Five Years After Rana Plaza: The Way Forward

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NYU STERN
Center for Business and Human Rights
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Foreword

Founded in 2013, the NYU Stern Center for Business and Human Rights is the first human rights center established at a business school. The Center does research and advocacy aimed at promoting practical industry-wide solutions to human rights challenges. We describe our approach as pro-business, high standards. This report expands on our past efforts\(^1\) to explain what has made many garment factories in Bangladesh dangerous and what can be done about it.

In the five years since the collapse of the Rana Plaza factory complex, safety overall has improved in Bangladesh, the world’s second-largest clothing manufacturer, after China. Most notably, in an unprecedented example of industry collaboration, nearly 250 global brands and retailers have joined either the Accord on Fire and Building Safety in Bangladesh and its union partners or the Alliance for Bangladesh Worker Safety. Through these collective initiatives, the companies have inspected some 2,800 factories and encouraged a series of remedial steps to address unsafe circumstances in those factories. Despite this progress, however, much remains to be done to ensure safe workplaces for garment industry employees.

The Center for Business and Human Rights has identified two broad gaps in factory safety where significant resources still need to be applied. First, there are unsafe conditions in factories that are not covered by the Accord or Alliance but instead are overseen by the government of Bangladesh under its National Initiative. Second, unsafe circumstances exist in many of the subcontracting factories that are not covered by the Accord, Alliance, or National Initiative.

In preparing this report, we have developed a cost estimate for addressing these areas of concern, which we explain in Part Four. While our estimate—$1.2 billion—is preliminary and inexact, it provides a broad sense of the scope of the need. We intend our tentative calculation as a catalyst for conversation and a starting point for a process for addressing gaps in coverage.

Ultimately key stakeholders in Bangladesh—including the government, factory owners, trade unions, and civil society groups—must play central roles in this process. But they alone do not have the needed resources. International public and private actors, and especially those who benefit from the Bangladeshi garment industry’s low-cost, high-volume model, also have an obligation to do more. We propose a strategy of “shared responsibility,”\(^2\) which involves global brands and retailers, governments from Western Europe and North America, international financial institutions like the World Bank and the International Finance Corporation, civil society organizations, labor representatives, and philanthropic groups.

By bringing together local and international institutions with a stake in supporting Bangladesh’s garment sector, shared responsibility offers a potential path toward addressing some of the country’s central human rights challenges. If it succeeds, it can serve as a model for addressing complex supply chain challenges in other countries. The fifth anniversary of Rana Plaza calls for a renewed commitment to making all clothing factories safe.

This report draws on the Center’s work over the past five years, culminating in a research trip to Dhaka in early 2018 by Deputy Director Paul Barrett, Research Director Dr. Dorothée Baumann-Pauly, and Associate Director April Gu. While in Bangladesh they met with government officials, factory owners and workers, representatives of the Accord and Alliance, union representatives, and local executives with global brands and retailers.

Michael H. Posner
Jerome Kohlberg Professor of Ethics and Finance; Director, Center for Business and Human Rights, Stern School of Business, New York University

“...The fifth anniversary of Rana Plaza calls for a renewed commitment to making all clothing factories safe...."
The collapse of the Rana Plaza factory complex in Bangladesh in April 2013 killed 1,134 people and refocused attention on working conditions in the global garment industry. This report marking the fifth anniversary examines the forces that contributed to the disaster, the response since 2013, and what needs to happen in the future. One of the questions we raise is whether Bangladesh offers lessons for protecting human rights in international supply chains. We conclude that to a degree it does, but more work needs to be done to make the country’s export factories safe.

In the wake of Rana Plaza, major clothing brands and retailers formed two unusual initiatives in Bangladesh. Hennes & Mauritz (H&M), Primark, and other European companies joined with trade union partners to create the Accord on Fire and Building Safety in Bangladesh. Walmart, Gap, and other North American companies set up the Alliance for Bangladesh Worker Safety. While there are important differences between these two initiatives, both did factory inspections and oversaw remediation. Accord and Alliance members agreed to cease all business with Bangladeshi manufacturers that declined to comply.

As we explain in Part Two, the foreign initiatives have improved conditions in many factories. They are not, however, panaceas. Today they cover only about 2,300 active factories serving their member companies. The Bangladeshi government separately retains oversight for another 1,650 or so. But this still leaves out a very large number of additional factories—and their workers.

Many of the left-out factories primarily do subcontracting work for export, or a combination of production for the local and global markets, and thus do not have direct relationships with the large Western buyers. Subcontractors play a crucial role, helping larger “mother” factories manage their export workload.

While there is no consensus on the precise number of subcontractors, we and others have estimated that the figure is in the thousands—perhaps as many as 3,000. Whatever the exact number, existing inspection and remediation regimes will not prove sufficient.

This conclusion seems self-evident, as the industry programs initially were designed to last for only five years. The Alliance is essentially phasing out by the end of 2018. The Accord has announced it will continue provisionally for up to three additional years, through 2021. Once the foreign-run programs pull out, the Bangladeshi government will inherit responsibility for all factories and workers.

In response, we propose in Part Four that an array of international actors joins with Bangladeshi stakeholders to form a “shared responsibility” task force whose members would contribute needed funds to ensure the repair of all garment factories in the country. Depending on how many subcontracting factories turn out to be in business, we estimate that it would cost $1.2 billion to remediate remaining dangerous conditions. While our calculations are necessarily rough, we offer this figure in hopes that it will provide a catalyst for discussion and ultimately action.

Executive Summary

“Foreign initiatives have improved conditions in many Bangladeshi factories. They are not, however, panaceas.”
Our Findings

<table>
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<th>#</th>
<th>Statement</th>
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<tr>
<td>1</td>
<td>A large number of factories covered by the Accord and Alliance have installed fire doors, added fire extinguishers and sprinkler systems, improved electrical wiring, instituted fire-safety training programs, and made structural upgrades that protect workers’ lives. We commend them for taking these important steps.</td>
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<td>But, as the staff of the Accord candidly acknowledged in a recent update, “major life-threatening safety concerns remain outstanding in too many factories and need to be fixed urgently.” These include outstanding structural problems that require retrofitting.</td>
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<td>3</td>
<td>The laudable progress on safety has widened the bifurcation of the industry. An elite segment of suppliers can afford to make improvements and continues to enjoy relationships with international brands and retailers. Much of the rest of the industry either cannot or will not make expenditures to enhance safety and, as a result, workers in this segment remain at risk.</td>
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<td>4</td>
<td>Even some of the factories that have seen improvements are in danger of backsliding when foreign initiatives conclude and all oversight responsibility reverts to the Bangladeshi government, which continues to move very slowly on the safety front.</td>
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<td>5</td>
<td>Adhering to their limited jurisdiction, the Accord and Alliance did not address problems in thousands of facilities that do subcontracting work for larger export-oriented factories supplying Western brands and retailers.</td>
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<td>6</td>
<td>Based on extrapolations from existing per-factory remediation expenses, we estimate that it would cost $1.2 billion to remediate remaining dangerous conditions in the industry.</td>
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<tr>
<td>7</td>
<td>Finally, given the large expense of making the garment trade truly safe, we recommend the formation of a new locally led multi-stakeholder task force to fund and oversee the effort. This initiative would operate under the principle of shared responsibility. For this effort to be financially viable, contributions would need to come from Western companies and their Bangladeshi suppliers, the governments of Bangladesh and Western countries that import Bangladeshi-made apparel, international development and financial institutions, and private philanthropies.</td>
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</table>

Workers make their way to Babylon Garments, a factory that recently finished remediation. Babylon supplies brands such as H&M, Inditex, Tesco, and Walmart.

Rana Plaza once stood in the gap between these buildings near Dhaka. Although the site is now overgrown with vegetation, scraps of fabric and buttons are still scattered on the ground.

Residents cross a small lake near an urban slum in Gazipur District, Dhaka.
It has been five years since the horrific collapse of a Bangladeshi garment factory complex called Rana Plaza. The dead numbered 1,134, mostly young women; the injured, some 2,500. It was the worst accident in the history of the apparel industry and one of the deadliest industrial disasters of any kind.

Bangladesh deserves attention, not only because it ranks as the world’s second-largest clothing manufacturer, behind only China, but because the human rights concerns affecting its workers also affect workers in garment-manufacturing countries around the world. Since the 2013 disaster, Bangladesh has served as a laboratory for international brands and retailers, unions, and civil society organizations seeking to address factory safety. One of the central questions posed by this report is whether Bangladesh offers lessons for protecting human rights in global supply chains for apparel and other goods. We conclude that to a degree it does, but the experiment is incomplete, and more work needs to be done.

Before looking at the responses to Rana Plaza or the industry’s future, the disaster itself warrants recalling.

