

CORPORATE INTEGRITY AND THE RESPONSIBLE SOURCING OF COTTON PRODUCTS FROM UZBEKISTAN

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This brief presents key findings from a major sectoral study on corporate integrity in Uzbekistan's cotton cluster system conducted by Ulster University and the Uzbek Forum for Human Rights.¹

Uzbekistan's cotton cluster system was introduced during 2017 in order to reduce state involvement in cotton production, strengthen value-added activity, and reduce the drivers of forced labour, a systematic practice that has seriously damaged Uzbekistan's international reputation.

To protect human rights, and give confidence to international apparel brands, corporate integrity is a critical requirement for the cluster system.

¹ Lasslett, K & Uzbek Forum for Human Rights (2020) *Out of the Cauldron, into the Fire? Risk and the Privatisation of Uzbekistan's Cotton Sector*, UzInvestigations: Belfast, available online: <https://uzinvestigations.org/>

WHY IS THIS RESEARCH SIGNIFICANT?



The responsible sourcing of cotton, textiles and garments requires strong corporate integrity in each link of the supply chain. The government of Uzbekistan aims to reintegrate into global apparel and textile supply chains, success will depend on strong corporate integrity in the cluster system, and human rights compliant practices.



This is the first sectoral study conducted in Uzbekistan which focuses specifically on the question of corporate integrity. In total, 71 cotton clusters were analysed. Initial findings indicated a critical lack in transparency and serious governance shortcomings.



These initial findings prompted the development of an integrity scorecard system. The scorecard was constructed using international benchmarks relating to transparency, corporate governance, and professionalism that have been developed by the ADB, EBRD, IFC, OECD, UNODC and World Bank. It provides a systematic, consistent, and transparent basis on which to investigate corporate integrity and risk. It was applied to 20 clusters.



The scorecard awards green flags for evidence of good corporate practice, amber flags are given where anticipated information is not available on the public record, while red flags are attributed when evidence is identified of bad practice, from a corporate risk perspective.



Two in-depth investigative case studies were conducted into business groupings responsible for at least 11 clusters. The case studies were conducted using corporate filings, court judgements, government records, leaked records, and personal communications with company representatives.

WHAT ARE THE KEY FINDINGS?

- A significant number of amber flags were awarded (49% of the total flags awarded). This indicates that the cotton cluster system is marked by a fundamental lack of transparency, and an absence of evidence on the public record that can verify cluster operators are governed robustly and with professionalism. This presents a serious barrier for international brands seeking to responsibly sourcing cotton products from Uzbekistan through rigorous due diligence checks.
- There was a high number of red flags (41% of the total flags awarded). This included evidence of misleading public filings, prior illegal dealings, and the use of high risk offshore structures that conceal beneficial ownership and managerial structures. When approached, cluster operators failed to provide clarification that could mitigate the corporate risks identified by the authors.
- Two in-depth case studies were conducted. They involved major textile groupings charged with significant responsibility in the cluster system. The case studies document a wide range of red flags, including data linking cluster companies to a Russian bank fraud, and a series of highly irregular international commercial transactions centring on a British Limited Liability Partnership.

WHAT ARE THE POLICY IMPLICATIONS?

- Serious reform of the laws, structures, and processes regulating companies in Uzbekistan is required, with a focus on improving transparency, good governance and accountability. This will be required in order to meet the integrity benchmarks required to pass the due diligence tests demanded by socially conscious consumers and international apparel brands.
- Steps must be taken to ensure that the public administration of market opportunities, procurement, and state aid is conducted in a transparent, competitive manner, with rigorous due diligence checks. Accurate information on these processes must be made publicly available in an accessible digital and well signposted format so that the probity of these processes can be independently verified.
- The low observed standards of corporate integrity heighten the risk of abusive labour and commercial practices. Significant ongoing safeguards are needed to protect the rights of cotton farmers, textile workers and rural labour.





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About

UzInvestigations is a civic initiative administered by Ulster University in partnership with the Uzbek Forum for Human Rights. Drawing on data science, investigative methodologies, and digital analytics, UzInvestigations aims to publish resources and analysis that help to forensically scrutinise corporate and government power in Uzbekistan. Our aim is to promote transparency, good governance, human rights, and civic engagement.

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