



RESEARCH AND EVIDENCE PAPER 8

INFORMAL ECONOMY PERSPECTIVES ON THE PREVALENCE OF WORST FORMS OF CHILD LABOUR IN BANGLADESH'S LEATHER INDUSTRY

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ABOUT THIS RESEARCH AND EVIDENCE PAPER

The CLARISSA programme aims to understand the dynamics that are central to running a business in the informal economy in Bangladesh's leather industry and explore how and why worst forms of child labour become a feature of business operations. This research paper explores the findings from semi-structured interviews with business owners operating enterprises involved in leather processing and production across three prominent neighbourhoods and business districts in and around Dhaka. A focus on the leather industry in Bangladesh is an opportunity to explore the demand side of the child labour issue in a situated way, with the intention of bringing the lived experience of business owners to pre-existing literature on poverty entrepreneurship, supply chain governance, and political economy.

The paper details the risks and stressors business owners face, the relationships they have with other informal and formal enterprises in the supply chain system, and their rationale for hiring children. Business owners experience poverty and financial precarity, taking significant financial risks to sustain enterprises that are barely viable economically. Stuck in vicious operating cycles, on 'produce now, pay later' credit arrangements, enterprises respond by squeezing labour budgets. The need for cheap labour is amplified by price points at lower than the cost of production. To understand why child labour has been so difficult to 'end', an informal economy business perspective points to the economic dysfunction of complex supply chains, particularly mediated by downward financial pressures produced and reproduced by highly fragmented manufacturing processes in cost-driven markets. When poverty and precarity among informal economy business owners intersects with formal economy power, the result is business models that rely on children as cheap labour.

The findings make clear the policy value of engaging business owners in the informal economy in efforts to reduce worst forms of child labour, especially given the insights they can offer about how, when, and why supply chain systems are at risk of depending on children for the provision of goods and services.

Child Labour: Action-Research-Innovation in South and South-Eastern Asia (CLARISSA) is a consortium of organisations committed to building a participatory evidence base and generating innovative solutions to the worst forms of child labour in Bangladesh and Nepal.

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ABBREVIATIONS AND ACRONYMS

BDT Bangladeshi taka

BIDA Bangladesh Investment Development Authority

CLARISSA Child Labour: Action-Research-Innovation in South and South-Eastern Asia

COEL Centre of Excellence for Leather Skill Bangladesh

CWISH Children-Women in Social Service and Human Rights

GDP gross domestic product

GUC Grambangla Unnayan Committee

IDS Institute of Development Studies

ILO International Labour Organization

NGO non-governmental organisation

NPA National Plan of Action

UNICEF United Nations Children's Fund

WFCL worst forms of child labour

WIEGO Women in Informal Employment: Globalizing and Organizing

WOFOWON Women Forum for Women in Nepal

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ASSESSING THE QUALITY OF CLARISSA'S EVIDENCE IN THIS PAPER

The CLARISSA programme is committed to producing high-quality research and explaining the robustness and credibility of the methods that underpin the production of evidence. CLARISSA has developed criteria to assess the quality of its evidence along four dimensions: representativeness, triangulation, transparency, and new knowledge. A summary of these dimensions is included in Table 1. A separate report describes the difference

in a 1, 2, 3, 4, and 5 assessment for each dimension (CLARISSA 2023).

Four researchers across two countries and two institutions gathered for one and a half hours to discuss the quality of evidence in this report in relation to the research design, process, insights, and analysis. Table 1 documents the assessments and the reasoning behind the assessment.

Table 1: Quality assessing CLARISSA's evidence in this paper

Dimension	1	2	3	4	5	Reasoning behind the assessment
<p>Representativeness Representativeness refers to the extent to which the voices of those affected by the issue are central in the evidence that is presented. This includes how critical actors have participated in the different parts of the process that have generated the evidence (design, data gathering, analysis, presenting) and how the nuance of their experiences and perspectives is expressed in the evidence claims.</p>					●	<p>CLARISSA researchers have assessed this report as 4.5 for representativeness. This paper interviewed business owners representative of different parts of the supply chain system in Bangladesh's leather industry across three different locations (Hazaribagh, Hemayetpur, and Bhairab) to represent the real scenario of small enterprises in the informal economy and why they hire children. Following interviews with 35 business owners, three in-depth workshops took place in three different locations with business owners, 19 of whom were new to the study, and focused on validating and deepening insights in the interview data according to business owners' lived experience. Additional insights and reflections from these workshops are woven through the 'Findings' section, often as direct quotes.</p> <p>The research design, data collection, and analysis was undertaken by CLARISSA researchers. To score a 5 on this rubric, business owners would need to have a high level of agency in the research process; for example, being involved in the data collection and data analysis stages of the research.</p>

Table 1: Quality assessing CLARISSA's evidence in this paper (cont.)

Dimension	1	2	3	4	5	Reasoning behind the assessment
<p>Triangulation Triangulation helps ensure a degree of consistency and bias control. Given that all sources of evidence have some degree of bias, it is important that researchers have sought multiple perspectives from different stakeholders, corroboration across multiple data sources, and/or triangulation across different studies and tools to check for consistency of findings.</p> <ul style="list-style-type: none"> • 'Multiple data sources' refers to the person(s) who provided the evidence. • 'Multiple lines of evidence' refers to different methods by which data is generated. 				●		<p>CLARISSA researchers assessed this report as 4 for triangulation. Evidence was provided by multiple data sources (business owners from different locations and processing steps in the leather supply chain system, within one constituent group). This report does not include the perspectives of children and other stakeholders, including business owners in formal economy or regulatory authorities.</p> <p>The evidence base was generated from two discrete lines of evidence – the interviews and the validation workshops – and these lines of evidence involved different business owners.</p> <p>To achieve a 5 for triangulation, additional validation workshops could run with different stakeholder groups, or new lines of evidence from business owners could have been combined with this data set.</p>
<p>Transparency Transparency entails that we know as much as possible about where the evidence comes from, who collected it, and how it was collected. For this, some details should be provided on what the sources of data are, the methods used, results achieved, and any key limitations in the data or conclusions.</p>					●	<p>CLARISSA researchers assessed this report as 5 for transparency. The 'Approach and methods' section provides detailed information on the sources of evidence and data collection method. The choices and adaptations that were made to the research design and data collection are also clearly explained. A 'Scope and limitations' section outlines data limitations, and the data is recoverable by CLARISSA team members. Direct quotes are used extensively throughout the paper to illustrate the findings.</p>
<p>New knowledge The methods that we use in CLARISSA aim to uncover new insights and underlying patterns in the system. We aim to gather evidence on patterns that we, or other stakeholders, are aware of, but for which there is less evidence or which does not currently exist as 'common' knowledge in 'the field'.</p>				●		<p>CLARISSA researchers assessed this report as 4 for new knowledge. There is limited literature on the leather industry and child labour that has focused on the day-to-day realities and challenges of running a business in the informal economy. This research provides in-depth insights into the functioning of the different types of businesses, the work children are doing within them, the pressures business owners face, and the trade-offs they make that can lead to the emergence and perpetuation of the worst forms of child labour.</p> <p>We learned enough through this study to reframe the conversation about the centrality and importance of informal economy perspectives in efforts to reduce the worst of child labour. However, further research with different stakeholder groups will allow the dynamics between informal and formal economy enterprises to be elicited more clearly, as well as between informal economy enterprises and government actors.</p>

Source: Authors' own.

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Section 1:

INTRODUCTION

1 INTRODUCTION

It is widely believed that the Covid-19 pandemic has increased levels of child labour, putting at risk the progress made between 2000 and 2020 (ILO and UNICEF 2020). For example, a national child labour survey in 2022 found a slight increase in the number of working children in Bangladesh post-pandemic compared to 2013 levels (ILO 2023), casting a shadow on Target 8.7 of Sustainable Development Goal 8 to end child labour in all its forms by 2025 (ILO 2018). On the demand side, the global trend is linked to expansion of the informal economy following the closure and financial collapse of formal enterprises and institutions (Elgin *et al.* 2022; Moussié *et al.* 2021). On the supply side, those already working in small informal enterprises on low production-based wages, with limited savings and access to financial assistance, could not respond to the Covid-19 pandemic without engaging children in work (ILO and UNICEF 2020).

In 2020, the International Labour Organization (ILO 2020) called for efforts to centre the voices of women and men in the informal economy so that governments could better understand the diversity of their situations, needs, and perceptions, as individuals and business owners. Around the same time, the CLARISSA (Child Labour: Action-Research-Innovation in South and South-Eastern Asia) programme published two scoping studies (Maksud *et al.* 2021; Aked 2021) identifying a knowledge gap around the financial pressures faced by owners of small enterprises in the informal economy and the business strategies that lead to children's involvement in the worst forms of labour. The papers argued for further work which learns from business owners in the informal economy.

This paper presents findings from informal economy actors about the prevalence of worst forms of child labour in Bangladesh's leather industry. The focus on leather is not intended to provoke an industry-specific response to eliminating child labour, as this will likely move the problem of worst forms of child labour to another industry. It is to create an opportunity to explore the demand side of the child labour issue in context, with the intention of contributing to pre-existing literature and studies on the business dynamics that make any industry, sector, or supply chain system sensitive to the use of worst forms of child labour.

Thirty-five semi-structured interviews were conducted with business owners of informal cottage enterprises (family-run and fewer than 16 workers), micro-enterprises (employing

16–30 workers), and small enterprises (employing 31–120 workers) in the leather sector in Dhaka, Bangladesh. Together, the male and female business owners hired 462 workers, of which 10 per cent were children. Researchers assume the number of children reported is quite low (a) because of under-reporting and (b) because interviews took place during October (2021), when employment of children in the leather sector is typically lower than in peak periods. Of the sample, 80 per cent of the businesses supplied domestic markets and 20 per cent supplied international buyers – either producing for export directly or indirectly through agents, local buying houses who interface with international brands, and subcontracts with formally registered factories.

The research process incorporated business owner perceptions with their analysis of the findings. Following the interviews, the business leaders were brought together in workshops to validate and deepen the research team's analysis. In doing so, the business owners provide critical insight into the dynamics of the leather supply chain system which make it difficult for them to run an enterprise that is both profitable and a provider of decent work. In the 'Findings' section, the paper presents what we learned about (a) the characteristics of small enterprises in the informal economy that hire children, (b) the supply chain system that creates a demand for child labour, and (c) the informal–formal business relationships that increase the likelihood of child labour.

The 'Discussion' section explores how poverty and precarity among informal economy business owners intersects with complex and fragmented supply chain systems to create business models that rely on children as cheap labour. To our knowledge, this is the first time that a study has collected evidence to link the issue of child labour to the concept of 'necessity entrepreneurs', who start small enterprises to survive (Brewer and Gibson 2014). The discussion also links the use of child labour to the liability of poorness framework which explains the additional barriers entrepreneurs experiencing poverty navigate to sustain a viable business (Morris 2020), and previous studies of informal entrepreneurship as routes out of poverty (Sutter, Bruton and Chen 2019).

The business owners also suggest links between the issue of child labour and the political economy of supply chain systems. The reasons informal economy

business owners provide for hiring children resonate with previous work on buyer–supplier power asymmetries, hegemony in supply chain systems, value capture in global production networks, and exploitation and modern slavery (Gereffi, Humphrey and Sturgeon 2005; LeBaron *et al.* 2018; Johnsen, Lacoste and Meehan 2020; Bair and Mahutga 2023). A recent review of literature on approaches to supply chain governance differentiates between ‘governance defined by power asymmetries’, which includes buyer-led governance but also includes relationships between buyers and suppliers in the supply chain; ‘governance driven by horizontal multi-stakeholder collaborations’, which can include NGOs; and

‘worker-driven governance’, which is mostly oriented on advancing worker rights (Trautrimis *et al.* 2022). The findings of this study link the prevalence of child labour to power asymmetries between formal economy actors and informal economy actors, and between government actors and informal economy actors in the governance of supply chain systems.

The paper begins by providing the contextual background to the research focus and study location, followed by a description of a methodology and analytical approach which combined researcher analysis with analysis by a group of business owners in the informal economy.

