



BUSINESS STRATEGIES FOR A CHILD LABOUR-FREE JAIPUR

The Opportunity for Jaipur Handicrafts to Shift from a Low-Productivity to a High-Productivity Production System

EXECUTIVE SUMMARY

October 2018

Acknowledgements

We would like to thank the Freedom Fund for giving us the opportunity to carry out this study. Since the inception of the study, the comments from Ginny Baumann, Deepika Allana, Manisha Jani, and Amol Mehra, at each level, were very insightful and indeed helped us in making this report more constructive.

This work would not have been accomplished without the help of the actors along the three value chains, who very openly talked to us and shared their views with us. The team is also grateful to the various government and non-government stakeholders in sharing their views to help us understand the complexities in this sector. We would also like to thank the people from the tourism industry who helped us in understanding the tourism market. Childline Jaipur has been kind enough to share their experiences with us. We are thankful to them.

We take this opportunity in thanking the various association members in these sectors, jewellers, designers, and industrialists, with whom we had long discussions on how to make Jaipur child-labour-free. Last but not the least, our heartfelt thanks to the children from whom, in our other responsibilities, we gained insights about their work environment and the problems they faced.

RESEARCH TEAM

Dev Nathan
Varsha Joshi
Asha Wadhvani
Desh Raj Singh
Ramesh Sharma
Lakshmi Bhatia
Govind Kelkar

Executive Summary

INTRODUCTION

According to the 2011 Census of India, Rajasthan is the state with the third-largest number of child workers, that is, those below 14 years of age, and Jaipur has the largest population of child workers. The vast majority of child workers are involved in certain sectors of the handicraft industries for which the state and the city are famous.

The objective of this study is to formulate business strategies that can be carried out in order to create a 'child labour-free Jaipur'. The proposed business strategies are mainly actions that can be implemented by businesses in changing their production processes based on cheap child labour to one that is based only on higher wage adult labour, of both men and women. In order to arrive at possible strategies, we carried out a study of the value chains or production networks involved in the production and marketing of handicrafts. Based on a rough estimate of the number of child workers and the importance of the product for the economy, three handicraft products were chosen for this study – lac bangles, which in our estimate, has the largest number of working children; manufacturing or cut and polish gem stones, which is second in number in the use of child workers; and embroidered garments (known as *aritari* and *zardozi*), which comes third. Besides having a large number of children involved in production, gems and gem-based jewellery are also a major export for which Jaipur is well known around the world.

Within each of the products there are two market categories – high-value and low-value items. The latter has large, mass markets, whereas the former has smaller, niche markets. The low-value items are also subject to price competition from machine-made products, either domestically produced or imported, for example, from China. It is in the high-value items that there is a premium for handmade products, and Jaipur handicraft businesses are confident of holding their own against competition. For products at the low-end, there was a general feeling of crisis due to increased competition from machine-made products and a stagnant market. It is in this pervasive atmosphere of a crisis in the handicraft sector that this report needs to be considered.

The use of children in certain sectors is not just a crisis for those children; in the face of competition, even that option is not really a long-term survival strategy for those sectors. Child labour gets the sectors trapped in a low-productive, low-wage production system, one which is increasingly unable to compete on price with mechanized production. A strategic transition is needed whereby Jaipur puts itself in a strong position to enable its child labour-free products to better compete in the national and international markets.

The study utilized a combination of primary and secondary data. Primary data were collected through interviews with more than 150 persons in various parts of Jaipur and a few in Delhi. Wholesalers, retailers, and exporters were interviewed, a sample of five each from each of the three sectors. Designers, as well as artisans in these trades, and owners or managers of businesses that were known to have taken steps to eliminate child labour in their production networks were also interviewed. Discussions were held with officials of various different government offices and business associations. As many of the study team members have been involved, over many years, in actions to end child labour, the research team was able to utilize its connections around the city and collect and cumulate the dispersed knowledge of locally knowledgeable individuals. There were also discussions with ex-child workers in order to understand the extent of work that they do.

VALUE CHAIN ANALYSIS

The first step was to map the value chains of the selected products, estimate the distribution of income along the chains, and identify the lead firms or strategic actors.

Table 1: Income distribution along the Value Chain (%)

Bangles (Cold Lac)		Embroidered Garments (Low-end)		Gem Stones (Semi-precious)	
Task/Segment	Share	Task/Segment	Share	Task/Segment	Share
Raw Material	15	Raw Material	20	Import cost	50
Manufacture	20	Manufacture	20	Shipping	5
Wholesaler (local aggregator)	15	Wholesaler	25	Importer profit	5
Wholesaler	20	Retailer	35	Manufacture (cut-polish)	15
Retailer	30	Total	100	Profit on sale	25
Total	100			Total	100
				Tour Agencies	40
				Tourist Total	140

Source: Field discussions

The manufacturing segments, where child labour is concentrated, get a small share of the income, from 15 to 20 per cent. The artisan-cum-workshop owners are both women and men.

The wholesalers and retailers in the case of embroidery and bangles secure about 50 to 60 per cent of the price. Importers/exporters in the case of semi-precious stones get about 30 per cent of the price as profit, including both their 5 per cent profit as importers and the subsequent 25 per cent profit on the sale of cut stones. The unit price of semi-precious gem stones is much higher than for bangles or embroidery. The distribution of income in high-value products is even more skewed towards the wholesaler, retailers, and designers for embroidery and bangles and the importers/exporters for gem stones. More details of income distribution in the value chains are available in the full report below.

Those who earn the largest share are also the strategic actors or lead firms, meaning those who govern the value chain, setting its standards and marketing the finished goods. They provide the inputs (raw materials) or specify the inputs to be used and get the finished product with the manufacturers or artisans being paid on piece-rate basis for manufacturing costs. Some artisans may also design the products, buy inputs, and sell the output, in a sense as self-employed persons. But the volume of such non-contracted work is quite low, around 10 to 15 per cent of the total production volume.

