



Good Governance in RMG Sector: Progress and Challenges

Executive Summary

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1. Introduction

1.1 Background

The main source of foreign currency in Bangladesh is the readymade garments (RMG) industry. This sector earns 83.51% of the total export of the country (earned US\$ 30,610 million in the financial year 2017-2018) and contributes almost 11.17% in the gross domestic product (GDP). This is one of the labor-intensive industries with almost 4.4 million workers, among whom almost 60% are females and from the entire number of female workers of the country, almost 64% of the female workers are engaged in this industry. However, the portion of female workers in this industry is decreasing – it was 80% in the year 2013, 64% in 2016 and 60% in 2018.

A study conducted by TIB in 2013 on the Rana Plaza accident revealed that it happened due to corruption and lack of governance. It also identified that relevant stakeholders lacked rule of law, institutional capacity, grievance redress mechanism, transparency, factory safety, worker's safety and rights of the workers. Based on the research, TIB made some recommendations to establish good governance in this sector. Later TIB conducted follow-up series studies every year to keep track of the initiatives taken by the government and relevant stakeholders to improve different governance-related indicators, and track to what extent TIB's recommendations are being implemented. As a continuation of the process, TIB has conducted this follow-up study to detect the progress in the RMG sector with regard to ensuring and improving governance.

1.2 Objective

The objective of this research is to assess the current status of different governance initiatives undertaken by different stakeholders since the Rana Plaza accident.

1.3 Methodology

This study followed qualitative research methods. Data for this study were collected from both primary and secondary sources. Primary sources include the Department of Inspection for Factories and Establishments (DIFE), Fire Service and Civil Defense, Department of Labor, *Rajdhani Unnayan Kortripokkho* (RAJUK), garment factory owners, Bangladesh Garments Manufacturers and Exporters Association (BGMEA), Accord, Alliance, trade unions, workers and experts on RMG sector. Checklists were used to collect information from the above institutions and key informants. Secondary sources of information include relevant laws and rules, websites, official documents, research reports, news and articles released in print and electronic media. The period of 2013-2018 has been considered for data, and data was collected from May 2018 to April 2019 for the current follow-up research.

2. Overall progress made by the initiative taken by different stakeholders

Analyzing different initiatives taken during the period of 2013 to 2018, we see that 39% progress has been achieved, while 49% progress is on track and 12% has not made any progress or halted.

2.1 Enforcement of Laws

The government amended the Labor Law 2006 in 2013 and 2018. The amendments made a number of changes including the provision of a total of 20% worker's support are needed to form a trade union, which was previously 30%. If anyone dies in the workplace or suffers permanent disability, the amount of damage has been increased to BDT 200,000 and BDT 250,000 respectively. In 2015, the Labor Rules 2015 was adopted, according to which workers will get two festival bonuses, and a welfare fund will be generated in coordination with buyers and owners. Moreover, initiatives have been taken to legislate the EPZ Labor Bill. As the Bill contradicted the ILO Convention, the Parliamentary Standing Committee requested to withdraw the bill in 2017. Later in 2019, the Parliament passed the EPZ Labor Bill 2019. The Fire Extinguishing Rules, 2014 was withheld by an executive order due to the dissent of the owners' group on the ground that fire safety measures were

not implementable and excessive warehouse charges, and the law is sent to the Home Ministry for review.

On the other hand, several lawsuits were filed against the owner of Rana Plaza and the owners of the garment. These were mostly criminal and labor court cases. In these cases, the CID submitted charge-sheet against 41 under the Penal Code, and against 18 under the Building Law in 2015. The ACC filed three cases and they prepared charge-sheet for one case for gaining illegal asset and not disclosing information. The building owner was given three years' and her mother six years' imprisonment. Testimony of the witness was taken for the criminal case against the Tazrin Fashion owner in 2015. Moreover, different human rights groups filed a case in the High Court against the Spectrum Fashion owner in 2005.

