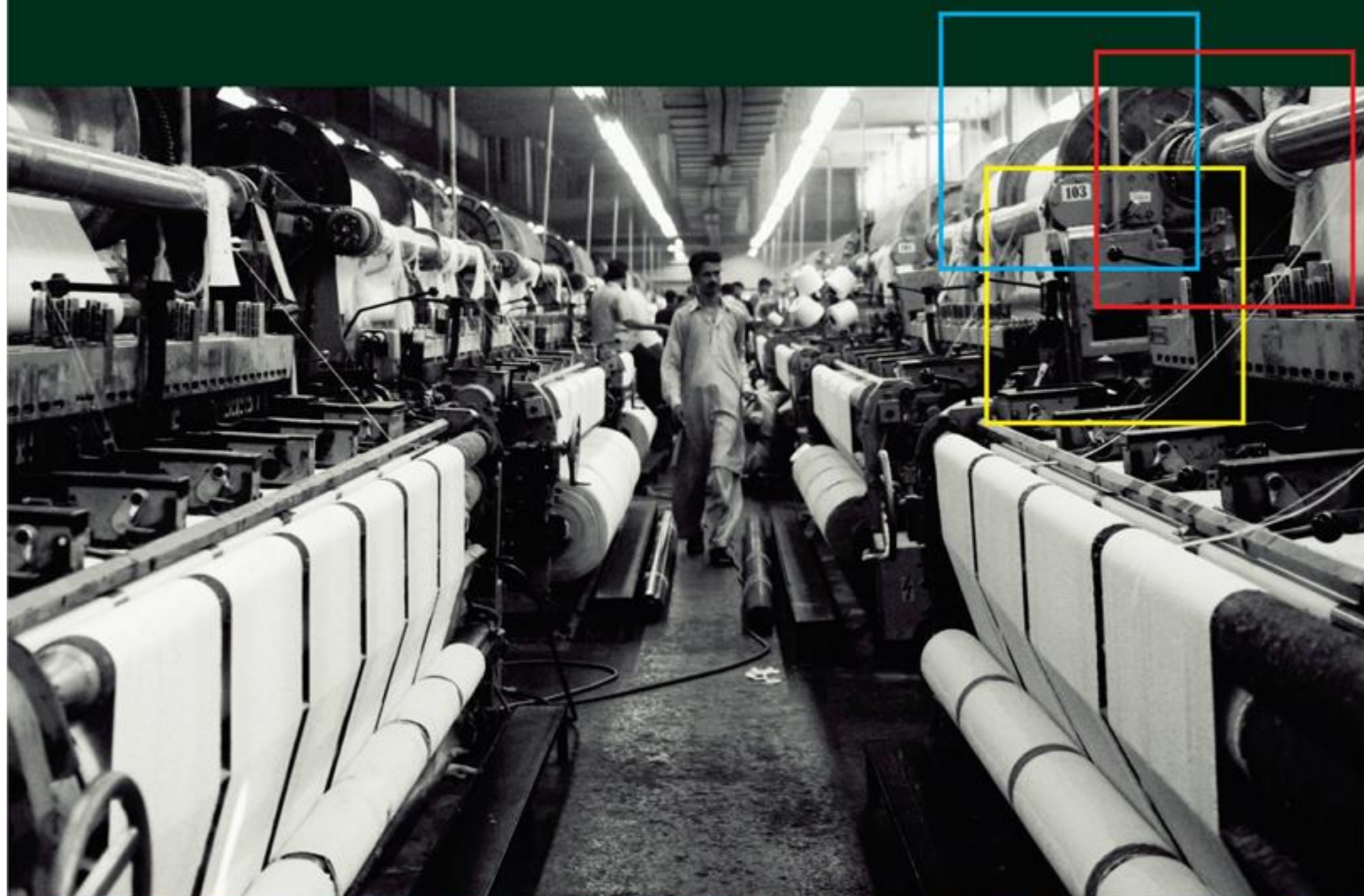




International  
Labour  
Organization

# Minimum wage setting, implementation and working conditions in the formal and informal sectors of the garment industry in Pakistan



Copyright © International Labour Organization 2016

First published 2016

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Licensing), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: [rights@ilo.org](mailto:rights@ilo.org). The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with a reproduction rights organization may make copies in accordance with the licences issued to them for this purpose. Visit [www.ifro.org](http://www.ifro.org) to find the reproduction rights organization in your country.

---

Zhou, Mi

Minimum wage setting, implementation and working conditions in formal and informal sectors of the garment industry in Pakistan / Mi Zhou; International Labour Organization. – Bangkok: ILO, 2016

ISBN: 9789221312031; 9789221312048 (web pdf)

International Labour Organization

minimum wage / working conditions / clothing industry / informal economy / Pakistan

13.07

*ILO Cataloguing in Publication Data*

---

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and digital products can be obtained through major booksellers and digital distribution platforms, or ordered directly from [ilo@turpin-distribution.com](mailto:ilo@turpin-distribution.com). For more information, visit our website: [www.ilo.org/publns](http://www.ilo.org/publns) or contact [ilopubs@ilo.org](mailto:ilopubs@ilo.org).

---

Printed in Thailand

All photos: © M. Zhou

## Foreword

Minimum wage setting and regulation seek to protect the most vulnerable workers in society from poverty. This report, commissioned in 2015, examines Pakistan's minimum wage setting mechanisms, processes and implementation in the post-devolution landscape.

The report is the result of extensive field study and consultations with government, employers and workers, which included visits to Karachi, Lahore, Sialkot and Faisalabad. The preliminary research findings were shared with the ILO's tripartite partners in Pakistan, made up of the federal and provincial governments, the Employers' Federation of Pakistan and Pakistan Workers' Federation, as well as a wider range of trade unions, trade associations, factory owners, members of academia and civil society groups, at a consultation workshop held in Islamabad in July 2015. This wider group went on to become the Garment Sector Stakeholder Forum, supported by both the ILO and GIZ.

The research findings were endorsed by all of those present, demonstrating shared concerns and an impetus for reform. Feedback from the stakeholders was incorporated into the report.

The report's recommendations provide a roadmap for reform, both in minimum wage setting and implementation of the minimum wages determined across Pakistan's provinces. The ILO hopes to work with Pakistan's stakeholders to realise those aspirations as part of Pakistan's Decent Work Country Programme and agenda.

Ingrid Christensen  
Country Director  
ILO Pakistan Country Office  
Islamabad  
August 2016



## Table of contents

Acknowledgements .....	vi
Executive summary .....	ix
Chapter 1: Background .....	1
1.1 Purpose of the study .....	1
1.2 Research methodology .....	2
Chapter 2: Country context .....	5
2.1 Political and economic context.....	5
2.2 Labour market and conditions .....	7
2.3 Collectivism and trade unionism.....	9
2.4 Stakeholders in labour welfare.....	12
Chapter 3: Minimum wage processes and institutions .....	13
3.1 Applicable law .....	13
3.2 Minimum wage coverage and exclusions .....	16
3.2.1 Minimum Wage Ordinance 1961 and equivalent provincial legislation.....	16
3.2.2 Unskilled Minimum Wage Ordinance 1969.....	19
3.2.3 Workers in informal sector enterprises or holding informal jobs.....	22
3.3 Minimum Wage Boards.....	25
3.4 Criteria for wage setting.....	27
3.5 Gender equality in wages .....	29
3.6 The function of minimum wages: the appropriate level? .....	30
Chapter 4: Implementation of minimum wage machinery .....	35
4.1 Wage setting processes for unskilled workers.....	35
4.2 Wage setting processes for particular industries .....	37
4.3 Role of collective bargaining in wage setting .....	39
4.3.1 Formal sector enterprises.....	39
4.3.2 Highly skilled workers.....	42
4.3.3 Workers in informal sector enterprises or holding informal jobs.....	43
4.4 Appointments to minimum wage boards.....	45
4.5 Delays in notification .....	47
4.6 Pervasive underpayment.....	49
4.7 Penalties and enforcement.....	51
Chapter 5: Labour conditions in the textile and garment industries.....	56
5.1 Industry context .....	56
5.2 Labour standards compliance.....	60
5.2.1 Virtuous circle among the top tier.....	60
5.2.2 International buyer-driven compliance: effective but limited .....	61
5.2.3 Absence of government: Weak labour inspection systems.....	67
5.2.4 Workers in informal sector enterprises or holding informal jobs.....	69
5.2.5 Factors in labour standards compliance.....	82
Chapter 6: Recommendations .....	87
6.1 To the federal government.....	87
6.2 To the provincial governments .....	87
6.3 To employers and industry associations.....	93
6.4 To trade unions and federations.....	93
6.5 To the ILO.....	94
Case Studies .....	96
Bibliography.....	102
Appendix I - Key terms.....	107
Appendix II – Stakeholder map .....	113



## Acknowledgements

This report was researched and written by Mi Zhou of Praxis Labs, a collective of humanitarian and development practitioners providing research for field solutions. Emily Chan, Harrison Chung, Sarah van der Veen, and Emma Firestone also contributed to its preparation.

Caroline Bates at the ILO Country Office for Pakistan participated in the fieldwork research and provided invaluable technical support to the author during the project. Substantial comments were provided throughout the research and drafting process by Matthew Cowgill, Chief Technical Adviser, Labour Standards in Global Supply Chains at the ILO Regional Office for Asia and the Pacific. Belinda Chanda, Syed Saghir Bukhari and Frida Khan from the ILO Country Office for Pakistan also provided comments on an initial draft.

This study has benefited from discussions at the consultative workshop held in July 2015 where preliminary findings and recommendations were shared. The author thanks all the workshop participants for their contributions. The study was only possible with the generosity of many stakeholders who contributed to the research. Although they cannot be named individually for reasons of confidentiality, the author expresses her deepest thanks to all the focus group discussants, interviewees and other participants.

This publication has been published within the framework of the programme "Labour Standards in Global Supply Chains in Asia" financed by the Government of the Federal Republic of Germany. The programme was initiated as part of a renewed partnership between the German Ministry for Development Cooperation (BMZ) and the International Labour Organization (ILO). The responsibility for opinions expressed in this publication rests solely with its author(s), and its publication does not constitute an endorsement by the ILO or the Government of the Federal Republic of Germany of the opinions expressed in it.





## Executive summary

### Minimum wage institutions: Processes and implementation

Since the 18th Amendment to the Constitution of Pakistan, minimum wage setting has come within the sphere of provinces, while the federal government retains its role in the Islamabad Capital Territory (ICT). The provinces and ICT governments exercise their powers in respect of wage setting under the 1961 Minimum Wage Ordinance for West Pakistan or newly enacted provincial legislation. The continuing applicability of the West Pakistan Minimum Wage for Unskilled Workers Ordinance 1969 is currently debated. The legislation has not been expressly repealed, altered or amended. However, the federal government has no residual power in relation to this area, as it would be unconstitutional for it to legislate in a devolved area.

Minimum wage legislation covers all workers in industry and commercial establishments but expressly excludes the following groups:

- public sector employees;
- agricultural workers;
- coal miners;
- workers in charitable enterprises; and
- small enterprises that employ up to nine people in Khyber Pakhtunkhwa.

Although workers in informal sector enterprises or holding informal jobs are not expressly excluded from minimum wage or industrial relations legislation, stakeholders have historically, and almost universally, interpreted legal protections as applicable to only employees in formal sector enterprises. As a matter of statutory construction, however, it is possible to interpret the existing legislation as including workers in informal employment or holding informal jobs.

Minimum Wage Boards are established in each province and in the ICT under the 1961 Minimum Wage Ordinance or equivalent provincial legislation. Minimum Wage Boards have the role of recommending minimum wages rates for unskilled workers and skilled workers in scheduled industries, as well as for unskilled and juvenile workers. They also recommend adjustments after a minimum of one year but at least once every three years.

Minimum Wage Boards are specially constituted tripartite structures. Permanent members include a chairperson and representatives from employer and worker organizations. The

chairperson must be an independent member with adequate knowledge of industrial labour and economic conditions of the Province and must not be connected to any industry nor associated with any employers' or workers' organizations; Worker and employer representatives should be nominated by their organizations. Additional members representing workers and employers of specific industries are appointed when considering minimum wage rates for skilled workers in those industries.

Legally, although Minimum Wage Boards can recommend rates, the power to declare minimum wages by notification in the official gazette remains with the provincial government or, in the case of the ICT, the federal government. There is nothing in the law that either requires the government to follow the recommendations of the Minimum Wage Board nor anything that requires it to give reasons for departing from the Minimum Wage Board's recommendations.

In giving their recommendations, Minimum Wage Boards are required to take into account the following:

- changes in economic conditions;
- costs of living; and
- other relevant factors.

There is nothing in the law that defines these terms or stipulates statistical indicators to be used. The legislation does not set out any formulas for wage fixing.

Although Pakistan has ratified ILO's Equal Remuneration Convention, 1951 (No. 100), it has not yet taken any significant steps in implementing the Convention. There is no law currently in force that prohibits discrimination based on sex or gender in relation to wages.

The legislation is silent as to the purpose of a statutory minimum wage and there is no conceptual agreement among stakeholders as to the purpose of minimum wages in Pakistan. There is pervasive underpayment of wages, which suggests that the minimum wage is not functioning as a binding wage floor. In addition, stakeholders differ as to the level at which the wage floor should be set.

Provincial governments look to the annual federal budget for an indication of the minimum wage rate set by the federal government for ICT, and then follow suit. Minimum Wage Boards

generally do not lead the wage setting process, but simply adopt the rates set by the provincial governments, which follow the lead of the federal government itself. As such, despite efforts to implement technical criteria in minimum wage settings, it is a political process in which Minimum Wage Boards are sidelined. Even in provinces where detailed work is undertaken by Minimum Wage Boards, figures are replaced by those announced in the federal budget.

In practice, minimum wages for workers in different occupational groups in scheduled industries are not genuinely independently determined. Instead, rates are linked to the rate for unskilled workers, with the same percentage increase applicable to unskilled workers applied each year.

The role of collective bargaining in wage setting can be expanded in formal sector enterprise by increasing the scope of collective bargaining agreements. As anticipated by Punjab's minimum wage notifications, which does not specify a rate for the top category of workers in the managerial or supervisory group, highly skilled workers can also use collective bargaining to set their wages. Some workers in informal sector enterprises or holding informal jobs already engage in annual collective bargaining negotiations. These negotiations are parallel to the formal wage setting process, although they take place with the knowledge and occasional participation of provincial and district government.

In practice, appointments to the Minimum Wage Boards are political in nature and do not ensure full consultation or active participation of tripartite partners. Workers' and employers' organizations do not feel adequately represented in the structure. Board members often lack the requisite knowledge or expertise.

Official notifications of minimum wage rates are often significantly delayed following the announcement of minimum wage increases. Workers thus anticipate the pay increase before the minimum wages are legally raised by notification, and feel that the delay in notification deliberately denies them their pay increase. Arrears in wage are not always paid.

In the private sector, some firms have internal wage setting documentation and calculations that are shared with recognized collective bargaining agents. This increases the level of cooperation between management and workers, as well as the legitimacy of the wage rate.

In the garment sector, workers – depending on occupational groups – are often paid by piece rate. Workers in informal employment or holding informal jobs are not registered for any social welfare benefits, nor do they claim the statutory minimum wage if they are underpaid. Moreover, workers in informal sector enterprises, as well as those holding informal jobs, are often paid below the minimum wage.

Penalties for non-payment, underpayment, or delayed payment of wages are too slight to be a deterrent. Special penalties for persistent or repeated contraventions of minimum wage laws only exist in Punjab. Under the current regime, the costs of regulatory risks are relatively low. Moreover, enforcement of minimum wages faces additional challenges in the informal sector.

### **Labour conditions in the textile and garment industries**

Compliance with labour standards can give firms access to the international market. In Pakistan, the number of firms currently considered to be sufficiently compliant to directly supply major international retailers or brands is very low. Only around 14 companies (“the top tier firms”) many of which manufacture garments for multiple international brands, are considered compliant. According to international buyers, more firms in the top tier are needed to allow buyers more choice. According to top tier firms, there is room for more compliant firms to supply international buyers without fear of competition.

Compliance among the top tier firms has been buyer-driven, particularly in cases where buyers place direct orders with the manufacturers. Buyers conduct audits and assessments of labour standard compliance and the threat of cancellation of orders is a strong incentive for compliance. However, not all buyers have an in-country presence (due to the security situation) to conduct their own audits and inspections.

International market-driven and buyer-driven compliance is powerful but affects only a small number of enterprises. Audit and monitoring systems are weaker when orders are placed by buying houses, importers, and supply-chain coordinators. The extent of activities of large supply-chain coordinators and buying houses in Pakistan is not clear. Manufacturers receive orders from a combination of sources, including directly from the international retailers and brands; buying houses and importers; and supply-chain coordinators.

The more distant on the value chain the manufacturer is from the international buyer or market, the less incentive they have for compliance as there is less oversight from international buyers. Similarly, the more intermediaries there are between the manufacturer and the end-buyer, the less incentive manufacturers have for compliance. Manufacturers that do not interact directly with international end-buyers provide less risk to the end-buyers' reputation. They are also more likely to be part of outsourced and ephemeral supply chains created to fulfil specific orders by supply chain coordinators.

In 2012, the provincial labour standards and inspection systems were reactivated. However, the systems are very weak, underfunded, lacking in modern training, and lacking in capacity to conduct effective training.

There are low rates of unionization in garment and textile industries, although Works Councils are common. However, Works Councils cannot independently engage in collective bargaining on behalf of workers, nor can they raise industrial disputes. In addition, their role is one of mediator rather than as the workers' representative.

For workers holding informal jobs, including home-based workers, unionization has improved wages and conditions in some instances. The primary relationship of consequence to the conditions of home-based workers is the relationship between the worker and her contractor. Innovations in partnerships between private companies and non-government organizations (NGOs) have also improved wage rates and the quality of products produced by workers in informal employment, particularly female home-based workers.



## Chapter 1: Background

### 1.1 Purpose of the study

This research report was commissioned by the ILO as part of its Labour Standards in Global Supply Chains: A Programme for Action in Asia and the Garment Sector (LSGSC) project. The first year of this project is being carried out under a grant agreement between the ILO and the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) on behalf of Germany.<sup>1</sup> The project's objectives include strengthening the mechanisms for participatory and evidence-based wage fixing; increasing stakeholders' access to information to improve the quality of social dialogue; and improving systems for assuring labour compliance. The target countries are Cambodia, Indonesia, and Pakistan.

The ILO aims to support Pakistan in its implementation of core labour standards and other conventions and to retain its Generalized Scheme of Preferences Plus trade status.<sup>2</sup> Through the Decent Work Country Programme in Pakistan, the ILO is currently engaged with the Government of Pakistan (GOP), provincial governments, employers' organizations, and workers' representatives.

This research report contributes to the above objectives by providing evidence on Pakistan's minimum wage setting and implementation system across its four provinces and in the ICT. It also provides data on the working conditions of workers in the textiles and garment sectors and the role of collective bargaining in shaping them. The research examines both the formal and informal sectors, with an analysis of the gender dynamics in the sectors. The primary focus is on Punjab and Sindh, although the research also covers Khyber Pakhtunkhwa (KP) and Balochistan provinces.

---

1 This publication has been published within the framework of the programme financed by the GIZ on behalf of the Government of the Federal Republic of Germany. The programme was initiated as part of a renewed partnership between the German Ministry for Development Cooperation (BMZ) and the International Labour Organization (ILO). The responsibility for opinions expressed in this publication rests solely with its author(s), and its publication does not constitute an endorsement by the ILO or the Government of the Federal Republic of Germany of the opinions expressed in it.

2 The EU's Generalised Scheme of Preferences (GSP) allows developing country exporters to pay low or no duties on their exports to the EU. This gives them access to the EU markets and contributes to their economic growth. Countries granted GSP Plus enjoy full removal of tariffs in two-thirds of all product categories. GSP Plus status is granted to countries that ratify and implement core international conventions relating to human and labor rights, environment and good governance.

The research has the following objectives:

- to identify existing legal and institutional frameworks governing minimum wage setting in Pakistan's provinces and analyse their operation in practice;
- to identify areas in which the existing provincial legal and institutional frameworks on wage setting and labour standards are weak and make notified minimum wages potentially vulnerable to legal challenges;
- to assess the relevance, awareness of and implementation in the textile and garment sector of (a) the minimum wage for unskilled workers and (b) the relevant minimum wage schedules for skilled and semi-skilled workers;
- to provide options by which wage setting institutions and enforcement of labour standards can be strengthened by the federal and provincial governments in order to stimulate debate on reform;
- to explore the gender dynamics of wages and labour standards and their enforcement; and
- to support the ILO's global research under the LSGSC project.

The research provides the ILO and its tripartite partners in Pakistan, at both federal and provincial levels, with information to increase understanding of existing practices, as well as institutional, policy and legislative frameworks governing minimum wages and working conditions. It is hoped that the research will encourage the tripartite partners to engage in candid and productive social dialogue, in order to work towards a reform agenda for wage setting, particularly in the garment sector.

## **1.2 Research methodology**

The research methodology for this study is based on both a desk review of available literature and field visits within Pakistan, covering Islamabad, Karachi, Lahore, Faisalabad and Sialkot. The field work incorporated qualitative interviews with stakeholders in labour welfare and wage setting, including government officials and civil servants at federal and provincial levels; trade unionists; workers' representatives; and selected business owners, workers, and the NGO sector. In addition, focus group discussions were held with human resources managers, as well as workers in the formal and informal sectors. Visits were also made to factories and to premises in the informal sector, including the homes of home-based workers and unregistered factories. The qualitative research was supplemented by a literature review of secondary sources,



including government-reported data and independent research reports. The themes identified and data obtained through the interviews are, where possible, triangulated against the results of desk research, as a means of testing the findings.

The fieldwork for this report took place in May and June of 2015. Fifty-five interviews were conducted within Islamabad, Karachi, Lahore, Faisalabad, and Sialkot. Interviews with stakeholders from Balochistan and KP took place in Islamabad. In addition, a focus group discussion was held with human resource managers of five medium-sized and export-oriented firms in the garment industry in Punjab. Four home visits, as well as two focus group discussions, took place with home-based workers in both Punjab and Sindh. Seven factory visits were also conducted in Punjab and Sindh.

The researchers met with 15 government officials and civil servants from ICT and the four provinces. Sixteen employers and employers' representatives, human resources managers, industry and trade association leaders were interviewed. The researchers also met with 16 trade unionists, as well as 23 members of an informal workers' organization. In addition, the researchers visited an industry-endorsed training facility in the textile industry in Sindh.

Interview respondents and focus group participants were informed that the research was conducted for the purposes of a report on the minimum wage system in Pakistan and working conditions in the textile and garment industries. Respondents and participants were advised about the varying levels of confidentiality they could choose for their discussions. It was emphasized that the goal of the interviews, visits, and focus group discussions was not to identify violations or non-compliance by individuals or enterprises. Instead, information gathering and data collection were prioritized, and the confidentiality of informants and their organizations was preserved in order to facilitate candid and open discussions.

Many of the respondents contacted were identified in consultation with the ILO. In addition, the researchers met with the ILO's tripartite partners, GIZ, and other experts to identify potential respondents. The researchers deliberately sought to interview respondents who were perceived as having an influence on or an in-depth understanding of wage-setting and labour issues, particularly in the garment sector. On occasions, the researchers met with stakeholders who contributed to wage-setting and labour issues only peripherally, yet who were perceived by others as having significant influence, actual or potential. These interviews were conducted to

verify the degree of engagement that different stakeholders had in the issues. In addition, the snowball sampling was used to identify additional respondents and as a means of growing the sample size of people interviewed. This approach also served to identify and verify stakeholders and their spheres of influence. As a matter of practice, respondents were asked to identify and refer researchers to other actors at the end of the interviews. Where appropriate, the researchers followed up on the suggestions or asked the referrer to facilitate interviews and meetings.

The research methodology was chosen because one of the goals of the study is to understand the current practice in wage setting and enforcement (or lack thereof) of labour conditions. The qualitative nature of the research, based on interviews and discussions, is most suited to understanding the motivations, values, and perceptions that influence the behaviour of stakeholders. The focus of the interviews and discussions was to understand the drivers, context, and meaning of certain behaviour patterns that can strengthen or weaken labour standards compliance. This, coupled with the desk research on institutional and legal frameworks, offers insights into the wage-setting practices and labour conditions in the textile and garment industries.

As this report will demonstrate, wage setting, labour conditions, and labour welfare are issues with significant political dimensions in Pakistan. The research necessarily took place during a finite period of time, in a particular political context. Any programme design and implementation based on the report can continue to test and assess the findings identified as political interests and needs shift.

**Textiles in an export-oriented factory**



## Chapter 2: Country context

### 2.1 Political and economic context

Pakistan was established in 1947 and is a federal Islamic republic. It comprises of four provinces: Punjab, Sindh, Khyber Pakhtunkhwa (KP), and Balochistan; two autonomous areas: Gilgit-Baltistan, and Azad Jammu and Kashmir; and two federally administered territories: Federally Administered Tribal Areas (FATA) and the ICT. Pakistan's population is currently estimated to be over 185 million,<sup>3</sup> of which 62 per cent live in rural areas.<sup>4</sup> Its most populous cities are Karachi (estimated at 23.5 million)<sup>5</sup> in Sindh, and Lahore (6.7 million)<sup>6</sup> and Faisalabad (2.6 million)<sup>7</sup> in Punjab.

Pakistan's political history has been complex, with power alternating between military and civilian leaderships. The 2013 elections saw the first successful democratic transfer of power between two civilian administrations. The current Federal government is headed by Prime Minister Nawaz Sharif, of the Pakistan Muslim League (PML (N)).

Pakistan's provincial governments are politically diverse. Punjab, Pakistan's largest and most populous province, is also led by a PML (N) provincial government. Sindh is led by a Pakistan Peoples' Party (PPP) government. Khyber Pakhtunkhwa's government is controlled by the Pakistan Tehreek-e-Insaf (PTI) and Balochistan by a coalition of parties, with its Chief Minister being from the Baloch National Party (BNP).

In 2010, the 18th Amendment to the Constitution brought significant change in Pakistan's political structures. A broad range of powers, including those relating to labour, was devolved from federal to provincial control. As a transitional measure,<sup>8</sup> the federal legislation remains in

---

3 *Population, total*, World Bank: *Data*, <http://data.worldbank.org/indicator/SP.POP.TOTL> [accessed 10 Sep. 2015]

4 *Rural population (% of total population)*, World Bank: *Data*, <http://data.worldbank.org/indicator/SP.RUR.TOTL.ZS> [accessed 10 Sep. 2015]

5 K. Arner: "Population explosion: Put an embargo on industrialization in Karachi", in *The Express Tribune*, 6 Oct. 2013, <http://tribune.com.pk/story/614409/population-explosion-put-an-embargo-on-industrialisation-in-karachi/> [accessed 10 Sep. 2015]

6 *Punjab Portal – Quick Stats*, Government of Punjab, [http://www.punjab.gov.pk/punjab\\_quick\\_stats](http://www.punjab.gov.pk/punjab_quick_stats) [accessed 10 Sep. 2015]

7 *Faisalabad Regional Profile*, The Federation of Pakistan Chamber of Commerce & Industries, <http://www.fpcci.com.pk/reports/Faisalabad%20Regional%20Profile.pdf> [accessed 10 Sep. 2015].

8 The Constitution of the Islamic Republic of Pakistan 1973, section 270AA (6),

place unless and until a province enacts its own legislation. Significantly, the power to regulate minimum wage and conditions of employment devolved to provincial Labour Departments.

In 2014, the World Bank estimated Pakistan's GDP at \$246.9 billion.<sup>9</sup> The annual GDP growth has increased steadily since 2010, from 1.6 per cent to 5.4 per cent in 2014.<sup>10</sup> The World Bank forecasts continuing real GDP growth in 2015 at 6 per cent, dropping off to 3.7 and 4.5 per cent in 2016 and 2017 respectively.<sup>11</sup>

Agriculture and manufacturing remain the largest sectors fuelling economic growth, accounting for 20.88 per cent and 13.3 per cent of GDP respectively.<sup>12</sup> Within agriculture, crops contribute to 8.3 per cent of GDP, among which cotton ginning has a 7.4 per cent share of the crops subsector and 0.6 per cent contribution to the GDP. In 2014-15, cotton ginning grew by 7.38 per cent, recovering from a contraction in the previous year.<sup>13</sup>

Per capita income in dollar terms grew 9.25 per cent, compared to 3.83 per cent of the previous fiscal, from \$1,333 in 2012-13 to \$1,512 in 2014-15. This was attributed to acceleration in real GDP growth, comparative lower growth in population, and consistent value of the Pakistani Rupee.<sup>14</sup>

Despite Pakistan's economic growth, inequalities are marked although decreasing slowly. According to World Bank estimates, the Gini coefficient for Pakistan has fallen from 32.7 in 2005 to 29.6 in 2010.<sup>15</sup> Nevertheless, according to a government report in April 2010, the country's economic growth has:

.... neither been inclusive in ensuring a fairer distribution of the benefits of growth nor has the process been sustainable. The reasons have included neglect of social indicators,

---

<http://www.pakistani.org/pakistan/constitution/part12.ch7.html> [accessed 14 Sep. 2015].

9 *Data: Pakistan*, World Bank, <http://data.worldbank.org/country/pakistan> [accessed 14 Sep. 2015].

10 *Data: GDP growth (annual %)*, World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> [accessed 14 Sep. 2015].

11 *Global Economic Prospects*, World Bank, June 2015, <http://www.worldbank.org/en/publication/global-economic-prospects/summary-table> [accessed 14 Sep. 2015].

12 *Pakistan Economic Survey 2014-15*, Pakistan Ministry of Finance, pp. iv and vi, [http://www.finance.gov.pk/survey\\_1415.html](http://www.finance.gov.pk/survey_1415.html), [accessed 14 Sep. 2015].

13 *Pakistan Economic Survey*, Pakistan Ministry of Finance: 2014-15, p. v.

14 *Ibid.*, p. vi.