On April 23, 2013, workers at the massive eight-story structure on the outskirts of Dhaka, the Bangladeshi capital, noticed deep cracks forming in the building’s walls and support pillars. Five separate factories operating on floors three through eight produced t-shirts, pants, and blouses for such Western brands as Benetton, Bonmarché, Joe Fresh, Mango, Primark, and Walmart. Called to the scene, a local engineer declared the building unsafe. Police ordered it emptied pending further inspection. But the owner, Mohammad Sohel Rana, insisted that, despite indications his building had begun to come apart, all was well. Factory managers ordered employees to return the next day or risk losing their jobs.

Most did return. Just before 9 a.m. on April 24, a power outage stopped work. On the upper floors, diesel generators weighing several tons apiece rumbled into action. Vibrations rippled downward. Built illegally, the top four floors lacked necessary support walls. The building’s foundation rested on swampy ground that compromised its integrity. Destabilized by the generators, the entire structure crumpled inward, story by story, creating a nightmare pile of concrete slabs, shattered columns, mangled sewing machines, and crushed bodies.

Rana, the owner of the fatally flawed building, made a run for the Indian border, but Bangladeshi authorities caught up with him four days later. So far, he has been sentenced to three years in prison on corruption charges and still faces prosecution for murder.

An Unspeakable Disaster

Bangladesh deserves attention, not only because it ranks as the world’s second-largest clothing manufacturer, behind only China, but because the human rights concerns affecting its workers also affect workers in garment-manufacturing countries around the world.
Whatever the precise number of garment-exporting factories in Bangladesh—the figure shifts as facilities open and close—we remain convinced that existing inspection and remediation regimes are not sufficient to protect all of the country’s workers.

Blame also shadowed the Western fashion brands and retail chains that patronized Rana Plaza’s factories—and thousands of other manufacturing facilities in Bangladesh. The catastrophe raised anew questions first posed in the 1990s about the global garment industry’s responsibility for working conditions in places like Dhaka: By driving down prices they pay to suppliers, do corporations such as Gap, Walmart, and Inditex create incentives for factory owners to scrimp on safety and put worker lives at risk? How far would Western companies go to please consumers in the United States and Europe who demand ever-cheaper casual clothes? And in a country such as Bangladesh—whose economic fortunes turn on the success of its apparel sector, but whose government so far has proven unable or unwilling to protect workers—how can foreign corporations ensure the safety of supply chains made up of factories they don’t own or operate to prevent more Rana Plazas?

International Responses and Their Limitations

To their credit, Western brands and retailers responded swiftly to the humanitarian and public relations crises of April 2013. Within months, they formed a pair of unusual initiatives—the European-led Accord on Fire and Building Safety in Bangladesh and the American-led Alliance for Bangladesh Worker Safety—designed to get garment factories up to international standards. The initiatives were different in some important respects, such as the involvement of European-based trade unions and non-governmental organizations in the Accord. But they shared the basic goal of leveraging the economic power of member companies to see that factories were inspected and then made safe. Bangladeshi suppliers that refused to comply with the process faced a draconian punishment: being cut off by the participating Western buyers. Nothing quite like this had been tried before, certainly not at this scale.

How Bangladesh Stacks Up Globally

Top clothing exporters*; US$ billion and (percentage of merchandise exports)†

<table>
<thead>
<tr>
<th>Country</th>
<th>US$ billion</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>$161</td>
<td>(8.0%)</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>$28</td>
<td>(80.9%)</td>
</tr>
<tr>
<td>Vietnam</td>
<td>$25</td>
<td>(13.0%)</td>
</tr>
<tr>
<td>India</td>
<td>$18</td>
<td>(5.5%)</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>$16</td>
<td>(3.9%)</td>
</tr>
<tr>
<td>Turkey</td>
<td>$15</td>
<td>(10.6%)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$7</td>
<td>(4.4%)</td>
</tr>
<tr>
<td>Cambodia</td>
<td>$6</td>
<td>(54.3%)</td>
</tr>
<tr>
<td>USA</td>
<td>$6</td>
<td>(0.4%)</td>
</tr>
</tbody>
</table>

*2016 statistics, most recent available; †2014 statistics
Source: World Trade Organization
The foreign initiatives have improved conditions in many factories. They are not, however, panaceas. In two earlier reports, published in April 2014 and December 2015, the NYU Stern Center for Business and Human Rights pointed out some of their built-in limitations. The chief constraint is that between them, they now cover only about 2,300 active factories serving their member companies. The Bangladesh government separately retains oversight for another 1,650 or so. But that total of nearly 4,000 leaves out thousands of additional factories—and their workers.

Many of the left-out factories primarily do subcontracting work and don’t have direct relationships with the large Western buyers, which often are not even aware of the subcontracting of their orders. “Unauthorized subcontracting is a significant challenge in Bangladesh’s [garment] industry,” the U.S. Senate Committee on Foreign Relations said in a report in November 2013. The committee went on to describe “unknown factories that operate in the shadows” and are “often the most dangerous in terms of worker safety.” While some subcontractors have closed down in recent years because of greater vigilance by Western companies, others have opened, and the practice remains common. Networks of subcontractors play a vital role in helping larger mother factories handle the ebb and flow of export orders. Operating on very slim margins, subcontractors also help maintain low production costs. Later in the report, we describe our recent visits to subcontracting facilities.

In part because of uncertainty over the number of subcontractors, there isn’t a consensus on how many factories in Bangladesh make clothing for export. The government has not done an industry census. Comparing various databases, the NYU Stern Center in 2015 calculated a total of about 7,100. Using a similar methodology, BRAC University’s Centre for Entrepreneurship Development in Dhaka in 2016 generated a count of more than 8,000. Other researchers at such institutions as Pennsylvania State University have contested NYU Stern’s analysis, estimating that the figure is between 4,000 and 5,000.

Whatever the precise number of export factories in Bangladesh—the figure shifts as facilities open and close—we remain convinced that in the long run, existing inspection and remediation regimes are not sufficient to protect all of the country’s workers. This conclusion seems self-evident, as the industry-backed programs initially were designed to last for only five years. The Alliance is essentially phasing out in 2018. The Accord has announced it will continue provisionally for up to three additional years, through 2021. Once the foreign-funded programs pull out, the Bangladeshi government will inherit responsibility for all factories and workers, despite widespread concern that it lacks the resources and determination to meet the need.

The Deeper History of a Vital Business

The ready-made garment sector, or RMG, as the industry calls itself, has fueled the Bangladeshi economy for three decades. With annual sales now exceeding $28 billion, the sector generates 80 percent of Bangladesh’s export revenue and employs close to five million people. Since the mid-1990s, it has helped propel, on average, a 6% overall annual growth rate. Despite a reputation for government corruption, monsoon-season floods, and rural destitution, Bangladesh actually presents a case study of successful development. Largely because of the garment industry, the portion of Bangladeshis living below the poverty line has fallen from more than 44 percent in 1991 to less than 13 percent. In 2014, the World Bank promoted Bangladesh to “lower middle-income country status.” The country today has a population of 165 million, more than Russia.

Western brands gravitated to Bangladesh because of its extraordinarily low prices, which over time the brands drove even lower.

What made Bangladesh successful as a supplier of casual fashion, however, has also historically made its garment business dangerous. Western brands gravitated to Bangladesh because of its extraordinarily low prices, which over time the brands drove even lower. Rock-bottom prices reinforced low wage levels and translated into paltry investment in factory safety. Even before Rana Plaza, Bangladeshi garment facilities were perilous: Between 2005 and 2012, more than 500 workers died in fires and building collapses.

To understand how apparel making evolved into such an economically vital but often-hazardous business, one has to go back to the decade after Bangladesh’s War of Independence in 1971, when the country broke away from Pakistan. The Bangladeshi military, which took over by coup in 1975, reversed an initial move toward socialism and instead encouraged private enterprise and foreign investment.

Bangladesh wasn’t an obvious place to start a new industry. Its roads were poor, its electrical grid unreliable; it lacked raw materials and a deep-water port. But a global export-quota system worked in Bangladesh’s favor. The system exempted the south Asian country from restrictions on sales to Europe and the United States. And when Korean and Taiwanese companies hit limits on how much clothing they could sell in the West, they began opening factories in places like Bangladesh. Scores of educated
Bangladeshi Garment Factory Accidents by the Numbers*

**Total Number of Factory Accidents by Year**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Accidents</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>38</td>
</tr>
<tr>
<td>2014</td>
<td>26</td>
</tr>
<tr>
<td>2015</td>
<td>21</td>
</tr>
<tr>
<td>2016</td>
<td>34</td>
</tr>
<tr>
<td>2017</td>
<td>20</td>
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**Number of Significant* Accidents by Year**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Accidents</th>
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<tbody>
<tr>
<td>2013</td>
<td>17</td>
</tr>
<tr>
<td>2014</td>
<td>2</td>
</tr>
<tr>
<td>2015</td>
<td>3</td>
</tr>
<tr>
<td>2016</td>
<td>5</td>
</tr>
<tr>
<td>2017</td>
<td>4</td>
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</tbody>
</table>

*Resulting in more than five deaths and/or 10 injuries.

