



Made in Bangladesh

An analysis of the existence of informality, illegality and interaction among readymade garment firms.

Elwin Poortman



MADE IN BANGLADESH

**An analysis of the existence of informality, illegality and interaction
among readymade garment firms.**

Master thesis International Development Studies
By Elwin Poortman

August 2015

Student Number: 5500753
Email: Elwinpoortman@gmail.com

University Utrecht, Faculty of Geosciences
MSc International Development Studies

Supervisor: Dr. W.H.M. Leung

ABSTRACT

This study will examine to what extent the readymade garment industry of Bangladesh is structured by interactive means between distinctive parts of the industry. These means have often been referred to as formal - informal relations, and they have received increased attention over the last 50 years. In today's world the terms formal and informal are used in various contexts, which have caused that the boundaries of these concepts have become blurred and ambiguous. In order to bring clearance to this debate, scholars have introduced a third concept, which is referred to as illegality.

This master thesis will use the readymade garment industry to examine to what extent these three concepts can categorize distinctive sectors that possibly interact with one another. These forms of entrepreneurial interaction will be conceptualized and applied to the garment industry of Bangladesh, which will illustrate the underlying dynamics and interdependencies that exist within this industry. All together, this thesis will embody a holistic overview of the RMG industry and it will become clear that an in-depth understanding of this industry and its entrepreneurial linkages is of great importance for policy makers and developmental aims that try to alter the levels of formality, informality and illegality and therefore aim for a more sustainable readymade garment industry.

Keywords: Bangladesh RMG Industry, Entrepreneurship, Formality, Informality, Illegality, Entrepreneurial Interaction and Linkages, Sustainable Development

ACKNOWLEDGEMENT

With great pleasure I present to you my thesis on the readymade garment industry of Bangladesh. The research process prior to the formation of this document has been a wonderful and challenging experience, which would not have been the same without the support, encouragement and assistance from many wonderful people.

First of all I want to thank my supervisor, Maggi Leung, for her guidance during this entire process, and especially for her support and advice during challenging times. Furthermore I want to thank Wilma Roos from FNV Mondiaal, for allowing me to be part of a broader research project conducted in Keraniganj, Bangladesh. It has given me a great learning experience of development work in practice, which I value highly. Also the two local host organizations, BLF & CBSG, that were involved in this project, have been of great value, which is why credit goes to Ashraf and Joyanta for their hospitality and generosity. I highly appreciate the assistance I received from them and their staff.

I also want to express my sincere gratitude to Mashiur and Tanbir, who both have made extensive contributions to this thesis. I wish to state that without them, the examination of the entire spectrum of the readymade garment industry and its stakeholders would not have been achieved. They have assisted me in the process of field research, taught me the vital local insights, and have given me access to key informants.

Appreciation goes to the staff of the White House Hotel, whom their hospitality and support have ensured that my time spend in Dhaka was enjoyable. It surely felt like a home far away from home.

Lastly I want to thank my family for their unconditional support and encouragement, which have brought me to where I am today.

Elwin Poortman,

Utrecht, August 2015

TABLE OF CONTENTS

ABSTRACT	<i>iv</i>
ACKNOWLEDGEMENT	<i>v</i>
LIST OF FIGURES, TABLES, MAPS AND BOXES	<i>vii</i>
LIST OF ABBREVIATIONS	<i>x</i>
1. INTRODUCTION	1
1.1 PROBLEM IDENTIFICATION	2
1.2 STRUCTURE OF THESIS	3
2. THEORETICAL OVERVIEW AND CONCEPTUAL FRAMEWORK	5
2.1 FORMAL – INFORMAL RELATIONS AND THE DEVELOPMENT DEBATE	5
2.2 HISTORY OF THE FORMAL AND INFORMAL SECTOR	6
2.3 DEFINING THE LABELS	9
2.4 OPERATIONALISATION OF “THE LABELS”	11
2.5 OPERATIONALISATION OF FIRM ACTIVITIES AND RELATIONS	13
3. BANGLADESHI BUSINESS CLIMATE	15
3.1 GEOGRAPHIC AND DEMOGRAPHIC CONTEXT	15
3.2 ECONOMIC CONTEXT	16
3.3 POLITICAL FRAMEWORK	17
3.4 LEGISLATIVE CONTEXT	19
3.5 READYMADE GARMENT INDUSTRY OF BANGLADESH	21
4. RESEARCH OUTLINE	23
4.1 CONCEPTUAL MODEL	23
4.2 RESEARCH OBJECTIVE AND QUESTIONS	24
4.3 RESEARCH METHODOLOGY	25
4.3.1 Methods & techniques	25
4.3.2 Online survey questioning export oriented RMG firms	26
4.3.3 Focus group discussions within downstream RMG firms	26
4.3.4 Open in-depth interviews with range of distinctive stakeholders	27
4.3.5 Structured interviews with informal RMG vendors	28
4.3.6 Field observations	28
4.3.7 Use of secondary data sources	28
4.4 RESEARCH LIMITATIONS	29
5. PROFILE OF BANGLADESHI RMG FIRMS	30
5.1 CORE ACTIVITIES OF MAINSTREAM RMG FIRMS	31
5.1.1 Production line	32
5.1.2 Qualitative incentives	32
5.1.3 Business administration	33

5.1.4 Sales & competent entrepreneurship	34
5.2 MAINSTREAM RMG EMPLOYMENT AND WORKING CONDITIONS	34
5.3 CORE ACTIVITIES OF DOWNSTREAM RMG FIRMS	36
5.3.1 Quantitative incentives	37
5.3.2 Business Administration	37
5.3.3 Social networks & trust	38
5.3.4 Survival strategy	38
5.4 DOWNSTREAM RMG EMPLOYMENT AND WORKING CONDITIONS	39
5.4.1 Irregular salaries and traineeships	40
5.5 GENERALIZABILITY AND EXCEPTIONS	41
6 ATTACHING THE LABELS	42
6.1 THE FORMAL INSTITUTIONAL BOUNDARIES	42
6.2 THE INFORMAL INSTITUTIONAL BOUNDARIES	43
6.3 REVISION OF THE MODEL	45
7 ENTREPRENEURIAL INTERACTION	46
7.1 INTERACTION BETWEEN THE FORMAL AND INFORMAL ECONOMY	46
7.1.1 Primary activities	46
7.1.2 Support activities	48
7.2 INTERACTION BETWEEN THE FORMAL AND RENEGADE ECONOMY	49
7.3 INTERACTION BETWEEN THE INFORMAL AND RENEGADE ECONOMY	51
7.4 CROSS BOUNDARY INTERACTION	52
8 DEVELOPMENT OF THE RMG INDUSTRY	54
8.1 CURRENT INITIATIVES	54
8.1.1 Monitoring programs on mainstream RMG firms	55
8.1.2 Unionization	56
8.1.3 Other social initiatives	58
8.1.4 The international agenda	58
8.1.5 The role of the Bangladeshi government	59
8.2 ALTERATION OF FORMALITY, INFORMALITY AND ILLEGALITY	59
8.3 WAY FORWARD	60
8.3.1 Economic development	61
8.3.2 Social development	61
9 CLOSURE	62
10 BIBLIOGRAPHY	65
11 ANNEXES	68
ANNEX A: Data collection	68
ANNEX B: Secondary data sources	77
ANNEX C: Output regarding interactive means	86

LIST OF FIGURES

<i>Figure 1: Institutional Categories of Entrepreneurial Activities</i>	12
<i>Figure 2: Locus of the formal, informal and renegade economy & their participants</i>	13
<i>Figure 3: The value chain model</i>	14
<i>Figure 4: Historic growth of RMG export value</i>	21
<i>Figure 5: Conceptual model</i>	23
<i>Figure 6: Size of workforce and average monthly production, N=30</i>	32
<i>Figure 7: Part of production sold through buying houses and agencies, N=30</i>	34
<i>Figure 8: Distribution of workers' daily wage, N=242</i>	35
<i>Figure 9: Working Environment of Mainstream RMG firms, N=242</i>	36
<i>Figure 10: Distribution of workers' daily wage, N=200</i>	39
<i>Figure 11: Working Environment Downstream RMG, N=200.</i>	40
<i>Figure 12: Revised Locus of the formal, informal and renegade economy & their participants</i>	45

LIST OF TABLES

<i>Table 1: Overview of collected data</i>	25
<i>Table 2: Age & Gender distribution of mainstream RMG sector, N=242</i>	35
<i>Table 3: Age & Gender distribution of downstream RMG sector, N=200</i>	39
<i>Table 4: Output of hiring preferences of mainstream RMG owners, N=18</i>	49

LIST OF MAPS

<i>Map 1: Map of Bangladesh</i>	16
---------------------------------	----

LIST OF BOXES

<i>Box 1: Export Processing Zones</i>	20
<i>Box 2: The Multifibre Agreement</i>	22
<i>Box 3: Garment manufacturing process in general</i>	30

LIST OF ABBREVIATIONS

BGMEA	Bangladesh Garment Manufacturers and Exporters Associations
BLF	Bangladesh Labour Welfare Foundation
BNP	Bangladesh Nationalist Party
BTD	Bangladeshi Taka
CBSG	Capacity Building Service Group
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
FGD	Focus Group discussion
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
ILO	International Labour Organization
MFA	Multifibre Agreement
NBR	National Board of Revenue
RMG	Readymade garment
T.I.N.	Taxation Income Number
U.P.	Union Parishad
USAID	United States Agency for International Development
WTO	World Trade Organization

1. INTRODUCTION

At the 24th of April 2013 the Rana Plaza building collapsed and killed 1129 people. Many garment factories were located in this commercial building which was located in Dhaka, the capital of Bangladesh. It turned out that this historic event created a momentum in which the Western world became fully aware of the conditions that characterize the garment production in Bangladesh. The collapse of Rana Plaza revealed that, besides the presence of official garment factories, many unofficial factories were situated in this building. The collapse illustrated the booming business of garment production that takes place outside the legal framework. This trend causes that many garment workers are exposed to large risks when it comes to safety and working conditions. The disaster of Rana Plaza did not stand on its own, as the garment industry is struck by deadly accidents every year.

Global awareness and global pressure induced Bangladesh to transform the structure and activities of its garment sector. Figures show that the country heavily relies on the readymade garment (RMG) industry; the sector contributes to over eighty percent of Bangladesh its export revenue, and it employs around 4,5 million Bangladeshis (World Bank, 2010). The reason why Bangladesh is such an important player in the RMG industry, is mainly because of the low wages that are present in the country. This, together with the abundant workforce, gives Bangladesh a competitive advantage over other RMG producing countries, such as China, India & Pakistan (Absar, 2003).

Nevertheless, this competitive advantage barely strengthens the bargaining power of Bangladeshi RMG firms, since it appears that the garment retailers and brands rule this sector. These actors enforce large pressure on production costs and easily shift from producer in order to lower costs. This process is often referred to as *the race to the bottom*. This *race* results in the fact that many Bangladeshi garment workers are exploited and marginalised. And this cost-effective behaviour puts pressure on the producers their profits, wages, return investments and working conditions (Aspers, 2008). As long as there are other institutions, such as a government apparatus, laws, and regulations that counteract this pressure, this behaviour should not be that harmful and exploitative. Unfortunately, for a long time, Bangladesh either lacked such institutions or the existing institutions did not function properly. The consequence was that the need for cheaper garments ruled most of the activities in the Bangladeshi garment sector and this cost-effective behaviour triggered factories to secretly outsource their production to *less appropriate* RMG factories. Such outsourcing

practices are often referred to as formal – informal relations, and scholars advocate that these relations can be rather harmful (Castells & Portes, 1989; Mondal, 2008). In case of Bangladesh, these *less appropriate* factories violate labour laws and human rights on a large scale and the accident at Rana Plaza is the most conspicuous example of the possible consequences of these violations.

In the aftermath of Rana Plaza, many initiatives erupted, all aiming to improve the conditions of the RMG industry of Bangladesh and to fight this unsustainable *race to the bottom*. Most of the attention and initiatives address the exporting RMG firms, also referred to as the *mainstream* RMG sector. Slowly but surely a trend that enforces Bangladesh and its RMG industry to reform, or even transform, has been established. The Bangladeshi government is also trying to improve the condition of the RMG factories and is conducting audits to monitor the RMG sector. This leads to the fact that by now, most export producing RMG firms do feel the pressure from the international society and the Bangladeshi government to comply to the set of rules and laws of the country. However, unfortunately this does not imply that every single issue has been solved. Besides this large export producing sector, there is also an active domestic RMG industry, in which many small RMG enterprises operate together with many mediating agencies. The conditions of this domestic industry, also called the *downstream* RMG sector, remain unrevealed and unchanged up till today. Meaning that approximately half a million workers still execute their daily tasks in a unhealthy and often unsafe environment, out of sight of the government. This means that these workers are exposed to large risk and uncertainty when it comes to their employment that is sustaining their lives and often that of their families.

1.1 PROBLEM IDENTIFICATION

There is a great need for empirical research on the interaction between RMG enterprises in Bangladesh. The RMG industry of Bangladesh has been stigmatised, especially after the collapse of Rana Plaza, as an industry that is dominated by firms that have activities or relations that prevail outside the boundaries of the regulatory framework. It is expected that formal – informal relations are widely present and that they structure the industry, moreover these relations appear to evoke severe consequences with regard to the well-being of those involved.

In a broader perspective, research on formal and informal relations remain of great use and new insights contribute to the ongoing discussion on this topic. Over the years, the two concepts of *formal* and *informal* have been widely used by many scholars, and in many

different perspectives, which have lead to the fact that the definitions of these concepts have become rather blurred and ambiguous. In order to create clearance, some scholars have incorporated a third concept that challenges the boundaries of informality (Godfrey, 2011; Webb, Tihanyi, Ireland, & Sirmon, 2009). This concept is known as *illegality*, also sometimes referred to as *illegitimacy*. For the academic world it is of great use to have case studies that incorporate these three concepts and that try to examine to what extent they fit within reality. By doing so, also a contribution to the discussion of the validity and generalizability of these three concepts will be made.

This contribution will also be valuable for stakeholders and actors relating to the field of (sustainable) development. In this academic field, the opinion of scholars on the effects of formal and informal interaction is subjected to many divergent perspectives. The result is that policy makers and change agents apply different approaches concerning their developmental aims. Therefore it is of great use to also reflect upon the incentives, initiatives and developmental projects of different stakeholders that are connected to the Bangladeshi RMG industry. This will allow us to examine to what extent the concepts of formality, informality and illegality can be influenced and altered, which is of great value for the developmental actors.

Together, these three main reasons have lead to the construction of a research that examines the existence of formal – informal relations concerning the Bangladeshi RMG industry. This document will be used to present the findings of that research.

1.2 STRUCTURE OF THESIS

This document contains a thesis which is part of the curriculum of Utrecht University its master degree program named International Development Studies. Prior to the formation of this master thesis lies four months of intensive field research, which has been conducted in Dhaka, Bangladesh from February until June 2015. And as stated before, this thesis will elaborate on formal – informal relations among Bangladeshi readymade garment firms. Before a clear description of this actual research can be given, the reader will be provided with an academic overview and a description of the local context of Bangladesh, both are needed to properly understand the concepts that are of great importance for this master thesis. The academic context, which is presented in chapter two, will embody the discussion regarding the concepts of *formality*, *informality* and *illegality*, which are at the core of the research and of this thesis. Chapter three will elaborate on the current situation in Bangladesh with regard to the country its geographic, demographic, economic, political and legislative

environment. Then, in chapter four, an in-depth description of the actual research design and methodology can be given. The remaining chapters (five to nine) will shed a light on the outcomes of the research and will relate the findings with its academic context. Chapter five will therefore provide an overview of the characteristics of the RMG industry. Chapter six will reflect upon the classification of the *formal, informal & renegade economy* with regard to the RMG industry. This categorization is used to study cross boundary interaction among different RMG firms, which outcomes will be presented in chapter seven. In this chapter the interactive means of firms will be further explored and clarified, afterwards a helicopter perspective will be adopted that compares to what extent reality aligns with *three grand theories* concerning the interconnections between distinctive economies. Chapter eight will depict an overview of the current initiatives established by different stakeholders, that aim to alter the levels of *formality, informality and illegality*. Such an overview will allow us to reflect upon the developmental future prospects of the RMG sector and the country itself. Chapter nine will be used for closure and will present a conclusion and reflection by referring to the research question.

2. THEORETICAL OVERVIEW AND CONCEPTUAL FRAMEWORK

Formal – informal relations have been widely studied since the early 1980s. Over the years the concepts formal and informal have been redefined multiple times and they have been used in different discourses. For instance, when one refers to “*something being informal*”, they can refer to informal employment, the informal sector, informal enterprises or even informal activities or behaviour. These different conditions have blurred the debate on formal and informal relations. This chapter will be used to clarify the concepts and to provide the reader with an overview of the existing literature regarding this topic. Moreover, it will conceptualize the different constructs that are at the core of this master thesis. However, before this description can be given, it is needed to first stress to relation between the discussion on formal – informal relations and the academic world of development studies.

2.1 FORMAL – INFORMAL RELATIONS AND THE DEVELOPMENT DEBATE

The interaction between the formal and informal economy is often seen as a solely economic subject. Nevertheless scholars nowadays acknowledge that this relation has great influences that go far beyond the field of economics. Especially if this relation is studied in the context of developing countries, in which the existence of a large informal sector is often present (Chen, 2008; Godfrey, 2011). The individuals involved in informal practices often face barriers that withholds them from entering the formal sector. These barriers can be financial but also social, cultural or even political. Consequence is that these individuals face many insecurities. A job in the informal sector, also often referred to as precarious work, is often based on oral agreements and can be rather captive and exploitative (Günther & Launov, 2012). The latter is a consequence of the fact that the informal economy operates out of sight of the government and its legislative framework. This would suggest that engagement in the informal sector is rather harmful.

It is important to stress that the existence of the informal economy also evokes positive outcomes, since it provides employment, trade and income to people, who without the informal economy would struggle to sustain themselves and their families. This means that a possible elimination of the informal sector can come with severe consequences that can disrupt the livelihoods of many. This is why policy makers have a hard task in providing practical solutions that improve the situation (Webb, Bruton, Tihanyi, & Ireland, 2013).

When it comes to the debate on the development of a developing country, *formalisation* is often seen as the best way forward which will solve the problems that exist

within and around the existence of the informal sector. Formalisation, i.e. upgrading and eliminating the informal sector, would allow the government to monitor these former informal businesses, it would provide more tax income and it would bring securities to the lives of the workers involved. The latter is something that is often being questioned by scholars. Removing the informal sector can create a vacuum in which new informal *dwellers* easily fill up the emptiness. This underlines that engagement in the informal sector can be a mean of survival for the individuals involved (Webb, Ireland, & Ketchen, 2014), which means that the poverty itself is one of the main drivers behind the informal sector.

Such reasoning shows how issues like poverty, employment and livelihoods relate to the different levels of formality and informality. This also explains how decisions made by policy makers and politicians can initiate pervasive effects. This is why empirical research on formal – informal relations can be valuable for the academic world of development studies.

2.2 HISTORY OF THE FORMAL AND INFORMAL SECTOR

As mentioned earlier, from the 1980s onwards, scholars have largely questioned the concepts of informal and formal, and how these two anti-poles interact. The debate started when scholars began to recognize that countries that lack unemployment benefits and other forms of social security, often had low levels of unemployment, suggesting that the adult population found financial means, legal or illegal, to sustain their livelihoods (Moser, 1978; Tokman, 1978). Especially the combination with rapid urbanization caused that those who are officially unemployed sought for other economic activities in order to sustain their livelihoods. *Petty commodity production* was, and still is, a common economic activity that provide households with income. Moser (1978), one of the early pioneers, distinguished the informal sector as a *shadow economy* which was sustained by the means of petty commodity production. This form of production is best defined as a mean of production that is slightly above the subsistence level of an entity and is based on simple and small productive and economic means. This lead to the suggestion that entities that operate in the informal sector are characterized by household production units that produce commodities that can easily be produced and exchanged (Tokman, 1978).

Moser suggested that the informal sector should be seen as a transitional mode between feudal & other non capitalist modes, and the capitalist mode of production, meaning that the informal sector would disappear once a country its economic development reached this capitalistic mode. Critics on Moser his theory increased over the years, especially when academics started to notice that in some countries the informal sector was expanding instead

of diminishing. Academics began to reason that this mode of production is characterized by an unequal exchange, since commodities are sold to capitalist sector below their value while bought from that sector above their value (Godfrey, 2011). This led to the reasoning that the formal sector was more exclusive than Moser was willing to admit. These academics also noticed some sort of trend in which entities totally withdrew themselves from any form of engagement with the formal sector, which suggested the separation of economies or the existence of a dichotomy.

These diverging thoughts lead to two main theories which would dominate the debate for the next era. The first, the *dependency approach*, claims that the informal sector is dependent on the formal capitalist economy, which suggests that this petty commodity production is a mode that exists at the margins of the capitalist mode of production. This is why the existence of informal industries is easily referred to as a feature of underdeveloped capitalist economies. This view of the informal sector explains why this sector had such a negative reputation. Opposing to the *dependency approach* is the *dualistic approach*. This approach argues that the existence of the informal sector is a consequence of the unequal exchange of the capitalist mode of production. This unequal exchange excludes marginalized people, who therefore seek other means that will enable them to engage in economic activities and trade, and in which they will secure access to commodities from which they are excluded. This led to a petty commodity industry that has isolated itself from the large capitalist enterprises and therefore acts more autonomous.

