



Multi-stakeholder Initiative to end Child Labour and Improve Trade in the Surgical Instruments Sector

Background and Rationale

Pakistan is a major exporter of surgical instruments to Europe and the USA. These are procured by public health authorities through various private sector suppliers, agents, and exporters and used in public and private hospitals and health clinics.

Several studies over the past ten years have revealed incidence of child labour, exploitation and abuse of workers taking place in the supply chains. Whilst there have been improvements and greater compliance with international labour standards from exporting factories in Sialkot, Pakistan, there is little visibility or oversight of the lower tiers of the supply chain where child labour and modern slavery conditions are still prevalent. This scenario presents significant risks for public bodies and their suppliers that have stated commitments and legal obligations to ensure ethical procurement of goods and services.

In Pakistan, there are some export-oriented factories for Europe and US markets that have worked hard to improve working conditions and ensure that child labour is not present. However, surgical instruments involve multiple processes (some involve 40 stages, some of which are highly skilled), and there is a recognition that the risk of exploitative working conditions is high in the lower ends of the supply chains.

Even the most responsible businesses acknowledge that they have little oversight or leverage to manage the risks of child labour and modern slavery further down the supply chain. In addition, the factors that give rise to exploitative practices are complex and context-specific. These are also driven by highly competitive and price-sensitive markets, in which purchasing practices and business models play an important part. The wider context of poverty, unemployment and inadequate access to education and social protection also plays a critical part. In such environments, vulnerable workers are susceptible to exploitation and abuse as they are desperate for an income (almost at any cost). This is not unique to Pakistan, and these issues are increasingly being recognised at an international level. In any event, it is impossible for a handful of companies to manage these endemic risks on their own.

Addressing these issues will need to involve collaboration and engagement with all the key stakeholders – international buyers, local businesses – trade bodies, industry associations, suppliers, agents, vendors, traders, as well as international and local civil society organisations and trade unions.

Aims

- To conduct a research study that identifies the key risks of child labour and modern slavery in the surgical instruments supply chain, and
- To establish a multi-stakeholder initiative to help eliminate exploitation and abuse of workers, improve business practices and trade opportunities in the surgical instruments sector in Sialkot, Pakistan.

Outcomes

Four inter-connected outcomes are intended:

1. Improved labour standards for workers in the surgical instruments sector of Sialkot, and prevention of exploitation and abuse of children and adults in this sector;
2. Improved business practices, increase trade and export opportunities and international reputation for the surgical instruments businesses operating in Sialkot;
3. Identified strategies to address the key factors that may contribute to the risks of child labour and modern slavery in the entire supply chain – involving buyers and their business practices as well as capacity to improve working conditions and increased rights for workers;
4. Improved trust, understanding and transparency between buyers, suppliers, vendors, traders, relevant government departments, civil society organisations and trade unions to build a common vision, ownership and sustainable change.

Success in achieving the aim and objectives of this programme should also help to restore confidence in Pakistan's surgical instruments supply chain, boost exports, and become a source of decent work opportunities for thousands of men and women in Pakistan. This programme, if adequately resourced, should include a robust monitoring & evaluation component so that insights, lessons and approaches could be applied, adapted and scaled in other contexts.

Activities

Four areas of activity are underway:

1. Research Studies

ETI is leading a research programme, in partnership and consultation with international partners and local stakeholders. The Pakistan Institute for Labour Education and Research, PILER, ETI's strategic partner in Pakistan, is overseeing this work and is in four parts:

- i. A due diligence study of child labour and modern slavery risks and incidence in the surgical instruments sector in Pakistan to uncover where child labour and modern slavery practices exist in the supply chain. It includes an overview of labour standards in Sialkot where surgical instruments are being produced; a labour market analysis of the types of exploitation and abuse are practiced; the root causes of these practices; where the greatest risks are located in the supply chain and where they are physically located.

