



# **Responsible Business Conduct in the Garment and Footwear Sector in Latin America and the Caribbean**



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# Foreword

In adopting responsible business conduct (RBC) all enterprises – regardless of their legal status, size, ownership structure or sector – can prevent and address negative consequences of their operations, while contributing to the sustainable development of the countries and communities in which they operate. RBC means integrating and considering environmental and social issues within core business activities, including throughout the supply chain and in business relationships. More concretely, RBC means that firms respect – and contribute to the respect of human rights; the preservation and restoration of the environment; the protection of consumer interests; the fight against corruption; and a fair competition, among other areas. RBC also helps facilitate a level playing field among companies and economies by promoting a predictable and rules-based international investment climate. This report provides an analysis of RBC issues and initiatives to promote and enable the business engagement of responsible garment and footwear supply chains in the Latin America and Caribbean (LAC) region. The analysis focuses in particular on Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama and Peru – the nine implementation countries of the Responsible Business Conduct in Latin America and the Caribbean (RBC LAC) project activities. It describes trends shared across the region, while emphasising that not all RBC issues described in the report are present to the same degree in all countries. The important differences - wherever possible - are illustrated with examples.

The report draws on a review of publicly available literature and data on the garment and footwear sector in the nine countries considered, but also beyond the scope where relevant. The review included both country-specific and issue-specific literature, with the goal of producing a balanced representation of issues and stakeholders. Ten virtual interviews were conducted with experts who have worked or are working for government institutions, civil society and industry, to fill gaps in the publicly available data and to verify the results of the analysis. However, no field research has been conducted to validate the findings. The issues were prioritised using a set of indicators in accordance with the OECD Guidance for Responsible Supply Chains in the Garment and Footwear sector, covering two main risk areas: labour and human rights, and environmental impacts.

The findings of this publication can contribute to strengthening the uptake of RBC by businesses operating in the sector in LAC; furthering collaboration for private sector implementation; informing policymaking in the countries concerned; and, helping target OECD engagement and capacity building activities through its RBC project in LAC.

This report was undertaken within the framework of the RBC LAC project, which promotes smart, sustainable and inclusive growth in the region by supporting responsible business practices in line with international instruments. The RBC LAC project is implemented by the OECD in partnership with the International Labour Organization (ILO) and the United Nations Office of the High Commissioner for Human Rights (UN OHCHR). For the first time these three organisations are joining forces, with the support of the EU, to promote responsible business conduct within the framework of a joint regional project. The project is implemented in nine countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama and Peru.

# Acknowledgements

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# Abbreviations and acronyms

CSOs	Civil society organisations
CSDD	Corporate Sustainability Due Diligence Directive
CBP	Customs and Border Protection
Due Diligence Guidance	OECD Due Diligence Guidance for Responsible Business Conduct
ECLAC	Economic Commission for Latin America and the Caribbean
EU	European Union
EPZs	Export processing zones
Garment Guidance	OECD Due diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector
GBV	Gender-based violence
GFAs	Global Framework Agreements
GHG	Greenhouse gas
IPCC	Intergovernmental Panel on Climate Change
IFC	International Finance Corporation
ILO	International Labour Organization
ITGLWF	International Textile, Garment and Leather Workers' Federation
KPIs	Key Performance Indicators
LAC	Latin America and the Caribbean
LWG	Leather Working Group
LGBTQI+	Lesbian, gay, bisexual, transgender, queer and intersex
MSMEs/SMEs	Micro, Small and Medium Enterprises
MNE	Multinational Enterprises
NCP	National Contact Points for RBC
NGOs	Non-governmental organisations
RBC	Responsible business conduct
RBC LAC	Responsible Business Conduct in Latin America and the Caribbean
SDGs	Sustainable Development Goals
TSD	Trade and Sustainable Development chapters
UNGPs	United Nations Guiding Principles on Business and Human Rights
UN OHCHR	United Nations Office of the High Commissioner for Human Rights
US	United States
USMCA	United States-Mexico-Canada Agreement

# Executive summary

The Latin America and the Caribbean (LAC) region is home to activities across the garment sector's full value chain, including raw material production and fibre extraction, spinning, weaving and processing, assembly and manufacturing and the region is an important actor in leather and cotton production worldwide. Textile, garment and footwear value chains play an important role for the socio-economic development of the region and production is highly embedded in regional and global supply chains.

The textile sector in LAC is dominated by micro, small and medium-sized enterprise (MSME) activity, which accounts for a high proportion of exports. Within the LAC region, there are several important textile-producing countries, such as Brazil, Colombia, Guatemala, Mexico and Peru. Although production in the region is important, most production is targeted for domestic consumption or intraregional trade with a small amount of global exports compared to other regions. The industry in the region includes activities across the supply chain, including raw material production and fibre extraction, spinning, weaving and processing, assembly and manufacturing. The sector predominantly employs women and represents an important source of jobs and economic growth, playing a pivotal role in the economy of several LAC countries.

At the same time, garment and footwear sector activities can also be associated with a number of negative environmental, human rights and labour impacts. Key characteristics of the garment and footwear supply chain – low skilled, labour-intensive, dispersed production, short lead times, use of subcontracting and homeworkers – make it higher-risk for certain labour and human rights impacts. Some country or business model factors can also contribute to reduce visibility and control over conditions of production, and businesses that use certain products can contribute to environmental degradation such as water pollution and greenhouse gas (GHG) emissions. Labour, human rights, and environmental impacts from garment and footwear production activities pose risks to populations and the environment at every level of the supply chain. Recent cases of unfavourable social and environmental practices, and of opaque supply chain traceability, show the need to increase the implementation of due diligence to ensure companies cease, prevent and mitigate adverse impacts on people, the planet and society.

This report provides an analysis of main responsible business conduct (RBC) issues, policies and current initiatives that promote and enable the garment and footwear business engagement for responsible supply chains in LAC. The study explores characteristics of garment and footwear supply chains, relevance of due diligence standards, and identifies RBC issues that appear to be particularly present in the region. It is important to note that there is a general lack of specific data and information on the garment and footwear sector in the region and the extrapolation of risks has been based on the sector as a whole. The report looks at several of the drivers for these issues, such as the high levels of informality, migrant work, sourcing from homeworkers and unauthorised subcontracting, and ways business are currently responding. The analysis of reported risks, challenges and trends in LAC in relation to RBC provides a regional analysis drawing also some examples from major garment and footwear producing countries in the LAC region. The final section provides a list of examples of existing initiatives, certifications, labels and benchmarks that can be used by businesses to support them in preventing, mitigating and addressing adverse impacts in the garment and footwear sector.

In line with global trends, there is a growing interest among the public, civil society, industry, governments and international organisations to address such challenges and to advocate for RBC. Import-related standards and mandatory due diligence regulations and restrictions in destination countries play a key role in export-oriented garment and footwear activities from LAC. For instance, regulatory developments on due diligence for RBC, as well as requirements from buyers concerning international standards, certification and labels, are paving the way for compulsory risk analysis and due diligence criteria along garment and footwear supply chains. There is growing demand towards transparency and traceability to prove origin, type of product and conditions of production. The promotion and use of international standards and tools to help business and governments adopt RBC policies and practices play a major role in this regard. These include the United Nations Guiding Principles on Business and Human Rights (UNGPs), the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, relevant ILO Conventions and Recommendations and the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, the OECD Guidelines for Multinational Enterprises (OECD Guidelines), OECD Due Diligence Guidance for RBC (Due Diligence Guidance) and for Responsible Garment and footwear Supply Chains (Garment Guidance) and the National Contact Points for RBC (NCP) network.

RBC standards along garment and footwear supply chains are essential to ensure that the benefits are widespread and that the sector contributes to reducing human, labour and environmental impacts and to contribute to sustainable development. These standards, together with the active involvement of all relevant stakeholders (governments, business, civil society and trade unions), will be key to addressing challenges. Companies' commitment and action to address RBC challenges will be crucial but companies alone cannot overcome those challenges.



# 1. The garment and footwear sector in the LAC region

## 1.1. Economic relevance and structure of the garment and footwear sector

The LAC region has a long history of garment and textile production. Some of the first records of artisanal weaving and production come from the Central American and Andes regions (Belini, 2009<sup>[1]</sup>). Latin America is home to several important textile-producing countries, such as Brazil, Colombia, Guatemala, Mexico and Peru.

### ***1.1.1. Activities and characteristics of the garment and footwear sector across the region***

The LAC region includes activities across the sector's full value chain, including raw material production and fibre extraction, spinning, weaving and processing, assembly and manufacturing. Brazil is the largest textile producer regionally and the fourth largest globally covering the full value chain within the country including cotton production (Tex Brasil, 2015<sup>[2]</sup>). Peru, the second largest textile and clothing producer in the region, includes cotton, fine fibre shearing from camelids such as vicuñas and alpacas, thread production, fabric manufacturing and finishing, and clothing manufacturing.

The textile sector in LAC is dominated by MSME activity, which accounts for a high proportion of exports. In 2020, the share of MSME exporters in total firms was above the average in other sectors, amounting to 94% in total firms and 43% as a weighted average (ECLAC, 2021<sup>[3]</sup>). Natural fibres are produced in Brazil, Argentina and Mexico, mainly through small-scale production. Wool is a key natural fibre in the region, particularly in Argentina and Chile. In addition to natural fibres, textile manufacturers produce synthetic fibres such as polyester and nylon, for instance in Brazil and Mexico. These fibres are generally manufactured in large, sophisticated chemical facilities by major transnational or domestic companies with technical equipment. Textile production – mainly apparel assembly – is particularly predominant in Central America. Central American countries are home to many export processing zones (EPZs), which include garment processing and production facilities (see Box 1.1) (De Coster, 2012<sup>[4]</sup>).

### Box 1.1. Garment and footwear production in export processing zones (EPZs)

“Maquila” or “maquiladora” is the colloquial term used in LAC to refer to export processing zones (EPZs). EPZs are “industrial estates aimed primarily at attracting export-oriented investments. They usually cover a wide array of manufacturing industries. EPZs take many forms, including free trade zones, special economic zones, bonded warehouses and free ports. EPZs are common in Mexico, Central America and the Caribbean Basin. About 80% of the maquilas in Central America are linked to the garment industry.

Sources: (ILO, n.d.<sup>[5]</sup>) (OECD, 2009<sup>[6]</sup>).

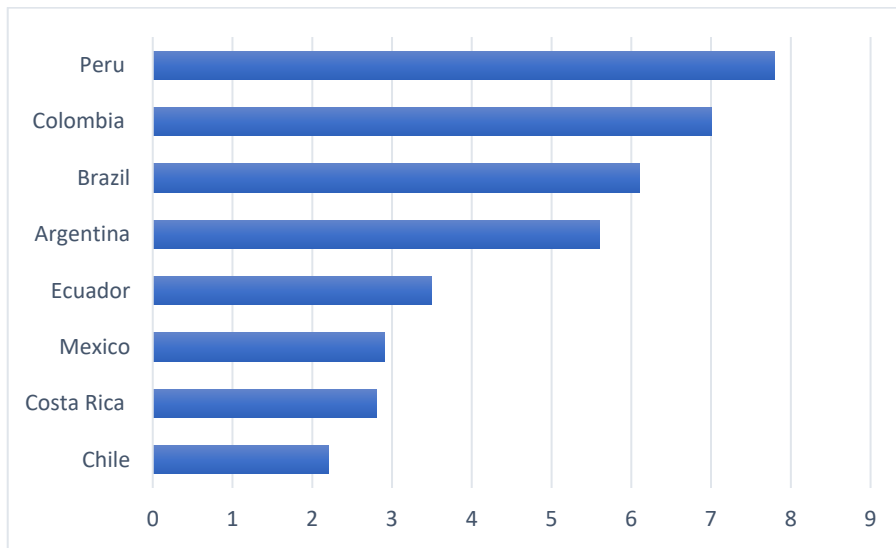
The LAC region is a global producer and exporter of leather and cotton. The region is one of the largest global producers of bovine hides and skins, with Brazil being the second-largest producer globally after China (CICB, 2022<sup>[7]</sup>). In 2019, among LAC countries, Brazil's leather and skins exports accounted for around USD 1 billion or 5.5% of global exports, followed by Argentina (USD 0.5 billion, 3%) (Harvard University, 2022<sup>[8]</sup>). The leather supply chain comprises three broad stages. In the first, raw hides and skins are obtained from the meat and dairy industry. The second phase consists of preparing, tanning and finishing the hides, with the finished leather as the main output. In the third phase, finished goods are manufactured from the leather and may be used in industries such as the garment, footwear and apparel accessories sectors (OECD, 2018<sup>[9]</sup>).

