

reo[®] Viewpoint – Public

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Bangladesh revisited: progress slowly but surely

- Two years on from the collapse of Rana Plaza, we revisited Bangladesh for the second year running to check in on safety and labour reforms in the country's garment industry.
- Progress has been made around minimum wage, laws on worker unionisation, and building fire and safety inspections. Implementation of reforms by factories is lagging behind and international companies are being accused of failing to ensure safer factories.
- There is emerging recognition by brands and retailers that sustainable supply chain practices are not just costs but do make genuine business sense.

In April 2013, the Rana Plaza clothing manufacturing factory collapsed in the Bangladeshi capital of Dhaka. The incident resulted in more than 1,100 fatalities and was a result of poor building structure. Many international apparel brands were supplied directly and indirectly from the factory. It brought worldwide attention to the working conditions in Bangladesh as well as the practices of the global multi-national corporations sourcing from the country.

Last year, we went to the world's second-largest exporter of clothing on a fact-finding mission to engage local stakeholders on the pace and impact of the safety and worker rights' reform¹. We found that international brands had improved their programmes to ensure supply chain policies are adhered to, but there continued to be underlying incentives for supplier non-compliance.

In June of this year, we went back to see for ourselves whether these programmes are working and forcing suppliers to alter their practices. One key finding emerged from our meetings: fire and building safety alone cannot truly improve working conditions without it going hand-in-hand with better protection.

¹ Details of the 2014 trip can be found in: reo Viewpoint 'Atonement: Bangladesh' garment industry seeks to build bright future" July 2014.

Multi-stakeholder delegation to Dhaka

We were invited to Bangladesh as part of a multi-stakeholder delegation together with Lillianne Ploumen, the Dutch minister for Foreign Trade and Development Cooperation, to promote sustainable supply chains in the Dutch textile sector. The Dutch government is funding, together with the United Kingdom and Canada, a programme by the International Labour Organisation (ILO) to: improve working conditions (Better Work Bangladesh); support the work of the National Tripartite Plan of Action (NTPA) on fire safety; and enhance relationships between the government of Bangladesh, factory owners, and employee representatives. The ILO program impacts policies and practices of our investee companies. After the official three-day program, we stayed on for another few days to visit factories that supply to the international brands together with the supply chain consultancy Impactt. This is an organisation founded by Rosey Hurst, who is a member of BMO Global Asset Management's Responsible Investment Advisory Council. Throughout the week we engaged industry representatives, trade unions, government officials, international brands and retailers, local factory employers and workers.

Engagement hurdles

Global apparel companies have generally been open to dialogue and engagement on the management of their supply chain risks in Bangladesh. We have held numerous discussions over the past two years with a broad number of companies. Despite this track record of responding to shareholder engagement positively, many of these companies were reluctant to meet us in the field in Bangladesh and schedule any factory visits for investors. The only company which invited us locally was **Associated British Foods** which sources products for its low-price clothing retail chain Primark.

We welcome Primark for showing leadership in its approach to investor dialogue on sustainability issues by taking an open and transparent approach. They discussed the achievements and challenges for increasing factory compliance with labour standards. This was another case of a learning we have developed through our engagement over the past few years: companies which sell clothes at low prices (and high volumes) do not necessarily have the weakest supply chain standards and source from the worst factories. In fact, western brands which offer products at different price points often are sourcing from the same factory.

Fire and building safety improvements

Companies signing on to the programmes of the *Accord on Fire and Building Safety in Bangladesh* (known as the Accord) and the *Alliance for Bangladesh Worker Safety* (the Alliance) agree upon a five-year commitment to invest in a safe ready-made garments (RMG) industry. The first phase of inspections was concluded in spring 2015. We were informed that under the two agreements a total of approximately 1,800 factories were surveyed for fire, electrical and structural safety. These were issues that before Rana Plaza had not routinely been part of company audits of factories. In addition, through the National Tripartite Action Plan (NTAP) the Bangladesh government is estimated to have inspected a further 700 factories. In total, the inspections account for around 80% of export-orientated factories. Examples of safety hazards that were identified in the inspection reports include blocked fire exits, poor quality fire doors and the absence of fire sprinklers. We were able to confirm these nature of problems during our own factory visits in Bangladesh. In a number of cases, we were told that temporary or permanent closure of factories were recommended. Workers affected by these closures were either relocated to other plants or received pay-outs of a few months' pay.

