

INTRODUCING GREENING STRATEGIES IN EMERGING ECONOMIES:

Environmental compliance of Bangladesh leather industry
and its influence on broader policy environment



The Asia Foundation

Improving Lives, Expanding Opportunities

INTRODUCING GREENING STRATEGIES IN EMERGING ECONOMIES:

Environmental compliance of Bangladesh leather industry
and its influence on broader policy environment

by Syed A. Al-Muti
Acting Director, Economic Development Program
The Asia Foundation

©The Asia Foundation 2017

About The Asia Foundation

The Asia Foundation is a nonprofit international development organization committed to improving lives across a dynamic and developing Asia. Informed by six decades of experience and deep local expertise, our work across the region addresses five overarching goals—strengthen governance, empower women, expand economic opportunity, increase environmental resilience, and promote regional cooperation.

Headquartered in San Francisco, The Asia Foundation works through a network of offices in 18 Asian countries and in Washington, DC. Working with public and private partners, the Foundation receives funding from a diverse group of bilateral and multilateral development agencies, foundations, corporations, and individuals.

Contents

| | |
|--|----|
| List of Acronyms..... | 4 |
| 1. Introduction..... | 5 |
| 2. The economy of Bangladesh and challenges towards green industrial policy | 6 |
| 3. The leather industry’s growth prospect: Role in the economy and environmental challenges | 11 |
| 4. Relocation of the leather industry: The case study | 14 |
| 5. Policy reform in relocating the leather industry: Application of Advocacy Coalition Approach | 21 |
| 6. Analyzing the case through ACF: The major findings..... | 22 |
| 7. Potential influence of leather industry reform on broader industrial policy environment..... | 25 |
| 8. Conclusion | 27 |
| References..... | 28 |

List of Acronyms

| | |
|---------|--|
| ACF | Advocacy Coalition Framework |
| ADB | Asian Development Bank |
| BB | Bangladesh Bank |
| BBS | Bangladesh Bureau of Statistics |
| BELA | Bangladesh Environmental Lawyer's Association |
| BFLLFEA | Bangladesh Finished Leather, Leather Goods, and Footwear Exporters Association |
| BSCIS | Bangladesh Small and Cottage Industries Corporation |
| BTA | Bangladesh Tanneries Association |
| CETP | Common Effluent Treatment Plans |
| EU | European Union |
| ETP | Effluent Treatment Plans |
| GDP | Gross Domestic Product |
| GNI | Gross National Income |
| GoB | Government of Bangladesh |
| NGO | Non-Government Organizations |
| NSDS | National Sustainable Development Strategy |
| RMG | Ready Made Garments |

1. Introduction

Due to its low-lying geography, high population density and persistent poverty, Bangladesh is considered one of the most vulnerable countries in the world to the potential impacts of climate change. In the worst-case scenario, climate change may result in rising sea levels that will displace millions of people from the coastal regions of the country and adversely affect their livelihoods and long-term health. Although Bangladesh has witnessed rapid economic development and substantial improvements on several important human development indicators, its potential vulnerability to climate change poses a severe challenge to the country's ability to sustain the progress made so far.

Whereas a number of interrelated factors, including global carbon dioxide emissions, can explain Bangladesh's vulnerability to climate change, the country's development trajectory especially its reliance on fossil fuels has created its own environmental consequences. The Asian Development Bank (ADB) estimates that if the world continues on its current fossil fuel-intensive path, damage from climate change can cost Bangladesh up to 2 percent of its GDP by 2050.¹ Without reconciling its economic and the environmental pillars, economic growth will not be sustainable and from Bangladesh's perspective, it will be a major challenge to maintain the average 6 percent or higher growth rate that is vital to achieving middle-income economy status while ensuring a smooth transition to a sustainable and inclusive growth path. While recent studies have pointed out that environmental degradation itself is costly and has negative effects on economic growth (Croitoru & Sarraf, 2010; Hallegatte et al, 2012 Padilla in this volume), the challenge for emerging economies is to remain in the development trajectory acknowledging the interdependence between economic growth and environmental adaptation.

A possible solution of this is to adopt and apply green economy policies, which by definition concentrate on making the economic growth process resource-efficient, cleaner and more resilient, without necessarily slowing economic growth. Over the last decade, developing countries across the Asia and Pacific region have increasingly begun to reshape their economic development strategies around this concept. Most governments now recognize that they can no longer afford to pursue economic growth at the cost of the welfare of their people or the destruction of their natural resource base. Consequently, they are starting to integrate the core values of social equity and environmental sustainability into their national development strategies.

However, in the case of Bangladesh, policymakers have yet to develop such a comprehensive policy framework that would incorporate both environmental and economic concerns. Although the country's policymakers are aware of the environmental challenges, the concerns have not been transformed into actual policies, or regulatory or programmatic actions. The absence of a well-structured green industrial policy does not necessarily mean that the country has not adopted targeted strategies to support environmental compliance of specific industries. As explained in the following sections, the Government of Bangladesh (GoB) has recently taken a number of initiatives to demonstrate support for an environment-friendly industrial framework – for example, the focus on green growth in the 7th Five Year Plan and the newly designed industrial indicates that GoB is incrementally changing its policy focus and concentrating on

¹ <http://www.adb.org/news/bangladesh-could-see-climate-change-losses-reach-over-9-gdp-report>

reconciling the economic pillars with the environmental ones (GoB, 2015; GoB, 2016). The discussions in the following sections will attempt to search for contributing factors behind the recent developments in the industrial policy discussions.

The main observation of the chapter is that, a new coalition comprising environmental groups, research organizations and development partners has emerged over the last decade in Bangladesh. This coalition, through working in close collaboration with the government agencies, is promoting an evidence-based environment for policy development and has succeeded in injecting policy-oriented learning within the government. The chapter examines the economic structure of Bangladesh and analyzes the contribution and potential of the leather sector in ensuring sustainable economic growth. Through relying on the Advocacy Coalition Framework (ACF) developed by Sabatier et al (2007), it also explores why it became necessary to relocate the leather processing industry from Hazaribagh to Savar, why initial attempts to relocate the industry failed, and how the development of a coalition that includes members from the development partners, research agencies and business associations eventually resulted in a successful policy shift. Whereas the argument is not in favor of a claim that the success of this relocation process alone has encouraged the government to change its policy focus, the case study demonstrates that the effective role played by the coalition has punctuated the policy equilibrium existing in the domain of industrial policy, creating a 'ripple effect' that has allowed the entrance of new ideas and strategies to promote green industrial growth in Bangladesh.

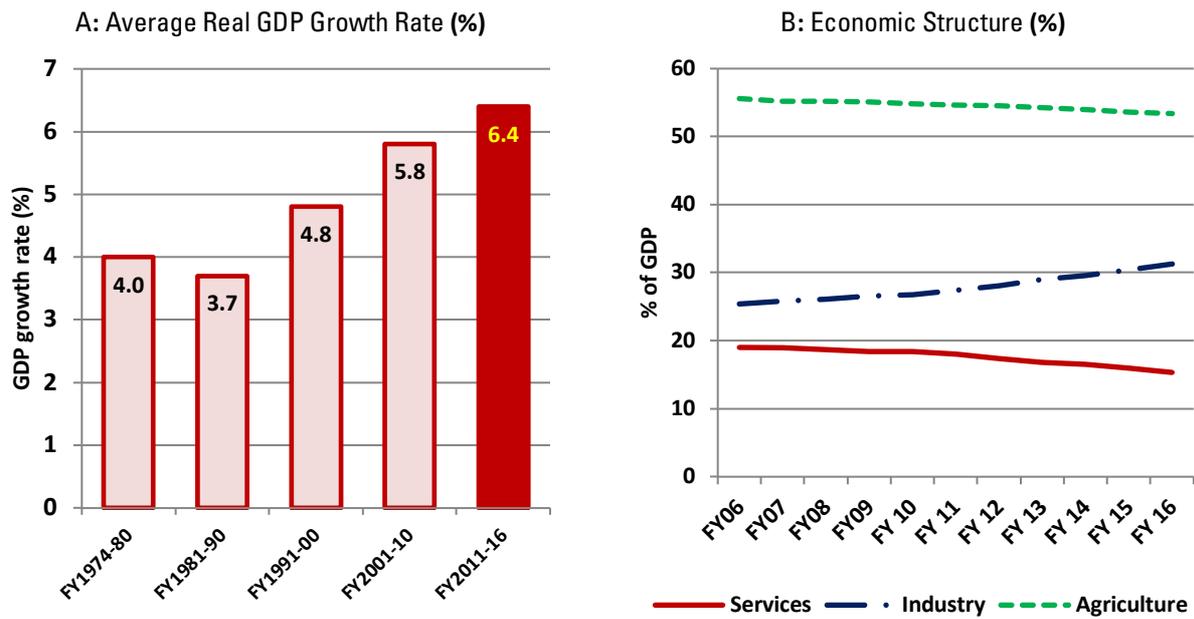
2. The economy of Bangladesh and challenges towards green industrial policy