**Factory Accidents by Cause**

- **Fire**: 130
- **Boiler**: 5
- **False Alarm**: 1
- **Machine**: 1
- **Building Collapse**: 1
- **Water**: 1

**Repeat Incidents in the Same Factory**

- **5 Factories** have had more than one incident
- **100%** of reoccurring incidents at factories are fires

*The statistics on this page refer not only to export-oriented cut-and-sew factories, but also to facilities performing such tasks as knitting, weaving, spinning, washing, dyeing, printing, and making accessories.

Data visualization by Hovsep Agop, based on information compiled by the NYU Stern Center.
Bangladeshis were sent to Korea for management training and went on to start their own factories back home. Low barriers to entry amounted to the cost of buying a batch of sewing machines and renting a building in which to put equipment and workers. The country had few industrial premises, so many entrepreneurs opened factories in flimsy tenements. Promoting the garment industry became Bangladeshi national policy. In the 1980s, military rulers made it easier for factory owners to finance fabric purchases and warehouse their goods duty free. The government signaled to foreign fashion brands that the country’s poor rural population provided a large labor pool eager for $1-a-day jobs. “They used words like ‘value,’ ‘good bargain,’ and ‘reliable workforce,’” and the brands understood what they meant—low wages and low prices for the clothes,” says Sanchita Saxena, director of the Chowdhury Center for Bangladesh Studies at the University of California, Berkeley.

Growth continued when civilian democratic government was reestablished in the early 1990s. From 384 factories employing 120,000 workers in 1984, the industry expanded to 2,000 factories employing more than 1 million in 1994. As garment manufacturing eased Bangladesh’s poverty, the country saw gains in a wide range of human-development measures. Life expectancy, literacy, and per-capita food intake increased, while child mortality decreased. Unemployed young rural women streamed into Dhaka and other cities to take jobs that brought previously unimaginable economic and social independence.

Not that anyone gets rich laboring in a garment factory. Bangladeshi wages have long been the lowest among major apparel-exporting countries. Rana Plaza led to an impressive-sounding 77% increase in the minimum wage, but that translates to the equivalent of only $64 a month, or 31 cents per hour. Higher prevailing wages still do not cover the living needs of many workers.

### The Cost of ‘Fast Fashion’

Bangladesh’s extreme low-wage, low-price approach to manufacturing intersected with a consolidating global apparel industry aggressively searching for cheap, plentiful labor; high-volume production; fast turn-around times; and light regulation. Beginning in the 1990s, retailers and brands increasingly used point-of-sale technology to follow consumer trends in what became known as “fast fashion.” Chain stores kept smaller inventories and changed orders more frequently, putting pressure on their suppliers in Bangladesh and elsewhere to comply or risk losing business. Consumers in the U.S. and Europe grew accustomed to choosing from ever-changing arrays of inexpensive clothing. The real dollar price of apparel entering the U.S. declined 48% from 1989 to 2010, squeezing the already-slight margins of Bangladeshi factory owners. One study that focused on men’s and boy’s cotton pants produced in Bangladesh for export to the U.S., found that prices fell 41% from 2000 to 2014.

Small profit margins, usually hovering in the low single digits, exacerbated a tendency on the part of Bangladeshi suppliers to cut corners on safety. Making matters worse, Bangladesh’s extraordinarily weak regulatory apparatus provided inadequate oversight. And an underdeveloped, highly politicized local union movement did not provide workers with widespread protection. A grim litany told the resulting story: The Spectrum Sweater factory collapse in 2005 killed 64. Twenty-two died in the Phoenix Garments building collapse in 2006. The Garib & Garib sweater factory fire left 21 dead in 2010. Later the same year, a fire at That’s It Sportswear killed 29. In November 2012, five months before Rana Plaza, a fire at the nine-story Tazreen Fashions factory resulted in 112 deaths and more than 200 injuries. Tazreen made clothes for Walmart as a subcontractor, although the giant American chain said it had not authorized the factory to do this work—an illustration of the shadowy arrangements that characterize significant parts of the industry.

The sudden disintegration of Rana Plaza, snuffing out so many lives all at once, brought home the need for a dramatic departure from past practices. How garment manufacturers, their North American and European clients, and the government of Bangladesh reacted to Rana Plaza has helped determine the future of the country’s most important industry.

Other forces are shaping that future, as well. Ethiopia, Myanmar, and other new challengers are seeking larger shares of the global garment business. Automation, meanwhile, may eventually displace hundreds of thousands, even millions, of low-skilled employees in Bangladesh, creating a daunting social challenge for the country. But for the foreseeable future, Bangladeshis in large numbers will continue to make clothing. Worker well-being will remain a concern. And as a result, the response to Rana Plaza and current gaps in factory safety deserve urgent attention.

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Small profit margins, usually hovering in the low single digits, exacerbated a tendency on the part of Bangladeshi suppliers to cut corners on safety. Making matters worse, Bangladesh’s extraordinarily weak regulatory apparatus provided inadequate oversight.
As a result of remediation efforts, workers in compliant factories are better protected by access to fire extinguishers and other safety equipment.

A worker operates a machine to cut fabric, which traditionally was done by hand. Mechanizing dangerous tasks can increase both efficiency and safety.

Workers, who wear masks to prevent inhalation of loose thread and small bits of fabric, bundle clothing as part of the production process.
Part Two: Accord and Alliance

Innovation Out of Crisis

The collapse of Rana Plaza sparked rage and disbelief. Media worldwide covered the disaster. Activists demonstrated outside European and American stores. Bangladeshi garment workers rioted. Despite a decade of lethal factory collapses and fires, Western brands and retailers insisted they were shocked by the catastrophe. Primark, a Dublin-based budget-fashion chain, which sourced clothing from Rana Plaza, never “considered structural integrity of buildings as a risk,” Paul Lister, head of the company’s ethical trade team, told Reuters. “You would look inside the building, but not onto the floor above or below.” This kind of obliviousness could not be sustained after Rana Plaza.

Moving with uncharacteristic speed, the government strengthened safety requirements and ordered that all garment-exporting facilities be inspected using a new standardized checklist. In practice, though, overstretched government inspectors—drawn from the same bureaucratic ranks that didn’t flag the failings of Rana Plaza—lacked the resources, training, and determination to police the garment industry aggressively. According to the Centre for Entrepreneurship Development in Dhaka, “the loosely regulated nature of the ready-made garment industry allowed flagrant and devastating human rights violations.” Corruption played a role, too, as some manufacturers paid bribes to avoid enforcement actions. Transparency International’s Corruption Perceptions Index ranks Bangladesh 143rd on a list of 180, tied with Guatemala, Kenya, and Lebanon.

Into the vacuum created by weak government stepped a coterie of international trade unions and other European and American non-governmental organizations. For several years, these groups had been trying to persuade Western fashion brands and retailers to take more responsibility for making Bangladesh’s garment factories safe. Rana Plaza created the opportunity to act on plans previously thwarted by corporate intransigence.

Just weeks after the disaster, some of Europe’s largest clothing companies—including Swedish-based H&M; Inditex, the Spanish parent of Zara and Massimo Dutti; and the British retail chain Tesco—agreed to inspect the factories operated by their Bangladeshi suppliers and work with manufacturers to make the facilities safer. To give the agreement teeth, the European companies committed to cutting off any suppliers that failed to comply. The innovative arrangement made the companies collectively accountable for factory conditions and established the potential for them to be held legally liable if they failed to uphold their obligations.

Known as the Accord on Fire and Building Safety in Bangladesh, the pact represented what some scholars have called “a major challenge to the footloose ‘cut and run’ sourcing model typical of today’s global garment industry.” Ultimately, 220 clothing companies signed the Accord, which includes on its steering committee representatives of two European-based international unions—UNI Global Union and IndustriALL Global Union—and two Bangladeshi labor federations.

About 64% of Bangladesh’s clothing exports go to Europe; about 18%, to the U.S. With a few exceptions, American brands and retailers refused to join the Accord, complaining that they did not want to be exposed to what they perceived as open-ended liability.
A Phony Fire Plan

Ninety minutes northwest of center city Dhaka, the NYU Stern Center team visited a small subcontractor factory in the Savar district, not far from where the Rana Plaza complex once stood. The factory’s 150 employees are busily working on a 40,000-piece job—t-shirts, zippered sweatshirts, and athletic shorts—assigned to the subcontractor by a much larger “mother” factory which had more work than it could handle. Headed for Italy, the clothing being stitched together bears labels of Italian brands such as Athl Dpt and Sweet Years. The owner of the subcontracting factory describes all of this on the condition that neither he nor his business would be identified.

He explains that he opened the shop only 18 months earlier, an indication that while some subcontractors have closed amid greater scrutiny following Rana Plaza, others have continued to open. There are several similar factories on his street alone, the owner says. Mother factories need subcontractors to fill orders that change frequently, he adds. The owner explains that he rents the first three floors of a four-story former residential building, an arrangement that could raise structural safety concerns because the building was not designed to bear the weight of so many people and the machinery with which they work.

