

An overhaul of payment terms needed for the RMG industry



RMG NOTES

THE current global COVID-19 crisis has placed severe strain upon the apparel industry supply chain, with Bangladesh Ready-Made Garment (RMG) manufacturers and related ancillary industries feeling the financial effects of the global collapse in clothing retail. The crisis has thrown into sharp focus the inadequacies of the existing system of payment terms within the apparel manufacturing supply chain.

As fashion brands and retailers around the world face dwindling customer numbers, enforced store closures and mounting stock inventory, the immediate reaction of a large proportion has been a scaling back of, or delay in current production orders to Bangladesh RMG manufacturers. As has been well documented, this has caused major problems for RMG manufacturers, as their cashflow was immediately affected and they struggled to raise the necessary funds to pay their workers, their immediate suppliers and to cover overheads and utility bills.

The immediate question might be: how can such a situation have come to arise? In order to answer that, we need to consider the existing payment structure within the apparel supply chain that has resulted in a catastrophic collapse in the financial security of the Bangladesh apparel manufacturing community.

Payment terms within the apparel industry are varied and differ sharply from normal trade practices. It would be easy to assume that if a customer orders goods for production, that they would then pay for the same, as with other trade or retail transactions. More often than not, this is not the case, as there has come to exist, over a period of time, a system of payment terms that benefits the customer but exposes the supplier to financial risks.

Historically, the traditional purchasing model involved the use of telegraphic transfers (TT's) whereby the manufacturer would receive 60-70 percent of the order value of

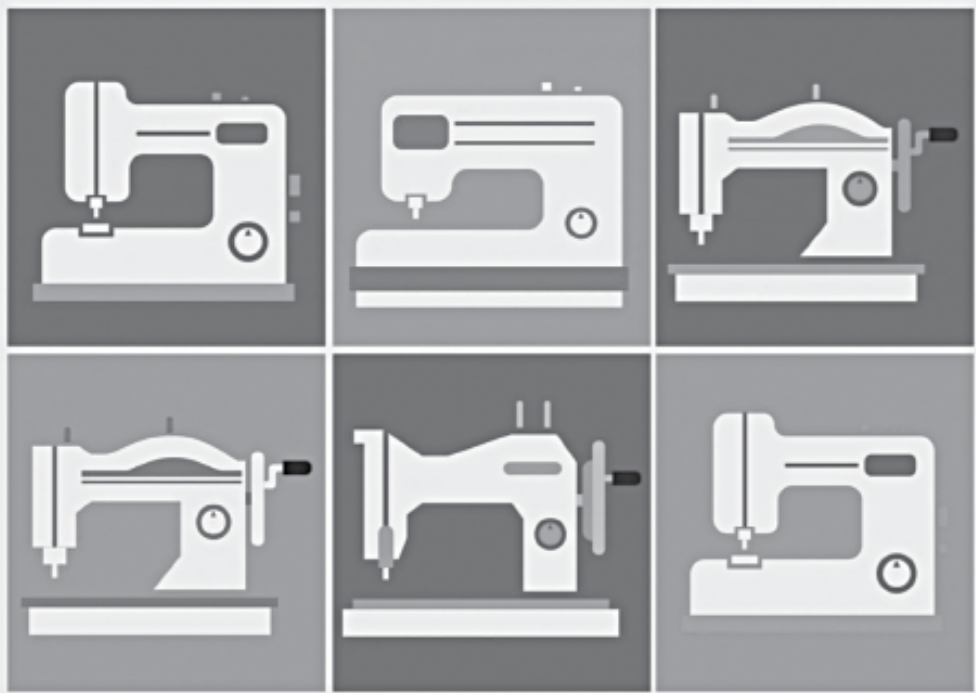
the goods being purchased in advance, in order to be able to procure the necessary raw materials (fabric and trims) to produce the required items. The buyer would then settle the outstanding balance for the finished production once the finished production had been shipped.

Over the course of time, with the evolution of the Bangladesh apparel manufacturing sector and relationships with our customers, different payment terms evolved. First and foremost was the use of Letters of Credit (LC's). A letter of credit is basically a guarantee from a bank that a particular seller will receive the payment due from a particular buyer. The bank guarantees that the seller will receive a specified amount of money within a specified time. In return for guaranteeing the payment, the bank will require that strict terms are met and will want to receive certain documents—for example shipping confirmation and inspection report for the goods—as proof that production has been completed to the customer's required standards and satisfaction.

