

# GLOBAL MONOPSONY, CONTRACTING PRACTICES AND EMPLOYMENT OUTCOMES

A Human Rights Due Diligence (HRDD) Framework for Garment GVCs



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## ABOUT CIVIDEP INDIA

Cividep India has been working on workers' rights and corporate accountability since the year 2000. Based in Bangalore and with field offices in other locations in South India, Cividep's work aims to safeguard the rights of workers, especially those employed in global value chains. We strive to hold corporations accountable for the impacts of their business on workers and communities. To this end, Cividep engages in worker education, researches working conditions and corporate conduct across a range of export-oriented industries, and advocates for policy change. These initiatives are focused in the garment, leather, and electronics industries, and in coffee and tea plantations.

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For more updates, subscribe to Cividep India's newsletter: <https://bit.ly/3Kkrs8M>

## ABOUT STITCH

**S**ustainable Textile Initiative: Together for Change (STITCH) is a collaborative partnership united by a vision of a global textile and garment industry that fosters an equitable and just society through respect for human rights in the world of work. STITCH is a consortium comprising six partners: two labour rights organisations – the Center for Development and Integration (CDI) in Vietnam and Cividep in India; two Dutch unions – CNV International and Mondiaal FNV; and two multistakeholder initiatives – Ethical Trading Initiative (ETI) in the UK and Fair Wear Foundation (FWF) in the Netherlands.

The initiative is financially supported by the Dutch Ministry of Foreign Affairs, which is a strategic partner. Collectively, the consortium is committed to achieving an industry where garment workers, 75% of whom are women, can exercise their right to freedom of association and have access to safe, dignified work that provides a living wage. STITCH envisions workplaces where workers' rights are upheld, their voices are heard, and their representation is secured. As a partnership, the consortium aims to amplify workers' voices and drive global change by bringing together and aligning national and international supply chain stakeholders towards this common objective.

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# EXECUTIVE SUMMARY



**B**etween 2022 and 2024, Cividep India studied contract manufacturing practices and their implications for working conditions in India's Ready-Made Garment (RMG) industry. The objective was to develop and operationalise a bottom-up Human Rights Due Diligence (HRDD) framework, which was then used to undertake a baseline human rights risk assessment across 3 major RMG clusters in India. In this context, a bottom-up approach has meant that the definition and assessment of human rights risks in the garment value chain have been formulated in consultation with workers, worker organisations, and civil society organisations. This ensured that workers' lived experiences directly informed the identification of risks and potential remedies.

Additionally, a dual examination of both the drivers of human rights risks (brand-manufacturer relationships/contracting practices) and its impacts (working conditions) was conducted with the aim of aiding concrete improvements in the latter. In comparison, a top-down approach of private regulation in the garment industry, such as social auditing, usually manages or treats symptoms of poor working conditions and therefore prioritises compliance rather than reducing or preventing human rights risks.

The framework aligns with international standards such as the UN Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises and the National Guidelines on Responsible Business Conduct (NGRBC). It is anticipated to enable both industry and other relevant stakeholders to implement regulations such as the evolving Corporate Sustainability Due Diligence Directive (CSDDD), other EU national-level legislations, and India's National Guidelines on Responsible Business Conduct (NGRBC).

It can be utilised by a wide range of actors in the garment industry including trade unions, workers' collectives, civil society organisations, manufacturers, international fashion brands, and other parties interested to conduct or monitor HRDD processes in global value chains.

## Global Monopsony: A Structural Challenge

A key contribution of the study is to re-examine the relationship between brands and manufacturers through the lens of monopsony capitalism. It argues that brands not only function as monopolies in the product market, but their relations with the manufacturers/suppliers are characterised by monopsony. This power dynamic, where a limited number of international companies in the Global North exert disproportionate influence over numerous manufacturers located in the Global South countries, plays a critical role in shaping the working conditions and employment practices in the garment industry.

Hence their relationship is not merely of a buyer and seller as it happens in an open market, but it is one of 'contracted production'. Therefore, the authors use the term 'contract manufacturers' and 'contract manufacturing practices' instead of the more commonly used terms 'suppliers' and 'purchasing practices.' The term 'contract manufacturers' reflects the fact that garment suppliers manufacture based on contracts with particular specifications from brands on overall production including design, quantity, cost and timeframes.

It is thus highlighted how monopsony power lends to asymmetric power relationships – such as unfair pricing strategies, short lead times, and other monopsonistic pressures – thereby forcing manufacturers to absorb costs, resulting in poor wages and precarious employment for workers.

In this way, global monopsony capitalism extracts value from production in the Global South while consolidating profits in the Global North – perpetuating structural inequities and undermining efforts toward decent work.

## A Human Rights Due Diligence (HRDD) Framework for the Garment Industry

The report follows a five-step Human Rights Due Diligence (HRDD) framework which draws on international standards, including the OECD Due Diligence Guidance for Responsible Business Conduct. This adaptable framework requires continuous monitoring and improvement of working conditions within the garment GVC with a dual

focus on contracting practices and employment outcomes. For contracting practices, data was collected from manufacturers on contractual clauses, including costing, lead time, pricing strategies, brand contributions to upgradation, and production status. For employment outcomes, data was gathered from workers on risk areas such as wage, informality, extractive labour practices, discrimination, freedom of association and the right to collective bargaining, and violence and harassment.

## Key Findings on Contracting Practices and Employment Outcomes

The findings are based on extensive data collected from owners and management personnel from 27 garment companies and 607 workers across 77 garment manufacturing firms in Bangalore, Delhi NCR, and Tiruppur.

### Contracting Practices:

- 1. Pricing strategy:** The study found that the practice of open-costing, involving granular breakdown of costs for various inputs, is endemic. Not only do manufacturers find this practice invasive, but it also prevents them from providing lump-sum quotations and leads to a margin squeeze. In addition, the study confirms that brands calculate labour costs using the lower floor of national minimum wage rather than living wage.
- 2. Cost adjustment:** Manufacturers reported that brands do not adjust for prices if there is an increase in the national legal minimum wage nor do they adjust for increase in input cost when production is ongoing for existing orders.
- 3. Lead time:** The study found that the overall lead time has fallen from 112 days five years ago to 79 days. Almost all manufacturers confirmed that they faced penalties for late delivery of orders.
- 4. Unfair business practices:** A large percentage of manufacturers reported that brands use underhanded business tactics. For example, they negotiate quotations for a large order with small margins, but eventually place a much smaller order based on the same margin.

**5. Contribution to upgrading:** The findings revealed that brands do not support manufacturers in technological upgradation nor do they contribute towards waste management or disposal mechanisms.

## Employment Outcomes:

- 1. Wage sufficiency:** While the study revealed a significant gap between actual wage and estimated living wage at 72 per cent, it also reveals a disconcerting gap between actual wage received by workers and the legal minimum wage at 30 per cent.
- 2. Informality:** The study showed that only 66 per cent of workers were covered for social security (Employee's Provident Fund (EPF) and Employee's State Insurance (ESI)). In addition only 42 per cent reported having received written appointment letters with terms and conditions of employment.
- 3. Extractive labour practices:** The study confirmed the high prevalence of overtime work (81 per cent) in the garment industry as well as inconsistent payment of legally mandated wage for overtime work, with only 40 per cent of workers receiving double the hourly wage for overtime work. In addition, the study found that only 27 per cent of workers had access to paid leave. It also confirmed the prevalence of hourly production targets (85 per cent) with negative consequences for not meeting targets.
- 4. Freedom of association and the right to collective bargaining:** The study corroborated existing literature on low levels of union membership among the garment workforce. The existence of statutory committees in factories was confirmed by 51 per cent of workers; however, only half of the respondents confirmed elections were held to ensure fair worker representation in these committees.
- 5. Discrimination:** The findings indicated a 10 per cent gender wage gap, with male workers earning more than female workers. While the gap is less significant, the findings also show that women are overrepresented in lower pay scales.
- 6. Violence and harassment:** Verbal abuse is highly pervasive with 89 per cent workers reporting on its ubiquitous practice. At the same time, more than 60 per cent workers said that physical and sexual harassment are common.



*A busy garment workshop featuring industrial sewing machines, fabric cones, and pattern designs in progress*

## Linkages between Contracting Practices and Employment Outcomes

**T**he findings are based on extensive data collected from owners and management personnel from 27 garment companies and 607 workers across 77 garment manufacturing firms in Bangalore, Delhi NCR, and Tiruppur.

A key insight from this report is the critical connection between contract manufacturing practices and working conditions. The study confirms that there is a strong possibility that the practices adopted by the brands in their relations with manufacturers have a cascading effect on working conditions, including:

- **Wage suppression:** Suppliers are unable to pay living wage or account for minimum wage increases due to rigid pricing by brands.
- **Extractive labour practices:** Not making price adjustments for changes in product design, tight lead time, last-minute order changes or sudden surge in orders lead to a host of human rights risks for workers such as excessive overtime work, hiring of contract workers, and gender-based violence and harassment.
- **Precarious employment:** Short lead time, rigid pricing and lack of long-term contractual commitments push suppliers to rely on short-term, informal, or subcontracted labour, leaving workers vulnerable to sudden layoffs.

The report advocates for fair contracting practices that allows for 'common but differentiated responsibility' between brands and suppliers to ensure decent working conditions. For instance, longer lead times and fair pricing strategies could mitigate abusive workplace practices and promote sustainable labour standards.

## From Incremental to Transformative Change

**T**his report highlights the urgent need for a worker-centric, bottom-up and outcome-driven approach to addressing systemic inequities and resultant human rights risks in the garment GVC. By situating workplace violations within the structure of monopsony capitalism, it highlights how voluntary private governance (through codes of conduct, audits, or multi-stakeholder initiatives) has failed to address systemic inequities in wages, working hours, and gender-based harassment.

True transformation, therefore, requires both a shift from voluntary to mandatory due diligence frameworks and a redefinition of regulatory goals – from short-term compliance to long-term structural reform.

This study contends that there is a need to move from voluntary to mandatory or legally required codes, with appropriate accountability, to realise the transformational change that would end human rights violations in garment (and other) GVCs.

Transformative change is defined as that which is (1) progressive, in a normative sense of achieving social justice or ending violations of human rights; (2) systemic, in addressing various factors simultaneously and in an inter-related manner; and (3) long-term, in that it cannot be easily reversed in the short-term (UNRISD). In the case of workers in garment value chains, these would be changes that enable workers to achieve the basic capabilities for human existence.

# ABBREVIATIONS

**ASI** - Annual Survey of Industries

**BHRRC** - Business and Human Rights Resource Centre

**CFRPP** - Common Framework for Responsible Purchasing Practices

**EDC** - Export Development Canada

**ESI** - Employees' State Insurance

**ETI** - Ethical Trading Initiative

**EU** - European Union

**EWS** - Economically Weaker Section

**FDI** - Foreign Direct Investment

**FGDs** - Focus Group Discussions

**GATWU** - Garments and Textiles Workers Union

**GDDP** - Gross District Domestic Product

**GDP** - Gross Domestic Product

**GLU** - Garment Labour Union

**GOK** - Government of Karnataka

**GSC** - Global Supply Chain

**GSDP** - Gross State Domestic Product

**GVC** - Global Value Chain

**HR** - Human Resources

**ILO** - International Labour Organisation

**ISI** - Import Substitution Industrialisation

**IT** - Information Technology

**ITeS** - IT-enabled Services

**KOOGU** - Karnataka Garment Workers Union

**MFA** - Multi-fibre Arrangement

**MGNREGA** - Mahatma Gandhi National Rural Employment Guarantee Act

**MNC** - Multinational Corporation

**NCR** - National Capital Region

**NSSO** - National Sample Survey Office

**OBC** - Other Backward Classes

**OECD** - Organisation for Economic Co-operation and Development

**OHCHR** - Office of the United Nations High Commissioner for Human Rights

**PF** - Provident Fund

**PLFS** - Periodic Labour Force Survey

**SAPs** - Structural Adjustment Programmes

**SRT** - Social Reproduction Theories

**UN** - United Nations

**UNDP** - United Nations Development Programme

**VDA** - Variable Dearness Allowance

# INTRODUCTION

Global Monopsony, Contracting Practices and Employment Outcomes in Garment GVCs



HRDD is looked at with a bottom-up approach, mainly from the viewpoint of workers, who often experience poor working conditions and employment relations at the workplace

This report intends to create a tangible base for initiating work on Human Rights Due Diligence (HRDD) in Global Value Chain-related (GVC) garment manufacturing in India. The objective is to look at HRDD from a bottom-up approach, mainly from the viewpoint of workers, who often experience poor working conditions and employment relations at the workplace.

These employment practices are linked to the contracting methods that the lead firms or brands use in their relations with contract manufacturers, such as using the lower floor of national minimum wages rather than living wages as the basis for their calculation of labour costs.

This study utilises a descriptive research design to explore and explain human rights risks within the garment production value chain between 2022 and 2023. Adopting a cross-sectional approach, data was collected from both workers and manufacturers. Worker data was collected between 2022 and 2023, while manufacturer information spanned the past five years. Human rights risks were categorised into labour-specific risks and firm-related risks arising from contracting practices within value chains. However, due to data limitations, direct causal links between contracting practices and labour-associated risks were not established. This research was conducted in phases, beginning with a literature review and contextual understanding that led to the development of a new Human Rights Due Diligence Framework with indicators and targets. This was followed by creating an index score methodology based on the indicator framework, assisted by a descriptive analysis of identified human rights risk areas to assess their severity. Data collection occurred in two phases: in the first phase, data was gathered from 607 workers in export-oriented firms across Bangalore in Karnataka, Delhi NCR, and Tiruppur in Tamil Nadu. Worker collectives and labour rights organisations supported the data collection process. The second phase involved collecting data from 27 supplier factory management teams on contracting practices, with the process facilitated by an industry expert. A multi-stage stratified sampling method was used to select workers, ensuring representativeness based on firm size, gender, and job roles. To collect data on contracting practices, firms were selected using a purposive-snowballing technique. The study's descriptive design led to an exploratory data analysis using basic descriptive statistics. An index scoring method was used to determine the severity of labour-specific human rights risks, employing

specific indicators and benchmarks for each risk area, similar to the Sustainable Development Goals (SDGs) Indicator framework. A national-level analysis was done by aggregating cluster-level data, with cluster-wise index scores provided in the Annexure.

The report is divided into two parts. The first part sets out the nature of the garment GVC and then outlines an HRDD structure and process. It includes the aggregate findings of the surveys carried out on employment conditions in three clusters – Bangalore, Delhi NCR, and Tiruppur, and the different types of contracting methods used by lead firms or brands. The objective of this report is to establish a framework and methodology for setting up and using an HRDD system through a bottom-up approach. The concluding section of the first part, sets out how the report can be used both in garment manufacturing countries and brand-headquarter countries. The second part of the report includes an Annexure, with technical aspects including methodology. However, this report can be read and used easily without going through the Annexure.

# CHAPTER 1

## Garment GVCs as Monopsony Capitalism<sup>1</sup>



*Workers in a garment factory sorting and inspecting stacks of clothing on the production floor*

The most common form of monopoly capitalism is based on the monopolisation of knowledge in technology, designs, and trademarks through an intellectual property rights regime. This monopolisation enables monopolies (depending on the degree of monopoly in the product market) to earn monopoly profits. This has also been referred to as intellectual monopoly capital (Pagano, 2014; Rikap, 2021). The fact that GVCs include not just brands as monopolies in the product market, but that their relations with their suppliers are monopsonistic, was first put forward in Ashok Kumar (2020) and Dev Nathan (2020). This analysis was subsequently generalised in Nathan (2021) and applied in detail to the Indian garment industry in Nathan, Bhattacharjee, Rahul, et al. (2022).

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1 Some of this analysis is adapted from Nathan (2021) and Nathan, Bhattacharjee, Rahul et al. (2022).

By dealing with Global Value Chains, the study extends the analysis of monopsonies from employer-worker relations to that between brands and contract manufacturers.

As a system analogous to that of a monopoly, a monopsony is defined as the existence of one or a few buyers dealing with many suppliers of the input commodity. The exact term for a market with a few buyers is oligopsony, which is the term used in Nathan (2020). This is similar to oligopoly, where there are only a few sellers on the product market. With oligopsony, the analysis focuses not only on the power of the buyers

in the market but also the collusion among buyers, such as when employers come together in “no poaching” agreements. In this study, the term monopsony is used to denote the concentration of buyer power in global garment value chains.

In dealing with GVCs the analysis of monopsonies is extended from relations between buyers or brands, and suppliers or contract manufacturers, to include that between employers and workers. Rikap (2022) uses the term “contract manufacturers” instead of the more commonly used, “suppliers”. The term “contract manufacturers” reflects the fact that garment suppliers manufacture on contract. They do not manufacture and then seek buyers on the market. Instead, their manufacturing is based on contracts for supplying garments with particular specifications and in given quantities within specified timeframes. On the other hand, suppliers, such as coffee or tea growers, usually produce first and then try to sell the produced output. Some of this production may also be carried out on the basis of a contract, in which case that would also be a relationship based on contractual production. The GVC has a two-way monopsony relationship. The first is between the brand and the contract manufacturer; the second is between the manufacturer (or service provider) and its workforce. The interface between these two forms of monopsony needs to be brought out in the analysis of GVCs as monopsonies.

What is the nature of global monopsony capitalism? A monopsony in the input market

In global monopsony capitalism, a brand's buying power in the input market is built on a monopoly in the product market.

is built on a monopoly in the product market. As Joan Robinson (1969) puts it, “The most important cases of monopsony will occur in connection with monopoly. A monopolist must necessarily be a monopsonist of the factors which he employs” (1969: 227). The crucial factor in the creation of the monopoly-monopsony relationship is that of the monopoly created or

supported by intellectual property rights (IPR) protection such as the Trade-Related Aspects of Intellectual Property Rights (TRIPS) regulation of the World Trade Organisation (WTO).

The structure of production under monopoly capitalism has changed to what we now call Global Value Chains (GVCs), Global Production Networks (GPNs) or Global Supply Chains (GSCs). This change occurred because Multinational Corporations (MNCs) shifted away from vertically integrated production systems, which once combined design, manufacturing, branding, and marketing. Instead, MNC headquarters began to concentrate solely on pre-production tasks (design) and post-production tasks (branding and marketing), while outsourcing manufacturing. This concentration on core competence (Hamel and Prahalad, 1990) was also a concentration on tasks where the MNCs had knowledge protected by intellectual property rights in the forms of patents, copyrights and trademarks. This could enable them to secure rents or excess profits. Commoditised knowledge required for production, which secured only competitive profits, was outsourced. This outsourcing was not to buy from the market but to engage in contracted production. Furthermore, offshoring was based on labour arbitrage or the use of differences in wage rates between brand-headquarter countries and supplier countries.

For outsourcing to be global offshoring, there needs to be a crucial international difference in wages for the same tasks. This leads to labour arbitrage becoming the hallmark of GVC offshoring. It should be added that there is also arbitrage in environmental services, as both the costs of services such as clean water and the usually neglected cleaning up of waste products are much lower in supplier countries when compared to brand-headquarter countries (Nathan et al., 2022).

Offshoring to supplier countries of the Global South vastly increased the number of workers who could be drawn into GVC production of both goods and services. While

Offshoring of production in Garment GVCs was based on labour arbitrage or the use of differences in wage rates between brand-headquarter countries and supplier countries

this process had started with the smaller East Asian and Southeast Asian economies such as South Korea, Taiwan, and Thailand, it picked up steam with the opening up of China, the breakup of the Soviet Union and the opening up of India, all in the period between 1986 and 1991.

Richard Freeman (2005) pointed out that with the opening of these economies, the addition of 1.47 billion workers from these countries more than doubled the size of the world's connected labour force. Freeman estimated that since these new entrants brought little capital with them, the global capital/labour ratio was reduced by 55 to 60 per cent from what it would otherwise have been. This shift in the balance between capital and labour, favoured capital. Andrew Glyn predicted that it would reverse the post-Second World War shift in the distribution of income in favour of labour (Glyn, 2002; Glyn, 2006). This would be due to the increase in, "Marx's reserve army of labour going global", as a result of which, "the bargaining chips would be in the hands of capital to a degree not seen since the industrial revolution" (Glyn, 2006).

A crucial difference between this value chain offshoring and earlier external relations of monopolies was that those earlier relations did not involve any investment of capital by the monopolies—it was distinct from Foreign Direct Investment (FDI) carried out by MNCs. Since the suppliers were not integrated into the ownership structure of the MNCs, very little cost was involved in switching from one supplier to another, especially since many countries had the basic managerial and worker capabilities in labour-intensive manufacturing, such as in the production of garments, shoes, and related consumption goods that dominated offshoring in the first phase.

With the continental economies of China and India undergoing the Lewisian transition, shifting workers from agriculture to industry and modern services, the result was hyper-competition among the supplier economies of the Global South. This hyper-competition for offshored employment was reflected in the various tax concessions and restrictions on workers' rights to form trade unions and to strike as seen in Export Processing Zones (EPZs). The formation of GVCs is the birth of global monopsony capitalism.

Through power dynamics in global monopsony structures, brands secure the benefits of lower input prices. While value is extracted by low-priced production in the Global South, it is ultimately captured by brands in the Global North

## 1.1 Value Capture in Monopsony

One can distinguish between two forms of value capture in GVCs. The first is that of the normal method of labour arbitrage. This GVC practice takes advantage of differential wages for the same tasks performed in different locations.

For example, Information Technology (IT) engineers in India are paid a fraction of what their counterparts performing the same tasks in the Global North would have received. This is the normal method of value capture, exemplified in Arghiri Emmanuel's *Unequal Exchange* (1972) and for analysis of contemporary labour arbitrage, in John Smith (2017), Dev Nathan (2018) and Intan Suwandi (2019).

The second method of value capture is through the purchase of inputs, whether of gendered labour, agricultural products, or environmental services, at prices below their costs of production, as discussed in Nathan et al. (2022). Marx's prices of production are the sum of the various inputs that go into making a product, plus a normal or competitive profit. This is also a neo-Keynesian definition of cost. Following this line of analysis, the cost of production and reproduction of labour power can be taken to be the living wage. For example, one estimate points that garment workers' wages are less than 25 per cent of living wages in Bangladesh and Sri Lanka, 35 per cent in India and Cambodia, and over 40 per cent in China and 54 per cent in Malaysia (AFWA, 2021). With monopsony introduced into the scenario, it is necessary to make a distinction between sites of value extraction and value capture. The low prices of labour, agricultural products, and environmental services all reduce the cost of production in supplier factories. However, through the operations of power in global monopsony structures, brands capture the benefits of lower input prices. Value extraction from low-priced inputs may occur in the sites of production in the Global South, but that value is captured, through the dynamics of monopsony relations, by brands in the Global North.

Consequently, there is not only an accumulation of profits for the brands, but also a transfer of surplus from the Global South to the Global North. This has been called a reverse subsidy (Nathan et al., 2022). It is a reverse subsidy in a double sense, as a subsidy extracted from the poorest sections of producers in the value chain is also transferred from the Global South to the Global North. In this capture of surplus,

There is not only an accumulation of profits for the brands, but also a transfer of surplus from the Global South to the Global North, called as reverse subsidy

IP-protected rights over monopolised knowledge are combined with monopsony in global markets for labour and other inputs. This provides a succinct characterisation of global monopsony capitalism, where global monopsony is combined with the structures of monopolies.

