Emerging from the Rana Plaza Tragedy: A 10-Point Reform Roadmap for a Sustainable Bangladesh RMG Sector

Executive Summary

In this paper, we first highlight the current state of the Bangladesh ready-made garment (RMG) sector and highlight some recent reform initiatives from various stakeholders, which are aimed at improving the situation.

We then outline our 10 point reform agenda/roadmap that we believe covers the key issues, both in terms of the immediate Post-Rana Plaza safety and compliance, as well as some broader strategic issues that, in our opinion, the industry needs to take in order to ensure the next phase of growth.

We believe that by urgently implementing measures around these key issues, workers quality of life will be improved with higher standards in the workplace, manufacturers will improve efficiency through better compliance and regulation, and the country's RMG sector will enhance its competitiveness and economic sustainability in the global market. Furthermore, global brands and their consumers can be confident that the **Made in Bangladesh** products remain affordable and of a high quality, whilst being ethically and responsibly sourced.

The key issues, which we outline in this paper, which make up our roadmap for sustainable reform, as we see them are as follows:

1) **Factory Classification**
2) **Factory Health & Safety Standards/ Compliance Monitoring**
3) **BGMEA Responsibilities**
4) **New RMG Economic Zones/Unsafe Factory Relocation**
5) **Financing RMG Reforms**
6) **Minimum Wage increase/Increased Efficiency/Productivity Gains**
7) **Trade Unions/Better Worker Representation , 'BRIDGE' and Affiliation**
8) **Formation of New Worker Welfare Fund**
9) **Moving Up the Value Chain/Worker Productivity**
10) **Branding and International PR/Engagement**

I. Background and Context

As the nation continues to mourn the 1120+ lives lost, and thousands more maimed, injured, traumatized and orphaned in the aftermath of the Rana Plaza tragedy, our collective focus must urgently shift to asking what lessons have been learned and urgently set a path for a much better way forward for the RMG sector. Not only does RMG account for more than $20bn of Bangladesh's $120 bn GDP and make up 80% of exports by revenue, but critically the livelihood of more than 4 million workers, the majority of whom are female, directly employed in the industry and the near 20 million people who rely on incomes from the sector are at risk if we fail to get the reform process right.

What a difference 6 months makes! In April 2012, the world's leading strategy consulting firm McKinsey & Co. published "*Bangladesh's Ready Made Garments Landscape: The Challenge of Growth*". McKinsey forecast that Bangladesh RMG could reach $ 30bn by 2015 and $ 50bn by 2021 and noted that '*While China is starting to lose its attractiveness in this realm, the sourcing caravan is moving on to the next hot spot. With Bangladesh having developed a strong position amongst European and US buyers, many companies are already eager to evaluate the future potential.*' But McKinsey also sounded a note of caution which was to some degree prescient about the inherent tensions in such a rapidly growing industry stating that '*However, the lure of competitive prices, available capacities, and supplier-capabilities offered is being cautiously weighed against a prevailing insecurity created by the challenges inherent in Bangladesh's ready-made garments (RMG) market.*' We suggest that it is imperative we consider a more holistic and broad ranging plan to ensure that the long-term growth of the RMG sector persists.

The moral outrage, both domestically and internationally, has triggered a whole range of reform initiatives and proposals from a broad range of industry stakeholders at home and abroad.

- The Government of Bangladesh (GoB) has responded to the populist backlash (if anything more rapidly than we might have expected) with a 10 member cabinet committee specifically for RMG and set up under the auspices of the Labour Minister.
- The preceedings of the Committee resulted in the announcement of the reformation of a 'minimum wage board' that has instructed any new wage agreement to be retrospectively applied to May 1.
- The GoB, Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and International Labour Organisation (ILO) reached a tripartite agreement which, among other things stated that the ILO and its partners will "*assess by the end of 2013 the structural building safety and fire safety of all active export-oriented ready-made garment factories in Bangladesh, and initiate remedial actions, including relocation of unsafe factories*".
- The number of inspectors has been increased to 200 with immediate effect, with a goal to further increase this to 800 by the end of this year.
- There have been a number of inspection teams under joint-secretaries deployed to review factories that are at risk, where a significant number have been closed. The BGMEA has announced an immediate compliance audit of all factories.