This division is at the core of the debate on linkages between informal and formal enterprises and economies. The two theories reflect differently upon such possible interaction. The *dependency approach* suggests that the informal industry has linkages with the formal sector, whereas it appears that in the *dualistic approach* there is no interaction between the informal and formal sector at all. This fundamental disagreement evoked a political discussion that argued to what extent a government should try to intervene with, or even eliminate, the informal sector (Godfrey, 2011; Henry, 1987). Despite these differences, both views do have some specific aspects in common (Moser, 1978; Tokman, 1978); both are rather sceptic about the informal sector and its contributions to the overall economy.

This shared sceptic view received critics during the 1990s. Scholars began to recognize that some informal sectors were able to expand and were able to improve their level of advancement. This eventually led to the fact that the perception towards informality and the informal sector changed. Newborn theories proposed that the informal sector was no

longer characterized by petty commodity production only. Informal entities were now able to run professional businesses that could compete with their formal rivals, or that could assist their formal counterparts (Godfrey, 2011). The productive means of these informal entities could exceed a subsistence level and could easily take place outside the entity its household structure. One could claim that this new reflection upon the informal sector was based on a paradoxical modernization and professionalization of the informal sector. This new, more positive perspective on the informal sector challenged the older two main theories. In today's world the former *dependency approach* has diverged into two theories, meaning that together with the *dualistic approach*, three grand theories can be distinguished. These three are defined as the following:

[1] The legalist approach argues that there are strong linkages between informal and formal industries. This relation is an incentive of the formal sector, which its cost-effective behaviour exploit opportunities that lower production or transactions costs. This approach has an emphasis on the captive and exploitative relation between formal and informal industries, which implies that the linkages are characterized by an unequal power relation in which the formal sector reigns over the informal sector (Carr & Chen, 2001).

[2] The structuralist approach also argues that there are linkages between informal and formal industries. This approach reasons that the informal sector is a part of the continuum within the market, meaning that, in principle, there is no exclusion. Therefore this approach underlines a level of interdependency and complementarity, moreover it ranks the informal industry as a feature of the modern capitalist mode of production. This view suggests that the power relation between both sectors is rather equal and flows both ways (Carr & Chen, 2001).

[3] The dualistic approach argues that informal industries supply different markets, act autonomous and thus have little interaction with formal enterprises or industries. Moreover, the presence of a large informal economy symbolizes underdevelopment. This approach is characterized by exclusion, inequality and a lack of accessibility (Carr & Chen, 2001).

Given these three grand theories, it is wise to once again question what essence or core aspect is key to the distinction of the informal and formal sector. This is an question which is not easily answered and which has been stressed by many academics. The issues of defining the concepts has worsened since the line that separates the formal and informal sector became more blurred during the years.

2.3 DEFINING THE LABELS

Previous paragraph discussed the possible linkages between the informal and formal sector. The two sectors seem to be classified into two opposite categories, such kind of stereotype thinking is a common issue among scholars and people in general, it gives structure in times of complexity and eases further thinking. However, the problem is that in reality this distinction is not that black and white. Especially in industries where enterprises can comply to one indicator that defines informal or formal, but still violate plenty of other indicators that could also define these two concepts. Moreover, the question arises whether there is homogeneity among the enterprises that are identified as formal or informal. In other words, two firms that are both informal, can still largely differ. In the early years, the informal sector was filled with entities that operate by using a petty commodity mean of production. As most scholars noticed this definition does no longer fit within reality since, as mentioned earlier, many scholars acknowledge that nowadays the informal sector incorporates much more than only petty commodity production. This raises the question how one can define the entities that operate in the informal and formal sector.

The most straightforward and basic definition of a formal entity, which even today is still often used, is an entity that *registers its economic trade, activities, and endeavours according to the legislative institutional framework*, implying that informal entities are characterized by the means of *unregistered economic trade, activities and endeavours* (Bromley, 1978). In most developed countries, such a definition is applicable since registration can only be obtained when an enterprise complies to all the rules that are prescribed by the regulatory framework. This means that they operate within the taxation net and obey to the applicable set of rules and laws. Developed countries have actors that monitor and penalize enterprises when they no longer comply. The problem is that most developing countries lack institutions that can enforce this (Thai & Turkina, 2014), meaning that obtaining registration does not imply compliance to the regulatory framework, which questions the validity of the aforementioned definitions.

In an attempt to solve this issue of validity, scholars started to incorporate new concepts or requirements in their definition with regard to the separation of informal from formal. Two examples of such attempts are given on the following page.

“Informal entities are comprised by unofficial economic activity that is conducted by unregistered firms or by registered firms but hidden from taxation” (LaPorta & Schleifer, 2008).

“Informal entities seem to share the following characteristics: They are 1) concealed from the state accounting system and are largely unregistered by its economic and criminal measurement techniques; 2) small scale; 3) labor intensive, requiring little capital, and 4) locally based, with trading taking place face-to-face relationships between friends, relatives or acquaintances in a limited geographical area” (Henry, 1987).

These definitions might appear to be more clear, however to some extent they still fail to capture what is inside the informal sector. The definition of LaPorta & Schleifer (2008), does not capture informal entities that pay taxes, which may sound paradoxical but in practice this could occur. The definition of Henry (1987) introduces new requirements which specify the characteristic of the informal economy. However the measurements of these new requirements also need to be defined which can be problematic. For example, to what extent can one categorize an entity as small scale, or locally based? This causes that the distinction line between formal and informal remains vague, ambiguous and debatable.

These two aforementioned definitions both elaborated on the economic characteristics of informal entities whereas this concept should not be seen as something that solely belongs to an economic context. The informal sector has also attracted the attention of academics that operate in the fields of sociology and political science. The definitions provided below will clarify why these fields are also affected by the debate on formality and informality.

“The informal economy is characterized by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated” (Castells & Portes, 1989).

“The informal economy comprises producers who avoid taxes by bypassing the procedures [government-sanctioned procedures for establishing and recording property rights and for resolving disputes], thereby foregoing any claim on the order provided by the government” (Marcouiller & Young, 1995).

By now it becomes understandable that the array of definitions on formal and informal entities are diverse, and ranges from context specific to ambiguous broad definitions. Moreover, the concepts do not only affect the academic field of economics. The definitions of Castells & Portes (1989) and Marcouiller & Young, (1995) depict a relation towards the institutional or political framework. This evokes the entrance of a new concept that is best introduced together with the following question; is informality the same as illegality? This

question has gotten a lot of attention, especially in the world of sociology, which lead to the fact that the concept of legitimacy was adopted in the debate on informality. It makes sense, especially when informality is defined as everything that takes places outside the legal framework, to reflect upon these two concept, i.e. informality & illegality, in the same way. However, if informal is illegal, how can it be that society, especially in developing countries, accept the existence of a large informal, and thus illegal, economy? This question will be answered in the next paragraph, and this answer will be at the core of this master thesis.

2.4 OPERATIONALISATION OF “THE LABELS”

As mentioned earlier, informality is often seen as illegality. By referring to the work of Webb, Tihany, Ireland & Sirmon (2009), this paragraph will explain why it is of great importance that one considers a distinction between these two concepts. In order to do so, the term legitimacy needs to be introduced and explained. The concept of legitimacy is best defined as the following:

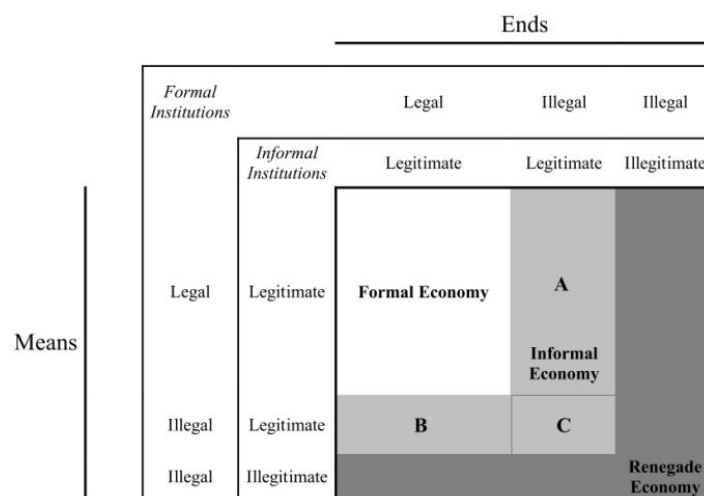
“[Legitimacy] is a generalized perception or assumption that the action of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995).

This means that legitimacy is a construct that is centred around *public acceptance*, whereas up till now, formality only seem to relate to the regulatory framework.

The authors underline that formality and informality, are also affected by the concept of legitimacy. They argue that society its acceptance (legitimization) of informal entrepreneurship suggests that informality is not seen as something illegal by society. This means that there is a gap between what is illegal by law and what is illegal (or illegitimate) according to society. In order to clarify this distinction the authors underline the differences in the institutional framework. *Formal institutions* refer to laws, regulations and the supporting apparatus such as law enforcement. These institutions define the regulatory framework which divides legality from illegality. However, *informal institutions* refer to norms, values and beliefs that define socially acceptable behaviour, or in order words, that separates legitimacy from illegitimacy. Therefore, illegal and illegitimate activities are defined as activities that take place outside the scope of *formal and informal institutions*. Human trafficking or drug cartels are a clear example of such. This distinction between legitimacy and legality is used by the authors to state that informality is not equal to illegality. However, to prevent misunderstanding, it is fair to state that the use of the term illegality is based upon a definition

that classifies illegality in a broader sense than by only referring to the formal institutions, meaning that illegality is similar to illegitimacy. They authors reason that informality is prohibited according to *formal institutions* but it is legitimized by *informal institutions*, whereas illegality is categorized as means and/or ends that take place outside the legal framework (illegal by law) and are not accepted by society (illegitimate). This reasoning leads to the claim that informality is not equal to illegality. The figure below is used by the authors to clarify this claim.

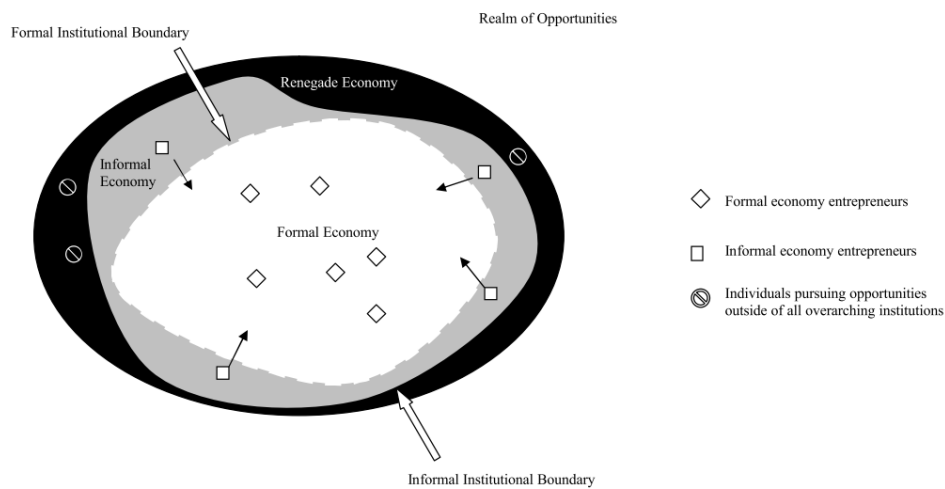
Figure 1: Institutional Categories of Entrepreneurial Activities



Source: Webb, Tihanyi, Ireland, & Sirmon, 2009: 42

As one can see, the figure above also brings forward another dimension: the distinction between *means* and *ends*. The difference between the two, is that *means* are used by an enterprise in order to produce *ends*. This distinction can easily be clarified with two examples. Illegal yet legitimate *means*, such as undocumented workers, can produce legal, legitimate *ends* such as garments, which would mean the enterprise is located in box B of figure 1. However, legal, legitimate *means*, such as documented workers, can produce illegal yet legitimate *ends* such as counterfeit garments, which refers to box A in figure 1. This distinction also explains how informality among enterprises can differ which is clearly more in line with reality than the definitions described in the beginning of this chapter. All together, this assessment of legality by law, and legitimacy allows us to allocate RMG firms into three different *economies*. In figure 1 these three different economies are already depicted as the *formal*, *informal* and *renegade* economy according to their characteristics based on the institutional framework. The authors have tried to illustrate how their reasoning would appear in a holistic economic model that captures all the existing enterprises. This model is depicted in the figure below.

Figure 2: Locus of the formal, informal and renegade economy & their participants



Source: Webb, Tihanyi, Ireland, & Sirmon, 2009: 42

This figure sketches an idea on how different enterprises might be located in the locus of *economies*. The size of each *economy* is dependent on the characteristics of an industry, meaning that it can vary. Moreover, the black arrows indicate that informal enterprises are willing to enter to *formal economy*, which in reality might be a false claim, but this, again, depends on the situation.

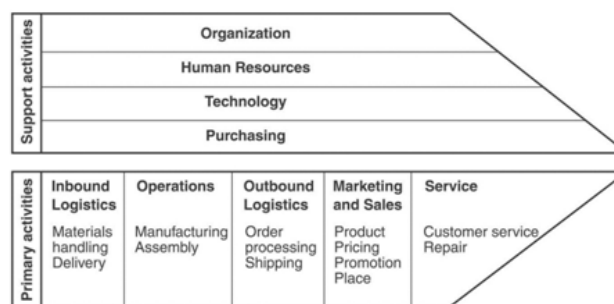
2.5 OPERATIONALISATION OF FIRM ACTIVITIES AND RELATIONS

Besides the debate on formality, informality and illegality, there is one more aspect of the research that needs to be specified. This thesis aims to study RMG linkages, which mean that firms their activities and relations will be examined. In order to structure this assessment of interactive means, this thesis will refer to the value chain model introduced by Porter in 1991.

The model of Porter reflects on business linkages in general, which makes it questionable whether these suggested linkages of Porter also cross the regulatory boundaries, but this is not of any importance yet. The value chain model describes the possible activities of an enterprise, and how these activities interact with the outside world. The model, which is visualized in the figure one the following page, distinguishes two main categories: the primary activities and support activities. The most straightforward category, that captures the primary activities of a firm, is divided into five categories that all directly affect the production process of a firm. These primary activities might interact with other firms, and such a possible relation has been studied often. The most common way to refer to this linkage, is to use the concepts of Hirschmann, who introduced the terms *backward & forward*

linkages. *Forward linkages* are referred to as the enterprise its output that serves as an input for other firms, whereas *backward linkages* are the purchases that enable a firm to achieve its productive means (Hirschmann, 1958). In today's world these linkages can be seen throughout the continents and many firms exploit such linkages. The *backward & forward* linkages can be strengthened when producers desire to outsource a part of their production process. In such a case, the ties and dependency will be much stronger compared to the normal *backward & forward* linkages. It has been suggested that the RMG industry heavily outsources part of their production process (Hobbes, 2015). Beyond outsourcing is the process of subcontracting, which implies that a producers request another firm to take over the entire production process, meaning that this firm delivers finished goods to the “producer”. There are also many signs that subcontracting takes place in the RMG industry (Hobbes, 2015).

Figure 3: The value chain model



Source: Porter, 1991: 103

Potter also noted the existence of other than production related activities and linkages, although they might be less tangible. These activities and linkages relate to the support activities of a firm. Support activities are categorized in four sections: organizational support, human resources, technology and purchasing. These sections are present in every firm, however the scale can vary, all departments can have linkages interact towards other firms; examples could be knowledge transfers, employment transfers or strategic alliances. It is questionable whether such linkages exist between formal and informal enterprises. However, in case of the RMG industry, it appears that employees easily transfer between jobs, which suggests existence of such linkages. Moreover, the purchasing section, which is involved in acquisition of input such as assets and equipment, can possibly show a relation between informal and formal firms.

3. BANGLADESHI BUSINESS CLIMATE

Previous chapter depicted how diverse and ambiguous the dialogue on formal – informal relations can be. These relations are also very context specific, which means that there is need to elaborate on the local characteristics that might influence the outcomes of the research. Therefore this chapter will be used to provide a thorough overview of the geographic, economic, political and legislative context of Bangladesh and will it illustrate the history of the readymade garment industry of Bangladesh.

3.1 GEOGRAPHIC AND DEMOGRAPHIC CONTEXT

Bangladesh, officially named as the People’s Republic of Bangladesh, is a country situated on the Indian subcontinent that has a land area of 147.570 sq. km. which is occupied by approximately 160 million Bangladeshis (World Bank, 2010). It is ranked as one of the most populous countries in the world and especially the population density of 1.033 people per sq. km is unimaginable. It is also one of Asia its poorest countries and an estimated 26 % of the population lives below the poverty line of 2\$ a day, meaning that over 41 million people suffer from poverty. Most of the Bangladeshis (92%) are devoted to Islam, whereas only a small minority, 2%, is devoted to Hinduism. Bengali is the national language of Bangladesh and this language has played an important role in the history of the country and its way to independence. Therefore, *International Language Day* is one of the most important festive celebrations for many Bangladeshis. The country is often referred to as *the land of rivers* since two of Asia’s largest rivers; the Brahmaputra and the Ganges, flow through the country and into the World’s largest river delta, to end up in the Bay of Bengal. These rivers have a vast network of navigable waterways, which all together comprise an estimated length of 8000 km. These rivers and their sediments have created fertile lands that are ideal for agriculture.

As one can see in Map 1 depicted on the following page, Bangladesh is surrounded by Indian territory, except for a short boundary with Myanmar in the south eastern part of the country. The relations with its neighbours are relatively weak; overland border crossings to Myanmar do not exist and only a handful of them between Bangladesh and India are in service. The relation with the Indians is somewhat troubled, due to historic and political reasons, and the foreign relation with Myanmar is even more fragile. These weak relations are a burden to Bangladesh its socioeconomic potential. In the centre of the country lies the capital city Dhaka, in which most of the economic and political activities are centred. The

consequences of poverty and overpopulation in Dhaka cannot go unseen. The city accommodates approximately 20 million Bangladeshis, and this number is still rising since many poor move to the city with the aim to improve their lives. Every week, around 10,000 migrants move to the capital, most of them end up in slums (Cities Alliance, 2015). Pressure on housing, living spaces, and urban areas within Dhaka are immense and the city has been ranked as the second least livable city in the world (The Economist Intelligence Unit, 2014).

Map 1: Map of Bangladesh



The second largest city, in terms of population and business, is Chittagong which is located at the Bay of Bengal, and serves as a major transport hub. It lies in the southern part of the country which is plagued by fierce floods and cyclones every year. It is expected that, due to climate change, such environmental hazards will increase. Also the expected increase of the *human footprint* of the Bangladeshis is suggested to have a serious effect on the environmental sustainability of the country (Planning Commission, 2012). Moreover, pressure on ecosystems is already extremely high, since the country lacks profound waste management and spatial planning (World Bank, 2010).

3.2 ECONOMIC CONTEXT

Previous paragraph already stated that Bangladesh is a low income country which has substantial poverty, inequality and deprivation. Since the country became independent in 1971, it has managed to increase its real per capita income by more than 130%, moreover poverty has been reduced by nearly 60% (Absar, 2003). This rapid economic growth can

partly be explained by the excessive economic growth of Bangladesh its neighbours; India and China. In the slipstream of these two powerful economic blocks, countries like Bangladesh flourished as well. This economic development led to being listed as one of the promising “Next Eleven” countries which indicates, that along with the BRICs, Bangladesh has the potential of attaining one of the world largest economies (IMF, 2013). The government, together with the EU and USA have signed agreements that should ease international trade and make the country a favourable destination for Western companies. Most of these agreements incorporate (temporarily) duty free import and export tariffs. Also the WTO employs a tariff system, the *generalized system of preferences* (GSP), which should ease commercial endeavours with Bangladesh. Together these agreements represents the country its aims to trigger trade and economic growth (Planning Commission, 2012). Agriculture has been the main contributor to the country its economy, and employs 49% of the workforce. The industry sector employs another 34% and the last 17% is designated to the services sector (Asian Development Bank, 2010). In recent years the non-agricultural sectors are growing at a faster rate than the agriculture sector, which might indicates that Bangladesh its economy is evolving.

Unemployment rates fluctuate around 5%, which is relatively low for a developing country. The 95% of the workforce that is employed, is to a large extent *underemployed*, which means that employment is not fully utilized and that many Bangladeshis work below their skill (Asian Development Bank, 2010). This means that the 95% employment figure includes part time jobs and precarious work, e.g. household workers and street vendors. Especially precarious work is largely present and employs a large part of the Bangladeshi workforce, some studies even suggest that over 55% of the workforce is involved in these practices (Mondal, 2008). Another important aspect to this characteristic of *underemployment* is the fact that Bangladesh does not have many high-skilled jobs. This has triggered international migration among Bangladeshis, most of them seek for employment in Middle East countries. This outflow of Bangladeshi has lead to an increase in remittances, which is therefore an important economic driver. In 2014 an amount of almost 15 billion US dollars was send as remittances to Bangladesh (Star Research, 2015), which makes it understandable why remittances are of such an importance to the country its economy.