15 *Data: GINI Index*, World Bank, <http://data.worldbank.org/indicator/SI.POV.GINI>, [accessed 14 Sep. 2015]. Updated data not available at the time of writing.

a skewed distribution of assets, weak institutions of governance, inward looking economic policies and structures, poor levels and rates of savings and investments (largely owing to inequitable tax structures and the reluctance of the elite to contribute to financing of economic growth on the basis of capacity to bear such a burden).<sup>16</sup>

In short, while the real income of the top quintile of urban Pakistani households has risen, that of the bottom quintile of rural Pakistanis has continued to fall.<sup>17</sup> Research from Oxfam published in March 2015 found that the 18 million richest people's total consumption is 1.5 times more than the poorest 72 million people.<sup>18</sup>

According to the UNDP, Pakistan ranks 146 out of 187 on the Human Development Index (HDI), the second lowest in South Asia.<sup>19</sup> Nearly half of the population (45.59 per cent) lives in multidimensional poverty. More than half (57 per cent) are the working poor, and live on less than \$2 per day.<sup>20</sup>

## 2.2 Labour market and conditions

Pakistan has ratified 36 international labour Conventions, of which 33 are currently in force, including all eight fundamental Conventions.<sup>21</sup> In line with ILO's fundamental Conventions, Pakistan has enacted the Employment of Children Act 1991 and the Bonded Labour System (Abolition) Act 1992. However, labour protections historically have been weak, poorly implemented, and poorly enforced.<sup>22</sup>

---

16 *Final Report of the Panel of Economists: Medium-Term Development Imperatives and Strategy for Pakistan*, Pakistan Planning Commission, April 2010, p. 84, [http://www.pide.org.pk/pdf/Panel\\_of\\_Economists.pdf](http://www.pide.org.pk/pdf/Panel_of_Economists.pdf) [accessed 14 Sep. 2015].

17 F. Tirmizi: "Income Disparity: The Very Uneven Rise in Pakistani Incomes", in *The Express Tribune*, 30 July 2012. <http://tribune.com.pk/story/414810/income-disparity-the-very-uneven-rise-in-pakistani-incomes/> [accessed 14 Sep. 2015]. The Express Tribune analysed data based on the Household Integrated Economic Survey, compiled by the Pakistan Bureau of Statistics.

18 Z. T. Ebrahim, "50 Shades of Inequality in Pakistan", in *Dawn*, 14 May 2015, <http://www.dawn.com/news/1178703>; and A. Burki et al: 'Multiple Inequalities and Policies to Mitigate Inequality Traps in Pakistan', *Oxfam Research Report*, Mar 2015, <http://bit.ly/1JVLLT5> [accessed 14 Sep. 2015].

19 UNDP: *Human Development Reports - Human Development Indicators: Pakistan*, <http://hdr.undp.org/en/countries/profiles/PAK> [accessed 14 Sep 2015].

20 UNDP: *Human Development Indicators: stan*.

21 ILO: *NORMLEX - Ratifications for Pakistan*, <http://bit.ly/1OIjjYC> [accessed 14 Sep. 2015]

22 *Pakistan, Findings on the Worst Forms of Child Labor*, (Washington, D.C. US Department of Labor, 2013) <http://www.dol.gov/ilab/reports/child-labor/pakistan.htm> [accessed 20 July 2015].



Workers in the sample department in an export-oriented factory

According to the Pakistan government, the country has the tenth largest labour force in the world with an estimated 60.09 million people.<sup>23</sup> Pakistan's Labour Force Survey 2013-14 estimated that the total unemployment rate is 6 per cent, a slight decrease from the 2012-13 rate of 6.2 per cent.<sup>24</sup> The UN, however, estimated total unemployment at 5.1 per cent in 2013.<sup>25</sup> Approximately 1.1 per cent of the labour force was long term unemployed in 2013.<sup>26</sup>

According to UN data, the total labour participation rate in Pakistan in 2013 was 54 per cent and has remained stable since 2010.<sup>27</sup> Of those in employment, a majority (73.6 per cent) worked in the non-agricultural informal sector, usually characterized by low wages, lack of social protection and unsafe workplaces.<sup>28</sup> Roughly six out of every ten Pakistani employees are vulnerable to or at risk of lacking decent work.<sup>29</sup> In the manufacturing industry, female workers are more than twice as likely to be vulnerable (59.5 per cent) as male (28.4 per cent).<sup>30</sup> In 2013-14 fiscal year, the manufacturing sector, which includes the textile industry, accounted for 14.2 per cent of the total labour force.<sup>31</sup> This figure has been relatively stable during the

23 *Pakistan Economic Survey 2014-15*, Pakistan Ministry of Finance: p. 205.

24 *Pakistan Labour Force Survey 2013-14*, Pakistan Bureau of Statistics, pp. vi and vii, <http://www.pbs.gov.pk/content/labour-force-survey-2013-14-annual-report> [accessed 14 Sep. 2015].

25 *Unemployment, total (% of total labor force, modelled on ILO estimate)*, World Bank: *Data*, <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS>, [accessed 14 Sep. 2015].

26 UNDP: *Human Development Indicators: Pakistan*.

27 *Data: Labor Force Participation Rate*, World Bank, <http://data.worldbank.org/indicator/SL.TLF.CACT.ZS> [accessed 14 Sep. 2015].

28 Z. Hisam: "Introduction", in *Status of Labor Rights in Pakistan: The Year 2014*, PILER, pp. 18-19.

29 ILO: *Decent Work Country Programme 2010-2015* (ILO Country Office for Pakistan), p. 9, <http://www.ilo.org/public/english/bureau/program/dwcp/download/pakistan2010-15.pdf>, [accessed 14 Sep. 2015]. The ILO defines vulnerable employment as the sum of own-account workers and contributing family workers. They are less likely to have formal work arrangements, and are therefore more likely to lack decent work conditions, adequate social security, and effective representation by trade unions and similar organizations. Vulnerable employment is often characterized by inadequate earnings, low productivity, and difficult conditions of work that undermine workers' fundamental rights.

30 *Pakistan Employment Trends 2013*, Pakistan Bureau of Statistics, January 2014, p. 10, [http://www.pbs.gov.pk/sites/default/files/Labour%20Force/publications/Pakistan\\_Employment\\_2013.pdf](http://www.pbs.gov.pk/sites/default/files/Labour%20Force/publications/Pakistan_Employment_2013.pdf), [accessed 14 Sep. 2015].

31 *Economic Survey 2014-15*, Pakistan Ministry of Finance: *Pakistan*, at p. vi.

last decade.<sup>32</sup> Often called the backbone of Pakistan's economy, textile and garment industries are the largest segment of the country's manufacturing sector, at 46 per cent value-added.<sup>33</sup> More than 15 million direct and indirect jobs are generated by the industry, which employs around 40 per cent of the non-agricultural workforce.<sup>34</sup> It accounts for approximately eight per cent of GDP and consumes 40 per cent of banking credit to the manufacturing sector.<sup>35</sup>

### 2.3 Collectivism and trade unionism

Article 17 of the Constitution of Pakistan guarantees the freedom of association, including every citizen's right to form associations or unions, subject to the law.<sup>36</sup> At the federal level, the right of a worker to form or join a trade union is stipulated in section 3(a) of the Industrial Relations Act, 2012. Each worker can only belong to one trade union at any time, with earlier membership cancelled on joining another union.<sup>37</sup> Workers' organizations can also join or establish federations and affiliate with international organizations and confederations.<sup>38</sup> Equivalent provisions are contained in the provincial industrial relations legislation.<sup>39</sup>

Despite these guarantees, the rate of unionization for workers in Pakistan is low. Precise figures are difficult to establish, as there are a number of conflicting statistics from varying sources.<sup>40</sup> In 2013, one source estimated that there were 1,905 trade unions with a total membership of 1.8 million.<sup>41</sup> By contrast, another estimate puts the number of registered trade unions at 1,209

---

32 ILO: *Decent Work Country Profile – Pakistan 2014*, p. 4.

33 A. Ahmed: *Growth Trends of Pakistan Textile Industry: A Brief Report on Textile Industry Trend During Last 10 Years with Reasons & Recommendations* (Rawalpindi Chamber of Commerce & Industry), <http://www.rcci.org.pk/wp-content/uploads/2012/12/gtopti.pdf> [accessed 14 Sep. 2015]; *Pakistan Economic Survey 2014-15*, Pakistan Ministry of Finance, p. 41.

34 N. Jamal: "Textile Industry and Labour Compliance: One Year After GSP Plus", in *Status of Labor Rights in Pakistan: The Year 2014*, p. 47; and *Pakistan Economic Survey 2014-15*, Pakistan Ministry of Finance, p. 51. The Economic Survey defines the textile industry as the full value chain, from cotton to ginning, spinning, fabric, dyeing and finishing, made-ups, and garments.

35 *Pakistan Economic Survey 2014-15*, Pakistan Ministry of Finance, p. 51.

36 The Constitution of the Islamic Republic of Pakistan 1973, article 17.

37 Under the Industrial Relations Act 2012, section 3(b), employers also have the right to establish organizations and join international associations of their own choice without. Notably, no limitations are placed on the number of organizations employers can join at any one time.

38 Industrial Relations Act 2012, section 3(d).

39 Punjab Industrial Relations Act 2010 ss. 3(i)-(ii); Sindh Industrial Relations Act 2013 s. 3(i)-(ii); KP Industrial Relations Act 2010 ss. 3(i)-(ii); Balochistan Industrial Relations Act 2010 ss. 3(a)-(b).

40 The reasons for the discrepancies in estimates are not clear. It may be that some sources rely on trade union's own reports of their membership. Others figure may be based on survey data. However, reports that cite various figures do not always specify a data source.

41 *Pakistan Labour Market Profile*, Danish Trade Union - Council for International Development Cooperation, 2014, <http://bit.ly/1iFVoNo> [accessed 14 Sep. 2015].

with a total membership of 245,383, of which only 1.8 per cent is female.<sup>42</sup> According to one author, this amounts to a rate of unionization of less than one per cent.<sup>43</sup> But according to a different author published in the same volume, an estimated 5.4 per cent of Pakistan's workforce is unionized.<sup>44</sup> By either estimation, trade union density is low. In the same year, for example, the average trade union density for the 34 OECD countries was 17.1 per cent.<sup>45</sup> Based on a Danish source, Pakistan's trade union density is lower than that of its neighbours: in 2013 and 2014, it estimated Pakistan's trade union density at 2.8 per cent (assuming trade union membership of 1.8 million), compared to 3 per cent in Bangladesh, and 9.7 per cent in India.<sup>46</sup>

There are many reasons for Pakistan's low rate of unionization. Historically, restrictive legislation has diminished the number and strength of trade unions. Labour laws expressly exclude some categories of workers from unionization, including those that work in the administration, police or the defence forces, civil service, public sector establishments and social sectors (education and health).<sup>47</sup> Exceptionally, Sindh's industrial relations legislation expressly includes workers in "fishing and agriculture". Although industrial relations legislation in all other provinces and at the federal level does not expressly exclude agricultural workers, in practice, the law has been interpreted as not applicable to agricultural workers. This interpretation amounts to the exclusion of nearly 43.5 per cent of the labour force from union membership.<sup>48</sup>

The weakening of trade unions in Pakistan has also been attributed to increased privatization since the 1990s.<sup>49</sup> Between 1991 and 2008, 167 federal government assets in banking, telecommunications, and industrial sectors were privatized. Downsizing and the retrenchment

---

42 *Registered Trade Union Membership by Sex*, Pakistan Bureau of Statistics, <http://www.pbs.gov.pk/sites/default/files/other/yearbook2011/Labour/12-18.pdf> [accessed 14 Sep. 2015].

43 Z. Hisam, "Introduction", in *Status of Labor Rights in Pakistan: The Year 2014*, p. 23.

44 S.M. Gazenfur, "Trade Unions through Labour Laws", in *Status of Labor Rights in Pakistan: The Year 2014*, p. 109.

45 OECD: *Trade Union Density*, [https://stats.oecd.org/Index.aspx?DataSetCode=UN\\_DEN](https://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN) [accessed 14 Sep. 2015].

46 *Labour Market Profile 2014*, <http://bit.ly/1Wbbz3r>; and *Bangladesh Labour Market Profile 2014*, Danish Trade Union - Council for International Development Cooperation: *India*, <http://bit.ly/1Pf16zR>; [accessed 14 Sep. 2015].

47 For example, Industrial Relations Act 2012 section 1(3) and equivalent provisions in provincial legislation.

48 *Pakistan Economic Survey 2014-15*, Pakistan Ministry of Finance, at p. 206.

49 Z. Hisam, "Introduction", in *Status of Labor Rights in Pakistan: The Year 2014*, p. 23.



of workers followed. The management of privatized units hired employees on a contract basis or through third party employment systems.<sup>50</sup>

Formation and registration of trade unions under the industrial relations legislation is generally restricted. As discussed in Part 3.2, stakeholders in Pakistan have historically interpreted legislation narrowly, to cover workers in formal establishments or industries only.<sup>51</sup> Workers in the informal economy had to register as organizations under Voluntary Social Welfare Agencies Ordinance, 1961. Such voluntary social welfare agencies have no status under the industrial relations laws and cannot enter into collective bargaining agreements.<sup>52</sup>

As employment in the informal sector in Pakistan far exceeds the formal sector, efforts have increased to organize workers from the informal sector. Some interesting examples of developments in the informal sector can now be seen. Beginning in 2002, the power loom workers in informal enterprises and/or holding informal jobs in Faisalabad began to organize and, as described in Part 4.3.3 below, have been engaged in informal collective bargaining with employers. More recently, domestic workers have successfully unionized and registered under the Punjab Industrial Relations Act, 2010. Formed with the assistance of the Pakistan Workers Federation (PWF), the Domestic Workers' Trade Union is the first of its kind in Pakistan, and had 235 members at the time of registration.<sup>53</sup>

Female home-based workers have also begun to unionize. The Home-Based Women Workers' Federation (HBWWF) was registered with the National Industrial Relations Commission in 2009, after three trade unions of home-based embroiderers and bangle makers were formed. As of May 2015, the HBWWF was planning to register a fourth trade union of home-based garment workers. According to its General Secretary, the home-based workers did not encounter strong resistance to their unionization. Some contractors attempted to intimidate home-based workers (HBW) through misinformation: by telling them that the costs of electricity and other utilities would increase if they joined the trade union. However, more generally, contractors and employers were supportive of the unionization of HBW. Partly they

---

50 Ibid.

51 ILO Country Office for Pakistan, *First Domestic Workers' Trade Union registered in Pakistan*, 16 January 2015, [http://www.ilo.org/islamabad/info/public/pr/WCMS\\_338484/lang--en/index.htm](http://www.ilo.org/islamabad/info/public/pr/WCMS_338484/lang--en/index.htm) [accessed 14 Sep 2015].

52 Z. Hisam, "Introduction", in *Status of Labor Rights in Pakistan: The Year 2014*, p. 24; the Voluntary Social Welfare Agencies (Registration and Control) Ordinance 1961.

53 ILO: *First Domestic Workers' Trade Union registered in Pakistan*, ILO Country Office for Pakistan, Islamabad, 2015

perceived unionization as an opportunity to minimize administrative costs, as they could now reach and contract with a group of HBW more efficiently.<sup>54</sup>

One reason for the success of HBWWF is that, like the Domestic Workers' Trade Union which more recently registered with the help of PWF, it too had help: it grew from its association with the National Trade Union Federation.<sup>55</sup> Crucial to the emergence of these new trade unions in the informal sector is the role of established trade union federations in fostering new movements, as well as incorporating them into the existing structure of labour representation.

#### 2.4 Stakeholders in labour welfare

There are numerous stakeholders that have an impact on wages and working conditions in Pakistan. These include the ILO's tripartite partners in federal and provincial government, as well as employers' organizations, and workers' organizations. In addition, there are other industry associations, informal workers' organizations, and others that have a close and significant influence on the labour welfare of certain segments of the workforce. While the ILO has worked with many of these stakeholders, the degree of cooperation varies. In Appendix II, stakeholders are mapped in relation to their characteristics, motivations, and constraints.

#### Textiles made in unregistered power-loom factories, waiting to be sold



---

<sup>54</sup> Interviews with researchers, May and June, 2015.

<sup>55</sup> Interviews with researchers, May and June, 2015.

## Chapter 3: Minimum wage processes and institutions

### 3.1 Applicable law

Pakistan has a complex national minimum wage system, which dates back to 1961 with the enactment of the Minimum Wage Ordinance for West Pakistan. Along with the West Pakistan Minimum Wage for Unskilled Workers Ordinance 1969, these two ordinances formed the basic framework for minimum wage setting in Pakistan.

Prior to 2010, there were essentially two systems for minimum wage setting for workers in the private sector. First, the 1961 Ordinance empowered provincial governments – upon recommendations from the provincial Minimum Wage Boards – to declare minimum wages for unskilled and juvenile workers, as well as for workers in particular industries. This system is often referred to by stakeholders as the “skilled workers system”.<sup>56</sup> However, this is something of a misnomer, as provincial governments are not empowered to declare minimum wages for all skilled workers nor limited to setting the minimum wage only for skilled workers. Rather, provincial governments are empowered to declare minimum wages for skilled workers only within particular industries pursuant to section 5. Moreover, provincial governments are also empowered to declare minimum wages for unskilled workers generally and unskilled workers within particular industries under sections 4 and 5.

Second, after 1969, the federal government began to set the minimum wage rate for unskilled workers under the Unskilled Minimum Wage Ordinance. This system is often referred to by stakeholders as the “unskilled system”. Under this law, the federal government can declare minimum wage rates for unskilled workers in a Schedule to the Ordinance. No Minimum Wage Boards are established under the federal legislation, and no criteria for wage setting are stipulated. Changes to the Schedule could be made simply by federal legislation. For example, the federal Finance Act of 2008 amended the Schedule of the 1969 Unskilled Minimum Wage Ordinance in order to increase the minimum wage rate from 4,600 Pakistan Rupees (PKR) to PKR 6,000 per month for the financial year 2008-09.<sup>57</sup>

---

<sup>56</sup> The Chief Commission of the ICT is mandated to exercise powers as if the ICT were a province. See Presidential Order No 1 of 1970, ICT (Administration) Order Presidential Order 12/1971, and Presidential Order 18/1980. See ICTA: *Chief Commissioner*, <http://www.ictadministration.gov.pk/chief-commissioner.html> [accessed 14 Sep. 2015].

<sup>57</sup> Finance Act 2008 section 7, <https://ahmadladhani.files.wordpress.com/2008/12/financeactf.pdf> [accessed 14 Sep. 2015].

As a result, historically, there were overlaps and contradictions in the legislation. Both federal and provincial governments could set minimum wages for unskilled workers, and multiple minimum wage rates were applicable:

1. A federally set rate that applied to unskilled workers across Pakistan pursuant to section 3 of the Unskilled Minimum Wage Ordinance 1969.
2. A provincially set rate for unskilled (and juvenile) workers:
  - a. Across that province, based on recommendations from the provincial Minimum Wage Board, pursuant to section 4(1) of the Minimum Wage Ordinance 1961; and
  - b. Within a province, local variations could be declared based on recommendations from the provincial Minimum Wage Board, pursuant to section 4(2) of the Minimum Wage Ordinance 1961.
3. A provincially set rate for unskilled workers within particular industries in that province, based on recommendations from the provincial Minimum Wage Board, pursuant to section 5 of the Minimum Wage Ordinance 1961.

In addition, a plethora of minimum wage rates could be declared by provincial governments for skilled and other categories of workers in particular industries.<sup>58</sup>

Since the 18th Amendment to the Constitution of Pakistan was enacted in 2010 and introduced large-scale devolution of powers, minimum wage setting is now the responsibility of provincial governments. However, under section 270AA(6) of the Constitution, all laws with respect to devolved subject areas that were in force immediately before the 18th Amendment remain in force until “altered, repealed, or amended” by provincial authorities.

Historically, provinces have exercised their powers in wage setting under the Minimum Wage Ordinance 1961 as it was the only legislation that empowered provincial governments to do so. This meant that the Minimum Wage Boards have had a role in wage setting. This practice has continued post-devolution, as provincial governments continue to notify wage rates pursuant to the 1961 Ordinance, or provincial legislation as it is enacted.

The Minimum Wage Ordinance 1961 remains in effect in Sindh, Balochistan, and ICT. In Punjab, amendments to the federal legislation were enacted by the Minimum Wages (Amendment) Act in 2012, which only made minor consequential and editorial amendments to

---

<sup>58</sup> Minimum Wage Ordinance 1961 sections 4 and 5.

the original federal legislation. Nevertheless, under section 270AA(6) of the Constitution, as the federal law has now been amended by the provincial legislation, the provincial legislation prevails and the 1961 Ordinance is only effective in Punjab as amended by the Minimum Wage (Amendment) Act. In KP, the Minimum Wages Act enacted in March 2013 substantially reproduces the 1961 Ordinance without major amendments in content. The new provincial legislation in KP, however, prevails over the 1961 federal Ordinance and effectively repeals it.

**Table 1. Applicable minimum wage legislation by province as at September 2015**

<b>ICT</b>	Minimum Wage Ordinance 1961
<b>Punjab</b>	Minimum Wage Ordinance 1961, as amended by Minimum Wage (Amendment) Act 2012
<b>Sindh</b>	Minimum Wage Ordinance 1961
<b>KP</b>	Minimum Wage Act 2013
<b>Balochistan</b>	Minimum Wage Ordinance 1961

The continuing applicability of Unskilled Minimum Wage Ordinance 1969 is currently debated. The legislation has not been expressly repealed, altered or amended. However, the federal government has no residual power in relation to this area, as it would be unconstitutional for it to legislate in a devolved area. The provinces (including ICT) exercise their powers in respect of labour laws under the Minimum Wage Ordinance 1961 or newly enacted provincial legislation.

There are two possible interpretations of the legal position:

1. The 1969 federal Ordinance is no longer relevant or applicable, and is therefore, effectively repealed. The 18th Constitutional Amendment takes the power to legislate on labour away from federal government. In addition, provinces have always exercised their powers to declare minimum wage rates pursuant to the Minimum Wage Ordinance 1961. Post-devolution, where provincial legislation has been enacted, provincial governments have exercised their power pursuant to the 1961 Ordinance (as amended by provincial legislation) or new provincial legislation enacted. To the extent of any inconsistencies between the 1961 Ordinance as amended by provincial legislation or provincial legislation as newly enacted, and the 1969 Ordinance, the former would prevail. Therefore, as the powers of the provinces derive from the 1961 Ordinance (as amended by provincial legislation) or newly enacted provincial legislation, the 1969 Ordinance is effectively repealed

Another interpretation is that the 1969 federal Ordinance remains in force in ICT, Balochistan, and Sindh, as no competent authority has expressly altered, repealed or amended it. To interpret the legislation in a way that preserves the constitutionality of the law, the power to declare minimum wage rates for unskilled workers under the 1969 Ordinance would now reside in the Chief Commissioner for ICT, and the provincial governments of Balochistan, and Sindh. That means that for ICT, Balochistan, and Sindh, parallel systems for declaring minimum wages now exist: one under the 1969 Ordinance, which allows the provincial government to declare the rate; and a second system which involves Minimum Wage Boards and their recommendations. In KP and Punjab, where specific provincial legislation has been enacted, those legislative acts amount to a repeal of the 1969 federal Ordinance.

The second interpretation creates the anomaly of allowing provincial governments in ICT, Balochistan, and Sindh two methods of declaring minimum wage rates for unskilled workers. This is inconsistent with the provincial governments' understanding and practice: all stakeholders accept that there is a role for the Minimum Wage Board in wage setting. Therefore, the first interpretation is preferred as it avoids the creation of two contradictory systems of wage setting, and is consistent with stakeholders' understanding and practice. Under the first interpretation, provincial governments would have the power to set wages, with reference to the recommendations of the Minimum Wage Boards, for unskilled workers, juvenile workers, and workers in particular industries.

For clarity, the Unskilled Minimum Wage Ordinance 1969 should be expressly repealed by the federal government.

### **3.2 Minimum wage coverage and exclusions**

Statutory minimum wage coverage is not universal in Pakistan. The various exclusions are discussed below.

#### **3.2.1 Minimum Wage Ordinance 1961 and equivalent provincial legislation**

In all provinces and the ICT, under the Minimum Wage Ordinance 1961 and equivalent provincial legislation, three categories of workers are expressly excluded from minimum wage coverage:

- employees of the federal or provincial governments;
- persons employed in agriculture; and

- persons employed in coal mines, who are covered by the minimum wage under the Coal Mines (Fixation of Rates of Wages) Ordinance 1960.<sup>59</sup>

As the agricultural sector accounted for 43.5 per cent of employment in 2014-15, the exclusion of the agricultural workers from minimum wage protection has a significant impact.<sup>60</sup>

In addition to the three express exclusions, the statutory minimum wage only applies to workers employed in an “industry”<sup>61</sup> or “industrial establishments” or “commercial establishments”.<sup>62</sup> Minimum wage coverage, therefore, hinges on the definition and interpretation of these terms.

Under the 1961 Ordinance, statutory minimum wage applies to workers in an “industry” as defined by section 2(xiv) of the Industrial Relations Ordinance 1969 and section 2(iii) of the Payment of Wages Act 1936. Workers can only be covered by the minimum wage in ICT, Sindh, and Balochistan if they work within an “industry” as defined by these statutes.

Under the Industrial Relations Ordinance 1969, now the Industrial Relations Act 2008,<sup>63</sup> “industry” means “any business, trade, manufacture, calling, service, employment or occupation of producing goods or services for sale excluding those set up for charitable purposes”.<sup>64</sup>

---

59 Section 2(9) Minimum Wage Ordinance 1961 applies to Sindh, Balochistan and still applies in Punjab, as it was not amended by Punjab MW (Amendment) Act 2012. Also, see in KP Minimum Wage Act 2013 section 2(xxi).

60 *Pakistan Economic Survey 2014-15*, Pakistan Ministry of Finance, p. 206. However, the draft Sindh Minimum Wage Ordinance proposes to remove the exclusion of workers in the agricultural sector.

61 Section 2(9) Minimum Wage Ordinance 1961; legislation referred to such as the Industrial Relations Act 2012 and Payment of Wages Act 1936.

62 KP Minimum Wage Act sections 2(1)(ii) and (vi); Unskilled Minimum Wage Ordinance 1969 sections 2(b) and 2(f).

63 Industrial Relations Ordinance 1969 was subsequently replaced by the Industrial Relations Ordinance 2002, which in turn was repealed by the Industrial Relations Act 2008. The most recent consolidation of industrial relations is the Industrial Relations Act 2012, enacted to “consolidate and rationalize the law relating to formation of trade unions, and improvement of relations between employers and workmen in the ICT and in trans-provincial establishments and industry”. The 2012 Act defines industry under s 2(xvii) as only those in ICT and falling in more than one province, which reflects the scope of the federal government’s power after the devolution in 2010. However, for the purposes minimum wage setting, the better interpretation would be to look to the 2008 Act for the meaning of “industry”.

64 Industrial Relations Act 2008 section 2(xiv). No consequential amendments were made to the Minimum Wage Ordinance 1961, which continues to refer to the Industrial Relations Ordinance. However, as later legislation purported to consolidate and rationalize existing law, the most recent legislation is used in interpreting Minimum Wage Ordinance 1961.

Enterprises set up for charitable purposes are excluded from statutory minimum wage obligations. Other than that specific exclusion, the definition is broad. It contains no restrictions on the size of the enterprise.

Under the Payment of Wages Act 1936, “industrial establishment” is also widely defined in section 2(ii).<sup>65</sup>

In Punjab, the statutory minimum wage applies to workers in an “industry” as defined by the Punjab Industrial Relations Act 2010.<sup>66</sup> Under that Act, “industry” is identical to the definition under the federal Industrial Relations Act 2008.

Under section 2(1) (xii) of KP’s Minimum Wage Act 2013, “industrial establishments” are defined as:

- a workshop or other establishment in which articles that are used, sold, transported are made, altered, repaired, finished, or packed;<sup>67</sup>
- a factory, defined as “any premises, including the precincts thereof, whereon ten or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on or is ordinarily carried on with or without the aid of power, but does not include a mine, subject to the operation of the Mines Act, 1923”,<sup>68</sup> and
- an industry, defined as “any business, trade, manufacture, calling, service, private educational institution, private health centre, employment or occupation of producing goods or services for sale excluding those set up for charitable purposes” in clause (xv) of section 2 of the Khyber Pakhtunkhwa Industrial Relations Act 2010.

Again, there is no express exclusion of informal sector enterprises. Subsection (a) is broad, and can potentially include any manufacturing enterprise. Subsection (c) defines “industry” similarly to the federal Industrial Relations Ordinance, but with the express inclusion of private educational institutions and private health care centres. Subsection (b) excludes small factories that have employed fewer than nine workers on any working day in the

---

65 Under the Payment of Wages Act 1936, “factory” is defined separately to “industrial establishment”. As the Minimum Wage Ordinance 1961 only refers to “industrial establishment” as defined under the Payment of Wages Act, the definition of “factory” is, on a strict interpretation, excluded from minimum wage coverage. However, industrial establishments as defined under the Payment of Wages Act can be interpreted to include factories.

66 Punjab Minimum Wage (Amendment) Act 2012 section 4.

67 KP Minimum Wage Act 2013 section 2(xii)(a).

68 KP Minimum Wage Act 2013 section 2(xii)(b).



preceding twelve months. However, subsection (a) can be interpreted to include small factories that might be excluded by subsection (b).

Under the 1961 Ordinance and equivalent provincial legislation, the minimum wage covers all workers in formal industries and commercial establishments, except those who are expressly excluded. As discussed in Part 3.2.3, however, the widely accepted interpretation of the legislation is that it also excludes workers in informal sectors or holding informal jobs.

### 3.2.2 Unskilled Minimum Wage Ordinance 1969

Under the 1969 Unskilled Minimum Wage Ordinance, the statutory minimum wage applies only to workers employed in commercial or industrial establishments where “fifty or more persons are employed or were employed on any day during the preceding twelve months”.<sup>69</sup> The Ordinance defines “industrial establishment” to include:<sup>70</sup>

- a mine or quarry;
- a workshop or other establishment in which the work of making, altering, repairing, ornamenting, finishing, or packing, or otherwise treating any article or substance with a view to its use, sale, transport, delivery or disposal is carried on, or where any such service is rendered to a customer; or
- any other establishment which the government may, by notification in the Official Gazette, declare to be an industrial establishment.

