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# UNDRESS CORRUPTION

How to Prevent Corruption in  
The Readymade Garment Sector:  
Scenarios from Bangladesh



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# GLOSSARY AND ABBREVIATIONS

BGMEA	<i>Bangladesh Garment Manufacturers and Exporters Association.</i> It is one of the largest trade associations in the country representing the ready-made garment industry, particularly the woven garments, knitwear and sweater sub-sectors with equal importance. Since the inception in 1983, BGMEA is dedicated to promote and facilitate the apparel industry through policy advocacy to the government, services to members, ensuring workers' rights and social compliance at factories.
BKMEA	<i>Bangladesh Knitwear Manufacturers &amp; Exporters Association.</i> It is the apex trade body to represent solely the knitwear sector of Bangladesh. BKMEA, starting its journey in 1996, was formed as a trade association to facilitate and promote knitwear business. Today it is an organization of about 2000 knitwear manufacturers and exporters. Some of the activities of BKMEA include product diversification and market promotion, consultancy for Green Industry Development, social and environmental compliant factory building, research and development activities, training on fire fighting technique, civil engineering and architectural assistance for ensuring structural safety of factory building, and other necessary services within the shortest possible time.
C&F	<i>Clearing and Forwarding.</i> The responsibility of C&F is taking the produced goods up to the port mentioned in the agreement, from where the buyer will receive the product.
CoC	<i>Code of Conduct.</i> This is an agreement with a high degree of ethics, honesty and fair dealings agreed upon by buyer and supplier to be passed on to subcontractors along the supply chain.
EPB	<i>Export Promotion Bureau, Bangladesh.</i> This is a national export promotion agency under the Ministry of Commerce. The EPB promotes export trade and improve plan & policies helpful to the private sector. It is administered by comprising members from both public and private sectors.

EPZ	<i>Export Processing Zone.</i> An EPZ is defined as a territorial or economic enclave in which goods may be imported and manufactured and reshipped with a reduction in duties and/or minimal intervention by custom officials. The primary objective of an EPZ is to provide special areas where potential investors would find a congenial investment climate free from cumbersome procedures. The BEPZA ( <i>Bangladesh EPZ Authority</i> ) is the official organ of the government to promote, attract and facilitate foreign investment in the EPZs.
ERC	<i>Export Registration Certificate.</i> Issued by the EPB for exporting the finished products for the RMG sector.
FOB	<i>Free on board.</i> FOB means that the seller pays for the transportation of the goods– up to the port of shipment plus loading cost including clearing the customs.
IRC	<i>Import Registration Certificate.</i> Issued by the EPB for importing raw materials for the RMG sector.
Master LC and Back-to-back LC	<p><i>Master Letter of Credit and Back-to-Back Letter of Credit.</i> Two letters of credit (LCs) used together to help a seller finance the purchase of equipment or services from a subcontractor. With the original LC from the buyer's bank in place, the seller goes to his own bank and has a second LC issued, with the subcontractor as beneficiary. The subcontractor is thus ensured of payment upon fulfilling the terms of the contract.</p> <p>Back-to-back LC is used mainly by intermediaries <b>to hide the identity of the actual supplier or manufacturer.</b> In the underground network, requests for Back-to-Back Letters of Credit are very common. They are requested as a means of guaranteeing commissions to intermediaries. The commission is supposed to be the difference between the asking price of the commodity and the selling price. In fact, a Back-to-Back Letter of Credit can be used in this manner - to guarantee the payment of commissions to an importer or exporter acting as agent for the Buyer or Seller. The agent can request his bank to make arrangements with the seller's bank to issue the credit, however the agent must be on excellent terms with his banker in order for the request to honor.</p>

Merchandiser	In the garment sector also referred to as fashion-merchandiser, liaise between the buyers and the production. They must understand fashion trends and the buyers' needs and in line with this get the garments produced locally. Their job is a coordinating one. It might comprise preparing samples approved by the buyers, pricing, procuring the materials, overseeing the production, quality control, ensuring timely delivery or parts of it. Merchandisers may work as self-employed free-lancers or as employees of a company.
PI	<i>Procurement Invoice</i> . The buyer gives a PI after the price negotiation is done. In this PI the quantity, price per unit, delivery date, shipment date, validity date etc. is detailed out.
PU	<i>Production Units</i> . PUs denote to ready-made garment factories where the garment items are finally manufactured.
RAJUK	<i>Rajdhani Unnayan Kartripakhha</i> is a Bangladeshi public agency responsible for coordinating urban development in Dhaka. RAJUK is composed of various public officials, city planners, urban administrators, engineers and architects. It is the National Authoritative Board on building planning, estates and resources, plot allotment and construction approvals from both public and private entities.
SSC	<i>Sustainable Social Compliance</i> . One kind of social audit implemented by the buyers on the factories.



# Preface

Transparency International Bangladesh (TIB) has been working with the mission of catalysing an effective and sustained social movement against corruption in Bangladesh. To this end, it has been conducting research and undertaking advocacy initiatives focusing on challenges of good governance in various institutions in both public and private sectors that are considered important for the lives and livelihoods of ordinary citizens, particularly the poor and the marginalised.

The readymade garment (RMG) sector of Bangladesh, the leading private sector that employs more than 4 million workers and accounts for a large share of the country's total export, suffers from different governance challenges. Although encouraging initiatives have been undertaken by the government and other stakeholders, particularly in response to the tragic Rana Plaza disaster in 2013, allegations of irregularities and non-implementation or abuse of laws meant for ensuring workers' rights continue. Solicitation of bribes and extortion allegedly prevail at various stages of the supply chain. Given that transparent compliance and accountability in every stage of supply chain are key to establishing better governance and preventing corruption in this sector, it is highly important to identify and analyze roles and responsibilities of each of the relevant actors and stakeholders in the supply chain.

Against this backdrop, TI-Bangladesh in cooperation with TI-Germany conducted the present study based on experience-based scenarios of solicitation and extortion demands in addition to various forms of non-compliance in the RMG sector supply chain. Each scenario ends with recommendations on how to counter such problems. The purpose of this research was to contribute to developing a practical guide and training tool for the company owners and employees, auditors, and independent agents on how to prevent and/or respond to the solicitation unlawful payments in the RMG sector in general and supply chain in particular.

The research was conducted by Shahzada M. Akram and Nazmul Huda Mina, all members of TIB's research team. Former colleague Neena Shamsun Nahar and former FK Fellow Jwala Bhatt's contributions are gratefully recalled. Other colleagues of the R&P Division of TIB also made useful contributions. We also deeply appreciate the cooperation extended to us by all key informants by sharing valuable insights on the supply chain in the RMG sector. I am grateful to Professor Dr. Sumaiya Khair, Deputy Executive Director, who supervised the research assisted by Mohammad Rafiqul Hassan, Director of R&P.

We also take the opportunity to put on record our gratitude to the project team of TI-Germany: Dr. Christa Dürr, Dr. Heidi Feldt, Sieglinde Gauer-Lietz, and Dr. Angela Reitmaier; Dr. Andreas Novak, board member of TI-Germany, and members of

their Working Group on Private Sector, Norbert Graf Stillfried and Dr. Manfred zur Nieden; and C&A Europe for their valuable inputs. I am grateful to the Board of Trustees of TIB for their overall guidance as always.

We hope that the stakeholders of the RMG sector would benefit from this study, which in our understanding will further strengthen the institutional capacity and effectiveness of this sector in promoting better governance and preventing corruption.

**Iftekharuzzaman**  
Executive Director

# 1. INTRODUCTION

## 1.1 Background and Purpose

The tragic event at Rana Plaza on April 24, 2013 drew the attention of the world to the conditions prevailing in the ready-made garment sector of Bangladesh. In its wake, over 150 European textile companies signed a legally binding agreement to maintain minimum standards in the Bangladesh textile industry (*Accord*), while 28 American and Canadian companies, including Wal-Mart and Gap, announced the Bangladesh Worker Safety Initiative (*Alliance*), a less stringent instrument than the Accord.

