

Beyond Rana Plaza: Next Steps for the Global Garment Industry and Bangladeshi Manufacturers

Motoko AIZAWA* and Salil TRIPATHI**

Keywords: Bangladesh, exports, garments, Rana Plaza, workers

I. ASSESSING PROGRESS AFTER THE RANA PLAZA TRAGEDY

In April 2013 a factory building called Rana Plaza collapsed in the Bangladeshi capital, Dhaka. More than 4,000 workers were employed in factories that exported garments. Over 1,100 people died in the disaster, and some 2,000 workers were injured, many becoming permanently disabled. It was the worst disaster in an industry known to be accident-prone and with poor safety standards. In late May 2015, the owners of Rana Plaza were charged with murder. Procedural irregularities and illegalities were involved in the construction of the building.¹ There have been other gruesome accidents in Bangladesh, including a major fire at Tazreen factory in December 2012,² when at least 112 workers died.

The international response to the Rana Plaza crash was prompt. Concerned about the integrity of their supply chain, European and American companies have relied on third-party auditing and monitoring of factories to ensure that the factories meet international standards. But Bangladeshi factories often evade monitoring.³ Threats of consumer backlash and criticism from unions and the media have sensitized many companies to pay greater attention to how their suppliers operate.

This article will discuss the steps international companies have taken in response to the crisis, and the progress since then. It will also show structural problems in the industry

* Managing Director, the Institute for Human Rights and Business, USA.

** Senior Advisor, Global Issues, Institute for Human Rights and Business.

¹ Said Zain Al-Mahmood, and Tom Wright, 'Collapsed Factory was Built Without Permit', *Wall Street Journal* (25 April 2013), <http://www.wsj.com/articles/SB10001424127887323789704578444280661545310> (accessed 14 August 2015).

² In November 2012, at least 112 workers died in a fire at a garment factory called Tazreen Fashions. In 2005, a factory collapse at Spectrum garment factory in Dhaka killed 64 workers.

³ Shelly Banjo, 'Bangladesh Garment Factories Often Evade Monitoring', *Wall Street Journal* (3 October 2013), <http://www.wsj.com/articles/SB10001424052702304795804579101003566148372> (accessed 14 August 2015).

and offer suggestions as to the steps that can be undertaken to improve the safety standards and workers' rights in Bangladesh.

The international companies have created two different initiatives—the Accord on Fire And Building Safety in Bangladesh (Accord)⁴ and the Alliance for Bangladesh Worker Safety (Alliance).⁵ The Accord is a European grouping created as a binding mechanism to fund factory improvements and monitor performance. The Alliance is an American grouping which has extended loans to suppliers to improve conditions and some companies have contributed towards a compensation fund.⁶

The critical difference between the two is the involvement of unions. Accord involves international companies and UNI Global Union and IndustriALL Global Union and it has mandatory commitments. The Alliance is business-driven. Unions are sceptical about its enforceability.

International labour rights activists have historically objected to industry-led or industry-dominated initiatives because they fear that such initiatives are often voluntary and do not have adequate accountability.

There have been improvements since 2013. The Bangladeshi government increased⁷ the minimum wage in the garment sector by 77 per cent to Taka 5,300 (\$68) per month in November that year—which shows that before the crisis a garment worker, on average, made as little as the official poverty line of the World Bank: \$1.25 a day⁸. The wage rise will do little to improve worker safety. For that, better inspection and remedial measures are necessary. Audits and inspections by Accord and Alliance have led to some factories being closed down, and some factories being required to improve standards. In addition, unions are getting greater recognition.

After much haggling and drama, a fund based on a formula negotiated between unions, workers' organizations, and exporters, reached its target, to compensate the victims, and to provide lifelong care to those who needed it. But other gaps remain. Some estimates⁹ suggest that the cost of fire and safety upgrades that the factories need may exceed \$3 billion.

The garment sector has grown at an astonishing pace in Bangladesh, with the number of garment-exporting factories growing from 384 in 1984–1985 to 4,296 this year, and the member of people working in the sector has grown from 120,000 in 1984–1985 to some four million¹⁰ now, with over 80 per cent of them being women,¹¹ empowering

⁴ <http://bangladeshaccord.org/> (accessed 14 August 2015).

⁵ <http://www.bangladeshworkersafety.org/> (accessed 14 August 2015).

⁶ Chad Autry and Beth Davis-Sramek, 'Sweatshops Hurt the Bottom Line' *Wall Street Journal* (17 August 2015), <http://www.wsj.com/articles/guest-voices-sweatshops-hurt-the-bottom-line-1439841604> (accessed 31 August 2015).

