

The ETI code of labour practice:  
Do workers really benefit?

India



“When buyers come for inspections, we are told to leave the premises for some time and take a break, or that there is no more work for the day.”

Contract workers,  
Indian garment factory

“The workers have become more disciplined. The management has become more liberal and provides good quality working conditions to the workers.”

Human Resource Manager,  
Indian garment factory

# About the Report on the ETI Impact Assessment 2006

The Ethical Trading Initiative (ETI) is an alliance of companies, trade union and non-government organisations committed to improving working conditions in global supply chains. ETI company members require their suppliers to comply with the ETI Base Code, a code of labour practice based on international labour standards. After five years of operation, ETI wanted to assess:

- how its member companies were implementing the ETI Base Code;
- the impact of members' activities on workers in the supply chain;
- how the impact of members' work could be improved.

In 2003 ETI commissioned the Institute of Development Studies at the University of Sussex to conduct this assessment. The study was undertaken between 2003 and 2006 and this document is one of ten reports which, together, give the summary, complete findings, case studies and methodology of the study. The ten reports, published under the series title Report on the ETI Impact Assessment 2006, include the following:

## The ETI code of labour practice: do workers really benefit?

### Summary

#### **Summary of an independent assessment for the Ethical Trading Initiative**

This six-page document summarises the key findings and recommendations. It is available in print as well as online and is translated into Chinese, Spanish, French and Vietnamese.

### Part 1

#### **Main findings and recommendations from an independent assessment for the Ethical Trading Initiative**

This is the report of the main findings with recommendations and good practice examples.

The detailed fieldwork comprised case studies in six countries and the findings are given in six documents that make up **Part 2** of the report. These will interest readers who want more detailed information on labour issues and code impacts in these countries.

### Part 2A

Findings and recommendations from a case study in India (garments)

### Part 2B

Findings and recommendations from a case study in Vietnam (garments and footwear)

### Part 2C

Findings and recommendations from a case study in South Africa (fruit)

### Part 2D

Findings and recommendations from a case study in Costa Rica (bananas)

### Part 2E

Findings and recommendations from a case study in the UK (horticulture)

### Part 2F

Findings and recommendations from a scoping study in China

### Part 3

#### **How and where ETI member companies are implementing codes**

This makes up **Part 3** of the report series and describes the first phase study of ETI members' activities.

### Part 4

#### **Research methodology**

This is for readers who want more detail on the research approach.

Each of the reports can be freely downloaded from [www.ethicaltrade.org/d/impactreport](http://www.ethicaltrade.org/d/impactreport) and [www.ids.ac.uk/](http://www.ids.ac.uk/)

This series of reports has been prepared by the Institute of Development Studies (IDS) and the views expressed do not necessarily represent the views of ETI or of its member organisations. IDS is responsible for the accuracy of information contained in the document and our recommendations have not necessarily been endorsed by ETI.

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# Foreword

Over the last decade, an increasing number of companies have recognised that they have a responsibility for the rights and conditions of workers who produce the goods that they sell - even if those workers are employed by a factory or farm on the other side of the globe. Companies have typically responded by adopting voluntary codes of practice which stipulate minimum labour standards that they expect their suppliers to comply with. Many have invested considerable resources in monitoring compliance with their codes, and working with suppliers to improve conditions over time.

The Ethical Trading Initiative (ETI) is an alliance of companies, trade union and non-government organisations (NGOs) committed to improving working conditions in global supply chains. When they join ETI, companies commit to implementing the ETI Base Code - a code of practice based on international labour standards - in all or part of their supply chain. But how exactly have member companies put this commitment into practice? Has their work on implementing the Code actually made any difference to workers in their supply chains? How can the impact on workers be improved? In 2003 ETI commissioned us to undertake a study to answer these and other related questions. This document provides an account of the key findings and recommendations from a case study of the Indian garment industry, one of six case studies chosen to give an insight into key issues in different countries and sectors.

## Who is this document for?

This document is relevant to all those involved in monitoring and improving labour conditions in the export garment sector in India, including retailers and brands, agents and suppliers, auditors, NGOs and trade unions. It provides an overview of the impacts of codes of labour practice in garment factories in India, and of the key labour issues that remain to be addressed; an analysis of key factors found to affect impact; and recommendations for improving the impact of codes in the Indian garment industry.

## About the ETI Impact Assessment and IDS

The ETI Impact Assessment was initiated in 2003 - five years after ETI was established - to answer the questions outlined above. Based on assessing the ethical trade programmes of nearly 30 sourcing

companies (retailers, brands and suppliers), and including in-depth case studies in five countries and three sectors, this has been the most comprehensive assessment of the impact of codes of labour practice to date.

The Institute of Development Studies (IDS) at Sussex is well-respected for its research and consultancy on international development. The research team has extensive experience and expertise in ethical trade, employment in export production and labour standards. For the case studies IDS worked in partnership with local researchers who spoke the relevant languages and had experience of labour issues in the industry in question.

The research findings are based on qualitative and quantitative information collected from all key stakeholder groups, including brands, retailers, agents and suppliers, factory and farm managers, trade union organisations at international and national levels, NGOs, and all types of workers (women as well as men, migrant and contract workers as well as permanent workers, and trade union worksite representatives).