The Corruption Perception Index of Transparency International (TI) ranks Bangladesh 145 out of 174 countries, indicating that corruption is a serious problem in the country which also plays a role in the repeated accidents that occurred in the RMG sector.<sup>1</sup> A study by TI-Bangladesh in 2013 revealed lack of transparency and irregularities in the sector's structure and derived 25 recommendations for bringing in significant improvement in this sector.<sup>2</sup> In the process of introducing fair labor conditions in the RMG sector, the recommendations addressed to buyers are:

- To be accountable for ensuring proper work conditions, safety and labor rights in the factories,
- To offer training to workers, officials and other staff in the garment factories, as well as
- To participate in the creation of a central workers welfare fund.

Over the last two years, a number of initiatives was taken from both the government and other stakeholders, which include:

- Amendment of EPZ law, 2013,
- Appointment of panel lawyers to help workers in the labor tribunal,
- Finalization of labor rules and preparation of guidelines for sub-contract factories,
- Formation of two taskforces to monitor inspections carried out by *Accord* and *Alliance*,
- Appointments of staff to enhance the capacity of Director General of Factory and Establishment and Fire Service, and
- Decentralization of Director General of Factory and Establishment and *RAJUK*.

<sup>1</sup> For details see <http://www.transparency.org/cpi2014/results> (accessed on 24 December 2014).

<sup>2</sup> TIB also conducted a follow-up study on the first anniversary of the accident in 2014 to assess progress of numerous initiatives undertaken by various stakeholders in the aftermath of Rana Plaza accident. The second follow-up was conducted on the occasion of the second anniversary of the accident to assess progress of remaining and new initiatives during 2014 -2015. For details see [http://www.ti-bangladesh.org/beta3/images/max\\_file/es\\_rmg\\_en\\_07112013.pdf](http://www.ti-bangladesh.org/beta3/images/max_file/es_rmg_en_07112013.pdf) (accessed on 17 August 2015); [http://www.ti-bangladesh.org/beta3/images/2015/es\\_ffs\\_rmg3\\_15\\_en.pdf](http://www.ti-bangladesh.org/beta3/images/2015/es_ffs_rmg3_15_en.pdf) (accessed on 17 August 2015); and [http://www.ti-bangladesh.org/beta3/images/2014/es\\_ffs\\_RMG\\_follow\\_up\\_14\\_en.pdf](http://www.ti-bangladesh.org/beta3/images/2014/es_ffs_RMG_follow_up_14_en.pdf) (accessed on 17 August 2015).

Major initiatives taken by other stakeholders include providing salaries as per wage board in 95% factories, issuance of identity cards by compliant factories, and BGMEA's 'Center of Excellence' initiative to enhance workers' awareness on fire safety, surveys on around 67% factories to ensure fire, electrical and structural safeties by *Accord* and *Alliance*.<sup>3</sup>

However, there have been allegations of either non-implementation of laws or their misuse to ensure workers' right and their job security. Moreover, lack of political will is still visible to establish an environment for collective bargaining of workers. Although there have been laudable efforts by the government, buyers and factory owners to ensure compliances, such efforts are still absent for non-compliant factories. This applies mainly to smaller PUs who depend on subcontracts and therefore are financially not able to invest to improve their compliance. On the other hand, the power of BGMEA in influencing government policies with regard to the RMG sector has increased further.<sup>4</sup>

Corruption prevention and transparency are key elements of the proposed way forward. Even though most of the governance challenges have to be met in Bangladesh, Western buyers can exert substantial influence based on their contractual relationship with factory owners. For them, sustainable supply chain management and recognition of responsibility along the supply chain become more and more important. Codes of Conduct (e.g. the CoC of the German *textile + fashion Confederation*<sup>5</sup>) and compliance programs are valuable tools for preventing corruption. Nevertheless, solicitation of bribes and extortion remain everyday challenges.

Against this backdrop and based on a tool previously developed, 'Resisting Extortion and Solicitation in International Transactions'<sup>6</sup>, TI-Bangladesh in close cooperation with TI-Germany developed this training tool particular for the supply chain of the textile sector in Bangladesh. It is based on real-life scenarios of solicitation and extortion demands, and also includes scenarios of fraud and falsification which often are entry points of corruption. Each scenario is concluded by recommendations on how to counter such demands efficiently and ethically.

The purpose of this research is to develop a practical guide and training tool to company owners and employees, auditors, and independent agents on how to prevent and/ or respond to the solicitation of a bribe in the RMG sector.

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3 For details see <http://www.ti-bangladesh.org/beta3/index.php/en/activities/4634-governance-challenges-still-exist-in-bangladesh-rmg-sector-tib> (accessed on 17 August 2015).

4 For details see <http://www.ti-bangladesh.org/beta3/index.php/en/activities/4634-governance-challenges-still-exist-in-bangladesh-rmg-sector-tib> (accessed on 17 August 2015).

5 English version may be requested by mail: [jschroeder@textil-mode.de](mailto:jschroeder@textil-mode.de)

6 RESIST: *Resisting Extortion and Solicitation in International Transactions* (2011), developed by the International Chamber of Commerce (ICC), Transparency International (TI), United Nations Global Compact (UNGC) and World Economic Forum Partnering Against Corruption Initiative (PACI).

## 1.2 Methodology and Study Period

This is a qualitative study, where qualitative data collection method, mainly Key Informant Interview (KII) has been applied. The sources of information include both primary and secondary sources. Primary sources include international buyer/ representative/ buying house/ agent, garment factory owner/ staff, labor, compliance auditor, inspector, expert, merchandiser, shipping agent, and banker. Secondary sources include review of relevant laws/ ordinance, international pacts/ treaties/ declarations, government reports, research reports, published news/ articles, and websites.

Collection of all information was completed during November 2014 – April 2015.

## 1.3 Anti-corruption Legal Framework in Bangladesh

The Bangladeshi laws relevant to fighting corruption<sup>7</sup> include:

- The Prevention of Corruption Act 1947;
- The Penal Code 1860;
- The Money Laundering Prevention Act 2002 that criminalizes extortion, active and passive bribery, bribery of foreign public officials, money laundering, and using public resources or confidential state information for private gain;
- The Anti-Corruption Commission Act 2004;
- The Bangladeshi Public Interest Related Information Disclosure (Protection) Act 2011; and
- The Right to Information Act 2009.

Bangladesh acceded to the United Nations Convention against Corruption in February 2007.

Bribery in Bangladesh is covered through “abetment” of a public official to commit bribery. The **Prevention of Corruption Act 1947** criminalizes a public servant accepting or obtaining a gratification (other than legal remuneration) as a motive or reward [Section 5(1)].

The **Penal Code, 1860** also prohibits a public servant from accepting a bribe [Section 161, 165] and penalizes the abetment of this offence (Section 165 A).

The **Money Laundering Prevention Act of 2002** (revised in 2009 and 2012) gives the Bangladesh Bank (Central Bank of Bangladesh) wide-ranging powers to take measures to prevent money laundering, monitor its incidence, enforce rules and act as the prosecuting agency for breaches of the Act. The Act criminalizes, inter alia, concealment of the proceeds of crime, embezzlement, and illicit enrichment. The Act also requires specified reporting organizations to maintain complete and accurate information on the identity of customers, retain records for five years after accounts have been closed, and report suspicious transactions to the Bangladesh Bank

<sup>7</sup> Section draws on Norton Rose Fulbright, Business ethics and anti-corruption laws: Bangladesh, September 2014, <http://www.nortonrosefulbright.com/knowledge/publications/121081/business-ethics-and-anti-corruption-laws-bangladesh>

The **Anti-Corruption Commission Act 2004** criminalizes the possession of assets which are not in conformity with lawful sources of income of a person and require that s/he provides explanation regarding the means of acquisition of the said property which appears to be in excess of the disclosed income of the person (Section 26, 27). Facilitation payments made to Bangladesh government officials, even if made outside Bangladesh, may be deemed to be an unlawful gratification and thus such facilitation payments may be deemed to constitute bribery. There are no specific guidelines or monetary thresholds under Bangladesh laws and regulations with respect to the acceptance of gifts or entertainment by a public servant. However, public officials may accept a gift of up to 500 Taka (about 6 Euro), if offered abroad, or in Bangladesh by foreign Government officials or institutions.<sup>8</sup>

The **Bangladesh Public Interest Related Information Disclosure (Protection) Act 2011** was enacted to protect whistleblowers. It empowers a person to disclose information on any government offices as well as on non-government organizations to authorities concerned, but does not cover the private sector. It ensures that authorities can reward whistleblowers if their information is proved correct, that no criminal, civil or administrative proceedings can be brought against whistleblowers, and that their identities cannot be revealed without their consent. On the other hand, giving false information or accusations can result in punishment.<sup>9</sup>

The **Right to Information Act 2009** plays an important role in ensuring transparency and accountability of the government.