- The Cabinet passed a new Labor Law that makes unionization in RMG easier and also provides for mandatory insurance for businesses with more than 100 employees.
- A number of the largest European buyers, led by H&M, Inditex, Tesco and PVH have responded by agreeing to sign the Accord on Fire and Building Safety in Bangladesh (which was proposed by international and local labor organizations); a condition of the Accord is that all the retail signatories' Bangladeshi suppliers also sign onto and become parties to the Accord.
- Walmart has instituted its own compliance programme/requirements. Abercrombie has joined PVH are the only two U.S. retailers who have so far agreed to sign this Accord.

II. A 10-Point Reform Roadmap

The formulation and implementation of a meaningful and urgent reform process is far from easy. Given the nature of the problems we believe it's important to start from first principles. As we outlined above, we recognize a number of very good initiatives are already under way, some of which echo the points below, but we still thought it would be helpful to pull together the key issues and to provide some structure. We therefore outline below our thoughts on a 10-point plan for transforming the RMG sector in Bangladesh.

1) Factory Classification: An review of the structural integrity of factory buildings needs to be carried out urgently and to classify them accordingly: we need to ensure that an effective and wide-ranging audit of all the RMG factories is carried out within a realistic but sensible timeframe. An independent body assisted by BGMEA/BKMEA, BUET/DUET under the monitoring of a neutral 'chair' may form a National Action Plan (NAP) and undertake this task.

In terms of ongoing compliance monitoring, we need to establish this independent inspectorate. The NAP team could be bolstered with coordinated inspection initiatives from global buyers requiring compliance with industry recognized ethical and regulatory standards. For further legitimacy and expertise, the ILO can play an important coordinating role and offer technical assistance. Effectively a joint stakeholder initiative we feel is best and most realistic.

The NAP Team must urgently classify factory buildings and adopt an easily recognizable and acceptable classification such as Tier 1, Tier 2 and Tier 3. A database of factories cataloguing compliance could be established in order to better keep track of issues in the RMG sector and to list factories, which are compliant in terms of structure, practice and documentation. In that respect the council building departments could provide lists of planning permissions granted to factories and the extent to which those permissions have in fact been complied with. These types of audits would identify compliance infringements such as the one alleged to have occurred at Rana Plaza where the number of floors were apparently built in excess of that approved as structurally sound and stand a greater chance of averting disasters.

2) Factory Health & Safety standards/ Ongoing Compliance Monitoring: Compliance covers a broad range of issues but these can be largely broken down into building safety; other factory safety (fire exit, electrical); and work space health issues (ventilation and toilet quality). The factory tiers that we propose for compliance could encompass the following: Tier 3 factories should be thought of as having 'high risk' or 'imminent risk' which need immediate remedial action. For example they may likely lack basic fire and safety equipments, have no fire exits and are set up in what can only be described as 'risky' as factory buildings.

Such an audit could also identify that the worker production lines are over-congested, and in place of a 'safe' 3-line set-up there is a 4^{th} , in which case, the floor environment would not leave adequate space for operators to evacuate in the event of an emergency or fire. Such an audit could also reveal a grim picture of the wiring in the factory where power load has not been calculated properly creating a electrical risk, or the electrical distribution board could have wires exposed on the walls that host these boards.

Tier 2 factories could be in old buildings or shared tenancy, where 'less risky' issues may arise like the generator or the boiler on the floor, or it may also have a few worker's rights compliance issues such as working extra hours that might be considered excessive or a one-day rest policy which may be considered insufficient. Those would be seen as more easily remediable than Tier 3 banded non-compliant factories.

Tier 1 factories could likely have no material 'high risk' or 'imminent' issues but may have other responsibilities to address, improve and undertake on general welfare issues.

IMPLEMENTATION: The initial audit findings could be shared with BGMEA and the applicable ministries (Industry, Environment, Labour, etc.). With every audit, the corrective action plan should also be listed. Inspections and audits to be carried out on the first riskiest 1000 Tier 3 factories are to be followed by more rounds of audits/inspections at later stages.

3) BGMEA Responsibilities/Reforms: BGMEA can also play a complimentary role in self-monitoring and ensuring/enforcing compliance through conducting compulsory training programs. They should require all of its members to ensure that the owners or their designated representatives, directors and managers of production units attend week long training programs, for example, which focus on worker rights, workplace safety, facility inspection and corrective steps, compliance requirements that go beyond a simple checklist, legal obligations towards workers, etc**.** BGMEA should also conduct unannounced fire drills, after giving fire training to the factories for at least 3 months**.** BGMEA could also require its members who are leasing facilities to check the property and building documents of the facility to verify whether the property/building is in compliance with the local zoning/building codes – non-compliant facilities are to be vacated within a specified period.

