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## Inconsistent implementation of profit bonus payments in Pakistan's garment and textile industry

### THE ISSUE

In Pakistan, factories pay workers an annual profit bonus. This provides an important source of additional income for workers across multiple sectors, including the garment and textile industries, which together account for approximately 25% of the country's total workforce.<sup>1</sup> The Fair Labor Association (FLA) has observed inconsistencies in factories' bonus payment practices, resulting in workers not receiving the full bonus payments to which they are entitled.

### BACKGROUND

Workers who have been employed for 12 months generally receive a full annual bonus without any deductions, whereas those employed for less than 12 months are often paid on a pro-rata basis based on the duration of their service.

This is due to factories' interpretations of Pakistan's Clause 10-C of the Standing Orders Ordinance (1968) which governs profit bonus payments to workers in Pakistan. While the law establishes that workers who have worked a minimum of 90 continuous days qualify for an annual bonus, it does not clearly define the calculation methodology for workers who have completed more than 90 days but less than 12 months of service with the same employer.<sup>2</sup> Further, a 1984 Labour Appellate Tribunal (LAT) ruling issued in Sindh contributed to additional legal misinterpretation – particularly among some employers in Punjab.

The decades-old LAT judgment held that factories did not have to pay the full bonus amount to workers with more than 90 days of seniority; however, this was never appealed to the High Court or the Supreme Court. Had it been challenged before a higher court, the decision could have been upheld, overturned, or modified, and—if affirmed—could have attained the status of a binding final judgment capable of establishing a national precedent to be followed by employers across the country. However, as the judgment was never tested before the higher judiciary, it remains a case-specific ruling from the past and does not constitute binding precedent, either within Sindh or elsewhere. Accordingly, this LAT decision cannot be treated as a blanket or definitive ruling on statutory profit bonus payments.

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<sup>1</sup> Asia Garment Hub. (n.d.). *Pakistan – Asia Garment Hub*. <https://asiagarmenthub.net/agh-countries/pakistan?>

<sup>2</sup> The law establishes that every employer making a profit in any year shall pay a bonus [for that year within three months of the closing of] to each worker, who has been in his employment in that year for a continuous period of no less than 90 days, in addition to the worker's wages.

As a result, divergent practices have emerged. At some factories, workers with less than 12 months of service are often paid on a pro-rata basis, with management arguing that full bonus payments would be unfair to workers who have been employed for the entire year. At the same time, other factories strictly apply the 90-day eligibility threshold and pay the full bonus to eligible workers without using pro-rata calculations.

## FLA RECOMMENDATIONS

FLA recommends factories pay workers who have completed at least 90 days of employment the full statutory profit bonus with no deductions, until clear guidance is issued by a competent authority with the relevant jurisdiction. FLA urges companies sourcing from Pakistan to remain vigilant on this issue and to engage with their suppliers to ensure that all workers receive the full bonus amount.

Please contact [info@fairlabor.org](mailto:info@fairlabor.org) for more information about this update.

## FLA CODE ELEMENTS

### FLA COMPENSATION BENCHMARKS

**C.1:** Employers shall comply with all national laws, regulations, and procedures concerning the payment of compensation to workers. In any case where differences or conflicts in national law and FLA Workplace Code arise, employers are expected to apply the highest standard.

**C.7:** All payments to workers, including hourly wages, piecework, fringe benefits and other incentives shall be calculated, recorded, and paid accurately.

**C.19:** Employers shall make every reasonable effort to ensure workers understand their compensation.

### ABOUT THE FAIR LABOR ASSOCIATION

*The Fair Labor Association (FLA) promotes human rights at work. We are an international network of companies, universities, and civil society organizations collaborating to ensure that millions of people working at the world's factories and farms are paid fairly and protected from risks to their health, safety, and well-being.*