

# **Experience from Bangladesh with ethical trading initiatives**

K.A.S. Murshid, Salma Chaudhuri Zohir,  
Anna Milford and Arne Wiig

**R 2003: 7**

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**Chr. Michelsen Institute** *Development Studies and Human Rights*

## **CMI Reports**

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Price: NOK 50

ISSN 0805-505X  
ISBN 82-8062-058-3  
This report is also available at:  
[www.cmi.no/public/public.htm](http://www.cmi.no/public/public.htm)

## **Indexing terms**

Ethics  
Codes of conduct  
International trade  
Working conditions  
Labour standards  
Textile industry  
Bangladesh



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## **Main findings and recommendations**

This study is based on in-depth interviews with a limited number of Bangladeshi stakeholders and ready made garment (RMG) producers, as well as importers with experience from Bangladesh. The conclusions and recommendations mainly draw upon the information gathered through these interviews, and we warn that the answers may not be representative of the whole class of RMG firms in Bangladesh. Having said this, we believe that the information provided gives a clear indication of the status of labour standards and ethical trading in Bangladesh.

### **Main findings:**

Labour standards in the RMG sector in Bangladesh are generally considered to be poor, although we have no evidence that they are lower than in comparable countries. The main problems seem to be the building standards, unenforced and outdated labour laws, and a lack of awareness of labour rights among workers. However, child labour in the RMG sector has decreased considerably in recent years. In fact, representatives of the industry claim that child labour in the RMG sector has almost disappeared.

Ethical trading in Bangladesh has both positive and negative consequences, and the negative consequences are of particular relevance for the small firms. It is estimated that about 50 per cent of firms in the RMG sector are compliant with codes of conduct. Working conditions have improved in compliant factories, but workers in non-compliant firms are worse off. These firms are losing out in competition with larger factories, and many workers have lost their jobs.

The main reason why small and medium firms do not manage to comply with the codes is that it is too expensive. For larger firms, the costs of compliance are less significant. The costs vary with the types of code that are imposed. Compliance with codes related to factory standards sometimes implies moving to a purpose-built building. A large part of compliance costs is fixed (such as certification, building improvements, purchase of safety equipment etc.). The unit cost therefore decreases with scale, making it relatively more costly for small firms to comply. For instance, the question is whether compulsory SA8000 certification will hurt the small and medium firms. However, some compliance costs are also variable, such as wage payments, weekly holidays and paid maternity leave. These are the same for both small and large firms.

Importers believe there are productivity gains to be made from codes compliance, because improvements in working conditions make workers more productive. Importers also believe that these gains are compensating for the costs. Bangladeshi producers do not fully share this view, and would like the importers to share some of the costs of compliance.

From the Bangladeshi point of view, the advantages for the compliant firms are that they are dealing directly with retailers, the quality of their products is improving, and they get more reliable orders. However, codes compliance is not rewarded directly in terms of higher cutting and making (CM) charges.

Many non-compliant firms are operating as subcontractors. If importers do not allow subcontracting, these firms will either lose their business, or continue producing for Northern

retailers without their knowing. If importers allow subcontracting, they can implement codes with subcontractors as well, but this requires more auditing.

Interviewed importers claim to have changed their importing strategies in recent years: they prefer firms with high social standards, which tend to be larger than firms with low standards. They also claim to have longer relationships with the suppliers. However, the reason for this change in strategy may also be the search for higher quality products.

Larger firms therefore have a competitive advantage over small and medium firms, because the costs of compliance are lower, and because it is easier for them to produce high quality at a low price. The challenge for importers, NGOs and Bangladeshi authorities is therefore to find out how to help the small firms and their workers.

Worker interviews conducted during audits are an important part of the implementation of codes of conduct. This gives the workers the chance to complain anonymously about their working conditions, and it increases their awareness of their rights.

Because of confusion concerning the many different codes of conduct, which often do not provide sufficient details, there is a demand for a uniform code of conduct in Bangladesh. This could also prevent the problem of forged certificates.

Importers mainly have codes of conduct to avoid bad publicity from negative press reports. They also want corporate social responsibility to be part of their whole image.

### **Recommendations for importers:**

We recommend specifying to the producers how specific codes of conduct should be interpreted. This will make it easier for the suppliers to understand the requirements and to avoid misunderstandings.

We advise importing companies to have long trading relationships with their suppliers in order to impose codes of conduct. Small importing companies that place a large order (10-20 per cent of the firm's production) will have enough influence on the supplier.

We recommend sharing audits with other importers from the same factory. It would make the importers more influential, and the producers would not have to go through as many audits. Producers often suffer from audit fatigue.

It is important that the team responsible for social responsibility co-operates well with the rest of the company, such as the purchasing department. Awareness training within the company may be necessary.

### *Local legislation:*

We recommend that importers should improve their knowledge about local legislation in order to integrate this into the codes of conduct. Information can be obtained from local solicitors, BGMEA and ETI, and by registering with the relevant Ministry in Bangladesh. Bangladeshi legislation is sometimes vague, and where specific standards have been set they are sometimes considered to be too strict (for instance, regarding the amount of factory space per worker) and sometimes not strict enough (for instance, regarding the minimum wage).

### *Presentation of codes:*

We recommend that the codes be presented to the management of the supplying firm at an early stage, possibly in a written form, together with quality requirements. The codes should also be mentioned at the first meeting with the management. It is important to explain the reasons for having codes of conduct while presenting them.

We advise the importers to ensure that the workers are informed of the codes of conduct. Posters of the codes should be put up so that workers can read them, and they should be written in the local language (Bangla and English). Importers should make sure that the codes are presented orally to the 30% of Bangladeshi garment workers that are illiterate.

### *Auditing:*

We recommend that importers collect information about labour standards in the contracting firm. One approach is to ask factories to fill in a questionnaire concerning their labour standards. Based on the answers, they would make recommendations for improvements, after which they would conduct an audit. Worker interviews are an important part of the auditing process.

We recommend that importers follow a gradual grading system. This means that there would be some basic, initial requirements for a new supplier, and with time the requirements would become stricter.

We recommend that the auditing is conducted by either the importer's own audit team, or by an external audit company. External auditing is less biased than internal, but there is no guarantee that it is always good. The SA8000 certificate is more valid than the WRAP.

We recommend that the importers do not focus only on visible violations, such as a lack of health and safety regulations.

### *Corrective plan:*

We recommend that importers invest in codes implementation beyond auditing. Making corrective plans is found to be worthwhile by those who have tried it. Hands-on training is also appreciated by Bangladeshi factories.

In order to give the managers a positive attitude to codes of conduct, we recommend that importers do not just audit and then tell the factory which improvements should be made. It is important to enter into a dialogue with managers.

We recommend co-operation on codes implementation with NGOs, local or international.

## **Recommendations for Bangladeshi producers and authorities:**

If the producer wants to conduct an audit on itself, we recommend that the company chooses an auditor that is certified. Otherwise importing companies might not accept the auditor.

In order to make sure that individual factories remain compliant, we advise large companies to hire a team of inspectors to see that codes are followed.

We recommend that the Bangladeshi labour laws be revised and updated urgently. They have not been revised since the 1965 Act.

A change in the attitude of RMG factory managers is necessary to bring about improvements in working conditions. We recommend that workshops on codes of conduct be held.

# **1 Introduction**

There has been increasing concern among consumers in the North about labour standards and conditions of employment in producing/exporting countries in the South. Such concerns have inevitably led to the adoption of labour codes by buyers who have then tried to impose these on manufacturers from supplying nations. Exporting countries have always viewed this type of move (e.g. environmental standards, labour standards, child labour issues) emanating from the North with great suspicion, taking these to be essentially non-tariff barriers being used by Northern vested interests (including organized labour, e.g. in the US) to deny markets to developing countries. Notwithstanding such animosity and suspicion among developing country producers, much progress has been made with respect to labour standards, e.g. in Bangladesh.

The textile/ready made garment (RMG) sector in Bangladesh represents an interesting case because of the widely held perception of a prevalence of low labour standards and unsatisfactory working conditions. The move towards labour standards in the industry is of recent origin and it would be interesting to see what impact, if any, these have had. In particular, it is important to examine whether such standards impose constraints on producers and lead to higher costs, thereby eroding competitiveness, or whether adoption of these standards could in fact provide a competitive edge to the industry in the run-up to 2004.

The overall aim of this study is to evaluate the implementation of ethical codes of conduct imposed by foreign customers on Bangladeshi factories. Based on interviews with Bangladeshi garment producers and importers with experience from Bangladesh, the study analyses the process of codes implementation. It also looks at the likely implications of the increased use of ethical codes by importers. These implications include the impact the codes have on management, labour conditions and social development in Bangladesh, as well as the impact of a possible change in Northern retailers' importing strategies. An attempt is also made to provide a Bangladeshi perspective on the whole question of ethical trading and its likely implications for the industry and the country.

## **Outline of the report**

In chapter two we will look at different mechanisms for imposing labour standards in a country. Chapter three will give a status report on labour standards in Bangladesh regarding factory building standards, law enforcement, freedom of association, child labour and gender differences. In chapter four two surveys, one of Bangladeshi suppliers and one of importers from Bangladesh, will be used to evaluate the process for implementing the codes of conduct in Bangladesh. Chapter five addresses the question of gains and losses in relation to codes of conduct, and how the new system is affecting factory costs, competitiveness, the situation of the workers and the importers' strategies.

## **Methodology**

This report is based on a commissioned report written for Norwegian Church Aid (Kirkens Nødhjelp) and Ethical Trading Initiative (IEH) in Norway. In accordance with its terms of reference, the report has been written as a co-operative project between the Bangladesh Institute of Development Studies (BIDS) and Chr. Michelsen Institute (CMI). BIDS carried out interviews in Bangladesh based on two sets of questions. One set of questions was used

for interviews with RMG factories, the other for stakeholders in Bangladesh. CMI undertook interviews with retailers that import from Bangladesh<sup>1</sup>.

According to the terms of reference, for the survey of Bangladeshi garment factories three firms were selected for in-depth interviews. Two of them were fully compliant with the codes of conduct imposed by importers. One was located inside an export processing zone (EPZ) and the other outside. These worked directly with retailers. Another firm was located outside EPZ, but it took orders mostly from buying houses, or middlemen that do not have their own sales outlets. It followed the local labour laws and did not have to follow a buyers' code of conduct. This firm was interviewed as a benchmark for the others.

The range of stakeholders included a group of people from Bangladesh Garment Manufacturers and Exporters Association (BGMEA) working on labour standards, including the current president, three trade union leaders, a woman trade union activist, an auditor, two researchers, and a lawyer from BGMEA. Focus group discussions were held with three groups, each consisting of ten workers. Besides these, insight was drawn from the experience of a survey conducted by BIDS-IDS Sussex of 30 enterprises in 2002 (Zohir 2003).

Seven importers were interviewed. Three were of Swedish origin, but with sales outlets throughout Scandinavia. The other four were British, selling mainly to the British market. In each case the representative of the firm that was interviewed was the one responsible for social accountability and the implementation of codes of conduct. An interview was also conducted with two of the staff members of the Ethical Trading Initiative (ETI) in Britain.

