



Does social compliance lead to export upgrading? Evidence from Bangladesh

Reshad Ahsan and Kazi Iqbal

- An industrial accident in 2013 spotlighted workplace safety in Bangladesh's apparel sector, leading many local factories to undergo safety upgrades for export compliance.
- This policy brief presents findings from a study examining the link between safety compliance and firm upgrading in Bangladesh.
- Preliminary results show that while safety compliance reduced quality upgrading, it fostered the adoption of cost-saving and monitoring technologies.
- This brief proposes a DIFE-led information campaign to address firms' uncertainty regarding the return on investment in safety compliance.
- Collaboration with buyers, capacity building for DIFE inspectors, and encouraging private safety audit firms are recommended to strengthen monitoring and compliance.
- Business associations like BGMEA and BKMEA should take proactive roles in driving reforms for a safer and more compliant industry.

POLICY BRIEF BGD-22143

MARCH 2025

This project was funded
by IGC Bangladesh

theigc.org

DIRECTED BY



FUNDED BY



The context

Workplace safety in Bangladesh's apparel industry has become an issue of global concern after the Rana Plaza accident in 2013. Global initiatives, spearheaded by buyers from the USA (Alliance) and Europe (Accord), made safety compliance in infrastructures, fire, and electricity mandatory for exporting to their markets. As a result, local factories underwent massive safety upgrading, following the corrective action plans (CAPs) recommended and monitored by Alliance and Accord. Note that the factories had to bear the costs of safety compliance, which was likely to have an adverse impact on profit margins and competitiveness. Hence, the question is: how did these firms internalise these costs? The factories might have invested more in cost-cutting technologies. Further, a compliant factory is likely to fetch more orders from reputation-conscious buyers or large "brands" to compensate for higher complaint costs. This relationship with brands can, in turn, incentivise firms to upgrade technology or products.

Our study

Against this backdrop, we study the relationship between safety compliance and firm upgrading by combining global product-wise trade data, administrative CAP data of Accord and Alliance, and survey data. Using both aggregate and factory-level data, our preliminary results indicate that while safety compliance lowered quality upgrading, it was associated with an increase in the adoption of cost-saving and monitoring technology.

Major takeaways for policymakers

At the low level of development, the manufacturing sector has been found to be unsafe for workers throughout history. While industrial accidents are more likely to occur in defence, petrochemical, and energy industries, they are also not uncommon in the apparel sector. The Rana Plaza accident in 2013 in Bangladesh that claimed the lives of 1,134 workers is a recent example. The high frequency of accidents in low- and middle-income countries can be attributed to two major reasons: i) The firms are not aware and convinced that investment in safety compliance can be beneficial; ii) the government lacks adequate capacity to monitor the safety of the factories. This policy brief, which presents the findings of our study, addresses these two issues: the need to incentivise firms and build government capacity.

Our study generates evidence indicating that investment in safety compliance can bring about many benefits and adoption of new technology can become more profitable. Safer factories can fetch large buyers (i.e., brands) who can

induce local exporters to upgrade their products and productive capacities. A few major policy implications of our study are documented below.

1) Information campaign

If safety upgrading has benefits, why do firms not invest in compliance on their own? It appears that a lack of information and uncertainty about the return on investment in compliance is largely responsible for this myopic behaviour. To this end, an information campaign based on our results can be useful to motivate local industries to invest in safety compliance. The Department of Inspection of Factories and Establishment (DIFE) under the Ministry of Labor and Employment of the Government of Bangladesh can take the lead in organising such campaigns. As our findings can be generalised for other industries in Bangladesh such as textiles, leather and footwear, agro-food, light engineering, electronics, etc., the target industries should not be limited to only RMG for this information campaign.

2) Collaboration with buyers

The recent drive to upgrade the factory's safety compliance after the Rana Plaza accident was successful largely because it was mandated by the buyers – any failure to adhere to the corrective measures recommended by the Accord and Alliance would lead to the termination of future orders. Such threats seemed to work well and it is important to maintain such threats by working closely with the buyers. As we know, “Nirapon” – a North American brand-led initiative for safety monitoring of the RMG factories – left Bangladesh in 2021. On the other hand, the RMG Sustainability Council (RSC), a private initiative of local exporters, global brands of Europe, and global and local trade unions has been working to ensure safety compliance. The Ministry of Industry and the Ministry of Labor and Employment should work in partnership with the buyers, particularly RSC, by exchanging information and joint monitoring. However, the government and buyers should not overburden the firms with the same drill separately. Moreover, while the threats from the buyers are important sticks, it is also important to ensure that the buyers cannot extract any monopsony rents by lowering prices.

3) Private safety audit firms

A perennial complaint is that DIFE is understaffed – there are too many factories to be monitored by too few inspectors. Hence, it is important to encourage the private sector to grow in this field to complement DIFE. DIFE has authorised a number of private firms to monitor and factories hire these private firms to conduct routine safety inspections that are acceptable to DIFE. We know that a few firms have emerged as spin-offs from Accord and Alliance with extensive experience in structural, fire, and electrical safety monitoring. A well-

functioning market for auditing services can be created, and the government can provide some policy support for this emerging sector.

4) Capacity building of DIFE

Capacity building of DIFE factory inspectors is critical in improving the overall safety compliance of Bangladesh's industrial sector. The government should undertake capacity-building projects to enhance the efficiency of DIFE personnel. To make the manufacturing sector of Bangladesh more safety-compliant, a four-way partnership involving DIFE, private sector audit firms, buyers, and local industries is required.

5) Effective role of business associations

The business associations in the RMG sector – Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) – are very powerful business bodies with substantial lobbying capacity. As these two associations are at the core of all reform agendas in the RMG sector, they should be more proactive rather than reactive in making this industry more compliant and safe.