From the above discussion, it may be noted that all the above laws deal with corruption in the public sphere. 'Business-to-business corruption' is not covered by Bangladesh's current legislative anti-corruption framework.

## 1.4 The Structure of the Report

This document is divided into five sections. In the first section the background and purpose, the methodology, the anti-corruption legal framework in Bangladesh, and the structure of the report have been described. In the second section, a brief description is provided on the RMG supply chain that exists in Bangladesh. In the third section, corruption scenarios in the 'Bidding Phase', the 'Production Phase' and the 'Delivery Phase' have been described respectively. Section four provides the concluding remarks, while the fifth section contains some generic recommendations.

A total of 16 scenarios and responses that illustrate a range of solicitation scenarios have been identified in this report. However, these are not exhaustive or applicable to all situations. The scenarios are organized in three sections representing the bidding (Scenarios 1 to 4), production (Scenarios 5 to 14) and delivery phases

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8 *The Government Servants (Conduct) Rules, 1979*, Rule 5. Source: <http://workspace.unpan.org/sites/internet/Documents/UNPAN038017.pdf>

9 Transparency International, 2014, *Fighting Corruption in South Asia: Building Accountability*, p. 13. Please also see M S Siddiqui, 'The role of whistleblowers in the fight against corruption', *The Financial Express*, 20 June 2012, [http://www.thefinancialexpress-bd.com/old/more.php?news\\_id=133627&date=2012-06-20](http://www.thefinancialexpress-bd.com/old/more.php?news_id=133627&date=2012-06-20) (accessed on 13 September 2015).

(Scenarios 15 to 16). Each of the 16 scenarios addresses two basic questions in a concrete and specific manner:

- How to react if a demand for a bribe is made?
- How to prevent the demand from being made in the first place?

Part five includes a series of generic recommendations on combating corruption. Users of this document should study these recommendations that apply to most situations before reviewing the individual scenarios.

## 1.5 Feedback

We encourage readers and users to provide feedback on the RMG scenarios. Your comments will help expand and enrich this tool and contribute to the further development of good practices in preventing and responding to bribe solicitation.

For providing feedback and comments please contact:

### **Transparency International Bangladesh**

[info@ti-bangladesh.org](mailto:info@ti-bangladesh.org)

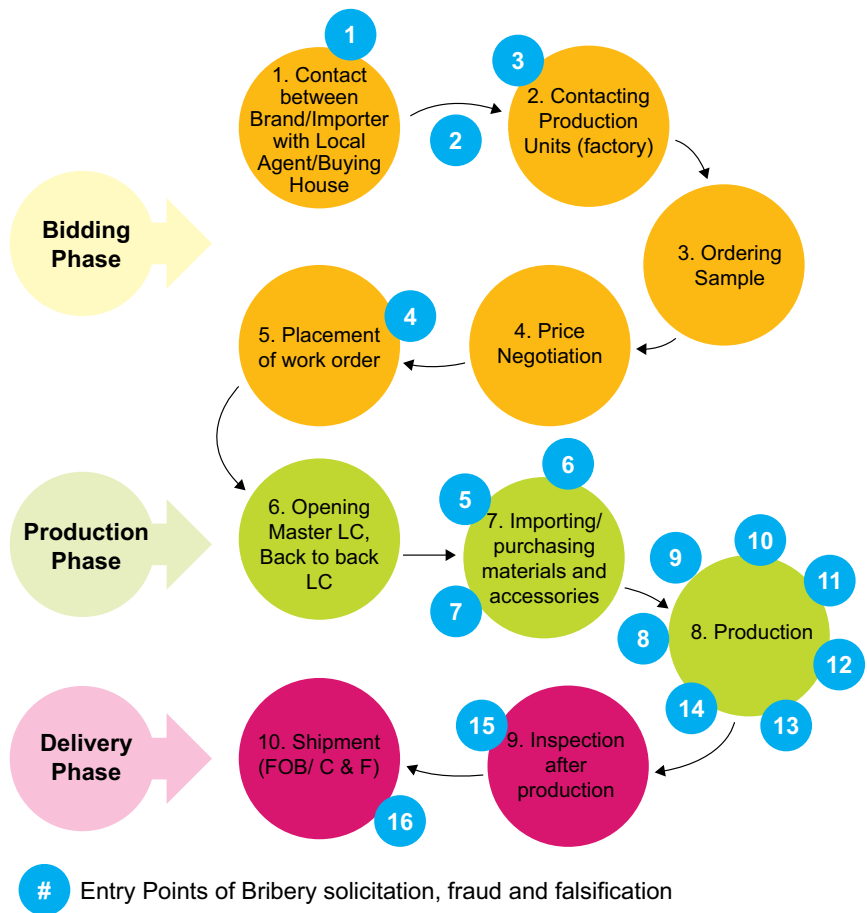
### **Transparency International Deutschland e.V.**

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# 2. RMG SUPPLY CHAIN

Before going into the details of the scenarios, a brief description of the supply chain in the RMG sector is imperative, especially in the context of Bangladesh. The RMG supply chain can be divided into three phases – bidding phase, production phase and delivery phase. The process is described briefly below with the numbers referring to the scenarios in which real life corruption is described.

**Flow Chart: RMG Supply Chain & Entry Points of Bribery and Solicitation**



(The numbers in the blue dots refer to the real-life scenarios described in the document)

## Bidding Phase

### 1. Contact between Brand/ Importer with Local Agent/ Buying House/ Factory:

Work orders are placed in one of the following methods:

- a. **Giving work order through contacting the local offices of the buyers:**  
Usually large buyers such as big brands or wholesalers have local offices



in Bangladesh who deals with the orders, inspection and delivery. Usually there are a number of enlisted garment factories (production units) which are contacted for production. This list is prepared on the basis of previous work experience and / or business with the PUs.

- b. **Giving work orders through buying houses:** Every buyer has its own set of compliances which have to be met by the PUs. The concerned buying house checks the compliance status through visiting a PU. The buying houses then place orders if all the selection criteria are met.

- c. **Directly through importers to the factory.**

**2. Contacting Production Units (factory):** Most of the buyers have their own compliance guidelines that describe the standard of product quality, social and ecological requirements. If a factory meets the compliance criteria it can approach the buyer. Then the buyer visits the factory and assesses whether it is compliant.

**3. Ordering Sample:** If the PU meets all the criteria, it is given a sample for producing a similar sample.

**4. Price Negotiation:** If the sample passes the tests, the price is then negotiated. The issues of negotiations include the cost of manufacture, fabric, accessories, labor cost.

**5. Placement of production order:** After the cost of production is negotiated the work order is placed. The buyer states the quantity of the production with details of styles, sizes. The buyer guides the PU from where the purchase should be done. For instance, some companies have a list of 50 nominated fabric manufacture companies, from which the PUs have to purchase the raw materials, as mentioned in the work order. The buyers come to agreements with these companies for supplying the raw materials. The buyer will also mention the timeline of delivery and shipment. The buyer retains the right to cancel the work order if the production is not ready for shipment within the timeline. After the final approval of styles from the buyer, the PU will go for production.

## Production Phase

**6. Opening Master LC, Back to back LC:** The buyer will give a procurement invoice (PI) after the price negotiation is done. In this PI the quantity, price per unit, delivery date, shipment date, validity date etc. is detailed out. The payment of terms is usually two types – 100% letter of credit (LC), and the other is based on sales contract. Usually the validity for opening the LC is 15-20 days. Then the buyer decides whether this will be treated under LC, sales contract or LC deferred. Several tasks will go on simultaneously – submission of PI, opening LC, compliance visit.

Money can be withdrawn (termed as back-to-back LC) against the LC given by the buyer (termed as Master LC). The bank will adjust the amount when the payment is made by the buyer. The major advantage Bangladesh Bank is providing is that there is no interest for the back-to-back LC till the end of production. For instance, a PU will give the LC to the fabrics manufacturer who will then give this to the spinners and so on.