Brazil is the fourth-largest cotton-producing country in the world after China, India and the United States (US) (OECD/FAO, 2019<sup>[10]</sup>). It accounted for 4.9% of global cotton exports in 2019 (Harvard University, 2022<sup>[8]</sup>). In Brazil, cotton is grown partly as a second crop in rotation with soybeans or maize, and output has recently grown strongly in the Mato Grosso region. Brazil is projected to become the second-largest global cotton exporter by 2030.

#### **1.1.2. Garment and footwear production's contribution to the economy**

As shown in Figure 1.1, in 2019 the textile and clothing industry accounted for 7.8% of value added in manufacturing in Peru, 7% in Colombia and 6.2% in Brazil (World Bank, 2022<sup>[11]</sup>). The Peruvian sector includes more than 46,000 companies and supports around 400,000 direct jobs. The textile and clothing sector currently represents 6% of the country's manufacturing and contributes to 0.8% of the national GDP (International Trade Administration, 2021<sup>[12]</sup>). In 2019, the textile industry in Colombia represented 6.5% of industrial GDP and overall 0.9% of Colombia's GDP (EU-Textile 2030, 2020<sup>[13]</sup>) and accounted for over 28% of the country's industrial employment (Colombia Productiva, n.d.<sup>[14]</sup>) with around 10,000 production units nationwide (Espinel Gonzalez et al, 2018<sup>[15]</sup>).

Figure 1.1. Textile and clothing sector as a percentage of value added in manufacturing in selected LAC countries



Note: Latest data available from 2019. No recent data for Panama available.  
 Source: Based on (World Bank, 2022<sup>[16]</sup>).

### 1.1.3. Export and import

In terms of textile exports, the LAC region is relatively unimportant compared to other world regions such as Asia. LAC exports represent 1.4% of global exports. Among LAC countries, Brazil accounts for 57% of textile exports, followed by Peru with 14% and Colombia with almost 10%, then Chile, Argentina and Uruguay. Garments and knitted fabrics for garments are among the most exported textile items in terms of quantity (Table 1.1). This sector achieved earnings of more than USD 7 billion in 2020. Within LAC, Brazil accounted for the largest export value worth USD 4 billion, followed by Peru (USD 1 billion). The LAC region represents 3% of global exports of animal hides, with Brazil and Argentina making up 80% of LAC total hide exports (Observatory of Economic Complexity, 2020<sup>[17]</sup>).

Table 1.1. Key exported textile items by country

Country	Top exported items
Argentina	Wool; raw cotton; non-woven textiles; leather footwear
Brazil	Raw cotton; non-woven textiles; heavy pure woven cotton; rubber and leather footwear
Chile	Non-knit women's coats; knit socks and hosiery; house linens; non-knit men's suits; textile footwear
Colombia	Women's undergarments; non-knit women's and men's suits and trousers; light rubberised knitted fabric; leather footwear
Costa Rica	Knit socks and hosiery; non-retail pure cotton yarn; technical-use textiles; women's undergarments; leather footwear
Ecuador	Heavy mixed woven cotton; coconut and other vegetable fibres; packing bags; knit socks and hosiery; waterproof footwear
Mexico	Non-knit men's suits; knit T-shirts; other garments; leather footwear
Panama	Non-knit men's suits; knit T-shirts; technical-use textiles; women's undergarments; textile footwear
Peru	Knit T-shirts; knit men's shirts; knit sweaters; wool fabric; leather footwear

Source: Observatory of Economic Complexity 2022.

Brazil is also the main footwear exporter, representing 84% of regional exports, followed by Chile (7%) and Colombia (3%). Brazil exports mainly footwear of rubber or plastics, leather footwear and textile footwear. Chile exports predominantly textile footwear followed by rubber or plastics footwear (Table 1.2).

With regard to imports, Brazil also ranks first, with 30% of the region's textile imports in terms of volume, followed by Chile with 24%, Colombia with 13%, Peru with 11%, Argentina and Ecuador. For footwear, Chile represents 30% of regional imports, followed by Brazil (14%), Argentina (15%), Peru and Colombia.

**Table 1.2. Garment and Footwear exports in the LAC region**

	Textile	Footwear
LAC exports as percentage of global exports in value	1.4% - USD 13.5B	0.25% - USD 2.33B
Main exporting countries as of value in percentage in the LAC region	Brazil 57% Peru 14% Colombia 10%	Brazil 32% Chile 23% Colombia 13%
Most exported products (% of all textile/footwear exports)	Raw cotton 14% Non-knit men's suits 11% Knit T-shirts 10% Other cloth articles 5% Knit sweaters 3%	Leather footwear 37% Rubber footwear 25% Textile footwear 15% Footwear parts 10%
Main destination regions	North America 58% Asia 18% South America 17% Europe 7%	North America 48% South America 30% Europe 14% Asia 7%
Top destination countries	USA 50% China 5% Paraguay 3%	USA 38% Argentina 8% Germany 4%

Source: (Harvard University, 2022<sup>[18]</sup>).

The textile sector contributes to employment and economic development in the LAC region. In keeping with the characteristics of the sector globally, the majority of workers in the sector are women. Globally, women account for 85% of the labour force across most stages of the garment and footwear supply chain (OECD, 2018<sup>[18]</sup>). It is the only sector where women are predominant across the supply chain. Compared with other sectors in the region, the garment and footwear sector has the highest concentration of women's employment in export activities, with a female-to-male employment ratio of 1.5 in the sector versus 0.6<sup>1</sup> across other sectors in 2018 (ECLAC, 2020<sup>[19]</sup>). Women's employment reproduces the pattern of horizontal gender segregation present in the region's labour markets (ECLAC, 2020<sup>[19]</sup>).

#### **1.1.4. Informality**

A large part of the region's garment and footwear production and supply chains relies on informal labour. This is not unique to this sector: the region has one of the highest levels of informal employment globally (ILO, 2018<sup>[20]</sup>). Incidence of informality varies across the region's countries (from 30.7% in Costa Rica to 73.6% in Guatemala), sectors and population groups, with an average rate of informality in the region at around 50% (ILO, 2021<sup>[21]</sup>) – based on the most recently available data on informality. Concerning the different types of informality in the sector, a study on informality in Argentina's garment sector reveals labour informality is concentrated in the garment manufacturing segment, and not in the textile manufacturing stages. Textile manufacturing stages cover stages upstream the supply chain, after the raw material and fibre production, and cover activities such as yarn, weaving knitting, non-woven technologies, braiding, tufting and finishing while garment manufacturing stages positioned after in the supply chain cover activities such as cutting, sewing, assembling, trimming, embroidery, printing and washing. Concentration of informality can be partly explained by the characteristics of each segment. The textile industry needs integrated processes, skilled workers, high production scales and high investment in machinery and

equipment, which may be of bigger size and tend more to register their workers or need to do so. On the other side, the garment manufacturing process stage is a simple, albeit labour-intensive process that is particularly disarticulated in many small workshops and can remain segmented, together with the absence of economies of scale and sophisticated machinery involved (Ludmer, 2010<sup>[22]</sup>).

Home-based workers, who predominantly work in the informal sector represent 6% of all employment in LAC (ILO, 2019<sup>[23]</sup>) and are common in the garment sector. Extended use of subcontracting can be an indicator of higher rates of informality. Moreover, women tend to be more affected by informality than men. Data collection carried out by ILO provides evidence that in general women have a higher informal employment rate (54%) and are therefore more likely than men to work in the informal economy, lacking opportunities to access better jobs and social security coverage (ILO, 2018<sup>[24]</sup>).

### **1.1.5. The impact of Covid-19**

Garment and footwear production were among the economic activities severely impacted by the economic crisis caused by the Covid-19 pandemic in the LAC region. According to estimates from the Economic Commission for Latin America and the Caribbean (ECLAC), the value of goods of the textile, clothing and footwear sector fell by 19% in 2020 (ECLAC, 2021<sup>[3]</sup>). The peak of the pandemic in China led to shortages of commodities such as cotton and other inputs, as some factories supplying the sector went out of business. This hurt manufacturing industries worldwide, particularly in LAC, which are highly dependent on imported raw materials from China (ILO, 2021<sup>[25]</sup>).

Another aspect of the crisis that impacted severely working conditions in the sector was the lack of health and safety measures in factories during the pandemic. Example of this can be found in Mexico, where a high number of workers were reported to be at risk due to lack of implementation of proper health and safety measures in garment production factories during the pandemic. Additionally, in some cases in LAC, salaries were cut by between 25 and 50%, with the further withdrawal of benefits and productivity bonuses (LSE, 2020<sup>[26]</sup>). As a result of the Covid-19 crisis, textile and footwear businesses reported major liquidity problems that severely affected their ability to pay wages and suppliers, along with debts and taxes. In this context, some companies had to lay off workers, although most of them continued to operate partially (ECLAC/ILO, 2020<sup>[27]</sup>). However, in 2021, textile export numbers increased by 42% in the whole LAC region, making it one of the most dynamic sectors in terms of recovery (ECLAC, 2021<sup>[3]</sup>).

## **1.2. Responsible garment and footwear supply chains: the role of OECD RBC Standards**

Human rights and labour abuses and harm to the environment by enterprises are prevalent throughout the supply chain in this sector. While such impacts are not new to the sector, the characteristics of modern global supply chains – such as stages of the production process spreading across diverse countries, short lead times and short-term buyer-supplier relationships – can reduce visibility and control over an enterprise's supply chain and create challenges for enterprises in meeting their responsibilities. Within this context, risks regarding human rights and labour abuses, environmental damage and integrity should be managed throughout the supply chain in order to maximise the positive impacts of the global garment and footwear industry. Sector risks include but are not limited to: child labour; sexual harassment and gender-based violence; forced labour; working time; wages; occupational health and safety; trade unions and collective bargaining; hazardous chemicals; water consumption; water pollution; GHG emissions; responsible sourcing from homeworkers; and bribery and corruption (Figure 1.2). These risks may arise across all segments of the supply chain.

Figure 1.2. Risks along the Garment and Footwear Supply Chain according to the Garment Guidance



Source: (OECD, 2018<sup>[18]</sup>).

RBC sets out the expectation that all businesses – regardless of their legal status, size, ownership structure or sector – avoid and address the negative consequences of their operations, while contributing to sustainable development, for example by ensuring decent working conditions, promoting good community relationships and supporting biodiversity. These expectations apply to the company’s operations and core business activities, but also throughout their business relationships in their supply chains.

A key element of RBC is risk-based due diligence – a process through which enterprises identify, prevent, mitigate and account for how they address the actual and potential adverse impacts (or harm) in their own operations and along supply chains, as well as account for how those impacts are addressed. This process should be an integral part of business decision-making and risk management systems. It concerns adverse impacts caused or contributed to by enterprises, as well as those that are directly linked to their operations, products or services through a business relationship. Therefore, it requires a company to understand the nature of their relationship to the harm, that is, whether they cause, contribute to, or are linked to it via a business relationship. The steps needed to be taken to perform due diligence are described in Figure 1.3 (OECD, 2018<sup>[28]</sup>).

Figure 1.3. 6-Step Due Diligence Process



Source: (OECD, 2018<sup>[28]</sup>).

Implementing RBC standards, such as the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (Garment Guidance) and the OECD Due Diligence Guidance can help companies to operationalise the Sustainable Development Goals (SDGs) and ensure that their most significant impacts are prioritised. Effectively preventing and mitigating adverse impacts also helps an enterprise to maximise positive contributions to society, improve stakeholder relationships and protect its reputation. By implementing risk-based due diligence, businesses can systematically manage risks and demonstrate their contribution to the SDGs in a measurable way. Due diligence can help enterprises to create more value, including by: identifying opportunities to reduce costs; improving understanding of markets and strategic sources of supply; strengthening management of company-specific business and operational risks, thus building resilience in supply chains and business operations; decreasing the probability of incidents; and decreasing exposure to systemic risks.