2.2 Business Friendly Policies

New policy supports have been provided to increase the business capacity. This includes corporate tax reduction for the RMG sector – it is reduced to 12% from 15%, and for a green factory it is reduced to 10% from 14%. It is mentionable that in other business sectors it varies between 15% and 45%. Moreover, the tax at the source has been reduced to 0.25% from 0.6%, duty fee has been fixed at 5% for exporting fire extinguishing equipment, 15% value added tax (VAT) for taking service from the port is waived, and 4% cash support for creating access in new markets has been increased to 10%-12%. The garment sector is receiving 96% of the advantages from the bondage warehouse and export rules are now flexible for importing extra amounts. Loan support in foreign currency has been increased to US\$ 2 million. Transport cost, laboratory test, use of information technology and worker's welfare fund is now totally tax-free.

2.3 Enhancing Institutional Capacity

The Directorate of Inspection for Factories and Establishments (DIFE) and the Department of Labor were upgraded into departments. Now, eight divisional and 23 regional DIFE offices have the authority to give license and make the inspection. ILO is supporting Department of Labor to produce a Standard of Procedure (SOP) of tread union registration and for anti-union discrimination. On the other hand, measures have been taken to decentralize the activities of RAJUK – this office is now being operated from eight zones which is divided into 24 sub-zones. Now zonal offices can give permission for building construction.

The above-mentioned offices and Fire Services and Civil Defenses have taken measures to increase their manpower. DIFE has recruited 312 inspectors, Department of Labor recruited 4 labor officers, RAJUK recruited 48 inspectors and 153 assistant inspectors and Fire Service recruited 218 warehouse inspectors. As a measure to increase the capacity of the staff DIFE gave foundation training to 640 staff, 360 were trained on laws and fire safety and 40 staff received training from abroad. The Department of Labor trained 9 staff abroad and with the support of ILO 67 staff were trained in-country.

Measures have been taken to increase the logistics of different institutes. Fire service has taken measures to buy fire floats and vehicles for carrying water worth BDT 1600 million. Labor Inspection Management App (LIMA) has been introducing to digitalize the activity of the DIFE. Along with this, DIFE, Department of Labor and RAJUK has started e-filing. Application for new factory's registration and renewal of registration can be processed online. RAJUK has introduced online service for land use and building construction permission.

To coordinate the measures of different stakeholders a crisis management committee and six-member tripartite council have been formed consisting of representatives from the government, RMG factory owners and workers. This council will solve all sorts of problem-related to the RMG sector. It needs to mention that this tripartite council has already sat for 5 meetings and ILO is an observer of these meetings. A group is formed named "3+3+2", consisting members from the Ministries of Commerce, Labor and Employment, Foreign Affairs, USA, Canada, EU, UK and different other countries of Europe. The aim of this group is to conduct dialogues in the international sphere and solve different problems. The government has drafted short, medium and long term action plans for the RMG sector.

2.4 Measures Taken for Factory Safety

Local and international stakeholders inspect factories to ensure safety. As a part of this process, the National Initiative, Accord and Alliance have so far inspected 4,346 factories. Almost 73% (2,207) of the factories have made progress, among which 92% factory of Accord, 98% factories of Alliance and 4.5% of factories of National Initiative have completed 70%-100% renovation. On the other hand, 26% of factories of the National Initiative have completed almost 30%-35% corrective action plan. Japan International Cooperation Agency (JICA) has taken measures to generate fund for the renovation of factories. For renovation, JICA managed Tk 2740 million, ADB US\$ 20 million for green factory, IFC and Bangladesh government US\$ 40 million each. Other than this, Accord has supported five factories with US\$ 5 million. US Green Factory has given 'green factory' certificate to 67 factories and 227 factories have applied for the certificate.

Initiatives have been taken to establish a *poshak polli* (apparel village). Construction for this village is going on 500 acres of land at Mirsharai with a cost of US\$ 2 billion. BGMEA has already paid Bangladesh Economic Zones Authority (BEZA) BDT 1 billion for the land and 70 factories have paid money for 441 acres of land.

The Remediation Co-ordination Committee (RCC) has been formed to carry on the renovation activity when the tenure of the buyer organization came to an end. It started its primary activity from 14 May 2017. Five officers of the government (DIFE, Fire Service and Civil Defense, Department of Public Works, RAJUK, Advisor of Electricity and Department of Chief Electrical Inspector) and coordination of three taskforces is implementing RCC. To implement the activity of RCC the government has recruited 83 engineers and 154 office staff. ILO is also building a fund for the RCC and recruited 47 specialist engineers. Factories which have completed 100% renovation and 20 non-brand factories have been handed over to RCC.

