



International
Labour
Organization

Pakistan's hidden workers

Wages and conditions of home-based
workers and the informal economy

A Snapshot



Introduction

This research was commissioned by the ILO as part of its Labour Standards in Global Supply Chains Programme, funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

Following research carried out by the ILO in 2015 on minimum wage processes and mechanisms in Pakistan, stakeholders adopted a series of recommendations setting out a road map for reform. This identified a number of data gaps and key areas in which further research was needed. The informal economy and in particular the position of home-based workers were identified as priorities.

The aim of the research was to map and trace supply chains in Pakistan's informal economy; to identify links between the informal economy and global supply chains in the textile and garment industries; and to assess the wage levels of home-based workers contributing to the informal economy. It is hoped that the approach adopted to calculate the working hours and wages of home-based workers will support the work of the minimum wage boards, particularly in Sindh, in expanding minimum wage protections to include home-based workers.

The report also aims to show the wage levels of women working within the informal economy in Karachi, Pakistan's largest city. While wage levels within the informal economy are universally acknowledged to be low, little evidence has been gathered in relation to actual levels of pay, particularly in relation to the most vulnerable section of the informal economy, home-based workers.

At the time of writing, Pakistan's unskilled minimum wage, across its provinces, was PKR14,000 per month. This report measures wage levels among Karachi's home-based workers against the statutory minimum level. It also sets out a methodology for wage calculations in the informal economy which builds on the approach adopted by the Sindh Minimum Wage Board in relation to its plan to notify wages for certain parts of the informal economy. The Sindh Minimum Wage Board began to develop this approach in 2015 in Hyderabad, where the province's glass bangle industry is concentrated. It is hoped that the development of this methodology will assist the Sindh Minimum Wage Board, as well as trade unions and employers' representatives, in ensuring that home-based workers are protected by Pakistan's legal framework on wages and working conditions.

Methodology

This report is based on research undertaken by a team made up of Dr Mi Zhou of Praxis Labs and Ms Zehra Khan, founder and General Secretary of the Home-Based Women Workers Federation (HBWWF). The research was conducted between May and December 2016. The methodology adopted for the mapping study and supply chain tracing was both qualitative and quantitative, combining a desk review, key informant interviews and a survey of 406 households in which home-based work takes place.

Although no census has taken place in Karachi since 1998, the population of the

metropolitan city was estimated to be 16.62 million in 2015 (ADB 2015). It was, therefore, not possible to undertake a comprehensive survey of home-based workers in Karachi. The research team, in consultation with the ILO, took the decision to test a methodology in one primary and one secondary area where a large number of home-based workers were known to be engaged in the textile and garment sector. Access to home-based workers, who are primarily female, is sensitive. Therefore, the selected areas were those in which the HBWWF has members, in order to assist in establishing the necessary levels of trust to gain access.

The primary area selected was Godhra Colony, New Karachi. Previous ILO research had identified the area as one containing a variety of elements in the informal economy, from a range of home-based work, godowns, middlemen and contractors to industrial units and larger factories. The area is clearly delineated, with a central residential area, interspersed with small godowns, and surrounded by main roads along which factories and industrial units are situated. Additionally, the HBWWF operates a small community centre within the area and its members are known to the local community.

A secondary research site, District West of Orangi Town, was also selected. This area is close to a larger industrial area with connections to the formal economy. The area is not one in which the HBWWF has significant membership, but a member with community contacts was identified and it was hoped this would provide the levels of access required.

Between July and September 2016, 406 questionnaires were administered, 314 in Godhra Town and 92 in District West in Orangi Town.

Supply chains in the informal economy

The research identified a complex web of relationships within the informal economy and links to the formal economy. The extent and degree of the linkages between the formal and informal economies in Karachi's textile and garment industry vary depending on whether the commodity chain is buyer-driven or producer-driven and on the intended final destination of the products.

The three most important and interrelated markets for textiles and garments produced in Pakistan are:

- 1) the domestic market;
- 2) the Gulf Cooperation Council (GCC) and regional markets; and
- 3) the US and European Union (EU) international markets.