- ii. A supply chain analysis of surgical instruments that may originate in Pakistan or be part-produced in Pakistan and sold on the European market, analysing costs and workers' wages in the whole supply chain from raw material to sale of final product
- iii. A local stakeholder capacity assessment to establish which Pakistan-based institutions have the expertise, skills and capability to monitor, build capacity of stakeholders that will help to change business practices and eliminate the risks and incidence of child labour and modern slavery in the surgical instruments sector.

2. Develop a Strategy and Road Map with local and international stakeholders

Several advisory and consultation forums have been established:

- A Local Steering Committee in Sialkot has been established comprising industry bodies, manufacturers, NGOs, trade unions and government officials in trade and commerce departments. They have agreed the Terms of Reference for the study and will discuss findings and implications
- An International Expert Advisory Committee has been established comprising experts, researchers, policy makers and practitioners
- An international Stakeholder Forum comprising the commissioning bodies for this research. They include public health buyers, suppliers and agents with a strong interest in working collaboratively to address these issues on a long-term sector-wide basis

Based on the findings of the research and discussion of the implications and issues raised, the key stakeholders will jointly develop a Road Map and Strategy for action with clear timelines, roles and responsibilities, and a monitoring and evaluation framework established to assess progress against milestones. They include international buyers and public health procurement bodies; international and local suppliers and export agencies; local and international industry bodies; government officials (international and in Pakistan (e.g. health bodies, trade, labour); parliamentarians, civil society organisations; trade unions and others.

3. Produce guidance and identify priorities for capacity building

- i. Produce an agreed labour standards assessment tool that can be used / adapted by purchasing bodies that could be completed annually demonstrating year-on-year progress, with mechanisms to check and verify information. This will require review of current procurement policies, requirements and purchasing practices, decision-making, monitoring and oversight systems, and identifying what changes could be made to better manage risk. This should reward and incentivise good practice.
- ii. In due course (subject to funding availability), local partners in Sialkot would produce guidance agreed by local partners in Pakistan on the systems, policies and steps that should be taken to prevent, mitigate and manage the risks and incidence of child labour and modern slavery. It would include a step by step guidance on what to do when child labour is found, appropriate protections and remedies.

ADDITIONAL BACKGROUND

Sialkot Surgical Instruments Sector

Pakistan is a leading exporter of surgical instruments globally, most of which are produced in the Sialkot area. Sialkot is a hub of industrial clusters producing sports goods, leather goods and surgical instruments for local and foreign markets. Whilst some factories are sophisticated production centres, most of these industries rely on family-owned, cottage-based, informal units. They often depend on a semi-literate, semi-skilled workforce operating in precarious conditions under weak state regulatory mechanisms.

In the past 12 years, there have been a number of studies and media exposes by SwedWatch, the BMA and other studies that found widespread use of child labour and exploitative working conditions in and around the Sialkot area.

Widespread child labour was also widely reported in the sporting goods, football production sector which saw many international brands and retailers exposed in the media and efforts were made to address this through a multi-stakeholder initiative with the development of local monitoring capabilities and the constitution of the Independent Monitoring Association for Child Labour (IMAC). There is more information on this later.

It is estimated that Sialkot produces more than 170 million surgical instruments every year. It manufactures over 20,000 different medical and veterinary instruments, covering all segments (including general surgery, dental surgery, orthopaedic, ENT, gynaecology, diagnostic and hollowware) with a focus on conventional hand held instruments out of stainless steel. There are around 3,000 companies – the largest units employing around 450 people, and the smaller ones employing around 15 people.

Whilst concrete improvements could be observed at surgical instruments suppliers in Sialkot that export abroad, there has been little or no change in relation to the vendors to these factories. Gross exploitation continues to be prevalent lower down the supply chain – from steel furnaces to the manufacturing of parts (forgings and semi-finished products). There is little visibility or oversight of working conditions in the supply chain where production processes are often outsourced to small sub-contractors operating small backyard family-run units in Sialkot and neighbouring towns. The main processes in the manufacture of surgical instruments involve die making, forging, filing, grinding, machining, polishing, heat treatment, fitting and passivation surface treatment.