On the quiet third floor, men clamber over huge expanses of navy blue fabric layered a foot thick. They use cardboard models and chalk to mark shapes that they then slice away using a cutting machine. On the second floor, sewing machines operated mostly by barefoot women clad in colorful saris emit a constant buzz. On this day, the fabric pieces move down three assembly lines of 25 people each, gradually taking shape as men’s athletic shorts. (Some large factories have more than 100 lines operating simultaneously.)

The owner does not disguise his disdain for safety precautions. Over tea in his cramped office, he brings out an extensive set of blueprints describing a fire-prevention system for his facility. He procured the plan as a condition of registering with the Bangladesh Knitwear Manufacturers and Exporters Association, one of two trade groups representing the garment industry. But the owner admits he has not installed any of the equipment described by the blueprints. There is no fire door at the emergency exit. The staircases have no handrails. The factory lacks smoke or heat detectors, an automatic alarm, or a fire-pump-and-hose system. Jumbled electrical cables running to the breaker panel do not have proper separation and insulation, creating the danger of sparks. An industrial boiler, used to generate steam for ironing and other tasks, sits in a corner of the main sewing floor, rather than being walled off, as it should be.

A local consulting engineer hired by the NYU Stern Center to look over the subcontracting factory estimates the cost of only fire and electrical remediation—excluding any potential structural renovation—at $130,000. The owner says he could not come close to affording his own fire plan. He does not seem troubled by the situation.

Subcontracting has continued despite a crackdown after Rana Plaza. Workers in subcontracting factories, such as the man cutting fabric on the left and the sewing machine operators on the right, are often not protected by the safety measures that are mandatory for Accord- and Alliance-affiliated facilities.
Walmart, Gap, and others formed a second pact, the Alliance for Bangladesh Worker Safety, which lacked the same kind of liability provision and did not have union representation on its board of directors. The Accord’s union participants harshly criticized the Alliance. “Walmart are bringing their discount practices to factory safety,” Christy Hoffman, deputy general secretary of UNI Global, said at the time. “This is not a price war; this is about people's lives.” But in truth, the Alliance, although smaller, with 29 member companies, would function much the same way as the Accord: conducting inspections, overseeing remediation, and ceasing to do business with noncomplying manufacturers. Neither initiative agreed to pay directly for repairs or renovation; that burden would fall to local manufacturers, who were promised they would receive help financing remediation, as needed.

In its early days, some leaders of the Accord overstated its reach. “Our mission is clear: to ensure the safety of all workers in the Bangladesh garment industry,” Jyrki Raina, then the general secretary of IndustriALL Global, said in July 2013. But that wasn’t correct. The Accord and the Alliance would directly benefit only employees of those Bangladeshi factories with which their member companies did business. The contractual relationship between Western clothing companies and suppliers provided the leverage the Accord and Alliance exercised—namely, the threat that suppliers could lose crucial export business from the largest fashion companies in the West. The manufacturing facilities covered by the Accord and Alliance—today the total approaches 2,300—constituted a big swath of Bangladeshi factories, but far from all of them.

Some factories weren’t covered by the Accord or Alliance because they didn’t produce for members of the two organizations. Theoretically, the Bangladeshi government retained jurisdiction over these non-Accord/Alliance factories. But public regulators moved haltingly in 2013 and 2014 to fulfill their responsibility.

Yet another group of factories operated outside the scope of either the foreign-industry initiatives or Bangladeshi authorities. These were mostly subcontractors that lacked direct relationships with major Western buyers (see sidebar, p.12). Manufacturers that do have direct ties to foreign companies sometimes offload work to subcontractors for several reasons. One is that Western brands and retailers, adhering to the dictates of fast fashion, routinely change orders on tight deadlines. A manufacturer that can’t handle extra volume or amended designs will send some of the extra work to one or more subcontractors. Another reason for subcontracting is that manufacturers push lower-margin work down to subcontractors that pay lower wages and take fewer safety precautions. In its July 2014 annual report, the Alliance acknowledged the supporting role subcontractors play in serving the export market: “Lack of transparency, price pressures, and/or limited production capacity within individual factories foster an environment where unauthorized subcontracting continues.” Lack of transparency and price pressures can also foster subcontracting that takes place in dangerous facilities.

We will return to subcontractors and factories overseen by the government after taking a closer look at the Accord and Alliance.

Inspect and RemEDIATE

Working from factory lists provided by their member companies, the Accord and Alliance in late 2013 began dispatching inspection teams looking for hazards in three broad categories: fire, electrical, and structural. “Every single factory had at least several findings,” says Rob Wayss, the Accord’s executive director. Overall, he adds, “the factories weren’t safe.” Inspectors quickly concluded that dozens of facilities presented an imminent threat of collapsing. They referred these facilities to the Bangladeshi government for evacuation orders.

To appreciate the variety of problems the inspectors found, consider these statistics from the Accord: Ninety-seven percent of the facilities lacked a safe means of escape in case of fire. Exits in many cases were blocked by locked gates or heavy storage boxes. Nine out of ten factories lacked adequate fire-detection and alarm systems, if they had any at all. Three-quarters had deficient circuit breakers and unsafe grounding systems for electrical equipment.

Inspectors also discovered structural concerns in a large majority of factories. More than 70% of Accord-affiliated factories had undocumented structural additions, among other inconsistencies between design documents and the actual buildings they purported to describe. (These were the sort of anomalies that would have marked Rana Plaza as an extreme example...
From the factory owners’ point of view, there is a painful irony in brands and retailers offering financing help at the same time as they apply relentless downward pressure on garment prices.

of structural danger, had anyone been looking at the five-factory complex.) In addition, nearly 70% of factories lacked a load management plan or were poorly implementing one. Load management plans prevent structural cracks and building collapses by avoiding the placement of excessive weight on certain parts of a building. In another important structural area, inspectors found 62% of factories vulnerable to “lateral instability,” meaning they were potentially at risk in the face of severe wind, such as that associated with the cyclones that are common in Bangladesh. All told, Accord inspectors identified 130,211 safety problems in 2,024 factories,25 for an average of 64 violations per factory.

Combined with the unsafe physical conditions, many workers displayed ignorance of the hazards all around them. Few, if any, had received safety training. The Alliance conducted a study in 2013 that found that only 2% of workers could correctly identify common fire hazards. Fully one-third did not believe it was their obligation to report unsafe conditions to their managers. And at the same time, 25% said that most of the time they didn’t feel safe working in the factory.26

After a supplier’s factory had been inspected, the Accord or Alliance would require the owner to agree to a “corrective action plan,” or CAP, which laid out the steps necessary to make the facility safe and allow its owner to continue to do business with the Western buyers. CAPs included a wide range of measures—some relatively easy, some onerous. Removing lockable gates that could impede escape during a potential fire did not cost much or consume a lot of time. Neither did cleaning up dust and lint accumulated on electrical wiring and equipment, creating a fire hazard. Much more challenging and expensive were the installation of fire doors and modern fire-detection and alarm systems—all of which had to be imported because they are not made in Bangladesh. Structural retrofitting needed in some factories to shore up inadequate pillars or walls also presented costly challenges.

Other obstacles cropped up. Manufacturers operating as tenants in rented space often had difficulty getting their landlords to pay for improvements. Compounding that problem, fellow tenants from outside the garment industry typically lacked motivation to push for safety improvements. In its July 2014 annual report, the Alliance stated that “40 percent of ready-made garment factories are based in shared/multi-tenant buildings, making it difficult to ensure overall building compliance or coordinate safety programs.”27

Then there was the challenge of paying for repairs and renovation. “The cost of remediation is still prohibitive for some factories, especially smaller enterprises operating in rented buildings,” the Alliance said in the July 2014 report.28 On average, the Accord says remediating a single factory costs roughly $250,000, while the Alliance estimates the figure at $250,000 to $350,000. The Alliance’s deputy director and chief safety officer, Paul Rigby, notes that significant structural repairs alone can cost $300,000, and total remediation in some very large factories has exceeded $1 million.

Both initiatives set up programs to help suppliers with financing. Alliance members said they would extend up to $100 million in direct loans, loan guarantees, and other forms of assistance. Accord participants also offered to back loans, invest directly in safety equipment, and make other arrangements such as accelerating payment for future garment shipments. But relatively few suppliers have taken advantage of this financing. Walmart alone made available $50 million in loan guarantees, says Sridevi Kalavakolanu, senior director for responsible sourcing. But “after initial interest, facilities ended up using other, local financing,” she says. Joris Oldenziel, the Accord’s deputy director for implementation, confirms that many suppliers preferred to seek loans on their own or pay out of available cash rather than request help from their Western customers. The Accord has facilitated financial assistance from buyers at only about 100 factories.