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Section 2:

BACKGROUND

2 BACKGROUND

2.1 CHILD LABOUR IN BANGLADESH

The Bangladesh Bureau of Statistics estimated that 1.07 million children are currently engaged in hazardous labour in Bangladesh (Bangladesh Bureau of Statistics 2023). Children in hazardous work are most likely to be working in industry, including leather processing and production, furniture production, brick kilns, garments, and textiles (*ibid.*; Bureau of International Labor Affairs 2022). The majority of children in hazardous work are in industries that have been designated as hazardous. For those children engaged in hazardous labour in a non-hazardous industry, they are engaged in work activities and environments considered harmful or working longer than 48 hours a week. The data suggests that boys in Bangladesh are more likely to be engaged in hazardous work than girls.

Bangladesh is a signatory to the Sustainable Development Goals, including Target 8.7 which focuses on the elimination of child labour in all its forms by 2025. In March 2022, the Government of Bangladesh ratified the Minimum Age Convention 1973 (No. 138) which specifies a minimum work age of 14 years of age and 18 years of age for hazardous work (ILO 2022a). The Ministry of Labour and Employment is leading the implementation of the current National Plan of Action (NPA) 2020–2025, which addresses the worst forms of child labour and makes the informal economy a priority through development of legislative and regulatory frameworks for informal workplaces and the strengthening of inspection and monitoring in the informal economy (Ministry of Labour and Employment 2021). Under Strategic Objective 1, to reduce vulnerability to child labour, there is a measurable output to motivate employers to explore new/alternative technology and sources of labour. Under Strategic Objective 2, to withdraw children from worst forms of child labour, the government has added five new sectors to the hazardous work list, expanding the activities and processes children are officially prohibited in doing, which already includes footwear production and leather processing (Bureau of International Labor Affairs 2022). In 2022, the Bureau of International Labor Affairs in the US published a report saying that there has been minimal advancement in efforts to eliminate worst forms of child labour (*ibid.*).

2.2 THE LEATHER SECTOR AND CHILD LABOUR IN BANGLADESH

After the ready-made garments sector, the leather sector is the second largest contributor of export earnings for Bangladesh's economy (LightCastle Partners and COEL 2020). Bangladesh exports 60 per cent of its annual output (BIDA 2021), contributing 0.5 per cent to gross domestic product (GDP) (Ministry of Industries 2019). Bangladesh holds a 3 per cent share in the global leather and leather products market, while the domestic market has grown to US\$3 billion (BIDA 2021). The global domestic footwear market has been growing at a rate of 10–15 per cent per annum (*ibid.*), and the government plans to grow the domestic footwear market further. It is also the government's intention to increase the export of leather products until the exports contribute 1 per cent to GDP (Ministry of Industries 2019).

Despite being an established and significant contributor to the economy in Bangladesh, with a history of robust growth, the leather sector is highly dependent on enterprises in the informal economy. This is especially the case with the footwear market (BIDA 2021). Compared to the ready-made garments sector, which has reduced child labour (Theuws, Sandjojo and Vogt 2017), the leather sector is largely unchanged with regard to worst forms of child labour. The leather sector is both designated as a hazardous industry and it comprises children performing dangerous tasks over long work hours, resulting in continuous exposure to heavy metals, formaldehyde, and other hazardous substances (Bureau of International Labor Affairs 2021). In 2020, CLARISSA investigated every stage of the leather supply chain system in Bangladesh, interviewing and observing 153 children to explore the nature of the work they performed. The study identified 107 micro-processing steps in the manufacture of leather gloves, shoes, moneybags, jackets, and belts, and 103 of these processes (96 per cent) involved children. Most of the businesses where children were working have less than ten workers and operate in a space of less than 200 square feet (Maksud *et al.* 2021).

Informal enterprises hiring children either serve the domestic market directly or operate under subcontracting

agreements with larger business units carrying out discrete activities, including the trade of raw hides, preserving raw hides, the production of glue, tanning, dyeing, drying, trading, sewing, and manufacturing. Hazardous tasks include carrying heavy loads, manually dyeing leather using chemicals and operating cutting tools and heavy machinery without safety measures. Of the children CLARISSA interviewed, most children were working 12–14 hours a day, six days a week, receiving an average monthly income of US\$90, which means the children are working for US\$3–4 a day (*ibid.*).

Given that the children mostly give their earnings to family for rent, food, utilities, and to service debt, the study corroborated previous research on the supply side of child labour, showing poverty as a key reason children enter work (*ibid.*). However, the international and national debate is less advanced around the dynamics of supply chain systems which make it more likely that child labour is used (Aked 2021; Idris, Oosterhoff and Pocock 2020), especially when high demand for children is a pull factor which interacts with push factors to keep reproducing spaces for worst forms of child labour (Masum 2002). A review of existing knowledge and evidence called for future research to centre an informal economy perspective, which learns from the day-to-day realities of running an enterprise in the informal economy to identify how and why worst forms of child labour become a feature of business operations, domestic markets, and global value chains (Aked 2021).

2.3 A FOCUS ON CHILD LABOUR AND THE INFORMAL ECONOMY

Over a decade ago, the ILO estimated that nearly 95 per cent of the total children aged 5–17 years old working in Bangladesh were employed in the informal economy (ILO 2015). While the most recent child labour survey does not break down prevalence of hazardous child labour according to the formal and informal economy (Bangladesh Bureau of Statistics 2023), the development and implementation of programmes to address child labour in the informal leather industry has been recommended to government to reduce worst forms of child labour (Bureau of International Labor Affairs 2022).

WIEGO defines the informal economy as

the diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state. The concept originally applied to self-employment in small, unregistered enterprises. It has been expanded to include wage employment in unprotected jobs. (WIEGO n.d.).

The ILO includes economic activity insufficiently covered by formal arrangements (ILO n.d.) which is important for this report because the interviews reveal how informally run businesses are processing leather within the premises of formally registered factories. The formal factories rent out space and facilities to informal businesses and in so doing make it the informal enterprises' responsibility to hire, pay, and look after workers. It is also commonplace for contracts arranged by formally registered businesses to be broken up into smaller, verbally arranged commissions for households and small economic units working from their own homes and factory premises. Workers, including children, are hired informally through family and neighbourhood connections, without contracts or the benefits that come from working in safe and socially compliant factories.

The focus of informality in this paper is on small, unregistered enterprises working to process and produce leather without protection or regulation from the state. In the context of the Bangladeshi leather industry, informality extends to informal hiring practices, informal contracting and commissioning, and informally arranged use of formally registered workplaces. Informal economic activity supplies enterprises in the formal economy as well as other enterprises in the informal economy, who may then go on to supply the formal economy with goods and services.

2.4 ABOUT THE RESEARCH IN THIS PAPER

This research is part of CLARISSA (Child Labour: Action-Research-Innovation in South and South-Eastern Asia)¹, a large-scale Participatory Action Research programme which aims to identify, evidence, and promote effective multi-stakeholder action to tackle the drivers of the worst

1 The CLARISSA (Child Labour: Action-Research-Innovation in South and South-Eastern Asia) consortium includes the Institute of Development Studies, Terre des hommes, ChildHope, and Consortium for Street Children. In Nepal, it has been delivered by Children-Women in Social Service and Human Rights (CWISH), Voice of Children, and Terre des hommes Nepal, with important contributions from the following local-level partners: WOFOWON, Biswas Nepal, and Platform for Children. In Bangladesh, by Terre des hommes Bangladesh, Grambangla Unnayan Committee (GUC), and the BRAC Institute of Governance and Development. See [CLARISSA](#) (accessed 23 April 2024).

forms of child labour (WFCL) in selected supply chains in Bangladesh and Nepal (Burns, Apgar and Raw 2021).

Using the leather industry as a bounded system of inquiry, the research presented in the paper asks these questions:

- **Can we understand and classify the features and dynamics of business operations which relate to worst forms of child labour?**
- **How do enterprises in the informal economy experience and respond to risks and pressures?**

- **What business-to-business interactions within and between the informal and formal economies influence worst forms of child labour?**

The study took place during the Covid-19 pandemic. Interviews with business owners took place in October 2021 when the situation in Bangladesh was improving and the new infection rate was going down. Businesses had been closed during lockdowns in 2020 and July of 2021.

Section 3:

**APPROACH AND
METHODS**

3 APPROACH AND METHODS

3.1 CONCEPTUAL APPROACH

3.1.1 Child-centredness in a complex systems view of worst forms of child labour

The CLARISSA programme centres children's experience and agency in a complex systems view of child labour (Burns *et al.* 2021). In the case of worst forms of child labour, a complexity worldview anticipates that the outcome of a child working emerges from multidirectional and multicausal interactions (Burns and Worsley 2015) across interconnected domains (Johnson 2017) of home, school, work, and leisure, layered with intersectional inequalities (Burns *et al.* 2021) of gender, race, religion, socioeconomic status, and age (Muntaner *et al.* 2010).

Systemic Action Research and Participatory Systemic Inquiry methodologies (Burns 2007, 2012) have articulated how a researcher needs to be able to engage across the system to make sense of the way systemic factors including economics, politics, and culture bear down on the lives of individuals. It is through bringing together multiple perspectives that we can operate in the 'place in between' (Collective Change Lab 2022) people's lived realities, brokering insight and connection across boundaries and binaries – that is, between labour ministries and social protection ministries, between perpetrator and victim, between immediate economic necessity and preventative approaches to health.

In a part of the economy that is neither regulated nor supported by the state, informal enterprises are critical actors in understanding the prevalence of worst forms of child labour in supply chain systems. By nurturing locally grounded knowledge generation (Chambers 1997) about decisions to employ children in businesses and supply chains, all actors – including children – can see the system they are part of more clearly. These shifts in knowledge and perspective affect the stories people tell and the possibilities they co-create for a different future. This approach requires that the research team stay committed to open-bounded, non-judgemental inquiry, prepared to have any preconceptions and assumptions they hold about business owners who hire children challenged.

3.1.2 Intentional network and trust-building

The research team spent months building trust with business owners in the informal economy, demonstrating that they valued the lived experiences of entrepreneurs as important contributions to our collective understanding of worst forms of child labour. This trust-building process grew from the social capital the organisation Grambangla Unnayan Committee (GUC) had built with the business community since 2018, when it began its exploration of child labour with a policy of 'do no harm'. Over time, GUC researchers earned a good reputation, because previous research studies had not resulted in negative media coverage or the exposure of individual identities.

Researchers from GUC visited the businesses frequently between 2018 and 2021 to get to know the business owners as human beings – as fathers, friends, employers, and skilled experts in positions of responsibility within the community – to learn about what they value, how they think, what they're good at, and the challenges they face. This is a different starting point from positioning the issue of worst forms of child labour as the central topic of conversation. Through a regular presence, the business owners were able to watch the researcher's movements with other businesses and with other communities. As trust evolved, opportunities were created to navigate more sensitive issues and request interviews about their enterprise and child labour in the leather industry.

3.1.3 Study location and time frame

All 35 interviews were conducted during 1–25 October 2021 in Hazaribagh, Hemayetpur, and Bhairab (see starred locations in Figure 1). Data processing was carried out between 26 October–5 November 2021.

Dhaka is the capital city of Bangladesh and where most of the leather is processed and produced for domestic, regional, and global consumption. Study locations were chosen for their prominence in Bangladesh's leather industry. Hazaribagh is where Dhaka's tannery enterprises were located in the 1960s because the area at the time was outside the main city, uninhabited and near the river (Bliss 2017). Today, Hazaribagh is both a commercial centre and a residential area, where leather is processed, dried in the sun, and polished. There are

Figure 1: Map of the study areas



Source: Google Maps. Annotated using Google My Maps. Reproduced with permission.

Note: See blue stars for location of study areas. Business owners in the study operate their enterprises in the historic leather area (Hazaribagh), the new leather processing district (Hemayetpur), and the main footwear production region (Bhairab).

five big leather factories and 250 small business units (Maksud, Hossain and Arulanantham 2022).