There is no express exclusion of informal sector enterprises and the 1969 Ordinance can be interpreted to include informal sector commercial and industrial establishments that employ more than 50 persons on any day during the preceding 12 months. Subsection (ii) of the definition is broad and can include any manufacturing enterprises. However, workers in small enterprises that employ fewer than 50 people are excluded. As home-based workers are unlikely to employ 50 or more persons, they are excluded from statutory minimum wage coverage. Moreover, as the definition of industrial an establishment is linked to manufacturing articles, employees in domestic work are excluded. The definition of a “commercial establishment” under section 2(b) also excludes domestic workers.

---

<sup>69</sup> KP Minimum Wage Act 2013 section 2(4).

<sup>70</sup> Unskilled Minimum Wage Ordinance 1969 section 2(f).

The 1969 Ordinance also expressly excludes the following workers:

- persons in the service of Pakistan as defined by section 260 of the Constitution, being any service, post or office in connection with the affairs of the federation or of a province, and includes an All Pakistan Service, service in the armed forces and any other service declared to be a service of Pakistan by or under an Act of a provincial assembly, but does not include service as Speaker, Deputy Speaker, Chairman, Deputy Chairman, Prime Minister, Federal Minister, Minister of State, Chief Minister, Provincial Minister, Attorney-General, Advocate-General, Parliamentary Secretary, Chairman or member of a Law Commission, Chairman or member of the Council of Islamic Ideology, Special Assistant to the Prime Minister, Adviser to the Prime Minister, Special Assistant to Chief Minister, Adviser to a Chief Minister or member of a House or a Provincial Assembly;
- any establishment, undertaking or installation relating to the defence services, civil armed forces, postal, telegraph and telephone services, ports, railways, fire-fighting services, electricity, gas, water-supply, public conservancy, and hospitals; and
- any establishment engaged in public utility services.

As discussed in Part 3.1, the 1969 Ordinance has been effectively repealed by the 18th Constitutional Amendment. Therefore, these exclusions have no practical relevance.

**Workers in the finishings department in an export-oriented denim factory**



**Table 2. Exclusions from minimum wage protections**

	<b>Pursuant to 1961 Minimum Wage Ordinance and equivalent provincial legislation</b>		<b>Pursuant to 1969 Unskilled Minimum Wage Ordinance (See Part 3.1 for a discussion on applicability of the legislation.)</b>
ICT	Charitable enterprises	<ul style="list-style-type: none"> <li>- Agricultural workers</li> <li>- Coal miners covered under the Coal Mines (Fixation of Rates of Wages) Ordinance 1960</li> <li>- Federal or provincial government employees</li> </ul>	<ul style="list-style-type: none"> <li>- Commercial and industrial establishments with up to 49 persons employed on any day during the preceding 12 months</li> <li>- Persons in the service of Pakistan as defined in section 260 of the Constitution</li> <li>- Any establishment, undertaking or installation relating to the defence services, civil armed forces, postal, telegraph and telephone services, ports, railways, fire-fighting services, electricity, gas, water-supply, public conservancy, and hospitals</li> <li>- Establishment engaged in public utilities</li> <li>- Domestic workers</li> <li>- Home based workers</li> </ul>
Punjab	Charitable enterprises.		
Sindh	Charitable enterprises		
KP	<ul style="list-style-type: none"> <li>- Charitable enterprises</li> <li>- Factories with up to 9 persons employed on any day during the preceding 12 months. Note, however, the possible inclusion of small factories with fewer than 10 persons employed as a ‘workshop or other establishment’ under section 2(xii) (a) of the KP MW Act.</li> </ul>		
Balochistan	Charitable enterprises		

### 3.2.3 Workers in informal sector enterprises or holding informal jobs

As a matter of statutory construction, Pakistan’s minimum wage legislation can be interpreted to cover workers holding informal jobs. Nothing in minimum wage legislation – the Minimum Wage Ordinance 1961 and equivalent provincial legislation – expressly excludes workers in informal sector enterprises or workers holding informal jobs from its protection. There is no legal requirement that a “worker” as defined under the legislation possess written contracts or formal agreements in order to be covered by the minimum wage.

As noted in Section 3.2.1, minimum wage coverage depends on the definition and interpretation of “industry” or “industrial establishments” or “commercial establishments”. However, there is nothing in the legislation that requires the “industry”, the “industrial establishment” or “commercial establishment” to be duly registered and operating legally.

Under the 1961 Ordinance, “industry” is defined by section 2(xiv) of the Industrial Relations Ordinance 1969, and section 2 (iii) of the Payment of Wages Act 1936. Under the Industrial Relations Ordinance 1969, now the Industrial Relations Act, 2008, the definition of “industry” does not expressly exclude informal sector enterprises. It can be interpreted to cover domestic work as an occupation producing “services for sale”, and home-based workers as people in employment “producing goods”.<sup>71</sup>

Under the federal Payment of Wages Act 1936, “industrial establishment” includes subsection 2(ii) (g) which states:

Establishment of a contractor who, directly or indirectly, employs persons to do any skilled or unskilled, manual or clerical labour for hire or reward in connection with the execution of a contract to which he is a party, and includes premises in which, or the site at which, any process connected with such execution is carried on. (A contractor includes a subcontractor, headman, middleman or agent.)

Subsection 2(ii) (g) allows an interpretation that can cover workers employed by contractors when they work on the contractor’s site or premises. A broader interpretation of the provision could also extend to home-based workers who receive work from a contractor.

---

71 Industrial Relations Act 2008 section 2(xiv).

The homes of the home-based workers can be interpreted as a “site” or “premises” on which a process connected with the execution of the contract is carried out.

In Punjab, the definition of “industry” in the Punjab Industrial Relations Act 2010 is identical to the definition under the federal Industrial Relations Act 2008.<sup>72</sup> Therefore, it can be similarly interpreted to include informal sector enterprises, as well as domestic workers and home-based workers.

In KP, “industrial establishments” include:<sup>73</sup>

- a workshop or other establishment in which articles that are used, sold, transported are made, altered, repaired, finished, or packed;<sup>74</sup>
- an industry, defined as “any business, trade, manufacture, calling, service, private educational institution, private health centre, employment or occupation of producing goods or services for sale excluding those set up for charitable purposes,” in clause (xv) of section 2 of the Khyber Pakhtunkhwa Industrial Relations Act 2010;
- the establishment of a contractor, who directly or indirectly, employs persons to do any skilled or unskilled, manual or clerical labour, for hire or reward in connection with the execution of a contract, to which he is a party, and includes premises in which, or the site at which, any process connected with execution is carried on.<sup>75</sup> A contractor includes a sub-contractor, headman, middleman or agent; and
- the establishment of a person who, directly or indirectly, employs workers in connection with any construction work or industry.

Subsection (c) can be interpreted to cover employees in domestic work as an occupation of producing services for sale. Subsection (e) is identical to section 2(ii)(g) of the federal Payment of Wages Act 1936 and should be interpreted in the same way. The homes of home workers can be interpreted to fall within subsections (a) and (e) of the provisions.

---

72 Punjab Minimum Wage (Amendment) Act 2012 section 4.

73 KP Minimum Wage Act 2013 section 2(xii)

74 KP Minimum Wage Act 2013 section 2 (xii)(a).

75 KP Minimum Wage Act 2013 section 2(xii)(e).

In practice, stakeholders in Pakistan have historically interpreted minimum wage legislation as excluding workers holding informal jobs, workers in informal enterprises, domestic workers, and home-based workers. This view is widely accepted across all stakeholders. One manifestation of this interpretation is the parallel wage setting system between power loom workers in informal sector enterprises who hold informal jobs and employers, as described in Part 4.3.3.

The reasons for this almost universally accepted interpretation are not clearly articulated, but the perception of evidentiary barriers plays a part. Stakeholders often pointed out that workers do not have letters of appointment and cannot prove the contractual relationship between themselves and their employers. Other stakeholders talked about “tricks” that employers play to minimize the chances of leaving evidence of labour law breaches. Issues of evidence are likely to challenge efforts to ensure minimum wage coverage for such workers. However, from a strictly statutory point of view, workers holding informal jobs are not excluded from protections under the legislation.

Another reason may be the continuing influence of the Unskilled Minimum Wage Ordinance 1969. As discussed in Part 3.2.2, it effectively excludes domestic workers, home-based workers, and workers in small enterprises even if they are in the formal sector. However, as argued in Part 3.1, a better interpretation of the 1969 Ordinance is that it has no practical effect after the 18th Constitutional Amendment.

The position of workers in informal sector enterprises in relation to minimum wage legislation is also unclear. One interpretation is that any worker in informal sector enterprises is a party to an illegal contract, as he or she is working in an enterprise that is not legally registered. As such, the worker would be excluded from minimum wage legislation. Another is that there is nothing in the legislation that expressly excludes workers in informal sector enterprises, and therefore they remain protected under minimum wage legislation and labour laws.

At the time of the research, however, no judicial decision on whether minimum wage coverage extends to informal sector enterprises or workers holding informal jobs was available. Further detailed research is needed to clarify this point of statutory interpretation.

### 3.3 Minimum Wage Boards

Pakistan has not yet ratified the Minimum Wage Fixing Convention, 1970 (No. 131). However, minimum wage fixing machinery does exist at the provincial level through the role of the Minimum Wage Boards (MWB). The functions of the MWB are broadly consistent with the Convention.

MWBs are specially constituted tripartite structures that are established in each province and in the ICT. Provincial governments are tasked with establishing MWBs, with the following membership:<sup>76</sup>

- the Chairman;
- an independent member;
- one representative of the workers in the province;
- one representative of the employers in the province; and
- when considering wage rates for particular industries, one representative of the workers and one representative of the employers in that industry.

In Punjab, a fifth permanent member is now included on the MWB: the Director of Labour Welfare.<sup>77</sup>

Current legislation stipulates that both the Chairman of the MWB and the independent member should be people with “adequate knowledge of industrial labour and economic conditions of the Province” but not connected to any industry or associated with any employers’ or workers’ organization.<sup>78</sup> Members who represent employers and workers should be appointed after consideration of nominations from organizations. Such nominating organizations should be representative of employers and workers respectively.<sup>79</sup>

Currently, ICT and all four provinces have established MWBs. Most recently, KP notified the membership of its MWB on 22 May 2015, with the KP Director of Labour Welfare sitting as the Chairman of the board. As noted earlier, the Punjab legislation mandates that the Director of Labour Welfare sits on the MWB. In Balochistan, the Director of Labour Welfare is also – as

---

<sup>76</sup> Minimum Wage Ordinance 1961 section 3.

<sup>77</sup> Punjab Minimum Wage (Amendment) Act 2012 section 5.

<sup>78</sup> Minimum Wage Ordinance 1961 section 3(2); and KP Minimum Wage Act 2013 section 3(3).

<sup>79</sup> Minimum Wage Ordinance 1961 sections 3(3) and 3(4); and KP Minimum Wage Act 2013 sections 3(4) and 3(5).

a matter of practice – the Chairman of the MWB. In Sindh, however, the Director of Labour Welfare is not currently a member of the MWB.

Under the legislation, provincial governments can direct, or refer to, MWBs for recommendations for minimum wage rates. MWBs can make recommendations in relation to unskilled and juvenile workers, as well as workers in particular industries. For wages in particular industries, MWBs can recommend rates for all classes of workers in any grade, and can specify rates in respect of “time work”, “piece work”, overtime, and work on rest days and holidays. Minimum wages for workers on piece rates should be equivalent to minimum wages on a time basis for such workers. Where appropriate, variations according to localities within the province may be recommended.<sup>80</sup>

MWBs can review the minimum wage rates if there are changes in economic conditions and costs of living. Such reviews should not occur more than once annually unless there are special circumstances. However, the rate should be reviewed at least once every three years.<sup>81</sup>

If a provincial government consider the MWB’s recommendation to be “not equitable” to employers or workers, it can refer the recommendation back for reconsideration within 30 days of receipt.<sup>82</sup> The MWB is then required to provide either a revised recommendation or a report justifying why no revision is necessary.<sup>83</sup> The MWB’s power to refuse to revise a recommended rate, however, is symbolic. Importantly, although the provincial-level MWBs can recommend rates for minimum wages, the power to legally *declare* minimum wages remains with the provincial government, through notification in the Official Gazette.<sup>84</sup>

Provincial governments retain ultimate power in relation to minimum wage setting under the legislation. The MWB’s role is confined to providing recommended rates, and such authority to recommend only activates upon a “reference made to it” or when it is “directed” to do so by the provincial government.<sup>85</sup> The legislation is silent on what happens if the government does not refer or direct the MWB to review the rates for more than three years. In addition, there is

---

80 Minimum Wage Ordinance 1961 sections 4 and 5; and KP Minimum Wage Act 2013 sections 4 and 5.

81 Minimum Wage Ordinance 1961 section 7; and KP Minimum Wage Act 2013 section 7.

82 Minimum Wage Ordinance 1961 section 6(1)(b); and KP Minimum Wage Act 2013 section 6(1)(b).

83 Minimum Wage Ordinance 1961 section 6(2); and KP Minimum Wage Act 2013 section 6(2).

84 Minimum Wage Ordinance 1961 sections 6(1)(a) and 6(3); and KP Minimum Wage Act 2013 sections 6(1)(a) and 6(3).

85 Minimum Wage Ordinance 1961 sections 4(1) and 5(1); and KP Minimum Wage Act 2013 sections 4(1) and 5(1).



nothing in the legislation that binds the provincial government to the rate recommended by the MWB. Where there are discrepancies between the rate recommended by the MWB and what the provincial government considers to be an equitable rate, the provincial government can simply deviate from the recommendations as it retains the power to declare the minimum wage rate, as well as to specify “modifications and exceptions” in its declaration.<sup>86</sup>

### 3.4 Criteria for wage setting

The ILO’s Minimum Wage Fixing Convention, 1970 (No.131), to which Pakistan is not a signatory, specifies that a number of factors should be taken into account when fixing a minimum wage. These include social factors, such as the needs of workers and their families, the general level of wages, the cost of living and economic factors, such as levels of economic development, productivity, and levels of employment.<sup>87</sup>

There has been no change to the criteria for the determination of minimum wages post-devolution. By law, MWBs are required to take into account the following in recommending rate adjustments:

- changes in the economic conditions;
- costs of living; and
- other relevant factors.<sup>88</sup>

However, the legislation is silent as to what elements constitute “economic conditions”, “cost of living” or “relevant factors”. There is also nothing to stipulate the statistical indicators to be used in the determination of wage rates or how such indicators might be used.

In Punjab, according to its Working Paper on minimum wage setting for 2015-16, the following factors were considered:

- the needs of a worker and his family;
- the general level of wages in the country;
- variations in the Consumer Price Index (CPI);
- the level of productivity and skill of workers;
- the capacity of the employers to pay wages; and
- the state of National Economy.

---

86 Minimum Wage Ordinance 1961 section 6(3); and KP Minimum Wage Act 2013 section 6(3).

87 Minimum Wage Fixing Convention 1970, (No 131), Article 3

88 Minimum Wage Ordinance 1961 section 7; KP Minimum Wage Act 2013 section 7.

The Working Paper also refers to the following statistics:

- percentage change in CPI from June 2014 to March 2015, based on data from the Federal Bureau of Statistics: 0.83 per cent;
- inflation rate based on CPI during June 2014: 8.2 per cent;
- inflation rate based on CPI during March 2015: 2.5 per cent;
- monthly expenditure of a household in Punjab, which includes costs of food, rent, clothing, medical care, education, electricity, and fuel: : PKR 21,079.11 as at March 2015;
- World Bank set poverty line: \$1.25 per person per day;
- needs of a family of seven to remain above the World Bank poverty line: PKR 26,512.50;
- the national official poverty line: : PKR 1,700 per person per month;
- living wage 2010-11: PKR 11,900 per household per month;
- living wage 2014-15 (inflation-based): PKR 19,500 per month
- average number of persons in a household: seven; and
- the decrease of petroleum product prices: 43 per cent (timeframe for comparison not specified).

The source of statistical data is not always provided.<sup>89</sup> In addition, the document does not specify how these statistics are used, or any formula. The relationship between the wage rate set and these considerations and factors is, therefore, unclear.

Nevertheless, at the time of research, Punjab's Working Paper provided the most detailed information on wage setting of any province. Moreover, as discussed in Chapter 4, in practice, the ability of MWBs to influence wage setting is limited.

---

89 Where available, the information has been included in this report.



Workers in the quality control department in an export-oriented denim factory

### 3.5 Gender equality in wages

In 2001, Pakistan ratified the Equal Remuneration Convention 1951 (No. 100). Under the Convention, Pakistan has a positive obligation to promote and ensure that rates of remuneration are established without discrimination based on sex.<sup>90</sup> That is, the key principle of equal remuneration for men and women, for work of equal value, must be implemented in Pakistan. According to the Convention, the means of applying this principle may include national laws or regulations; or, within the machinery for wage determination, collective agreements; or a combination of these.

Pakistan has not yet taken significant steps in implementing the Convention. The 1961 Ordinance contains no anti-discrimination or equal pay clause. There is no comprehensive anti-discrimination law at the federal or provincial levels.<sup>91</sup> At the time of writing, there is also no law in force that protects against discrimination based on sex or gender in relation to wages.

KP has included a non-discrimination section in its Minimum Wage Act 2013, which provides protection against discrimination in relation to the enforcement of minimum wage legislation, stating in section 18 that, “no discrimination shall be made on the basis of religion, political affiliation, sect, colour, caste, creed, ethnic background in considering and disposing of issues relating to the enforcement of this Act”.

---

90 ILO: *Equal Remuneration Convention, 1951*(No. 100), Article 2. ILC session, Geneva, 1951.

91 In 2015, the Ministry for Overseas Pakistanis and Human Resource Development drafted a model anti-discrimination law, which includes sex alongside a range of other grounds. However, the law has not been enacted. This may be considered by the provinces for adoption at some point in the future.

Notably, however, sex and gender are not listed as a prohibited ground of discrimination. Therefore, the Act does not protect women from wage inequalities and discrimination based on sex or gender, and does not provide an avenue of redress for women workers.

In Sindh, several provincial draft laws contain non-discrimination clauses that include sex or gender as prohibited grounds of discrimination: the Minimum Wages Bill; Payment of Wages Bill; Terms and Conditions of Employment Bill; and the Workers' Compensation Bill. The Minimum Wages Bill provides that, "there shall be no discrimination on the basis of gender, religion, sect, colour, caste, creed, ethnic background in the wages and other benefits for work of equal value."<sup>92</sup>

The Minimum Wages Bill also stipulates the following penalties for sex discrimination in the payment of wages:

- fines of between PKR 20,000 and PKR 50,000 on first conviction; and
- fines of between PKR 50,000 and PKR 75,000 for subsequent convictions<sup>93</sup>.

These provisions, however, had not yet been enacted at the time of writing.

Punjab's provincial minimum wage legislation does not contain an anti-discrimination clause. However, in its wage notification dated 11 September 2014 and published in the Punjab Gazette, there is a reference to paying "female workers for work of equal value" for unskilled workers.

### **3.6 The function of minimum wages: the appropriate level?**

The legislation is silent on the purpose of the statutory minimum wage in Pakistan, and there is considerable debate amongst stakeholders as to the role of statutory minimum wages in society.

There is no definition of the minimum wage in national legislation. The ILO defines the minimum wage as:

The minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by

---

92 Draft Minimum Wages Act (Sindh), on file with the author.

93 Section 14(4) of Draft Minimum Wages Act (Sindh), on file with the author.

individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions.<sup>94</sup>

The definition refers to the binding nature of the minimum wage as a wage floor, regardless of the method used to fix the rate. It also outlines the major social and economic considerations that should be taken into consideration.<sup>95</sup>

In accordance with Convention No. 131, minimum wages should take into consideration the needs of workers and their families. However, there is no applicable definition that indicates the rate or the types of needs to be taken into account.

In Pakistan, conversations revealed that stakeholders do not agree on the purpose of a statutory minimum wage. For some respondents, particularly those in government posts, minimum wages are understood as synonymous with the wage ceiling rather than the lowest permissible rate. In conversations, the researchers often had to interject to make the point that a statutory minimum wage did not restrict employers from paying a higher rate. Some respondents seem to conceive of statutory minimum wages as excluding market forces in wage setting rather than being a minimum protection floor above which negotiations for market rates can take place.

With the exception of the Employers' Federation of Pakistan (EFP), all respondents – including government officials – agreed that the 2014-15 minimum wage rate of PKR 12,000 was not a “living wage” and could not support a family (assuming that the family size is approximately six individuals).<sup>96</sup> Estimates of what amounted to a living wage ranged from PKR 18,000 to PKR 30,000.<sup>97</sup> Many respondents, including government officials in their private capacity, believed that the minimum wage should be a living wage. However, all noted that in light of the challenges in implementing minimum wages, any increases in the minimum rate are likely to be unenforceable.

---

94 ILO: *Minimum wages: wage-fixing machinery, application and supervision*, Report II (Part 4B), International Labour Conference, 79th Session, Geneva, 1992, p. 13.

95 ILO: *Minimum wage systems*, Report of the Committee of Experts on the Application of Conventions and Recommendations (articles 19, 22 and 35 of the Constitution), Report III (Part 1B), International Labour Conference, 103rd Session, Geneva, 2014, p. 19.

96 Although there is no universally accepted definition of a living wage, it refers both to the existence of a minimum level of income and an acceptable standard of living. A living wage takes into account not only the food and housing needs of workers and their families, but also education and leisure.

97 Interviews with researchers. Higher estimates were given for Karachi, reflecting the higher costs of living there.

Workers and trade unionists also argued for a living wage, and expressed concerns that the statutory minimum wage rate was too low. In their discussions, workers' representatives tended to assume that each family had only a single earner, so the minimum wage rate constitutes the total sum of income for a family. In contrast, government officials and employers tended to emphasize that one household usually had multiple earners, so that the minimum wage earner would contribute to the total sum of the family's needs.

By contrast, the EFP presented an unusual perspective. It is the only respondent that explicitly argued for a minimum wage set to reflect the market rate. The market value of labour, the EFP argued, is significantly less than that of the current statutory minimum wage level. The fact that workers were willing to accept wages lower than statutory minimum rates was, to the EFP, an indicator that the minimum wage rate was unrealistic and unenforceable. One representative stated that "if a family accepts the wage, then it means that they can afford it".<sup>98</sup> On its estimate, the minimum wage level should be around PKR 6,000 to PKR 8,000.

The EFP categorically stated that it was not opposed to a statutory minimum wage but that the rate must be set on a "needs-basis". Factors to be considered when setting a minimum wage, according to the EFP, must include:

- the location of the enterprise;
- the size of the company;
- the nature of the industry;
- the ability of the company to pay a certain level of wages and remain profitable, linked to the size of the company; and
- the nature of the company's output.

The EFP did not seem to consider the minimum wage as a social protection mechanism, but argued that wages should be linked to productivity and that industry should be allowed to self-assess its compliance with labour laws, including minimum wages. The EFP proposed tax rebates as incentives for employers to comply with minimum wage conditions. By contrast, other respondents included factors such as the age and skill of the worker, and the cost of living.<sup>99</sup>

---

<sup>98</sup> Interviews with researchers, May and June 2015.

<sup>99</sup> For example, respondents from the government, trade unions, and workers' organizations.

The EFP, however, was consistent with other respondents in arguing minimum wages must be more broadly implemented across all sectors. The EFP remarked that employers in the formal sector are being disadvantaged by the costs of compliance, including having to pay higher wages to both skilled and unskilled workers. It stated that 95 per cent of the industrial sector is informal, and the formal 5 per cent is being penalized because it is less competitive when compared to its informal counterparts who do not comply with labour protection laws. Interestingly, however, this claim was contradicted by one of the largest garment manufacturers in Sindh, which noted that compliance with labour laws is a condition of access to the international market. In their view, costs of compliance are investments that allow access to higher profits and higher value-added production.<sup>100</sup>

As noted earlier, a minimum wage rate ideally takes into consideration both the “minimum needs of the worker and his or her family” and the interests of the national economy and social conditions. In other words, minimum wages must be determined contextually. That context is now, post-devolution, the provinces. A complex system of minimum wages differentiated by industry and sensitive to geography is favoured by provincial officials. Underlying the discussion is a concern about the relative economic competitiveness of each province, and how to reflect that in the minimum wage rates. While some officials recognized that there needs to be a simple minimum wage system so that implementation can be more robust, when questioned about the criteria to take into account when setting the minimum wage, geography and industry repeatedly emerged as relevant factors. Yet, as outlined in Part 4.2, there is no effective independent industry-specific wage setting process at this time.

Stakeholders in Pakistan will need to engage in robust discussion and decision-making about the role of statutory minimum wages, including any differences in rates among provinces.

---

100 Interviews with researchers.

**Table 3. Historical rates of unskilled minimum wage in Punjab province (in PKR)<sup>101</sup>**

<b>Year</b>	<b>Punjab</b>
2007-08	4 600
2008-09	6 000
2009-10	6 000
2010-11	7 000
2011-12	7 000
2012-13	9 000
2013-14	10 000
2014-15	12 000
2015-16	13 000

**Table 4. Unskilled minimum wage in Pakistan (in PKR)**

	<b>ICT</b>	<b>Punjab</b>	<b>Sindh</b>	<b>KP</b>	<b>Balochistan</b>
<b>2014-15</b>	12 000	12 000	12 000	12 000*	12 000

\* KP declared its minimum wage for unskilled workers at PKR 15,000 pursuant to the KP Minimum Wage Act 2013. That decision was set aside by the Peshawar High Court. That decision is now being challenged in the Supreme Court. Originating documents were not available to the researchers at the time of writing. However, one stakeholder reported that part of the legal challenge was based on the KP government's deviation from the rate of PKR 12,000 as recommended by the KP Minimum Wage Board. On 12 August 2015, KP notified the rate of PKR 12,000 with retroactive effect from 1 July 2014, more than a year earlier.

---

101 Punjab Government Working Paper, on file with the author.



## Chapter 4: Implementation of minimum wage machinery

### 4.1 Wage setting processes for unskilled workers

The effectiveness of MWB and their ability to meaningfully influence the minimum wage rate is limited. Respondents interviewed, including government officials at provincial levels, repeatedly and readily stated that the process was “political”.

Federal and provincial government respondents almost invariably described the following process: each year, in or around June, the minimum wage rate for unskilled workers is announced by the federal Ministry of Finance as a part of the annual budget. Provincial governments often only refer or direct the MWB to make a recommendation after the federal minimum wage rate is announced. Occasionally, the provincial government will simply announce the rate itself before a formal referral to the MWB (see the example of Sindh in 2014 in Part 4.5). The Directors of Labour Welfare of each province, who generally have very cordial relationships with each other, might informally agree among themselves to set the same rates. The MWB, familiar with this informal process and with the understanding that the government remains final authority in rate fixing, will “recommend” the same rate as that set federally to the provincial governments. In effect, the federal government’s decision on minimum wages is simply endorsed by the MWB.

Some respondents suggested that although the minimum wage rate was set with political rather than economic considerations, the percentage increase each year matched the increase of government employees’ pay.<sup>102</sup> In the budget speech in 2015, for example, the Minister of Finance stated that “for the welfare of the labour class and in line with the increase in pay of government employees, the minimum wage is also being increased from PKR 12,000 to PKR 13,000 per month”.<sup>103</sup>

However, other respondents pointed out that there is no underlying economic formula or consideration that determines the rate of increase of civil servant pay. That is, the rate of increase of civil servant pay is also a political decision. One outgoing civil servant from the Planning and Development Department in Punjab stated that the percentage increase for

---

102 Interviews with researchers, May and June 2015.

103 *Budget Speech*, Pakistan Ministry of Finance: 2015-16, p. 53, [http://www.finance.gov.pk/budget/budget\\_speech\\_english\\_2015\\_16.pdf](http://www.finance.gov.pk/budget/budget_speech_english_2015_16.pdf) [accessed 14 Sep. 2015].

government employees' pay is not based on any economic formulas or criteria. An economic advisor to the federal government stated that the government's figure came from "nothing". Even in the budget speech itself, the government admits that the 7.5 per cent ad hoc relief allowance for federal government employees is declared against the advice of its own committee, which had recommended a rate of 5 per cent.<sup>104</sup> In addition, a respondent from the federal Ministry of Finance confirmed that there was no implemented formula or economic criteria that meaningfully informed wage setting. When asked about the methodology in determining minimum wages, respondents from both the federal Ministry of Finance and provincial planning and development units categorically stated that they did not (and did not wish to) contribute to the wage setting process. Respondents reiterated that the process was political, and that the government uses the minimum wage rate as a way of gaining popular support and votes in elections.

The deeply political nature of the process undermines any efforts of provincial MWB to recommend a rate based on social and economic data and technical expertise. The Punjab province has, as discussed in Part 3.4, a detailed Working Paper that sets out six factors for determining the minimum wage.<sup>105</sup> The MWB reviews the minimum wages for adult unskilled and juveniles workers for all of Punjab province, as well as skilled workers in the listed industries. Labour department staff also describes a time-consuming process of MWB consultations with relevant stakeholders and the public in relation to minimum wage setting. Yet, in 2014, although the MWB had initially decided on PKR 11,000 per month at the minimum wage rate, the federal government announced its rate at PKR 12,000. Therefore, Punjab government followed the federal rate, although there is no formal requirement to do so. Some respondents noted that the same political party is in power in Punjab and at the federal level.<sup>106</sup>

The political process is also questioned by stakeholders as *ultra vires*. Pursuant to the Constitution as amended by the 18th Amendment, the provincial governments are empowered with wage setting. However, under the current arrangement, the federal Ministry of Finance effectively sets minimum wage rates for the entire country. For some stakeholders, the legitimacy of the rate set is challenged and the process currently in place is unconstitutional.

---

104 Ibid., p. 52. Although the government employees' allowances are not set by the Minimum Wage Board, the willingness of the federal government to overrule the recommendations of the committee suggests that the technical basis for wage-setting is weak.

105 On file with author.

106 Interviews with researchers, May and June 2015.



Workers in the stitching assembly lines in an export-oriented denim factory

#### 4.2 Wage setting processes for particular industries

Provincial MWBs are also tasked with recommendations as to minimum wage rates for workers in certain industries, including all skill levels and categories.<sup>107</sup> In 2014-15, Punjab notified minimum wage rates for 51 industries,<sup>108</sup> but doubled that figure to 102 in 2015-16.<sup>109</sup> Within each industry, minimum wage rates are set for different categories of jobs. There is no limitation to the number of industries or categories of workers for which the provincial government can fix the minimum wage.