## About the ETI Impact Assessment reports

The findings and recommendations from the ETI Impact Assessment are written up in ten separate documents, all of which can be freely downloaded from [www.ethicaltrade.org/d/impactreport](http://www.ethicaltrade.org/d/impactreport) and [www.ids.ac.uk](http://www.ids.ac.uk). The ten documents, each targeted at different audiences, are listed on the inside front cover of this report.

By offering these different ways of accessing the findings of our study we hope we are throwing a helpful searchlight on current ethical trade practice that will enable everyone involved to enhance their understanding and develop their practice in this challenging but worthwhile field.

## Acknowledgements

We would like to offer our sincere thanks to Dr. Atul Sood, Dr. Kanchan Mathur and Ms Savi Mull, our research partners in India, who conducted most of the research interviews in India and compiled an initial report of the findings. We would also like to thank our colleague Professor Naila Kabeer, whose extensive experience of labour issues in Asian garment factories proved an invaluable contribution to this case study. Lastly, we would like to extend our thanks to the ETI member companies who agreed to participate in this case study, and to all those who took part in the interviews, in particular managers and workers at the case study supply sites.

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# 1 Introduction

## 1.1 Rationale for this case study

The Indian garment sector was selected as a case study for the ETI Impact Assessment for the following main reasons:

- India ranked third after China and the UK in terms of number of assessments (242 in total) carried out by ETI companies in 2002<sup>1</sup>;
- India is an important sourcing country for garments for several ETI companies and will continue to be despite the phase-out of the Multi-Fibre Agreement (MFA);
- the availability of background information and baseline data.

## 1.2 Who was involved in the study

The research partners for this study were Dr Atul Sood from Jawaharlal Nehru University, New Delhi, Dr Kanchan Mathur from the Institute of Development Studies, Jaipur, and Savi Mull (Research Assistant).

## 1.3 Types of value chains studied

In order to examine whether and to what extent the ETI Base Code has impacted on Indian garment suppliers and workers, we selected three contrasting ETI member value chains for this study. Two were retailers, one a brand. One chain was fairly complex, involving intermediaries; one chain was more direct, with a social compliance officer based in Delhi; the third chain was even more integrated also with a social compliance officer based in Delhi. One of the companies was relatively new to ETI, but had had a code similar to the ETI Base code for a number of years.

The case study traced the selected garment value chains to Delhi. It also covered adjoining areas within the National Capital Region including Gurgaon in Haryana and the New Okhla Industrial Development Authority (NOIDA) in Uttar Pradesh. From the three ETI company value chains six suppliers were selected.

The main criteria for selection was to ensure a cross section of suppliers from the three value chains based on size, product range, share of buyer volume, and length of association with the buyer. Although we traced the firms through selected ETI company value chains, between them they supplied a total of seven ETI member companies.

The six units covered by our sample belonged to the big and medium category in the Delhi garments sector<sup>2</sup>. The suppliers in our sample represented the complexity of production organisation prevalent in the sector. The production process in our sample units was mostly assembly line. Production work in times of high demand was often outsourced to smaller units called the fabricating units. Each supplier had multiple units, a total of 31 units for the six suppliers in our sample.

Three of the six suppliers were relatively old companies and were established between 1970 and 1980. Two of them had been working for the past two decades. Only one of them was relatively new. All of the sample companies were 100% export-oriented garment manufacturing units. The sample units reported on had a total of 5,143 workers. All supplier companies had other units that were not included in our study.

They supplied up to 30 buyers per company (ETI and non-ETI), many of whom had codes of labour practice. Managers generally found it difficult to distinguish between these different company codes. Awareness of ETI was limited or minimal - only half the suppliers in our study had heard of ETI, and awareness was limited to the human resource managers.

## 1.4 Research methods

The methodology for the impact assessment involved the 'value chain to impact mapping' approach (see [Part 4: Research methodology](#) for further information about this approach).

<sup>1</sup> As reported by ETI member companies in their 2002 annual reports to the ETI Board.

<sup>2</sup> Units that have a turnover of more than one thousand million Rupees are considered big firms in the market often employing more than 2,000 workers. Units with a turnover of less than Rs. 100 million are considered as small units in the industry.

The case study involved interviews with:

- the three ETI member companies and key intermediaries within their value chains;
- human resource managers, senior managers and workers at the six supplier sites<sup>3</sup>;
- key informants from trade unions and non-governmental organisations (NGOs), and professionals well versed in the garment sector.

In each of the units a total of 25 workers from among the various categories of workers were selected for filling in the questionnaire/schedule. 150 workers were interviewed out of a total of 5,143 workers in the main units. On each site three focus group discussions (FGDs) were held, one each with male and female workers and one with a mixed group of workers (both male and female). Relatively fewer women workers were employed in the sample units.

Approximately 15% of the workers in the six units in our study were regular/permanent workers. 85% were either temporary or contract workers hired through third party contractors. In written documentation we were not informed of contract workers, however site interviews with management and workers revealed that all but one of the units in our study employed contract labour. Many workers were internal migrants from outside Delhi who return to their villages for festivals.

