GLOBAL FUND TO END MODERN SLAVERY

Key Learnings from Project Saksham

Global Fund to End Modern Slavery (GFEMS)

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Executive Summary

Previous GFEMS research in India found that Micro-Contractors (MCs), the first tier of management above construction workers, could offer a good entry point for ground-level interventions that positively impact forced labor outcomes at the worker level. Building upon these findings, project Saksham sought to provide MCs with ethical entrepreneurship training, access to work orders, access to workers via ethical recruiting strategies, and (in some cases) underwriting for working capital loans.

This project, under IPA funding, included a layer of experimental research into the existing program's implementation to measure the effectiveness of underwriting micro-contractors for working capital loans on reducing forced labor outcomes at the worker level.

Key findings from this research include:

1. **Forced labor outcomes** at the worker level were reported at lower than expected rates across different measures.
2. **Uptake of loans** by MCs was much lower than expected, due in many cases to administrative burdens required by the underwriting process.
3. **Availability of loans** alone did not reduce forced labor risk at the worker level across the treatment group:
    - There was some **heterogeneity in results** based on MC characteristics, with loans reducing forced labor risk lower in the treatment group among highly-educated and non-migrant MCs.

Updated: Spring 2024

Background

Micro-Contractors in India's Construction Sector

The construction sector is hugely important to India, comprising 9% of the country's GDP and providing over an estimated over 50 million1 to 60 million2 jobs. Many of these jobs are held by the most economically insecure segments of the population, including internal migrants, the Dalit community, those living in poverty, and other marginalized groups. Approximately one third of the country's internal migrants work in the construction sector.3 It has been estimated that there are 44 million informal workers in India' construction sector.4 Unfortunately, a combination of weak worker protections in informal settings and worker vulnerability increases risk of forced labor in this sector. In a large-scale worker voice study with over 17,000 migrant construction workers in 2019-2020, approximately 30% of respondents reported experiencing some form of forced labor risks, with nearly 5% experiencing critically severe forced labor conditions. More than 20% reported restrictions on their movement after work shifts, and over 10% reported facing threats to themselves and their families at their workplace.5

Efforts to reform the sector are stifled by deep webs of fragmentation and informality running throughout the industry. On a typical project, work is contracted and subcontracted dozens of times, to formal and informal actors alike. As a result, enforcement efforts against large, formal companies fail because those companies have effectively hidden exploitation through diffusion; they do not have responsibility for workers on their projects because those workers aren't their employees. Enforcement efforts at lower levels fail for a variety of reasons, from low political will to opacity of offenses to workers themselves not recognizing there's anything to be enforced.

In this complex ecosystem, Micro-Contractors (MCs) are the first point of contact for a large number of workers. MCs are independent, informal contractors who accept subcontracts from larger construction firms and staff these jobs with a small crew of workers. Often, MCs are veteran workers who belong to the same communities as those they employ. A single 10-acre

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1 Construction Industry in India | Construction Sector Investments
2 Research and Programming on Migrant Workers in India's Construction Sector - Global Fund to End Modern Slavery
3 Ibid
4 Ibid
5 Ibid

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construction site may house anywhere between 100-150 MCs, who oversee 1000-1500 workers.6 MCs control their workers' schedules, pay, type of work, and overall employment conditions.

GFEMS and its partners began working with MCs as a key stakeholder group in the construction sector in 2019. We found that, due to their position in the ecosystem, MCs were primed to help reduce exploitation suffered by workers, and early evidence supported this idea. In 2021, we found that training a cohort of micro-contractors in ethical practices resulted in a lower risk of forced labor for their workers when compared to workers employed by other micro-contractors.7 Qualitatively, workers employed by trained micro-contractors expressed a desire to stay on with these employers as they had taken steps to create safe and equitable work environments, including ensuring on-time wage payments, providing safety equipment for risky jobs, and helping meet essential needs such as food, accommodation, and childcare at construction sites. Notably, women working for trained micro-contractors highlighted the non-discriminatory practices employed in the workplace. Unlike their previous experiences in the construction industry, they were now paid separately from their spouses and at an equal rate.8