We also believe that the BGMEA itself should seriously consider incorporating internal reforms:

- Factories, which are (allegedly) essentially paper-based or ghost factories, must be eliminated if verified as such through inspection.

- No new factories must be allowed to come into existence, be given BGMEA membership (and hence an ability to export), without rigorously checking their full compliance. Indeed, we would strongly recommend that BGMEA should ensure that all new factories (exporters or sub-contractors) must be of Tier 1 category. Otherwise they should not be entitled to a license or to enjoy BGMEA membership. To do otherwise would undermine the credibility of BGMEA as an organization and create a wrong impression of that member.

- Also only voters with minimum USD 500,000 and above in exports should be allowed to make policy decisions in BGMEA committees.

4) New RMG Economic Zones/Unsafe Factory Relocation: We believe that relocation will likely pose the next big issue that requires a medium and long-term solution. Out of the factories that we have, almost 33% have 100% compliance problems or can be identified as Tier 3 factories. For example, out of 1568 factories that exist in Dhaka metro area, 647 factories have direct export, obtaining Utilization Declaration (UD). However, another 500 could also fall under the Tier 2 group of compliance. Therefore, we can with relative caution assume that at least 1000 factories are likely going to need relocation. Since green buildings save expenses later, the relocated factories should also have the option of being "green". IFC/GIZ could help in this issue.

This relocation need not be done in one instance nor relocated to just one place. The relocation of these 1000 factories could be split in 2 phases and across 2 or more different locations for example. That could mean that 700 factories could start being constructed in the Dhaka area from 2014. This process can be replicated in the Chittagong area for another 300 factories so that the total 1000 factories can be relocated across two major metro areas within a possible 3-4 year period.

The approximate cost of setting up a 25,000 sq ft for basic shirt/blouse factory would be Taka 10 crores. If 1000 factories are identified as Tier 3, then the riskiest 500 factories of that same tier should be able to shift immediately by locating a land of around 375 bighas (@ 0.75 bighas for 1 factory basing on 4 storied industrial buildings).

The government should seriously consider a number of "state aid" measures for this particular industry sector as a kind of economic rescue aid package. Firstly, the government could identify and earmark suitable raised land for construction purposes at the cost price, which can be paid by the manufacturers. Secondly, the total requirement for 1000 factories we estimate could be in the region of 10,000 crores which could be initially funded by the government under special arrangements as loans to the enterprises and adjusted gradually from the exporters' export proceeds. Thirdly, related infrastructure and utilities could be provided and authorized on a priority basis by the government. With these measures in mind, we reasonably estimate that the government should very kindly allocate 3000 crores in the upcoming budget for implementation of the "state aid" project, if possible basing on the government's own, "khas" land.

As suggested, such relocation can be carried out in phases and can be set up in different clusters based on the availability of suitable land. Relocating to lands of 40-50 bighas is also possible. This relocation should be made compulsory for the factories in Dhaka-Chittagong-Narayanganj metro areas, and selected by a specific committee suitably appointed. The government and the factories should allocate resources to developing and implementing an industrial development plan for the new locations and structure the design of the factory buildings, with due consideration (by order of priority) given to (a) ensuring that access roads to any factory entrance/exit being at least 30 feet wide to allow fire service vehicle access, (b) all generators/utility equipment being on the ground floor/separate structure, (c) limiting heavy manufacturing to only the first 3 floors, (d) separate dormitories for men and women workers, and (e) shared health and child care facilities.

5) Strategy for Financing RMG Reforms: Following on from the above cost analysis of factory relocation (and subject to the government providing land and 'state aid' measures), as well as the safety and compliance audits, there is a healthy debate and divergent thinking on who among the major stakeholders - GoB, BGMEA members, global buyers, foreign governments, donor agencies, even consumers - should pay for the needed reforms. We strongly believe that the process needs to be a domestically led solution and hence the GoB and BGMEA members should finance a major portion of the reforms bill. We suggest the GoB allocate a min initial BDT 3000 crore in the upcoming budget or as a special RMG Support Fund.

