

Responsible Jewellery Council

Assessment of the Uptake and Impact of RJC Certification Scheme in India - Follow-Up Study

Final Report

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StratWon Business Consulting Pvt. Ltd.



Executive Summary

Background

- The Responsible Jewellery Council (RJC) had, in 2014, commissioned an assessment of the uptake and impact of the RJC certification scheme in India.
- The study identified challenges and opportunities in the diamond value chain including five major social risks in the sector in India (occupational health and safety, decent work standards, money laundering, corruption and environmental issues).
 - Other challenges included the strong presence of the informal sector, high incidence of casual labour (in smaller and informal operations during the peak production season), fragmented nature of the value chain, etc.
- RJC now wishes to conduct a Follow-Up Study to build on the information from the 2014 report with a **particular emphasis on two aspects, namely impact and influence of its certification scheme particularly in the Diamond Cutting & Polishing (C&P) sector.**
- Additionally, given the increasing prevalence of synthetic diamonds in the Indian pipeline, RJC would like to understand how it could use its tools to address the same.

Scope of Work

- The scope of work for the study is summarised as follows:

Impact Assessment:

- To understand the “how” around compliance especially the compliance `journey` of companies with respect to the five major social risks identified in the 2014 study. Also, to identify key learnings and analyse cases of good and best practice based on the experience of these companies.
- To understand the key reasons for non-compliance (with the five major social risks identified) and isolate the same in terms of `generic` and `company specific` reasons.
- To capture the role and correlation of the RJC certification programme vis-a-vis other prevailing compliance programs including:
 - Compliance Programmes of other Upstream and Downstream pipeline participants like Rough Suppliers/Miners, International Jewellery Retailers, etc.
 - Statutory Compliance Programmes which have a linkage with the five social risks identified like for example Companies Act (CSR compliance), Factories Act (Occupational Health and Safety compliance), Foreign Exchange Management Act (prevention of money laundering), etc.
- Based on the above, to identify the key areas that need to be addressed to facilitate the overall compliance journey of existing and potential members and the actions required in this regard.

Scope of Work (continued)

Sphere of Influence Analysis:

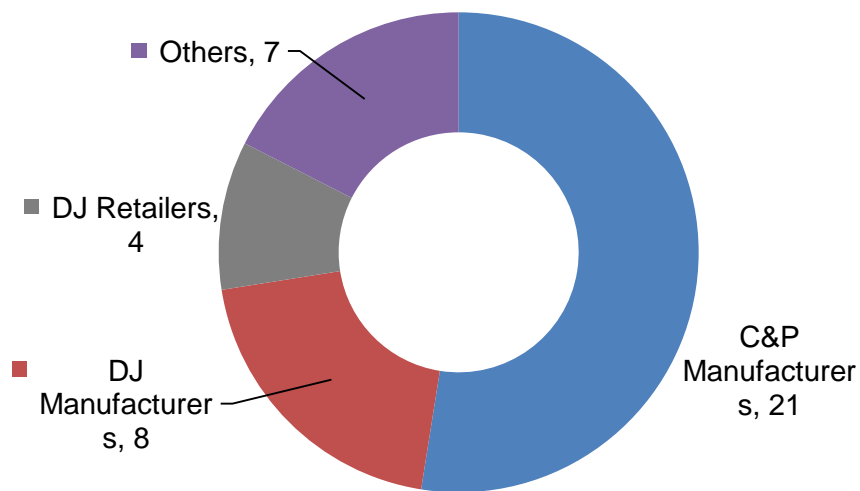
- To understand the existing `eco-system' of diamond C&P manufacturing units in terms of and the role that Certified Members are playing in influencing their eco-system (particularly the informal participants in the eco-system) from the view point of the five social risks identified.
- To identify the opportunities that exists for further influencing the eco-system of diamond C&P units, particularly the informal sector, and for their incorporation into RJC certification.
- To identify the key `touch points' for the RJC outreach programmes in the sector based on an analysis of the relative or potential `sphere of influence' of the stakeholders in the diamond C&P sector. (Examples of these `touch points' could be: sight-holders, large C&P exports, integrated players (C&P, Jewellery manufacturing, Retail), etc.).

