

***Public Expenditure Tracking on
Relocation of Tannery Industry from Hazaribagh to Savar, Dhaka***

April 15, 2019

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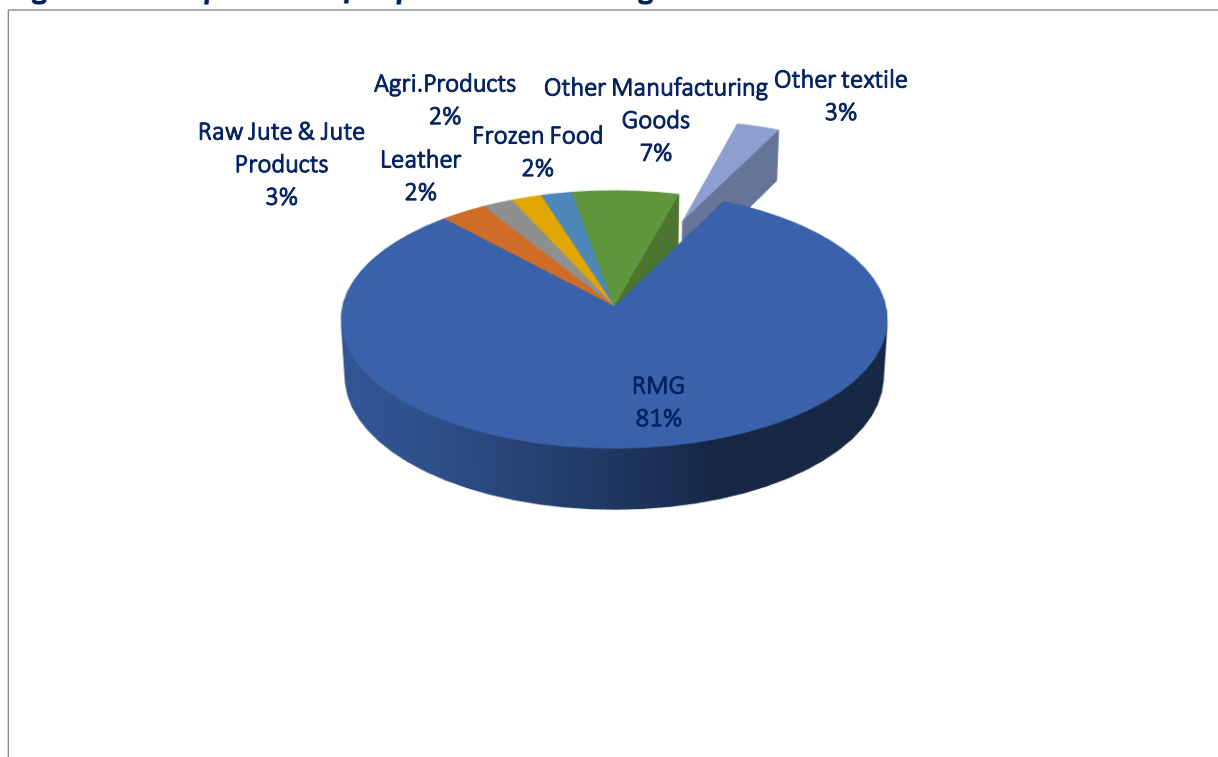
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I. CONTEXT AND BACKGROUND

The leather and leather goods are second highest contributor to national exports after garment. Bangladesh now produces products such as fabric-based footwear for global retailers including H&M, Decathlon, Kappa, Skechers, Fila, and Puma. However, till now leather industry occupies only a modest position in Bangladesh economy way below its true potential. However, till now leather industry occupies only a modest position in Bangladesh economy way below its true potential. In 2014-15, Bangladesh exported leather and leather goods worth \$1.13 billion, compared with \$1.12 billion in the previous fiscal year, making it the second highest contributor to national exports after garment.¹

The leather products sector have huge opportunities in generating employment , entrepreneurship and investment by increasing export of higher value added products rather than finished leather and by utilizing locally made raw material (finished leather) to convert into more value added leather products (including footwear and other leather goods). Leather is the second largest export sector of Bangladesh next to RMG.