2.1 Economic growth profile of Bangladesh and acknowledgment of sustainable growth

The growth performance of Bangladesh has been impressive since 2005. According to data from the Bangladesh Bureau of Statistics (BBS), starting from a low GDP growth rate of less than 4 percent in the 1970s, the Bangladesh economy has achieved economic growth of over 6 percent during 2005-2016. Furthermore, the country is projected to reach over 7 percent economic growth in the future. As a result of dual but opposing effects of rising GDP growth and declining population growth, the economy also experienced a fairly rapid expansion in the rate of growth of per capita GDP and a rising trend in Gross National Income (GNI) per capita (BBS).

The share of agricultural GDP declined from over 50 percent to 16 percent between 1972 and 2014, along with a decline in employment in the agricultural sector from about 75 to 45 percent. The fall in agriculture has mainly been compensated by the rising share of industrial sector in the economy, which reached 32 percent of GDP in 2013. Meanwhile, services, mostly informal, continue to comprise the bulk of economic activity, holding steady at about 50 percent in 2014 compared to about 45 percent in 1972.

Figure 1: Trends in GDP and Structure



Source: National Accounts, Bangladesh Bureau of Statistics

The Seventh Five Year Plan (7FYP) postulates that as Bangladesh has achieved a respectable 6 percent annual average GDP growth during the first 14 years of the 21st century, it is believed that the economy is now well-positioned to move to a trajectory of high sustained growth, at rates of 7 to 8 percent over the next few decades. The strategy for the medium and long-term plan is to ensure sustainable and accelerated economic growth by putting in place the right combination of investment in human and physical capital supported by the right package of policies, according to the 7FYP. The country expects to double manufacturing’s contribution to GDP from the current level of 30 percent. At the same time, the 7FYP attaches the utmost importance on a sustainable green growth strategy. An important slogan is “*Growth must be environment friendly.*” Attaining the goals to establish a ‘green economy’ will not be easy under a ‘business as usual’ setting. Bangladesh faces a growing number of diverse environmental challenges. If not addressed, these challenges are likely to severely affect not only the economy and ecosystems, but also the well-being of people, especially the poor (GoB, 2015).

This specific trend of growth, i.e. a shift in sectoral contribution to GDP growth, has several policy implications. First, as the GoB set its annual GDP growth target and/or broader targets for economic growth, emphasis has always been placed on ensuring the continuous growth of the industrial sector. In the Perspective Plan, 2010-2021, the GoB has set a target of reaching 10 percent annual growth by 2021, arguing that to attain this target, a competitive industrial sector is critical (GoB, 2012). The government’s planning documents envisioned a much larger role for the broad industrial sector, which is expected to account for a ...much larger share of GDP, approaching 37 percent by 2021, compensating for the secular decline in the share of agricultural sector” (GoB, 2012: 98). At the same time, the growth of the industrial sector was deemed to be necessary not only for ensuring sustainable economic growth but also generating high income productive jobs for a large number of people, who are failing to participate in the shrinking agricultural sector.

Furthermore, within the broad industrial sector, emphasis has been placed on the manufacturing sector and as the Perspective Plan (2010-2021) points out, “Manufacturing is and will remain the driver of industrial growth and employment for years to come. Vision 2021 stipulates middle income status for Bangladesh by 2021, reaching annual GDP growth rate of 10 percent by that year and averaging 9.2 percent for the period 2011-21. Fulfillment of this vision requires superior double-digit performance for manufacturing taking its share in GDP to 27 percent by 2021, and that of industry to 37 percent” (GoB, 2012: 8-9). In other words, it can be argued that through focusing exclusively on ensuring and sustaining the growth of the industrial sector, the policymakers have clearly reflected a significant bias towards embracing the ‘economic pillar’ while focusing less on the ‘environmental pillar.’ In effect, during the first decade of the twenty-first century, any discussion of the environment remained part of symbolic politics, where the GoB acknowledged the necessity of preserving the environment without the support of concrete action plans.

Secondly, this bias towards promoting the economic pillar becomes clear if we consider the Industrial Policy adopted in 2010. The policy document considered industrialization “...as an essential pre-requisite for rapid and sustainable economic development and social progress” and pointed out that the GoB “sees it as of great relevance and importance.” The industrial policy pledges that “...**no effort will be spared** in raising the growth rate of the Gross Domestic Product (GDP) to 8 percent by 2013, further to 10 percent between 2017 and 2021, and thereby to elevate Bangladesh to the cherished rank of “middle-income country.”

Thirdly, as mentioned earlier, due to its extreme vulnerability to climate change and to ensure sustainable economic growth, it is essential for Bangladesh to take appropriate policy actions to reconcile the environmental and economic pillars. However, in the context of Bangladesh, attaining the goals of green economy will remain a challenge if policymakers and private sector actors fail to find a way of ensuring economic growth without addressing the diverse environmental challenges. As the discussion above indicates, through the perspective plan and the Industrial Policy of 2010, the policymakers have largely missed finding a balance between economic growth and environmental sustainability. In effect, a review of the policy documents indicates that whereas both the policy documents talk about ensuring sustainable growth, they do not suggest any specific plans and/or targets to attain this goal. The policy documents, undoubtedly, reflect a tension between two complementary goals, and the tension between economic and environmental ambitions remains unresolved due to the absence of a balanced, incremental approach to address the issues. Therefore, it is not surprising that policies and programs to integrate environmental issues into the emerging economic growth profile have been largely missing, with the impact of this absence felt nationally.

- According to the 2014 Environment Performance Index, Bangladesh had the worst air quality among all the countries that were evaluated. *Air pollution* in urban areas is mainly caused by emissions from vehicles, brick kilns, industrial sectors, construction and open dumping of garbage.
- *Water pollution* is mostly concentrated in industrial belts and urban growth centers due to weak and inadequate compliance and regulation. All four rivers surrounding Dhaka are biologically dead. Industrial effluents, agrochemicals, fecal pollution, spillage and low

water flow in the dry season are the major factors behind the degradation of water quality.

- Main water *polluting sectors* include wet processing textiles, tanneries, brick kilns, chemical and pharmaceutical industries and ship-breaking yards. Both organic and inorganic pollutants emitted by these industries harm the ecosystem. Inorganic pollutants like metallic substances are long lasting and seriously deteriorate water and soil quality. The health and safety of workers in those facilities and residents in neighboring areas are also jeopardized.

2.2 From inertia to incremental promotion of green growth: Shift in policy focus

It is important to note that whereas previously the GoB failed to devise specific plans to promote sustainable growth during the first decade of the twenty-first century, its focus has gradually started to change in the last few years, especially since the adoption of the 7FYP in 2015. The plan indicates a significant departure from the earlier exclusive focus on industrial growth and declares, “**Grow first and deal with the environment later is a bad strategy**” (GoB, 2015: 51). The national planning documents argue given that Bangladesh has achieved a respectable 6 percent annual average GDP growth during the first 14 years of the 21st century, the economy is now well poised to move to a trajectory of high sustained growth, at rates of 7 to 8 percent over the next few decades. The strategy for the medium and long-term plan is to ensure sustainable and accelerated economic growth by putting into place the right combination of investment in human and physical capital supported by a package of policies. At the same time, the policy document also expresses the GoB’s commitment toward establishing a “... green economy’ of the future in the context of sustainable development goals as the economy strives towards growth acceleration and eradication of extreme poverty.