## 1.2 Degrees of Monopsony Power

The monopsonistic power of brands in relation to contract manufacturers is not the same across all GVCs. The degree of monopsony power vis-à-vis contract producers depends on two factors: the complexity of the knowledge required and the ease with which suppliers can be switched. The first determines the ease of entry, while the second decides the ease of exit. In the case of garments, where production knowledge is relatively simple, it is easier for new producers to enter this segment. This would increase competition among suppliers and, therefore, the monopsony power of brands would be greater. On the other hand, where the knowledge required in production is more complex—for instance, in IT services, the monopsony power of brands would be lower.

Similarly, where the producer can switch to another line or product, monopsonistic power would be lower. In the case of electronics, an assembler of TVs could switch to the manufacture of other electronic products, such as assembling PCs, or products related to health, automobiles, or aerospace (Raj-Reichert, 2018). Electronics producers could then have a degree of freedom in their relations with buyers. Providers of IT services have the greatest freedom to switch. IT is a general-purpose technology, used in all areas of production, and nowadays, even in social and political interaction. From providing IT services in, say, the finance sector, an IT service provider could easily switch to any other sector, such as engineering or health. The main cost of switching would be that of acquiring the necessary domain knowledge. However, there would be no large capital expenditure on plants and equipment.

On the other hand, garment manufacturers either have no possibilities, or, at best, very limited possibilities of switching. Plants and equipment for making garments cannot be used for making other products. At best, they can try to develop alternate

Garment manufacturers have inelastic supply curves, which is a weakness that is used by brands to establish monopsonistic relations with them

markets or deal with several buyers. The International Labour Organisation (ILO) study of global supply chains identifies a buyer contracting 35 per cent or more of a manufacturer's production capacity as having a high level of power over the contract manufacturer (Vaughan-Whitehead and Caro, 2017). However, even with lower shares of contracts to buyers, with brands fairly uniform in their purchasing practices, such as

The industry-specific skills of garment workers combined with their low wages, make the labour supply to this sector relatively inelastic. While worker attrition appears high, it masks their heavy dependence on garment work

providing short lead times, and calculating labour costs based on national minimum wages, there is not much that is gained by switching from one brand to another. Markets outside Europe and North America, particularly those in the Southern Hemisphere (such as Brazil and Australia), become important in providing manufacturers with orders all year round. They provide garment manufacturers with a measure of flexibility in dealing with brands.

In a technical sense, contract manufacturers have inelastic supply curves, which is a weakness that is used by brands to establish monopsonistic relations with them. One needs to look at the garment workforce as well. Is it also inelastic in supply? The high rate of attrition—often 10 per cent or more—may suggest that workers are quite elastic in their supply of labour with respect to any particular garment manufacturer. However, two factors make labour supply quite inelastic. First, workers in garment factories usually possess low educational qualifications and therefore have very limited prospects when it comes to switching to another industry. Were they to switch, they would choose industries that did not require much education, such as construction, or work in the informal sector. The skills women gain in garment factories don't transfer to other industries, so they have to start over in low-level jobs, losing any benefits tied to experience. Most end up as small-scale traders or doing low-paid piecework in informal settings. As a result, they earn even less than before, making it very hard for them to switch industries. This may also apply to workers in other sectors, where opportunities to switch industries are similarly limited. This means that labour surpluses are specific to an industry, and are not just part of a general labour surplus.

Garment workers already earn some of the lowest wages, leaving them little choice but to accept any available job, no matter the pay. Their industry-specific skills and low earnings make the labour supply to this sector relatively inelastic. While worker attrition appears high, it masks their heavy dependence on garment work.

## 1.3 Strategic Choice: Creating Zones of Monopsony

In understanding the garment manufacturing chain or any other value chain, one needs to see that monopsony is a strategic choice made by brands. In other terms, this means that monopsony is created—it is not just a condition of the market. In garment manufacturing, as with other value chains, monopsony is created at two levels: first, between brands and suppliers; and second, between suppliers and workers.

Brands usually have a choice when setting up relations with suppliers. They can set up a supply structure with many suppliers possessing short-term contracts, or they can set up a structure with a few dedicated suppliers. As pointed out, albeit in the context of the U.S. automobile industry, “There is a conflict between selecting suppliers who offer the best terms at any given point (a strategy that requires a high ability to exit from current relationships) and developing vendors with improved capabilities (a strategy that requires a long-term commitment and the development of mechanisms for technical assistance and other types of administrative coordination).” (Helper, 1991, p. 823).

Garment brands choose the first type of supplier relationship, fostering high levels of competition among suppliers (contract manufacturers) rather than partnerships that develop capabilities. This strategic choice by brands can be traced back to the chosen goal of maximising shareholder value, based on quarterly returns, compounded by financialisation.<sup>2</sup> Garment GVCs are organised to maximise competition among manufacturers as seen in the fact that major brands such as Zara, H&M, and M&S each have about 1,000 contracted suppliers. This large number of suppliers creates excess capacity; thus fostering competition among them.

At the same time, brands also act in collusion, relying on similar short-term contracts that allow them easy exit options. This uniformity reinforces their bargaining power.

By fostering intense competition among contract suppliers, brands maximise returns

Monopsony is not just a condition of the market, but is created through a strategic choice made by brands

on any cost-reducing technology investments they might make. However, as shown in Nathan, Bhattacharjee, Rahul et

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<sup>2</sup> Financialisation means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies. (Epstein, 2005)

al. (2022), the analysis of All-India Survey of Industries (ASI) data revealed that such investments did not raise profit margins, which remained between 8 to 12 per cent. Instead, larger units earned more only through higher volumes, not better returns. Along with this, Mark Anner (2019) demonstrated that garment manufacturers experienced a “pricing squeeze”, with the average price per unit paid to manufacturers decreasing over the last decade.

It has been argued by Ashok Kumar (2020) that large suppliers can change the balance of power between brands and suppliers in favour of the latter. But it needs to be added that this seems to work when the larger suppliers develop some form of hard-to-replicate knowledge and scope, such as with Arvind Limited in the case of denim manufacturing.<sup>3</sup> Rather than waiting for orders from brands, Arvind’s order book is filled up well in advance of the production year.<sup>4</sup> It is not size alone, but the simultaneous acquisition of special capabilities that are hard to replicate that enables contract manufacturers to increase their bargaining strength.

Another way to partly change the balance of brand-manufacturer power is through a combining of suppliers using their associational power, which however is not common. For example, during the COVID-induced recession in Bangladesh, manufacturers’ associational power compelled brands to pay their dues (Kumar, 2020). In contrast, this did not occur in India, where manufacturers are less organised.

These changes in the bargaining position of large firms with higher capabilities do not change the condition of workers to any great extent. For instance, these wages are just above the state-level minimum wage and do not come much closer to the living wage. The fact that profits are not much higher sets a limit to how much workers’ conditions can change. At the same time, larger and more capable firms do not adopt wage competition but provide some fringe benefits, such as better facilities at work. While

these facilities benefit workers, they also have the effect of tying workers to particular firms.

Garment brands favour competitive supplier relationships over capability-building partnerships, driven by their goal of maximising shareholder value

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3 Rhodri, C. (2023, October 10). Arvind takes denim, indigo in unexpected directions. Sourcing Journal. <https://sourcingjournal.com/denim/denim-mills/arvind-takes-denim-indigo-in-unexpected-directions-art-1234743254>

4 Arvind Limited. (2023, August 9). Transcript of the conference call on the unaudited financial results for the quarter ended June 30, 2023. Arvind Limited. [https://www.arvind.com/sites/default/files/field\\_quarterly\\_reports\\_file/Concall Transcript for Q1.pdf](https://www.arvind.com/sites/default/files/field_quarterly_reports_file/Concall Transcript for Q1.pdf)

Changes in the bargaining position of large firms with higher capabilities do not change the condition of workers to any great extent. The fact that their profits are not much higher sets a limit to how much workers' conditions can change

In the same way that brands encourage the creation of excess manufacturing capacity, manufacturers also build workforces with surplus labour for periods when there are larger orders. The volatility of these larger orders leads to the creation of such excess labour, often in informal workshops, or in homes as homeworkers. In addition to this, manufacturers deliberately employ workers who have weaker bargaining positions. For instance, migrant workers, including those who do not know the local language, are preferred as they have weak bargaining power. Women are also preferred as they are perceived to be vulnerable and less organised. They also prefer less-educated workers. All the factors listed here – migration status, gender, and poor education – create a workforce with weak bargaining power. In addition, there is a workforce that is often tied to a specific manufacturer, consisting of young women housed in dormitories, subject to strict control and forced to work whenever required.

Before proceeding, it is to be iterated that creating a supply system with many suppliers and uncertain, short-term orders is a strategic choice by brands. However, there are a few counter-examples to this. Matthew Amengual and Greg Distelhorst (2019) point out that Gap Inc. had given orders for a longer time period of five years (2019). Kuruvilla, Li, and Jackson give the example of Pangaia which had both reduced the number of suppliers and given them commitments for orders for 3 years (2021, p. 202). Finally, there are examples of brands – usually medium or small-sized – working with the Fair Wear Foundation (FWF), which have provided contracted orders based on paying a living wage incentive to workers (Fair Wear Foundation, 2000).

## 1.4 Responsibility in Contract Manufacturing

Given that brands do not directly employ workers in supplier factories, can they still be held responsible for working conditions in these factories? How can one understand the responsibility of brands or lead firms for working conditions in supplier factories across value chains? The study takes up this question before going on to see how the monopsony power of brands is reflected in business practices that influence wages and working conditions of workers in their contracted supply chains.

The first point is that contracted production is different from both arms-length market purchase and hierarchical intra-firm transfer, which are the two types of transactions conventionally analysed in the theory of the firm (Coase, 1935). At that time, contracted or out-sourced production already existed, at least in the U.S. garment industry, but the different nature of this production does not seem to have been noted by economists. In establishing whether brands have any responsibility for working conditions in contracted supplier factories, it is necessary to go into some detail about brand-supplier relations. First, it involves independent firms, namely brands and suppliers. Second, it is based on contracted production, distinct from arms-length market purchases. Third, the production is carried out based on technical specifications provided by the brand. Fourth, the product cannot be sold by the manufacturer on the market. It carries the IP-protected trademark or label of the brand and the contracts usually specify that any surplus or rejects cannot be sold on the market. They are expected to be destroyed, though many do find their way into the local 'export surplus' markets. All this makes the relationship between brands and suppliers one of contracted production, rather than just a buyer-seller relation as in arms-length purchase.

Hence, there is a need to distinguish contracted production from buying, as brands might otherwise claim to be mere buyers, implying that they have no responsibility or limited responsibility for labour conditions in supplier firms. In the 1990s, when "Students against Sweatshops" in the U.S. first took up the issue of appalling labour conditions in factories supplying to Nike and other brands of campus wear, their initial reaction was that as mere buyers, they could not be held responsible for labour conditions in supplier factories. Over time, however, brands have been forced to abandon this position and accept that they do have some responsibility for labour conditions in their contracted supplier factories. Subsequently, they have developed elaborate codes of conduct, usually incorporating ILO labour standards. In the ILO study of purchasing practices, 90 per cent of contracts, and even more in the case of garments and

There is a need to distinguish contracted production from buying, as brands might otherwise claim to be mere buyers, implying that they have no responsibility or limited responsibility for labour conditions in supplier firms

foods, have clauses about the observance of labour standards (Vaughan-Whitehead and Caro, 2017).

Consequently, one can argue that the brands themselves accept their responsibility for labour standards in supplier enterprises, whether in formal-sector factories or informal enterprises.

In a system of 'joint and distributed' responsibility that brands share with contract manufacturers, the principal burden for poor labour practices must be held by the former

In a due diligence statement required under California law, Ford acknowledged violations of labour standards at distant ends of their supply chain but claimed they were unable to address them. However, as argued by Andrew Crane (2013), Genevieve LeBaron (2020) and Nathan, Bhattacharjee, Rahul, et al. (2022), the continuation of supplier practices that violate labour standards is part of the business strategy of the brands – a strategy aimed at reducing the cost of inputs, whether of labour or raw materials.

While contract manufacturers, as direct employers of labour, share responsibility for poor labour conditions, brands exert monopsony power that significantly influences these conditions. However, through their monopsony position, not only do brands capture the higher profits from a reduction in input prices, but also seriously constrain suppliers with regard to the establishment of labour conditions. Pricing based on minimum wages, short-term and uncertain orders, and high production targets are features of brands' business practices that promote low wages and precarious employment, gender-based violence and harassment, and other forms of intersectional or conjugated oppression (Shah and Lerche, 2018), whether of caste or community, on the shop floor. At the ends of the supply chains, they promote child labour and bonded labour, with over-representation of women and girls and other marginalised communities. While brands do not directly create these forms of oppression, they enable the persistence of these forms through reduction in labour and input costs. Consequently, in sharing responsibility for poor labour practices, brands must be held to have the principal responsibility in a system of "joint and distributed" responsibility shared with suppliers.

For instance, there is an early expulsion of young women (usually after the age of 35) from employment in garment factories. When brand representatives carry out inspections and audits, do they not notice that the sewing floors are consistently staffed by young women? Can they not see the link between this age pattern and the intense workloads driven by the short lead times that brands impose on their suppliers? The moral and human rights angles of the deployment of monopsony power need to be recognised by actors in GVCs, including in the new avatar of platform hyper-enterprises.

## 1.5 Monopsony Power of Brands in Contract Manufacturing

The base of monopsony power is that of an inelastic supply of labour and other inputs with respect to changes in their prices. This is analogous to the condition for monopoly power being an inelastic demand with respect to price. A shop in a town, such as a tea plantation in West Bengal or Assam in India, can price its products above the market price since its customers would incur considerable transport costs in accessing the outside market. If maintaining higher prices is a mark of the business practice of monopolies, what are the business practices of monopsonies? These business practices utilise the base of inelastic supply to create monopsonies.

Manning's basic model of monopsony assumes that employers set wages (2003). Recent discussions in the U.S. about the non-competitive behaviour of corporations have focused on non-compete agreements, where employees give up the right to join or start a competing business (Colvin and Shierholz, 2019). The U.S. President's Executive Order on Promoting Competition (2021) also focuses on non-compete agreements.

Similar contract practices that restrict the rights of supplier firms and workers' rights in GVCs can also be highlighted as markers of monopsony. A study by the ILO (Vaughan-Whitehead and Caro, 2017) of purchasing or more generally, business practices in global supply chains<sup>5</sup> tells us something about how monopsonies demonstrate their power in dealings with suppliers. The study covered 1,454 suppliers from 87 countries in most manufacturing industries, including garments, food, chemicals, and metals. It covered five areas of business practices between brands and suppliers: contract clauses, technical specifications, order placement (and lead times), prices and market power, and requests for social standards.

Brands use competition in the supply market to force down prices, sometimes below the cost of production. Suppliers from countries with low Human Development Indices (HDI) were more likely to sell below costs, compared to those from high-HDI countries

As would be expected, many suppliers depended on a very limited number of brands. 54 per cent depended on one brand for at least 35 per cent of their production, which Vaughan-Whitehead and Caro define as a high dependency risk. Interestingly,

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5 The ILO prefers to use the term global supply chains in place of global value chains.

In India, lead times in garment manufacturing have gone down from around 90 days before 2008 to just about 30 days in 2018-19

54 per cent of suppliers with a high dependency risk were from countries with a low Human Development Index (HDI), while just 20 per cent of suppliers from countries with a high HDI faced dependency risks.

One-third of suppliers said that they sold below cost due to pressure from brands, while 55 per cent of suppliers reported selling below cost. There is pressure from competition in the

supply market, but brands use that competition to force down prices, sometimes even below the cost of production. Suppliers from countries with low HDIs were more likely to sell below costs, compared to those from high-HDI countries. Countries with low HDIs are part of the Global South, while those with high HDIs are part of the Global North. In addition to contracting below costs, 75 per cent of brands refused to adjust prices for increases in the legal minimum wage. In Bangladesh, this went up to 83 per cent of brands refusing to adjust prices for increase in legal minimum wage. As the authors point out, this contracting position of most brands went counter to their public statements asking for an increase in national minimum wages in Bangladesh and Cambodia (Vaughan-Whitehead and Caro, 2017).

A feature of contracts is mandated reductions in lead times over a period of time. Only 17 per cent of suppliers thought that their orders had sufficient lead times. In India lead times in garment manufacturing have gone down from around 90 days before 2008 to just about 30 days in 2018-19 (Nathan, Bhattacharjee, Rahul, et al., 2022).

Unwritten contracts allow brands to impose interpretations that benefit them at the expense of suppliers. There were unwritten contracts with 35 per cent of suppliers; the incidence was higher in South Africa (46%) and Bangladesh (38%), but lower in China (25%) and India (23%). Only 45 per cent of contracts specify who would be

Contract manufacturers' strategic choice of hiring a vulnerable workforce with poorly-developed capabilities is linked to the brands' creation of a monopsony relationship with manufacturers, characterised by unstable and uncertain orders

responsible for costs incurred when there were changes in order specifications. Small suppliers with weak bargaining positions did worse than large suppliers. Large suppliers with more than 1,000 workers, had clauses making the brand responsible for changes in orders. There have been instances of brands changing the colour scheme in garment orders with medium and

small suppliers, and refusing to bear the extra cost, even where suppliers had already purchased the fabric (Author's Interviews with Indian suppliers, 2018-19).

Many of the purchasing practices of brands had consequences for workers. Suppliers who were "bullied by brands" (Vaughan-Whitehead and Caro, 2017, p. 21) to sell below costs, paid 11 per cent lower wages. However, suppliers with diversified portfolios of brands 'compared to single buyers' paid 20 per cent higher wages. A brand's dominant position is associated with a 23 per cent increase in the number of temporary workers. Imposing prices below costs of production also results in a 20 per cent increase in the number of temporary workers. The authors conclude that their study, "highlights the fact that the relationship between brands and their suppliers helps to explain wages and working conditions at the end of the supply chains in terms of the high number of working hours, stressful work rhythms and also low wages" (Vaughan-Whitehead and Caro, 2017, p. 21).

What is seen here is that brands utilise their monopsony power to impose various kinds of, what are often described as, "unfair business practices". These range from forcing suppliers to contract below cost to refusing payment for cost increases due to changes in contract specifications or increases in the legal wage that suppliers must pay workers. These "unfair business practices" are based on the monopsonist power of brands. They can be labelled as the real business practices of monopsonies, with the frequency and intensity of their occurrence varying with the extent of the monopsony power of the brands.

Are these practices merely responses to prevailing labour force conditions, or can they be attributed to deliberate strategic choices by manufacturers to exert power over workers, influenced by the monopsony conditions to which they are themselves subject? There are alternatives to employing poorly educated and vulnerable workers. An alternative would be developing a workforce with well-developed capabilities.

However, that is tied to the nature of brand-manufacturer relations. If brands adopted

In a human rights due diligence framework, it is contracting practices that are the critical area of action for brands. Thus, they need to be included in any HRDD framework

a strategy of developing their contract manufacturers' capabilities, then the latter, in turn, could be forced to adopt a corresponding policy of building and continually developing a more skilled workforce. Therefore, the

contract manufacturers' strategic choice of hiring a vulnerable workforce with poorly-developed capabilities is linked to the brands' creation of a monopsony relationship with manufacturers, characterised by unstable and uncertain orders.

The constraints on manufacturers as a result of brand practices is an important point to consider when creating a workable framework to end human rights violations in garment supply chains. A two-step process is required here. First, there needs to be a change in the contract manufacturing practices enforced by brands, and along with that, a change in the employment conditions of workers in factories. The well-known U.S. garment agreement that ended sweatshop conditions in the early twentieth century was a three-way agreement between brands, manufacturers, and workers (Anner and Bair, 2016).

There can be some limited scope for workers in large garment firms to bargain for improvement in employment conditions (Kumar, 2020). Even these changes, positive though they are, do not amount to the transformative change that is needed to end human rights violations or sweatshop conditions in factories. There may be an increase in wages and other benefits, but they do not amount to the payment of a living wage. For that, industry-wide intervention is needed. This could be of the type undertaken by the ILO's Maritime Labour Agreement (ILO, 2006) or a mandatory-Human Rights Due Diligence requirement with clear benchmarks to track progress and impose sanctions on violating firms.

In this chapter, some of the well-known contracting practices reflecting the monopsonistic structure of garment GVCs have been discussed. In a human rights due diligence framework, it is contracting practices that are the critical area of action for brands. Thus, they need to be included in any HRDD framework.

There is a competitive race among developing countries to secure contracts from international brands across global value chains, driven by the misguided notion that low wages are the key factor in this competition

However, there is no one-to-one relationship between brand contracting practices and employment outcomes. Take, for instance, the matter of unreasonable hours and a high speed of work. This is created by both the low national minimum wage rates used to calculate labour costs and also the short lead time of



*A workspace with industrial sewing machines, garment patterns, and thread spools ready for stitching*

fast fashion. Overall, the labour outcomes are the result of the whole ensemble of contracting practices. Therefore, the proposed HRDD framework needs to list adverse contracting practices by brands and assess the action taken on them.

## 1.6 Role of the State

The study has considered the role of brands and their contracting practices in impacting working conditions in GVCs. However, both brands in the Global North and manufacturers in the Global South are regulated in various ways by their respective States. States have important roles to play in setting standards, even if they leave matters to be settled in the market, ignoring the play of power in markets. States in the Global North are often concerned about the power of monopolies in the markets for products, such as those involving smartphones or laptops. However, they have not yet shown much concern in dealing with the monopsony power of brands in their relations with input suppliers in the Global South.

Therefore, governments in the home countries of global brands need to regulate their monopsony power. For instance, when brands violated contracts in the wake of the Covid-19-induced recession, governments in the Global North did not hold them accountable. How countries of the Global North should regulate the monopsony power by brands is an issue that is beyond the remit of this study. However, the study seeks to emphasise that the states of the Global North have responsibilities in this matter. Recent legislations on human rights due diligence such as the EU's Corporate

Sustainability Due Diligence Directive (CSDDD) and the German Supply Chain Due Diligence Act (LkSG), are a step in this direction.

Likewise, there is a competitive race among countries in the Global South to secure contracts from global brands across GVCs, a competition driven by the monopsony power of these businesses, leading to a race to the bottom and poor employment outcomes for workers. As discussed in the chapter, this is due to a misguided notion that low wages are the key factor in this competition. What is important is per capita productivity, which is enhanced by adequate wage, that help to retain workers with skills and security of employment.

Therefore, reducing the risk of human rights violations requires governments in the Global South to enforce laws concerning wage, safety, and working conditions. In fact, governments should take steps to increase wage levels as a way of increasing worker productivity. For example, recent reports in the media suggest that the ILO is supporting the Indian government to develop a living wage standard.<sup>6 7</sup> This is a right step by the State towards the formulation of a realistic living wage and measures for phased implementation. Similar efforts by States in the Global South are required to address other areas of employment outcomes identified in this study.