As a protectionist policy Bangladesh Bank regulates the foreign currency. However, to promote the RMG sector, it provides facilities to the PUs in terms of allowing them 80% of the amount mentioned in the LC, which we can term as an added advantage. However, there are also likelihoods that a foreign bank or financial institution will invest for a specific PU in buying accessories which should be done through a proper channel/ authority (in this case, Bangladesh Bank) that will ensure supervision. Nevertheless, in this juncture, it should maintain from buyer and PU to make a long trust base relationship. Moreover, they all will be responsible for getting punishment due to any inconsistency.

#### **7. Importing/ purchasing materials and accessories (fabrics, thread etc.):**

After opening the LC, a number of raw materials are to be imported, such as fabrics and other accessories. The buyer will not consider whether there had been delay in importing and thus delivering the final production. The purchase and/ or import of all the accessories are managed by the merchandiser, who selects the supplier, often from the enlisted vendors.

**8. Inspection during production:** The buyer will send the quality inspection team to the PU during production. Most of the buyers either have their own team, or employ third parties (e.g. SGS, TÜV, FLO etc.) to do the inspection. Big brands and retailers usually do this inspection through third parties, whereas importers do the inspection themselves.

## **Delivery Phase**

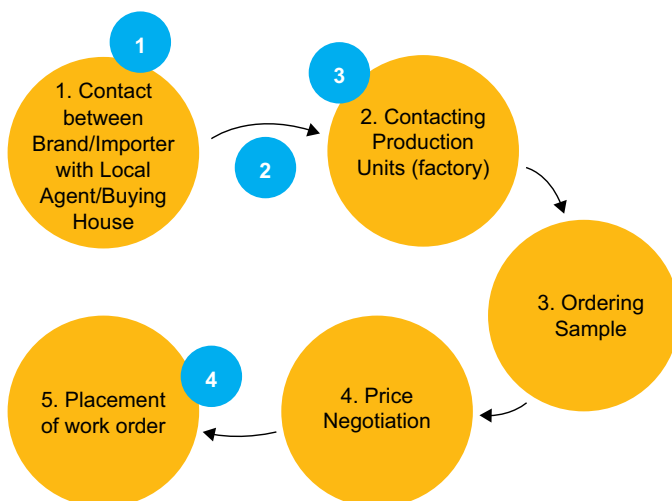
**9. Inspection after production:** After the production is complete, another round of inspection takes place, either by the buyer itself or a third party as mentioned earlier. Some buyers have their own quality teams or inspection teams, while most of the retailers do the inspection through third parties. Usually 25% of the finished items are randomly selected for such inspection, and the product is approved with faults with a maximum 25%. If the production fails in the inspection, the PU according to circumstances may be supposed to produce the product again. If the shipment fails due to the delay for such re-production, the responsibility will fall upon the PU.

**10. Shipment (FOB/ C&F):** The product is packaged, and handed over to the shipping company after clearing customs. The inspection certificate is also handed over so that the payment is made by the buyer. The manufacturer has the responsibility of shipment of the product. There are two types of shipment – *Clearing and Forwarding* (C&F), and *Free on board* (FOB). The responsibility of C&F is taking the produced goods up to the port mentioned in the agreement, from where the buyer will receive the product. In some cases this might be up to the retailer.

For FOB the responsibility is transporting the product up to the port with clearing the customs in the country of production (in this case Bangladesh). After the shipment of goods, all the documents including the bill of lading (BL), invoice, packing list, inspection certificate, and BGMEA clearance are to be submitted to the factory's bank, which will send these to the buyer's bank. The buyer's bank will then clear the payment to the factory's bank within a very short time.

## 3. SCENARIOS

### 3.1 Bidding Phase



#### Scenario 1: Bribing the compliance auditor to pretend compliance thus satisfying the requirement of the buyer

##### Description

A third party auditor has been appointed to audit a factory, which is under a contract to produce garments for a European buyer. The auditor pays a sudden visit to the factory, and due to unawareness of the visit, it has not been possible for the factory officials to disguise the shortcomings of some of the compliance issues. It is found that the factory is not compliant and many things need to be fixed. When the audit is complete, the owner of the factory requests the auditor to sit in his office room, and he offers the auditor some money for making the report positive and showing that the factory is compliant.

##### How to react, if demand for a bribe is made

- The auditor should refuse the bribe from any supplier or the service provider.
- Rather s/he should remind the supplier about the Code of Conduct agreed between the parties.
- The auditor should inform her/his superior about such offer.
- The auditor should remind the supplier that his PU will be blacklisted with BGMEA (or other institution) if he does not withdraw the offer.

### **How to prevent the demand from being made in the first place**

- The factory should have an anti-corruption and bribery policy and procedures in place to prevent employees or persons associated with its business from committing offences of bribery or corruption.
- The buyer/customer should have its own Code of Conduct (CoC) with a high degree of ethics, honesty and fair dealings agreed upon by both parties and to be passed on along the supply chain. A valid audit mechanism should be established by the buyers/customers.
- The internal audit on ethics and fair dealings should be carried out on a regular basis. Effective feedback procedure (within the factory) on each audit should be carried out by the top management of the buyers/customers. The results should be made transparent and reflected in trainings with the support of buyers.
- Easy and free access to an anonymous whistle-blowing hotline both in English and Bangla (reporting of unethical, dishonest and unfair dealings etc.) must be ensured by the buyers/customers.

### **Scenario 2: A small PU without adequate connection bribes to get a work order**

#### **Description**

A merchandiser is employed by a buyer/ agent to make necessary arrangements for production of 100,000 pieces of shirts within a very short time. He makes contact with a number of medium and large PUs for supplying different items, as well as producing the finished product. A small PU, which is not listed, started its operation recently. With a limited and inadequate connection and without all the required documents, the PU does not manage to get work orders. He then approaches the merchandiser that it will pay a portion of the payment to him if it is given work order. The merchandiser accepts the offer and manages some of the enlisted PUs give sub-contracts for production.

#### **How to react if the demand is made**

- The merchandiser should refuse the bribe offer.
- He should remind the owner of the PU of the buyer's CoC requiring certain documents as a precondition for getting the work order.
- The merchandiser should report this to his superiors (the concerned buyer) immediately.
- The concerned retailer/ buyer should make the PU blacklisted for any future venture, and report to the garment manufacturers' association (in this case, BGMEA).

### **How to prevent the demand from being made in the first place**

- The merchandiser should contact only the PUs enlisted by the buyer.
- The buyers and the BGMEA should develop a collective action initiative with the aim of preparing and sharing a complete list of garment factories that meet the compliance sets by different buying coalitions.

## **Scenario 3: Duplicate/ fake documents arranged or records tampered by the factory**

### **Description**

A readymade garment supplier based in Dhaka, Bangladesh is expanding his business. He buys a new factory site which he registers as a new factory with a business partner, a large European retailer. He knows that the factory will be audited by the auditing team assigned by the buyers or government safety inspections before the production starts. As essential permits are missing, (such as trade license, IRC, ERC, EPB enrolment certificate and group insurance) he obtains falsifications of the permits from a local who has been recommended to him for acquiring the missing documents. It is also to be noted that documents used in the bidding process are tampered. When asked to be specific, managers in both factories inform the auditor or government safety inspector that there were instances of false trainings, compliance protocols etc. At the same time they offer a 'compensation' for not recognizing the 'shortfalls'.

### **How to react, if the demand is made**

- If the auditor or government safety inspector finds breach of any duplicate or fake document, s/he should refuse any bribe and inform his supervisor immediately.
- The buyer may without any liability on its part terminate all the pending orders, and start legal actions against the supplier or the service provider.
- The inspector should make the PU blacklisted with the concerned authority (in this case the Factory Inspection Authority of Bangladesh) and inform BGMEA as well.
- The Factory Inspection Authority of Bangladesh should take legal action against such factory, and lodge a legal case in the criminal court.

### **How to prevent the demand from being made in the first place**

- The buyer and supplier/ PU should come into an agreement breaching of which will automatically terminate the contract. The agreement should include conditions to abide by the rules and regulations, maintaining good faith and willingness between the parties based on a zero tolerance policy concerning fraud, bribes, and falsification of documents.