Figure 1: Composition of export items in Bangladesh in FY 2014



Source: Bangladesh Bank

¹<http://www.thedailystar.net/business/leather-sectors-exports-cross-1b-second-year-127465>

Leather processing is an old manufacturing sub-sector in Bangladesh with a long heritage of over six decades. Availability of indigenous raw material (hides and skins) facilitated the setting up of the industry. There are three broad components of the leather industry (i) Leather tanning (ii) Leather footwear and (iii) Other leather products such as handbags, carry bags, wallets, cases etc. The leather sector includes 220 tanneries, 3,500 Micro Small and Medium Enterprises (MSME)s and 110 large firms of leather products controlling more than 90% of the export market. Most of the enterprises are located in Dhaka, followed by two big clusters at Bhairab and Chittagong. The sector generates direct and indirect employment for about 850,000 people, including a significant number of women, particularly in the leather products industries.² The sector is very much akin to the RMG sector, but there is far greater scope of value addition about 90%; RMG is the single largest contributor to export but basic raw materials are imported.

The first tannery in Bangladesh territory was set up at Narayanganj by RP Saha sometime in the 1940s. It was later shifted to Hazaribagh area of Dhaka, which turned into a location that now accommodates a large number of tannery units. Leather Industry developed in Bangladesh on a large-scale basis from the 1970s. About 95% of leather and leather products of Bangladesh are marketed abroad, mostly in the form of crushed leather, finished leather, leather garments, and footwear. Most leather and leather goods go to Germany, Italy, France, Netherlands, Spain, Russia, Brazil, Japan, China, Singapore and Taiwan. Value addition in these exports averages 85% local and 15% foreign. About 100 modern tannery units were located mostly in the Hazaribagh area of Dhaka city. In 1998, the sector exported 178 million sq ft of leather and earned \$160 million. The country's share in the world leather market is 2%. The export of finished products such as shoes, slippers, leather jackets, hand gloves, bags, purses, wallets, and belts also earn a sizeable amount of foreign exchange. Bangladesh intends to increase its range of leather products to penetrate new market segments.

Historically, the tannery industry got concentrated in the Hazaribagh area of Dhaka city where nearly 90% of all tanneries are located. This concentration occurred in an unplanned manner posing grave threat to the environment. Hence, the government has taken a move to shift the industry to a leather estate at Savar outside the city. There is also locational concentration of leather footwear industry in Bangladesh. Nearly 90% of all leather footwear making units is located in and around Dhaka city with some leather footwear making units existing in Chittagong and Khulna city and in Bhairab of Kishoreganj district. Growth of leather footwear industry also contributed to growth of manufacturing employment.³

Health and Environmental Hazards of Hazaribagh Tannery Industry

The leather-related business began at Hazaribagh in the 1950s with a couple of tanneries. With the passage of time, the number of tanneries, large and small, grew to around 250. Nearly 50,000

² Technical Report: Leather Sector, The European Union's INSPIRED Program for Bangladesh, Jan. 2013

³ Nazneen Ahmed, Zaid Bakht, 2010, Leather Footwear Industry in Bangladesh, BIDS, Dhaka

workers had been working at the Hazaribagh tannery hub. Adequate facilities like mosque, school, playground, shop and eatery were established for the dwellers there. Not the tanneries alone, there were allied businesses like trading in raw materials, chemicals, dye and supply of accessories. The Hazaribagh tanneries release thousands of litres of untreated and toxic liquid waste into the rivers around the capital every day, posing a serious risk to human and animal health, and diminishing the prospects of leather exports. Of the 60 percent of the industrial waste drained into the rivers, 40 percent comes from the tanneries, according to official estimates.

Allocation of Budget for Relocation of Tannery Industry from Hazaribagh to Savar

The government decided to move the tanneries from Hazaribagh to Savar amid pressure from local and international rights groups, environmental activists and buyers, because of their hazardous effects on public health and the environment, particularly the Buriganga River. Considering the health and environmental hazards, the government in 2003 took up a project to relocate the tanneries to Savar.

Objective

The objective of this report is to track the budgetary allocation or public expenditure for relocation of tannery industry from Hazaribagh to Savar.

Methods

The study utilized participatory and qualitative approaches of data collection. The study is based on primary and secondary sources of information.

To collect secondary data, articles on tannery industry in Bangladesh, journals, and newspaper reports were reviewed.

For primary data collection, discussion and interview were conducted with the concerned stakeholders – tannery workers, union leaders, government officials and tannery owners.

What is Public Expenditure Tracking?

Public Expenditure Tracking is an effective tool to improve accountability in public finance and service delivery. Expenditure tracking has become a popular activity among civil society organisations engaged in accountability issues at the local level. It is a social accountability tools. When assessing service delivery, most surveys examine the effects of policies or interventions on households and their demands for and perceptions of the quality of services. Inputs and outputs on the supply side—such as the flow of public funds and school enrollment rates—are left for official statistics or administrative records.