3.3 POLITICAL FRAMEWORK

It is needed to highlight the importance of this paragraph because a proper understanding of the political dynamics is absolutely necessary in order to understand the functioning of daily

life in Bangladesh. During the time of field research it became unmistakably clear that politics play an important role in the daily life of all Bangladeshis. Most of them do have a preference for a specific political party, however common perception is that politics go hand in hand with corruption, solely belong to the elite and takes place at the costs of the ordinary Bangladeshi, which is why many people perceive politics as a threat to the well-being of the country.

Bangladesh has a very short but impetuous and violent political history. After separation from its British rulers (in 1947), the country became part of Pakistan, named as East Pakistan. In 1971, during a short but ferocious war with the Pakistani, and by the help of Indian army, the country became independent. In the early years, turmoil and military coups disrupted the country its way to peace. In 1975 the founding leader of the country was assassinated during a military coup. The unstable political situation that followed afterwards, is to some extent still present today and initiated the fragmentation of two political blocks. The differences between these blocks are not that large and their ideologies do not differ significantly (Bhardwaj, 2011). One of them is described as *Bengali Nationalism*, and embodies the country its historic and cultural ties to the ethnic group of Bengals. This is seen by the opposition as a pro-Indian ideology. The other block favours *Bangladeshi Nationalism*, which incorporates strong ties to the country its Islamic history and its connection to Pakistan. The fight over power, which included the use of violence and assassinations of political leaders, has caused that these blocks are strongly opposed to each other. Today's current leading party is the *Awami League*, which favours *Bengali Nationalism* and is being lead by Sheikh Hasina. The party has an absolute majority (273/350) in the national parliament. The other block, that favours *Bangladeshi Nationalism* is nowadays represented by the *BNP* (Bangladesh Nationalist Party) and is lead by Khaleda Zia. Salient detail is that both female leaders have been in power since the 1980s, and that close relatives of both of them, that were also involved in politics, have been assassinated in the past.

The elections of January 2014 which were won by Awami, evoked another period of civil unrest. The opposition boycotted the elections on the suspicion of corruption and fraud, and in the aftermath hartals (general strikes and blockades) and arsons (violent reprisals) severely destabilized the country. Hartals can be very disruptive and involve a total shutdown of activity, whereas arsons are used to spread chaos and hurt the ones that ignore hartals. In the political unrest of 2014, 124 Bangladeshi died, and an ± 6000 were injured (Ain o Salish Kendra, 2014). In the early months of 2015 (January – April), partly during this research, the political turmoil and unrest reached another boiling point, which lead to another 132

casualties and injured over 4000 Bangladeshi (Ain o Salish Kendra, 2015). Due to the civil unrest, many Bangladeshi argue that the future of the country lies in the hands of its politicians and their willingness to come to terms with each other. It is evident that this polarised framework in which two parties battle of power and try to suppress the other, is severely harmful for the country. This underlines the need for political stability if the country wants to move forward.

3.4 LEGISLATIVE CONTEXT

Since this thesis focuses on formality, informality and illegality among RMG firm, there is a great need for a description of the legislative framework of Bangladesh. Therefore this paragraph will elaborate on the most important laws that are applicable to the RMG industry. Most of them are captured in the Bangladesh Labour Act, which was enacted in 2006. In 2013 this act has been amended to make it consistent with international standards. The act categorizes all industries of Bangladesh and incorporates regulations and rules for these different industries.

The Labour Act captures the need of a safe working environment and prescribes employers to take “*appropriate measures to protect workers in times of hazardous activities and from the danger and damage of fire*” (XVII of 2006 Bangladesh Laws, 2006, p. 42). Moreover the employer is required to provide its workers with *pure drinking water, sufficient light & air, and separate toilets for man and women*. In addition RMG firms have to obey to the following standards: Every single RMG factory needs to possess at least one alternative exit per floor, no exit can be locked during working hours and all passages to escape route must be clear. And a fire drill has to be held annually. These extra rules were included after the Rana Plaza tragedy (Bangladesh Institute of Development Studies, 2013).

The act also elaborates on the right to unite. Trade unions can be formed in every single RMG factory that employs more than 50 workers, workers of factories with less than 50 workers, can unite with workers from other RMG establishments and form a *cluster union*. No one can be denied access and the union is entitled with collective bargaining power. In 2013 this part has been amended; since then some of the core conventions of the ILO (ILC 87, ILC 98, ILC 105) are incorporated in the law (Bangladesh Parliament, 2013).

Besides the right to unite, workers are protected by rules that prohibit them to work more than 7 consecutive hours per day, or more than 42 hours a week. Workers enjoy the right to receive leave (annual, sick and maternity). An employer has to provide its workers with appointment letters and ID cards. In addition to the Act, the government has also

established a minimum wage for RMG workers, which currently is 288 BTD per day based on a 7 hours of (Awaj, 2014). Child labor is also discussed by the act, it first states that: “*No child shall be employed or permitted to work in any occupation or establishment*” (XVII of 2006 Bangladesh Laws, 2006, p. 34). However an exception to this rule is made at the end of the same chapter, where it states that a child older than 12 years, is allowed to be “*employed in such light work as not to endanger his health and development*”(XVII of 2006 Bangladesh Laws, 2006, p. 37).

Entrepreneurial legislation is partly covered by the Labour Act; it prescribes mandatory registration and explains the process of applying, obtaining and monitoring. The government holds the right to examine an enterprise, and audit whether the activities align with the *nature of work* as indicated in the application. For legislation on taxes, the Act refers to the *Income-tax ordinance, 1984*, and its amendments. This act describes the need of obtaining a Tax Income Number (T.I.N.) and presents the corporate tax rate of 15%. A 5% tax reduction exists for RMG industries on export sale (Bangladesh Tax Committee, 2014).

To conclude it is necessary to state that in theory the legislative framework of Bangladesh is well structured, but that in reality, especially due to a lack of law enforcements, this framework functions differently. The Labour Act comprises an entire chapter on penalties in response to law violations. Heavy fines are applicable to violations such as child labor, payment below minimum wages, and unfair trade union practices. However, in reality such malpractices are not always penalized.

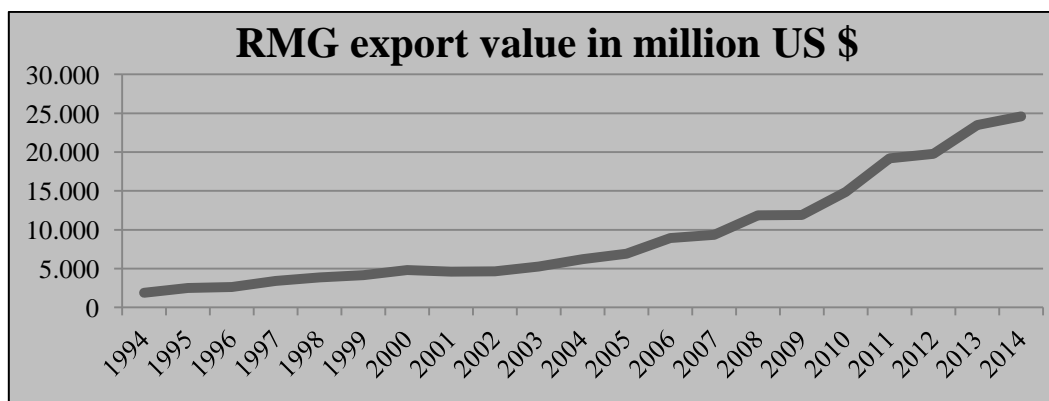
BOX 1: EXPORT PROCESSING ZONES

In the early 1970s, a trend among newly industrialized countries, such as China & India, was the establishment of Export Processing Zones (EPZ), which triggered international trade. Bangladesh established its first EPZ in 1983 and nowadays it has in total eight EPZs, which contribute to an estimated 17% of the total export. 82% of the firms that operate in an EPZ are RMG firms (Hossain, 2014). These EPZs are geographical areas which enjoy legislative rights that aim to initiate entrepreneurial endeavours and investments. An EPZ provides some sort of competitive protection to firms, which makes it an attractive agreement. Nevertheless, in Bangladesh voices against these EPZs are increasing. It is suggested that the EPZs enjoy too many benefits that are harmful for the RMG workforce (ILO, 2015). In Bangladesh, EPZ workers are deprived from their freedom of association and collective bargaining power, and firms apply certain tactics to extend temporarily tax holidays, which is harmful for the economy. Therefore the future of these EPZ is uncertain.

3.5 READYMADE GARMENT INDUSTRY OF BANGLADESH

It is unmistakable that the Bangladeshi garment industry is deeply embedded in the country its identity. Many Bangladeshis perceive the industry as an attractive and main economic driver, moreover they reason that the country serves as a large international supplier of garments. In this perception, the existence of the smaller domestic RMG industry is totally ignored. Nevertheless signs, advertisements and billboards of mainstream and downstream garment factories, firms, and related businesses such as suppliers and buying houses can be found almost in every newspaper and on every street. The mainstream RMG factories themselves are easily to recognize, they stand out in tall concrete buildings, with barred windows through which neon lighting and circling fans can be spotted. Once one knows how to distinguish these factories, one will realize that they are literally spread everywhere throughout the city and the region of Greater Dhaka. This illustrates how uncontrolled the eruption of newly RMG firms must have been. The downstream RMG firms have al clustered together in one specific area called Keraniganj. Nowadays the mainstream RMG industry is responsible for 77% of the total export earnings, contributes to 13% of the GDP and employs \pm 4 million Bangladeshis (IMF, 2013). These facts, that exclude the downstream sector, show that the RMG industry is an important driver of the economic power and potential of Bangladesh. Figures on the downstream RMG sector hardly exist and are less precise. Based on the report of CBSG, BLF, FNV, & SOMO (2015) it is suggested that over 6000 downstream firms exist, however, these firms are relatively small and often employ around ten workers. According to direct stakeholders that have been spoken to, this sector has, in the slipstream of the mainstream sector, experienced a rapid expansion in the last decade. However this is hard to prove with solid data. Data on the mainstream RMG sector is much easier to find. As depicted in figure 4, the mainstream RMG industry has grown substantially in the last twenty years.

Figure 4: Historic growth of RMG export value



Source: Export Promotion Bureau compiled by BGMEA

Especially the abolishment of the MFA its trade quotas, appears to have triggered a massive expansion of the industry after 2005. In today's Bangladesh an estimated 4500 mainstream RMG firms exist, which is a tenfold of firms compared to 1985 (BGMEA, 2015).

The reason why this industry flourishes is mainly due to the competitive advantage it has over its rivals. As mentioned in the introduction, wages in Bangladesh are among the lowest in the world and since the country is overpopulated, there is an abundance of labour. These two characteristics are at the core of the country's competitive advantages. Other important drivers are the location of the country, taxation holidays and other international agreements. All aforementioned factors contribute to the competitiveness and the successfulness of the RMG industry of Bangladesh. Initially there is not much wrong with such a position or with these factors. However one should understand that such a position is dynamic and can change over time. The Bangladeshi government and other stakeholders are fully aware of this and therefore try their utter best to maintain this position, which to a certain extent might happen at the cost of the well-being of the workforce and the ordinary Bangladeshis.

BOX 2: THE MULTIFIBRE AGREEMENT

In the early 1970s, European countries start to experience the consequences of globalisation, which caused that labor intensive industries moved away, or were disrupted with fierce competition from newly industrialized countries. In order to deal with these changes, the European countries signed an agreement that imposed import quotas on textile and clothing (Naumann, 2006). The agreement, that was enacted by the WTO in 1974, is known as the Multifibre agreement (MFA). Initially it aimed to protect the Western RMG firms but over the years the quotas were altered and the MFA more or less governed a controlled transition of the textile industry, in which the industry slowly shifted towards cheaper, mostly Asian, countries. The imposed quotas contained exceptions for the least developed countries. Bangladesh, which was listed as one of them, was suddenly an attractive haven for RMG production and therefore strongly benefited from this agreement. The MFA initiated the establishment of RMG firms in Bangladesh and enabled them to compete with large RMG export producing nations. By 2005, when the MFA ended, the Bangladeshi RMG industry had grown to such a significant size that even after the MFA period, the industry was able to expand into the multibillion dollar industry it is nowadays.

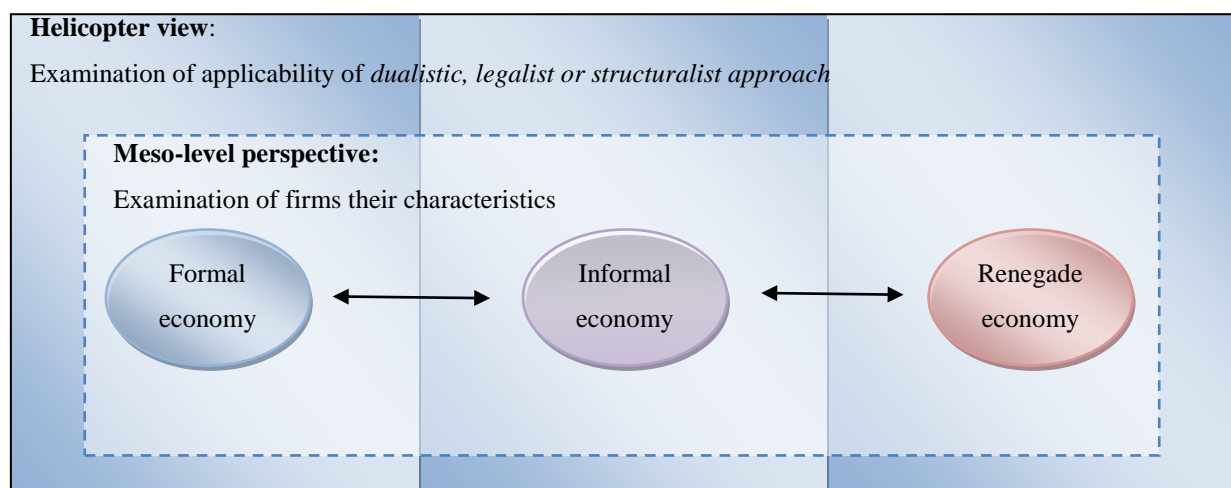
4. RESEARCH OUTLINE

Previous two chapters have provided a thorough overview of the academic concepts and the local context of Bangladesh. These two overviews are of great importance to the design of this master thesis and its underlying research. This chapter will elaborate on the design of the research and on the data collection that has been conducted in Dhaka Bangladesh prior to the formation of this master thesis. In order to do so, first an in-depth description of the conceptual model, used for this research, will be provided.

4.1 CONCEPTUAL MODEL

This master thesis aims to contribute to the debate on formal – informal entrepreneurial interaction and its relations towards the developmental framework. This incentive will be guided by a conceptual model which is illustrated in figure 4. The work of Webb et al. (2009), described in chapter 2.4, defines how one can classify and categorize the *formal*, *informal* & *renegade economy*. This categorization can only be done when a proper description of the activities of the firms involved is given. Such a description can be provided when one refers to the value chain model of Porter, described in chapter 2.5. This model allows us to reflect upon the interactive means of firms, which are indicated by the black arrows in figure 4. The combination of both models (i.e. Webb et al. & Porter) will provide the reader with a holistic overview of the characteristics of the subjected economy, which in this case will be the RMG industry of Bangladesh. After aforementioned requirements have been met, one can abandon the meso-level perspective and switch towards a helicopter view. This broader perspective can be used in order to reflect upon the macro-level situation and to examine to what extent the three grand theories, the *dualistic*, *legalist* and *structuralist approach*, are applicable.

Figure 5: Conceptual model



4.2 RESEARCH OBJECTIVE AND QUESTIONS

As presented in chapter two, informal – formal relations have been studied and discussed by many scholars during the last half century. Especially the debate on the relation between formal – informal interaction and development has seen many distinctive perspectives and approaches. The objective of this master thesis is to contribute to this discussion and to provide a case study that depicts how this relation functions in reality. The latter can be of great value for stakeholders that are directly involved in the RMG industry of Bangladesh since this thesis will provide a holistic overview of the RMG sector. Such an overview is valued by these actors especially since this industry is heavily subjected to external pressure that demands changes to prevent another tragedy similar to Rana Plaza. In a broader perspective, this thesis can be of use for academics but also policy makers and civil society actors that are involved in formal – informal relations and/or in initiatives that aim to alter the level of formality, informality and illegality.

In order to realize this research objective a research question has been constructed which will be assisted by sub questions. The conceptual model This thesis will be structured by a single research question and its sub questions, which are as the following:

Research question:

To what extent do Bangladeshi readymade garment firms employ entrepreneurial activities and interaction that crosses formal and informal boundaries.

Sub questions:

1. *What are the economic and social characteristics of Bangladeshi RMG firms?*
2. *To what extent can the Bangladeshi RMG industry be divided into a formal, informal and illegal sector?*
3. *To what extent is there interaction among RMG enterprises that crosses formal and informal institutional boundaries?*
4. *To what extent does existing literature explain the interaction between enterprises that operate in different economies, i.e. formal, informal and renegade economy?*
5. *What initiatives have been taken by governments and civil society to alter the level of formality, informality and illegality in the RMG industry?*

By now the structure and incentives of this master thesis should be clear. The conceptual model, which also embodies the sub questions, will guide the process of answering the main research question. Which means the findings of sub questions 1, 2 and 3 will be based on a meso-level perspective that provide an in-depth understanding of the RMG industry. Sub questions 4 & 5 will be answered by using to so-called helicopter approach. Sub question 4 allows us to measure to what extent the theoretical framework captures reality and sub questions 5 is used to elaborate on the current situation when it comes to initiatives that try to improve the situation. This will incorporate a link towards development work in practice. Before these findings can be presented, it is important to explain how these findings have been found, constructed and analyzed.

4.3 RESEARCH METHODOLOGY

The methodology of the research is best explained by a stakeholders approach, nevertheless the methods used to gather data and information of these stakeholders differed per group. *Direct stakeholders*, such as RMG firm workers and owners have been subjected to quantitative research means, whereas *indirect stakeholders* were questioned based on qualitative interviews. Moreover, field observations contributed to the quality of this thesis, since it provided insights in the RMG industry, but also insights in the power relation and incentives of the different stakeholders. To complete this master thesis, the use of secondary data turned out to be essential as well. In the following sections a more specific explanation of the gathered data, and the participation of different stakeholders will be provided.

4.3.1 Methods & techniques

This research is based on data that ranges from quantitative interviews to secondary databases and from field observations to focus group discussions. This wide range of data collection was needed since this thesis has the ambitious aim of reflecting upon the characteristics of the entire RMG industry of Bangladesh. In the table below one can find the different types of data that have been collected and were used to validate the findings of this master thesis. The formats of the survey, FGDs and interviews can be found in Annex A.

Table 1: Overview of collected data

Description		Quantity
Primary Data	Online survey that gathered data on activities and relations of export oriented RMG firms.	30 firms
	Focus group discussions within downstream RMG firms.	10 FGDs

	Open interviews with RMG stakeholders (Institutes, Unions, NGOs, Media and government officials).	16 interviewees
	Structured interviews with informal garment vendors.	20 interviewees
	Field observations & interviews in export oriented RMG factories.	5 factory visits
	Field observations & interviews in the downstream RMG sector.	8 day visits
Secondary Data	Report & database of CBSG: <i>Study Mapping on Organizing Downstream RMG Workers in Bangladesh</i> (2015).	200 downstream RMG workers
	Report & database of IndustriAll: <i>Organizing RMG Workers in Bangladesh: Mapping Study Report</i> (2014).	242 mainstream RMG workers

4.3.2 Online survey questioning export oriented RMG firms

The actors of the export oriented RMG sector, also referred to as the mainstream RMG sector, were reached by using an online survey. The decision to reach them via the internet was based on early field observation in which it became clear that this was the only channel through which one could reach this group. The online survey has been distributed among 3500 RMG firms based on a list of BGMEA, although it has to be noted that approximately half of the emails bounced and therefore did not reach the target group. With great effort the survey lead to 30 useful responses, which, compared to total population, is still a disappointing result. The survey essential had 55 participants, but, probably due to the sensitivity of the topic, not every respondent was willing to fill out every single question. The findings of the survey do provide a rough overview of the condition of the mainstream RMG sector, however it is expected that these findings are somehow biased and probably sketch a more positive outcome than what reality looks like. This is because it is expected that only *the most formal* mainstream firms, that do comply to the legislative framework, were willing to participate and thus to openly and truthfully respond. Nevertheless, in combination with other data sources, this online survey sustained the research with rough indication about the characteristics of the export oriented RMG industry.

4.3.3 Focus group discussions within downstream RMG firms

The downstream RMG firms, that only produce for the domestic market, were much easier to access, compared to the export oriented sector. Nevertheless obtaining useful data from these downstream firms faced some issues as well. Since these firms are rather small, it turned out to be nearly impossible to interview workers or plant owner individually. Moreover, the presence of the researcher attracted so much attention, due to Bangladeshi curiosity and hospitality, that the only way to conduct research was to interview the entire firm in one go. This meant that the initial plan, a structured interview, was transformed into some sort of

focus group discussion. When entering a firm, production was being stopped for approximately 20 minutes and everyone present would gather around the interviewer and the translator. All of the workers had the opportunity to join the conversation but it is fair to note that in some firms this worked out better than in others.