⁷ Arun Devnath, 'Bangladesh Raises Minimum Wages for Garment Workers after Unrest', *Bloomberg Business* (13 November 2013), <http://www.bloomberg.com/news/articles/2013-11-13/bangladesh-garment-factories-to-stay-shut-amid-worker-protests> (accessed 14 August 2015).

⁸ For a detailed chart of the global poverty line, see <http://data.worldbank.org/indicator/SI.POV.DDAY> (accessed 14 August 2015).

⁹ Tara Donaldson, 'Bangladesh: Factory Upgrades to cost \$3 billion', *BASUG* (1 January 2015), http://www.basug.nl/nl/index.php?option=com_content&view=article&id=296:bangladesh-factory-upgrades-expected-to-cost-3-billion&catid=1:latest-news (accessed 14 August 2015).

¹⁰ Bangladesh Garment Manufacturers and Exporters Association, <http://www.bgmea.com.bd/home/pages/tradeinformation> (accessed 14 August 2015).

¹¹ Naila Kabir, *The Power to Choose: Bangladeshi Women and Labour Market Decisions in London and Dhaka* (London: Verso Books, 2001).

them in a conservative society. (Bangladesh is a populous, agrarian country where other industries have not taken off, making a factory job in the city a major attraction for Bangladeshi women.) In 2013–2014, the sector earned \$25.49 billion in exports (out of total exports of \$31.19 billion)¹², making it the country's largest manufacturing export earner by far.

II. SUGGESTIONS FOR FUTURE REFORM TO IMPROVE WORKER SAFETY AND WELL-BEING IN THE BANGLADESHI APPAREL SECTOR

The Bangladeshi garment industry is successful but its strength is precarious, resting on a significant competitive advantage over its rivals—low labour cost.

With a population of 164 million and a third of it under 15, there is an apparently inexhaustible supply of workers, and Bangladeshi factory owners have relatively little incentive to increase wages. What has kept Bangladeshi prices—and hence wages—low is the hard bargaining that takes place during negotiations between international brands and Bangladeshi companies.

Bangladeshi factories operate on high volume and thin margins because they have to squeeze costs.¹³ The need to improve the culture of safety is urgent; inspection of construction of buildings is perfunctory.¹⁴ For transformative change, Bangladesh will need many more better-trained incorruptible inspectors and independent unions that can negotiate without fear. Such changes will take time.

However, there are several immediate steps Bangladesh and its industry can take to improve standards and protect human rights in the country's main export earner.

Garment exports will remain a critically important sector for Bangladesh for many more years. Any damage to the sector—through sanctions or consumer boycotts—will have catastrophic impact on some of the most vulnerable and poor workers in global supply chains. Bangladeshi union leaders¹⁵ have stressed that they are against boycotts. They want the international community to demand change from Bangladeshi businesses and government to improve local standards, and for international consumers to apply pressure to the brands. Access to finance—to increase factory capitalisation so necessary investments can be made—is of critical importance. Some necessary steps are:

- **Develop new financing mechanisms:** Bangladeshi businesses have resisted investing in factory improvements because they claim they are squeezed and lack resources. The average cost to overhaul a factory is \$250,000, according to one

¹² BGMEA, note 10.

¹³ Said Zain Al-Mahmood, 'Bangladesh Factory Owners Wary of Wage Increase', *Wall Street Journal* (4 December 2013), <http://www.wsj.com/articles/SB10001424052702304579404579235351833424162> (accessed 14 August 2015).

¹⁴ Anon, 'Rajuk Issues Only Six Occupancy Certificates', *New Age* (13 May 2013), <http://newagebd.com/detail.php?date=2013-05-13&nid=49001#.Udfnkj7bp38> (accessed 14 August 2015).

¹⁵ Consider, for example, the interview with Nazma Akter at Institute for Human Rights and Business, <http://www.ihrb.org/media-centre/voices/nazma-akter.html> (accessed 14 August 2015), or the views of Kalpona Akter who opposes boycotts and wants consumer awareness and activism, <http://www.thenation.com/article/we-wanted-let-them-know-who-making-their-clothes-qa-kalpona-akter/> (accessed 14 August 2015).

recent study. Upgrading costs for 1,800 factories that require urgent attention would exceed \$400 million. Terms of trade need to change if the industry is to have adequate resources.¹⁶

International companies drive a hard bargain because they say their customers want ever-cheaper clothing. New rules may become necessary to address the power imbalance so that the price reflects the true cost.¹⁷

More recently, various efforts have been made to help fund the cost of factory upgrades. In December 2014, the International Finance Corporation (IFC), a member of the World Bank Group, established a financing arrangement, where VF Corporation provides a full corporate guarantee for up to \$10 million that the IFC and its partner, BRAC Bank, will lend to VF's contract suppliers.¹⁸ It is a good start, but the ceiling of \$10 million does not go very far, and the arrangement is limited to VF's Bangladeshi partners.