Recent years have seen growing calls to embed RBC in global operations and supply chains. The Governments' role includes creating an enabling policy environment to support and promote responsible business practices. An important number of governments have already actively adopted measures through a smart policy mix to incentivise more responsible business practices. Governments have a range of tools at their disposal to advance company due diligence, such as providing incentives favourable to businesses with strong due diligence approaches or providing resources and guidance to companies (OECD, 2018<sup>[29]</sup>). In efforts to push supply chain due diligence further, some governments have also turned to regulation to mandate company due diligence. Examples of legislative developments in the sector have been developed in the US. In New York, the Fashion Sustainability and Social Accountability Act (NY State Senate, 2021<sup>[30]</sup>) demands all garment and footwear companies that do business in New York and generate more than USD 100 million in revenue to map out at least 50% of their supply chains and disclose impacts such as GHG, water footprint, and chemical use. Similarly, in California, the Garment Worker Protection Act (California Senate, 2021<sup>[31]</sup>) addresses proper payment of employees in the garment industry and the responsibility for parties contracting to have garment operations performed. These regulatory measures can incentivise RBC practices and help harmonise expectations on due diligence, bringing legal certainty and a level playing field, as well as indicate specific risks or supply chain segments that must be prioritised by businesses.

Other types of regulatory measures may have a major impact on international trade conditions. The EU Directive on Non-Financial Disclosure (European Commission, 2021<sup>[32]</sup>), the EU proposal for a regulation on deforestation-free products (European Commission, 2021<sup>[33]</sup>), and the EU Corporate Sustainability Due Diligence Directive (CSDD) (European Commission, 2022<sup>[34]</sup>) reflect the simultaneous rise in public policy and

mandatory due diligence to regulate and monitor RBC issues. Increasingly, companies will have to demonstrate that they carry out due diligence and more emphasis will be placed on meeting and enforcing these standards, making it a binding issue in terms of market opening. Increased regulatory developments may have important impacts on trade and access to markets. In particular, the CSDD would obligate large companies with operations in the EU to take measures to protect human rights and the environment under threat of civil liability and administrative sanctions. EU companies would have responsibilities regarding their subsidiaries and some contractors wherever they might operate and non-EU companies exporting goods to the EU market are also covered (Raoul Wallenberg Institute, 2022<sup>[35]</sup>).

Other types of due diligence regulation such as import bans, are present in the US, one of the main export destinations for garment and footwear from the LAC region. Forced labour import bans are actions, provided for by legislation and enforced by government authorities (i.e. custom and borders agencies), that stop goods produced abroad at the port of entry on grounds of forced labour allegations. In the US, section 307 of the Tariff Act (19 U.S.C. § 1307) has banned the importation of goods linked to forced labour since 1930 (Congressional Research Service, 2022<sup>[36]</sup>). Specifically, it prohibits the importation of all goods and merchandise mined, produced, or manufactured wholly or in part by forced labour, convict labour, or/and indentured labour under penal sanctions in any foreign country. The agency tasked with implementing the law is the US Customs and Border Protection (CBP), in charge of issuing Withhold Release Orders when it finds significant evidence that a specific product – from a particular region or company – is manufactured through forced labour practices. The aim is to drive businesses to change their corporate conduct by reducing the market share of the exporter allegedly using forced labour practices, and by reorienting importers toward regions or suppliers with higher labour standards (Pietropaoli, Johnstone and Balch, 2021<sup>[37]</sup>).

Besides regulation, other policy tools are also being developed with RBC conditions such as investment treaties and trade agreements, and major trade and investment players are increasingly paying attention to RBC issues. For instance, in 2019, prompted by the US-Mexico-Canada Agreement (USMCA), Mexico reformed its labour law to ensure the implementation of the ILO's standards, in particular those related to access to justice and freedom of association. MERCOSUR and the European Union (EU) also sealed a comprehensive trade agreement in June 2019 (European Commission, 2019<sup>[38]</sup>). The draft texts of the agreement contain a trade and sustainable development chapter (TSD Chapter) with several sustainability provisions and a RBC clause, along with additional sustainability provisions in other chapters (European Commission, 2019<sup>[39]</sup>). If the agreement is signed and ratified, these provisions could help to enable and promote RBC at the industry level. Conversely, investment treaties can serve to incentivise foreign investors to abide by RBC standards and promote the adoption of responsible business practices.

The context of combined regulatory, political and market pressures is driving uptake of responsible business practices in garment and footwear supply chains. The OECD has developed sectoral guidance for the garment and footwear sector that has received government endorsement across the globe and become accepted as the landmark framework for due diligence in the sector. Governments have committed to promote the implementation of the guidance with business operating in and from their territories, using a variety of policy tools such as creating issue-based guidance and facilitating collaboration through sector agreements.

### ***1.2.1. The OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector***

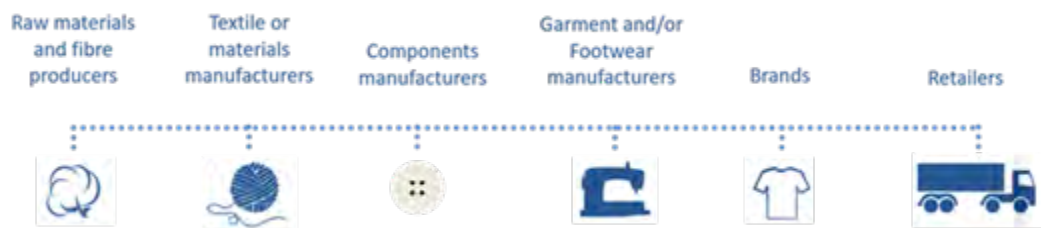
The Garment Guidance helps enterprises implement the due diligence recommendations contained in the OECD Guidelines along the garment and footwear supply chain in order to avoid and address the potential negative impacts of their activities and supply chains. The Guidance will also support enterprises to implement the due diligence recommendations contained in the UNGPs and is aligned with the ILO Declaration on Fundamental Principles and Rights at Work, relevant ILO Conventions and Recommendations and the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy. Together with its



modules on due diligence for specific risk areas, this Guidance provides enterprises with a complete package to operate and source responsibly in the garment and footwear sector.

The Garment Guidance was developed through a multi-stakeholder process with in-depth engagement from OECD and non-OECD countries, representatives from business, trade unions and civil society and was overseen by the Working Party on Responsible Business Conduct. It is practically-oriented, with an emphasis on collaborative constructive approaches to complex challenges, and it is applicable to all companies – large and small – operating in global garment and footwear supply chains (see Figure 1.4).

Figure 1.4. Main stages of Garment and Footwear Supply Chains



Source: (OECD, 2018<sup>[18]</sup>).

The Garment Guidance recognises that there are several factors, specific to the nature of the garment and footwear supply chain, that may affect the nature and extent of the steps taken to conduct due diligence. It explains different types of risk factors: product or process, country or region, sourcing or business model risk factors may influence the level of risk.

It also features key points on cross-cutting issues, such as how businesses should prevent contribution to harm through responsible purchasing practices, and how they can take into account the fact that prevalent sector risks may differ for rights-holders based on their gender (applying a gender lens to due diligence). It also provides examples of risk mitigation measures that companies can take to prevent and address each of the risks listed.

The Garment Guidance has been integrated into an OECD legal instrument, the Recommendation of the Council on the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (OECD, 2018<sup>[40]</sup>), through which adhering countries commit to promote the guidance with businesses operating in and from their territories, notably through the NCPs system. To date, 50 countries have adhered to the Garment Guidance (OECD, 2022<sup>[41]</sup>), including Argentina, Brazil, Chile, Colombia, Costa Rica, Uruguay, Peru and Mexico.

### 1.2.2. Other OECD RBC instruments

#### *The OECD Guidelines for Multinational Enterprises*

The OECD Guidelines are the most comprehensive international standard on RBC, they were adopted in 1976 and last update in 2011. The Guidelines reflect governments expectations for RBC covering all key areas of business responsibility, including human rights, labour rights, the environment, bribery, consumer interests, information disclosure, science and technology, competition and taxation. They include the expectation that business will conduct due diligence. To date, 51 countries have adhered to the OECD Guidelines, which also include a unique non-judicial grievance mechanism: the NCPs for RBC. NCPs are agencies established by governments with a twofold mandate: to promote the OECD Guidelines and related due diligence guidance, and to handle cases (see examples in Box 1.1).

### Box 1.2. Specific instances referencing the garment and footwear sector in Latin America

NCPs provide a platform for discussion and assistance to stakeholders seeking a resolution for issues arising from the alleged non-observance of the OECD Guidelines. NCPs must do so in a manner that is impartial, predictable, equitable and compatible with the principles and standards of the OECD Guidelines. NCPs focus on problem solving – they offer good offices and facilitate access to consensual and non-adversarial procedures (e.g., conciliation or mediation). Complaints handled by NCPs, known as “specific instances”, are not legal cases and NCPs are not judicial bodies.

Between 2002 and 2021, individuals, trade unions and non-governmental organisations (NGOs) presented three specific instances to NCPs related to the garment and footwear sector in the LAC region (out of 108 specific instances in total in Latin America) (OECD, 2013<sup>[42]</sup>; 2007<sup>[43]</sup>; 2002<sup>[44]</sup>). The specific instances were related to employment and industrial relations, general policies and human rights and business relationships.

Note: Data based on the OECD Database of Specific Instances <https://mneguidelines.oecd.org/database/>.

#### *The Due Diligence Guidance for Responsible Business Conduct*

In 2018, the OECD developed the Due Diligence Guidance for Responsible Business Conduct (OECD, 2018<sup>[28]</sup>), the first government-backed standard for corporate due diligence for RBC to cover all sectors of the economy, addressing a range of risks in business operations and supply chains, including human rights, labour, the environment and corruption. It provides plain-language explanations of the OECD due diligence expectation contained in the OECD Guidelines. It includes additional explanations, tips and illustrative examples of due diligence that may be of use to companies, including those in the garment and footwear sector. The Guidance is an additional resource for companies to complement their due diligence understanding. The Garment Guidance remains the primary source for companies seeking to implement due diligence and promote responsible garment and footwear supply chains as it provides detailed recommendations on steps companies can take to mitigate the range of risks found in the sector.

## 2. Issues and challenges for responsible business conduct

This chapter presents an analysis of reported risks, challenges and trends in LAC, in relation to the RBC standards established in the Garment Guidance. It provides a regional analysis and draws some examples from major garment - and footwear - producing countries in the LAC region. It looks at several of the drivers and underlying reasons for these issues, such as the high levels of informality, migrant work, sourcing from homeworkers and unauthorised subcontracting. This section identifies and analyses risk areas related to 1) labour and human rights and 2) environmental impacts. It is important to note that there is a general lack of specific data and information on the garment and footwear sector in the region and extrapolation of risks has been based on the sector as a whole.

### 2.1. Labour and human rights

The garment and footwear sector globally plays an important role in employment and entry into the formal economy. The sector provides jobs, particularly to women, which make up the vast majority of workers within the sector. However, a number of labour risks are also well documented in the sector globally. This section identifies five key labour and human rights risks: child labour, sexual harassment and gender-based violence (GBV), trade unions and collective bargaining, forced labour, and wages<sup>2</sup>. Several factors contribute to the presence of these risks in the sector. There are a number of factors present across different production segments of the supply chain which means that labour risks are likewise present from raw material production to manufacturing. As in other garment and footwear producing regions, these factors are likewise present in the LAC region.

Globally, workers in the informal sector are often more vulnerable to labour abuses due to a lack of legal protection and visibility. They also often face more barriers to unionising and therefore collective bargaining (ECLAC/ILO, 2019<sup>[45]</sup>). In addition, informality generally implies a lack of access to social security coverage in health and pensions, defined working hours (including weekly rest), insurance coverage and paid annual leave, unemployment, accident and occupational illness insurance, maternity and paternity protection, among other rights provided for in labour legislation (ECLAC, 2019<sup>[46]</sup>). Informal employment is a common issue in LAC. Within the garment and footwear sector, this includes workers who are home-based, those who work at day or piece rate in small and informal production units, as well as seasonal farm workers in both cotton and leather supply chains.

Characteristics of the sector also entail a large number of layers of subcontracting that can reduce the visibility of labour conditions within the sector. Sub-contracting of full or partial manufacturing is common in the sector across many producing countries. Sub-contracting is also often carried out in informal production units.