LC's can carry different payment terms, normally at sight (whereby the manufacturer receives payment upon satisfactory completion of production and the shipment of the order) or deferred, with payment delayed for a pre-determined period of time after goods have been shipped by the supplier. The payment deferral period can vary depending upon the sourcing region and the customer/supplier relationship, from anything between 30 and 150 days, post-shipment.

Although the LC system offers manufacturers some financial security in that they are guaranteed payment if goods produced comply to the customers' requirements, it also necessitates the customer having to satisfy the lending bank's credit rating checks, requires the management of another tier of financial bureaucracy and can add time to the whole production process.

As relationships between buyers and RMG manufacturers have developed over recent years, a prevalent payment system that has emerged in the apparel industry is that of the Sales Contract (SC). Under this system a manufacturer will rely on a Purchase Order



(PO) from a customer to execute an order. Based on the PO the manufacturer and customer will create a Sales Contract (SC) to allow the manufacturer to raise their own L/C to procure the necessary raw materials to complete the customer's order to the required standard. Under the terms of the SC, the buyer commits to making payment for the goods, after receiving copies of the documents relating to shipment of the order.

Under the terms of the standard SC the manufacturer has a legal right to receive payment for goods produced, under the proviso that the goods comply with the customer's terms outlined in the order. A manufacturer can take legal action against a buyer if no payment is forthcoming, however, this is rarely the case in the Bangladesh RMG industry as manufacturers shy away from the legal costs and potential damage they may inflict on their relationship with their customer.

The flaws in the SC payment system has been harshly exposed in the aftermath of the

COVID-19 pandemic as customers, citing the extraordinary circumstances caused by the virus, are withholding payments or cancelling orders, leaving RMG manufacturers, without the security of a bank guarantee, financially exposed. Given the investments made by the RMG industry in improvements in factory safety, workers' welfare, compliance and environmental standards since the Rana Plaza disaster of 2013, it borders upon disbelief that RMG manufacturers have been abandoned by their customers and it is a situation that must not be allowed to happen again.

The current payment terms that exist in the RMG industry, it is fair to suggest, benefit the customer to such an extent that they are untenable for the future and a new system of payment terms needs to be established for the industry and monitored by a recognised international body, the World Bank or International Monetary Fund (IMF) for example and endorsed by our own government.

A revised set of rules will need to be

implemented making the process of order execution against SC's internationally invalid and no longer binding. This might well hamper the relationships of buyers and their RMG partners, so a compromise scenario could well be that an advance payment is made to manufacturers to allow them to purchase the necessary raw materials, with the balance payment guaranteed by sales contract or by LC at sight, or settlement upon shipment for any finished goods. Similar payment terms exist within the industry already, so are not a totally alien concept—what we need is a validated set of terms that are recognised by all parties and enforced by local and international law.

What is important is that whatever payment term system is adopted by the RMG industry, it needs to be clearly recognised that existing payment terms are no longer fit for purpose. In tandem, buyers and RMG manufacturers alike, need to be open about the issues that have been raised over the last few weeks since the effects of the pandemic started to bite.

The apparel industry needs to recognise that the current system, with its unhealthy bias in favour of the buyers is no longer tenable and Bangladesh's RMG manufacturers can no longer be expected to bear the financial burden of this, or any other, economic meltdown that may arise.

When the world returns to normal, or the new post COVID-19 normal, the RMG industry needs, collectively, to establish a payment system that is endorsed by international agencies and is respected by all participants. The concept of collaboration between RMG manufacturers may appear alien to some but, as an industry, our voice will be stronger if we work together, not as competitors but as a part of unified trading body.

Only after a new system of payments has been agreed and ratified can we be assured that RMG manufacturers will no longer be exposed to the financial risks that they are experiencing during these current troubling times.

Mostafiz Uddin is the Managing Director of Denim Expert Limited. He is also the Founder and CEO of Bangladesh Denim Expo and Bangladesh Apparel Exchange (BAE). Email: mostafiz@denimexpert.com.