Project Saksham

Testing the Impact of Financing

Encouraged by our previous findings on MCs, GFEMS, Sattva and our partners launched Project Saksham in December 2020. The project was based on the understanding, gleaned from previous work, that when MCs engage in behaviors that constitute exploitation, it's usually because of some precarity they suffer on their end. MCs are typically paid on a per-job basis, and often may struggle financially due to infrequent work, difficulty staffing sites, instances of fraud, or low pay. Conditions of economic insecurity, therefore, translate directly to withholding pay or rest days, assigning long hours, and other exploitative practices that, in total, add up to instances of forced labor.

Project Saksham offered four incentives to help address these issues and promote ethical business practices among MCs. Each of these incentives was designed to address issues that MCs previously identified as major barriers to adopting ethical behaviors. The incentives were:

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6 Ibid

7 From the Bottom Up: Micro-contractors are Key to Protecting Migrant Workers in India's Construction Industry

8 Ibid

1. **Ethical entrepreneurship training:** Similar to the training offered in the previous program, addressing lack of knowledge about ethical standards, and teaching other practices that would help MCs remain profitable.
2. **Access to work orders:** Addressing cash flow insecurity by ensuring steady work.
3. **Placement of ethically-recruited workers:** Addressing difficulty hiring and maintaining a workforce–while ensuring an ethical recruitment process–by matching workers with MCs.
4. **Low-cost working capital loans:** Addressing lack of working capital that resulted in unpaid wages and other issues.

Simultaneously, Project Saksham has included engagement activities with relevant stakeholders (developers, investors, product companies, workforce aggregators) in order to disseminate learnings and encourage uptake of successful incentives.

For those MCs in the intervention group, Loans were provided by Kois and Gromor finance at an interest rate ranging from 1.5–2% per month, a rate substantially lower than the conventionally-available industry standard loans. These loans allowed multiple drawdowns over a 12 month line of credit.

Initially, Project Saksham was funded by a grant from the Norwegian Agency for Development Cooperation, running from December 2020 to August 2022. With funding from Innovations for Poverty Action, we were able to extend the project through November 2023, adding in a rigorous evaluation focused on the loan component. Our findings, both from the evaluation and the process of managing the project, are presented here in the hopes it will spur further work in the area.

Study Design

This project sought to understand the effect of providing MCs access to financing (in the form of low interest business loans) on overall forced labor risk indices. We also sought to understand whether there was heterogeneity in outcomes based on any specific MC characteristics.

A total of 250 MCs were recruited in Delhi and Bengaluru in 2021. These were randomized into treatment (180 MCs) and control (70 MCs) groups. Applications for lines of credit became available in November 2021 to treatment group MCs. The first lines of credit were approved in April 2022, and the first drawdown was on April 28, 2022. The last MC was approved for a line of credit in July 2022. A summary of the interventions between treatment and control groups is presented in the table below.

Program Component	Treatment	Control
Work Orders	X	X
Workers	X	X
Training	X	X
Loans	X	

The baseline consisted of an MC survey (N=240; 175 treatment and 65 control) and a worker survey (N=1,251). The endline similarly consisted of an MC survey (N=246, 194 treatment and 42 control) and a worker survey (N=1,543; 1,136 treatment and 407 control). MC demographics and characteristics were well-balanced at baseline, and there was no differential attrition between groups at endline.

Please note, as the intervention was providing access to financing, or, the ability to apply for loans, rather than the loans themselves, this study is therefore best thought of as an intention to treat (ITT) modality.

Results

Overall, loan uptake was lower than expected, with only 8% of MCs in the treatment sample actually receiving funds. While 51% of treatment MCs indicated interest in applying for loans, the underwriting process presented barriers, with only 33% actually applying, and 21% being rejected. A total of 7% of MCs who applied for loans received them, with 32% of applicants withdrawing. Among the rejected MCs (n=47), reasons provided were from lack of necessary documents and low credit.

