are aligned with international quality requirements. In this role, ILO could ensure that the set standards would not only cover technical produc-

tion, but also include assurance mechanisms that factories adhere to proper working condition standards.

The ILO could also choose to work with the Ministry of Commerce and other bodies on **Objective 1.1.3** to create a steering committee uniting a variety of stakeholders in the design of **strategic policies** to promote the garment sector. In this case, EMC recommends that the ILO take a leading role in coordinating the efforts of this committee to ensure it does not operate in a vacuum. In this position, the ILO could solicit and incorporate feedback and inputs from parties outside of the ministry bodies directly involved. This information could include international buyers' perceptions of the strategic needs of the garment sector, for example, or workers' needs related to safe and fair labour practices.

Annex

Review of national atrategy objectives

1

OBJECTIVE

Secure public policies that will enable transformation of the Myanmar textile and garment sector from the CMP mode of manufacturing to the FOB mode.

1.1 Adopt policy measures to support textile and garment sector evolution from CMP to FOB.

1.1.1 Extend the same duty exemptions enjoyed by importers of CMP inputs to importers of FOB inputs, an advantage typically enjoyed by Myanmar's competitors and critical to making the CMP-to-FOB transition profitable.

Notes: Unclear tax and regulatory implications

✘ WITHIN ILO'S MISSION AND CAPACITY ⚠ RELEVANT IMPACT WITHIN 12 MONTHS

1.1.2 Adopt an SEZ law and articulate implementing regulations which provide for the ownership, development and management of fully serviced SEZs by public, private, or public-private parties. This should promote synergetic clusters and optimize the cost of providing the sector with the infrastructure it needs to succeed.

✔ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

1.1.3 Form a high-level policy steering body (e.g. interministerial committee or ministry) dedicated to the coordinated formulation and implementation of strategic policies and initiatives for the promotion of the textile and garment sector.

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

1.1.4 Provide tax exemptions for capital investments and duty exemptions for imports of capital goods, to encourage ramping up the sector's productive capacity with modern equipment.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

1.1.5 Encourage greater use of modern machinery by having the Government guarantee long-term credit arrangements between Myanmar buyers and foreign suppliers.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

1.2 Promulgate and enforce labour regulations that improve the skills and competitiveness of the sector's labour force.

1.2.1 Articulate regulations for the trained worker retention clause of the Employment and Skill Development Law and enforce them, so that employers and workers may engage in meaningful contracts by which employees receive advanced training from firms in exchange for commitments to stay with those firms for an agreed period, thereby incentivizing employer investment in Myanmar labour.

Notes: Contract enforcement mechanisms design and implementation seems unfeasible within the timeframe

✔ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

- 1.2.2 Extend the standard length of work permits for foreign technicians and professionals from three months to one year, with the possibility of renewal, so that Myanmar firms can predictably fill critical skill gaps while domestic skills and worker retention policies are being improved.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

1.3 Establish the financial policies and regulatory framework that will allow the sector to finance factory start-up, operations and trade.

- 1.3.1 Issue MoFR instructions permitting the export of goods without proof of advance payment or letter of credit, as currently required, so that Myanmar may engage in trade according to international norms and be a more attractive sourcing destination.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

- 1.3.2 Issue CBM instructions on conducting back-to-back letters of credit and other forms of trade finance, giving financial institutions the regulatory clarity they need to proceed.

Notes: Some banks have been licensed since 2011 but are awaiting guidelines.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

- 1.3.3 Issue CBM instructions permitting the use of certain movable assets as collateral and increasing the percentage of the collateral's value which can be lent, allowing garment manufacturers to borrow much more than currently possible.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

- 1.3.4 Establish Government guarantees and subsidies to support long-term credit for firms in the sector, allowing garment manufacturers to borrow much more than currently possible.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

2

OBJECTIVE

Substantially increase production and exports of textiles and apparel according to international quality standards.

2.1 Increase the number of garment factories from 300 now to 800 by 2015.

- 2.1.1 Under the aegis of the high-level policy steering body, establish a working group to reduce the number and processing time of official procedures for garment factory start-up (e.g. registration, so that start-up time is reduced from four or five months to one month).

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

- 2.1.2 Stimulate creation of sector-supporting businesses, such as plant set-up consulting firms and design houses, through investment promotion and by offering these businesses the same preferential treatment given to textile and garment firms.

Notes: EMC recommends a similar activity that improves and increases the provision of industry management trainings

⊙ WITHIN ILO'S MISSION AND CAPACITY

⊙ RELEVANT IMPACT WITHIN 12 MONTHS

2.2

Infuse the sector with large amounts of capital, technology, skills and international business networks not available domestically.

2.2.1 Articulate clear and objective eligibility requirements for MIC approval of wholly foreign-owned garment factories and apply them predictably and transparently.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

2.2.2 Make the garment sector an investment promotion priority for DICA, providing it with an additional staff member with sector experience, and the funds to subscribe to a commercial database of investors.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

2.2.3 Encourage greater use of modern machinery by having the Government guarantee long-term credit arrangements between Myanmar buyers and foreign suppliers.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

2.2.4 According to current skill demands, implement a vocational programme for machine operation and maintenance, production management, industrial engineering, fashion design, and computer-assisted design operations.