In 2001, Bangladesh's High Court ordered the factories to be relocated from Hazaribagh because of leather-related pollution and loss of ecosystem services. Hemayetpur is currently the government's designated leather tannery industrial complex, processing leather for the export market across 300 large and small factories (*ibid.*). Some processing for domestic markets also takes place in Hemayetpur. It still struggles with environmental and social compliance due to a lack of facilities, including wastewater treatment, and limited occupational safety standards and infrastructure including health centres (Department of Environment 2018).

Bhairab, located 85km from the capital Dhaka is the nation's footwear-producing region. It has an industrial zone consisting of 10,000 factories, 9,000 of which are small factories that are manually operated. There are several big wholesale and retail footwear markets comprising 2,000 footwear shops and over 1,000 shops selling materials including leather, foam, threads, glues, acids, and chemicals (Noyon 2020).

All locations are known for informal economic activity and the hiring of children (Maksud *et al.* 2021).

3.1.4 Sample design

The semi-structured interviews aimed to give a range of perspectives from owners of various types of small-scale businesses, operating from different points in the leather supply chain system in Bangladesh. Selection criteria stated that interviewees must be owners of small informal businesses serving one of the 107 processes/activities performed as part of the leather supply chain system (Maksud *et al.* 2021), operating out of Hazaribagh, Hemayetpur, or Bhairab. As such, most enterprises were not registered and the owners ran informal cottage enterprises (family-run and fewer than 16 workers), micro-enterprises (employing 16–30 workers), and small enterprises (employing 31–120 workers). The average number of employees across the interview sample was 13. To reflect concern about being open about the hiring of children with strangers, it was a criterion that some of the sample were already known to researchers as enterprises that hire children, so the study did not entirely rely on business owners self-reporting.

Table 2: Distribution of business owners by type of leather processing and production activity, and location

Type of respondents by leather processing and production activity	Number of respondents by location			
	Hazaribagh	Hemayetpur	Bhairab	Total
Leather processing (dyeing/spraying/ fleshing/ shaving/liming/de-liming/crust leather production)		3		3
Spraying	2	1		3
Leather processing and exporting		1		1
Small factory-based footwear production	1		6	7
Home-based footwear production			10	10
Dyeing and milling	1			1
Hand and leg guard/leather jacket manufacturing	1			1
Glove making	1			1
Salting		2		2
Dyeing		1		1
Chemical supplier/chemical shop owner	1	1		2
Dyeing/toggling/shaving	1			1
Processing of waste leather	1			1
Shaving/crust and finished leather production		1		1
Total	9	10	16	35

Source: Authors' own.

The research team proposed a list of respondents by types of processing and production activities and used relationships they had established during a supply chain mapping exercise in the years prior (Maksud *et al.* 2021) to invite interviewees and seek personal recommendations of other business owners to interview. Sometimes business owners refused to be interviewed. Sometimes they were willing but too busy. Sometimes they were willing to be interviewed but not while at work. At the invitation stage, the emphasis of the research interest was placed on learning about their business operations, and the team used the previous work they had done mapping the leather supply chain system as an indication they could be trusted. There were no known repercussions for businesses involved in the study.

The team interviewed nine business owners from Hazaribagh, ten business owners from Hemayetpur, and 16 business owners from Bhairab. The distribution of respondents according to location and their involvement in leather processing and production is summarised in Table 2. All the enterprises in Bhairab were involved in footwear production, home-based or in small factory units. All of the enterprises in Hemayetpur were involved in one or more leather processing steps including chemical supply. The profile was similar for Hazaribagh enterprises, though the study also interviewed producers of footwear, gloves, and leather jackets at this location.

3.1.5 Interviewing process

Interviews were carried out by CLARISSA researchers, in a location that suited the business owner. Interviews were recorded if consent was given by the respondent. A topic guide (Annexe 1) was used by researchers. This acted as an aide-mémoire of what should be explored, rather than a specific set of questions. The intention was to allow for flexibility to explore the detail of each specific case and for the researcher to interact and respond to the participant during the interview. Sometimes this included revisiting certain topics as trust between interviewer and interviewee formed over the course of the conversation.

Topics included business history, operations and finances, business relationship with other entities, risk, adaptation and resilience of the business model, effects of stressors and emergencies (including the Covid-19 pandemic), relationship with the formal economy, nature and extent of engaging children in worst forms of child labour, and ways of eliminating child labour in the leather supply chain system.

3.1.6 Qualitative analysis

First-stage qualitative analysis was carried out by the research team. Interviews were recorded, transcribed, and translated into English prior to qualitative analysis using Dedoose software. First-stage analysis comprised a deductive coding frame which was developed to organise interview responses according to gaps in knowledge identified in a CLARISSA working paper on supply chains, the informal economy, and the worst forms of child labour (Aked 2021). Deductive codes included business set-up, hiring processes, business relationships, employer–employee relationships, business finance, business risk, strategies for dealing with risk, the influence of community and social norms, and any linkages and co-dependencies between business practices in formal and informal spheres of the sector.

Each parent code had a subset of child codes, which allowed interview excerpts to be coded both to the interview topic as well as to a more specific issue. The research team had a process for adding inductive codes following regular team check-ins. This allowed new themes to be captured that had not been anticipated in the preparatory working paper. As an example, business finance had 11 child codes, including expenses, debt levels, stress debt, and seasonal effects. The research team added commercial rents as a child code of business finance after reading interviews signposting commercial

rents as a specific factor influencing business operations and decisions.

Descriptor codes were also used so that the research team could explore topics and specific issues by business type, registration status, business owner demographics, location, level of debt, number of employees, and membership of an association. Analytically, this was useful to identify whether issues were specific to certain businesses or indicative of more general issues for informal enterprises in the leather supply chain system.

In total, 1,875 coded interview excerpts were analysed in Excel for patterns, along with explanations given in the data about when, where, how, and why a pattern occurs. Mural software was used in an online analysis workshop comprising national and international researchers to map patterns under each topic, explore interdependencies, and identify key findings.

3.1.7 Validation workshops with business owners

Following a long history of using participatory methodologies to improve the quality of data and insights (Chambers 2017), a set of three workshops gathered groups of business owners in each of the three locations where business owners were interviewed. In a parallel process to this interview study, the CLARISSA programme had established Action Research Groups in Hazaribagh, Hemayetpur, and Bhairab. In June–July 2022, eight members from each of the Action Research Groups gathered for a whole day in each location to review first-stage qualitative analysis of the interview findings. Of the eight participants in the workshop in Hazaribagh, two had given an interview. The ratio was the same for the workshop in Hemayetpur, and in Bhairab, one of eight participants had given an interview. This means a further 19 business owners engaged with the interview data, in addition to the 35 business owners who provided an interview.

The first-stage qualitative analysis of interview findings was explored with business owners in the validation workshops in three ways: through a PowerPoint presentation, through a gallery walk of posters, and through facilitated group discussions where business owners were encouraged to reflect on the data's validity by sharing their views and experiences through interactive sessions. The objective, process, findings, key themes, and the patterns under each theme were shared with the participants through a PowerPoint presentation.

Three posters each describing a key theme on (i) hiring processes, (ii) employer–employee relationships, and (iii) informal–formal economy relationships were hung on the walls. The posters contained the main patterns in the data related to the theme with quotations to illustrate. During a gallery walk session, business owners critically reviewed the posters before they discussed their reflections with one another. They also tried to connect issues to different types of work with different locations – for example, leather processing in Hemayetpur, the making of leather products in Hazaribagh, and shoe making in Bhairab.

During the group discussion, the business owners were divided into two groups and they sat at two different places. A facilitator was with each group, pointing out each pattern under each theme and asking questions of the business owners about whether insights resonated and applied to businesses like theirs. A documenter sat with each group to record the discussions. The safeguarding officer played the role of observer for both groups. Validation workshop reports which recorded dialogue between business owners and between researchers and business owners were subsequently analysed by members from the national and international research team. Twenty-six additional insights and quotes were added to the data set. The additional insights either validated findings from the qualitative analysis or deepened understanding about a topic and the relationship between issues. Situated within an Action Research programme, the discussions in the validation workshops also informed three business owner-led Action Research groups which the CLARISSA programme supported until the end of 2023.

3.1.8 Ethics

The study was conducted in compliance with all human rights and ethical standards developed by the CLARISSA programme as per the IDS ethical protocol. Before conducting the interviews, CLARISSA Bangladesh safeguarding focal point conducted a risk-assessment discussion with the study team and took all the safety measures accordingly. A consent form was developed before the study and both the verbal and written consents were taken from all interviewees before the semi-structured interviews and the commencement of the audio recording. The research objectives and confidentiality issues were discussed thoroughly with all 35 respondents prior to the interviews.

In the report, only interviewee ID numbers, with an explanation of the business they run, is provided to author quotes so as to protect the identity of the respondents. During the validation workshops, storyboards and PowerPoint files with key findings and quotations were also anonymised with interviewee ID numbers. This allowed business owners to discuss business-sensitive information, including financial issues and the hiring of children, without being able to easily identify a business owner in their locality. The fact that interviews took place in October 2021 and validation workshops took place in July 2022 also helped reduce the sensitivity of the data.

Any notes taken during fieldwork, audio files, transcripts, workshop documentation, and participant contact details are kept confidentially in a dedicated safe domain.

3.1.9 Scope and limitations

Although the scope of the study was a small sample of 35 business owners from the thousands of small informal enterprises that work in the leather industry, previous work mapping the 107 processes involved in leather manufacturing and production across different leather products (Maksud *et al.* 2021) gave researchers confidence that all the main processes were reflected. While some enterprises only do one micro-step of the supply chain system, some are involved in up to ten processes, according to the specific subcontract they are working on. The involvement of a further 19 business owners in the validation workshops also increased the total sample size of business owners involved in the study to 54 enterprises.

It was difficult to ascertain beforehand whether an enterprise employed children. Child labour is a highly sensitive subject and the fear of exposure around any disclosures is high. While we can report that 10 per cent of the people hired by our interview sample were children at the time of interview, researchers anticipate the real percentage would be higher. The semi-structured interview format was helpful to navigate fears because it allowed the researcher to frame questions about child labour in different ways and revisit the topic as trust between interviewer and interviewee evolved. The researchers consciously avoided the use of the word 'child', using 'young persons' instead. With time, the business owners would begin to share the ages of the children. In the validation workshops, the business owners shared more, as they were commenting on data from other people's enterprises. This psychological

distancing helped facilitate a more open discussion about the hiring of children and the reasons why.

Another challenging aspect of the research was establishing trust with the business owners. In Bhairab, researchers were collectively questioned by business owners about whether they belonged to the income tax department because the year prior officials had visited and sent taxable income notices to everyone, even though most earn below tax thresholds. Business owners also faced a number of questions from employees and people in the neighbourhood while interviews were

happening. In one case, an interview was paused for lunch after two hours, but the business owner insisted on going to the researchers' office rather than continuing on factory premises. Often, business owners chose to meet outside their workplace or at their residence. To secure the interview, researchers had to retain flexibility on location and timing, even while only having 20 days of fieldwork time during the Covid-19 pandemic. Logistically, this was challenging. Fortunately, the research team was accustomed to local community development work and willing to centre the needs and safeguarding of the participants in their approach.

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Section 4:

FINDINGS

4 FINDINGS

4.1 CHARACTERISTICS OF SMALL INFORMAL ENTERPRISES THAT HIRE CHILDREN

Informal enterprises play a pivotal role in the leather supply chain system in Bangladesh, and yet, to play that role, business owners expose themselves to high levels of risk and work pressure. Some of the ways that businesses respond to financial risk and work pressure have implications for working conditions and labour hiring practices, including the hiring of children.