2.5 Measures taken to Ensure Accountability

Initiatives for ensuring accountability of the RMG sector include formation of a monitoring team under the leadership the additional DG of DIFE, introducing digital monitoring system, district level public hearing, inspections of 3,468 factories and lodging 52 cases, receiving 2,985 complaints and redressing 2,088 (70%) of the complaints. Besides, the Department of Labor received 19 complaints and addressed 12 (63%) of them. In this department, out of 45 labor disputes, 32 (71%) have been addressed. The Arbitration Cell of BGMEA received 1,357 complaints and resolved 1,252 (92%) of them, and recovered BDT 17.4 million as compensations for 2,741 workers. A draft policy has been developed by the Ministry of Commerce to ensure accountability of the buying houses. Moreover, compliant garment factories have set up complaint boxes in the factory premises.

2.6 Measures taken for ensuring transparency

A database has been developed containing the inspection report conducted by the DIFE. Moreover, a project titled 'Digital Factory Mapping for RMG in Bangladesh' is going on. This project will collect factory related all kinds of information and publish information of 2,500 factories who produce goods in the supply chain of 31 buyers. The Department of Labor is developing a database of its registered tread unions and this information will be easily accessible for all. BGMEA is funding this and biometric information of 3.766 million workers and officials are already added in the database.

2.7 Measures taken for ensuring labor rights and social security

Wage boards were formed in the year 2013 and 2018 to review the wage of labors. These wage boards increased the minimum wage 76% (minimum wage BDT 5,000) and 66% (minimum wage BDT 8,000) respectively. The basic salary was increased again in six different grades due to the recent labor dispute in late 2018. It may be noted that most of the compliant factories are paying minimum wages accordingly. According to the new policy, the owner has to consult their workers to conduct two hours of overtime every day. Again it may be noted that most of the compliant factories are paying overtime according to the rules. Provision of annual leave with payment, sick leave, leave on the festival are mentioned in the law and most of the compliant factories pay money for annual leave.

In compliant factories, female workers receive eight weeks of salary and leave before the delivery of the baby. The number of labor welfare center has been increased to 32 from 29 as an initiative of

ensuring health security. A mobile app has been developed for health service delivery. According to BGMEA and DIFE, 80% of the factories having more than 5,000 workers have established permanent health centers. Most of the factories have recruited a welfare officer and a worker from our researched area expressed positive remarks about this officer. The number of trade union registration increased from 102 (2018) to 753. A 64-member tripartite council has been formed to help the trade unions with their activities.

In the labor rules, 2015 it was mandatory to establish a factory safety committee. As a part of this, the current (2019) number of the factory safety committee is 2,386 (75%), which was only 909 in the year 2018. According to the Labor Law (amended) 2013, factories have to elect a participatory committee. A number of 1,210 factories (40%) have formed the participatory committee through election. The policy mentioned to create a central fund by allocating 0.03% from the export work order. The status of the fund with FDR is BDT 910 million. Government has plans to pay demurrage of BDT 500,000 from the above-mentioned fund and from accidental insurance to the workers if they suffer any accident. As per the plan, BGMEA has already paid a total of BDT 573.1 million from this fund to the families of 2,842 dead workers, salary for three lay-off factory's employees, 153 sick workers received support and 159 meritorious students of the workers received education allowances. New Accord policy saying that it is mandatory to demurrage if a worker is sacked. On the other hand, Labor Rules 2015 has made mandatory to make group insurance.

2.8 Measures taken to ensure the integrity

Every office of DIFE and the Department of Labor has an integrity committee. Every month DIFE arranges integrity training and follow-up training via video conference for its branch offices. With the support of the ACC, RAJUK arranges training on integrity for their employees. RAJUK and DIFE give rewards as incentive for their workers for best integrity practice.

3. Challenges in Implementing the Initiatives

3.1 Challenges on enforcement of laws

Although according to Section 2 (49) and 2 (65) of the Labor Law (amended in 2013 and 2018), 'Supervisors' are defined as a part of the owner, they are not receiving any privileges like the owners do. Hence, they cannot take part in the trade union. Moreover, Section 108 (2) stipulates that a worker who has a contract to work on piece rate will not receive overtime for extra hours' work. In this law the punishment for the worker has been made stricter, hence punishment is reduced for factory owners (Sections 296, 299, 300, etc.). Other than this, some sections of this law (Section 23(4) (*kha*)(*cha*), 27, 179(5), 291, etc.) can easily be misused. As mentioned in the Bangladesh Labor Rules, 2105 if there is no existence of any trade union the participatory committee can take part in the bargaining process with the factory owner. However, this can hamper the bargaining process as the participatory committee is influenced by the owners.