Fair is foul and foul is fair in the Trump universe



WHEN the tortoise agreed to ferry a stranded scorpion on its back across the river, which was in spate, he didn't know what he had bargained for. Midway, the scorpion stung the tortoise, deep, through its hard shell.

"Why have you done this?" asked the tortoise. "Now we shall both drown."

"It's in my nature," said the scorpion.

Given its own self-esteem, the US should have been "ferrying" the world through the coronavirus pandemic. Unfortunately, the country is itself so overwhelmed by corona that it has no time for leadership. Fair enough, let the US attend to protecting its people. But Trump's Washington is not only making a mess of its own crisis, it is aggravating the world's problems. The tortoise did not live to digest the lesson: a cooperative order is simply not possible with Trump.

If US capitalism in the post-cold war world were scripted like a Webster melodrama, the audience should prepare itself for some frenetic tattooing by the "scorpion". Even as the world is focused on fighting coronavirus, US claws are out, groping the Venezuelan coastline, using Columbian territory as its very own. Eight mercenaries are reported dead, even as two pedigreed Americans are in Venezuelan custody, presumably, singing like canaries by now. Wordsmiths have already named the expedition as the "Bay of kids", so infantile has this latest US adventure been to unseat President Nicolas Maduro. Former US Green Beret, Jordan Goudreau has claimed responsibility. President Trump has closed his gloves in front of his face like a pugilist on the defensive. "I knew nothing about it."

Of course he knew just about as much as he did about the founder of Blackwater, Erik Prince's idea of "privatising" the Afghan War. Don't laugh, Prince's 100-page dossier spelt out details of how Afghanistan should be privately governed. The proposal was considered by freaks in the administration. According to the plan, Afghanistan would be ruled, just as India was, under a Viceroy. The plan was shot down. But Prince proved his resourcefulness once again in Venezuela. According to *The Guardian*, London, Prince secretly met one of Maduro's closest allies,

Vice President Delcy Rodriguez who also looks after security. About eight months ago, Prince was suggesting an invasion of Venezuela by "a private army of 5,000." This was after the US had recognised Juan Guaido as the OPEC nation's "legitimate president." Which side of the street was Prince playing? The tricks have not worked. Trump will have to go into elections with a military failure in his backyard. Will his cohorts allow him to? The world has been persuaded to put its head down on corona. But this does not come in the way of the Trump's military

adventure: holding US-Sri Lanka joint training in March and April at Sri Lanka's Air and Naval base in Trincomalee, despite a ban on travel because of the pandemic.

This military bonhomie at a time when the coronavirus stricken aircraft carrier USS Theodore Roosevelt, has been advised to dock at Guam. More than 4,500 crew members have been moved ashore. The spike in corona cases among the Sri Lankan navy and army can be traced to the companionship with US military personnel.

How can one raise fingers at the island nation's obsequiousness when the great nation to its north circumvents its own rules to ship Hydroxychloroquine to the US because Trump has threatened "retaliation" if he were not helped in his hour of need.

This is not all. The man who is building a wall to keep Mexicans out, delivers a stark message to his southern neighbour: American economic interest supersede Mexican health interests. In other words, allow workers to operate factories essential not for Mexico but to the US—pandemic or no pandemic.

Germans coped with that mentality in March: the Trump administration tried to lure a German firm, CureVac, to the US. This is not where the audacity ends. The vaccine, jointly developed, would be available to the Americans first. The Angela Merkel establishment politely showed US negotiators the door.

In the German episode, the US comes across as almost elegant compared to the highway robbery at the tarmac of Chinese airport loading protection gear against the virus' for European destinations. American "highwaymen" paid three times the amount and diverted the equipment to the US. French officials called it the "war of masks".

Meanwhile across the sea, Trump's Sancho Panza (or is it the other way around), Israel's Benjamin Netanyahu is stepping

up airstrikes against Syria, attempting Drone assassinations of Hezbollah field commanders, and, in brief, trying to pulverise the "axis of resistance", with Iran as the prime target. The idea is to provoke just sufficient retaliation to enable Netanyahu to survive corruption charges, also to give Trump an opportunity to beat war drums, always a useful strategy in the election season, particularly when ratings are not promising.

The "Bay of kids" and his Gulf gyrations pale before the high wire act he appears to be developing (or bluffing) vis-a-vis China. Martin Wolf of the *Financial Times* is one of the many commentators who have chastised Trump's "irresponsible" diatribe without any credible evidence.