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6 ET Online. (2024, March 26). India plans to replace minimum wage by living wages by 2025; Here's what it could mean. The Economic Times. <https://economictimes.indiatimes.com/news/how-to/india-plans-to-replace-minimum-wage-by-living-wages-by-2025-heres-what-it-could-it-mean/articleshow/108795967.cms>

7 Deccan Herald. (2023, September 15). Indian government plans to shift from minimum wages to living wages. Deccan Herald. <https://www.deccanherald.com/business/economy/indian-government-plans-to-shift-from-minimum-wages-to-living-wages-3158311>

# CHAPTER 2

## Human Rights of Labour in Employment

**E**mployment, defined as earning an income under employer-determined conditions, is a means to achieve a dignified human life. That requires the development of capabilities, such as those concerning nutrition, health, education, and gender equality. These are generally measured on a macro scale by the Human Development Index (HDI), developed and assessed by the United Nations Development Programme (UNDP). Along with the HDI, there are labour-specific development standards related to labour rights. In this chapter, the connection between human rights and labour rights is discussed.

For this study, the human rights of labour have been taken as those related to wage sufficiency, security of employment, compulsory labour/extractive labour practices, discrimination in wages and employment, freedom of association and right to collective bargaining, and elimination of gender-based violence and harassment. All these rights are covered in various ILO Conventions and Resolutions and the key ones constitute the ILO Declaration on the Fundamental Principles and Rights at Work (adopted in 1998 and amended in 2022). These are obligations and commitments that are inherent to ILO membership. They do not require any further ratification processes by ILO members.

The ILO Fundamental Principles and Rights at Work are:

1. Freedom of association and the effective recognition of the right to collective bargaining
2. Abolition of all forms of forced or compulsory labour
3. Effective abolition of child labour
4. Elimination of discrimination in respect of employment and occupation
5. A safe and healthy working environment

At an operational level, the ILO Declaration of Fundamental Principles and its Conventions form the template for discussion and intervention in labour matters. In this chapter, their connection to the UN Human Rights Declaration (1948), the Declaration on Economic, Social and Cultural Rights (1966), and the Convention for the Elimination of All Forms of Discrimination against Women (1979) is shown.

Furthermore, since the report aims to leverage the European Union's (EU) HRDD laws to address human rights risks in GVCs, particular attention is paid to the European Social Charter of 1961 (Council of Europe, 2015). By extending the HRDD framework to the sphere of international economic relations, especially in GVCs, it is expected that the EU will stand by the Social Charter it had formulated for its own workers and populations, and accept that it should be applied to workers from other countries as well. Applying the same principle of a living wage does not mean having the same wage across countries, but using the same principles and methods for calculating a living wage. One cannot, as the German Supply Chain Due Diligence Act (LkSG/SCDDA) (Gazette, 2021) in GVCs does, simply state that the national minimum wage will be taken as the living wage. As cited in various reports, it is patently not so for manufacturing countries in the Global South (AFWA, 2022).

This study shows the connection between the formulation of labour issues such as wage sufficiency, security of employment, extractive labour practices, discrimination in wages and employment, freedom of association and the right to collective bargaining,

and elimination of gender-based violence and harassment; along with their connections to human rights instruments.

By extending the HRDD framework to the sphere of international economic relations, it is expected that the EU will stand by the Social Charter it had formulated for its own workers and populations, and accept that it should be applied to workers from other countries as well

## 2.1 Wage Sufficiency

**W**age sufficiency is defined as a living wage. As the Global Living Wage Coalition and Nathan (2021) point out, the concept of a living wage has been around for a long time. Adam Smith wrote about it. It is included in the 1919 Founding Declaration of the International Labour Organization (ILO). The UN Declaration of Human Rights (1948), the European Social Charter (1961), and the UN International Covenant on Economic, Social and Cultural Rights (1966)

The Universal Declaration of Human Rights (1948) defines a decent wage as enabling a standard of living adequate for health and well-being, including food, clothing, housing, medical care, necessary social services, and security against unemployment, sickness, disability, widowhood, old age, or other uncontrollable loss of livelihood

all include the right to a decent living wage. Article 43 of the Indian Constitution, which is a part of the Directive Principles of State Policy, also explicitly mentions the concept of a living wage.

The UN Declaration on Human Rights, 1948, states as part of Article 23.3: “Everyone who works has the right to a just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection”. (Brownlie and Goodwin-Gill, 2002, p. 22).

This is reiterated by Article 7 of the International Covenant on Economic, Social and Cultural Rights, 1966, which states that:

The States that are party to the present Covenant recognise the right of everyone to enjoy just and favourable conditions of work which ensure in particular:

1. Remuneration which provides all workers, as a minimum, with: ...
2. A decent living for themselves and their families as per the provisions of the present Covenant (Brownlie and Goodwin-Gill, 2002, p. 174).

The European Social Charter of 1961 also provides in Article 4: “All workers have the right to a fair remuneration sufficient for a decent standard of living for themselves and their families” (Council of Europe, 2002, p. 11). The Universal Declaration of Human Rights (1948) sets out in some detail the components of a decent wage as, “a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control” (Brownlie and Goodwin-Gill, 2002, p. 22).

## 2.2 Non-Discrimination based on Gender or Other Identities

Equal wages or non-discrimination in wages is also a recognised principle in the Human Rights Declaration. The 1948 UN Human Rights Declaration has the provision that “Everyone, without any discrimination, has the right to equal pay for equal work,” (Brownlie and Goodwin-Gill, 2002, p. 22).

The Convention on the Elimination of All Forms of Discrimination against Women (CEDAW, 1979) calls for measures to assure equal rights in employment, such as, “The right to equal remuneration, including benefits, and to equal treatment in respect of work of equal value, as well as equality of treatment in the evaluation of the quality of their work,” (Brownlie and Goodwin-Gill, 2002, p. 216). In India, the Equal Remuneration Act, 1976, further gives effect to this principle by mandating that employers pay equal wages to men and women workers for the same work or work of a similar nature, and prohibits discrimination in recruitment, promotions, and other conditions of service.

## 2.3 Elimination of Compulsory Labour/ Extractive Labour Practices

The ILO Declaration on Fundamental Principles and Rights at Work (1998) included the elimination of compulsory labour, defined as “All work or service which is extracted from any person under the threat of a penalty and for which the person has not offered himself or herself voluntarily” (ILO, 2022). In India, the Bonded Labour System (Abolition) Act, 1976, prohibits all forms of bonded and compulsory labour, declaring any agreement or practice that compels a worker to render labour under debt or coercion as illegal and void. Further, the Factories Act, 1948, contains provisions

“The ILO Convention 190 recognises that workplace violence and harassment can be a human rights violation, a threat to equal opportunities, and is incompatible with decent work”

to regulate basic conditions of work, including maximum working hours, entitlement to overtime wages, leave with pay, and other welfare measures, thereby reinforcing protections against exploitative labour practices.

## 2.4 Elimination of Sexual and Gender-based Violence and Harassment

The recognition of sexual and gender-based violence and harassment took some time to be introduced into the discussion of human rights in the workplace. The ILO Convention 190, adopted in 2019, recognises that, “violence and harassment in the world of work can constitute a human rights violation or abuse, and that violence and harassment is a threat to equal opportunities, is unacceptable and incompatible with decent work,” and that “gender-based violence and harassment disproportionately affects women and girls” (ILO, 2019). India has The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 to prevent sexual violence and harassment against women in the workplace.

## 2.5 Freedom of Association and the Right to Collective Bargaining

Freedom of association, or the right to form trade unions, is a fundamental human right. It plays a crucial role in ensuring fair wages and ending workplace violence. It is instrumental in ensuring that such associations and the resultant collective bargaining have a critical role to play in upholding human rights, for example, concerning wages and ending violence at work. The Universal Declaration of Human Rights, 1948, states in a straightforward manner in Article 23.1: “Everyone has the right to form and join trade unions for the protection of his interests” (Brownlie and Goodwin-Gill, 2002, p. 22). The European Social Charter, 1961, includes “The Right to Organise” as Article 5 and ‘The Right to Bargain Collectively’ as Article 6 (European Council, 2015, p. 12). In the Indian context, the Trade Unions Act, 1926 affirms the right of workers to freely form and join unions. Similarly, the Industrial Disputes Act, 1947 upholds the right to collective bargaining and the peaceful settlement of industrial disputes.

## 2.6 Social Security

Social security, whether through employment-based contributions or provision by the state, entered into human rights discourse from the 1948 Universal Declaration of Human Rights. It is important to note that this foundational human rights instrument was adopted after the economic crisis and resulting mass unemployment in the 1930s.

Article 23.3 refers to the right to, “an existence worthy of human dignity and supplemented, if necessary, other means of social protection,” (Brownlie and Goodwin-Gill, 2002, p. 22). Article 12 of the European Social Charter of 1961 elaborates the “Right to Social Security” (European Council, 2015, p. 14). In the Indian context, key legislation affirms these rights. The Employees’ Provident Funds and Miscellaneous Provisions Act, 1952 secures retirement savings through mandatory contributions, while the Employees’ State Insurance Act, 1948 provides health and social insurance. The Maternity Benefit Act, 1961 ensures paid leave and protections for women during and after pregnancy, and the Payment of Gratuity Act, 1972 guarantees a terminal benefit to workers completing long service.

## 2.7 Hours of Work

**H**ours of work are often a contentious issue in employment, including in informal self-employment. Article 24 of the 1948 Universal Declaration affirms: “... the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay” (Brownlie and Goodwin-Gill, 2002, p. 22). In Article 5 of ‘Just Conditions of Work’ the European Social Charter of 1961 calls for “reasonable daily and weekly working hours...” (European Council 2015, p. 11). Similarly, India’s Factories Act, 1948 codifies these principles, stipulating that an adult worker cannot be allowed to work for more than 9 hours in any day and 48 hours in any week. The act also mandates a rest interval of at least half an hour after five hours of continuous work. However there have been recent amendments to the rules under the Act by various Indian state governments to extend the number of work hours.

For the purposes of setting standards in HRDD, the rights affirmed in key international human rights instruments need to be translated into labour standards, along with indicators and benchmarks

## 2.8 Operationalising Human Rights

**T**he earlier sections of this chapter summarise the connection between basic human rights and labour rights in employment. These rights apply to all types of employment, including work in multinational enterprises (MNEs) or within GVCs. For purposes of setting standards, these human rights need to be translated into labour standards along with indicators and benchmarks.

Transposing these rights into terms relevant to employment, the analysis uses the ILO's Fundamental Principles and Rights at Work as well as the decent labour standards as per the SDGs. Unlike ILO conventions, the Principles and Rights at Work do not need to be ratified by member countries, as ILO membership is tantamount to accepting these core standards.

Since the adoption of the ILO Principles and Rights at Work in the late 1990s, there has been much discussion about other labour standards. The adoption of decent work in SDG goals has influenced the discussion around labour standards. Living wage is not mentioned in the ILO's core labour standards but are an obvious candidate for inclusion in the Fundamental Principles. For instance, many brands and related Global Framework Agreements (GFAs) accept living wage as necessary for a dignified human life for workers and their families. Moreover, with regards to the calculation of an adequate living wage, there is the very old question of the role of women's unpaid care and other domestic work in the social reproduction of labour (Banerjee, 2019).

A feature of the Indian workforce in the garment industry is the low level of employment security. Indian labour can be employed as contract labour, which is a form of indirect employment. In the revised Indian labour laws (also known as Labour Codes), fixed-term employment adds another layer of challenge in realising employment security. In both these forms of employment, the worker has no right to secure employment as a permanent worker. The severe economic shock and psychological stress of informal employment was clear during the COVID-19 pandemic, where workers not only lost their jobs but were not even paid for the work they had done. Given that employment is the

way of securing an income, security of employment comes up as a matter of human rights.

Work should be carried out in a respectful atmosphere, where women and men are free from violence and harassment.

Freedom from violence and harassment is part of human rights conventions and is now included under the ILO Convention No. 190. This leads to the need to include a workplace free of gender-based violence and harassment (GBVH) as a human rights issue.

Studies analysing a large range of data from multiple actors in the global supply chain ecosystem do not suggest sustained improvement in working conditions, despite 25 years of private regulation of labour standards

This study contends that there is a need to move from voluntary to mandatory or legally required codes, with appropriate penalties for violations, to realise the transformational change that would end human rights violations in garment (and other) global value chains

In the Indian labour market, discrimination in employment exists not only on the basis of gender but also based on other group identities. Consequently, it is necessary to consider various identity-based discriminations along with gender discrimination as a condition of non-discrimination in employment.

## 2.9 From Incremental to Transformative Change

Like other GVCs, garment value chains have been under private regulation of labour standards. Forms of private regulation have included, among others, social auditing mechanisms and various other efforts through Multi-Stakeholder Initiatives (MSIs). There have been several evaluations of the benefits of such private regulation, primarily utilising data from audit firms. Summarising the results of 25 years of such initiatives will help establish the case for changing from private or voluntary regulation to some form of public or legal regulation of labour and human rights standards.

The ILO carried out survey-based evaluations by Daniel Vaughan-Whitehead (2014) and later by Vaughan-Whitehead and Caro (2017). In addition, there was an evaluation based on audit company data from 2011 to 2018 across 12 countries by Sarosh Kuruvilla, Li Ning, and Lowell Jackson (2021). The ILO assessment points that the implementation of standards was mainly a matter of securing payment of contracted and legally required national minimum wages (Whitehead, 2014). The Kuruvilla, Li and Jackson study (2021) found that there was no sustained improvement in wages or the percentage of workers paid correctly. They also found that “average wages hover close to the minimum wages in most countries and industries examined” (p. 190). The performance in the area of freedom of association was even worse. Overall, the authors summarise their findings thus: “... the accumulated evidence...derived from analysis of a large range of data from multiple actors in the global supply chain ecosystem, does not suggest sustained improvement in labour rights and working conditions, despite 25 years of private regulation” (Kuruvilla, Li and Jackson, 2021, p. 191).

Both these studies conclude that the incidence of child labour has reduced to virtually

zero. However, that is the situation in what would be Tier-1 factories. Various studies (Bhaskaran et al., 2010; Nathan et al., 2018) have shown that child labour exists in small workshops and household production.

Kuruville, Li and Jackson also conclude that there are no compulsory labour practices. However, this assumption is based on a restricted definition of compulsory labour practices as involving some form of bondage. Using the ILO's definition, which includes compulsory overtime, this study shows that much of the garment workforce experiences some form of compulsory or extractive labour practices. This conclusion is made even stronger by the high prevalence of verbal and other forms of gender-based harassment in the manner of supervising garment workers to secure high work outputs.

The failure of private governance, social audits, and efforts by MSIs to bring about a basic change in improving wages, extractive labour practices, and gender-based harassment forces us to consider alternatives. The alternatives are on two axes – that of mandatory versus voluntary standards; and transformational versus incremental change. The first deals with the method of regulation while the second refers to the objective of regulation. This study contends that there is a need to move from voluntary to mandatory or legally required codes, with appropriate penalties for violations, to realise the transformational change that would end human rights violations in garment (and other) GVCs.

Transformative change is defined as that which is (1) progressive, in a normative sense of achieving social justice or ending violations of human rights; (2) systemic, in addressing various factors simultaneously and in an inter-related manner; and (3) long-term, in that it cannot be easily reversed in the short-term (UNRISD, 2016, p. 32). In the case of workers in garment value chains, these would be changes that enable workers to achieve the basic capabilities for human existence. This means that the results of transformative change would be:

1. Freedom of association for all workers, along with the right to collective bargaining.
2. Non-discrimination, particularly the absence of gender, and other identity-based discriminations in employment.
3. Living wage as the minimum wage and access to social security.

4. Employment security.
5. Abolition of child labour.
6. Abolition of all forms of compulsory or extractive labour practices.
7. Protection of bodily integrity with freedom from sexual and other forms of gender and identity-based violence and harassment.

# CHAPTER 3

## A Human Rights Due Diligence (HRDD) Framework for the Garment Industry

This chapter outlines a Human Rights Due Diligence framework for the garment industry. The framework is based on a systematic review of relevant literature on human rights due diligence, including the United Nations Guiding Principles (UNGPs) and other HRDD standards developed for various industries. The following HRDD standards have been reviewed to develop this framework for the garment industry.

- Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, Organisation for Economic Co-operation and Development (OECD, 2018)
- The Working Group’s report on human rights, transnational corporations, and other business enterprises, OHCHR United Nations General Assembly (UNGA, 2013)
- Corporate human rights due diligence: Background note elaborating key aspects by the Working Group on Business and Human Rights, OHCHR (UN Working Group on Business and Human Rights, 2018, Companion Paper I)
- Corporate human rights due diligence: Getting started, emerging practices, tools and resources by the Working Group on Business and Human Rights, OHCHR (UN Working Group on Business and Human Rights, 2018, Companion Paper II)
- Due Diligence Framework: Human Rights, Export Development Canada (EDC), (EDC, 2024)
- Human Rights Due Diligence Framework, Ethical Trading Initiative (ETI) (ETI, 2016)
- Common Framework for Responsible Purchasing Practices (CFRPP), (CFRPP, 2021)

This study has closely followed the process outlined in the “OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector,” as

it operationalises the HRDD process and is designed for the garment and footwear industry. Following the OECD Guidance serves another important purpose – most garment brands and retailers are located in the OECD countries and therefore the framework can be in sync with the policies developed, especially some of the recent legislations on human rights due diligence.

The principles that should be adopted in any HRDD framework are:

1. There should be comprehensive coverage of the human rights impacts of all business practices.
2. HRDD should be a dynamic and continuous process with scope for updates and improvements.
3. The HRDD process should differ for different sectors and industries, depending on the size and complexity of the business.
4. Continuous engagement and dialogue with potentially affected rights-holders and stakeholders should be done to identify and address human rights risks.
5. The HRDD process should have an inbuilt indicator and benchmarking system, so that it informs progress made on mitigating and preventing human rights risks, as well as identify gaps.
6. There should be regular communication with concerned rights-holders and stakeholders about the identified risks, and measures taken to mitigate and prevent them.
7. HRDD should provide for credible grievance handling and redressal.

This framework is based on standard practices related to labour and industry, as mandated by regulatory mechanisms governing each area at international, national, and local levels. It is informed by a literature review of the legal requirements (national and global), best practices, international protocols and codes of conduct.

This framework can be adopted for other countries with garment value chains. Importantly, this framework is developed from a worker-centric and manufacturing firm-centric perspective.

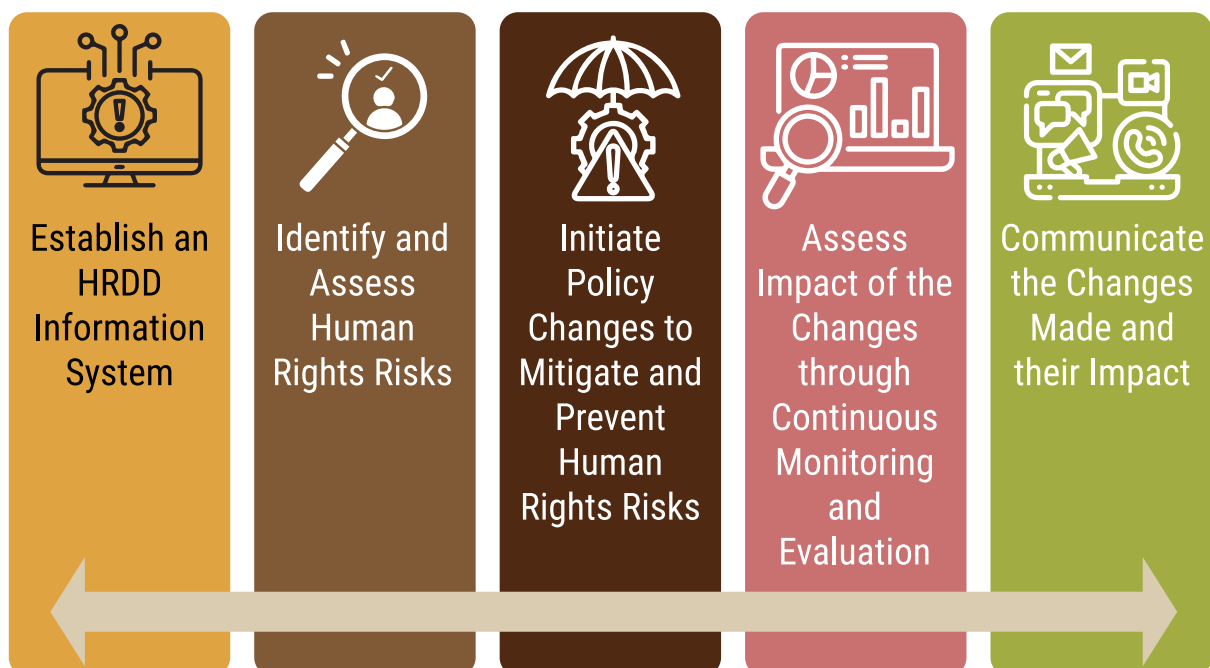
### 3.1 Scope of the Framework

The framework’s scope is two-fold – one, the listed risk areas such as lead time, wage sufficiency, informality and so on operationalise the standards for human rights due diligence; two, the regulatory aspects (example, labour laws on minimum wage is and international standards on living wage) provide

concrete benchmarks for the identified areas of human rights risks. For instance, wage is recognised as an area of human rights risk in GVCs. National legal norms on wage and international standards on wage (e.g. ILO) provide figures based on which the due diligence process gains operational meaning. This framework can be adopted for other countries with garment value chains. Importantly, this is also developed from a worker-centric and manufacturing firm-centric perspective. The conceptual aspects are operationalised taking into account the nature of the garment industry, and concrete indicators and benchmarks have been developed for measuring the prevalence and severity of human rights risks in this sector.

### 3.2 Operationalising the Human Rights Due Diligence Framework

Figure 1: Human Rights Due Diligence Framework



This framework is not an auditing mechanism for manufacturing factories. All the actors in the value chain are assessed for their involvement in the process, with brands and retailers bearing higher responsibility

Figure 1 provides an outline for the HRDD framework for global garment value chains. It is based on national legal standards as well as international labour standards. This framework is not an auditing mechanism for manufacturing factories. All the actors in the value chain are assessed for their involvement in the process, with brands and retailers bearing higher responsibility.

The human rights due diligence framework is based on two of the most important aspects of the value chain:

1. Contract Manufacturing Practices or buyer-supplier relationships
2. Employment outcomes for workers

The process is operationalised through the five stages depicted in Figure 1, though not necessarily in a linear manner. They should rather inform each other and form a feedback loop. The rest of the chapter elaborates these five stages.

### 3.2.1. Establish an HRDD Information System

This is the first stage in establishing a sound and comprehensive HRDD process. The HRDD information system lists major human rights concerns in the value chain along with the indicators required to assess the identified areas objectively. The identified areas refer to possible human rights risks in the value chain, which forms the basis for investigation and remediation. The following process facilitates the identification of areas of human rights concerns:

1. A systematic review of literature on human rights concerns in the garment value chain.
2. Consultation with experts, including trade unions and workers' collectives to validate findings from the literature review.
3. Engagement with other key stakeholders for the identified areas of risks and to arrive at corresponding indicators/benchmarks.

A defining feature of the framework is that it includes both indicators and benchmarks, which can be used to create a credible mitigation plan and timeframe for addressing human rights risks

4. Creating a system for continuous dialogue with stakeholders so that the process remains dynamic and up-to-date.

We have divided the HRDD framework into two parts. The first part deals with contracting practices of brands in their relations with garment manufacturers. The second part deals with labour and employment outcomes. The data for the first part comes from garment manufacturers, while the labour and employment outcomes data is gathered through worker interviews in three garment production clusters. A defining feature of the framework is that it includes both indicators and benchmarks, which can be used to create a credible mitigation plan and timeframe for addressing human rights risks.