Synthetic Diamonds

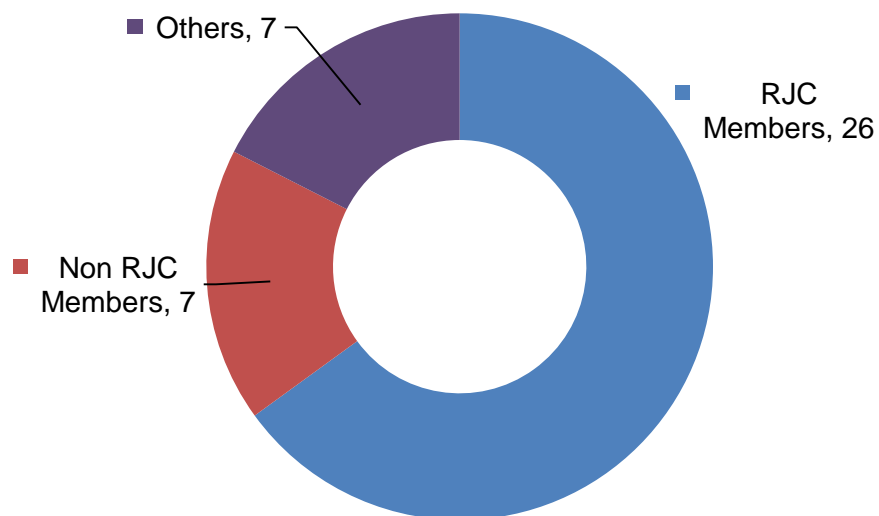
- To understand the effect of the introduction of synthetic diamonds on the industry particularly with respect to it's degree of prevalence and Disclosure (or otherwise) protocols.
- To identify the key issues related to synthetics (as perceived by the various stakeholders) and assess how RJC, using its existing tools, could potentially address the same.