We would also recommend consideration of a modest export tax of perhaps 1% -2% of the FOB (freight on board) value that could be time bound (say 3 years for the period of reforms) and also earmarked for the ring-fenced Tier 3 factory relocation/refurbishment. We understand that export tax is not a desirable instrument but we are proposing this instrument as a mechanism for collecting from the buyers this 1% - 2% of the export value for the benefit of the RMG industry and its workers. Although it is often referred to in the debate that RMG buyers should pay "Fair Price" for their purchases in order to enable the manufacturers pay better wages to the workers and upgrade their factories. In reality however it would never be possible to enforce this concept of "Fair Price". Furthermore, even if one benevolent buyer decides to pay better prices for their orders, there is no guarantee that that money will be used for its intended purpose. The proposed **time-bound** export tax will serve as a substitute for the so called Fair Price and through appropriate earmarking it would also ensure that the collected amount—estimated to be about $220-$440 million in the first year and higher thereafter—would be used for upgrading of the RMG sector and ensure better wages and working conditions.

We would also recommend that the GoB requests the multilateral (World Bank, IFC, Asian Development Bank, Islamic Development Bank) and bilateral development partners (EU, DFID, JICA, USAID, SIDA, CIDA, NORAID etc) to fund a $ 1 billion RMG Sector Transformation Fund at concessional interest rates that can be accessed by BGMEA members to finance either relocations or other necessary compliance/safety measures. This fund will be utilized over a 4 year period and development partners may contribute this fund over a 3-year period.

This could follow the same structure as the IPFF administered by Bangladesh Bank for lending in the Energy sector. We also believe US, EU, UK and Japanese official development agencies are willing to contribute to such an initiative. There is public outrage in developed markets and the governments of such countries could translate that sentiment into genuine and helpful financial assistance.

Funds from local banks will also be needed**.** The interest rate should be **on concessional terms** under a special discount facility of Bangladesh Bank. The money allocated in the budget may be partly used to finance the discount operation. Bangladesh Bank is currently operating several discount facilities and this may be an additional one but its implicit costs preferably fully financed through the budgetary allocation. Other countries also offer similar facilities to achieve certain targeted objectives. Currently the Indian Government is assisting the Indian Technology sector by way of the 'Technology Upgradation Fund Scheme' since it sees this as important to the nation's overall economic health.

GoB could provide 3% relocation incentive for three years to (a) the factories, which relocate to any new zone, and (b) to the factories, which are unable to obtain concessional funds from elsewhere.

6) Minimum wage increase/increased efficiency/productivity gains: Minimum wages in the RMG sector need addressing. The government has already announced an immediate review of the minimum wage applicable in the garment sector and has formed a wage board committee under the Labor Ministry, which will fix the minimum wage to be applicable from May 1. The wage board raised the minimum monthly pay for garment workers to Tk. 3,000 from Tk. 1662.50.

We believe that raising wages retrospectively from May 1 while a populist measure, is unfairly punitive on the RMG manufacturers given that costing for current shipments were made several months in advance. Realistic consideration needs to be given to balancing the needs equitable to workers while ensuring that manufacturers are not priced out of the market where production could shift to Vietnam, Cambodia and even to India and China. Even if costs in BD remain lower than in competing RMG countries (after minimum wage hikes, supply disruptions, and reputational risks from compliance post-Rana), we suggest our costing will need to stay at a discount to remain competitive. Above all, the proposal of minimum wage should be linked to productivity because that is the only sustainable way to increase wages in real terms in any industry and country.

Mike Flanagan, a retail-sourcing consultant, stated that if Bangladesh raised its prices even 50 cents, the results would be devastating. "*There won't be four million garment-making jobs in Bangladesh,*" he wrote in an e-mail. "*There probably won't be 4,000*."

7) Trade Unions/Better Worker Representation, BRIDGE and Affiliation: As Sir Fazle Hasan Abed, BRAC founder, noted in his Apr 24 New York Times article: "*The solutions start with the workers themselves; they must be allowed by their employers to unionize, so they can engage in collective bargaining and hold their employers responsible for basic standards of pay and safety. Their organized power is the only thing that can stand up to the otherwise unaccountable nexus of business owners and politicians, who are often one and the same.*"

In the meantime, BRIDGE, an owners'-workers' platform could be formed, which could act as a supplementary entity to trade union/workers' participatory committee. The owners could engage in a bi-monthly exchange of ideas and could interact with workers and workers' representatives directly. BRIDGE could include initiatives like: free schools/education for workers' children, talent contests, training centers for improvement of skill and to raise awareness on rights and issues, and establishment of outlets on a profit sharing basis.