The selection of these firms was based on a convenience sampling method. However this sampling method was also influenced by the main findings of previous field observations, meaning that differences in size and location influenced the selection of the firms in which the FGDs were held. It is fair to question to what extent ten FGDs can be used to describe an entire sector. The findings of the FGDs might be limited due to sampling size, however the internal cohesion of the outcomes turned out to be quite high. Therefore, it is expected that most findings are generalizable, and relevant for the entire sector, since it appears that most of the downstream RMG firms have the same incentives, productive means, workforce, and business strategy.

4.3.4 Open in-depth interviews with range of distinctive stakeholders

Besides studying RMG firms and their employees, an attempt has been made to interview as many *indirect* stakeholders as possible, which are somehow connected to the RMG industry of Bangladesh. These stakeholders are categorized as governmental bodies and civil society actors, this last category comprises of 5 underlying groups which are: *Institutes, Unions, NGOs and Media*. A list of the stakeholders that have been interviewed, can be found in Annex A. In the following chapters references to these distinctive groups will be made since the interviewees their specific identities remain anonymous due to privacy reasons. Of these distinctive groups, the NGOs were most easily accessed. In the aftermath of the Rana Plaza tragedy, many of these NGOs started projects to improve the situation and they are more than willing to elaborate on their activities and incentives. Other important stakeholder that have been interviewed are local government officials from the *Union Parishad* and different institutes that engage in the process of unionization, decent work or have lobbying incentives.

The structure of the interviews varied a lot, since the interviewees all had different fields in which they exceed, and each of them had different connections towards the RMG industry. It is hard to consider a valid sample size when it comes to this group of stakeholders. An attempt has been made to interview at least one stakeholder of a specific field (e.g. Government institutions, RMG associations, the media, RMG workers unions, NGOs, private sector initiatives etc.). It has to be noted that some of these fields were easier to reach than others. Especially institutes that have close ties to the government, e.g. the chamber of

commerce or the BGMEA, were nearly inaccessible. This means that the open interviews with stakeholders are defined by a convenient sampling strategy but this strategy was affected by the interest in mind that aimed to interview stakeholders of all different fields of interest.

4.3.5 Structured interviews with informal RMG vendors

The data collected from this section only contributes to a minor part of this research and it was only used to grasp the relations in the supply chain of the domestic RMG sector. By interviewing informal RMG vendors, it became evident how garments from export oriented firms as well as from downstream RMG firms, end up being sold in the streets of Dhaka. These RMG vendors can be found all over the city, and the selected participants were all clustered in an area which is well-known for its cheap garments markets (i.e. Bongo market & Nilkhet market). One should understand that these street vendors are all lined up next to each other and they have to compete with hundreds of other street vendors that operate within the same market area. For the interviews a convenience sampling strategy was applied among these rows of street vendors. They were questioned about the origin of their goods, the quantities and prices of the goods when being bought and when being sold and the issues they faced. Most informal RMG vendors answered the questions in similar ways as their colleagues/rivals, which indicated that most of the street vendors seem to apply the same business strategy and that most goods reach these markets through the same supply channels.

4.3.6 Field observations

It is necessary to elaborate on how field observations are used in this research since the fact that observations are always affected by one its own interpretation. Field observations were of great use in order to construct the other data gathering methods. Without field visits, one would not grasp the dynamics of the mainstream and downstream RMG sector. Moreover, for some concepts observations were sufficient to understand the current situation and the local context. Examples are the examination of working conditions or the production of formal, informal or illegal garments. Especially the field observations in the downstream RMG sector have provided an in-depth knowhow on how these firms operate. These observations were helpful to assure the quality of the other gathered data.

4.3.7 Use of secondary data sources

To conclude this paragraph of the data collection, it is needed to explain why and which secondary sources have been used. Due to time pressure, the local situation, and accessibility of stakeholders, it turned out to be rather hard to collect primary quantitative data on a large

group of RMG workers. To ensure the quality of this thesis, such data was highly desired, since such databases can justify to what extent one can generalize the main qualitative findings. Therefore the decisions has been made to use two secondary databases that measured the workforce characteristic and working conditions of either mainstream (N=242) or downstream (N=200) workers. The format of the individual interviews which were used to collect this data, can be found in Annex B.

4.4 RESEARCH LIMITATIONS

The process of obtaining data and conducting research was unfortunately disturbed by a couple of factors. Research conditions were not always ideal and may have affected the validity of some outcomes. Language issues mostly present, since most Bangladeshi do not speak English, and even the skills of the translators was in some cases questionable. Also cultural values, such as generosity, curiosity and hospitality (towards foreigners), might have provided this research with a slightly skewed view. The most explicit obstacle faced during times of research, was the political unrest (described in paragraph 3.3) which has severely disturbed the process of data gathering.

Also the research outcomes are subjected to some limitations. It is expected that participation among the mainstream RMG firms is slightly biased, since RMG firms that employ illegal activities probably refused to participate. This means that the outcomes of the survey are slightly skewed and that the information on illegal RMG firms, is based on interviews held with stakeholders, rather than the online survey. This might limit the representativeness and generalizability of the findings. Moreover, the sample size of the online survey and factory visits, both mainstream & downstream, are problematically low. These samples were subjected to the sensitivity of the RMG industry and illustrate to what extent some RMG firms were not open and transparent to outsiders. Nevertheless, obtaining a proper sample size would have been challenging since this requires time, proper financial resources and most of all a broad network that ensures accessibility of RMG firms.

5. PROFILE OF BANGLADESHI RMG FIRMS

All over the globe Bangladesh is known for its RMG industry and after the collapse of Rana Plaza the entire world became aware of the conditions of this industry. It is more than fair to state that the conditions highly vary among firms. There is no such thing as a typical or average RMG firm; every single firm has its own characteristics. Nevertheless this chapter will try to provide some sort of overview that structures and categorizes RMG firms that all operate in the broad spectrum of this industry. Such an overview will provide an answer to the first sub question of this master thesis: *What are the economic and social characteristics of Bangladeshi RMG firms?*

This chapter its structure is based on two dimensions. The first is based on the clearest and most visible distinction that exists within the RMG sector, which is the division between the *mainstream* and *downstream* RMG industry. During interviews it became clear that most stakeholders categorize the RMG industry by referring to these two concepts, moreover the differences between the two are immense. Secondly, for the economic characteristics an overview of the core activities of RMG firms will be provided, whereas the social characteristics will be highlighted by the examination of employment characteristics and the conditions of the working environment.

BOX 3: GARMENT MANUFACTURING PROCESS IN GENERAL

The production of garments is a process which is to a certain extent similar no matter what kind of product one considers. The essential basic product is always the fabric, which can largely differ in quality. In most cases, the fabric takes up the largest part of the cost of production, which is why many firms try to minimize leftovers. The fabric has to be cut into pieces according to the design of the product, which is done by the so-called *cutting master*. This worker only needs a pair of scissors and a design or model, which is often just a piece of carton. To increase productivity, many *cutting masters* cut multiple layers of fabric in one batch. This skill varies due to differences in experience and equipment, and ranges from five to over a hundred layers in one go.

After the right pieces have been cut, the workers can start stitching, this task is done by the *operators*. Stitching techniques and quality can differ a lot, and some parts of the garments need special attention. For example the *overlocking* stitches, which are the sews along the edges of the product. To ensure high quality, the *overlocking* has to be spot on, which is why often only the most experienced *operators* execute this task. In some cases...

...the *operator* stitches the entire product whereas in other cases the *operators* cooperate and all perform a specific operation within the manufacturing process.

When the *operators* have finished their stitching, the garments need to be checked and *cleaned*. The latter basically means clearing all the loose threads. This is done by the *helpers*, which is a designation that exists in every RMG firms. However the actual duties and privileges of them vary among firms. In some cases the *helpers* are the lowest ranked employees, who are only *cleaning* the finished products. In other cases, the *helpers* are ranked above the *operators* and then their task is to guide the products through the production line. Sometimes *helpers* have special duties such as ironing, washing (not to be mistaken with *cleaning*), dyeing or attaching labels and buttons.

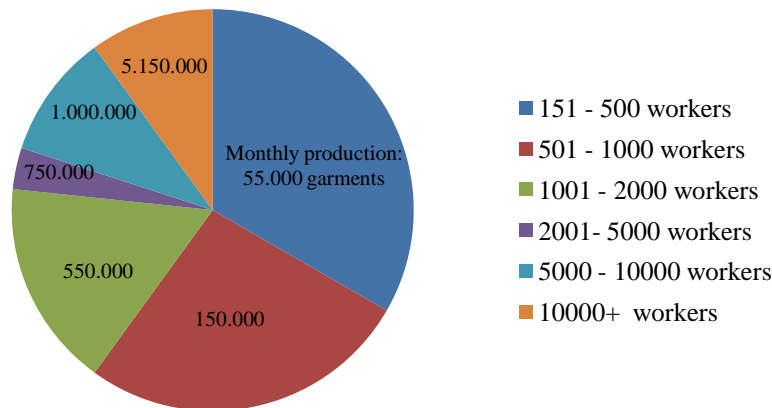
5.1 CORE ACTIVITIES OF MAISTREAM RMG FIRMS

5.1 CORE ACTIVITIES OF MAINSTREAM RMG FIRMS

The so-called mainstream RMG sector is synonymous with the export oriented RMG sector, the firms within this sector produce garments that supply brands that only operate outside Bangladesh. Most of the garments are destined for the markets in West Europe or the US. In order to serve these brands, firms in Bangladesh have to meet the requirements of the brands. The owners of exporting RMG firms all mentioned during interviews or field visits, that their clients demand them to be flexible, adaptive and to be large of scale, or at least large enough to handle their orders. Moreover, all production is based on orders (the online survey scored 100%), which implies that the client, in this case the brand or retailer, is in charge. These circumstances align with other findings of the online survey, which showed that most firms appear to offer a very broad range of garment items. This can range from sweaters to children's jeans, from underwear to uniforms or from swimming shorts to jackets. Product specialization is hardly present, although a distinction between jeans, knitwear and woven products can be made, and some of the smaller firms do indeed only focus on one of these three categories. This distinction cannot be found among the larger firms; those that have over a thousand employees, and sometimes possess multiple factories. They all suit the principle of “*we produce whatever the customer demands*” and by doing so they meet the requirements of RMG brands and retailers. The figure on the next page gives an indication of the distribution of workforce size and average monthly production of the mainstream RMG sector. All respondents replied to have a workforce of at least 151 workers, which suggests that

apparently a minimum size applies to mainstream RMG firms. Logically, production increases when the workforce expands.

Figure 6: Size of workforce and average monthly production, N=30



5.1.1 Production line

Another typical characteristic of mainstream RMG production, is the production line. Based on field observations, such a line can vary from ten to over a hundred workers, but iconic is the fact that every single worker only contributes to a specific part of the product. Owners indicated that this increases productivity and the quality of the delivered labour. Moreover, the line makes it easier to distinguish workers who do not perform, since the line is as fast as the slowest link. Depending on the size of the factory, firms can have multiple production lines, which increase flexibility and the possibility to produce different items at the same time. In practice this type of production causes a robotic working environment, which according to some interviewees (NGOs & Unions) causes problems. They explained that it is often the case that *operators* are not allowed to leave their workplace, nor to communicate with others. The so-called *helpers* are the ones that process the products through the production line. This hierarchal structure is in some cases also characterized by gender inequalities; women are *operators*, men are *helpers*. The latter, in case of the mainstream RMG firms, implies a *better* job (based on hierarchy, wages and duties) compared to the *operators*.

5.1.2 Qualitative incentives

Another striking field observation is that quality appears to be the most important aspect of the product. When entering a production floor, one can easily see the designated areas that examine the quality of the products. It is common that after five to ten steps of the production process, a quality manager will check whether the semi-finished products meet the requirements. After finishing the product, it is time to check again and reevaluate the quality, which is a process that is sometimes carried out by four to five different employees. Every

individual evaluates a different aspect, such as quality of inside & outside stitches, loose threads and irregularities in fabrics, in order to assure a high quality product. This once more illustrates the pressure invoked by order-based production; the client has to be provided with garments of the quality he desires.

5.1.3 Business administration

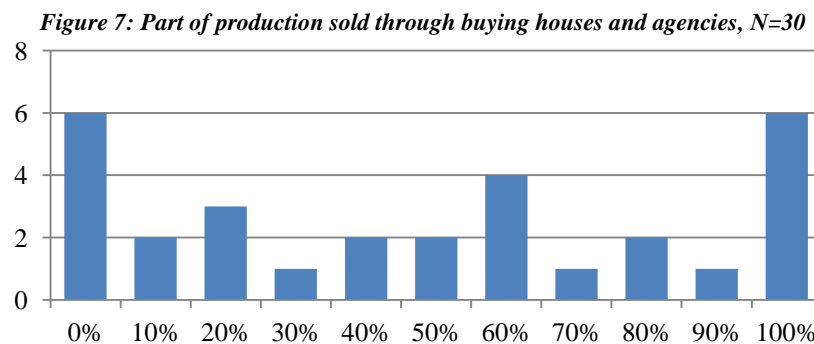
Interviews with mainstream RMG owners indicated that new RMG business have to apply for multiple documents, licenses and certificates, and the required paperwork for these start-ups, and maintenance for existing firms, is quite extensive. To give the reader an idea, exporting RMG firm has to apply for a memorandum, trade license, export license and import registration certificate, some of these have to be renewed every year. This list even excludes certificates that represent compliance to environmental sustainability or building & fire safety. Besides these documents firms also need to register at the Board of Investment (BOI), the Bangladesh Garment Manufacturers & Exporters Associations (BGMEA) and at the Export Promotion Bureau (EPB). Most of the firms their paperwork is in an excellent state, because monitoring agencies can easily pressurize the firm and its existence if they do not possess the required documents. However this does not imply that malpractices are eradicated. It is suggested (Interviews: Institutes & NGOs) that *hidden* factories exist, which are firms or subsidiary firms, that remain unmonitored. This also causes that figures that indicate the size of the mainstream industry highly vary; some claim that there are ± 3000 mainstream RMG factories (IndustriAll, 2014), other state that this figure is way higher, around approximately 5000 (Bangladesh Institute of Development Studies, 2013). Even the BGMEA, which registers all exporting RMG firms, does not have solid figures on the industry size. The quote below explains why.

“The amount of RMG (mainstream) factories varies every year. Due to bankruptcies and start-ups. In some cases it is in the interest of firms to run multiple factories or even multiple subsidiaries which decreases transparency. Moreover, BGMEA its database of operating factories also contains fake ones, which are used to generate extra votes, in time of election. So clear figures on how many RMG firms we have, are hard to come by.” (Interview: Media)

This lead to the fact that it is unclear how many mainstream RMG factories and firms really exist, and to what extent they comply to the regulatory framework. The quote above also displays the suspicious role and incentives of the BGMEA.

5.1.4 Sales & competent entrepreneurship

The mainstream RMG sector is characterized by fierce competition. All firms have to do their utter best to satisfy their customers, who, if not satisfied, can easily switch from supplier. This forces firms to be flexible and adaptive if they want to do business. Only some exclusive factories work with a solid network of clients, whereas most firms have a daily task in attracting and negotiating with new clients (Interview: RMG owners). Buying houses and agencies play the role of a mediator and try to link brands with producing firms. In the figure below, one can see the distribution of which part of the total production is sold by the use of these agencies. Statistical test have been conducted to examine whether correlation existed with other indicators, such as firm size and profit. No significant linear correlation has been found, which indicates that the involvement of buying houses and agencies does not necessarily provoke business expansion or profit gains.



As mentioned earlier, competition among mainstream RMG firms is severe. This forces entrepreneurs to have an eye for productivity and technology. If a firm is not competitive enough, they will soon be pushed out of the market and in order to prevent this from happening, many firms try to increase their profits by various ways, and everything seems to be allowed when it comes to this aim of profit maximization (Interview: Institute). Examples are firms that sell leftovers products, such as labels, fabrics or finished goods, or strategically install subsidiary firms. Another common trick is to outsource or subcontract production, which allows small firms to appear to be flexible towards their clients. These practices have deteriorated the transparency of the RMG firms and their production chain, which causes that most buyers or brands struggle to figure out the *real* origin of the products.

5.2 MAINSTREAM RMG EMPLOYMENT & WORKING CONDITIONS

As already mentioned earlier, an estimated 4.5 million people work in the RMG sector, most of them, \pm 4 million, are employed in the mainstream part of the industry. The majority of

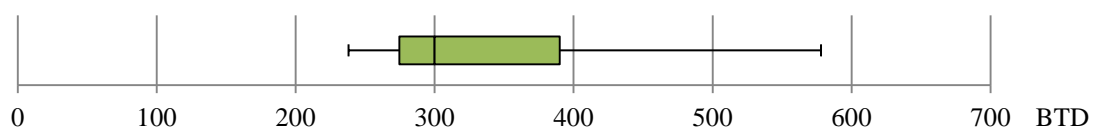
these million workers are women, as one can see in table 2. The perception among many Bangladeshis is that young women deliver the best garment products, although this has never been proven scientifically. In recent years child labor has been banned from these RMG factories, which is also depicted in table 2. However, these figures need to be questioned since it is expected that many underaged RMG workers, claim that they are 18+. This is why the table below also categorizes a group of workers between the age of 18 - 22 years, and it became clear that this group comprises a large share of the total workforce (43%).

Table 2: Age & Gender distribution of mainstream RMG sector, N=242

	Under 18 years	Between 18 - 22 years	Adult	Total
Male	0%	7%	29%	36%
Female	0%	36%	28%	65%
Total	0%	43%	57%	100%

According to the outcomes of the online survey (N=30), working hours vary between eight to twelve hours. Eight (40%) or ten (32%) hours per day seems to be most common and all respondents replied that a week consists of six days of working. Wages among workers seem to differ as one can see in figure 8. Statistical test showed that wages did not correlate with other indicators such as size of the firm, size of the workforce and production quantities. Also the factor upon which wages were based (piece rate, quality rate or worked hours), showed no significance which means that it is hard to answer what causes daily wages to differ.

Figure 8: Distribution of workers' daily wage, N=242

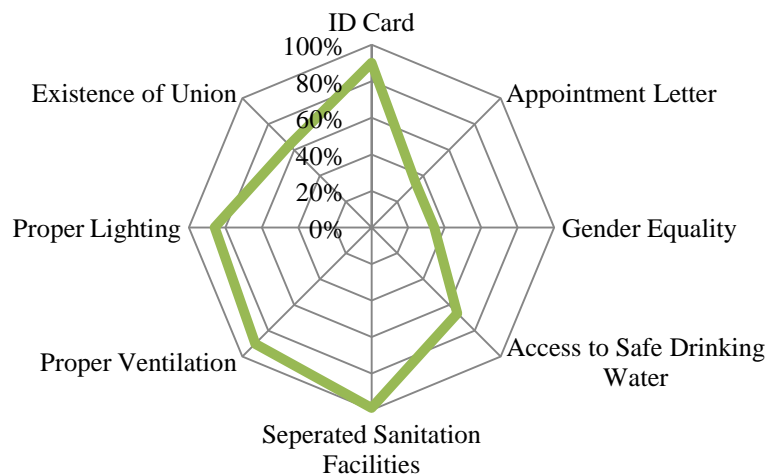


Most of the workers earn around 300 BTD a day, which is around the minimum wage of 288 BTD imposed by the government. Nevertheless, this minimum wage is not employed by all firms, since figure 8 shows that around 25% of the workers earn between 250 & 280 BTD.

Besides studying these descriptive figures of the workforce, an attempt has been made to map the working environment of these workers. A spider diagram has been constructed, based on eight yes-or-no questions (N=242), in order to construct some sort of indication of the working condition. As one can see in figure 9 the concepts that measured the actual factory conditions (proper ventilation, proper lighting and separate sanitation for male and females) all have high scores, which is a positive sign. Although accessibility of safe drinking

water, which also measures factory conditions, performed relatively poorly. Most of the workers also possess an ID card, which is enforced by the law to increase job security. Nevertheless official contracts or appointment letters, that should guarantee job security, are less present ($\pm 40\%$). This finding is quite surprising since the labour act demands employers to provide their workers with these letters. Two other concepts, that both relate to the well-being of the workers, did not show satisfying results. Gender discrimination appears to exist, since gender equality had a score around 20%. The other concept, the existence of a workers union, scored slightly below 50%, which is a result that should be put into context. Before the collapse of Rana Plaza, workers unions hardly existed, so in that perspective, this 50% score is a sign that the formation of trade unions is increasing. However, *trade union existence* does not measure *trade union successfulness*, which is of course of great importance. In chapter 8 a more in-depth reflection upon the framework of trade unions will be given.