Public Expenditure Tracking is a new tool that seek to document service delivery on the supply side and have proven effective in increasing both the accountability and the effectiveness of service providers. The facility or frontline service provider is typically the main unit of analysis, in much the same way that the firm is the unit of observation in enterprise surveys and the household in household surveys.

2. TRACKING PUBLIC EXPENDITURE ON RELOCATION OF TANNERY INDUSTRY

The findings of the tracking budgetary allocation on relocation project of tannery from Hazaribagh to Savar of Tk. 1078.71 crore are five.

- i. Delay of relocation and extension of project period increased the project cost;
- ii. Pollution relocated from Hazaribagh to Savar;
- iii. Declined in export earnings from tannery industry;
- iv. The livelihoods of the local communities are being hampered; and
- v. Relocation impacted negatively on livelihoods of tannery workers

These findings are described below.

i. **Delay of relocation and extension of project period increased the project cost**

In 2003, government took a project under Bangladesh Small and Cottage Industries Corporation (BSCIC) under the industries ministry to relocate 250 tannery factories from Hazaribagh to Savar at a cost of Tk 175.75 crore following directive from the HC Division. The court directive required relocating the tannery factory from Hazaribagh within two years. The directive was prompted by Bangladesh Environmental Lawyers Association's writ petition. In 2013, the ECNEC approved escalation of the project to Tk 1,079 crore and the deadline by 2017 because of slow implementation rate of the works and gave Tk 250 crore in compensations to the tanners for shifting their factories.

Unfortunately, the central effluent treatment plant, better known as CETP yet not functional. The 2nd deadline expired in June 2017. And over the last 15 years, the industries ministry succeeded spending Tk 572.78 crore out of the total allocated sum of Tk 1078.71 crore for the project.⁴

The Executive Committee of the National Economic Council on Tuesday extended for the 3rd time the deadline for the completion of the much talked about Tannery Industrial Park at Savar by June 2019. The project period extended three times and the delay in implementation escalated the cost of the project to Tk 545.35 crore.

⁴ <http://www.newagebd.net/article/27900/tannery-relocation-deadline-extended-again>

ii. **Pollution relocated from Hazaribagh to Savar**

Government relocated the 200 tannery industries to the Dhaleshwari riverbank in Savar, some 6km further upstream from the previously designated area hoping to avoid polluting the environment and rivers in the city. However, the generally held view at the relocation program was that shifting the tanneries upstream will only increase river pollution since the proposed Central Effluent Treatment Plant (CETP) has not been completed, irrespective of the government's claims that it was ready for operations. Tannery owners concurred that the CETP was not working at capacity. The workers said that the waste being dumped in the river isn't being purified first. The toxic water is killing the fish and causing severe health issues for people. The introduction of modern machinery and technology has certainly enhanced the capacity of production and quality of products.

However, not all leather factories have opted for the technological transformation. The delay in relocation of leather factories from Dhaka's Hazaribagh to Savar has not helped the cause. Even the Savar leather estate still faces numerous problems, disposal of solid waste and the failure of the central effluent treatment plant to run to its potential being the principal ones. The hope that the environment of the new location will ease the many mismanagement and problems facing the factory workers has not yet materialised. Additionally, a number of tannery units have allegedly started polluting the Dhaleswari River in the same way they did the Buriganga earlier.⁵