More recently, the G7 countries announced a Zero Vision Fund, in collaboration with the International Labour Organisation, as part of their commitment to ensure sustainable supply chains, consistent with the United Nations Guiding Principles on Business and Human Rights.¹⁹ The Fund aims to prevent and reduce workplace-related deaths and serious injuries by strengthening public frameworks and establishing sustainable business practices. This is welcome, subject to the terms of the fund.

- **Improve supervision:** In the Bangladesh garment sector some 4,296²⁰ factories are exporters to the major markets, and industry experts²¹ say there are probably another 2,500–3,000 factories that manufacture for the domestic market. which are not covered by current initiatives.

Government inspectors are unable to monitor all factories. Supervisors sometimes overlook infractions, partly due to bribery. It is critical for the government to increase the number of supervisors, improve their salaries, and ensure that supervisions are consistent and regular.

- **Fix the factory ownership problem:** Business has close links with governments in many countries and business uses the relationship to influence policies that

¹⁶ Sarah Labowitz and Dorothee Baumann-Pauly, 'Business As Usual Is Not An Option: Supply Chains and Sourcing after Rana Plaza' (New York: New York University, 2014), https://www.stern.nyu.edu/sites/default/files/assets/documents/con_047408.pdf (accessed 31 August 2015).

¹⁷ Mark Mackinnon and Marina Strauss, 'Spinning Tragedy: The True Cost of a T-shirt', *The Globe and Mail* (12 October 2013), <http://www.theglobeandmail.com/report-on-business/spinning-tragedy-the-true-cost-of-a-t-shirt/article14849193/?page=all> (accessed 14 August 2015).

¹⁸ 'VF and IFC Distribute First Round of Financing to Bangladeshi Factories for Safety Improvements' (8 December 2014), http://www.vfc.com/news/press-releases?nws_id=09B51331-FOC1-B0EA-E053-A740E3EAB0EA (accessed 14 August 2015).

¹⁹ 'G7 Leaders' Declaration' (8 June 2015), <https://www.whitehouse.gov/the-press-office/2015/06/08/g-7-leaders-declaration> (accessed 14 August 2015).

²⁰ BMGEA, note 10.

²¹ Author conversations with garment exporters. Representatives of several international companies and unions told the authors that Accord and Alliance only apply to exporting factories and acknowledged that a large part of the country's workforce is not covered by these measures. Local manufacturers one of the authors spoke to agree with that assessment.

benefit business. The threat of regulatory capture in Bangladesh is real. According to one report,²² more than thirty of Bangladesh's parliamentarians from major parties directly own garment factories, and one labour rights activist estimates the number of parliamentarians linked with the industry may be 50 per cent.²³

This means, first, parliamentarians resist laws that might increase the business costs, and which could improve health and safety norms. Second, parliamentarians have resisted moves to strengthen unions. Some Bangladeshi unions are affiliated with political parties, and they typically do not challenge factory owners who may belong to their party. And third, while textile machinery attracts limited import duties, capital equipment for other industries carry higher levies. This has skewed investment decisions.

Bangladeshi politicians will have to show enlightened leadership. Significant political reform is often possible only when those with privilege and power vote against their own interests, as was the case in Victorian England, when William Wilberforce and other campaigners created a moral climate against slavery, and parliamentarians, many of them slave-owners or traders, voted to outlaw slavery.

Though not that extreme, Bangladesh requires a similar quantum shift. Rules that require parliamentarians to recuse themselves from voting on legislation where there is a clear conflict of interest are necessary, with proper oversight mechanisms.

- **Establish domestically-owned and domestically-driven multistakeholder processes:** Donor governments have certain influence over decisions Bangladesh makes because it is an aid-recipient. Foreign investors too have leverage. But ultimately, Bangladesh will have to take ownership.

For initiatives like the Accord and the Alliance to succeed in the long run local ownership and genuine local participation are needed. These initiatives should not be perceived as paternalistic foreign intrusions and need to engage local industry in a more equitable relationship.

The problems affecting Bangladesh's garment industry are not only factory safety and wages. There are other concerns, including general health and safety standards, hours of work, sexual harassment, violence against unions, and so on.²⁴ A robust, collective domestic process which is inclusive and transparent, where stakeholder consultations are possible, where problems are anticipated and addressed, and grievances expressed and remedies offered, is critical.

- **Empower workers:** Bangladeshi unions have close ties with political parties and independent unions face major challenges. Each major political party has its own

²² John Chalmers, 'How Textile Kings Weave a Hold on Bangladesh', *Reuters* (3 May 2013), <http://www.reuters.com/article/2013/05/03/us-bangladesh-garments-special-report-idUSBRE9411CX20130503> (accessed 14 August 2015).