- The Government should establish a system for factories where every factory has a unique identification number that will not allow duplication or editing of any information. The Government and regulating bodies should monitor organizational implementation by the use of policies, procedures, system functions, and capabilities to prevent falsification, record tampered and inconsistency.

## Scenario 4: The supplier influencing the purchase decision

### Description

The owner and the sales director of the supplier were reviewing the development samples with the retail company's sourcing associate. The associate thought the offered samples were great in design and quality, and believed they could become hit items for the new season. However, the cost will be much higher than the estimated one.

The owner of the supplier, being very eager to get more business from the retailer and after discussing with his sales director, suggested (a) production in a non-approved factory, and (b) purchasing accessories and trims from non-nominated sources, to reduce the production cost.

The associate rejected all those suggestions and emphasized the importance of the supplier strictly following the retailers' CoC that production must be done in an approved factory, and accessories must come from nominated sources. The factory owner then turned around and invited the associates for dinner and informed them that the product cost is already built in with 1% commission. Once the order is committed, 1% will be transferred to the associate's account.

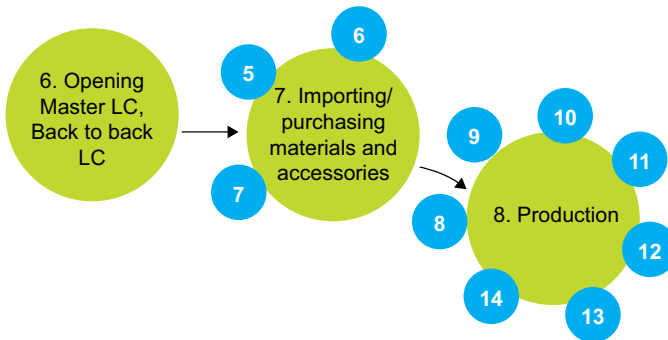
### How to react if the demand is made

- The associate rejects these offers and points out the CoC of his company.
- The associate informs the head of his company about the proposal and follow the procedure to blacklist the supplier/ PU/ factory owner.
- The associate reports this to the supervisory authority of the supplier's country (i.e., BGMEA).

### How to prevent the demand from being made in the first place

- A CoC between buyer and producer based on a zero tolerance policy against corruption should be established and agreed upon.
- A 'Gift and Bribery Policy' should be formulated, under which the retailers' employees and their relatives will not be allowed to solicit or accept any form of entertainment from the suppliers or service providers. Employees are also prohibited from offering any form of advantages to any person, public official or organization, for the purpose of influencing in any dealing, whether directly or indirectly through a third party, when conducting the company's business.
- Establish an anonymous whistle-blowing hotline both in English and Bangla, ensuring access through all possible media of communications.

## 3.2 Production Phase



### Scenario 5: The merchandiser makes a PU bound to purchase accessories from certain factories thus receiving a share of the profit

#### Description

A PU has received a big order from a European buyer to supply one million t-shirts. The deal is being managed by a local agent who has appointed a merchandiser to organize the supply of raw materials and accessories to the PU from a list of factories approved by the buyer. However, the merchandiser, instead of contacting the enlisted factories, persuades the PU to purchase accessories from certain factories chosen entirely by him. In return the merchandiser will get a certain amount of commission from these factories, the materials of which may not be of expected quality. However, it should be noted that the buyer is not aware of this, and it will not take the responsibility in case of any delay in delivery, resulting from the decision taken by the merchandiser to purchase goods from the factories selected by him.

#### How to react, if the demand is made

- The PU informs the buyer about being forcibly purchasing accessories from certain factories.
- The PU informs the supervisory authority (i.e., BGMEA) to blacklist the merchandiser.

#### How to prevent the demand from being made in the first place

- All PUs should be informed about the suppliers nominated by the buyers, so that all buyers are fully transparent about their supply chain. Alternatively the buyer and the PU should agree on a list of fair suppliers.
- The buyers and the BGMEA should develop a collective action initiative with the aim of preparing and sharing a complete list of garment factories that meet the compliance sets by different buying coalitions.

## Scenario 6: Importing more materials than the required quantity and selling the extra materials in the open market later

### Description

A large European brand/ retailer has recently signed an agreement with a Bangladeshi garment producer for the production of 10 million pieces of jackets. Each jacket will require, among other accessories, a Velcro strip on each wrist. Instead of importing 20 million Velcro strips, however, the garment manufacturer orders 100 million Velcro strips, 20 million of which the company will use on the jackets and the rest (80 million) it will sell in the local market for personal profit that is not stipulated in the contract signed by the retailer. Afterwards they will share the profit. This collaboration is suggested to the local agent of the buyer.

### How to react if the demand is made

- The local agent should refuse the offered “collaboration” and immediately inform the buyer
- The concerned buyer should report to the garment manufacturers’ association and make the PU blacklisted (in this case, BGMEA).

### How to prevent the demand from being made in the first place

- The employees of buyer and producer should be trained in professional business conduct, adherence to Code of Conduct, and maintenance of proper books and records.
- The buyer may take initiatives to investigate (periodically through its agents) whether any particular item/ accessory, which is supposed to be imported by the factory, is available/ sold in the local markets.
- The Government of the supplier should create a monitoring cell to look after these things.

## Scenario 7: Encashment of Back-to-Back LC by PUs to purchase materials at a lower price

### Description

A garments factory, after getting an order from the buyer, receives the Master LC from the buyer. The Master LC is a contract between a buyer and a bank which is located in the buyer’s country. After that, the garment factory owner proposes to his local bank whom he is well connected to for a back-to-back LC. The garment factory then withdraws cash against the back-to-back LC from the bank and purchases materials at a lower price from factories that are not indicated by the buyer. Through this it saves money, but the quality of the product is compromised. The owner of the garment factory takes this money and spends it for personal needs.

### How to react, if the demand is made

- The concerned bank/ officials should not cater to the demand by the PU owner in encashment of the back-to-back LC. The concerned officials of the bank should reject such demand/ proposal immediately.
- The concerned official of the bank should inform its superior about the demand.



### **How to prevent the demand from being made in the first place**

- Master LC and Back-to-back LC have to mirror each other, using the same terms and conditions requiring the same documents (inspection, shipment etc.).
- A letter of commitment/ agreement between the two parties (buyer and PU) should be signed in presence of the buyer's representative. All the terms and conditions mentioned and LC will be monitored by Bangladesh Bank.

## **Scenario 8: Violating minimum wage, work hour, labor rights by a PU**

### **Description**

A large North American brand has recently granted a contract to a Bangladeshi garments manufacturer for the delivery of one million pieces of readymade shirts. The company sends an associate/ quality inspector on a surprise visit to the factory where s/he finds that the factory has been using children as young as 12 years for sewing shirt collars. During the visit a worker collapses in front of her. When he regains his sense, s/he makes a companion translate and gets the information that some of the workers like him are made to work 20 hours a day. It is also revealed that the factory does not ensure the workers' minimum wage, nor it pays on time. It has also decreased the basic salary of workers of different grades. However, the factory prepares 2/3 sets of payroll record and hides the actual working hours. Moreover, it presents fictitious labor accounts including forged working hours and age of the workers. The quality inspector takes notes and before leaving s/he is asked to meet the owner in private for tea in his office. He then asks the quality inspector how much he has to pay to make her "overlook" the violations of labor laws and manipulated data.

### **How to react if the demand is made**

- The associate/quality inspector rejects the offer immediately.
- The associate/ quality inspector informs the head of her/ his company about the proposal and follows the procedure to blacklist the supplier/ PU/ factory owner to the supervisory authority (i.e., BGMEA).

### **How to prevent the demand from being made in the first place**

- The buying company has a CoC valid for the supply chain and agreed between the buyer and the producer:
  - ensuring compliance to ILO's core labor standards;
  - providing for audit rights to ensure proper procedures are being followed; and
  - mandating accurate books and records.
- The buyers and other stakeholders should promote and encourage the PUs for ensuring minimum wage and economic progress and prevailing practices.
- The Government should establish a monitoring cell to monitor proper implementation of the revised minimum wage, and its timely payment.

- The regulating authority (for instance, BGMEA, Labour Ministry) should be strict on the rules and regulations.
- With regard to curbing excessive working hour, double bookkeeping and weekend work, the Government should take initiative to educate/ make aware the factory management regarding the bad effects of excessive working hours and weekend work.
- The factory should be encouraged to increase the manpower or production capacity, and make more working shifts, in order to meet the deadlines.