Notes: EMC does not recommend the ILO move into the space of technical trainings for garment factory workers.

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

2.3 Establish clear quality standards for the sector and help firms meet them reliably.

2.3.1 Have MGMA establish national quality standards for garments and disseminate those standards to members through circulars and seminars, and online.

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

2.3.2 Have the Myanmar Scientific and Technological Research Department act as a testing and certifying body for garment quality and build its capacity to do so.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

2.3.3 Have MoI help the sector achieve widespread international quality certification (BSCI, SGS, WRAP, ISO etc.) through awareness-raising campaigns and monthly trainings in Yangon for quality assurance personnel of garment factories. This will help the sector adopt appropriate quality control mechanisms both for the import of inputs (for FOB manufacturing) and for the export of garments that are globally recognized as meeting basic quality standards.

Notes: ILO's mandate would be limited to labour law compliance.

✔ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

2.4 Empower exporters with quality information on foreign markets.

- 2.4.1 Facilitate garment sector companies' participation in international exhibitions in target markets through assessing the availability of exhibitions in the garment sector, seeking invitations, and securing visas and participation booths.

Notes: EMC recommends carrying this out through trade fairs and buyer workshops.

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

- 2.4.2 Organize trade missions to target markets, presenting well-developed export products with well-prepared fact sheets, new designs, new packages and samples.

Notes: EMC does not suggest carrying this out as the amount of garment manufacturers impacted would be quite low.

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

2.5 Foster an internationally competitive and socially sustainable workforce through the building of skills and a strong work culture.

- 2.5.1 Using public funding or public–private partnerships, establish worker training, testing and certification centres for the booming garment labour force at sector clusters and SEZs as a cost-effective way of upgrading productive capacities and growing the labour pool where it is needed.

✔ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

- 2.5.2 Have the ministries responsible for industry and labour collaborate with industry associations and civil society to create a public education campaign for television and radio that will educate the public on the work culture that will allow Myanmar to be globally competitive while upholding worker rights.

Notes: While relevant, observing impact from a TV campaign does not seem feasible within 12 months.

✔ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

- 2.5.3 Have the ministries responsible for industry and labour collaborate with industry associations and civil society to conduct workshops and seminars at factories about employer–employee relations, as a way to reduce worker turnover while building the pool of worker skills and wages within each factory.

Notes: EMC recommends organizing workshops with foreign buyers that cover these topics.

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

2.6 Enable cotton farmers and textile producers to participate in and profit from the garment sector's growth.

- 2.6.1 Have Mol, as the line ministry of the State-owned textile factories, reach out to all public and private textile factories to enlist founding members of a Myanmar Textile Manufacturers Association, with representatives in each state and division, so as to better coordinate the sector's strategic linking to the garment sector, capacity-building and policy advocacy.

Notes: Intervention limited to textile factories. It appears unfeasible to reach out to all textile manufacturers within 12 months

✔ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

- 2.6.2 Fund seed distribution and extension services by the Cotton and Sericulture Department's seven research farms, so they can disseminate high-quality seeds and best-practice knowledge to cotton plantations with low-quality seeds and low yields.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

3

OBJECTIVE

Greatly improve efficiency and reduce costs of the sector through the public provision of critical infrastructure in sector-dedicated zones and port facilities.

3.1 Provide cluster growth poles through fully serviced SEZs dedicated to garment factories and supporting industries.

3.1.1 Commission a feasibility study to review potential SEZ sites and make recommendations on location, size, infrastructure, rates, ownership and management structures, services, impacts, risks, etc.

✔ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

3.1.2 Elaborate legal and regulatory frameworks for SEZs in line with international best practices, as a prerequisite for attracting private investment in the construction, management and ownership of SEZs.

Notes: ILO's mandate would be limited to a labour law in SEZs.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

3.1.3 Recognizing the importance of the garment sector as Myanmar's only major manufacturing industry, set aside 4,000 acres of public land for the establishment of two to three garment-centric SEZs.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

3.1.4 Designate the SEZs as export processing zones to allow duty-free import of garment inputs (whether for CMP or FOB manufacturing) when the final product is due to be exported, thereby giving garment manufacturers one of the basic tools for international competition.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

3.1.5 Assuming private ownership and/or management of the SEZs, make the tendering process competitive and open it to a wide range of international companies, so as to attract a highly experienced company that will charge tenants competitive rates.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

3.1.6 Provide the zone with critical infrastructure, including dedicated electricity, a wastewater treatment plant, roads, telecommunications and facilities for a training centre.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

3.2 Ensure adequate electricity supply to existing industrial zones where garment factories are located.

3.2.1 Cancel the plan to end public electricity supply to industrial zones and to require manufacturers to generate their own electricity. This poses a major technical and financial hurdle to garment firms, undermining their competitiveness and dissuading investors from starting the many new factories so badly needed.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

3.2.2 Prioritize existing clusters of garment firms in national power grid development plans, for example, by providing them with dedicated electricity substations.