The primary market for the informal sector in Pakistan's textile and garment industry is the domestic market. Although the supply to the GCC and regional markets is understudied, due to the opaque nature of the supply web, this report uncovers ways in which products manufactured in Karachi's informal economy enter into these markets, mainly through personal contacts and Pakistani diaspora residents. Links between the informal sector and the US and EU markets are limited due to nature of buyer-driven commodity supply chains.

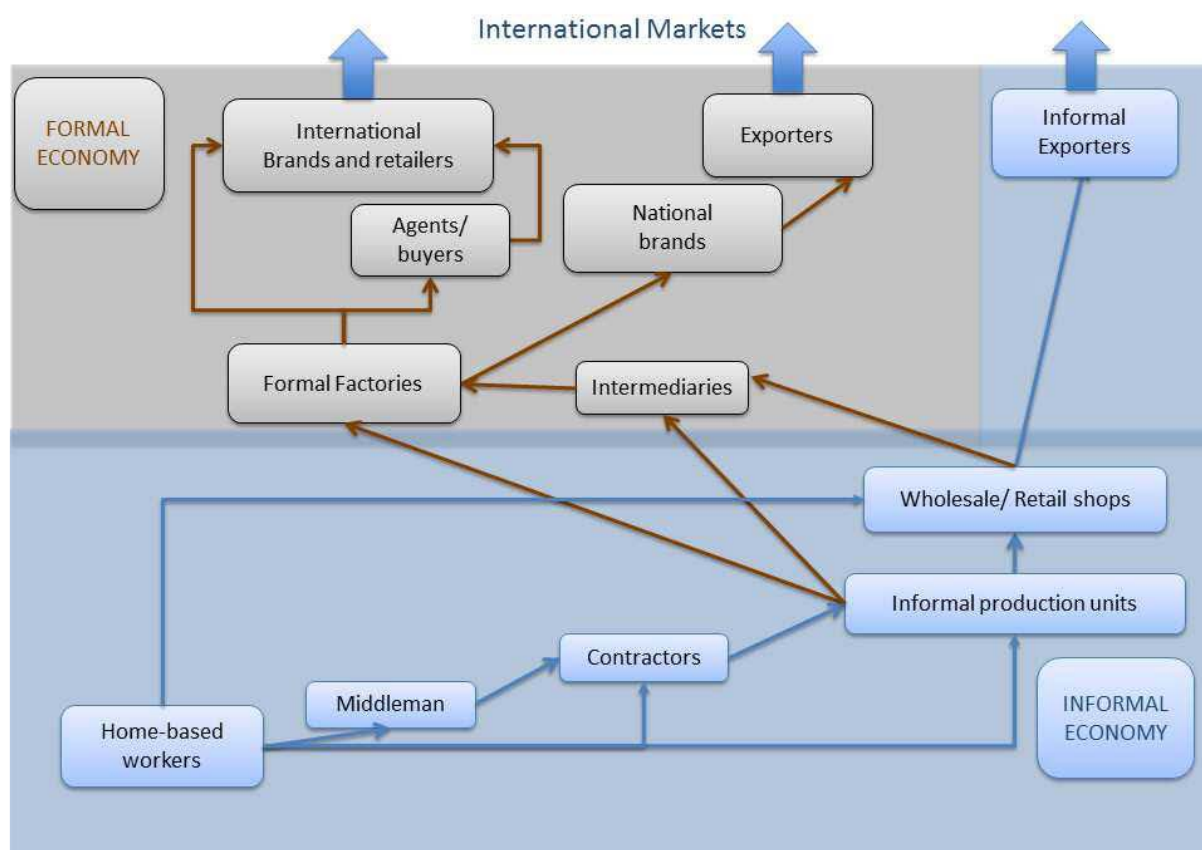
Major international brands and retailers adopt vertically integrated models of production and source directly from formal manufacturers that adhere to both international and national labour standards. Other brands, without direct supply arrangements, source from

intermediaries, whose involvement in the supply chain increases the likelihood of outsourcing to Pakistan’s informal sector manufacturers. As a result, there is evidence that some textiles and garments made by workers in the informal economy under conditions that violate international labour standards and national wage legislation are exported to destinations such as the US, the EU as well as elsewhere.