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<sup>1</sup> The compiled report has been edited by CMI

## **2 Global labour standards and codes of conduct**

Inequality between the North and the South is not only reflected in the different levels of income and living standards. There is also a difference in the level of labour standards in factories in the South compared to those in the North. Concerns about this among consumers, NGOs and trade unions in the North have resulted in Northern-led attempts to restore the balance and enforce labour rights in least developed countries (LDCs). This section will go through some of the main systems that may be used to secure workers' rights: the World Trade Organisation's (WTO) trade rules, the International Labour Organisation (ILO), national legislation and codes of conduct.

### **2.1 WTO trade rules on labour standards**

It all began with the hue and cry raised by NGOs and labour unions in the North about the use of child labour in LDCs, especially in the garment sector. The US trade union AFLCIO was particularly active, lobbying important buying companies in America like Wall Mart to stop buying 'dirty clothes'. Strong diplomatic efforts were also launched in the late 1990s to include labour standards, extending to child labour, as part of WTO trading rules, but these efforts were vigorously opposed by LDCs. LDCs argued effectively that labour issues were better handled under the ILO than the WTO, questioning the motives of the North in trying to introduce labour issues as part of trading rules. There was widespread concern that such a move would result in the erosion of competitive advantage arising from the cheap and abundant labour with which countries like Bangladesh were endowed. LDC spokespersons argued that workplace conditions would improve through economic growth and development, but that this would be hindered should rich countries apply trade sanctions to LDC exports for reasons related to labour standards. Application of such sanctions would serve to perpetuate poverty and delay development efforts, including those aimed at improving conditions in the workplace. There remains a strong sentiment throughout the South that the focus on labour or environmental standards is basically aimed at eroding the competitiveness of developing countries.

At the first WTO Ministerial Conference in Singapore in December 1996, the issue was taken up and addressed in the Ministerial Declaration:

We renew our commitment to the observance of internationally recognized core labour standards. The International Labour Organization (ILO) is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them. We believe that economic growth and development fostered by increased trade and further trade liberalization contribute to the promotion of these standards. We reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question. In this regard, we note that the WTO and ILO secretariats will continue their existing collaboration.

In the Seattle Ministerial Meeting in December 1999, both the USA and EU put forward proposals for addressing the issue of labour standards under the WTO. LDC governments vigorously opposed these proposals. The issue was addressed in a working group but no consensus was attained on the role of the WTO on the question of labour standards. Since the Seattle Ministerial Conference, governments from around the world have turned their attention to the ILO as the forum for addressing questions related to labour standards and codes.

## 2.2 The international labour standards of the ILO

The ILO operates with eight fundamental conventions, usually referred to as core labour standards, which are as follows:

- Freedom of association No. 87\*
- Right to organize; allow collective bargaining No. 98\*
- No forced labour No. 29\*
- Abolition of forced labour No. 105\*
- Equal remuneration No. 100\*
- No discrimination in employment and occupation No. 111\*
- Respect for legal minimum age No. 138
- Abolition of worst form of child labour No. 182\*

(\* denotes ratification by Bangladesh)

When a convention has been ratified by an ILO member state, its implementation is supposed to be secured through the ILO's regular system of supervision. This implies that governments are obliged to send reports on ratified conventions according to a periodic reporting schedule. Article 22 of the ILO Constitution provides: *'Each of the Members agrees to make an annual report to the International Labour Office on the measures which it has taken to give effect to the provisions of Conventions to which it is a party. These reports shall be made in such form and shall contain such particulars as the Governing Body may request.'*

However, the ILO is only an advisory body; it can enter into dialogue with governments and recommend and request that ratified Conventions should be followed. It does not have the ability to enforce labour laws independently, and it is questionable to what extent it is able to influence governments to make sure that workers' rights are secured.

## 2.3 Government labour regulations

Each country has a set of regulations that are meant to secure the labour rights of the working inhabitants. In most countries there are specific rules regarding minimum wage rates, overtime, maternity leave and so on – in effect, everything that relates to working conditions.

In many LDCs, the problem with the local legislation is twofold. On the one hand, the local legislation may in itself not be good enough to secure the wellbeing of the workers. Laws may be outdated and in need of revision. On the other hand, laws may not be enforced well enough by the national authorities, and constant breaking of the labour laws may be taking place. It has been suggested that this non-enforcement could be intentional, to sustain investment (Parr and Dhanarajan 2002). Awareness among workers of their rights may also be low, and hence violations of these rights is facilitated. Moreover, in many LDCs, including Bangladesh, there are so-called Free Trade or Export Processing Zones (EPZ), which are exempt from national regulations.

Nevertheless, government labour regulations are a tool for securing workers' rights, and should not be overlooked. Ways to secure their implementation in export-oriented sectors and elsewhere in a country could be found through projects aimed at strengthening the enforcement of these laws or awareness campaigns among workers.

## 2.4 Codes of conduct

From the mid-1990s, press releases, consumer campaigns and boycotts organised by Northern organisations such as the Clean Clothes Campaign, Adbusters and Maquila Solidarity Network put pressure on retailers sourcing from the South. In her international bestseller 'No Logo' of 2000, Naomi Klein describes how Northern retailing manufacturers move their production to the South in order to cut costs by avoiding the high wages of workers in the North. Because they do not build and own the factories, but use already existing locally owned ones, they do not feel any responsibility for the workers who produce the clothes they sell. There is intense competition for customers among Southern producers. Because the retailers are searching for the lowest possible price, suppliers are driven to neglect their workers' rights and welfare. The book describes the conditions in factories in free trade zones in the South, where workers are underpaid, overworked, not allowed to join trade unions, exposed to health-damaging chemicals or machinery, and so on. Media reports with similar stories appeared regularly, and still do, revealing the appalling conditions under which some of the products of multinational companies such as Nike, Reebok, Benetton, and Hennes & Mauritz are produced.

It is probably as a response to this pressure that more and more companies sourcing from Third World countries are adapting to the new trend of Corporate Social Responsibility, or CSR. With a set of codes of conduct, they require the factories they are sourcing from to make improvements in order to raise the level of welfare for their workers. The codes of conduct generally reflect the core ILO conventions. They always refer to the national legislation for specification of dimensions such as minimum wage, maximum working hours and so on.

The Bangladesh experience has been that prior to placing an order major buyers send a list of questions to the supplying firms. This started around 1997 with brand customers like Walt Disney, Nike, PVH, Reebok, GAP and JC Penny imposing codes on their suppliers. Now almost all buyers impose labour codes when buying directly from suppliers. It is interesting to note that buying houses or middlemen (firms that take orders and provide quality control services for buyers) do not make such impositions.

### *BANGLADESHI STAKEHOLDERS' POINT OF VIEW:*

#### **Effects of industrialized countries' campaigns and press releases on labour standards**

The trade unions in the industrialized countries had campaigned against the low level of labour standards in third world countries. This made Northern consumers put pressure on the buyers for ethical sourcing. The industrialized countries launched their campaign to stop sourcing from the third world countries rather than improve the prevailing standards. In particular, American trade unions led this anti-third world campaign, as they felt threatened by the growing importance of outsourcing from LDCs.

Buyers at first imposed a ban on the use of child labour by manufacturers. Owing to the campaign by the trade unions in the industrialized countries, such as AFLCIO, the RMG in Bangladesh became free of child labour. This created a positive image of Bangladesh. But there was no monitoring of what happened to these children. Some of them have ended up in much harsher conditions, such as working in *bidi* factories or selling flowers on the street or becoming prostitutes. Thus, while Northern consumers can now take pleasure in their clothes being made by clean hands, their actions may have had quite adverse impacts on the very children they were so concerned about.

It must, however, be said that the campaigns carried out in the North did ultimately translate into real improvement in working conditions in the RMG sector of Bangladesh.

## **2.5 Conclusion**

The debate on whether social standards should be included in the WTO is still going on, but from the LDCs' point of view this could have a negative impact on their economies. At the moment other mechanisms are at work to secure the workers' rights, and importers' codes of conduct are one of these.

It is sometimes argued that providing greater protection to workers can be achieved through efforts from different levels, including private initiatives like codes of conduct and governmental measures like improved labour laws. However, one cannot exclude the possibility that systems such as codes of conduct may have unforeseen negative effects in the countries where they are implemented. It is important that such effects are uncovered, together with the positive effects, in order to make sure that development goes in the right direction. This study will use the example of Bangladesh to evaluate the impact of ethical trading and codes of conduct.

### **3 Social standards in Bangladesh**

Bangladesh is regarded by many as a country with a low level of social standards. In the RMG sector, there seem to be several problems that contribute to poor standards. This section will provide some background information about social standards in Bangladesh, outlining some specific issues on factory standards, law enforcement, wages and overtime, trade unions, child labour and gender differences. The information is partly based on evaluations of labour standards in Bangladesh made by importers with experience from Bangladesh and Bangladeshi stakeholders and workers.

#### **3.1 Factory standards**

When the RMG sector in Bangladesh was booming in the 1980s, new buildings were set up everywhere and rented out as factories. Old buildings were also converted into garment factories. The problem with these buildings is that they are not adequate or up to standard. Those who built or converted them were in a hurry, and did not pay attention to the requirements for health and safety. Therefore, the conditions of sanitation and ventilation are often not good, and the electricity supply not adequately secured.

The rented buildings often have 3-4 floors, with different factories on each floor. Interviews with importers found that although a factory on one floor might be satisfactory, if the others were not the shared facilities (toilets, fire exits, canteens etc.) were usually poor. Importers thought conditions were much better when there was one owner of the whole complex.

Factory space is a problem, and importers frequently complain that the factories are overcrowded. The rented buildings do not allow much flexibility with regard to physical expansion. According to the law, firms need to provide 500 cubic feet of space per worker. Interviewed Bangladeshi entrepreneurs believe this is an outdated law and impossible for the RMG factories to comply with. Usually 350 cubic feet per worker is the industry norm.

Lack of fire exits is a problem in rented buildings. Doors are often locked to prevent outsiders from stealing. In one case an importer discovered that the fire exits were blocked by boxes. Between 1990 and 1997, 50 garment factories in Bangladesh were reportedly affected by fire; 87 workers died and about 1000 were injured (Zaman 2001). In November 2000 a fire in a garment factory killed 800 workers. Many were trampled to death as they tried to escape the building through the only stairwell, only to find the doors were locked (Parr and Dhanarajan 2002). Most of the fires are caused by electrical short circuits, which suggests that the wiring is not adequate for industrial production purposes. Importers mentioned electrical safety and chemical handling as common problems in Bangladeshi garment factories.

Because of the poor building standards, there is not always a sufficient number of toilets for the workers. In some factories there are restrictions on the use of toilets, such as token systems where employees are only allowed to use the toilets a certain number of times. According to a recent survey, substantial improvements have been noted on this front in recent years (Zohir 2003).

Due to the hot climate in Bangladesh, it is important that there be an adequate number of fans and exhaust fans in the factory. Poor ventilation is a problem for the workers. As far as drinking water is concerned, importers often find that the water situation is not hygienic, for instance, because the employees drink from the same cups.

In purpose-built factories the conditions are generally better than in rented buildings, but the entrepreneurs complained about scarcity of land for the construction of factories. Moreover, small and medium firms do not have the capital to invest in buildings. A suggestion made by Zohir (2003) is to convert the Bangladesh Small and Cottage Industries Corporation's (BSCIC) industrial estates into industrial clusters like EPZs. Recently, a decision has been taken to set up a "Garment *palli*" consisting of 300 units. But the *palli* (village) would also need to include dyeing, weaving, accessories and spinning factories and not just RMG units. There is a need for the government to build factories in industrial clusters and rent them out to the RMG factories. Zohir further suggests that this will lead to a new public-private partnership in RMG and reduce the cost to the private sector as well as meet all compliance standards regarding physical facilities and space.

