

ENHANCING SOCIAL PROTECTION IN THE APPAREL AND FOOTWEAR INDUSTRY

**Study conducted in Central America for
the Fair Labor Association**

Prepared by:

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Objective

- Develop a proposal to enhance social protection in the apparel and footwear industry, in particular at the time of retrenchment in personnel or factory closure, in Central America, focused in Honduras, El Salvador, Guatemala and Nicaragua.
 - Research carried out in January-February 2011 in four Central American countries
 - Experts, labor NGOs, unions, government agencies, business associations

Países	Total	Hombres	Mujeres
El Salvador	10	5	5
Guatemala	26	17	9
Honduras	12	7	5
Nicaragua	21	16	5
Total	69	45	24

Scope of research

- Reviews and sets out possible proposals to protect workers.
- Focuses on the apparel and footwear industry.
- Specific proposals are subject to review and fine tuning; proposals have potential for being implementable in the Central American region.

Main challenges

- The problem being addressed by the proposals cannot be resolved by the proposals themselves; it requires deeper reflection and work throughout the region.
- The proposals hit against a social, political and economic “ceiling” in Central America. The economic system impels the Central American states to compete to attract foreign investment.
- It is very likely that factors such as impunity and weak administrative and judicial protection of rights played a role in attracting or keeping such investment in Central America and that they would influence the application of any proposal deemed to be interesting.

Proposals

- Proposals emerge from three sectors
 - From the private sector
 - From the public sector
 - From the brands and civil society organizations
 - In addition, with respect to each proposal, participation from other sectors is also foreseen

From the private sector

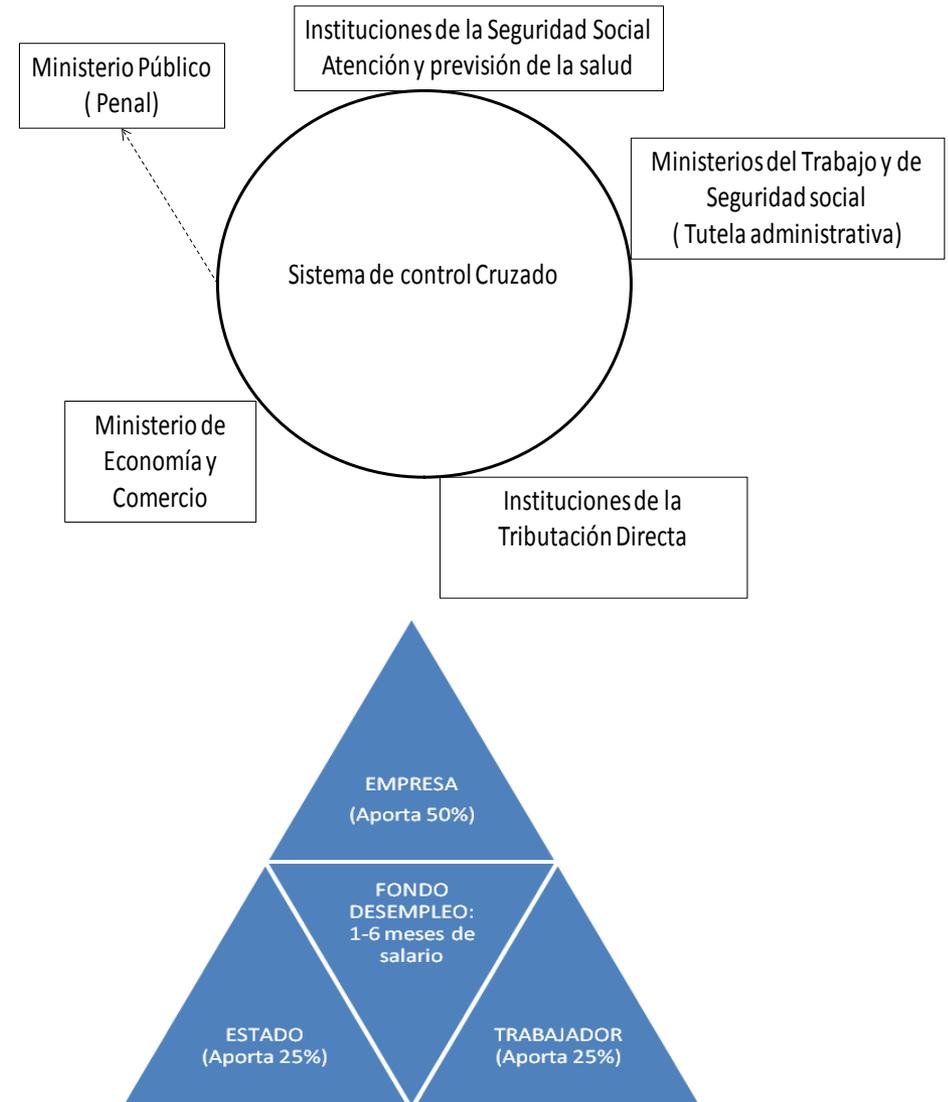
- 2.1. Guarantee policy
- 2.2. Contingency fund agreed by the parties
- 2.3. Precautionary Fund