At baseline, top challenges reported by MCs included lack of working capital (35%) and delayed payments (35%).

Results (worker outcomes) were measured across five risk indices. High-, medium-, and low-risk indices as defined by the international labor organization (ILO), as well as a researcher-defined wage risk index, and hours risk index.

Indices were defined as follows:.

1. ILO defined measures of forced labor risk:

- Low risk index: wage withholding, no paid on time, not paid 2x for overtime.
- Medium risk index: working more hours than previously agreed, work for less than agreed, inability to quit, and manipulation of debt owed by the worker to the MC.
- High risk index: threats of force and violence, and restrictions on worker movements.

1. Researcher-defined custom measures of forced labor risk:

- Wage risk index: measures of wage-withholding by the MC to the worker, such as late payments, unexplained wage cuts, no payment for working overtime, fines and other wage cuts.
- Hours risk index: being made to work more than previously agreed, working on rest days, or taking less leave than previously agreed.

Across all indices, reported risk was fairly low, indicating a low incidence of forced labor in this sample. Please note that this study was not designed as a sector-wide prevalence study and is not sufficiently powered to make such inferences. However, within this sample, workers reported lower than expected rates of coercive behavior by MCs at baseline or endline.

Overall, results indicate that there was not a strong effect of this treatment on risk of forced labor for workers. There was a slight elevation of risk indices in the treatment group, but this trend was not not statistically significant. However, there was some heterogeneity in results based on MC characteristics, primarily education. For highly-educated MCs, risk is decreased down across wage, hours, low and medium risk indices. There was no effect observed on the high risk index. Additionally, MC migrant status has a slight effect on risk index, with non-migrants saving a lower risk across indices than migrants. MC religion, experience, and caste showed no effect on risk indices.

Discussion

Across India, there is an observed formalization of the construction sector, primarily regarding the mode of payment moving away from cash and towards digital payments.

It is also worth noting that workers are often from the same communities as their MC. Consequently, community and familial bonds may be modulating interactions between workers and MCs, and potentially responses provided to researchers. There is an informal practice of

workers borrowing funds from their MCs. However, these were reportedly not usually for meeting basic needs. Consequently, workers may be working longer hours to pay back these informal loans, but these would not be necessarily captured by the risk registers, or reported as coercive by workers. Additionally, because this design employed a proven intervention (ethical entrepreneurship trainings) to both the treatment and control groups, it was difficult to isolate the effect of financing alone on forced labor risks in this context.

Several logistical challenges affected the data collection process. The endline survey was conducted by phone due to the ongoing Covid-19 pandemic. It was challenging to reach respondents and to encourage them to remain on the call to complete the full survey. Anticipating this challenge, we ordered the survey so that the most important sections came first. To increase response rates, we raised the financial incentive for survey completion, increased on-the-ground outreach to respondents, conducted SMS outreach, and shared a phone number for respondents to take the survey at a time that was convenient for them. There were also some data quality concerns with the work of the survey firm. The research team rigorously checked the data and flagged specific quality concerns. The survey firm conducted over 2,000 audio checks of the data and corrected errors. These challenges were largely unavoidable in the context of Covid-19, and offer some practical learnings for implementers working in this context:

1. When conducting phone-based surveys, utilize multiple incentive methods to drive response rates.
2. Anticipate survey fatigue and attrition, and structure surveys such that questions about key indicators are collected early in the questionnaire.
3. When using external survey firms, especially for phone surveys, review audio recordings, conduct continuous retraining of surveyors, and build in data quality control checks from the start.

Overall, results suggest that loans of this type may not be the best solution for liquidity challenges faced by MCs, and do not appear to have significant effects on the risk of forced labor in this context. Future work should focus on topics including collecting qualitative data on barriers to loan approval, whether other modalities, such as cash transfers, may have a stronger effect on liquidity challenges and forced labor risk indices.