For any intervention strategy, it is important to note that the contracting relationships are quite stable, with manufacturers working regularly for a few lead firms. The buyers perpetuate these stable relationships by holding back a portion of the manufacturers' dues, forcing them to come back for the next round of business or risk losing the amount held back. These stable contracting relationships would make it easier for 'child labour-free' interventions to be moved along the supply chain.

In addition, there are also international buyers, particularly in gem stones, but also in embroidered home furnishings. They contract the Indian jewellers and embroidered furnishings makers. Some large buyers of gem stones do have policies of adhering to the UK Modern Slavery Act and similar laws. But the main focus seems to be on eliminating forms of forced labour and not on child labour.

We take contracted or sub-contracted work as the norm in the manufacturing segments in these value chains. The elimination of child labour from these value chains must then be taken as a joint responsibility of those who govern the value chain (the international buyers, Indian wholesalers, retailers, designers, and jewellers) and the workshop owners, who are the direct employers of child labour.

CHILD LABOUR

Child labour is present in the manufacturing segments, carried out in largely unregistered workshops, often combined with the homes of the artisan-owners or located within the residences of designers and havelis of jewellers. However, there is a difference in the incidence of child labour in the high-value and low-value products. Low-value products are also low-skill products. In the case of bangles, the low-value products are the cold lac bangles, in which there are large numbers of largely trafficked children from Bihar, Uttar Pradesh, Jharkhand, Chhattisgarh, and West Bengal. In the low-value embroidery and cut-polish of semi-precious stones sectors, a number of children are involved, most of whom are trafficked, though some family children are also included. Some lump-sums are paid to the parents of these trafficked children. They are also supposed to be paid regular monthly salaries, and often even promised schooling, but neither is fulfilled by the employers. These trafficked children are usually passed off as being close relatives, since the child labour law allows children to work with their families. In the case of trafficked children in low-value products, the business strategy is quite clearly that of reducing costs, through using low-wage child labour rather than adult labour.

In high-end products, the skill requirements are also higher and there is a risk of substantial loss when using young children. In these high-end products, for example, hot lac bangles and complex embroidery, there is a tendency for artisans to employ their own children, partly in order to pass on the skills and partly in order to increase the family output. But at the highest skill level, for example, artisans making jewellery and master craftsmen (*ustads*), they do not employ their own children. They see their own children's education as essential to mobility or upgrading of their own businesses in future. However, in this scenario, there is a discrimination against girl children, whose education is not given as much importance as that of the boys.

BUSINESS STRATEGIES RECOMMENDED FOR THE CHILD LABOUR-FREE JAIPUR PROGRAMME

The employment of child labour is itself a business strategy, an attempt to reduce wage costs and overall production costs by using ultra-low-wage children. But as shown by the growing share of machine-made products, such low wage labour does not necessarily make the producer competitive. Nevertheless, substituting child with adult labour will increase wage rates. This will have to be compensated through increased productivity, or higher quality, so that unit costs do not increase.

For high-value products, the business strategy would need to be different. There is a need to preserve the hand-made character of the product. Reducing unit cost is not so much of a concern as the preservation of complexity and quality.

Furthermore, business strategies cannot work in isolation. They would need supporting actions from the communities of the artisans, civil society, and the government.

Keeping the above factors in mind, we propose the following strategies, which are different for scenarios involving children as wage employees and those involving children as part of family labour. Actions are grouped together depending on whether they are to be undertaken by businesses, the government, or the community.

BUSINESSES

A-1: International buyers, jewellers in particular, to be primarily accountable for the use of child labour in contracted production and other purchases along the supply chain

A-2: Establish joint responsibility of international buyers, Indian exporters, and other lead firms along with workshop owners, for employment of child labour in supply chains

A-3: Mechanization or semi-mechanization of low value products amenable to mass production

A-4: Develop a 'child labour-free' label

A-5: Encourage declaration of support for 'child labour-free' products by designers, jewellers, producers, and traders

A-6: Organize artisans in groups to secure loans for them to become self-employed, thereby increasing their incomes by direct sale to exporters, wholesalers and retailers

A-7: Involve tour agencies in promoting only stores with the label 'Child Labour-free Products'

GOVERNMENT

B-1: Classify artisanal work as high skilled and increase their minimum wage

B-2: Increase the cost of employing child labour by increasing the risks and likelihood of penalties for employing child labour

COMMUNITY

C-1: Start women workers' community centres and crèches in areas where there is a risk of child labour employed within the family

C-2: Mobilize women and other key community opinion makers to speak and act against child labour

C-3: Establish craft education in schools

C-4: Mobilize children and communities to check on absence from school

C-5: Involve multiple stakeholders in developing initiatives

The immediate employers of child labour are the workshop owners. However, as pointed out above, the lead firms are the wholesalers, retailers, designers, importers/ exporters, and, most importantly in some sectors, such as gem stones, the international buyers. The Indian legal system does not have well-developed instruments to deal with accountability in supply chains. But the 'child labour-free' label can be used to require the lead firms to carry out due diligence with regard to employment of child labour along the supply chain, as is required in the United Nations Business Guidelines on the responsibility of businesses, of whatever size, to respect human rights. Of course, there is also an expectation that all businesses will abide by the Indian laws, particularly that on the employment of child labour.

In formulating the manner in which responsibility can be developed, it is necessary to bring business associations of different levels into the discussion in setting up viable systems of responsibility and accountability. These actions do not exclude each other, rather they could be used in combination. In support of the above business interventions, it would be necessary to have some community, civil society, and government measures.