In some instances, large buyers have stepped in to pay for remediation directly. C&A did that with two of its suppliers-manufacturers with whom the Belgian-based retailer has long-standing business relationships, says Aleix Gonzalez Busquets, the company’s head of external stakeholder engagement. In other cases, he adds, C&A helped by extending improved commercial terms, such higher-volume orders. Gonzalez Busquets attributes the unusually high 92% remediation rate C&A suppliers have achieved to the company’s extra assistance.

From the point of view of many factory owners, however, there is a painful irony in brands and retailers offering financing help at the same time as they apply relentless downward pressure on garment prices. As one illustration of that pressure, the price for cotton men’s pants has declined 13% since the Rana Plaza collapse.29 Suppliers’ average profit margin declined between 2012 and 2016 from 6.6% to 6%, according to a study by the Centre for Policy Dialogue in Dhaka.30
Rubana Huq, managing director of the Mohammadi Group, one of the largest garment manufacturers in Bangladesh, expressed the frustration over pricing in a column in 2016 for The Daily Star, an English-language newspaper in Dhaka. “The plea is just to give us 15-20 cents more per piece, so that we can make ends meet,” she wrote. “We don’t need prescriptions, guidelines, or counseling. We just need a few extra cents. Just pay us more, and we will be fine.”

Asked about this sort of complaint, Walmart’s Kalavakolanu says that the giant chain expects its manufacturers to take responsibility for the expense of making their factories safe. “Our message to suppliers is: The cost of goods should include safety preparations,” she says.

Safety Gains

Despite sparse use of buyer-offered financing and supplier resentment over low-ball pricing, a lot of factory remediation has occurred. This activity can be measured several ways. One is by spending. The Alliance’s Rigby estimates that the roughly 670 active suppliers his organization is supervising have spent $250 million to $300 million on safety improvements. The Accord’s Wayss declines to offer a comparable estimate, saying that it has not done the calculation. But given that the Accord oversees more than twice as many factories as the Alliance, the figure could exceed $600 million, for a joint Accord/Alliance total of roughly $900 million.

Another measure of progress is the falloff in the number of catastrophic accidents. There has been no recurrence of a building collapse on the scale of Rana Plaza; nor has there been a fire comparable to Tazreen Fashions. In 2013, there were 17 accidents, including Rana Plaza, that resulted in at least five deaths and/or 10 injured workers. Each year from 2014 through 2017, this number has hovered between two and five such accidents. The annual number of fatalities has remained well under 30.

Making serious accidents less likely, factory owners are fixing many individual safety problems. The Accord reports that 85% of such issues have been resolved in the 1,631 active factories it is overseeing; the Alliance cites 88%. To be sure, the percentages are less impressive when one looks at the number of facilities that have remedied all of the shortcomings in their original corrective action plans. Only 127, or 8%, of Accord factories fit that description; 330, or nearly half, of Alliance factories have achieved “substantial completion” of remediation.

The data reveal that the most improvement has been made on electrical issues, followed by fire hazards, and...
then structural problems. Accord records show that 96% of factories with unsafe dust on electrical equipment have removed it; 84% that had inadequate protection and support for electrical cables have done the same. Significant variation crops up within each category. Accord fire statistics show that 96% of factories with lockable gates have removed them, but only 41% that had inadequate fire detection and alarm systems have installed and verified suitable replacements.

On structural matters, a majority of the factories initially evacuated because of a danger of imminent collapse were later reopened after retrofitting or load reduction. Of the Accord factories lacking a load management plan, 66% now have one; 34% do not. Sixty-one percent of facilities with undocumented structural additions and inconsistencies with building plans have updated their blueprints; 39% have not. And of factories vulnerable to lateral instability from severe wind, 56% have corrected the vulnerability; 44% have not.

Both the Accord and Alliance have followed through on their threat to exclude factories that have failed to remediate. The Accord has terminated 96 suppliers; the Alliance, 168. Factories blocked from doing business with Western brands and retailers do not necessarily shut down. Some suppliers have cleaned up their acts and successfully applied for readmission to the foreign initiatives. If terminated factories find other customers—in Russia, for example, or in Asia, or domestically in Bangladesh—they may continue operating under the supervision of the government.

In some cases, termination has preceded a fresh start. The Accord cut off a supplier called Sidko in February 2016, saying that the factory in the Gulshan North district of Dhaka had failed to undertake a range of safety measures. Sadaf Saaz Siddiqi, a co-owner of the facility, located in a 1980s-vintage rented six-story building, says her family actually had invested more than $100,000 to make upgrades. But Siddiqi says that the Accord repeatedly and arbitrarily changed its demands. “The building was not going to fall down,” she adds. “Workers were not at risk.” Today, Siddiqi is building a new state-of-the-art three-story factory that already has nine sewing lines producing for export (out of an anticipated 24), even as construction continues. The new business, Eske Clothing, will eventually have its own 20-bed medical clinic, daycare for toddlers, an early-learning center for slightly older children, and a skills-development program for women employees. “We will have only the best and latest safety equipment,” Siddiqi says.

In addition to policing the hardware in factories, the Accord and Alliance are training workers, managers, and security guards on basic fire safety. The Alliance found that after coaching more than 1.5 million people, the proportion of employees who could correctly identify common fire hazards rose from 2% to 45%. The share of workers who said they felt an obligation to report unsafe conditions increased from 67% to 90%.

One group of eight garment workers gathered at our request by Nazma Akter, president of the Sommilito Garments Sramik Federation, a trade union organization, unanimously say they have seen safety improvements at the two factories where they are employed. Exits that were blocked are now open. Fire doors and sprinkler systems have been installed. Support pillars have been strengthened and enlarged.

Generally, the Alliance’s Rigby says, his organization is nearing the end of its remediation work. “We are more or less there,” he adds, with its factories having purchased almost all of the major equipment they need. By “there,” he means getting factories “to the starting line” in what amounts to a never-ending marathon to stay ahead of safety perils.
Originally scheduled to close at mid-year 2018, the Alliance now plans to continue operations through the end of the year while it works with representatives of the government, suppliers, and other stakeholders to establish an independent Bangladeshi-run “safety monitoring organization.” The SMO will keep track of remediated factories and aim to prevent backsliding. “It’s something new to them,” Rigby says, referring to Bangladeshi regulators and businesspeople. “It’s something they’re going to have to get used to.” Details of the SMO were being finalized as we finished this report.

Accord factories, by contrast, still have a lot of work to do, says Rows. The 15% of unaddressed safety problems include “a lot of big-ticket items,” such as structural retrofitting and installing sprinkler systems, he adds. The Accord has announced plans to remain in business for up to another three years, or through mid-2021. Rows says a joint committee including representatives from the Accord, the Bangladeshi government, and the garment industry will reassess the situation every six months, with an eye toward whether the government has developed a factory-overight bureaucracy that meets the Accord’s stringent standards. The criteria include creation of an effective government inspection service, enforcement of the law against non-compliant factories, and fair resolution of workers’ safety complaints. It is not clear how the Accord’s demands will mesh with the Alliance’s hoped-for SMO. And Ways indicates skepticism of the government’s current ability to meet the Accord’s criteria. “A significant amount of work needs to be done,” he says. “I don’t think there is a culture of safety in this country.”

So far, 125 of the Accord’s 220 member brands and retailers—which buy from 1,275 Bangladeshi factories—have signed on for the organization’s up-to-three-year extension. The Accord’s union affiliates are pressuring laggards to join as well.

It is worth noting that even if the Accord persists for some period of time past the end of 2018, both foreign initiatives will conclude their business in the foreseeable future. In the eyes of senior leaders of the Bangladeshi government and business establishment, that will be not a moment too soon. With the horror and shame associated with Rana Plaza beginning to fade in Bangladesh, public- and private-sector leaders are asserting what they see as their prerogative to operate without Westerners setting the rules and exerting discipline.

One executive with a prominent company that operates multiple factories acknowledges that the Accord/Alliance process changed Bangladeshi attitudes toward safety. “It was needed, and now it has taken place,” says the executive, who asks that he and his company not be identified. Now, he continues, the Bangladeshi government ought to exert its authority: “Government has its role to play: to overlook and oversee.” This company has completed the vast majority of its Accord-mandated remediation but is at a standstill over one modern factory’s glass-enclosed building. The owners say the glass is heat- and fire-proof, but the Accord requires that factory walls be built of solid brick.

“We allowed the Accord and Alliance to operate for five years,” says Siddique Rahman, president of the influential Bangladesh Garment Manufacturers and Exporters Association (BGMEA). “Then it was agreed they would go back.” He adds: “They are unnecessarily disturbing us.” With a similar tone of irritation, Bangladesh’s Commerce Secretary, Shuvashish Basu, says: “They are finished with their mission, and they will go back to their countries.” Leaders of the Accord insist that the BGMEA and government have agreed to its extension beyond five years.