## 1.5 Worker sample

Out of a total of 150 workers, 101 were male and 49 female. The lower number of female workers interviewed reflected the fact that employment is predominantly male in the Delhi garments sector<sup>4</sup>. Around 65% of the workers in the sample were married. Approximately 50% of those selected belonged to the 25-35 years age group, around 27 % to the 18-25 age group and 22 % to the 33-45 age groups. Most of them were married but had not had

children yet. They were mostly literate with high school education.

The caste profile of workers revealed that 50% of workers belonged to the general castes i.e. Brahmins and Rajputs, 22% belonged to what are termed “Other Backward Castes” i.e. Yadavs, Kumhars, Jats and Patels, 14% to minority groups i.e. Muslims and Christians, and 8.6 percent to the Scheduled castes, mainly Harijan and Kohli castes<sup>5</sup>.

For the FGDs, the aim was to select workers who had spent more than two years in either the same factory or similar garments units. This was to ensure that the workers had adequate experience of working for suppliers to ETI companies, and could comment on impact. The workers’ perspective was further strengthened by visits to two worker colonies where the workers from the sample units and those who participated in the FGDs were living. The interactions with these workers took place in their homes. Contract workers from one of the sample units were also interviewed off-site with the help of a prominent trade union. To better understand the general perceptions of workers working in the garment sector in Delhi and to triangulate information gathered from the workers in the sample units, a few workers were also interviewed from one of the larger worker colonies in Delhi.

## 1.6 Limitations

This was a case study, and the sample was not statistically representative of all suppliers to ETI companies, or of the Indian garment sector as a whole. While we aimed to include a cross-section of suppliers with different characteristics, not all suppliers approached agreed to participate in the study. Moreover, on two of the sites studied, many of the workers were only employed for one year or less because of high worker turnover, thus making it difficult to identify impact of codes over time. On another site, management controlled the availability of workers for research (we were restricted to

<sup>3</sup> Within our sample two suppliers said that they did not subcontract work because of codes, while the others did. The research team was unable to obtain contact details for subcontractors at the lower levels of the chain, or obtain agreement to carry out interviews at that level.

<sup>4</sup> The dominance of male workers in the Delhi garment sector is particular to North India, where the percentage of women employed in any sector is low compared to other regions in India.

<sup>5</sup> The remaining respondents did not know/specify the case group they belonged to.



conducting research on a day when only permanent workers selected by management were available). Nevertheless, the research team attempted to counteract the bias in worker selection by conducting separate off-site interviews with contract workers contacted through a trade union.



## 2 Background on the Indian garment industry<sup>6</sup>

### 2.1 Size of sector and recent trends

Ready-made garment exports from India have grown rapidly over recent decades. Garment exports were virtually non-existent prior to 1960. Between 1970 and 2000, garment exports grew from 1.89% to 12.5% as a percentage of total exports. India's share in world garment exports also rose from 1.8% in 1980 to 2.34% in 1990 and stood close to 2.82% in 1999. In 2003, India ranked as sixth largest garment exporter to the European Union, with a 5.6% market share, which has been increasing.

It is estimated that in 1999-2000 there were approximately 30,472 garment enterprises in Delhi. Of these, 675 garment enterprises were registered under the Factory Act and 29,797 were unregistered garment enterprises. Thus nearly 98% of the estimated garment units in Delhi were in the unorganised sector. Delhi accounted for a little over 13% of the all-India registered sector garment enterprises and 3.84% of the unregistered enterprises. In terms of the value of all-India production, Delhi produced roughly 19.20% of the total output in the registered sector and 16.54% of the output in the unregistered sector.

The setting up of NOIDA (New Okhla Industrial Development Authority) in 1976 was an experiment in developing a modern township under the Uttar Pradesh Industrial Area Development Act. NOIDA is a well planned township 12 km from the centre of Delhi. Phase 2 of NOIDA included an export processing zone and a hosiery complex. Textiles and ready-made garments were among the areas of special focus. However, while planning the industrial township housing no space was allocated for workers. This resulted in the emergence of slums and 'unauthorised' residential colonies of the poor.

Gurgaon is located in the state of Haryana and is 32 kms from Delhi. Udyog Vihar, a part of Gurgaon, is an area earmarked for industrial units. Industrial plots are of reasonable size. Here ready-made garments were

also identified as a sector of potential development. Gurgaon again had no provision for workers' housing.

### 2.2 Type and number of workers

Delhi employees were estimated to include 1.02 lakh<sup>7</sup> workers in the garment industry. Of these, it is estimated that only 21,469 workers were in the registered garment sector and 80,051 workers were in the unregistered sector. The total garment sector employment in Delhi was roughly 5.82% of the all-India garment sector employment.

The gender distribution of the estimated workforce suggests that in the unorganised garment workforce, men formed roughly 96.68% of the total employment in Delhi while women were barely 3.32 per cent. In Delhi's registered ASI sector though women's share was much higher - 17.87%, while men's share was nearly 82.13%.