iii. **Declined in export earnings from tannery industry**

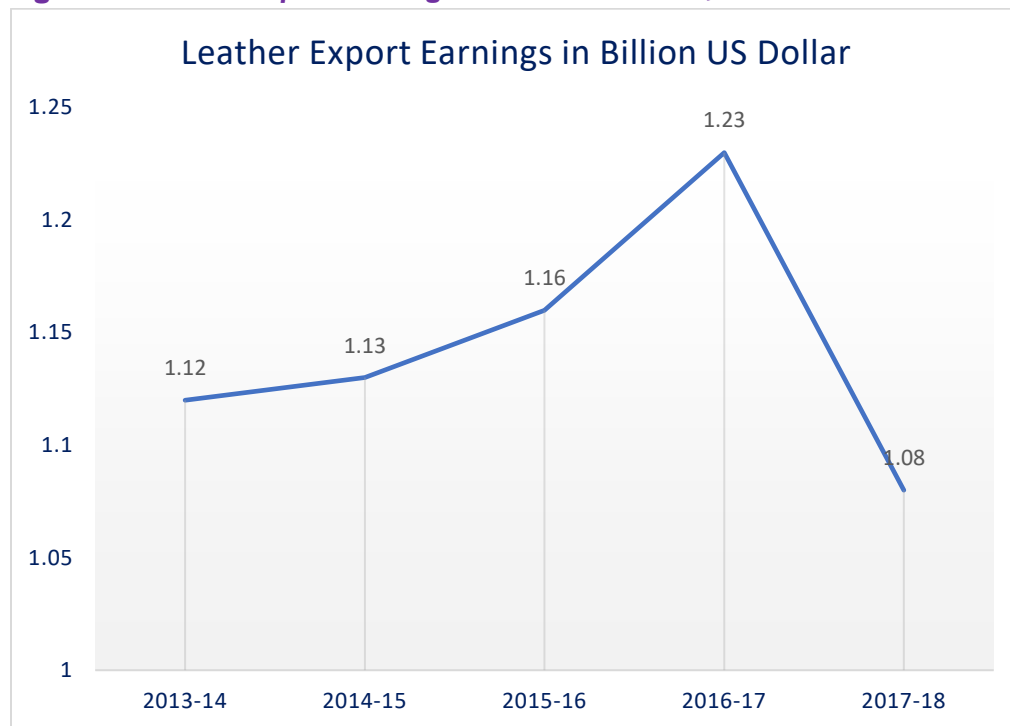
Bangladesh's export earnings from leather suffered a huge drop of over 12% in the last fiscal year, with manufacturers blaming the forced relocation of the centre of the country's tanning industry. The tanneries moved to Savar in 2017 following a series of protests by environmentalists, the government's persuasion and finally the higher court's intervention. Since then, however, the industry's manufacturing base has been hollowed out with the relocation of the tanneries from Hazaribagh in Old Dhaka. The move was forced through in April last year when, following a High Court order, the government cut power and gas connections to the tanneries to compel the owners to relocate to the purpose-built Savar Leather Industrial Park to the north of the capital.

The leather sector, the second largest export earner after apparel products, contributed \$1.08 billion - or just under 3% - of the total national exports of \$36.66 billion in fiscal year 2017-18. According to Export Promotion Bureau (EPB) data,

⁵ <https://thefinancialexpress.com.bd/editorial/prospect-for-countrys-leather-industry-1511018313>

however, Bangladesh earned \$1.23 billion from the sector in the FY 2016-17. Of the total earnings from leather in FY18, the Export Promotion Bureau (EPB) calculated that leather products earned \$336.8 million - a year-on-year fall of 27% - even if leather footwear bucked the downward trend, growing by over 5% to \$565.6 million in the last fiscal year (Figure 2).

Figure 2. Leather Export Earnings in Billion US Dollar, FY 2014-18



Source: Export Promotion Bureau (EPB)

According to Bangladesh Tanners Association (BTA), the majority of factories are yet to resume manufacturing since the relocation, so far only 110 tanneries have restarted production (and) because of that, the production rate is low and that is why export earnings were lower. The buyers have reacted by switching to other sources of leather and leather products due to the non-compliance issues at Savar Leather Industrial Park, where the Central Effluent Treatment Plants are yet to become operational.

iv. **The livelihoods of the local communities are being hampered**

The livelihoods of the local communities are being hampered. The a Savar is a concoction of waste from the Dhaka Export Processing Zone (DPEZ as well as the tanneries. The local community demanded that tannery activities should be postponed until the CETP was fully operational.⁶

⁶ <https://www.dhakatribune.com/bangladesh/dhaka/2017/02/04/savar-becoming-next-hazaribagh>

v. **IMPACT OF RELOCATION ON WORKERS LIVELIHOODS**

No compensation for workers

The tannery workers is an important stakeholders of tannery industry of Hazaribagh; it is very unfortunate that from the very beginning the policy makers did not consider the issue of workers in relation with relocation. Government allocated 250 crore taka for tannery owners as shifting compensation; but not a single taka for the workers. Relocation impacted badly on livelihoods of workers. The impact of relocation is negative on workers; the workers stated that they have been affected negatively by the relocation. Affordable and quality housing / accommodation is a major problem in Savar area. There is also a big problem of education of the children in the area. Furthermore, the transportation cost is higher for the commuters from Hazaribagh, it is around TK. 116 per day which is around 27% of their daily income.

Workers did not receive service benefit /compensation due to closure of factories

It has been found that only 5% of the workers have received compensation after the closure of the factories. This 5% mainly comprised of full-time and unionized workers of large tanneries. It was also found that some full-time employees at small tanneries as well as temporary workers and child laborers have generally not received any compensation.