These good practices should eventually encourage factories to affiliate with bodies like the United Nations Global Compact (UNGC). This could be an opportunity to be endorsed by international organizations.

8) Formation of new fund for Worker Welfare: We think appealing to the consumers through the retailers to pay a few cents more to build a fund for the Workers Welfare Trust is an idea that can be floated with all stakeholders. **We can alternatively, of course, ask the buyers to contribute a certain percentage (perhaps 0.25%) of FOB and at the same time, the suppliers matching the amount to build a trust fund for the workers.** The resources generated in this way may also be used for setting up contributory provident/pension fund which will help tie workers more to the RMG firms they are currently working and reduce the extremely high turnover of workers in this sector. It is worth bearing in mind that a number of buyers do recognize a certain degree of this type of financial assistance as part of their broader corporate social responsibility and is more likely to provide immediate financial assistance when something goes wrong – this would merely extend that principle and would be demonstrable in Annual Reports to shareholders.

9) Moving up the value chain/worker productivity: As we have highlighted later in this report, the long-term growth in the industry, and sustainably higher worker wages requires moving up the value chain in terms of increasing the design/fashion component in RMG garments, improving the technology and also developing Bangladesh brands that will be marketed internationally and capture a greater proportion of the value chain. To that end we recommend a revamped Bangladesh Fashion Institute of Technology with technical assistance from both leading Fashion Institutes overseas and international buyers. We would like to suggest establishment of a **Business Development Studies Team** that could monitor the Fashion Institute, the quality development, and optimize manpower.

10) Branding and International PR management strategy:

Quality/Ethical assurance marks can provide all stakeholders with confidence that a product has met compliance and regulatory standards.

Made in Bangladesh with PRIDE is an example of a campaign which aims at achieving fair prices both for millions of workers employed by the sector and thousands of entrepreneurs who have created those jobs while making sure the factories are compliant, people are working in a safe environment, workers are productive and ultimately, a superior product is created. This in turn should lead to manufacturers and buyers being rewarded for their commitment and investment to corporate social responsibility by ensuring ethical and regulatory compliance and, therefore, to take pride in that garment, including the global consumers who wear them. This is a win-win situation for everyone. With this campaign we must attract manufacturers to share their best practices which will be the guiding light for others to follow, for global brands and retailers to support this effort and for the ultimate consumers to recognize the intention to dress themselves up with clothes made by people with sincerity, honesty and pride.

We need to develop an independent certification process for products to earn the "Made in Bangladesh with Pride" label much like Fair Trade. But the objective is to reward compliant manufacturers and encourage global buyers to select them over lower cost options.

Promotional video on Bangladesh RMG: BGMEA should appoint lobbyists and launch a PR campaign for this branding. This would lead to an effective engagement not only in the immediate term to tackle the Post-Rana damage to the industry's reputation but also to maintain an ongoing lobbying and PR engagement. We need to make sure a positive message is conveyed in the global and domestic media about the positive reforms and changes in the aftermath of the unfortunate Rana Plaza event as well as the contribution of the sector in areas such as poverty alleviation and women's empowerment.

The post-Rana steps, remedies and the corrective action plan undertaken by factories in Bangladesh could be portrayed in a half-minute ad to be telecasted in international media, cost of which to be borne by the funds generated from above-mentioned sources.

III. Final Thoughts and Case for RMG Reform

It's also important that the RMG sector develops an effective communications and lobbying strategy in key export markets not only with buyers but also with regulators/governments. Although the EU threat on removing GSP looks unlikely to be carried through, the US government seems more serious about taking some action on GSP. As the McKinsey report also noted " *In addition to price, capacity, and capability, a high share of European CPOs strongly emphasize the advantages of sourcing in Bangladesh due to favorable trade agreements. The broadening of the EU Generalized System of Preferences (EU-GSP) rules on duty-free imports of garments from Bangladesh to include products with two- stage processing made sourcing from Bangladesh even more attractive. A shift from the currently dominant knitwear (70 percent of import value to the EU-15) to a more balanced sourcing product portfolio can be expected (e.g., the US sourced 26 per- cent knitwear and 74 percent wovens in 2010)*."