### **3.2 Non-enforcement of the law**

It is a problem in Bangladesh that the labour laws are not enforced by the government. In principle there are inspectors that should visit the factories, but they often do not do so, or if they do, they are paid off. Workers who feel that their rights are not taken care of could go to the labour court. But this rarely happens, mainly because it is a costly process, and because workers are not informed about how to do so.

Another problem is that many laws need revision. Studies (Zohir 2003) have noted that there are some clauses under the existing labour laws which are not suitable for the RMG industry. These include overtime hours, the right to work after 8pm for women, space per worker, and so on. There is a strong feeling in the industry that these laws need to be reviewed in the light of current realities.

Bangladeshi entrepreneurs find it difficult to comply with the labour law stating that women cannot work after 8pm. According to them the women workers work overtime willingly during the peak season. The labour law provides for a maximum of a 48-hour week with an additional 12 hours of overtime work. Most firms consider this to be a problem during the peak season when there is a big rush to meet order deadlines. A recent BIDS-IDS Sussex survey in 2002 showed that the average working hours were 11 a day. Firm surveys suggested that working hours should be flexible for the peak season<sup>2</sup>.

At the moment, most of the laws still reflect the Factory Act of 1965. It appears that the Labour Code 1994 still remains in a draft form<sup>3</sup>. There is little doubt that implementation of the 1994 Act would improve working conditions significantly. This would provide for maternity leave, for example, although the ILO convention on maternity leave has not yet been signed by Bangladesh. In addition, at present there is no law compelling firms to provide appointment letters for workers. The lack of a written contract gives the firms the right to dispose of workers whenever they want without bearing any cost of severance pay. The provision of appointment letters to the workers is proposed in the 1994 Act (Zohir 1998).

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<sup>2</sup> For example, the need for flexible hours during the peak season has been recognized in Malaysia.

<sup>3</sup> The National Labour Law Commission (NLLC) was formed on 29 March 1992 and it submitted its report on 4 June 1994, entitled Labour Code 1994. So far the Cabinet has accepted the report and it needs to be referred to the Law Ministry and then sent to the Parliament. Its provisions are supposed to apply to all establishments and all industrial workers. This report may have been shelved due to the change in government in 1996.

### **3.3 Working conditions**

Workers' rights regarding wages, working hours and holidays are often not secured. This is due to weaknesses in administrative capacity and the previously mentioned problems with non-enforcement of labour laws.

According to some importers, the problem with minimum wages in Bangladesh is that they are too low, and the law needs to be revised. Zohir (1998) states that in real terms (adjusted by the consumer price index), the minimum wage of the garment workers declined by almost 22 per cent during the 1985-1994 period. Moreover, it is a problem that minimum wages are not enforced. In many cases employers can avoid minimum wage regulations by declaring the worker an apprentice, even though the worker may be a fully trained operator.

The firms have to pay wages to the workers by the 7<sup>th</sup> day and overtime by the 18<sup>th</sup> of each month. Those firms with fewer than 1000 workers find it very difficult to comply with this because they have financial constraints. Moreover, if a bonus is added it puts pressure on the firm's cash flow.

According to the importers, overtime beyond the legal number of hours is a problem in Bangladesh, and it is something that takes time to correct. Also, workers aged between 14 and 18 should have different working hours, but they are sometimes treated as adult workers. Weekly holidays, meaning a holiday every week, must be provided for the workers; this provision is in the Factory Act of 1965. According to the Bangladeshi survey many firms are now providing weekly holidays, but interviewed importers say it is often the case that they don't.

Some importers said they sometimes found there were problems with payment during maternity leave. A survey from 1990 noted that many entrepreneurs stated that they did not provide maternity leave because 'workers do not ask for it' (Zohir 1998)). One of the main problems in Bangladeshi factories seems to be that the workers are not aware of their rights, and therefore they are not secured.

Most of the buyers want health awareness to be promoted among the workers. Many factories have arranged for doctors to visit the factory at least once a week. BGMEA has set up 10 health centres in different locations to provide primary treatment.

The importers believed that verbal abuse was quite common in Bangladeshi factories, but it is difficult to establish, as is the case with physical abuse.

### **3.4 Freedom of association**

In Bangladesh there are so-called Export Processing Zones (EPZ), which are meant to attract more foreign investment and increase exports, and which have their own laws and regulations. Exports from EPZs made up about 18 per cent of total exports from Bangladesh in 2001/2002. Inside the EPZs trade unions are not allowed, but they will be from January 2004 (Zohir 2001b). Now they have workers' welfare associations under an ILO project.

Outside the EPZs, trade unions are allowed and workers have the right to organise, but still they rarely do, generally out of fear. The factory managements do not look favourably upon trade unions, and workers are afraid that if they get organised, the management will be displeased, and they will lose their jobs.

There are a number of workers' associations in Bangladesh, but these are organised outside, not inside the factories. The organisations operate cells in the factories, but members meet in their homes to discuss and take a common stand on different issues.

There has been a development in Bangladesh towards a climate that is more hostile to trade unions. The trade unions are often politicised, and are said to be more concerned about their own benefit than the welfare of the workers. They are linked to different political parties in the country, and represent the entire political spectrum. This often leads to conflict and fighting between the different unions. Trade unions, and the resulting hostility towards them, are generally more widespread in enterprises in the public sector than in the RMG sector.

### **3.5 Child labour**

It is estimated that there are around 6 million child labourers (children between 10 and 14) in Bangladesh (Wiig 1996). Most of these work in the agricultural sector. Poverty is the main reason why children are found in the labour market.

In the RMG sector, there are different estimates of the percentage of garment workers that are below the age of 14. According to the BGMEA, child labour has been eliminated from the RMG sector. Child labour in RMG factories mainly takes (or took) place in the informal sector, in so-called sweatshops that have simple production technology and are operating as sub-contractors for other firms.

In 1993/94 a suggestion was made in the US Congress that it should be the policy of the United States not to allow the importation of products made by children (the Harkin Bill). 42 per cent of Bangladeshi RMG were exported to the USA, and although the bill was never passed, it had a major impact on the RMG sector in Bangladesh. At the time, it was estimated that around 10 per cent of the workforce in the formal RMG sector were children, and around 40 per cent in the informal sector. The threat from the US was probably the reason why many of the children working for garment factories lost their jobs. However, leaving the factories did not mean they were sent back to school, and in many cases they had to look for other jobs. It was soon recognised that expelling children from the factories would not improve their welfare unless combined with projects aimed at helping them.

In 1995 an agreement (MOU: Memorandum of Understanding) was made between the BGMEA, UNICEF and ILO/IPEC<sup>4</sup> on the elimination of child workers from the RMG sector in Bangladesh. In the initial programme that they developed the 8000 children still working in the RMG sector were offered schooling and a monthly scholarship, and other qualified family members were offered the chance to take over the children's jobs.

According to the ILO, the project in Bangladesh has been a success. Today about 50 000 children are benefiting from approximately 60 programmes. Models for combatting child labour have been tested and found to be effective, social mobilisation against child labour has taken a concrete form and social partners are more active than ever before.

### **3.6 Gender differences**

Women constitute about 66 per cent of the workforce in the export oriented garment industry in Bangladesh. According to Paul-Majumder and Begum, the reason why this percentage is so high compared to other sectors (7 per cent in non-export industries) is their comparatively

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<sup>4</sup> The International Program for the Elimination of Child Labour.

lower wages (Paul-Majumder and Begum 1999). The existing labour laws do not have provision for 'equal pay for equal work'. In addition, women are considered more patient and more controllable than men. They are less mobile and less likely to join a trade union, and women are better at sewing because this fits in with the traditional division of labour in the society.

According to several surveys, female garment workers in Bangladesh are discriminated against in terms of wage rates. The gender gap is also widening with time: in 1990 women earned 66 per cent of male workers' earnings, while in 1997 they earned only 59 per cent (Paul-Majumder and Begum 1999). The gender gap occurs mainly because males are increasingly employed in skilled jobs, but women also earn less than men when they hold the same job.

There is also a big gender difference regarding the granting of paid leave. Only about 35 per cent of female workers who asked for leave were granted paid leave, compared with 60 per cent for male workers.

*BANGLADESHI STAKEHOLDERS' POINT OF VIEW:*

**Problems related to labour standards in Bangladesh**

Most of the labour laws relate to 1965 and are of a very high standard. Child labour is no longer a problem in Bangladesh's RMG. The two main problems with labour laws today are as indicated below:

- Calculation of overtime based on gross salary or basic salary: The government practice is to use basic salary for overtime calculation, although the buyers are pressing for gross salary to be used. The buyers argue that the minimum wage is not revised regularly, so it makes more sense to use gross wages. The Ministry of Justice has clarified that overtime will be based on basic salary. Gross salary includes basic salary, house rent and medical allowance. Overtime is calculated as double the hourly rate of basic salary. The basic salary is about 60 per cent of the gross.
- The labour laws allow for two hours of overtime. This is an outdated law and needs to be changed. The workers also demand more overtime. As most of the fabrics are imported there are delays ('long lead time') which cannot be controlled by the entrepreneurs. This situation can result in strong seasonal workloads that cannot be met without longer periodic overtime.

There are different ways of interpreting the labour laws. There are some grey areas, which need clarification and resolution. Moreover, some of the laws are outdated, such as that women cannot work in factories at night after 8pm. Bangladesh has ratified ILO conventions on night work as well as those related to discrimination. These two ILO conventions are contradictory. Many countries have denounced the night work law. Where there are no detailed interpretations, the buyers can impose higher standards. Hence, in the interest of a uniform interpretation of the law, BGMEA has undertaken a programme with ILO to formulate a uniform code of conduct<sup>5</sup>.

Specific issues that crop up frequently include the absence of maternity leave, the right to association and collective bargaining and the right to form trade unions. While workers have the right of association and collective bargaining, they must be able to assemble at least 30 per cent of the workers together to enable registration as a trade union. Much of the problem regarding labour standards is in the sub-contracting factories where codes are not enforced by any party.

*BANGLADESHI STAKEHOLDERS' POINT OF VIEW:*

**Causes of low labour standards**

Non-enforcement of laws and the absence of workers' organisations are the main causes of low labour standards. Moreover, workers' lack of knowledge and awareness of their legal rights and entitlements have resulted in employers violating the law. (Zohir and Paul-Majumder 1996). During the stakeholder interviews, some argued that labour standards are low because entrepreneurs do not want to comply with the labour laws. Trade union activities are weak and there is a lack of collective bargaining effort. Employers do not approve of unionism and RMG workers are apparently not very keen on engaging in organized labour activity. The trade union movement itself has come in for some blame, as leaders are frequently considered corrupt and more interested in advancing their own individual political careers. More importantly, most leaders are 'outsiders' and have little relationship with the RMG industry. There are, however, some NGOs which are actively involved in organizing the workers, although their impact to date has been small.

The workers have low levels of education and are relatively new entrants into the organized labour force (Zohir and Paul-Majumder 1996, Afsar 2000a). This has meant that their levels of awareness of rights are limited. Moreover, as it is relatively easy to hire new workers they remain vulnerable to threats of retrenchment and to exploitation.

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<sup>5</sup> Referred to at page 20.