## Scenario 9: Requirements made by buyers deemed unnecessary

### Description

A readymade garment factory situated at Gazipur signs a contract with an American buyer to produce 20 thousand denim trousers. The buyer gives the design and requirements of their accessories for the product. The PU then collects all the accessories as per requirement and starts the production. But during the production period the buyer changes the design several times in the name of changing trends in fashion, which creates extra pressure on the PU to finish the production. The buyer does not agree to give extra time which adds pressure on the PU to meet the deadline. The factory is compelled to have the labor work extra hours. Moreover, the buyer asks that if the PU is not able to meet the time limit, it has to ensure air shipment at its own cost and threatens to cancel the work order. Even though according to the business deal between the factory and the buyer, some commercial costs were to be borne by the buyer, it refused to take over any extra cost for air shipment. It is quite sure that after maintaining all these requirements, the supplier will not be able to pay the labor neither in full nor in time. He feels being forced into illegal actions like violating labor laws and bribing the auditor.

### How to react if the demand is made

- The factory owner should not give way to any illegal action and refer to the letter of agreement where all the terms and conditions are clearly mentioned.
- The factory owner should inform the BGMEA about the issue and have the case taken care of by the arbitration cell.

### How to prevent the demand from being made in the first place

- A letter of commitment/ agreement between the two parties (buyer and PU) should be signed concerning the lead time (if any change), all cost-bearing responsibilities (including any additional costs), and other conditions.
- The government should take the responsibility to establish a grievance cell/ authority for arbitration about labor rights and business integrity with the help of BGMEA and ensure participation of all stakeholders.

## Scenario 10: Illegal sub-contracting by PUs to save money

### Description

A European brand has recently entered into a contract for production of one million pieces of fully completed denim trousers with a Bangladeshi garment manufacturer. The Bangladeshi garment manufacturer however received another order for two million khaki jackets from another buyer just a week after entering into contract with the first company. In order to complete both the contracts, the Bangladesh garments manufacturer decides to outsource most of the order to a cheaper garment manufacturer located in Bangladesh. After financial calculations, the Bangladeshi garment producer's CEO sees that outsourcing the cutting and stitching processes of the trouser to another producer will save them more money and so without informing the first brand, they enter into a contract with another medium/ small sized garment factory for cutting and stitching of the denim trousers under the order of the first brand. It may be noted that the PU committed to produce the goods itself and the sub-contract factory does not fulfill all the compliances required by the European brand.

### How to react, if the demand is made

- Since this is a win-win-situation among non-compliant PUs, buyers should implement more 'surprise auditing/ visits' to check whether such sub-contracting is taking place.
- The buyer should inform the BGMEA/ arbitration cell/ authority about the issue and take the initiative to blacklist the factory.

### How to prevent the demand from being made in the first place

- The BGMEA or other multi-stakeholder groups (e.g., Accord, Alliance) should establish a list of factories with unique Identification Numbers that have passed an audit (by BGMEA or other multi-stakeholder groups) and from which buyers agree to only take orders and/or from which producers would be allowed to subcontract to.
- Buyers should establish an anonymous whistle-blowing hotline in English and Bangla, ensuring complete protection of informants.

## Scenario 11: Bribe offered to an SSC auditor to conceal his findings

### Description

An SSC auditor has just finished the SSC audit and is now at the exit meeting with the factory management. The following observations were made during the audit:

1. Discrepancy on working hours found on multiple workers' payroll record against their attendance record.
2. The factory is not able to provide the full set of legal documents – fire safety certificate, building permit, and worker insurance record.

The auditor believed that the factory was not being transparent, and potentially had two sets of book record. The auditor questioned the factory management team and asked to provide the true book record so that the retailer could understand what the issues were and provide support if necessary. The factory owner admitted that he had two sets of bookkeeping record and asked the auditor to do him a favor by not disclosing the findings, and give him a pass on the audit. The factory owner also suggested to the auditor that he and his family could use his resort villa for the weekend without any charges.

#### **How to react, if the demand is made**

- The auditor should refuse the offer and say that he will report the truth on all the audit findings and will report to the retailers' management.
- The buyer may without any liability on its part terminate all the pending orders, and start legal actions against the supplier or the service provider.

#### **How to prevent the demand from being made in the first place**

- The buyer should formulate a CoC, with clear guidelines on bribery, gifts and hospitality, which should mention that the retailers' employees are prohibited from accepting or soliciting any form of advantages from any person, public official or organization, for the purpose of influencing in any dealing, whether directly or indirectly through a third party, when conducting the company's business. Advantages should include gift, samples, vacation package, personal favors, commission, and etc.
- Buyers should establish an anonymous Whistle-blowing Hotline in English and Bangla, ensuring complete protection of informants.
- The BGMEA and buyers should train employees of buyer and PUs in professional business conduct, adherence to CoC, and maintenance of proper books and records.
- The BGMEA and other multi-stakeholder groups (e.g. *Accord*, *Alliance*) should join in a collective action with the aim to list factories with unique Identification Numbers that have passed an audit (by BGMEA or other multi-stakeholder groups) and from which buyers agree to only take orders from and/or from which producers would be allowed to subcontract to.

## **Scenario 12: Work order arbitrarily cancelled by the buyer**

### **Description**

A garment factory gets an order for a large quantity of summer products from a buyer. The garment factory produces the goods in stipulated time but suddenly gets the message from the buyer that the product is not produced as their requirement. Though the manufacturer checked the goods through a third party audit and ensured that the goods maintained their quality. The buyer cancels the order mentioning the defect which is generally ignorable like instead of 2 cm, a small number of goods are 1 cm or the color code has one percent deviation from the one sample that they had provided. This usually happens when the buyer feels that they are not able to

sell the product within this time period. The buyer creates a scary situation to the producer in order to buy the products at cheap price. On the other hand, some buyers create these situations so that they can buy the products as stock lot with the help of their selected agent.

#### **How to react if the demand is made**

- The factory owner should inform the BGMEA about the issue.
- The arbitration cell/ authority should take care of the case

#### **How to prevent the demand from being made in the first place**

- A letter of commitment/ agreement between the two parties (buyer and PU) should be signed mentioning all conditions concerning the payment mode (for instance, if the production is stopped in the middle or the order is canceled after production is complete).
- The Government of Bangladesh should create a monitoring cell (under the Labor Ministry/ Foreign Ministry or BGMEA) to look after the substance.

### **Scenario 13: Inspection/ compliance report manipulated by buyers as it is not interested to accept the product**

#### **Description**

One month after a work order for 50,000 sweat shirts were placed by an American brand, the buyer feels that the product which was ordered would not hit the market due to an unprecedented recession at the local level. In this situation, the buyer contacted the third party inspection firm that it had employed and since it has a good relationship with it, asks them to change a few things that might go against the quality of the product. On the other hand, the buyer also asks the compliance audit firm to show that the concerned factory does not conform to all the compliances, so that it is easy for the buyer to cancel the work order. Consequently, due to the cancellation of the work order, the factory goes onto the verge of bankruptcy.

#### **How to react, if the demand is made**

- The third party inspector and the compliance auditor should reject the request and inform their companies.
- The factory owner should inform the BGMEA about the issue.
- The arbitration cell/ authority should take care of the case.

#### **How to prevent the demand from being made in the first place**

The contract paper between buyer and PU should contain clear declarations about the payment disbursement after producing the goods. The buyer will have to pay the full payment to the PU as per the contract/work order even if they do not receive the goods.

## **Scenario 14: PU bribes a quality inspector (either through mutual understanding or coercively) to overlook quality defects or inferior products**

### **Description**

A readymade garment supplier based in Dhaka, Bangladesh has obtained a huge order for ladies denim skirts. The fabric he has used does not fulfil the colourfastness requirements of the retailer. The supplier has noticed that the colour fades away. To meet the delivery date the supplier decides to offer the quality inspectors of the retailer and third party auditors some money to “overlook” and ignore the issue and pass the goods on, indicating in the paperwork that the order is in conformity with the quality requirements.

### **How to react, if the demand is made**

The quality inspector and the third party auditor should reject the offer, emphasize their companies’ CoC policy and inform their line managers.