### Contract Manufacturing Practices:

As discussed earlier, a two-stage monopsony operates in global garment value chains—one between brands and contract manufacturers, and the other between contract manufacturers and workers. While the areas listed below focuses on the direct relationship between contract manufacturers and brands, it also impacts the relationship between manufacturers and their workers. In short, labour and employment outcomes are impacted by brand practices through their contracts with manufacturers. For instance, short lead time by brands lead to compulsory overtime and increasing work pressure. This in turn contributes to verbal and other forms of harassment as disciplining mechanisms and supervisory control over workers. The study examines the below mentioned aspects of contract manufacturing practices:

1. Contractual Clauses
2. Lead Time
3. Pricing Strategy
4. Contribution to Upgrading
5. Production Status

## Employment Outcomes

This part of the framework outlines key human rights risks in employment and provides indicators and benchmarks measuring prevalence and severity of risks, as well as a basis for tracking progress towards prevention and mitigation. These are the main risks pertaining to employment outcomes in the global garment value chain.

1. Wage sufficiency
2. Informality
3. Extractive labour practices
4. Discrimination
5. Freedom of association and the right to collective bargaining
6. Violence and harassment

### 3.2.2. Identify and Assess Human Rights Risks

This is the second stage of the HRDD process, where mapping and assessment of human rights risks are carried out. The identified risk areas and their corresponding indicators will form the basis for data collection. The source of data would be workers, trade unions, contract manufacturers and related stakeholders. The steps listed below can be applied to identify and assess human rights risks in garment value chains:

1. Develop a methodology for mapping and assessing human rights risks.
2. Collect data from rights-holders and relevant stakeholders including workers, trade unions, manufacturers, industry experts; and other sources of public data.
3. Develop an analytical framework to analyse the data.
4. Confirm potential and actual human rights risks in garment value chains.

The analytical framework involves two steps: first, findings from the field will be used to validate the identified risk areas and indicators; second, an index score is to be created based on the selected indicators. An important aspect of this stage is that it could be used as a baseline for human rights standards throughout the value chain.

The actual output of the HRDD exercise at this stage is a set of policy documents with recommendations to mitigate and prevent the identified areas of human rights risks. For example, calculating manufacturers' labour costs based on living wages will help address some of the risks related to wage.

### 3.2.3. Initiate Policy Changes to Mitigate and Prevent Human Rights Risks

This stage calls for action by brands and manufacturers by engaging in dialogue with rights-holders, including workers, trade unions, and other relevant stakeholders. These should lead to policy commitments, and agreed upon actions to mitigate and prevent the identified human rights risks.

### 3.2.4. Assess Impact of the Changes through Continuous Monitoring and Evaluation

This stage is dependent on the first two stages in the HRDD process and makes the whole exercise dynamic and up-to-date. It relies on continuous monitoring and evaluation to ensure whether the agreed upon action is implemented and whether it contributes to mitigation and prevention of human rights risks. This stage is essential for three reasons:

- 1.** It will help ascertain the extent to which brands and manufacturers have implemented the recommendations.
- 2.** It will validate the effectiveness of the mitigation measures, identify any gaps, and facilitate revisions as needed.
- 3.** It will give an accurate picture of progress made in addressing human rights risks.

### 3.2.5. Communicate the Changes made and their Impact

Developing an effective communication channel for HRDD is a crucial part of the whole process. The developments at each stage of the process and any tangible results need to be communicated to all rights-holders and stakeholders in the value chain on a regular basis. Communication is important to ensure that the process is transparent, as

per the principles outlined in the UNGPs. Each preceding stage of the HRDD process will contribute to this step.

The outputs for HRDD communication include:

1. Annual Human Rights Due Diligence Reports by brands.
2. Methodology adopted for the HRDD process.
3. Periodically updated and accessible information on ongoing HRDD processes.
4. Up-to-date information on impacts, outcomes, progress, and gaps.

Thus, the HRDD process is a dynamic one wherein existing human rights risks are identified and action is taken to mitigate and prevent them. It simultaneously acts as an early warning system for emerging areas of risks through continuous assessment of actions and progress made.

# CHAPTER 4

## Designing Benchmarks and Indicators for HRDD



**Wage Sufficiency**



**Informality**



**Extractive Labour Practices**



**Discrimination**



**Freedom of Association and the Right to Collective Bargaining**



**Violence and Harassment**

This chapter outlines the process for validating the HRDD framework explained in Chapter 3. The next section operationalises the identified areas of human rights risks as well as contract manufacturing practices. The indicator framework outlined in section 4.1 provides an operational definition. However, benchmarks and targets for measuring progress have only been developed for employment outcomes.

## 4.1 Developing Benchmarks and Indicators

**H**aving operational definitions make the due diligence process outcome-oriented rather than simply being a process for compliance. It is important to remember that human rights due diligence should lead to concrete change in the situation of human and labour rights in value chains. For operationalising the areas of risk, a method similar to the Global Indicator Framework for the Sustainable Development Goals (SDGs) was adopted. Through a literature review and consultations with stakeholders, the study arrived at operational definitions for the two main aspects, i.e., contract manufacturing practices and employment outcomes.

### 4.1.1 Selection of Indicators

Three main criteria are considered to ensure that the selected indicators are suitable for monitoring and tracking the identified areas of risk.

- **Relevance and applicability across geographies:** The indicators should be drawn from internationally or nationally recognised standards. This allows for comparison and easy application across countries. International or national standards also help in setting the quantitative thresholds.
- **Statistical adequacy:** The indicators should be valid (accurately measure the intended construct) and reliable (produce consistent results).
- **Ease of access, timeliness, and data quality:** The indicators should allow for data to be captured easily through a survey or other forms of data collection methods including those that are updated in a timely manner as part of public data sources [e.g., Periodic Labour Force Survey (PLFS), National Sample Survey Office (NSSO), Annual Survey of Industries (ASI) etc.]. Moreover, credible and quality data is important to ensure the statistical adequacy of indicators. Hence data should be drawn from official national or international sources (such as national statistical offices or international organisations) or other reputed sources, such as peer-reviewed publications or primary data.

## 4.1.2 Setting Targets (or benchmarks) for Indicators

The study adopted the methodology of the Global Indicator Framework for the SDGs to set specific targets for indicators. For each indicator, 'targets' (also called "technical optimums" or "upper bounds") were determined using the following criteria:

- **Use quantitative thresholds drawing from national or international standards:** For example, if the target is zero child labour in a factory, then the indicator would be the number or percentage of children working in the factory.
- **Where no explicit target is available, apply the principle of 'leave no one behind':** For example, if the aim is to ensure no discrimination, exclusion or mistreatment of people on the basis of one or more aspects of their identity, the indicators should be designed to capture pro-active anti-discriminatory policies as well as affirmative actions.
- **Where the above two criteria are not applicable, consider the best practices in the manufacturing sector (and others where applicable):** For example, to set a target for closing the gap between actual wage and living wage, a measure of 30 per cent was arrived at by taking the average of the top five high-paying manufacturing industries in India (source: wage data from the Periodic Labour Force Survey (PLFS) on manufacturing industries in India) [for more details see Annexure]

## 4.1.3 Indicators: Contract Manufacturing Practices

This table outlines indicators for the five areas of contract manufacturing practices. However, no targets have been formulated for these practices due to two reasons. One, no regulated standards exist to quantify or assess contract manufacturing practices. Two, the data was collected from a limited number of manufacturing firms, thereby limiting the scope for quantitative analysis.

Table No 4.1: Indicators: Contract Manufacturing Practices

Areas of Risk	Indicators
Contractual Clauses	A written contract for each order
	Manufacturer's involvement in setting contract clauses
	Processing of payments according to the contract clauses
Lead Time	Flexibility in lead time
	Cost adjustments caused by changes in orders
Pricing Strategy	Inclusion of workers' wage in pricing strategy
	Inclusion of capital cost in pricing strategy
	Inclusion of raw material cost in pricing strategy
Contribution to Upgrading	Investment in technological upgradation of the factory
	Investment in pollution control technologies
	Continuous business engagement
Supplier Autonomy	Share of production allocated to one buyer
	Share of production allocated for exports

Source: Authors' creation

#### 4.1.4 Targets and Indicators: Employment Outcomes

This table explains targets and indicators for the six areas of risk related to working conditions in the garment value chain. This forms the operational basis for the second aspect of the HRDD framework i.e., employment outcomes.

Table No 4.2: Targets and Indicators: Employment Outcomes

Areas of Risk	Target	Indicator
Wage Sufficiency	The gap between living wage <sup>8</sup> and actual wage should be less than 30% <sup>9</sup>	The gap between actual wage and living wage
	All workers are paid at or above the region's legally mandated minimum wage <sup>10</sup>	The gap between actual wage paid and minimum wage
Informality	All workers have access to social security (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI)) <sup>11</sup>	The share of workers having access to social security (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI))
	All workers receive an appointment letter with key employment terms ( <i>job title, wage, working hours, social security, and period of employment</i> )	The share of workers receiving appointment letters with key employment terms ( <i>job title, wage, working hours, social security, and period of employment</i> )

8 The living wage figure used in the study is INR 33,920 per month. This is the living wage figure for India released by the Asia Floor Wage Alliance (AWFA) in 2022. The rationale for using the AFWA living wage figure is because their methodology of calorie-based estimation and the earner-dependent ratio for family size is very close to the ILO methodology.

9 See annexure, page 98

10 Minimum wage figures used in the study are the legally mandated minimum wage for the three regions for the year 2022, Bangalore – INR 11,587; Delhi NCR – INR 10,243 (the minimum wage for Haryana has been used since workers interviewed were from Gurugram and Faridabad), and Tiruppur at INR 9,785

11 Social security comprises Provident Fund (PF), Employee State Insurance (ESI), Maternity Benefit, and Gratuity. This assessment, however, is limited as it does not cover the latter two.

Areas of Risk	Target	Indicator
<b>Extractive Labour Practices</b>	Overtime work should not exceed 20% <sup>12</sup> of total working hours in a week	Share of overtime work in total work hours in a week
	All workers are paid a legally mandated wage for overtime work	Share of workers receiving legally mandated wage for overtime work
	All workers have 12 days of paid leave in a year <sup>13</sup>	Share of workers having access to 12 days of paid leave in a year
<b>Discrimination<sup>14</sup></b>	No wage gap between male and female workers for the same job	Actual wage gap between male and female workers for the same job
	No children should be involved in the production process including home-working	Involvement of children in the production process including home-working
<b>Freedom of Association and the Right to Collective Bargaining</b>	All workers are free to join any trade union	Share of workers having trade union membership
	All workers are aware of grievance redressal mechanisms and there is fair worker representation in them.	Presence of worker/ union representation in grievance redressal mechanisms.

<sup>12</sup> See annexure, page 105

<sup>13</sup> Chapter VIII of Factories Act, 1948 mandates that every worker who has worked for a period of 240 days or more in a factory during a calendar year shall be allowed during the subsequent calendar year, leave with wages for a number of days calculated at the rate of one day for every twenty days of work performed by him/her during the previous calendar year

<sup>14</sup> Discrimination as a human rights risk in the garment value chain is captured here in terms of gender wage gap and the presence of children in the production process including home-working. Other forms of identity-based discrimination were not part of the inquiry.

Areas of Risk	Target	Indicator
Violence and Harassment	Zero prevalence of violence and harassment (physical, sexual and verbal) in factories	Prevalence of verbal abuse in factories
		Prevalence of sexual harassment in factories
		Prevalence of physical abuse in factories

## 4.2 Design of the Study

The study adopted a mixed method research design – a convergent parallel design (Schoonenboom and Johnson, 2017; Cresswell and Plano Clark, 2011)<sup>15</sup>. How does this approach work? The quantitative and qualitative strands of the research are carried out independently, and results are brought together in the overall interpretation. The study uses both descriptive and multivariate classification analysis, where the former outlines the features of due diligence standards, while the latter creates an index for the identified human rights risks.

The site of inquiry is the Indian garment industry and the geographical focus of the study is the three major garment production clusters in India:

1. Bangalore, Karnataka
2. Delhi National Capital Region (NCR), Gurugram and Faridabad<sup>16</sup>
3. Tiruppur, Tamil Nadu

### 4.2.1 Contract Manufacturing Practices

Data on contract manufacturing practices was collected from 27 garment manufacturing firms in the three production clusters. Detailed interviews were conducted with key factory management personnel to capture the five aspects of contract manufacturing practices outlined in Table 4.1.

<sup>15</sup> Schoonenboom, J., & Johnson, R. B. (2017). *How to Construct a Mixed Methods Research Design Wie man ein Mixed Methods-Forschungs-Design konstruiert*. KZfSS Kölner Zeitschrift für Soziologie & Creswell, John W., and Vicki L. Plano Clark. 2011. *Designing and conducting mixed methods research*. 2nd ed. Los Angeles: Sage

<sup>16</sup> The data is limited to Gurugram and Faridabad regions of the Delhi NCR. The report uses the term 'Delhi NCR' to refer to Gurugram and Faridabad.

*Table No 4.3: Data on Contract Manufacturing Practices*

<b>Region</b>	<b>Number of Firms</b>	<b>Number of Interviews</b>
<b>Bangalore</b>	10	10
<b>Delhi NCR</b>	10	10
<b>Tiruppur</b>	7	7

*Refer to the annexure for additional details on the methodology*

## 4.2.2 Employment Outcomes

Data on employment outcomes was collected through worker interviews in each of the three production clusters. 607 workers across 77 firms in these three clusters were interviewed. Trade union and workers' collectives, and community-based organisations in each of the regions supported the data collection process.

*Table No 4.4: Data for Employment Outcomes*

<b>Region</b>	<b>Number of Firms</b>	<b>Number of Workers</b>
<b>Bangalore</b>	19	205
<b>Delhi NCR</b>	32	201
<b>Tiruppur</b>	26	201

# CHAPTER 5

## Contract Manufacturing Practices in the Indian Garment Industry

### 5.1 Introduction

The brand-supplier relationship in contract manufacturing is different from a simple buyer-seller relationship in several ways. First, the brand-supplier relationship is primarily between two different independent firms i.e., brands and suppliers. Second, it is a relationship based on contracted production, which differs significantly from the practice of arm's-length purchasing in the market. Third, production is carried out according to technical specifications provided by the brand. Fourth, the product cannot be sold by the manufacturer in the open market. It carries an Intellectual Property (IP) protected trademark or a similar label of the brand, and the contracts specify that any surplus or rejects cannot be sold on the market. In fact, they are expected to be destroyed, though many do find their way into the local 'export surplus' markets. All this makes the relationship between brand and supplier one of contracted production, rather than a simple buyer-seller relation, which happens with arm's-length purchases. Consequently, the brand-supplier relation is not one of open-market buying and selling, but of contracted manufacturing. In a sense, the contract manufacturers are outsourced manufacturing departments of the brands, with the qualifications that they are legally independent firms, not branches, and that they often manufacture for more than one brand.

The study proposes the term 'contract manufacturing', instead of the commonly used 'buying/purchasing practices' due to an important distinction between contract manufacturers and suppliers – the former manufactures to order, while the latter manufactures and then finds buyers

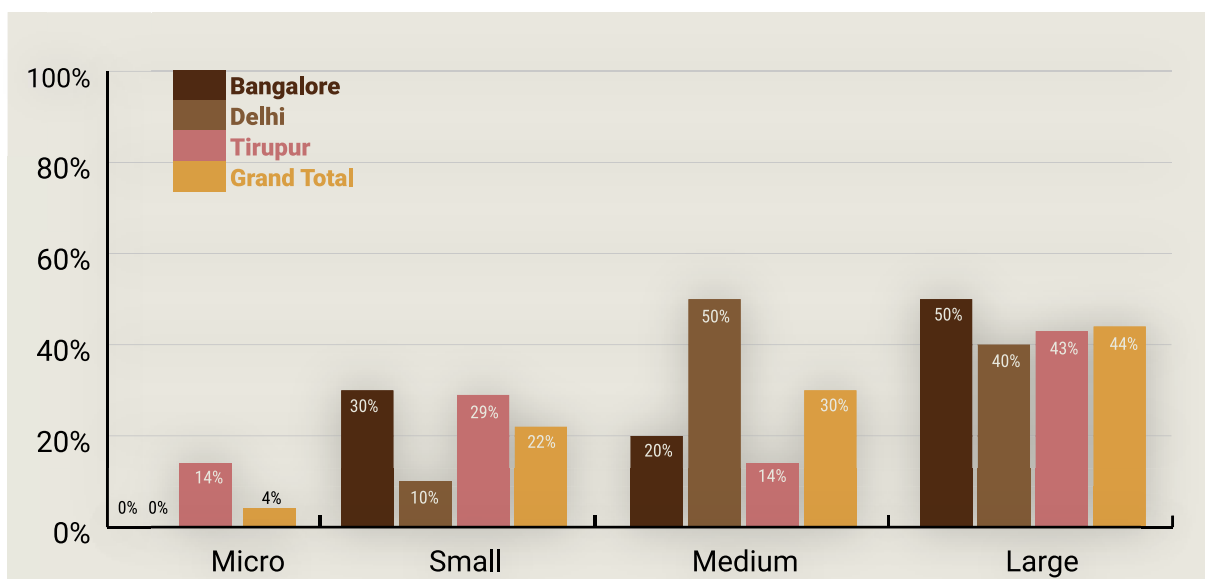
Therefore, the study proposes the term, 'contract manufacturing practices', instead of the commonly used 'buying practices' or 'purchasing practices'. This is not the only usage of the term 'contract' or 'contracted manufacturing' for production in GVCs. In the electronics industry, for instance, the term 'contract manufacturers' is used for entities that would be called suppliers in the garment industry. The important distinction

between contract manufacturers and suppliers is that the former manufactures to order, while the latter manufactures and then finds buyers.

In their contracted relationships with manufacturers, brands are responsible for ensuring that human rights principles of, say, a living wage, apply both at their headquarters and in production locations. While national conditions mean a living wage in the EU will be a multiple of those in Asia, the principle of a living wage in national contexts should hold in both cases. In the remainder of this section, the study will use the shortened term ‘contracting practices’ instead of the longer ‘contract manufacturing practices’.

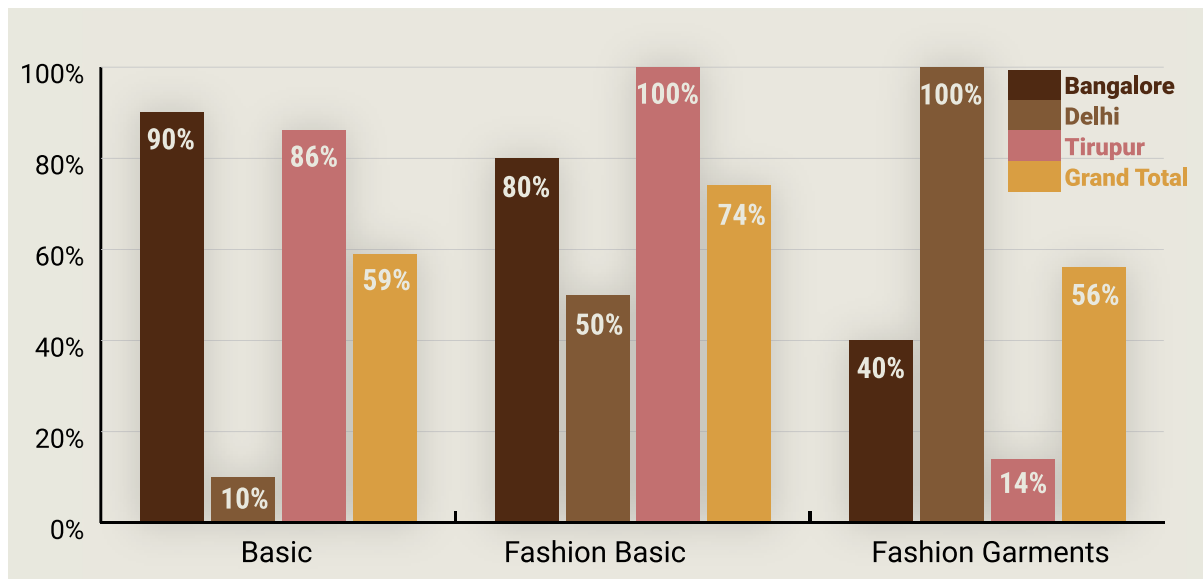
To understand the current scenario concerning contracting practices in the export garment industry in India, a survey was conducted. Data on these practices were collected through a questionnaire survey involving owners or senior executives of 27 garment factories, distributed among three clusters of Bangalore (10 interviews), Tiruppur (7 interviews), and the National Capital Region (10 interviews). The size-wise distribution of firms in the different clusters is provided in Table 5.1. Of these, 44 per cent were large sized firms, which is not proportionate to the percentage of large firms in the industry as a whole. On the premise that large manufacturers are likely to have more bargaining power than medium or small firms, our results will reflect this and consequently do not overstate the incidence of negative practices.

*Figure 5.1: Size of Firms Interviewed in the three Garment Clusters (n=27)*



The firms are classified according to the complexity of the products they manufacture: basic (e.g., T-shirts), fashion basic (e.g., ladies' tops), and fashion garments (e.g., embellished and designer wear). This is shown in Figure 5.2. In Delhi NCR, manufacturing of fashion garments is higher, while Tiruppur mainly caters to basic and fashion basic garments. Bangalore falls in between the two, manufacturing more fashion garments than Tiruppur, but less than Delhi NCR.

Figure 5.2: Type of Product in the three Garment Clusters (Multiple Choice)



The classification of data by firm size and product complexity allows us to discuss whether these two factors – the size and complexity of the product – could work as countervailing factors in offsetting the monopsony power of brands. This discussion is taken up after setting out the broad contours of contracting practices as revealed in the sample study.

In a method called open costing, garment suppliers are asked to submit a detailed breakdown of final prices by listing various input costs, instead of quoting a lump-sum price. Suppliers found this method very invasive

## 5.2 Setting and Modifying Prices

Pricing is a key part of contracted manufacturing. In setting prices, instead of asking for a lump-sum price, garment suppliers are asked to submit a breakdown of the final prices by listing the costs of various inputs. In a method called open costing, contracted manufacturers are required to submit detailed cost breakdowns. As a supplier had remarked, they found this cost breakdown very invasive. All firms in the sample reported having to submit detailed and open costing (Annexure, Part 4, Table 3).

Suppliers reported that brands do not adjust prices for increases in legal minimum wages or inflation, even though suppliers must comply with such costs

It should be pointed out that the cost breakdown system used to be the method of bidding in the early stages of the global operations of Indian IT firms. As they established their reputation as prominent suppliers, they were able to switch to lump-sum quotations. In fact, the largest suppliers, such as TCS and Infosys, fix the margins, which are around 25 per cent, below which they do not accept orders. The insistence on detailed cost breakdowns that are seen in the garment value chain is itself a measure of the market power of brands.

