

Research Brief

Estimating the true cost of remediating the Ready-Made Garment Industry in Bangladesh

Following the Rana Plaza factory collapse in 2013, over 200 global brands and retailers joined in two unprecedented collective efforts to improve building and fire safety standards in Bangladesh's garment factories. Four years later, however, the great majority of these factories still have major electrical, structural, and fire safety deficiencies, and the sector lacks adequate funding to resolve them.¹ To date neither the government of Bangladesh, local manufacturers, global brands and retailers nor other stakeholders have developed adequate strategies and funding models to address these financing gaps. A starting point in doing so is to develop accurate estimates of the funds needed to remedy the widespread factory safety risks in Bangladesh's garment sector and a plan to address this current funding gap.

Only one major estimate exists for the remaining cost of remediating Bangladesh's entire RMG sector. In a study published in June 2016, the International Finance Corporation (IFC) and International Labor Organization (ILO) examined outstanding safety issues in RMG factories covered by the three major remediation initiatives currently underway in Bangladesh: the Bangladesh Accord for Fire and Building Safety (Accord), the Alliance for Bangladesh Worker Safety (Alliance), and the Government of Bangladesh's National Tripartite Plan of Action on Fire Safety and Structural Integrity in the Garment Sector of Bangladesh (NTPA).² After determining the cost of addressing outstanding safety issues and assessing how much capital is available to RMG factories for remediation work, the IFC/ILO study estimated that the remaining funding gap amounts to almost half a billion U.S. dollars.

Past research conducted by the NYU Stern Center for Business and Human Rights, however, suggests that remedying the RMG sector will be a considerably larger and more expensive endeavor. The IFC/ILO study is limited to about 4,000 factories that have been identified by the three major initiatives and therefore does not include the true scope of facilities producing for garment export in Bangladesh. Our research identified an estimated 7,100 factories and facilities producing for export. A subsequent study by BRAC University and the BGMEA concluded that there are more than 8,000 factories producing for export. The IFC/ILO study also does not address major deficiencies in Bangladesh's critical infrastructure.

The absence of a shared agreement on the number of garment-producing facilities, and the resources that are needed to remediate the industry, suggests the need for greater collaboration among key stakeholders--including global brands and retailers, local factories, governments, international organizations and philanthropies--to determine an equitable sharing of responsibility for action going forward.

THE ILO/IFC REMEDIATION FINANCING STUDY

QUICK LOOK

Estimated number of RMG factories included in study: 3,778

Range in remediation cost per factory: 20,000 - 1.5 million USD

Estimated total cost of remediating the RMG sector prior to implementation: 929 million USD

Estimated remaining cost of remediation: 635 million USD

Estimated capital made available through loan arrangements: 187 million USD

Remediation funding gap (as of June 2016): 448 million USD

FINDINGS

1. The scope of remediation work remaining

The ILO/IFC study bases its conclusions on a sample of 100 factory remediation assessment reports published by the three initiatives (Accord, Alliance and NTPA). A team of engineers reviewed the 100 remediation reports and identified an average of 59 noncompliance issues per factory. Electrical safety issues accounted for the majority (51%) of safety issues identified, followed by fire safety (30%) and structural safety (19%) issues.

To calculate a “statistically representative” sample size, the report’s authors drew on the Bangladesh Garment Manufacturers and Exporters Association (BGMEA)’s estimate of 4,296 RMG factories in Bangladesh. The NYU Stern Center for Business and Human Rights, however, has estimated that there are more than 7,100 facilities producing for the RMG industry.³ Further research by the BRAC University’s Centre for Entrepreneurship Development in Dhaka has estimated the number of factories to be more than 8,000.⁴

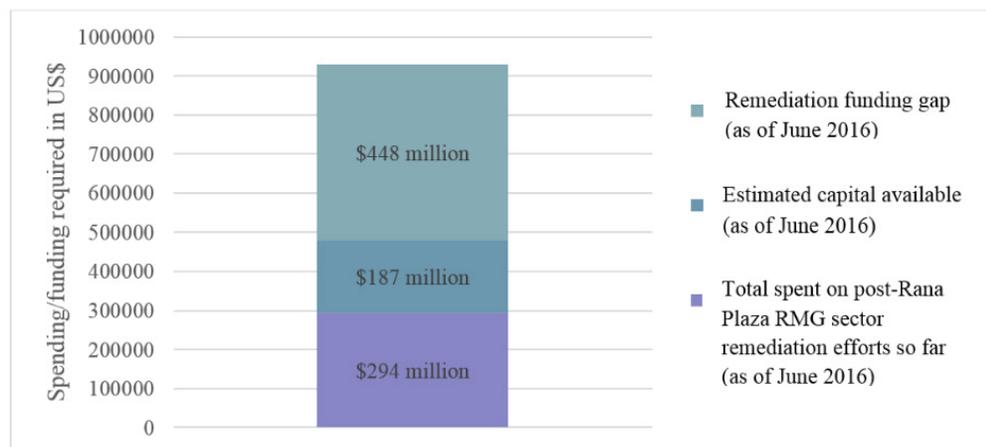


Figure 1: A visual representation of the total spent on post-Rana Plaza RMG sector remediation efforts thus far, further funds available for remediation work, and the remaining funding gap.