## **4 Implementation of codes of conduct**

In Bangladesh buyers have been implementing codes of conduct since 1996/1997. This section is based on interviews with three Bangladeshi firms and seven retailers importing from Bangladesh, all of which have implemented codes of conduct. The section also draws on an interview with ETI. We will go through the different stages of the codes implementation process, seen from the different points of view. The implementation process includes: how the importers adjust their codes of conduct to the local laws; how they present their codes; how they do the auditing of the companies; and how they make sure that corrections of non-compliance are made.

### **4.1 Integrating local legislation into the codes**

The importers always incorporate the local legislation of the country they are sourcing from into their codes of conduct. This means that they base criteria such as minimum wages, overtime payment and number of holidays on the national law. Sometimes the codes of conduct are presented as a document which denotes both the local legislation and the company's code. Most of the importers say that when local legislation sets a lower standard than their own codes of conduct, they aim for the higher standard. The Bangladeshi firms felt that if they can comply with the existing labour laws then buyers' compliance is not a problem.

It can sometimes be problematic to find out what the local law says on these specific issues, and to keep updated on changes in the law. The importers have different methods for dealing with this. Some were using local solicitors, and some were registered with the relevant Ministry in Bangladesh to get the information they needed. Information could also be found in a handbook compiled by the BGMEA. Some importers said the suppliers could provide them with information, and that the internet was also useful. One British importer said ETI was helpful in giving out information about different countries' local legislation. None of the interviewed importers said they used their respective countries' development agencies (DFID or SIDA) in order to get hold of this kind of information.

Companies that use external revision do not have to use time and resources on legislation, since the auditing companies are usually up to date on both Bangladeshi and international legislation. Similarly, importers that hire codes of conduct inspectors in Bangladesh will leave the legislation work with them, since the inspectors have contacts and will check for changes in the law.

Another problem with the integration of local legislation into the codes of conduct is that the local laws are sometimes vague and so interpretation is problematic, as was mentioned in section 3. In the EPZs the laws are more streamlined and the standards are monitored. But the workers do not have the right to unionize, which they should have according to most of the buyers' codes of conduct. We will later see what the interviewed importers' policy is concerning trade unions.

### **4.2 Presentation of codes**

The importers normally inform the factories about their codes of conduct early in the process of purchasing. Usually they are presented in a written form together with quality requirements. When representatives of the importing company meet with the supplier, they

will inform the management orally about the codes of conduct. According to one importer it is important that one explains the reasons for having codes of conduct to the management while presenting them.

The management will also be asked to put up a poster in the factory to inform the workers about the codes. Firms generally display the codes in Bangla and English on their premises, and in some cases workers are given a copy of the codes as well. The experience of ETI in Britain is that it is important to use a common language when communicating the codes of conduct, and a local language should be used on the posters. One importer presented the codes in the employee's handbook, and stated that they instructed the departmental heads of each functional area to inform the workers.

According to the survey from Bangladesh, there does not seem to be much effort in terms of drawing the attention of the workers to the codes in a systematic or coordinated fashion. Around 70 percent of the workers are able to read and write, so that, in principle, they can read what is in the codes. However, no special efforts are made for those who cannot read. It is difficult to check whether the information on the poster is given orally to illiterate workers, but this is usually something that will come out during the worker interviews that are held in relation to audits.

Generally, poor literacy rates and a low level of awareness can be problematic for a successful implementation of codes. One importer said that because of this they held workshops to educate the workers on their rights.

### **4.3 Auditing**

In order to see whether the factory is complying with their codes of conduct, the importers will make an audit of the factory. We will now go through the different procedures of auditing.

#### *When to audit*

There are some buyers that do not present their codes of conduct or start auditing before the contracts have been signed. Others are very thorough in making sure that the level of social standards is adequate before they start sourcing from a factory<sup>6</sup>.

Some buyers provide a detailed questionnaire to the management to enable them to assess the labour standards followed by the firm. If there are shortcomings, the buyers will indicate what steps should be taken and within what kind of time frame. This will then be followed up with actual monitoring on the ground. The factories have to sign a contract stating their agreement to abide by the labour codes prior to receiving orders. This is how the buyers ensure that the codes of conduct are followed.

Most of the interviewed importers do not require the factories to satisfy all the demands immediately, but operate with a grading system, which means that there are some minimum requirements that must be satisfied before they start co-operating with the firm, and gradually the requirements increase. This way the importer allows for the development of social standards with time. Hence, new suppliers do not have to satisfy all the demands immediately. According to several importers the most important thing is to have an initial commitment to improvement.

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<sup>6</sup> For example, it took two years for one factory to get certified for the American retailer Kohl's.

### *Who does the auditing*

Auditing is done either by the importing company's own staff, or by an externally hired auditing company. Some importers use both methods.

Importing companies that do their own auditing often have a special audit team, sometimes with staff members with SA8000 auditing certificates. When the auditing is done by the importer, it usually means that more visits are made to the factories by company representatives. However, some importers said that much of the control of social standards is undertaken at the same time as the quality control, which means that the auditing is sometimes carried out by an ordinary purchasing team, and not one that is trained specifically for this purpose.

Some importing retailers, and importing companies that do not have their own sales outlets, usually use external auditors. These can be either local or international ones. Examples of external auditing companies operating in Bangladesh are ITS, BVQI, SGS and PriceWaterhouseCoopers. According to ETI, the problem with the local auditing companies is that they are often not up to standard, which means that their performance as auditors can sometimes be inadequate. On the other hand, international companies may not have the local knowledge that is required to do a good audit.

It is the impression of importers that it is more difficult to audit and implement codes of conduct when operating through an agent. This corresponds with the results from Bangladesh, which conclude that only direct buyers implement codes of conduct; import agencies without their own sales outlets do not. It is also easier for the importers to audit the factories they are sourcing from when they have their own purchasing office located nearby.

According to one importer, the factories increasingly want to pay for and be responsible for external auditing themselves. This is because they see the advantage of being audited, and because they want to take ownership of their own compliance. If a factory is already audited, and the information available, the importer can review it, and if it is done by a credible audit company they do not have to do their own auditing. It is therefore important for the factory to have been audited to a standard that is accepted by most importing companies.

### *How to audit*

The auditors visit the factories, and sometimes arrive unannounced so that the factory managers cannot make preparations to hide violations. They go through books and records and the details of payments to workers. The auditors also select workers from the floor at random and ask them questions. The firm management personnel are not allowed to stay when they interview the workers. About 25 to 30 workers are interviewed. The buyers' policy is that when auditors interview the workers they can complain about the factory. Because of that it is a very important part of the auditing procedures.

Some buyers are more rigid than others. For example, Wall Mart considers body searching of workers while leaving the factory a major violation, although most firm owners consider this to be necessary to prevent pilferage.

Some other reasons given for the interviewed Bangladeshi firms' initial compliance failure:

- Verbal, physical abuse, psychological or sexual harassment not permitted: Monitors found 3/25 workers were verbally abused.

- ¼ fire extinguishers on one floor and 1/5 on another floor were obstructed by sewing tables.
- The first and second floors did not have the red marks for exit.
- There should be two fire buckets with 2 gallons of water for every 1000 sq. ft. Buckets were not in place.
- Overlock operators did not have protective masks.
- There should be signatures or thumb prints for receipt of wages. But four workers did not have them and had asked the clerk to sign on their behalf.
- Needle register: There were no dates and signature of recipients of broken needles

These were considered to be serious violations and the firm was given 30 days for corrective action and follow up within 60 days.

When auditing a supplier, it can sometimes be difficult to find real proof of non-compliance with the codes of conduct. Suspicions may arise that there is a problem of, for instance, physical or verbal abuse in a factory, but without proof it is difficult to do anything about it. An example given by one importer is the detection of child labour. It is sometimes difficult to determine the age of the workers. One can ask for a certificate after medical examination, but doctors appointed by the factory can give false certificates. It is therefore better if the importers appoint their own doctor. One can also go back to the city of birth of the person in question, but this requires a lot of work.

According to ETI many importers are focusing on the most visible violations of their codes of conduct, such as health and safety regulations, because it is more difficult to detect the more hidden problems such as discrimination, overtime beyond the legal number of hours or wages below the minimum. But if real and lasting changes are to be made for the workers, these issues also need to be addressed.

*Example: Subcontracting*

According to some importers, subcontracting is not as common in Bangladesh as in other LDCs, but it does occur, and it should be discovered during audits. Generally, the advice is to look at the capacity of the factory, and compare it to the volume they are producing, or to look at the products and see if all of them could have been made at the factory. For example, if clothes have embroidery and the factory does not have machinery for this, it must have been done somewhere else. One can also try to discover subcontracting through interviews with managers and employees.

ETI advises its members to map the supply chain, which means including home workers and subcontractors. By not refusing to allow the factory to use subcontractors, the importer can ask to audit the subcontracting firm as well. If the importers forbid subcontracting, and the factory still uses it without the importers' knowledge, they will not be given this possibility. The conclusion could then be that importers should allow subcontracting to take place. However, the importers admit that the more subcontractors there are, the more difficult it is to check the standards and impose codes of conduct on all of them. In particular, if the aim is also to audit the factories that supply the RMG factory with material (dyeing factories, weaving mills, factories making buttons etc.), subcontracting makes the auditing process all the more complicated.

If subcontracting or home workers are discovered, the advice from ETI is that they should not be pushed out, as this will harm the people who are working there. This problem is further explored in section 4.12 and 5.4.2.

#### **4.4 Uniform code of conduct**

There is a demand from the entrepreneurs for a uniform code of conduct as buyers' codes can differ enormously. All codes of conduct follow the eight core principles of ILO and usually add on a few more for good measure. They are generally vague in terms of auditing arrangements, and frequently do not provide sufficient detail. For example, details are not given in the code of conduct or labour laws with regard to whether fire extinguishers should be installed on the ground floor or on each floor; whether there should be toilets on each floor; or whether the total number of toilets should be 'adequate'. There are also concerns with regard to the quality of auditing. Most auditors have no legal training and frequently depend on their subjective perception of what constitutes violation. It is feared that codes of conduct can lead to corruption to some extent, as false certificates may become a problem. Suppliers believe that independent auditing is better as there is no conflict of interest, as opposed to in-house monitoring.

Quality of auditing is important and one possibility would be to involve BGMEA, the government and the workers themselves to form a tripartite body to contribute to this effort. BGMEA is undertaking a three-year programme with ILO on improving labour and working conditions in the garment sector. The title of the project is 'A partnership Approach to Improving Labour Relations and Working Conditions in the Bangladesh Garment Industry'. The programme will cover about 600 BGMEA member factories in Dhaka and Chittagong that have volunteered to participate. The main component of the project includes raising awareness and ensuring occupational safety and health, human resource management, labour and welfare, and continued monitoring of child labour use. ILO has conducted a baseline survey of 200 factories. They will give advisory services to these firms on an individual basis for workplace improvement. A steering committee will be set up comprising representatives from the Ministry of Labour and Commerce, the Export Promotion Bureau, ILO, the American embassy, GSS and entrepreneurs. The EPZ has already started a workers' welfare programme and a similar programme will be started up for RMG factories outside the EPZ.

In relation to this project, a uniform code of conduct will also be prepared. The plans for the uniform core codes of conduct are that they should include the provision of appointment letters to the workers; maternity benefit; weekly holidays; and child care facilities.