Once contracts have been signed, do brands take account of cost changes that might take place while production is ongoing? For instance, legal minimum wages might increase during the period of a contract. All suppliers shared that brands do not adjust prices for any increase in legal minimum wage, which suppliers have to comply with (Annexure, Part 4, Table 7) nor do they adjust prices for any inflation which could increase input prices. However, suppliers are expected to secure a contracted supply of inputs, which needs to be done at fixed prices immediately after securing the order. Therefore, inflation in input prices is not something for which adjustment would be expected. However, an increase in the minimum wage which suppliers have to legally comply with is also something for which brands do not make any adjustments.

What about changes in product specifications such as colour schemes? Such changes in product specifications would have an impact on production costs since inputs would have been contracted and those contracts would need to be renegotiated. However, even in this situation, for which the brands are responsible, 19 per cent of suppliers said that brands do not always make an adjustment to cover the difference in prices (Annexure, Part 4, Table 14). Therefore, for 19 per cent of suppliers, a cost increase due to changes in brand specifications is pushed onto suppliers by the brands.

On the other hand, some brands were quick to reduce dollar prices when the Indian rupee devalued. Some 22 per cent of suppliers said that brands reduced prices when the Indian rupee devalued (Annexure, Part 4, Table 10). In a discussion with the then President of a manufacturers' association, he pointed out that despite instructions from the association, some suppliers succumbed to brands' demands to reduce dollar prices on currency devaluation. This reflects the weakness of suppliers who are dependent on brands to remain in business.

81% of suppliers reported brands using underhand tactics—quoting large orders to secure low prices, then slashing quantities, trapping suppliers with reduced margins

Only 19 per cent of suppliers reported that they never sell below the cost of production (Annexure, Part 4, Table 13). However, all suppliers said that brands do not reduce prices even when suppliers have to sell below the cost of production (Annexure, Part 4, Table 11). Of course, this would not occur within an ongoing contract period. However, due to the practice of open costing followed by brands, any reduction in costs would surely enter the costing requirements in the next round of contract discussions. Due to the presence of local offices of these brands, they are quite aware of technological and process changes made by suppliers and can use this knowledge to check on open-cost quotations.

In discussions regarding contracts, 81 per cent of suppliers said that they faced underhanded tactics by brands (Annexure, Part 4, Table 21). Brands would ask for quotations based on a large order. The supplier would quote a price, possibly with a smaller margin, expecting that a large order would increase the overall profit volume. Then they would be informed that the order would be much smaller. Obviously, the supplier is trapped in a situation with a lower price than what would have been quoted for a smaller order.

Unlike what was seen in the ILO study (Vaughan-Whitehead and Caro), this study did not find any instance of suppliers having no written contracts with brands (Annexure, Part 4, Table 19). 74 per cent of firms interviewed were preferred suppliers. Preferred suppliers can expect to get repeat orders. All preferred suppliers get orders for a season (Annexure, Part 4, Table 16); though 37 per cent also got batch orders alone. However, all the respondents said that being preferred suppliers helped them to invest in increasing productivity (Annexure, Part 4, Table 18).

Lead time has generally been falling with the adoption of 'fast fashion' methods of rapidly changing styles. Overall, lead time has fallen from 112 days five years ago to 79 days now, a decrease of 33 days, or 30 per cent (Annexure, Part 4, Table 15). There were penalties for being late, as was revealed by almost all (96 per cent) the suppliers (Annexure, Part 4, Table 22). In addition, 38 per cent of firms stated that quality checks were not fair (Annexure, Part 4, Table 23). Earlier, some suppliers said that they believed

Overall, lead time has fallen from 112 days five years ago to 79 days now, a decrease of 33 days, or 30 per cent

brand officials were rewarded for the proportion of garments they rejected, providing a perverse incentive for making sure that there were more rejects.

A feature of monopsony practice is that the buyers do not support suppliers in building technological capabilities. All the firms in our sample said that brands did not provide any support in investing or developing technologies for production (Annexure, Part 4, Table 31). This was left entirely to suppliers.

On top of that, brands did not contribute to waste disposal mechanisms (Annexure, Part 4, Table 30). This refusal to accept any responsibility for environmental sustainability is part of the strategy of reducing supply prices by externalising environmental costs to supplier economies.

Is there a difference between brands from different countries? 81 per cent of interviewed suppliers said that European brands were generally better than U.S. brands (Annexure, Part 4, Table 32). As far as the types of buyers are concerned, there was no difference between large retailers and designer brands (Annexure, Part 4, Table 34). Surprisingly, suppliers also thought that buyers treated them with respect (Annexure, Part 4, Table 35).

Wages were generally (74 per cent of firms interviewed) set at legal minimum wage in the contracts (Annexure, Part 4, Table 4). Around 26 per cent of the suppliers said that they paid more than legal minimum wage. This was in the form of incentive payments or higher wages for skilled workers. However, this was something the suppliers did on their own.

Along with this, almost all (96 per cent) firms said that they paid overtime wage at twice the usual wage rate as legally mandated (Annexure, Part 4, Table 5). However, from studies involving workers, it is known that daily production targets often require working more than 8 hours. This means that what is regarded as overtime is the time after the day's quota has been completed.

All suppliers reported paying equal wage to men and women (Annexure, Part 4, Table 6). However, the way gender inequality operates is through unequal job categorisation—for

Contracting practices, including short lead time and uncertain orders, impact employment practices. While only 15 per cent of suppliers reported permanent workers exceeding half their workforce, 52 per cent had permanent workers comprising less than 10 per cent

instance, women tailors are categorised as semi-skilled workers, while more men are hired as master tailors and categorised as skilled workers.

Contracting practices, including short lead time and uncertain orders, could have an impact on suppliers' employment practices. Only 15 per cent of suppliers said that permanent workers were more than 50 per cent of their workforce, while as many as 52 per cent acknowledged that permanent workers were less than 10 per cent of their workforce (Annexure, Part 4, Table 25).

When there were sudden surges of orders, which can often happen with fast fashion, 63 per cent of suppliers said that they increased the share of contract workers (Annexure, Part 4, Table

26) and 67 per cent said that they increased overtime work (Annexure, Part 4, Table 27). Even worse, 78 per cent said they increased the production targets that workers had to fulfil on a normal working day (Annexure, Part 4, Table 29). However, none of the suppliers interviewed said they subcontracted work (Annexure, Part 4, Table 28).

## 5.3 Do Contract Manufacturers Have Countervailing Power?

The study began with the hypothesis that both the size of the firm and the complexity of the product could serve as a countervailing power. Wage costs were calculated at legal minimum wage in 83 per cent of large firms as against 74 per cent overall. Large firms did not get any adjustment in prices for increases in legal minimum wage. The practice of securing a quotation for a larger quantity and then reducing the size of the order was faced by approximately the same proportion (83 per cent) of large firms compared to all firms (81 per cent). The only area where there appeared to be an advantage for large firms was in securing an increase in prices for changes in product specifications – every large firm received some adjustment in their supply prices. Overall, the study did not find much difference between large firms and the rest in terms of brand contracting practices.

Fashion garments, being the most complex of the three categories, fared better in terms of price adjustments for changes in product specifications. However, more fashion products were subjected to demands for downward dollar price adjustments due to the devaluation of the Indian rupee.

A statistical analysis was conducted to assess whether contracting practices differed with (a) firm size and (b) product complexity.

*Table No. 5.1: Chi-Square Analysis of Contracting Practices and Size of Firms*

<b>Contracting Practices</b>	<b>P-Value</b>
Open costing	0.637
Costing based on minimum wage	0.326
Taking advantage of devaluation	0.756
Selling below the cost of production	0.076
Adjustment of the costs for changing product specifications	0.362
Changes in order size	0.852
Technology sharing for waste management, etc.	NA
Adjustment for increase in minimum wage	NA
Adjustment of cost for inflation	NA
Brands contributing financially to environmental measures	NA

Source; Primary Data, n=27

The above chi-square analysis of the selected contracting practices across the size of the firms, which are classified into Large Enterprises and Micro, Small, and Medium Enterprises (MSMEs), helps understand whether there is a significant difference between the contracting practices that these two groups of firms face. Do large firms get a better deal? For the statistical analysis only 10 aspects of contracting practices as shown in Tables 5.3 and 5.4 were chosen. The statistical test indicates that, among the contracting practices listed here, there are no significant differences between large enterprises and MSMEs.<sup>17</sup> Furthermore, the last four contracting practices received

<sup>17</sup> Ministry of Micro, Small & Medium Enterprises. (n.d.). Know about MSME. <https://msme.gov.in/know-about-msme>

only one response across all the firms in the survey, indicating no variation in practices based on firm size or complexity of the product.

*Table No 5.2: Chi-Square Analysis of Contracting Practices and Type of the Product*

Contracting Practices	P-Value
Open costing	.430
Costing based on minimum wage	.639
Taking advantage of devaluation	.063
Selling below the cost of production	.859
Adjustment of costs for changing product specifications	.057
Changes in order size	.895
Technology sharing for waste management	NA
Adjustment for increase in minimum wage	NA
Adjustment of cost for inflation	NA
Brands contributing financially to environmental measures	NA

Source; Primary Data, n=27

The same chi-square analysis was carried out for the selected contracting practices across types of garment products classified into fashion and basics. Two practices – taking advantage of devaluation to seek a reduction in dollar prices and adjusting for costs on changing product specifications – show a significant difference between fashion and basics and would remain significant if the study had chosen the 0.10 criterion, rather than the 0.05 criterion, which is more appropriate for a small sample

size.

The firm survey revealed a new development. Some brands are now requesting prices to be based on landed cost, as opposed to the previous method of FOB (free on board). Landed cost adds all duties, border fees, and local charges to the cost that suppliers must bear

The conclusion from this analysis is, while the complexity of the product may make some difference in contracting practices, size of the firm alone does not appear to influence this. Moreover, on issues such as adjusting for changes in

legal minimum wage, sharing technology, adjusting for inflation, or contributing to environmental measures, there is no difference based on either the complexity of the product or the size of the supplier firm. As another analysis has shown (Nathan, 2021), a countervailing influence that could modify monopsony contracting practices is the possession of so-called choke-point technologies, such as those used in automobile component manufacturing.

The firm survey revealed a new development. Some brands are now requesting prices to be based on landed cost, as opposed to the previous method of FOB (free on board). Landed cost adds all duties, border fees, and local charges to the cost that suppliers must bear. Firms that mentioned this change in the cost method stated that their margins had decreased as a result and that they now receive prices barely enough to run the business.

## 5.4 Do Contract Manufacturing Practices Contribute to Human Rights Risks?

The table given here summarises how specific contracting practices may contribute to human rights risks. It is important to note that other forms of unfair contracting practices may also exist. However, these are the prominent ones that have emerged in this study and potentially contribute to human rights risks in the garment value chain.

*Table No. 5.3: Contract Manufacturing Practices and Potential Human Rights Risks*

S. No.	Contract Manufacturing Practices	Associated Human Rights Risks
1	Non-adjustment of labour costs for increase in national minimum wage	Non-payment of national minimum wage
2	Contracts on labour costs at national minimum wage	Non-payment of living wage
3	Not making price adjustments for changes in product design	Pushing manufacturers to use extractive labour practices to earn competitive margins
4	Squeezing manufacturers' margin	

S. No.	Contract Manufacturing Practices	Associated Human Rights Risks
5	Sudden orders with short lead time	Overtime related harassment
		Systemic verbal, sexual abuse and other forms of gender-based violence & harassment

## 5.5 Common but Differentiated Responsibility

The final employment outcomes are the joint result of the strategies and practices employed by lead and supplier firms. However, this does not mean that both sets of actors bear equal responsibility for the outcomes. Rather, within common responsibility, there can also be a differentiation. How can the responsibilities be apportioned between firms in a GVC? This question is analogous to the discussion in the climate change domain on common but differentiated responsibilities between the historically high GHG (greenhouse gas) emitters of the Global North and current growing emitters of the Global South. The study will attempt to suggest ways in which differentiated responsibility for employment outcomes in the manufacturing segment of GVCs can be addressed.

### Responsibilities of Lead Firms

The first principle that could be used for apportioning differentiated responsibilities is that the firm that has the power to influence the process of producing labour outcomes should have a greater degree of responsibility (Young, 2004, p. 381). The very term, 'lead firm', as usually used in GVC analysis to refer to brands and retailers, or 'headquarter firms', points to the critical role of brands and retailers in setting the contours of the contracting relationship with their suppliers. Using monopsony power, the lead firms set not only technical requirements but also, as seen earlier, decide

There should be a discussion of the methods of apportioning the costs of cleaning up global garment value chains. The study would like to introduce this issue in the discourse on garment and other global value chains

prices and supply conditions that the manufacturers have to accept or face the penalty of losing business. These contracting conditions in turn impact labour and employment

conditions in the supplier segments of the value chain. Hence, how can brands and retailers be held responsible for poor employment outcomes in garment value chains as lead or headquarter firms who set the terms and conditions of contract manufacturing?

If it is agreed that brands and retailers have the power to influence the processes that produce employment outcomes, the next step is to determine the basis for apportioning the costs and responsibilities of mitigation of human rights risks. Simple methods of apportioning costs would be based on relative profits or relative shares of income from the GVC. The latter is often used to portray inequality in GVCs. However, the share of income from GVCs says nothing about how much benefit is received by firms in different segments. Compared to GVC income shares, relative profit rates are easily accessible data. The list of the gross profit margins of garment brands and retailers from the U.S. and Europe, as well as garment manufacturers in India is provided below. The profit rates in 2022 are in the ratio of 5 or 6 to 1, which would mean that at least 85% of mitigation costs should be borne by brands and retailers.

*Table 5.4: Gross Profit Margins (%): Lead Firms (Europe and U.S.) and Supplier Firms (India)*

<b>Name of the Companies</b>	<b>Profit Margin</b>
<b>Europe</b>	
Zara/Inditex	60.1
H&M	52.8
Adidas	50.2
L&V	68.9
C&A	48.13
<b>U.S</b>	
Ralph Lauren	66.7
Levi's	58.3
<b>Garment Manufacturers in India</b>	
50 Garment Manufacturers	10-12

*Source: Headquarter firms from various websites. Indian manufacturers' data from Nathan et al. (2022).*

Overall, however, the analysis of monopsony in garment value chains argues that the benefits of lower labour and environmental costs are captured not by manufacturers, but by the lead firms. The monopsonist buyers can utilise competition among suppliers to secure most, if not all the benefits of lower costs. If this is so, brands and retailers should bear the entire cost of mitigation. In any case, the point of this analysis is that there should be a discussion of the methods of apportioning the costs of cleaning up global garment value chains. The study would like to introduce this issue in the discourse on garment and other global value chains.

## Responsibilities of Contract Manufacturers

The study has argued that lead firms have a responsibility to meet the costs of mitigating labour outcomes. However, there are other labour outcomes such as gender-based violence and harassment that do not always require a change in supplier prices to be eliminated. There will naturally be costs involved in bringing about changes. However, more than costs, it requires labour and employment policy changes by manufacturers. Studies show that productivity is higher in firms that institute these policies than in those that do not (ILO, 2015).

For instance, one of the firm-level policies required is to end the methods of supervision

Even while arguing for an end to fast fashion, it remains evident that suppliers possess agency to address violence and harassment at the shopfloor. ILO studies show that factories that provide a higher proportion of workers with employment security and avoid abusive supervision are more productive than others who rely on such methods

through gender-based verbal, physical, and sexual harassment. It has been pointed out earlier that the high levels of worker output required under fast fashion promote such abusive methods of shop-floor supervision. While arguing for an end to fast fashion and uncertain orders, it cannot be said that suppliers can do nothing in this matter. Studies from ILO in several countries (such as Cambodia, Vietnam, and Honduras) show that factories without gender-based abusive supervision methods fare better in productivity than factories using abusive supervision methods (Lin, Babbitt, and Brown, 2014).

Similarly, suppliers with higher proportions of workers with employment security do better than suppliers with lower proportions of such workers both in terms of productivity and in adopting cost-reducing technologies. This relationship between employment security and the adoption of cost-reducing technologies was seen in a study of 50 supplier factories (Nathan et al., 2022) and in survey data from India's Annual Survey of Industries (ASI) cited in the same book. **The adoption of such labour and gender-positive policies by suppliers will certainly be helped by commitments by brands and retailers through long-term contracts, rather than just for a season. However, it cannot be the rule that suppliers can make employment policy changes only after lead firms have changed their contracting strategy to provide long-term contracts.**

Some of the ways in which common but differentiated responsibility can be applied in garment value chains include:

1. Major reforms in the pricing of inputs, such as living wage for labour, require brands and retailers to adopt and finance living wage as the basis of labour cost calculations.
2. A major re-costing of environmental services, such as the replacement cost for clean water and effluent treatment plants for net-zero manufacturing, should be financed by lead firms and the countries that consume the products of garment GVCs in the same proportion as they consume these products.
3. Labour and gender outcomes, such as secure employment and the elimination of abusive supervision methods, should be initiated by suppliers.
4. Such improvements in labour and gender outcomes should be supported by lead firms through increase in lead time. Long-term order commitments by brands and retailers would also support such positive steps towards better labour and gender outcomes.
5. Manufacturers should commit to legitimate dialogue at the workplace by strengthening existing legal mechanisms such as statutory committees under the Factories Act 1948 and other labour laws.

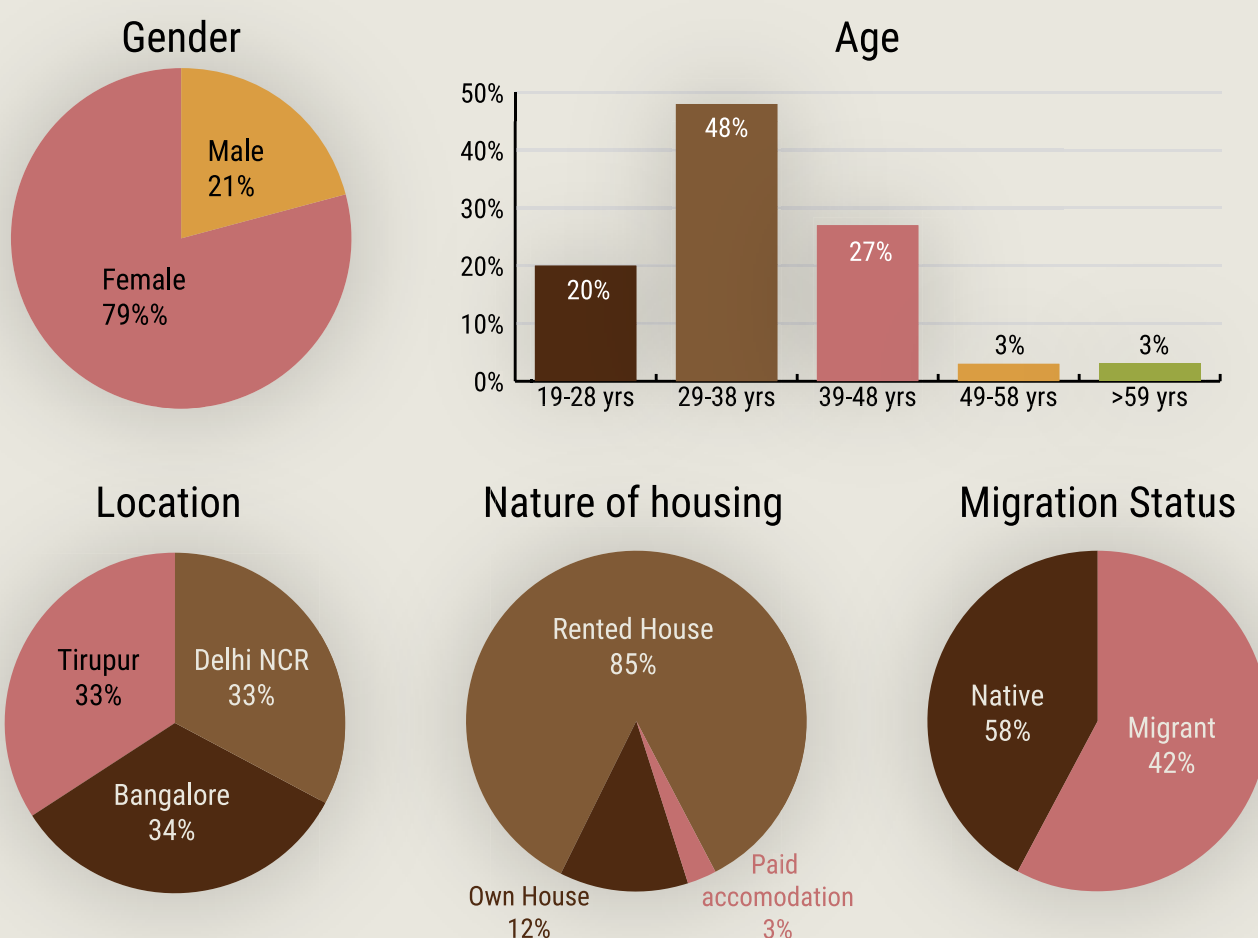
# CHAPTER 6

## Employment Outcomes in the Indian Garment Industry

### 6.1 Socio-Demographic Profile of the Garment Workforce

The below figure represents the socio-demographic profile of workers interviewed in the three garment production clusters of Bangalore, Delhi NCR and Tiruppur. The study has looked at gender, age, domiciliary status, and the type of housing.

