

# **Lessons from Rana Plaza**

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# Lessons from Rana Plaza

## Introduction

- My presentation is designed to move the discussion beyond issues of compliance to address the sources of the Rana Plaza crisis and explore what corrective measures can be taken.
- My presentation will cover the following issues:
  - (1) Failures of governance
  - (2) The political dimensions of the crisis
  - (3) The workings and consequences of an unjust society
  - (4) Competitive pressures of globalization
  - (5) Injustice in the global economic order
  - (6) What can we do about addressing the sources of the Rana Plaza crisis
  - (7) Longer term structural responses within Bangladesh
  - (8) Reconstructing the global economic order

### 1. Failures of governance

- No legal land title: Issues of land grabbing
- Approval of deficient building plan
- Inappropriate permission to expand floors
- Installation of generators without proper survey or clear permission
- Absence/failures of factory inspectors
- No inspections on behalf of buyers on the compliance status in sub-contracted enterprises
- Ineffective role of BGMEA in exercising oversight over compliance issues

### 2. The political dimension of the crisis

- Sohel Rana as face of democratic politics at the grassroots level
- Rana patronized by MP as his godfather
- Use of local power and patronage to ensure Rana's rapid rise to affluence
- No oversight by party organization over political players such as Rana
- Rana demonstrated his political loyalty by keeping factories in his building open during hartal

- Rana could use his political influence to bring in inspector/engineer from UZ office to give clearance that building was safe in response to worker's concerns over safety.

### **3. The workings and consequences of an unjust society**

#### *(i) The greed and insensitivity of the owners*

- Compulsion to meet export orders given priority over safety of workers
- Compulsion to keep down costs through reducing overheads using lower rental sub-standard buildings
- Expansion of factory capacity without concern for safety of the workers
- Violations of Bangladesh National Building Code (BNBC), at the risk of workers safety

#### *(ii) The disempowerment of the workers*

- No scope for collective bargaining for workers
- Dependence on casualisation of labour force so that they can be hired and fired at will depending an availability of work orders
- Individual workers called up by supervisor and threatened with disemployment if they did not go to work
- Subsistence compulsion of individual worker to respond to such calls even when they are aware of the risks.

### **4. Competitive pressures of globalization**

#### *(i) The global marketing chain, distribution of value*

- Walmart: 63%
- Walmart's global vendor: 8.3%
- Local RMG exporter: 28.7% \*
  - Material costs 15.5%
  - Wage bill 5.11%
  - Factory costs & profit share 8.1%
  - (Local Buying house 2.6%)

\* RMG owners share of profit increases by 2.6% if global vendor contracts orders directly with the RMG owner, bypassing local buying house

*(ii) Local margins for distribution remain compressed*

- RMG owners profit share has to be realized from 5.5-8.1% of value share, after covering operating costs and overheads
- Maximum pressure on subcontractor in supply chain whose share is less than 1% of total value or around 10/12% of the 8% accruing to RMG owners
- Minimal oversight over sub-contractor by both prime contractors and Walmart
- Walmart's oversight extends largely to prime contractors
- BGMEA gives little attention to working conditions and compliance among Tier-3 sub-contractors

**5. Injustice of the global economic order**

- Do the margins of 63% appropriated by Walmart and other major global retail corporates reflect real costs?
- Does the share of corporates include rents extracted on account of the workings of an unjust global economic order?

**6. What can we do about addressing the sources of the Rana Plaza crisis**

*(i) Current responses at the international level*

- Compliance measures largely address symptoms of the problem
- Can compliance codes be enforced on sub-contractors?
- Do promised global contributions from buyers cover one-off investments to ensure compliance or will this be a regular source of financing for ensuring compliance?
- Will such external inflows be adequate to meet compliance obligations at all levels of the RMG supply chain?

*(ii) Official responses*

- Will regulatory agencies be able to withstand political pressures on behalf of particular suppliers to avoid compliance?
- Is there any understanding of the sources of the problem at the official level?
- Are current official responses minimally adequate to deal with the immediate expectation of both global community and buyers?

- Are prevailing salary levels of field regulators sufficient to discourage rent seeking?
- Are any lines of accountability in place for exercising oversight over governance of the RMG sector and can accountability be enforced?
- Can accountability mechanism in RMG sector be enforced where accountability across the entire system of governance is weak?

*(iii) Action by the owners*

- BGMEA oversight
  - Is process of accountability clear?
  - Can it be enforced on members by BGMEA?
  - Issues of who controls BGMEA among various tiers of RMG owners
- Prime contractors oversight
  - Will they agree to take responsibility for enhancing and improving capacity in its supply chain?
  - Will they be able to enforce compliance from their sub-contractors?

*(iv) Civil society (CS) responses*

- Weakness of CS in seeing any initiative to its conclusion
- What can CS do about addressing the sources of the Rana Plaza crisis?
- CS initiatives
  - Providing longer term public oversight over promised actions by key players
  - Will CS initiatives be taken seriously by government/industry?

## **7. Longer term structural responses within Bangladesh**

*i. Reconstructing politics*

*ii. Transforming governance*

*iii. Empowering workers*

(a) Establishing the right to form trade union (TU)

(b) Workers as stake holders in RMG enterprises

- Opportunities to become equity partners in their place of work. Its advantages:
  - Stability in the composition and continuity of work force
  - Opportunity and incentive for owners to invest in upgrading the skills of their work force and to invest in skill development

- Ensuring greater work place harmony
- Financing worker's equity stake
- iv. *The emergence of Bangladesh's RMG sector as a world leader*
- (a) Restructuring industry
  - Integrating sub-contractors into supply chain
  - Emergence of large scale enterprises as in Cambodia and Vietnam with minimal need for subcontracting
  - Moving a more skilled industry into the higher end of the global value chain for RMG
  - Role of government and RMG owners:
    - In reorganizing RMG industry
    - Mobilising investment in the sector for strengthening infrastructure and modernization of the industry
- v. *Political support for such long term reforms in RMG sector*
- vi. *Civil society as a permanent instrument of public accountability over the RMG industry*

## **8. Reconstructing the global economic order**

- i. Sharing in the 63% now appropriated exclusively by Walmart
- ii. Shortening the value chain
- iii. Investing in retail chains at the final market destination
  - Direct shareholding by the members of supply chain in Walmart
  - Major exporters in Bangladesh collectively invest in establishing a global retail supply chain
- iv. Duty free access for Bangladesh to US market
- v. US\$ 720 million collected as import duties on exports to US be earmarked by USG for upgrading working conditions in RMG enterprises
- vi. The challenge to constructing a rule based global trading system
  - Uses and abuses of GSP/EBA/AGOA
  - Depoliticizing the issue of market access in the global system
- vii. Role of global civil society in constructing a more just global economic order.