Maintaining capacity during RMG Reform process is important

In the McKinsey report, it was noted that half of the international CPOs interviewed mentioned capacity as the second-biggest advantage of Bangladesh's RMG industry. With a current 5,000 RMG factories employing about 3.6 million workers from a total workforce of 74 million, Bangladesh is clearly ahead of Southeast Asian RMG suppliers in terms of capacity offered (e.g., Indonesia has about 2,450 factories, Vietnam 2,000, and Cambodia 260 factories). But we also need to balance volume with moving up the value chain. The McKinsey report also noted that "*European and US CPOs aim to significantly grow their share of sourcing in Bangladesh. Companies focused on a value segment plan expansion from a current average 20 per- cent to a 25 to 30 percent sourcing share in 2020. Mid-market brands, which generate around 13 percent of their sourcing value in Bangladesh today, plan to grow their share to 20 to 25 percent in the medium term. This growth will be driven not only by an increase of volumes in current product categories but, as stated by 63 percent of CPOs interviewed, by broadening the sourcing strategy to more complex, more fashionable, or more sophisticated items (e.g., the most frequently mentioned categories are outerwear and formal wear for value markets, and an expansion of existing products as well as flat knits for mid-market players). This means that the value market will be the key volume contributor, while the mid-market will demonstrate more dynamic growth*."

RMG reform process and relocation will entail some disruptions but we must not allow that to impact our export potential. This process needs to be carefully managed. Only by maintaining capacity during the transition phase and adding to that capacity over time Bangladesh would be realize McKinsey projections.

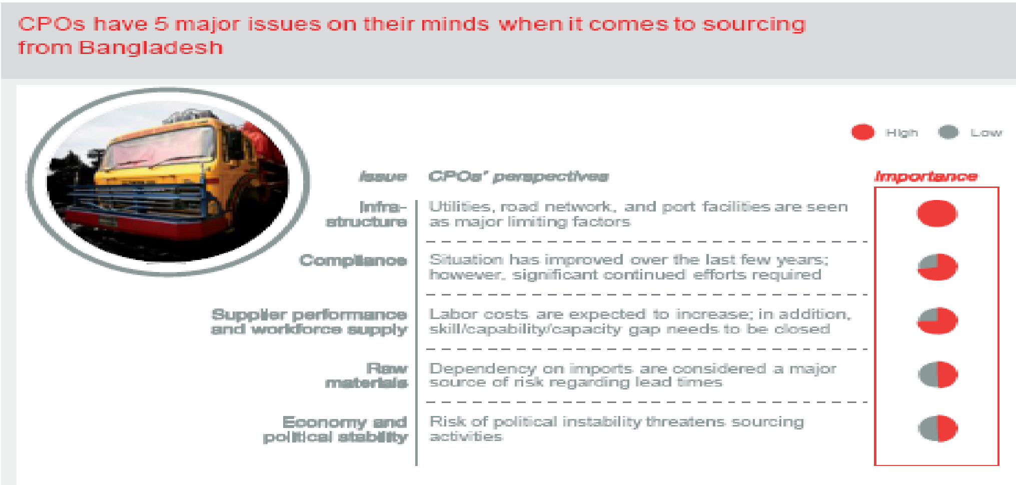
Bangladesh Needs to Move up the RMG Value Chain and out the "T-Shirt Phase"

Economist Adam Davidson writing in the New York Times recently noted that: "*Nearly every rich country has gone through a "T-shirt phase" — an economic period in which there are a significant number of poor farmers who, rather than toil on unproductive land, accept harsh work conditions and low wages in textile and apparel factories… Britain started its T-shirt phase in the late 18th century; the United States had two — New England in the 19th century, then the South in the 20th. During the last 80 or so years, many Asian countries — first Japan, then Korea, Taiwan and China — progressed from the T-shirt phase into broader economic development. Cambodia, Vietnam, parts of India and Sri Lanka (and of course Bangladesh) are passing through this now*."