Approach and Methodology

Sampling Plan



40 Contacts were met across the DJ pipeline in India

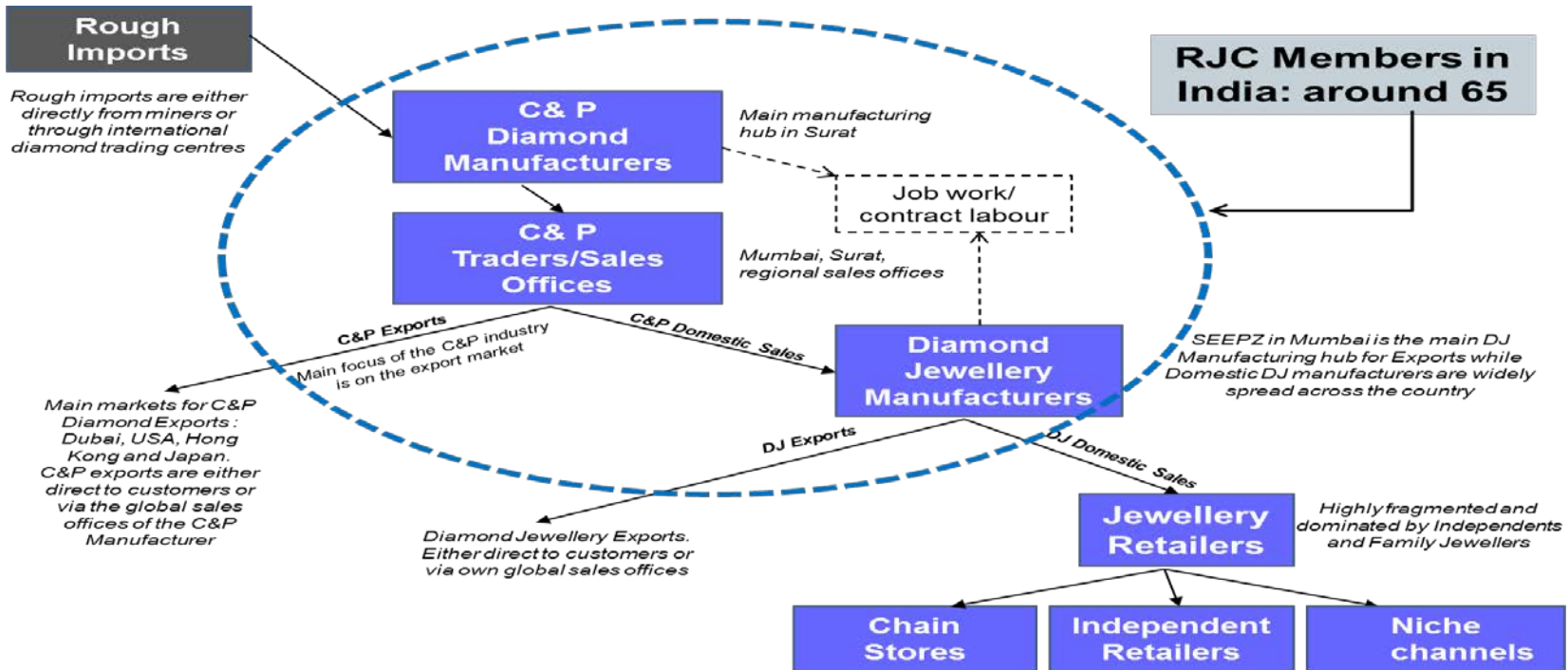


The engagement was completed over a period of around 8 weeks and involved the following:

- Discussions with the RJC India team regarding the Diamond industry, in India, the journey of RJC in India and the focus areas for the study in the Indian context
- Secondary Research on the applicable Indian Laws, industry scenario, RJC publications, etc.
- Firming up of the all India sampling plan based on inputs from RJC India and our previous experience
- One on one meetings/interviews with the pipeline participants across Mumbai, Surat and Bengaluru, including:
 - Diamond Cut & Polish (C&P)Manufacturers
 - Diamond Jewellery (DJ) Manufacturers
 - DJ Retailers
 - Others including Representatives of Mining Companies, Auditors, Consultants, Trade Bodies, etc.
- Data Collation and Analysis of field study and secondary research findings

Limitations of the study

- These findings and analysis are based on information provided by the respondents met for the study and no representation or warranty is made as to the accuracy, completeness or reliability of the information they have provided to us.
- The respondents were identified jointly with the local RJC team based on their importance in the RJC Certification program or the diamond industry in India and on their willingness to meet and share data. The sample met is primarily representative of the RJC Members/ other key pipeline players.
- Given the lack of access to documented information on the participants (i.e. auditor reports, internal company documents, etc.) information outlined in the report is based on responses received via one-on-one meetings with a cross-section of participants rather than published sources.
- Indian Laws applicable to the industry are many and vary across states. Hence while the main central and state laws applicable for the diamond industry have been looked at, others have not been studied in detail, especially since this was not the focus of the study.
- The findings presented in the report are directional and not conclusive in nature and have to be viewed in the context of the above limitations.



Note: This is a simplified version of the diamond value chain in India for illustrative purposes only.
Legend: C&P: Cut & Polished Diamonds, DJ: Diamond Jewellery