According to ETI, there is currently a serious discussion among their company members as to whether there should be a general standard and a uniform code of conduct that should apply to all countries and factories worldwide. The SA8000 and the WRAP certificates are examples of such codes, but there is opposition to these among importers, in particular to the WRAP certificate, which is used more widely than the SA8000. The main driver for the WRAP certificate was the corporation Sara Lee, as a response to media attacks. According to ETI, there is no transparency within the WRAP system, and the SA8000 is a much better system, since this is a multi-stakeholder approach.

#### **4.5 Corrective plan**

Once non-compliance with the codes has been discovered, the importer should, according to ETI, help the factory to make a corrective plan in order to overcome the problems. But the survey from Bangladesh indicates that buyers are doing little more than telling the factories

what to correct, and not how to do it. According to Bangladeshi suppliers, the normal implementation procedures are as follows. Auditors check a firm's records going back 6-12 months. They give three chances to a firm to bring its compliance level up to the mark. During the first 30 days firms are expected to correct major violations, related to wages and leave, extra working hours, timely payment of wages and overtime etc. Other minor violations relate to the number of fire extinguishers, adequacy and cleanliness of toilets, availability of hosepipes, and whether fire drills are regularly conducted.

Hence, the Bangladeshi impression is that all the responsibility for implementing the codes is with local manufacturers. According to ETI it is a problem that importers invest in little beyond monitoring. They are not investing in follow-ups: they do not go back, check again, and find a corrective plan. There is generally a lack of strategic planning among the importers. The survey from Bangladesh also concludes that in practice, implementation of the codes can be highly variable. For example, sick leave is often not granted, as workers are unable to produce a doctor's certificate. The workers do not demand day care or crèche facilities, as they are not aware that such demands can even be made. Maternity leave is normally given without pay. Night work after 8pm is accepted even if this is against the law, mainly because shift work is needed. This may indicate that more interference from the buyers could be necessary for a successful implementation of the codes.

The experience of one importer is that if all one does is audit and then tell the suppliers what to correct, there will not be a real change in the attitude of the managers, and constant re-auditing is therefore necessary if one wants to make sure that the firm remains compliant. Investment in time spent on corrective plans and on bringing about a fundamental change in the factory will therefore pay off in the long run. Such implementation could be pursued alongside working for quality improvements. This importer had had very good experience in China with making corrective plans, running workshops for managers and giving hands-on training, but said they had not yet implemented such programmes in Bangladesh.

Another importer claimed that the supplier often does not take corrective action because it does not know how to do it. She stressed the importance of education and assistance in the implementation process. However, the Bangladeshi firm owners said they did not think that any help was needed in implementing the code of conduct. But they also said that the management actually learnt a great deal in terms of management and quality control from buyers that provide training on compliance as well as giving technical assistance. For example, some buyers, such as J.C. Penny, PVH and H&M, provide hands-on training. They advise the firm on appropriate equipment needed in each section, the training of workers and record keeping. Local firms believe that they can grow with such buyers, who take a longer term view.

The Bangladeshi experience is that the main implementation strategy stems from the worker interviews. This is because it raises awareness among the workers of their rights. In many cases, workers in the garment industry are first-time workers and hence are inadequately informed about their rights. Increased awareness is an important tool for the raising of social standards.

#### *Example: Overtime*

Overtime beyond the legal number of hours is often a problem in Bangladeshi RMG factories. Sometimes there are orders that need to be finished in a short period of time, but the managers do not want to hire more workers, and therefore let their employees work for very long hours.

But there are also some factories that make their employees work overtime beyond the legal number of hours outside peak seasons. Overtime payment is also a problem: workers are often not paid as they should be according to the law.

The importers' opinion is that if they want to correct this problem, they should enter into a dialogue with managers on productivity projects, and try to make them look at overtime payment as a way to increase efficiency and productivity. For example, the factory should measure how much fabric is rejected because of mistakes made by unskilled workers. Better paid workers are more satisfied, will stay longer and therefore become more skilled. This will probably reduce the amount of rejected clothing, which will allow the factory to save money.

Productivity analysis can be undertaken by a local consultancy, or the importer can try to be the consultant. In most cases this means using their own auditors for this job. However, these people are generally not trained for such tasks, and the value of their advice will depend on the length of their experience in the field.

#### **4.6 Beyond auditing**

The ETI admits that it may have put too much emphasis on auditing, and therefore influenced its members to develop an inappropriate attitude. This will now change and they will start pushing in a different direction. ETI believes that compliance with the codes should be a more important aim than auditing as many as possible of the suppliers. But the importers' pricing policy and length of contracts are a barrier to codes compliance: as long as there is pressure on prices and short contracts, it is difficult to get codes compliance. In addition, buyers often have some personally significant issues for the factories to comply with, such as child workers. At the same time, they accept other violations more easily.

There are also doubts as to whether compliance with the codes is a good enough aim for ethical traders. According to the ETI, when the factories get hung up on compliance, the improvements that are made and the effect on the workers are less important. ETI does not say 'comply or die'; the main aim is social development, and according to them this is what the teams responsible for social standards should be committed to.

#### **4.7 Co-operation with managers**

For the importers interviewed, co-operation with managers does not seem to impose problems when implementing codes of conduct. In addition, the leadership of the Bangladeshi firms considers the codes to represent a change in terms of attitude and was generally found to be well disposed towards them. Apparently, it was more difficult for the importers to gain an understanding of the codes of conduct at the beginning, in particular for those importers that started using codes of conduct as early as 1996/97. Today, everyone knows that the importers have codes of conduct, and the situation has therefore much improved.

However, according to one of the importers the management in Bangladeshi factories was the main obstruction to successful codes implementation. The problem was the general lack of management skills, due to a low level of education among factory managers. In her opinion, they were unable to organise production in an effective way, and did not see the relationship between productivity gains and increased quality. Hence it was difficult to make them see the value of the codes of conduct. But the new generation of Bangladeshi managers usually had a higher level of education, and was therefore generally better.

At the same time, some importers claimed that with time the managers also get better at cheating. Examples of methods they use are double bookkeeping on working hours, no appointment letters for employees, and false birth certificates for children. According to one importer, it is important that the rules be clearly established and understood by the managers.

#### **4.8 Co-operation with employees or trade unions**

Co-operation with the employees at the factory is also part of the codes implementation process. In order to get an insight into the opinions of the workers, it would seem natural to co-operate with a trade union based at the factory. However, this is not the case with importers from Bangladesh. Most of them were sourcing from factories where there were no trade unions, and in the cases where there was one, they had not entered into co-operation with it.

Those importers who had an opinion about the trade unions in Bangladesh were generally very negative. According to their responses, they are numerous and difficult to get an overview of, there are fights between them because they do not agree with each other, and they recruit members in a militant way. Due to the trade unions there are strikes and stand-stills, but since these are only imposed during the day, the workers are forced to work during the night instead. Some importers also claimed that the trade unions did not represent the employees. It was also said that the trade unions are not strong in Bangladesh. There is generally distrust between employers and trade unions, and although the standards require that they cannot ban trade unions from their factories, the managers find ways to do it. For instance, a worker can be fired for being a member of a trade union. The ban on trade unions could be caused by fear of strikes and demands for higher wages.

The importers interviewed did not demand that the suppliers should have a trade union at the factory. One importer said that it was important not to impose such a requirement, but rather to help the factories to see the advantage of having worker participation.

In some factories, there are worker committees or worker welfare councils, and some of the importers were co-operating with these, instead of with trade unions. It was said that if these are elected by the workers, they can be as good as a trade union. But otherwise the opinions and wishes of the workers were made known through employee interviews during audits.

One importer seemed to be more open to co-operation with trade unions, but thought it was difficult to find a suitable way for this, not only in Bangladesh but also in other countries they were sourcing from. The importer meant that since the trade unions and the socially responsible importers have the welfare of the workers as a goal and objective, co-operation would seem natural.

In EPZs trade unions are not allowed. But the workers do not seem to demand trade union rights as long as they have access to management for redressing grievances. In some factories there are so-called 'Human Resource Units', people (often social scientists) hired to see that codes are implemented and followed. Workers can come to them with complaints about their working conditions. According to an ILO study, wages and working conditions are generally better in EPZs than in domestic tariff areas (Paratian and Torres 2001).

The study undertaken in Bangladesh concludes that the codes of conduct are a tool for organizing the workers, and can work as an awareness campaign for the trade unions. There has been some change in the environment, such as awareness raising, organizing and

leadership. In some factories the issues or grievances are identified by the workers themselves; sometimes cells are formed and these meet outside after work. These activities take place in secret, as management is very suspicious of this type of action. NGOs that are trying to organize the workers feel that the labour codes have had a positive impact on labour standards.

#### **4.9 Co-operation with NGOs**

Some importers have been co-operating with local or international NGOs, for instance on setting up welfare committees in factories. There are many cases where such co-operation has been very fruitful, especially if one aims not only at auditing and compliance, but also at improvements that will lead to social development. Some examples of co-operative projects between importers and NGOs are mentioned in the ETI annual report 2001/2002. In this report there are examples of multi-stakeholder projects that include several importers and NGOs. The projects either function as forums for discussion on how to achieve common goals, or aim at solving specific problems.

#### **4.10 Co-operation within the importing company**

Auditing and codes implementation can in some cases be problematic because the audit team does not co-operate well with the rest of the company. There have been cases where a factory's orders have been cut by the purchasers at the same time as they are complying with the codes imposed by the staff responsible for ethical trading. According to ETI it is often a problem that the codes are not mainstreamed through buyers.

The importers interviewed seemed to be aware of this problem, and to have experienced such complications. It was said that the purchasing team often has a different attitude to the factory owners than the auditors. They usually want to have a good relationship with the factories, since this means they will get better service. However, a factory that they may approve of in terms of quality and price may be considered unacceptable by those who are responsible for social compliance. Thus there will be an internal conflict within the company.

Several importers emphasised the importance of educating all the departments in the company on codes of conduct, especially the purchasing department. In particular, the purchasers must be informed if the auditing team have decided that a factory's contract should not be renewed due to non-compliance. One importer said they had had awareness training about the codes of conduct and social accountability for a number of managers within the business.

#### **4.11 Size of orders and audit sharing**

Implementing codes of conduct can be more difficult when the importer has only a small share of the factory's orders. The factory will take the codes of conduct more seriously the more the importer is sourcing. According to one importer, if they buy less than 10-20 per cent the factory does not care about them. But being a small company does not necessarily mean that one has less influence; the size of the order is more important. Even big companies sometimes source little, and will therefore have less influence. In addition, the size of the orders is not the only influencing factor. Importers that have longer relationships with their buyers will usually also have more influence and better prospects for social compliance.

According to ETI it can be an advantage to work collectively with other importers on codes implementation. This could also make it easier for the factory, since it would not have to deal with a number of codes from different importers. Some factories are suffering from audit

fatigue because of constant re-auditing, and it can therefore be a problem that importers are not sharing audits with each other.

Within ETI such collaboration is increasingly taking place. However, the interviewed importers had little experience with this kind of co-operation. One importer had a business relationship with another importer in Bangladesh, and they were co-operating on both social compliance and business issues. Another importer said that information about standards can be given to smaller importers. In Bangladesh audit sharing is seen as something very advantageous for the producers, because it saves them a lot of work.

Most of the importers, however, seemed sceptical about co-operation on codes compliance; because of competition they do not want to share information about suppliers with each other. But one importer also said that some companies do not promote codes actively, and can therefore ride on the back of those who do. Co-operation can also be difficult because the standards of the importers are different. When the factories themselves pay for and take control over the auditing, it may reduce the number of different audits.