### 2.3 Labour law

In India currently there are nearly 40 labour laws, which are fairly progressive. Labour legislation applies to all factories and contrary to commonly held belief, differ very little with factory size and whether registered with the Factories Act or not. Registration with the Factories Act is formally meant to ensure that the following legislation is complied with:

- Payment of Wages Act 1936
- Minimum Wages Act 1948
- Workmen's Compensation Act 1946
- Employees' State Insurance Act 1948
- Employees' Provident Pension Fund and Miscellaneous Provisions 1952
- Employees' Pension Scheme 1971
- Maternity Benefit Act 1961
- Payment of Gratuity Act 1972

<sup>6</sup> The background information on Delhi garments is drawn from: N. Singh, R. Kaur and M. Kaur Sapra, (2003) *Continents Wide and Layers Deep: The Ready-made Garment Industry in the Times of Restructuring*, National Council of Applied Research, Delhi.

<sup>7</sup> A Lakh is a unit in a traditional number system still used in India equal to 100,000

- Trade Union Act 1926
- Industrial Employment (Standing Orders) Act 1946
- Employment Exchanges (Compulsory Notification of Vacancies) Act 1959
- Apprentices Act 1961
- Contract Labour (Regulation and Abolition) Act 1970
- Equal Remuneration Act 1976
- Inter State Migrant Workmen (Regulation of Employment Conditions of Service) Act 1979.

However, a major issue is lack of registration or enforcement of legislation. Key informants in our research indicated that paying off labour inspectors to avoid implementation of labour laws is not uncommon. A key factor stopping implementation of law is long working hours and overtime, without which suppliers would lose orders

# 3 Key impacts found

## 3.1 Summary of impacts by Base Code principle

Table 3.1 summarises the impacts reported by management and workers in each of the nine areas of the ETI Base Code. 'Major' indicates that widespread and significant change had occurred across several or all case study worksites (e.g. reductions in working hours at over half the sites). 'Minor' indicates that changes were only reported at a few sites or had minimal impacts on workers (e.g. introduction of age documentation at one or two sites). An asterisk next to either Major or Minor implies that the change was viewed as negative for at least some of the people interviewed. Zero means that no change was reported, but this does not necessarily imply there were no non-compliances with the Base Code (see section 3.4 for Key issues remaining).

The main impact of codes of labour practice in India has been on health and safety. There have been some impacts in relation to the payment of minimum wages, and particularly the payment of social and pension benefits. There have been minor impacts on working hours, regular employment and harsh treatment, although these varied by factory. There has been little or no impact on freedom of association and discrimination, which remain issues in the Delhi garment sector.

It should be emphasised that impacts were not necessarily exclusively a result of implementation of the ETI Base Code. It was sometimes impossible to separate changes brought about by company codes from other influences, but all impacts reported here were considered to be at least in part a result of code implementation.

**Table 3.1**

Summary of impacts at the six supply sites

KEY	
<b>Mmt</b>	Management
<b>Wkrs</b>	Workers
<b>Major</b>	Major and/or multiple impacts across several worksites
<b>Minor</b>	Minor impacts and/or impacts at isolated worksites only
<b>*</b>	Impact perceived as negative by at least some interviewees
<b>0</b>	No impact reported

Base Code principle	Mmt	Wkrs
Freedom of employment	0	0
Freedom of association	0	0
Health and safety	Major	Major
Child labour	Minor	0
Living wage	Minor	Minor
Working hours	Minor	Minor*
Discrimination	Minor	0
Regular employment	Minor	Minor
Harsh treatment	Minor	Minor

## 3.2 Impact by Base Code principle

### 3.2.1 Employment is freely chosen

This did not come up as an issue at any of the sites.

### 3.2.2 Freedom of association and the right to collective bargaining

The Factories Act 1948 allows the workers of any enterprise with seven or more workers to form a trade union and register it. None of the workers interviewed within the factory premises reported being a member of any trade union, and no unions were found to be formally operating in the factories. All factories had workers' committees:

8 A full explanation of how Table 3.1 was derived is given in Part 1, Key findings, section 2.1.

- Four suppliers said workers committees were set up because of codes. Suppliers see the workers' committees as bringing a positive change in the relationship between the workers and the management;
- Workers were more ambiguous. On one site workers saw committees as positive. Non-regular workers were not represented on committees.

### 3.2.3 Health and safety

Health and safety was the area of greatest positive impact. The management in all the factories reported that health and safety has undergone a number of changes due to the implementation of codes, and this was confirmed by workers on all the sites. The human resource managers usually attended to this aspect of code compliance.

- Code compliance was given as the single reason by the management for:
  - increase in fire exits
  - provision and usage of protective safety equipment, like needle guards, gum boots, etc
  - increase in the number of toilets
  - improvement in ventilation and lighting facilities
  - clear labelling of chemicals
  - provision of suggestion boxes.
- In some supplier companies, training for first aid to workers and regular fire safety drills took place on a regular and frequent basis in accordance with code requirements.
- All six supplier companies visited had separate toilets for men and women.
- Fire safety precautions, including fire exits and extinguishers were visible on each of the floors visited in all supplier company units. Workers reported that they undertook regular fire safety trainings and drills. Names of such trained worker

representatives were displayed on notice boards on different floors.