Figure 9: Working Environment of Mainstream RMG firms, N=242



5.3 CORE ACTIVITIES OF DOWNSTREAM RMG FIRMS

Since the mainstream firms only supply exporting markets, the question rises who is serving the domestic market? The answer to this question can be found when one studies the downstream RMG sector. Within this sector one will find small factories that produce mostly low quality garments. It is more than fair to state that the term *factory* seems to be out of place when it comes to the downstream RMG firms. Among these firms, one can easily find a *factory* as small as twenty square meters occupied by only three employees and their stitching machines. Therefore, from here onwards, the downstream production units will be referred to as production *plants* rather than *factories*. These plants are characterized by their size and their working conditions, moreover the firms' activities are rather simple and straightforward. Most of these plants are clustered in Keraniganj, which is a neighbourhood in Dhaka, and

which is known throughout the entire country, for its low-cost garment production. Some stakeholders suggest that over eighty percent of the entire domestic production is located in Keraniganj, however this claim lacks proper data (Interview: Institute).

5.3.1 Quantitative incentives

During the FGDs it became clear that downstream RMG firms, can produce as many garments as they want, in any kind of shape and colour, since there is no such thing as order based production. Workers' wages are based on the so-called piece rate, meaning that wages depend on personal productivity. Based on field observation, it is evident that a production line, similar to the ones in the mainstream RMG firms, is nowhere to be found in the downstream sector. The range of products being made by the downstream firms, is still quite large, nevertheless the majority of the downstream firms seem to have specialized their production in a specific item, such as jeans, formal shirts or local fashion such as punjabis & sarongs. The need to produce top quality products or fashionable garments does not exist, quality checks are therefore not important, only quantity matters (Interview: downstream RMG owner).

5.3.2 Business administration

These small firms are obliged to possess the necessary documents and licenses as imposed by the law. This means that domestic RMG firms have to apply for a trade license and a tax income number (*T.I.N.*). The first has to be yearly obtained from the local government; the *Union Parishad (U.P.)*. A *T.I.N.* can be obtained from the national board of revenue (*NBR*). Firms that do not possess these documents should be penalized by the *U.P.* The perception among many Bangladeshis is that these downstream firms do not obey these laws. It is striking that the FGDs showed that trade licenses were obtained by $\pm 60\%$ of the downstream RMG participants, which is a surprising outcome. The costs of a trade license varied, based on size of the firm, between ± 200 and ± 1500 BDT. A *T.I.N.* was obtained less, ($\pm 20\%$), indicating that most downstream firms do not contribute to the taxation system. However, 1/5 seems to do, which is an unexpected high result. An interview with different members of the *U.P.* depicted a different perspective and explained why these two required documents do not make any difference or contribute to Bangladeshi governing system.

“Firms have to come to us (U.P.) to register their businesses and to obtain their yearly trade licences. Sometimes we inform owners of unregistered businesses that they need to register, but we cannot force them to do so. We do not have the

power, nor the capacity, to shut down unregistered firms. Moreover, these owners are also voters in times of election...” (Interview: U.P.)

“The U.P. is also in charge of collecting taxes, however, since none of the trade and sales is being administrated, we can hardly charge their income properly. So the larger [downstream] firms in the area will be requested to pay a small yearly fee which is often referred to as taxation.” (Interview: U.P.)

5.3.3 Social networks & trust

By now, the differences between the mainstream and downstream RMG sector should become more clear and evident. Another striking difference can be found when one looks at the sales strategy of the downstream firms. As described earlier, the mainstream RMG firms are all subjected to severe competition. Downstream firms are clearly not that competitive. The downstream products are being sold through *showrooms*, which is where demand and supply meet. Showrooms sometimes operate from within the plant, but most often they operate separately from their plant and on ground level where they are easy accessible; they can be found everywhere throughout Dhaka. During interviews and FGDs it became clear that most downstream RMG firms have a solid network of clients, and transactions are often done on credit, which illustrates that trade is mainly based on trust. This implies that social capital is an important driver, this underlines why most downstream firms operate within their own social network, separately from their rivals.

5.3.4 Survival strategy

Another remarkable characteristic is reflected in the entrepreneurial skills of the plant owners. Based on field observations and interviews it became clear that most owners participate in the production process and live in the plant they run. They reflect upon their businesses as a mean to survive, it provides income, but also shelter and independency. Some firms do make profits that could easily be reinvested, in order to expand or increase productivity, but most owners use their profits for other means, such as food, remittances or luxurious goods such as a smart phone or a TV. One of the respondents explained that all of his profits were being used to build a house for his entire family, who were still living in a rural area. This shows that most downstream owners have other priorities than their mainstream counterparts. However, the downstream owners also face external barriers that withholds them from improving their businesses, for example they can hardly get any sort of loans that could be used for investments (Star Business Report, 2015).

5.4 DOWNSTREAM RMG EMPLOYMENT & WORKING CONDITIONS

Figures that report on the amount of workers involved in the downstream RMG industry hardly exist. A study conducted by CBSG in 2015 claimed that 100.000 workers were employed within their research area. Based on this figure it is suggestible that around half a million Bangladeshis are employed in this downstream RMG sector, but this figure should be seen as a very rough and ambiguous estimate rather than solid data. Moreover, the domestic RMG production also creates employment in other sectors, such as transport, mechanics & repairs, mediating & street vending. All together it is nearly inconceivable to construct a solid answer to the question of how many people are involved in the downstream RMG sector.

The following findings, based on the outcomes of a survey that was distributed among two hundred workers in Keraniganj, will provide some sort of overview of the employment characteristics and working environment. First of all the gender division among downstream firms, depicted in table 3, differs from the mainstream sector. The same reasoning is applicable when one reflects upon child labor, which is something that is widely spread throughout the downstream sector. It has to be noted that this form of labor is, to a certain extent, allowed by the legislative framework and many Bangladeshis seem to legitimize child labor. An attempt has been made to create some sort of structure in the wages of these downstream workers (figure 10). This attempt was disturbed by the fact that many workers are paid based on piece rate production. This rate has been multiplied by the average daily production to construct an daily wage rate. In order to get this daily wage, the employee has to work, on average, 11 hours a day, which is 1 to 3 hours more than a mainstream RMG employee. The range of wages is quite high, especially among the lower 25%, who appear to earn very little. A possible explanation could be that downstream firms sometimes employ *interns*, who are paid less. This practice will be further explained in paragraph 5.4.1.

Table 3: Age & Gender distribution of downstream RMG sector, N=200

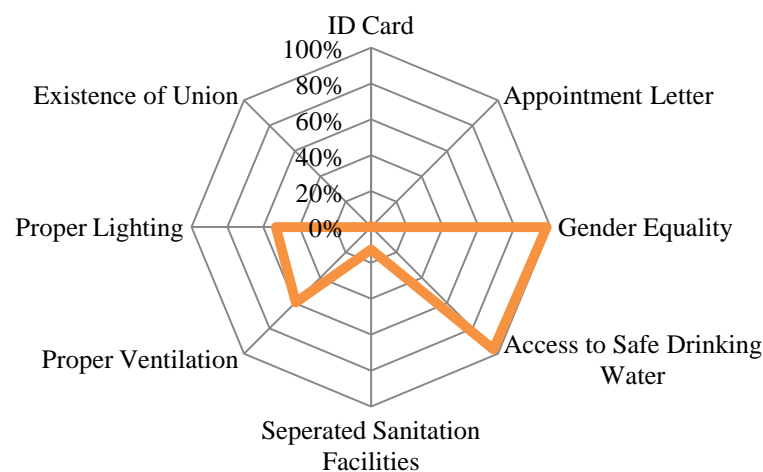
	Under 14 years	Between 14 -18 years	Adult	Total
Male	7%	18%	53%	78%
Female	3%	4%	15%	22%
Total	10%	22%	68%	100%

Figure 10: Distribution of workers' daily wage, N=200



Similar to the mainstream RMG analysis, a spider diagram has been constructed to map the downstream working environment. Downstream workers had to respond to the same eight yes-or-no questions (N=200) in order to construct some sort of indication of what the working condition are like. As expected, the outcomes of this spider diagram are totally different than the one of the mainstream sector. Factory, or in this case plant conditions (proper ventilation, proper lighting and separate sanitation for male and females) all had weak performances, which is in line with field observations. Separate sanitation facilities for men and women do not exist and most sanitation facilities are even shared with other plants. What is surprising, is the score of *access to safe drinking water*. This might be due to the fact that workers have to arrange this by themselves or due to the fact that they define safe drinking water differently.

Figure 11: Working Environment Downstream RMG, N=200.



The downstream workers all indicated that their employer does not provide them with an ID card or appointment letter. In most cases employment is based on oral agreements, which raises employment insecurity. The sector also lacks trade unions, which is can be explained by multiple reasons (Interview: Union); workers might not be allowed to unite, plants are too small which is why unionization is harder to achieve, workers are not interested to be part of a union or simply because they do not know what a union is. This indicates that workers their risk of exposure to captive and exploitative employment is relatively high. This risk is probably faced equally by men and women, since gender equality scored a 100%, which is in line with the field observations.

5.4.1 Irregular salaries & traineeships

Due to the lack of official employment agreements, downstream owners can employ workers in any form they desire. In practice this has initiate the use of irregular salary payments and salary deduction schemes in which the owner also provides housing and/or food. According to

the downstream RMG owners, irregular salary payments are caused by irregular sales. Only in the period of Eid celebration, which takes place in July, sales are high enough to pay salaries. These practices causes that it is rather hard to calculate daily or monthly income of workers. In some cases daily income does not even apply because the worker is enrolled in a *traineeship*. This form of employment often lasts for two years, in which a employee is taught how to make garments. In return he or she receives food and shelter, and in some cases a bit of pocket money. This means that after two years, they have not earned a single Bangladeshi Taka. The consequences of irregular salaries and this traineeship, is that many workers face a form of captive employment, which is hard to escape (Interviews: Institutes & downstream RMG workers). Nevertheless, still many Bangladeshis are willing to engage in such forms of employment, since it provides some sort of security (Shelter, food, employment).

5.5 GENERALIZABILITY AND EXCEPTIONS

These description of the mainstream and downstream RMG sector generalizes the conditions and activities of the firms that operate in these sectors. This is done to depict an overview of the current situation, however, it is needed to stress that every single RMG firm has its own characteristics. This is why it is questionable to what extent this process of generalization still reflects reality. Especially since the mainstream RMG industry lacks transparency and the differences within this sector can still be enormous, concerning size, products and conditions. The firms that operate within the downstream sector are relatively similar to each other. Truth is that the separation of the markets really exists. Hardly any RMG firm manages to formally and openly operate in the downstream and mainstream sector, at the same time. A suggestible obstacle that denies this is the existing tax holiday on imported fabrics, which is only applicable for export productive means (mainstream RMG sector). Another reason is the lack of brands that address the domestic market. It does not imply that branded garments are nowhere to be sold throughout Bangladesh, but it implies that there is no demand for an order-based domestic market. All together this leads to the fact that mainstream RMG firms show little interest in producing garments for the domestic market. Moreover, downstream firms that want to engage in mainstream activities face insurmountable barriers. Examples are lack of scale, quality issues, administrative & legislative issues, financial barriers. This, all together, validates the separation of mainstream and downstream firms.

6. ATTACHING THE LABELS

Now since the economic and social characteristics of the RMG industry have been explained, the concepts of formality, informality and illegality can be applied. Therefore this chapter will try to answer sub question 2: *To what extent can the Bangladeshi RMG industry be divided into a formal, informal and illegal sector?* As already described in the theoretical framework, classifying the formal and informal sector is a task which is not as straightforward as it might appear. In this case, this categorisation will be challenged by an extra distinctive sector, the illegal or *renegade economy*. It is more than fair to note that even this categorisation has its weaknesses. Fairest would be to classify firms according to their *level* of formality, informality and illegality, rather than to categorize them into these three different *economies*. This because these three *boxes* all generalize the firms that are subjected to them, these firms still differ from each other, and over time they change as well. Point is that without these distinctive *economies* a comparison of the interaction among firms, on a macro-level, cannot be made, whereas such an assessment is of great use for policy makers and civil society actors, that aim to alter the levels of formality, informality and/or illegality among firms. The only important note that has to be made is that one has to consider the consequences of this categorization. It causes that firms receive a label which is highly stigmatising and creates stereotypes. One should consider that exceptions exist and some specific characteristics might be lost in this process of categorisation.

6.1 THE FORMAL INSTITUTIONAL BOUNDARIES

As mentioned earlier, the distinction of the different *economies* will be based on the assessment of the *institutional boundaries*. The *formal institutional boundaries*, that separate the *formal* from the *informal economy* are classified by the level of compliance towards the regulatory framework. This separation needs to be specified since compliance to one law by specific firm, does not imply that this firm belongs to the *formal economy*. It can still violate many other laws and rules. And what would happen if a firm complies to 99% of all the existing laws and rules? In this case this dilemma was easily solved, due to the fact that large differences exist among RMG firms with regard to compliance to the regulatory framework. Mainstream firms are expected to comply to the set of rules imposed by the government. The most basic indicators of formality, such as formal employment, proper working conditions, possession of necessary documents, are often met by these mainstream RMG firms. This is also in line with the findings of chapter 5. On the contrary, the downstream RMG firms shows

little compliance to these set of laws and rules. In some cases the downstream firms possessed a trade license and even a *T.I.N.*, however, this does not entail that they should be labelled as formal enterprises, since they could still violate other laws. The trends that were found in the downstream sector indicated that these firm do not formally employ their workers (no contracts or ID cards) and working conditions do not meet the requirements of the labour act. All together it is evident to state that the downstream RMG sector has a higher level of informality than the mainstream RMG sector. Based on this distinction the decision has been made to label the downstream RMG sector as the *informal economy*. Whereas mainstream RMG firms appear to be located in the *formal economy*, with an emphasis on the word appear. It is expected that these mainstream RMG firms comply, but this does not mean that in reality this expectation is being met. This will be further explained in the following paragraph.

6.2 THE INFORMAL INSTITUTIONAL BOUNDARIES

Previous paragraph elaborated on the *formal institutional boundaries*, which is a simple task since these indicators can be measured; thus one either accepts or violates the law. This paragraph will elaborate on the informal institutional boundaries, which are defined by the separation of legitimacy and illegitimacy. Before this can be done, it is needed to state that this separation, which is based on public acceptance, is rather interpretative since public acceptance, is hard to measure. Nevertheless, based on the field observations and in-depth interviews with different stakeholders, an attempt has been made to clarify this distinction with regard to the RMG industry. The main finding is that the public opinion differs when it comes to compliance of mainstream or downstream RMG firms. Bangladeshi society expects and demands more from the mainstream RMG sector, which is explained in the quote below.

“The mainstream RMG sector represents our country towards the entire world. Many large and powerful brands order their garments from our country. If we want them to do so in the future, we have to improve our industry. We cannot afford another Rana Plaza [tragedy].” (Interview: Union)

What is key to this quote is that the interviewee acknowledges the power of the brands. It means that compliance is of great importance to the successfulness of the RMG industry which indicates that the RMG firms have to operate in the formal economy. The perception of Bangladeshis towards the downstream sector is totally different, because this sector is treated as an unofficial and unprofessional industry which does not contribute to the country its economy. Based on interviews one could sense that many Bangladeshis accept the fact that

poor people struggle to survive, and that this downstream RMG employment can ease their survival. The quote below illustrated this perception and explains why downstream RMG firms are excused of the necessity to comply to the regulatory framework. This might explain why child labor and the exploitative traineeships are so widely present in the sector.

“The downstream sector comprises poor people that try to survive. They only produce low-quality garments. Those are not real garments.” (Interview: NGO)

The questions rises which actors do then belong to the *renegade economy*? This answer can be found once one further investigates the situation of the mainstream RMG industry. It has already been stated that this industry lacks transparency. The consequences of this lacking transparency is that some mainstream RMG firms exploit informal or even illegal activities that take place behind closed doors or in hidden factories. According to insiders (Interviews: Institutes & Unions), these activities can range from tax evasion practices to shady subcontracting incentives. And there are stories of workers that are forced to work overtime or that did not receive compensation after they have been involved in a workplace accident. All together this suggests the possible existence of mainstream RMG firms that violate laws and rules out of sight from society. Many stakeholders claimed in their interview that the Rana Plaza tragedy made Bangladeshi society and people all around the world, aware of the conditions of this mainstream RMG industry. This evoked a reaction in which it was no longer accepted by society that these RMG firms do not obey to the regulatory framework.

As a reader one might question the existence of the firms that appear to operate in the *renegade economy* since it has been stated that the mainstream RMG firms are subjected to heavy monitoring incentives of the government and other institutes. The interviews with stakeholders showed that these monitoring incentives do have some weaknesses. The following quote of a mainstream RMG owner points out one of these weaknesses.

“After Rana Plaza, 3 major organizations [i.e. Accord, Alliance & National Initiative] started to monitor our factories. All RMG firms now have to comply to the laws and rules, which forces them either to improve or to hide their activities. Due to this pressure 80% of the [mainstream] RMG firms struggle to stay in business and to obey to the rules. They cannot afford to invest in equipment and building safety without receiving funds.” (Interview: mainstream RMG owner)

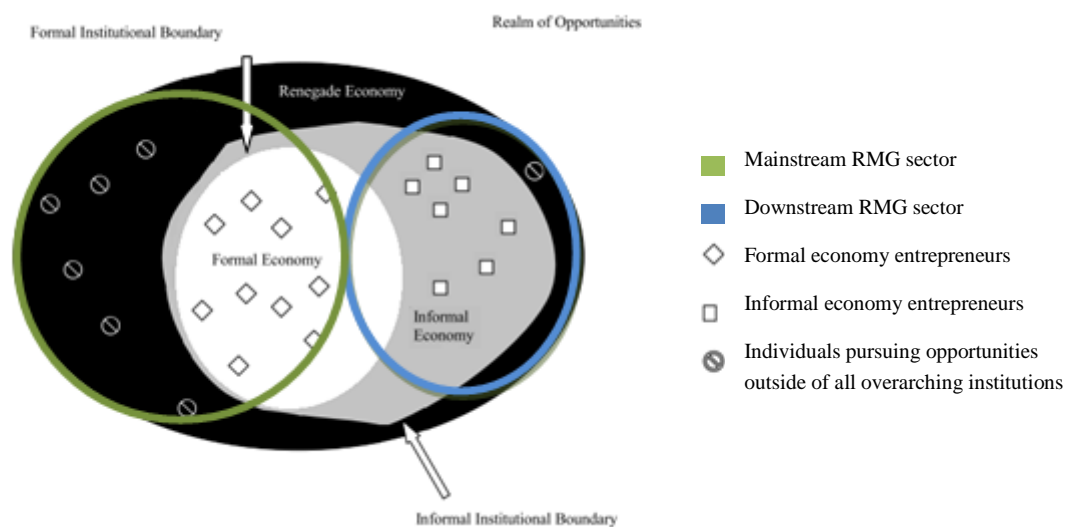
The reasoning of this RMG owner is that this pressure on compliance eliminates the informal actors of the mainstream sector since firms are forced to “improve or hide their activities”.

This indicates that some RMG firms are devoted to the *renegade economy*. On top of this, the existence of hidden agendas and corruption also affects the level of formality in the mainstream RMG sector. The main two actors that are involved in the upgrading of the level of compliance are the Bangladeshi government and the BGMEA, both of them have the power to demand compliance from the RMG firms. It is suggested that these two actors are closely tied and to some extent even are characterized by a conflict of interest. Many stakeholders mentioned the existence of *hidden factories*, i.e. those that are unmonitored, and explained that some of these firms have linkages to influential actors that allow them to operate without compliance. It turned out to be extremely hard to prove this existence of illegal practices, but based on the interviews with different stakeholders it is more than assumable that these practices occur, which is why the *renegade economy* consists of an immeasurable amount of mainstream RMG firms.

6.3 REVISION OF THE MODEL

As presented in the theoretical overview, the categorization of the *formal*, *informal* & *renegade* economy has been visualized in a model. Figure 2 has already presented what this model looks like according to the authors (Webb et al., 2009). The reasoning in previous paragraphs, on how the categorization of these economies is done when one studies the RMG industry of Bangladesh, describes a slightly different picture. To clarify this and to make sure the reader understand the outcomes of this chapter, the model has been slightly changed and is depicted in the figure below. As one can see the size of the economies have been altered and the downstream and mainstream sector have been illustrated in the figure as well.

Figure 12: Revised Locus of the formal, informal and renegade economy & their participants



7. ENTREPRENEURIAL INTERACTION

Previous chapter explained how the RMG industry can be divided into the formal, informal and renegade economy, such a classification allows us to examine to what extent these separated sectors interact with each other. This examination is at the core of this chapter, meaning that this chapter will present the findings concerning two sub questions. First, sub question 3: *To what extent is there interaction among RMG enterprises that crosses formal and informal institutional boundaries?* will be answered extensively. Afterwards a so-called helicopter view will be used to discuss how the academic literature refers to the existing linkages and interdependencies, meaning that this part will answer sub question 4: *To what extent does existing literature explain the interaction between enterprises that operate in different economies, i.e. formal, informal and renegade economy?*

7.1 INTERACTION BETWEEN THE FORMAL AND INFORMAL ECONOMY

This paragraph will elaborate on the existing interaction between the mainstream RMG firms that operate in the formal economy, and the downstream RMG firms that are classified as actors of the informal economy. A couple of reconnaissance field visits in the neighbourhood of Keraniganj were used to construct the tools for the data collection. In this paragraph most striking outcomes will be discussed, however, all results can be found in the pie charts presented in annex C.