Figure 6.1: Socio-Demographic Profile of Workers in the three Garment Clusters



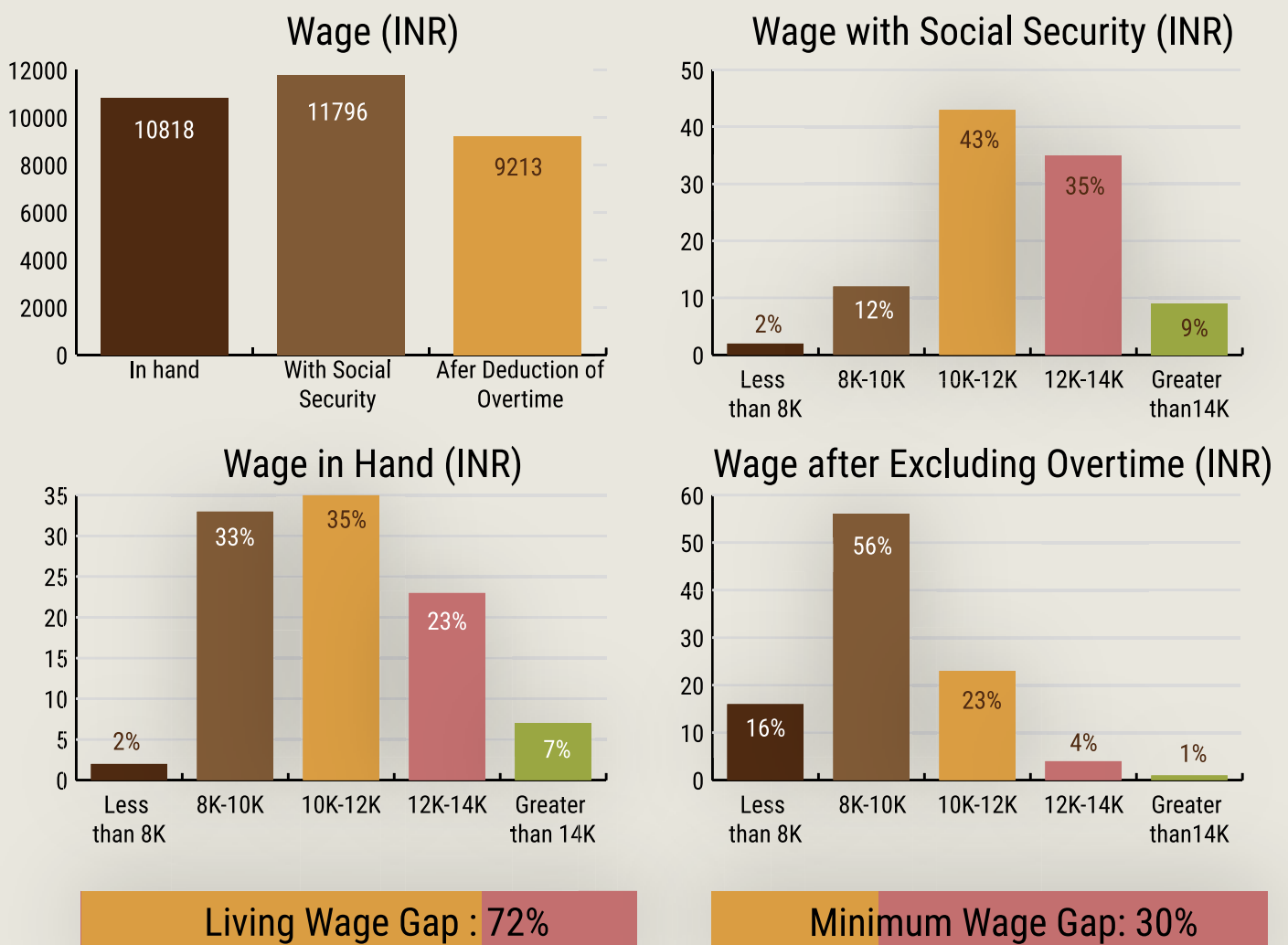
Source: Primary Data n=607

The graphs give a snapshot of the socio-demographic profile of the garment workforce in the three production clusters. It is well-known that there is a large representation of women in the garment industry, and this is linked to the industry's poor working conditions and low wage. The findings show that 68 per cent of the workforce is under 38 years of age, and 20 per cent is under 29 years of age. However, there is a substantial representation of workers aged 40 to 50 years. Regarding housing facilities, only 12 per cent of workers have ownership of their houses, whereas more than four-fifths (85 per cent) of workers live in rented accommodation. It is worth noting that workers do not own houses despite 58 per cent of them being native workers.

## 6.2 Wage Sufficiency

On the question of wage, the study examines the gap between the actual wage received by workers, the declared legal minimum wage and the estimated living wage figure for India for the year 2022.

Figure 6.2: Status of Wage in the three Garment Clusters



Source: Primary Data n=607

The gap between the estimated living wage and gross wage received by workers is 72 per cent, whereas the gap between the gross wage received by workers and the declared legal minimum wage is 30 per cent

The figures above point to insufficient wage as a striking feature of the garment industry. The gap between the estimated living wage and gross wage received by workers is 72 percent<sup>18</sup>, whereas the gap between the gross wage received by workers and the declared legal minimum wage is 30 percent<sup>19</sup>. In addition, it was found that only 1 per cent of workers report a wage that is even half of the estimated living wage, and only 4 per cent of workers report receiving wages above the minimum wage in the industry. The comparison between gross wage<sup>20</sup>, wage in hand<sup>21</sup>, and wage after

overtime deduction<sup>22</sup> is noteworthy. Wage after the deduction of overtime (INR 9,213) is significantly lower than gross wages (INR 11,796), and indicates the extent of overtime in the industry. Furthermore, in an industry where overtime work is normalised as a way to earn higher wage, this is a serious gap in the payment of minimum wage itself. As

Only 42 per cent of workers reported having received written appointment letters.

per field interviews, workers report choosing to work overtime because it will earn them more money. However, by keeping wages at such low levels, the worker is obliged to accept overtime work for additional income.

## 6.3 Informality

A critical feature of low-value-adding businesses, as in the case of garment manufacturing, is informal employment. To map informality as a human rights risk, the study focuses on three key factors that indicate informality – employment status, access to social security, and issuance of appointment letters.

The findings show high levels of informality in the garment industry. While more than two-thirds of workers reported having regular employment, 31 per cent reported that

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18 See Annexure for methodology

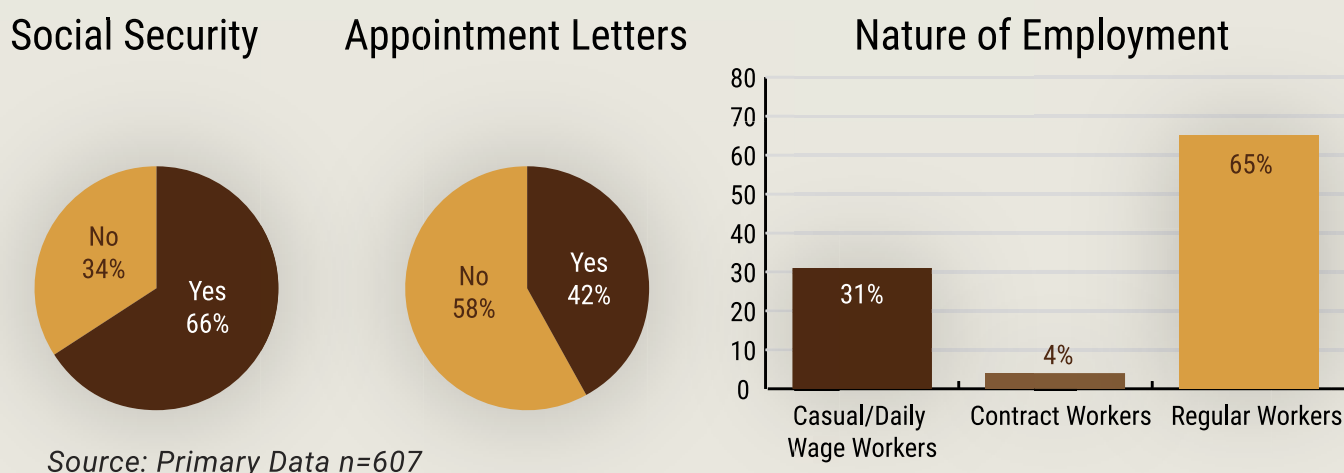
19 See Annexure for methodology

20 Gross Wage refers to the wage received by workers including social security contributions towards ESI and EPF.

21 Wage in hand refers to the wage received by workers per month excluding deductions towards ESI and EPF but including overtime wage.

22 Wage after overtime deduction refers to wage received by workers after subtracting overtime wage. To arrive at the gap between gross wage received and the declared legal minimum wage, the method followed was to take the monthly wage received in-hand, add social security deductions to it and then subtract overtime wage to arrive at the gross wage.

Figure 6.3: Informality in the Three Garment Clusters



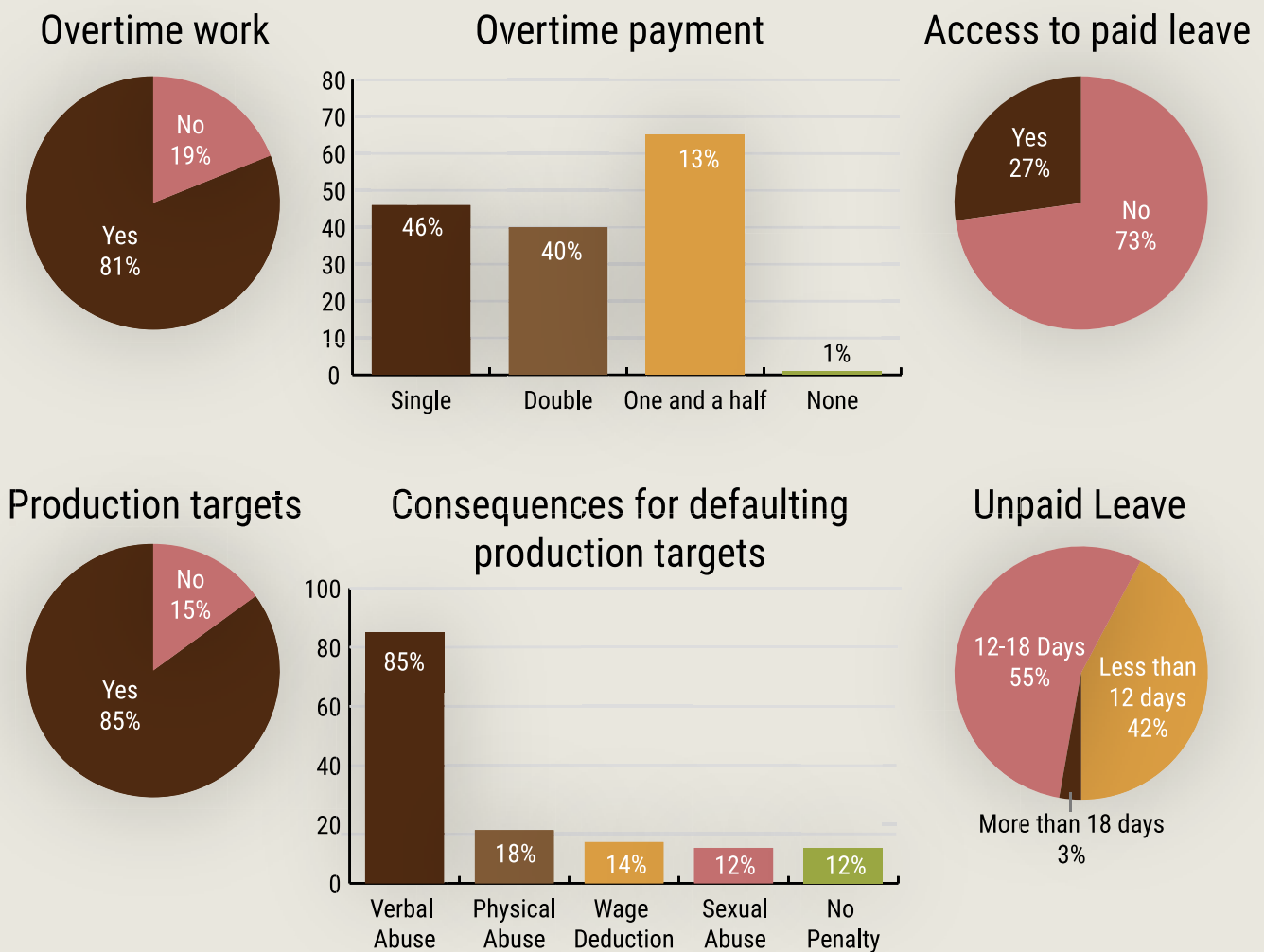
they were daily or casual workers and 4 per cent reported they were contract workers. Access to social security showed similar results – 66 per cent workers said they are covered under ESI and EPF schemes. However, only 42 per cent of workers reported having received written appointment letters. Even though more workers reported regularity of employment and access to social security, not having written appointment letters leaves workers without proof of employment, and information on the terms and conditions of employment. Without something as basic as a written appointment letter, workers are vulnerable to unlawful lay-off and termination. They are also deprived of their right to seek legal remedy or bargain for better working conditions at the workplace.

## 6.4 Extractive Labour Practices

Under extractive labour practices, the study looks at overtime work, overtime wage, paid leave, and the existence of production targets. The ILO standard on compulsory labour serves as the frame of reference for mapping the practices listed above.

Long working hours have been a major concern in the garment industry. In this study, 94 per cent workers reported a working day of 9 hours or more. 81 per cent of workers reported having to do overtime work. However, only 40 per cent of the workers, who reported doing overtime work, confirmed receiving legally mandated overtime wage, which is double the rate of hourly wage. With regards to paid leave, only 27 per cent

Figure 6.4: Informality in the Three Garment Clusters



Source: Primary Data n=607

workers reported having access to paid leave, whereas a significant proportion (73 per cent) said they cannot avail paid leave, which is a legal entitlement. Yet workers need leave as it is a necessary part of life, including for emergencies and personal matters.

Of the 81 per cent of workers who reported performing mandatory overtime work, only 40 per cent of them confirmed receiving legally mandated overtime wages. Furthermore, failure to complete assigned production targets was met with verbal abuse, as reported by 85 per cent of workers

So, there is a practice of taking unpaid leave, thereby losing payment. The study finds that almost all workers (97 per cent) avail unpaid leave ranging from 1 to 18 days in a year.

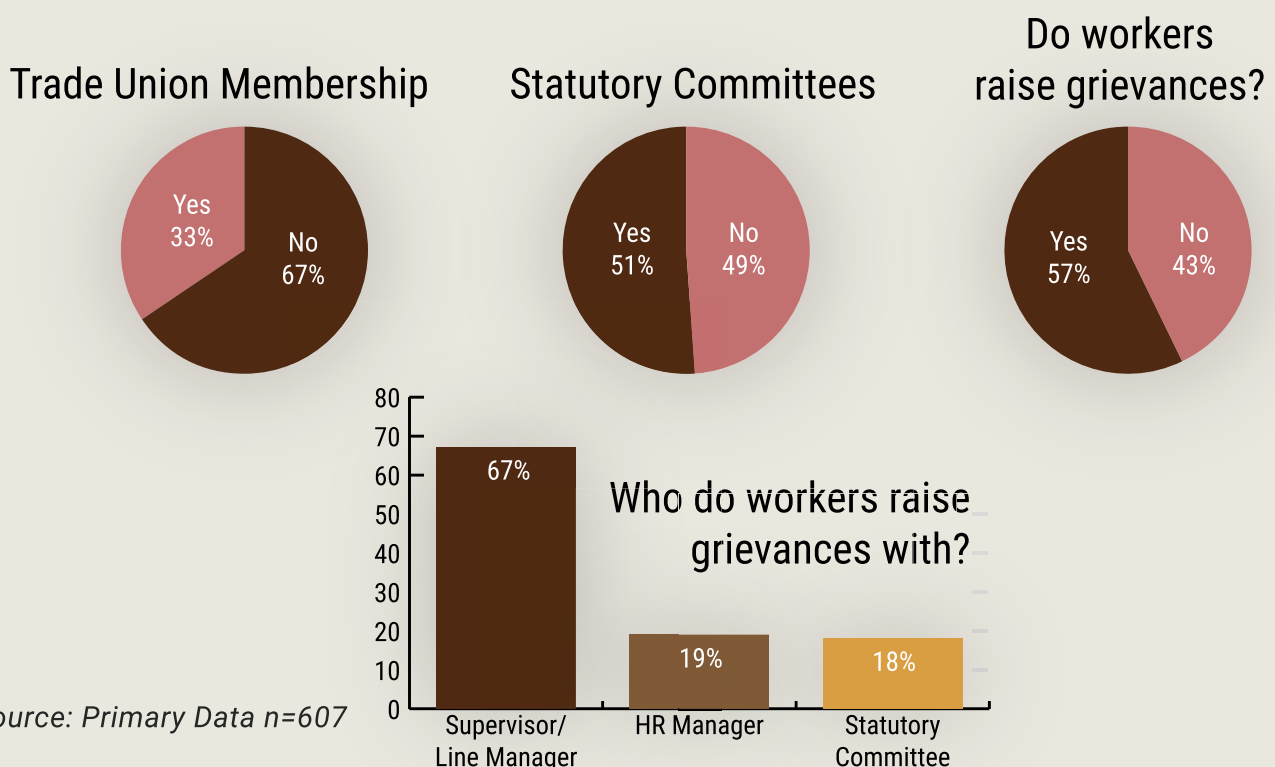
One of the severe forms of extractive labour practices seen in the garment industry is the setting of hourly production targets and penalising workers for defaulting on it. The findings confirm

the endemic presence of this practice – 85 per cent workers reported having hourly production targets. When it comes to consequences for defaulting on production targets, only 12 per cent of workers reported that there were no negative consequences, whereas an overwhelming number of respondents (85 per cent) said they faced verbal abuse if they did not complete the assigned production target. The study thus reconfirms the widespread practice of production targets and the associated human rights risks.

## 6.5 Freedom of Association (FOA) and the Right to Collective Bargaining

Freedom of association and the effective recognition of the right to collective bargaining are fundamental rights at work as per the ILO Principles. This is also a protected right in the Indian labour law. Most importantly, it is an enabling right, the fulfilment of which ensures that workers enjoy other workplace rights including adequate wage, job security, protection from violence and harassment, and access to effective remedy. Therefore, it is essential that HRDD processes identify the barriers to FOA as a priority, and enable the same in the garment value chain. This study is limited to inquiring about the presence of trade unions and membership, and the existence of grievance mechanisms in factories and worker representation in them.

Figure 6.5: FOA and the Right to Collective Bargaining in the Three Garment Clusters



Source: Primary Data n=607

While 51 per cent workers confirmed the existence of statutory committees in factories, only half of these respondents said elections were held to ensure fair worker representation in them

The findings show 33 per cent workers having trade union membership. Prima facie, the percentage of union membership can seem high contrary to what existing literature points to. This is because, in this study, two trade unions supported in data collection, thereby, possibly interviewing a large number of their members.

According to estimates, trade union density in the Indian garment industry stands at less than 5 per cent. (Fair Wear Foundation, 2019). Regarding grievance redressal mechanisms, 51 per cent workers confirmed the existence of statutory committees in factories. Out of this, only half of the respondents (52 per cent) said elections were held to ensure fair worker representation in these committees. Despite the existence of statutory committees, only 57 per cent of respondents reported that workers raised any grievances<sup>23</sup> in their workplace, either through formal or informal mechanisms. The limited use of existing grievance mechanisms could imply that these mechanisms are either not effective or functional. Other reasons could be that workers do not trust the grievance handling processes, or they do not have necessary information on reporting procedures, or the fairness of the outcome or resolution.

Even among the workers who reported having raised grievances, more than four-fifths (86 per cent) took the complaint directly to their line manager or to the HR. Only 18 per cent of workers approached any of the statutory committees. This points to the urgent attention needed to make the statutory committees and other legal grievance mechanisms credible with adequate worker representation so as to make them functional and effective. Therefore, HRDD processes should prioritise addressing gaps in access to remedy at the workplace level.

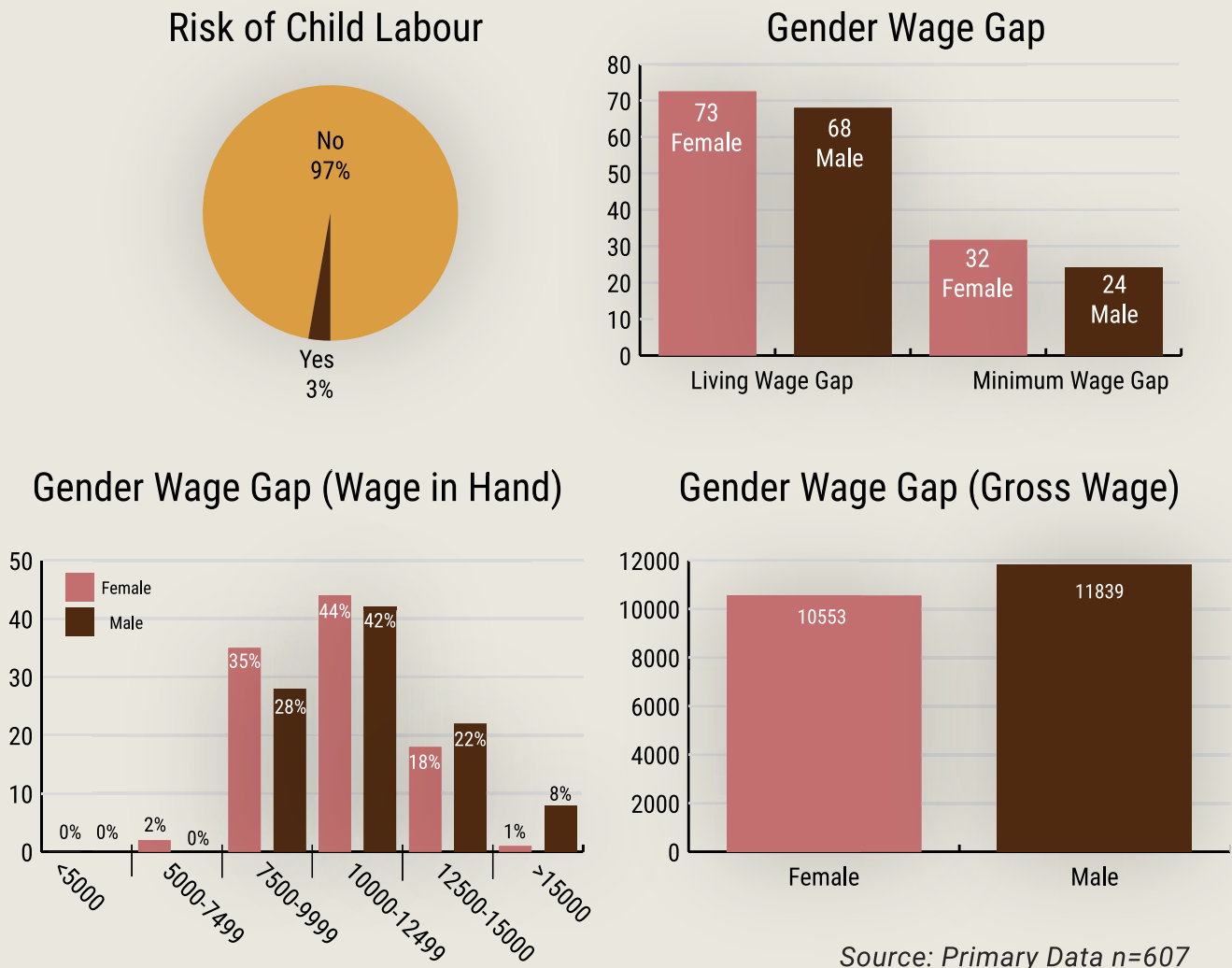
## 6.6 Discrimination

Under discrimination, only two risk areas are examined – gender wage gap and the prevalence of child labour in factories. Discrimination based on other intersectional identities was not included in the scope of the study. However, HRDD processes should take into account all or most forms of identity-based discrimination.

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<sup>23</sup> This question is not asking the respondent whether she/he has raised a complaint. Instead, it asks whether the respondent is aware if workers generally raise complaints in their factory.

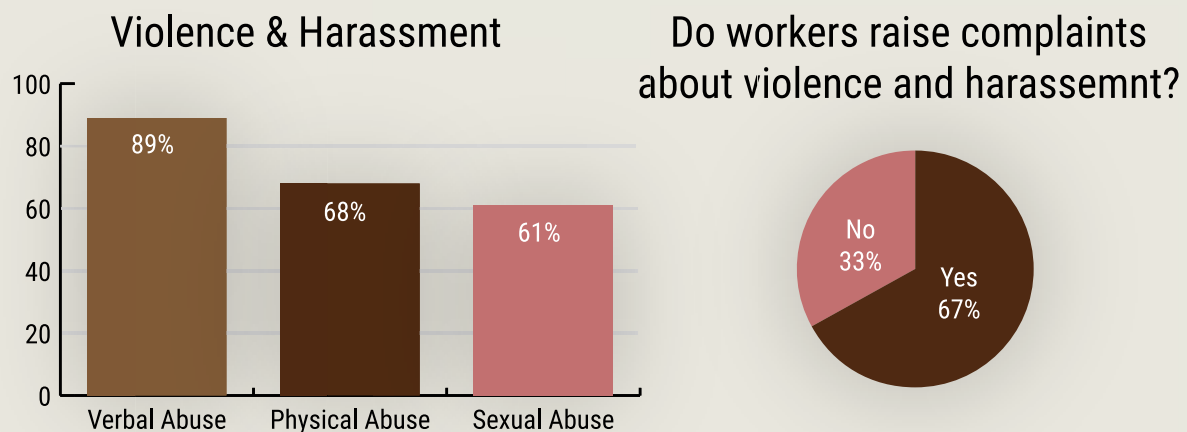
Figure 6.6: Discriminatory Practices In The Three Garment Clusters



It was encouraging to see that the study did not reveal prevalence of child labour in Tier-1 factories in the garment industry. However, 3 per cent workers reported about home-working or sub-contracting, which carries the risk of children being engaged in production.