2. The total cost of remediation activities

Drawing on the 100 sample assessment reports and interviews with industry stakeholders, the IFC/ILO study estimated the cost per remediation issue and calculated the total cost of remediation per factory. On average, the report found, remediating a single factory costs around 189,000 USD. Estimates vary greatly, however, depending on the extent of remediation needed. Whereas remediating factories that do not require extensive structural repairs may cost less than 20,000 USD, fixing those that do require such repairs can cost upwards of 1.5 million USD.

As of June 2016, the report concluded, remediating the entire RMG sector will require 635 million USD. This figure includes an estimated 262 million USD needed for structural safety work, 201 million USD for electrical safety work, and 171 million USD for fire safety work (see Figure 2). The estimated remediation financing gaps of the three main initiatives are strikingly different (see Figure 3).

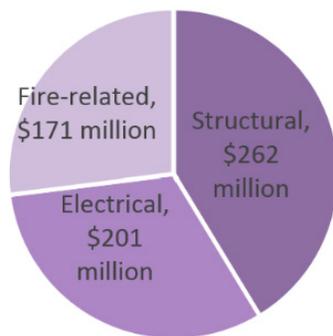


Figure 2: Remaining costs required for each category of remediation issue.

3. Existing Financing Options and the Remaining Remediation Gap

The IFC/ILO study then assessed the financing options specifically available to the RMG sector to calculate the total funds needed. Various development organizations have sought to increase the amount of capital that factories can borrow for remediation work and help mitigate the uncertainties that banks face when lending to riskier clients. Taking into account the impact of these loan arrangements, the IFC/ILO study estimated a 448 million USD remediation financing gap as of June 2016.

IS \$448 MILLION ENOUGH TO MAKE THE RMG SECTOR IN BANGLADESH SAFE AND SUSTAINABLE?

The IFC/ILO study, the first of its kind, has drawn valuable attention to the extent of the remediation financing gap looming over efforts to improve garment factory safety in Bangladesh.

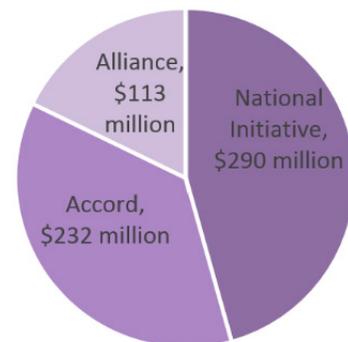


Figure 3: Remaining funding required for each of the three initiatives.

Though highly informative, the study's cost estimates are too low. A more comprehensive estimate would take into account the true size of the garment sector and include additional remediation costs such as addressing deficiencies in Dhaka's electrical grid. Factoring in these costs would significantly increase the full costs of ensuring safe working conditions.

WHAT'S MISSING?

1. Approximately 3,222 factories

To determine the total cost of remediation, the IFC/ILO study relies on the figure of 3,778 RMG factories enrolled in the Accord, the Alliance, and the NTPA. Additionally, its statistical model depends on the BGMEA's overall estimate of 4,296 garment factories in Bangladesh. As noted previously, however, the NYU Stern Center's 2015 report, *Beyond the Tip of the Iceberg: Bangladesh's Forgotten Apparel Workers*, found that there are more than 7,100 garment factories producing for export, many of which fall outside the scope of the three initiatives.⁵

Accounting for the true size of Bangladesh's garment sector, the total cost of remediation could exceed 1 billion USD.⁶ Based on the IFC/ILO study's range of remediation costs anticipated for the majority (80%) of factories in need of such repairs, these additional factories alone may require more than 700 million USD worth of remediation work.⁷ Further research is needed to ascertain a more accurate estimate, however – while the facilities overlooked in previous remediation cost estimates are likely to be subcontractors operating in buildings that require substantial structural retrofitting or even relocation, many of them are also likely to be smaller than the factories included in the current study.