Economic migration is prevalent in the LAC region, including in the garment and textile sector and supply chain. Migration has been primarily interregional, with the majority of migrants coming from within South America, many from indigenous ethnic groups from neighbouring countries (SOMO, 2011<sup>[47]</sup>). However, in recent years, migration from Central America and the Caribbean to South America has also increased significantly. The range of nationalities of migrants has become more diverse, including migrants from Asia

and Africa (IOM, 2021<sup>[48]</sup>). The employment of migrants is concentrated in just a few industries, mainly those with higher rates of informality, including the textile industry (ILO, 2017<sup>[49]</sup>). Migration is often informal, and migrants may use smuggling networks, which charge fees, to cross borders. Migrant workers are also more vulnerable within the workplace due to a lack of viable employment alternatives (GAATW, 2019<sup>[50]</sup>). For instance, withholding documents is reported as a widespread practice in the industry, an issue often not raised by migrant workers for fear of deportation (SOMO, 2016<sup>[51]</sup>). When employers carry out practices such as withholding documents, this is recognised as a risk factor for forced labour in the Garment Guidance, as well by the ILO (ILO, 2012<sup>[52]; [53]</sup>). The ILO identifies the confiscation of workers' identity documents or other valuable personal possessions as an element of forced labour, if workers are unable to access these items on demand, and if they feel that they cannot leave the job without risking their loss (IHRB, 2013<sup>[54]</sup>).

Migrant workers can be especially susceptible to child labour, forced labour and human trafficking, both during transit and in their countries of destination. Children of seasonal migrants often migrate with their parents and they are particularly vulnerable to child labour. Seasonal work sites are often far away from schools and school admission on a seasonal basis may be problematic. Child migrants often experience maltreatment – including suffering from isolation, violence, sub-standard working conditions, non-payment of wages and the threat of being reported to the authorities. Additionally, the ILO noted the situation of migrant workers who are victims of trafficking in the textiles and clothing sector and the large number of informal workshops in certain countries (ILO, 2016<sup>[55]</sup>). For instance in Argentina, a 2016 study on the situation of the textile workshops in the Buenos Aires city, published by the Ministry of Labour, Employment and Social Security, shows that more than 70% of the sewing workers are involved in informal workshops, and 70% of the victims of informality, trafficking and labour exploitation in the textile workshops are migrant workers (ILO, 2019<sup>[56]</sup>).

Homeworkers are prevalent in many different supply chains in the sector. While some are employed in traditional handicraft work, such as embroidery and weaving, others are involved in more labour-intensive processes such as machining garments (OECD, 2018<sup>[18]</sup>). Homeworkers are at risk of marginalisation, particularly the victims of extortion including through formalisation and legalisation efforts. The “self-employment status” can at times be used as a means of neglecting the responsibility to provide more formalised contracts. In other cases, homeworkers may be coerced into homeworking in order to lower the financial cost to the employer. Migrant workers may be particularly vulnerable to homeworking due to employment restrictions.

Women account for the vast majority of workers in the garment sector globally. While the sector provides an avenue into formal employment, risks of harm often differ for men and women. For example, women are more likely to be paid lower wages than men; women are more often linked to precarious, informal or irregular employment; and low-income women workers are particularly vulnerable to harassment in the workplace (OECD, 2018<sup>[18]</sup>). A further key contextual issue in terms of labour and human rights for the region's garment workers is the predominance of women workers in the sector (OECD, 2018<sup>[18]</sup>), many of whom are also migrants and/or work in the informal sector. This implies an overlapping of vulnerabilities, which companies should take into account when understanding the risk profile of workers in their supply chains. The vulnerability of female informal and/or migrant workers disproportionately exposes them to other risks, from sexual harassment to low wages (IOM, 2019<sup>[57]</sup>; Freedom Fund, 2022<sup>[58]</sup>).

### **2.1.1. Child labour**

Child labour is a pressing global issue, which is prevalent along garment supply chains. The latest ILO estimates found that, at the beginning of 2020, 160 million children – 63 million girls and 97 million boys – were in child labour globally, accounting for almost one in ten of all children worldwide (ILO/UNICEF, 2021<sup>[59]</sup>). Child labour is a known and documented risk across the full value chain of the garment sector globally (OECD, 2018<sup>[18]</sup>), including at cotton seed production, harvesting, yarn spinning, homework and manufacturing. All countries in LAC have ratified the ILO Convention on the Worst Forms of Child Labour from 2000 (ILO, n.d.<sup>[60]</sup>) and the ILO Minimum Age Convention from 1976 (ILO, n.d.<sup>[61]</sup>).

There are some specific characteristics that increase the potential of child labour in this sector. For example, low wages for adult workers and piece rate systems can lead to children working to supplement the family income. Production processes in the garment and footwear sector are also low skilled, which means that children can be recruited to perform some tasks. High rates of subcontracting and informality also increase the risk of child labour, as these production processes are less visible to inspections and assessments. Child labour has been reported at some stages of the garment and footwear supply chain in the LAC region. For example, child labour has been reported to be a risk in cotton harvesting, cattle raising and garment and textile manufacturing in LAC (ILO/UNICEF, 2021<sup>[59]</sup>). The risks are highly correlated within informal segments of production, as well as rural production, where economic activity is concentrated in small family production units characterised by low income and lack of access to social protection, among other factors (WTO/ILO, 2009<sup>[62]</sup>).

Rates of child labour in the region have declined due to a strong emphasis on combating this risk. LAC countries have made consistent progress on child labour since 2008. The rates of child labour have decreased from 10% of children aged 5 to 17 years in 2008 to 6% in 2020 (ILO/UNICEF, 2021<sup>[59]</sup>). Globally, LAC has the largest share of older children in child labour: 38.5% of child labourers are 15-17 years old and 23.6% are 12-14 years old. Still an important number of cases of very young children have been reported, with 37.9% of child labourers aged 5-11 years old. Boys represent 67% of children in child labour in LAC (ILO/UNICEF, 2021<sup>[59]</sup>).

An example of action is the ILO's Regional Initiative, "Latin America and the Caribbean Free of Child Labour" (see also section 3.1), which aims to design a system that classifies territories according to their probability of risk for child labour, supporting the action of governments and businesses (ILO, 2016<sup>[63]</sup>). Regional project work in Brazil (ILO, 2017<sup>[64]</sup>; <sup>[65]</sup>; Mosquera, 2015<sup>[66]</sup>), for example, has shown that it is possible to mitigate these issues in cotton production through an increase in labour inspections, as well as the development of cotton certification processes.

### **2.1.2. Sexual harassment and gender-based violence**

Globally, women account for 85% of the labour force across most stages of the garment and footwear supply chain (OECD, 2018<sup>[18]</sup>). As they are often low-income workers, migrant workers and/or working in the informal economy, women in the garment and footwear supply chain are particularly exposed to risks of sexual harassment and GBV in the workplace. Additional characteristics of the sector that may increase the risk of sexual harassment and violence include limited upward mobility, precarious employment, high production pressures, long working hours and on-site housing.

There is increasing research and attention on violence and harassment, including sexual violence, in the garment and footwear sector globally. However, globally data is still insufficient and often national data is underestimated. In 2019, the International Labour Conference adopted a new ILO Convention (No. 190) on Violence and Harassment, representing the first international treaty to recognise the right of everyone to a world of work free from violence and harassment, including GBV and harassment. It has been ratified by 20 countries among which Argentina, Ecuador, El Salvador, Mexico, Peru and Uruguay.

GBV and sexual harassment have been reported to be widespread risks in the LAC region, including in the workplace. According to recent research, of the 25 countries with the highest rates of femicide in the world, 14 are in the LAC region (Wilson Center, 2020<sup>[67]</sup>). Prosecution and sentencing of femicides and violence are low in the region. For example, in some parts of LAC it is reported that fewer than 3% of femicides are prosecuted and 1% are sentenced (Wilson Center, 2020<sup>[67]</sup>). This in turn increases the probability of GBV, including in the workplace. For instance, the National Institute for Women in Mexico reported that 46% of women employed in the formal economy (15 million) have experienced sexual harassment (ILO, 2017<sup>[68]</sup>). Women are also disproportionately affected by unemployment, discrimination and unequal pay (DIHR/ Ethos Institute, 2016<sup>[69]</sup>).

This is coupled with women often being more likely to work in the informal sector (OECD, 2021<sup>[70]</sup>): in Brazil, 50% of women in 2012 had an informal job in the manufacturing sector, compared to 32% of men (DIHR/ Ethos Institute, 2016<sup>[69]</sup>). In Haiti, in a study conducted by the ILO and International Finance Corporation (IFC) Better Work Programme (a programme to improve working conditions in the garment industry), 85% of women reported that they consider sexual harassment to be a common problem that garment workers face in their everyday lives (Better Work, 2019<sup>[71]</sup>). A study conducted by the Instituto Observatório Social in Brazil noted that the most frequent form of violence in garment factories is verbal abuse and bullying. The report found that women are often afraid to report harassment or assault, sometimes because the supervisor is also a perpetrator (IndustriALL, 2020<sup>[72]</sup>). In turn, uncertain contractual conditions, informal jobs, and predominantly male management means women workers lack appropriate access to complaints processes and channels (DIHR/ Ethos Institute, 2016<sup>[69]</sup>).

Trade unionists, migrant workers, home workers, black women and Lesbian, gay, bisexual, transgender, queer and intersex (LGBTQI+) are reported to be particularly vulnerable to GBV and sexual harassment in the workplace, including the garment and footwear sector in LAC. The NGO network, Global Alliance Against Traffic in Women, reports that in some cases migrant women workers in the garment and textile sectors in Argentina, Brazil, Colombia, Guatemala, Mexico and Peru are subject to innuendos, demands for sexual favours and unwanted physical contact (GAATW, 2019<sup>[50]</sup>). Migrant workers reported not being able to raise issues due to fear of losing their jobs (GAATW, 2019<sup>[50]</sup>). The Instituto Observatório Social in Brazil found that trade unionists are particularly targeted for violence and harassment in the garment sector. It also found that gender violence in the garment and footwear sector is often combined with other types of violence and discrimination. Afro-Brazilian women and LGBTQI+ workers are especially vulnerable (IndustriALL, 2020<sup>[72]</sup>). This research is supported by the findings of Save the Children, which has reported higher levels of violence for indigenous, afro-descendant, women and girls with disabilities and LGBTQI+ people (Save the Children, 2020<sup>[73]</sup>).

A range of collective agreements has been negotiated to combat violence and harassment at work, including sexual harassment. In Argentina, an agreement was signed by over 70 unions and the Ministry of Labour to prevent and address violence and harassment at work. It condemns all forms of violence and harassment and promotes collective bargaining as a means of establishing policies and measures to end such behaviour at work (ILO, 2017<sup>[68]</sup>). In Brazil, union members in Pouso Alegre's garment factories negotiated a contract clause in which employers committed to hold biannual training for managers to address GBV in the workplace (Solidarity Center, 2019<sup>[74]</sup>). In the Dominican Republic, the Vista Sol Punta Cana 2014-2017 collective agreement was signed to prevent the occurrence of sexual harassment. The agreement ensures that workers who make a complaint cannot be sanctioned, while providing for sanctions against aggressors. Some collective agreements in LAC are also being negotiated to include clauses expressing a joint union-employer commitment to prevent sexual harassment, for example, by organising awareness-raising activities and providing counselling services (ILO, 2017<sup>[68]</sup>).

### **2.1.3. Trade Unions and Collective Bargaining**

Restrictions on freedom of association and collective bargaining are well documented in the garment and footwear sector and supply chains globally. According to the International Trade Union Confederation, restrictions take a wide number of forms but can include dismissal of workers due to trade union participation, blacklisting of workers who are part of trade unions, and violence perpetrated against trade unionists, amongst others (ITUC, 2020<sup>[75]</sup>). The rights to freedom of association and collective bargaining are fundamental labour rights under ILO Conventions Nos. 87, 98 and 154, the ILO Declaration on Fundamental Principles and Rights at Work, and human rights under the United Nations' Universal Declaration of Human Rights. Trade unions and representative organisations of the workers' own choosing play an important role in preventing harmful impacts on-site through collective bargaining agreements, ongoing monitoring and helping workers to access grievance mechanisms, or providing a form of grievance mechanisms themselves, for this reason these rights are considered enabling rights.

In LAC, violence and discrimination against trade unionists is a documented and severe risk in the region. The ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) noted that it has been examining allegations of serious acts of violence against trade union leaders and members in various LAC countries (ILO, 2022<sup>[76]</sup>). Acts of anti-union violence include death threats against national and local trade union leaders in the context of a growing number of attacks against social leaders in general (ILO, 2021<sup>[77]</sup>). The ILO Committee on Freedom of Association noted that the majority of examined homicides related to trade union leaders and members have not resulted in a conviction (ILO, 2022<sup>[76]</sup>). According to the ILO, the share of employees covered by one or more collective agreements in the majority of LAC countries is around 15%, with the exception of Brazil (70.5%) and Argentina (51.8%) (ILO, 2022<sup>[78]</sup>).