In order to set industry-specific minimum wages, legislation provides that MWB can convene with additional members who represent employers and workers of the relevant industry. In

---

<sup>107</sup> Minimum Wage Ordinance 1961 section 5, and equivalent provincial legislation.

<sup>108</sup> The Punjab Minimum Wages for Unskilled Workers (Amendment) Act 2013 amends the Minimum Wages (Unskilled Workers) Ordinance 1969, which empowers the provincial government to set minimum wage rates for unskilled workers. However, in continuation of its practice before devolution in 2010, Punjab has continued to issue notifications under section 6 of the Minimum Wages Ordinance 1961. See for example, Government of Punjab: Notification No. SO (D-11) MW/2011(P11), 16 September 2014.

<sup>109</sup> Punjab Notification of Minimum Wages, August 2015, one file with the author.

Punjab, to set minimum wage rates for 102 industries requires up to 204 additional members of the MWB: two members per industry.

Moreover, within each industry, separate rates for each category of jobs have to be determined. For example, in Punjab for the financial year 2014-15, workers in the hosiery and knitted goods industry are subdivided into nine categories, affecting a total of 120 job titles. The nine categories cover supervisory positions, three managerial categories, as well as highly skilled, skilled, two semi-skilled categories, and the unskilled group. At the lowest paid level, the minimum wage for the unskilled workers in the sector is the same as that of unskilled workers generally, PKR 12,000 per month. The statutory minimum increases according to skill level and is set at PKR 14,444 for occupations such as accounts assistant, assistant in charge and computer operators in the 'Managerial A' category.

In theory, for each of the categories, the MWB must determine an appropriate rate separately (with the exception of the top category of workers classified as supervisory as discussed in Part 4.3.2). In practice, however, it is impractical and beyond the capacity of the MWB to determine rates for each category of workers in the notified industries. There is also no established formula or criteria for determining rates for each category of worker in each industry. Instead, the rates for specific industries are set by extrapolating the percentage increase based on the unskilled minimum wage set by the federal government. Simply, the same percentage increase is applied across the various categories in the specified industries. As described in Case Study 2, this is the same approach that private sector enterprises often use in their own internal wage-setting exercises.

Notably, it is theoretically possible that different minimum wage rates apply to unskilled workers in different industries. It is also possible that the industry-specific minimum wage is different to the minimum wage adopted for unskilled workers generally. However, in practice, the rate set for unskilled workers, regardless of industry, always conforms to the general rate.

To convene additional members representing each industry for meetings with MWB to determine industry-specific rates would consume enormous time and resources. However, the current practice makes this process redundant. Industry rates are essentially determined by applying the same percentage increase as that for the unskilled rate. Therefore, additional industry members of the MWB do not meaningfully contribute to or influence the minimum

wage rates for their industries. The industry rates are simply linked to the general unskilled rate. The Punjab Labour Department is currently considering ending the setting of wages for scheduled industries, and instead focusing on the single minimum for unskilled workers.

In addition, there is a very low level of public awareness of the minimum wage rates for specific industries. By contrast, all stakeholders interviewed, including workers employed in informal sector enterprises and those with informal jobs, were aware of the prevailing minimum wage rate for unskilled workers. Some workers highlighted that although they were employed in skilled jobs, they were being paid the minimum rate for unskilled workers. However, no respondent referred to the minimum wage rates for their job categories in their industries. No worker cited the applicable minimum wage rate for their skilled job. Whereas the unskilled wage rate is published in media, and is often reported as a part of the federal budget, the skilled wage rates for particular industries are difficult to access and not easily publicly available.

#### **4.3 Role of collective bargaining in wage setting**

##### **4.3.1 Formal sector enterprises**

Very little data is available in relation to the role of collective bargaining in wage setting. Trade unionization rates are low in Pakistan, and there is no centralized registry of collective bargaining agents elected under the industrial relations legislation. A number of collective bargaining agreements were seen by the researchers, including two from the pharmaceutical industry and another from a car manufacturer, all negotiated between 2013 and 2014. In all three agreements, an annual raise in the base or basic wage was the first item of negotiation. The wage increases are structured as flat rate increases on top of the workers' monthly basic wages. Amounts of PKR 906 to 2,000 per month were negotiated, and in some cases were inclusive of allowances.

As described in detail in Case Study 2, Koh I Noor Textile Mills Ltd engages in collective bargaining with Mazdoor Trade Union, the registered trade union and elected collective bargaining agent. As noted earlier, the provincial governments' wage setting processes lack transparency and have little legitimacy. In contrast, Koh I Noor's wage negotiations feature clear reasons and use of economic data to justify its wage-setting decisions. The enterprise complies with minimum wage legislation, and negotiations on wage rates use the minimum

wage as a floor rate. The process of negotiation between the managers and trade union representatives helps to increase workers' acceptance of wages set, even when they are not as high as those the trade union initially demanded.

The trade union and collective bargaining agent of a smaller enterprise, supplying threads to other export-oriented companies in Sindh in 2012, negotiated another collective bargaining agreement seen by the researcher. The agreement covered basic wages for workers, including an increase of PKR 300 for workers who earned less than PKR 9,000 per month between 2010 and 2012, when the Sindh statutory minimum wage was PKR 7,000 per month.<sup>110</sup>

In addition to wages, collective bargaining agreements often cover a range of allowances and benefits beyond the minimum wage. For example, the following allowances and benefits were included in the agreements seen:

- housing allowance;
- utility allowance;
- conveyance or transport allowance;
- grocery allowance for tea, coffee and biscuits;
- uniform and shoe allowance;
- funeral expenses;
- death grants;
- marriage gifts;
- profit bonuses;
- contributions to the welfare fund;
- inconvenience allowance for overtime between certain hours;
- picnic allowance or sports funds;
- medical allowance;
- loan facilities;
- attendance allowance; and
- retirement gifts.

---

110 The agreement uses both “permanent workers” and “workers” without defining them. It is not clear whether the distinction is intentional, or whether the terms are used interchangeably.

The total value of the remuneration package, therefore, can be significantly higher than the base wage itself. Collective bargaining agreements can also be a tool to increase each worker's productivity through linked incentives, and to encourage cooperative industrial relations and discourage industrial action.

None of the agreements that had been seen stipulated ordinary working hours. One, however, stipulated special work hours during *Ramzan*. In addition, the agreement negotiated in the textile industry contained casual and sick leave provisions.

Unusually, when compared to the other agreements seen, the one from the textile industry detailed provisions related to the workers' and unions' responsibilities, including some related to productivity. For example, that agreement included provisions to the effect of:

- the union will ensure that all workers will adhere to the established grievance procedure as laid down by the company;
- workers will accept work allocations, and will not loiter during their shifts;
- workers are to remain at their workstation and produce at a normal rate until the end of their shifts;
- workers who abandon their workstation without reasons or permission will be subjected to disciplinary action for unauthorized absence;
- annual attendance and punctuality awards are stipulated;
- if and when necessary, union representatives can only approach management during a stipulated hour each day, except in the cases of emergency;
- a bonus payment (equivalent to six days of wages) will be made if workers continue to give improved production and do not cause any disturbance which adversely affects productivity and discipline;
- the production target before workers on certain categories is raised by 5per cent in order to maximize the utilization of the machines.

The impact of collective bargaining is more than the negotiation of base wage increases itself. For workers covered by the agreement, it can mean significant improvements in living standards, not just through wages, but through allowances, benefits, and bonuses. At the same time, for enterprises, the agreements can be a management tool that sets out the workers' responsibilities and performance incentives.

### 4.3.2 Highly skilled workers

In Punjab, the provincial government has notified minimum wages for workers in 51 industries in 2014, and 102 in 2015. Within each industry, minimum wage rates are set for different categories of workers, including unskilled, semi-skilled, highly-skilled and managerial. For each industry, however, the Punjab government did not notify a statutory minimum wage for the top category of workers. Instead, for the highest skilled workers in the managerial and/or supervisory group, the notification states: “Wages left for mutual bargaining between the employers and workers”.<sup>111</sup>

In the hosiery and knitted goods industries, for example, the top category of workers in supervisory positions includes 30 job titles – such as the accountant, shift-in-charge, supervisors, managers, and the foreman. In the cotton textile industry, similarly, supervisory positions cover 43 job titles including accountant, civil engineer, chemist, export manager, factory manager, general manager, and the foreman. For these positions, no minimum wage rate is set and workers are expected to negotiate with the employers themselves.

This “carve out” in notifications suggests a potential role for collective bargaining on behalf of not just unskilled workers at the bottom of the pay scale, but also for skilled workers in supervisory and managerial positions. This suggests that, at least in Punjab, there is an understanding of statutory minimum wages as a social protection floor and that collective bargaining can be used to negotiate better wage rates above the minimum level. Moreover, as the example from Koh I Noor Textile Mills shows, collective bargaining that includes top skilled workers in a factory has the potential to align the interests of unskilled workers and their managers and supervisors. Industrial relations legislation does not preclude the unionization of workers based on job categories or levels of skill, and trade unions for more skilled worker categories can be formed to expand and strengthen the role of collective bargaining.

---

111 Government of Punjab: Notification No. SO (D-11) MW/2011(P11), 16 September 2014.



### 4.3.3 Workers in informal sector enterprises or holding informal jobs

There is no reliable data on the extent to which workers in informal sector enterprises are engaged in collective bargaining on wage setting. There are examples of such practices, however. One example is in Punjab among the power loom workers, who often work in informal sector enterprises or hold informal jobs. The current collective bargaining exercise occurs annually between the workers and employers in Faisalabad, after which an agreement is signed. This wage setting exercise, through informal collective bargaining, occurs with the knowledge and occasional participation of the district and provincial governments. Workers' representatives submit their demands to the labour department each year. In addition, when the workers and employers cannot reach an agreement, the government occasionally acts as a mediator. Despite the involvement of the government, however, this wage setting exercise is in parallel with the Punjab governments' official wage setting processes.

This parallel system of informal collective bargaining on wages in the power loom industry is a consequence of a history of industrial disputes. Since 2008, the power loom workers have taken industrial action in order to negotiate for better wages, represented by the Labour Quami Movement (LQM).<sup>112</sup> The then Labour Minister held talks with both workers and employers, and an agreement was signed to increase the workers' wages. However, the agreement was not fully implemented, and the LQM submitted complaints to the Labour Department. In 2009, after the expiry of the previous agreement, the LQM called another strike to protest the lack of implementation. Again, with the intervention of the government, workers and owners met at the District Coordination Office to resolve the issue. The owners eventually agreed to raise the wages. In July 2010, the workers went on strike to demand a 17 per cent increase in wages, matching that announced by the government in the budget for the financial year 2010-11. Negotiations between workers and business owners were facilitated by the district administration in Jhang and Faisalabad, but no agreement could be reached. LQM rallies took place, despite a government ban under section 144 of the Pakistan Penal Code. Thousands of workers demonstrated, and conflicts with police and business owners led to more than 100 workers being arrested,

---

112 The status of the LQM is controversial, as it is viewed by some stakeholders as a political party rather than a trade union. The LQM declares itself to be a trade union, and is affiliated with the National Trade Union Federation. According to the LQM, it has more than 65,000 members throughout Pakistan, and now includes brick kiln workers as well as power loom workers.

and several workers were injured by police teargas. After two weeks of sustained industrial action, a reconciliation meeting was held between the owners' and workers' representatives in the offices of the District Coordination Officer and an increase of 17 per cent was agreed.<sup>113</sup>

The practice of annual wage negotiations between the informal power loom workers and business owners has continued to date. The power loom workers are well aware of the statutory minimum wage, and acutely conscious of the disadvantages they suffer as workers in informal sector enterprises, or by holding informal jobs. However, this form of collective bargaining is a practical compromise rather than a form of protection. The process is outside of the legal structures of minimum wage setting. Any wage rates agreed are a matter of private contract between the workers and the employers, and does not constitute a statutory minimum wage. No penalties are attached to the breach of the agreement by employers, and no remedy is available through the labour protection system.<sup>114</sup>

On one interpretation, this system might be seen as a productive business-workers alliance. However, as the vast majority of power loom workers are in the informal sector, often in unregistered factories, the wages negotiated are invariably below the statutory minimum wage. The statutory minimum wage rates operate as a guideline, and power loom workers are usually paid less.

For example, in 2014-15, the average piece rate applicable for power loom workers ranged from PKR 2 to 10 for each metre of textile produced, depending on its quality. As the higher quality and better-paid textiles take longer to produce, a worker of average productivity can earn approximately PKR 400 per day (compared to the official minimum day-rate of PKR 462 per day). These workers typically work 12 hours per day, four hours more than stipulated under the minimum wage legislation. Thus, the workers work longer

---

113 *Pakistan: Release the "Faisalabad 6"*, Labour Education Foundation, <http://www.lef.org.pk/fsd%20release%20.htm> [accessed 14 Sep. 2015]. However, six LQM leaders were subsequently charged under anti-terrorist legislation and sentenced to a total of almost 490 years in jail.

114 Any legal remedy would be based on breach of contract, rather than labour law protection that can have criminal and administrative sanctions.

hours but earn less than the statutory minimum wage. In addition, deductions can be applied to these already meagre salaries through a range of penalties (see Case Study 1).<sup>115</sup>

In 2014, the agreed increase in wages for power loom workers was 10 per cent, half of the 20 per cent raise in statutory minimum wage for unskilled workers (from PKR 10,000 to 12,000). Most recently, the workers and the employers agreed to a 9 per cent increase in base wages on 9 July 2015, significantly below the 50 per cent increase sought by the workers.

The annual participation of provincial and district government in these parallel wage-setting negotiations, which results in below statutory minimum wages being paid to workers, is troubling. The provincial government's involvement in this process suggests that the outcome is condoned. It is inevitably aware of the operation of unregistered factories and their exploitation of informal workers, including underpayment, denial of social welfare benefits, and even child labour. However, it does not act to ensure that the enterprises are registered and its employees protected by national labour legislation. Moreover, having announced a statutory minimum wage rate, it engages in a parallel process whereby the result is a rate lower than the legal minimum rate. The government thus participates in the contravention of its own laws and creates an entrenched system of under-payment.

#### 4.4 Appointments to minimum wage boards

The legislation grants significant discretion to provincial governments in making appointments to the MWB. Although legislation sets out requirements of members appointed to the MWB, in practice, appointments are often made out of expediency. One provincial government official admitted that the government tries to retain control over the board through its appointments.

Under the legislation, the provincial government must appoint employers' and workers' representatives to the MWB after considering nominations from organizations representative of employers and workers. Yet it is up to the government to decide which organizations are considered representative of employers and workers.<sup>116</sup>

---

115 Factory visit by researchers in June 2015.

116 Minimum Wage Ordinance 1961 sections 3(3) and 3(4); KP Minimum Wage Act 2013 sections 3(4) and 3(5).

Provincial governments' appointments of workers' and employers' representatives to the MWB currently lacks credibility with other stakeholders. Both the Pakistan Workers Federation and the National Trade Union Federation confirmed that they have never been consulted by a provincial government in relation to an appointment to the MWB. Neither federation had been involved in a nomination to the board. The Employers' Federation of Pakistan also confirmed that they have not been consulted by a provincial government in relation to appointments to the MWB.

Other stakeholders, including several business owners, industrialists, and trade unionists, also expressed concern that the MWB do not sufficiently consult with stakeholders, and poorly reflect their interests.<sup>117</sup> MWB lack broad-based support and are seen as being out of touch with the concerns of the business community. One respondent offered, as an illustration, that someone might be appointed as the employers' representative to the Sindh MWB because he was the "former vice president of a chamber of commerce in Sukkur". The implications were that the appointment lacked credibility because the interests of the employers may not be properly represented. In addition, several business owners and employers who operate large, export-oriented garment factories noted that they had limited interactions with the EFP. For example, managers of on large textile company in Punjab described the EFP as a city-based organization primarily representing Karachi-based interests.

Under the legislation, both the Chairman of the Board and the independent member should have been people with "adequate knowledge of industrial labour and economic conditions of the Province" but unconnected to any industry, nor associated with any employers' or workers' organizations.<sup>118</sup> However, several stakeholders reported that independent members appointed to MWB often lack the requisite knowledge, and are not independent. As one secretary of labour welfare noted, someone sympathetic to the government position is usually appointed. One government stakeholder also bemoaned the lack of economic expertise on the MWB, but did not seem prepared to appoint an economist to the MWB as the independent member.<sup>119</sup>

Although there are slight variations in the composition of the MWBs among provinces under the legislation, government representatives and sympathetic members tend to outweigh representatives of employers or employees. In Punjab, three out of five permanent members of

---

117 Interviews with researchers, May and June, 2015.

118 Minimum Wage Ordinance 1961 section 3(2); KP Minimum Wage Act 2013 sections 3(3).

119 Interviews with researchers, May and June, 2015.

the MWB are essentially representatives of the government: the Chairman, the Director of Labour Welfare, and the nominally independent member. In ICT, Balochistan, KP and Sindh, two out of four permanent members are government leaning, including the Chairman.

The composition of and balance of power within MWBs has an impact on the negotiations between the workers and employers in relation to wage setting. Decisions within the MWB are made based on a majority vote. In one case, a Director of Labour described negotiations in 2014, when the workers' representatives advocated for a minimum wage of PKR 15,000. However, the member was easily out-voted by the rest of the board, because the government and the member representing employers did not agree. Instead, minimum wages were set at PKR 12,000.

Currently, the deeply political nature of the wage setting process, as discussed in Part 4.1, limits the real contributions of the MWB even when genuine discussions takes place. At the same time, however, the MWB lacks credibility in its appointments, particularly in relation to its appointments for employers' representatives. Without being able to galvanize broad-based support among their respective tripartite constituencies, the members of the MWB do not sufficiently represent their constituents' interests. Without strong support from tripartite constituents, the MWB recommendations risk being irrelevant.

#### **4.5 Delays in notification**

Under the legislation, once the MWB issues a recommendation, the provincial government may declare the minimum rate of wages by notification in the Official Gazette, and such declaration takes effect on the date of its publication.<sup>120</sup> The legislation is silent, however, on the duration between the date of receipt and the date of notification. In addition, it does not specify a particular time or month when the MWB should issue its recommendation.

In practice, as described earlier, the federal and provincial governments generally announce the revised minimum wage rates each year as a part of their budget in June, with effect from 1 July. However, wage rises are rarely implemented promptly. As the wage increase only takes effect

---

<sup>120</sup> Minimum Wage Ordinance 1961 sections 6(1) and 6(4); and KP Minimum Wage Act sections 6(1) and 6(4).

from the date of notification by the provincial government through the Official Gazette, delays in notification can effectively deny workers their pay increase for several months.

It is common for the provincial labour departments to refer to the MWB for a recommendation on the minimum wage after the provincial government has already announced the rate. In Sindh, for example, in 2014, the Chief Minister publicly announced the increase of minimum wage to PKR 12,000 per month in June. Such announcement, however, has no legal effect. Subsequently, on 17 September, the Sindh Labour Department referred to the Sindh MWB the task of recommending a minimum wage for unskilled adult and juvenile workers employed in the industrial and commercial establishments. In late February 2015, the Sindh MWB submitted its recommendations for the same increase as that which had already been announced by the Chief Minister. The Sindh government then issued a notification for the new rate on 12 March 2015, to have retroactive effect from 1 July 2014.<sup>121</sup> This process constituted a delay of nearly nine months from the announcement of the rate by the Chief Minister to the notification.<sup>122</sup>

Sindh was not unique in its delays in 2014. Punjab notified its wage increase more than two months late on 11 September and Balochistan on 10 December. KPK notified its new minimum wage rate on 9 September; however, the increase to PKR 15,000 was subsequently challenged in the High Court. ICT was the most prompt, issuing its notification for unskilled workers on 22 July. Although all notifications had retroactive effect from 1 July, in practice, arrears of wages are not always paid. Though the public is aware of the increased wage rate as soon as it is announced, many employers wait for the formal notification before implementing it. Business associations and industry stakeholders feel that wage increase with retrospective effect and in arrears is a “problem”.<sup>123</sup>

---

121 Notification No. L-II-13/4/78, Government of Sindh, 12 Mar. 2015.

122 Accounts of Sindh’s notification process in 2014 are riddled with contradictions. It is unclear whether the MWB or the Sindh government issued a notification in relation on 4 December 2014. Compare A.S. Kahn: “Sindh delays notification on minimum wages”, in *Dawn*, 27 Mar. 2015, <http://www.dawn.com/news/1172090> [accessed 14 Sep. 2015]; and Government of Sindh: Notification No. L-II-13/4/78, 12 Mar 2015. Under the law, the Minimum Wage Board does not have the authority to notify minimum wages and any purported notifications would have no legal effect. On the other hand, as discussed in Part 3.3, nothing in the legislation requires the provincial government to wait for or accept the recommendation of Minimum Wage Board.

123 A.S. Kahn: “Sindh delays notification on minimum wages”, in *Dawn*, 27 Mar 2015.

As such, although revised unskilled minimum wage rates are generally public knowledge each year in June or July, the employers do not implement the wage rise until the notification is issued many months later. The level of awareness of the unskilled minimum rates is extremely high among workers, and each raise is eagerly awaited. Workers grow discontented waiting for their pay raise, particularly as arrears are not always paid as some employers ignore the retroactive effect of the notification. Moreover, workers perceive the delays in notification as a sign of collusion between the government and business interests, to their detriment.<sup>124</sup>

#### 4.6 Pervasive underpayment

Below minimum wage payment is pervasive in Pakistan. According to the Labour Force Survey 2013-14, the average monthly wage of employees was PKR 13,155 when the minimum wage rate was PKR 10,000.<sup>125</sup> However, there were significant gender disparities: men earned on average PKR 14,079 per month, while women earned PKR 8,228. The disparity is more dramatic in the manufacturing sector, where on average female income was at 40 per cent of male income: only PKR 4,953 for women, being less than half of the minimum wage, compared with men's earning of PKR 12,716 per month.<sup>126</sup> These figures reflect the high level of female workers in informal sector enterprises and the prevalence of female home-based workers in the manufacturing sector.

In two major industrial divisions, the average earning of workers was less than the prevailing minimum wage rate at that time: first, in wholesale, retail trade, and restaurant and hotels, where monthly average earnings were PKR 9,706. Second, in the agricultural sector, which is excluded from minimum wage coverage, the monthly average earnings were PKR 6,327. Women are only likely to earn above minimum wages in secondary and tertiary sectors: transport, storage and communications; electricity, gas and water; finance, insurance, real estate and business services; and community, social and personal services.<sup>127</sup> In 2012-13, a

---

124 See also A. Altaf: "Interaction of labour law and economic growth", in *Status of Labor Rights in Pakistan: The year 2014*, p. 63.

125 Labour Force Surveys are compiled and published by the Pakistan Bureau of Statistics. No definitions of employment or labour categories are available. However, economic activities are reported according to the International Standard Industrial Classification of All Economic Activities and the Pakistan Standard Industrial Classification (2010).

126 *Pakistan Labour Force Survey 2013-14*, Pakistan Bureau of Statistics, p. 36.

127 *Ibid.*

significant number of workers earned below the federal statutory minimum wage of PKR 8,000: 24.59 per cent earned PKR 5,000 or less.<sup>128</sup>

In their explanations of the extent of the underpayment of wages, almost all respondents referred to Pakistan's relative lack of economic development and its ongoing insecurity. As discussed in Part 3.6 above, the EFP's views that wages, including minimum wages, should be predominantly market-driven, was unusual. For some employers, the fact that some workers are willing to accept wages below the statutory minimum was evidence that the wage was adequate.

There is a general perception that employers in formal sectors are more likely to comply with minimum wage rates when compared to informal sectors. However, even within the formal sector, respondents reported that the level of compliance with minimum wage laws is varied and inconsistent. Factors that impact an enterprise's compliance include the size of the industrial or commercial enterprise, the extent to which the enterprise participates in the international market, the size and type of workforce it needs, and the labour market in which it competes.<sup>129</sup>

In some industries, including the textile and garment industries, many workers are paid on a piece rate rather than a time rate. Alternatively, workers are paid in a mixed structure of base wages, plus piece rate, where productivity above a set level earns piece rate. The pay structure varies depending on the job description itself, with elements of the processing chain more likely to be paid a salary than piece rates. Wages for garment stitching, an area where more women are employed, are almost entirely based on piece rates. Employers often prefer piece rates as it links pay to the worker's productivity.

Under the law, the monthly minimum wage rate must be paid regardless of whether the worker is waged per day or on a piece rate. However, even in the formal sector, workers are not always paid minimum wages. Discussions with managers of export-oriented factories in the garment industry in Punjab employing approximately 400 to 700 workers revealed inconsistent

---

128 *Pakistan Labour Force 2012-13*, Pakistan Bureau of Statistics, cited in Z. Hisam: "Introduction", in *Status of labor rights in Pakistan: The year 2014*, p. 20. Equivalent statistics for 2013-14 not available at the time of writing.

129 See Part 5.2.5 for a discussion of factors that influence compliance for enterprises in the textile/garment sector.



practices. Of the five factories represented, all paid the majority of their workers by piece and in cash. Some admitted that on the lower end of the scale, workers were paid around PKR 10,000 per month (PKR 2,000 less than the current minimum wage). Others insisted that even for workers whose productivity did not reach the amount required to earn the monthly minimum, the factories “topped-up” their pay to ensure that they are paid at the statutory minimum level.<sup>130</sup>

#### 4.7 Penalties and enforcement

As noted in section 3.1, the Minimum Wage Ordinance 1961 continues to be the foundation of all minimum wage legislation in Pakistan and is still effective in ICT, Sindh, and Balochistan. Penalties imposed for the underpayment of wages under the 1961 legislation reflect an economic reality that is now over 50 years out of date. With the recent provincial legislation enacted by KP and Punjab, there is now no nationwide regime of penalties.



**Stones used in the washing process in an export-oriented denim factory**

---

130 This discussion took place as a focus-group discussion with five human resources managers of medium-sized enterprises. The confidentiality protocol was followed. However, although the report preserves the confidentiality of the participants and their employers, the participants were known to each other. This may have affected the openness of the discussion from some of the participants.

**Table 5. Penalties imposed by minimum wage legislation (in Pakistan Rupee (PKR ))**

Offences	Penalties		
	Minimum Wage Ordinance 1969 (ICT, Sindh, and Balochistan)	Minimum Wages (Amendment) Act 2012 (Punjab)	Minimum Wage Act 2013 (KP)
Payment of wages below at a rate below the statutory minimum by employers	Section 9(3): Payment of wages owed, and imprisonment of up to 6 months, and/or a fine of up to 500	Section 9(3): Payment of wages owed, and imprisonment of up to 6 months, and/or a fine of up to 20 000	Section 9(3): Payment of wages owed, and imprisonment of up to 6 months, and/or a fine 5 000 – 20 000
The second or subsequent instances of underpayment of wages at a rate below the statutory minimum by employers	None	Section 9(4) Imprisonment of up to 6 months, and a fine of up to 50 000 <sup>131</sup>	None
Non-payment or delay of payment of wages by employers or other person responsible for the payment of wages	Section 9A(3): Payment of wages owed, and a fine of up to 50	Section 9A(3) Payment of wages owed, and a fine of up to 1 000	None

131 The Punjab Minimum Wage (Amendment) Act 2012 amends the Minimum Wage Ordinance 1961 for the purposes of enacting provincial legislation on minimum wages. Section 7(ii) of the provincial legislation inserts sub-section 9(4) into the 1961 Ordinance as follows: “Whoever having been convicted under this section again commits such an offence shall be punishable on second or subsequent conviction with imprisonment for a term which may extend to six months and fine which may extend to fifth thousand rupees.”

Notably under section 9(4), there is no express requirement to pay the wages owed to the workers. However, a better interpretation of the sub-section in the context of section 9 as a whole would require the payment of wages owed in addition to the stipulated penalties of imprisonment and fine.

Unfounded claims of underpayment or delayed payment of wages by the worker	Section 9A(4): A fine of up to 50	Section 9A(4): A fine of up to 1 000	None
Failure to produce documents or provide information to the MWB, or otherwise obstructs the work of the MWB	Section 12(3): A fine of up to 500	Section 12(3): A fine of up to 10 000	Section 14(3): A fine of up to 20 000
For wilful obstruction of inspectors	None	None	Section 13(1): Imprisonment of up to 1 month, and/or a fine of 10 000 - 50 000
Second or subsequent cases of wilful obstruction of inspectors	None	None	Section 13(2): Imprisonment of between 7 days to 6 months, and/or a fine of up to 50 000
Any other contraventions of the legislation for which a penalty has not been prescribed	None	None	Section 13(3): A fine of 5 000 - 20 000
Subsequent contraventions the legislation for which a penalty has not been prescribed	None	None	Section 13(3) A fine of 10 000 – 50 000

For underpayment, non-payment, or delayed payment of wages, if found guilty, the offender is required to pay the wages owed as well as a fine. However, in many cases, the potential fine is too small to be a deterrent.

In ICT, Sindh, and Balochistan, for underpayment of wages, the maximum fine imposed by the 1961 legislation is ludicrously small: PKR 500, roughly \$5 at the current exchange rate. It constitutes 4 per cent of statutory minimum monthly wage as at 2014-15, and does not amount to a deterrent by any means. In KP and Punjab, the maximum fine imposed is substantially increased to PKR 20,000 (approximately \$200). Yet, the fine remains less than two months of the current statutory minimum rate. Although the law in all provinces also imposes a maximum sentence of six months, there are no reports of any custodial sentences being awarded for wage-payment violations.

For non-payment of wages, the fine imposed in ICT, Sindh, and Balochistan is PKR 50 being approximately \$0.50. In Punjab, that rate is increased to PKR 1,000 around \$10. The low fines imposed are clearly insufficient as a deterrent. Moreover, these penalties are far less than those prescribed for under-payment. As non-payment is a form of underpayment, these penalties are ineffective. KP's position reflects this, as its legislation has no separate penalties for non-payment of wages, and prohibitions against under-payment would cover non-payment.