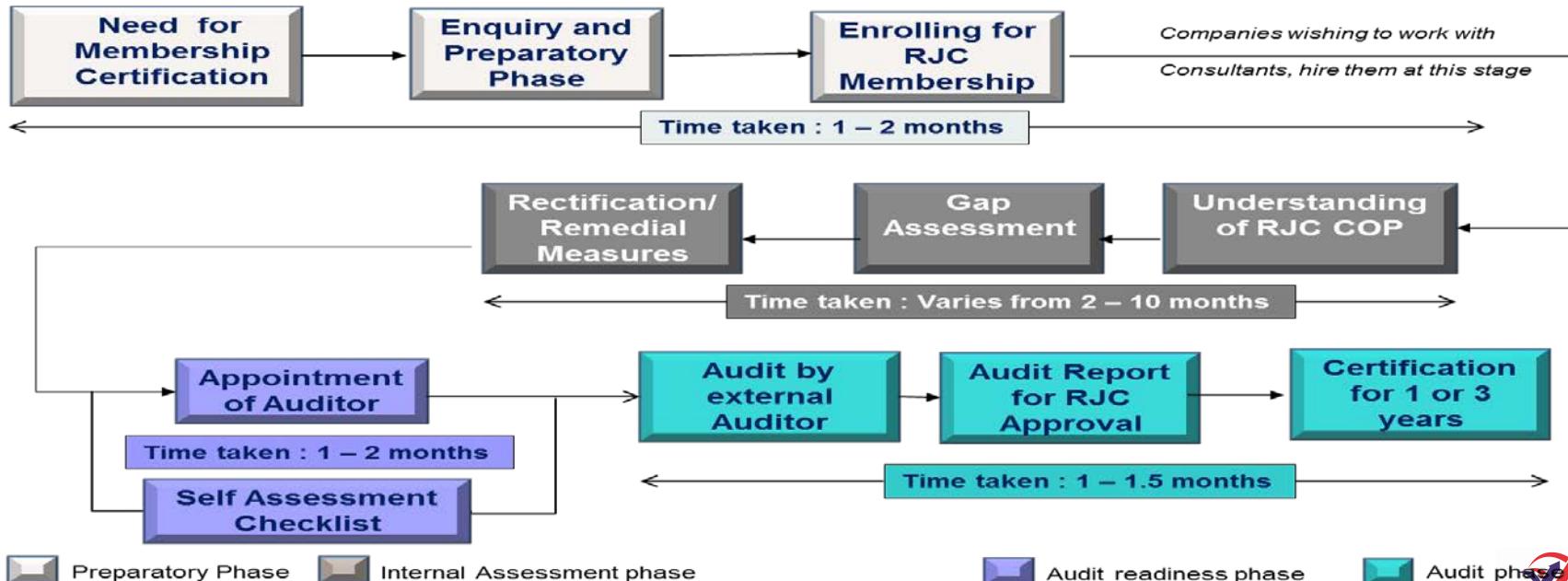
- The Indian Diamond value chain is long, complex and highly fragmented.
 - RJC Members are primarily in the ‘mid-stream’ part of the value chain (Cut & Polish (C&P) units and Diamond Jewellery (DJ) Manufacturers)
- The C&P end has a tiered structure (Tiers 1, 2 and 3) where the Tier 1 players are the large groups with global operations while the Tier 3 players are the small/ tiny unorganised sector players with wide variation in legal structures, factory conditions and level of modernisation.
 - Tier 1 players control the bulk of C&P manufacturing output by value (similar for DJ manufacturing for exports).
 - There is a high level of contract labour, sub-contracting and job work given the seasonal nature of the industry.

RJC Membership Profile

- While there are 65 RJC certified members in India, in reality the `footprint` of RJC members of Indian origin is far higher (around 90 members) since in many cases the Indian manufacturers choose the international office(s) for certification but not the main Indian operations.
- There is a wide variation in actual scope of certification chosen by the members. For example:
 - Only the sales/trading/sorting/administrative office is certified but not the factory
 - Only an international sales/trading office (s) is certified but not the Indian operations
 - The entire operation (offices and manufacturing units) are certified in India but not abroad

Journey to RJC Certification

- The journey of a new member to RJC certification is long and complex, and could take up to 15 months since the companies often need to significantly upgrade their compliance systems.



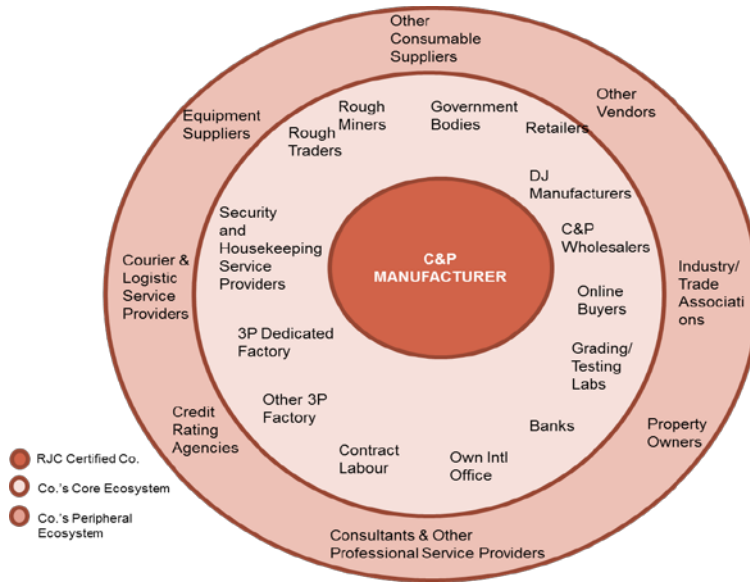
RJC COP and Indian Laws

- There are a number of Indian laws applicable to the gem and jewellery industry in India, including variations across states. However, most laws are generic in nature.
 - The Factories Act of 1948 is the most important law for manufacturing units in the sector but has seen limited amendments over the years.
 - Office establishments are governed by fewer legislations and have fewer complexities.
- An assessment of the maturity of the broader industry v/s COP 13 standards indicates that most Tier 1 players have high compliance levels while for Tier 3 players there is a high degree of variability. Not surprisingly, the bulk of the RJC membership is concentrated in Tier 1 players.

