A price to pay

Three years after the Rana Plaza disaster, working conditions are still substandard.

In April 2013, when the Rana Plaza building in Bangladesh crumbled and killed more than a thousand garment workers, Western clothing executives were chastened. They were the ones, after all, who'd been pressuring Bangladesh's apparel factories to cheaply reproduce runway trends for consumers in the U.S. and Europe who'd grown used to $10 dresses. Following the accident, H&M, Zara, Walmart, Gap, and other major brands announced they'd fund and oversee factory inspections in Bangladesh, demanding improvements from facilities that fell short and cutting off business with those that didn't get better. Bangladesh, with the help of the United Nations' International Labour Organization (ILO), created its own inspection program and vowed to shut down unsafe facilities. Better vigilance, everyone figured, would be central to preventing similar accidents from happening again. (p1)

Three years have passed, and an uncomfortable truth is emerging: Vigilance isn't enough. Factories in Bangladesh have improved, completing more than 60% of fixes required by the inspectors sent by clothing brands. Still, of some 1,600 factories covered by the Accord on Fire and Building Safety in Bangladesh, a major inspection program run by the brands, more than 80% are behind schedule on improvements. Factories in a smaller brand-organized program, the Alliance for Bangladesh Worker Safety, have also lagged. The government, too, has made limited progress: It's shut down just 39 facilities that posed an "immediate" danger to workers. Meanwhile, the corporate and government investigators, along with outside organizations, keep finding defects: faulty sprinklers, exit stairwells used for storage, missing fire doors. (p2)

On Oct. 27 a California-based company called LaborVoices, which surveys garment workers by phone, will release a report finding that, among dozens of Bangladesh garment factories where its respondents were employed, nearly half had a high risk of experiencing safety issues in case of a fire. "There's been so much attention put on this, it's kind of surprising so little progress has been made," says Kohl Gill, the CEO of LaborVoices. (p3)

Maybe it shouldn't be surprising. The craze for cheap, on-trend clothing that helped turn Bangladesh into the world's second-biggest apparel exporter, after China, has actually intensified since the disaster. Low-priced brands keep undercutting one another, and that keeps squeezing the factories that produce their clothes. This is the backdrop against which factory owners are expected to make time-consuming, expensive improvements. Edward Hertzman, the founder of the *Sourcing Journal*, a trade publication, describes a bind: Owners get pressed by brands' inspectors to upgrade factories as the same brands' businesspeople are haggling with them to work faster and charge less. "You can't on the one hand have lower prices and on the other hand have rising standards," says Sarah Labowitz, a co-director of New York University's Stern Center for Business and Human Rights. (p4)

To start, there's a basic math problem. The ILO estimated in June that the upgrades mandated for factories would cost $929 million. Of that, $635 million in renovations hadn't been made. Factory owners have two main options for funding renovations: either cover the cost themselves or take out loans. Both approaches are problematic. Garment factories' profit margins are thin, leaving them with little cash sitting around to reinvest. At the same time, financial institutions have limited credit to dole out and can be reluctant to lend to garment factories because of the risk of not being repaid; available loans have interest rates running upwards of 10%. (p5)

Through the Accord and Alliance groups, clothing brands offer some financial help, but it's limited. Some brands are guaranteeing loans to factories, which can increase banks' willingness to lend. But experts say an indirect approach is more typical: A brand will commit to ordering garments well into the future, sometimes paying for them in advance, which can provide factory owners with funds for some renovations or help them prove to loan officers that they're financially secure and can be trusted to repay a loan. However, brands tend to be most helpful to their most important suppliers, and the rest can be reluctant to press for aid because they're worried about the consequences. "They wonder, 'Am I going to lose orders down the road because I asked for help?' " says Scott Nova, the executive director of the Worker Rights Consortium, a labor-rights organization. All this helps explain why the ILO report identified a financing gap of $448 million for improvements. (p6)

The challenges go beyond the financial. Rubana Huq, the managing director of a company that supplies H&M and other major brands, says her customers promised to do business with her over a period of several years as long as she made sure her factories were safe. She was able to take out a loan, albeit at a 12% interest rate, to buy equipment. Still, it took months to find and acquire what she needed, some of which had to be imported. The time-consuming and expensive work of meeting safety standards came just as brands were pressing her to be more efficient—shorthand for doing more work in less time and at a lower cost. While she's now made the most significant fixes, she says her progress is still considered delayed because she hasn't yet installed some small items. Huq expects to finish the work by the end of October, knowing how important that is to her customers. When I ask her about the slow progress across Bangladesh's factories, she says, "I think there could be more empathy. I don't know how we're expected to remediate so quickly." (p7)

So far, the government has shut down only those factories that posed an imminent risk to employees. If it lets imperfect, if not immediately dangerous, factories continue to operate, that could endanger garment workers. At the same time, the garment industry is a major employer, credited with helping to cut the country's poverty rate almost in half since the 1990s, to just over 31%; if a lot of factories are closed just because they haven't addressed every detail on an inspector's checklist, that could leave a significant portion of the population without a job. Also, Bangladesh's garment industry is facing serious competition from other countries, and if it becomes costlier to source clothing from Bangladesh—if there are fewer factories competing for their business, for instance—Western brands could migrate elsewhere. "Bangladesh looks nervously at Cambodia, Vietnam, Burma, Ethiopia," NYU's Labowitz says. (p8)

Still, Bangladesh's garment industry is still growing, with factories opening all the time; closing down bad ones, then, wouldn't necessarily lead to overall job losses. Tuomo Poutiainen, an ILO program manager helping with the government's efforts, says he believes factories should be given the opportunity to address defects but that he expects the government will "use a stronger hand" as time goes on. (p9)

Huq tells me that, based on her experience, she believes most factories will make the appropriate improvements within a couple of years. But her experience might not be typical. Huq, who was traveling in Europe when we spoke, has close relationships with Western brands. Most factories, though, are smallish operations whose ties to brands are tenuous. These are the likeliest to lack financing. (p10)

The good news is all this suggests the delays aren't inevitable. Some adjustments to the brand-and government-run programs could, at least, speed progress. The ILO report, for example, recommended that the government help lower interest rates on loans and that more organizations chip in with capital for banks to lend out. More radically, brands could pay for some improvements themselves, and the government could close more of the factories that are behind on repairs while helping entrepreneurs open higher-quality facilities, perhaps with some aid from brands. But the Accord and Alliance programs are only in place till 2018. That leaves little time for change to happen. (p11)

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