Furthermore, the National Industrial Policy, formulated in 2016, can be considered a significant development towards promoting green growth. While the policy has not been implemented yet, it indicates that sustainable environmentally-friendly industries in all sectors will receive priority for government finance and support (Objective 5 of the Industrial Policy). Most importantly, the Industrial Policy of 2016 mentions green industry for the first time and states that special incentives will be provided to the industries that are promoting green growth and/or using renewable energy. Chapter 14 specifically focuses on environmentally-friendly industrial growth and advocates the following:

- Encouraging the installment of Effluent Treatment Plans (ETP) and Common Effluent Treatment Plans (CETP) in the industries;
- Providing necessary support and assistance to the industries that are trying to control the emission of greenhouse gas to bring them under the Clean Development Mechanism (CDM);
- Encouraging the development of green industries;

- Encouraging the active participation of business organizations, civil society organizations and other social organizations to promote environment friendly industries.

At the same time, the National Sustainable Development Strategy (NSDS), which is linked to the 7FYP, has embarked on strategies to promote economic, social and environmental sustainability. The NSDS identifies Industry as a priority sector requiring accelerated development. Other priority sectors include Energy and Human Development, where the outlined strategies will also help achieve sustainability goals. The challenge now is to implement these strategies primarily with Bangladesh's own resources.

Another major recent development in Bangladesh's policy discourse is the preparation of a long-term development plan called Bangladesh Delta Plan 2100. For the first time in the Bangladesh planning process the environment, climate change, water and socio-economics issues are interlinked to assess the negative effects of a deteriorating environment and climate change on the wellbeing of the Bangladeshi population. Among others, it calls for creation of a special fund, the Delta Fund, and separate institutional arrangements to combat the environmental challenges and promote sustainable development.

Whereas these policy documents are indeed a move in the right direction, one must be cautious in considering these new developments as radical policy shifts. In effect, these policy changes should be considered as incremental steps for the following reasons:

First, even though the policy documents denote the GoB's commitment towards green growth, it is important to note that the government still considers green economy as a goal for the future but without committing to implementing stringent environmental regulations. The 7FYP describes it in the following way: "in its pursuit of sustainable development in the context of growth acceleration and poverty reduction, the Government is mindful of the unique country context and the need for flexibility in policies so as not to be bound by any rigid set of rules."

Secondly, up to this point in time, the GoB has not exclusively focused on promoting green technologies in the broad industrial sector. However, in case of export-oriented sectors, the GoB has provided some assistance and support. For example, in 2009 the Bangladesh Bank (BB) introduced a revolving refinance scheme of BDT 200 crore (USD 24.6 Million) in the readymade garments (RMG) sector. In 2011, the BB developed a Green Banking Policy to guide the scheme. The goal of this is to "...broaden the financing avenue for green products and to minimize the negative impacts of the economic activities" for the RMG industries (Azad & Abedin, 2016).

The positive policy changes in the industrial sector are largely incremental in nature; nevertheless, this indicates the GoB's willingness to embrace green growth strategies. However, the search for the contributing factors for this new dimension in the industrial policy will need to be based on substantive research. This chapter will try to identify factors that may have had positive influences on the policy shift. The analysis is based on a case study of the leading manufacturing sector, i.e. the leather processing industry, which provides theoretical insight regarding the possible reasons behind the incremental policy change and its potential in bringing about more broad-based change.

3. The leather industry's growth prospect: Role in the economy and environmental challenges

3.1 Growth prospects of the leather industry

In the overall economic development of the country, the role played by the leather sector is extremely important. In May 2014, the Bangladeshi leather sector crossed the USD 1 billion mark in annual exports for the first time. According to the Export Promotion Bureau (EPB), total leather exports were USD 116.73 million in the last fiscal year (July 1, 2016 to June 30, 2017); compared to USD 92.50 million in the previous year. The sector contributes around 4 percent of total exports and directly employs roughly 50,000 workers. Economists predict that if the leather industry continues its impressive growth, it may challenge the ready-made garments sector as Bangladesh's most valuable export. In fact, recent studies indicate that "this sector is very much akin to the Ready-Made Garments (RMG) sector, the number one export earning sector of Bangladesh that earned over USD \$20 billion in 2012-13, and where value addition scope is 40-50 percent. In contrast, value addition in the leather sector is reported to be 90 percent (Khondker & Eusuf, 2015: 3)." At the same time, there are early signs that the industry is moving towards higher value-added production, more diversified export markets, and innovative new products.

One indicator of the structural changes being accelerated by the reform process is the shifting composition of exports among three categories of products: finished leather, leather goods, and footwear. The Bangladesh Ministry of Industries (MoI) has declared leather processing as a high priority sector given the potential of the industry for generating higher employment opportunities, new entrepreneurship development and private sector investment and increasing export of higher value-added products (including footwear and other leather goods). The contribution of the sector in the overall economic growth is demonstrated in the export earnings trends.

Table 1: Export earnings by leather sector

| Year | Actual (in Million USD) | % growth |
|---------|-------------------------|----------|
| 1994-95 | 220.95 | - |
| 1995-96 | 237.79 | 7.62 |
| 1996-97 | 216.85 | -8.80 |
| 1997-98 | 232.75 | 7.33 |
| 2002-03 | 237.95 | - |
| 2003-04 | 283.35 | 19.07 |
| 2004-05 | 315.83 | 11.46 |
| 2005-06 | 359.83 | 13.93 |
| 2006-07 | 413.05 | 14.79 |
| 2007-08 | 462.88 | 12.06 |
| 2008-09 | 381.14 | -17.65 |
| 2009-10 | 459.25 | 20.49 |
| 2010-11 | 651.05 | 29.46 |
| 2011-12 | 765.00 | 17.50 |
| 2012-13 | 980.67 | 28.00 |
| 2013-14 | 1124.17 | 14.60 |

Source: Export Promotion Bureau, GoB adapted from Khondker & Eusuf, 2015

As Table 1 indicates, since 2009-10, compared to the single-digit growth in export earnings during the 1990s, the industry is experiencing a phenomenal growth rate, reaching above 20 percent. In other words, whereas in the beginning of the last decade, the industry accounted for only USD 200 million in export earnings, it has very recently reached near a billion dollars in exports. Despite achieving this phenomenal success, the global market share of the Bangladeshi leather sector is quite low (0.5 percent) due to several issues, including problems related with compliance with international standards in health and environmental issues (explained later in this section). There is indeed scope for further expansion if the challenges in this sector are addressed properly. It is widely believed that the relocation of tanneries from Hazaribagh to the SAVAR leather estate may likely help entrepreneurs overcome these obstacles and thereby increase Bangladesh's share in the global leather market.

3.2 Major environmental challenges associated with the leather industry and the need for relocation

Bangladesh's leather industry is critical to its economy, and estimates show that if environmental concerns were addressed, the economic prospects could be even greater, to the extent that leather could challenge the RMG industry as the country's most valuable export. Although the leather industry has the potential for achieving exports worth USD 5 billion, and contributing over 6 percent of GDP, the prospect of further growth may collapse if the environmental issues are not properly addressed. Environmental compliance is particularly urgent now given the serious concerns expressed by the export market over the environmentally damaging practices of the leather industry in its current location of Hazaribagh, with the potential threat of international buyers suspending their sourcing of leather from Bangladesh.

Bangladesh's Buriganga River, which flows along the southwest border of Dhaka, has long been a lifeline for the capital city of 15 million people. It is a vital economic link to the rest of the country. However, industrial pollution has severely damaged its environmental health, to the

point where it is now considered incapable of supporting aquatic life and unsuitable for basic cleaning purposes, let alone a source for drinking water. Among the negative impacts of this is that Dhaka's water supply is now heavily dependent on underground water, making the urban population vulnerable to a water crisis and natural disasters.