The PU along with the third-party inspection firm should be black listed with BGMEA/ supervisory authority.

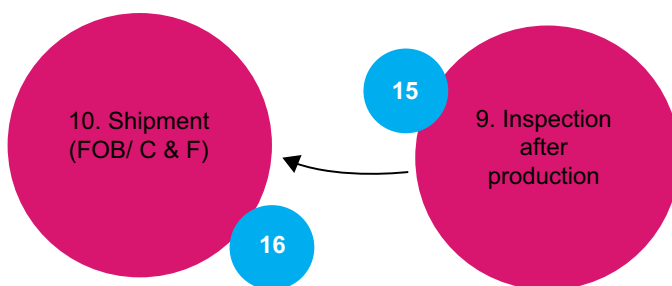
### **How to prevent the demand from being made in the first place**

The buyer should establish a CoC and formulate a ‘Gift and Bribery’ policy, where it should be very clearly stated that the retailers’ employees and their relatives are not allowed to solicit or accept gifts from suppliers or service providers. Employees are also prohibited from offering any form of advantages to any person, public official or organization, for the purpose of influencing in any dealing, whether directly or indirectly through a third party, when conducting the company’s business.

The buyer should provide specialized training to the Quality Inspector including issues of corruption.

Renowned and BGMEA-listed third-party auditing firms should be given the responsibility to inspect the goods.

### 3.3 Delivery Phase



#### Scenario 15: A quality inspector demands undue payment for quality approval

##### Description

A readymade garment supplier based in Dhaka, Bangladesh has established a long-term relationship with a European fashion retailer. For a couple of recent cases every purchase order for a European fashion retailer was rejected by the local third party quality inspector(s) in the Inspection Centre in Chittagong. Though the orders passed the first quality check in the factory, the local inspection noted defects in the knitting of some inspected goods. Beforehand the third party inspector had offered to take money from the supplier to let his goods pass in Chittagong. To avoid the order being sent all the way back to the suppliers' factory and to meet the contractually agreed delivery dates, the supplier paid the money.

##### How to react, if the demand is made

- The factory owner should reject the demand and refer to the letter of agreement where all the terms and conditions are clearly mentioned.
- The retailer should be informed immediately.
- The factory owner should report the issue to the BGMEA and have it taken care of by the arbitration cell.

##### How to prevent the demand from being made in the first place

- BGMEA should establish a list of certified quality inspectors registered by identity codes.
- The buyer should nominate a renowned third-party Quality Inspector from the BGMEA list to inspect the goods.
- Integrity training should be arranged from the buyer's end.
- Easy and free access to an anonymous Whistle blowing Hotline in English and Bangla (reporting of unethical, dishonest and unfair dealings etc.) must be ensured by the buyers/customers.

## Scenario 16: Buyer's fake claims during port inspection with an aim to blackmail the PU for giving a discount

### Description

Recently a PU has produced 20,000 sweaters for a German buyer. In the production period it has maintained all requirements of the buyer along with compliance issues. The product has also been checked by a third party auditor selected by buyer. After completion of production, the factory has sent the products to port for shipment at its own cost. But in the port an inspection has been held by a buyer representative though there is no representative from the PU. The buyer representative claims that there are many broken and torn cartons and the packing is not accurate. Then the buyer threatens to cancel the order and send back the entire shipment to the factory's warehouse. After a while, the buyer calls the factory again and gives an option that if it gives him 20% discount on the products he will accept the entire shipment.

### How to react if the demand is made

- The factory owner should reject the demand and refer to the letter of agreement where all the terms and conditions are clearly mentioned.
- The factory owner should report the issue to the BGMEA and have it taken care of by the arbitration cell.

### How to prevent the demand from being made in the first place

- The final inspection has to be conducted in front of both parties before shipment and a concrete declaration or documentation has to be formulated. This has to be part of the agreement between PU and buyer preceding a negotiation before order placement.
- BGMEA should develop a model agreement outlining procedures to be followed.
- The Government of Bangladesh should create a monitoring cell (under the Labor Ministry/ Foreign Ministry) to look after the issue.



## 4. CONCLUDING REMARKS

The scenarios reveal that irregularities occur along the entire RMG supply chain, not as an exception but more or less as a rule. Violations of existing labor and safety laws are being “overlooked” if an envelope containing money is handed over to the concerned official responsible for identifying the violations. Bribery is used to hide deficiencies of quality and quantity and non-compliance with buyers’ Codes of Conduct. In this atmosphere of failing governance and accountability of stakeholders, extortion is an additional “tool” used to maximize profit.

Before going to the generic recommendations, it is clear that in order to curb bribery and solicitation in the supply chain of the RMG sector, the concerned stakeholders have to take more responsibilities. The Government of Bangladesh has to play a greater role in supervising and monitoring the sector and allocate additional resources. Inspection has to be increased by the concerned authorities. The proper implementation of laws especially labor laws and rules has to be ensured. The provision of regular inspection needs to be created to enhance the capacity of labour department and monitor the status of collective bargaining and workers’ rights at factory level.

The linkage between the inspectors and buyers must be curtailed/ decreased. Readymade garment factories should maintain integrity as per their commitment to the buyer. Factories should set out to act in their customers’ interests, to the highest standards of excellence, never gaining advantage through dishonest or uncompetitive means, which can be observed by local business association. They should also remain transparent in all their dealings with government and regulators, fulfilling their obligations honestly and promptly. A zero tolerance policy concerning corruption, fraud, bribes etc. in all directions, own employees, third party agencies, supplier, authorities should be adopted and implemented by all the concerned stakeholders.

BGMEA as the leading business association of the RMG sector should guide its members to a sustainable production ensuring integrity. It should strengthen its monitoring and supervision in terms of protecting the rights of its members that face challenges from the buyers.

# 5. GENERIC RECOMMENDATIONS AND GOOD PRACTICE IN COMBATING CORRUPTION

The scenarios described previously follow the supply chain. They identify the basic corruption patterns like bribery and extortion existing in all phases as well as fraud and falsification. The answers given in the “how to ...” sections are often similar or repetitious. In this chapter, a more general overview of answers<sup>10</sup> has been given, intended as practical suggestions to develop the solution which fits to the specific enterprise.

## 5.1 Response to a bribery demand: How to react, if the demand is made?

### Immediate response:

- Refuse payment on the grounds that any solicitation violates the business principles of the company and may violate applicable laws.
- Answer that the solicitation (direct or indirect) is to be made in writing and needs to be reported to the higher management.

### Report internally:

- Immediately report to management or to the officer responsible for implementing the code of conduct (e.g. compliance officer).
- Report directly or anonymously (Whistleblower-hotline) to the appropriate level of the supervising organization/authority.
- Record the incident and make an internal assessment to define corrective actions.

### Investigate and Act:

- Investigate the deal and the intermediary, as well as past deals with the same counterparts (customer, authorities, etc.).
- Go back to the soliciting person or his/her superior with at least one witness (management, adviser, bank representative) with the following position:
  - a. Reaffirm willingness to do business, perform the project or transaction, carry out the activity and ignore the solicitation.

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<sup>10</sup> A large number of the recommendations and good practices mentioned here have been taken from the publication titled *Resist: Resisting Extortion and Solicitation in International Transactions* (2011), developed by the International Chamber of Commerce (ICC), Transparency International (TI), United Nations Global Compact (UNGC) and World Economic Forum Partnering Against Corruption Initiative (PACI).

- b. In case the solicitation is reiterated:
  - First, inform the person that the request is not acceptable.
  - Threaten to refuse to participate further with public communication of the reasons for doing so.
  - Stop further participation.
- Immediate termination of employment contract as far as an employee is involved.
- Cancellation of supplier's contract or other measures, dependent on how far a supplier is involved.