In Dhaka, we met with a number of buyers representing companies that signed the Accord or the Alliance. They told us that all of their supplier partners completed the sanctioned inspections and are now working on the corrective action plans. The main industry organisations, namely the Bangladesh Garment Manufacturers & Exporters Association and the Bangladesh Knitwear Manufacturers & Exporters Association, which hold considerable influence and sway over the Ministry of Commerce policies, said that the development and implementation of the corrective action plans is the

real challenge. This is because of the investments needed in resources such as skills, time and finances. Indeed, concerns about the delays in remediation were confirmed in our discussions with member factories. Repairs and renovations require specific skillsets. Resources that are difficult to source locally in Bangladesh, such as expert engineers and fire doors, are being imported from India and China. It is reported that unions may consider initiating formal complaints against the main exporting brands signed up to the Accord and Alliance to make them account for the delays in improvements in the supplier factories.

Progress needed on workers' rights

Significant efforts are underway to make factories safer but we believe that more could be done to encourage factories to abide by international labour standards to protect workers' rights, including improving workers' productivity levels and the right to form unions and advocate for better working conditions. The local trade union leaders highlighted the importance of not losing the momentum for reform after Rana Plaza, especially for labour rights. Amendments to the Labour Act in 2013 now allow workers to unionise without requiring approval from factory owners. But after an initial spurt in union registrations, requests lately have slowed down and appear to be facing resistance from employers and others. Overall, it is estimated that only 350 out of approximately 5000 factories hold a trade union government registration. We question the effectiveness of these unions as some were launched by factory management instead of employees.

In our talks with the local trade unions, it was stressed that workers trying to organise face continuous intimidation and harassment. As a result most workers feel hesitant to unionise as the direct benefits are unclear. Effective dissemination of best practice examples of successful cooperation between factory management and trade unions highlighting efficiency and improved working conditions are needed. Most international companies prefer to support capacity development around a substitute for trade unions — the government mandated elected workers participation committees for all factories. These are made up equally of elected management and workers and if registered, union representatives. We question the use and influence of these bodies as debated topics generally hardly cover sensitive issues such as health and safety concerns, overtime restrictions and wage levels. These committees fail to rebalance the weak bargaining power of workers.

We want to stipulate to the international brands and retailers that forming trade unions on local factory levels remains the best available instrument to enhance labour rights. This encourages a balanced social dialogue between workers, factory owners and government bodies. We acknowledge that this is not an easy process. Reports of corrupt trade unions reiterate the need for capacity development and carve a clear coaching role for the multi-nationals in cooperation with non-governmental organisations.

Child labour concerns

Despite great strides made by multi-national corporations to establish strong standards within their supply chains, child labour continues to be a reality in Bangladesh. There are estimated to be 5000 garment factories in the country. This means that half of these factories, which are often the smaller ones, fall outside the scope of the current remediation programmes of the Accord and the Alliance. These factories do not directly supply exporting brands in Europe and North America but supply companies from other lower income countries which have no supply-chain standards to speak of.

We saw children working in small workshops first hand when we visited the district of Keraniganj which is in the old part of Dhaka. Some were as young as five years old. We call on the exporting brands and retailers not to remain indifferent to these types of excesses. Child labour remains a major challenge to overcome in Bangladesh and companies are vulnerable to reputational damage by sourcing from here without sufficient controls in place.

Conclusion and next steps

Low production costs and high product volumes have always been the main considerations for companies sourcing from Bangladesh. But several brands told us that failures in the rule of law, government corruption and poor working standards fuel social unrest. This in turn severely impacts quality, productivity and security of supply. These are costs that cannot be offset against the savings made from cheap labour for much longer. International apparel companies are willing to bear higher costs in return for better factory standards in Bangladesh to reduce these risks.

The garment employers' associations told us that some factories have reported higher order numbers following inspections. This exhibits that when brands, trade unions and governments work together in a legally binding framework, suppliers can profit despite the higher costs of implementing corrective action plans. We will continue to press companies to think beyond traditional strategies of business-led codes of conduct and monitoring schemes, which possibly have failed to work as well as hoped in the past. Overall, there is a clear need for brands and factories to work in partnership and build sustainable supply chain practices that link better working conditions with productivity improvements. We will continue to engage investee companies sourcing from Bangladesh on the topics above until the end of the 5-year Alliance and Accord commitments in 2018.