Much of the pollution affecting the Buriganga originates from the booming leather industry situated on an area of about 50 acres in the neighborhood of Hazaribagh. The leather industry currently creates 75 tons of solid waste and 21,600 cubic meters of liquid waste daily, the latter consisting of at least 20 types of toxic substances, including sulfuric acid, hydrogen sulfide, chromium sulfate, and several heavy metals. The health implications of regular contact with high concentrations of these substances affect not just the 50,000 workers but also about 180,000 people living in the densely-populated area. A 2012 Human Rights Watch report on the health effects of the leather tanneries found that residents in Hazaribagh reported 31 percent more cases of skin diseases, 21 percent more cases of jaundice, and 17 percent more cases of kidney-related disease compared to the residents in a comparable neighborhood situated farther away from the tanneries. After the report's release, many buyers, particularly from the European Union expressed concern and raised the possibility of discontinuing sourcing from Bangladesh if appropriate actions are not taken to address the environmental concerns.

Like most of the major industries, the tannery industry has been "...flourishing in the Hazaribagh area along the banks of the Buriganga river since 1965, when the migration process of the leather processing activity from developed to developing countries started" (Bhowmik, 2013: 94). The first tannery in the country was established in 1940. There are currently 243 tanneries, of which 95 percent are situated in the Hazaribagh area. However, the concentration of this industry in this particular area has its own consequences, As Bhowmik (2013) pointed out,

"...the uncontrolled and unplanned expansion of this industrial zone has been extending its pressure on its physical environment. The noxious leather processing activity finally converted the zone into a brown field. There has neither been any central or individual Effluent Treatment Plant (CETP/ETP) established for treating the liquid and solid wastes produced from leather processing, nor been any control on the use of noxious chemicals. All the liquid wastes carried by the city corporations' drains are deposited to the low-lying lands of Hazaribagh and the solid wastes (tiny pieces of leather, excess fat, flesh and hair) are piled up at roadsides in front of the tanneries. Ultimately, these liquid and solid wastes make their way into the lifeline of the Dhaka city – the Buriganga River. Thus, the noxious leather tanning industries along the river bank of Buriganga at Hazaribagh has turned out to be the principle threat to the sustainability of the capital city of 16 million people."

A recent study by Shakil et. al (2016) also details these environmental hazards and states that different studies conducted to assess the level pollution and health risk suggests "...the same notion of disastrous impact on surface and ground water and health of exposed population." In fact, this area is now ranked as one of the world's top ten worst places for toxic threats. Due to these factors, different civil society organizations have been demanding the relocation of the leather processing industry since the early 1990s (Shakil et. al 2016).

By relocating the industry to a new industrial estate in Savar, the environmental impact is expected to be minimized by establishing several centralized waste-treatment facilities, including a CETP for treating liquid waste, a solid waste management system, and a chrome recovery unit.

4. Relocation of the leather industry: The case study

4.1 Early efforts to relocate the leather industry: The underlying politics of policy process

As early as 1991, the GoB began to think about relocating the leather industry outside Dhaka. As the negative environmental consequences became apparent, different research organizations, environmental groups, and international and local NGOs pressed the government to take the necessary actions. However, the real push came in 2001 through a High Court ruling. The following year, a formal announcement of relocation was issued, then in 2003 a writ petition in the Supreme Court by the Bangladesh Environmental Lawyer's Association (BELA) (Shakil et. al, 2016) was submitted. In 2003, a trilateral treaty was signed among the Bangladesh Small and Cottage Industries Corporation (BSCIC, under MoI), the Leather Goods and Footwear Exporters Association (BFLLEA) and Bangladesh Tanneries Association (BTA), which stated that the tanneries would be relocated to Savar and a CETP established within a Tannery Industry Town (Shakil et al, 2016; Bhowmik, 2013). While the initial target was to relocate the industry by 2005, a number of problems caused the plan to be revised several times.

To assess the constraints that stalled the decision to relocate the industry, it is essential to analyze the underlying political and bureaucratic challenges that guided the implementation of the relocation policy. Due to the lack of a clear understanding on the potential consequences of not relocating the industry, the government did not have specific plans and strategies to implement the policy decisions. The four-party alliance that came into power in 2001, albeit remaining committed to relocation, refrained from institutionalizing enforcement mechanisms, or developing regulations or practices that would improve environmental compliance of the industry. It is therefore not surprising that even though a treaty was signed in 2003, no concrete action was taken to relocate the industry. As Harris (2016) pointed out, even the government bureaucracy was not completely in favor of relocation. The situation became more complex in 2007 when the Caretaker Government decided that even though it would remain committed to the relocation policy, it would not share the cost of establishing a CETP. The current government, since taking power in 2009, appears to have followed the same position and the implementation of the relocation policy came to a standstill as the GoB and the industry leaders failed to reach a consensus regarding the cost-sharing arrangements for establishing the CETP and compensation for the tanneries for their relocation costs.

While the GoB in principle was in favor of relocation, on the industry side, resistance to relocate was intensifying. In his analysis, Harris (2016) identified two specific reasons behind this. First, the GoB's decision in 2007 to not share the cost of establishing a CETP not only invalidated the MOU signed in 2003 but also created a situation where the level of mistrust between the industry leaders and GoB increased significantly. Second, within the larger leather industry sectors, the tanners, represented by BTA, were strongly against the relocation. Given that they were not producing higher-value finished leather products, for them relocation meant incurring costs without any additional benefits. As Harris pointed out, this group of tanners was "...not

concerned with environmental compliance because they produce only for the domestic market or for export markets that do not require compliance.” Thus, they formed a strong interest group that was not interested in relocating.

By considering the efforts taken to relocate the leather sector and the failure of such efforts, it can be argued that between 1990 and 2012 strong barriers were developed gradually to resist the implementation of the decision to relocate. It is interesting to note that during this time, the government also did not focus on creating pressure on the industry for relocation and based on the discussion in Section 2, it can be argued that the GoB’s initial inertia is not necessarily surprising. Due to the complexity of the relocation process, the government probably was not interested in strongly pushing an agenda which might expose additional risks to the growth of the industry, especially when the relocation required additional cost-bearing by the government. In fact, from the GoB’s perspective, though the relocation was environmentally useful, it was only willing to support it if it became economically cost effective. Thus, the initial effort failed to reconcile the environmental and economic pillars of growth and the then-government was not interested in making an economic sacrifice, especially when the fiscal benefit of the relocation was not necessarily clear. As such, it was not surprising that until 2013, no significant development was made in relocating the tanneries and at that point, it was not even clear whether the relocation would occur.

The situation changed considerably once The Asia Foundation² created a public-private coalition of stakeholders, which stepped in to help revive the relocation discussions. The coalition started its journey with the following challenges:

- ensure that the political commitment of the GoB remained positive while persuading them to share costs for establishing a CETP and to provide compensation to the industry;
- change the “deep core beliefs” of the tanners who did not consider relocation as being beneficial;
- point out the economic benefits of relocation to different actors; and
- work closely with the “interested to relocate” industries.

² The Asia Foundation is a nonprofit international development organization committed to improving lives across a dynamic and developing Asia. Informed by six decades of experience and deep local expertise, our work across the region addresses five overarching goals—strengthen governance, empower women, expand economic opportunity, increase environmental resilience, and promote regional cooperation. Headquartered in San Francisco, The Asia Foundation works through a network of offices in 18 Asian countries and in Washington, DC.

4.2 Application of the political economy approach to policy reform

In January 2013, The Asia Foundation with support from Australian Department of Foreign Affairs and Trade (DFAT), reached out to stakeholders in the private sector and the government to create a coalition of individuals and institutions that were committed to resolving the barriers holding back the relocation of the leather industry. The coalition's main strength was its ability to build confidence and address the mistrust between the different actors involved in the policy area by bringing them together to engage in a dialogue. The coalition's main challenge was to address the frictions within the leather industry associations and disagreements between the government and the leather sector representatives over binding constraints such as the funding of a CETP, compensation to leather factories for production losses during relocation, and the costs related to upgraded layout of factories at the new estate. The coalition laid out the major issues affecting the leather industry, provided guidance on future steps, shared international experiences, and reminded players of the future potential growth that the industry could realize by relocating, and the negative consequences of not doing so.