In ICT, Sindh, and Balochistan, there are no special penalties imposed for repeated or persistent violations of minimum wage legislation. In Punjab, a second and any subsequent violations of wage payment attract a fine of PKR 50,000, around \$500, the highest fine imposed under minimum wage legislation. In KP, there are also no specific penalties imposed for repeated underpayment of wages.

All provinces and ICT penalize persons who obstruct the work of the MWB, with KP imposing the heaviest fine of PKR 20,000. KP is the only province where obstruction of labour inspections is penalized.

The relatively weak penalties, including inadequate fines or the lack of specific sanctions against those who persistently contravene minimum wage provisions, means that the costs of regulatory risk are relatively low. In addition, as discussed in Part 5.2, where intermediaries are involved in a supply chain, it is more difficult to hold them to account for any violation of minimum wage legislation or labour standards. Outsourcing, the use of contractors and subcontractors, can increase challenges in enforcement. Contractors and subcontractors have few incentives to comply with minimum wage legislation or labour standards as they do not

have direct access to the international market, and their suppliers do not enforce compliance. As middlemen, they generally seek to maximize their profits. It is particularly difficult to enforce minimum wage and labour standards legislation against enterprises in the informal sector or employ workers on an informal basis, including contractors and sub-contractors that use home-based workers. Enterprises are often not registered, and therefore are invisible to the regulatory mechanism. Workers also have no evidence of employment or of wage payments as they are often paid in cash.

The challenges of enforcing protections for workers in informal sectors or holding informal jobs are not unique to Pakistan. The experiences of other countries, such as Brazil, can be instructive. Brazil was the largest producer of merchant pig iron in the world.<sup>132</sup> To produce pig iron, a smelter burns iron ore in the presence of carbon, using locally produced charcoal. This generated an industry of charcoal producers using unskilled workers in conditions rife with violations. Charcoal producers do not register their workers and do not provide them with any of the legal protections under Brazilian law. To tackle this, labour inspectors and prosecutors invoked a legal precedent to target businesses near the top of the supply chain. The legal provisions and subsequent judicial interpretation determined that businesses could only outsource support activities, while core business activities must be conducted in-house. In practice, labour inspectors and prosecutors could exercise their discretion under certain conditions, ignore intervening contracts, and attribute responsibilities for labour standards to the firms at the top of the supply chain. Despite objections from businesses, economists and management experts, Brazil has retained this provision and implemented it. As a consequence, to decrease regulatory risk, smelters in Brazil changed their buying practices from prioritizing the lowest price to establishing stable relations with preferred suppliers. An additional benefit was that smelters were able to acquire better quality charcoal, which reduced production costs and increased the quality of pig iron.

In Pakistan, no such legal mechanism appears in labour legislation. To ensure sustainable change, it will be important to consider mechanisms to hold primary contractors responsible for violations of labour standards by subcontractors. This increases regulatory risks and costs of breaches, thus creating disincentives for primary contractors to outsource to the cheapest mode of production.

---

132 See S. Coslovsky, "Flying under the radar? The state and the enforcement of labour laws in Brazil", in *Oxford Development Studies* (2014, Vol 42, Issue 2, Apr.), pp. 169-195.

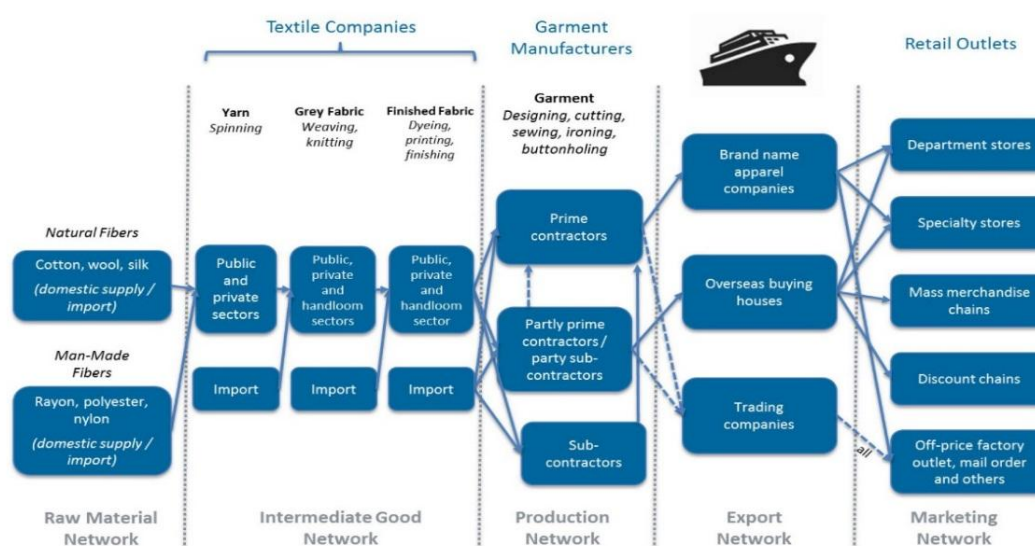
## Chapter 5: Labour conditions in the textile and garment industries

### 5.1 Industry context

The textile and garment industries form a major part of Pakistan's economy, with high levels of exports to the European Union (EU) and the United States (US). Globally, Pakistan is the fourth largest producer of cotton, as well as the third largest consumer. The production and processing of cotton employ more than 10 million people.<sup>133</sup> The textile and garment industries are largely concentrated in Lahore and Faisalabad in Punjab province, and Karachi in the province of Sindh. Punjab is responsible for 60 per cent of Pakistan's industrial production, of which textiles play a major part. It produces 83 per cent of Pakistan's cotton. Punjab has more than 48,000 industrial units, and over 39,000 small and cottage industries.<sup>134</sup>

The complete textile and garment value chain exists in Pakistan: from cotton to ginning, spinning, fabric, dyeing and finishing, made-ups and garments.<sup>135</sup> Some enterprises have become "cotton to carton" factories, with integrated operations that can handle every segment of the value chain of ready-made garment production.

Figure 1: Textile and garment value chain<sup>136</sup>



<sup>133</sup> *Textile Policy 2014-19*, Pakistan Ministry of Textile Industry, February 2015, p. 4.

<sup>134</sup> *Employment and labour market issues in Punjab: Current situation and way forward*, PILDAT, June 2014, <http://goo.gl/R6mJgE>, [accessed 14 Sep. 2015].

<sup>135</sup> *Pakistan Economic Survey*, Pakistan Ministry of Finance, 2014-15, p. 51.

<sup>136</sup> M. Martin: *Creating sustainable value chains: A primer on industry transformation* (Impact Economy, December 2013), p. 6, [http://www.impacteconomy.com/papers/IE\\_PRIMER\\_DECEMBER2013\\_EN.pdf](http://www.impacteconomy.com/papers/IE_PRIMER_DECEMBER2013_EN.pdf) [accessed 14 Sep. 2015].

From 2007 to 2014, textiles accounted for between 53 and 56 per cent of the nation's exports.<sup>137</sup> Overseas textiles and garment shipments have more than doubled in the last decade in terms of dollar value, to \$13.7 billion. While the industry enjoyed dramatic growth in the 1990s, recently it has faced more competition from the region, including from China, India, and Bangladesh. Between 2005 and 2009, Pakistan was one of the top 15 apparel exporters to the US and EU.<sup>138</sup> Although it is the eighth largest exporter of textile products in Asia, Pakistan's global market share in the trade has decreased from 2 per cent in 2006 to only 1.8 per cent in 2013. Compared with its competitors, Pakistan is behind China's share of 50 per cent, India's 4 per cent, and Bangladesh's 3 per cent share in the global market.<sup>139</sup> Between 2006 and 2014, Pakistan's textile industry increased its exports by only 22 per cent, compared with Bangladesh's increase of 160 per cent, China's 97 per cent, and India's 94 per cent.<sup>140</sup>

In January 2014, the EU granted Pakistan GSP Plus status, allowing it access to tariff-free exports to the EU market. Textile exports to the EU in January-October 2014 totalled \$6.38 billion, signifying an increase of just over 20 per cent from the \$5.3 billion recorded in the corresponding period in 2013. Consequently, EU imports from Pakistan were recorded as 8 per cent higher during the period July 2013 to March 2014 compared to the same period the previous year.<sup>141</sup> However, Pakistan's GSP Plus status is conditional on improved implementation of its international obligations, including those relating to labour standards. In April 2014, Walt Disney implemented its earlier decision to drop Pakistan from its list of permitted sourcing countries for failing to comply with international labour standards. One source estimated that this amounted to a loss of around \$200 million in exports.<sup>142</sup> Compliance with labour standards therefore gives Pakistani enterprises access to the international market, which in turn is an incentive for compliance.

---

137 *Pakistan Economic Survey 2014-15*, Pakistan Ministry of Finance, p. 51.

138 G. Gareffi and S. Frederick: *The global apparel value chain, Trade and the Crisis*, World Bank, Policy Research Working Paper 5281, 2010, <http://bit.ly/1QQGIpP> [accessed 14 Sep. 2015].

139 N. Jamal: "Textile industry and labour compliance: One year after plus" in *Status of labour rights in Pakistan: The Year 2014*, p. 47.

140 *Ibid.*, p. 48.

141 *Pakistan's EU GSP+ status: First year performance & future potential*, Pakistan Business Council, June 2015, <http://bit.ly/1FVbesh> [accessed 14 Sep. 2015]

142 M. Saleem: "Walt Disney bans imports from Pakistan", in *Dawn*, 5 April 2014, <http://www.dawn.com/news/1097357> [accessed 14 Sep. 2015].

A study by the World Bank found that strengths of Pakistan's textile industry included government support, liberal foreign direct investment policies, and low labour costs. Currency depreciation of the Pakistani rupee against the US dollar and other Western currencies helped exports. Weaknesses in the industry included unreliable energy access, insecurity, and quality control problems. Design skills and knowledge of the global market were also lacking, and labour, though cheap, was low on productivity and tended to be unskilled.<sup>143</sup> According to the same study, the labour rate was \$0.56 per hour, making Pakistani labour more expensive than Bangladesh, India, Viet Nam, Indonesia, Sri Lanka, and Cambodia. However, the labour cost rate was significantly lower than China, Turkey, and Mexico.<sup>144</sup> In terms of statutory minimum wages, however, Pakistan's rate was the third lowest among 25 apparel exporting developing countries in 2014, with only Sri Lanka and Bangladesh having lower statutory minimum rates.<sup>145</sup>

The country's energy crisis continues to be an obstacle to its development and threatens its stability. Some parts of Pakistan face electricity cuts for up to 20 hours a day.<sup>146</sup> According to an Asian Development Bank estimate, energy shortages have reduced the GDP by about 2 per cent.<sup>147</sup> The textile and garment industries have been particularly adversely hit, particularly in Punjab where approximately 65 per cent of the industrial units are located.<sup>148</sup> An estimated 35 to 40 per cent of the installed manufacturing capacity in the organized sector across the textile chain in Punjab is idle due to lack of gas and electricity. Only large enterprises that can operate large scale generators can maintain production rates by mitigating the downtime caused by load shedding.<sup>149</sup>

The impact of the energy crisis on the labour market is less precisely quantifiable. Pakistan Textile Exporters' Association (PTEA), which represents the value-added exporters of Faisalabad, estimates that 25 to 30 per cent of jobs have been lost due to energy shortages.

---

143 G. Gareffi and S. Frederick: *The global apparel value chain, trade and the crisis*, (World Bank, Development Research Group, Trade and Integration Team, Apr., 2010 p. 32.

144 Ibid.

145 ILO: *Minimum wages in the global garment industry*, Regional Economic and Social Analysis Unit, (Bangkok, Nov. 2014).

146 Z. T. Ebrahim: "Pakistan's energy crisis could topple government, warns expert", in *Dawn*, 5 Mar 2015, <http://www.dawn.com/news/1167563> [accessed 14 Sep. 2015].

147 Z. Hisam: "Introduction", in *Status of labor rights in Pakistan: The Year 2014*. p. 12.

148 *Textile Policy 2014-19*, Pakistan Ministry of Textile Industry, p. 7.

149 For example, Koh I Noor Textile Mills has its own power plant. See Case Study 2.



Chenab Textiles, which owns the Chen One brand and supplies international buyers, closed 75 to 95 per cent of its production capacity due to a combination of factors, including energy shortage and political unrest.<sup>150</sup> According to one estimate, the closure of the Chenab Group's plants meant the loss of 15,000 jobs.<sup>151</sup>

Another study attributes Pakistan's declining share of the global market to the very low level of value addition achieved by the industry, despite the presence of the entire value chain.<sup>152</sup> The Ministry of Textiles estimated that while the value of textile exports is at \$9 billion, garment export was only valued at \$4 billion. The target, according to one official from the Ministry of Textiles, was to increase the total exports of garments to \$13 billion.<sup>153</sup> According to another source, around 40 per cent of the industry's overseas shipments consist of yarn and fabric. High value-added products such as ready-made apparel or clothing comprise only 30 per cent of exports, while home textiles, towels made-ups, synthetic textiles, raw cotton and others make up the balance.<sup>154</sup>

The Ministry of Textiles states that better management practice can improve productivity by at least 20 per cent.<sup>155</sup> Industry sources also note that there is a lack of effective middle management.<sup>156</sup> Current management practices are often outdated, with little use of IT and poor inventory control systems.<sup>157</sup> Better management, including improved incentive structures for workers as well as more efficient processes, can improve productivity. Notably, GIZ is currently working with medium-sized garment factories in Punjab on improving productivity through better management, including that of labour.<sup>158</sup>

Business owners cite the lack of skilled labour and low productivity as weaknesses in Pakistan's textile and garment industries.<sup>159</sup> One opportunity for Pakistan is to increase production of ready-made garments, thus converting large stocks of basic textile into value-added products for export at a higher price. Currently, owners of large-scale garment factories

---

150 I. Rana: "Business stories: The rise and fall of the Chenab group", in *Dawn*, 14 Sep 2014, <http://tribune.com.pk/story/762213/business-stories-the-rise-and-fall-of-the-chenab-group/> [accessed 14 Sep. 2015]; and N. Jamal, "Textile industry", in *Status of labor rights in Pakistan: The Year 2014*, p. 49.

151 Jamal: "Textile industry", in *Status of labor rights in Pakistan: The Year 2014*, p. 49.

152 *Ibid.*, p. 47.

153 Interviews with researchers, May and June, 2015.

154 N. Jamal, "Textile industry", in *Status of labor rights in Pakistan: The year 2014*, p. 47.

155 *Textile Policy 2014-19*, Pakistan Ministry of Textile Industry, p. 6.

156 Interviews with researchers, May and June, 2015.

157 *Textile Policy 2014-19*, Pakistan Ministry of Textile Industry, p. 6.

158 Interviews with researchers, May and June, 2015.

159 Interviews with researchers, May and June, 2015.

that are supplying international buyers and brands struggle to fill high-value orders. Despite some increased costs in relation to labour standards compliance required by international buyers, owners and managers report that there is room in the market for more suppliers. They report that they do not fear domestic competition or any disadvantages associated with the costs of standards compliance. Compliance with international labour standards, of course, gives these firms access to the international market. To ensure a clean supply chain, these large-scale garment factories tend to be integrated, “cotton to carton”, factories and often have their own training facilities to increase the pool of skilled labour. Designated as “model factories”, these enterprises attempt to minimize any subcontracting or outsourcing. In accordance with the requirements of the buyers, materials needed in the value chain that cannot be produced by the firms themselves are purchased from suppliers designated by the buyers, for example, labels.

## 5.2 Labour standards compliance

### 5.2.1 Virtuous circle among the top tier

Access to the international market is an incentive that drives compliance with international labour standards. Enterprises that supply international markets, particularly those with direct contact with international brands, are more likely to be compliant in order to secure ongoing orders. As such, a virtuous circle has developed among a small number of firms who directly supply international retailers or brands. These top tier enterprises, however, are very few in number. International buyers interviewed estimated that 14 enterprises in Pakistan are currently considered sufficiently compliant to supply international brands or retailers directly. Among these top tier enterprises, there is a high level of duplication among buyers: that is, each enterprise will manufacture garments for multiple retailers and brands simultaneously (figure 2).

There is room for more entrants into the top tier. Current top tier enterprises reported that they are not concerned about domestic competition, as they have more orders than they can necessarily fill. They also do not perceive costs of compliance negatively, but as an investment to ensure access to the international market. In particular, there is a shortage of suppliers of denim garments in Pakistan. One enterprise based in Karachi now exclusively supplies one denim brand, as the order absorbs its full productive capacity. In addition, employers reported that they compete for skilled workers. Occasionally, enterprises have

difficulties in retaining skilled workers when other firms offer higher wages on a short-term basis in order to recruit workers to fulfil a customer order.

Conversely, buyers for international brands and retailers are looking for a broader choice of suppliers in Pakistan. This creates opportunities for enterprises that can upgrade their compliance in order to access the international markets.



**Figure-2: Top tier 'cotton to carton' garment factory: jeans ready to be packed**

### **5.2.2 International buyer-driven compliance: effective but limited**

As noted earlier, for international brands and retailers, reputational risk is a real concern and can lead to buyers withdrawing from the market. However, buyer-driven compliance is limited in its impact in Pakistan, because only the top-tier enterprises, of which there are very few, feel direct pressure from buyers.<sup>160</sup> Moreover, the degree of buyer or brand-driven labour standards compliance depends on the mode of engagement or contractual relationship between the buyer or brand and the manufacturer. The number of intermediaries also has an impact on the effectiveness of buyer-driven compliance.

<sup>160</sup> One buyer estimated that the total number of potential suppliers is over 2000, but only 14 enterprises are currently working with international brands and retailers.

Pakistani suppliers receive orders for ready-made garments through several supply chain pathways. Often, one supplier will receive orders through more than one pathway simultaneously.

(i) Directly from international retailers or brands.

There are relatively few suppliers that receive direct orders from international retailers or brands. Without intermediaries, the supplier and brand or retailer can have a direct relationship. To manage reputational risks, the buyers and retailers have developed compliance indices. The index consists of an aggregate score that rates the supplier's compliance with labour standards. The index is supported by a system of audits, including sustainability pre-screening, full labour standards audit plan, and surprise audits. Buyers conduct the audits, which can include management review, site visits, workers interviews, and documentation reviews. Areas of audit include occupational health and safety, child labour, use of outsourced labour, and environmental impact. If the suppliers do not reach a minimum standard, orders can be cancelled.

In some cases, however, some international brands that place orders in Pakistan do not have offices or staff based in the country due to security issues. In such cases, audits are outsourced.

The Pakistani suppliers who are working directly with international brands and retailers tend to be large enterprises that have an integrated value chain. Many of the companies work on a "cotton to carton" basis. They have either minimized or eliminated outsourcing, in order to prevent contamination of the supply chain (figure 3 and figure 4).

(ii) Intermediaries: buying houses, importers and supply chain coordinators

Buying houses and importers act as intermediaries between international retailers and brands and the suppliers. These intermediaries consolidate orders from multiple retailers and brands, and place them with suppliers. Many of the top tier Pakistani enterprises that receive direct orders will also receive orders from buying houses and importers. However, small and medium-sized enterprises in Pakistan are also likely to receive orders from intermediaries, which tend to place orders based on the lowest price quoted. According to industry sources, buying houses

and importers tend to be less concerned with labour standards compliance of the suppliers because they are less exposed to reputational risk.

In some ways, supply chain coordinators are an extension and expansion of buying houses and importers, but they differ in scale and in the kinds of relationships built with suppliers. They include companies such as Success Apparel and Public Clothing Company, both US based suppliers associated with Walmart, as well as Yue Yuen, which makes one-fifth of all the shoes in the world.

Largest of all is Li & Fung, which has been called “the most important company that most American shoppers have never heard of”.<sup>161</sup> The company considers itself global supply chain managers that coordinate “dispersed manufacturing” – a term it coined.<sup>162</sup> It is also known as an apparel sourcing agent<sup>163</sup> and a mega-supplier.<sup>164</sup> Essentially, Li & Fung acts as a global coordinator: they link companies together to create ephemeral supply chains that exist for only as long as the order is being filled. The company has a turnover of \$19.3 billion and operates in 40 countries.



**Figure-3: Top tier garment factory supplying**

---

161 I. Urbina and K. Bradsher: “Linking factories to the malls, middleman pushes low costs”, in *The New York Times*, 7 Aug. 2013, [http://www.nytimes.com/2013/08/08/world/linking-factories-to-the-malls-middleman-pushes-low-costs.html?\\_r=0](http://www.nytimes.com/2013/08/08/world/linking-factories-to-the-malls-middleman-pushes-low-costs.html?_r=0) [accessed 14 Sep. 2015].

162 J. Magretta: “Fast, global, and entrepreneurial: Supply chain management, Hong Kong style”, in *Harvard Business Review*, Sep 1998, <https://hbr.org/1998/09/fast-global-and-entrepreneurial-supply-chain-management-hong-kong-style> [accessed 14 Sep. 2015].

163 J. Spragg: *Re-examining agile supply chain practices in post-recession fashion retail* (UK, The Chartered Institute of Logistics and Transport, 16 Jan. 2012), p. 8.

164 M. Hobbes: “The myth of the ethical shopper”, in *Huffington Post Highline*, July 2015, <http://highline.huffingtonpost.com/articles/en/the-myth-of-the-ethical-shopper/> [accessed 14 Sep. 2015].



**Figure- 4: Top tier 'cotton to carton' garment factory: cutting**

In 2014, the company worked with more than 15,000 suppliers worldwide; however, it neither owns nor operates any part of the supply chain. Additionally, it does not own a single factory, and it relies on a network of small independent manufacturers to complete orders for its retail clients.<sup>165</sup> It takes a design; splits the production among thousands of factories; labels the goods; and delivers them to the various stores. Li & Fung configures cotton suppliers, textile mills, stitching and sewing houses into a production line to deliver specific orders to specific buyers, then reconfigures them for the next order.<sup>166</sup> The company performs what it terms “network orchestration”, and the supply chains it creates are not fixed entities but “ephemeral structures that exist ... solely for the duration of a retail order”. One report characterizes the business model of Li & Fung as “the purest implementation of an agile, network based, integrated supply chain”.<sup>167</sup>

In Asia, Hong Kong is used as the value-adding hub to undertake profitable design and quality control activities, and low-value garment assembly activities are subcontracted to small garment factories in Bangladesh, Viet Nam, China, and other countries. The company describes filling an order for 300,000 pairs of men’s cargo shorts in one month by splitting

---

165 J. Spragg: *Re-examining agile supply chain practices in post-recession fashion retail*, p. 9.

166 M. Hobbes: “The myth of the ethical shopper”.

167 J. Spragg: *Re-examining agile supply chain practices in post-recession fashion retail*, p. 8.

the production across Asia: the garment consists of buttons from China, zippers from Japan, and yarn spun in Pakistan, all woven into fabric and dyed in China, then sewn together in Bangladesh, divided among three factories.<sup>168</sup> The company emphasizes the ephemeral nature of the supply chain when it notes, “if the order had come in two weeks later, it would have resulted in a completely different supply chain, using different partners drawn from its network”.<sup>169</sup>

In Pakistan, Li & Fung has two principal subsidiaries: LF Logistics Pakistan (Private) Limited, which is described as a provider of “freight forwarders and other logistics services”, and Li & Fung Pakistan (Private) Limited, which provides “export trading services”.<sup>170</sup> The full extent of its activities in Pakistan is unclear, and the suppliers it uses are not easily identifiable through public records. However, according to one industry source, Li & Fung previously acquired Kids Headquarters, an importer of children’s apparel that had operated on behalf of Disney, Lego, and other international brands. Several of the top tier suppliers in Pakistan reported having either worked with Li & Fung in the past, or having provided quotes for them, without actually receiving an order. One Pakistani supplier is known to be currently working with Li & Fung to manufacture garments for Kohl’s, a US retailer.

The business model used by Li & Fung deliberately keeps buyers separated from the manufacturers.<sup>171</sup> The company makes a margin from the costs of production. The brands and retailers can source a product quickly, and the manufacturers get large volumes of orders. One denim manufacturer in Pakistan, which currently supplies one international brand, reported that they had provided quotes to Li & Fung but have never actually worked with the company, because the prices Li & Fung pay are usually lower than those paid directly by the retailers and brands. In most cases, the brands and retailers that place orders through supply chain coordinators or buyers do not know which factories manufacture their products. Sometimes, they do not even know which countries are involved.

---

168 V. Fung et al: *Competing in a flat world: Building enterprises for a borderless world* (Pearson Education, 2008), p. 10, <http://ptgmedia.pearsoncmg.com/images/9780132332903/samplepages/0132332906.pdf> [accessed 14 Sep. 2015].

169 Ibid., p. 10.

170 Li & Fung: *Annual Report*, 2014, p. 210-211.

171 J. Merk quoted in M. Hobbes: “The myth of the ethical shopper”, Huffington Post Highline, July 2015

The extent of supply chain coordinators' activities in Pakistan is unclear and requires further research. However, the experience of other countries, such as Bangladesh, is instructive in this regard. In Dhaka, for example, a fire in November 2012 at the Tazreen Fashion factory killed 112 people. Although Walmart never directly placed an order with Tazreen Fashions, 60 per cent of the clothing produced there was for Walmart. The supply chain worked as follows: Walmart hired Success Apparel LLC, a New York-based company described as a children's apparel manufacturer,<sup>172</sup> to fill an order for shorts. Walmart also contracted Public Clothing Company, Inc., another New York-based company described as a fashion apparel manufacturer and aggregator of branded fashion.<sup>173</sup> Both Public Clothing and Success Apparel placed orders with Simco Dresses, a company based in Dhaka, to carry out the work. Simco Dresses then, without the knowledge of Walmart or Success Apparel, subcontracted the order to TubaGroup, of which Tazreen Fashions was a subsidiary.<sup>174</sup> Therefore, Walmart's products were being produced by Tazreen Fashions, unbeknownst to Walmart or to its direct contractors, Success Apparel, and Public Clothing.

Not only are the retailers and brands sometimes unaware of the place and condition of manufacture, sometimes supply chain coordinators are also unaware of further subcontracting and outsourcing practices. According to one report, a European compliance manager told New York University's Centre for Business and Human Rights that small factories in Bangladesh, which can produce 10,000 garments per month, were accepting orders ten times their capacity, and filling them through agents, small workshops, and home-based workers. Similarly, though in a different industry, researchers who study electronic supply chains met a manufacturer in Malaysia who had no idea which company he was producing for. He received his orders and delivered them exclusively through middlemen.<sup>175</sup> Notably, interviews with home-based workers during research for this report also revealed that they, too, had no idea of where the textiles or garments they produced were destined, or for which company or brand. One trade unionist who represents home-based workers noted that labels were also put on garments last, and usually "in-house", in the factory.

---

172 *Company Overview of Success Apparel LLC*, Bloomberg Business, <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapid=6573358> [accessed 14 Sep. 2015].

173 *Company Overview of Public Clothing Company Inc*, Bloomberg Business: <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=4303915> [accessed 14 Sep. 2015].

174 M. Hobbes: "The myth of the ethical shopper"; and Al Jazeera America: "Inside the Bangladesh Clothing supply chain", in *Fault Lines*, 24 Apr. 2014, <http://bit.ly/1meVUM9> [accessed 14 Sep. 2015].

175 M. Hobbes: "The myth of the ethical shopper".



When international brands and retailers are not directly involved with the manufacturing or its own supply chain management, there is more scope for outsourcing and subcontracting to factories that are not compliant with labour standards. The presence of intermediaries in a supply chain can make it more difficult for international brands and retailers to have oversight of the manufacturing process. International brands and retailers are also less likely to conduct audits and inspections of manufacturers with which they have no contract. Supply chain coordinators such as Li & Fung do conduct audits and inspections themselves. However, in cases where temporary supply chains are created by supply chain coordinators to meet the demands of a particular order, the lack of continuing relationship between the coordinator and the manufacturer can make audits and inspections less meaningful.

### 5.2.3 Absence of government: Weak labour inspection systems

Almost all respondents interviewed emphasized that implementation of labour standards, including minimum wages, is poor and inconsistent in Pakistan. Government respondents from provincial labour welfare departments repeatedly pointed to the lack of capacity and resources, both in terms of the number of labour inspectors available in each province, and the ability of each labour inspector to carry out proper inspections.

Labour inspectors are empowered to regulate and inspect the compliance of labour conditions, including the payment of minimum wages. However, the state has gradually withdrawn itself from the monitoring and implementation of labour laws.<sup>176</sup> Punjab, the most populated province, banned labour inspections through the Punjab Industry Policy in 2003. Employers and factory owners had demanded that the inspections be halted, complaining that labour inspectors had harassed them and demanded bribes. The Punjab ban was followed by similar bans in Sindh and other provinces.

The federal Labour Inspection Policy 2006 further compromised the effectiveness of labour inspectors by adopting the “one inspector, one enterprise” approach.<sup>177</sup> Under this system, generalist inspectors undertook the inspection work in all areas in respect of one enterprise. One inspector undertook most of the interventions in all key areas of inspection, including

---

176 Gazenfur: “Trade unions”, in *Status of labor rights in Pakistan: The year 2014*, p. 112.

177 *Labour protection policy*, 2006, Pakistan Ministry of Labour, Manpower and Overseas Pakistanis, [http://labourwatchpakistan.com/wp-content/uploads/2011/04/LABOUR\\_PROTECTION\\_POLICY\\_2006.pdf](http://labourwatchpakistan.com/wp-content/uploads/2011/04/LABOUR_PROTECTION_POLICY_2006.pdf) [accessed 14 Sep. 2015].

wages, working conditions, work safety, occupational health, and social security contributions, as well as child labour and other target areas. Although this was intended to be an integrated system, it led to poor inspections, as generalist inspectors did not have the expertise needed for specific technical assessments. More importantly, it increased the opportunities for corruption, as enterprises and inspectors could negotiate directly. In addition, it introduced a range of self-inspection and self-reporting mechanisms for enterprises, further limiting the role of an independent labour inspector.

Labour inspections did not resume until 2012 in Punjab, when the ban was lifted with immediate effect after several industrial disasters.<sup>178</sup> Labour inspections have resumed in other provinces. However, Pakistan's labour inspection system remains extremely weak.<sup>179</sup> An earlier ILO report found that "labour inspectors across all provinces are underfunded, lack modern training and the capacity to conduct effective monitoring, and are working under outdated and at times overlapping legislation."<sup>180</sup>

Provincial directors of labour welfare, as well as staff in labour departments, were also candid to the researchers about the weaknesses of labour inspections. One labour director noted that on the ground labour inspectors were often incapable of identifying breaches and that inspectors were poorly managed by their superiors. He also noted that staff in the public service, including labour inspectors, was sometimes recruited not based on merit, but through "the back door".<sup>181</sup> Therefore, those recruited often lack the skills necessary to conduct labour inspections.

