

## Safety first

Afshana Choudhury, Fahim S Chowdhury, and Faria Ahmad

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File Photo: Smoke billowing from the Tazreen Fashions Ltd RMG factory in Nishchintapur, Ashulia on November 24, 2012 **Courtesy**

### A step towards meeting compliance requirements

Bangladesh is one of the largest apparel exporting countries in the world and the ready-made garment (RMG) industry has played a significant role in terms of economic development of the country. However, the fire incident in Tazreen Fashion in 2012 and the collapse of the Rana Plaza building in 2013 immensely impacted the sector negatively.

Since then, compliance in the Bangladeshi RMG industry has become a major global concern and attention has been directed at improving structural, electrical, and fire safety in the RMG factories. Eventually, three safety inspection initiatives were established: (i) Accord on Fire & Building Safety in Bangladesh (Accord); (ii) Alliance for Bangladesh Worker Safety (Alliance); and (iii) ILO-supported National Tripartite Plan of Action (National Initiative) to carry out the reformation activities.

These inspections prompted corrective action plans (CAP), including time-bound remediation actions so that the factories would have to implement these for ensuring safety for the factory owners, and in particular to improve worker safety.

These initiatives established essential ground rules and regulations for the garment factories that must be ensured or fulfilled to work with renowned overseas brands.

Though many factories started their remediation efforts, a vast number of local manufacturers, especially the smaller factories, are facing several challenges to comply with the guideline of safety programs or to take measures to improve factory safety conditions.

This is primarily due to lack of funds and their incapability to invest a large amount of money to upgrade or meet the compliance requirements. Different studies on safety measures and environmental programs have already highlighted the importance of financial support to carry out and expedite the remediation process for the RMG factories, but accessing remediation financing has been quite challenging. There is a clear gap of funds available, specifically for remediation financing and factories ability to avail the funds.

Until recently, there were no proper financial products specifically available to the RMG sector for remediation, however, most of the credit lines failed to attract a large number of factories for applying and availing the loans.

Obtaining financial support from Bangladeshi banks is a lengthy bureaucratic process. The complicated application procedure, high and unattractive interest rate, and the long decision-making process are identified as the main reasons behind falling short of the credit lines.

Moreover, the factories are not well-equipped or competent enough to apply for these credit lines and many factories have a misunderstanding of presenting proper, reliable, audited financial statements to banks.

As a result, only a small number of factories received the loan for improving their safety conditions.

Thus with the proper line of credits, it is also necessary to have proper financial literacy and information about the offered credit lines.

Hence, a GIZ supported project titled “Support to Safety Retrofits and Environmental Upgrades in the Bangladeshi Ready-Made Garment Sector” (SSREU) has been initiated to fill up the gaps in terms of identification of remediation needed and available finance to perform the remediation by the RMG factories of Bangladesh.

The project has been commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ) with the Ministry of Finance, Financial Institutions Division, Bangladesh government as the lead executing agency, and Bangladesh Bank as the implementing agency.

Brac University (BracU) through its Centre for Entrepreneurship Development (CED) is working as its in-country cooperating partner and CED-BracU is providing the related capacity building training to the sector stakeholders on behalf of the SSREU project.

### **Basic features**

- The offered loan will be disbursed in Bangladeshi taka and with a maximum 7% per annum interest rate (in BDT terms, without investment grant)
- The maximum loan amount would be around Tk10 crore (equivalent to Euro 1 million) with a maturity period of 3 to 5 years.
- With proper documentation and justification of major environmental upgrade or any other duly justified and documented case, the loan amount can be increased up to around Tk30 crore (equivalent to Euro 3 million) and the maturity period can be extended to seven years
- The RMG factories would also receive performance-based incentives which would result in the reduction of the principal amount of the loan. The grant would be provided after validation by an independent assessor

The project has been initiated to support an enabling situation to the factories by planning a mission to determine the technical assistance and capacity-building measures needed to facilitate investments in terms of safety remediation, environmental, and social upgradations.

It also aims to address several capacity gaps in the private and financial sector. Thus, it is the first ever credit line that is not only offering and building awareness and sharing information regarding the soft credit line, but also providing capacity-building support to related sector stakeholders.

***Afshana Choudhury is the Deputy Director, Fahim S Chowdhury is Senior Research Associate, and Faria Ahmad is Senior Manager (Research & Knowledge Management) at Centre for Entrepreneurship Development (CED), Brac University.***