- On five sites, regular workers reported that they now had access to better medical care within the factory, which they linked to buyers' codes.
- As a result of codes, first aid boxes were now provided on each floor for use in case of minor injuries and ailments, and these were observed by the research team. However, in off-site interviews contract workers reported that first aid boxes got stocked with medicines, etc only during buyers' visits or a few hours prior to the arrival of the buyers and other inspectors. The first aid boxes were emptied as soon as such visits were over.

According to one human resources manager, there was a 'tremendous improvement' in working conditions resulting from health and safety changes linked to code compliance:

"The workers have become more disciplined. The management has become more liberal and provides good quality working conditions to the workers."

"We have realized that they are human beings and that they need all these facilities in the factories." This was confirmed by worker interviews.

### 3.2.4 Child labour shall not be used

Suppliers reported that their youngest workers were 18 or 19 years old. No child labour was found to be employed by any of the supplier companies that were visited. Four sites had introduced procedures for checking workers' ages, as a result of codes. However, suppliers suggested that by the time codes were introduced, the incidence of child labour in garment export factories had already been substantially reduced as a result of more effective law enforcement.

### 3.2.5 Living wages to be paid

We found that codes had had some impact in ensuring payment of a minimum wage, payment of benefits and documentation of wages, for regular workers in particular. However, codes had done little to ensure payment of a *living* wage.

- All supplier companies said they now paid minimum wages, and buyer codes had made minimum wage payment mandatory<sup>9</sup>. Suppliers also reported that arrears from revision of minimum wages as per government norms were now also given to workers. Regular workers reported receiving minimum wages but not necessarily 'living' wages.
- Contract workers were less likely to receive their wage or benefit entitlements, depending on the contractor (see section 3.4.5 below). Two supplier companies reported that, as a result of codes, they now ensured that their staff were present when contractors distributed wages to their workers. They said this ensured timely payment of wages as well as the payment of legal minimum wages.
- All suppliers reported giving workers benefits and other entitlements such as Employees' State Insurance (ESI) and Provident Fund (PF)<sup>10</sup>. When workers were interviewed in the factories they said they received these benefits and on four sites workers linked this to buyers' codes. However, some temporary workers said they did not get benefits when laid off, and offsite interviews with contract workers indicated many did not receive their entitlements.
- The implementation of codes had compelled suppliers to maintain personal files on workers. The files include identity papers of workers, personal data, age proof documentation, photographs, nomination papers for ESI and PF benefits, etc. On four sites management reported giving wage slips to their workers as a result of

codes. Regular workers did not report having received permanent written contracts, but said they received pay-slips with the company's name and the description of salary components.

Workers in one focus group discussion recounted the situation of one female worker who was now covered by Employees' State Insurance (ESI) as a result of codes. Her husband had come to the unit to distribute sweets because the expenses of delivering their baby were covered by ESI and he didn't realise that the monthly deductions would pay off so well. Other workers reported similar situations.

### 3.2.6 Working hours are not excessive

Two suppliers reported increases in overtime hours as a result of falling lead times from buyers. Both indicated it was difficult to comply with overtime requirements. All suppliers said they introduced payment premiums for overtime, attributed to codes. This was confirmed by workers on two sites.

### 3.2.7 No discrimination is practised

One HR manager said there had been an unwritten policy of not recruiting women which he had changed when he arrived. Another manager said there had been a change in hiring of women and men because of code compliance (women were seen as more productive within normal working hours and this helped to reduce overtime). Two sites had an equal opportunities policy, but it was not clear that this was due to codes.

### 3.2.8 Regular employment

Lack of regular employment is a significant issue in the garment industry in Delhi, but we found that codes have only had a limited impact in addressing this.

<sup>9</sup> Minimum wage: approximately R3,500 per month in the Delhi region, but this varies by region, and by skill grade (e.g. tailor, cutter etc).

<sup>10</sup> Employees' State Insurance Act (1948) provides for health care, cash benefits in case of sickness, maternity and employment injury. Eligibility is for employees drawing wages not exceeding Rs 65,000 per month, and all employees are entitled including casual and temporary workers. Employees' Provident Funds and Miscellaneous Provisions Act (1952) provide old age or survivor's benefits including compulsory pensions. Eligibility is for employees drawing pay not exceeding Rs 5,000 per month, excluding casual workers and apprentices but including contract labour. (Singh, Kaur and Sapra op. cit. 2003, p. 44).

- All but one of the units in our study employed contract labour hired through third party contractors. One unit used to operate this system, but ended it because of the difficulty of complying with codes (a limited but positive impact).
- Company management reported that when they entered into contractual agreements with contractors they included code compliance in the legal contracts. Suppliers reported that compliance was ensured in cases where the contractual workers were hired at the factory premises. However, they all suggested that monitoring of compliance in the case of contracted-out workers was very difficult.
- As a result of codes, two suppliers reported providing written letters of appointments to their workers, both permanent and fixed-term contractual workers. Usually after three months, some companies gave a letter of confirmation that set out the employment status of the worker. Suppliers did not provide written employment contracts. On one site workers said there were now more permanent workers as a result of codes
- In one unit workers said they were re-employed each time they returned from their villages for holidays (thus avoiding permanent employment status). The reason given for this by suppliers was the seasonal nature of the garment industry in Delhi.

