



Corporate Accountability for Covid-19 Financial Stimulus for RMG Sector Workers

Lessons Learned and Recommendations

The apparel industry is now the highest export earning sector in Bangladesh, accounting for 84% of total exports and 11% of the GDP. Apparel companies employ approximately 2.59 million workers of whom 63% are women. When the COVID-19 pandemic made RMG export workers' livelihoods vulnerable, the government disbursed BDT 10,500 crore through a stimulus package as subsidized credit to employers to pay workers' wages and address their liquidity shortfall. As the largest formal corporate sector, the RMG sector is subject to various standards of accountability. Corporate accountability is the responsibility of companies for their impact on society, economy and environment and in this case the companies may be scrutinised in terms of how far they were able to adhere to the conditions of the stimulus package. This policy brief also examines the strengths and limitations of the package in terms of supporting this accountability and securing workers' livelihoods. By identifying the lessons learned, we hope to strengthen corporate accountability and management of government responses to crisis.

Top Line Lessons Learned

- The initiative by the Bangladesh Government to provide financial stimulus to the RMG export sector for the payment of workers' wages protected the livelihoods of workers and assisted the industry in facing the COVID crisis.
- The corporate entities in the RMG sector should be accountable to the Government, workers and their representatives, and citizens, for their actions.
- Compliance with loan conditions that were included in the COVID 19 Financial Stimulus Package should be monitored and ensured by government authorities and worker participation should be included.
- The conditions in the stimulus package for the apparel sector meant that the loans did not enable small companies to support the most vulnerable employees and workers of the sector.
- The digital payment of wages was a good practice that should be sustained.

Methodology

This policy brief is based on a CPD-Shojag Coalition study¹ which included a survey of 100 factories and 400 workers and other relevant studies, Shojag Coalition consultations with 40 RMG factory managers, best practice stories collected by The Business Standard², and media reports, secondary and other primary data.

Stimulus Package Positive Outcomes

The stimulus package and lockdown exemptions provided for the RMG sector were a timely initiative to protect the economy, the RMG sector and its workers. Although export earnings plummeted for a few months, sector recovery began by end 2020. The Government also provided other facilities such as deferred payment of utility bills and bank loans and promoted the best practices of digital payment of wages. According to the information obtained from BGMEA and BKMEA, 62% of the BGMEA member factories and 29% of BKMEA member factories received credit under this stimulus package.

Loan Conditions

The conditions of the stimulus package stipulated that factories could not lay off or retrench workers and 95% of the loan was for covering workers' wages. Only factories that exported more than 80% of their production and were members of BGMEA or BKMEA would receive loans. Businesses could avail of the funds at 2% service charge to pay their workers' salaries for up to three months, to be paid through either a bank or a mobile financial service account and banks would disburse salaries directly. Borrowers were given a six-month grace period before they had to start paying back the borrowed money in instalments (these conditions were subsequently revised).

FINDINGS, LESSONS LEARNED AND RECOMMENDATIONS FOR THE FUTURE

Stimulus Package Design

Most vulnerable factories were not supported.

Many small factories were ineligible being sub-contractors who did not export directly, or because they were not members of either association. Of the factories surveyed, 67.6% applied for credit support and 62.7% of them received it.³

- Central Bank to ensure inclusiveness of the financial stimulus package by targeting workers and factories which might face difficulties in paying wages to their workers, including those engaged as suppliers to the export factories.

¹ Report titled "Corporate Accountability on Labour and Human Rights amid COVID Pandemic: Case of Financial Stimulus Package Funds in the RMG Sector" by Dr. Khondaker Golam Moazzem et. al. 2021

² <https://www.tbsnews.net/economy/rmg/stimulus-cheques-pave-way-digital-payments-rmg-workers-281410>

³ CPD-Shojag survey

Loan application process was challenging.

Although the Government responded fast there were procedural delays. Employers and banks were inundated with circulars with frequent changes in instructions. Companies had to deal with the process in the midst of the lockdown with limited mobility and limited staff. The application process for factories was complicated. Of the 32.4% of surveyed factories who did not receive the support, 38.5% of them stated that they did not apply because of the complicated application procedure.⁴

- Bangladesh Bank should simplify operational guidelines to facilitate application process and to ensure prompt disbursement

Compliance with Loan Conditions

Workers were laid off and terminated even in factories that benefitted from the financial stimulus.