One question raised by the Bangladeshi assertions of sovereignty is whether the government has the capacity to handle oversight of the export factories it inherits from the Accord and Alliance. Another question concerns what will happen to two additional categories of suppliers: those the government acknowledges it has been responsible for all along and subcontractors, which the government wants to wish away. Parts Three and Four examine these questions and propose a strategy for bolstering future inspection and remediation of Bangladeshi garment factories.
Many workers, including this woman trimming fabric, are employed in facilities that have fewer financial resources and Western brand connections. These employees are being left out of efforts to improve factory safety.

At the end of the production process, workers in a subcontracting factory fold athletic shorts for shipment to a European brand.

Many women, who make up the vast majority of apparel factory employees, move to Dhaka and environs from small rural villages. The wages they are paid remain the lowest among major garment-manufacturing countries.
National Initiative

One way to make sense of Bangladesh’s complicated garment factory landscape is to view it as a tale of two industries. In one, the industry supervised by the Accord and Alliance, larger, better-run factories focusing on exports to Western countries have become safer since Rana Plaza. The Accord and Alliance show that collective initiatives can make a difference on the factory floor. Western brands and retailers ought to consider collaborating elsewhere with unions, civil society organizations, and local businesses. Global apparel companies should not wait until another Rana Plaza forces them to take action.

In Bangladesh, however, the Accord and Alliance have addressed only one segment of the apparel sector. In the second of the country’s two garment industries, the government presides over a collection of subcontractors, domestic producers, and exporters to places such as Turkey and Russia. Far less progress has been made in this realm. When it comes to safety, the two industries have diverged further over the past five years. Bangladesh now has a deeply bifurcated garment sector.

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In an ideal world, the Bangladeshi government would competently oversee the entire industry, without need of foreign intervention. The world, of course, is not ideal. Known as the National Initiative, the government’s regulatory apparatus for garment manufacturing has worked since Rana Plaza in cooperation with the International Labour Organization (ILO). Still, progress has been slow; information disclosures, sparse and sometimes inconsistent.

The most reliable source of data on the National Initiative is not the requisite government website pages, which are outdated and contradictory, but instead the ILO. That body has noted that the National Initiative has inspected 1,549 factories and closed a third of them, or 513, as unsafe. The National Initiative oversees factories that don’t have business relationships with members of the Accord and Alliance. The 513 closures should leave a balance of 1,036 National Initiative factories, but the ILO says the government is now doing follow-up work with only 754. That leaves 282 factories in a statistical limbo we could not resolve.

ILO officials tell us of another anomaly: that an additional 900 factories “popped up” recently on the rolls of the National Initiative, some of them apparently newly opened facilities. So for the moment, the official government number appears to be 1,654 factories, soon to be supplemented by roughly 2,300 from the Accord and Alliance for a new grand total under government supervision of nearly 4,000.

The National Initiative has not made much headway. The most recent ILO update, posted in February 2018, shows that, of the group of 754 factories, only 109, or 14%, have been remediated more than 50%. Only 21, or about 3%, have been remediated fully. There has been no official (or unofficial) word on whether any of the additional 900 factories have even begun inspection or remediation.
Factories that are remediated may become safe for a moment in time. But they won’t stay safe under the government’s supervision if oversight is lax and factory conditions deteriorate. Ensuring safe operation and maintenance will be one of the government’s main tasks.

By most accounts, the National Initiative has been understaffed. But according to the ILO, the government is assembling a new team of fire inspectors, engineers, and case handlers that will total 235 people. That group presumably would cover some 4,000 factories after the Accord and Alliance handoff. For comparison, the Accord has 250 staff members for roughly 1,600 factories. “The government will do its job,” says Commerce Secretary Basu. “We are compliant, and we will be maintaining that.”

Many disagree. The degree to which the government is overmatched becomes clear from a look at one concrete example: industrial boilers. Every garment factory needs a boiler for pressurized steam, and there are more than 30,000 in use across all industries. But only 10 government boiler inspectors serve the entire country, according to A.K.M. Monjur Morshed, a boiler authority and associate professor of mechanical engineering at Bangladesh University of Engineering and Technology. “Ten is not enough,” Morshed says with some understatement. Compounding the situation, there are only 300 fully certified boiler operators, Morshed notes.

The results are predictable and sometimes fatal. Since 2012, there have been 35 boiler explosions in all industries in Bangladesh, resulting in 77 deaths and hundreds of injuries. In one of the more severe incidents, in July 2017, a boiler blast at the Accord-affiliated Multifabs factory in Gazipur killed 13 workers and injured more than 50.27 The Accord to date has not inspected boilers directly, instead confining its attention to whether the devices are walled off from workers. The Alliance began inspecting boilers in 2017.)

Bangladesh imports most of its industrial boilers, Morshed says, and the original quality of the equipment is not a problem. Trouble ensues when boilers are operated or maintained improperly and then hastily inspected, or not inspected at all. There is a valuable lesson here that goes far beyond boilers. Factories that are remediated may become safe for a moment in time. But they won’t stay safe under the government’s supervision if oversight is lax and factory conditions deteriorate. Ensuring safe operation and maintenance will be one of the government’s main tasks, and one it may not be well suited to fulfill.

In exercising its regulatory authority over garment factories, the government lacks the leverage the Accord and Alliance have wielded: the ability to deny a supplier’s access to valuable Western buyers. The government’s tool in this regard is the threat to pull a factory’s export license or shut it down altogether. In fact, the National Initiative has warned the facilities it is already supervising that they must complete all remediation by April 2018 to avoid cancellation of export licenses—a threat widely viewed as empty. Says the Alliance’s Rigby: “I have more chance of buying a house on the moon” than seeing the National Initiative remediation finished that quickly. It seems unlikely, moreover, that the government would cancel hundreds of export licenses, denying the country hundreds of millions of dollars of foreign exchange revenue.

The Subcontracting System

In some people’s telling, the story of garment factories in Bangladesh ends with the Accord/Alliance cohort and facilities covered by the National Initiative. According to this view, the traditional practice of subcontracting—whereby mostly smaller factories receive orders from larger mother factories—abruptly ended in the post-Rana Plaza era, when Western buyers made it clear to their primary suppliers that they disapproved of the custom. “There is no subcontracting system,” says Commerce Secretary Basu.
“That is over and done with.” The BGMEA’s Rahman is only slightly less definitive. “You can forget about the small facilities,” he says. “They will be closed down in one to two years.”

In fact, subcontracting continues and shows no sign of disappearing. If properly managed, the practice accommodates the peaks and valleys of production demands and the industry’s low-cost, high-volume business model. In 2015, the NYU Stern Center found in a field study in Dhaka that out of 479 factories surveyed, 153, or 32%, were subcontractors; nine out of 10 of those subcontractors were producing at least partly for the export market.38 The following year, BRAC University’s Centre for Entrepreneurship Development found in a similar field study that out of 455 factories surveyed, 140, or 31%, did subcontracting.39 The Accord notes on its website: “Unauthorized subcontracting is one of the many recognized challenges for the Accord, and it is impossible for the Accord alone to end the practice of unauthorized subcontracting.”40

Many small factories produce mostly for the domestic Bangladeshi market and occasionally pick up subcontracting work from exporters. “There are very unsafe manufacturing units all over the inner city of Dhaka. I’ve seen them myself,” says Oldenziel, the Accord’s deputy director for implementation. “They have very small exits, no fire protection, electrical wires hanging all over the place.” He emphasizes that the unsafe shops he describes are not covered by the Accord or Alliance.

During its field research in 2018 in Dhaka, the NYU Stern team was introduced to a subcontractor on a dirt road in the Badda section of the city, practically around the corner from the Accord’s offices. Providing the introduction was the owner of a larger mother factory that does business with a network of 15 subcontractors in Dhaka. These relationships underscore how reliant some larger factories are on subcontracting. A representative of the export-oriented mother factory says it is affiliated with both the Accord and the Alliance.

The owner of the Badda subcontractor explains that he is a former mathematics teacher who started his business after Rana Plaza in 2013. He employs about 200 workers who lately have cut and stitched shirts for a German brand called New Yorker; a California-themed British outfit named SoulCal & Co.; and the globally famous Pierre Cardin of France. The owner speaks to us on the condition that we not name him or his business.

Subcontractors are forced to accept paltry margins, he complains. A bright red polo shirt the subcontractor makes for SoulCal will sell in London for 17.95 British pounds, according to its label. But the owner says he sometimes makes a profit as slim as 15 Bangladeshi taka per piece, or the equivalent of 18 U.S. cents. In 2017, he lost money, although so far 2018 is looking up, and he has six months of work already booked. One advantage of subcontracting, he adds, is that he does not have to spend time and money forging relationships with foreign customers. He focuses exclusively on production. The representative from the mother factory, overseeing work at the subcontractor, listens to the conversation, nodding.

Inspectors with the National Initiative recently visited one subcontractor and left behind a long list of fire-safety requirements, the owner says. He admits he has lost the list and, in any event, cannot afford to carry out the government mandate. But he does not expect to be put out of business as a result. To the contrary: In a few years, when the factory is more profitable, he hopes to expand and move to a larger building.
Employees in a subcontracting facility in Dhaka work in assembly lines to meet the demand for fast fashion in Europe and North America.