4.1.1 Driven by precarity

The interviews reveal how the business owners are self-made entrepreneurs, often driven by a lack of opportunity in the formal economy. They are trapped in the informal economy, often supporting their families in precarious financial situations. It can take many years to accrue enough capital to move from being a worker to being an owner. It is through on-the-job training and

lived experience that business owners have acquired the necessary skill, capital, business relationships, and knowledge about the sector to set up on their own. In some instances, businesses were transferred to owners:

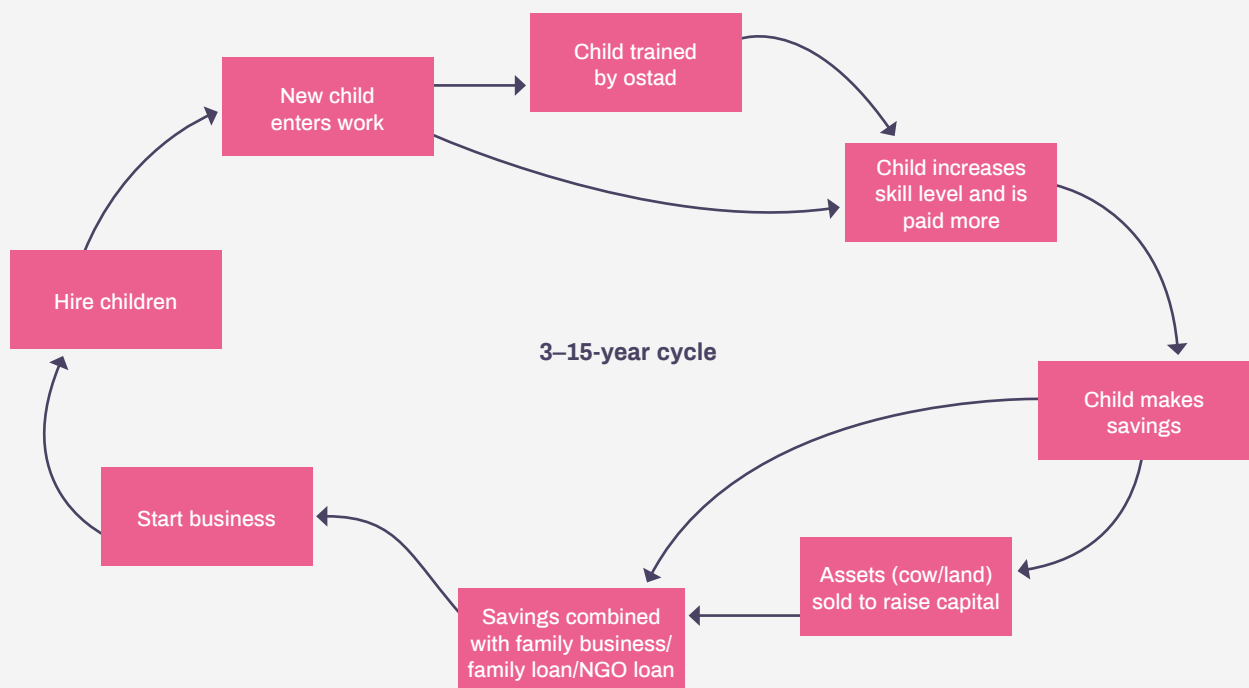
When my father died, I was 15 years old. Since then, I and my family members took sole charge of our shoe manufacturing business.

(Business owner 07, a female home-based footwear manufacturer)

Over time – often many years – and often in combination with loans from family and NGOs, they begin their own business, growing it slowly. When they need to hire workers, they look to balance the costs of skilled workers with unskilled workers who are cheaper, and frequently children (see findings on seasonality in section 4.2).

Many were once child workers in the leather sector themselves. One business owner began working in the 1980s when his mother died. As he describes it, one day he bought some raw hides and began processing himself. He now sells to the export market.

Figure 2: An illustration of a typical pathway from child worker to business owner to child worker



Source: Authors' own.

The interviews revealed a lot of variability (3–15 years) in the time it took for children to become business owners (see Figure 2). Some interviewees saved for as long as 15 years to begin a home-based operation. Many business owners enter the sector as a trainee when they are a child, working for food and small sums of money. Gradually, they increase their skill and can request more salary for their labour. Most of this money goes to the family, but as they become older children and young adults, their level of skill and associated earnings increase, and they can begin to make small savings.

A typical pathway from child worker to business owner to the next generation of child worker is depicted in Figure 2.

One business owner of a small enterprise that dyes leather and produces gloves and leather jackets began working as a helper at a factory where his friend worked in 2000. He worked as a sewing operator for five years and the next five years he learned the technique to dye leather. Based on ten years of work experience, he started his current business in 2010 with BDT 3,000 (US\$34).

The vice president of one of the leather manufacturing associations runs a business with 15–16 skilled and unskilled workers. He began work as an unpaid apprentice (known as a *shagrid*) for a skilled shoemaker (*ostad*) for one year. He worked for four to five years as a skilled worker before starting his own business 21 years ago.

One of the female business owners servicing domestic and export markets through subcontracts began her career working in leather factories 20–22 years ago after leaving the printing press because the work paid too little. She worked for ten years and then quit her job because salaries were not being paid properly. She got a BDT 20,000 (US\$187) loan to get a room and bought two machines to start her business. She has scaffolded her business on loans and currently pays between BDT 18,000–22,000 (US\$169–206) a month in repayments.

The business owners did not present as a cohort of society that are profiteering from leather processing and production activities; their businesses were more a vehicle of economic survival and expressions of agency in a job market that provides little opportunity for decent work in the formal economy.

4.1.2 Stuck in vicious operating cycles

The interviews revealed a constant pressure to sustain operational viability, with examples of business owners tolerating high levels of financial risk to do so. In many

cases, business owners reflected on how difficult it has become to sell a product to cover the costs of its production. Low levels of operating capital were a critical issue for business owners and were consistently linked to hiring decisions, including the hiring of children:

If we hire skilled adult workers, we have to incur huge costs. It becomes difficult for us to run our business because we have very limited capital. That's why we hire unskilled labourers.

(Business owner reflecting on interview data in a validation workshop)

I run my business with a very limited capital; that's why I always hire child workers at my factory.

(Business owner 19, a female owner of glove factory for domestic and export market)

Low levels of operating capital are linked to three factors in the interviews: small profit margins, money 'stuck in the market', and financial value capture.

Profit margins are often very small, which limits annual turnover and the accumulation of capital through time. Business owners provided examples to illustrate what it costs to process or make items and what those items are then sold for. A home-based leather businessman whose wife and three children work with him can sell a dozen pairs of shoes for US\$10 to a retailer (who then sells them for US\$1–2 a pair in shops). There are 19 micro-processing steps to making one shoe (Maksud *et al.* 2021), which means the enterprise receives US\$10 for completing the 456 manual micro-processes it takes to make 12 pairs.

A leather business owner in Hemayetpur explained that he buys discarded or rejected processed leather at US\$0.21 per square foot and sells after production at US\$0.85–1 per square foot, so he makes a profit of US\$0.60–0.80 on each square foot of leather his enterprise works with, before business costs. He reflected how the costs of business operations are high in Hemayetpur (the new leather district) compared to Hazaribagh (the old leather district), explaining that one person needs to spend at least BDT 300/US\$3 on food for the day while working in the new business district.

Business owners explain that levels of operating capital are additionally impacted by money being 'stuck in the market'. For example, wholesalers will only pay footwear producers once they have sold the stock, meaning that small producers in the informal economy can wait months to get paid. With no fixed payment schedules, there is

little certainty about when they will receive money. If businesses need to reclaim money owed before a buyer is ready to pay, the original contract value is renegotiated. For example, it is customary for 5 per cent deductions on contract agreements to be made when producers collect money from buyers before the start of Ramadan. While business capital resides in the verbal promises of buyers and subcontractors to pay at some point in the medium future, the costs informal businesses incur to buy materials, pay wages, rent facilities and machinery, and service loans require daily, weekly, and monthly cash payments.

Operating capital can also be influenced by other businesses in the supply chain system capturing financial value. Interviewees reported how brokers, intermediaries, and syndicates take a share of the profit and drive down price points on production. Sometimes this behaviour is opportunistic:

It becomes difficult for us to keep the products in stock for a long time. Then if any client offers us less price, we sell the products on loss. Often, we face this situation. Only during Ramadan and Eid-ul-Adha we get full payment. Otherwise, rest of the time of the year, we face this.

(Business owner 06, male, producing footwear at home)

Sometimes the behaviour of buyers and formal enterprises feels more strategic:

Chinese traders who are currently living at Hazaribagh usually order for a large quantity of crust and finished leather, but when they finally come to receive the delivery then they decline to accept full quantity of ordered goods on the ground of standard quality of products. The buyers then bargain to buy those products at a much lower price than the price that was committed during placing the order. The remaining quantity of leathers is then purchased by other Chinese buyers with low rate, otherwise the products remain unsold. It is a syndicate operated by some Chinese and local buyers.

(Business owner 15, male contractor processing raw hides)

Small profits, money stuck in the market, and financial value capture often work together to drive down operating capital for small informal enterprises. As discussed in section 4.3, business owners often feel forced to accept business, even when on unfavourable terms. Their response is to drive labour costs down, including by hiring children.

4.1.3 Entrepreneurial in nature

Interviews revealed how the performance of business units is linked more closely to the capacity of their owners to adapt than the financial robustness of the operating model. Owners adapt business models, production models, and hiring practices to make processing and production profitable. This results in poor working conditions and the inclusion of children.

For example, it is commonplace for informal businesses to be owed money from lots of different buyers and suppliers simultaneously. In response to these cash flow vulnerabilities, business owners take out and service a matrix of loans to family, friends, and NGOs to enable this financial flexibility with buyers and contractors. If required, they sell products at a cheaper rate and they sell products on credit, just to service existing loans and remain operational.

Production models are also adapted to fit market demand. In peak periods, working hours increase beyond 12-hour+ days, including for the business owners. It is not uncommon for factories to stay open at night:

Because the workers get payment according to their quantity of production. As much as they'll be able to produce, they'll get more payment. That's why the workers work for a long time and also can start working any time of the day.

(Business owner 30, male shoemaker for the domestic market)

This necessity of long work hours also makes it very difficult for children to work in the leather sector and attend school:

In this sector, the workers have to work from morning to midnight; so the child workers do not get a chance to study.

(Business owner reflecting on interview data in a validation workshop)

Business owners find other ways to reduce the costs of production. They buy waste leather from export-oriented factories and work with that. Sometimes they make their own equipment, including boards to toggle leather to for dyeing. And most businesses operate without safety equipment. Some of the most worrying adaptations to production processes occur during the tanning process, which requires a vast array of toxic chemicals:

When you mix up the chemicals with one another and experiment with those, accidents mostly happen then. These are not rare in our sector.
(Business owner 26, male, chemical store)

It was also reported that 'many have been injured' by the chemicals. Informal entrepreneurs use cheaper non-branded chemicals, and they experiment with formulas to reduce costs:

Actually, big factories can't do the work in such a low price. Big factories use particular brands to colour [the leather]. We use various brands to reduce the price.
(Business owner 10, male, dyes waste leather from big factories for the domestic market)

A chemical seller reported that he stocks 365 chemicals to account for the local dyes, sodium, and limes that informal businesses need at lower prices:

The work for the boys in shop is that they will measure the chemical like 1kg, half kg, or 5kg to the customer who come here.
(Business owner 35, male, sells chemicals and salts raw hides during Qurbani)

Business owners also innovate around hiring practices. They offer advances, pay travel for skilled workers, and take time from the business to train young employees. Perks include bags of rice. And some owners allow employees to sleep on factory premises to avoid paying rent, otherwise 'it won't be profitable for them'. This strategy is used in the new leather district, Hemayetpur, where rents are reported by the business owners to be BDT 3,000–4,000/US\$27–37 a month for a house made with fences and without gas and water supply. To put this rent in context, a low-skilled worker earns between US\$40–60 a month and a skilled worker US\$70–100 a month.