As indicated earlier, one of the major areas of conflict between the GoB and the private sector actor was regarding who would fund the CETP. By 2013, the coalition resolved the dispute over funding the CETP by showing examples from other countries, particularly in the South Asia region, where similar facilities were funded by the government, rather than the cost shared by individual factories. As a result of the coalition's efforts, the Ministry of Finance (MoF) and MoI accepted an agreement that called for the government to fund 80 percent of the cost of the new industrial estate and the entire cost of the CETP.

Prior to 2013, the government's policy was not in favor of paying any compensation, as it felt that the industry owners would be the beneficiaries of potential growth and revenue at the new industrial estate. However, the coalition successfully pushed to reform the government policy, arguing that there are significant economic gains for the country in terms of export growth and employment and that the government should offer incentives to the leather firms and provide support for their initial capital investment in line with the requirement of the new industrial estate. As a result, the GoB approved USD 32 million to establish a compensation fund for the relocated entrepreneurs.

The actions taken by the coalition led by The Asia Foundation also achieved the following intermediate outcomes:

- **Government and leather industry associations sign key agreements, such an MOU to form the basis for cooperation on the relocation:** The MOU in October 2013 between two major leather associations (BTA and BFLLEA) and BSCIC served as the key agreement that created the foundation for the relocation process. The Asia Foundation's initiative was able to build trust and broker a more effective relationship between the government and the leather sector by continuous dialogues between the key actors.
- **Submission of leather factories' layout plans for construction in Savar, and approval of the plans by the government:** In the absence of an agreement regarding the relocation process, none of the tanneries had taken the initiative to draw up layout plans for new factories in Savar. After the MOU was signed, by June 2014, 155 factories had submitted

layout plans, of which 152 were approved. Furthermore, by June 2015, 27 firms had started construction.

- **CETP construction is undertaken to appropriate standards, and a public-private agreement is put into place to assure quality of the new leather industrial estate:** Before the tripartite MOU facilitated by The Asia Foundation in 2013, there was no scope for the construction of a CETP because of the high degree of uncertainty regarding whether the relocation would occur at all, and over who would pay the construction costs.
- **The involvement of the team of experts from Bangladesh University of Engineering and Technology (BUET) was instrumental for quality assurance.** The reform team realized that this was a necessary step not only to build trust among the leather sector leaders, but also to ensure that technical and quality assurance issues were resolved in a credible way. Soon after the BUET team was formally recognized as an independent consultant for the project by MoI in March 2014, they resolved a long-standing dispute between local and foreign construction contractors; this was the final hurdle that had to be crossed before construction of the CETP began.
- **A procedure is established to disburse compensation to individual leather factories:** Before The Asia Foundations' intervention, the government was against providing compensation to the leather factories, because they felt that any losses would soon be recuperated through increased production at the new estate. This stance was reversed in May 2013, when MoF decided to allocate BDT 2.5 billion (USD .03 billion) as compensation for production losses during the relocation.

In addition to the issues mentioned above, the coalition specifically focused on achieving one particular objective: initiating evidence-based advocacy supported by focused research on critical issues affecting the reform agenda (to be explained later). To this end, a coordinated effort was undertaken which attempted to draw the attention of policymakers and business leaders involved in the sector to the following potential economic and social benefits of the relocation.

First, research findings produced by the coalition made it quite clear to the relevant actors that the structure of the leather sector is going through a significant shift which is gradually encouraging the industry leaders to focus more on exploring higher value-added categories of leather good and footwear instead of finished leather. In effect, different studies show that whereas the export earnings from the leather sector have been increasing significantly over the last decade (as explained above), there is a certain trend of this increase in export-earning that should be considered. These studies show that if export data is disaggregated by exports of leather, leather goods and leather footwear, we will find that in the 90s, leather export was dominated by "...export of processed leather as crust and finished leather," which contributed to almost "...90 percent of the total export earnings until 1996-97." Whereas the composition of leather related export started to shift by the mid-90s, until 2002-03, around 80 percent of total leather export earnings was still coming from the export of processed leather. However, significant shifts took place in 2008-09, when export of leather footwear, for the first time, contributed to almost half of the total export earnings from this sector. Since then, the entire sector has been showing a phenomenal growth rate and this has happened due to converting

processed leather into higher value-added leather goods and leather footwear (Khondker & Eusuf, 2015: 4-5). The following table shows the shift in composition of leather exports:

Table 2: Composition of Leather Export

| Year | Leather | | Leather Footwear | | Leather Goods | | Total |
|------------------------------|---------------|---------------|------------------|---------------|---------------|---------------|----------------|
| | Export | % of Total | Export | % of Total | Export | % of Total | |
| 1994-1995 | 202.08 | 91.46% | 12.54 | 5.68% | 6.33 | 2.86% | 220.95 |
| 1995-1996 | 211.70 | 89.03% | 19.13 | 8.04% | 6.96 | 2.93% | 237.79 |
| 1996-1997 | 195.26 | 90.04% | 17.78 | 8.20% | 3.81 | 1.76% | 216.85 |
| 1997-1998 | 190.26 | 81.74% | 38.02 | 16.34% | 4.47 | 1.92% | 232.75 |
| 2002-2003 | 191.23 | 80.37% | 46.60 | 19.58% | 0.12 | 0.05% | 237.95 |
| 2003-2004 | 211.41 | 74.61% | 68.30 | 24.10% | 3.64 | 1.28% | 283.35 |
| 2004-2005 | 220.93 | 69.95% | 87.55 | 27.72% | 7.35 | 2.32% | 315.83 |
| 2005-2006 | 257.27 | 71.50% | 95.44 | 26.52% | 7.12 | 1.98% | 359.83 |
| 2006-2007 | 266.08 | 64.42% | 135.94 | 32.91% | 11.03 | 2.67% | 413.05 |
| 2007-2008 | 284.41 | 61.44% | 169.60 | 36.64% | 8.87 | 1.92% | 462.88 |
| 2008-2009 | 177.32 | 46.52% | 186.93 | 49.04% | 16.89 | 4.43% | 381.14 |
| 2009-2010 | 226.10 | 49.24% | 204.09 | 44.44% | 29.06 | 6.32% | 459.25 |
| 2010-2011 | 297.83 | 45.75% | 297.80 | 45.74% | 55.42 | 8.51% | 651.05 |
| 2011-2012 | 330.16 | 43.16% | 335.51 | 43.85% | 99.36 | 12.99% | 765.03 |
| 2012-2013 | 399.73 | 46.13% | 305.11 | 35.21% | 161.62 | 18.65% | 866.46 |
| 2013-2014 | 505.54 | 44.97% | 378.54 | 33.67% | 240.09 | 21.36% | 1124.17 |
| 2014-2015 | 397.54 | 35.16% | 483.81 | 42.80% | 249.16 | 22.04% | 1130.51 |
| 2015-2016 | 277.90 | 23.94% | 494.83 | 42.62% | 388.22 | 33.44% | 1160.95 |
| 2016-2017 | 232.61 | 18.85% | 536.96 | 43.51% | 464.43 | 37.64% | 1234.00 |
| 2017-2018^T | 240.00 | 17.39% | 600.00 | 43.48% | 540.00 | 39.13% | 1380.00 |

Note: T=Target Source: Export Promotion Bureau, GoB

Second, different studies and research activities supported by the coalition also pointed out how the ongoing shift in the composition of leather exports, if continued, would not only expand

GDP and employment of the leather sector, it would also influence growth of related, linked activities. As Khondker & Eusuf (2015) pointed out:

“Leather sector-led total business opportunity created in the linked sector has been estimated to be BDT 133 billion at 2012 prices.³ This accounts for 1.5 percent of 2012 GDP (i.e. BDT 8644.7 billion).⁴ The total business opportunity in the four backward linked activities⁵ has been estimated to be BDT 28 billion. On the other hand, total business opportunity in the five forward-linked activities⁶ has been estimated to be BDT 105 billion. This finding suggests that business opportunities in forward linked activities could be 4 times higher than that of the backward-linked sectors.”