Anti-union activities are also a risk in the garment sector. According to the ILO Better Work initiative, workers are often deprived of freedom of association in the garment sector (UN, 2016<sup>[79]</sup>). This generally includes LAC countries. In Colombia, IndustriALL Global Union and national trade union federations have campaigned annually against the repression of trade unionists' right to strike and against violence towards trade unionists (IndustriALL, 2021<sup>[80]</sup>).

Unions are starting to develop regionally in the sector, with workshops organised to discuss how to use Global Framework Agreements (GFAs) and trade union networks to increase trade unions presence (IndustriALL, 2020<sup>[81]</sup>). One example of negotiation by trade unions happened in Pouso Alegre, a municipality in the southern Brazilian State of Minas Gerais, where union members at garment factories negotiated a contract clause in which employers committed to hold biannual trainings for managers to prevent GBV in the workplace (Instituto Observatorio Social, 2019<sup>[82]</sup>). Another example is union cooperation with the government, such as Sao Paulo dressmakers' trade union working with the Ministry of Labour to identify clandestine workshops that might be exploiting workers and proposing labour inspectors to ensure that worker's rights are being respected (IndustriALL, 2016<sup>[83]</sup>).

#### **2.1.4. Forced labour**

The ILO estimates that globally 24.9 million people are in forced labour. Women and girls are disproportionately affected by forced labour, accounting for 58% of cases (outside the sex industry) (ILO, 2017<sup>[84]</sup>). ILO Conventions Nos. 29 and 105 are fundamental ILO standards and aim to suppress the use of forced labour in all its forms irrespective of the nature of the work or the sector of activity in which it may be performed. Convention No. 29 defines forced labour as "all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily", with few exceptions like compulsory military service. ILO Convention Nos. 29 and 105 have been ratified by 180 (ILO, n.d.<sup>[85]</sup>) and 178 (ILO, n.d.<sup>[86]</sup>) countries respectively, among which all LAC countries.

Characteristics that contribute to forced labour risks include informality and subcontracting, which reduce visibility into labour standards, and workers who live on-site can be at risk of being physically confined in the workplace (OECD, 2018<sup>[18]</sup>). Workplace violations – such as low wages, forced overtime and restrictions on movement – can also together equate to forced labour. Forced labour is a risk in the garment and footwear sector, particularly where there are migrant workers or compounding vulnerabilities of workers.

These trends are also generally present in the LAC region (UN, 2020<sup>[87]</sup>) and can occur in the garment and footwear sector at all stages of production. The ILO estimates the number of victims of forced labour in the Americas to be 1.28 million (1,3 people per 1000) (ILO, 2017<sup>[88]</sup>). In the garment and footwear sector, the lack of aggregated data impedes to provide a precise estimate of the number of victims of forced labour in the sector at a regional level.

Forced labour is often linked to migrant workers in the region. Migrant workers are particularly vulnerable to forced labour. They are often forced to use irregular and risky channels in order to migrate such as relying upon fraudulent recruitment intermediaries or smugglers. Once they reach their destination, migrants may remain vulnerable to forced labour and human trafficking due to language barriers, challenges of social

integration, and fraudulent employers, landlords and service providers who may take advantage of their limited knowledge of local conditions and reduced bargaining power (ILO, OECD, IOM, UNICEF, 2019<sup>[89]</sup>). Workers can be trafficked into forced labour from within LAC to work in agriculture and textile factories, alongside other industries. For example, the U.S. Department of State has reported cases of adults and children from Argentina and Bolivia linked to exploitation in the garment and agriculture sectors in Argentina, Bolivia and Brazil (Government of the United States, 2021<sup>[90]</sup>). For instance, in Argentina, the Ombudsman Office published a study of the situation of clandestine textile workshops in the City of Buenos Aires, which reveals the presence of around 5000 workshops in the city. This indicates the likely presence of several RBC risks such as low wages, overtime and unpaid overtime, non-recognition of rest periods, prohibition of unionisation and little capacity for collective bargaining. In the case of informal workshops, where forced labour rates are the highest, there are severe restrictions on freedom of movement, improper retention of documents, prohibition of exits, confinement, critical overcrowding conditions, precarious food, situations of abuse, threats, violence and coercion (Defensoría del Pueblo de Buenos Aires, 2016<sup>[91]</sup>).

Forced labour can also be a result of compounded labour violations or vulnerabilities that result in conditions of forced labour. Indigenous persons and migrant workers are often more vulnerable to trafficking for forced labour, including in the textile sector and cattle raising. In LAC, cases have been reported of traffickers recruiting children from impoverished indigenous families under false promises of employment and subject them to forced labour (Government of the United States, 2017<sup>[92]</sup>).

Many of the victims of forced labour are in debt bondage, forced to work in order to pay off a debt without the possibility of leaving, or being forced to work without the possibility of leaving because of a debt. About one-third (36%) of all victims of forced labour imposed by private actors in the Americas region were in debt bondage. It is likely that these figures reflect a combination of traditional forms of bonded labour on the one hand, and modern forms of debt bondage on the other, where recruitment fees and agency fees constitute the debt that binds the victim (ILO, 2017<sup>[88]</sup>).

Businesses have been acting to address the forced labour risk in the region, for instance, by putting management systems in place to address the risk of migrant worker exploitation. Examples of this includes creating helplines and meaningful engagement with stakeholders such as global NGOs, industry coalitions, traders and apparel brands to understand the risk of forced labour (Know the Chain, 2018<sup>[93]</sup>). GFAs are another relevant example of mechanisms for engagement with this issue. In one case, a GFA signed between the International Textile, Garment and Leather Workers' Federation (ITGLWF) and Inditex, a global retailer based in Spain with operations in LAC countries, prevented suppliers from subcontracting without prior written consent from Inditex. The agreement prohibited forced labour, requiring that suppliers must not extract any kind of “deposit” from workers or retain their identity papers (Know the Chain, 2018<sup>[93]</sup>).

### **2.1.5. Wages**

Low wages are a known and prevalent risk across the garment and footwear sector supply chain globally and as a risk factor indicating the presence of forced labour. According to the OECD Guidelines, wages should be at least adequate to satisfy the basic needs of workers and their families (OECD, 2011<sup>[94]</sup>). Achieving wages that meet the needs of workers and their families affects other labour and human rights, including the occurrence of child labour, working hours, gender inequality and discrimination. Purchasing practices are also linked to wages, as they can provide an environment in which living wages are feasible. Harmful impacts caused by irresponsible purchasing practices of retailers, brands and their buying intermediaries include excessive and forced overtime and low wages. Late or delayed payment for products may contribute to suppliers delaying payment of wages to their workers, or an enterprise's price negotiations may contribute to cost-cutting and therefore low wages. Enterprises must develop pricing models that account for the cost of wages, benefits and investments in decent work, in order to ensure they are not contributing to wages risk.

Wages in the LAC region are set and organised differently across countries within the region. For example, Argentina, Chile, Colombia and Peru have single national minimum wage rates, whereas Ecuador, El



Salvador, Guatemala, Honduras and Nicaragua have numerous sectoral wage rates. These range from three wage groupings in Guatemala to 21 more specific categories in Ecuador (ILO, 2020<sup>[95]</sup>). In some countries, such as Argentina, the government has established baseline indicators to help inspectors and auditors determine the presence of work violations such as low wages. To this end, the Federal Agency of Public Revenue has created for several sectors, including the textile sector "minimum indicators for workers" considering the expected salary per activity, number of people per textile machine, amount of production per person, amongst others (AFIP, 2010<sup>[96]</sup>). Collective bargaining agreements play an important role in some countries. For example, collective bargaining agreements exist for almost every industry in Argentina, setting the minimum wage for each job and activity, plus any additional compensation (ILO, 2020<sup>[95]</sup>).

Worldwide and in LAC, wages in the garment and footwear sector in LAC are documented to be generally low. Wage non-compliance is a risk at all stages of the supply chain that are labour-intensive and employ low-income workers. According to industry living wage benchmarks, the gap between the minimum wage in the garment sector and an average adequate 'living wage' is between 35% and 53% across Brazil, Colombia and Mexico (The Industry We Want, 2022<sup>[97]</sup>). This is consistent with the wage gap across key producing markets globally. Moreover, employment informality may contribute to low wages. For example, homeworkers are particularly at risk in LAC, whose wages tend to be lower than the national average income. Several NGOs have also documented low wage rates in EPZs and maquilas (Solidar, 2020<sup>[98]</sup>). Wage risks can take different forms. In 2022, Better Work - a collaboration between the International Finance Corporation (IFC) and ILO reported that the highest rates of wage non-compliance in the Haitian garment and textile sector overwhelmingly related to social security and other benefits and paid leave. Other forms of non-compliance mentioned related to minimum wage or piece rate compensation, provision of wage information, use and deductions of wages and overtime payments (Better Work, 2021<sup>[99]</sup>). Enterprises should be aware of categories of workers who may be excluded from minimum or negotiated wages and therefore vulnerable to wages that do not satisfy basic needs.

## 2.2. Environmental impacts and risks

The environmental impacts in the garment and footwear sector supply chain are significant and multifaceted. These include, the consumption and pollution of water, effluents contaminated by hazardous chemicals, the emission of GHG, pollution by microfibres and generation of residues in post-consumption. It is estimated to use around 1.5 trillion litres of water annually (IPCC, 2022<sup>[100]</sup>). Twenty-five percent of the world's chemicals are used for textile production. Textile production is estimated to be responsible for about 20% of global clean water pollution from dyeing and finishing products, and responsible for approximately 9% of annual microplastic losses to the ocean (European Parliament, 2020<sup>[101]</sup>). The sector represents the second most critical industry with respect to ocean plastic pollution (UNEP, 2014<sup>[102]</sup>).

Some advances at the government level have taken place, for instance with the signing of the the Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean (Escazú Agreement), which entered into force on 22 April 2021. The Escazú Agreement is the world's first international agreement that includes provisions on the protection of human rights defenders in environmental matters and could be an important opportunity for governments to support access to information but also raise companies' awareness of the necessity of involving human rights defenders in due diligence processes. This includes protecting avenues for access to environmental information, public participation processes, as well as access to environmental justice through the judicial system. This Agreement guarantees the right to access environmental information and participation in environmental decision-making, thereby promoting access to information and access to justice related to environmental matters and requiring States to prevent and investigate attacks against those who protect and defend environmental rights. Among other countries, Argentina, Chile, Ecuador, Mexico, Panama have ratified this regional treaty (ECLAC, 2022<sup>[103]</sup>).

All stages of the garment supply chain have an impact on the environment. However, due to the wide variance in processes, inputs and outputs, the extent and nature of the environmental impact varies greatly from one stage to the other. For companies producing or sourcing garment or footwear in the LAC region it is important to scope environmental impacts and risks based on the production processes conducted, and the capacity of the industry to prevent and mitigate risks. This is particularly relevant given the presence of economic activity across the full supply chain in many LAC countries. Effective risk management requires companies to know the suppliers in their supply chain in order to identify key risk areas, from origin of forest-risk commodities (such as leather) water and energy-intensive processes to location and management of wet-processors. In the LAC region as well as globally, an increasing number of companies build up their capacity and knowledge in this context, for example by using certification schemes as described in section 3.

Garment and footwear activities in the region have the potential to reduce environmental impact and enhance the sustainable use of natural resources. Specific challenges for businesses in implementing RBC expectations in the environmental domain in the region exist namely in the two following areas: GHG emissions; and hazardous chemicals<sup>3</sup>.

### **2.2.1. Greenhouse gas emissions**

Globally, the garment and footwear sector accounts for a significant proportion of global carbon emissions. The Intergovernmental Panel on Climate Change (IPCC) has calculated that the garment and footwear industry produce 5 to 8% of global carbon dioxide emissions every year (IPCC, 2022<sub>[100]</sub>). LAC contributes to around 10% of total GHG emissions globally, deriving mostly from the energy sector (46%) and agriculture (23%). Industrial processes and waste account for 10% of GHG emissions in LAC (ECLAC, 2017<sub>[104]</sub>). The production of leather and other raw materials such as cotton represent a high emission footprint in the garment sector.

