



International
Labour
Organization

► Case study

Access to Remediation Finance

July 2020





Improving Working Conditions
in the Ready-Made Garment
Sector Programme Phase II

► Remediation scheme

Bangladesh experienced several industrial accidents between 2012-13, leading to a substantial loss of life. In the aftermath of these incidents, 3,780 export-oriented, ready-made garment (RMG) factories were inspected for electrical, fire and structural safety. Based on those safety inspections, scores of factories required essential remediation to make them safe. However, many factory owners lacked the finances to carry out the urgent safety repairs and risked going out of business.

As a result, a number of development partners, including Japan International Cooperation Agency (JICA); French Development Agency (AFD); German Development Agency (GIZ); International Finance Corporation (IFC); German Development Bank (KfW); and the United States Agency for International Development (USAID) came forward and established low interest (4-7%) credit facilities to help support the remediation repair costs.

► Overview of remediation financing

Financer	Total Fund	Credit Scheme available since	Range of individual credit line	Interest Rate
 JICA	USD 35.8 million (BDT 305 crore)	December 2015	Max. USD 4 million (Max. BDT 35 crore)	Max. 6%
 USAID FROM THE AMERICAN PEOPLE	USD 22 million (BDT 187 crore)	September 2015	USD 250k (BDT 2 crore)	Determined by the Participating Financial Institutions (PFIs)
 IFC International Finance Corporation WORLD BANK GROUP	USD 50 million (BDT 425 crore)	2015	USD 100k - 2 million (BDT 85 Lakhs - 17 crore)	Max. 6%
 AFD AGENCE FRANÇAISE DE DÉVELOPPEMENT	EUR 50 million (BDT 479 crore)	March 2019	Max. EUR 3 million (BDT 29 crore)	Max. 7%

*Currency Exchange source: <https://usd.fxexchangerate.com> as of 29 June 2020

To help factory owners access remediation finance packaging, the ILO's Improving Working Conditions in the RMG Sector Programme promoted credit schemes and

facilitated several workshops and seminars between factory owners, employers' organizations, commercial banks and financing institutions.

► Mobilising remediation finance

Between 2017 and 2019, the ILO and Bangladesh Bank organized a number of outreach activities to guide factory owners

through the remediation application process. Over 300 factory owners attended the sessions, and 780 factories received



remediation kits which included detailed information on the remediation process, available remediation finance options and key contacts. A number of government engineers also distributed the remediation kits in meetings with factory management.

Dozens of factory owners who attended the

ILO workshops did eventually submit loan applications for remediation repair costs. As of December 2019, through ILO interventions and facilitated meetings, the number of factories that received JICA loans went from one to five.

► **Factory remediation**

Smart Knit Limited is one of the five RMG factories to have received remediation funding. The factory, which employs around 1000 workers, was inspected in October 2015 by the Bangladesh government's National Initiative, supported by the ILO.

The inspection report from Smart Knit identified a number of safety concerns:

- a) Earthing of the generator
- b) Installation of electrical panel boards (including panel doors)
- c) Identification marks for electric cables, exit doors and handrails on stairways
- d) Dedicated fire pump with sufficient capacity and backup power
- e) Approval plan, structural design drawing, soil test report, floor load plan and material strength test report

Smart Knit found it expensive to remediate all these issues immediately. A special scheme, called the Two-Step Loan (TSL), established by Bangladesh Bank, and financed by JICA, offered a viable solution.

► **A 'SMART' result**

Smart Knit not only implemented the remediation work recommended in the inspection report, it also provided occupational safety and health (OSH) training and safer drinking water to its

Maruf Hasan, Commercial Executive at Smart Knit, said:

“After the Rana Plaza accident, we realized that we needed to make our factory compliant in order to ensure workers' safety and sustain our business. We learnt about the remediation schemes at an ILO workshop and built a relationship with Mercantile Bank Ltd., a financing institute participating in the TSL. They offered a loan at 6% interest which was more favourable compared to the 13-15% interest rate loans offered by commercial banks.”

He added that their main motivation to conduct remediation work and apply for finances was to improve the company's reputation.

“We used the remediation fund for retrofitting columns and vertical extensions and for implementing fire and electrical safety measures. This work was necessary to meet the expectations of the government and our buyers.”

workforce. Maruf says: “The workers appreciate our efforts to improve working conditions in the factory. They now feel much safer in their workplace.”



▶ Loan disbursement

Mahmudul Hossain, First Assistant Vice President, of Mercantile Bank Ltd explains the loan disbursement process:

“We received a loan from Bangladesh Bank at 2% interest and provided it to our clients (RMG factories) at 5-6% interest rate. As it

was a special scheme, Bangladesh Bank gave strong instructions for a proper risk assessment before disbursing the loans. We did a rigorous analysis to understand the processes and requirements which meant it took us about a year to disburse the funds.”

▶ Challenges

Between 2017 and 2019, five RMG factories have succeeded in availing the funds. Participating Financial Institutions (PFIs) and factory owners listed several obstacles to accessing the loan scheme:

- ▶ Most RMG factories do not satisfy the technical and design requirements stipulated by the finance scheme.
- ▶ With respect to the JICA fund, the selection process for engineering firms and the disbursement of loans requires technical assessments by Public Works Department (PWD), which is a lengthy process, compared to the criteria set by commercial banks.
- ▶ To access the JICA fund, requires 100% compliance with Bangladesh National Building Code (BNBC) & RAJUK's (Dhaka Development Authority) Factory/Land Area Ratio rules. However, through ILO interventions, JICA relaxed its criteria

permitting more factories to qualify and gain approval for the loans.