4.1.4 Trusting and trusted

The importance of trusting relationships was repeated in many interviews with business owners. Whether it is hiring staff, or choosing who to borrow money from or do business with, relationships are carefully made and maintained:

This sector is depending only on trust. The workers trust us, and we trust them.
(Business owner reflecting on interview data in a validation workshop)

Most orders and hires take place without any written contracts. With levels of illiteracy high, it is easier to maintain supply chain interactions with integrity and trust. Previous studies have highlighted the role of trustworthy relations among informal business owners in ensuring the performance and resilience of supply chain systems in Asia (Lu *et al.* 2015; Hemmert and Kim 2018; Rangaswamy 2019), and in Dhaka (Etzold *et al.* 2009; Keck, Bohle and Zingel 2012). However, this data set also revealed trustworthy relations between business owners and the community.

In a Bangladeshi context, trust is contingent on familiarity. For example, when hiring workers, including children, business owners rely on personal relationships with 'familiar persons' in the family and neighbourhood rather than advertisements, brokers, or intermediaries:

I always hire the familiar people, but they are not my relatives. I do not maintain any written contract for hiring staff.
(Business owner 09, male, dyes leather)

This mode of hiring is very different to how the job market operates in the formal economy:

There is no written deed during the appointment. Someone's mother brought her child to me, and we kept him... Some of us stay together in the same house or in the adjacent house. While gossiping together, I asked the parent to give their children to my factory, they reply OK we will give, take them. Sometimes the parents also asked me to take their children for work and I take them.
(Business owner 19, female, owner of glove factory for domestic and export market)

This quote reveals how business owners are considered trusted people of the community. It is sometimes caregivers who turn to business owners to impart useful knowledge and skills to their children:

Sometimes, after completing class three or four, the children do not want to listen to their parents. They do not want to go to school. Then the parents become angry with the children and send them to work.
(Business owner 20, male, footwear producer)

The *ostad–shagrid* (master–apprentice) relationship is commonplace in Bhairab. Historically, the *ostads* would collect children from their villages and take responsibility for food, shelter, clothing, health, and so forth. The child stays with the *ostad* often on factory premises, to work

under their supervision. In return, the production output of the ostad is increased. The form of this relationship is changing. Ten or 15 years ago, child workers would pay ostads to learn from them. In the last five years, it is the ostad who pays for the costs of looking after the child plus a small salary of approximately US\$20–40 a month.

While business owners have noticed that the number of child workers has reduced since more children go to school nowadays, and appreciate this as a desirable trend, they also recognise that they and the families around them have a constrained set of choices, given the economic realities of their day-to-day lives:

Every parent wants to send the children to school. They want that their children will complete their education and will live better lives. But poverty forces them to join factories.

(Business owner reflecting on interview data in a validation workshop)

If children cannot contribute directly and immediately to the household by earning in leather, they will find other work in transport or shopping malls which requires less training. Business owners explain that community-held norms about children who are not in school make it easy to recruit children. There is a perception that children will be 'spoiled roaming the streets' by 'bad companions' when they are not in school:

Sometimes, the children do not pay attention to their study. They just pass time by roaming around the street. Their parents are suffering due to poverty. So the parents send their children for work.

(Business owner 19, female, owner of glove factory for domestic and export market)

Once a child has stopped going to school, it is considered better that a child continues their learning at work:

Sometimes when we have work pressure, we hire the children aged 10–11 years. When we find some children are playing in the field, we call them and offer to work. Sometimes, some workers come to us in search of job; then we hire them.

(Business owner 09, male, dyes leather)

There is one deviation from the norm of hiring familiar people. This is peak season. During this time, business owners will take recommendations from existing staff members, and they will hire anyone who is available (see 'Seasonality' in section 4.2).

4.1.5 The perception of female workers

More boys are hired into hazardous work than girls in Bangladesh, reflecting global trends (Idris *et al.* 2020). The perception of female workers held by informal economy business owners may offer some explanation as to why. Just under two-thirds of the business owners interviewed did not employ female workers. Some informal enterprises are not set up for women because they do not have facilities for female workers:

I only hire the boys. I do not hire female staff members. I am the owner of a small factory. I'll not be able to provide required facilities like toilet and others in this premises. The big factory owners can provide those facilities. That's why they can hire them.

(Business owner 28, male, shoe producer)

In general, female workers are perceived as being less capable of heavy work:

Leather processing is a very labour-intensive job. The worker has to be very strong. The worker has to carry leather on the shoulder or on the head. The women are not that strong.

(Business owner reflecting on interview data in a validation workshop)

Female workers are also considered less available:

Women cannot give a long time in the workplace. They have other responsibilities at home.

(Business owner reflecting on interview data in a validation workshop)

Social norms about what women can and cannot do in the workplace influence perceptions that male workers can do a greater variety of tasks. For example, it is not appropriate for female workers to run errands to shops, or sleep at the factory, which is linked to a traditional cultural norm in Bangladesh which does not look favourably on women working outside of the home. The social norms that close off work to adult females may also serve to increase a demand for male children.

Workplace norms also influence how much female workers get paid. In three interviews, business owners cited specific examples of women being paid less, and often the wage gap is considerable. For example, one business owner explained that a male worker gets at least BDT 700–800 (US\$8.04–9.19) per day whereas a female worker gets BDT 300–400 (US\$3.44–4.59) per

day. On these calculations, men earn more than 50 per cent more than women. In a validation workshop, another business owner explained that if a male worker can earn BDT 15,000 (US\$140) per month, a female worker will earn BDT 8,000–9,000 (US\$75–84) per month. On these calculations, women earn 40–46 per cent less than men. So, even though boys are more likely to do hazardous work, when girls are hired, they are likely to receive less money in exchange for their labour.

One business owner took a different perspective, arguing that they pay equally according to skill, and a female business owner reported that she pays the same for girls as boys, even though she prefers to hire boys because they can do more tasks. But this outlook on gender equality is a positive outlier in a cultural landscape where women's work is also grouped with children's work as 'light' and 'unskilled', and therefore not worthy of proper payment. For example, the interviews revealed how women only get household expenses when they work for their husband's business. Like children working for a family business, women often do not receive a payment for their labour.

In a validation workshop discussion, a business owner made a linkage between women's home responsibilities and their limited bargaining power when it comes to securing better pay:

Because a male worker can move to different places and see the market demand... but it is difficult for women to go to many places in search of job. And the factory owners know this and offer them low wages.

(Business owner reflecting on interview data in a validation workshop)

The discussions in the validation workshop also revealed a difference between working in a large enterprise where monthly salaries are fixed lower for women and working in smaller, informal enterprises where workers are paid according to the number of pieces they produce, irrespective of whether they are male or female. As one business owner explains:

There is no issue of approving leave for sickness or annual leave since everyone works on the basis of 'piece rate'. Whoever wants to leave the production unit, he or she can leave any time since their policy is 'no production–no pay'.

(Business owner 02, male, leather footwear factory)

The lack of overt discrimination in a no production–no pay rule does nevertheless discriminate. Nested within an employment framework that does not pay unless you produce within a societal context where domestic labour is not equally shared, a no production–no pay rule still adversely affects women and girls' earning potential. With more cooking, caring, and household responsibilities, women and girls have less available time to work.

4.2 CHARACTERISTICS OF THE LEATHER SUPPLY CHAIN SYSTEM THAT CREATE A DEMAND FOR CHILD LABOUR

Interviewees identified characteristics of the leather supply chain system which relate to the hiring of children. Product perishability and sector seasonality create a fluctuating demand for child labour, while supply chain fragmentation sustains a demand for child labour during low seasons.

4.2.1 Perishability

Leather is a perishable product, so if it is not processed within a certain time frame, investment in raw hides is lost:

This is not a stockable product. It's perishable so the sooner it gets sold the better... so I have to keep that moving.

(Business owner 29, a middleman between seller and buyer of raw hide)

The risks associated with this perishability inform decisions to hire children. On examining interview data on the effects of perishability on business operations, one business owner reflected:

When we are under pressure to process the raw hides within a short time, we hire child workers.

(Business owner reflecting on interview data in validation workshop)

When perishability interacts with certain characteristics of small informal enterprises as discussed in section 4.1, including necessity-based decision-making and vicious operating cycles, it creates a lot of operational volatility. The business owners experience this volatility as 'work pressure' – pressure not to waste investments in raw materials and pressure to complete orders.

Large formal enterprises preserve hides and stockpile raw materials for making leather products, but this capacity is not available to small informal enterprises. Instead, a buyer's order tends to begin the manufacturing and production process through subcontracting suppliers, producers, homeworkers, and children on 'produce now, pay later' credit arrangements.

Flexibility of credit arrangements allows a perishable product to keep moving through the supply chain system. From the perspective of an owner of an informal enterprise, the credit system means completing an order in advance of being paid:

We have to run our business on credit. I take raw hides and raw materials on credit; the clients take processed leathers from me on credit. When my client gets payments from their clients, they pay me, and I pay my debtors. Thus, this sector has been running.

(Business owner reflecting on interview data in a validation workshop)

This quote reveals how the informal business owner carries a lot of the financial risks of working with a perishable product.

4.2.2 Seasonality

The demand for leather products is seasonal, especially in Bangladesh's domestic leather market, which 80 per cent of the business owners interviewed service. Large fluctuations in seasonal demand create different reasons for hiring children. When businesses have lots of work, they hire children to cope with the additional workload. When businesses are paid less because there is less demand for their products and services during low season, they hire children who accept less pay.

One third of the business owners interviewed mentioned recruiting extra workers during high season to cope with the additional workload. It is more accurate to refer to high season as a 'peak' season because the volume of production and manufacturing is that much greater than the rest of the year:

In my organisation, three adult male staff are working permanently. But during Eid-ul-Adha, I need lots of workers to process raw hides. During that time, I hire all type of workers like men, women, children, etc.

(Business owner 05, male, processes leather from raw hide)

When I get huge order, I hire more workers and during the off-peak seasons, I hire the less workers.
(Business owner 10, male, sprays leather and makes gloves)

The timing of the peak season depends on which part of the leather supply chain a business operates in. Peak seasons for businesses that make leather products centre around the Hindu festival Durja Puja and the Muslim celebrations Eid-ul-Fitr and Eid-ul-Adha because people buy leather goods, especially shoes. Businesses working in the trade and processing of leather are busy during Eid-ul-Adha, once livestock have been sacrificed during Qurbani to teach restraint, religious devotion, and the need to provide for the most vulnerable. There is so much work in leather processing during this season that workers come across from the garment sector:

During Eid-ul-Adha, the garment sector leave their jobs and join this sector. Because in one month a garment worker can earn the highest 5,000 to 8,000 taka, whereas by working in this sector they can earn 15,000 to 20,000 taka per month. They can earn on a production basis. That's why, during those months, they work hard and earn money. After two months, again they join any garment factory.

(Business owner reflecting on interview data in a validation workshop)

For those enterprises involved in leather processing, the high season can be weather dependent. When there is a lot of drying work to be done because the weather conditions are favourable, business owners will hire extra workers.

As demand for labour goes up, skilled workers request higher wages and wage advances before they begin their work:

During the peak seasons, the contractors need to give 20,000–100,000 taka [US\$180–900] in advance to hire the skilled workers.

(Business owner 15, male, contractor processing raw hides)

Previously, I had a factory at Shaistaganj. But I could not run my business any more because if I wanted to hire Karigar [skilled worker], I had to pay 20,000–50,000 taka [US\$180–470] in advance. But I did not have that much money. That's why I had to shut down that business.

(Business owner 16, male, runs a manual shoe-making factory)

Higher wages for skilled workers create a demand for cheap unskilled labour to do simpler tasks. As a business owner clarified in a validation workshop:

During that time, we hire all types of workers. The children are mainly recruited for trimming the extra fat, muscles, etc. from the raw hides or for giving salts on the hides.

(Business owner reflecting on interview data in a validation workshop)

One business owner reflected how some children who are 8–10 years old fail to learn the work, so basic tasks are found for them, including the removal of thorns from cow hides.

Other business owners suggested they hire the most children 'during winter' or between January and July when they need cheap labour to cover business costs. Sometimes cheap labour is used to offset seasonal reductions in the value of their product in the marketplace. For example, one owner of a leather processing business explained that buyers bargain on price, reducing what they will pay for orders. He responds by reducing his rate to process 5,000 square feet of leather by 30 per cent from a fee of BDT 2,200/US\$20 to BDT 1,500/US\$14.

