

# Ready-Made Garment Industry: The Road to Progress

## Insights from the Bangladesh Field Trip

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**After the Rana Plaza collapse in April 2013, many people were hoping that it would serve as a catalyst to stir change in the textile industry. As such, a group of concerned investors organized a trip to Bangladesh to find out more information on the ground on what has happened since. While the messages given to us were at times mixed, one clear message was that progress was indeed being made – slowly but surely.**

The trip was a fact finding trip to help investors better understand the challenges that companies face when it comes to sourcing from Bangladesh. The trip constituted three factory visits, two of which were accompanied with company representatives, and several meetings with stakeholders in the industry, such as the representatives from both the Accord on Fire and Building Safety in Bangladesh and the Alliance for Bangladesh Worker Safety<sup>1</sup>, two internationally led initiatives to improve the fire and building safety of the garment factories, and the International Labour Organization (ILO).

The trip gave the investor group an interesting insight into the garment industry of the country – the developments in terms of fire and building safety in the factories since and the other challenges the industry faces towards a sustainable development. Additionally, it showed how the problems found in Bangladesh can easily be found in other sourcing countries as well.

## Improvements have been made ...

### Fire and building safety inspections are on-going.

The Alliance, the Accord and the National Tripartite Plan of Action<sup>2</sup> have made strides in the fire and building safety inspection of their members' factories in the country. The initiatives are currently focusing mainly on the factory inspections in order to get the remediation started as soon as possible. The average cost for remediation in a factory is estimated to be \$200,000. Access to capital is also made available; however, not many factories have taken up on this offer. It is not clear whether this is due to cultural reasons (e.g. not wanting their clients to become their creditors and know more about the financial status of the factories) or is due to the possibility that the factories actually may not need the financing and have the funds necessary (most of the factory owners seem to belong to the country's higher classes). Nevertheless, the factory inspections and the necessary remediation are under way.

<sup>1</sup> For a recap on the Rana Plaza accident and the Accord and Alliance, refer back to "Cheap Clothing: At What Cost?" written 28/05/2013 <http://bit.ly/1qvqgZg>

<sup>2</sup> National Tripartite Plan is a joint initiative between the Bangladeshi government and the ILO to tackle fire and building safety issues in factories

Picture 1: Buildings in Bangladesh



Photo Credit: Mans Carlsson

Buildings similar to this are prominent in and around Dhaka.

### Certain factories have been able to create more value.

Factories, too, have also been doing their part. As to be expected, the three factories visited were amongst the best ones one could find in the country - showing the investor group what could be actually done in a Bangladeshi context and it is, in fact, good. The factories visited have gone beyond the manufacturing of basic clothing like jeans and t-shirts. Two of them were vertically integrated, including dyeing and spinning to their capabilities, and the other was a suit manufacturer; showing that factories in the country are capable of manufacturing more complex products that have more value. Even before Rana Plaza, these have already been working towards creating a more sustainable garments industry in the country – beyond just fire and building safety. All three factories are found in purpose built buildings that do not have the same structural problems as multi-purpose buildings. Moreover, the factory management is fairly open and proud of the initiatives that they have done in order to ensure that their factories are a good place to work for their workers – salaries are slightly higher than the minimum wage, pension is sometimes offered, daycare and medical centers are available on site, transportation and/or lunch is provided or subsidized, etc. What is more is that these factories have proven how investing in their human capital has a clear and positive business impact. Their staff turnover is roughly half of the industry's monthly average of around 8-10%. Factory productivity is increased due to decreased absenteeism and increased worker engagement. Finally, certain factories have been able to move away from pricing per article provided to pricing based on the space used to produce the client's.

### Retailers are creating relationships.

Finally, the retailers have been doing their fair share. Certain companies have a local presence in the country, for example

Marks & Spencer and H&M both have locally based teams – showing their commitment to sourcing in the country, assuring that their employees understand the local context and maintaining a good relationship with the suppliers. Additionally, certain companies have indicated that when necessary they coordinate with other companies when it comes to auditing common suppliers thereby better utilizing their resources and making the first steps towards industry-wide coordination on supply chain matters.

### Yet there is still much to do ...

Despite the improvements that have been made, the path to a completely sustainable garment industry is still a long one.

#### Case Study: H&M and their Supply Chain

H&M is a global retailer with more than 3,000 stores in 53 markets all over the world and sourcing from the world's biggest garment producing countries. The key sourcing markets for the company are China, Bangladesh, India, Cambodia and Turkey. Like most companies in the industry, H&M has in place practices and initiatives to ensure that social conditions in their factories are within international standards. Nevertheless, Mirova believes that H&M's practices are one of the most advanced in the sector.

#### **Commitment to change purchasing practices**

What sets H&M apart from its peers in terms of sustainable supply chain management is their acknowledgement that if the company is truly to have a sustainable supply chain then their purchasing practices need to be improved to provide reasonable lead times, fair pricing, timely payments and transparent communication to their suppliers – this acceptance is currently not found anywhere else. To show their commitment to this, their first conscious action related to supply chain is to “update their strategy for sustainable purchasing practices” by 2015.