Therefore, significant emissions reductions in the garment sector are key in order to achieve the goals of the Paris Agreement, which commits to limiting global warming to less than 2 degrees above pre-industrial levels, with a target of limiting warming to 1.5 degrees. Achieving these levels will require significant investments for the garment sector. Many countries in LAC are committed to the Paris Agreement. Chile, Costa Rica, and others have set out ambitious climate change plans to move to greener, carbon neutral economies by 2050 and build resilience to adapt to the impacts of climate change. Most economies in the region have set out ambitious climate change plans to move to greener, carbon neutral economies by 2050 and build resilience to adapt to the impacts of climate change. Chile, Colombia and Argentina recently expanded their commitments to achieve net zero decarbonisation by 2050 (World Bank, 2021<sub>[105]</sub>).

In LAC, increased GHG emissions are linked to deforestation. Within LAC, deforestation is a severe environmental risk. Forty-nine percent of the total area of LAC is covered by forests: and they represent approximately 22% of the forest area existing in the world. (FAO, 2022<sub>[106]</sub>). In the past three decades, Latin America has lost considerable forested area. Almost 60% of this loss occurred in Brazil and 25% in Central America (OECD/FAO, 2021<sub>[107]</sub>). Cattle ranching is a primary driver of deforestation in LAC. Cattle ranching for leather production has been connected to deforestation in the Amazon rainforest, contributing to increased release of GHG emissions (FAO/UNEP, 2020<sub>[108]</sub>). While not all cattle ranching is intended for leather use, the cow hides used in leather are linked to deforestation risks associated with beef production. Land-use change, forestry activities and agriculture contribute to more than 50% of emissions in the region (ECLAC, 2017<sub>[104]</sub>). Land-use change releases vast quantities of carbon emissions due to the removal and burning of biomass and draining of carbon rich soils. (William F. Lamb et al, 2021<sub>[109]</sub>). While deforestation does not represent one of the key environmental risks in the garment sector, the sector has a clear link to deforestation given the use of animal derived fibres and manmade cellulosic fibres throughout the raw material extraction stages. Although climate impacts vary depending on the fibre type and geographical location, the raw materials phase is considered highly impactful due to its resource-intensive processes (EEA, 2021<sub>[110]</sub>). In 2021, leather was included as a high-risk commodity in the EU's Regulation to minimise EU-driven deforestation and forest degradation (European Commission, 2021<sub>[111]</sub>).

Climate change impacts represent an important risk for the garment sector in LAC. While the extent of impacts of climate change varies across different regions in LAC, and the availability of data on climate change impacts is still limited, the impacts of climate change are likely to be varied but with repercussions across the region. For instance, regarding water availability, more frequent droughts and an increase in average temperatures are likely to exacerbate water scarcity in countries such as Chile and Mexico (OECD/ECLAC, 2016<sup>[112]</sup>; Climate Reality Project, 2018<sup>[113]</sup>). Enterprises in the garment and footwear sector have a role to play in transitioning to a low-carbon economy given the high use of natural resources and the carbon footprint.

### **2.2.2. Hazardous Chemicals**

The use of hazardous chemicals and substances pose a risk across the garment and footwear sector supply chain globally. Chemicals are used at several stages of the production. For example, cotton farming accounts for 16% of all pesticide use globally. Chemicals are also used in the dyeing and treatment of textiles and leather. Hazardous chemicals and substances of concerns have risks to human health in their use and handling as well as on water pollution. Importantly, 20% of industrial water pollution globally is attributable to the dyeing and treatment of textiles (Ellen Macarthur Foundation & Circular Fibres Initiative, 2017<sup>[114]</sup>).

Cotton grown in LAC has high rates of certification of environmental standards, however, farmers face challenges in finding alternatives to pesticides. In several regions of LAC, cotton producers are certified by the Better Cotton Initiative with respect to sustainability aspects (see section 3.2). For instance, 76% of cotton produced in Brazil is certified by this standard. Some regions in LAC have a tropical climate with intense pest pressure for example from boll weevil and white fly, amongst others. The Better Cotton Initiative reports that a key challenge is mitigating against the harm of these pests while reducing the overall use of pesticides (Better Cotton Initiative, 2019<sup>[115]</sup>).

Within LAC, leather processing may pose one of the highest risks for chemical management. Leather transformation includes the use of numerous chemicals and large volumes of water. Under inadequate management, the large volumes of wastewater generated can contaminate soil, groundwater and surface waters through uncontrolled discharge or accidental leakage (OECD, 2018<sup>[116]</sup>; Journal of Environment and Earth Science, 2017<sup>[117]</sup>). The globalisation and fragmentation of the leather supply chain can pose a challenge in terms of visibility across its various stages – especially for smaller players in the industry. For instance, traceability information is rarely passed on with the hide, and producer countries often sell hides into the global leather market already in semi-processed, so called ‘wet blue’ states (OECD, 2018<sup>[116]</sup>).

### 3. Initiatives promoting RBC in the garment and footwear sector

RBC uptake in the region and collaboration at the sectoral level remains limited. Although awareness of the importance of due diligence and RBC practices is particularly predominant among multinational companies and suppliers that export internationally, RBC implementation remains limited among the majority of businesses operating in the region.

Data collected from an OECD capacity-building training on due diligence for businesses in the garment sector in LAC, shows that the level of due diligence implementation in the sector at regional level remains limited. In the capacity-building training<sup>4</sup>, which was carried out in the framework of the RBCLAC project from November 2021 to March 2022, around 50% of participants reported having incorporated RBC into their policy and contracts. But only around 20% have identified, eliminated, prevented and mitigated risks in their supply chains. Moreover, more than 60% reported to involve stakeholders in the due diligence process either well or very well, while 38% indicated to communicate publicly on RBC. Challenges were identified concerning the level of awareness of the due diligence process and a lack of technical knowledge and capacity, contributing to confusion about how to operationalise commitments and implement RBC in their day-to-day operations and management systems. Participants recognised a general low level of collaboration and exchange of knowledge and practices within the garment and footwear industry, sometimes accompanied by a lack of available data, recognising the need to improve harmonisation and collaboration efforts.

The context of combined regulatory, political and market pressures is driving uptake of responsible business practices in the region, and a number of initiatives are addressing RBC needs and challenges. These initiatives, that are analysed in more detail in this chapter, are increasingly developing at a national level to support businesses in their understanding and implementation of RBC and encourage the exchange of best practices and peer learning. These are important spaces for businesses to seek information, share best practices, engage with different stakeholders, and promote collaboration. Efforts have been made to boost multi-stakeholder dialogue around several RBC issues and have often been successful in promoting discussion and improving coordinated action. Global initiatives and certifications are starting to have greater penetration in local practices and efforts, as they are increasingly being demanded to ensure human and environmental criteria are respected, either for a specific commodity or aspect of the process or concerning production throughout the supply chain. This chapter will provide an overview of existing initiatives promoting RBC in the garment and footwear sector: section 3.1 identifies national and regional business, civil society and multi-stakeholder initiatives; section 3.2. analyses certification, standards and benchmarks related to RBC.

While garment and footwear companies operating in LAC have shown a growing interest in addressing the sector's social and environmental challenges through collaboration, governments in the region are also adopting enhanced regulations and approaches for a more responsible garment and footwear sector. In Brazil for example, the government has taken measures to identify, prosecute and make businesses accountable for forced labour conditions, such as the "dirty list" — a public register of entities found to employ forced labour in their supply chains—which has proven to be an effective tool to hold businesses responsible, or the Labour Inspection Secretariat's Radar (Portal da Inspeção do Trabalho, n.d.<sup>[118]</sup>), Brazilian Digital Observatory of Slave Labour (SmartLab) (SmartLab, n.d.<sup>[119]</sup>) which tracks the number of individuals rescued, their places of

origin, and the sectors in which they were employed, among many other indicators (Women Around the World, 2021<sup>[120]</sup>), Governments have also leveraged public procurement for RBC, where there has been progressive integration of human rights and sustainability clauses into public procurement processes through the textile framework agreements. This practice is being implemented by several countries in the region, and an example constitutes the Framework Purchase Agreement for the purchase of overalls for public workers of the City of Buenos Aires in Argentina (Gobierno de la Ciudad Autónoma de Buenos Aires, 2021<sup>[121]</sup>).

Beyond national policies and monitoring mechanisms, governments have worked to encourage collaborative initiatives, especially regarding labour issues, such as forced and child labour. In addition, Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru and Uruguay have established NCPs for RBC upon adherence to the OECD Guidelines. Tasked with promoting OECD due diligence instruments among businesses in their countries and functioning as a non-judicial grievance mechanism, NCPs have also contributed to driving the uptake of RBC in the sector.

### 3.1. National and regional business, civil society and multi-stakeholder initiatives promoting collaboration

The OECD Garment Guidance recognises the role of collaboration in supporting companies in conducting due diligence on supply chain risks, particularly in terms of sharing risk information, increasing leverage and scaling up measures (such as sector-wide grievance mechanisms).<sup>5</sup> Initiatives therefore play an important role in promoting and enabling RBC. They can assist enterprises in collaborating to support the implementation and recognition of verification, monitoring and validation, provided assessments comply with high standards. The garment and footwear sector includes numerous sector initiatives, trade-union agreements and multi-stakeholder initiatives that have developed policies or codes of conduct for their members. Enterprises are encouraged to adopt or align their policies with such existing commitments in order to facilitate sector collaboration on assessments against these policies.

In LAC, national and regional business, civil society and multi-stakeholder initiatives play an important role in promoting collaboration and efforts to support the development and implementation of RBC (see examples in Table 3.1). Although not specific to the garment and footwear sector, there are a multitude of initiatives in LAC countries and at the regional level that focus on reducing adverse impacts of business operations. While businesses in the region's garment and footwear sector generally recognise that human, labour and environmental risks might translate into different impacts, they seem to be less involved in RBC initiatives compared to other sectors like extractives and agriculture for example.

Similar to global initiatives, the main RBC initiatives in the region support businesses by providing information and training, raising awareness, sharing technical advice and tools, facilitating dialogue between peers to exchange best practices, and assisting companies in implementing RBC measures. All these activities are particularly important in ensuring that businesses develop understanding and start to proactively manage RBC risks. Initiatives have tended to respond to consumer pressure motivated by global issues, or market demands at the international level, in line with the SDGs.

Most RBC initiatives are private while civil society and multi-stakeholder initiatives seem to be rare. Several initiatives are specific to the garment and footwear sector, such as the *Tecendo Sonhos* programme in Brazil or the regional programme *Universo Mola*, focusing on specific aspects of the garment supply chain (see Table 3.1). *Tecendo Sonhos* targets SMEs taking into account their significant presence in the sector, as well as migrant workers, while *Universo Mola* addresses the specific type of raw materials and adverse environmental impacts garment production can have. Most initiatives do not focus on due diligence processes, and as such do not reference OECD RBC instruments, nor terminology such as “responsible business conduct” or “due diligence” per se, but mainly emphasise topics such as “corporate social responsibility (CSR)” and “sustainability” which has the same expectation as due diligence on all businesses to avoid and address negative impacts of their operations, while contributing to sustainable development.

In recent years, key stakeholder groups have grown more influential and have been able to exert greater pressure on companies, thereby increasing exchange between companies and diverse stakeholders along the supply chain. Multi-stakeholder cooperation is key to encouraging the uptake of RBC and due diligence practices. The industry has joined forces with stakeholders through collaborative multi-stakeholder initiatives on certain topics and commodities. For instance as mentioned in section 2.1, an example of this is the intergovernmental multi-stakeholder initiative “Latin America and the Caribbean Free of Child Labour”, which is particularly relevant for the garment sector, considering the significant risk of child labour across key tiers of the supply chain in the LAC region. This initiative brings together governments, workers' organisations and employers' organisations to advance together towards the eradication of child labour (see section 2.1.1) The initiative works to strengthen coordination between different levels of government within countries to increase awareness about the risks and dangers of child labour (ILO, 2021<sup>[122]</sup>).