At other times, cheap labour is required because businesses are struggling for operating capital (see 'Stuck in vicious operating cycles' in section 4.1). This is because seasonality also structures credit payments:

They take a year to give you the payments. They give it in the time of Eid-ul-Fitr. They do not give it before this time.

(Business owner 11, male, wet blue leather processing factory)

One business owner explained that it is customary to pay at least 40 per cent of a contract at the same time as placing an order, while the remainder is paid slowly in instalments.

It can take all year for owners of small, informal enterprises to recover money owed for completed orders because there is no fixed repayment schedule, and there is no recourse for buyers not paying. It is an expected practice that businesses complete payments around Eid if they have not been in a financial position to do so earlier in the year:

There is no fixed time for that. Sometimes, they pay after ten days, sometimes, after one month and sometimes at the end of the year, they clear

the dues. Sometimes, at the end of the Ramadan, i.e. just before the Eid, they clear the dues.

(Business owner 06, male, a home-based footwear manufacturer)

Peak seasons do not seem to function to increase overall annual turnover. Instead, they make it possible for business owners to pay off their debts and catch up with operating costs. As explained in 'Stuck in vicious operating cycles' in section 4.1, a lack of operating capital the rest of the year is directly linked to the hiring of children.

4.2.3 Fragmentation

Fragmentation of the manufacturing process in the leather supply chain system creates a plethora of 'small works', often paid 'piece rate' on a 'no production, no payment' basis. These types of work do not come with regular salaries or benefits so are often carried out by unskilled, low-paid workers, including children.

One owner of a business in Bhairab estimated that there are 600 formal, 'elite' businesses within the leather sector and more than 10,000 small and informal enterprises in the Bhairab subdistrict area, hiring around 200,000 workers. The interviews revealed how a diverse and disconnected network of small, micro and home businesses is linked to the practice of subcontracting, which creates a piecemeal production and manufacturing supply chain system. Within this network, each business seeks to make a profit from completing a micro-step of the manufacturing process and this operational challenge is associated with the use of unskilled workers, including children:

It is not possible for us to hire skilled workers all the time. That's why we recruit one or two skilled workers or sometimes do not do that. We the employers do the skilled work and hire unskilled workers and train them.

(Business owner reflecting on interview data in a validation workshop)

'Jobor' is one local expression of supply chain fragmentation. *Jobor* happens when a formal industrial set-up breaks up a contract into lots of different micro-processes and then subcontracts informal enterprises to manufacture and produce on factory premises (see 'Co-dependency' in section 4.3). The informal enterprises then hire workers, but these workers are disconnected from factory operations and worker policies. A business owner explains:

We get payments at piece rate from the factory owners. From that payment, we pay our workers. The factory owners do not have knowledge about this. This is like 'my workers; my responsibility'.
(Business owner reflecting on interview findings in a validation workshop)

Some business owners focus on simple manufacturing processes. The benefit of hiring children for these steps of production is that the labour is much cheaper than that of adults:

I always recruit child workers from my neighbourhood. I never recruit any adult worker because in my factory, there is no complex task to be done. They only have to make hand gloves which can be done by children. Moreover, if I hire an adult worker, minimum, I'll have to pay 10,000–15,000 taka [US\$94–142] per month, whereas I can pay 4,000–5,000 taka [US\$38–47] to a child worker for that work.

(Business owner 19, a female owner of glove factory for domestic and export market)

Other businesses hire both adults and children and use the children's labour to offset the costs of hiring adults and buying materials:

I hire both the adult and child workers in my factory for spraying the leather and making hand gloves. Handling child workers is much easier than the adult workers. By paying only 50 taka for breakfast, I can engage a child for work.

(Business owner 10, male, dyes waste leather from big factories for the domestic market)

By contrast, the enterprises responsible for highly technical micro-processes cannot bring the costs of production down by hiring children because the children do not have the skills required:

I do not want to recruit someone who does not have any skill. Because of unskilled worker we face loss. Only during Qurbani Eid, we recruit both skilled and unskilled children, men, women, everyone. But after wet blue process, we do not recruit children. Because the next steps need certain skills. We try to avoid recruiting workers less than 16–17 years old.

(Business owner 05, male, processes leather from raw hide)

For tasks that can be taught to children, there is a preference to hire them at low cost and teach them:

We teach them. In our work, experts are less available and if we find, we have to pay huge amount of salary. For that we train them.

(Business owner 19, a female owner of glove factory for domestic and export market)

As children are trained, they become more skilled. And then this can affect how much business owners need to pay children to retain them. Or the business owners lose the children to higher-paid skilled positions. The loans business owners provide children and families when in economic crisis can help to protect against high levels of attrition because the children remain bound to the enterprise until they have paid off their debt.

4.3 CHARACTERISTICS OF INFORMAL-FORMAL BUSINESS RELATIONSHIPS THAT INCREASE LIKELIHOOD OF CHILD LABOUR

There is a complex web of co-dependent relationships between formally registered businesses and informal business units in the leather sector in Bangladesh, which includes hidden informality within formally registered premises. Power imbalances in formal–informal business interactions have a negative influence on the operational viability of informal enterprises, increasing the likelihood that child labour becomes a feature of the supply chain system.

4.3.1 Co-dependency

Informal business units are dependent on formally registered businesses, just as formally registered businesses are dependent on informal business units to get their work done.

Most of the business owners we interviewed operate reactively, in response to a request by another business in the supply chain system to process a certain number of pieces of leather or make a certain number of leather products. It is typical for owners of small enterprises to nurture four or five relationships with different buyers at any one time, and it is often the case that these buyers are directly or indirectly linked to a formally registered enterprise:

I am a small hand gloves manufacturing factory owner. I do not have any trade licence. I get orders from the formal local factories.

(Business owner 19, a female owner of glove factory for domestic and export market)

Just as this business owner explains, it is common for informal businesses to sell finished products to formally registered wholesalers, who then re-sell products in markets or to shops. Informal businesses also frequent formally registered businesses to buy materials, including leather off-cuts from larger factories.

Another expression of co-dependency is in the manufacturing and production process. Informal businesses rent machinery and factory premises to complete their orders:

I use the machinery and factory premises of another formal big factory. I always pay the rent for using the machinery at piece rate. Three adult male workers work permanently with me. During the Eid-ul-Adha [a religious festival], I also employ children for the primary processing of leather.

(Business owner 05, male, processes leather from raw hide)

Formal businesses are also increasingly co-dependent on informal enterprises. According to some of the business owners interviewed, it has become more common that formally registered businesses use informal enterprises to fulfil orders:

Formerly, the big factories used to hire their own staff members but nowadays, they do not hire own workers; they give contracts to contractors.

(Business owner 15, male, contractor processing raw hides)

When this trend was discussed in the workshop, business owners discussed how 'jobor' (the practice of informal enterprises working within a formal industrial set-up, discussed in 'Fragmentation' in section 4.2) – has become more popular in the last four to five years because factories could not make profits by producing in their own settings. So the work is subcontracted to enterprises in the informal economy. This is spatially represented in the new leather district, Hemayetpur, which many businesses moved to in 2016. Since then, informal enterprises have sprung up around larger, formal factory premises. Sometimes informal enterprises even operate within the premises of the established factories working within the grounds of more established set-ups.

This informality is hidden from the street, behind the walls and gates of factory premises. Once inside, it consists of many different business units doing a micro-step of the leather tanning process (e.g. spraying, drying, etc.) often simultaneously and side-by-side. The business

owners linked this increase in *jobor* to the increased use in production-based wages in the leather sector more generally. They estimated that as few as 10 per cent of leather sector workers in Bangladesh receive a monthly salary.

4.3.2 Asymmetric informal-formal relationships

The nature of the transactions between formal and informal businesses is always informal. Materials, products, and use of premises are always exchanged for cash and credit, without any written contracts or agreements. The reliance on trust in business-to-business transactions between informal and formal enterprises does not mean that transactions are equally beneficial. The informal-formal economy relationships generate work for the informal enterprises, but the terms of these relationships often lead to workload and financial pressures, which business owners relate to the hiring of children (see section 4.1).

The interviews revealed how businesses in the formal economy dominate business transactions through imposing arrangements and making changes to verbal agreements:

We are victim of one kind of politics. Suppose if we sell product worth of 100,000 taka, the client will give me 95,000 taka. He will not pay me 5,000 taka. That is their business system. If I agree with that, they will deal with me, otherwise they will not.

(Business owner 06, male, a home-based footwear manufacturer)

One business owner whose enterprise dries leather in sunlight explained that he receives orders in his immediate network from five or six buying houses who serve foreign buyers. Sometimes the buying houses do not receive money from foreign buyers, so he does not get paid. Sometimes the owners of shoe factories that buy from him flee. The year prior to the interview he lost BDT 30,000 (US\$284) because a business owner he had an informal contract with died.

Interviewees explained that formal businesses have more power because of their size, operating capital, and machinery to increase productivity. They can accept larger orders and have facilities to store materials bought in bulk and stockpile products, which reduces operating costs. Interviewees also explained that some of the power expressed by formal businesses had been given to them by favourable government economic policies, and this

power was being used to maintain their advantageous position in their transactions with businesses in the informal economy:

Large leather business enterprises enjoy tax-VAT waiver facilities in importing chemicals from Europe and India, but we, the small business owners, do not get that facility. Suppose they need one tonne of chemical, but they will import ten tonnes of chemicals. They will use one tonne of chemicals in their own factory and sell rest of the nine tonnes of chemical in the market. They'll get the benefit of tax waiver but will sell the chemical to us at their desired price. We are bound to buy chemicals at a high price from them. Thus, our production costs become high.

(Business owner 03, male, leather processing)

Formally registered businesses were explicitly favoured during the relocation of 2,200 tanneries from Hazaribagh to Hemayetpur, which began in 2014. This is because those who owned land were given land, but those business owners who rented premises were not compensated for operational losses associated with the move:

In 2014, we faced huge loss. If the ministers and export officers of our country could understand this, then there would be less problems.

(Business owner 15, male, contractor processing raw hides)

The interviewee explained that Hemayetpur was not ready to support trade, and foreign buyers switched to different markets. Within the same time period, large factories and small informal businesses were forced to move when the electric and gas lines to Hazaribagh were cut by the government. It remains the case in 2023 that relatively few factories are considered compliant for export into markets like Europe and the US because of limitations in the facilities needed to meet environmental standards (Department of Environment 2018; Ministry of Commerce Bangladesh and International Finance Corporation 2019; Department of Inspection for Factories and Establishments 2021).

The interviews revealed how the business owners of informal enterprises had internalised their powerlessness to change the terms of business-to-business transactions with the formal economy. They talked about not having a choice to accept business terms, like the 'produce now, pay later' credit arrangements:

Sometimes our clients face huge losses when a shipment is cancelled. Then, sometimes, they need to shut down their business. Then our payments are also lost. But we have nothing to do. This is the system of this sector. We cannot help it.

(Business owner reflecting on interview data in a validation workshop)

Most of the time I have to sell products on credit. I have to keep faith in the buyers to run my business.

(Business owner 03, male, leather processing)

To manage asymmetric informal–formal relationships, business owners described a focus on what they can control: labour cost reductions (see section 'Stuck in vicious operating cycles' in section 4.1), processing cost reductions (see 'Entrepreneurial in nature' in section 4.1), and maintaining good business relations with those they trust. When relationships are good, both buyers and producers spend less time negotiating contract values, checking up on work progress and chasing money that's owed:

Initially, the clients used to bargain. But now, we have a good relationship. They know that if they want to buy shoes from me, they'll have to pay 400 taka [US\$3.60] for each pair. Now, they just give me orders and I supply them accordingly.

(Business owner 27, male, leather tannery)

Now, my clients know me. Initially, they used to come to my factory during product delivery time. But now they do not come. I just send them the products according to their demand and they pay me through 'Bkash' or 'Nagad' [mobile banking]. Sometimes, they send me the cheque by courier service.