The informal economy in Karachi’s textile and garment industry is complex and the actors involved are diverse, multi-level and multifunctional. They include:

- informal enterprises that engage in production and distribution, including godowns, workshops, factories, shops, and wholesalers; and
- informal workers associated with these enterprises, including contractors who distribute work, middlemen and home-based workers.

The Supply Web



Actors in the informal economy often assume many roles to maximize opportunities for profit. Some informal workers are simultaneously own-account workers, home-based workers and sellers of their own products to wholesalers. As such, relationships between workers and informal enterprises can be simultaneously that of buyer-seller, employer-

worker and competitor.

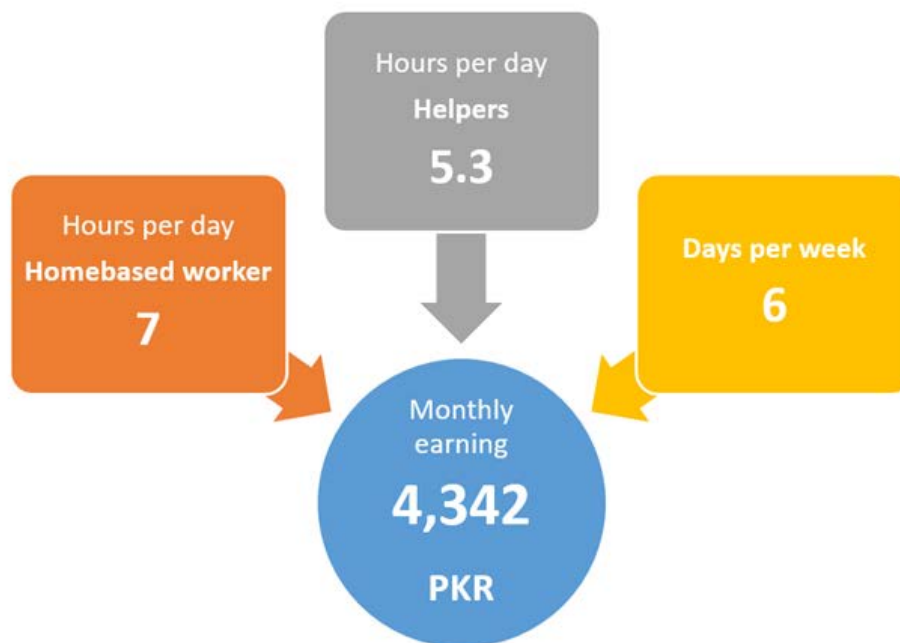
Production in the informal economy is fragmented and dispersed with increasing informality correlating to lower-value work and processes. Home-based workers in particular are generally given low-value and tedious tasks, such as cropping loose threads, basic stitching, beadwork, packing and labelling.

Although there were few male workers among the home-based workers surveyed, research revealed that some contractors explicitly favour male home-based workers for more skilled and higher value work, such as embroidery and hand-pressed beadwork. This contributes to the gender wage gap in Pakistan, which is partly caused by occupational sex segregation.

Home-based workers: work hours and wage rates

Placed at the bottom end of the informality continuum, home-based workers are chronically and significantly underpaid. On average, the home-based workers surveyed (and their helpers) work 12.3 hours per day, six days a week and derive a monthly income of 4,342 Pakistani rupees (PKR) from their labour (equivalent to \$41.42).