Initiatives have been taken to adopt the EPZ Labor Law, 2016. This law suggested to elect a representative for Labor Welfare Committee instead of forming trade union, which has made the process very complex. The law has also mentioned that if a worker is sacked and if s/he do not receive the preserved benefits during his/her employment, s/he can file a lawsuit against the factory owner. This law has sections which will improve the work environment but will not ensure workers' rights.

Although the Fire Extinguishing Rules, 2104 has been passed, it is taking longer to implement due to the lack of interest of the factory owners. The tariff is not updated in the rule, which can cause the government earn less revenue.

Although different cases were filed against the owner of Rana Plaza and factory owners of that building, these cases are not making progress as the accused have made an appeal to hold these cases in the higher court. The higher court has given stay order due to the appeal of the defendants. Moreover, the testimony of only two witnesses was taken since 2016 in the criminal case filed against the owner of Tazrin Fashion. The hearing of the case filed against the owner of Spectrum Fashion has been delayed for long.

3.2 Challenges on Business policy support

Although the government gives incentives to increase the business capacity of the sector, taxation on product order rather than income in respect of source tax is considered to be counter-productive for the development of the sector. Among the top hundred loan-defaulter industries that have been reported to the Parliament, 26 belong to RMG sector, and the total amount of default money for RMG industries is BDT 107,900 million. On the other hand, minimum policy support is there for backward linkage industries compared to RMG – only 4% cash incentive has been provided on the ground if any export goods use locally made fabrics. It has been alleged that it takes 3-4 years to get this cash incentive and in some cases officials of concerned offices also demand bribes. Besides, selling fabric illegally into the local market by using bonded warehouse support is creating risk for the growth of backward linkage industries.

3.3 Challenges in improving institutional capacity

The DIFE could not make any progress in preparing the afore-mentioned SOPs despite the support from ILO. Mediation activities are hampered due to the absence of collective bargaining environment although the Labor Directorate has been upgraded into a department. There are still allegations of approving building plans by local government institutions despite being within the jurisdiction of RAJUK, although different decentralization initiatives for RAJUK have been undertaken.

Due to the lack of competent officials for internal promotion and getting government approval for hiring specialist from outside, 147 specialist inspectors could not be appointed. Only 652 inspectors are not adequate to inspect 8 million factories altogether. On the one hand, the Department of Labor is not able to complete the appointment of inspectors due to incomplete employment recruitment rules. Moreover, 20 labor welfare centers are also being run without doctors. At the same time, RAJUK could not complete the recruitment of its specialists. Though after the Rana Plaza incident according to many stakeholders many training programs were arranged, sample factories under this research give a different picture where most of the labors confirm that they have not been trained for skill development, law and rights, and owner-labor relation development. Besides, inadequate and traditional machines and training module in the vocational center of Department of Labor have failed to provide modern training facilities.

The Fire Service and Civil Defense could not complete construction of 11 fire stations in different industrial areas over the last five years. Because of the incongruity in the definitions of high rise buildings followed by RAJUK and Fire Service and Civil Defense and lack of logistics of the latter to deal with buildings higher than 33 meters, risks prevail in extinguishing fire in high rise buildings. Online services of DIFE and Department of Labor could not be used adequately for lack of campaign and service recipients' skill in using online services. Moreover, there are lack of coordination with factories with regard to running LIMA and lack of intention for providing necessary documents. Emphasis is still being put on providing documents manually although there is an option of submitting documents online for registration of trade unions. There is also less interest in getting approval of building plans online due to lack of adequate publicity and non-mandatory provision. Receiving such service manually is often encouraged with an aim to extract money illegally.