There are also an insufficient number of labour inspectors in Pakistan. In 2012, there were only 337 inspectors in the country, around one for every 25,000 workers.<sup>182</sup> In the Labour Welfare Office of the ICT, for example, there has been no increase in labour inspection staff since 1991. Moreover, the office reported difficulties in recruiting labour officers and labour inspectors, and two positions remained vacant after previous post-holders left, one to retirement, another for a new post.<sup>183</sup>

---

178 A. Shaukat: "Labour inspections to resume", in *The Express Tribune*, 25 Feb 2012, <http://tribune.com.pk/story/341377/labour-inspections-to-resume/> [accessed 14 Sep. 2015].

179 ILO: *Decent work country profile – Pakistan 2014*, p. 132.

180 *Ibid.*, p. 132.

181 Interviews with researchers, May and June, 2015.

182 ILO: *Decent work country profile – Pakistan 2014*, p. 132.

183 Interviews with researchers, May and June, 2015.

#### 5.2.4 Workers in informal sector enterprises or holding informal jobs

Workers in informal sector enterprises or holding informal jobs are effectively excluded and invisible. As discussed in Part 3.2, while the legislation does not expressly exclude them from the protection of any labour laws, the overwhelmingly accepted interpretation and application of the law by stakeholders means that they are excluded in practice. The problem is particularly acute in the garment and textile industries, which employ a significant population of home-based workers, workers in informal sector enterprises, and workers holding informal jobs. Without the protection of labour welfare laws, including minimum wage legislation, workers are often subject to the lowest rates of pay, in the worst conditions. They do not enjoy any social security benefits, or job security, pension, or any other benefits associated with formal employment.

## Home-based workers

The statistical challenges of counting informal workers, particularly home-based workers, are well known.<sup>184</sup> There are wide-ranging estimates for the number of home-based workers in Pakistan. According to a 2011 ILO report, in 2008-09 there were approximately 1.62 million home-based workers (HBWs) in Pakistan over the age of 15.<sup>185</sup> In a draft of the National Policy on Home-Based Workers, formulated in consultation with HomeNet Pakistan, the government recognizes that there are 8.52 million HBWs in Pakistan.<sup>186</sup> Another oft-repeated figure is 10 million HBWs in Pakistan, based on a World Bank study that has been cited but not referenced in numerous reports including by the ILO.<sup>187</sup> Other figures quoted by media outlets estimate that there are up to 12 million HBWs.<sup>188</sup>

Despite the uncertainties around the total number of HBWs, there is a consensus that the vast majority of them are women. Based on an analysis and profiling of Labour Force Survey data, the ILO found that female HBWs comprised 71.4 per cent of the total home-based workforce.<sup>189</sup> This reflects the social and cultural norms of Pakistan, where women are less likely to participate in the public sphere. Women, in their traditional gender role as caretakers of the family, are allocated all household and child rearing duties. This means that women generally need to be physically close to home throughout the day. In addition, women themselves perceive home-based work as safer. Transport for women is a significant barrier to female participation in formal sectors of employment, as they are more reliant on “pick and drop” services provided by the private sector. In addition, traditional perceptions of gender roles hamper female participation in formal sectors, as families often do not permit women to work in premises where the genders might mix.

---

184 M. Chen et al: “Counting the invisible workforce: The case of home-based workers”, in *World Development* (1999, Volume 27, No. 3), pp. 603-610, pp. 605-607, <http://bit.ly/1LGo6oj> [accessed 14 Sep. 2015].

185 ILO: *Searching for the invisible workers: A statistical study of home based workers in Pakistan* (ILO Country Office for Pakistan, Towards Gender Parity in Pakistan Project, 2011), p. vii, <http://bit.ly/1gDg1b2> [accessed 14 Sep. 2015]. The estimate is likely to be conservative, as it is based on an analysis of data from the Labour Force Survey that does not provide disaggregate information on home-based workers.

186 *Draft national policy on home-based workers*, HomeNet Pakistan: undated, p. 3, [http://www.homenetpakistan.org/draft\\_np\\_for\\_web.pdf](http://www.homenetpakistan.org/draft_np_for_web.pdf) [accessed 14 Sep. 2015].

187 ILO: *Recognising and supporting home-based workers*, South Asian Regional Consultation on National Policy for Home-Based Workers in Pakistan (ILO Office Country Office for Pakistan, Women’s Employment Concerns and Working Conditions in Pakistan, 2010), <http://bit.ly/1KongyF> [accessed 14 Sep 2015].

188 “Recognition for home-based workers demanded”, in *The News*, 20 Oct. 2014, <http://bit.ly/1Kumxxy> [accessed 14 Sep. 2015].

189 ILO: *Searching for the invisible workers: A statistical study of home based workers in Pakistan*, (ILO Country Office for Pakistan, Towards Gender Parity in Pakistan Project, 2011), p. vii.

Nearly 80 per cent of HBWs is in Punjab, with 8.2 per cent in Sindh.<sup>190</sup> Most HBWs tend to work in manufacturing activities (75.8 per cent). An estimated 37.2 to 49.7 per cent of HBWs are “own account” workers, followed by piece-rate workers (up to a third of all HBWs). Over 40 per cent of HBWs is between the ages of 15 and 24.<sup>191</sup> Around half have no formal education, and the majority of the remainder have only been to primary education. Many young female HBWs start work in their homes long before they turn 15 years old, often as helpers to older women in the household. Some women begin as young as the age of five.<sup>192</sup>

As entrenched as traditional cultural norms are, however, mores and practices can change. For many women, the advantages of working from home are about safety as much as their other duties as caretakers. In some cases, if female workers and their families feel that the external work environment guarantees their safety, women are more likely to enter the formal workforce. One manager of a large export-oriented denim factory noted that sometimes when women seek employment, their families will come and inspect the factories before allowing the women to work there.<sup>193</sup> Some former home-based soccer ball makers reported that although initially their families were concerned about them working at a sewing centre operated by the NGO Baidarie, their families were eventually reassured by the evidently sound work conditions, as well as their increased income.<sup>194</sup> As such, in many cases, the choice to work from home can be characterized as a trade-off between wages and personal safety. Conversely, then, an improvement in work conditions and protection for female workers in factories and other work premises can lower the barriers for women entering the formal sector.

### **Wages and conditions**

HBWs are engaged in a variety of manufacturing activities, including making glass bangles, *chik*-making, kite-making, basket weaving, carpet weaving, soccer ball stitching, and handicrafts. Women are also engaged in a range of garment and textile making activities, including sewing, cropping, beading, and embroidery. Most of these jobs can be

---

190 Ibid., p. vii.

191 Ibid., p. vii.

192 Interviews with researchers, May and June, 2015.

193 Interviews with researchers, May and June, 2015.

194 Interviews with researchers, May and June, 2015.

characterized as labour intensive and extremely poorly paid. As noted earlier, in 2013-14 fiscal year, the largest income disparity in terms of gender was in the manufacturing sector, where female average income was only 40 per cent that of the male average.<sup>195</sup> At an average monthly income of under PKR 5,000, women in manufacturing thus earn half of the statutory minimum wage. This dramatic difference may be partly attributed to the high numbers of informal and home-based workers in the sector. In the ten years up to 2008-09, the average monthly earnings of HBWs fluctuated between PKR 1,900 and PKR 3,100 per month. In 2008-09, piece rate workers earned just PKR 2,400 per month.<sup>196</sup>

The actual wages of HBWs are difficult to calculate, and not merely because of the lack of records of monies paid and the variety of wage rates. HBWs work irregular hours and often have “rest days” because they have no work. In addition, for many families with multiple HBWs, one person, usually a woman, will accept work on behalf of the family. As such, the earnings reported often entail the labour of more than one HBW within a family. When women report their earnings, they generally do not disaggregate labour contributions down to the individual, particularly when children are involved and helping. For example, a 2012 report on wages for kite makers found that, “wages for making 100 kites were between PKR 30 to 35. Normally about 12 hours of constant work could yield 150 to 200 kites, and that with the involvement of some children or other member of family”.<sup>197</sup>

The wage of PKR 30 to 35 for 100 kites constitutes – optimistically – the opportunity to earn PKR 70 for 12 hours of labour. However, the labour contribution is likely to come from more than one HBW in the family, including children. The additional labour from the “helpers”, however, essentially goes unpaid.

From recent discussions with HBWs, regardless of their level of skill or experience, all reported income levels below the statutory minimum wage for unskilled workers.<sup>198</sup> All HBWs interviewed were paid on a piece-rate basis. A vast range of wage rates was reported.

---

195 *Pakistan Labour Force Survey 2013-14*, Pakistan Bureau of Statistics.

196 ILO: *Searching for the invisible workers: A statistical study of home based workers in Pakistan*, p. vii.

197 *A situational analysis of the kite makers: a pilot study*, HomeNet Pakistan, April 2014, p. 25.

198 Interviews with researchers, May and June, 2015.



**Figure-5: Embroidery work for home based workers in New Karachi Area, Sindh**

#### Example 1: A, Karachi

A, 15-year-old girl reported that she is paid PKR 20 to 25 for a dozen pieces of beading on collars, cuff and neck pieces. In one day, on average, five HBWs in her family can complete 60 pieces per day. That means a collective income of just over PKR 100 per day.

Alarming, she reported not only a relative decline in wage levels over the past few years, but also an actual decrease in the rate paid. Five years ago, the same work was paid PKR 30 to 35 per dozen. She attributes this decline in wages to an increase in HBWs and women who are willing to accept work.

#### Example 2: S, Karachi

S, aged 34, has worked as an embroiderer since she was 10 years old. Her wages are PKR 500 per cushion, one of which would take her 12 hours to complete. In the course of a month, she can make an average of 10 to 15 cushions. In addition, she embroiders shirt pieces, which also take an average of 12 hours, at a rate of PKR 500 to 600 per piece. On average, she is able to make PKR 8,000 to 10,000 per month. However, contractors sometimes will find defects in the work and make deductions.

Example 3: Z, Karachi

Z has been sewing for 20 years. Over this time, her wage rate has increased from PKR1 to 2 per *shalwar*. She has to buy the thread used for sewing.

Example 4: R, Karachi

Atypically, another woman in the rural Sindh area is effectively self-employed and does not use a contractor. She is paid PKR 150 to 250 per suit, depending on the design. In one month, she is able to produce eight to ten suits. This means a maximum income of PKR 2,500 per month.

Example 5: H, Karachi

H was engaged in cropping work. She reported that, for cropping children's suits, she is paid PKR 35 for 100 pieces. For other items such as kurtas and pyjamas, she is paid PKR 30 for 100 pieces. In a month, she is able to earn approximately PKR 5,000. She noted that over a period of around eight years, the wage for cropping has increased from PKR 2 per dozen (approximately PKR 18 per 100 pieces), to the current rate of PKR 35 per 100 pieces.

Example 6: S, New Karachi Area

S reported that for cropping embroidered fabric on both sides, the rate is PKR 1 per metre. For a piece of embroidered fabric 35 metres long, it takes her and her daughters, three people in total, approximately three to four hours to crop. At the most optimistic, this means that one HBW is earning approximately PKR 4 per hour (figure 5).

In addition, she reported that for cropping children's shirts, she is paid PKR 1 to 2 per dozen (the same rate as H reported eight years ago and approximately half of what H reports now).

She also reported that, instead of contractors delivering the work to her home, she sometimes must pick up the work herself, thus incurring substantial transport costs. After 15 years with the same contractor, she recently changed contractors in order to minimize any outlay.



#### Example 7: N, Sialkot

N, age 30, is a soccer ball maker in Sialkot with 10 years' experience in sewing soccer balls. She has sourced work from the same contractor over these years. The wage rate is PKR 40 per ball, and she is able to make two balls per day, amounting to a daily wage of PKR 80 per day. The contractor makes deductions of PKR 10 per defect in a ball. N estimated that for every ten balls made, the contractor will make deductions on three or four balls. It is possible to earn nothing for a soccer ball if there are multiple defects in the ball.

The current wage rate is an increase from the original rate of PKR 25 per piece. Most recently, N received an increase of PKR 10 after a group of eight women collectively demanded that the contractor raises their piece rate. Although N is aware that another contractor from the next village distributed work at a slightly higher rate of PKR 55, she has been unable to change contractors.

#### Example 8: S, Sialkot

S did not know her age and has never been to school. She reported that she is paid around PKR 50 per piece for hand-stitched soccer balls, and she is able to make four balls per day. In one month, with the help of her daughters, she is able to make a maximum of 120 balls, amounting to a total earning of PKR 6,000.

She is currently sourcing work from two contractors, including the one from the neighbouring village who paid at the rate of PKR 55 per piece (of whom N was also aware, but could not get any work). That rate, in fact, represents a reduction in wages because he previously paid at the rate of PKR 60 per ball. The contractor says that he is now being paid less per ball, and is thus passing the deduction down.

S was introduced to the contractor from the neighbouring village by another household who was already working with him. Her relationship with the other contractor in the village derives from her husband's existing relationship. Her husband also used to stitch soccer balls at home, but now works as a daily labourer elsewhere.

Attempts to demand wage increases from the contractors, even as a group, have led to retaliatory behaviour from the contractor. In some cases, they cut off the source of livelihoods for women by refusing to distribute work. In other cases, they simply refuse to raise the rates, and they tell the women to find work elsewhere if they want higher wages.

None of the HBW interviewed were registered with any social security institutions. This finding is consistent with previous studies on the soccer ball makers in Sialkot.<sup>199</sup> Similarly, earlier research on the home-based chik makers in Kasur district also found that a majority of HBW did not have CNICs, or computerized national identity cards, and could not register for the Benazir Income Support Programme and other government social security schemes.<sup>200</sup> Baidarie, a NGO working with home-based soccer ball makers in Sialkot, found that 70 per cent of HBWs did not have CNICs, due to difficulties accessing the National Database and Registration Authority (NADRA). The lack of identity documentation is a barrier to female HBWs who seek alternative employment or training.<sup>201</sup>

#### The importance of the 'middleman'

The single most crucial factor that determined the HBWs' earnings and conditions of work is their relationship with their middleman, the contractor or contractors from whom they get work. Traditionally, HBWs tended to perceive the contractors very positively because they provided employment opportunities where none others had previously existed. Prior to the founding of the Home-Based Women Workers' Federation (HBWWF), the HBWs had little knowledge of the standard rates of pay, and did not demand higher wages or better conditions.<sup>202</sup>

For HBWs who are in need of work in order to augment their household income and who lack other earning opportunities, the relationship with the contractor(s) is often extremely unequal in power. These relationships are also informal and undocumented. HBWs generally have very little bargaining power to seek better wages or conditions. Luck seems to determine the wage rates of HBWs, who are wholly dependent on what their contractors will offer. There is no system of incremental increases over long periods of time.

---

199 *Baseline assessment: Condition of home based women workers in soccer ball industry in Sialkot*, Baidarie, October 2010.

200 *Baseline survey: Chik-makers of District Kasur*, HomeNet Pakistan, 2010.

201 Interviews with researchers, May and June, 2015.

202 Interviews with researchers, May and June, 2015.

One HBW noted that contractors who provided regular work tended to pay less than contractors who only provided work occasionally. However, the variations between contractors for the same types of work were relatively minor. Another factor that influences wage rates for HBW appears to be geography. Most contractors appear to provide work to local HBWs within a relatively specific area. Women in the same geographic area are likely to source work from the same contractors, and contractors sometimes foster competition among the women to lower wage rates. Several HBWs reported that contractors engaged in retaliatory behaviour, and would suspend distribution of work if they tried to negotiate wages.

As the number of contractors in a local area is limited, HBWs often have very few options in terms of changing the source of their work. One study found that the soccer ball makers in Sialkot usually only have one contractor, who distributes work to all the women HBWs in the village.<sup>203</sup> Many HBWs work with the same contractor for many years, and often for the entirety of their working life. In one case, one HBW reported that she had worked with the same contractor for 15 years until he no longer delivered the work to her house.<sup>204</sup> Even if there is another contractor in the area, it is sometimes difficult to get work from another source without a prior relationship of some kind. Some contractors also effectively impose non-competition clauses into their informal non-contracted relationship: that is, some contractors ban the HBWs they supply from seeking work from other contractors. This increases the dependency of the HBWs on one particular contractor, and ensures that the contractor has a pool of workers who are available.<sup>205</sup>

HBWs also have very little knowledge of the supply chain outside of their individual relationship with the contractors. Many are aware that the products they make end up on the international market, but cannot trace the supply chain. Moreover, they are unable to circumvent the contractors and approach the factories directly. One HBW reported that when she approached a factory for work, the managers there referred her to a contractor

---

203 *Baseline assessment: Condition of home based women workers in soccer ball industry in Sialkot*, Baidarie, p. 13.

204 Interviews with researchers, May and June, 2015.

205 Interviews with researchers, May and June, 2015.

who then distributed work to her.<sup>206</sup> In some cases, contractors have penalized HBWs who try to seek more information about the source of their work or try to circumvent them.<sup>207</sup>

Previous research has found that some HBWs have low levels of market awareness, including information on price, quality, and quantity.<sup>208</sup> The HBWs in the garment industry, particularly those who were engaged in sewing and stitching, were aware of market prices of their products. In addition, some women also act as contractors and provide work to other women in the area. In one case, a female contractor supplied work to three to four households in the area and sold the *kurtas* and *kameez* directly on the market. For a women's *kurta*, the female contractor paid other women PKR 200 to sew it, then sold it on the market for PKR 1,500 to PKR 2,000.

In addition to extremely low wages, HBWs face problems of delayed payment and underpayment. Contractors sometimes make unilateral deductions in pay for defects in work, often without informing the HBW or giving her a chance to rectify the defect. When disputes arise, HBWs also feel that they have little ability to resolve disputes in their favour. The power imbalance between individual HBWs who need work, and contractors who distribute work, means that HBWs will sometimes tolerate exploitative and abusive behaviour in order to maintain their ongoing livelihoods. This is particularly acute when the HBW has little opportunity to change contractors or seek work elsewhere.

### Collectivism and its impact

In recent years, HBWs have been increasingly collectivizing both as trade unions and in advocacy NGOs. Both these forms of collectivism have had some impact on increasing the wage rate of HBWs. As noted earlier, in one-on-one relationships between HBWs and contractors, the latter generally holds greater power and leverage due to a variety of factors. Due to the power imbalance, it is extremely difficult for HBWs, particularly women, to demand better wages and conditions. However, although still in nascent stages, HBWs' efforts to collectively bargain have yielded some results.

---

206 Interviews with researchers, May and June, 2015.

207 Interviews with researchers, May and June, 2015.

208 *Baseline survey: Chik-makers of District Kasur*, HomeNet Pakistan, p. 13.

The HBWWF, based in Karachi, has had some successes in increasing wages by arranging discussion forums between the contractors and HBWs in certain areas. These meetings were used to openly discuss problems and challenges faced by HBWs and contractors, and to advocate for better conditions. Perhaps surprisingly, contractors agreed with the view that if they are to distribute work to HBWs, they should improve HBWs' pay rates. In one area, for work that came from a factory that supplied international buyers via a contractor, the federation successfully negotiated a better rate: for sewing pockets onto trousers, the usual rate, without negotiations, would have been between PKR 10 and 20 per dozen, but the federation obtained a dramatically improved rate of between PKR 12 to 20 per *piece*.<sup>209</sup> Crucially, the federation is not aware of the identity of the factory or the international brand for which the garments are produced. This information was withheld by the contractors, and there was no labelling on the garments. In practice, labelling, which can identify the buyers of the garments, is usually done at the end of the process, in the factory itself.

Contractors and factories now approach the HBWWF cooperatives in areas such as New Karachi, where there are 400 members. Factories nearby provide HBWs with work within the area, but now sometimes approach HBW cooperatives in order to distribute the work. Contractors approach the HBWWF cooperatives instead of individual female HBWs because they trust that the federation will help HBWs to resolve any issues that impact upon productivity, such as load shedding. In addition, by giving work to HBWWF cooperatives to distribute among its members, the contractors can more efficiently find workers without duplicating efforts in administration.<sup>210</sup>

When contractors or employers approach the HBWWF with work, the trade committees of each cooperative, which is comprised of four to eight women, discuss the terms and conditions with the contractors. The committee decides whether the wage rate and conditions are acceptable. However, if the wage rate seems low, yet women need the work, lower pay rates may be still tolerated. Occasionally, larger meetings with members are convened in order to decide whether a particularly low paying order should be accepted. The work will only be accepted if all the members agree. Sometimes, the HBWs will refuse

---

209 Interviews with researchers, May and June, 2015.

210 Interviews with researchers, May and June, 2015.

an order if their demands for wages are not met. The federation has also had some success in negotiating with employers on behalf of bangle makers in Hyderabad.<sup>211</sup>

Baidairie, a Sialkot-based organization that works with rural HBWs, has also had some successes in negotiating better wages. Sialkot was originally the centre of production for hand-stitched soccer balls, which supplied 40 per cent of the global market. Famously, Sialkot produced the “Tango Ball” used in the FIFA World Cup in 1982.<sup>212</sup> Traditionally, the leather soccer balls are sewn by hand and produced by HBWs. However, the introduction of new technologies and mechanization led to a reduction in the hand-stitched soccer ball market of approximately 20 per cent. Many of the HBWs, mostly women, were in danger of losing their incomes.

In helping female HBWs to transition from hand-stitched ball making to other skills, Baidarie established stitching centres, where female HBWs can both gain training and access work in a safe environment to produce gloves and other sportswear. The stitching centres have sewing machines, and the work is brought in by the manager of the centre. The manager also negotiates the applicable wage rate on behalf of the women. The manager of the centre invites enterprises and factories to visit the centre to understand the conditions of work, and to inspect the quality of the work produced. This helps to convince enterprises to supply work to the centres. The women reported that by working at the centre, their days are more structured and they work regular hours as a matter of routine. The women are all from the local area and can walk to the centre.<sup>213</sup>

One innovation is Baidarie’s Memorandum of Understanding with Kampala Industries, a private company that supplies the international market with gloves, garments, tanned leather, and other sporting goods.<sup>214</sup> This private partnership allows Baidarie to source work from Kampala Industries directly for their sewing centres. In one facility, where more than ten women who previously stitched soccer balls by hand now makes gloves, women reported that their average earnings have doubled per month from PKR 4,000 to 8,000. This

---

211 Interviews with researchers, May and June 2015.

212 “42 million soccer balls exported from Sialkot ahead of Fifa World Cup”, in *Pakistan Today*, 26 May 2014, <http://bit.ly/1kWXMNb> [accessed 14 Sep. 2015].

213 Interviews with researchers, May and June, 2015.

214 “About us”, Kampala Industries, <http://kampalaindustries.com/About-Us> [accessed 14 Sep. 2015].

increase in pay is partly due to the type of work that can be done in the centre, which tends to be more difficult and has a higher market value, compared to what can be accomplished at home. More importantly, Kampala Industries has registered six women who work regularly at the centre for social security benefits and with Employees Old-Age Benefits Institution (figure 6).<sup>215</sup>



**Figure-6: Gloves produced by women at sewing centres set up by Baidarie in Sialkot, Punjab**

---

215 Interviews with researchers, May and June, 2015.

### 5.2.5 Factors in labour standards compliance

Labour conditions in the garment and textile industries vary enormously, and depend on a variety of factors, including:

a. Whether the manufacturer is a formal or informal sector enterprise

Formal sector enterprises are more likely than informal sector enterprises to be compliant with labour standards. Informal sector enterprises, due to their lack of registration as a legal entity, tend to be less visible to the regulatory regime as a whole.

For example, this manifests in the conditions of power loom factories in Faisalabad. There are approximately 250,000 power loom factories of varying sizes in Faisalabad, Jhang, and Toba Tek Singh districts of Punjab, covering more than 600,000 workers.<sup>216</sup> Although there are no reliable statistics, power loom workers themselves report that a majority of the power loom factories are informal sector enterprises, and the majority of workers are holding jobs in these unregistered enterprises. The conditions in power loom factories are extremely poor (see Case Study 1).

Importantly, within the power loom sector, there were no reports of informal workers being able to move into formal sectors, even when they have the relevant skills. In the city of Faisalabad, informal power loom units are located in close proximity to large formal textile enterprises. Formal enterprises are actively recruiting staff to be trained, in order to be able to increase their productivity. However, the demographic targeted for recruitment is very different to the workers from the informal power loom units. For example, formal units are willing to relocate large numbers of workers from southern Punjab, providing dormitory accommodation and other facilities, rather than seeking workers from the local area. On the face of it, there appears to be little overlap between the world in which model factories operate and that in which informal power loom units operate, despite their geographical proximity.

---

<sup>216</sup> “Demand an investigation into the murder of Pakistani trade union leader”, in *Solidarity*, 12 July 2010, <https://solidarity-us.org/node/2949> [accessed 14 Sep. 2015].



Anecdotally, however, many of the textiles produced by informal sector enterprises are also intended for the international market. Further research is required to trace the full chain of supply from informal power loom units to end-buyers.

- b. Whether the manufacturer supplies an international market or domestic market  
The market that the factory supplies is often determinative of its level of compliance with labour standards. As discussed in Part 5.2.2, the pressure to comply with labour standards comes primarily from international buyers, who want to minimize reputational risk and ensure that the supply chain that leads to the production of garments is “clean”.

However, there is no guarantee that a factory that supplies the international market will be completely compliant with labour standards. In particular, when there are intermediaries and the buyer or manufacturer are not in direct contractual relationships, there is less direct pressure on the manufacturer to be compliant.

- c. The size of the company and its degree of value chain integration  
Enterprises that have highly integrated value chains tend to be more compliant with labour standards. The shift towards integration is partly driven by buyer requirements. The more of the value-chain process that is in-house to a particular company, the more control it has over the quality of products and labour standards’ compliance. According to one industry source, the move towards integration among the top tier enterprises began around five to seven years ago, as international buyers insisted on higher standards of compliance.

Of the top tier garment manufacturing enterprises visited by the researcher, all insisted that no off-premises outsourcing occurred. However, some companies still had to purchase inputs such as sewing thread, and cannot guarantee standards compliance during the manufacturing process of that input.

Larger enterprises, such as Koh I Noor Textile Mills Ltd (see Case Study 2), operate as mini-cities, with a full range of welfare services and benefits for their workers. In addition, they have policies in place to promote female worker participation, as well as community development initiatives. Another model factory, MTM, near

Faisalabad, also had a poverty alleviation scheme through the recruitment of workers from southern Punjab. In order to expand their workforce, MTM provides hostel accommodation for its trainees.

d. The nature of workers' collectivism

In the garment and textile industries, including large sized model factories, there are very low rates of unionization. Instead, on the insistence of international buyers for workers' representation, some employers have constituted Works Councils, as legally required, to ensure workers' participation in factories and establishments.<sup>217</sup> For the more traditional trade unionists, these councils do not constitute genuine workers' representation. The goal of the Works Council is to secure and preserve good relations between the employer and workers, and its role might be characterized as that of a mediator. Its functions include maintaining "continuous sympathy and understanding"; promoting dispute resolution through bilateral negotiations; promoting job security and labour conditions; to provide vocational training; and otherwise discuss matters of mutual interest to promote better labour-management relations.<sup>218</sup> Importantly, the Works Council does not have a role in collective bargaining.

By contrast, trade unions elected as the Collective Bargaining Agents (CBAs) pursuant to the legislation have significant power in acting as advocates and representatives for workers' interests.<sup>219</sup> A CBA can undertake collective bargaining with employers on any matters connected with employment, non-employment, the terms and conditions of work, and labour rights. It can also represent all or any worker in judicial proceedings under industrial relations laws, raise industrial disputes, and declare strikes.<sup>220</sup> The CBA also nominates representatives to the Board of Trustees of any welfare institutions or Provident Funds, the Workers' Participation Fund,<sup>221</sup> as well as to the Works Council, and participants who represent workers' interests in the joint management of the factory.<sup>222</sup>

---

217 Industrial Relations Act 2012 sections 25 and 26; and equivalent provincial legislation.

218 Industrial Relations Act 2012 section 26; and equivalent provincial legislation.

219 Industrial Relations Act 2012 section 19; and equivalent provincial legislation.

220 Industrial Relations Act 2012 section 20; and equivalent provincial legislation.

221 Industrial Relations Act 2012 section 20; and equivalent provincial legislation.

222 Industrial Relations Act 2012 sections 25 and 27.

Although no precise statistics could be obtained within the scope of this research, both trade unionists and employers agreed that the rate of unionization in the textile and garment sectors is generally low. For managers and employers, unionization is generally considered to be “not very beneficial” and can lead to politics and disruptions.<sup>223</sup> Some expressed the view that in the sector, workers, particularly those who work on the premises of large export-oriented factories, have no incentive to unionize, because their pay is above the statutory minimum wage and work conditions are generally decent.<sup>224</sup> Of the medium-sized factories whose human resources managers participated in a focus group discussion on wages and conditions, all had Work Councils but none had CBAs.<sup>225</sup>

Although it is difficult to draw general conclusions across the sector without more extensive research, it seems that enterprises with CBAs pay at least statutory minimum wage to their workers. One large manufacturer that exports 100 per cent of its products does not currently have a trade union. Its owner noted that CBAs can be useful if they provide a genuine platform for negotiations between employers and workers. He noted that members negotiating on behalf of workers must be aware of the global economy and the overall business environment. As an employer, however, he remained sceptical of the effectiveness of CBAs, due to politics and what he termed to be “scope creep”. Moreover, he noted that even if workers unionized and registered a CBA, his enterprise would only entertain collective bargaining on bonuses and allowances and not on the level of base wages.<sup>226</sup>

Currently, labour conditions in the textile and garment industry do not appear to vary significantly from province to province independently of the factors listed above. As the provinces are relatively new to the devolved responsibility for labour welfare, development of labour laws, protections, and their implementation is nascent.<sup>227</sup> None of the respondents characterized labour conditions in the sector as different simply due to geography. In Sindh and Punjab, managers and owners of large-scale export

---

223 Correspondence, on file with the author.

224 Interviews with researchers, May and June, 2015.

225 Interviews with researchers, May and June, 2015.

226 Correspondence, on file with the author.

227 Interviews with researchers, May and June, 2015.

enterprises with multiple factories looked to each other as peers and colleagues. Visits to factories of a similar scale and enterprise in both Sindh and Punjab revealed, at least superficially, similar types of labour conditions.<sup>228</sup> However, as each province improves the implementation of labour protections, more significant provincial differences may become evident.