✘ WITHIN ILO'S MISSION AND CAPACITY ✘ RELEVANT IMPACT WITHIN 12 MONTHS

3.2.3 As a matter of public policy, have State-owned power companies provide factories with internationally competitive industrial tariffs.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

3.3 Increase container yard space and reduce the cost of getting Myanmar garments out of the country.

3.3.1 Reduce public lease charges to private container yards.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

3.3.2 Increase amount of public land used for container yards, allowing more companies to operate, increasing competition and reducing costs.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

3.3.3 Mandate / incentivize / obtain the use of modern port management systems through sector regulations, incentives and terms of concession.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

4

OBJECTIVE

Achieve widespread adoption of worker protections and environmentally friendly technologies and practices.

4.1 Link all textile and garment factories to wastewater effluence systems, so as to preserve Myanmar's vital water resources.

4.1.1 Have MoECF officials, water authorities and staff of relevant assembly members receive training from specialized INGOs and NGOs on best-practice laws, regulations and monitoring systems for water conservation.

✔ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

4.1.2 Elaborate clear implementing guidelines for regulations on wastewater and penalties for failure to comply.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

4.1.3 Conduct a campaign among garment factory owners and managers to raise awareness about the negative effects of water pollution, best practices for wastewater management, regulations they must comply with, and penalties for failure to comply.

✔ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

4.1.4 Conduct seminars and workshops for the owners and managers of all garment factories to train them on best practices for wastewater management and procedures for complying with regulations. With only a couple of hundred factories and nearly all of them based around Yangon, representatives of all factories could conceivably be trained in 10 workshops or fewer.

⊗ WITHIN ILO'S MISSION AND CAPACITY

⊗ RELEVANT IMPACT WITHIN 12 MONTHS

4.2

Encourage adoption of low-emission and energy-conserving machinery and equipment, so as to start Myanmar's industrialization in a sustainable way.

- 4.2.1 Conduct a campaign among garment factory owners and managers to raise awareness about the long-term commercial benefits of adopting various 'green' technologies, both because of cost savings and because of branding value.

Notes: ILO could consider offering trainings related to green management as a source of productivity or OSH component.

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

- 4.2.2 Conduct seminars and workshops with factory owners and managers to train them on best practices for conserving energy and maintaining low emissions. (With only a couple of hundred factories and nearly all of them based around Yangon, representatives of all factories could conceivably be trained in 10 workshops or less.)

✘ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

4.3 Ensure workers are provided with adequate ventilation and protective equipment.

- 4.3.1 Elaborate clear implementing guidelines for regulations limiting human exposure to harmful working conditions and penalties for failure to comply.

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

- 4.3.2 Conduct a public awareness-raising campaign about the dangers of industrial work and the obligations of employers and employees to maintain a safe workplace for the good of individuals and national development

Notes: EMC recommends that ILO should first investigate in depth what are the key areas of danger in industrial garment work.

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

- 4.3.3 Conduct seminars and workshops with factory owners, managers and workers to train them on best practices for ensuring workplace safety in the garment sector. (With only a couple of hundred factories and nearly all of them based around Yangon, representatives of all factories could conceivably be trained in 10 workshops or fewer.)

Notes: Recommended

✔ WITHIN ILO'S MISSION AND CAPACITY ✔ RELEVANT IMPACT WITHIN 12 MONTHS

Abbreviations

CMP	Cut, Make and Package production system	MoLESS	Ministry of Labour, Employment and Social Security
CSR	Corporate Social Responsibility	NGOs	Non-governmental organizations
DANIDA	Danish International Development Agency	NPLs	Non-performing Loans
DICA	Directorate of Investment and Company Registration	OBM	Original Brand Manufacturer
EMC	Emerging Markets Consulting	ODM	Original Design Manufacturer
EU	European Union	OEM	Original Equipment Manufacturer
FDI	Foreign Direct Investment	SEZs	Special Economic Zones
FOB	Freight on Board	SMART	SMEs for Environmental Accountability, Responsibility and Transparency project
GSP	Generalized Scheme of Preference	SMEs	Small and Medium-sized enterprises
ILO	International Labour Organization	SWOT	Strengths, Weaknesses, Opportunities, Threats
INGOs	International non-governmental organization	UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry
JETRO	Japan External Trade Organization	USD	United States Dollar
JICA	Japan International Cooperation Agency	WFOES	Wholly Foreign-Owned Enterprises
JV	Joint Venture		
LC	Letter of Credit		
LLCs	Limited Liability Company		
M4P	Making Markets Work for the Poor		
MFTB	Myanmar Foreign Bank		
MGMA	Myanmar Garment Manufacturers Association		
MIC	Myanmar Investment Committee		
MICB	Myanmar Investment and Commercial Bank		
MoC	Ministry of Commerce		
MoH	Ministry of Health		



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