The tripartite council formed with an aim to coordinate different initiatives after Rana Plaza accident has not been functional, while there is no precise mode of work for tripartite council and crisis committee which may influence the government to bypass the necessity of this council. As a result, it has been observed that in the time of recent labor movement (2019) government discussed with the tripartite committee which has been formed by themselves avoiding the tripartite council. Besides, it is alleged that activities of the tripartite council in some way only eye-wash, as the owners' agenda are accepted but labors' agenda are avoided in meetings. Lack of coordination is observed with regard to implementing different initiatives undertaken after Rana Plaza accident, such as assessment of compensation, determining financial needs in remediation, and implementation of the decision taken, etc.

3.4 Challenges in ensuring factory safety

There have not been satisfactory remediation improvements in 26% of factories (832) conducted by the government and buyers' alliances. Most of these factories belong to national initiatives.

Remediation activities of most these factories were hampered for the financial inability of concerned factory owners, factories located in rented space, and non-cooperation from concerned EPZ authority. There have been instances where government and buyers' alliances neglected their responsibilities to conduct remediation activities. Although there have been financial promises with favorable conditions for carrying out remediation activities, those money could be used for absence of a strategic agreement with relevant financial sources for accessing those funds.

Over the years, almost 1,250 factories including 1,171 factories under the national initiative (27% of inspected factories) have been closed down after inspection by Accord, Alliance and national initiatives. Because of the closure of these factories, 450 thousand workers lost their jobs. Only 6,676 workers from two factories received compensation although there is a provision in the law to compensate the workers losing jobs. Moreover, there have been instances where some factories lost their businesses for some buyers' immoral behaviors. Challenges prevail in building the financial capacity of the Remediation Coordination Committee (RCC), creating buyers' legal obligations and a structure for sustaining remediation efforts in the long run. Thus, technical and financial deficits of RCC prevail for carrying out remediation measures. At the same time, buyers also lost confidence in the RCC for factory owners' political influence and their inability to make quick decisions. On the other hand, the inclusion of owners' representatives to assess the capacity of the RCC and absence of neutral members in the committee has enhanced factory owners' influence that might pose a hindrance for sustained progress of this sector.

3.5 Challenges in ensuring accountability

Although many initiatives have been taken to ensure accountability, the disposal of 4,947 litigations filed by DIFEA have not been done yet. The helpline could not work effectively due to the lack of proper understanding of the service recipients and inadequate campaign. Most of the labors could only get their wages by complaints through this mechanism but did not get other benefits. DIFEA could not complete the procedure of grievance within 15 days. Moreover, in some factories persons putting complaints in the complaint box is reported to be harassed by the authority.

3.6 Challenges in ensuring transparency

Information on different reform initiatives are not updated regularly on the website of DIFE. There is also lack of transparency in managing information on reform initiatives of factories and review. Most of the buyers (750) have not published the list of factories that produce in the supply chain. In some cases compliant factories do not provide pay slips to labors. There are allegation some factories for misusing the biometric information of the central database of BGMEA. Such allegation include blacklisting labors and show their list on the factory gate. Moreover, labors getting fired from one factory are not employed in another factory.

3.7 Challenges in ensuring workers' rights and social protection

In most cases, small and sub-contract factories do not pay minimum wage to workers. In real term, the basic wage of 2018 fixed by the board within a negotiation process between owners and labor representatives is not adequate for the present market price. It is alleged that the 5% yearly increment was not considered in the review of wages. Although it has been claimed that the increase in salary ranges 23-36% in various grades, if annual increment from 2013 to 2018 is considered for those who have been working throughout this period, their wage actually decreased on an average about 26%. According to field data collected for this study in most of the cases at the factory level adjustment for annual increment is not made (which is mandatory as per item - 4 of conditions, Gagate notification for salary increase, S.R.O. No. 345 dated Nov 25, 2018). To control the movement by labors, owners filed 35 cases against five thousand labors. It is alleged that about 10 thousand workers from 168 factories were dismissed during and after the movement. Moreover, it is alleged that after setting up the minimum wage most of the factories imposed unattainable targets. Sub-contract factories most of the times do not provide maternity benefits to workers. Sometimes, they provide less number of leaves violating the limit set by the government. Sometimes, workers are terminated during pregnancy. The current provision of maternity leave for garment works is discriminatory as this is much lower than the existing leave for working women in other sectors. The participatory committees are found to be in the paper, thus they are less effective.