7.1.1 Primary Activities

The basic product of garments, the fabrics, are often imported to Bangladesh from countries such as India and China (CBSG et al., 2015). Most downstream owners only need a very small quantity of fabrics, which is why there are a lot of middlemen and mediators that buy large quantities that will be resold among many downstream firms. The survey showed that unused fabrics (36%) and fabrics that do not meet the quality requirements (41%) are often sold to traders, middlemen and mediators. The latter is, in 7% of the cases, sold directly to downstream producers as well. Some firms indicated that they have no leftover products or reuse them, indicating that they do not engage in the trade of these items. All together their seems to be evidence that $\pm 50\%$ of the mainstream RMG firms, directly, or indirectly, supply downstream RMG firms. Besides fabrics, also accessories such as buttons, and items such as labels, stickers & price tags from mainstream firm appear to end up in the downstream sector. Accessories are sold to traders in 35% of the cases, whereas 4% of the respondents indicated that they directly sell them to downstream firms. Evidence that the trade in labels, stickers &

price tags exists turned out to be less present than expected. Still 17% of the responses suggested to sell these products to traders, whereas another 17% replied that they sell them directly to downstream firms. However, 48% of the mainstream firms answered that they destroy these leftover labels, stickers & price tags. This finding can be seen in two different perspectives. Based on the field observations in Keraniganj, these labels, stickers & price tags, are used by many downstream owners to boost their sales. They attach these items to their low quality products, wrap them in plastic and try to sell them as mainstream products, i.e. export quality products. Of course large Western brands are not pleased with these practices, since it can harm their reputation. This could explain why so many mainstream RMG firms are forced to destroy this kind of leftover product. However, another explanation could be that mainstream firms know that they are not allowed to sell these products, which is why they claim that they destroy them, whereas in practice they might still easily sell them to traders. Stakeholders in Keraniganj, that were asked about the trade in labels, stickers & price tags suggested that besides buying these items from mainstream firms, a lot of traders also simply produce or copy them, which makes it hard to examine the *real* origin of these items. Moreover, Western brands can hardly control this trade, meaning that their (copied) labels easily end up attached to any type of clothing.

The FGDs that were held among downstream firms, were used to check the consistency of the findings of the survey for mainstream firms. Most of the FGDs depicted the same outcomes; the origin of fabrics, accessories and labels, stickers & price tags is all based on the firm its own personal social network. None of the downstream FGDs participant could or was willing to, mention direct linkages between downstream and mainstream firms. The most common response heard was that downstream firms buy their materials from traders in Keraniganj, whereas it is suggested by the downstream firms, that these traders buy their products from mainstream firms but also from importing agencies and other traders. Every downstream firm has its own network of traders, and none of them questions the origin of their products. Fact is that mainstream firms have little to no interest in buying products from traders, since they are expected to be second hand and come in too small quantities. This suggests that these traders their main clientele are the downstream RMG firms. An attempt has been made to bring structure in this system of traders, but this turned out to be an inconceivable process due to sensitivity and transparency issues. This causes that it remains rather vague and unclear how many traders actual exist and how many of them are involved in transferring materials between mainstream and downstream firms.

7.1.2 Support activities

Besides linkages that concern primary activities, an attempt has been made to examine interaction that relates to the support activities of RMG firms. Based on field visits, two distinctive relations between the formal and informal economy have been discovered. The first of the two relates to the technology and purchasing departments of the model of Porter. In the area of Keraniganj one can easily find high quality stitching machines, however most machines seem to be outmoded. This observation can be further explained by the outcomes of survey for formal RMG owners. These owners were asked what they do with their old and discarded machinery. The outcomes, depicted in Annex C, show that there appear to be two destinations for old machineries; they are either thrown away (45% of the time) or they are sold to different buyers (traders, competitors or downstream firms), which happened in 44% of the cases. The trade in these machineries seems to be structured in a similar way as the trade in leftover products described earlier.

The second linkage involves the human resource department of Porters value chain. Firms that operate in the informal economy hire new workers based on trust and social ties. This underlines the importance of having a social network when one wants to work in such informal RMG businesses. However, the owners of mainstream formal RMG firms employ different selection criteria. In the table below one can find the outcomes of a multiple ranking question that asked mainstream RMG owners to rank the value of six indicators which they apply in order to select new employees. These six are age, educational level, experience, gender, relatives (social network), and skills.

Table 4: Output of hiring preferences of mainstream RMG owners, N=18

	Most preferred	2 nd preference	3 rd preference	4 th preference	5th preference	Least preferred
Age	6%	6%	18%	46%	24%	0%
Educational Level	0%	24%	35%	12%	18%	12%
Experience	12%	46%	18%	18%	6%	0%
Gender	0%	0%	24%	24%	24%	28%
Relatives	0%	12%	0%	0%	28%	60%
Skills	82%	12%	6%	0%	0%	0%

As one can see in the table above, most owners indicated that they select applicants based on their level of skills and experience. The first is ranked as the most preferred indicator by 82%, the second by 12%, but this indicator scored relatively high as a second most preferred indicator. The importance of a social network, or being acquainted with someone within the

firm turned out to be very weak since many owners ranked this as the least preferred factor (59%). It has be noted that these findings of this question are based on a small sample (N=18) which harms the representativeness and generalizability of the findings and which makes further statistical tests (to check for consistency and internal cohesion) futile. Nevertheless these findings roughly indicate how owners select new workers. This finding, together with claims of stakeholders (Interviews: Institute & NGO), lead to the suggestion that RMG workers use downstream employment in order to achieve employment in the mainstream sector in the long run. This has been confirmed in the FGDs with workers in Keraniganj, i.e. informal RMG workers, which might also explain why some workers in Keraniganj are willing to engage in the captive and exploitative internship programs. The formal RMG owners have been asked whether they provide training to their employees, because if not, the suggestion that the informal sector is just a training institute becomes much more plausible. The outcome of the survey showed that most formal RMG owners provide their employees with trainings (90%), however in 65% of the cases these trainings only lasted for a couple of days (3 to 5). It is suggested (Interview: Institute) that such a training period is way too short for inexperienced workers to become familiar with their tasks. Therefore it seems to be valid to claim that the informal sector functions as a training institute for the formal RMG sector.

7.2 INTERACTION BETWEEN THE FORMAL AND RENEGADE ECONOMY

It is suggested that the trade in materials, leftovers, and products as described in the previous paragraph also exists between the formal and renegade economy, which indicates the presence of interactive means concerning the primary activities of Porters value chain. The pie charts in Annex C show that some mainstream firms sell these items to other mainstream competitors; question arises if these other mainstream competitors belong to a different economy and thus if one can observe cross boundary interaction or not. Based on interviews with different stakeholders this question can be answered, however it is fair to stress that the answer might be slightly skewed, which is why this finding should be treated with caution. Most valuable statement to this issue is that it is expected that *the most formal* RMG enterprises are not interested in buying leftovers and products from their competitors, which would indicate that *the less formal* or even *renegade* RMG firms are probably more likely to engage in this trade from the buyer's perspective. Although every mainstream RMG firm has the opportunity to sell these items and thus to participate in these forms of trade from a seller's perspective.

Besides this interaction on leftover products, another, more important, relation has been found. What became clear from the in-depth interviews is that mainstream RMG firms apply

subcontracting as a business strategy. This strategy incorporates the outsourcing of production (primary activities) which lower the cost concerning the support activities (e.g. smaller organization, less need for expansion or purchasing). Subcontracting is a great tool that enables firms to remain flexible and adaptive to the needs of their clients. However, it troubles the transparency of the origin of the garments and of the industry itself. It causes that some malpractices remain undiscovered. One has to understand that in principle subcontracting is not harmful or illegal. The quote below, made by a NGO which lobbies for a transparent RMG industry, underlines this.

“Initially there is nothing illegal about subcontracting, as long as both firms openly display their activities. Problem is that many subcontracting deals are made behind closed doors. They take place in secret, meaning that monitoring agencies as well as clients have no clue what is going on.” (Interview: NGO)

Especially this last sentence shows why subcontracting can be harmful and destructive. To make this process even more complex; subcontractors can subcontract their orders as well, meaning that an order of a clothing brand can be, so to say, sub-sub-subcontracted (Hobbes, 2015). These practices causes that neither the end-client nor the initial producer really knows who is in charge, and how many actors participate in the chain. Since the collapse of Rana Plaza there have been many investigations in the origin of garments, many blogs and television documentaries can be found on this topic and most of them experience how hard it is to locate the exact origin of a product. Many large brands place their orders at large mega suppliers who then spread the order over multiple RMG firms. These firms can, if they want to, subcontract this order as well. Especially since fashion changes so rapidly these days, pressure on quick delivery is high, which is why many firms feel the need to subcontract parts of their orders (Hobbes, 2015). Also cost effective behaviour seems to evoke subcontracting practices, since mainstream RMG actors of the renegade economy, i.e. non compliant RMG firms, can violate minimum wages or costly working conditions legislation. And subcontracting is then the best *trick* to enable these firms to engage in the exporting RMG industry. However also more innocent means of subcontracting can be found, an example of such is described in the quote below, made by a mainstream RMG owner.

“Yes, I do subcontract or outsource some of my production, simply because this factory does not have the right machinery to perform certain tasks or to produce the goods my clients ordered. For example, the dyeing of jeans is something we

cannot do in our factory, so in that case the jeans will be transported to another factory where they will carry out the dyeing process. I would certainly lose clients and orders if I was forced to produce only within my own factory.” (Interview: mainstream RMG owner)

The quote above explains why subcontracting is of great use for many mainstream RMG owners, and as stated before, in essence there is nothing harmful about subcontracting practices. However, some mainstream RMG owners appear to exploit interactive means between (subsidiary) firms for more harmful reasons. During a field visit at a mainstream RMG firm, the owner explained why he, and with him many other mainstream RMG owners, build a factory that has multiple floors. On every floor is a subsidiary firm located, meaning that the building comprises different firms. They are used by the parent company to take on loans and to transfer profits to evade taxes. These subsidiary firms are also used to produce goods for the parenting company. This practice harms the transparency of the RMG industry and also hurts the level of formality within a firm. Moreover, this practice could to some extent be seen as interaction that crosses formal and informal boundaries.

7.3 INTERACTION BETWEEN THE INFORMAL AND RENEGADE ECONOMY

This paragraph aims to provide an insight in the linkages between informal and renegade RMG actors. It is needed to state that this insight is based on the information of indirect stakeholders since the renegade economy and its actors are more or less hidden and inaccessible. This does not imply that nothing valuable can be said about the relations concerning this sector, it only limits the findings which have to be taken into consideration with great caution. According to civil society actors (Institutes, Media, NGOs) and formal mainstream RMG owners, the renegade economy tries to function as the formal mainstream RMG sector, which suggests that these renegade firms also sell their leftover materials and products to the downstream sector. This would imply that the findings on interaction of paragraph 7.1 also apply to the informal and renegade actors, however this finding lacks proper quantitative data. Moreover it is not of any use to repeat the findings of paragraph 7.1.

Also the possible presence of subcontracting incentives between the informal and renegade economy have been studied, but no clear relation has been found. The study of FNV Mondiaal et al. (2015) examined this possible interaction and the results showed no significant relation. However this does not imply that subcontracting does not occur incidentally. Other suggestive relations that were mentioned by indirect stakeholders

(Interviews: Institutes & NGOs) are subjected to interpretative and slightly biased responses that lack solid evidence, which is why they have been excluded. Therefore the findings of this paragraph on the interaction between the informal and renegade actors remains rather limited.

7.4 CROSS BOUNDARY INTERACTION

As mentioned in the theoretical overview, formal – informal relations can be classified into three different grand theories regarding their interdependencies. These grand theories, i.e. *dualistic*, *structuralist*, & *legalist*, can also be applied to formal – illegal and informal – illegal relations, in which the term illegal represents the renegade economy. For policy makers and change agents, the examination of the applicability of these theories is of great use since it requires to embody a proper understanding of the underlying power dynamics and indicates how different sectors relate. To successfully influence or improve existing issues within one of these sectors, such a understanding is strongly needed.

When one considers the interaction between the formal and informal RMG economy, one could reason that all three approaches can be applied. At first sight the dualistic approach appears to be applicable since most of the interactive means flow via the use of mediators which causes that the influence of the opposite sector is hardly visible. This is why some stakeholders claimed that the downstream functions independently from the mainstream sector. After an in-depth analysis one would acknowledge that interactive means do exist which means that the other two approaches might better describe the situation. This interaction is mostly characterized by cost-effective behaviour of mainstream RMG owners. They can increase their profits from selling leftover products. This reasoning favours a legalist approach in which the formal mainstream sector, as being a supplier, reigns over the downstream sector, which serves as a dependent buyer. Nevertheless one could also argue for a structuralist approach since the downstream sector also appears to sustain the formal mainstream sector with skilled workers. This suggests that formal RMG firms are also dependent, to a certain extent, on the downstream RMG firms workforce.

The best fitting theory, concerning formal – illegal relations is probably easier to designate. It is evident that formal and illegal mainstream RMG firms interact with one another, and as explained earlier, these existing ties are relatively strong. Both sectors seem to rely on each other since formal firms use renegade actors in order to expand their production, and this allows them to better respond to the interests of their own clientele. Whereas illegal firms are enabled to engage in entrepreneurial activities by the use of subcontracting incentives of these formal firms. This form of interaction is also initiated, to a certain extent,

by the order-based structure of this industry. Large buying houses and powerful brands, demand a producer to be flexible, adaptive, and quick, when it comes to the production and delivery of garment items. All together, it appears that both actors, i.e. formal and renegade, are dependent on each other, which causes that their interactive incentives align with the structuralist approach, which highlights interdependencies. It is needed to state that this relation faces high pressure and might be altered in the momentum created after the Rana Plaza tragedy. The responses to this event evoked voices that called for a more sustainable RMG sector in which a transformation of the strength and power dynamics of the linkages between formal and renegade actors is strongly advocated. The next chapter will elaborate on this current trend, which initially can cause that in the coming years, the interaction becomes less strong which might indicate the alteration of the structuralist approach.

It is suggested that the interaction between the renegade and informal economy is relatively similar as the interaction between the formal and informal economy. This means that either a legalist approach, guided by cost-effective incentives, or a structuralist approach, guided by interdependencies, is present between these two economies. It is suggested that the downstream sector trains RMG workers, who afterwards often seek for employment in the mainstream sector. It is hard to verify in which part of the mainstream sector (i.e. formal or renegade) these workers end up, but some stakeholders (Interviews: Institutes & NGOs) argued that it is more likely that these downstream RMG workers find employment in less formal, or even renegade RMG firms rather than in formal RMG firms. There is less evidence that proves the applicability of the legalist or structuralist approach, compared to the formal – informal linkages, which is why a more in-depth explanation of the existing relations would be rather speculative and suggestible, which is undesirable.

Now that the relationships between the different economies have been clarified, it is important to stress once more that many civil society actors suggested that the downstream sector operates solely from the mainstream sector. This means that these stakeholders suggested that the dualistic approach provides the best description of the current situation of the informal sector. And this might explain why the downstream sector does not receive any attention at all from most of the stakeholders that have been interviewed, this of course comes with severe consequences. In the next chapter, a more in-depth description of the existing initiatives and future prospects will be given.

8. DEVELOPMENT OF THE RMG INDUSTRY

By now the functioning of the RMG sector has been clarified and the interaction among firms has been explained. It is evident that some players of the RMG industry of Bangladesh employ practices that are rather harmful to the country and its citizens. The collapse of Rana Plaza is the most striking evidence of such practices. However, in the aftermath of this tragedy some sort of momentum emerged in which many initiatives were erected. This chapter will elaborate in the existing developmental programs that aim to improve the RMG industry and the lives of the workers involved. This chapter will be guided by sub question 5 which is as the following: *What initiatives have been taken by governments and civil society to alter the level of formality, informality and illegality in the RMG industry?* In order to answer this question, first a description of the different initiatives and players will be given. This description is based on the interviews with stakeholders listed in Annex A. Secondly the alteration of the levels of formality, informality and illegality will be discussed. This allows us to also review the future prospects of the RMG industry, which outcomes will be presented at the end of this chapter.

8.1 CURRENT INITIATIVES

This paragraph will elaborate on the existing activities and initiatives that concern the RMG industry. The initiators of these projects largely differ, which is why two main groups have been categorized; civil society and governments, the latter contains the Bangladeshi government but also governmental bodies, such as Embassies & Councils from other countries. During in-depth interviews it became clear that most of the initiatives are pertained to the mainstream RMG sector; the downstream sector is mostly ignored. To a certain extent this absence of attention can be explained; the downstream sector is smaller in size, less organized, relatively unknown, and it does not participate in international trade which is why many international initiatives neglect this sector (Interviews: Institutes, NGOs, Dutch Embassy). Nevertheless as previous chapters have described, malpractices are widely present throughout the downstream RMG sector. During the time of field research in Dhaka, there was only one single project underway that involved the downstream sector, which promoted the formations of multiple trade unions (CBSG et al., 2015). Other historic projects involved the fight against child labor (according to insiders this project its achievements were almost in vain) and a training program that taught young women about sexual reproductive health.

Therefore the following paragraphs will mainly elaborate on initiatives that involve the mainstream RMG sector.

8.1.1 Monitoring programs on mainstream RMG firms

In the aftermath of the tragedy of Rana Plaza, all around the world voices were raised that called for a safer and more sustainable RMG industry. The Bangladeshi government was strongly pressurized to react to this call and two international projects were erected that would examine safety issues, initially for the next five years (2013 to 2018). One of them is *The Accord on fire and building safety in Bangladesh*, often referred to as *The Accord*. At the core of this organization is a legally binding agreement between international clothing brands, retailers and trade unions, that should ensure a safe working environment in which workers do not have to fear for their lives. The Accord only conducts audits at factories that have signed the agreement. Up till now, 1577 factories have been audited; during these audits an independent inspection teams examines the structural building safety, fire safety and electrical safety. Afterwards a public report will be made available that includes the so-called *corrective action plans*, which elaborates on necessary improvements (Interview: The Accord).

The other international monitoring agent is *The Alliance for Bangladesh Workers Safety*, or *The Alliance*, for short. This organization is founded by a group of North American apparel companies together with retailers and brands. Its activities are quite similar to the Accord, however only the factories that supply the 26 member corporations of the Alliance are being monitored, which means the scope of The Alliance is a bit smaller than that of The Accord. Up till today 580 factories have been inspected. These inspections focus solely on safety issues; building, fire & electrical safety (Interview: Alliance).

After the construction of these two monitoring agencies, the Bangladeshi government decided to form its own audit agency, together with the BGMEA, referred to as *The National Initiative*. The incentives and aims of this audit agency have been altered multiple times and it is suggested that the agency is heavily influenced by conflicts of interests of government officials and the BGMEA (ILO, 2015; Interviews: Institutes & NGOs). Although, it is more than fair to stress that some respondents (Interviews: Institutes) also mentioned that recently the quality of audits has improved significantly.

Together these three monitoring programs try to assure a safe working environment in mainstream RMG factories and after two years of audits it is often suggested that significant progress has been made (Hobbes, 2015; Khatun, 2015; Mirdha, 2015). It is understandable that these audits do not address the downstream industry, since that sector faces too many

obstacles that would disturb audits and monitoring incentives. For example, most downstream lack the financial means to improve. Moreover there is now law enforcement and there are too many small downstream RMG firms which makes it nearly impossible to construct a proper monitoring program.

8.1.2 Unionization

Another concept that has been highlighted by many NGOs and civil society actors, is the process of *unionization*, which embodies the importance of collective bargaining power and of uniting workers. In the past trade unions in Bangladesh were interwoven with the political polarisation. This has caused that the reputation and activities of trade unions in Bangladesh do not align with Western affiliates or the western perspective on trade unions and which is why many Bangladeshis are resistant to a union its motives and therefore union membership (Interview: Unions). Nevertheless, the mainstream RMG sector is nowadays subjected to a trend that favours unionization and many institutes and NGOs advocate for the need of a functioning platform in which trade unions can lobby in the interest of united workers. Trade unions can be relatively powerful and can protect and improve the well-being of the workforce. The quote below, made by a stakeholder involved in the RMG unionization process, tried to capture the importance of (new) trade unions.

Trade unions possess a privilege: it's the only party that has collective bargaining power. Even the PM or Obama has not been given this privilege. A union can fight for the interests of the workers, without them managers do not feel any opposing powers and can easily exploit their workers. (Interview: Union)

The quote illustrates why unionization remains such an important topic. The current trend of unionization in Bangladesh can be divided into three core incentives. These are: advocating for new trade unions, providing training to (new) union leaders, and increasing awareness among RMG workers and employers on the right to organize and the positive benefits a trade union can achieve (Interviews: NGOs & Unions). This last incentive is quite essential since workers and employers appear to remain resistant. Employers often argue that a trade union will affect the productivity of the workers, increases costs and harms the economic performance of the firm. This caused that some employers even threaten their workforce and deny them from forming a union. The response among the RMG workers is that they reason that union membership decreases job security and job opportunities. This also evoked clashes between united workers and non-united workers (Interview: Union).