If an importer wants to contact other importers from the same factory, it can usually find out who the other importers are by looking at the labels of the other products if the factory does not want to divulge the information. Some of the importers hoped that there would be more co-operation in the future, and were interested in common systems for sharing information, for instance through ETI.

#### **4.12 Cut and run? Leaving non-compliant suppliers**

One of the main points of the Declaration of Intent (IEH-Plakaten) of IEH (the Norwegian ethical trading initiative) states that:

‘In order to make social and economic development possible in low and middle income countries, it is important to import more, not less from these countries. Demands for social responsibility should not lead to a reduction in imports from low and middle income countries. Termination of a customer relation should only be used in exceptions and where other means have been tried without result.’

Hence, the policy of organisations like ETI and IEH is that when a factory does not comply with the codes of conduct of the importer, the solution is not to stop sourcing from them, to ‘cut and run’. Instead, they should continue to source from these factories, but try to change their policy and prevent more violations of the codes. Only as a last resort should the factory be rejected. The reason why they want to prevent this from happening is that it will not be beneficial for workers who are already in a difficult situation to lose their jobs.

The interviewed importers seemed to have different attitudes concerning this. Some said they had left a number of factories because of non-compliance, but others stressed that this was something they rarely did.

The problems related to factories that are losing out because of ethical trading will be addressed in the next section.

## 5 Codes of conduct: winners and losers

In this chapter we will first see how suppliers and importers perceive the costs and the benefits of codes compliance. We will then look at how the strategies of importers have changed as a result of their use of codes of conduct. Next, we will relate this to Bangladesh and its relative competitiveness, and we will also see what influence RMG exports and ethical trade has had on social development in Bangladesh. Finally, we will make an assessment of the importers' gains from ethical trading.

### 5.1 Are codes of conduct costly for Bangladeshi RMG factories?

There is rising concern among NGOs and others working in ethical trading that the costs of codes compliance are entirely born by the suppliers, and not by the importing companies that impose the codes. A seminar on pricing in the global garment industry was held in February 2003 by International Restructuring Network Europe (IRENE) and Clean Clothes Campaign. It was pointed out that importers that ask factories to comply with their codes of conduct are also, at the same time, asking them to cut their prices. The question was raised as to whether importers should also pay a 'fair' price when sourcing from these factories, and 'pay ethically' as well as 'sourcing ethically'.

However, it is not clear precisely how important the costs of compliance are, and what influence this has on the business situation of the factories. According to ETI, increasing costs mean that the factories have to squeeze their suppliers, and stop investing, training and so on, or limit their profit. But some also claim that codes compliance is a benefit to the factories in terms of gains in productivity and competitiveness.

#### 5.1.1 *Costs of compliance*

RMG factory owners/managers in Bangladesh and retailers importing from Bangladesh were asked how they regard costs related to codes compliance. The factory owners and the importers pointed out a number of ways in which costs are increased, such as wage increases, an increased rate of overtime payment, the provision of wage slips, appointment letters and weekly holidays, investments in fire extinguishers, first aid boxes and medical supplies, and so on. Requisite staff sometimes had to be hired in order to oversee the implementation of these. In one firm, two graduates were hired for the purpose of going through a checklist every day to ensure that all aspects of the codes were being followed. Generally, firms with more than 500 workers have to employ a welfare officer to be able to respond to workers' complaints and difficulties.

The costs of compliance differ according to which improvements are demanded. Some types of improvement, such as the creation of more fire exits or better ventilation, can be very expensive, while others, such as changing light bulbs, are low cost. In some cases the factory has to pay for external auditing, which can be expensive (estimated at £2000). Since many codes violations are related to the building standard, full compliance will sometimes imply moving to a purpose-built factory.

While costs were mentioned as being important in interviews with the Bangladeshi suppliers, generally the view was that this constituted a very small proportion of total costs and therefore did not significantly affect profitability. Thus, one firm reported that their Personnel Administration Department was in charge of overseeing the implementation of these codes. It did admit that the six employees in the department were overstretched and that there was a

need to hire more for the workforce, consisting of 1875 workers, but insisted that the extra cost entailed was very small.

It seems to be the case that the costs of codes implementation are causing an adverse selection between medium and small firms, and large firms which deal directly with retailers. For the large firms, the costs of compliance are not regarded as important, since fixed costs do not increase per unit cost significantly. But it may be too expensive for a small firm to comply by making new investments, especially since small firms often rent in buildings with low standards. It may therefore have to let the order go, and ultimately, it may have to go out of business. For the estimated 50 per cent for whom the costs of compliance are too high, the codes of conduct are a disadvantage.

On the other hand, buyers also seem to be aware that some codes are too expensive to comply with, and are therefore deliberately not imposing them. For instance, Bangladeshi legislation states that the factory space per worker should be 500 cubic feet. The industry norm in Bangladesh is 350 cubic feet per worker, and it would entail a considerable investment for a factory to increase its space to such an extent as to comply with this. The Bangladeshi survey indicates, too, that buyers are not demanding it.

### *5.1.2 Benefits in codes compliance*

Undoubtedly, there are costs involved in codes compliance. It is more questionable whether these costs are compensated for in terms of benefits such as increased productivity, higher prices or more sales.

As mentioned earlier, some importers were convinced that the productivity of the factory increased with codes compliance. They believe workers that have better conditions become more productive, mainly because they remain working for the factory for a longer time. In Bangladesh, it is felt that the working environment has improved significantly. The effect on productivity is considered positive, although the respondents provided a mixed response on this question: one firm felt that productivity had not increased while another felt that it had improved.

According to the Bangladeshi suppliers, codes are imposed by the retailers and direct buyers and not by importers and buying houses. As a result, with compliance they deal directly with buyers and get rid of middlemen; hence prices are better. Moreover, these are better products and CM is therefore higher. In addition, the volume of orders is large and reliable. The buyers give weekly reports on sales and if these are good early in the season there is a chance of repeat orders. However, buyers do not bear the costs of compliance, and suppliers think they should, to some extent.

### *5.1.3 Should importers pay?*

Within ETI there is a serious discussion among members as to whether importers should pay for compliance or not, and the members have differing views on this. Some companies have longer contracts with complying firms, and pay better, but they are usually the ones selling an ethical brand.

All the interviewed importers said they do not reward the suppliers in terms of increased prices. They still claim to reward the factory by, for instance, making a successful factory help a poor factory, and by increasing their productivity through a show and teach approach to compliance. One importer pointed out that the factory is rewarded in the sense that if they do

not achieve the standard required, it would result in a loss of business. But it was also said that compliance alone would not secure the future of the factory; it must also operate efficiently and produce high quality merchandise.

From the Bangladeshi point of view, an example of how buyers could contribute to compliance is on the right to paid maternity leave. Bangladesh would create a unique example if a tax-at-source or payment per worker from the exporters could be used for paying maternity leave for female workers. Women workers are very mobile, so most of them do not get maternity leave, as they had not worked for the particular firm for nine months prior to the date of the child's birth. Women could get maternity leave paid from such a fund if they had worked in any RMG firm for nine months under this scheme.

Generally, the interviewed importers seem convinced that the costs involved in codes compliance are small compared to the productivity gains that it leads to. Therefore they do not think they need to pay the suppliers a better price. The suppliers are less sure that compliance has increased their productivity, but they see gains from compliance in the sense that they are selling more to direct buyers and hence receive a higher price. They still feel, to some extent, that importers could contribute more in terms of cost coverage.

## **5.2 Ethical trade and changes in importing strategies**

Codes of conduct mean that there is a new set of criteria that must be fulfilled by a supplying factory in order to be accepted by the importer. One could assume that this would change the practices followed by the importing companies, and that new strategies would lead to some countries or types of factory receiving more orders than they would without ethical trading. If importers have a preference for factories with a satisfactory labour standard, such factories will gain a competitive advantage, and will be more likely to survive in the long run.

As seen above (section 4.2), importers have different strategies on when to present the codes to the factories and when to start the process of codes implementation. Some claim that they will not start trading with a supplier unless it fulfils certain minimum requirements, while others do not care about the initial status of the factories, and will only start auditing after the business relationship has been established. Importers generally give the impression that they prefer socially responsible factories to those with low labour standards, and that their relationships with their sub-suppliers are more lasting now than before. Some also claim that they have terminated a number of contracts because of non-compliance with their codes of conduct. This indicates that there has been a change of importing strategies for firms with codes of conduct.

However, importers also point out that price, quality and other aspects are still as important as before, and that the tendency to have longer-lasting relationships with suppliers is also related to the quality aspect of production. Importers seem to have experienced that a longer relationship with a sub-supplier leads to a higher level of quality in their deliveries. Studies related to this have been undertaken by Wiig (1995). Some of the interviewed importers also believed that socially responsible factories produce better quality. Bangladeshi producers believe codes of conduct have had a positive impact on product quality.

The quality aspect is probably a more important explanation as to why importers say they increasingly use larger factories instead of small ones. With larger factories it is also easier to get bulk orders, which are more cost efficient.

Importers did not seem to have a preference for factories that were geographically close to factories they were already sourcing from, in order to audit more easily. However, one importer said they did not want to trade with Pakistan, because of its geographical location. Because of border restrictions, it was not possible for their staff members in India to visit factories in Pakistan. The importer also said that the lack of social standards in Pakistan, such as the problem with child labour, was part of the reason for not sourcing from that country.

Interviews with importers indicate that they prefer factories with higher social standards and larger factories, and that trading relationships are longer-lasting because of ethical trade. However, ETI says that there is no overall, visible evidence that ethical trade has led to a change in importing strategies; there are only a few anecdotal cases. For example, China does not have a high level of social standards; among other things, they do not allow trade unions. In spite of this, more and more production is moving to China, because it is fast and efficient. According to ETI this proves that other things are more important for importers than social standards when choosing suppliers.

### **5.3 Bangladeshi competitiveness**

Through the Multi Fibre Agreement (MFA) Bangladesh has been in an advantageous position for many years. The agreement, which dates from 1973, allows importing countries such as the US to use quota restrictions on imports from developing countries exporting textiles, such as China or India. Hence, these countries cannot sell as much as they want, and Bangladesh has benefited from this. According to one importer, they often trade with Indians and Koreans established in Bangladesh because they cannot sell as much from their own countries.

In 2005 the MFA will be phased out, and Bangladesh will therefore face increased competition from its neighbouring countries. This could give manufacturers a reason to worry for their future. It is a question, then, how strong Bangladesh will be as an exporting country without the MFA.

According to the Bangladeshi factory managers interviewed, Bangladesh has built up a reputation as having good machinists and tailors, so higher value products will remain even after 2005. They also believe that China is not good at compliance, and that, apart from better compliance, Bangladesh has cheaper labour compared to China. Now that China is moving towards the private sector their costs will rise without state subsidies, and that would be a development in favour of Bangladesh.

From the importers' point of view, price level was the most important advantage of Bangladesh, as well as quotas. The poor reputation of Bangladeshi social standards among consumers was seen as a disadvantage, together with the Bangladeshi bureaucracy and trading procedures, and the speed of delivery. Some also thought strikes and weather conditions were a major disadvantage for the country.