**Table 3.1. Examples of national and regional business, civil society and multi-stakeholder initiatives relevant for promoting RBC**

Country specific	Description
Argentina	<a href="#">Argentinian Institute of Social Responsibility and Sustainability</a> (IARSE) is a private organisation that promotes social responsibility and responsible management towards sustainability by providing information, disseminating good practices and enhancing collaboration in the field of corporate social responsibility. The IARSE implements actions such as development and publication of management tools, a news portal, good practices, technical advice, assistance in the application of self-diagnosis in social responsibility and sustainability indicators and training and education on sustainability issues. IARSE has 160 business members.
	<a href="#">Moverse</a> is a civil association that develops spaces for business exchange and training and capacity-building events aimed at promoting sustainable business. It organises meetings and training, accompanies companies in their sustainable management and raises awareness.
	<a href="#">CEADS</a> Is the national chapter of the World Business Council for Sustainable Development and has 63 member companies from a wide range of economic sectors and activities. CEADS activities focus on 6 key areas: Environmental Management; Legal & Compliance; Energy & Climate, Communication; Corporate Social Responsibility and Inclusive Business. Activities include raising awareness, providing material, supporting different stakeholders, design and deliver learning programs to enhance uptake of CSR in Argentina
	<a href="#">Sustainable Textile Center</a> is a research center that aims to provide the sector with a broader outlook in order to ensure that social and environmental issues are fully integrated into the decision-making process by assessing challenges. This Center promotes sustainability in the sector via capacity by building, knowledge transfer, education and development of capabilities and strategic alliances.
Colombia	<a href="#">Corporacion Fenalco Solidario</a> strives to increase companies' commitment to socially responsible actions. It does this by providing training, training to trainers, tools to strengthen sustainable management, certification in social responsibility, GHG measurement and support in developing a due diligence report.
Peru	<a href="#">Peru Sostenible</a> is a non-profit association that promotes sustainable development in Peru. Its activities include connection with global sustainability platforms, introduction to programmes and comprehensive management tools to enhance the progress of companies on the path to sustainable development, plus visibility of best business practices, aligned with the UN and SDGs.
Brazil	<a href="#">ETHOS Institute</a> is a civil society organisation that promotes the exchange of knowledge and experience in the field of social responsibility and the development of new tools to help the private sector to analyse its practices and management. The institute's membership includes over 1,000 companies and business organisations.
	<a href="#">Tecendo Sonhos Program</a> is an initiative by Aliança Empreendedora that looks to integrate micro and small entrepreneurs in the textile chain, social organisations working in migration, government and networks. The programme's actions are carried out in four main areas: education, dissemination, advocacy and technological solutions.
	<a href="#">Sustainable Work Program</a> is an initiative that promotes responsible business practices, having other ministries, international organisations and social partners as partners. The main objective of the program is the promotion of RBC and decent work, based on a proactive, preventive and remedial action strategy, promoting social, sectoral and inter-institutional dialogue.
Mexico	<a href="#">The Mexican Center for Philanthropy</a> (CEMEFI) is a civil association that promotes socially responsible practices. The association raises awareness, encourages partnerships between actors and supports improving the generation, identification, systematisation and adoption of models and tools. With AliaRSE, CEMEFI has developed a distinction called Distinctive ESR to incentivise businesses towards positive social impact. Companies may obtain it if they <a href="#">meet the requirements</a> . It has been awarded to several businesses and SMEs in the garment sector.
Chile	<a href="#">Fundacion Prohumana</a> is a civil society organisation that promotes sustainable business models that promote

Country specific	Description
	<p>economic, social and environmental progress in Chile by developing activities involving different stakeholders, creating spaces for dialogue and developing knowledge. It created <a href="#">Red Prohumana Empresarial</a> to give visibility to the different initiatives, practices, projects and management models in business sustainability developed by its members and promote exchanges and links between them. Members include businesses in the garment sector.</p> <p><a href="#">Fundacion generacion empresarial</a> is a private organisation that supports companies and institutions in the management of their ethics and compliance. It supports companies in their corporate ethical practices, develops and supports implementation of tools, platforms for whistle-blower hotlines and conflict of interest declarations, training in regulations and compliance, workshops on ethical dilemmas, and promotes best practices. It also holds courses and events. The organisation comprises 39 member companies.</p> <p><a href="#">Centro Vincular</a> is a university centre specialising in the development of methodologies and implementation of sustainability management. It supports dissemination and implementation of management tools, dedicated to applied research, consultancy and technology transfer, skills training and management of public policies to incorporate sustainability concerns into company management. Members include the garment sector.</p> <p><a href="#">Acción Empresas</a> is the national chapter of the World Business Council for Sustainable Development in Chile and works on several thematic areas such as climate change, circular economy, responsible sourcing, human and work rights among other. They provide support to enterprises to include sustainability in the decision making processes and showing how social and environmental progress should be taken into consideration in the economic development of the enterprise</p>
Ecuador	<p><a href="#">Irse</a> (Instituto de Responsabilidad Social del Ecuador) is a private non-profit organisation that promotes social responsibility practices and its technical and methodological application. It provides support regarding capacity building, diagnostics, stakeholder engagement and events to promote exchanges. They refer to UN Global Compact principles, ISO 260000, SGE 21 System and the Global Reporting Initiative to implement social responsibility.</p>
Panama	<p><a href="#">SumaRSE</a> is the national chapter of the World Business Council for Sustainable Development in Panama and promotes corporate sustainability in Panama. It engages with 240 Panamanian organisations, shares methodologies, pilot projects and studies, and provides a space to exchange knowledge.</p>
Costa Rica	<p><a href="#">Alianza Empresarial para el Desarrollo (AED)</a> is a non-profit organisation that promotes responsible and sustainable business models in companies. AED guides the productive sector to consider sustainability principles as part of its management, reducing negative impacts and maximizing positive impacts on society, the environment and the economy.</p> <p><a href="#">Consejo Consultivo Nacional de Responsabilidad Social</a> is a multi-stakeholder initiative with representatives from private sector, public sector and civil society. It is composed by 70 member organisations and promotes social responsibility and the development of an enabling environment through articulation of good practices, the creation of a space for orientation and promotion of RBC efforts to generate national impact, promotion of sectoral and multi-sectoral actions and documentation and dissemination of the state of RBC in Costa Rica every two years.</p>
Regional	<p><a href="#">IntegraRSE</a> is an alliance of organisations promoting social responsibility and sustainability in Central America and the Caribbean. It promotes collaboration and knowledge exchange at a regional level and encourages the region's business community to contribute effectively to sustainable development and regional integration. It proposes <a href="#">free courses</a> on corporate social responsibility adapted to the LAC region.</p> <p><a href="#">UN Global Compact</a> in the region: Latin American and Caribbean Local Networks are business-led, multi-stakeholder platforms that work directly with businesses and help them to implement the Ten Principles of the UN Global Compact and advance the SDGs. They do so through seminars, reporting training, issue-specific workshops, country-based consultations and policy dialogue, collective action projects, partnerships, networking events, local newsletters and awards. The region has more than 15 networks.</p> <p><a href="#">RedEAmérica</a> is a network created to share knowledge, encourage collective actions and promote social practices among Latin American companies. It develops reports, eLearning courses and webinars and promotes collaboration between members, public actors, private actors and international agencies. Nearly 70 business-based organisations in 12 countries in Latin America and the Caribbean are part of RedEAmérica.</p> <p><a href="#">Universo Mola</a> is a programme of the Entre Soles y Lunas Foundation, a Latin American sustainable fashion movement. It promotes sustainability in the Latin American fashion value chain through education and communication and organises events to raise awareness and encourage collaboration.</p> <p><a href="#">Latin America and the Caribbean Free of Child Labour Initiative</a> is a platform for intergovernmental cooperation, with the active participation of employers' and workers' organisations. It seeks to accelerate the pace of child labour reduction in the region and aims to design a system that classifies territories according to their probability of risk for child labour. Participating countries include Argentina, Brazil, Colombia, Costa Rica, Jamaica, Mexico and Peru.</p>

### 3.2. Certification, standards and benchmarks present in the region or in target markets

Certifications, standards and benchmarks can support businesses in the process of manufacturing, production, communication and management of the organisation, as they provide agreed external criteria on a specific sustainability theme. Some of them provide support in establishing sustainable value chains or ensuring RBC criteria in one production step or one aspect (e.g., use of chemical substances). They can provide general principles and good practice frameworks that can be used to set out specific goals, key performance indicators (KPIs) and verification mechanisms relevant to their country.

Increasingly, specific requirements concerning a product are being demanded at a business or governmental level. Regulations specifying the use of certain certifications or standards as market access requirements are in place in Europe and some Asian countries, where importing specific commodities is allowed only if they comply with a set of RBC criteria or with the adoption of specific certification systems (IISD, 2021<sup>[123]</sup>). At the EU level, there may be more stringent traceability requirements by European buyers for their upstream suppliers and producers in the framework of the proposed EU Ecodesign for Sustainable Products Regulation (European Commission, 2022<sup>[124]</sup>), which includes binding product-specific ecodesign requirements to increase textiles' performance in terms of durability, reusability, reparability, fibre-to-fibre recyclability and mandatory recycled fibre content to minimise and track the presence of substances of concern and to reduce the adverse impacts on climate and the environment.. As highlighted in section 1, OECD standards have already been included in regulations at EU level in other sectors, such as the European Union Conflict Minerals Regulation, which lays down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas in accordance with the 5 steps of the OECD Guidance. It is important to consider that certifications, standards and benchmarks should be aligned with RBC international instruments.

Some governments have issued guidance to businesses to help them navigate the certification system. For instance, the National Industrial Technology Institute in Argentina, within the Minister for Productive Development, has developed a certification named "Shared Social Commitment for Textile Industry" for textile production that is used by companies but also by the State through public procurement (Instituto Nacional de Tecnología Industrial, n.d.<sup>[125]</sup>). Sistema Moda within Colombia Productiva, set up by the Ministry of Commerce, Industry and Tourism, to promote productivity and competition in the garment sector, has developed certification guidance to raise awareness on new requirements, as well as facilitate access to information on the main certifications that companies can adopt to increase access to markets (Colombia Productiva, 2020<sup>[126]</sup>). Colombia Productiva recommends considering the target market and the requirements demanded, and to carry out an evaluation of the company's production processes to identify the adaptation needs and the investment required to achieve compliance with requirements.

Certification and standards can be commodity specific. For instance, the Better Cotton initiative as mentioned in section 3.2 (Table 3.2) is an international voluntary certification scheme accredited by third parties that covers, among others, social, environmental and economic criteria in cotton production, while the Leather Working Group (LWG) certifies tanneries on their environmental performance with an emphasis on traceability. Certification schemes can also focus on the type of production or one aspect of the production process (e.g., organic textile production, recycled textile production, the presence of chemical substances), or address transparency, purchasing practices and reporting.

Participant companies in the OECD's garment capacity-building training (2021-2022) highlighted the importance of certification schemes and reported using several RBC-related certifications. However, they recognised that it is difficult to make sense of the many internationally agreed frameworks, protocols, certification schemes and commitments in a way that satisfies the expectations of stakeholders such as investors, governments and customers, or even several customers. To access international markets, and comply with the demands of several buyers, some businesses have to comply with a diverse number of



certifications, implying different criteria and audits processes, which in turn increases RBC costs for suppliers. Participants emphasised the need to harmonise and standardise certification demands at brand level, as well as additional support, to facilitate implementation and reduce the burden on suppliers.

The proliferation of certifications could create various obstacles, for instance by marginalising small-scale producers and SMEs that are unable to cover the costs of obtaining and maintaining certification, thereby excluding them from global value chains and international markets that demand certified commodities (IISD, 2021<sup>[123]</sup>). SMEs have already identified concerns regarding the high transaction costs to comply with certification and adapt to new practices (German Development Institute, 2017<sup>[127]</sup>). Adapting these standards to SMEs' capacity will be key to ensure the industry-wide uptake and meaningful implementation of requirements, given their predominance in the industry. Recent literature shows that producers who do not obtain certifications do not earn premium prices for their products. As many small farmers in LAC do not use chemical inputs in their production processes, developing standards and regulations for specific products could help SMEs to integrate regional and international markets, especially in Europe (OECD et al., 2021<sup>[128]</sup>). Table 3.2 provides a non-exhaustive list of examples of certifications and standards in use in the LAC region.