With respect to gender wage gap, the findings show that male workers earn more than female workers with a 10 per cent wage gap between the two. The difference in wage gap between male and female workers is less significant while looking at the overall gross wage as well as wage received in hand. However, the concentration of women in lower pay scales is relatively higher than that of men indicating the disadvantaged position of women workers in the industry.

Figure 6.7: Prevalence Of Violence And Harassment In Three Garment Industry



Source: Primary Data n=607

## 6.7 Violence and Harassment

The prevalence and severity of violence and harassment in the garment and apparel industry is widely documented. The study focused on the prevalence of the most common forms of violence and harassment in the garment value chain – verbal, physical, and sexual harassment. The study also disaggregated this data by gender to determine if there are any patterns. Given the sensitive nature of these experiences, workers were asked about the overall prevalence of violence and harassment in factories, rather than their individual or personal experiences.

The study confirms the pervasive existence of different forms of violence and harassment in the garment and apparel industry. Verbal abuse is a commonly used practice to push workers to meet production targets and is reported by a large majority (89 per cent) of workers. At the same time, physical abuse and sexual harassment

Verbal abuse was reported by a large majority (89 per cent) of workers, while over 60 per cent of respondents noted physical abuse and sexual harassment.

The higher reporting of these latter forms by women workers indicates the existence of gendered violence in factories

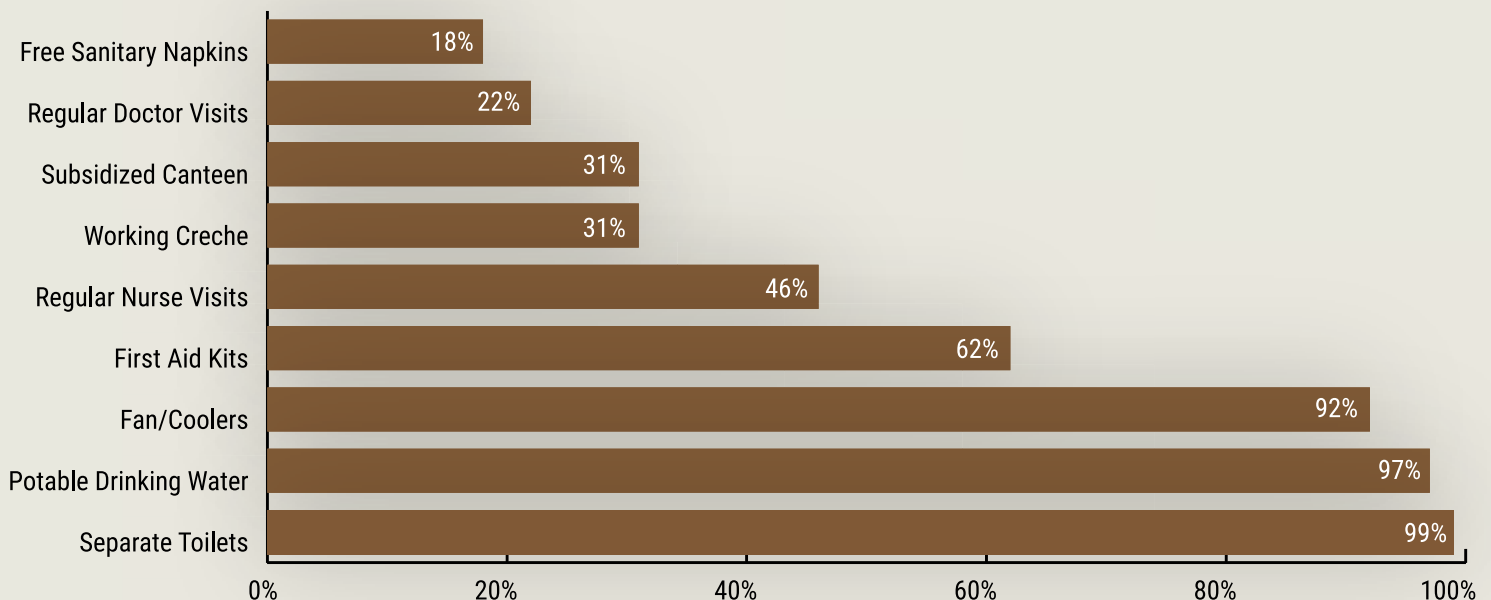
were reported by more than 60 per cent respondents. Interestingly, among workers who did not report violence and harassment, the proportion of male workers was higher than that of their female counterparts. This indicates the existence of gendered violence in factories, which disproportionately affects women workers.

In terms of reporting violence and harassment in factories, only 67 per cent respondents said that workers raise complaints.<sup>24</sup> Nonetheless, further inquiry revealed that most of the workers reported grievances to their immediate supervisors or line managers but not through formal and statutory grievance redressal mechanisms. This practice makes the redressal process informal and arbitrary, leaving minimal scope for effective and fair resolution of worker grievances.

## 6.8 Welfare Provision/Facilities in Factories

The study looks at the existence of nine basic facilities in factories. Many of these welfare facilities are mandated by the Factories Act, 1948. These facilities are the bare minimum facilities required to uphold human rights and dignity at the workplace. It is important to note that ‘welfare facility’ is not part of the main target/indicator framework devised for this study. However, in line with the ILO Fundamental Principles and Rights at Work which recognises Safety and Healthy Work Environment as one of the five main Principles, it was necessary to inquire with workers about basic facilities that contribute to safe and healthy workplaces. Therefore, this study recommends that a sound HRDD process consider workers’ access to and quality of the welfare facilities as

Figure 6.8: Welfare Facilities In Factories In The Three Garment Clusters



Source: Primary Data n=607

24 This question inquires about the prevalence of violence and harassment—physical, verbal, or sexual—and asks if the respondent is aware whether workers raise complaints about such incidents in their factory.

a critical area of human rights risk.

Almost all workers reported having access to basic facilities like separate toilets for men and women (99 per cent), drinking water (97 per cent), and fans/coolers (92 per cent). However, only 62 per cent workers reported having access to first-aid kits in factories and less than half reported regular visits by medical personnel – i.e., either a nurse or doctor.

In an industry with a large women workforce, only 31 per cent respondents confirmed the presence of a functional crèche and 18 per cent said that free sanitary napkins were provided. Moreover, the study revealed minimal availability of subsidised canteen facilities in factories (31 per cent). Seen against the backdrop of insufficient nutrition and poor wages, which has a direct bearing on workers' dietary choices, the absence of access to fresh and nutritious meals at subsidised prices might lead to negative health outcomes for workers.

## 6.9 Human Rights Risk Index for the Garment Industry

The table indicates the prevalence of human rights risks in the Indian garment industry after aggregating the data for the three production clusters. An index score is assigned to each of the risk areas as per the targets and indicators explained in Chapter 4. The method for calculating the index scores is explained in the Annexure. The scores reflect the industry's commitment and adherence to human rights standards and thus helps in taking the required steps to mitigate and prevent human rights risks. In addition, this is also useful for brands and manufacturers to prioritise the action they need to take as per the severity of risk areas.

With the exception of discrimination, most human rights risk areas in the study fall under the 'high risk' category. Extractive labour practices, as well as violence & harassment have been categorised as 'very high risk'.

The human rights risk index shows that all areas except discrimination fall into the 'high risk' category. This includes, wage sufficiency, informality, freedom of association and the right to collective bargaining, and welfare facilities in factories. Notably, extractive labour practices, as well as violence and harassment, have been categorised as 'very high risk'. This underscores

the urgency on part of brands and manufacturers to take accountability and commit to addressing these negative employment outcomes as part of their HRDD processes. Discrimination being categorised as ‘low risk’ needs to be critically examined keeping in mind that only two indicators of discrimination have been examined.

Areas Of Human Rights Risk	Index Score
Wage Sufficiency	35
Informality	54
Extractive Labour Practices	23
Discrimination <sup>25</sup>	82
Freedom of Association and the Right to Collective Bargaining	42
Violence and Harassment	27
Welfare Provision/Facilities in Factories	55

**Very Low Risk (Score above 90)**

**Low Risk (Score between 60 to 90)**

**High Risk (Score between 30 to 60)**

**Very High Risk (Score below 30)**

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<sup>25</sup> Discrimination as a human rights risk in the garment value chain is captured in terms of gender wage gap and the presence of child labour in factories. Since information was collected from Tier-1 export factories, child labour was found to be negligible in the core production process.

# CHAPTER 7

## Conclusion

This report has undertaken the task of developing a bottom-up approach for operationalising human rights due diligence for rightful employment conditions in the global garment value chain. The framework is based on the principles outlined in the ILO's Fundamental Principles and Rights at Work. A credible due diligence method and process is indispensable in the current landscape, where the protection and advancement of human and labour rights at the workplace remain paramount.

The establishment and implementation of a robust HRDD process is not only essential for organisational compliance, but also embodies a moral and ethical commitment to safeguarding human rights. This study provides a framework for assessment of human rights risks in GVCs. It has identified contract manufacturing practices and employment outcomes as areas for action through a robust HRDD process to mitigate and prevent human rights risks. By adopting or building on the steps outlined below, brands and manufacturers can move towards an equitable and rights-aligned workplace in GVCs.

- 1. Understanding Contract Manufacturing Practices:** Engaging with manufacturers about their contracts with brands helps in understanding the impact of contracting practices on working conditions and employment outcomes. This will ensure an HRDD process that not only addresses the symptoms of poor employment outcomes but also their root causes.
- 2. Establishing Employment Outcomes for HRDD:** The primary step in the HRDD process is identifying employment outcomes in the garment value chain in line with the ILO Fundamental Principles and Rights at Work. These Principles are “an expression of commitment by governments, employers and workers’ organisations to uphold basic human values – values that are vital to our social and economic lives (ILO, 2022).” The five Principles and Rights at Work identified by the ILO are areas which are widely known to have human and labour rights risks in GVCs. These risks range from inadequate wages to poor working conditions, including informality, compulsory labour, barriers to freedom of association, discrimination, and violence and harassment. Therefore, using ILO’s Fundamental Principles as the basis for

employment outcomes in GVCs will ensure that no major human rights risks are overlooked.

- 3. Setting Indicators for Employment Outcomes:** After establishing employment outcomes, the next task is to develop indicators for each of the outcomes. This requires a detailed review of existing literature on working conditions and drawing from labour laws and human rights standards to determine the most appropriate indicator for each employment outcome. The indicators will then serve as a frame of reference to arrive at an accurate assessment of human rights risks in GVCs.
- 4. Setting Targets/Benchmarks:** Companies must set targets or benchmarks to assess the impact of actions taken, and to measure the progress in mitigating and preventing human rights risks. These targets should be realistic, with achievable milestones, so that they can track the changes and monitor their value chain on an ongoing basis.
- 5. Credible and Evidence-based HRDD:** A credible and robust data collection for HRDD should emphasise legitimacy, inclusivity, collaboration, and continuity. In addition, it should include diverse perspectives considering the complexities of the value chain, and also recognise the intersectional identities of workers and communities. It is advisable that primary data is collected in locations that ensure the safety, anonymity, and privacy of rights-holders.
- 6. Meaningful Stakeholder Engagement (MSE):** Engagement with key stakeholders – trade unions, manufacturers, local governments, and civil society – is the beginning of a collective dialogue process aimed at addressing human rights risks in value chains. These discussions will allow for a shared understanding of the identified risks and potential remedial measures, while also highlighting areas of strong disagreement.

Bilateral or multilateral meetings should then lead to dialogue at multi-stakeholder platforms where diverse voices converge. In a best-case scenario, brands, manufacturers, trade unions, civil society organisations, and local governments should meet to discuss risks and jointly decide measures to mitigate, and prevent human rights risks. However, it is crucial that MSE should lead to actual and measurable progress in addressing human rights risks. Both MSE and HRDD processes should have an outcome-based approach, rather than merely being an end in itself.

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# ANNEXURE

## Guidelines for Operationalising HRDD in Garment GVCs: Contracting Practices and Employment Outcomes

### Part 1: Methodology

**R**esearch Design: The study followed a descriptive research design that focused on explaining the prevalence and severity of human rights risks in the garment value chain. It followed a cross-sectional design. Worker data was gathered in the three production clusters in 2022 whereas interviews with garment manufacturers were conducted in 2023. The human rights risks were categorised as labour-specific risks (employment outcomes) and risks associated with firms (contract manufacturing practices). However, due to lack of data, the study did not attempt to establish causal links between contract manufacturing practices and employment outcomes. The research followed a phased approach where the initial literature review and contextual understanding led to the development of a HRDD Framework with indicators and benchmarks/targets. This was followed by creation of an index-score method based on the indicator framework. A descriptive analysis of each of the identified risk areas established the severity of human rights risks.

**Data Collection:** The study involved a two-phase data collection process. In the first phase, data was collected from workers employed in Tier-1 garment firms in the three production regions. Workers were approached through worker collectives and grassroots organisations in these regions. The second phase involved data collection on contract manufacturing practices from manufacturing firms in Bangalore, Delhi NCR and Tiruppur. An industry expert interviewed the management personnel from various garment companies.

**Geographical Coverage:** The study covered three major garment production clusters in India: Bangalore (Karnataka), the Delhi National Capital Region (NCR) and Tiruppur (Tamil Nadu). It included a total of 607 workers for analysing labour-specific human rights risks and 27 firms for contracting practices.

**Sampling Strategy:** The study adopted multi-stage stratified sampling methods for the selection of workers. The strata were based on the sizes of the firms: small firms (less than 100 workers), medium firms (100 to 1000 workers) and large firms (more than 1000 workers), gender (male and female workers), and job roles (tailors, cutters, packers and others). The study sought to align the categorisation of firms into small, medium and large-sized as used in the larger industrial surveys. This was done to ensure representativeness and robustness of the sample. To study contract manufacturing practices, the selection of firms was done via purposive snowball technique. The firms were selected on the basis of whether they had been in the garment value chain for a considerable period and produced goods predominantly for export.

**Analytical Frame:** Since the study followed a descriptive design, the inquiry followed an exploratory data analysis with basic descriptive statistics. The study did an aggregated analysis of the cluster-level data to get a picture of the industry at the national level. An index-scoring method was adopted to establish the severity of the identified labour-specific human rights risks. Specific indicators and benchmarks/targets were developed for each area of human rights risk. While the aggregated findings and analysis is presented in the main text of the report, a cluster-wise index score is part of the Annexure.

The study focused on operationalising the larger areas of human rights risks for both employment outcomes and contract manufacturing practices. Having operational definitions makes the identification and measurement process concrete and tangible. The study adopted a method similar to the Sustainable Development Goals (SDGs) Indicator framework to validate the areas of risks and arrive at its operationalisation. However, this process should ideally involve consultative meetings with main stakeholders and rights-holders. Due to time and resource constraints, this study operationalised the areas of risk only through a review of literature, which is a limitation.

**Selection of Indicators:** To ensure that the selected indicators are suitable for monitoring, tracking and measuring HRDD processes and outcomes, three main criteria were considered based on the SDG Global Index ranking methodology as given below.<sup>26</sup>

- **Relevance and applicability across geographies:** The indicators should be drawn from internationally or nationally recognised standards. This allows for comparison and easy application across countries. International or national standards also help in setting quantitative thresholds.
- **Statistical adequacy:** The indicators should be valid (accurately measure the intended construct) and reliable (produce consistent results).
- **Ease of access, timeliness and data quality:** The indicators should allow for data to be captured easily through a survey or other forms of data collection methods including ones that are updated in a timely manner as part of public data sources [e.g. Periodic Labour Force Survey (PLFS), National Sample Survey Office (NSSO), Annual Survey of Industries (ASI) etc.] Moreover, credible and quality data is important to ensure the statistical adequacy of indicators. Hence data should be drawn from official national or international sources (such as national statistical offices or international organisations) or other reputed sources, such as peer-reviewed publications or through primary data.

**Setting targets (or benchmarks) for indicators:** The study adopted the methodology from the Global Indicator Framework for the SDGs to set specific targets for indicators. For each indicator, 'targets' (also called "technical optimums" or "upper bounds") were determined using the following criteria:

- **Use quantitative thresholds drawing from national or international standards:** For example, if the target is zero child labour in a factory, then the indicator would be the number or percentage of children working in the factory.
- **Where no explicit target is available, apply the principle of 'leaving no one behind':** For example, if the aim is to ensure no discrimination, exclusion or mistreatment of people on the basis of one or more aspects of their identity, the indicators should be designed to capture pro-active anti-discriminatory policies as well as affirmative actions.

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<sup>26</sup> <https://dashboards.sdgindex.org/chapters/methodology>

- **Where the above two criteria are not applicable, consider best practices in the manufacturing (and others where applicable) sector:** For example, to set a target for closing the gap between actual wage and living wage, a measure of 30 per cent was arrived by taking the average of the top five high-paying manufacturing industries<sup>27</sup> in India (source: wage data from the Periodic Labour Force Survey (PLFS) on manufacturing industries in India)

## Computing Index Score

An index score was calculated for each area of human rights risk to establish the severity of the risk. The process of indexing followed the steps outlined here:

**Step 1:** Remove extreme values from the distribution of each indicator

- *Values in the bottom 2.5th percentile are assigned an imputed score of 0.*
- *A score of 100 is given to values that exceed the upper boundary..*

**Step 2:** Normalise the data to ensure comparability across indicators

- *Normalised Score = (Individual Score - Lower Bound) / (Upper bound – Lower Bound)*

**Step 3:** Aggregate the indicators within and across the HRDD areas:

- The scores for each indicator are aggregated using equal weights to arrive at the final score for each risk area.

**Step 4:** Colour Code Classification

- The individual scores are classified into four colour-codes, which indicates the severity of the risks as represented here. The classification of risk severity follows the logic that “very low risk” is within the 10th percentile value of the index score. Each of the other categories falls within the quartiles of the remaining distribution.

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<sup>27</sup> Pharmaceuticals, IT services, telecommunications, chemicals and chemical products, and computer programming, consultancy, and related activities. This was done based on an analysis of the macro-data of employment surveys from public records. The average wage of these five industries was compared to the AWFA living wage figure for 2022. The wage gap between these industries and the AWFA living wage were the lowest at 30 per cent. Hence 30 per cent was adopted as the aspirational standard to close the gap between actual wage and living wage in the garment industry.

<b>Score Above 90</b> Very Low Risk	<b>Score 60 to 90</b> Low Risk	<b>Score 30 to 60</b> High Risk	<b>Score below 30</b> Very High Risk
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**Very Low Risk:** This indicates the presence of effective systems and structures in the industry to address prevalent as well as emerging human rights risks. For example, this is demonstrated by stronger enforcement of the regulation on abolition of child labour in factories.

**Low Risk:** This indicates the presence of certain systems and structures in the industry to address human rights risks, but which are not fully effective. For instance, workers may have access to ESI and PF as social security benefits, but the coverage and quantum of these benefits is not enough to address the human rights risks associated with a minimum wage that does not cover the costs of living.

**High Risk:** This indicates the absence or ineffectiveness of a system or structure to address human rights violations. For example, the legislation on prevention of sexual harassment at the workplace mandates constitution of Internal Committees (IC) in factories. However, these committees are known to be ineffective in addressing sexual harassment.

**Very High Risk:** This points to a situation where there is absolutely no commitment to identify or address prevalent human rights risks. An example is the prevalence of target-based production systems in the garment value chain, which are normalised by the industry. This puts workers at a disadvantaged position in terms of income, employment status, and work intensity, keeping them in precarious conditions

**Limitations of the Study:**

- The study could not establish causality between contract manufacturing practices and employment outcomes. However, it arrived at some direct and indirect linkages between the two.
- The selection of human rights risk areas was based on literature review in the manufacturing sector, specifically, low-value-adding manufacturing. However, it did not include consultations with stakeholders.

- The calculation of the index scores for each area was based on the targets set for each indicator, which is derived from existing legal norms and aspirational standards – for example, the case of a 30% Living Wage Gap (aspirational standard) and a 0% Minimum Wage gap (legal standard). In the absence of nationally/internationally agreed norms and practices, the study has considered a few existing best practices; however, these could vary.
- Despite using robust sampling methods to ensure that the overall sample size is representative, this can still have limitations.

## Part 2: Contract Manufacturing Practices: Features and Indicators

This section provides the areas of risk in contract manufacturing practices and their corresponding indicators. A robust HRDD process should address risks emanating from contract manufacturing practices, as they are mostly the root cause for poor working conditions in GVCs. The HRDD framework developed in this study identifies both contracting practices and employment outcomes as key areas of action to identify, prevent and mitigate human and labour rights risks in GVCs.

The table below outlines indicators for the five areas of contract manufacturing practices. However, no targets have been formulated for these practices due to the following reasons. One, no regulated standards exist to quantify or assess contract manufacturing practices. Two, the data was collected from a limited number of manufacturing firms, which restricted the scope for quantitative analysis.

*Table 1: Indicators: Contract Manufacturing Practices*

Areas of Risk	Indicators
Contractual Clauses	A written contract for each order
	Manufacturer’s involvement in setting contract clauses
	Processing of payments according to the contract clauses

Areas of Risk	Indicators
Lead Time	Flexibility in lead time
	Cost adjustments caused by changes in order specifications
Pricing Strategy	Inclusion of workers' wage in pricing strategy
	Inclusion of capital cost in pricing strategy
	Inclusion of raw material cost in pricing strategy
Contribution to Upgrading	Investment in technological upgradation of the factory
	Investment in pollution control technologies
	Continuous business engagement
Supplier Autonomy	Share of production allocated to one buyer
	Share of production allocated for exports

Source: Authors' creation

## Part 3: Employment Outcomes: Operational Definitions

### 1. Wage Sufficiency

Wage Sufficiency refers to a just and fair remuneration paid to the worker in accordance with international and national standards on living wage.

#### Rationale:

*"One of the fundamental human rights is the right to a just remuneration that ensures an existence worthy of human dignity."* Patrick Belser, Senior Economist, ILO

Receiving a sufficient wage is closely linked to securing other human rights. Insufficiency of wage not only leads to deprivation in the present but more importantly, has intergenerational impacts, where the socio-economic mobility of the family will be seriously limited. The aspect of just wage is enshrined in the UN Declaration for Human Rights, ILO Preamble, Article 7 of the International Covenant on Economic, Social and Cultural Rights, and even in the Indian Constitution and wage legislation.

## Target:

- Less than a 30% gap between Living Wage and Actual Wage
- All workers should be paid above the legally mandated Minimum Wage for the region.