2. Infrastructure Costs

Bangladesh's underdeveloped infrastructure contributes to worker safety issues and jeopardizes the long-term sustainability of the garment industry. The poor quality of the country's power supply leads most RMG factory owners to rely on heavy generators to prevent production interruptions. Often precariously perched on rooftops, these generators pose a significant danger to worker safety and increase production costs. Powerful vibrations from four industrial diesel rooftop generators, set into motion by a power cut, coupled with shoddy construction methods and the vibrations of thousands of sewing machines, contributed to the Rana Plaza building collapse that killed more than 1,100 people.⁸

3. Other ongoing costs

Other ongoing costs related to remediating the RMG industry should be included in a cost estimate. For example, the ongoing cost of continually ensuring workers are trained on safety protocol is an essential component of addressing safety issues in RMG factories. This is a very large sector with as many as 5 million workers. To ensure maximum factory safety the garment industry and its foreign partners need to enhance worker training programs. Progress has been made in safety training efforts over the last four years but more needs to be done, and the IFC/ILO study did not factor in the costs of safety training programming. Nor does the study factor in the cost for constructing and maintaining grievance mechanisms at production facilities and complaints channels to brands. Both are relevant to ensure that the rights of workers are assured.

THE WAY FORWARD: SHARED RESPONSIBILITY

To address the significant remediation costs and funding gaps highlighted in this brief, various stakeholders will need to come together to help develop and advance a collective strategy.

No single stakeholder has the financial capacity or mandate to address the range of funding needs. Given this reality a more realistic solution lies in the adoption of a shared responsibility model among international brands, their primary suppliers, governments (in particular those countries that are the primary consumers of garment products manufactured in Bangladesh), international financial institutions (like the World Bank and International Monetary Fund) and private foundations.⁹ A collaborative process is necessary to develop a roadmap with recommendations for practical actions. A taskforce can then estimate the costs of these recommendations, propose how remediation costs can be shared fairly among stakeholders, and ensure that funders remain committed both to guaranteeing these costs and overseeing the entire garment sector.

ENDNOTES

1. Dorothee Baumann-Pauly, Zoe Rubin, and Madeline Winterbottom, "Research Brief: Bangladesh Factory Safety – Four Years After Rana Plaza." New York: NYU Stern Center for Business and Human Rights, April 20, 2017. <https://static1.squarespace.com/static/547df270e4b0ba184dfc490e/t/590761ded2b8574b0003acf2/1493656030884/Funding+Timeline+FinalVersion.pdf>.
2. International Finance Corporation, and International Labour Organization, "Remediation Financing in Bangladesh's Ready Made Garment Sector". International Finance Corporation, and International Labour Organization, June 2016. https://www.ifc.org/wps/wcm/connect/650e70d9-3744-41ff-875a-a790840b23b8/Report_Remediation+Financing_Bangladesh.pdf?MOD=AJPERES.
3. Sarah Labowitz, and Dorothee Baumann-Pauly, *Beyond the Tip of the Iceberg: Bangladesh's Forgotten Apparel Workers*. (New York: NYU Stern Center for Business and Human Rights, December 17, 2015). http://people.stern.nyu.edu/twadhwa/bangladesh/downloads/beyond_the_tip_of_the_iceberg_report.pdf.
4. Centre for Entrepreneurship Development. "Research Brief: Participatory Factory Mapping Research (PFMR)," Centre for Entrepreneurship Development, BRAC University, Bangladesh, April 2016, accessed August 10, 2017, http://ced.bracu.ac.bd/wp-content/uploads/2015/08/PFMR-Research-Brief-April-2016_Edited.pdf.
5. This means that the sample size of 100 assessment reports used in the IFC/ILO study may not be a statistically representative sampling. A sample of 100 factories is too small to accurately reflect the conditions of the wider population of garment producing facilities in Bangladesh. This could call into question the accuracy of the entire study.
6. Estimating the true cost of remediation based on the IFC/ILO average factory remediation cost of 189,000 USD and the Center's estimate of more than 7,000 factories yields a value of 1.323 billion USD.
7. The IFC/ILO study found that most factories (80%) needing structural retrofitting will require between 120,000 USD and 320,000 USD worth of remediation work. Multiplying the mean value in this range by the estimated 3,222 factories not covered by the three remediation initiatives yields a value of 708,840,000 USD.
8. "Power generators linked to Dhaka building collapse," *BBC News*, May 3, 2013. Accessed August 10, 2017. <http://www.bbc.com/news/world-asia-22404461>.
9. Global Agenda Council on Human Rights, *Shared Responsibility: A New Paradigm for Supply Chains* (Switzerland: World Economic Forum, November 2015).