In a recent Oxfam/IBLF report, it is suggested that Bangladesh could try to gain a comparative advantage from its ability to meet social and environmental standards as well as produce quality goods (Parr and Dhanarajan 2002). There is probably a long way to go before Bangladesh achieves a reputation as a country with high labour standards; at least this is the indication from interviews with importers. Retailers who import from Bangladesh generally had a negative perception of social standards in Bangladesh, compared to other countries such as China, Sri Lanka and India. The low factory standards were mentioned as the main

problem. It was also claimed that the country does not have a tradition of social standards, and that inequality and corruption drives the level of the standards down.

Experience from Bangladesh indicates that compliance alone does not make a factory attractive to buyers, but it seems to be a prerequisite for reaching high quality importers. However, only a factory that has achieved a certain level of competitiveness in terms of price and quality will get orders from a direct buyer with codes of conduct. If it is a relatively large and efficient firm, it will be able to bear the costs of compliance, and by becoming compliant, it will also become more competitive than before.

#### *Establishment of contact between buyers and suppliers*

According to the Dhaka Chamber of Commerce and Industry, one of the current constraints for the RMG sector is a lack of knowledge of RMG manufacturers/exporters. “Buyers come to us” is the usual marketing strategy for most Bangladeshi firms. They said that potential buyers come as a result of references, e.g. from auditors such as SGS, or BGMEA. Interviewed importers did not seem to have a strategic way of finding suppliers in Bangladesh. It happened in an ad hoc manner, using local contacts, hints and information. Some were using the local chamber of commerce, agents and export managers’ associations.

Some Bangladeshi firms seek new buyers through visits to trade fairs. One firm owner stated that he sent representatives to fairs at least twice a year. The buyers provide models or styles to a potential supplier, which then makes some samples and quotes a price. Then the firm qualifies to participate in auctions. For example, Carrefour conducts auctions on the Internet. Participating (short-listed) firms are given a password to enter the auction site. This auction system is new and still not used by many.

#### **NORWEGIAN IMPORTS FROM BANGLADESH AND SOME PROBLEMS WITH PREFERENTIAL MARKET ACCESS**

Norway imports significantly more from Bangladesh than from any other main developing partner (‘hovedssamarbeidsland’). Total imports from Bangladesh increased by 75 per cent between 1998 and 2000. In 2002, Norway’s imports from Bangladesh were 306 million NOK (up from 296 million in 2001). Clothing is the main import category, representing 86 per cent of all imports from Bangladesh in 2002. During the 1990s, imports of clothing from Bangladesh grew continuously. For instance, imports of knitted products (HS 61) increased by 92 per cent from 1998 to 2000, while non-knitted products (HS 62) increased by 61 per cent during the same period (for a comprehensive review of Norwegian imports from Bangladesh see Wiig et al 2002). Against this background it is remarkable that Norwegian imports of clothing from Bangladesh have shown a slight reduction (3.6 per cent) from 2001 to 2002, particularly when considering the further market potential in Norway for imports of clothing as identified in Wiig et al (2002: 10). Bangladesh has a lower market share of clothing imports in Norway (around 2 per cent) than in the European Union or the United States.

In Norway, China is the main competitor to Bangladesh, with a market share of around 30 per cent (see Wiig et al, 2002:95). China is also the main beneficiary of the Norwegian GSP system (which imposes lower tariffs on imports of products from developing countries than from other countries). Around 80 per cent of the products imported from Norwegian development partners under the GSP system are imported from China. For its part, Bangladesh faces significant problems in utilising GSP preferences – not because of low labour standards but because Norway (and other developed countries) has strict criteria for providing GSP, particularly regarding rules of origin. For non-knitted products, Bangladesh needs to import fabrics, making it difficult to comply with the GSP criteria (e.g., a certain value has to be created domestically). Since the current GSP system does not seem to target the developing countries in most need of such preferential support, Wiig et al (2002:31) support the idea of a revision of the current GSP system, particularly rules about country of origin. During such a revision, the question of linking labour standards to GSP preferences should also be elaborated in more detail.

#### **BANGLADESHI STAKEHOLDERS' POINT OF VIEW**

##### **Competitive advantage through SA8000 certification**

In Bangladesh SA8000 is not very common. SA8000 is one code of conduct, like any other code of conduct. It is a good entry point for compliance but not all buyers accept it. There are many codes of conduct, such as the Fair Labour Association (FLA), WRAP and ETI. They want their own standards, rather than SA8000. Some consider the code of conduct to be big business and fear that ethical sourcing may lead to corruption. They fear that, if ethical sourcing certification becomes a requirement for exports, it could lead to a black market in forged certificates.

In order to search for customers the newer firms could use compliance or certification of compliance as a marketing strategy. This is because they lack the experience of older firms for whom marketing is not such a critical problem.

However, competitiveness is mainly derived from lower costs, rather than the ability to achieve higher prices. There is no sign that improved compliance will allow firms to get a better price, although it may help them to obtain regular work. Thus Bangladesh's competitiveness has stemmed from lower labour costs, duty-free access and a gradually improving situation with regard to lead-time. As a result of duty-free access, buyers from Canada are now coming to Bangladesh. The buyers will stay as long as they get better quality products at a low price. Speedier backward linkages will also improve competitiveness, as would better infrastructure, port handling facilities and a lower interest rate. On the basis of the Bangladesh experience to date it is difficult to see how SA8000 or similar certification could improve competitiveness. Ultimately this depends almost entirely on the willingness of the buyers to play ball. What is certain is that manufacturers would be only too happy to comply if buyers offered a higher CM charge.

## **5.4 Ethical trade and poverty reduction**

### *5.4.1 Effect of RMG exports on economic growth and social development in Bangladesh*

The RMG sector in Bangladesh has, over the last three decades, grown to become a major force and influence in the economy. It is the largest source of income for the country, generating over 76 per cent of total revenues. The industry is the second largest employer, employing approximately 1.5 million people. But the dominance of the garments and textile industry within the manufacturing sector in Bangladesh gives Bangladesh a mono-economic base which makes it vulnerable to external market pressures.

RMG has strong linkage effects throughout the economy of Bangladesh. The growth of banks, insurance, transport and the shipping sector are closely linked to RMG exports. The growth of RMG has led to backward linkages as well in the knitwear manufacturing sector (Zohir 2000). About 20 percent of woven products are now locally produced, while for knitwear this is around 80 percent.

There have been profound social effects. The character of the labour market has changed with the feminization of the workforce. These female workers have discovered newfound freedom and independence and the ability to take independent decisions, e.g. with regard to where to work (Paul-Majumder and Zohir 1994b, Zohir 2001e). The RMG sector has, for the first time, provided formal sector employment for rural women in Bangladesh. More than 60 per cent of the workers are women from extremely humble backgrounds (Afsar 2000a). This has strong implications for poverty alleviation.

The earnings of these women have had a significant impact on the rural economy as well, as money is sent home to families in villages. They are also looked upon by society with respect

and as more than 50 per cent of the women are unmarried, their employment status has delayed their age at marriage and hence has fertility implications. They are also increasingly able to choose their own husbands and do not have to pay dowry (Zohir and Paul-Majumder 1996, Afsar 1998, Zohir 2001e). Hence, the phasing out of the MFA may have very adverse effects on these women, as many factories are likely to close down, due to intense competition with countries with textile industries and thus a lower lead-time.

#### *5.4.2 Effects of codes of conduct in Bangladesh*

A BIDS 1990 study<sup>7</sup> showed that weekly holidays<sup>8</sup> were rarely given, the payment of wages was mostly made on time, but the payment of overtime was frequently delayed. There was no provision for medical consultation within the factory, even though workers suffered from many illnesses. They had little time or opportunity to seek medical attention outside. Since then there has been a change in working conditions. Now most factories provide weekly holidays, pay wages on time and have a doctor visit the factory once or twice a week. Nevertheless, most workers in the RMG sector do not know what a trade union is. There are still occasional reports of the use of bad language by the management. However, discussion with stakeholders suggests that there is little doubt that slowly the attitude of the management towards the workers is changing.

Most of the big firms are relocating to areas outside Dhaka in purpose-built factories. This trend means that gradually the space per worker will increase. The main benefit of compliance has been that compliant factories get regular orders. Better working conditions are also likely to have improved productivity and morale.

Workers' levels of awareness have improved substantially for a number of reasons:

- Due to compliance the buyers/auditors enter into direct communication with the workers and are able to hear their complaints and difficulties at first hand. This 'dialogue' helps to empower and inform the workers, as well.
- Compliance requires firms to educate the workers on compliance issues. Some firms put up posters to disseminate information about their codes of conduct. This has increased the awareness of the workers about labour rights.

Due to compliance there has been a definite improvement in working conditions in the RMG sector. In particular, weekly holidays, medical facilities and maternity leave are areas of significant improvement.

But one cannot say that all the improvements are due to codes of conduct. For instance, wages in RMG have increased since the 1980s, but this is due to increasing competition and a relative shortage of skilled labour. The workers are mobile and they move to firms that offer better wages. Even though the CM has fallen, labour productivity has risen, along with wages.

#### *Retrenched workers*

As already noted, many small subcontracting firms are closing down as they cannot afford to follow the codes of conduct. Studies have shown that severance benefit is not given to the workers when a factory is about to close down. In one instance, more than 80 per cent of the

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<sup>7</sup> For details see Zohir and Paul-Majumder 1996, Paul-Majumder and Zohir 1995.

<sup>8</sup> A holiday per week.

workers did not get even one day's warning about factory closure. Nor were they paid their due salaries.

Retrenchment has other kinds of consequence for poor women. Sometimes the husbands leave the women when they are retrenched, as they are no longer able to contribute to family income. Some work as domestic servants or day labourers, where the working conditions are very poor.

According to ETI this is a general problem, and there is tension because the retailers are pulling away from small, poor factories. This is a dilemma, because the working places of the poor are lost. But ETI believes that other standards than ethical ones are pushing out small companies, for example, quality standards. Labour standards are just 'the icing on the cake.'

**BANGLADESHI STAKEHOLDERS' POINT OF VIEW**

**Role of North in facilitating improvement in labour and social conditions**

It has been noted that while big brand buyers are able to impose labour codes on their suppliers, it is clear that a large segment of the market still experiences huge problems in terms of meeting labour standards. About 50 per cent of the RMG factories are compliant firms. The problem is particularly severe at the lower end of the market, where suppliers primarily operate on sub-contracts or sell through buying houses. In such cases there is little incentive for either party to try and impose labour codes. Nor is there any external enforcement to ensure compliance. For the smaller, less profitable sector, compliance is expensive, so that a higher price would go a long way towards improving compliance standards. Buyers, however, have so far been very reluctant to give higher prices for CM. Compliance is not expensive for large firms which deal directly with retailers, but it is expensive for medium and small firms.

The cutting and making charges are so low that it is difficult to maintain labour standards. Only suppliers of brand name clothing can comply with labour standards, as they get a higher cutting and making charge. Corporate responsibility should be there, on the part of both manufacturers and buyers. The buyers need to ensure that the cutting and making charges are higher (perhaps a fixed proportion of the final consumer price) if a positive impact is to be made on the non-compliant 50 percent of the sector.

## **5.5 Importers' gains from ethical trading**

The importers' codes of conduct are self-imposed and not something they are obliged to have by the national law of their country of origin. The question must then be raised: why do they do it? As profit maximising firms they must see some potential gain from ethical trading, or are they motivated by a genuine wish to help and take responsibility for the producers of the garments they sell?