---

228 Factory visit by researchers in May and June, 2015.

## Chapter 6: Recommendations

### 6.1 To the federal government

#### 1. Ratify relevant international Conventions

Ratify ILO's Minimum Wage Fixing Convention, 1970 (No. 131)

#### 2. Repeal the 1969 Unskilled Minimum Wage Ordinance

To clarify the applicable law, the Unskilled Minimum Wage Ordinance 1969 should be repealed in order to avoid inconsistencies in wage setting mechanisms for unskilled workers.

### 6.2 To the provincial governments

#### 1. Implement a minimum wage system that is consistent with Convention No. 131

Although provincial governments do not have the power to ratify international conventions, they can implement minimum wage systems that are nevertheless consistent with ILO Convention No. 131 and the Minimum Wage Fixing Recommendation, 1970 (No. 135).

Minimum wage fixing systems which broadly conform to Convention No. 131 and Recommendation No. 135 are those which:<sup>229</sup>

- i. are as broad as possible in the scope of application;
- ii. ensure full consultation and participation of social partners, on an equal footing, in the design and operation of the minimum wage system;
- iii. in determining minimum wages levels, include elements that into account both needs of the workers and their families, and economic factors;
- iv. incorporate periodic adjustment of minimum wage rates to reflect changes in costs of living and other economic conditions; and
- v. ensure implementation of appropriate measure to ensure the effective application of all provisions relating to minimum wages.

---

<sup>229</sup> ILO: *Minimum wage systems*, International Labour Conference, 103rd Session, Geneva, 2014, p. 30.

The provincial governments should ensure that their wage setting mechanisms and the Minimum Wage Boards comply with these requirements.

**2. Abolish express exclusions from minimum wage system**

Provincial governments should abolish the express exclusions contained in the minimum wage legislation, including those excluding agricultural workers, public sector workers, and workers in charitable enterprises.

**3. Interpret the minimum wage legislation in a manner consistent with Convention No. 131, and extend coverage to workers in informal sector enterprise and/or those holding informal jobs.**

Minimum wage legislation does not expressly exclude workers in informal sector enterprises or those holding informal jobs. Provincial governments should interpret the legislation in a manner consistent with Convention No. 131. Interpretations that expand the minimum wage coverage are therefore preferable. It is possible to interpret minimum wage legislation to include:

- workers in informal sector enterprises;
- workers holding informal jobs;
- domestic workers; and
- home-based workers.

Alternatively, and for the avoidance of doubt, provincial governments should amend minimum wage legislation to expressly include these categories of workers.

**4. End parallel wage setting system for workers in informal sector enterprises or holding informal jobs**

The practice of collective bargaining for wage setting which results in below statutory minimum rates should end. As noted earlier, workers in informal sector enterprises or holding informal jobs can be covered by statutory minimum wages through an interpretation of legislation that is consistent with Convention No. 131. Alternatively, minimum wage legislation can be amended to expressly include workers in informal sector enterprises or holding informal jobs.

**5. Enact provincial legislation, which implements Pakistan’s obligations under Equal Remuneration Convention, 1951, No. 100**

The principle of equal remuneration for men and women workers for work of equal value must be implemented. Provincial governments should legally enshrine the principle through provincial legislation.

**6. Specify elements, statistical indicators, and data sources to be used in minimum wage fixing**

Under the current legislation, provinces require the Minimum Wage Boards to review minimum wage levels periodically, if there are changes in “economic conditions and cost of living and other relevant factors”.<sup>230</sup> However, legislation is silent on the elements to be taken into consideration, and there are no agreed data sets or data sources to be used to determine economic conditions, costs of living, and other economic conditions.

The provincial governments, in discussion with the federal government, should enumerate and publish the following:

- elements to be considered as economic conditions;
- elements to be considered in costs of living; and
- elements to be considered as other relevant factors.

In addition, the provincial governments should determine the statistical indicators and data sources to be used in minimum wage fixing.

Elements to be considered, statistical indicators and data sources used should be published to ensure transparency in the wage fixing process.

**7. Abolish separate minimum wage setting for skilled workers and per industry and encourage minimum wage setting by collective bargaining for skilled workers**

Currently, where minimum wages for skilled workers in scheduled industries are notified, industry consultations are time-consuming and unproductive, as Minimum Wage Boards simply apply the same adjustment as is applied to the unskilled rate each year. Moreover, the proliferation of scheduled industries means an overly detailed

---

230 Section 7(1) of Minimum Wage Ordinance 1961, and of KP Minimum Wage Act 2013.

minimum wage system that is unenforceable. In order to rationalize the time and efforts of the Minimum Wage Boards, the separate notifications for skilled workers in different schedules should be abolished.

As already anticipated in Punjab notifications, skilled workers should be encouraged to use collective bargaining to set wages.

#### **8. Adopt transparent criteria and process of appointments to the Minimum Wage Boards**

Appointments to the Minimum Wage Boards should be transparent and in accordance with the legislation. Provincial governments should ensure full consultation of and genuine participation by representatives of workers and employers. Nominations for board members should be sought from trade union federations, employers' organizations, and industry associations. Such nominations should be generally accepted by the Board unless there are genuine reasons. The independent member of the Minimum Wage Boards should fulfil the role of the technical expert, and have appropriate professional qualifications and experience.

Information in relation to appointments to the Minimum Wage Boards should be published to ensure transparency of the process, including:

- criteria for membership;
- nominations from trade unions, employers' representatives including employers' organizations and industry associations; and
- appointments to the boards and reasons for such an appointment.

#### **9. Recommendations by Minimum Wage Boards must be reasoned, independent, and transparent**

The Minimum Wage Board of each province should exercise its powers independently. When making recommendations, it should publish the reasons for their decision, including the social and economic factors considered, and information about the data used in the determination of minimum wages.<sup>231</sup> The reasoning behind wage setting processes should be made publicly available to enhance the legitimacy of the rates recommended.

---

231 The Punjab government, for example, already produces a working paper on minimum wage setting.



**10. Amend provincial legislation to strengthen the powers of the Minimum Wage Boards**

Under the current legislation, provincial governments are not bound to follow the recommendations of the Minimum Wage Boards. Amendments should be made to legislation to limit the provincial governments' ability to deviate from the rate recommended by the Boards. The recommendations should be followed unless there are compelling reasons not to do so. Any deviation from the recommended rates should be supported by reasons, setting out factors considered and statistical indicators used.

**11. The need for provincial differentiations in minimum wage rates should be discussed**

Provincial governments should consider whether provincial differentiations in minimum wage rates are, or are likely to become, necessary. If so, provincial governments should agree on a mechanism for calculating and incorporating provincial differences. For example, provinces should decide on the elements for consideration, statistical indicators and data sources that reflect provincial differences.

**12. Strengthen labour inspection systems**

The labour inspection systems of all provinces must be significantly strengthened in order to improve compliance across each industry. The number of labour inspectors needs to be increased, and their capacity strengthened to conduct meaningful labour inspections. Areas of capacity building for labour inspectors may include:

- training on effective labour standards and inspections;
- access to transport for the purposes of conducting inspections and raids;
- access and training to use equipment for documenting violations and evidence gathering;
- creation of “squads” of mobile inspectors to target problem areas or industries;
- expansion of labour inspections to informal enterprises and factories;
- improving working relationships between labour inspectors, unions, and social activists in order to collect intelligence; and
- establishing summary enforcement mechanisms, such as on-the-spot fines and arrest warrants.

**13. Prosecute up the supply chain, enact legislation that holds primary contractors responsible for violations of sub-contractors**

Punitive measures should target enterprises up the supply chain. The worst violators of labour standards are often informal sector enterprises, subcontractors, and factories - including power loom units - that have no reputation to preserve, few fixed assets, and which are often not legally registered. They can often ignore fines and simply continue operations and production from a different location or under a different name. Moreover, for small enterprises, those that remain underground can under-price those that upgrade their practice. Therefore, detection and punishment of violations at the lower end of the supply chain are not likely to yield sustainable results unless in combination with penalties affecting those further up the supply chain. Legislation should be enacted to ensure that liability can be imposed on primary contractors.

**14. Penalties for labour violations should be increased**

More severe penalties for labour violations increase the regulatory risk and costs of a breach. Current penalty rates are insufficient as deterrents. Penalties must be increased so that the costs of breach and regulatory risk are sufficiently high to deter violations.

**15. Limit access to credit for violators of labour protection laws, incentivize compliant enterprises through preferential credit access**

Provincial governments should coordinate with banks and financial institutions to limit access to credit to enterprises that have persistently or seriously violated labour standards. Access to credit can be restored once the enterprise has demonstrated compliance and a sustainable change in conduct, for example, when an enterprise passes two or more independent inspections. Conversely, enterprises that demonstrate continuing compliance with all labour standards can be rewarded through preferential credit access.

**16. Take specific action to improve the conditions of home-based workers, particularly female home-based workers**

In addition to interpreting labour legislation to include home-based workers, the following specific actions should be taken:

- support the development of alternative and safe workplaces, such as private-public partnerships in establishing neighbourhood sewing centres;
- support the unionization of home-based workers, and promote collective bargaining between home-based workers and contractors on wages and work conditions; and
- implement sexual harassment legislation in the workplace to make formal sector enterprises safer for women.

### 6.3 To employers and industry associations

#### 1. Share best practice

Several enterprises in Pakistan have developed collaborative and productive relationships between employers and managers and workers. However, such examples are isolated and not widely known. It is important for employers to share best practices and experiences with each other in order to improve management as well as relationships with workers.

#### 2. Support unionization of employees and workers

Employers should encourage unionization of employees, and consider unions as an ally rather than a barrier to productivity. Productive and cooperation relationships between trade unions and employers can be of mutual benefit to employers by increasing retention rates and per capita productivity.

#### 3. Increase collective bargaining

Employers should support the use of collective bargaining as a wage setting mechanism, particularly for skilled workers for whom the statutory minimum wage is not appropriate. Collective bargaining with particular occupational groups can be used as a tool for recruitment and retention of skilled staff.

### 6.4 To trade unions and federations

#### 1. Improve services to own members

Trade unions should improve the services and support provided to their own members, for example, in providing legal services, advice, support networks, and by acting as advocates for workers' rights. By focusing on their roles as service providers to members, trade unions can increase influence, by attracting more members and becoming more effective advocates.

## **2. Increase the scope of collective bargaining**

Trade unions should increase collective bargaining to include a range of issues. In addition to pay rates and allowances, collective bargaining can include leave entitlements, conditions of labour, healthcare, and a range of other benefits. Collective bargaining can be effective even in informal sector enterprises and among workers holding informal jobs. Therefore, where possible, collective bargaining should be used to address a range of worker concerns.

## **3. Share best practice**

The capacity of trade unions and success in collective bargaining varies depending on industry and enterprise. However, there are several highly successful trade unions that have been able to negotiate a range of benefits and above minimum wage rates for members. These examples, however, are isolated and not well known. Trade unions can benefit from sharing their knowledge and experience, and learning from each other.

### **6.5 To the ILO**

#### **1. Promote conceptual agreement on the role of minimum wages in Pakistan**

The ILO should facilitate and promote discussion on the role of minimum wages in Pakistan: for instance leading debate as to whether minimum wage rate should be fully implemented as a binding wage floor, a living wage or a fair wage. Among tripartite partners, as well as federal and provincial governments, conceptual agreement on the role of minimum wages is important to increase compliance with the wage rates set and can minimize conflict between tripartite partners in relation to wage setting.

#### **2. Conduct or commission research**

The ILO should conduct or commission research in the following areas:

- the role of the judiciary, labour tribunals, prosecutors in the enforcement of labour standards;
- remedies available to workers and employees when labour laws have been breached, particularly after industrial accidents;

- mapping of indirect sourcing and sub-contracting in the textile and garment sector, particularly in hotspots such as Faisalabad, Sialkot, Lahore, and Karachi;
- mapping of the subcontracting chain from home-based workers to end retailers; and
- understanding the scale and activities of intermediaries, such as supply chain coordinators.

### 3. Strategically support stakeholders

The ILO can strategically support other stakeholders in the following areas:

- creating forums for employers and trade unionists to discuss common areas of concern, share best practices, and exchange knowledge and experience;
- creating a broad-based consultation mechanism of stakeholders to develop new alliances and relationships;
- providing technical advice to provincial governments on legislative reform where necessary; and
- providing technical advice to provincial governments on minimum wage setting mechanisms, including the use of statistical indicators.

Workers in the stitching assembly lines in a top tier "cotton to carton" factory



## Case Studies

### Case study 1:

#### **Unregistered Power Loom Units and Informal Workers**

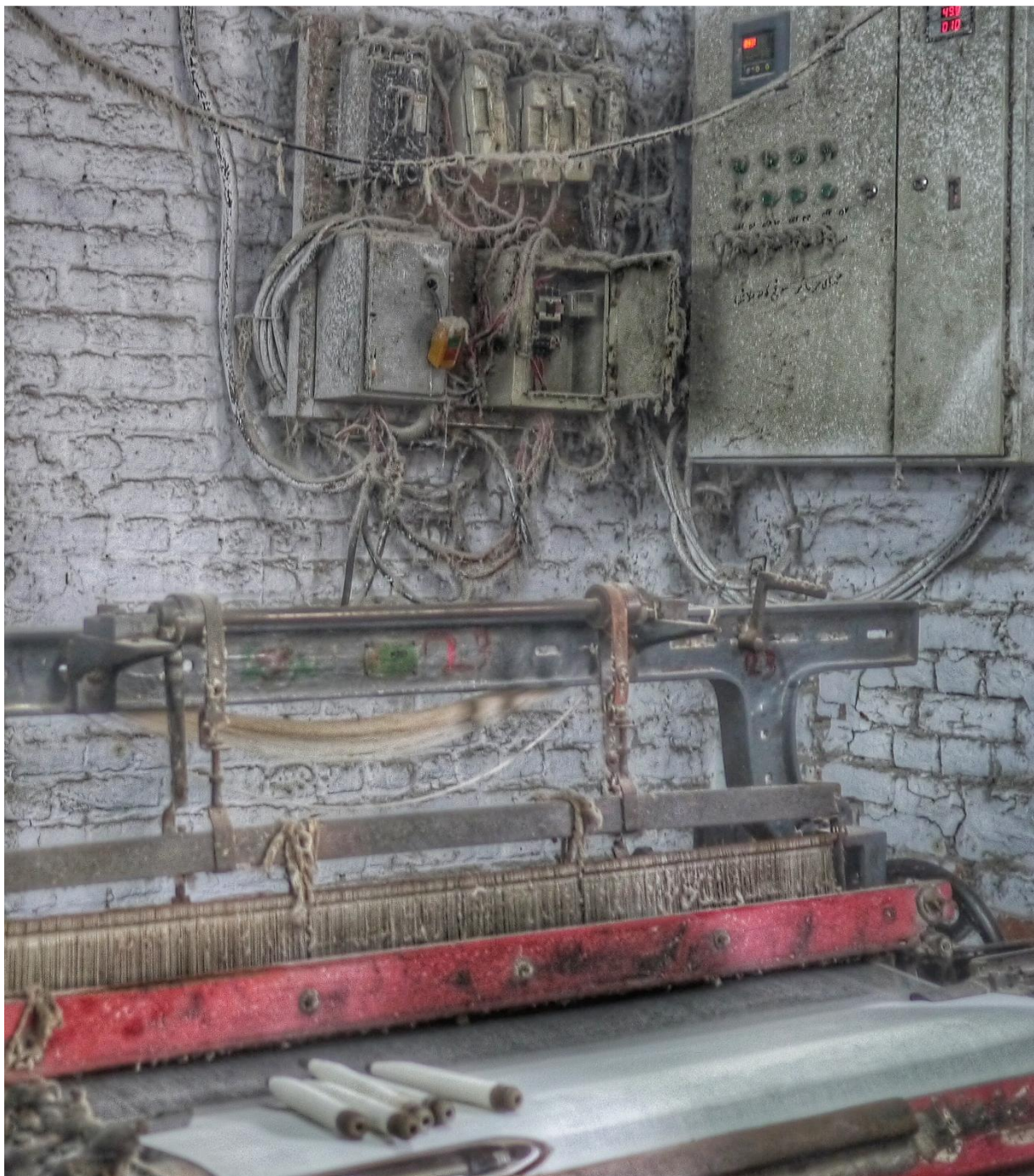
##### **Seven Miles Area in Faisalabad, Punjab**

In Seven Miles area of Faisalabad, reportedly around five square kilometres, there are around almost 150 small power loom units in operation. A majority of these are not registered under the relevant legislation. In each of the power loom units, there are approximately 40 to 80 looms per unit, employing between 30 and 100 workers each. The researchers visited three randomly selected factories, each involved in weaving cotton textiles, none of which were registered. The Labour Quami Movement had a small area office among the factories.

Labour conditions varied but generally were very poor. The factories were extremely badly ventilated, and dust hung off the walls and the ceiling fans in gothic web-like formations (figure 7). The power looms are arranged tightly next to each other, with little room for human movement. All power loom workers were male, partly because the traditional female dupatta would be an obvious safety hazard in the crowded factories. There was little drinking water for the workers. The noise of the looms operating was deafening, and workers did not have any personal protective equipment.

The factories operated in two shifts of 12 hours each. Other than stoppage due to load shedding, there are no official rest breaks. In each of the factories, the ratio of weavers to machines meant that on average, each worker had to operate three machines at the same time. Unsurprisingly, as the power loom units themselves are unregistered, none of the workers had any documentation evidencing their employment, nor were they registered with any social security institutions.

In one of the factories, weavers were paid at the rate of PKR 5 per metre for cotton. The same cotton was sold at the yarn market in Faisalabad for PKR 89 to 150 per metre, depending on the prevailing rate. The workers' piece rate is consistent, regardless of the wholesale price that the textiles can fetch. The energy crisis in Pakistan meant that the load shedding affected the factory for up to four hours per shift. As the workers were being paid a piece rate, this affected their ability to earn. According to the weavers, each loom is capable of producing



**Figure-7: Dust in an unregistered power loom in Faisalabad Punjab**

approximately 20 meters of textiles. That means for a 12 hour shift day, the workers earn around PKR 100, far below the statutory minimum wage.

On the wall in one of the factories, a sign was displayed which listed deductions that could be made against the worker:

- PKR 5 fine will be charged if a roll of fabric is over- or underweight;
- if there is a dispute between workers about the number of meters of clothes produced, 11 times the disputed clothes' worth will be deducted. For example, if two meters are in dispute, then 22 meters' worth will be deducted from the workers' productivity; and
- If the power looms are not cleaned, PKR 30 will be deducted.

Notably, one worker stated that in formal enterprises, someone is employed to clean the machines. But in the informal sectors, the workers are responsible for the cleanliness of the looms themselves.

Child labour was present in the factories. Two boys, one aged 8 and another aged 14, were working in one of the factories when the researchers visited. Another young man, now 18 years old, had been working in the factory since he was 10 years old. The boys were not operating the looms, but preparing the yarn for the looms. This work was paid on a salary basis, and the boys earned between PKR 1,500 and 2,000 per month. According to the adult workers, each factory had about seven or eight children working (figure 8 and figure 9).

Although there are many factories in the area, there is little job mobility for weavers among the factories. The conditions are very similar among power loom units, including the few that are legally registered. Even in the registered power looms, workers are casual, have no benefits, no job security, and are paid similar wages to those at unregistered power looms. In addition, owners are suspicious of workers who attempt to change jobs.

**Figure- 8 and 9: Child labour in unregistered power looms in Faisalabad Punjab**





## **Case study 2:**

### **Koh I Noor Textile Mills Limited and Mazdoor Trade Union (CBA)**

#### **Rawalpindi, Punjab**

Koh I Noor Textile Mills Limited (KTML) in Rawalpindi, Punjab is one of the model factories of Pakistan. It was founded in 1949 and is one of the largest integrated textile manufacturers. It exports all over the world and has achieved annual sales of \$140 million.<sup>232</sup> Around 65 per cent of its products are destined for the US market, 23 per cent to Europe, and 12 per cent to the rest of the world.<sup>233</sup>

It has state of the art facilities spread over 103 acres in Rawalpindi. Along with spindles and other textile machinery, Koh I Noor facilities include a training centre that prioritizes female workers from the local areas. It also has a residential complex adjacent to the factory for eligible workers. Importantly, the mill has its own large power plant, which can supply the factory as well as the residential area. There is an effluent water treatment processing area, as well as an orchard and small farm. In addition to a canteen, the workers can purchase the goods they have produced at a “fair price” shop on the premises. KTML has around 2,400 workers, and all are registered for social welfare benefits and with the Employees Old-Age Benefits Institution. Wages at KTML range from PKR 12,000 to 35,000. In addition to wages, the company provides a range of benefits, including subsidized rent and utilities for eligible workers, as well as transport, subsidized food, time off, retirement plans, bonuses, health insurance, and life and disability insurance. KTML has also implemented a range of community development initiatives.

Within KTML, there are two trade unions. One of these, Mazdoor Union, is one of the most established trade unions at plant level in Pakistan. Lead by its general secretary Syed Sajad Gardezi, the trade union enjoys a strong reputation as an advocate for workers’ rights. Registered in 1970, “Gardezi sb”, as he is known, has the status of a minor celebrity among trade unionist and workers’ activists. Recently, Mazdoor Union was re-elected as the collective bargaining agent, with nearly 1,800 votes out of 2,400.

---

232 *Company Profile*, Koh I Noor Mills Limited, [http://www.Koh I Noormills.com/page.php?section=Main&page=AboutKWML](http://www.KohI Noormills.com/page.php?section=Main&page=AboutKWML) [accessed 14 Sep. 2015].

233 Interviews with researchers, May and June, 2015.

Although the union's history was turbulent and violent, Mazdoor Union and the management of KTML enjoy remarkably cooperative relationships now. The younger generation of human resources managers and administrators share mutual trust with the veteran trade unionists. Discussions between them are unusually candid and cordial and appear to be conducted with good faith and humour.

In the 2015 round of collective bargaining negotiations, Mazdoor Union is seeking a base wage of PKR 20,000 for unskilled workers. The percentage increase for the unskilled workers will be applied across various skilled wage rates.

Although it is unlikely that KTML will agree to the PKR 8,000 increase in the wages, the management has gone to some efforts to justify the decision. One reason, as management admitted, is that the proposed wage increase would be significantly above the industry standard, which would risk making the company less competitive.

More importantly, an internal document, available also to Mazdoor Union, outlines KTML's approach to wages. Statutory minimum wages in Pakistan, it notes, is a subsistence wage that "does not meet basic human needs".<sup>234</sup> KTML applies a basic needs formula to its wage determination, including the following considerations, using data from Household Integrated Economic Survey, published by the Pakistan Bureau of Statistics:

- the basic food-basket need for an adequate diet;
- the average percentage of household income spent on food;
- household size; and
- the rate of inflation.

For 2014, KTML's calculations determined that the living wage was PKR 19,462. This figure is the basis for KTML's justification for its wage levels. KTML argues that for an unskilled worker paid at the statutory minimum rate and resident with his or her family in the housing complex, benefits included bring the total value of the wage package to PKR 22,900, above the living wage. For an unskilled worker who does not live in the housing complex, however, the total package would drop to below the living wage rate, but above the statutory minimum rate, at PKR 15,950.

---

<sup>234</sup> Document on file with the researchers.

There are two striking features in the interactions between the trade unionists and managers of KTML, which might explain their unusual relationship. First, as demonstrated by the KTML's efforts to justify its wage setting decision, the managers and trade union conscientiously communicate with each other and take pains to reason. Through this process of communication, the managers and the trade unionists interact as peers, without the problematic and imbalanced power dynamics that often characterize the relationship between employers and workers. Second, the managers who negotiate with the trade unionists are employees themselves. Some of them live in the residential complex with the workers, and a sense of personal relationship is fostered of this proximity. More specifically, managers, particularly those who are neighbours to the workers, plainly benefit from the improved conditions that trade unionists demand. The alignment of interests between managers and workers thus contributes to the cooperative relationship between trade unionists and managers of KTML.

## Bibliography

- Ahmed, A. *Growth trends of Pakistan textile industry: A brief report on textile industry trend during last 10 years with reasons & recommendations* (Rawalpindi, Chamber of Commerce & Industry). Available at: <http://www.rcci.org.pk/wp-content/uploads/2012/12/gtopti.pdf> [14 Sep. 2015].
- Al Jazeera America. 2014. "Inside the Bangladesh clothing supply chain", in *Fault Lines*, 24 Apr. Available at: <http://bit.ly/1meVUM9> [14 Sep. 2015].
- APP. 2014. "42 million soccer balls exported from Sialkot ahead of FIFA World Cup", in *Pakistan Today*, 26 May. Available at: <http://bit.ly/1kWXMNb> [14 Sep. 2015].
- Arner, K. 2013. "Population explosion: Put an embargo on industrialization in Karachi", in *The Express Tribune*, 6 Oct. Available at: <http://tribune.com.pk/story/614409/population-explosion-put-an-embargo-on-industrialisation-in-karachi/> [10 Sep. 2015]
- Baidarie. 2010. *Baseline assessment: Condition of home based women workers in soccer ball industry in Sialkot*. (Published by Baidairie in Sialkot.)
- Burki, A. et al. 2015. *Multiple inequalities and policies to mitigate inequality traps in Pakistan*, Oxfam Research Report, Mar. 2015. Available at: <http://bit.ly/1JVLLT5> [14 Sep. 2015].
- Chen, M. et al. 1999. "Counting the invisible workforce: The case of homebased workers", in *World Development*, Vol 27, No. 3, pp. 603-610. Available at: <http://bit.ly/1LGo6oj> [14 Sep. 2015].
- Bloomberg. "Company overview of Success Apparel LLC", in *Bloomberg Business*, 3 June 2016. Available at: <http://bloom.bg/1PVdpqd> [14 Sep. 2015].
- . "Company overview of Public Clothing Company Inc", in *Bloomberg Business*, 3 June 2016. Available at: <http://bloom.bg/1UuybJ8> [14 Sep. 2015].
- Coslovsky, S. 2014. "Flying under the radar? The state and the enforcement of labour laws in Brazil", in *Oxford Development Studies*, Vol. 42, Issue 2, pp. 169-195.
- Danish Trade Union - Council for International Development Cooperation. 2014. *Bangladesh labour market profile*. Available at: <http://bit.ly/1Pf16zR> [14 Sep. 2015].
- . 2014. *India labour market profile*. Available at: <http://bit.ly/1Wbbz3r> [14 Sep. 2015].
- . 2014. *Pakistan labour market profile*. Available at: <http://bit.ly/1Pf16zR> [14 Sep. 2015].
- Ebrahim, ZT. 2015. "Pakistan's energy crisis could topple government, Warns expert", in *Dawn*, 5 Mar. Available at: <http://www.dawn.com/news/1167563> [14 Sep. 2015].
- . 2015. "50 Shades of inequality in Pakistan", in *Dawn*, 14 May. 2015. Available at: <http://www.dawn.com/news/1178703>. [14 Sep. 2015]
- Fung, V.; Fung, William; Wind, Jerry (Yoram). 2008. *Competing in a flat world: Building enterprises for a borderless world* (New Jersey, Pearson Education). Available at: <http://bit.ly/1tqxQBA> [14 Sep. 2015].

- Gereffi, G.; Frederick, S. 2010. *The global apparel value chain, trade and the crisis: Challenges and opportunities for developing countries*, Policy Research Working Paper 5281 (World Bank). Available at: <http://bit.ly/1QQGIpP> [14 Sep. 2015].
- Government of Punjab. Undated. *Punjab portal – Quick stats*. Available at: [http://www.punjab.gov.pk/punjab\\_quick\\_stats](http://www.punjab.gov.pk/punjab_quick_stats) [10 Sep. 2015]
- Hisam, Z. (ed.). 2014. *Status of labor rights in Pakistan: The year 2014* (PILER).
- Hobbes, M. 2015. “The myth of the ethical shopper”, in *Huffington Post Highline*, July. Available at: <http://highline.huffingtonpost.com/articles/en/the-myth-of-the-ethical-shopper/> [14 Sep. 2015].
- HomeNet Pakistan. 2010. *Baseline survey: Chik-makers of District Kasur*.
- . 2014. *A situational analysis of the kite makers: a pilot study*.
- Hussmanns, R. *Defining and measuring informal employment* (Geneva, ILO). Available at: <http://bit.ly/1vIp95z> [15 Sep. 2015].
- ICTA. *Chief Commissioner*. Available at: <http://www.ictadministration.gov.pk/chief-commissioner.html> [14 Sep. 2015].
- ILO Country Office for Pakistan. 2015. *Decent Work Country Programme 2010-2015*. Available at: <http://www.ilo.org/public/english/bureau/program/dwcp/download/pakistan2010-15.pdf> [14 Sep. 2015].
- . 2015. *First domestic workers’ trade union registered in Pakistan*, 16 Jan. Available at: [http://www.ilo.org/islamabad/info/public/pr/WCMS\\_338484/lang--en/index.htm](http://www.ilo.org/islamabad/info/public/pr/WCMS_338484/lang--en/index.htm) [14 Sep. 2015].
- ILO Regional Office for Asia and the Pacific. 2014. *Minimum wages in the global garment industry*. Research Note, Regional Economic and Social Analysis Unit (Bangkok).
- ILO. 1992. *Minimum wages: wage-fixing machinery, application and supervision*, Report II (Part 4B), International Labour Conference, 79th Session (Geneva).
- . 1993. *Resolution concerning the International Classification of Status in Employment (ICSE)*. Fifteenth International Conference of Labour Statisticians (ICLS). Available at: <http://bit.ly/1NFkjjvG> [15 Sep. 2015].
- . 1993. *Resolution concerning statistics of employment in the informal sector*. Fifteenth International Conference of Labour Statisticians, Available at: <http://bit.ly/1BBIBmT> [15 Sep. 2015].
- . 2003. *Guidelines concerning a statistical definition of informal employment*. Seventeenth International Conference of Labour Statisticians. Available at: <http://bit.ly/1iqdPF5> [15 Sep. 2015].
- . 2010. *Recognising and supporting home-based workers*, South Asian Regional Consultation on National Policy for Home-Based Workers in Pakistan (Islamabad, ILO Office Country Office for Pakistan, Women’s Employment Concerns and Working Conditions in Pakistan). Available at: <http://bit.ly/1KongyF> [14 Sep. 2015].
- . 2011. *Searching for the invisible workers: A statistical study of home based workers in Pakistan* (Islamabad). Available at: <http://bit.ly/1gDg1b2> [14 Sep. 2015].