0.36 million RMG workers were laid off/re-trenched in Bangladesh due to the pandemic.⁵ This, despite the stimulus package condition of not cutting workers' jobs. 25% of surveyed factories that received credit support reportedly laid off workers in violation of the loan condition and only 59% of laid off workers received their retrenchment while 14% of them received nothing.⁶ The CPD-Shojag survey found that the gender-based employment distribution and gender-based retrenchment distribution were found to be similar which indicates that women were not disproportionately laid off. To ensure that there is no gender discrimination in hiring, firing and lay-offs such sex disaggregated data should be collected on a regular basis.

- Stronger monitoring by COVID Management Committees (CMCs), DIFE factory inspectors and field monitoring team of BGMEA/BKMEA is needed to ensure compliance with the conditions stipulated and to stop disbursement where conditions were violated.
- Labour law should include provisions for factories to discuss retrenchment or job cut plans with WPCs and TUs.

Interviewed workers' representatives alleged that the workers did not feel able to question employers' decisions about layoffs or retrenchments in fear of being black-listed. Only 33% of surveyed employers said they allowed their laid off/retrenched workers to challenge the decision or ask for an explanation.⁷

Timely payment of benefits and salaries was partial.

According to the CPD-Shojag survey 28.5% of workers from the factories that received support alleged late wage payment in the ten months before the survey. 21% of the laid off workers who were rehired again received no payment from their employer during their layoff and 35.7% of them received partial wages only.

- DIFE and BGMEA/BKMEA⁸ should ensure that factories clear dues to workers (both re-recruited and retrenched) in a time-bound manner and pay wages within a mutually agreed timeframe.

However, according to employers, 78% and 75% paid workers' salaries and outstanding in the case of workers laid off and retrenched, respectively.

⁴ CPD-Shojag survey

⁵ CPD and MiB, 2021

⁶ CPD-Shojag survey

⁷ CPD-Shojag survey

⁸ Department of Inspection of Factories and Establishment, Bangladesh Garment Manufacturers and Exporters Association, Bangladesh Knitwear Manufacturers and Exporters Association

Full payment of arrear wages was partial.

One of the conditions of the credit was that 95% of the money be used to pay workers, but it was unclear whether factories were to pay full wages or 65% of wages (the layoff wage rate). Later, it was decided in a tripartite meeting with representatives of employers, workers and government, chaired by the State Minister for Labour and Manpower, that layoff wages of 65% would be paid. However, this amount was not sufficient to sustain families in a time of COVID-19 crisis as most workers depend on overtime wages. Their financial crisis was exacerbated by inflationary pressure on food, additional Covid-related costs and the fall in family earnings. To cope, 82% of workers cut family costs which led to less food intake for 75% of workers, borrowing of money by 40% of workers and sale of assets by 41% of workers.⁹

- The existing provision of 65% layoff wages in the BLA should be revised upwards in a future amendment as it is insufficient to meet basic needs.

Role of Trade Unions (TUs) was not strong enough.

TUs were not sufficiently involved in the decision-making process from the start. Many TUs alleged they did not know about the stimulus package before its announcement.¹⁰ TUs also reported facing considerable difficulties in communicating, mobilizing, and carrying out protests during the general lockdown. In many cases TU were able to protest layoffs and negotiate payment of due wages in case of retrenchment, however they were generally not consulted by management of companies before they took decisions on retrenchment or layoffs.

- Enhance TU role and capacity in monitoring implementation of laws and Covid response measures, stimulus package and health guidelines.

Factories were open but Labour Courts were closed.

The Labour Courts are overburdened with a large number of cases. Cases filed in this court take a long time to be resolved, demotivating workers from filing cases. Furthermore, the Labour Courts were closed for most of the pandemic period. As a result, there was nowhere to turn for grievance redressal related to the stimulus package.

- The Ministry of Labour and Employment should activate Labour Court during the pandemic. Virtual hearings and online submission of cases may be done as is being done in other courts.

Government Role in Management of Financial Stimulus

Monitoring mechanisms were insufficient.

The oversight functions of government authorities such as DIFE and Bangladesh Bank could have been stronger to ensure the conditions of loan were met and there were no Labour Law violations.

- DIFE and lending institutions should enhance factory inspection and monitoring to ensure compliance with loan conditions and health protocols on factory premises and strengthen the authority and incentives of DIFE to impose fines & penalties in cases of non-compliance.

⁹ CPD-Shojag survey

¹⁰ BIGD study: Covid-19 Impact on RMG Sector and the Stimulus Package Trade Union Responses. May 2020.