From the private sector

- 2.4. Labor liabilities
- 2.5. Company's financial health indicator system

From the public sector

- 3.1. Institutional cross-check system
- 3.2. Worker rights defense
- 3.3. Labor capitalization fund



From the brands

- **Brands are part of a chain that is violating labor rights**
 - Could they pay higher prices to manufacturers and require that they comply with labor rights?
- **Verification systems, codes of conduct and corporate social responsibility**
 - Voluntary verification systems do not seem to be sufficiently effective if their implementation depends on the factory that makes the garment.

The best code of conduct is to obey the law!

From civil society

Political pressure to improve, implement, or create better protections for workers.

- Free Trade Zone legislation
- Policies and practices to attract foreign investment
- Labor Code
- Commercial code
- Minimum wage(salary)
- Wage Councils
- Social Security
- Capital Flight
- Right to Organize
- Conflict Resolution
- Cross-checking
- Surety Bond
- ILO Conventions
- Institutional Strengthening

Our recommendations:

- Conduct further research/consultations on:
 - 2.2. Contingency fund agreed by the parties
 - 2.3. Precautionary fund
 - 2.5. Company's financial health indicator system
 - 3.1. Institutional cross-check system
 - 3.3. Labor capitalization fund

Conclusions

- Any **social benefit contribution will represent an additional cost to the value of the product**, reduce the profit margin of the manufacturer, or the retailer or of the brand that buys and distributes it. Or it may result in an increase in the final price that could reduce competitiveness of the the product with respect to cost and price.
- Precautionary funds, although currently are not placed with third parties but are under the control of enterprises, imply **relatively high costs at the time of settling accounts with the worker**, whether with individual workers or with a large mass of workers. This is important to understand why some enterprises decide to end production evading such payments.

- The funds for the protection of workers described in this research make it clear that **the financial mass that can be poentially attracted is significant.**
 - By whom and how they might be adminstered **is a critical point to be considered** in assessing whether to support any of the options discussed. Although it is a good alternative, it is not the complete solution to the labor problem.
- Contingency funds are also an interesting alternative, but their creation would require persuading **employers, the State, and brands to exercise corporate solidarity,** which is not common in business.
 - The system might cover the illegal behavior of a competitor that decides fraudulently to close a work center!!

- Any proposal that ultimately is implemented must not elude the central problem, which is the need to **strengthen institutions** that guarantee compliance with the law by all actors in productive processes.
- Violations of labor and social rights of workers **are a political matter, with legal implications, that cannot be reduced to economic relations and transcend the productive sphere.**
 - Manufacturers must comply with the law, government officials must enforce the law, and other actors in the supply chain have their legal and ethical obligations.
 - A cross-check system may be able to **contribute to putting into action the overall system, its regulations and institutions.**

- It is essential to **strengthen the ability to act of unions and NGOs** involved in this area, so that they may exercise their role in defending, denouncing, proposing, and influencing public policy regarding protection of worker rights.
- Any social protection issue **should be established in all of the Central American countries** to avoid the argument that a country that applies it would lose competitiveness vis-a-vis the others.
- **Standardization of labor and social norms** would do away with competition to reduce rights as a competitive strategy and as a way to attract foreign investment.
- It would be important to influence politically the Central American Integration System (SICA)

Future actions

- Continue to work on the possibility of each country establishing a labor capitalization fund.
 - Jointly with this, it would be important to start at once studies to pre-qualify financial institutions that that might be able to operate the fund.
- Once the protection proposals have been fine tuned, start political lobbying within SICCA to promote them.
- Begin research within the States to create or to assess the current status of cross-checking systems.

- Keep in mind that this journey, which should coalesce clear and committed participation by stakeholders, will be more successful if it focuses on long-term processes and general approaches rather than on specific short-term projects.
- Which is precisely what the 90 million dollars provided to Central America to improve labor rights should have done.