## 5.2 Prevention of corruption: How to prevent the demand from being made?

### Anti-corruption policies to be implemented by companies (factories, buyers, auditing firms)

- Formulate for your company a Code of conduct (CoC) which prescribes ethical behavior, honesty, fair dealings and prevention of corruption to be passed on to subcontractors along the supply chain.
- Implement and enforce a zero-tolerance anti-bribery policy based on applicable laws and ethical values.
- Establish a no-bribe and zero-tolerance reputation by publicizing anti-corruption policies and the related anti-corruption program.
- Ideally, policies should be publicly available, but they should at least be available to all employees, business partners, relevant government agencies, charities, labor unions and other relevant stakeholders.
- Set up clear company directives including a whistle blowing policy and related effective sanctions for non-compliance.
- Provide training to operational and field personnel on relevant regulations and competition laws, the consequences of bribery and anti-competitive deals for the company and the involved employees, how to respond to such demands (i.e. alert process, compliance department) and to whom to report such demands.
- Emphasize in training sessions the criminal and reputational risk not only for the company but also for the exposed employee.
- Provide competitive remuneration to high risk employees to reduce incentives to solicit and/or accept kickbacks.
- Require high risk employees to sign a code of conduct statement regularly.
- Introduce anti-corruption clauses and audit rights in contracts with business partners, e.g. suppliers and sub-contractors, agents and consultants.

## Policies on facilitation payments

- Implement a zero-tolerance policy against facilitation payments. Introduce rules that reject facilitation payments, permitting only payments in exceptional cases that are clearly unavoidable and not liable to prosecution, requiring clear documentation of any such payment and having as an ultimate goal the elimination of such payments.
- Make demanding facilitation payments more difficult, e.g. having employees advise officials demanding payments that they must record and escalate within the company the payment and the relevant details, including the official's name.
- Ensure that employees can quickly contact managers or other designated persons when faced with payment demands.
- Work with other companies and international organizations towards eliminating facilitation payments, e.g. agreeing with competitors in a market that all of them will refuse to make such payments.

## Policies for company representatives who may be exposed to these risks

- Introduce a zero-tolerance policy against bribery for parties directly or indirectly involved in the bidding process.
- Train and discuss anti-corruption policies with relevant personnel before the start of a project:
  - Identify and openly address incentives to pay bribes.
  - Introduce “excuse pages” that explain why the usual answers and justifications that bribes need to be paid are not valid.
  - Perform background checks on personnel involved in transactions and/or projects, including potential conflicts of interest, while respecting applicable employment and data privacy laws and other legal considerations.
  - Provide training to at-risk personnel on the consequences of bribery (legal, financial, reputational, etc.).
  - Prepare employee guidance on how to respond to bribery demands (i.e. whistleblower hotlines, compliance training and consultation) that incorporates cultural, industry and function specific advice.
- Consolidate disbursement mechanisms for personnel involved in projects and/or transactions.
  - Avoid petty cash funds that would enable staff to respond positively to any solicitation.
  - Avoid cash payments whenever possible, using instead checks or electronic transfers.

- Whenever feasible, replace face-to-face:
  - Payment of invoices, customs duties, fees, taxes, etc., with electronic transfers directly to official bank accounts of government agencies, service providers or business partners.
  - Communication required for official approvals with electronic communication and documents.

### Dealing with specific risks

- Have a clear policy addressing conflicts of interest:
  - Require all employees to state any economic or other personal interests they might have directly or indirectly in any project or transaction or in any third party having any business, financial or regulatory dealings with your company.
  - Ensure whenever possible that employees with potentially significant conflicts of interest are not involved in such projects or transactions.
  - If it is not possible to isolate employees from such projects or transactions, ensure that their roles are completely transparent and that they obtain no undue gains.
  - Ensure that transactions and projects are transparent and planned and executed according to clear, objective standards and procedures.
  - Whenever feasible, ensure that more than one person makes key decisions, e.g. a committee or several persons must agree to a supplier or business partner or to an investment or funding decision.
- Have a clear policy addressing gifts, entertainment and hospitality:
- Provide guidelines clearly explaining what is business related and what types of gifts and hospitality are permitted, e.g. travel expenses, dining, entertainment and lodging.
- Ensure that guidelines state permitted cost thresholds or give clear examples of permitted cost levels.
- Ensure that employees can quickly obtain guidance when arranging gifts or hospitality.

#### Example: Retailer's Gift and Bribe Policy should contain

The retailers' employees and their relatives will not be allowed to solicit or accept any form of entertainment from our suppliers or service providers.

Employees will be prohibited from offering any form of advantages to any person, public official or organization, for the purpose of influencing any dealing, whether directly or indirectly through a third party, when conducting the company's business. Advantages may include gift, samples, vacation package, personal favors, commission, etc.

Clauses in the employment contract stipulating that any infringement, especially concerning fraud, corruption etc. will result in termination of the contract.

**Before beginning operations in Bangladesh, ensure that your company has sufficient knowledge of relevant rules and procedures involving:**

- Legal requirements for obtaining necessary approvals and permits
- Processes for obtaining permits and licenses required for conducting business, including:
  - Health, workplace and product safety and environment
  - Employment permits
  - Passport, immigration, border controls
  - Customs duties, procedures and payment rules
- Tax regulations, including procedures for tax payment to official agency accounts
- Before negotiating contracts, obtain professional advice on:
  - Relevant laws
  - Accounting rules and procedures
- Identify relevant key public officials and make them acquainted with your company and its anticorruption policy and programs.

**Ensure that your contracts clearly state rules and procedures for contract amendments:**

- including who pays costs incurred by one party as a result of the other party's request for an amendment,
- who approves,
- which notice period and criteria for agreement.
- Implement contract clauses and procedures to ensure payment of invoices:
  - Letters of credit.
  - Early payment incentives, penalties for late payment.

**Example: A letter of commitment/ agreement signed between the two parties (buyer/ retailer and PU/ supplier) should include all the terms and conditions with regard to:**

- all financial issues (including LC);
- the lead time (if any change);
- all cost-bearing responsibilities (including any additional costs);
- additional costs related to the shipment charge or others may be mentioned (such as changing design or fabric or accessories);
- the payment mode (for instance, if the production is stopped in the middle or the order is canceled after production is complete) final inspection (in front of both parties before shipment) and a concrete declaration or documentation;
- disbursement of payment after producing the goods;
- conditions for termination of contract in case of breach of trust, solicitation and/ or bribery. It should clearly state that any infringement will lead to an immediate termination of the contract.

### Elevate concerns about and evidence of solicitation of bribes:

- Internally in your company to senior management.
- To relevant public officials:
- Supervising those soliciting bribes
- Higher in the government, as required
- The embassy of the country where your company is headquartered.
- Other stakeholders, including other companies, non-governmental organizations (NGOs) or the media as appropriate.
- In particular, contact companies that also are involved in anti-corruption activities, e.g. through local ICC or UN Global Compact networks, or local chapters of Transparency International.
- Use anti-corruption technology to increase monitoring effectiveness.
- Employ computer-assisted techniques to identify higher risk transactions.

## 5.3. RMG Sector in Bangladesh: required measures against corruption

### Buyers:

- A valid audit mechanism should be established by the buyers/ customers.
- The internal audit on ethics and fair dealings should be carried out on a regular basis. Effective feedback procedure (factory) on each audit should be carried out by the top management of the buyers/customers. Internal Audit department should determine announced and unannounced controls in the distribution center and the suppliers' factories.
- Every buyer has to disclose the names of their partnering factories in Bangladesh on their website.

### BGMEA:

- Information and training about the revised labor laws should be provided to members to ensure proper implementation.
- A list of certified third-party auditing firms should be established.
- BGMEA and buyers should develop a collective action initiative to prepare and share a complete list of garment factories that meet the compliance set by different buying coalitions.<sup>11</sup>

<sup>11</sup> United Nations Global Compact: *A practical Guide for Collective Action against Corruption*, New York 2015. [www.unglobalcompact.org/library/1781](http://www.unglobalcompact.org/library/1781).

### Government:

- The Government should establish a system for factories where every factory has a unique identification number that will not allow duplication or editing of any information.
- The Government and regulating bodies should monitor organizational implementation by the use of policies, procedures, system functions, and capabilities to prevent falsification, record tampered and inconsistency.
- The Government should establish a monitoring cell to monitor proper implementation of the revised minimum wage, and its timely payment. The BGMEA, BKMEA and the Labour Ministry should be strict on the rules and regulations.
- The Government should establish a grievance cell/authority for arbitration about labor rights and business integrity with the help of BGMEA.

### Civil Society and Media:

- Easy and free access to an anonymous whistle blowing hotline (reporting of unethical, dishonest and unfair dealings etc.) must be ensured.
- The civil society and the media should actively monitor the implementation of the above recommendations, prepare reports and conduct advocacy.





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