*(The living wage figure used in the study is Rs. 33,920/- per month. This is the living wage figure for India released by the Asia Floor Wage Alliance (AWFA) in 2022. The rationale for using the AFWA living wage figure is because their methodology of calorie-based estimation and the earner-dependent ratio for family size is very close to the ILO methodology.)*

*(Minimum wage figures used in the study are the legally mandated minimum wage for the three regions for the year 2022, Bangalore – INR 11,587; Delhi NCR – INR 10,243 (minimum wage for Haryana has been used since workers interviewed were based in Gurugram and Faridabad), and Tiruppur at INR 9,785.)*

## Indicator:

- *The gap between actual wage and living wage (in percentage)*
- *The gap between actual wage paid and the legally mandated minimum wage (in percentage)*

## Survey Questions:

**1.** What is the monthly wage you receive in hand (after deductions)?

**2.** How is your wage paid?

1. Cash in hand
2. Deposited in bank account

**3.** Are you issued pay slips indicating deductions, if any?

1. Yes, regularly
2. Yes, irregularly
3. No

## 2. Informality

Informality in employment is characterised by work arrangements lacking legal protection, social security benefits and other employment rights. These include, absence of formal contracts, low or irregular wages, unregulated working hours and limited job security.

### Rationale:

Informal working conditions continue to be a disturbing reality of global production systems. This system has an overrepresentation of women and young people from marginalised communities, who are denied basic human rights at the workplace. Informal conditions in formal sectors such as the global garment industry are driven by both large corporations in the Global North as well as the countries in which they manufacture. Informality perpetuates poverty by limiting or denying access to legal protections for the poor, limiting their socio-economic mobility, and ultimately foreclosing the opportunity to create wealth. Expanding social security measures can reduce vulnerabilities, income insecurity, and provide better access to health care, thereby enabling their participation in the formal economy.

### Target:

- All workers should have access to the social security benefits (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI)).
- All workers receive an appointment letter with key employment terms (job title, wage, working hours, social security, and period of employment)

### Indicator:

- The share of workers having access to social security (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI))
- The share of workers receiving appointment letter with key employment terms (job title, wage, working hours, social security, and period of employment)

## Survey Questions:

### 1. What are the social security deductions from your wage?

1. Only EPF
2. Only ESI
3. Both
4. None

### 2. Do you have a written contract letter/appointment letter?

1. Yes
2. No
3. Don't know

### 3. If yes, does it include information on:

1. Wage
2. Job title
3. Period of Employment
4. Social Security
5. Working Hours

## 3. Extractive Labour Practices

Extractive Labour Practices refer to the exploitation of workers through excessive, unpaid labour under duress. Defined by the ILO, "compulsory labour includes any work or service imposed on individuals under the threat of a penalty and for which the person has not offered himself or herself voluntarily." International Labour Organization Forced Labour Convention, 1930 (No. 29).

## Rationale:

Extractive Labour Practices is a violation of basic human rights because these acts strip human beings of their inherent rights to be free and have a choice. The cost of such labour practices on a country's economy are: lack of investment in human capital, lower state revenues, higher productivity costs, and depletion of natural resources. Not only is compulsory labour a serious violation of fundamental human rights, it is a leading cause of poverty and a hindrance to economic development.

## Target:

- Overtime work should not exceed 20% of total working hours in a week (*The share of overtime to working hours among the top five manufacturing industries is approximately 20 per cent*)
- All workers are paid a legally mandated wage for overtime work
- All workers have 12 days of paid leave in a year

## Indicator:

- Share of overtime work in total work hours in a week
- Share of workers receiving legally mandated wage for overtime work
- Share of workers having access to 12 days of paid leave in a year

## Survey Questions:

- 1.** How many hours do you work in day, including break time? (in hours)
- 2.** How many hours of overtime work do you do per week? (in hours)
- 3.** What is the overtime wage you get?
  1. Double wage
  2. 1.5 times wage
  3. Normal wage
  4. No wage/Unpaid

4. How many days of leave do you get in a year?

1. Paid Leave\_\_\_\_(days)
2. Medical Leave\_\_\_\_\_(days)
3. Unpaid Leave\_\_\_\_\_(days)

5. Do you have to achieve production targets?

1. Yes
2. No

6. What are the consequences if production targets are not achieved?

1. Wage deduction
2. Verbal abuse
3. Physical abuse
4. Sexual harassment
5. No consequence

## 4. Discrimination

Discrimination in employment refers to unfair or unequal treatment in the workplace based on characteristics like race, gender, age, disability, caste, language and other identities. This can result in serious consequences for workers such as gender wage-gap, gender-based violence and harassment, and biases in hiring, promotion or other opportunities at work.

### Rationale:

Gender pay-gap between men and women is prevalent across sectors and industries. It is partly because women's work is undervalued and women tend to be concentrated in low-paying jobs. Similarly, the status of employment leads to pay-gap, where regular workers are much better off than contract workers and casual/daily wage workers.

The involvement of children in the production process is a major human rights concern and has serious ramifications ranging from developmental delays to social mobility in life. This is also perpetrated by the sub-contracting of production to home-based units where children have a high chance of getting involved in the production process.

### Target:

- No wage gap between male and female workers for the same job
- No wage gap for the same job carried out by regular, contractual and casual workers
- No child labour should be involved in the production process including home-based-work

### Indicator:

- Actual wage gap between male and female workers for the same job
- Actual wage gap between different categories of workers doing the same job
- Involvement of children in the production process including home-based work

### Survey Questions:

**1.** What is the monthly wage you receive in hand (after deductions)?

**2.** Employment Status

1. Regular
2. Contract
3. Daily/casual Worker

**3.** Gender

1. Male
2. Female
3. Third Gender

4. Is sub-contracting to home-based units practised in the factory?

1. Yes

2. No

5. Is your household involved in sub-contracted work from large factories?

1. Yes

2. No

6. Are children involved in any production process in your factory?

1. Yes

2. No

## 5. Freedom of Association and the Right to Collective Bargaining

The ILO defines freedom of association as the right of workers and employers to form and join organisations of their choice, such as trade unions or employers' associations, for the promotion and defense of their interests. Collective bargaining, an integral part of freedom of association, is the process through which these organisations negotiate with each other to determine working conditions and terms of employment. Both these rights are fundamental and interconnected, as collective bargaining cannot function effectively without freedom of association, ensuring worker's views are properly represented.

### Rationale:

Freedom of association is a fundamental human right proclaimed in the Universal Declaration of Human Rights as well as in the Indian Constitution. FOA ensures workers have a voice and are represented. Therefore, it is essential for the effective functioning of labour markets and production systems. Collective bargaining is a fundamental right that is enshrined in the ILO Constitution and reaffirmed in the ILO Declaration on Fundamental Principles and Rights at Work. Collective bargaining is critical for employers and workers to establish fair wages, decent working conditions, and mature industrial relations.

## Target:

- All workers are free to join any trade union
- All workers are aware of grievance redressal mechanisms and there is fair worker representation in them

## Indicator:

- Share of workers having trade union membership
- Presence of worker/union representation in grievance redressal mechanisms.

## Survey Questions:

### 1. Do you have membership in any trade union?

1. Yes
2. No

### 2. If workers are part of a trade union, do they face any problem in the factory?

1. Often
2. Sometimes
3. Rarely
4. None

### 3. Are there statutory committees in the factory?

1. Yes
2. No
3. Don't know

### 4. If yes, how are workers part of the committees?

1. Workers are elected

2. Nominated by management

3. No representation

5. Do you raise complaints in the factory?

1. Yes

2. No

6. Who do you approach in case of grievance in the factory?

1. Supervisor/line managers

2. HR manager

3. Statutory Committee

4. None

## 6. Violence and Harassment

As per Article 1 of the ILO Violence and Harassment Convention, 2019 (No. 190):

(a) the term “violence and harassment” in the world of work refers to a range of unacceptable behaviours and practices, or threats thereof, whether a single occurrence or repeated, that aim at, result in, or are likely to result in physical, psychological, sexual or economic harm, and includes gender-based violence and harassment;

(b) the term “gender-based violence and harassment” means violence and harassment directed at persons because of their sex or gender, or affecting persons of a particular sex or gender disproportionately, and includes sexual harassment.

### Rationale:

Violence and harassment, based on gender or sex, in terms of verbal abuse, sexual abuse, and exclusion are prevalent in the garment industry. These practices are one of the mechanisms used to control and discipline the workforce and extract labour through coercive means. They often result in inhuman treatment of workers and human rights violations.

## Target:

- Zero prevalence of violence and harassment (physical, verbal and sexual) in factories.

## Indicator:

- Prevalence of verbal abuse in factory.
- Prevalence of physical abuse in factory.
- Prevalence of sexual harassment in factory.

## Survey Questions:

### 1. Is there any verbal abuse in the factory?

1. Often
2. Sometimes
3. Rarely
4. None

### 2. Is there physical abuse in the factory?

1. Often
2. Sometimes
3. Rarely
4. None

### 3. Is there any sexual harassment in the factory?

1. Often
2. Sometimes
3. Rarely
4. None

#### 4. Do workers raise complaints about these grievances in the factory?

1. Yes

2. No

#### 5. If no, why not?

## Part 4: Contract Manufacturing Practices: Findings

Part 4 of the Annexure provides detailed findings on the main areas of risks associated with contract manufacturing practices listed in Part 2 of this document. While the main report provides an analysis of contracting practices in the garment industry, the tables with findings for different aspects of contracting practices is shared in this section.

Table 1: Size of the firm

Firm Size	Bangalore	Delhi NCR	Tiruppur	Total
Micro	0%	0%	14%	4%
Small	30%	10%	29%	22%
Medium	20%	50%	14%	30%
Large	50%	40%	43%	44%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 2: Type of product

Type of Product	Bangalore	Delhi NCR	Tiruppur	Total
Basic	90%	10%	86%	59%
Fashion Basic	80%	50%	100%	74%
Fashion Garments	40%	100%	14%	56%

Source: Primary Survey n=27

Table 3: Open costing

Do brands insist on open costing?	Bangalore	Delhi NCR	Tiruppur	Total
Yes	80%	80%	43%	70%
No	20%	20%	57%	30%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 4: Calculation of wage

Calculation of Wage	Bangalore	Delhi NCR	Tiruppur	Total
National minimum wage alone	80%	50%	100%	74%
National minimum wage and others	20%	50%	0%	26%
TOTAL	100%	100%	100%	100%

Source: Primary Survey n=27

Table 5: Overtime wage calculation

Overtime Wage Calculation	Bangalore	Delhi NCR	Tiruppur	Total
Double Wage	100%	90%	100%	96%
Single Wage	0%	10%	0%	4%
Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 6: Are men and women paid an equal wage?

Wage Parity based on Gender	Bangalore	Delhi NCR	Tiruppur	Total
Yes	100%	100%	100%	100%

Source: Primary Survey n=27

Table 7: Do buyers adjust prices for increase in minimum wage during contract period?

Adjustment in costs for increase in Minimum Wage	Bangalore	Delhi NCR	Tiruppur	Total
No	100%	100%	100%	100%

Source: Primary Survey n=27

Table 8: Do buyers adjust prices for rise in inflation during contract period?

Adjustment in costs due to Inflation	Bangalore	Delhi NCR	Tiruppur	Total
No	100%	100%	100%	100%

Source: Primary Survey n=27

Table 9: Do buyers adjust prices for changes in technical specifications?

Adjustment in costs for changes in technical specifications	Bangalore	Delhi NCR	Tiruppur	Total
No	60%	80%	71%	70%
Yes	40%	20%	29%	30%
Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 10: Do buyers cut U.S Dollar-based prices when the Indian Rupee devalues?

Price-cutting based on Indian Rupee Devaluation	Bangalore	Delhi NCR	Tiruppur	Total
No	0%	50%	14%	22%
Yes	100%	50%	86%	78%
Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 11: Do buyers reduce prices when suppliers' input costs reduce?

Adjustment of cost for reduction in cost by supplier	Bangalore	Delhi NCR	Tiruppur	Total
No	100%	100%	100%	100%

Source: Primary Survey n=27

Table 12: Basis for productivity - Standard Allowable Minutes (SAM)

On Indian Rupee Devaluation	Bangalore	Delhi NCR	Tiruppur	Total
Average productivity	80%	100%	86%	89%
Others	20%	0%	14%	11%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 13: Are goods sold below the cost of production?

On Indian Rupee Devaluation	Bangalore	Delhi NCR	Tiruppur	Total
Often	0%	30%	0%	11%
Sometimes	70%	60%	86%	70%
Never	30%	10%	14%	19%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 14: Do brands cover the costs incurred in changing product specifications?

	Bangalore	Delhi NCR	Tiruppur	Total
Sometimes	30%	10%	0%	15%
Always	70%	80%	100%	81%
Never	0%	10%	0%	4%

	Bangalore	Delhi NCR	Tiruppur	Total
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 15: Average Lead Time

Lead Time (days)	Bangalore	Delhi NCR	Tiruppur	Total
Lead Time- 2017	117	101	120	112
Lead Time- 2022	86	66	90	79

Source: Primary Survey n=27

Table 16: Nature of Order (Multiple Responses)

	Bangalore	Delhi NCR	Tiruppur	Total
Seasonal	100%	100%	100%	100%
Batch	40%	20%	57%	37%
Others	10%	40%	0%	19%

Source: Primary Survey n=27

Table 17: Do you have a 'Preferred Supplier' status?

	Bangalore	Delhi NCR	Tiruppur	Total
No	30%	0%	57%	26%
Yes	70%	100%	43%	74%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 18: Does 'Preferred Supplier' status help you to invest in productivity?

Preferred Supplier Productivity	Bangalore	Delhi NCR	Tiruppur	Total
Yes	100%	100%	100%	100%

Source: Primary Survey n=27

Table 19: Are there orders made on unwritten contracts?

	Bangalore	Delhi NCR	Tiruppur	Total
No	100%	100%	100%	100%

Source: Primary Survey n=27

Table 20: Share of Orders to Preferred Buyers

	Bangalore	Delhi NCR	Tiruppur	Total
Average of Share (%)	33%	38%	37%	36%

Source: Primary Survey n=27

Table 21: Do buyers request quotes for large volumes, only to reduce the order size later?

	Bangalore	Delhi NCR	Tiruppur	Total
No	0%	10%	57%	19%
Yes	100%	90%	43%	81%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 22: Are there penalties for being late in delivering orders?

	Bangalore	Delhi NCR	Tiruppur	Total
Yes	90%	100%	100%	96%
No	10%	0%	0%	4%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 23: Is the quality checking by brands fair?

	Bangalore	Delhi NCR	Tiruppur	Total
No	0%	80%	17%	38%
Yes	100%	20%	83%	63%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 24: Management of Rejected Pieces

	Bangalore	Delhi NCR	Tiruppur	Total
Destroyed	20%	30%	43%	30%
Sold by weight	90%	70%	57%	74%
Others	10%	70%	29%	37%

Source: Primary Survey n=27

Table 25: Percentage of Contract Workers

	Bangalore	Delhi NCR	Tiruppur	Total
Less than 10 %	80%	30%	43%	52%
10% to 20%	0%	20%	14%	11%
20% to 30%	0%	10%	14%	7%
40% to 50%	10%	10%	29%	15%
More than 50%	10%	30%	0%	15%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 26: Do you have to increase the number of contract workers for a sudden increase in orders? (Multiple Responses)

	Bangalore	Delhi NCR	Tiruppur	Total
Yes	40%	70%	86%	63%
No	30%	20%	14%	22%
NA	30%	0%	0%	11%

Source: Primary Survey n=27

Table 27: Do you have to increase overtime work to manage a surge in orders? (Multiple Response)

	Bangalore	Delhi NCR	Tiruppur	Total
Yes	50%	80%	71%	67%
No	20%	20%	14%	19%
NA	80%	60%	29%	59%

Source: Primary Survey n=27

Table 28: Do you subcontract your firm's work?

	Bangalore	Delhi NCR	Tiruppur	Total
No	100%	100%	100%	100%

Source: Primary Survey n=27

Table 29: Do you increase workers' production targets during periods of order surge?

	Bangalore	Delhi NCR	Tiruppur	Total
Yes	60%	80%	100%	78%
No	40%	20%	0%	22%
NA	0%	10%	0%	4%

Source: Primary Survey n=27

Table 30: Do brands contribute towards a waste disposal mechanism?

	Bangalore	Delhi NCR	Tiruppur	Total
No	100%	100%	100%	100%

Source: Primary Survey n=27

Table 31: Do brands contribute towards technology upgradation?

	Bangalore	Delhi NCR	Tiruppur	Total
No	100%	100%	100%	100%

Source: Primary Survey n=27

Table 32: Is there a difference in contracting practices between European and North American brands?

	Bangalore	Delhi NCR	Tiruppur	Total
No	30%	20%	0%	19%
Yes	70%	80%	100%	81%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 33: Is there a difference in contracting practices between large and medium-sized brands?

	Bangalore	Delhi NCR	Tiruppur	Total
No	0%	20%	0%	7%
Yes	100%	80%	100%	93%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 34: Is there a difference between large retailers and designer brands in contracting practices?

	Bangalore	Delhi NCR	Tiruppur	Total
No	50%	60%	43%	52%
Yes	50%	40%	57%	48%
Grand Total	100%	100%	100%	100%

Source: Primary Survey n=27

Table 35: Do buyers treat suppliers with respect?

	Bangalore	Delhi NCR	Tiruppur	Total
Yes	100%	100%	100%	100%

Source: Primary Survey n=27

## Part 5: Employment Outcomes: Cluster-wise

## Index Score

While the main report presents the aggregated findings from all the three production clusters (Bangalore, Delhi NCR and Tiruppur), this section provides the index score for each of the three clusters vis-à-vis employment outcomes. The cluster-wise index score aids with a comparative analysis on each area of employment outcomes.<sup>28</sup>

**Table 1: Employment Outcomes: Index Score for Bangalore**

Areas	Target	Indicator	Overall Index
Wage Sufficiency	The gap between living wage <sup>29</sup> and actual wage should be less than 30%	The gap between actual wage and living wage	39
	All workers are paid above the region's legally mandated minimum wage <sup>30</sup>	The gap between actual wage paid and minimum wage	

28 The findings for each cluster on each area of employment outcome is not included in the Annexure considering the length of the overall report.

29 The living wage figure used in the study is INR 33,920 per month. This is the living wage figure for India released by the Asia Floor Wage Alliance (AFWA) in 2022. The rationale for using the AFWA living wage figure is because their methodology of calorie-based estimation and the earner-dependent ratio for family size is very close to the ILO methodology.

30 Minimum wage figures used in the study are the legally mandated minimum wage for the three regions for the year 2022, Bangalore – INR 11,587; Delhi NCR – INR 10,243 (the minimum wage for Haryana has been used since the interviewed workers were in Gurugram and Faridabad), and Tiruppur at INR 9,785

Areas	Target	Indicator	Overall Index
Informality	All workers have access to social security (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI))	The share of workers having access to social security (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI))	65
	All workers receive an appointment letter with key employment terms (job title, wage, working hours, social security, and period of employment).	The share of workers receiving appointment letter with key employment terms (job title, wage, working hours, social security, and period of employment)	
Extractive Labour Practices	Overtime work should not exceed 20% of total working hours in a week	Share of overtime work in total work hours in a week	55
	All workers are paid a legally mandated wage for overtime work	Share of workers receiving legally mandated wage for overtime work	
	All workers have 12 days of paid leave in a year	Share of workers having access to 12 days of paid leave in a year	
Discrimination	No wage gap between male and female workers for the same job	Actual wage gap between male and female workers for the same job	85
	No child labour should be involved in the production process including home-working	Involvement of children in the production process including home-working <sup>31</sup>	

31 The question of outsourced work is included to capture child labour based on the logic that a direct question

Areas	Target	Indicator	Overall Index
Freedom of Association and the Right to Collective Bargaining	All workers are free to join any trade union	Share of workers having trade union membership	51
	All workers are aware of grievance redressal mechanisms and fair worker representation in them.	Presence of worker/union representation in Grievance Redressal Mechanisms	
Violence and Harassment	Zero prevalence of violence and harassment (physical, sexual and verbal) in factories	Prevalence of verbal abuse in factories	28
		Prevalence of physical abuse in factories	
		Prevalence of sexual harassment in factories	

Table 2: Employment Outcomes: Index Score for Delhi NCR

Areas	Target	Indicator	Overall Index
Wage Sufficiency	The gap between living wage and actual wage should be less than 30%	The gap between actual wage and living wage	39
	All workers are paid above the region's legally mandated minimum wage	The gap between actual wage paid and minimum wage	

about child labour will be negated by the workers as they know it should not be acknowledged. There is evidence that children at home get involved in the outsourced work from the factory.

Areas	Target	Indicator	Overall Index
Informality	All workers have access to social security (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI))	The share of workers having access to social security (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI))	62
	All workers receive an appointment letter with key employment terms (job title, wage, working hours, social security, and period of employment).	The share of workers receiving appointment letter with key employment terms (job title, wage, working hours, social security, and period of employment)	
Extractive Labour Practices	Overtime work should not exceed 20% of total working hours in a week	Share of overtime work in total work hours in a week	45
	All workers are paid a legally mandated wage for overtime work	Share of workers receiving legally mandated wage for overtime work	
	All workers have 12 days of paid leave in a year	Share of workers having access to 12 days of paid leave in a year	
Discrimination	No wage gap between male and female workers for the same job	Actual wage gap between male and female workers for the same job	72
	No child labour should be involved in the production process including home-working	Involvement of children in the production process including home-working	

Areas	Target	Indicator	Overall Index
Freedom of Association and the Right to Collective Bargaining	All workers are free to join any trade union	Share of workers having trade union membership	43
	All workers are aware of grievance redressal mechanisms and fair worker representation in them.	Presence of worker/union representation in Grievance Redressal Mechanisms	
Violence and Harassment	Zero prevalence of violence and harassment (physical, sexual and verbal) in factories	Prevalence of verbal abuse in factories	44
		Prevalence of physical abuse in factories	
		Prevalence of sexual harassment in factories	

Table 3: Employment Outcomes: Index Score for Tiruppur

Areas	Target	Indicator	Overall Index
Wage Sufficiency	The gap between living wage and actual wage should be less than 30%	The gap between actual wage and living wage	31
	All workers are paid above the region's legally mandated minimum wage	The gap between actual wage paid and minimum wage	

Areas	Target	Indicator	Overall Index
Informality	All workers have access to social security (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI))	The share of workers having access to social security (both Employee Provident Fund (EPF) and Employees' State Insurance (ESI))	10
	All workers receive an appointment letter with key employment terms (job title, wage, working hours, social security, and period of employment).	The share of workers receiving appointment letter with key employment terms (job title, wage, working hours, social security, and period of employment)	
Extractive Labour Practices	Overtime work should not exceed 20% of total working hours in a week	Share of overtime work in total work hours in a week	11
	All workers are paid a legally mandated wage for overtime work	Share of workers receiving legally mandated wage for overtime work	
	All workers have 12 days of paid leave in a year	Share of workers having access to 12 days of paid leave in a year	
Discrimination	No wage gap between male and female workers for the same job	Actual wage gap between male and female workers for the same job	66
	No child labour should be involved in the production process including home-working	Involvement of children in the production process including home-working	