Trade unions are available in only 3% factories and most of them are found to be controlled by concerned factory owners. Most of the trade unions are alleged to be crippled by leadership conflicts and political goons. As the number of litigations against workers and job loss is found to be high among workers who are active in trade unions, a collective bargain of workers has become weaker in practice. Factories normally do not purchase group insurance for all workers as per rule. Moreover, the provision in the Labor Rule to deposit group insurance premium from contingency fund encourages factory owners to avoid paying compensation to workers from their own. The victims of Rana Plaza have been deprived of timely compensation as the government has not ratified section 121 of the ILO Convention. Moreover, the dissolution of the High Court bench to set a compensation package for the victims formed after the accident also contributed to this delay. There are allegations that some workers were not given compensation in the face of job loss for carrying out remediation activities. It has been found that some buyers cut their business ties with non-compliant factories to avoid their responsibilities.

3.8 Challenges in ensuring the integrity

There are allegations that some officials at the Department of Labor receive BDT 10-15 thousand as bribe for registering trade unions. On the other hand, some of the officials of DIFEA are also alleged to claim bribe of BDT 50-60 thousand for registration, BDT 5-7 thousand for renewal, BDT 50-70 thousand for registration of master layout and BDT 15-20 thousand for amending layout for a factory. It is found that when inspectors from DIFE visit factories for investigating alleged anomalies, they interrogate workers in front of factory owners and their representatives. This practice sometimes provokes repression on workers and termination from their job.

4. Conclusion

Although considerable improvements have taken place in this sector after the Rana Plaza accident due to the collective efforts of relevant stakeholders, some challenges still prevail. Factory owners have given disproportionate attention to the increase of RMG export and sustaining their businesses. However, the rights of workers and their social protection have not received due attention. Legal limitations prevail for ensuring the rights of workers. Lack of political will and influences of factory owners persist that hampers the creation of a conducive environment for ensuring workers' collective bargain. On the other hand, there have not been notable progress regarding compensation for the loss of a job, commensurate compensation for an accident, maternity benefits, freedom of association, social safety for severe injuries, etc. Risks prevail for durable improvement of the sector due to the financial and technical inability of RCC. Moreover, punishment cannot be dispensed to the offenders of accidents and worker rights due to inordinate delay in the legal process, and accountability of relevant stakeholders cannot be ensured. Finally, the government has to demonstrate the utmost responsibility to seize opportunities already achieved in regard to the governance of the sector for its durable improvement.

5. Recommendations

TIB proposes below recommendations to uphold good governance in the RMG sector:

1. An authority should be established for the supervision and coordination to promote good governance in the RMG sector.
2. Necessary amendments in the Labor Law 2006 have to be made especially regarding the following:
 - a. Workers' compensation,
 - b. Maternity leave,
 - c. Freedom of association,
 - d. Rights to collective bargain.
3. Quick disposal of all litigations filed after accidents have to be ensured through establishing speedy trial.
4. The capacity and services of the Department of Labor has to be improved through the following.
 - a. Recruitment of labor inspector along with other personnel should be confirmed by finalizing the appointment rules.
 - b. The welfare center should be set up in the industrial zones.
 - c. The training modules and machinery in the vocational training centers should be upgraded.

5. Initiative to reinstate of dismissed workers after the movement should be taken and will have to create a fear-free peaceful working environment through withdrawal of provoked litigations.
6. Legal rights of workers especially in setting wage, overtime, leave have to be ensured through a coordinated effort of all stakeholders and government oversight for ensuring such rights have to be enhanced.
7. A fund has to be created with the participation of relevant stakeholders for ensuring compliance of sub-contract and small factories and easy access to the fund of those factories has to be ensured.
8. All buyers have to disclose their business partners on their website and they have to discontinue their immoral activities like the closure of factories, not giving compensation due to their job loss, not setting the logical price of garment products.
9. Provision of giving group insurance premium from the Central Welfare Fund has to be cancelled.
10. The tripartite council should formulate clear procedures, follow specific agenda, ensure effective participation of all parties and include civil society as an observer.
11. Policy support for backward linkages industries of readymade garments should be increased.
12. The following measures have to be taken to make the RCC effective:
 - a. The financial and technical capacity of the RCC has to be enhanced through the collective efforts of the government, buyers, and ILO.
 - b. Neutral observers have to be appointed to oversee the operations of RCC.
 - c. Buyers have to be brought under legal obligation for making the operation of RCC sustainable.