Despite additional requirements to monitor loan conditions and health guidelines in addition to routine labour law compliance DIFE reduced its inspections during the pandemic by 35% (comparing 2019 to 2020).¹¹ While it is important to acknowledge the health risks faced by labour inspectors during COVID, the number of inspectors was also insufficient. Although there are 575 approved posts for inspectors, there are only 314 inspectors as these positions have not been filled.¹²

- Labour Inspectors should be considered as frontline workers and should be provided safeguards and necessary incentives if export industries are considered as vital production that should continue during pandemics.
- It is imperative to have a central database of all regular and probationary workers at all small, medium, and large factories which would include information on terminations and layoffs. This should be jointly managed in a tripartite manner with employers, trade unions and government. Multi-stakeholder monitoring would allow increased transparency, addressing grievances and evaluation of effectiveness.

Transparency and disclosure were inadequate.

57.8% of interviewed worker representatives did not know if their employers received credit support or if this support was properly utilised. Only 21% of employers said they revealed the spent amount of monetary support received.¹³

- Ensure public disclosure. Bangladesh Bank should upload information on disbursements to factories on their website while maintaining necessary privacy for the companies. Banks should report the factory wise disbursements weekly.
- BGMEA/BKMEA should set up a web portal to publicly provide information on wage disbursements by factories which would allow workers and TUs to ask for necessary information if there are any disputes by uploading their relevant documents.

GOING FORWARD

Institutionalise the best practice of Mobile Financial Services.

The stimulus package stipulated use of mobile financial services (MFS) or online banking to pay workers. However, only 71% of factories complied. Moreover, factories did not continue with the MFS after the package support ended. By December 2020, only 43% factories were still paying wages digitally.¹⁴

- MoLE in consultation with Bangladesh Bank should make it a mandatory to pay workers' wages through MFS services.
- Banks should develop more bank booths and agent banking facilities in industrial areas.

¹¹ CPD-Shojag survey

¹² <https://www.thedailystar.net/business/economy/industries/news/dife-other-regulators-draw-flak-failure-2127961>

¹³ Ibid.

¹⁴ CPD-Shojag survey

Brand accountability was insufficient.

Brands have a significant role to play in protecting the rights of workers and meeting their obligations to their suppliers in the RMG industry. However, the CPD survey depicts a gloomy picture where 88% of surveyed employers received no support from brands. According to BGMEA, as of April 2020, USD 3.7 billion worth of orders were cancelled by brands, affecting an estimated 2.28 million workers. Brands/ buyers are accountable to their country's regulations which protect their shareholders but not their suppliers or the people working for their suppliers. However, 85% of the orders were reinstated.

- Sourcing countries to ensure legal accountability of brand/buyers to protect the rights of workers in factories contracted for production for their companies.
- Brands should publicly disclose data about their sourcing factories and volume of business.

Long-term social protection and unemployment support are missing.

The dependency of the RMG sector on external support to pay workers' wages during this crisis has highlighted the need to institutionalize reforms to meet unpredictable shocks in future. To do so, this is recommended:

- Establish, implement and maintain minimum standards for social protection following the International Labour Organization (ILO) standards, including unemployment benefits, employment injury schemes, and medical insurance. This social protection program should cover all RMG workers and provide for unemployment insurance.

CONCLUSION

The financial stimulus package provided to the RMG sector by the Government to counter the effects of COVID 19 undoubtedly benefitted workers and employers. However, there are several areas of weakness in the implementation of the package. It is important for the corporate sector to be accountable for the use of government resources received to ensure the livelihood security of workers. The lessons and recommendations should be considered by government, the corporate sector and workers representatives to ensure that these weaknesses are addressed in times of crisis or pandemic.

SHOJAG COALITION

Shojag is a coalition of Bangladesh Legal Aid Services Trust (BLAST), Christian Aid and Naripokkho working to reduce gender-based violence in the garments industry. The coalition aims to address gender-based discrimination, violence and inequality by raising awareness and facilitating dialogue among workers, management, and relevant private and public bodies engaged in the RMG sector. This initiative is supported by Funders Organized for Rights in the Global Economy (FORGE) – a Response and Vision Fund (<https://forgefunders.org/response-and-vision-fund/>) set up by a donor collaborative including the Laudes Foundation and the Ford Foundation.

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Published by: Shojag Coalition
Publication date: September 2021
Designed by: Shojag Coalition
Printed by: Popular Communication

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