- ▶ With respect to the JICA fund, there were a number of delays in receiving work completion certificates from engineering firms.
- ▶ RMG factories that did not have established commercial relationships with any of the PFIs struggled to access remediation finance.
- ▶ There were coordination gaps between engineers appointed by the factory and external engineers who were responsible for quality assurance. For example, external engineers often failed to maintain scheduled site visits and dates of site visits were not well coordinated with the factory management. To avail funds from the different schemes, RMG factories had to follow separate procedures each time.

▶ Achievements

- ▶ To accommodate the feedback from factory owners and business associations on the remediation finance application process, the ILO and JICA worked closely to modify a number of ‘eligibility’ criteria to help streamline the application process for accessing remediation financing. These included allowing RMG businesses, operating out of rented buildings, to apply

for remediation financing.

Additionally, factories which failed to meet the financing criteria with their first applications were provided advisory support on how to submit subsequent applications.

- ▶ The ILO helped Bangladesh Bank facilitate seven consultation sessions with 300 National Initiative (NI) Factories.



- ▶ Following a request from RMG industry bodies, Bangladesh Bank provided a number of personalised briefing sessions to factory owners/management to explain the application process.
- ▶ The ILO developed a *fact sheet* for RMG factories to further promote the remediation financing schemes.
- ▶ The ILO engaged with Support to Safety Retrofits and Environmental Upgrades (SREUP) in Bangladesh's RMG sector programme, jointly financed by AFD, EU, KFW and GIZ, to incorporate suggestions

from factory owners and BGMEA on easing access to remediation finance. The ILO made a number of recommendations to the SREUP, including:

- ▶ Eligibility of rented buildings for remediation financing
- ▶ Provision of incentives for factory owners upon successful completion of remediation works.
- ▶ The ILO helped develop the training materials for RMG factory owners and management.

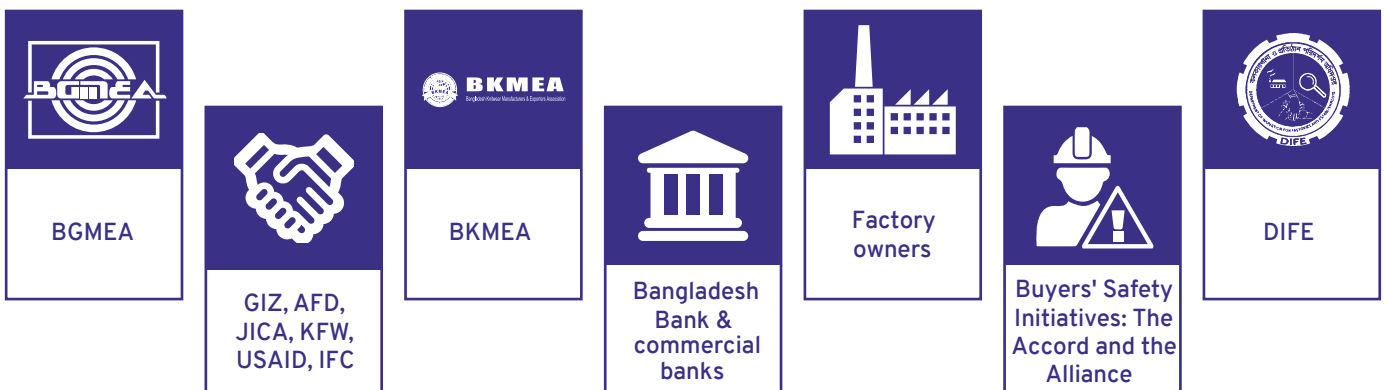
▶ Recommendations

To ease access to remediation finance, the ILO organised nine stakeholder consultations between 2017 and 2019 where representatives from factories, employers' organizations, commercial banks and financing institutes participated. The following recommendations came out of the workshops:

- ▶ Development partners and Bangladesh Bank need to develop incentives for both RMG factories and PFIs.
- ▶ Bangladesh Bank should regularly monitor and incentivise the PFIs for disbursement of the remediation funds.
- ▶ Banks need to orientate factory management on the application procedures to ease the technical assessment and appraisal of loan applications.
- ▶ Sustained promotion of remediation finance will raise awareness about remediation financing options.

▶ Stakeholders

ILO's RMG programme actively engaged with a range of stakeholders to address the challenges of accessing finance for remediation of RMG factories in Bangladesh. They included:



Creating awareness on remediation finance

27 Sep 2017

Kick Off Workshop on Access to Remediation finance

Challenges to accessing remediation finance identified and shared among stakeholders

Factory owners and financing institutes informed about financing options

Financing institutes and development partners agree to promote remediation finance and ease access for RMG factory owners

Nov-Dec 2017

Promotion of remediation finance during factory owners meeting at BGMEA

400 RMG factory representatives receive information on remediation finance

Seven sessions facilitated, in collaboration with DIFE, BGMEA and Bangladesh Bank to promote remediation finance among factory owners

One-to-one consultations on application process provided by Bangladesh Bank

23 July 2018

Workshop on mobilizing remediation financing

Participating finance institutes (PFI) notified by Bangladesh Bank to mobilize financing institutes

Presentation of successful case study on disbursing remediation funds

Bangladesh Bank issued notification to commercial banks to promote remediation financing scheme

2 April 2019

Seminar by Bangladesh on remediation finance(supported by JICA)

Initial assessments on submitted applications shared with banks and factory representatives

Banks and factory representatives shared their suggestions at the interactive session

December 2019

780 RMG factories had received Remediation Financing fact sheet