Hours and Monthly Income generated through home-based work

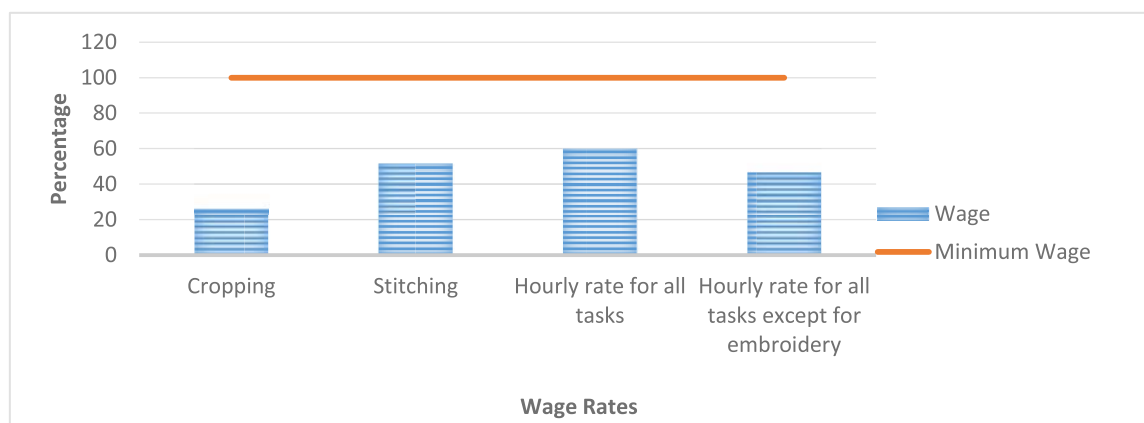


Their average hourly wage rate across all work types is PKR41 per hour (\$0.39), just 60 per cent of the current statutory minimum wage (PKR67.50 per hour in any working day). Cropping, the most common task distributed to home-based workers, is paid at about a quarter of the minimum wage rate.

Among the five most common work types, only embroidery work is paid above statutory minimum wage rates. Although the wage rate for embroidery varies dramatically depending

on the complexity of the design and the skills required, in general embroidery work sourced from godowns or factories directly can command statutory minimum hourly rates, whereas those sourced from contractors or middleman are usually paid below the minimum wage. The lack of standard wage rates for home-based workers perpetuates their underpayment.

Wage rates as a percentage of minimum wage



Source: Based on the findings of the field survey

Tellingly, the income of each home-based worker in the survey may have been overstated due to two factors. First, almost 60 per cent of home-based workers are assisted by at least one helper, mostly family members living in the same household, but earnings tend to be reported as a whole and not broken down to reflect the contributions of each individual. Second, the average household income may have been supplemented by the waged work of other family members and social security assistance.

Home-based workers have little bargaining power to negotiate for better wage rates, which are generally set by their intermediaries or contractors. Of the workers who attempted to negotiate better rates with their middlemen, 95 per cent failed. The main reasons include the workers' dependence on single sources of work and their lack of access to collective bargaining.

Almost all (99 per cent) of the 192 home-based workers who receive work from a contractor rely on just one contractor as their source of work and thus income. Only four workers had more than one source of work. This dependence on a single intermediary explains why only 11 per cent of the workers surveyed had ever refused a job order. Further, over 90 per cent of respondents did not know the correct statutory minimum wage. As a result, home-based workers' ability to influence their wage rates remains low.

To tackle the decent work deficiencies in the informal economy and improve the work conditions of home-based workers, it is crucial for the government to step up efforts to stipulate a minimum wage rate for home-based workers in the textile and garment sector, at least for commonly performed work, and enhance home-based workers' ability to negotiate for higher wages.

Conclusion

Karachi is home to many manufacturers that form part of the international commodity chain in textiles and garments. In Godhra Colony and Orangi Town, there are many large manufacturers of textiles and garments in designated industrial zones, as well as a plethora of smaller informal production units that are scattered near and within the residential areas where home-based workers live.