The majority of the interviewed importers replied that the most important reason for having codes of conduct was to avoid bad publicity in the press. Several had experiences with negative reports in the media about the conditions at the factories they were sourcing from, and said that this was difficult to deal with, because the media did not want to publish their version of the story. The bigger the company is, the more it sees itself as a target for media and pressure groups.

However, importers said they did not believe the negative press releases had a significant impact on their sales levels. One importer thought bad publicity would prevent some consumers from coming to their stores for one month while the news was still alive in their minds. Moreover, firms did not believe that creating an ethical image would give them more customers than before, and that consumers 'vote with their feet'. On the investment side,

however, some of the importers said they thought codes of conduct would make them more attractive.

Importers seemed to have the idea that their ethical concern was part of the wholeness of their image, but that this image also included both low price and high quality. Bringing ethics into their image was thought to make it more sympathetic to consumers. But they do not want to promote themselves with an ethical image, because they believe this will make them more vulnerable to attacks from the media. Most of them have their codes of conduct on their internet websites, and sometimes in brochures displayed in their stores, but they do not use ethics in their advertising campaigns. None of the interviewed companies were selling a typical 'ethical' brand, such as, for instance, the cosmetics company Body Shop.

Some importers thought the ethical concerns originated from the wishes of employees of the company. Typically there are many women working for retailers, and they identify more easily with female workers in developing countries, and will therefore push for social responsibility. Possibly there are economic gains from having more satisfied employees in a company, and social accountability makes it easier to recruit more skilled people for employment.

#### *Advantages of ETI/IEH membership*

The interviewed importers said membership of a multi-stakeholder initiative such as ETI was an advantage. They get to share information with NGOs, trade unions and other companies, and communicate with them in a small group of informed people. This could increase charities' sympathy with the company. As a member of ETI the importers get a better view of what is going on and of developments around the world.

But ETI membership also means additional responsibility for the importers, because it is supposed to prove to the customer that they are doing something serious. The importers did not think it would be possible to hide behind their ETI membership, or that it would automatically increase their credibility as socially responsible firms.

Some importers wished for a higher level of membership within ETI, and thought it would be more beneficial if the organisation had more companies, in particular manufacturing retailers, and NGOs represented.

## 6 Conclusion

The experience from Bangladesh suggests that in the absence of adequate law enforcement, foreign importers' codes of conduct have an important role to play. During the last few years, there has been a change in attitudes towards workers' rights in the RMG sector, particularly for big firms. It is estimated that 50 per cent of the firms in the RMG sector are today fully compliant with buyers' codes of conduct.

Although the general level of social standards is low in Bangladesh, factories are still managing to comply with the codes of conduct. They also do not seem to find it difficult to make the necessary changes, but basically regard it as a change in attitudes. For larger firms, the costs of compliance are also not considered a major problem. The large firms that already produce quality products efficiently will gain from the system of codes of conduct, as compliance with the codes will increase their competitiveness and give them more direct buyers. However, for small firms compliance with the codes may be too expensive, and they will eventually go out of business. This will have a negative impact on the workers in these companies.

Importers are not sharing the costs of codes compliance, and they defend this by stressing that there are productivity gains to be made from better working conditions. This view is not fully supported by suppliers. A more thorough empirical study on the productivity gains from codes compliance in the RMG sector would make it possible to arrive at more definite conclusions concerning the costs and benefits of codes compliance.

Importers do not believe that they are gaining customers from having codes of conduct, but the codes of conduct make it less likely that they will get bad publicity in the media because of poor labour standards in the factories they are sourcing from. However, they also seem to be gaining in terms of increased quality production, and they perceive social standards to be closely related to quality standards. Their change in importing strategies towards larger, compliant firms with which they have longer-lasting relationships is probably the result of a search more for higher quality than for social accountability.

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## Annex 1: ILO Conventions Relevant for Women Workers

<b>Convention No.</b>	<b>Convention title</b>	<b>Year</b>
<u>Equality of opportunities and treatment</u>		
122	Employment policy	1964
100	Equal remuneration*	1951
111	Discrimination*	1958
156	Workers with family responsibilities 1981	
<u>Maternity protection</u>		
3	Maternity protection	1919
102	Social security	1952
103	Maternity protection (revised)	1952
110	Plantations	1958
<u>Working hours</u>		
1	Hours of work*	1919
4	Night work (women)*	1919
41	Night work (women) (revised)	1934
89	Night work (women) (revised)*	1948
171	Night work	1990
175	Part time work	1994
14	Weekly rest (Industry)*	1921
106	Weekly rest (Commerce and offices)*	1957
<u>Employment and human resource development</u>		
15	Minimum age*	1921
59	Minimum age (revised)*	1937
138	Minimum age	1973
81	Labour inspection*	1974
140	Paid educational leave	1974
142	Human resources development	1975
158	Termination of employment	1982
<u>Occupational safety and health</u>		
170	Chemical convention	1990
127	Maximum weight	1967
136	Benzene	1971
13	White lead (painting)	1921
<u>Employment in specific sectors</u>		
45	Underground work (women)*	1935
149	Employment and conditions of work and hiring of nursing personnel*	1977
177	Home work	1996
<u>Social security</u>		
18	Workmen's compensation*	1925
19	Equality of treatment (accident)*	1925
118	Equality of treatment (social security)*	1962
<u>Freedom of Association and right to organise</u>		
87	Freedom of association and protection of the right to organise*	1948
98	Right to organise and collective bargaining*	1949

Note: '\*' denotes ratified by Bangladesh.

Source: Cited in Zohir (1998) Compiled from various articles in ILO 1996.

## **Annex 2: List of interviewed importers**

Desmonds & Sons Ltd  
Kerrie Anne McQuillan, Social Accountability Manager  
[kerrieanne.mcquillan@desmond.co.uk](mailto:kerrieanne.mcquillan@desmond.co.uk)

Hennes & Mauritz  
Ingrid Schullstrøm, CSR Manager  
[ingrid.schullstrom@hm.com](mailto:ingrid.schullstrom@hm.com)

Kapp Ahl  
Ann Marie Heinonen, Responsible for Corporate Social Responsibility and Public Relations  
[ann-marie.heinonen@kappahl.com](mailto:ann-marie.heinonen@kappahl.com)

Lindex  
Pernilla Lindberg  
[Pernilla.Lindberg@lindex.se](mailto:Pernilla.Lindberg@lindex.se)

Marks & Spencer  
Muriel Johnson  
[Muriel.Johnson@marks-and-spencer.com](mailto:Muriel.Johnson@marks-and-spencer.com)

Next  
Meriel Hoban, Code of Practice Manager  
[Meriel\\_Hoban@next.co.uk](mailto:Meriel_Hoban@next.co.uk)

The Zip Project  
Fidelma Hegarty, Ethical Compliance Manager  
[Fidelma.Hegarty@tzpl.com](mailto:Fidelma.Hegarty@tzpl.com)

ETI  
Man-Kwun Chan, Research and Information Manager  
Juliet Edington, Project Manager  
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### **Annex 3: List of abbreviations**

BGMEA	Bangladesh garment manufacturers and exporters association
CM	Cutting and making
EPZ	Export Processing Zone
ETI	Ethical Trading Initiative
IEH	Initiativ for Etisk Handel
ILO	International Labour Organisation
LDC	Least developed country
NGO	Non governmental organisations
RMG	Ready made garments
WTO	World Trade Organisation

## **Annex 4: Terms of Reference**

### EXPERIENCE FROM BANGLADESH WITH ETHICAL TRADING INITIATIVES

#### Background

Consumers in industrialised countries have lately demonstrated an increased concern about labour conditions in producer countries in the South. Campaigns and partnership arrangements like IEH (Ethical Trading Initiative) try to persuade importing firms to implement so-called codes of conduct on their sub-suppliers. In the meantime, there is also concern that the increased focus on labour conditions will lead to a decrease in exports from developing countries. The textile industry in Bangladesh represents an interesting case, because there have been several studies revealing unsatisfactory labour conditions, and many of the factories have received codes of conduct from their customers. Bangladesh is also an LDC that receives considerable income from exporting textiles, and an eventual decrease in exports due to an increased focus on labour conditions is assumed to have severe social and economic consequences.

#### Overall aims

The aim of the study is to evaluate the implementation of ethical codes of conduct imposed by foreign customers on Bangladeshi factories. The study will first give a brief account of the current status of labour standards in the garment sector in Bangladesh. We will then try to find out how codes of conduct can be implemented in a successful way, and what consequences the implementation will have for the factory and its employees. We are also interested in seeing ethical trading and its potential consequences from a Bangladeshi point of view.

#### Accomplishment

The project will be divided into three parts; the main background material for the first two parts will be carried out by BIDS in Bangladesh. CMI will carry out the last part and be responsible for the final editing of the report.

#### a) Survey of garment factories:

A comparative study of two or more Bangladeshi garment factories that have received codes of conduct from customers/importers, preferably members of IEH, where at least one factory is considered to have implemented the codes successfully, the other not. Management, employees and trade unionists will be presented with the same questionnaire. The aim is to find the reasons for success and failure, and thereby to identify the best way to implement successfully codes of conduct. The survey will also look at economic or other consequences of the implementation.

#### b) Bangladeshi point of view:

Interviews with relevant public authorities, trade union leaders, NGOs and other representatives of civil society, who will be asked to give their point of view on the following issues:

- How private organisations and firms in the north can facilitate improving labour and social conditions in RMG, with a particular reference to ethical trade initiatives and the role of partnerships
- What are the problems related to labour standards in Bangladesh?
- What effect have industrialised countries' campaigns and press releases focusing on labour standards had on exports and labour conditions in Bangladesh?

- Could SA8000 certification become a competitive advantage to Bangladesh?
- What are the causes of low levels of labour standards in the textile industry in Bangladesh?
- What has been the effect of textile exports on economic growth and social development?

c) Importers' position:

Through interviews with textile importers with experience from Bangladesh we will try to identify the advantages and disadvantages of Bangladeshi textile producers in the global market. We will look at the influence of the importers' attitudes, in particular their attitude to ethical trading, as well as the importing procedures. The aim is to find out how to avoid increased focus on labour standards decreasing exports, and to look for a possible strategy for Bangladeshi exporters, as well as a set of recommendations for importers who are members of IEH.

Expected completion date: April 1<sup>st</sup> 2003

# Summary

Since the 1990s there has been increasing concern in the North about products from the South and the conditions under which they are produced. In least developed countries labour conditions are considered to be at a very low level. Ethical trading initiatives, where importers impose codes of conduct on producers supplying Northern markets, are aiming at improving working conditions in factories in the South.

This study uses the example of the ready made garment sector in Bangladesh to go through and evaluate the process of codes implementation. It also looks at the impact of ethical trading initiatives in Bangladesh.

Based on interviews with Bangladeshi producers and importers with experience from Bangladesh, the study produces a set of recommendations for codes implementation. This includes the process of elaborating and presenting the codes, auditing the firms and making a corrective plan.

In Bangladesh ethical trading has had a positive impact on the workers in factories that are compliant with codes of conduct. Working conditions have improved in large factories that receive direct orders from retailers. But small and medium firms, often operating as sub-contractors, find it too expensive to comply with the codes. They are losing out in competition with larger factories, where costs of compliance are easier to handle. Many workers have lost their jobs as a result of this.

Due to ethical trading there seems to be a change in importing strategies towards larger factories and longer lasting trading relationships. But this change in strategy can also be explained by an increased preference among importers for higher quality products.

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