Many Pakistani manufacturers of surgical instruments in Sialkot keep prices low to remain competitive. It is common that the initial production steps are carried out by workers employed in small workshops or their own homes, and final stages of finishing and quality checking of the product are done in factories – either in Pakistan or in Tuttlingen, Germany, where quality is checked against European Union and US standards before final sale.

Subcontracting minimizes company overheads and lowers costs, but, because subcontractors are not employees of the company and competition is aggressive, it drives

down wages and health and safety standards. Subcontracted semi-skilled manual workers are paid per instrument, and the average worker is estimated to earn around \$2 a day. They have no job security or guarantee of income and no medical insurance or provision of education for their children.

Exporting factories in Sialkot mostly sell to overseas surgical instruments manufacturers (often located in Tuttlingen, Germany) who will sell the products to end customers (predominantly in the US or Western Europe), most often via public procurement tenders and likely with a considerable mark up. It is difficult to estimate the mark-up – anecdotal evidence ranges from a ratio of 1 to 80 according to some reports, and 1 to 5 in others. That will be the purpose of the value chain analysis to better understand costs and wages across the entire supply chain.

Child labour, exploitation and abuse of workers has been found in the surgical instruments sector and supply chains, so are not unique to Pakistan. As such, this initiative should provide helpful analysis and insight on how to identify and mitigate risks in the supply chain that could be applied and adapted for other contexts.

Pakistan's labour laws, trade status and international commitments

A large proportion of the workforce in Pakistan is exempt from labour laws (notably informal workers, accounting for over 70% of the workforce) for instance. Trade union rights are limited throughout the country and actually prohibited in export processing zones. The minimum wage does not apply to a significant segment of the labour force, including the informal sector, domestic and agricultural workers.

Pakistan also ranked sixth on the Global Slavery Index 2014 where child labour was most prevalent, with an estimated 12m child labourers, nearly half of whom are working in dangerous conditions. Provincial Governments have yet to establish a minimum working age, and the federal minimum age for hazardous work (14) falls short of international standards. There is also a significant gender pay gap, particularly in the apparel sector, and discrimination within the workplace is allegedly very common.

Pakistan benefits from GSP Plus status – aimed at boosting economic growth, trade and political stability for preferential tariff-free trade with the EU. To qualify for this status, Pakistan is bound to demonstrate commitment to and implementation of human rights protections for its citizens and workers. These include core labour rights as enshrined in the ILO's Fundamental Principles and Rights at Work, to which Pakistan and all ILO member states are bound. To date, Pakistan has been challenged by the EU in failing to meet these obligations, but has managed to maintain this status for another two years. Over this period, the private sector and government will need to increase their efforts or they are likely to lose GSP+.

Pakistan is also bound by international commitments made to meeting UN Sustainable Development Goal 8.7, which calls on governments, companies and civil society to “take immediate and effective measures to eradicate forced labour, end modern slavery and

human trafficking and secure the prohibition and elimination of the worst forms of child labour... and by 2025 end child labour in all its forms”.

Internationally, there are a growing number of laws and regulatory requirements by governments in relation to the private sector to improve ethical standards and due diligence, pushing companies to demonstrate with robust evidence what steps they are taking to better manage, mitigate and prevent child labour and modern slavery risks, conduct due diligence, and increase transparency in their supply chains.

There is also greater scrutiny by investors, parliamentarians, the media, academics, watchdog bodies, civil society organisations, trade unions, members of the general public, and international organisations, using smart technology and other means to capture real-time information. Evidence that sheds light on child labour and modern slavery can ruin the reputation of companies and their ability to trade within minutes, but at the same time, responsible business practices are increasingly becoming recognised and commercially incentivised where they are able to demonstrate improved that ethical practices.

There is also strong evidence that responsible businesses are more sustainable and successful in the longer-term. When workers are treated with dignity and respect, they are more productive and loyal to the business, staff turnover is reduced, disruption minimised, and companies can rely on greater security of supply of goods and services.