(Business owner 20, male, footwear factory)

Trust and familiarity also influence decisions about business financing. There is a strong preference in the interview data to take loans from family and friends before formal institutions. This may be because the use of loans to subsidise the preparation of orders on the 'produce now, pay later' regime is perceived as particularly risky, whereas payback periods with family and friends offer greater flexibility should a buyer or subcontractor be late on a payment:

I borrowed 1,100,000 taka [US\$10,000] from one of my relatives. For that, I did not have to sign any contract or submit any papers as guarantee. Even there is no time limit for repaying the loan. The only condition is I'll have to give him some profit. If I give

him 200,000 taka [US\$1,800] as the profit, he'll be happy. He knows I'll pay him back when I'll have my payments. Sometimes, when he needs money, he may call me and says, I need 500,000 taka [US\$4,500], can you pay me back some amount? Then I pay him 500,000 taka. That amount will be deducted from 1,100,000 taka [US\$10,000]. Thus, still I am repaying him the actual amount of loan; I could not give him the profit. But I am confident that I'll be able to give him the profit.

(Business owner 34, trader of processed finished leather)

The flexibility in the loan arrangement described above is contrasted with the pressure a business owner experiences after taking out a loan from a cooperative, which has a fixed payment schedule:

A cooperative gives instalments here. That is basically foreigners give money for helping poor people like us to BRAC, Grameen so that Bangladesh can do something. Bangladesh's BRAC and ASA² are giving loans with that money and are taking double profits from there and they behave roughly about why we can't give the instalment timely. Like my business is not going well and I'm not getting the money. If I get the money, then I can pay you back. If I can't feed myself then how can I pay back? I have to take care of my family and also my children will not understand that.

(Business owner 33, male, managing shaving and dyeing factory)

Few of the businesses this study interviewed had organised into associations that were involved in collective organising and influencing, which further limited their bargaining power with formally registered businesses as well as their influence on government policy. Associations exist, but they are typically used to save money. There is no interest on these savings paid by the association; it is just a safe place to save money. Some associations help out in a time of crisis; others do not. There was one example of an association of raw hide traders which has begun to regulate credit arrangements. Business owners are allowed to notify the association if a buyer has not paid for products. This information sharing blacklists the buyer, preventing them from buying again. However, this association was a positive outlier in the interview responses. At the time of interview,

most informal businesses did not consider it possible to reposition their role and influence in the supply chain system. Their focus was on keeping their own business operational and financially viable.

4.3.3 The effects of the Covid-19 pandemic

The Covid-19 pandemic was a difficult time for the business owners of informal enterprises. Most businesses had to run at a loss after factory premises closed for two months. There were fewer orders and lower prices, often below the cost of production.

In response, it was more likely that businesses sold products to buyers at a loss and on credit. Many businesses took loans out to cover regular payments like rent, sometimes for the first time in their operational history. Some business owners closed down their enterprise. The 'no production, no payment' rule that affords the leather supply chain system flexibility to cope with the seasonal nature of the workflow (see 'Seasonality' in section 4.2) was also used to let employees go. As there was no work, there was no production, so there was no pay. Almost half of the business owners spoke about dismissing employees.

However, a surprising number of businesses only let people go once they had used savings and loans to keep paying employees, and many businesses sold assets and took out substantial loans to keep paying employees:

During Covid time we had to use our saving to sustain the business. Then I had three workers with my factory, but I did not terminate anyone, though there was no job order to work. I paid their salary in full, but I could not run the production. As a result, I had to lose a good amount of money during that Covid lockdown.

(Business owner 05, male, processes leather from raw hide)

Despite how difficult it was to survive the Covid-19 pandemic, business owners took on risk to keep their operations going. In so doing, they created opportunities for people who could not work elsewhere. Some have since sold land to repay loans. One female business owner now runs her shoe production enterprise with 'other people's money'. During the Covid-19 pandemic, she survived on her savings, so now she has a set-up

2 See [ASA](#) (accessed 23 April 2024).

where other business owners supply materials and she is paid on what she produces.

The Covid-19 pandemic was seen to reverse a trend of declining labour availability. Prior to Covid-19, business owners talk about how the sector was 'struggling'. They were suffering from a scarcity of workers and a general trend of more children in school:

Once upon a time, children used to not go to school. In the entire village, maybe only one child would go to school. But now the scenario has changed; now lots of children are going to school.
(Business owner reflecting on interview data in a validation workshop)

Over the course of the Covid-19 pandemic, schools in Bangladesh closed for two years while many families ran into financial difficulty. Some children went back to school, but many did not. According to the business owners, this led to more children in work:

During Corona, many people lost their jobs. They could not eat, and they could not pay the house rent. That's why many school-going students joined work during that time.
(Business owner reflecting on interview data in a validation workshop)

Yes, it is true. During the lockdown, lots of children came here to join work. They did not have schools and their parents' financial condition was not good. That's why they were searching for job. As our business is a seasonal business, we hired them

during Qurbani Eid time; they worked for two months; after that, we did not hire them any more.
(Business owner reflecting on interview data in a validation workshop)

This led to an increase in cheap labour, although the business owners recognise that the resurgence was driven by economic necessity rather than because the work is an attractive proposition. When talking about the transfer of businesses to successors, one business owner reflected:

Yes, it happens in some cases. Thirty years ago, the practice was more common. But nowadays it is decreasing. Because now we are struggling to make a profit in this business.
(Business owner reflecting on interview data in a validation workshop)

Another business owner added:

Now, many businesses are not interested to involve their children in this business. The parents want their children to continue their education and be something big.
(Business owner reflecting on interview data in a validation workshop)

Without a follow-up study, it is difficult to determine whether elevated levels in the supply of children during Covid-19 were sustained beyond the pandemic and whether the financial risks business owners took to sustain operations were successful or eroded operational resilience further.

Section 5:

DISCUSSION

5 DISCUSSION

5.1 POVERTY AND SMALL LEATHER ENTERPRISES IN THE INFORMAL ECONOMY

By talking with business owners in the informal economy as a starting point to explore child labour in the leather supply chain system, this research reveals how enterprises are often begun to overcome the challenges of poverty and low-paid jobs in the formal economy. Rather than profiteering from their enterprises, business owners in the informal economy were more like 'necessity entrepreneurs', a term coined to describe the estimated 1 billion individuals across the globe who are united by starting small enterprises to survive (Brewer and Gibson 2014).

Once the business has been established, the struggle to sustain operations is continuous. Research into the liabilities surrounding the entrepreneurial journey has differentiated the risk exposure of being 'new' and 'small' from being 'poor'. The extra challenges associated with being poor include literacy gaps, a scarcity mindset, intense personal pressures, and the lack of any financial slack or safety net (Morris *et al.* 2022). The interviews in this study find support for the latter dimension, with complex matrices of loans and credit arrangements underpinning business operations. Running the business at a financial loss for periods of time was mentioned as a challenge, as was getting into further debt during supply chain disruptions such as the Covid-19 pandemic.

We also find some evidence for scarcity mindset, where business owners are forced to make trade-off decisions, including hiring children when product quality would be higher if they could afford to hire skilled workers, to confront the scarcity of money, time, and energy. Few of the businesses had organised into associations that were involved in collective organising and influencing, and their discourse was in large part centred on emerging threats, and their self-reliance and use of locally specific solutions to respond to unpredictable operating contexts (e.g. adapting processing techniques with 'homemade' equipment, sourcing cheaper non-branded chemicals, hiring 'familiar' people through place-based social networks). The business owners talked less about their plans for the future, beyond survival, but they identified a link between a scarcity mindset and financial inflexibility, articulating how a lack of financial capital to invest in

labour-saving technology is structuring the day-to-day hiring decisions they are making.

Business owners made no mention of movement out of the sector through selling their businesses and, more generally, they reference health challenges and the increased economic difficulties of making a living through their enterprises. Without business insurance or government support, the business owners are increasingly reliant on their own resilience and ingenuity to stay operational. In the way Sutter *et al.* (2019) explore entrepreneurial action in alleviating poverty, the business owners this study interviewed are using their enterprises to 'overcome resource concerns' more than they are acting to reform or challenge a broken system.

5.2 VICIOUS OPERATING CYCLES AND THE HIRING OF CHILDREN

When business owners describe the financial model of their enterprises, it is striking how many regular fixed costs they have (e.g. rent, wages, cost of materials, skilled labour) compared to the flexible and sporadic nature of their income. 'Produce now, pay later' credit arrangements leave money 'stuck in the market' and business owners with bills to pay. Small sales margins affect levels of profitability and financial resilience to sustain operations through low seasons. To counter these dynamics, cheap labour is important. The youngest children with no experience tend to be cheaper. As they gain more experience, the pressure is felt by business owners to retain children in the business, sometimes using wage advances and loans to parents as mechanisms to avoid staff losses. In the shoe making district of Bhairab, the business model is intricately tied to the *ostad-shagird* (master-apprentice) system which historically facilitated the hire of children without paying for labour, in exchange for on-the-job training. Nowadays, children working long hours every day of the week in these businesses may receive US\$20 a month in addition to food.

The squeezing of labour budgets is a commonly used business strategy in the formal economy when sales and profits are low. The Good Jobs Institute (Good Jobs Institute 2017) have described how enterprises enter a vicious cycle when employees are primarily seen as a

cost to be minimised. Not all the business owners this study interviewed see their employees this way, especially those who took out loans to continue paying staff as orders abruptly stopped during the Covid-19 pandemic. But the business owners do enter a vicious cycle when low profits force them to offset high-paid skilled labour with low-paid unskilled labour to balance labour budgets, including the hiring of children. This dynamic then disincentivises the training and upskilling of children and incentivises work practices that cut costs and increase work hazards, making work less safe for children. These strategies then create operational problems (e.g. low production quantity and quality), which go on to directly affect price points and sales, which in turn puts pressure on labour budgets.

Business owners were concerned about the future resilience of the leather supply chain system in Bangladesh. They describe the challenges of having sufficient profit to attract and retain skilled workers. They also reflect how prior to the Covid-19 pandemic, families and children were seeking skills development in other trades. Once considered a desirable sector, people are increasingly trying to avoid jobs in leather.

5.3 SUPPLY CHAIN COMPLEXITY AND WORST FORMS OF CHILD LABOUR

Supply chain complexity is often talked about in literature on supply chain governance and policy responses to child labour. It is well known that complexity generates obscurity in systems (Reeves *et al.* 2020) making institutional oversight and regulation difficult to achieve (Alliance 8.7 2019; LeBaron *et al.* 2018). As such, the problem of complex supply chains is often discussed as a behaviour management issue, striving for better transparency, standards, compliance, and oversight procedures to enable detection and remediation. Strand *et al.*'s (2024) thematic analysis of modern slavery articles, which included research on child labour, reveals a current focus on regulatory contexts, code of conducts of focal firms in supply chain systems, audits, action planning, training, certification, use of technology, and whistleblowing.

The business owners in this study shift the focus of the problem, suggesting that it is economic dysfunction of complex supply chains that primarily drive worst forms of child labour. The biggest issue that supply chain complexity has caused in the leather industry is fragmentation of manufacturing processes, which has

created a plethora of 'small works', often paid 'piece rate' on a 'no production, no payment' basis. As the number of steps in the manufacturing process has increased, the money to pay for these steps has not risen, so the profit margins for each enterprise completing a micro-step of the manufacturing process have diminished. Even though the business arrangements are exploitative, necessity-based entrepreneurs with least bargaining power in the supply chain system accept them. The result is business owners in the informal economy earning a fraction of a US dollar for each thing they produce, perpetuating a need for cheap labour.

A similar account has been recorded in footwear supply chains in South India where piece rates are on average half the minimum wage and in some cases only 28 per cent of the minimum wage (Cividep India 2022). With limited organising and collective power to negotiate better prices, the business owners control what they can: labour budgets. By following money flows in the supply chain system, the links between supply chain complexities, exploitation of enterprises in the informal economy, and child labour become apparent; and a focus on compliance, detection, and remediation becomes a secondary concern. Even if a factory producing leather bags or shoes is considered compliant with international regulations at the point of production, it is unlikely that the 20+ micro-processing steps (Maksud *et al.* 2021) that prepare the leather before a bag is made are child-labour free.