- . 2014. *Minimum wage systems*, Report of the Committee of Experts on the Application of Conventions and Recommendations (articles 19, 22 and 35 of the Constitution), Report III (Part 1B), International Labour Conference, 103rd Session (Geneva).
- . *NORMLEX - Ratifications for Pakistan*. Available at: <http://bit.ly/1OIjjYC> [14 Sep. 2015]
- Kahn, A.S. 2015. "Sindh delays notification on minimum Wages", in *Dawn*, 27 Mar. Available at: <http://www.dawn.com/news/1172090> [14 Sep. 2015].
- Labour Education Foundation. *Pakistan: Release the "Faisalabad 6"*. Available at: <http://www.lef.org.pk/fsd%20release%20.htm> [14 Sep. 2015].
- Li & Fung Limited. 2014. *Annual Report*. Available at: <http://www.lifung.com/wp-content/uploads/2014/05/2014-Annual-Report.pdf> [14 Sep. 2015].
- Magretta, J. 1998. "Fast, global, and entrepreneurial: Supply chain management, Hong Kong style", in *Harvard Business Review*, Sep. Available at: <https://hbr.org/1998/09/fast-global-and-entrepreneurial-supply-chain-management-hong-kong-style> [14 Sep. 2015].
- Martin, M. 2013. *Creating sustainable value chains: A primer on industry transformation* (Geneva, Impact Economy). Available at: [http://www.impacteconomy.com/papers/IE\\_PRIMER\\_DECEMBER2013\\_EN.pdf](http://www.impacteconomy.com/papers/IE_PRIMER_DECEMBER2013_EN.pdf) [14 Sep. 2015].
- Organisation for Economic CO-Operation and Development (OECD). *Trade union density*. Available at: [https://stats.oecd.org/Index.aspx?DataSetCode=UN\\_DEN](https://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN) [14 Sep. 2015].
- Pakistan Bureau of Statistics. 2014. *Pakistan Employment Trends 2013* (Islamabad). Available at: [http://www.pbs.gov.pk/sites/default/files/Labour%20Force/publications/Pakistan\\_Employment\\_2013.pdf](http://www.pbs.gov.pk/sites/default/files/Labour%20Force/publications/Pakistan_Employment_2013.pdf) [14 Sep. 2015].
- . 2014. *Pakistan Labour Force Survey 2013-14*. Available at: <http://www.pbs.gov.pk/content/labour-force-survey-2013-14-annual-report> [14 Sep. 2015].
- . *Pakistan Labour Market Profile*. Available at: <http://bit.ly/1iFVoNo> [14 Sep. 2015].
- . *Registered trade union membership by sex*. Available at: <http://www.pbs.gov.pk/sites/default/files/other/yearbook2011/Labour/12-18.pdf> [14 Sep. 2015].
- Pakistan Business Council. 2015. *Pakistan's EU GSP+ status: First year performance & future potential*. Available at: <http://bit.ly/1FVbesh> [14 Sep. 2015].
- Pakistan Ministry of Finance. 2015. *Budget Speech 2015-16*. Available at: [http://www.finance.gov.pk/budget/budget\\_speech\\_english\\_2015\\_16.pdf](http://www.finance.gov.pk/budget/budget_speech_english_2015_16.pdf) [14 Sep. 2015].
- . 2015. *Pakistan Economic Survey 2014-15*. Available at: [http://www.finance.gov.pk/survey\\_1415.html](http://www.finance.gov.pk/survey_1415.html) [14 Sep. 2015].
- Pakistan Ministry of Labour, Manpower and Overseas Pakistanis. 2006. *Labour protection policy* (Islamabad). Available at: [http://labourwatchpakistan.com/wp-content/uploads/2011/04/LABOUR\\_PROTECTION\\_POLICY\\_2006.pdf](http://labourwatchpakistan.com/wp-content/uploads/2011/04/LABOUR_PROTECTION_POLICY_2006.pdf) [14 Sep. 2015].

- Pakistan Ministry of Textile Industry. 2015. *Textile policy 2014-19*. Available at:  
<http://www.textile.gov.pk/gop/index.php?q=aHR0cDovLzE5Mi4xNjguNzAuMTM2L21vdGkvdXNlc mZpbGVzMS9maWxlL1RleHRpbGUIMjBQb2xpY3klMjAyMDE0LTE5LnBkZg%3D%3D> [14 Sep. 2015].
- Pakistan Planning Commission. 2010. *Final report of the panel of economists: Medium-term development imperatives and strategy for Pakistan*. Available at:  
[http://www.pide.org.pk/pdf/Panel\\_of\\_Economists.pdf](http://www.pide.org.pk/pdf/Panel_of_Economists.pdf) [14 Sep. 2015]
- Pakistan Institute of Legislative Development and Transparency (PILDAT). 2014. *Employment and labour market issues in Punjab: Current situation and way forward*, PILDAT Briefing Paper no. 49 (Islamabad). Available at: <http://goo.gl/R6mJgE> [14 Sep. 2015].
- Rana, I. 2014. “Business stories: The rise and fall of the Chenab Group”, in *Dawn*, 14 Sep. Available at:  
<http://tribune.com.pk/story/762213/business-stories-the-rise-and-fall-of-the-chenab-group/> [14 Sep. 2015].
- Saleem, M. 2014. “Walt Disney bans imports from Pakistan”, in *Dawn*, 5 Apr. Available at:  
<http://www.dawn.com/news/1097357> [14 Sep. 2015].
- Shaukat, A. 2012. “Labour inspections to resume”, in *The Express Tribune*, 25 Feb. Available at:  
<http://tribune.com.pk/story/341377/labour-inspections-to-resume/> [14 Sep. 2015].
- Spragg, J. 2012. *Re-examining agile supply chain practices in post recession fashion retail* (The Chartered Institute of Logistics and Transport).
- The Federation of Pakistan Chamber of Commerce & Industries. *Faisalabad regional profile*. Available at:  
<http://www.fpcci.com.pk/reports/Faisalabad%20Regional%20Profile.pdf> [10 Sep. 2015].
- The News International. 2014. “Recognition for home-based workers demanded”, in *The News*, 20 Oct. Available at: <http://bit.ly/1Kumxxy> [14 Sep. 2015].
- Tirmizi, F. 2012. “Income disparity: The very uneven rise in Pakistani incomes”, in *The Express Tribune*, 30 July. Available at: <http://tribune.com.pk/story/414810/income-disparity-the-very-uneven-rise-in-pakistani-incomes/> [14 Sep. 2015].
- United Nations Development Programme (UNDP). *Human Development Reports - Human Development Indicators: Pakistan*. Available at: <http://hdr.undp.org/en/countries/profiles/PAK> [14 Sep. 2015].
- Urbina, I. and Bradsher, K. 2013. “Linking factories to the malls, middleman pushes low costs”, in *The New York Times*, 7 Aug. Available at: [http://www.nytimes.com/2013/08/08/world/linking-factories-to-the-malls-middleman-pushes-low-costs.html?\\_r=0](http://www.nytimes.com/2013/08/08/world/linking-factories-to-the-malls-middleman-pushes-low-costs.html?_r=0) [14 Sep. 2015].
- US Department of Labor. 2013. *Pakistan, findings on the worst forms of child labor*. Available at:  
<http://www.dol.gov/ilab/reports/child-labor/pakistan.htm> [20 July 2015].
- World Bank. 2015. *Global Economic Prospects*. Available at: <http://www.worldbank.org/en/publication/global-economic-prospects/summary-table> [14 Sep. 2015].

- . *Data: GDP growth (annual %)*. Available at: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG> [14 Sep. 2015].
- . *Data: GINI index*. Available at: <http://data.worldbank.org/indicator/SI.POV.GINI> [14 Sep. 2015]
- . *Data: Labor force participation rate*. Available at: <http://data.worldbank.org/indicator/SL.TLF.CACT.ZS> [14 Sep. 2015].
- . *Data: Pakistan*. Available at: <http://data.worldbank.org/country/pakistan> [14 Sep. 2015].
- . *Data: Population, total*. Available at: <http://data.worldbank.org/indicator/SP.POP.TOTL> [10 Sep. 2015].
- . *Data: Rural population (% of total population)*. Available at:  
<http://data.worldbank.org/indicator/SP.RUR.TOTL.ZS> [10 Sep. 2015].
- . *Data: Unemployment, total (% of total labor force, modelled on ILO estimate)*. Available at:  
<http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS> [14 Sep. 2015].



## Appendix I - Key terms

### Employees

Under ICSE-93:<sup>235</sup>

Employees are all those workers who hold the type of job defined as “paid employment jobs”.

Paid employment jobs are those jobs where the incumbents hold explicit (written or oral) or implicit employment contracts that give them a basic remuneration that is not directly dependent upon the revenue of the unit for which they work (this unit can be a corporation, a non-profit institution, a government unit or a household). Some or all of the tools, capital equipment, information systems and/or premises used by the incumbents may be owned by others, and the incumbents may work under direct supervision of, or according to strict guidelines set by the owner(s) or persons in the owners' employment.

Persons in “paid employment jobs” are typically remunerated by wages and salaries, but may be paid by commission from sales, by piece-rates, bonuses or in-kind payments such as food, housing or training.

There is no distinction under ICSE-93 between employees in formal or informal sectors.

### Employees holding informal jobs, workers holding informal jobs

Under the 17th ICLS Guidelines:<sup>236</sup>

Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). The reasons may be the following: non-

---

<sup>235</sup> ILO: *Resolution concerning the International Classification of Status in Employment (ICSE)*, the Fifteenth International Conference of Labour Statisticians (ICLS), January 1993, <http://bit.ly/1NFkjuG> [accessed 15 Sep 2015].

<sup>236</sup> ILO: *Guidelines concerning a statistical definition of informal employment*, the Seventeenth ICLS, 2003, paragraph 3(5), <http://bit.ly/1iqdPF5> [accessed 15 Sep 2015].

declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g. outworkers without employment contract); or jobs for which labour regulations are not applied, not enforced, or not complied with for any other reason.

### Informal sector

Under the 15th ICLS Guidelines:<sup>237</sup>

The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes for the persons concerned. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

Production units of the informal sector have the characteristics of household enterprises. The fixed and other assets used do not belong to the production units as such but to their owners. The units as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities, on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure. Similarly, capital goods such as buildings or vehicles may be used indistinguishably for business and household purposes.

Activities performed by production units of the informal sector are not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions, or infringing labour or other legislations or administrative provisions. Accordingly, the concept of informal sector activities should be distinguished from the concept of activities of the hidden or underground economy.

---

<sup>237</sup> ILO: *Resolution concerning statistics of employment in the informal sector*, the Fifteenth ICLS, January 1993, paragraph 5, <http://bit.ly/1BBIBmT> [accessed 15 Sep 2015].

## Informal sector enterprises

Under the 15th ICLS Guidelines,<sup>238</sup> informal sector enterprises include:

a. Household enterprises

Household enterprises (or, equivalently, unincorporated enterprises owned by households) are distinguished from corporations and quasi-corporations on the basis of the legal organization of the units and the type of accounts kept for them. Household enterprises are units engaged in the production of goods or services which are not constituted as separate legal entities independently of the households or household members that own them, and for which no complete sets of accounts (including balance sheets of assets and liabilities) are available which would permit a clear distinction of the production activities of the enterprises from the other activities of their owners and the identification of any flows of income and capital between the enterprises and the owners. Household enterprises include unincorporated enterprises owned and operated by individual household members or by two or more members of the same household as well as unincorporated partnerships formed by members of different households.

b. Informal own-account enterprises

Informal own-account enterprises are household enterprises owned and operated by own-account workers, either alone or in partnership with members of the same or other households, which may employ contributing family workers and employees on an occasional basis, but do not employ employees on a continuous basis.

c. Enterprises of informal employers

Enterprises of informal employers are household enterprises owned and operated by employers, either alone or in partnership with members of the same or other households, which employ one or more employees on a continuous basis.

---

<sup>238</sup> ILO: *Resolution concerning statistics of employment in the informal sector*, Fifteenth ICLS, paragraphs 6 to 9.

### Formal sector enterprises

Formal sector enterprises comprise corporations (including quasi-corporate enterprises), non-profit institutions, unincorporated enterprises owned by government units, and those private unincorporated enterprises producing goods or services for sale or barter which are not a part of the informal sector.<sup>239</sup>

### Informal employment

The total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households. Informal employment includes:

- i. Own-account workers and employers employed in their own informal sector enterprises
- ii. Contributing family workers, irrespective of whether they work in formal or informal enterprises
- iii. Members of informal producers' cooperatives
- iv. Employees holding informal jobs in formal enterprises, informal sector enterprises, or as paid domestic workers employed by households.
- v. Own-account workers engaged in the production of goods exclusively for own final use by their household

### Informal employment outside the informal sector

Under the 17th ICLS guidelines:<sup>240</sup>

The following types of jobs comprise informal employment outside the informal sector:

- i. Employees holding informal jobs in formal sector enterprises or as paid domestic workers employed by households
- ii. Contributing family workers working in formal sector enterprises
- iii. Own-account workers engaged in the production of goods exclusively for own final use by their household.

---

239 R. Hussmanns, *Defining and measuring informal employment* (Geneva, ILO Bureau of Statistics), p. 5, <http://bit.ly/1vIp95z> [accessed 15 Sep 2015].

240 ILO: *Guidelines concerning a statistical definition of informal employment*, the Seventeenth ICLS, paragraph 5.

## Home-based workers or home-based work

According to Article 1(a) of the ILOs' Home Work Convention, 1966 (No. 177):<sup>241</sup>

The term *home work* means work carried out by a person, to be referred to as a homemaker,

- i. In his or her home or in other premises of his or her choice, other than the workplace of the employer
- ii. For remuneration;
- iii. Which results in a product or service as specified by the employer, irrespective of who provides the equipment, materials or other inputs used,

Unless this person has the degree of autonomy and of economic independence necessary to be considered an independent worker under national laws, regulations, or court decisions.

For the purposes of this report persons engaged in home-based work constituted outworkers defined by ISCE-93,<sup>242</sup> who:

- a. hold explicit or implicit contracts of employment under which they agree to work for a particular enterprise, or to supply a certain quantity of goods or services to a particular enterprise, by prior arrangement or contract with that enterprise; but
- b. whose place of work is not within any of the establishments which make up that enterprise.

For the purposes of this report, these workers are classified as being employees in “paid employment jobs” in the informal sector.

---

241 Convention No. 177, Article 1, <http://bit.ly/1DHu4Hr> [accessed 15 Sep 2015].

242 ILO: *Resolution concerning the ICSE*, the Fifteenth ICLS, paragraph 14(h).

### **Domestic worker**

According to Article 1 of the ILO's Domestic Workers Convention, 2011 (No. 189):

- a. the term domestic work means work performed in or for a household or households;
- b. the term domestic worker means any person engaged in domestic work within an employment relationship;
- c. a person who performs domestic work only occasionally or sporadically and not on an occupational basis is not a domestic worker.

Domestic workers employed by households comprise informal employment outside of the informal sector under the 17<sup>th</sup> ICLS Guidelines.

### **Workers**

For the purposes of this report, workers include all employees in the formal or informal sector, holding formal or informal jobs.

## Appendix II – Stakeholder map

Nation-Wide			
Stakeholders	Characteristics	Analysis	
		Motivation	Constraints
Ministry for Overseas Pakistanis and Human Resource Development	Federal Ministry Headed by Joint Secretary (JS) Focal Point: Deputy Secretary	Oversight and coordination role post devolution. Responsibility for international convention reporting. Levels of engagement based on key individuals. Current JS engaged and interested, with a background in EAD and FBR/BOI.	Limited constitutional role post-devolution. Competing interests with the provinces over areas of control.
Ministry of Textiles	Relevant to industrial planning but no input into labour issues, working conditions, wage setting or international labour obligations. The goal is to encourage industry growth.	Implementation of the Textile Policy 2014-19.	No role in any relevant policymaking or implementation of labour policies, other than those related to the growth of the industry.
Ministry of Finance  Federal Board of Revenue  Board of Investment	No direct role in Labour Policy, no legal role in minimum wage setting or implementation.	No legal role. However, Ministry of Finance has had a de facto role in wage setting as a part of its budget planning.	No acknowledgement of a role in labour policy or wage setting.

Prime Minister  PML(N)	No legal role, but politically determinative on minimum wage setting. Significant influence, as PML(N) is in power federally and provincially in Punjab.	Minimum wage setting for unskilled workers (and consequential increases in skilled workers rates) is politically significant and widely reported. Announcement sometimes made by the Prime Minister in the budget speech.	Difficult for ILO to politically engage at this level.
Law and Justice Commission of Pakistan (LJCP) Supreme Court (SC)	SC currently examining minimum wage implementation in proceedings against provincial governments.  Court supported by LJCP. Request for data support received from LJCP.	To enhance implementation.	Current reformist Chief Justice only has a short term.  ILO involvement with SC and LJCP may be perceived negatively by provinces, given that they are respondents in current proceedings.
European Union Delegation	Monitoring role in relation to GSP Plus. Institutes compliance scorecard.	Keen to ensure scorecard performance is as good as it can be. Labour issues currently the least problematic area.	Expectations of difficulties in Pakistan's assessment against scorecard. However, labour rights not an area of prominence at present. Other human rights issues more troubling.



Employers' Federation of Pakistan	Tripartite partner.	Wish to remain as predominant employers' representation.	Some lack of acceptance by businesses consulted, particularly those outside Sindh.
Pakistan Workers' Federation	Tripartite partner.	Broad membership.	Some lack of acceptance by non-affiliated unions and other federations
UN Women	UN Agency	Has supported programming to enhance women's skills and provide economic opportunities outside the home (Punjab) and has supported homeworkers' groups in Sindh to mobilize and register with the Sindh Labour Department.	Programming limited and time constrained.
GIZ	Donor  Implementer of complementary programme regionally and in Pakistan	To support reform. To ensure complementarity. Good relationships at the regional level at present. Information sharing improving.	Some concerns re information sharing and cooperation.
Buyers' Forum	Emerging grouping of significant international buyer brands.	Imposition of individual buyer-led compliance requirements in order to minimize reputational risk. There is current undersupply, so some possibility to capitalize on the need to increase potentially compliant suppliers.	While achieving compliance amongst its suppliers (at least in relation to most of the supply chains) the required levels of compliance have limited impact.

**ICT**

<b>Stakeholders</b>	<b>Characteristics</b>	<b>Analysis</b>	
		<b>Motivation</b>	<b>Constraints</b>
ICT Labour and Welfare Department	Government agency with limited geographical range. Distinct from Federal government. Limited resources. Not currently engaged by ILO.	Statutory responsibilities on labour inspection and wage implementation.	Virtually no resources. No real political ownership within the federation.
ICT Wages Board	Government agency with limited geographical range. Distinct from Federal government. Limited resources. Not currently engaged by ILO.	Statutory responsibilities on wage setting.	Virtually no resources. No real political ownership within the federation. Simply replicates federal government announcements on unskilled wage.
Koh I Noor Textile Mills	Major textile employer. Supplier to international buyer market.	Unusually progressive human resources staff and positive relationship with staff union. Internal policy process on assessment of living wage.	Little confidence in the state. Not consulted by government or employer representatives. Does not regard EFP as at all representative of its interests.
Mazdoor Union	CBA and major trade union at major textile employer (Koh I Noor)	A successful example of the move from difficult/violent industrial relations to positive engagement. Has been willing to share experiences with other trade unions in the area/country.	Not characteristic of the majority of CBAs/unions within the textile/garment sector.

**Khyber Pakhtunkhwa**

Stakeholders	Characteristics	Analysis	
		Motivation	Constraints
KP Labour Department	Provincial government department with primary responsibility for labour rights, regulation and implementation post-devolution.	Progressive individuals within the department, keen to engage in reform processes. Positive relationships with ILO. Positive relationships with other provincial labour departments.	Realistic view of political, capacity and implementation challenges. Wage setting policy determined by federal and provincial political considerations. Ability to engage honestly currently constrained by SC litigation.
KP Wages Board	Wage setting body. Recently notified.	Potential to consider alternative/improved approaches to wage calculation.	Currently constrained by federal and cross provincial considerations.
KP Provincial Assembly	Elected political assembly. Politically oppositional to other provinces and current federal administration. No current engagement with ILO programming.		

**Balochistan**

Stakeholders	Characteristics	Analysis	
		Motivation	Constraints
Balochistan Labour Department	Provincial government department with primary responsibility for labour rights, regulation and implementation post-devolution.	Progressive individuals within the department, keen to engage in reform processes. Positive relationships with ILO. Positive relationships with other provincial labour departments.	A realistic view of political, capacity and implementation challenges. Wage setting policy determined by federal and provincial political considerations. Ability to engage honestly currently constrained by SC litigation.
Balochistan Wages Board	Wage setting body.	Potential to consider alternative/improved approaches to wage calculation.	Currently constrained by federal and cross provincial considerations.
Balochistan Provincial Assembly	Elected provincial assembly. Politically stable. Currently in the government coalition.		Labour policy/reform a minor consideration given security and economic challenges.

<b>Sindh</b>			
		<b>Analysis</b>	
<b>Stakeholders</b>	<b>Characteristics</b>	<b>Motivation</b>	<b>Constraints</b>
Sindh Labour Department	Provincial government department with primary responsibility for labour rights, regulation and implementation post-devolution.	Progressive individuals within the department, keen to engage in reform processes. Positive relationships with ILO. Positive relationships with other provincial labour departments.	Realistic view of political, capacity and implementation challenges. Wage setting policy determined by federal and provincial political considerations. Ability to engage honestly currently constrained by SC litigation. Political party demands on civil service and other appointments provide a significant constraint.
Sindh Wages Boards	Wage setting body		Currently constrained by federal and cross provincial considerations. Political appointments and party allocations of positions create a loss of confidence in genuine tripartite representation.
Sindh Provincial Assembly	Elected political assembly. Not necessarily representative of Karachi political landscape.		Labour policy/reform a minor consideration given security and economic challenges. Current political landscape unstable in Karachi.

Trade Associations	Various trade associations. A number are not well established or organized. Pakistan Towel Association is particularly well organized and informed. Limited ILO engagement to date.	Pakistan Towel Association provides a particularly well-informed and engaged example. PTA not currently engaged by ILO. Open to further engagement.	Competing interests and variable levels of activity. ILO engagement currently on ad hoc basis. Focus on exporters organizations, may unnecessarily limit ILO's reach across existing associations.
Employers' Federation of Pakistan	Tripartite partner. Karachi-based organization.	Vocal.	Niche view. Perceived as not representative of business interests, particularly by enterprises outside of Karachi. Position on minimum wage setting unusual, when compared to other stakeholders.
Key international Buyers	Significant number of international buyers based/represented in Karachi.	Currently progressive in terms of improved labour standards. The main driver is reputational risk. Reap considerable benefits from GSP plus. Recognize benefits of self-organization. Moves towards standardization of compliance requirements. Willing to encourage an expansion of compliant suppliers.	Regard the state as irrelevant. No engagement with federal ministry or provincial labour departments. See Pakistan's labour force as particularly under informed. Recognize very weak labour organization and low levels of unionization. Willing to support alternatives to unions given supplier reluctance/resistance. Willing to accept workers' committees as alternatives to labour organization. The main driver is price. Limited willingness to finance improvements in wages and labour related costs.

Key suppliers (to international buyers)	A small number of large-scale suppliers to international buyers.	Largely compliant.	A number representing a small section of the textile/garment industry.
Suppliers to other exporters	Large numbers of unmapped suppliers.	Probably non-compliant.	Generally, little incentive to comply. A small area of leverage with suppliers aspiring to become compliant to European/US buyers.
Suppliers to national market	Large number of unmapped suppliers. Many unmapped layers in the supply chain.	Probably non-compliant.	No incentive to comply or register.
Trade Unions	Various. A range of genuine unions and “pocket” unions.	Some examples of successful collective bargaining in specific areas (not necessarily textiles). Younger, more progressive unions enjoying significant support and success in securing favourable collectively agreed terms. Moves away from violence and poor employer relationships in some sectors.	Still very low levels of unionization. Both employer and employee/worker suspicion. Many employers actively resist unionization. Neutralize potential unionization by the creation of “pocket” unions.

Home-based Women Workers Federation	Federation of women home-based workers, made up of members and forming informal collectives.	Have been supported by UNWOMEN. Have interacted with Sindh Labour Department. Members of Homework Policy Task Force. Have worked with Labour Department to gather data to allow registration of homeworkers for work related benefits.	Small scale. At the risk of losing current core funding.
Industry Training Institutions	Several training institutes established to promote technical, textile related skills.	Industry led. Have had some ILO engagement previously on specific training projects.	Not particularly relevant to labour standards compliance.
PILER	Academic/research organization.	Progressive viewpoints. Experience of labour research. Associations with left-leaning labour organizations.	Few contacts with younger, emerging progressive labour organizations.



Punjab			
Stakeholders	Characteristics	Analysis	
		Motivation	Constraints
Punjab Labour Department	Provincial government department with primary responsibility for labour rights, regulation and implementation post-devolution.	Limited programme engagement at present.	Apparently limited political will to engage. Highly centralized province. A lengthy history of restrictions on the ability of labour inspections to properly function. Ban on visits now lifted but limited capacity. Political interference perceived to be barriers to widespread compliance or implementation of labour standards and wage protection.
Punjab Assembly	Wage setting body. Single board, with 102 additional schedules for specific industries, supported by 204 additional members.	On paper, Punjab has the most detailed and sophisticated processes for the calculation of unskilled minimum wage and the widest coverage of industries for skilled workers wages.  Elected political assembly. Province politically aligned with federal government	Labour department accepts that despite the existence of detailed processes re minimum wage setting, actual levels entirely determined by political announcement at the federal level and all unskilled and skilled schedules then altered accordingly.

GIZ Programme Punjab	Programme focused on improving labour standards through increased productivity in 10 model factories in Punjab (currently piloted in 5).	Considerable opportunity for information/contact sharing and complementarity. Programme Team leader invited to the forthcoming workshop. Clear from observation at recent GIZ programme workshop in Lahore that technical assistance of high quality and very well received at the industry level.	Ongoing programmatic coordination with ILO is necessary.
HomeNet	NGO focused on home-based workers	Has a policy focus. Has been involved in the formulation of the home-based workers draft policy and draft law. Good knowledge base.	Unclear as to grassroots linkages
APTMA	Trade Association		
Baidarie	NGO focused on supporting women traditionally engaged in hand stitching footballs and transitioning them into garment and machine stitching centres.	Preexisting relationship with ILO. Positive small scale results to date. NGO has maintained its focus despite funding changes. Has good relationships with local businesses through Chamber of Commerce. Negotiates rates for women with businesses.	Small scale. Local focus. May limit opportunities for wider engagement.

Key suppliers (to international buyers)	Export-oriented businesses	<p>Good standards of compliance, to meet requirements of international buyers. Interesting examples of training of workers from other parts of Punjab who are relocated to work in Faisalabad.</p> <p>Interesting emphasis on women as workers. Internal data on efficiency and productivity of women within the workforce.</p>	<p>Already compliant.</p> <p>Represents small fraction of the supply chain. Excludes possibility of employment for most Faisalabad workers who are working in poor conditions: given emphasis on the ability to read in English and have relevant skills.</p>
Suppliers to other exporters	Large numbers of unmapped suppliers.	Probably non-compliant.	Generally, little incentive to comply. A small area of leverage with suppliers aspiring to become compliant to European/US buyers.
Suppliers to national market	Large number of unmapped suppliers. Many unmapped layers in the supply chain.	Probably non-compliant.	No incentive to comply or register.

# Minimum wage setting, implementation and working conditions in the formal and informal sectors of the garment industry in Pakistan

This report, drafted in 2015, analyses the legal and policy frameworks and the implementation of minimum wages in Pakistan, with a particular focus on the textile and garment sectors. The report was compiled following detailed fieldwork in Pakistan's two major textile and garment producing provinces, Sindh and Punjab. Its findings were validated at a broad stakeholder meeting held in Islamabad in July 2015.

The structure of the report captures the legal and policy frameworks, procedures and institutions involved in minimum wage setting, including a detailed analysis of the relevant legislation. There is also an analysis of the concept of minimum wages and the various factors taken into account in setting minimum wage levels. The report examines the machinery of wage setting for both unskilled work and skilled work in specific industries, as well as appointments to and the work of minimum wage boards in the provinces. Implementation and enforcement mechanisms are examined and the role of collective bargaining in wage setting is also explored.

Labour conditions in the textile and garment sector are also discussed. The roles played by international buyers and retailers, the state and collectivism are explored, alongside a discussion of the relative conditions experienced by workers in the formal sector and informal economy. The report highlights a range of different circumstances in a series of case studies.

The report outlines a series of recommendations, setting out a proposed roadmap for reform.

This publication has been published within the framework of the programme "Labour Standards in Global Supply Chains in Asia" financed by the Government of the Federal Republic of Germany. The programme was initiated as part of a renewed partnership between the German Ministry for Development Cooperation (BMZ) and the International Labour Organization (ILO). The responsibility for opinions expressed in this publication rests solely with its author(s), and its publication does not constitute an endorsement by the ILO or the Government of the Federal Republic of Germany of the opinions expressed in it.

## International Labour Organization

ILO Building, G-5/2, Islamabad - Pakistan

P.O.Box: 1047, Tel: +92 51 2276456-8

Fax: +92 51 2279181-2

islamabad@ilo.org, [www.ilo.org/islamabad](http://www.ilo.org/islamabad)

**DECENT WORK**

**A better world starts here**

ISBN: 9789221312031 (print)