**Table 3.2. Examples of certifications, standards and benchmarks in use in the LAC region**

Type	Description
Raw material origin (Alpaca fibre/ Sheep)	The <a href="#">Responsible Alpaca Standard</a> (RAS) and <a href="#">Responsible Wool Standard</a> (RWS) are two voluntary international standards that address animal welfare in the supply chain of alpaca fibre and sheep wool material, respectively, from certified farms to the final product. The individual sites are certified by independent certification bodies through annual audits.
Raw material origin (Cotton)	<a href="#">Better Cotton</a> is an initiative promoting a comprehensive set of production principles and criteria taking into account social, environmental and economic criteria. For instance, there are 360 licensed farmers in Brazil. It also collaborates with the Associação Brasileira dos Produtores de Algodão (ABRAPA), which became a Better Cotton Implementing Partner in 2010. This means that farmers growing cotton in line with the ABR programme can sell their cotton as Better Cotton.
Raw material origin (Leather)	<a href="#">The Leather Working Group</a> (LWG) is a multi-stakeholder certification group that certifies tanneries on their environmental performance. Since 2008, LWG has included a section in the audit protocol to assess a supplier's ability to trace their raw material back to the slaughterhouse. At the time of writing, 59 Brazilian tanneries hold Gold-rated certification (the top score) and 44 certified Brazilian tanneries can demonstrate traceability of more than 90% of their materials back to the slaughterhouse.
	<a href="#">Leather Standard by Oeko-Tex</a> is an internationally standardised testing and certification system for leather and leather goods at all production levels, including accessory materials. The certification supports companies along the supply chain with the implementation of high human-ecological product safety. The certification serves as legally-binding verification of successful product certification in all business processes. Used in Argentina, Brazil, Colombia, Peru and Bolivia.
Organic textiles	The <a href="#">Global Organic Textile Standard</a> (GOTS) consolidates various existing standards and draft standards in the field of eco-textile processing, with social and environmental criteria throughout the supply chain verified by a third party. It guarantees the organic status of fabrics through certification and includes manufacturing, labelling, packaging and marketing. The standard covers all textiles made from at least 70% certified organic natural fibres, mainly focusing on cotton, wool and silk.
	The <a href="#">Organic Content Standard</a> (OCS) is an international standard that provides a tool for third-party verification that a final product contains the accurate amount of a given organically grown material. The standard is used to verify organically grown raw materials from the farm to the final product. It does not address the use of chemicals or any social or environmental aspects of production beyond the integrity of the organic material. Currently used in Colombia, Peru and El Salvador.
Recycled textiles	<a href="#">The Global Recycled Standard</a> (GRS) sets requirements for third-party certification of recycled input and chain of custody. The standard applies to the entire supply chain, addresses traceability, environmental principles, social requirements and labelling and is verified by a standards organisation (second party). The Global Recycled Standard is for finished or intermediate products based on recycled materials. A total of 21 enterprises are currently certified in the region.
Chemical substances	<a href="#">Oeko-Tex Standard 100</a> is a globally uniform testing and certification system for textile raw materials, intermediate and end products at all stages of production. It guarantees that all the components of a fabric or product have been tested and do not contain substances harmful to human health. Textile products may be certified according to Oeko-Tex Standard 100 only if all the components meet the required criteria without exception. It is present in Argentina, Brazil, Chile, Colombia, Peru and Uruguay.
Process	The <a href="#">Worldwide Responsible Accredited Production</a> (WRAP) programme certifies that facilities comply with WRAP's 12 principles, which ensure safe, healthy, legal, human and ethical manufacturing processes. The WRAP principles cover basic standards that address labour practices, factory conditions and environmental and customs compliance. WRAP certification is for the factories where goods are made, rather than the end product. WRAP is present in Argentina, Bolivia, Brazil, Chile, Colombia and Peru.
	<a href="#">Sistema B certification</a> measures and analyses five areas for a company: government, workers, customers, community and environment, allowing a detailed revision of them all, with a view to identifying all the possible improvement points and opportunities to increase the overall positive impact. 843 businesses in Latin America are currently certified.
	<a href="#">The Fairtrade Textile Standard</a> is one component of the greater Fairtrade Textile Programme. At all stages of production, all supply

Type	Description
	<p>chain actors including brands must establish fair, reliable and predictable contract arrangements to facilitate long-term investment in improving workers' conditions. It is currently used in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela.</p> <p><a href="#">The Fair for Life Certification Programme</a> offers brands neutral third-party inspection and certification in production, manufacturing and trading. It combines strict social, environmental and fair-trade standards with adaptability to local conditions. Present in Argentina, Brazil, Chile, Colombia, Ecuador and Peru.</p> <p>The <a href="#">ABVTEX</a> programme in Brazil provides for the performance of independent audits to check the compliance of suppliers and their subcontractors with the criteria and requirements set forth under aspects related to human, social and environmental risks. The audit programme monitors the supply chain, recognises good practices and collaborates to solve sectoral issues. As of 2020, 42,930 audits had been carried out, during which 3,526 companies were approved in 615 municipalities in 19 Brazilian states, directly benefiting more than 352,000 workers by guaranteeing their rights along with adequate health and safety conditions.</p>
Transparency	<p>The <a href="#">Open Apparel Registry</a> (OAR) is a neutral, open-source tool mapping garment facilities worldwide and allocating a unique ID to each. An industry-standard method of identification, the OAR ID eases the management of facility data, creating efficiency for users in the entire apparel sector. The database has over 52,000 facilities, uploaded by over 250 contributors across the apparel sector, including major global brands, multi-stakeholder initiatives and civil society organisations. In Latin America and the Caribbean region, there are currently 2,855 facilities listed.</p> <p><a href="#">The Fashion Transparency Index</a> is a benchmark that analyses and ranks the world's biggest fashion brands and retailers based on their public disclosure of human rights and environmental policies, practices and impacts, in their operations and supply chains. It comprises 239 indicators covering a wide range of social and environmental topics such as animal welfare, biodiversity, chemicals, climate, due diligence, forced labour, freedom of association, gender equality, living wages, purchasing practices, supplier disclosure, waste and recycling, working conditions, and more. In the region, the <a href="#">Fashion Transparency Index Mexico</a> and <a href="#">Fashion Transparency Index Brazil</a> are found at national level.</p>
Reporting	<p><a href="#">Global Reporting Initiative</a> (GRI) is an independent international standards organisation that helps businesses, governments and other organisations to understand and communicate their impacts on issues such as climate change, human rights and corruption. The GRI Network is present in the region and provides guidance and support to local organisations by increasing awareness and building capacity. Based in Bogota, Colombia. Currently active in Argentina, Chile, Colombia, Mexico and Peru.</p>
Purchasing Practices	<p><a href="#">Better Buying Initiative (BBI)</a> produces an annual benchmark analysis report based on data submitted by suppliers evaluating their buyers' purchasing practices, across a number of categories, including planning and forecasting, cost and cost negotiation, and payment and terms. In a regional analysis in the Better Buying Purchasing Practices Index Report (2019) (based on 19 suppliers in the Latin American region submitting data), Latin America was profiled as having better-than-average practices (although the report does not conclude on the adequacy of the practices); the number of suppliers submitting data annually has increased, with 32 and 30 suppliers' submissions taken into account in the <a href="#">2020</a> and <a href="#">2021</a> BBPPI reports respectively.</p>

## 4. Conclusion

This report provided an analysis of RBC issues and initiatives to promote and enable the business engagement of responsible supply chains in LAC. It highlighted the economic and social importance – as well as the complexity – of garment and footwear production in the region. At the same time, it explored the different types of RBC issues that companies may face linked to their production processes in every segment of the supply chain and the type of factors that contribute to presence of the risk as well as the specific adverse impacts these can generate. It is important to note that given the general lack of specific data and information on the garment and footwear sector in region and extrapolation of risks has been based on the sector as a whole.

Irresponsible business practice can have severe adverse impacts, contribute to environmental degradation and endemic labour and human rights challenges. Responsible business practices and implementation of due diligence processes create opportunities to increase efficiency and resilience in garment and footwear supply chains, so they are more resilient, but also more sustainable in the long term.

While companies are increasingly aware of RBC risks and developing good practices to cease, prevent and mitigate these, the degree to which these good practices are being used by companies and incorporated into policies and business activities appears to be in early stages and collaboration appears to be particularly low in the sector, and highly varies between countries. Overall, companies in the sector do not appear to be well integrated in RBC initiatives that can foster collaboration, peer learning and provide support. Moreover, major difficulties remain with respect to formalising RBC action and productively including and integrating SMEs, informal labour, and homeworkers. Migrant and women workers appear to be particularly vulnerable in the sector.

Meanwhile, pressure on companies and governments to improve RBC performance in the garment and footwear sector is continuously increasing from governments, trade partners and civil society as well as consumers. While there is no “one-size-fits-all” approach, addressing RBC risks requires strong action by companies, working together with governments and other stakeholders. In particular, it is important for companies to have strong internal due diligence policies and management processes for the identification, prevention and mitigation of the full range of social and environmental risks they may face. Development of adapted reporting systems and complaints and grievance processes are also important in this regard.

The focus needs to be on better awareness, increased technical capacity, integration and alignment of due diligence if companies and industry initiatives (such as certification schemes) to support and facilitate understanding and implementation of due diligence steps to prevent and mitigate risks in the sector. Business faces the challenge of understanding and systematising the numerous internationally agreed frameworks, protocols, certification schemes, guidance documents and commitments. All companies – and especially SMEs – require training in what due diligence is and how to implement those recommendations into their day-to-day operations and supply chains to address human rights, social and environmental risks. With improved expertise in risk-based due diligence as set out in the relevant OECD standards, businesses can identify and prioritise key risks in the sector and develop actions to address these issues in country and region-specific contexts.

While businesses are responsible to address RBC risks, they may need support from stakeholders along the supply chain. Businesses are not alone in their efforts to implement the recommendations of the Garment Guidance. Eight LAC country governments are adherents to the OECD Guidelines. They have established

NCPs, which promote the OECD RBC instruments and take a mediation role as a non-judicial grievance mechanism in these countries. All of them have in addition adhered to the Recommendation of the Council on the OECD Due Diligence Guidance for Responsible Garment and footwear Supply Chains, which means that these countries have made a commitment to actively promote use of the Guidance by enterprises operating in or from their territories.

In light of growing global problems such as deforestation, decrease of available water resources and persistent human rights risks in garment and footwear supply chains, significant action from all stakeholders is needed. While business action is a crucial part of the equation to address RBC challenges, governments and public institutions must build an enabling environment, legal systems and policy frameworks that support RBC. Civil society organisations (CSOs) and trade unions must continue to play an active role in promoting exchange of experiences and bringing together communities, governments and companies to search for joint solutions. By working together, business, government, workers' organisations and civil society can drive forward the agenda on RBC and build the foundation for a prosperous, sustainable and responsible garment and footwear sector in LAC.

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# Notes

<sup>1</sup> A ratio of 1 indicates equal participation by male and female workers (50% each). Values below (above) 1 reflect a lower (higher) participation by women than men.

<sup>2</sup> Occupational health and safety (OHS) is an important risk area across the garment and footwear sector supply chain globally. Insufficient public research exists on occupational health and safety risks linked to the sector supply chain specific to the LAC context. This does not imply that OHS is not an important issue in the region.

<sup>3</sup> Water consumption and pollution is an important risk area across the garment and footwear sector supply chain globally. Insufficient public research exists on water risks linked to the sector supply chain specific to the LAC context. This does not imply that water consumption and pollution is not an important issue in the region. Globally, the garment and footwear sector and supply chain rely on intensive water use throughout the production. Global textile production, including cotton farming, uses around 93 billion cubic metres of water annually representing 4% of all global freshwater withdrawal (Ellen Macarthur Foundation & Circular Fibres Initiative, 2017<sup>[114]</sup>). Water is traditionally abundant in LAC, making water use a lower risk than in other cotton producing regions. However, population growth and urbanisation are increasingly putting pressure on water available for irrigation. Climate change could also pose additional pressure on water resources in the future (OECD/FAO, 2021<sup>[107]</sup>).

<sup>4</sup> The training included around 40 participants from ten different countries in the region, mostly manufacturers, raw material and fibre producers and brands. 64% of participants were enterprises with more than 250 workers, 36% were SMEs and 10% industry associations.

<sup>5</sup> Sector initiatives, trade-union agreements and multi-stakeholder initiatives should have processes in place to review and update their policies to reflect changing circumstances and emerging risks. The Garment Guidance recommends that enterprises build into supplier contracts an obligation to support supply chain due diligence of risks linked to upstream production where appropriate (e.g., obligation to direct sourcing towards choke points that have demonstrated effective due diligence mechanisms). However, the Guidance does not recommend that enterprises mandate that suppliers engage in specific initiatives, unless the enterprise is willing to support the cost of the suppliers' participation and any associated premiums. Rather, enterprises should recognise a range of collaborative due diligence initiatives and tools that comply with the Guidance.



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