Key Issues encountered towards compliance

- Though there are numerous issues that the ‘first timers’ seeking certification encounter, the following are the most common:
 - **Structuring of Wages** – The industry practice is to pay wages on a per piece basis. This factors in all aspects of compensation.
 - **Provident Fund (PF) and Employee State Insurance Corporation (ESIC) Deductions** – Workers are reluctant to contribute since this reduces their “take home” pay. For the company, there is significant paperwork involved (more since the industry has a high employee churn).
 - **Over Time Hours and the related wages** – Companies are restricted to 12 hours over time per week (at double the normal wages) which is insufficient in peak season. This forces companies to hire contract workers and the workers on their part tend to moonlight at other companies to earn additional income.
 - **Handling of Annual Leave** – Industry practice is for units to remain shut for 2 - 3 weeks post Diwali (annual leave adjusted against this). Workers typically return home and are happy with this arrangement.
 - **Modification of Factory Layout** - Factories Act requires that the exit door should lead outwards which is difficult in leased buildings if it is not already incorporated.

C&P Manufacturer's Ecosystem



- An RJC Member's ability to influence the ecosystem is strongest for their dedicated 3rd Party (3P) Contract Manufacturer(s)/ Job Workers and Contract Labourer(s).
- However, their stakeholders are usually dealing in the highly price competitive small stones segment and hence the significant certification costs can act as a deterrent.
- At the same time, getting these stakeholders 'on board' the certification journey is necessary to increase the 'inclusiveness' of the scope of RJC certification in a broader industry context.

Synthetic Diamonds

- Originally limited to large stones, the synthetic diamonds issue is now percolating into smaller sizes which has direct implications for the domestic Indian market (largely small goods).
 - These small diamonds makes individual validation difficult, especially once set in jewellery
- The key issue related to synthetic diamonds, as perceived by the respondents, is 'Supply Chain Integrity' of the Diamond Pipeline in India.
- Current vigilance regarding detection of synthetic diamonds varies significantly across the value chain and is highest in the C&P trade with most Tier 1 and some Tier 2 C&P players have invested in testing machines. At the DJ Manufacturing and Retail end, however, such investments (in detection of synthetics) is minimal.
- Members would like RJC to define the process/ testing protocol/ norm for them to claim a "Synthetic Free" status.

The key recommendations to RJC based on the study are :

- **Create India specific guidelines** since prevailing laws are generic (across all industry types)
 - Separate guidelines for office/traders and factory given the differing issues.
 - The exceptions permitted should **maintain the spirit** of the law
- **Re-certification (after 3 years) should mandatorily include the next level in the value chain**, especially the factory, to improve “inclusiveness” .
- **Tiered system of certification**, where the ‘base’ tier should include the **non-negotiable factors** eg. absence of child labour, audited books of accounts, etc. This should be applicable for all key participants in the ecosystem of the certified member thus improving “inclusiveness” of the programme w.r.t. the Ecosystem
- **India based RJC helpdesk/office** where smaller units can visit to seek support/ handholding during their preparatory phase. Also, **more frequent Training Programmes, in the local language**, and in smaller cities.
- To spread awareness of the RJC programme, especially amongst smaller players, **members receiving the certification should be felicitated in a formal ceremony.**
- **Focussed outreach campaigns** amongst retailers and consumers to increase “consumer pull” for ethical standards throughout the value chain .
- **Define norms of sampling for synthetics and documentation protocols** of test results to enable companies claim their “Synthetic Free” status.
- Move to a **fixed fee** for membership charges **but on a slab basis** so that fees are de-linked from annual fluctuations in turnover (given the dynamic nature of the business).
- **Fine tuning of the audit framework and guidelines of auditing** along with auditor training programmes to ensure uniformity in the audit process.
- **Incorporate the audit fee in the membership fee or alternately, issue a rate card** thus building greater “transparency” in the audit process.
- **Annual Self Declaration (of compliance)** by the member, to be submitted to RJC, to increase “ownership” by the member and ensure higher assurance to RJC and its stakeholders.