Third, these business opportunities can be utilized in an effective and efficient manner only if foreign investors become interested in investing in this sector. The coalition emphasized this factor and made an effort to help policymakers and the industry leaders understand that the growth of leather footwear and leather goods can be sustained if advanced technology, ISO 9000 quality management system and ISO 14000 environmental management systems can be applied. In addition to that, the coalition also pointed out that without encouraging the leather tanneries to apply advanced technology and equipment and without modernizing the existing infrastructural facilities to raise production and increase quality, it would not be possible to attract foreign investors. Therefore, in order to grab the business opportunities linked to a shift in composition of leather exports and to attract foreign investors in this sector, the relocation is argued to be highly necessary as it would allow the sector to adopt and apply a modern, environment-friendly technology and management system. In fact, as Khondker & Eusuf (2015) pointed out, “it is suggested that due to relocation and improved compliances, total exports of leather would increase to USD 5 billion over the next 12 years from current export level of USD 1 billion. Thus, additional exports amounting to around USD 4 billion will be injected into the domestic economy” (Khondker & Eusuf, 2015: 22).

Fourth, the coalition argued that relocation is likely to improve the image of the leather industry, which would attract the foreign investors. A recent article by Al-Muti (2015) showed that “...at least 51 foreign companies have expressed interest in establishing joint-venture footwear units in Bangladesh” and relocation would help transform this interest into reality.

Fifth, industry insiders have estimated that the workforce in footwear and finished goods could double after the tannery relocation. Female workers will benefit, as they represent around 70 percent of the workforce in these product categories. With new economic opportunities for urban and rural women, the leather goods sector should have a positive effect on the social development indicators for Bangladesh.

Finally, as mentioned earlier, in addition to these economic benefits, some recent studies have indicated the potential environmental benefits to be derived from the process. For instance,

³ It excludes the leather sector. The reference is year is 2012 same the base year of the Bangladesh IOT 2012.

⁴ Including the business opportunity of the leather sector along with these linked sectors, total business opportunity created in 2012 has been estimated to be Taka 259 billion accounting for 2.99 percent of 2012 GDP.

⁵ Four backward linked activities identified through their study are: livestock, chemical, electricity/gas/water & metal/machinery

⁶ The five forward linked activities are: transport, trade, bank/insurance, housing, professional service

according to Al-Muti & Ahmad (2014), in the past, the tanneries situated in the Hazaribagh area used to create 75 tons of solid waste and 21,600 cubic meters of liquid waste daily, the latter consisting of at least 20 types of toxic substances, including sulfuric acid, hydrogen sulfide, chromium sulfate, and several heavy metals. These toxic products negatively affect health status of all the people living in this densely-populated area. (Al-Muti & Ahmad, 2014). However, due to the relocation, "...the environmental impact is expected to be minimized by several centralized waste-treatment facilities, including a central effluent treatment plant for treating liquid waste, a solid waste management system, and a chrome recovery unit" (Al-Muti & Ahmad, 2013).

It is important to note that the coalition has largely succeeded in making its case for relocation which eventually allowed the policy makers and industry leaders to come to an agreement which is acceptable to all relevant actors. The progress of relocation to date as shown in the following table is supportive of the success of the coalitions' work. In effect, this shows how the coalition, instead of focusing only on the environmental benefits of the relocation, drew attention of all the relevant actors to the changing composition of the leather exports. At the same time, it also pointed out that relocation would be beneficial to the entire sector as it would promote the ongoing structural change, invite foreign investment and make the sector competitive in the global market. The following table shows the current progress of relocation.

Table 3: Progress of relocation of leather tanneries – December 2017

| Milestones | Units | Progress |
|--|--------------|-----------------|
| Ongoing factory construction | 151 | 98% |
| Constructing 2 nd floor and above | 36 | 23% |
| Completed up to the 1 st floor | 63 | 41% |
| Construction of the 1 st floor under process | 34 | 22% |
| Construction of the basement under process (post piling) | 18 | 12% |
| Very early stage of construction | 0 | 0% |
| No ongoing factory construction | 3 | 2% |
| Total factories | 154 | 100% |
| CETP (Central Effluent Treatment Plant) | | 93%-98% |
| Oxidation tanks | | 97%-99.50% |
| CRU (Chrome Recovery Unit) | Unit 1 | 94%-98% |
| STP (Sludge Treatment Plant) | Central | 95% |
| WTP (Water Treatment Plant) | 22ML/D | 100% |
| Utility connection | | |
| Electricity connection | 105 | 68% |
| Gas connection | 35 | 23% |
| Water connection | 102 | 66% |

Source: Tannery Industrial Estate, Dhaka, BSCIC; December 2017

5. Policy reform in relocating the leather industry: Application of Advocacy Coalition Approach

The discussion above indicates that the effort to relocate the leather sector industries from Hazaribagh to Savar that started in the early 90s faced significant resistance over the years and by 2012, it became clear that the policy effort of relocating the leather industries was going nowhere. A status-quo had developed which was preferable to all the relevant actors (in comparison to the alternative), especially the GoB and industry leaders. In other words, the implementation process was moving through what Pierson (2000) called a “path dependent model,” and every step taken by the actors to stall the reform was further strengthening the status quo. At that point, changing courses to relocate was neither desirable nor easy for the actors as the transaction cost of doing so would be much higher.

The literature on the policy process indeed argues that once policy equilibrium is created, policy changes become difficult. However, that does not necessarily mean that policy reform always follows a stable pathway. In fact, True & Jones (1999) have shown that equilibrium can be ‘punctuated’ and rapid policy shift may happen especially when significant alteration takes place in the economic or political structure (North, 1990). These alterations eventually mark the critical juncture in the policy process which opens up the ‘policy window’ allowing major changes to take place (Kingdon, 1993). The success of the coalition indicates that in case of relocating the leather sector industries, 2013 indeed marks a critical juncture. However, this brings us back to the most important question: how did the coalition manage to punctuate the equilibrium?

In this section, while taking into consideration the role played by the development partners in punctuating the equilibrium, efforts have been taken to develop a theoretical framework to explain the case study discussed above. In relocating the leather sector, the underlying politics have played a much greater role. At the same time, technical information and ideas were drivers of change and the information provided by think tanks and research agencies has effectively influenced important actors to revise and modify their belief system without which relocation would not have been possible.

For a long time, it has been argued that the policy arena of Bangladesh is centralized and closed and that outside actors have very limited to no access in shaping the policy. However, different studies on the policy process of the country including environmental policy (Khair, 2004), drug policy (Chowdhury, 1995), health policy (Osman, 2004) and food policy (Jahan & Shahan, 2016) indicate that the policy domain is opening and creating opportunities for different outside actors including development partners, NGOs and INGOs, business organizations, civil society organizations and think-tanks to participate in the policy process. Our case study on the relocation of the leather industry also supports this point of view. However, investigating the nature of coalition-based politics, how different actors shape their agenda, how they try to influence the policymakers and how they interact with each other to gather support for policy reform, will require an in-depth study.

To explore how the politics of the policy process unfolded to relocate the leather processing industry, a useful method is to apply the Advocacy Coalition Framework (ACF), developed by Sabatier et. al (1999, 2007). The ACF analyzes the complexity of modern policymaking and

argues that in this complicated policy world, the policy participants must be experts and specialists if they want to be influential in the policy process and this, "...specialization occurs within policy subsystems composed of participants who regularly seek to influence policy within a policy subsystem" (Sabatier & Weible, 2007: 192). At the same time, the ACF works under the assumption that within a policy domain several policy sub-systems operate and policy making takes place when the policy sub-systems which have different interests negotiate with each other to reach to a conclusion.

The following components of the ACF are important for this chapter:

- The ACF points out that the policy participants "hold strong beliefs" and they are motivated in translating these beliefs into actual policy options. These strong beliefs can only be altered through exogenous shocks.
- However, in addition to the deep core beliefs, the participants of the policy sub-systems also hold secondary beliefs which can be altered through scientific and technical information and that is why the role of credible information is so important in designing and developing policies.
- In ACF, the policy participants who have the same beliefs and understanding try to coordinate with each other to form a coalition and they tend to lobby for their preferred policy positions through their very own coalitions. The coalitions, through working together, then transform themselves into policy sub-systems.
- Another important aspect of the ACF is that it points out the presence of some actors, who remain outside of the policy-subsystems and whose main goal is to mediate the "...conflicting strategies from various coalitions." These actors are known as "policy-brokers" and a win-win solution cannot be developed without the presence of them.