Although labour participation in the informal economy significantly outweighs that in the formal economy in Pakistan, informal enterprises and informal workers in Karachi have limited links to US and EU markets. Suppliers to international brands and retailers, particularly those in direct sourcing relationships, generally comply with international labour standards and national wage legislation. However, not all international buyers directly source from Pakistan. The involvement of one or more intermediaries in the supply chain increases the likelihood of outsourcing to manufacturers in Pakistan's informal economy. Even with goods for destinations such as the US and the EU, there is evidence that some exported textiles and garments are made by workers in the informal economy under conditions that are not compliant with international labour standards and paid below the statutory minimum wage.

The supply of products to the GCC and other regional destinations is relatively understudied, chiefly due to its opacity. Textiles and garments produced for the domestic market are often exported to the GCC and elsewhere in the region via informal channels through personal contacts and the Pakistani diaspora. Along this export route, the entire supply chain – from manufacturing to international sale to an end consumer – can take place in the informal economy.

While informal enterprises are involved in the production of textiles and garments exported to the US and the EU, as well as the GCC and other countries in the region, items produced by home-based workers primarily contribute to textiles and garments made for domestic consumption. This is partly due to concerns about quality control shared by both formal and informal enterprises.

The informal economy in Karachi is complex and the relationships between workers and enterprises and employers are not straightforward. There are many varieties of informal enterprises, including various units of production and distribution: godowns, workshops, factories, shops, wholesalers and others. Workers also have a variety of relationships with these enterprises: some act as contractors who distribute work, others as middlemen and others as home-based workers.

Actors in the informal economy tend to be multifunctional and take on many roles at the same time in order to maximize opportunities for profit. Some informal workers are simultaneously own-account workers, home-based workers and sellers of their own products to wholesalers. Relationships between workers and informal enterprises can be

simultaneously that of buyer/seller, employer/worker, and competitor.

In contrast to larger manufacturers in the formal economy, which have adopted vertically integrated models of production to ensure compliance with labour standards, production in the informal economy is fragmented and dispersed, with increasing informality correlating with lower-value work and processes. Home-based workers, in particular, are generally given low-value and menial tasks such as cropping and basic stitching. Anecdotal evidence in the informal sector suggests that a minority of male home-based workers are given higher value work, consistent with the gender wage gap in Pakistan which is partly the result of occupational sex segregation.

Home-based workers are chronically and significantly underpaid. On average, they are paid only 60 per cent of the statutory minimum hourly wage, regardless of the type of work they do. Cropping, the most common task distributed to home-based workers, is paid at 26 per cent of the minimum wage. Among the five most common work types, embroidery is the only one that can pay above minimum wage rates.

However, home-based embroiders are not always paid above the minimum wage. The wage rates for embroidery varies dramatically depending on the complexity of the design and the skills required. In addition, embroidery work sourced from a contractor or middleman generally pays below the minimum wage. Only embroidery sourced from godowns and factories directly can achieve piece rates above statutory minimum hourly rates.

A majority of home-based workers are helped by family members. Together, a home-based worker and their helper work 12.3 hours per day for six days a week and derive a monthly income of PKR4,342 (\$41.42) from their labour. The average household income, however, is significantly higher because it is supplemented by the waged work of other family members and some social security assistance.

Home-based workers have a limited ability to negotiate for better wage rates. Only four workers from the household survey had more than one source of work. Almost half of all home-based workers are reliant on contractors and 99 per cent of them rely on only one contractor for work and thus income. Most home-based workers rely on contractors or middlemen who live within the same area or were introduced by a relative or neighbour. Only 11 per cent of the workers had ever refused a job order. While nearly half of home-based workers tried to negotiate better rates with their contractors, only 8 per cent of them succeeded. Their ability to increase their wage rates is also limited by their lack of knowledge: 92 per cent of workers surveyed did not know the correct statutory minimum wage rates.

In order to address the decent work deficiencies in the informal economy, the Government of Sindh should make efforts to significantly increase the wage rates of home-based workers by using time-based wage data. Notification of piece-rate minimum wage rates for home-based workers in the textile and garment sector for commonly performed work, such as cropping and stitching, could have a significant impact in improving their working conditions. Government action is also required as home-based workers face considerable challenges in negotiating for higher wages.

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