### 3.2.9 | No harsh or inhumane treatment

Some suppliers reported that the incidence of abuse had been reduced because of codes. One reported a change, with less verbal abuse and sexual harassment of female workers by male employees and supervisors (e.g. loitering around women's toilets, shouting). This used to be a problem, but workers could now report issues to auditors and the problem had stopped. However, workers did not specifically verify these changes.

### 3.3 Other worksite impacts

The other main impact of codes found at worksite level was increased awareness of labour legislation and of the need to comply with it:

- Three suppliers said that codes increased their awareness of labour laws, and that contractual agreements with buyers pressurised suppliers to follow law. One HR manager felt that “codes act as a catalyst for law implementation”.
- One HR manager said that his company had traditionally paid a ‘nuisance value’ (bribe) to the government labour inspector. However, since his company has now made improvements to their labour practices as a result of codes, they now only have to pay half the amount in bribes because the labour inspector cannot find many violations.
- However, in the view of one manager, the relationship between the management and workers had deteriorated after code compliance. He saw this as being largely due to workers becoming more aware of their rights. The workers now knew that what buyers wanted was not necessarily what the management wanted.

“Codes have brought in an understanding of the rights and basic standards a worker should have. We never thought about it [codes] earlier and feel it is fair enough that minimum wages are given [to workers]”

Owner of a 12-year old garment export unit in Delhi

## 3.4 Key issues remaining

### 3.4.1 Freedom of association and right to collective bargaining

Freedom of association remains a significant issue. None of the sites in our study were unionised.

Some employers said formally they would accept freedom of association, but most management interviews implied they did not want unions. On two sites workers had been laid off as a result of disputes, one with cutters in a trade union who were sacked and replaced. In another 150 workers had been laid off because of disputes over payment of the minimum wage and ESI. It was difficult for trade unions to organise workers given the high turnover of workers (up to 80-90% per annum) and the prevalence of contract workers.

When interviewed on-site the management reported that worker solidarity existed in their company and workers reported a family-like atmosphere at the workplace. However, during the discussions in the worker colonies, many of the workers said that due to high turnover of labour, worker solidarity was absent. They said that in cases where the management noticed increasing worker solidarity, they laid off workers.

### 3.4.2 Living wage is paid

Off-site interviews with contract workers indicated they did not all receive benefits, contractors could hold back pay, and contractors and/or suppliers kept double books.

Codes appear to have had an impact on payment of minimum wages for permanent and regular workers, but there are still serious issues for contract workers.

The Vice President of a prominent trade union that works in the garments sector said that contract workers come to them mainly with three problems, i.e. ESI, PF and non-payment of minimum wages. In such instances, the union members approach the employers and discuss the case with them but the

employers try to circumvent dealing with such issues by blaming the contractors.

### 3.4.3 Working hours are not excessive

Some workers indicated overtime premiums could be circumvented (e.g. paid one hour premium for two hours overtime), and on one site lunch breaks were not counted in working hours. Contract workers were not always paid an overtime premium. One supplier had reduced overtime by increasing capacity (number of machines), but they also had 90% worker turnover and workers reported being unhappy at the loss of overtime pay.

### 3.4.4 No discrimination is practiced

In Delhi there is a long-standing tradition of employing men rather than women in garment production (see section 2.2). This was reflected in the gender ratio of employment in our case study sites. One HR manager indicated that fewer Muslims were hired because they needed to attend prayers during working hours.

### 3.4.5 Regular employment is provided

The position of contractual workers remains a significant issue. They are employed through the contractor which drastically reduces the responsibility of the unit owners towards them. Pay slips were given to the contractual workers by the contractor, but often no proper written records were maintained for contractual labour. They may work on a separate floor within the premises of the same factory, and have a separate entrance. Off-site responses of contractual workers revealed that they were often not paid minimum wages, payment was delayed or made in instalments. In one case, workers reported that the contractor had absconded without paying full wages. Some workers reported a system of double book-keeping: in reality they did not receive benefits or allowances, but a separate record was kept for buyers and labour inspectors showing that they did.



### Voices of contract workers in one of the sample companies

“The contractual labour in our company works on a separate floor and has separate toilets; they are dirtier than the toilets on other floors.”

“Contractors do not pay workers total wages at the end of the month; only a part of the wages are paid to workers. The remaining money is paid to workers in instalments. Workers are not given pay-slips but are made to sign in a register.”

“Overtime hours are normally put in till 9 pm in case a shipment is stuck. Our workday ends at 6pm and we usually put in three hours overtime. Overtime is not voluntary; if a worker refuses to do overtime hours the same day, they risk losing their job. We are given Rs. 25 as food allowance on days that we have to work overtime. However, if overtime extends from 9 pm to 11 pm or 11pm to 2am, we are not given any further additional food allowance. We also have to report for work the following day at 9:30 am.”

“When buyers come for inspections to the unit, we are told to leave the premises for some time and take a break and have tea or that there is no more work on that day. We are made to exit from the back gate of the unit and not paid on these days. Since we work on a separate floor we usually have no access to other workers in the factory.”

Most of the workers falling in this category were not allowed to work for a continuous period of three months and their employment was characterised by breaks in service. Some of the workers stated that when they returned to their villages for holidays, on return they were made to re-join as fresh employees so the employer ensured a break in service. Often the employers made excuses such as low production orders or delay in the arrival of fabric to ensure a break in service.