Paul Barrett and Dorothée Baumann-Pauly observe work at a shop that does printing for a nearby subcontracting factory.

Many workers specialize in a small part of the garment-production process. This woman bends over her sewing machine to assemble elastic waistbands for men’s shorts.
More needs to be done to make the garment industry in Bangladesh safe. Although they have brought about important improvements, the Alliance and Accord were never designed to cover all Bangladeshi factories and never did. Their eventual withdrawal underscores the remaining safety gap, as outside attention paid to factory safety could diminish with the departure of the foreign initiatives.

The Bangladeshi government faces a daunting challenge in overseeing the factories now under its supervision, let alone the 2,300 or so it will inherit from the Alliance and Accord. And then there are the subcontractors, whose numbers are debated but include thousands of additional factories.

To address the challenges that remain, we propose the formation of a locally led international task force that operates under the principle of shared responsibility. We will explain the task force in two steps, first estimating how much money it would have to raise and then explaining what shared responsibility would look like in practice.

Step one requires approximating how much it would cost to make two categories of factories safe: subcontractors and those overseen by the National Initiative. We have sought to determine what the bill would look like, roughly speaking, to protect workers in each category from the most serious risks. We are assuming that the Accord and Alliance will finish the jobs they set out to do, and therefore we have not assigned a dollar value to completing work on the factories affiliated with those organizations.

We have engaged in a ballpark calculation, not application of precise formulas. There are multiple variables in play, some of them elusive: Exactly how many factories in Bangladesh produce clothing for export? What is the average cost of remediating subcontracting factories operating outside the jurisdiction of both the National Initiative and Accord/Alliance? As outsiders, we do not have the access or capacity to provide complete answers to these questions.

But the calculation is still worth doing. It offers the potential of estimating the order of magnitude of the challenge that remains in Bangladesh. Moreover, it provides an aspirational goal around which a renewed campaign to make Bangladeshi factories safe needs to be organized. Think of the estimate as a catalyst for further discussion and, ultimately, a spur to action by a multi-stakeholder task force that would oversee the raising and spending of the money.

Implicit in this exercise is a major change in how factory remediation would be financed in the near future. Before and since the Rana Plaza disaster, suppliers themselves have been expected to pay for remediation. That has been true under the Accord and Alliance and the National Initiative. But many of the factories that so far have not been remediated fully—or at all—cannot afford expensive safety improvements on their own. They lack direct relationships with Western brands and retailers. Their margins often are even slimmer than those of Accord/Alliance suppliers. And because of their shaky financial profiles, they do not have access to local bank loans. Without outside aid in the form of grants or low-interest loans, these factories simply will not get safer. This reality motivates our determination to raise a substantial fund to be distributed by a task force to those most in need. We approach this effort from the perspective of workers whose safety will be compromised until improvements are made.
The first component of our estimate is a per-factory approximation of the cost of remediation. In June 2016, the ILO and the International Finance Corporation (IFC), an arm of the World Bank, published a $189,000 average cost estimate based on a study of 100 sample factories drawn from the Accord, Alliance, and National Initiative. As noted earlier, the Accord offers $250,000 as a rough gauge of average per-factory costs. The Alliance suggests a range of $250,000 to $350,000. The higher values compared to the ILO/IFC may reflect that the Accord and Alliance have overseen larger export factories and have pressed more aggressively than the National Initiative for thorough safety overhauls. Recognizing that all of these amounts are inexact, we have decided to use the Accord figure of $250,000 as the basis for approximating remediation costs going forward. The Accord number roughly splits the difference between the ILO/IFC figure and the high end of the Alliance range.

The next step is to determine the number of factories to be multiplied by $250,000. In the case of the National Initiative, the best guess of how many factories the government is currently supervising is 1,650. Some of those factories have undergone a degree of remediation, but determining precisely how much seems impossible at present. Therefore, we are going to use the full 1,650 as our multiplier, acknowledging, again, that we are not capable of generating precise cost numbers. The dollar value for the National Initiative remediation is $413 million.

To estimate the number of subcontractors, we have to do some basic subtraction: the total number of factories minus those overseen by the Accord/Alliance and the National Initiative. As mentioned in Part One, approximations of the total number of factories run from more than 4,000 to 8,000. Based on a comparison of various factory databases, the NYU Stern Center in 2015 estimated the number at 7,100. We acknowledged when we published that figure that the databases were imperfect. And since then, an unknown number of factories have both opened and closed. Still, we believe that approximately 7,000 remains the best overall estimate of the total number of factories. The number to be subtracted from the total is 4,000, or the sum of Accord/Alliance and National Initiative factories. The result, 3,000, is multiplied by $250,000 for a subcontractor remediation value of $750 million.

Adding the costs of repairing these subcontractor and National Initiative factories produces a grand estimate approaching $1.2 billion. Two important qualifications: First, some older factories housed in former residential buildings probably are not worth fixing. Ideally, their owners will have an opportunity to start over in purpose-built facilities, but such situations will have to be evaluated on a case-by-case basis. The number of factory closings and openings could affect our $1.2 billion estimate. Second, we see $1.2 billion as a preliminary basis for approximating what is necessary to undertake a comprehensive effort to address factory safety concerns today. Once current gaps in safety have been addressed, the future assurance of factory safety and oversight of the garment industry need to rest with the government of Bangladesh.

A Locally Led International Task Force

Offering a cost estimate in this fashion raises the crucial questions of where the money would come from and who would control its use. Inevitably and appropriately, Bangladeshis would lead the process—including government agencies, manufacturers, and members of civil society, such as trade unions. But neither the government of Bangladesh nor the local manufacturing sector has the resources to meet this need. That is why we propose the shared responsibility model, which would involve relevant international actors willing to work with the government, either because they benefit from the Bangladesh garment industry or their mission dictates helping workers in countries such as Bangladesh.

Shared responsibility seeks to address the underlying causes of the most serious human rights risks by requiring the collective action, influence, and resources of all major stakeholders in global supply chains. The ultimate goal is to protect workers in producing countries and spread the benefits of globalization more evenly.

In proposing a shared responsibility task force, we have drawn on experiences from other contexts where a similar approach has been used. One example from the United States is the Detroit Blight Removal Task Force. In 2013, a local business leader, Dan Gilbert, the founder and chairman of Quicken Loans, initiated a process that brought together private industry and community leaders to develop an ambitious joint plan to address urban blight. To tackle the seemingly intractable problem of abandoned homes, they raised more than $800 million from federal, state, and local governments; the private sector; and the philanthropic community.

In a very different setting, international organizations like the United Nations Refugee Agency have responded for years to mass humanitarian and refugee crises by developing comprehensive plans of action and then convening donor conferences that allow governments, private voluntary organizations, and charitable groups to work together to craft an effective collective response. In yet another context, UNICEF is now working in West Africa with governments, global agricultural companies, local farmers, and international development agencies to begin to address the chronic problems of child and forced labor in cocoa production.

In each of these instances, the progress that has been or is being achieved has depended on collective action and joint financial support. These are the core attributes of the doctrine of shared responsibility. We believe this approach will be needed to maintain meaningful progress on factory safety in Bangladesh. It seems only fair that the Western companies that profit handsomely from
Bangladesh’s low-wage, low-price manufacturing ought to continue to play a role in ensuring worker safety. Since the Rana Plaza disaster, these companies have paid for factory inspections but shifted the much larger cost of remediation onto the shoulders of Bangladesh suppliers. At the same time, the companies have continued to push down the prices they are willing to pay for apparel, making it more difficult for suppliers to manage repairs and renovations on their own. By contributing to a shared responsibility fund, the Western brands and retailers would signal their recognition that they, too, have a duty to promote the well-being of all Bangladeshi workers and the stability of an industry that contributes reliably to their bottom line.

Other stakeholders that have, or ought to have, an interest in the state of the industry include countries that import clothes from Bangladesh; international financial institutions such as the World Bank and its affiliate, the IFC; and philanthropic institutions.

The case for governments to get involved rests on the interests of their citizens. With 64 percent of Bangladeshi exports shared among European nations and 18 percent consumed in the U.S., these governments have a special obligation to help improve the workplaces producing popular low-priced clothing for so many consumers in their countries.

The IFC already provides assistance on a limited scale to the Bangladeshi garment business via the Better Work program, a partnership with the ILO that provides assessments and training aimed at boosting competitiveness. Although well intentioned, Better Work reaches only about 140 factories. On another front, the IFC has provided $40 million in financing to local banks with the goal of spurring loans for factory remediation—another well-meaning initiative but one that does not affect the many factory owners, especially subcontractors, who cannot qualify for substantial bank loans. Historically, the World Bank has identified Bangladesh as a leading aid recipient, providing billions of dollars in grants and interest-free credits in areas such as nutrition and population services. But it has generally steered clear of the apparel industry. Our view is that now the World Bank and IFC can and should do more for factory safety by participating in a shared responsibility task force.