Nevertheless, these three aforementioned core activities appear to have triggered an explosion of newly formed trade union establishments. During 2014, 222 new trade unions have been formed whereas in 2013 a respectable amount of 96 new unions were formed. This is a large contrast compared to 2012, the year prior to the Rana Plaza tragedy, in which only 2 trade unions were established (Farhana, 2014). However, these figures may depict a slightly skewed picture, since the Department of Labour (DoL) has also rejected many applications. In the media figures can be found that claim that in 2014, 61% of the applications were rejected by the DoL (Connell, 2015). These rejections have evoked friction between the government and the institutes that promote *unionization*. The latter suggest that the government is purposely disturbing the process by installing new legislation and requirements for the formation of unions (Interview: Institutes).

Another important issue that needs to be discussed is the need for *follow up incentives*. Based on a couple of interviews it became clear that the initial unionization trend is not a solution to all the problems. Trade unions need to function and perform, and in order to do so they need strong leadership, financial independency, affiliates, and a platform that guides interaction between the employer, trade union members and trade union leaders. Many stakeholders that have been interviewed called this the need for follow up incentives. Below is a quote which explains why these incentives are hardly needed.

Without a proper follow up strategy, the trade unions will fail and slowly disappear again, then all the efforts were in vain. We need strong leaders and active unions that have active members. Trade unions have to perform and achieve successes, moreover they have to be freed from corruption and shady motives. If this follow up does not take place, all trade unions end up in the garbage bin. (Interview: Institute)

This quote, made a civil society actor, explains that the formation of unions is a good first step, but there are many steps after, that need to be completed in order to obtain a functioning framework in which trade unions can operate properly. This also explains why some activist remain rather sceptical about the unionization trend.

Similar to the audit programs, it is understandable that only the mainstream RMG sector is addressed by unionization incentives. The downstream sector comprises too many small scale firms, which only allows workers to establish cluster unions (united workers from multiple firms) instead of a basic trade union (firm specific). This is rather challenging due to trust issues. Moreover, based on field observations and the report of CBSG et al. (2015)

awareness on trade unions among workers and employers does hardly exist in the downstream RMG sector.

8.1.3 Other social initiatives

The monitoring programs and unionization process described earlier, capture the two main incentives currently present in the development of the RMG industry. Beside these two concepts, is the work of a large group of NGOs that run projects that mainly contribute to the livelihoods of RMG workers and their families instead of industry related issues. This group of NGOs promotes and provides trainings that educate RMG workers on various topics, most of these topics relate to the social well-being of workers. Examples are educative programs on occupational health, reproductive health, labour rights, gender equality, and even relationship counselling (Interviews: NGOs). Some of these topics therefore affect the entire household instead of only the RMG worker. The presence of all these initiatives shows that there is a lot of attention for the well-being of RMG workers, which suggests that education on these topics is strongly needed.

It is remarkable that even these initiatives do not reach the domestic RMG workers. The main reason to this problem lies in the financial dependencies of the aforementioned group of NGOs. They mostly receive funding from international actors that rather support NGOs that are pertained in international affairs. The downstream RMG sector lack such ties, since it is a solely domestic industry. Therefore NGOs that want to address the downstream sector, struggle to obtain funding (Interviews: NGOs). It is evident that downstream RMG workers often face many insecurities and work in a hazardous environment, which deteriorates their livelihoods. Therefore it is expected that downstream workers would strongly benefit from these aforementioned programs.

8.1.4 The international agenda

The collapse of Rana Plaza did not only motivate NGOs and other civil society actors to react, also governments from all over the world started to lobby for a more sustainable (mainstream) RMG industry. This has caused that many Western governmental bodies have entered the debate and they have pressurized the Bangladeshi government to implement changes (Azim, 2015; Bernicat, 2015). An example is illustrated by the trade missions initiated by the Dutch minister of Foreign Trade and Development, Ms. Ploumen, which focuses on the upgrading of 5 main industries, one of them is the RMG industry. The Dutch government is currently promoting a shift from *aid to trade* (Interview: Dutch Embassy) and runs projects together

with institutes such as the ILO and USAID that promote a more sustainable RMG sector. These two organization advocate for the well-being of RMG workers on a macro level, which means that they bring forward the issues faced by the workers to the government and its policy makers. Most concrete initiatives focus on the advocacy for better wages, sometimes referred to as fair living wages, or fight against precarious work (Bernicat, 2015). The work of these organizations is of great importance, however it is often disturbed by the lobbying power of the BGMEA & RMG owners, who's interests do not favour policies that hurt their competitiveness or economic activities (Muhammad, 2015).

8.1.5 Role of the Bangladeshi government

One of the most important change agent for the RMG industry is the Bangladeshi government, nevertheless the role of the government has been characterized by corruptive means and conflicts of interests (Muhammad, 2015). This has caused that in many interviews, stakeholder questioned the incentives, willingness and decisiveness of the Bangladeshi government. Especially its interconnection with the BGMEA is problematic. The fragility of the political framework, as described in paragraph 3.3 also limits the role of the government. According to many stakeholders, the main incentive of the government is to stimulate economic growth, which, reasoning that Bangladesh is struck by poverty, is an understandable objective. However this objective undermines incentives such as *inclusive* growth, sustainable growth, and environmental friendly growth (Muhammad, 2015). Consequence is that it appears that capitalistic incentives and neoliberalism flourishes at the costs of the others.

8.2 ALTERATION OF FORMALITY, INFORMALITY AND ILLEGALITY.

The overview of the different initiatives allows us to discuss the changes in the RMG industry. Based on different interviews, it became evident that the Rana Plaza tragedy evoked a transformation of the RMG industry, and this transformation is currently taking place. Therefore most of the interviewed stakeholders mentioned that the country needs time. Time to improve, time to transform. Most stakeholders also argued that one of the main drivers of change, is the international pressure.

“I believe that the international pressure will stay, and that the world will not look away, again. International exposure is needed to pressurize our government to enforce change, without it we are back at square one.” (Interview: NGO)

Nevertheless this pressure does not address the issues of the downstream sector. Changes in this sector remain, due to various reasons, small and futile, and this causes that the concept of informality is hardly altered or even challenged. It is questionable whether this will be done in the near future. Since this sector is excluded from initiatives and projects it is suggestible that the most important change agent would be the Bangladeshi government and its local governing body, the U.P. An interview with this body showed that they do not have the capacity to demand the downstream sector to change, the U.P. lacks resources (financial & personnel), and willingness to enforce changes. Moreover, based on the field visits and interviews held in the downstream sector, it appears that the current situation is seen as natural. These stakeholders do hardly challenge the existence of child labor, poor working conditions and exploitative relations such as the traineeships. This once more indicates that informality is accepted, and serves as some sort of status quo, which hardens the prospects of successfully implementing change.

A more positive story applies to the alteration of formality and illegality, since these two concepts concern the mainstream RMG industry. Based on the findings of the entrepreneurial interaction and on the current initiatives, it is arguable that the mainstream illegal RMG firm, i.e. the renegade actors, are slowly squeezed out of the market. Malpractices are not tolerated anymore and most stakeholders (Buyers, Brands, and civil society actors) demand more transparency. This forces mainstream RMG firms to become *more formal* and to comply to the legislative framework. The different auditing programs are a clear example of this trend, since they raise the standards of this industry and contribute to a safer working environment. Therefore it is expected that the actors of the renegade economy will slowly disappear. To ensure this, it is important that the international pressure persists, and that programs, such as the Accord and Alliance, continue their work. In the next paragraph the future prospects will be discussed in more detail.

8.3 WAY FORWARD

As mentioned by most of the stakeholders who have been interviewed, Bangladesh and its RMG industry need time to improve. Therefore it is valuable to elaborate on the future prospects of the RMG industry and the country itself. The decision has been made to reflect upon two forms of development, namely economic development and social development.

8.3.1 Economic development

The economic prospects of Bangladesh its RMG industry are quite promising. The Bangladeshi government and also the BGMEA, highlight the importance of economic growth and the contributions of the RMG industry to this economic development (Samad & Hoque, 2015). It is expected that this industry continues to expand, and that the Rana Plaza tragedy has triggered an momentum that includes sustainable growth. In Western media it has also been suggested there is pressure from large brands and international RMG buyers that consider to abandon the Bangladeshi RMG industry (Mahmud, 2014). Based on the interviews with RMG owners, trade unions and governing bodies, this claim appears to be incorrect. Currently there are no signs of a decline of RMG orders, or of large brands and international agencies who have abandoned the industry.

It is expected that the country its BNP will continue to grow and that the country will be ranked as a middle income country in the near future (Samad & Hoque, 2015). Also other Asian countries will increase their income, especially China & India, which makes it suggestible that these Asian markets might increase demand in (quality) garments. This offers chances for the Bangladeshi RMG industry, and even the downstream sector might be able to profit from this increased demand. This suggested economic growth is of course of great importance when it comes to the country its developmental path and well-being. However, it does not directly imply that also the lives of ordinary RMG workers are bettered.

8.3.2 Social development

Economic growth will bring along investments and employment opportunities, which are two drivers that can enhance social development. Moreover, the trend that calls for a more sustainable RMG industry will also affect the well-being of the RMG workers. Especially a safer working environment and a functioning paradigm of trade unions, guarantees workers with more securities. However, this will only include the RMG mainstream workforce, meaning that the downstream workers remain marginalized and vulnerable. This part of the RMG industry faces many obstacles that deny or limit economic and social development. For example, educational level of the workers is rather low, financial margins of downstream firms is limited, the sector lacks law enforcements and entrepreneurial capacity. Therefore rigid action is needed to assure that the livelihoods of the downstream RMG workers will be improved in the near future. And it is highly questionable which actor is willing and is able, to initiate this change. Currently the Bangladeshi government clearly values economic development over social development (Muhammad, 2015; Samad & Hoque, 2015).

9. CLOSURE

The underlying research of this master thesis studied the interaction between formal, informal and renegade RMG enterprises of Bangladesh. The thesis' main objectives were to determine to what extent the RMG industry can be separated into these three *economies*, to what extent these different categories interact with one another and how these categories are subjected to initiatives that try to alter the industry. Now that all sub questions have been discussed and answered, one can reflect upon the main research question of this thesis:

“To what extent do Bangladeshi readymade garment firms employ entrepreneurial activities and interaction that crosses formal and informal boundaries.”

With the answers of the sub questions in mind, it is rather a straightforward task to answer this research question. It has been proven that Bangladeshi RMG firms interact with one another, and that interaction crosses the formal and informal boundaries. Especially the ties and interdependencies between the formal and renegade economy that were found, are rather strong and appear to play an important role in the successfulness of this industry. However, due to initiatives that try to improve the transparency of the mainstream industry, it is clear that this form of interaction is changing. Nowadays there is a strong call that favours openness about the origin of the garments, which pressurizes cross boundary interaction. The momentum created after the Rana Plaza collapse also caused that the renegade economy slowly will be eradicated. This is highly beneficial for to well-being of the mainstream RMG workers, who are less exposed to risks and to exploitative means of employment. All together it is more than fair to state that this part of the RMG industry is slowly improving and that the future prospects appear to be quite promising.

The interaction that was discovered between these two mainstream economies (i.e. formal and renegade) and the informal economy, the downstream sector, appears to be ruled by cost-effective incentives, in which downstream firms rely on the supply of goods from the mainstream RMG firms. This outcome is relatively surprising since most stakeholders claimed that there is a clear separation, i.e. dualistic approach, between the mainstream and downstream RMG sector. However, also signs that the downstream sector supports the mainstream industry have been found, since downstream workers aim for employment in the mainstream sector in the long run. The acknowledgment that the structuralist approach is applicable, might improve the perception on the downstream sector and might also trigger initiatives that aim to alter the current situation. Otherwise, it is fair to state that the future

prospects of the informal industry are relatively slim, and it is likely that without further exposure, this part of the RMG industry remains unchanged, meaning that its workforce remains vulnerable and marginalized. This is also due to the fact that the current situation is perceived as natural and is accepted by many Bangladeshis. This justifies that informality differs from illegality, and this also explains why change is harder to enforce.

The general improvements of the RMG industry and its alteration of the levels of formality, informality and illegality, are subjected to the incentives and decisiveness of the Bangladeshi government. They have the power to change and transform the industry, as well as to enforce compliance to the regulatory framework. It is questionable whether the existing political framework will be able to achieve this, due to its fragmented characteristic. This means that the future prospects of the industry and the country are dependent on the political development.

Besides this conclusion, it is also valuable to reflect upon the validity of the findings and the conceptual model, depicted in figure 5 (paragraph 4.1), that structured this thesis. The latter, managed to a certain extent to capture and explain the existing dynamics. However it is fair to note that in practice, the theories were harder to apply and examine. Categorizing different economies and explain what comprises their boundaries remains rather challenging and interpretative. Such categorization is needed in order to examine formal and informal relations and it was noted during the time of field research that every stakeholder had its own interpretation of what defines formal, informal and illegal. This has strained the ease of categorizing the distinctive economies. The use of these three distinctive economies (i.e. formal, informal & renegade economy) has been of great importance, however the validity and generalizability of it remains debateable and depends upon one its own interpretations. Nevertheless it is believed that the categorization depicted in this thesis is the best fitting distinction that could have been made. To the applicability of the three grand theories regarding interaction (i.e. dualistic, legalist & structuralist approach) a similar discussion applies, since one its own interpretation could justify the use of a different approach. This underlines once more that the world is not that black and white, and explains why categorizing factors into distinctive boxes is rather hard and comes with some concessions and limitations.

Nevertheless these two categorizations have been of great use to provide the reader with a better overview and understanding of the macro dynamics of the RMG industry. Without this understanding, it would have been hard to grasp to possible outcomes of the

current developmental initiatives, that have been presented in this thesis. They illustrated how different actors try to alter the existing situation regarding the levels of formality, informality and illegality. However, they did also clarify that especially the downstream industry remains unchanged.

Moreover it is fair to state that the outcomes of this research could have been more thought-provoking and in-depth, if more evidence and data from the mainstream sector would have been collected. The current findings are based on a small sample, which is why caution has to be taken with the findings. It has become evident that the level of formality varies among mainstream firms, which is why it would be interesting to examine if entrepreneurial linkages differ if the mainstream RMG sector has been separated into more clusters based on different levels of formality. This can only be done when one has access to the variety of RMG firms, which access was limited during this research. It would also be interesting to conduct a similar study two years from now, since it is expected that the RMG industry of Bangladesh will be transformed in the coming years. It would be valuable to reflect to what extent stakeholders have managed to alter the levels of formality, informality and illegality. Especially because the findings of this study showed that substantial progress is being made, but that Bangladesh still has a long way to go, and the industry needs time to transform. This implies that only the future will tell whether the alteration of the industry depicted in this master thesis has come true.

10. BIBLIOGRAPHY

- Absar, S. S. (2003). Economic diplomacy for Bangladesh: a prescription for less developed countries in the world trade organisation era. *South Asia: Journal of South Asian Studies*, 26(3), 349–357.
- Ain o Salish Kendra. (2014). *Political violence 2014*.
- Ain o Salish Kendra. (2015). *Political violence 2015*.
- Asian Development Bank. (2010). *The Informal Sector and Informal Employment in Bangladesh*.
- Aspers, P. (2008). Order in garment markets. *Acta Sociologica*, 51(3), 187–202.
- Awaj. (2014). *Workers“ Voice: Update on implementation of the new wage structure in Bangladesh”s RMG industry*.
- Azim, S. (2015). A paradigm shift in garment industry. *The Daily Star*.
- Bangladesh Institute of Development Studies. (2013). *Study on Workplace Safety and Industrial Relations: Current Status of the Export Oriented Readymade Garments (RMGs) Industry in Bangladesh*.
- Bangladesh Parliament. Amendment Bangladesh Labour Act 2013 (2013).
- Bangladesh Tax Committee. (2014). *Bangladesh Tax Handbook*.
- Bernicat, M. (2015). Rana Plaza two-year anniversary. *New Age*.
- BGMEA. (2015). Trade Information. *Membership & Employment Report BGMEA*.
- Bhardwaj, S. K. (2011). Contesting identities in Bangladesh: a study of secular and religious frontiers. *Asia Research Centre*, 27.
- Bromley, R. (1978). Introduction - the urban informal sector: Why is it worth discussing? *World Development*, 6(9-10), 1033–1039.
- Carr, M., & Chen, M. A. (2001). Globalization and the Informal Economy: How Global Trade and Investment Impact the Working Poor. *WIEGO: Women in Informal Employment Globalizing and Organizing*, (May), 1–29.
- Castells, M., & Portes, A. (1989). World underneath: The origins, dynamics, and effects of the informal sector. In *The informal economy: Studies in advanced and less developed countries* (pp. 11 – 37).
- CBSG, BLF, FNV, & SOMO. (2015). *Report on Mapping Downstream Ready Made Garments (RMG) Industries at Keranigonj in Bangladesh*.



- Chen, M. A. (2008). Informalization of Labour Markets: Is Formalization the Answer ? *Razavi*, 191–218.
- Cities Alliance. (2015). Climate migration drives slum growth in Dhaka. *E&E News*.
- Connell, T. (2015). Bangladesh garment workers offer steps to boost rights. *Solidarity Center*.
- Farhana, K. (2014). Ready-made garments in Bangladesh: No longer a forgotten sector. *OECD Observer*.
- Godfrey, P. C. (2011). Toward a Theory of the Informal Economy. *The Academy of Management Annals*, 5(1), 231–277.
- Günther, I., & Launov, A. (2012). Informal employment in developing countries. *Journal of Development Economics*, 97(1), 88–98.
- Henry, S. (1987). The political economy of informal economies. *Annals of the American Academy of Political and Social Science*, 493, 137 – 153.
- Hirschmann, A. O. (1958). *The Strategy of Economic Development*. Yale University Press, New Haven.
- Hobbes, M. (2015). The myth of the ethical shopper. *Huffington Post*.
- Hossain, Z. (2014). *Export Diversification and Role of Export Processing Zones (EPZ) in Bangladesh*.
- ILO. (2015). *Rana Plaza, two years on. Progress made & challenges ahead for the Bangladesh RMG sector*.
- IMF. (2013). Bangladesh: Poverty Reduction Strategy Paper; IMF Country Report 13/63; July 2011, (13).
- IndustriAll. (2014). *Workers in Bangladesh: Mapping Study Report*.
- Khatun, F. (2015). Post-Rana Plaza initiatives and sustainability of the RMG sector. *The Daily Star*.
- LaPorta, R., & Schleifer, A. (2008). The unofficial economy and economic development. *National Bureau of Economic Research*, 1 – 75.
- Mahmud, A. (2014). Steps underway to make Bangladesh’s RMG compliant. *The Financial Express*.
- Marcouiller, D., & Young, L. (1995). The black hole of graft: The predatory state and the informal economy. *American Economic Review*, 85(3), 630 – 646.
- Mirdha, R. U. (2015). Fair progress after tragedy. *The Daily Star Business*.

- Mondal, A. H. (2008). Informal Sector in Bangladesh: A Strategic Framework for Development. *Bangladesh Institute of Development Studies*, 20 – 28.
- Moser, C. O. N. (1978). Informal sector or petty commodity production : Dualism or dependence in urban development. *World Development*, (9), 1041–1064.
- Muhammad, A. (2015). Two years of denial and betrayal. *The Daily Star*.
- Naumann, E. (2006). The Multifibre Agreement – WTO Agreement on Textiles and Clothing. *Tralac Working Paper*, (4).
- Planning Commission. (2012). *Final Draft: Perspective plan; making vision 2021 a reality (Version April 2012)*.
- Samad, S. A., & Hoque, A. (2015). A vibrant economy in waiting. *The Daily Star*.
- Star Business Report. (2015). SME Foundation stresses easy loans for entrepreneurs. *The Daily Star*.
- Star Research. (2015). Remittance inflow to Bangladesh hits record \$15.31b. *The Daily Star*.
- Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, 20, 571 – 610.
- Thai, M. T. T., & Turkina, E. (2014). Macro-level determinants of formal entrepreneurship versus informal entrepreneurship. *Journal of Business Venturing*, 29, 490–510.
- The Economist Intelligence Unit. (2014). *Global Liveability Ranking and Report August 2014*.
- Tokman, V. E. (1978). An exploration into the nature of informal - formal sector relationships. *World Development*, 6(9-10), 1065–1075.
- Webb, J. W., Bruton, G. D., Tihanyi, L., & Ireland, R. D. (2013). Research on entrepreneurship in the informal economy: Framing a research agenda. *Journal of Business Venturing*, 28, 598–614.
- Webb, J. W., Ireland, R. D., & Ketchen, D. J. (2014). Toward a greater understanding of entrepreneurship and strategy in the informal economy. *Strategic Entrepreneurship Journal*, 8, 1–15.
- Webb, J. W., Tihanyi, L., Ireland, R. D., & Sirmon, D. G. (2009). You say illegal, I say legitimate: Entrepreneurship in the informal economy. *Academy of Management*, 1–44.
- World Bank. (2010). *Country assistance strategy for the people's republic of Bangladesh*.
- XVII of 2006 Bangladesh Laws. Bangladesh Labour Act (2006).