### 3.4.6 No harsh or inhumane treatment is allowed

On one site, women workers reported that two tokens were given for a row of 50-60 workers which meant that at any one time only two workers could visit the toilets: “Sometimes we find it difficult to hold on.”

## 3.5 Impacts by type of worker

### 3.5.1 Impacts by employment status

Permanent/regular workers have seen positive impacts from buyers' codes, particularly in relation to the payment of the minimum wage, statutory benefits and premium for overtime hours. Temporary workers have experienced some positive impacts. However, some suppliers rotate temporary workers between factories, ensuring that they do not work more than 240 days at each factory. This way, they are not considered permanent workers so are not entitled to the related benefits<sup>11</sup>.

Contract workers experienced the least impact of codes<sup>12</sup>. As reported in the previous section, serious issues arose in relation to: contracts, wages, access to benefits, overtime, health and safety and freedom of association.

One site did not use contractors any more because they were underpaying workers and not depositing ESI and PF. Another site moved 2,500 tailors hired from the gate to the direction of a contractor who had an agreement on compliance issues. The company paid the contract workers, not the contractor, therefore ultimate control remained with the company. Before codes only permanent workers had appointment letters, now contract workers also had them. Factories taking greater responsibility for contract workers is an important way of ensuring that legal entitlements are extended to these workers.

<sup>11</sup> Any worker who has been employed for 240 days is a permanent worker. Such workers are entitled to 20 days of paid leave and 45 days casual leave. They are also entitled to 1.75 % ESI, 12% PF and a gratuity after five years of employment.

<sup>12</sup> The contract arrangements vary: (1) recruit workers at the gate, contractor supervises, workers paid by the company; (2) recruit at the gate, contractor supervises, contractor pays the workers; (3) recruited and paid by contractor.

### 3.5.2 Impacts by gender/ethnicity

No change in discrimination was noted in relation to castes and religion. Discrimination against employing women has a long tradition in the garments sector in Delhi. There appears to be some movement on this in our case study, but it is difficult to attribute this directly to codes. In one site it was clearly the effect of a newly appointed HR manager who corrected an unwritten policy not to employ women. On two sites the management felt more women should be employed, because they did not want to work overtime, and were more productive within normal working hours<sup>13</sup>.

### 3.6 Household and community impacts

Salaried permanent male as well as female workers who were interviewed within the factory premises reported that there had been a marked improvement in their living conditions. They reported that because the factory premises were clean they were inspired to keep their homes clean as well.

Some of the women stated that working in the factories had led to an increase in their status and decision making at the household level, for example they could now decide on the kind of schools their children attend. They also reported that ESI benefit

In one focus group the workers said that the health of the family has become better due to ESI benefits. If the children fall ill, they are covered by the ESI. One of the workers said that the expenses of his wife's delivery were covered by the ESI and he saved Rs. 30,000 - 40,000. Another worker said that his daughter was admitted to hospital due to illness and the expenses were covered by ESI. The workers felt that their standards of living have improved. There is change and improvement in daily living and children are being sent to school.

Summary from Focus Group Discussion

had led to better health of family members, and some of the women who had used the ESI benefit to pay for delivery expenses said they were able to save a substantial amount.

### 3.7 Wider impacts

#### 3.7.1 Poverty impacts

A visit by members of the research team to two of the colonies housing a large number of permanent workers from the units revealed that their living conditions were definitely better than those of the contract workers. They kept their homes clean and owned working household appliances like TV, radio, etc. These workers were well dressed. Some workers linked improvements in their living conditions to improvements in conditions in their factories. Receipt of ESI and PF benefits meant they would now also receive support in the case of old age or ill health<sup>14</sup>.

In contrast, a visit to a colony of contract workers in the Tehkand area of Delhi revealed the appalling conditions in which they survived. The majority of the workers were migrant labourers and lived in squalor: piles of rubbish littered the colony. Some of the people residing here had built a set of 70-75 living

"In the absence of ESI, PF or leave benefits life in the city of Delhi is really tough. Daily survival is a challenge with spiralling costs of living. Most of us are issued a three-month temporary ESI card with reduced health benefit coverage in comparison to permanent workers. Contrary to the management's claim, no notice is provided when we are laid off. In some units the management asks the workers to sign on a sheet of paper stating they were given three months' notice. The lack of assured employment leads to insecurity and mental tension. Often we are unable to find employment for long stretches especially during the lean season."

Contract workers focus group discussion held in a colony

<sup>13</sup> The implication here is that employing more women with higher productivity would help firms comply with overtime restrictions in codes and meet production targets.

<sup>14</sup> The women were articulate and confident but even after a lot of persistence from the members of the research team refused to say anything against the management save that they had never been promoted despite putting in five - nine years of work in the same factory and did not receive any training which could equip them to take up 'better/ skilled' work in the same factory.

quarters specifically catering to such a population. The living quarters were roughly six by seven feet in size with cooking facilities inside the room, where at times two - four people lived. A worker paid an average monthly rent of Rs. 700.