²³ Ibid.

²⁴ Sapana Pradhan-Malla, 'Sexual Harassment in the Workplace in Asia', Paper presented at Expert Group Meeting on Violence Against Women: Good Practices in Combating and Eliminating Violence Against Women, Vienna (2005), <http://www.un.org/womenwatch/daw/egm/vaw-gp-2005/docs/experts/pradhanmalla.sh.pdf> (accessed 31 August 2015) and Steven Greenhouse, 'Union Leaders Attacked at Garment Factories in Bangladesh, Evidence Shows' *New York Times* (22 December 2004), <http://www.nytimes.com/2014/12/23/business/international/attacks-on-union-leaders-at-azim-factories-in-bangladesh-are-documented.html> (accessed 31 August 2015).

union, accounting for 64 per cent of Bangladesh's unionized workforce.²⁵ A government regulation requires each political party to have a labour union.²⁶ This has created a 'patron–client' relationship between union leaders and ruling elite.²⁷

Companies can take minimum steps such as recognizing workers' rights to form unions, recognizing multiple unions if necessary, seeking collaborative solutions, and maintaining a dialogue with unions and civil society groups to anticipate problems before they take crisis proportions. Independent legal aid clinics should be encouraged so that workers have access to competent, non-partisan advice and they can get redress for their grievances.

- **Innovative financial models to fund factory improvements:** The magnitude of needs in the Bangladesh garment sector means multiple funding mechanisms, both public and private, are needed. Drawing from examples such as vaccine bonds (which have raised \$4.5 billion to finance access to vaccines) and other so-called social impact bonds, the international finance community can create innovative financial products to generate resources to overhaul the Bangladeshi garment sector. In 2014 a G7 special task force prepared a report called 'Impact Investments: The Heart of the Markets',²⁸ focusing on social impact investments, i.e. investments which 'intentionally target specific social objectives along with a financial return and measure the achievement of both'.

Customary due diligence would become necessary on financing structure, risk allocation, and the identity of the financial intermediary. An innovative structure involving public actors (the Government of Bangladesh, City of Dhaka, and donors) and private ones (the international brands and other organizations) can be set up with help from development finance experts. The Accord and the Alliance members will undoubtedly be expected to play a major role, by demonstrating their accountability and commitment by investing in the bond.

The capacity of recipients to absorb such funds is a major issue, and it will be necessary to develop mechanisms to ensure sensible distribution of funds to avoid potential inflation or corruption. Stakeholders would have to agree to specific social outcomes (which could include a compensation fund, a trust fund to pay for factory improvements, and so on) that must be achieved and to administer the funds effectively and efficiently.

Other innovative solutions, such as the T-shirt tax proposed by the Nobel Laureate Mohammed Yunus, should also be considered. Dr. Yunus has proposed a

²⁵ Jean-Paul Azam and Claire Salmon, 'Strikes and Political Activism of Trade Unions: Theory and Application to Bangladesh' (1997), www.univtlse1.fr/ARQADE/ressources/Cahiers/1997/Cahier9702.pdf (accessed 14 August 2015).

²⁶ Sheikh M Nurullah, *Industrial Relations: Trade Unions and the Role of Government in Bangladesh* (The Hague: Institute of Social Studies, 1993).

²⁷ Shahidur Rahman, *Broken Promises of Globalisation: The Case of the Bangladesh Garment Industry* (Lanham: Lexington Books, 2014).

²⁸ Social Impact Investment Task Force, 'Impact Investment: The Invisible Heart of Markets: Harnessing the Power of Entrepreneurship Innovation and Capital for Public Good' (2013), <http://www.socialimpactinvestment.org/> (accessed 14 August 2015).

50-cent tax on every piece of garment exported from Bangladesh, and the money would go to a welfare trust for workers.²⁹

Garment exports represent an important engine of growth for Bangladesh. The industry employs millions of people, enabling an agrarian society to move from the farm to the city. It has empowered women and created jobs for people who had poorer alternatives. It is in nobody's interest to harm the sector. However, practical, sound, and achievable actions are needed to ensure that the human rights of some of the world's most vulnerable and hard-working people are protected. The challenge is for Bangladesh's politicians, factory owners, unions, and civil society groups to work together, in partnership with donors, international brands, and international unions and human rights groups to ensure that the tragedy of Rana Plaza is never repeated.

²⁹ Jason Burke, 'Muhammad Yunus Appeals to West to Help Bangladesh's Garment Industry', *The Guardian* (12 May 2013), <http://www.theguardian.com/world/2013/may/12/muhammad-yunus-bangladesh-appeal> (accessed 14 August 2015).