Based on the key features of the ACF, in the following section, efforts have been taken to analyze the case study to explore how an effective coalition was developed to successfully implement the relocation plan.

6. Analyzing the case through ACF: The major findings

In 2013, The Asia Foundation used its political-economy approach to facilitate the formation of a public-private coalition, which through dialogue and negotiation, could remove the major barriers affecting the sustainable growth of the leather industry. It can be argued that the endurance of the coalition, its ability to participate in the policy process, the strategic approach adopted by the coalition in making the relevant actors understand the value of relocation, and its capacity to provide critical information have played a major role in implementing this reform agenda. Let us consider these issues in detail to understand the impact of the coalition in the overall policy process.

First, if we consider the case of relocating the leather processing industry, it can be argued that the formulation and implementation of the relocation agenda had to overcome a number of

policy hurdles over time. In the early 1990s, when there was a demand from the environmental groups to relocate the industries, the governments' inertia made it quite clear that the policy of relocating the industry was not one of its priority agenda. The GoB faced a difficult challenge to bring a balance between the need for higher economic growth while ensuring adequate measures for climate adaptation and environmental compliance of key industries. In the case of the leather industry, the absence of an evidence-based approach could not bring momentum to the relocation process since the initial agreement for relocating the industry had been signed in 2003. Until 2012, there was a policy standstill as the GoB and different stakeholders failed to find a common ground. The formation of the coalition in early 2013, as mentioned in the previous section, played a critical role in overcoming this standstill and it is important to note that between 2013 and 2016, the coalition had survived through critical challenges and managed to bring all the relevant actors on-board to make the relocation happen. The resilience of the coalition and its endurance have not only made it a credible player in the policy process but also allowed it to interact with different actors including the government and the industry-owners in an effective and efficient way. In fact, without the presence of the coalition it would not have been possible to relocate the industries from Hazaribagh to Savar.

Secondly, it is important to note that the critical role played by the coalition would not have been possible without the presence of an enabling political environment where the government was willing to listen to arguments of the coalition. As mentioned in the previous section, the once-closed policy domain started to open in the mid-2000s and the hierarchical, process-oriented and powerful bureaucracy became interested in evidence-based policymaking which allowed think-tanks, CSOs, and development organizations to participate in the policy process. In the case of the relocation, two critical factors bolstered the participation of the coalition in the entire process. The first was the "...pressure placed on the industry by pending regulations in key export markets (mainly the EU)" which suggested that European firms would not be importing leather from Bangladesh by 2014 until and unless "effluent treatment facilities were put in place" (Harris, 2016: 26). The risks of potential restrictions to EU markets had forced several industry leaders to rethink their position. The second incident was the national election of 2014, which perhaps created an opportunity for the coalition to secure the GoB's commitment to relocate the leather sector. The coalition could convince policymakers that policy and financial support for the relocation would enhance the image of the government and could create opportunities for political wins in the upcoming election. These two critical factors not only made the participation of coalition members in the policy process invaluable but also jointly produced the critical juncture necessary to punctuate the long-standing policy equilibrium.

Thirdly, the strategic approach adopted by the coalition (explained through the ACF) played the most significant role in making the relocation policy successful. As mentioned above, for the coalition, which essentially played the role of the policy broker, there were several critical challenges including but not limited to changing the deep core beliefs of the tanners and persuading the GoB to share the costs of building the CETP. To persuade the GoB, the coalition extensively relied on research findings and succeeded in making the government understand the necessity of sharing the cost and allowing compensation for the leather sector industries. In fact, it is important to note that several action-oriented research studies were commissioned by The Asia Foundation, which included:

1. Baseline study on facilities in Hazaribagh

2. Guideline for compensation disbursement to individual tanneries
3. Cost estimation study to compute the total costs of relocating all tanneries to Savar
4. Export performance study to highlight the future potential of the leather sector
5. Baseline study on laborers' welfare in the leather sector.

All of these studies provided important information and learning which was used by the policy actors in making key decisions. As Harris (2016) pointed out, the concession from the GoB played an important role in creating a trust-based relationship between the industries that were willing to relocate and the GoB.

At the same time, to change the deep core beliefs of the tanners, the coalition, instead of highlighting the environmental benefits, concentrated on the economic benefits to be achieved from the relocation. The coalition succeeded in making the relevant policy and political actors understand that, in addition to these environmental hazards, the location of the industries (i.e. Hazaribagh) was unable to adequately support the industry in reaching its potential. The production base in this area was unable to support growth and expansion, as it lacked facilities and infrastructure to meet international environmental standards, and the historical absence of industrial layout planning made it infeasible to establish the required facilities in the current location. High-end machinery also could not be used in leather processing in Hazaribagh, resulting in lower quality finished leather – and this would deter foreign investors from sourcing leather from Bangladesh.

Thus, the coalition successfully argued that Bangladesh might lose much of its leather export market (close to 60 percent),⁷ as international buyers are increasingly choosing to avoid sourcing material from countries with poor environmental records. Major buyers, particularly from the European Union, have already warned that they will discontinue sourcing from Bangladesh if no appropriate action is taken to comply with environmental standards. Conversely, industry experts estimate that if environmental compliance is achieved, the industry could grow to contribute about USD 5 billion in exports within the next few years. Hence, the absence of environmental compliance has been identified as the binding constraint holding back the potential of the leather industry, with the relocation of the industry agreed upon as the required policy action. This strategic choice in terms of issue framing was highly effective as it made relocation lucrative to the industry leaders especially to those firms which have "...an interest in exports to Europe and other potential markets that are concerned with environmental compliance (e.g. the United States)" (Harris, 2016: 27). The potential of future benefits forced many industry leaders to change their belief system and support relocation.

It is important to note that The Asia Foundation stood apart from various environmental and human rights-focused organizations that had taken a critical approach focusing only on the negative impacts of the leather industry, without due attention to the economic prospects. The reform team worked closely with the younger generation of owners in the tannery industry, who had an interest in raising the profile and prestige of the industry and moving it away from its image as a "dirty" industry. This served two specific purposes, first, it allowed the team to gain the trust of the tannery owners, government agencies and industry associations, and second, it

⁷ Industry sources state that the breakdown of export destinations is: 60% to the EU, 30% to Japan, 10% rest of the world. The EU in particular has taken a stern stance regarding environmental compliance.

helped the Foundation to play an effective role in reducing the level of conflict between different actors and to solve different disputes in an effective way.

Fourthly, as pointed out in the theoretical framework section, the ACF relied strongly on negotiations and compromises between different political actors, through which a win-win solution is developed. The case study clearly shows that a long period of exploration and network-building is essential for the success of complex reforms. It would not have been possible to gain a sufficient level of trust from the sector stakeholders if this was not done.

7. Potential influence of leather industry reform on broader industrial policy environment

The case study presented in this chapter reveals that the coalition successfully pushed for reforms in the government policy, as well as changes in the private sector's perspective by providing evidence that the reforms would bring significant economic gains and value-addition to the industry. The coalition's main strength was its ability to build confidence and address the mistrust between the private- and public-sector players by bringing them together to engage in regular dialogues. The coalition pointed out the major issues affecting the sector, provided guidance on future steps, shared international experiences, and reminded players of the future potential that the industry can realize by relocating, and the negative consequences of not following this path.