The supremacist, neo Nazi rally at Charlottesville, Virginia, some years ago, attended openly by the KKK and sundry white nationalists, created ripples and waves which never really subsided. "There are very fine people on both sides" was Trump's immortal observation, balancing between Klansmen and counter protesters.


From that persona, Trump never really distanced himself. The result is rampaging anti-Semitism. Israel's respected newspaper *Haaretz* has expressed concern. Several protests against the measures taken by states to control coronavirus, have featured swastikas and worse.

Jewish Centre for Public Affairs CEO, David Bernstein is convinced, that "as more people become economically disaffected the more they will look for scapegoats." Since the economic downside is on an epic scale, so will corresponding racism grow in the US and elsewhere. Should this president get a second term, we shall all surely go down like that tortoise, gasping.

Saeed Naqvi is a senior Indian journalist, television commentator and interviewer.



Eric Prince, founder of the private military company Blackwater USA. PHOTO: PINTEREST



QUOTABLE Quote

WILLIAM SHAKESPEARE
(1564-1616)
English poet, dramatist and actor

Ignorance is the curse of God; knowledge is the wing wherewith we fly to heaven.

CROSSWORD BY THOMAS JOSEPH

ACROSS

1 Storage spot

5 Cribbage markers

9 Stately home

11 Charged

12 Without aid

13 Mumbai's nation

14 Singer Reed

15 Falling behind

17 Gaiter

19 Geese formation

20 Tear into tatters

21 Tie the knot

22 Singer Piaf

24 Cow chow

26 Monsoon weather

29 Team supporter

30 Timberland business

32 Schlepping

34 "East of Eden" son

35 Bold poker bet

36 Conjure up

38 Colander's kin

39 Valleys

40 Pants part

41 Reduced amount

DOWN

1 T-shirt choice

2 Luminous rings

3 Sufficient

4 Mafia head

5 Hunger reminder

6 Salad green

7 Made headway

8 Play place

10 Depended

11 Tony winner Diana

16 Fireplace sight

18 Dreary shade

21 John Tyler, for one

23 Put a price on

24 Arrest

25 "Life of Pi" director

27 Kidman of film

28 Medusa's hair

29 Whiskey holder

30 Script bit

31 Sharon of "Cagney & Lacey"

33 Donate

37 Kilmer of "The Doors"

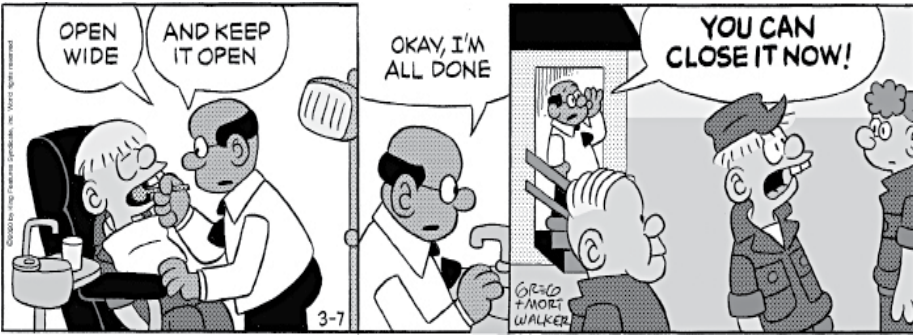
WRITE FOR US. SEND US YOUR OPINION PIECES TO dsopinion@gmail.com.

YESTERDAY'S ANSWERS

A	N	G	E	L	A		H	O	S	T
S	C	E	N	I	C		A	V	O	
H	O	L	D	T	H	E	M	A	Y	O
		S	H	E	L	L				
T	R	U	E		T	E	A	M		
R	E	A	P		G	O	T	M	A	D
E	X	T		C	O	N		B	I	O
P	A	I	R	E	D		P	E	N	S
N	O	E	L		C	O	R	E		
		A	L	A	R	M				
C	I	N	C	O	D	E	M	A	Y	O
O	M	I	T		D	E	E	M	E	D
T	A	P	S		S	P	L	I	T	S

BEETLE BAILEY

BY MORT WALKER



BABY BLUES

BY KIRKMAN & SCOTT