There are, of course, numerous problems that bear on the garment industry which the organization we are proposing would not directly address. This report—and remediation efforts in Bangladesh—have concentrated on export-oriented factories engaged in cutting and sewing. The industry also encompasses facilities that do washing, dyeing, printing, and other tasks. Employees of these secondary facilities face safety challenges, as well. Within both export factories and other facilities, worker hardships range from inadequate pay to an absence of compensation for injuries to harassment by supervisors. Outside, poor roads hamper transportation of goods, and an unreliable electrical grid complicates production. To maintain coherence and prevent overreach, however, the task force would confine itself to the pursuit of safety in cut-and-sew factories.

The parties to the Bangladeshi-led task force would undertake a more rigorous assessment of the costs of remediation for which we have provided the first estimates. This assessment would be based in part on a thorough census of all garment factories in Bangladesh, one that reveals not only an accurate overall count, but also a delineation of which factories produce for the Western export market. The resulting remediation fund could be administered by an entity in Bangladesh, an international entity, or some hybrid arrangement. It will be up to the participants to decide these important questions.

The task force members would also allocate responsibility for raising money. One possible approach would be to assign each category of participant a percentage share. As an illustration, the task force might ascribe 30% responsibility to the Bangladeshi government, 10% to Bangladeshi industry, 20% to Western governments, 20% to brands and retailers, 10% to the World Bank, and 10% to international philanthropy. Within some of these categories, certain shares could be determined proportionally. The United States, for example, might be assigned an 18% share of the amount allotted to Western governments as a reflection of U.S. consumption of about 18% of Bangladesh’s total clothing exports.

As noted, we view this as a stopgap process aimed at addressing the most urgent factory safety concerns today. Longer term,Bangladeshi business leaders and their government will need to take full responsibility for assuring factory safety. Some factory owners we spoke to expressed interest in joining a task force designed to upgrade the entire garment industry. “How could I say no?” says Rubana Huq of Mohammadi Group. Another accident even approaching the scale of Rana Plaza could kill the country’s reputation as a sourcing destination, she adds, and must be avoided at all costs.

We support a strong and vibrant garment sector in Bangladesh. We also encourage global brands and retailers making long-term commitments to source their products in Bangladesh. Seeking to maintain and build on Bangladesh’s important place in clothing manufacturing, our proposal for a shared responsibility task force supports the ongoing roles of the government of Bangladesh, local factory owners, industry associations, and unions in building a sustainable model for garment production and factory safety. We stand ready to help in that effort.

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Part Five: Recommendations

Despite significant improvement in factories associated with the Accord and Alliance, major safety problems remain in thousands of additional factories in Bangladesh. Substantial financial resources are needed to bridge this gap. The NYU Stern Center recommends a model of shared responsibility based on five core elements:

- End-to-end visibility of the universe of factories producing for export
- Expanded industry-wide collaboration
- A credible system for determining the costs of remediation
- A cooperative model for raising funds in a fair and proportional way
- Distribution of those funds in a manner ensuring financial transparency and integrity

We make the following recommendations to the key constituencies that should be involved in creating and implementing the shared responsibility model.

To the Government of Bangladesh:
Create a Shared Responsibility Task Force
The government needs to take a more active, assertive role in ensuring factory safety. In the long term, regulators will bear this obligation on their own. As a starting point, though, the Bangladeshi government should convene a shared responsibility task force comprised of local factory owners and industry trade associations, Western brands and retailers, European and North American governments, civil society organizations and unions, the World Bank and its affiliate the IFC, and philanthropic organizations.

Map Factories to Provide End-To-End Visibility
The task force first needs to conduct a comprehensive census of all garment factories. Existing data are weak and unreliable. To aid this process, the government should call on the two trade associations, local unions, and a pair of civil society organizations that have made a good start at mapping factories: BRAC University’s Centre for Entrepreneurship Development and the separate Centre for Policy Dialogue.

To Western Brands and Retailers:
Expand Industry-Focused Collaboration
Some 250 Western brands and retailers have engaged in an unprecedented collaboration through the Accord and Alliance, resulting in improvements in 2,300 factories where they have direct business relationships. They now need to take additional steps, via the task force, to expand their collaboration to address factory-safety issues in thousands of subcontracting facilities that also are producing their apparel. These subcontracting factories are central to the garment sector in Bangladesh, and to the low-price, high-volume business models from which the Western companies profit.

Address Purchasing Practices
On a parallel track, global brands should reconsider their purchasing practices, with a view toward ensuring that suppliers have the resources and ability to address core safety issues in their factories. Some brands like H&M have formed strategic partnerships with local suppliers that allow more regular forecasts of orders and help suppliers plan more effectively. These buyers reward high-performance suppliers with longer-term contracts, larger order volumes, and more favorable pricing. Such business initiatives warrant further study and broader application in Bangladesh and elsewhere.
To All Members of the Shared Responsibility Task Force:

Develop a Credible Cost-Accounting System
Members of the task force ought to use the results of the factory census to develop a credible and comprehensive cost-accounting system to assess the expense of addressing unmet factory-safety needs. We have estimated the price tag for these remedial measures at approximately $1.2 billion. This is a rough estimate which now requires refinement depending on the parameters of the cost-accounting model the task force adopts.

Use the Shared Responsibility Model to Allocate Costs and Raise Needed Funds
The task force will have to develop an equitable model for determining the financial responsibility of each stakeholder group in meeting the overall funding requirement. Separately, some of the constituent groups will need to negotiate an allocation model among their own members. Western governments, for example, may adopt a model that mirrors the percentage of Bangladeshi products imported into each of their countries.

Protect the Integrity of the Allocation Process
The model we propose is aimed at correcting the most serious gaps in factory safety today. The ultimate success of this approach will rest on the ability of the task force to devise and implement a fair allocation and distribution system that ensures financial transparency and integrity. We recognize the challenges both in deciding where the money goes, and once allocated, seeing that it reaches its rightful destination. But we are confident that, once the key actors come together, these challenges can be addressed.


8. “Participatory Factory Mapping Research,” Centre for Entrepreneurship Development, BRAC University, April 2016 (http://ood.bracu.ac.bd/wp-content/uploads/2015/08/PFRM-Research-Brief-April-2016_Edited.pdf), BRAC is continuing its mapping work. See “Digital RMG Factory Mapping in Bangladesh (DFM-B),” BRAC University, July 2017 (http://ood.bracu.ac.bd/wp-content/uploads/2017/07/Project-Brief-DFM-B.pdf). Another Dhaka think tank, the Centre for Policy Dialogue (CPD), has also done research on the number of garment factories. In an interview, Dr. Khondaker Golam Mozammel, CPD’s research director, reports that after analyzing a variety of factory databases and eliminating duplicate mentions of certain factories, the CPD in 2017 arrived at a total of 6,900 facilities. The organization then attempted to contact each factory by telephone and was able to verify the existence of 3,996 factories. Mozammel notes that some factories lack listed phone numbers and others may have just not picked up. For more background, see “Dialogue on Ongoing Upgradation in RMG Enterprise: Results from a Survey,” March 3, 2018 (http://cpd.org.bd/wp-content/uploads/2018/03/Ongoing-Upgradation-of-RMG-Enterprises.pdf).


12. Ibid, p. 43.


19. The Accord’s legally binding nature is illustrated by a pair of arbitration cases resolved in late 2017 and early 2018. In those cases, the Accord’s European union participants achieved settlements requiring two multinational apparel brands to push their suppliers more forcefully to remediate. The names of the brands were kept confidential. One settlement, announced in January 2018, revealed that one of the brands agreed to pay $2 million toward remediation of 150 factories, or $13,333 per factory.


22. Ibid.


24. Statistics for Accord-affiliated factories come from “Quarterly Aggregate Reports” (see note 3) and progress updates available on the Accord website: http://bangladeshaccord.org/.

25. The figure of 2,024 factories includes facilities that have been closed and those transferred to government supervision.


28. Ibid.


32. We compiled information about factory accidents from several sources, including the Solidarity Center, an AFL-CIO affiliate, and the Bangladesh Occupational Safety, Health, and Environment Foundation. In addition to the export-oriented factories engaged in cutting and sewing—on which most international attention has focused—our accident figures include facilities doing knitting, spinning, weaving, washing, dyeing, printing, and making textiles, accessories, and footwear. Data are available at https://bit.ly/2G3CxCJ.

33. Accord statistics come from its “Quarterly Aggregate Report,” (see note 3). Alliance statistics come from its website: http://www.bangladeshworkersafety.org/progress-impact/alliance-statistics. We have updated certain statistics based on interviews with Accord and Alliance staff members.


36. Ibid.


38. Labowitz and Baumann-Pauly, p. 23 (2015).


40. Frequently Asked Questions,” Accord on Fire and Building Safety in Bangladesh, undated website page (http://bhdaccor.org/about/faqs/).


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