Nevertheless, to develop a comprehensive understanding of the process through which the coalition managed to create an impact and its future implications, we need to reflect on the political and economic environment within which the policy decisions were taken. As mentioned earlier, in case of relocation of leather industries, the earlier efforts taken by the environmental groups concentrated mainly on negative consequences on environment and this approach was not necessarily helpful which eventually resulted into a policy standstill. Since the Awami League-led government came into power in 2009, emphasis was placed on economic growth and the successive planning and policy documents of the government (e.g. Perspective Plan, 2010-2021, Sixth Five Year Plan, 2011-2015) focused on this specific issue and priority was given to higher growth through public-private investments. Public Private Partnership (PPP) became the *mantra* of economic growth and the GoB reflected its commitment towards developing an enabling environment that would allow the private sector to flourish and contribute in the overall economic development of the country. Within this policy environment, focusing on the environmental issues alone was not acknowledged as a useful argument for industry reform and this explains why the efforts taken by different environmental groups earlier failed in building a consensus for relocating the leather sector industry.

The reason behind the success of the coalition led by The Asia Foundation was the realization that neither the GoB nor the industry-owners could be convinced to relocate based on environmental arguments. Rather, the policy framework that would promote relocation should be based on a sensible business model which both the GoB and the private sector is willing to buy. Considering this, the coalition managed to successfully shift the core policy argument and made it clear to all the relevant actors that environmental compliance and consideration is necessary not only for the sake of protecting the environment but for enhancing the profitability

and profit-margin of the business sector. The strategic approach of the coalition to successfully understand the political reality and propose a solution that would encourage economic growth, played the pivotal role in making the relocation happen.

The most important lesson learned from the case-study is that in a country like Bangladesh, where the government, along with the private sector, is focusing on higher economic growth, punctuating the policy equilibrium in the environmental policy domain requires the presence of a business model which can be credibly sold to all the relevant stakeholders. In the short-run, a 'zero-sum' game is not necessarily the ideal way to resolve policy conflict and instead, efforts should be directed in bringing about a 'win some-lose some' scenario.

Therefore, to ensure sustainable economic development in the long run, it is important to develop a policy environment where the GoB and private sector would realize that economic growth strategy just for the sake of economic growth without considering the environmental consequences will eventually be harmful for the overall economy. It is encouraging that the current government has slowly but surely started to realize this. For instance, in his budget speech for the FY 2017-18, the Finance Minister has emphasized eco-friendly growth and made a commitment that production and consumption tendencies that are damaging the environment would be discouraged. Priority has been given to the generation of renewable energy and tax benefits for the green factories have been proposed. As per the speech, "the Tax Rate of RMG Companies would be reduced to 14 percent if the factory of such company has an internationally recognized Green Building Certification" (GoB, 2017).

These incremental changes in policies indicate that coalitions like the one led by The Asia Foundation will have major role to play in the future. Since the government is showing its interest to move towards a green economic policy, the important tasks of the coalition will be to demonstrate that the climate adaptation strategies need to be incorporated within the economic policies to improve efficiency and spur economic growth. To get everyone (i.e. the GoB, the private sector industries) on board, focusing only on the negative environmental consequences will not work. Rather, the selling point will be to show how environmentally-friendly strategies can make the industries more efficient, cost-effective and competitive.

8. Conclusion

This chapter explains the experiences of Bangladesh regarding green economic policies and the relocation of the leather tanneries from Hazaribagh to Savar. The ACF applied in this chapter shows how development partners played an effective role as policy brokers, succeeding in bringing about much-needed change while ensuring a win-win solution for all. At the same time, the Advocacy Coalition Framework has a much broader application in the context of Bangladesh. The discussion of the policy process of the country shows that a once-closed policy arena has opened, and different interest groups are now participating in the policy process to ensure that they are not left out. It is possible that these interest groups will continue to be the major players in the policy processes of the country. Thus, a deeper understanding of how these actors interact with each other, how they bargain and negotiate and how they may come to a reasonable solution can be helpful for other policy issues. Even though this framework has been used to analyze the experiences of the leather industry, it will be useful in understanding how an acceptable and implementable green industrial policy in other sectors can be designed.

References

- Al-Muti, S. A. & Ahmad, N. (2015) Bangladesh: Billion Dollar Leather Sector Poised for Growth after Environmental Reform. Available at: <http://asiafoundation.org/2015/04/15/bangladesh-billion-dollar-leather-sector-poised-for-growth-after-environmental-reform/>
- Al-Muti, S.A. & Ahmad, N. (2013). Relocation a Boon for Bangladeshi Leather Sector. Available at: <http://asiafoundation.org/2013/11/13/relocation-a-boon-for-bangladeshi-leather-sector/>
- Aminuzzaman, S. M. (2013). Dynamics of public policy: Determinants of policymaking and implementation in Bangladesh. *Public Organization Review*, 13(4), 443-458.
- Bhowmik, A. K. (2013). Industries' location as jeopardy for sustainable urban development in Asia: a review of the Bangladesh leather processing industry relocation plan. *Environment and Urbanization Asia*, 4(1), 93-119.
- Chowdhury, Z. (1995). *The Politics of Essential Drugs, The Making of a Successful Health Strategy: Lessons from Bangladesh*. London and New Jersey: Zed Books.
- Conlan, T. J., Posner, P. L., & David, R. Beam. 2014. Pathways of power: the dynamics of national policymaking. Washington, DC: Georgetown University Press
- Croituru, L., & Sarraf, M. (Eds.). (2010). *The cost of environmental degradation: case studies from the Middle East and North Africa*. World Bank Publications.
- Government of Bangladesh (GoB). (2015). Seventh Five Year Plan 2016-2020, Accelerating Growth, Empowering Citizens. Dhaka: Planning Commission
- Government of Bangladesh (GoB) 2016. National Industrial Policy. Dhaka: Government of Bangladesh.
- Government of Bangladesh (GoB) 2017. Budget Speech, 2017-18. Available at: [https://www.mof.gov.bd/en/budget1/17_18/speech/BS_English_2017-05-31%20\(Wednesday\)_Final.pdf](https://www.mof.gov.bd/en/budget1/17_18/speech/BS_English_2017-05-31%20(Wednesday)_Final.pdf)
- Government of Bangladesh (GoB). 2012. Perspective Plan of Bangladesh (2010-2021): Making Vision 2021 a Reality. Dhaka: Planning Commission
- Hallegatte, S., Shah, A., Brown, C., Lempert, R., & Gill, S. (2012). Investment decision making under deep uncertainty--application to climate change.
- Harris, D. (2016). *Leather Sector Reform in Bangladesh*. The Asia Foundation & ODI
- Jahan, F., & Shahan, A. M. (2016). 6 Agenda shaping and accountability in public policies. *Public Policy and Governance in Bangladesh: Forty Years of Experience*, 71.
- Khair, R. (2004). *The Dynamics of Policy Making in a Developing Country: The Environmental Sector of Bangladesh*. University of New England. PhD Dissertation.

- Khondker, B.H. & Eusuf, A. (2015). *Assessing Business Opportunities of Leather Sector in Bangladesh after Tannery Relocation*. Dhaka: The Asia Foundation.
- Kingdon, J. W. (1984). *Agendas, alternatives, and public policies* (Vol. 45, pp. 165-169). Boston: Little, Brown.
- North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge university press.
- Osman, Ferdous A. (2004). *Policy Making in Bangladesh: A Study of Health Policy Process*. Dhaka: AHDPH
- Pierson, P. (2000). Increasing returns, path dependence, and the study of politics. *American political science review*, 94(02), 251-267.
- Sabatier, P. A. (1999). *Theories of the policy process*. Boulder, CO: Westview.
- Shakil, S.H., Labib, S.M. & Khan, M.S. (2016). Stakeholder Debate in Policy Implementation: An Evaluation of Bangladesh Leather Processing Industry Relocation Policy. *Bangladesh e-Journal of Sociology*, 13(1), 127-137
- True, J. L., Jones, B. D., & Baumgartner, F. R. (1999). Punctuated-equilibrium theory: Explaining stability and change in American policymaking. *Theories of the policy process*, 97-115.
- Weible, C. M., & Sabatier, P. A. (2007). A guide to the advocacy coalition framework. *Handbook of public policy analysis: theory, politics, and methods*, 123-136.



The Asia Foundation

465 CALIFORNIA ST., 9TH FLOOR
SAN FRANCISCO, CA 94104-1804
TEL: 415-982-4640 | INFO.SF@ASIAFOUNDATION.ORG

ASIAFOUNDATION.ORG