According to the informal business owners, outsourcing and subcontracting is enabling supply chain fragmentation and complexity. Interestingly, the business owners make the point that leather supply chains in Bangladesh have been increasing in complexity because factory owners in the formal economy cannot meet the price points of suppliers and buyers by producing within their own factory premises. In response, the formal enterprises break up a contract from a buyer into lots of different micro-processes and then subcontract informal enterprises to manufacture and produce on their own factory premises or close by. The links between formal economy failures and decisions to purchase from the informal economy have recently been asserted but mainly from a consumer perspective (Horodnic *et al.* 2022). For example, the use of informal street vendors in urban centres has been described as a consequence of formal economy failures. Looking at consumer demand of street vendor services, formal economy failures resulting in road congestion and high daily travelling times to and from work explain a lot of purchasing behaviour (Igudia 2020). The flexibility and accessibility of informal street vendors is considered

an advantage, in much the same way that a flexible approach to hiring cheap labour among informal economy actors in Bangladesh's leather industry is a solution to low price points and demanding production schedules.

An informal economy perspective suggests that economic dysfunctions and formal economy failures may explain why the most recent studies on standards and compliance approaches suggest limited success in shifting hiring practices (Aked 2021). A recent study of the ready-made garment sector in Bangladesh during the Covid-19 pandemic showed that 12 per cent of formal economy factories saw an increase in costs to comply with buyers' ethical and social compliance requirements in an economic context where price points were failing to keep up with the costs of production (Islam *et al.* 2023). This points to the potential of standards and compliance approaches to have the unintended effect of increasing use of informal economy enterprises in supply chain systems.

5.4 FORMAL ECONOMY POWER AND WORST FORMS OF CHILD LABOUR

While the informal economy is integral to operations in the formal economy, the interviews confirm that it is the formal economy which creates the work and the formal economy that dictates the terms of business. The result is a very hierarchical form of governance in Bangladesh's leather supply chain system, where decision-making is carried out by buyers and suppliers in the formal economy while all other enterprises in the informal economy are 'transactionally dependent' (Gereffi *et al.* 2005). This hierarchical governance structure, when combined with a complex network of diffuse enterprises, makes it difficult for informal-formal economy discussions on price points, production timelines, and payment schedules to happen.

Power asymmetries between formal and informal economy actors also leave informal enterprises exposed to formal economy strategies to extract wealth out of the supply chain system (LeBaron *et al.* 2018). Examples include syndicate buying and the stockpiling of cheap materials which are only sold onto small informal enterprises when the market prices go up. This behaviour has been explained by power analyses of value creation and capture in global value chains (Humphrey and Schmitz 2002), especially where the ratio of suppliers to buyers is large (Bair and Mahutga 2023), as is the case in the leather industry in Bangladesh (Strasser 2015).

But the power of the formal economy extends beyond asymmetric business-to-business interactions between formal economy and informal economy actors. Power is expressed and value is asymmetrically accrued across a network of supply chain actors, including formal economy enterprises, informal economy enterprises, associations, and government actors (Bair and Mahutga 2023). The business owners cite examples of additional power accruing to formal factories through favourable tax breaks, financial compensation when relocating to a new business district, and the activities of organised associations representing the interests of formal economy enterprises. As with other studies exploring the use of hegemonic forces (dominance, mastery, and authority) at the level of the contract, the market, and ideology, the interviews reveal how informal economy business owners are consenting to the dominance expressed by the formal economy (Johnsen *et al.* 2020). Examples include when buyers pay less than the cost of production because business owners in the informal economy absorb market increases in the costs of raw materials. Or when informal economy enterprises lower prices to secure buyers. This happened in Bangladesh's garment sector also, which during the Covid-19 pandemic saw a rise in the number of smaller factories which could not pay minimum wage because international buyers were not meeting the costs of production (Islam *et al.* 2023). Three per cent of factories who sought legal advice against buyers decided they could not take the risk of legal action, making the businesses reliant on government support. As business owners were eager to point out in the interviews, government initiatives to offer financial support did not extend to enterprises in the informal economy.

An interesting observation is that while worst forms of child labour may manifest in the informal economy, an underlying driver on the demand side is formal economy failure, especially in the governance relationships between formal and informal economy enterprises and between government actors and informal economy enterprises. In the Global Research Agenda on child labour (ILO 2022b), unanswered research questions are listed as: 'What is the role of global supply chains on child labour?', and 'How does informality act as a driver for forced labour?'. In seeking to answer these from an informal economy perspective, we learn that it may be just as important to ask: 'How do formal economy failures act as a driver for child labour and forced labour in the informal economy?', and 'How do formal economy business practices in supply chain systems influence prevalence of child labour?'.

Section 6:

CONCLUSION

6 CONCLUSION

This piece of research interviewed 35 male and female owners of small informal enterprises in the leather manufacturing and production districts of Hazaribagh, Hemayetpur, and Bhairab in Bangladesh. The businesses serve domestic markets and international value chains, employing 462 workers, of which 10 per cent are children. Following first-stage analysis of the interview transcripts, initial insights and patterns were presented back to groups of business owners in each location over three workshops. Discussions were documented so that new and deepened understandings could be included in a second-stage analysis to identify findings for this report.

The business owners offered unique insights into the way they run their businesses and the way they respond to the

pressures they face. Their narrative is one of necessity and survival. Decision-making orbits around a business model that is barely viable. For a programme seeking a reduction in the worst forms of child labour, an informal economy perspective has underlined the importance of looking at the economics of supply chain systems and the exploitative consequences of complexity and formal economy power. The business owners raise the possibility that the same system dynamics that make it difficult for informal economy enterprises to run a business profitably are also the same dynamics that create and perpetuate the demand for children to work long hours for little money in unsafe environments.

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Annexe 1:

**TOPIC GUIDE:
SEMI-STRUCTURED
INTERVIEW
WITH BUSINESS
OWNERS**

ANNEXE 1 TOPIC GUIDE: SEMI-STRUCTURED INTERVIEW WITH BUSINESS OWNERS

Major themes	Major indicators and variables
Personal information	<ul style="list-style-type: none"> • Name • Age • Sex • Address • Mobile phone number
Basic information of the business unit	<ul style="list-style-type: none"> • Type of business or production unit • Major activities of the business unit • Registration status of the business • Number of owner(s) of the business • Number of workers (skilled and unskilled) • Number of workers below 18 years of age • Number of child workers by sex • History of establishment of the business • Location of business • Business hours • Initial capital to start the business • Initial business contract or orders • Process of organising production
Hiring	<ul style="list-style-type: none"> • Reasons for engagement of children in small informal business units • Process of hiring children for production • Terms of employment for children • Roles of agents/brokers/relatives/friends in child employment • Written legal job contract for employing children in work • Process of assessing age, physical fitness, disability before employment by employers • Ways of assessing the ability of children by production activities • Provision of getting leave and recreation facilities (with payment/without payment) for the workers in the business • Number of working hours at the workplace • Practices and terms of advance payment or loan to child workers • Practices of hiring and firing of child workers during peak and off-peak season of production

Major themes	Major indicators and variables
Employer–employee relationships	<ul style="list-style-type: none"> • Roles and responsibilities of different aged employees • Reasons for recruiting under 18s • Different rate of wage based on age • Reasons for differences in rate of payment • Different rate of wage based on sex • Whether children working as apprentice (without payment) to learn skills • Terms of conditions of apprentice • Challenges/benefits of hiring children • Describe relationship with under 18s • How relationship differs from over 18s
Business-to-business interactions	<ul style="list-style-type: none"> • Key people/organisations you work with to run the business (role, reason for engaging, nature of relationship) • How relationships are maintained • Written contracts or verbal agreements • Flows of power/influence in relationships • Terms of business • Factors that influence relationship • How the relationship affects them • Sources of procuring raw materials for production • Ways of procuring raw materials for production • Practices of adjustment of advance payment or loan with business partners
Risk, adaptation and resilience	<ul style="list-style-type: none"> • Main challenges/risks of operating business • Challenges faced from employees • Challenges faced from customers • Whether the employer needs to borrow money for business operations • Sources of loans and terms • Reasons for borrowing money for business operations • Levels of debt operating at and whether manageable • Perceptions of employers on child rights • General practices for taking measures, compensation, or bearing cost for treatment in case of accidental injuries of child workers • Ways of mitigating risks • Collective organisation and membership of associations • Future perceptions of industry
Stressors/emergencies/ Covid-19 and norms	<ul style="list-style-type: none"> • Ways of mitigating effects of the Covid-19 pandemic • Coping strategies during the Covid-19 pandemic • Whether the employer borrowed money to sustain his/her business • Sources of funds to sustain business • Strategy and initiatives to retain the child workers to continue their jobs during the Covid-19 pandemic • Whether the employer reduced the payment rate of the child workers during the Covid-19 pandemic • Situation of searching for jobs by the children at employer's workplace • Reasons for looking for jobs by the children • Changes in situation as observed by the employers regarding children looking for a job during the Covid-19 pandemic • Whether any student whose school was closed came to join as a worker for earning during the Covid-19 pandemic • Reasons for recruiting students as child workers • Terms and conditions of recruiting

Major themes	Major indicators and variables
<p>Relationship between informal and formal sectors of leather industry</p>	<ul style="list-style-type: none"> • Nature and extent of interrelationship between small informal business and business enterprises in the upstream of the supply chain of leather industry • Nature and extent of interrelationship between small informal business and business enterprises in the downstream of the supply chain of leather industry • Buyers of leather products • Ways of ordering collection from the buyers • Terms of supply or sale of products • Terms of purchasing products by the buyers • Relationship in purchase of products by the buyers • Competitiveness in the market • Strategy to produce the products at a reasonable price • Strategies to be competitive in the market • Opinion regarding employing children to produce products at a competitive price • Ways of procurement of raw materials for production • Types of raw materials needed for production • Terms of procurement of raw materials • Suppliers of raw materials (raw hide, chemicals, wet blue, crust leather, finished leather, etc.) for production • Whether the suppliers themselves also employ children in producing raw materials • Type of activities the children perform in production processes
<p>Analysis of situation and actions for eliminating and preventing child labour</p>	<ul style="list-style-type: none"> • Whether govt., business association, or trade union ever come to visit your production unit to monitor employment of children in workplace • Membership status with business association(s) • Role of association(s) in relation to business • Whether the buyers ask about production processes and workers • Whether the buyer(s) visit the production unit • Whether the buyer(s) ask about workers' age • Reasons for asking the age of workers • Whether the employer identifies works or processes that are hazardous for children • Existing practice of identifying and assessing safety and health risks for children at workplace • Factors that impose health and safety risk for children at workplace (dust, foul smell, lack of washing facilities, access to safe water and sanitary latrine, lack of safety gear, e.g. masks, gloves, boots, earplugs, eye protector, lack of safety training) • Current practice of ensuring safety of children at workplace • Existing safety and health risk control measures at workplace • Whether anybody or any agency asked to identify the hazardous activities at workplace • Person or agency who cooperated in identifying hazards • Whether govt. agency or anyone oriented you re the list of hazardous works for children • Whether any labour Inspector ever visited the factory • Whether they discussed or recommended anything for improvement of work environment or compliance • Areas or issues of discussion or recommendations • Whether anybody discussed education or training for children working at business unit • Anticipated implications of doing business without child workers • Presence of labour union's activities in the area • Areas and extent of labour union's activities • Whether the labour union discusses anything about workplace safety, salary of workers, or employment of child workers



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CLARISSA works by co-developing with stakeholders practical options for children to avoid engagement in the worst forms of child labour in Bangladesh and Nepal.

The participatory processes which underpin the programme are designed to generate innovation from the ground which can sustainably improve the lives of children and their families.

The programme's outputs are similarly co-designed and collaboratively produced to enhance local ownership of the knowledge, and to ensure that our research uptake and engagement strategy is rooted in the direct experience of the people most affected on the ground.