#### **Dedication to their suppliers**

Bangladesh is H&M's second key sourcing market, after China, and one of the riskiest. As such, H&M employs a team of 400 people in the country fully dedicated to their relationship with their suppliers. While not all are dedicated to sustainability matters (roughly 30 of the 400 are sustainability managers), the sheer volume of locally based employees shows the company's commitment to sourcing in the country and to accompanying their suppliers in their development. One excellent example is how since its inception, the suit manufacturer visited is currently only manufacturing for H&M – demonstrating the company's dedication to accompanying this factory towards success.

## Fire and building safety issues are still prominent.

While the factories visited were located in purpose built buildings, not all are. The level of improvements needed per factory vary and while factory inspections are on their way, not much is yet known about the remediation and how factories are progressing in their corrective action plans. Additionally, out of the roughly 5,000 factories there are in the country, only around 3,500 are exporting to western brands and are most probably included in at least one of the initiatives to improve fire and building safety. The remaining factories, which cater mainly to the local markets, are out of scope and thus still pose a risk to the safety of their workers. Additionally the risk of unauthorized sourcing to “at risk” factories is still a high possibility that a lot of the brands sourcing from the country face. Moreover, while the most will be done to ensure that factories remain open and are safe, there will be factories that would have to close as their facilities would never be fit for use. The question of how to handle this likely event, such as how to help the employees find employment elsewhere, has yet to be dealt with.

Lastly, after having spoken with representatives from the Accord, the Alliance and the National Tripartite, it seemed unclear what would happen after the five year term of the initiatives would end. While it is important that these initiatives focus on the factory inspections and remediation at the moment, there is also the need to start discussing on how to ensure that the work and the positive outcomes from these initiatives extend beyond the five years.

Picture 2: Factory Buildings in Bangladesh



Photo Credit: Mans Carlsson

Garment factory buildings of this sort are scattered all over the city. This factory wasn't one of those visited by the group.

## Beyond fire and building safety: other obstacles towards a sustainable garment industry in the country.

The long term view of the sustainable growth of the industry is still blurry. In addition to fire and building safety matters, other issues such as proper working conditions, much needed infrastructure and a long-term view both from brands and factories are hampering the industry's development.

From a country perspective, the current infrastructure would not be able to support the garment industry's growth. Infrastructure such as paved roads, highways, ports and a steady flow of electricity is limited. Additionally, lack of skilled workers is a concern for the industry and country. For example, before the Rana Plaza event there were only 11 building inspectors, now there are more than a 100 with targets to reach 500 in the next year. While the numbers are impressive, some question whether or not the inspectors have the necessary skills and educational background<sup>3</sup> to conduct proper inspections. The question of a living wage is still an issue. How much more than the minimum wage should a factory pay? How does this relate to how much the middle management is earning? And finally, how does this relate to how much other people in the country such as teachers are earning? Moreover, social unrest is frequent in the country – with massive strikes, heightened particularly during election periods, causing the country to be at a standstill leading to work stoppages and disruptions in the supply chain. These issues are national matters that cannot be dealt by one industry alone.

Social issues are still prevalent in the industry. Proper worker representation is still limited with effective unions in factories being almost non-existent. Furthermore, factories are faced with other issues such as the quality of the labour force (as previously mentioned). Absenteeism and employee turnover is high amongst workers – particularly during the periods after national holidays such as Eid.

Factories still get mixed messages from their clients. Audits are not standardized and are, sometimes, contradictory depending on the company doing the audit. A certain anecdotal story from a factory manager saying how they had to move the daycare center several times because of the audits shows how much time and effort factories have to exert just to comply with

<sup>3</sup> According to Unicef statistic, adult literacy rate in the country between 2008-2012 was 57.5%; secondary school participation (net attendance) for male between 2008-2012 was 42.9%, while for female was 47%

varying standards. Additionally, certain companies are still bargaining on price – making it difficult for factories to make the necessary investments and implement the initiatives to become a better garment factory.

### Brands source in other risk countries as well.

Bangladesh is only one chapter of the entire supply chain story. The issues found in Bangladesh are not entirely unique to the country. Retailers are exploring other countries from where they can source, such as Ethiopia and Myanmar where the environment and conditions are not much better than that of Bangladesh or possibly even worse. Additionally, retailers are currently sourcing in countries such as Vietnam and Cambodia where similar problems in working conditions and social issues can be found. As such, while attention is being put in Bangladesh due to the urgency of the situation as highlighted by the Rana Plaza tragedy, it must not be forgotten that there are other countries where similar contexts and conditions can also be found and must also be attended to.

## And all the players must do their part.

### Moving towards industry standards.

The Accord, the Alliance, and the National Tripartite Plan of Action all have the same goal: to ensure the fire and building safety of factories in Bangladesh. Nevertheless, despite having the same goal, collaboration between the three initiatives has been far from smooth sailing. Discussions with factories have brought about the need for an agreement on factory standards. While certain companies may ask for requirements beyond the minimum, standardized requirements would already increase efficiency in these factories. Should they be able to set their differences aside, the three initiatives have the possibility to create an industry standard for the fire and building safety regulations in Bangladesh and, if successful, could pave way for the standardization of other types audits – not only in the country, but also in other garment sourcing countries.