But he goes on to note that once the factories have absorbed all these desperate farmers, they need to find a new competitive advantage. That usually involves making better products. When the T-shirt phase ends, a "race to the top" usually begins. Factories often shift to finer clothes, like dress shirts, which require skilled workers. This phase often involves the growth of unions and rising wages. It's typically followed by one in which factory owners, forced to pay more, seek out ever more profitable lines of business. That can mean the move to low-end electronics assembly, then auto plants and maybe even airplane manufacturing. At the high end of the spectrum, you begin to see what the U.S. manufacturing economy is going through now — expensive products, like medical devices, which are often made by machines that are operated by highly skilled workers.

Compliance and Political Stability Have Risen to the top of the Global Buyer Agenda

It's also interesting to note what the major issues that were on CPOs minds in the McKinsey survey. Infrastructure was number 1 followed by compliance. Political instability was number five. But given Rana Plaza and hartals, compliance and political instability are likely to be number 1 and 2 if a poll was taken today although infrastructure bottlenecks are still one of the most significant long-term constraints. The Industry has expanded from $ 3 bn less than a decade ago to $ 20 bn + now, but the supply and logistics routes in terms of roads and port handling facilities are almost unchanged.



Source: McKinsey CPO survey, September - November 2011; interviews

Encouraging and Rewarding Compliance

We need to develop a culture where the most compliant factories with best practices are also those that are most successful and are rewarded with the largest and most consistent global buyer client base. They will then positively influence and incentivize other less compliant factories to reform. As McKinsey noted in its report, "*As one buyer of a mid-market brand puts it, you would be "impressed by how good the compliance is in the good factories*." Some of the best factories have even started to increase transparency by implementing CSR reporting. However, only 50 to 100 manufacturers out of around 5,000 that are active are mentioned as having achieved very high standards… The most developed suppliers understand that compliance is a key factor in achieving business success. As one interviewee stated, "*things are changing and if I do not comply, I cannot get the orders.*" Therefore, it is the responsibility of the buyers to choose their suppliers consciously and manage compliance – not only via on-site control but also by rewarding good compliance standards.

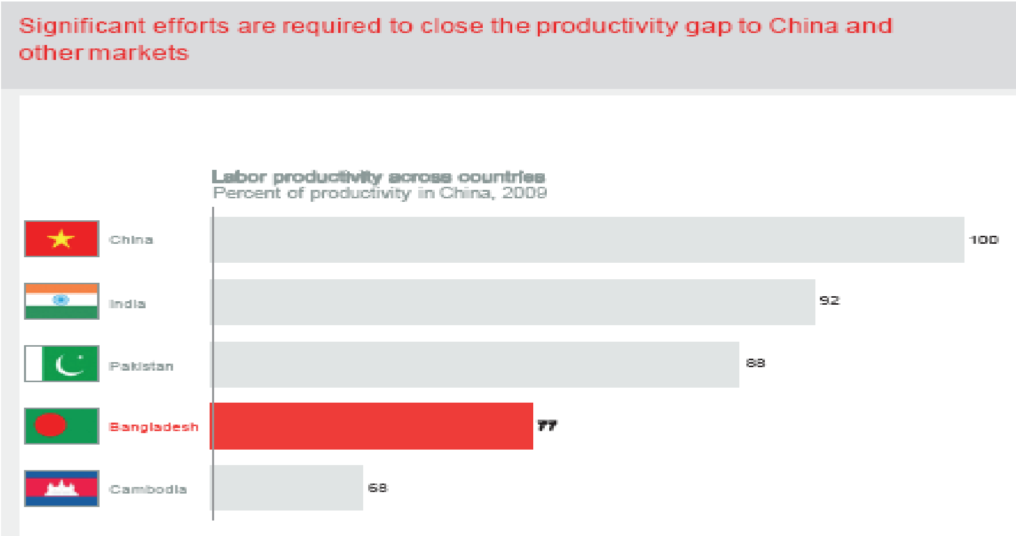
Increasing Productivity by Improving Middle Management

Within the McKinsey survey, when they were interviewed, all types of stakeholders mentioned the lack of skilled middle management as a key factor limiting productivity improvement at suppliers. It was also noted that educational institutions for technical skills are few or nonexistent. Vocational training needs to be developed and the appropriate institutions must be established either by the government or via public-private partnerships. McKinsey also recommended that the RMG factory owners do the following:

1) Provide structured in-house training for both workers and middle management;

2) Pursue lean workshops, certification, and automation of production;