While most of the male workers were tailors, women were piece rate or daily wage workers. Some of them were also involved in doing embroidery on a piece rate basis. Where they did not receive ESI or PF, these workers were likely to face extreme poverty in the event of old age or ill health.

# 4 Management approaches to code implementation

## 4.1 Communication

On two sites managers said that codes had made the company more aware of their management systems, and that this facilitated communication with buyers.

The majority of workers were not aware of codes, only permanent workers and those working a long period of time. On one site management said the benefits workers get from codes were mentioned in their letter of appointment and in the Standing Order displayed on notice boards. But workers were not specifically informed about codes. On another site workers were aware of codes and visits by buyers' representatives, and said codes were explained to new recruits.

Putting copies of codes on notice boards appeared insufficient to inform workers of their rights. In the view of the research team, workers only read boards for rules applying to them, and many did not seem aware that codes applied to management.

## 4.2 Monitoring

Supplier companies experienced a range of monitoring activities depending on their different buyers. Some ETI buyers had Delhi-based compliance officers, and carried out audits themselves. Some ETI companies were supplied through agents, and the ETI company itself did not audit the factory (only the agent). Some buying companies used self assessments (which also required photographs as evidence). Others used full third party audits carried out by a range of professional auditing companies. Some audits lasted up to three days and included interviews with 25-50 workers in focus groups of up to 10 workers per group.

All ETI companies identified by the participating suppliers announced visits to the factory in advance. However, one large non-ETI retailer used unannounced visits which were deemed to be very stringent.

## 4.3 Capacity building

Two ETI members in the study had local compliance officers, and provided support to their suppliers in

implementing codes - set-up generally welcomed by suppliers. One ETI company had held a supplier conference on codes, which was also seen as positive. Managers also reported that some buyers had become less aggressive over time. One site had provided training for all its workers on health and safety and provided employees with a handbook.

## 4.4 Integration with core business

All suppliers expressed a growing concern that buyers were demanding adherence to standards, but were unwilling to reflect that in the prices they were prepared to pay. Suppliers opined that motivating them to implement buyer-driven codes effectively would essentially lie in investment in a long term, profitable business relationship with the buyers.

Three suppliers were particularly vocal on this issue:

- Two talked of the contradiction (one called it hypocrisy) of buyers who introduce codes requiring double wages for overtime, while squeezing them on price and lead time.
- One of them said that buyers wanted a more regular workforce, but that was not possible given ebbs and flows in orders and hence the need to use casual labour, contract labour and fabricators. Code compliance was seen as a means of helping to get business.
- A third said that price was a critical issue in raising workers' payments and overtime premiums. Falling lead times put pressure on overtime. One talked of a US retailer with double standards, placing strict emphasis on code compliance while it operates a system of blind auctions between suppliers.

**"Their talk of ethics is empty... If the shipment date is not met, the company faces losses in terms of cancellation of orders, discounts and bearing airfreight charges."**

**Senior Manager**

# 5 Recommendations

## 5.1 Recommendations for buying companies, auditors and labour code initiatives

The following recommendations were made in supplier interviews and during the stakeholder workshop held in Delhi towards the end of the project.

- Suppliers recommended more standardisation of codes and a move towards the formation of and compliance with a single code.
- Audits and inspections are very time consuming. One comprehensive audit is preferable to repeated inspections.
- Suppliers preferred flexibility by buyers in relation to payment for overtime hours since overtime is closely linked to productivity and orders.
- Suppliers suggested that better incentives from buyers like regular orders and better prices would facilitate implementation of codes.
- Some were critical of the northern-based paradigm around which codes are developed. Many suppliers opined the need for local solutions and local applicability of codes.
- Codes are seen as the problem of the management and exclude participation of workers.
- Auditors should facilitate rather than pressurise the suppliers to correct situations. Auditors should also help in designing correction programmes.
- Companies need to draft policies and establish channels of communication with permanent and casual workers.
- Workers need to be educated about their rights at work, their responsibilities and the expectations of employers.
- More needs to be done to provide job security to workers. Long-term casual workers should be given permanent contracts, and/or fixed-term contracts of at least one year. Seasonal contracts should be used to cope merely with fluctuations in production, providing pro-rata benefits and some guarantee of being rehired the following season.
- Special services for women workers should be introduced in factories. This includes child care services, breastfeeding breaks, advance notice of when they have to work late, light duties and antenatal care for pregnant women, and job security for women on unpaid maternity leave.
- Steps must be taken to ensure that suppliers eliminate intimidation of workers and harassment of all sorts, through awareness-raising and properly enforced company policies. There is a need for policies against verbal abuse and favouritism within the workplace that counter discriminatory and socially prejudiced practices.
- Suppliers should ensure confidential channels for complaints without any fear for workers. Worker representative systems should be more inclusive and effective with female as well as male representatives and both seasonal and casual labour. A forum should be created for women workers in which they feel comfortable to voice their problems and overcome socially embedded gender discrimination.

## 5.2 Recommendations for suppliers

The field survey also brought out many recommendations for the suppliers and their management approach. The following pointers provide guidelines for suppliers that will facilitate better monitoring of code compliance.

- There is a need to expand training for supervisors, especially on how to manage workers. They also need to be made more gender sensitive for better implementation of non-discriminatory practices at the workplace.





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