11. ANNEXES

11.1 ANNEX A: DATA COLLECTION

FORMAT OF ONLINE SURVEY FOR MAINSTREAM RMG FIRMS, N=30

Garment Producers Characteristics

1. Survey on RMG characteristics

1 / 5 20%

Please fill out this survey, it will only take five minutes.

Dear RMG factory owner,

My name is Elwin Poortman and I'm currently staying in Dhaka to research the economic potential of the RMG industry. I'm a student of Utrecht University, the Netherlands and in collaboration with Dhaka University this research aims to map the characteristics of RMG factories. Therefore we need your input! As a factory owner you have valuable information which will contribute to the research. The data collected by this survey will be treated highly confidential and will only serve for academic purposes. This data will not be shared with any other third party nor will it be published outside Utrecht University. If you have any questions, please feel free to contact me at e.poortman@students.uu.nl

Besides sharing your valuable information to contribute to this research, there is also another reason to participate!

Thanks for your time and participation.

1. In which year did you start your business?

2. How many workers do you employ in total?

3. How many factories do you own/run?

Garment Producers Characteristics

2. Production & Leftovers

2 / 5 40%

4. What type of garments do you produce?

	Female	Male	Children
Jeans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Knit: T-shirts, underwear	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Woven: Shirt, punjabi, lungi, fatwa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other (please specify)

5. How many garments do you produce per month on average?

6. How many garments can you produce in one month if you would use 100% of your capacity?

7. On what basis do you run production?

- ☐ We only produce based on orders
- ☐ We only produce based on our own incentives
- ☐ Combination of both; we produce based on orders and own incentives

Other (please specify)

8. In case you accept orders: How many garments does an order normally request? (Order quantity)

9. When do you receive payment from the buyer of your garments?

- ☐ Payment is done before the production of the garments starts
- ☐ Payment is done when the finished products leave for transport
- ☐ Payment is done when the finished products reaches the buyers
- ☐ Payment is done a while after the finished products have reached the buyer
- ☐ Other (please specify)

10. What percentage of your production is sold to buying houses?

11. What do you with

	I do not have them	I reuse them	I throw them away	I sell them to competitors	I sell them to people who trade in them	I sell them to downstream garment producers	I destroy them	I do not know
Unused fabrics	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fabrics that do not meet quality requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unused accessories like buttons	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Broken or discarded machinery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Labels, stickers and price tags	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stock lot or stock leftovers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Garment Producers Characteristics

3. Workforce characteristics

3 / 5

60%

12. What percentage of your workers is female?

13. How many hours does a worker work on an average day?

14. How many days a week does a worker work on average?

15. How much Taka does a worker earn on an average day of work

16. On what is the salary of workers based?

☐ Salary is based on quantity of production (piece rate)

☐ Salary is based on quality of production

☐ Salary is based on hours worked

Other (please specify)

17. Work environment

	Yes	Half of them does, other half does not	No	Don't know
Do all workers have an ID card?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do all workers have an appointment letter?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do all workers receive annual leave?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do all workers receive their salary regularly?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do all workers experience safe working conditions?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

18. Do you need to train / educate new hired employees and if so, how many days of training do they get?

☐ No training is needed

☐ Yes, they need one day of training

☐ Yes, they need two to three days of training

☐ Yes, they need a week of training

☐ Yes, they need more than one week of training

☐ Yes, but time of training differs

☐ I do not know

19. What criteria are important to you when you hire new employees? List them from most important (number 1) to least important (number 6)

 Skill
 Experience
 Relatives (Friends & Family)
 Gender
 Age
 Education level

20. How often do you ...

	Every day	Once per week	Once per month	Once per year	Not applicable	I do not know
hire new workers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
fire or resign workers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Prev Next

Garment Producers Characteristics

4. Compliance

4 / 5

80%

21. Do you know what regulations the government and ILO have imposed in order to secure safe working conditions, protect workers rights and arrange administered entrepreneurship?

- ☐ Yes, I know them
- ☐ I have heard of them but do not know the details
- ☐ No, I do not know them

For the next question a proper understanding of the regulations is needed. These will therefore be shortly described:

Regulations on fire and building safety conditions: A factory owner is responsible for a factory premise that is safe. This means that the owner has to take care of preventive measures such as a fire exits, fire alarm and fire extinguishers.

Regulations on working conditions: A factory owner is responsible for a workplace that is clean, has proper ventilation and lighting, has access to safe water, toilet facilities, and enable the worker to carry out his or her job.

Regulations on administration duties: A factory owner is obliged to register his enterprise, to pay taxes and to administer the expenditures and profits of the enterprise.

Regulations on labour conditions: A factory owner is required to register his employees and allow them to unite. Moreover, the owner is required to provide the employees with means such as a proper wage, an ID card, leave and holiday.

22. To what extent do the conditions in your factory comply with the regulations of the government and ILO?

	do not comply with the regulations of the government and ILO	nearly comply with the regulations of the government and ILO	comply with the regulations imposed by the Government or ILO	are even better than the conditions the regulations prescribed	I do not know
The fire and building safety conditions in my factory	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The working conditions in my factory	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The administration duties in my factory	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The labour conditions in my factory	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

23. Has your factory ever been inspected by officials?

- ☐ Yes
- ☐ No
- ☐ I do not know

Prev

Next

Garment Producers Characteristics

5. Markets & Clients

5 / 5100%

24. Where are your products sold?

☐ At the local market in the city

☐ At garment markets throughout Bangladesh

☐ Exported to Asian markets

☐ Exported to the Middle East

☐ Exported to Western markets (EU/USA)

☐ Exported to other countries

☐ I do not know

Other (please specify)

25. How do you find new clients/buyers?

26. Additional: Please submit your contact information

Name

Company Name

Emailaddress

Phone number

27. Additional: Please tick the box below if you will allow me to visit your factory

☐ Yes, factory visit possible

Prev

Done

Format of FGDs for Downstream RMG characteristics Keraniganj, N=10

Guidelines for FGDs with downstream RMG owners & workers in Keraniganj			
Observations			
Location	Road side	Corridor plant	Market building
Type	Stitching	Showroom	
Garment items			
Size	Square meters		
Number of Machines			
Amount of estimated underaged workers present in firm			
Questions			
Business characteristics			
In which year did this business start?	Year:		
Is this business registered?	Yes /	No	
Does this business have a T.I.N.?	Yes /	No	
Workforce characteristics			
In which year did you start working here (per employee)			
How did you find employment here?			
Where are you currently living?			
How many days per week does an employee work?	Mentioned figures		
	Estimated average:		
How many hours per day does an employee work?	Mentioned figures		
	Estimated average:		
Do employees have an ID card?	Yes:	No:	

Product characteristics	
On what purpose is production based?	
What is the weekly production rate?	
Production is done partly or entirely by one employee?	
What is the piece rate salary?	
What is the cost price of one item?	
What is the selling price of one item?	
When do you receive payments from your sales?	
Origin of products	
Where do the fabrics come from? How do you know this supplier? Is this common practice for Keraniganj RMG firms?	
Where do the machines come from? How do you know this supplier? Is this common practice for Keraniganj RMG firms?	
Where do the labels come from? How do you know this supplier? Is this common practice for Keraniganj RMG firms?	
Where do the accessories such as buttons come from? How do you know this supplier? Is this common practice for Keraniganj RMG firms?	
Do you face any problems or issues? (related to employment, working conditions, housing conditions) If response are weak or vague: Is there anything you would like to see changed? (related to employment, working conditions, housing conditions)	

List of interviewed RMG stakeholders

- Direct Stakeholders: *RMG producers & Employees*
 - *Mainstream RMG owners*
 - *Downstream RMG owners*
 - *Downstream RMG workers*
 - *Informal garment street vendors*
 - *International Buying & Selling House Agency*
- Institute: *Academics, Foundations, Institutes & Organizations*
 - *Accord on fire and building safety in Bangladesh*
 - *Alliance for Bangladesh Workers Safety*
 - *Bangladesh Labour Welfare Foundation*
 - *International Labour Organization*
 - *IndustriAll Bangladesh Council*
 - *Bangladesh Institute of Labour Studies*
 - *Refugee and Migratory Movements Research Unit*
 - *Industrial and Infrastructure Development Finance Company Ltd.*
 - *The Lawyers & Jurists Dhaka*
- Trade Union: *Associations, Cooperatives, Federations & Trade Unions*
 - *Bangladesh Textile & Garment Workers League*
 - *Jatiyo Sramik League Federation*
 - *Keraniganj Khudra Garment Sromik Kallayan*
 - *Sommilitio Garments Shomik Federation Union*
- NGO
 - *Awaj Foundation*
 - *Change Makers*
 - *Fair Wear Foundation*
 - *Safety & Rights*
 - *Solidarity Center Bangladesh AFL-CIO*
- Media
 - *Junior journalist at The Daily Samakal*
 - *Senior journalist and editor at Greenwatch Dhaka*
 - *Editor Bangladesh Sangbad Sangstha*
 - *Talk show Human Right Activist*
- Governmental bodies
 - *Dutch Embassy official*
 - *Union Parishad officials*

Format of structured interview with informal RMG vendors, N=20

Questions for informal street vendors	
What kind of garments do you sell?	
How many of them do you sell per day?	
What is the average price of the items?	
What is your selling strategy?	
Where did you buy your items?	
How do you know this supplier?	
What quantities do you buy and in which time span?	
For what price did you buy a single item?	
Why did you start selling garments on the street?	
How did you start selling garments on the street?	
Do you earn enough to sustain yourself?	
Do you face any problem or issues?	

ANNEX B: SECONDARY DATA SOURCES

1. Format of individual interviews for downstream workers, N= 200

Source: CBSG, BLF, FNV, & SOMO. (2015). *Report on Mapping Downstream Ready Made Garments (RMG) Industries at Keranigonj in Bangladesh.*

Workers' Interview Questionnaire

Subject	Response/Info
Sex	1. Female 2. Male
Age	..... years (round year)
When age is unknown; ask for great historic event and estimate age	..... estimated age
Home district	.....greater district
Current place of residence	.....area
How long have you been living here?	..... months and .....years (months only when less than one year)
What is your last completed diploma/class?	..... 00=no edn, 01=level one completed; 10=SSC passed, and so on. 99=can sign only.
What is your household size?	Adult: Female Male Children (<18): Female .....Male
How many of your children are enrolled in education?	.....no. of boys.....no. of girls
What is your marital status?	1. Single 2. Engaged 3. Married 4. Divorced 5. Widow
How many income able members does your household have?	Adult: Female Male Children (<18): Female Male
How much money (BDT) per month do you spend on:	.....Food.....House rent and utilities

Subject	Response/Info
	.....Non food.....Others
How many people work at the plant where you are currently employed?	Adult: .....Female .....Male Children (<18): .....Female .....Male
How many square meters is your plant?	.....square meters
Designation (Job type)	1. Helper 2.Operator 3. Cutting master 4.Other,
Safe working environment and security facilities at respondents working place	<i>If yes, circle yes. or if no, circle no please.</i> <i>Write code</i>
Do you have access to safe and pure drinking water?	1. Yes 2. No
Do you have access to latrines and urinals	1. Yes 2. No
Does your workplace have separate toilets for male and female?	1. Yes 2. No
Does your workplace have sufficient natural light? (window)	1. Yes 2. No
Does your workplace have sufficient lighting?	1. Yes 2. No
Does your employer provide you with protective devices? (e.g. mouth cap, gloves)	1. Yes 2. No
Does your workplace have first aid facilities?	1. Yes 2. No
How often does an accident occur at your plant?	
Does your workplace arrange compensation for accidents?	1. Yes 2. No

Subject	Response/Info
What is your personal total monthly salary/wage from this plant?	..... Taka
How do you receive your salary	1 Fully 2. Partially
When do you receive your salary?	1. Daily 2. Weekly 3. Monthly 4. Annually 5. Other,
In what way do you receive your salary	1. In cash 2. Other,
Is the salary paid regularly?	1. Yes 2. No
On which factor is your salary based?	1. Salaried 2. Piece rate 3. Interns with subsistence allowance 4. Other,
How many hours do you work per day	..... hours a day
How many days do you work per week	..... days per week
Since when are you employed at your current plant?	..... months and .....years (months only when less than one year)
In how many factories have worked in the last 5 years?	..... (number)
If more than one, what was the reason you changed from employer/job?	
For how many years do your work in garment plants in Keraniganj?	..... year (round year)
What is the average monthly income of your household?	.....Taka
If household expenses is greater than its income level then how you	

Subject	Response/Info
effort extra cost?	
Awareness about fundamental labor rights and unions	<i>If yes, circle yes. or if no, circle no please.</i> <i>Write code</i>
Do you have identity card?	1. Yes 2. No
Did you sign an employment contract?	1. Yes 2. No
For what time/period are you employed?	1. Unspecified duration 2. Fixed duration; period 99. Don't know
Where do you go if you have complaints or grievances	
Is there any discrimination between male and female workers who do the same job)	1. Yes 2.No
Are there any other forms of discrimination present? If yes, which one? (Religion, race, politics, age, TU members etc)	1. Yes 2.No If yes, it is based on:.....
Have you heard about a union (before FGD)?	1. Yes 2. No
Is there a labour union at your plant?	1. Yes 2. No
If yes, name of the labour union	1.Yes..... 2. Don't know
Is there a trade union in your area?	1. Yes 2. No
If yes, name of the labour union	1.Yes..... 2. Don't know
Have you ever been approached by a union	1. Yes 2. No
Are you a member of a union?	1. Yes 2. No (Go to Q no. 53)
If yes, since which year?	Since..... (Go to Q no. 54)

Subject	Response/Info
If not, why not?	(Go to Q no. 59)
In which year was the union founded?	.....year
Do you regularly pay monthly union membership fees? How much is the monthly fee?	1. Yes, taka 2. No
What are the union's activities for its members?	
Do you participate in these activities?	1. Always 2. Sometimes 3. Never
How would you rate the collective bargaining power of the union?	1. Very effective 2. Neutral 3. Not effective
What roles can be taken by the unions for the interest of workers?	
If you could change one main issue regarding your employment, what would it be?	

2. Format of individual interviews for mainstream RMG workers, N= 242.

Source: IndustriAll. (2014). *Workers in Bangladesh: Mapping Study Report*.

Workers' Survey Questionnaire

Subject	Response/Info
Area Name	(1) Ashulia, (2) Svar) Gazipur, (4) Tongi, (5) Narayangonj, (6) Fatulla, (7)Kanchpur, (8) Rampura, (9) Mirpur, (10) Others area
Name of the respondent worker	
Cell number	
Sex	1.Female 2.Male
Age	..... Years (Round Year)

Subject	Response/Info
Education	.....
Marital Status	1.Married 2.Unmarried
Name of current working garment	
Designation	
Types of garment now working	
Garment's type	1.Woven 2.Knitting 3.Knit
Garment's Size	1. Large 2.Medium 3. Small
Registered by BGMEA/BKMEA	1. Yes 2. No
Compliance garment	1. Yes 2. No
Brand Companies order recipient	1. Yes 2. No
Sub contract garment	1. Yes 2. No
Awareness about fundamental labor rights	<i>If yes, circle yes. or if no, circle no please. Write code</i>
Do you have identity card?	1. Yes 2. No
Do you have appointment letter?	1. Yes 2. No
Do you know how many hour of your office time is?	1. Yes 2. No
Do you know your monthly salary date?	1. Yes 2. No
Can you calculate your overtime?	1. Yes 2. No
Do you know about the garment's health service and security facilities?	1. Yes 2. No
Do you know about the rights of female labor?	1. Yes 2. No
Can you calculate maternal facilities?	1. Yes 2. No
Is there any participation committee in your factory?	1. Yes 2. No
Is the Committee elected?	1. Yes 2. No
Is there a trade union at your garment?	1. Yes 2. No

Subject	Response/Info
If yes, name of the trade union	1. Yes----- 2. Don't know
Are you a member of the union?	1. Yes 2. No (<i>Go to Q no 12</i>)
Do you regularly pay monthly union membership fees? How much is the monthly fee?	1. Yes (----- taka) 2. No
What are the union's activities for its members?	
Safe working environment and security facilities of your garment	<i>If yes, circle yes. or if no, circle no please. Write code</i>
Safe and pure drinking water	1. Yes 2. No
Separate toilet for male female	1. Yes 2. No
Rest room and canteen	1. Yes 2. No
Day care centre for children	1. Yes 2. No
Breast feed corner for children	1. Yes 2. No
First Aid facilities at garment	1. Yes 2. No
Sufficient light	1. Yes 2. No
Sufficient heat control facilities (Fan, window)	1. Yes 2. No
Fire adjourn facilities	1. Yes 2. No
Fire drill	1. Yes 2. No
Machine guard	1. Yes 2. No
Alert notice (Cyrene, Alarm)	1. Yes 2. No
Emergency exit facilities	1. Yes 2. No
Penalty for accident	1. Yes 2. No
Appointment letter and ID card for all labor	1. Yes 2. No
Is there any execution of minimum wages declared at 2013	1. Yes 2. No

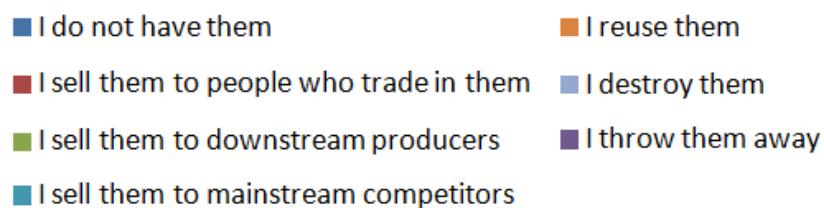
Subject	Response/Info
Is there any social safety net program at this garment? (PF, Gratuity, Group insurance, etc)	1. Yes 2. No
Total job experience at garment sector	..... Year (Round year)
In how many factories you have so far worked with?	..... (Number)
Service with this garment	..... Year (Round year)
Family members	1. Female 2.Male.....
Income able members of the family	1. Female 2.Male.....
Average monthly expenses of the family	..... Taka
Average monthly income of the family	..... Taka
If family expenses is greater than its income level then how you effort extra cost?	
What is your total salary/wage?	..... Taka
Do you know the basic/other incentives of your current post?	1. Yes 2. No
Is the salary paid regularly?	1. Yes 2. No
What is the overtime status of your garment?	----- Hours
How overtime wages have been paid?	1. With salary 2. Paid separately
Does your factory pay 16 weeks maternal leave with salary?	1. Yes 2. Yes, but partially 3. Without salary ----- Day 4. Others -----
How many days you have enjoyed annual leave?	1. Sick Leave..... Day 2. Annual Leave Day
Does your factory deducts for leave of absence for sickness?	1. Yes 2. No

Subject	Response/Info
Do you take any annual leave, is there any financial benefit for it?	1. Yes 2. No
Is there any discrimination among workers related to salary and facilities?(religion, race, gender, politics, age, TU members etc)	1. Yes 2. No
Have workers victimized by torture, if what are those type?	1.Yes..... 99. Don't know
If anybody is affected by such torture, has he/she got justice?	1.Yes..... 99. Don't know
If, yes – role of union?	1.Yes..... 99. Don't know
What roles can be taken additionally by the unions for the interest of workers?	

11.2 ANNEX C: FINDINGS REGARDING INTERACTIVE MEANS

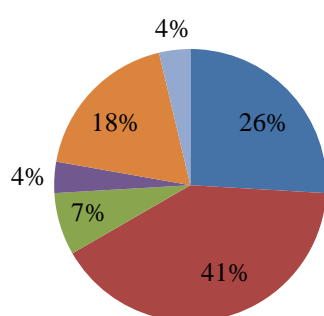
Below, one can find the distribution of the responses given by mainstream entrepreneurs (N=30). The entrepreneurs were asked to clarify what they do with leftover fabrics and materials, machines, and products.

Legend:

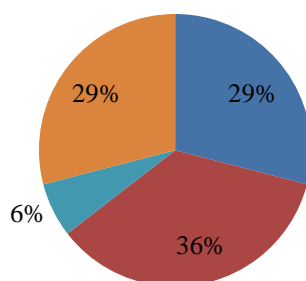


“What do you do with ...?”

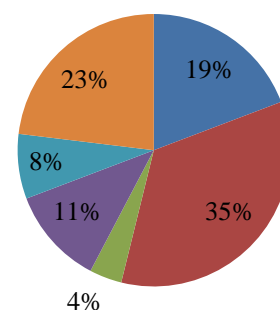
Fabrics that do not meet quality requirements



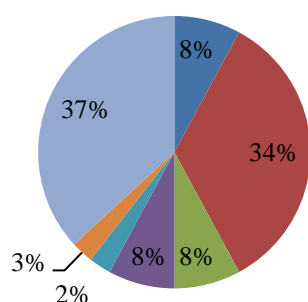
Unused fabrics



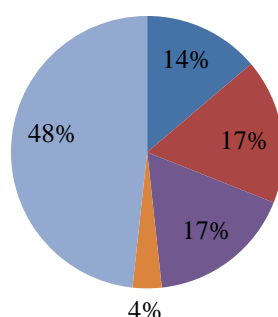
Unused accessories such as buttons



Broken or discarded machinery



Leftover labels, stickers and price tags



Stock lot or stock leftovers