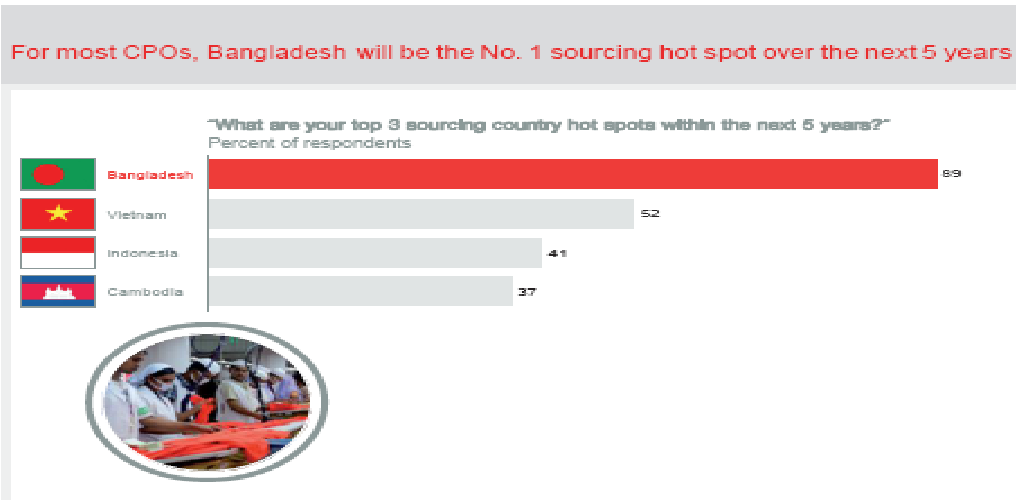
3) Incorporate enterprise resource planning systems, production planning systems, and continuous productivity monitoring.



Source: McKinsey CPO survey, September - November 2011; interviews

Conclusions

As the chart below from the McKinsey report illustrates, just over one year ago, Bangladesh was the most favored destination for shifting production from China, and ahead of Vietnam and Cambodia. The challenge for the industry is how to handle the reforms needed in the aftermath of the Rana Plaza tragedy in order to put the sector back on most-favored sourcing destination status.



Source: McKinsey CPO survey, September - November 2011; interviews

The current environment of confrontation and blame between all the key stakeholders needs to be replaced by a spirit of collaborative and dynamic partnership. We need to balance rapid compliance and safety related reform and the need to improve worker conditions and pay with measures that improve the longer-term competitiveness and growth in the sector including productivity-enhancing measures and moving up the value chain. This remains the long-term source of sustainable increases in living standards for the workers in the industry and for Bangladesh to achieve the milestone of $ 30bn of exports by 2015.

We are glad that the complacency and lack of action, which we saw in the aftermath of the Tazreen factory fire in November 2012, has not been repeated. However, there is a need for careful assessment of the key elements and timing of a RMG sector reform plan that balances the need for urgent action to assuage domestic and international ire to avoid another Rana, with avoiding hasty, reactive, or rushed direction of travel. We believe our 10-point road map—with appropriate modifications based on stakeholders' feedback--would help avoid such a risk. If appropriately implemented in a collaborative manner with support from all stakeholders, the proposed Road Map will ensure long-term health, competitiveness and growth of the RMG industry that plays a critical role in the country's economy and will help poverty alleviation in Bangladesh.

Finally we believe that follow-up is critical and to this end we would recommend establishing 4-5 working groups with relevant and experienced members to ensure the development and effective execution of the ideas outlined in the 10 point plan.

Accordingly we commend this paper for wider stakeholder engagement.

The recommendations in the above paper were developed by a group of stakeholders and civil society members concerned about the RMG sector in the aftermath of Rana Plaza. They include:

Rubana Huq (MD, Mohammadi Group); Annis Huq (Chairman, Mohammadi Group); Ifty Islam (Managing Partner, Asian Tiger Capital); Ahsan Mansur (Exec Director, Policy Research Institute); Asif Ibrahim (MD, New Age Garments); Samantha Morshed (CEO, Hathay Bunano/Pebbles); S Faruque (MD, Winners Creations); Masud Khan(Legal Circle); Peer-jada Qureshi (Independent Lawyer, UK); Nazim Farhan Choudhury (DMD, Adcomm); Shariful Islam (Bangladesh Brand Forum); Saif Kamal (Dhaka Tribune).