### Government action is needed.

The role of the government in the sustainable development of the garment industry is not to be overlooked. As mentioned previously, basic infrastructure in the country is still limited. In order to support the growth of the industry, the government would need to make the needed investments in better roads, a dependable electricity network, and a deep sea port, which the country does not currently have. Additionally, the issue of living

wage would be more efficiently addressed at a national level. Increasing wages is a delicate subject as it can create social imbalances and lead to strikes in the country (as it turns out, it is very easy to get a group of people protesting on the streets). As was seen when the government increased the minimum wage last year causing both the factory workers and middle management went on strike. The factory workers believed that the increase was not enough, while the middle management believed that they too deserved an increase in their salaries. Additionally, garment factory workers earn more than school teachers. Consequently, the issue of a living wage needs to be tackled in collaboration with the different players, government included. Finally, the issue of the lack of skilled laborers and even that of chronic social unrest can best be addressed through an effective public system of education. Much of Bangladesh's past economic growth can mainly be attributed to the private sector. It is now the government's turn to ensure that this growth is sustainable.

Picture 3: Road to the Factory



Photo Credit: Francesca Suarez

Bangladesh is known for their heavy traffic jams. The ride from the hotel to the factory could take up to 2 hours in the car but in terms of distance is less than 60km away.

### Retailers need to start from within their operations.

Retailers still have their role to play. The most important of which is to realize that if they do want to clean up their supply chain it has to start from within their company. After discussions on the ground, it became clear that the companies' buying practices have changed little since the collapse in that it hasn't really moved beyond the price of the product. There is still a disconnection between the audits and improvements

made to increase the social standards and what the buyers are really looking for. Improving the buying practices in such a way that a relationship with open communication lines between the retailers and factories exists would be a step towards a more sustainable supply chain. This also includes the relationships between the retailer, the intermediaries, and the factories. Enhancing the company and supplier relationship is currently the most effective way to combat unauthorized subcontracting. Additionally, retailers need to have a better understanding of the risks that come with sourcing from countries such as Bangladesh and need to better plan for them. Having direct employees on the ground is a step forward as it allows for better knowledge of the local context. Retailers would also need to integrate the potential effects of the social risks into their financial planning – for example, the retailers were caught by surprise and financially unprepared when the minimum wage of Bangladesh was increased last year as such some of the factories were forced to swallow the extra costs for fear of losing the orders from the retailers. Responsible supply chain management takes a lot of resources from the companies thus we don't expect this for all the countries they are sourcing in and expect only this amount of effort to be located in countries where the company's exposure and the risks are high. As mentioned, Bangladesh is not the only country where human rights issues are prominent, similar problems are also found in other countries such as Cambodia and Pakistan. With their global reach, companies are able to use their positive influence in these countries as well.

Picture 3: Road between Dhaka and Chittagong



Photo Credit: Mans Carlsson

Chittagong (roughly 300 km away from Dhaka) is where the country's main port is located. To get to the port, the goods manufactured in Dhaka travel in unpaved roads majority of the time.

## The road to progress

The road to a sustainable supply chain is still long and its path not very clear. The problems encountered in Bangladesh are not limited to the country and expand to other sourcing countries such as Cambodia and Vietnam. There are a lot of improvements to be made from the different players in the industry. The trip highlighted the importance of collaboration to be able to progress towards a global sustainable supply chain. Companies have the capability to ensure that sustainable supply chain management best practices are found not only in Bangladesh, but also in other sourcing countries. Companies cannot do this alone and would need the participation from governments and society.

Investors too have their role to play. One is by applauding and putting forward the companies that have made significant progress towards this goal. Companies need to know that they can be open and transparent about the challenges and their initiatives in cleaning up the supply chain of social issues. Following this, investors can and should also engage with the retailers, accompanying them towards the goal of improving the sustainability of their global supply chain. With this in mind, we believe that a collaborative engagement with other investors would be more effective in incurring change within the companies and would yield more favorable results. As such, we have launched a collaborative engagement with other institutional investors with the hopes to use our combined investor leverage to discuss with relevant companies on how to best improve their supply chain practices.

This trip has allowed us to have a deeper insight into the challenges that retail companies face on the ground and would thus, hopefully, lead to more fruitful discussions in our engagement with them, particularly relating to the following axes identified in our previous study on the supply chain<sup>4</sup>:

- Increased transparency: more communication on the structure of their supply chains, their initiatives and its progress
- Social risk mapping: better understanding of the risks linked to the supply chain, where they are and how big the negative impacts could be

<sup>4</sup> Please refer to our study on Social Issues in the Supply Chain available on <http://bit.ly/1q2fhf9>



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- Enhanced relationship with the suppliers: development of longer-term relationships that starts with the company's buying practices
- Multi-stakeholder initiatives: a systemic approach to addressing issues that the industry as a whole faces (e.g. lack of worker representation, providing a fair living wage, etc.)



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